

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
PRESIDING OFFICER'S INFORMATION REQUEST NO. 14
(September 16, 2005)

The United States Postal Service hereby provides its responses to Presiding Officer's Information Request (POIR) No. 14, issued September 2, 2005. Since both questions relate to a PRC version library reference (USPS-LR-K-101), the responses to both questions are institutional.

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 THE UNITED STATES POSTAL SERVICE
TO POIR NO. 14, QUESTION 1

1. On August 18, 2005, the Presiding Officer issued POIR No. 13. Question 2 asked the Postal Service to provide a revised LR-K-101 that (1) eliminates the sheet "RCCS EVAL", which contains an obsolete distribution of mail by shape, and (2) incorporates an "LR-K-67 type" parcel crosswalk to align rural flat and parcel volumes with the DMM definition. On September 1, 2005, the Postal Service responded to Question 2 by providing a ZIP file with a version of LR-K-101 that contains the two changes requested. It then adds that

...the net result of these changes does not necessarily yield an analytically satisfactory model. Mechanistic alterations to the structure of the model for the purpose of addressing one set of issues can, unfortunately, create other issues that may be equally vexing. While none of the issues which arise seem inherently insurmountable, simultaneous resolution of the full set (or, at least, a broader set) of potential problems would require a concerted effort and, perhaps, some restructuring of the model that may render its relationship to the previous models somewhat more tenuous. The Postal Service has given some consideration to the types of alterations that might be beneficial, but has not gone further in the absence of any specific requests or specific instructions regarding further deviations from the baseline model.

Please describe the issues or problems that you consider to have been caused by making the changes requested by Question 2 of POIR No. 13.

RESPONSE:

The changes to LR-K-101 requested in POIR No 13, Item 2 were logical and warranted. However, in order to develop a more analytically satisfactory model using the PRC methodology, further adjustments are recommended. Specifically, three specific issues have been identified that probably need to be addressed before LR-K-101 can be considered a satisfactory model for deriving unit delivery costs: They are the following: 1) elimination of the adjustments to the city carrier volumes that were done to offset the adjusted rural carrier volumes; 2) implementation of a LR-K-67 parcel crosswalk to city carrier volumes as well as rural carrier volumes; and 3) implementation

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of a Detached Address Label (DAL) adjustment which shifts costs attributed to DAL from ECR Saturation letters to ECR Saturation flats. Therefore, specific enhancements to address each of these issues have been incorporated into a new version of LR-K-101, being filed in conjunction with this response as USPS-LR-K-151.

LR-J-117 included an adjustment to city carrier volumes to offset the adjustment to rural carrier volumes. These adjustments are still visible in workbook 'LR-K-101_Revisedfor POIR13.xls' worksheet 'Delivery Volumes' columns F through H. However, these adjustments to city carrier volumes are no longer warranted since the corresponding rural adjustments have been eliminated in response to POIR No 13, Item 2. Consequently they have been eliminated from the spreadsheets presented in LR-K-151. As a result of eliminating the city carrier and rural carrier adjustments, the CCS and RCS letter volumes are now at their unadjusted CRA levels.

In response to POIR No 13, Item 2, a "LR-K-67" parcel adjustment was implemented with respect to rural carrier volumes. It seems that the same adjustment should be applied to city carrier volumes as well. The justification for the adjustment is contained LR-K-67_2ndRevised.doc, and it applies to city carriers and rural carriers equally. Therefore the same parcel adjustment has been incorporated into LR-K-151 for city carrier volumes.

Lastly, it seems reasonable to prefer that costs associated with DALs should be shifted from ECR Saturation letters to ECR Saturation flats. The reason for doing so is based on the definitions of the RPW ECR Saturation volumes in the denominators of the ECR unit delivery costs, which LR-K-67 and LR-K-101 are designed to measure. RPW ECR Saturation letter pieces exclude DAL, whereas ECR Saturation flat pieces do

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include counts of the DAL mailing host pieces. Therefore, the correctly defined unit cost for ECR Saturation letters should likewise exclude DAL costs from its numerator, whereas the numerator of the ECR Saturation flats unit cost should include these same DAL costs, along with the costs of all host pieces and other Saturation flats.

In summary, LR-K-151 improves the established methodology by applying the three adjustments described above to derive new unit delivery costs by rate category. These changes, in conjunction with the ones requested in POIR No 13, Item 2, produce a more analytically satisfactory model than LR-K-101 for calculating unit delivery costs by rate category, given the “old” methodology for carrier costing that has been employed over numerous rate cases.

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2. Please make the alterations that you consider might be beneficial in making the LR-K-101 model an analytically satisfactory model.

RESPONSE:

Please see USPS-LR-K-151, and the response to Question 1 of this POIR.

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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September 16, 2005