

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 THE UNITED STATES POSTAL SERVICE TO
ITEMS 1-3 AND 6 OF
PRESIDING OFFICER'S INFORMATION REQUEST NO. 9
(July 8, 2005)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 9, Questions 1-3 and 6, issued June 24, 2005. The responses to Questions 4-5 and 7-14 of this POIR were filed on July 6, 2005. The following witnesses are sponsoring the identified responses in this document:

Witness Meehan: Question 6

Witness Nash: Question 2

Witness Taufique: Question 3

Witness Thress: Question 1

Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS THRESS
TO POIR NO. 9, QUESTION 1

1. Please refer to USPS-LR-K-63, file Prices.xls, sheet "Standard", cells AY22, AZ22, AY40, AZ40, AY181, AZ181, AY199 and AZ199.
 - a. Please describe the method and provide the source of the numbers used to develop the "current" and "proposed" Standard Regular mail parcel surcharges of 0.2121 and 0.2241 in cells AY22 and AZ22, respectively.
 - b. Please explain why you have used the actual proposed Standard Regular mail parcel surcharge of 0.2420 in cells AZ40, AZ181 and AZ199 instead of the figure 0.2241 calculated in cell AZ22.
 - c. Please describe the method and provide the source of the numbers used to develop the "current" Standard Nonprofit mail parcel surcharge of 0.2285 in cell AY181.
 - d. Please explain why you did not use the actual proposed Standard Nonprofit mail parcel surcharge of 0.2300 in cells AY40, AY181 and AY199, as you have done for Standard Regular Mail.

RESPONSE:

- a. The parcel surcharges presented in cells AY22 and AZ22 of Prices.xls represent the average of the parcel surcharge as it applies to all Standard parcels and the automation discount which is available to qualifying Standard parcels. According to the 2003 billing determinants for Standard Mail, there were a total of 591,873,554.838 Standard Regular parcels, of which 352,912,800 (59.63 percent) received an automation discount. Hence, the proposed \$0.2420 parcel surcharge is reduced by \$0.03 times 59.63 percent to produce the \$0.2241 value which is presented in cell AZ22.
- b. The use of \$0.2420 in cells AZ40, AZ181, and AZ199 is a mistake. The values in these cells should be calculated in the same way as the values in cells AY22 and AZ22 are calculated.

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- c. The methodology underlying the calculation of the 0.2285 figure in cell AY181 is the same as was used to calculate the Standard Regular parcel surcharge in cell AY22, as described in my response to part a. above. In this case, a total of 857,166.667 Standard Nonprofit parcels received an automation discount out of a total of 17,698,228.268 Standard Nonprofit parcels. As with Standard Regular mail, these figures were taken from the 2003 billing determinants for Standard Mail.
- d. Please see my responses to parts a. and b. of this question.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 9, QUESTION 2

2. For fiscal year 2004, please provide the total weight and average haul miles by zone for Priority mail, Passenger air transportation.

RESPONSE:

**Output of Priority Mail Weight and Average Haul by Zone
Traveled on Commercial Air**

Group	Total Weight (lbs)	Average Haul (Miles)
Zone 1	24,399	45
Zone 2	10,217,773	88.99
Zone 3	3,227,106	201.76
Zone 4	1,708,136	453.25
Zone 5	7,620,142	793.56
Zone 6	5,758,707	1,072.86
Zone 7	8,147,920	1,568.62
Zone 8	29,521,106	2,869.58
Total	66,225,289	

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TO POIR NO. 9, QUESTION 3

3. Please refer to POIR No. 5, Question 4 part b. which included the statement “FedEx costs are incurred based on cubic feet rather than weight.” In witness Taufique’s response he stated that the appropriateness of allocating FedEx costs to weight categories and zones depends on “the relationship between weight and FedEx ‘cube,’ as well as the ability to measure that relationship.” Witness Taufique also stated that the Postal Service is currently studying the relationship between weight and FedEx cube.
- a. Please explain the meaning of “FedEx cube.”
 - b. Does FedEx bill the Postal Service on the basis of “FedEx cube”?
 - c. For the Postal Service study of the relationship between weight and FedEx cube please describe the study design and the schedule for completion. Please provide any preliminary findings or partial data that is available.

RESPONSE:

- a. “Cube” was used as shorthand for cubic volume. Priority Mail cost allocations for purposes of ratemaking are done on a unit basis by weight increment and zone. (See for example Docket No. R2001-1, USPS-T-30, Attachment F, Page 1.) POIR No. 5, Question 4, part b specifically addressed Priority Mail cost allocations. The meaning of “FedEx cube” in the context of POIR No. 5, Question 4, part b, then, was unit (per-piece) Priority Mail cubic volume transported on the FedEx Day network, specifically as this measure varies by weight increment and zone.
- b. No. It is my understanding that, with respect to mail transported on the FedEx Day network, the Postal Service is billed on the basis of total cubic capacity purchased. This is a different context from “FedEx cube” as used in reference to unit cost allocations – for purposes of ratemaking – in POIR No. 5, Question 4, part b.

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c. I am informed that the Postal Service began its study of the relationship between Priority Mail weight and “cube” – for all Priority Mail volume, not just for volume transported by FedEx – with the 2002/2003 “Priority Mail Parcel Distribution and Density Study” described by witness Loetscher in his USPS-T-3 testimony to Docket No. MC2004-2. The study is ongoing. It is my understanding that, in the next step, Priority Mail flats – which account for fully a third of all Priority Mail volume – will be sampled for dimensional and cubic properties at three mail processing facilities in July and August. Data/results are expected to be available late in the year after some follow-up analysis. Currently available data were reported in witness Loetscher’s referenced testimony as well as in his Docket No. MC2004-2 library reference, USPS-LR-2.

RESPONSE OF POSTAL SERVICE WITNESS MEEHAN
TO POIR NO. 9, QUESTION 6

6. In the response to OCA/USPS-T-10-1, the Postal Service provides a table that shows the C/S 10 FY 2004 unit attributable cost for Registered Mail as \$0.97. In the Postal Service's response to OCA/USPS-132(b) a table is given showing corrected values for C/S 10 unit attributable cost for Registered Mail. The table shows a revised 2004 C/S 10 unit attributable cost of \$0.42. This is a difference of \$0.55 from the value given in OCA/USPS-T-10-1 ($97-42=55$).

According to the tables in the errata posted on June 22 to the testimony of witness Meehan (USPS-T-9), the 2004 total unit attributable cost of Registry was changed from \$16.22 to \$15.57 to account for the C/S 10 unit attributable cost revision. This represents a \$0.65 reduction in C/S 10 unit attributable cost. ($16.22-15.57=\$0.65$.) This implies that C/S 10 decreased by \$0.65.

- a. Please reconcile the difference between the calculations of the decrease of C/S 10 unit attributable cost for Registry Mail, i.e., \$0.65 vs. \$0.55.
- b. Please file a correction to any tables that have an incorrect value concerning C/S 10 for Registry Mail.

RESPONSE:

- a. The difference for C/S 10 is approximately \$0.55. However, the rural carrier costs affect some of the other segments, such as rural carrier supervision. The revised page of witness Meehan (USPS-T-9) incorporates that by multiplying the "savings" by the appropriate piggyback (i.e. 1.175 from USPS-LR-K-52, BYPBack.USPS.xls). The piggyback calculation accounts for the remaining amount.

- b. Not applicable.