

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

REVISED RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
[ABA&NAPM/USPS-T28-3 THROUGH 5] [ERRATA]

On June 24, 2005, the United States Postal Service filed the responses of witness Taufique to the above-listed interrogatories of the American Bankers Association and the National Association of Presort Mailers, filed on June 22, 2005. The interrogatories were revised in a pleading filed on June 23, 2005. Unfortunately, the June 24th responses were based upon the obsolete June 22nd versions of the questions. The Postal Service hereby submits revised responses to the revised questions. These revised responses supersede the ones filed on June 24th.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO ABA&NAPM INTERROGATORY**

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.
- 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.

RESPONSE

- a. Confirmed, based on the changes made to Table 1 in your interrogatory.
- b. Confirmed.
- c. You have already shown that in your example by showing both approaches in that table.

Response of Postal Service Witness Taufique to POIR No. 6, Question 7 - REVISED JUNE 23, 2005

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	25	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	25	27	2	15	17
C (more w/s)	4	22	26	4	12	16

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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 the USPS worksharing cost for 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,” 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 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.

RESPONSE

- a. The determination of whether a rate is set appropriately depends on a host of factors enumerated in the pricing criteria and other factors as evaluated by the Commission. A single passthrough, whether determined incrementally or for total worksharing, is not the sole criterion on which a rate would be deemed

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TO ABA&NAPM INTERROGATORY**

RESPONSE to ABA/USPS-T28-4 (continued):

appropriate. If your question addresses solely the issue of an incremental passthrough of greater than 100 percent for 3-Digit First-Class Mail automation letters, it is correct that the incremental passthrough of less than 100 percent at the previous level does affect the incremental passthrough at the 3-Digit level. A passthrough of less than 100 percent results in a relatively lower discount and a relatively higher rate than would be the case with a passthrough equal to 100 percent, all other factors equal. As discussed in my responses to POIR 6, Question 7, appropriate rate design requires the consideration of many factors other than just the incremental passthrough associated with a given level of worksharing.

- b. Confirmed. The adjustment made to worksharing costs results in a change in passthrough for levels B and C and produces a 100 passthrough for both of these levels in your example, as shown in Table 1.
- c. Confirmed.
- d. Not confirmed. The Postal Service proposed a 27-cent rate for First-Class Mail Basic Automation Rate Letters.
- e. Not confirmed. The Commission recommended a rate of 26.1 cents for First-Class Mail Basic Automation. I can confirm that the difference between the rates 27 cents (USPS proposal for Basic Automation) and 26.1 cents (Commission recommendation for Basic Automation) is 0.9 cents.
- f. Confirmed.

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RESPONSE to ABA/USPS-T28-4 (continued):

- g. I can neither confirm nor reject the hypothesis. The Commission's recommended decision speaks for itself.
- h. Confirmed. The current Mixed AADC and AADC rate categories are the result of de-averaging First-Class Mail Basic Automation Letter rates in Docket No. R2001-1. I can also confirm that the Basic Automation rate category was established as result of Docket MC95-1.

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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

The purpose of the example in my response to POIR No. 6, Question 7 was to demonstrate that a different set of cost numbers for the mailer’s portion of the work may lead to an opposite result regarding the total cost to the society. I was not intending to provide a set of numbers that realistically represents the worksharing choices that face customers. The purpose of this example was to point out that the Postal Service and the Commission do not know mailer’s actual costs. As a result, changes or errors in estimating mailers’ costs may appear to make choice C better for the society; however, a true assessment of the actual benefits to society cannot be known because the true value of mailers’ costs is unknown.

- a. Confirmed, based on the assumptions used in the example regarding the Postal Service’s cost structure, mailer’s costs and postage rates.
- b. Confirmed, based on the assumptions used in the example regarding the Postal Service’s cost structure, mailer’s costs and postage rates.

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RESPONSE to ABA/USPS-T28-5 (continued):

- c. Confirmed, based on the assumptions used in the example regarding the Postal Service's cost structure, mailer's costs and postage rates.