

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE, REDIRECTED FROM WITNESS LILLIAN
WATERBURY (USPS-T-10) (OCA/USPS-T10-6-7)
(June 23, 2005)

The United States Postal Service hereby provides its response, redirected from witness Lillian Waterbury (USPS-T-10) to the following interrogatories of the Office of the Consumer Advocate, filed on June 10, 2005:

OCA/USPS-T10-6-7

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T10-6. Please refer to the file "R2005.FY2006BRC-DRpt.USPS.AMX" in USPS-LR-K-6, showing the USPS version of cost segments and components for the TYBR, and the file "R2005.FY2006BRC-DRpt.PRC.AMX" in USPS-LR-K-95, showing the PRC version of cost segments and components for the TYBR. Also, please refer to Tables 1 and 2, below, which compare Postal Service and PRC cost segment 2 and 3 costs.

- a. Refer to Table 1, below. With respect to Registered Mail for all but one cost component in C/S 2 (2.2 Supv. – Window Service), please explain for each cost component why the Postal Service estimates more volume variable costs than the Commission estimates attributable costs.
- b. Refer to Table 2, below. With respect to Registered Mail for all but one cost component in C/S 3 (3.2 Window Service), please explain for each cost component why the Postal Service estimates more volume variable costs than the Commission estimates attributable costs.

REGISTERED MAIL
Comparison of 2006 TYBR Costs: USPS and PRC Version
Cost Segments 2 and 3

Table 1
Cost Segment 2: Supervisors and Technicians
Cost Components (000)

Supv - Mail Processing 2.1.1			Supv - Window Service 2.2			Supv - Admin Support 2.3		
USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS
\$2,111	\$682	(\$1,429)	\$396	\$435	\$39	\$104	\$60	(\$44)
Supv - City Delivery Carriers 2.4.1			Supv - Rural Delivery Carriers 2.4.2			Higher Level Supervisors 2.5.2		
USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS
\$433	\$369	(\$64)	\$48	\$48	\$0	\$163	\$88	(\$75)
Supervisor Training 2.5.5			Supv - Quality Control/Rev Protect 2.5.6			Joint Supv. Clerks/Carriers 2.5.7		
USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS
\$37	\$19	(\$18)	\$76	\$27	(\$49)	\$472	\$235	(\$237)
TOTAL C/S 2								
USPS	PRC	\$ Chg. from USPS						
\$3,840	\$1,963	(\$1,877)						

Table 2
Cost Segment 3: Clerks and Mailhandlers--CAGS A-J
Cost Components (000)

Mail Processing 3.1			Window Service 3.2			Administrative Clerks 3.3.1		
USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS	USPS	PRC	\$ Chg. from USPS
\$33,208	\$10,134	(\$23,074)	\$4,838	\$5,311	\$473	\$1,516	\$1,444	(\$72)
Time & Attendance 3.3.2								
USPS	PRC	\$ Chg. from USPS						
\$114	\$88	(\$26)						
TOTAL C/S 3								
USPS	PRC	\$ Chg. from USPS						
\$39,676	\$16,977	(\$22,699)						

Sources: USPS-LR-K-6, File: "R2005.FY2006BRC-DRpt.USPS.AMX"
USPS-LR-K-95, File: "R2005.FY2006BRC-DRpt.PRC.AMX"

Response to OCA/USPS-T10-6 (continued)

RESPONSE:

(a) and (b) The roll forward model that generates Test Year files (for example, as mentioned above, “R2005.FY2006BRC_DRpt.USPS.AMX.xls” in USPS-LR-K-6, showing the USPS version of cost segments and components for Test Year Before Rates, and the file “R2005.FY2006BRC_DRpt.PRC.AMX.xls” in USPS-LR-K-95, showing the PRC version of cost segments and components for Test Year Before Rates) uses Base Year costs as an initial input. Therefore, the direction of the differences between Test Year USPS volume variable costs and Test Year PRC attributable costs (regardless of whether the directional difference is an increase or a decrease) is explained by the differences in cost methodologies for the USPS version versus the PRC version in the Base Year, as well as from other input factors and adjustments (USPS version) received from various witnesses.

In addition, in R2005-1, the Base Year cost methodology for the USPS version was updated for mail processing (cost segment 3). The updates are described in the testimonies of witness Van-Ty-Smith (USPS-T-11) and witness Bozzo (USPS-T-12). As a result, the Base Year costs for supervisors (cost segment 2) which are impacted by the change in methodology in Base Year costs for mail processing (cost segment 3) are also affected.

