

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

UNITED STATES POSTAL SERVICE NOTICE OF FILING OF
REVISED RESPONSES OF WITNESS ROBINSON TO INTERROGATORIES
OF MAJOR MAILERS ASSOCIATION [MMA/USPS-T27-2-3] [ERRATA]

The United States Postal Service hereby files revised response of witness Maura Robinson to MMA/USPS-T27-2 and T27-3. These revised responses supersede the original responses filed on June 23, 2005. The interrogatories are stated verbatim and are followed by the revised responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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June 27, 2005

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION
Revised: June 27, 2005**

MMA/USPS-T27-2

Please refer to your response to Interrogatory MMA/USPS-T27-1 B where you provide TY 2006 postal finances using the Commission's attributable cost methodology.

- A. Please confirm that, in R2000-1 and R2001-1, the Postal Rate Commission recommended rates for First-Class letters that resulted in cost coverages of 179 and 192, respectively. If you cannot confirm, please provide the correct cost coverages, explain how they were derived, and provide complete references to all source materials used.
- B. Please confirm that the Postal Service's proposed rates in R2005-1 result in a cost coverage for First-Class letters equal to 218. If you cannot confirm, please provide the correct cost coverage, explain how it was derived, and provide complete references to all source materials used.
- C. Please confirm that, in R2000-1 and R2001-1, the Postal Rate Commission recommended rates for First-Class letters that reflected markup indices of 138 and 145, respectively. If you cannot confirm, please provide the correct markup indices, explain how they were derived, and provide complete references to all sources used.
- D. Please confirm that the Postal Service's proposed rates in R2005-1 result in a markup index for First-Class letters equal to 148. If you cannot confirm, please provide the correct markup index, explain how it was derived, and provide complete references to all sources used.
- E. Please explain why the Postal Service's proposed 5.4% across-the-board rate increase significantly raises the cost coverage and markup index for First-Class mail in this case.

RESPONSE

- A. Confirmed. See the Attachment to MMA/USPS-T27-2, columns (1) and (2).
- B. Confirmed assuming the Postal Rate Commission costing methodology is used. See the Attachment to MMA/USPS-T27-2, column (3).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION
Revised: June 27, 2005**

RESPONSE TO MMA/USPS-T27-2 (continued):

- C. Not confirmed. The markup index for First-Class Mail Letters and Sealed Parcels subclass for the Commission's recommended rates was 1.342 in Docket No. R2000-1 and 1.420 in Docket No. R2001-1. See Docket No. R2001-1, PRC Op. Appendix G at 37 and the Attachment to MMA/USPS-T27-2, column (1) and (2).
- D. Not confirmed. In this case, for the First-Class Mail Letters and Sealed Parcels subclass, the Postal Service's rate proposal results in a markup index of 1.450 using the Postal Service's costing methodology and 1.497 using the Postal Rate Commission's costing methodology. See the Attachment to MMA/USPS-T27-2 columns (3) [PRC] and (4) [USPS]
- E. The increase in the markup index for First-Class Mail Letters is not caused by the across-the-board proposed rate increase. In the absence of other changes in costs, an across-the-board rate increase will cause the markup indices for the individual subclasses to move towards the average markup index for the postal system as a whole.

While the increase in the cost coverage for First-Class Mail is, in part, driven by the across-the-board rate increase proposed in this case, this is not the sole reason for the increase. The increases in both the cost coverage and the markup index for First-Class Mail Letters are in large measure the result of successful efforts to control Postal Service costs and may also be affected by changes in the characteristics of First-Class

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RESPONSE TO MMA/USPS-T27-2 (continued):

Mail Letters. One result of the successful efficiency efforts is that, if the escrow obligation did not exist, the Postal Service would have been able to forgo a rate increase at this time. Instead, as discussed by witness Potter, the sole reason this increase has been proposed is to recover the Congressionally-mandated escrow obligation.

Attachment to MMA/USPS-T27-2 **REVISED 6/27/2005**
Calculation of Markups and Markup Indices
Dockets No. R2000-1, R2001-1 and R2005-1

	Costing Methodology	R2000-1 PRC (1)	R2001-1 PRC (2)	R2005-1 PRC (3)	R2005-1 USPS (4)
First-Class Mail Letters and Sealed Parcels					
(a)	Revenue	35,749,605	37,781,209	35,901,564	35,901,564
(b)	Costs	19,989,490	19,677,353	16,453,261	15,621,298
(c) = [(a) / (b)]	Cost Coverage	178.8%	192.0%	218.2%	229.8%
(d) = [(a) / (b)] - 1	Markup	78.8%	92.0%	118.2%	129.8%

First-Class Mail Presorted and Automation Letters

(e)	Revenue	13,172,716	15,915,988	15,382,830	15,382,830
(f)	Costs	5,305,138	5,985,539	4,912,741	4,636,166
(g) = [(e) / (f)]	Implicit Cost Coverage	248.3%	265.9%	313.1%	331.8%
(h) = [(e) / (f)] - 1	Implicit Markup	148.3%	165.9%	213.1%	231.8%

