

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2005)

Docket No. R2005-1

AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS
FOLLOW-UP INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE (ABA&NAPM/USPS-T28-3-5)

(June 22, 2005)

Pursuant to sections 26 and 27 of the Postal Rate Commission rules of practice, American Bankers Association and National Association of Presort Mailers hereby submit these joint follow-up interrogatories and document production requests to witness Taufique (USPS-T28) concerning his response to POIR 6, question # 7 filed by him on June 14, 2005. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

If data requested are not available in the exact format or level of detail requested, any data available in (1) substantially similar format or level of detail or (2) susceptible to being converted to the requested format and detail should be provided.

Responses to requests for explanations or the derivation of numbers should be accompanied by workpapers. The terms "workpapers" shall include all backup material whether prepared manually, mechanically or electronically, and without consideration to the type of paper used. Such workpapers should, if necessary, be prepared as part of the witness's responses and should "show what the numbers were, what numbers were added to other numbers to achieve a final result." The witness should "prepare sufficient workpapers so that it is possible for a third party to understand how he took data from a primary source and developed that data to achieve his final results." Docket No. R83-1, Tr. 10/2795-96.

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

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ABA&NAPM/USPS-T28-3.

In response to Presiding Officer Information Request Number 6, question 7, dated June 14, 2005, you state “both methods of calculating passthroughs would be equivalent if the incremental method utilizes a 100 [percent] passthrough at each level”. Please refer to the attached Tables 1, the original from POIR #6, and the changes made to that table labeled as “From ABA&NAPM.”

- a. Please confirm in Table 1 “From ABA&NAPM”, that the incremental passthroughs are 100% for rate category B, and also 100%, not 300%, for rate category C.
- b. Please confirm that this new result arises from re-estimating the USPS worksharing cost by +2 for rate category B and adjusting that rate accordingly.
- c. With the data provided in Table 1 “From ABA&NAPM”, please show that your method of calculating the passthrough is “equivalent” per your answer quoted above.

ABA&NAPM/USPS-T-28-4.

The “hypothetical” raised in POIR #6 with the 300% incremental passthrough is the same as the issue raised in POIR #3, Question 1. Please refer to Table 1 and the calculated 219% incremental passthrough for automated 3 digit presort FCLM, utilizing the residual mail category AADC. As constructed both the hypothetical and the earlier POIR might lead to an inference that considering this one rate making factor alone, the automated 3 digit presort rate might be too low, and the discount associated with it too high.

- a. Please confirm relying on the information in ABA&NAPM-T28-3 above, that an equally plausible inference is that the source of the greater - than - 100% incremental passthrough for hypothetical rate category C [or the automated 3 digit presort rate in this case] is that rate category B [or the AADC rate] is set too low.
- b. Please confirm that adjusting the USPS “worksharing cost” for rate category B in Table 1 “From ABA&NAPM” and adjusting that rate accordingly, causes the incremental passthrough for rate category C to fall from 300% to 100%, and for rate category B to rise from 71% to 100%.
- c. Please confirm that the incremental passthrough changes noted in b. are the result of altering the cost and rate for rate category B and B alone, and that no other factor is changed.
- d. Please confirm that in MC95-1, the Postal Service proposed an initial 26 cent Basic Automation rate for that new rate category while maintaining the single piece rate at 32 cents.
- e. Please confirm that in MC95-1, the Postal Rate Commission in its Opinion and Recommended Decision proposed a 25.1 cent Basic Automation rate, a 0.9 cent lower rate than proposed by the Postal Service, and that this rate was implemented and put into effect.
- f. Please confirm that the incremental passthrough set by the Commission in establishing that initial Basic Automation rate of 25.1 cents was 78%, not 100% (see MC95-1, O&RD, pp. IV-136-IV-137, para [4302]).

- g. Please confirm that to keep its MC95-1 changes to the USPS rate proposals revenue neutral in the FCLM letters subclass, the Commission also raised the 3 Digit and 5 Digit presort rates for automation letter mail above the USPS proposals.
- h. Please confirm that the current mixed AADC and AADC rates used to establish the incremental passthrough in Table 1 of POIR #3, Question 1 are the result of “de-averaging” the Basic Automation rate established in MC95-1.

ABA&NAPM/USPS-T-28-5.

In response to Presiding Officer Information Request Number 6, question 7, dated June 14, 2005, you demonstrate that worksharing in your numerical example change to Table 2 “would provide the lowest combined cost to the society”. However, your numerical example, by increasing the worksharing cost from 4 to 5.5, produces a total mailer expense of 30.5 for doing the worksharing in rate category B, while the total mailer expense for rate category A with no worksharing is only 30. It is not clear that makes sense, or that worksharing would occur under such circumstance. Please refer to Table 2 “From ABA&NAPM” in the attachment.

- a. Please confirm that the total society costs are lower for rate category C than they are for rate category A or B.
- b. Please confirm that the total mailer expense gets lower and lower, the more worksharing that is done, i.e. A to B, and B to C..
- c. Please confirm that the lowest total society costs exist when the most worksharing is done, i.e. 16 for rate category C.

Response of Postal Service Witness Taufique to POIR No. 6, Question 7

From POIR #6
Table 1. Comparison of Incremental and Cumulative Passthroughs

Rate Category	USPS Worksharing Cost	Postage Rate	Traditional Approach Incremental			USPS Proposed Approach Cumulative		
			Cost Avoidance	Discount	Passthrough	Cost Avoidance	Discount	Passthrough
A (no w/s)	20	30						
B (some w/s)	13	25	7	5	71%	7	5	71%
C (more w/s)	12	22	1	3	300%	8	8	100%

From ABA&NAPM
Table 1. Comparison of Incremental and Cumulative Passthroughs

Rate Category	USPS Worksharing Cost	Postage Rate	Traditional Approach Incremental			USPS Proposed Approach Cumulative		
			Cost Avoidance	Discount	Passthrough	Cost Avoidance	Discount	Passthrough
A (no w/s)	20	30						
B (some w/s)*	15	27	5	5	100%	5	5	100%
C (more w/s)	12	22	3	3	100%	8	8	100%

* Where source of problem is with rate category B, not C.

From POIR #6
Table 2. Demonstration of Results of Hidden Inefficient Signal

Rate Category	Mailer Expense			Society Costs		
	Mailer Worksharing	Postage Rate	Total	Mailer Worksharing	Postage Rate	Total
A (no w/s)	0	30	30	0	20	20
B (some w/s)	4	25	29	4	13	17
C (more w/s)	6	22	28	6	12	18

From ABA&NAPM
Table 2. Demonstration of Results of Efficient Price Signal

Rate Category	Mailer Expense			Society Costs		
	Mailer Worksharing	Postage Rate	Total	Mailer Worksharing	Postage Rate	Total
A (no w/s)	0	30	30	0	20	20
B (some w/s)	2	27	29	2	15	17
C (more w/s)	4	22	26	4	12	16