Response to OCA/USPS-T10-6 (continued)

In general, the USPS and PRC versions of the roll forward model receive the same roll forward effects, including cost reductions and other programs. Therefore, the relative magnitude and direction of change in cost components in the Base Year, between the USPS volume variable costs and the PRC attributable costs, with respect to all classes of mail (not only to Registry), should be the same for both the USPS and PRC versions of the Test Year.

OCA/USPS-T10-7. Please refer to the files "R2005.FY2006BRC-DRpt.PRC.AMX" and "R2005.FY2006ARC-DRpt.PRC.AMX" in USPS-LR-K-95, showing the PRC version of cost segments and components for the TYBR and TYAR. Also, please refer to USPS-T-27, Exhibit USPS-27F, at page 6.

- a. Based upon the PRC version of costs, please confirm that the TYBR total unit cost of Registered Mail is \$11.24 ($\$44,865,000 / 3,990,000$). If you do not confirm, please explain and provide the correct unit cost, providing citations to all figures used and showing all calculations.
- b. Based upon the PRC version of costs, please confirm that the TYAR total unit cost of Registered Mail is \$11.34 ($\$42,380,000 / 3,738,000$). If you do not confirm, please explain and provide the correct unit cost, providing citations to all figures used and showing all calculations.

RESPONSE:

- a. Not confirmed. See new page filed for USPS-LR-K-96 (filed June 22, 2005) on revised costs of Registered Mail in Test Year 2006 Before Rates for the PRC version. Based on the revised costs for Registered Mail in Test Year 2006 Before Rates for the PRC version, the average unit cost of Registered Mail in Test Year 2006 Before Rates is \$10.54. See table following this response for the correct figures used in calculating unit cost for Registry in Test Year 2006 Before Rates.

For the USPS version, see new page 33 filed for testimony of witness Waterbury (USPS-T-10) (filed June 22, 2005) on revised costs of Registered Mail in Test Year 2006 Before Rates. Based on the revised costs for Registered Mail in Test Year 2006 Before Rates for the USPS version, the average unit cost of Registered Mail in Test Year 2006 Before

Response to OCA/USPS-T10-7 (continued)

Rates is \$16.71. See table following this response for the correct figures used in calculating unit cost for Registry in Test Year 2006 Before Rates.

- b. Not confirmed. See new page filed for USPS-LR-K-96 (filed June 22, 2005) on revised costs of Registered Mail in Test Year 2006 After Rates for the PRC version. Based on the revised costs for Registered Mail in Test Year 2006 After Rates for the PRC version, the average unit cost of Registered Mail in Test Year 2006 After Rates is \$10.63. See table following this response for the correct figures used in calculating unit cost for Registry in Test Year 2006 After Rates.

For the USPS version, see new page 33 filed for testimony of witness Waterbury (USPS-T-10) (filed June 22, 2005) on revised costs of Registered Mail in Test Year 2006 After Rates. Based on the revised costs for Registered Mail in Test Year 2006 After Rates for the USPS version, the average unit cost of Registered Mail in Test Year 2006 After Rates is \$16.77. See table following this response for the correct figures used in calculating unit cost for Registry in Test Year 2006 After Rates.

Response to OCA/USPS-T10-7 (continued)

R2005-1	Year	As Filed Registry Costs (‘000s)	Revised Registry Costs (‘000s)	Cost Difference Ratio	Volume for Registry as Filed (‘000s)	Unit Cost for Registry as Filed	Revised Unit Cost for Registry
USPS	BY2004	81,268	77,999	.9598			
	TY2006BR	69,450	66,657	.9598	3,990	17.41	16.71
	TY2006AR	65,313	62,686	.9598	3,738	17.47	16.77
R2005-1	Year	As Filed Registry Costs (‘000s)	Revised Registry Costs (‘000s)	Cost Difference Ratio	Volume for Registry as Filed (‘000s)	Unit Cost for Registry as Filed	Revised Unit Cost for Registry
PRC	BY2004	53,007	49,705	.9377			
	TY2006BR	44,865	42,070	.9377	3,990	11.24	10.54
	TY2006AR	42,380	39,740	.9377	3,738	11.34	10.63

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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