All Mail and Services

(i)	Revenue	68,789,970	74,741,743	72,463,782	72,463,782
(j)	Costs	43,336,799	45,361,242	40,486,419	38,236,154
(k) = [(i) / (j)]	Cost Coverage	158.7%	164.8%	179.0%	189.5%
(l) = [(i) / (j)] - 1	Markup	58.7%	64.8%	79.0%	89.5%
(m) = (d) / (l)	Markup index FCM Letters	1.342	1.420	1.497	1.450
(n) = (h) / (l)	Implicit Markup index presort FCM Letters	2.525	2.561	2.698	2.589

<u>Sources</u>	(1)	(2)	(3)	(4)
(a)	App. G at 1	App. G at 1	Exhibit USPS-27B*	Exhibit USPS-27B*
(b)	App. G at 1	App. G at 1	MMA/USPS-T27-1B	Exhibit USPS-27B*
(e)	App. G at 2	App. G at 2	Exhibit USPS-27B*	Exhibit USPS-27B*
(f)	App. J at 1	App. F at 1	MMA/USPS-T27-1B	Exhibit USPS-27B*
(i)	App. G at 1	App. G at 1	Exhibit USPS-27B*	Exhibit USPS-27B*
(j)	App. G at 1	App. G at 1	MMA/USPS-T27-1B	Exhibit USPS-27B*

* Revised 6/10/2005

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION**

Revised: June 27, 2005

MMA/USPS-T27-3

Please refer to your response to Interrogatory MMA/USPS-T27-1 B where you provide TY 2006 postal finances using the Commission's attributable cost methodology. Please also refer to USPS witness Taufique's response to Interrogatory GCA/USPS-T28-1 where he states, in relevant part:

...although workshared First-Class Mail is not a subclass, the proposal along the lines suggested in your question would cause these workshare rate categories, which have an implicit cost coverage exceeding all of the subclasses and whose unit cost has in fact declined 2.8 percent (between FY2000 and FY2004), to bear a disproportionate share of the escrow burden.

- A. Please confirm that, in R2000-1 and R2001-1, the Postal Rate Commission recommended rates for First-Class workshared letters that resulted in implicit cost coverages of 248 and 266 for, respectively. If you cannot confirm, please provide the correct cost coverages, explain how they were derived, and provide complete references to all source materials used.
- B. Please confirm that, in R2005-1, the Postal Service's proposed rates for First-Class workshared letters result in an implicit cost coverage equal to 313. If you cannot confirm, please provide the correct cost coverage, explain how it was derived, and provide complete references to all source materials used.
- C. Please confirm that, in R2000-1 and R2001-1, the Postal Rate Commission recommended rates for First-Class workshared letters that resulted in implicit markup indices of 260 and 261, respectively. If you cannot confirm, please provide the correct markup indices, explain how they were derived, and provide complete references to all source materials used.
- D. Please confirm that, in R2005-1, the Postal Service has proposed rates for First-Class workshared letters that result in an implicit markup index equal to 267. If you cannot confirm, please provide the correct markup index, explain how it was derived, and provide complete references to all sources used.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION**

Revised: June 27, 2005

MMA/USPS-T27-3 (continued):

- E. Please confirm that, according to USPS witness Abdirhaman's workshare R2005-1 cost savings analysis (as shown in LR-USPS-K-47), the Postal Service's proposed discounts for First Class workshared letters allegedly exceed the purported cost savings. If you cannot confirm, please provide the correct discounts and related cost savings, explain how they were derived, and provide complete references to all source materials used.
- F. Please explain why, in spite of increased discounts for First Class workshared letters that allegedly exceed the purported cost savings, the Postal Service's proposed 5.4% across-the-board rate increase in R2005-1 would result in significant increases in the implicit cost coverage and implicit markup index for such workshared mail.

RESPONSE

- A. Confirmed. See the Attachment to MMA/USPS-T27-2, column (1) and (2).
- B. Confirmed assuming the Postal Rate Commission costing methodology is used. See Attachment to MMA/USPS-T27-2 column (3).
- C. Not confirmed. In Docket No. R2000-1, the Postal Rate Commission recommended an implicit markup for First-Class Mail Presorted and Automation Letters and Sealed Parcels of 2.525. In Docket No R2001-1, the Postal Rate Commission recommended an implicit markup for First-Class Mail Presorted and Automation Letters and Sealed Parcels of 2.561. See the Attachment to MMA/USPS-T27-2 columns (1) and (2).
- D. Not confirmed. In this case, for the First-Class Mail Presorted and Automation Letters and Sealed Parcels subclass, the Postal Service's rate proposal results in an implicit markup index of 2.589 using the Postal Service's costing methodology and 2.698 using the Postal Rate

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION**

Revised: June 27, 2005

RESPONSE TO MMA/USPS-T27-3 (continued):

Commission's costing methodology. See the Attachment to MMA/USPS-T27-

2 columns (3) [PRC] and (4) [USPS]

E. Confirmed.