

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO  
INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION (PSA/USPS-T13-1-5)  
(May 30, 2006)

The United States Postal Service hereby provides the responses of Witness Smith (USPS-T-13) to the following interrogatories of Parcel Shippers Association: PSA/USPS-T13-1a, c-e, 2-5, filed on May 15, 2006. Interrogatory PSA/USPS-T13-1b was redirected to Witness Czigler.

Each interrogatory 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 MARC A. SMITH TO  
INTERROGATORY OF PARCEL SHIPPERS ASSOCIATION  
PSA/USPS-T13-1**

**PSA/USPS-T13-1.** Please refer to Attachment 14 of your testimony, which contains Test Year mail processing unit costs by shape and Table 1 below.

**Table 1. Test Year Mail Processing Unit Costs for Parcels**

<b>Mail Category</b>	<b>Unit Costs (in Cents)</b>
First-Class Single Piece Letters	102.49
First-Class Presort Letters	303.81
Periodicals Within-County	304.70
Periodicals Outside County	2,610.44
Standard Mail Enhanced Carrier Route	2,450.04
Standard Mail Regular	59.60
Parcel Post	125.92
Bound Printed Matter	62.28
Media Mail	111.67

(a) Please confirm that Table 1 accurately reports the unit mail processing costs for parcels from Attachment 14 of your testimony. If not confirmed, please provide the correct figure.

(b) Please provide the coefficient of variation for every figure in Table 1.

(c) Do you believe that the unit mail processing cost of parcels in the First-Class Presort Letters category is actually larger than the unit cost of parcels in the First-Class Single Piece Letters category? If so, please explain fully. If not, please explain why your method generated this result.

(d) Do you believe that the unit mail processing cost for Standard Mail Enhanced Carrier Route parcels is actually more than \$24 per piece? If so, please explain fully. If not, please explain why your method generated this result.

(e) Do you believe that the unit mail processing cost for Periodicals Outside County parcels is actually more than \$26 per piece? If so, please explain fully. If not, please explain why your method generated this result.

**RESPONSE:**

- a. Confirmed.
- b. Redirected to witness Czigler, USPS-T-1.
- c. The First-Class Presort parcels unit costs appears to be anomalous and I do not know why it is so large.

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- d. The Standard Mail Enhanced Carrier Route parcels unit costs appears to be anomalous and I do not know why it is so large.
- e. The Periodicals Outside County parcels unit costs appears to be anomalous and I do not know why it is so large.

**RESPONSE OF POSTAL SERVICE WITNESS MARC A. SMITH TO  
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PSA/USPS-T13-2**

**PSA/USPS-T13-2.** Please refer to Attachment 13 of your testimony, which shows the Standard Regular Flats-Parcel cost adjustment. Did the Postal Service consider any methods other than that shown in Attachment 13 for performing the Standard Regular Flat-Parcel Cost Adjustment? If so, please describe the other methods considered and provide the results of the other methods.

**RESPONSE:**

I did get three suggestions on doing the adjustment differently at various points in my work prior to Docket No. R2005-1 (where I first used the adjustment) and prior to this docket. I don't remember giving them much consideration. I did not have results for these alternative approaches in terms of base year costs, but I can supply the following information.

The first suggested approach was to use the ratio of LR-L-87 Standard Regular parcel volumes to non-RPW controlled ODIS-RPW volumes for Standard Regular parcels. This would be used in place of the ratio in Attachment 13 which uses RPW controlled ODIS-RPW volumes as the denominator. The impact of this suggested approach, if computed using the data in Attachment 13 is a 26.6% reduction ( $= 600,304/817,804$ ) in Standard Regular parcel unit costs. Attachment 13 shows the flats-parcel cost adjustment which I employ provides a 23.4% reduction in parcel unit costs. Using the RPW controlled ODIS-RPW volumes is the better approach since it is most comparable to the RPW volumes by shape from LR-L-87.

A second suggested approach involved dividing Standard Regular parcel costs between those parcels with Postnet 9 or 11-digit barcodes and those without. The Postnet 9 or 11-digit barcode was to be an indicator of automation

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flats preparation and costing such pieces as flats, with the remainder as parcels.

The impact of this approach was a 35.7% reduction in the parcel unit costs based on FY 2000 IOCS data. It was determined that the Postnet 9 or 11-digit barcodes on parcels was not a good indicator for automation flats preparation, so this was dropped.

I also looked into using data from a new question from the revised IOCS (Question number Q23A2). The new question was intended to allow for identification of parcel shaped pieces that were  $3/4^{\text{th}}$  to  $1\ 1/4^{\text{th}}$  inch thick. An examination of this data suggested the need for a better understanding of this data before utilizing it.

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PSA/USPS-T13-3**

**PSA/USPS-T13-3.** Please refer to Attachment 14 of your testimony and lines 1-3 on page 35 of your testimony where you state, "An estimate of the inconsistency can be obtained by comparing RPW by Shape Report data (from USPS-LR-L-87) and ODISRPW sample based Standard Regular volumes by shape." Please provide a comparison of RPW by Shape Report data and ODIS-RPW sample based volumes by shape for each subclass shown in Attachment 14.

**RESPONSE:**

See attached table. I was specifically requested to address an alleged inconsistency in volumes and costs for Standard Regular parcels. I investigated and found there to be an inconsistency due to the treatment of some parcel shaped pieces as automation rate flats and so made the adjustment in my testimony. In this case I found the volume disparity cited above as a good measure of the inconsistency of the costs and volumes. I have not studied other subclasses or categories of mail regarding parcel unit cost anomalies.

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PSA/USPS-T13-3**

**USPS-LR-L-87 VOLUME BY CLASS & SHAPE  
FY 2005, Volume In Thousands**

**ORIGIN-DESTINATION INFORMATION SYSTEM DESTINATING VOLUME BY CLASS & SHAPE,  
CONTROLLED TO RPW REPORT TOTALS  
FY 2005, Volume In Thousands**

*USPS LR-L-87 Shape GFY 2005rV.xls*

*Source: ODIS-RPW UDS file*

<b>SubClass</b>	<b>Letters/Cds.</b>	<b>Flats</b>	<b>Parcels/PPs</b>	<b>All Shapes</b>	<b>SubClass</b>	<b>Letters/Cds.</b>	<b>Flats</b>	<b>Parcels/PPs</b>	<b>All Shapes</b>
First Class Letters Single Piece	39,317,031	3,572,195	486,762	43,375,988	First Class Letters Single Piece	39,290,385	3,627,112	458,491	43,375,988
First Class Letters Presort (Car. Rt. included)	48,147,533	909,626	8,394	49,065,552	First Class Letters Presort (Car. Rt. included)	47,977,533	1,061,112	26,907	49,065,552
First Class Cards Single Piece	2,521,714	0	0	2,521,714	First Class Cards Single Piece	2,521,714	0	0	2,521,714
First Class Cards Presort (Car. Rt. included)	3,107,701	0	0	3,107,701	First Class Cards Presort (Car. Rt. included)	3,107,701	0	0	3,107,701
Inside County Periodicals	61,456	701,162	56	762,673					
Outside County Periodicals	98,294	8,207,322	1,713	8,307,330					
<b>Periodicals Total</b>	<b>159,750</b>	<b>8,908,484</b>	<b>1,769</b>	<b>9,070,003</b>	<b>Periodicals Total</b>	<b>235,103</b>	<b>8,798,282</b>	<b>36,618</b>	<b>9,070,003</b>
STANDARD ENH.CARRIER ROUTE	9,040,800	25,981,881	737	35,023,418	STANDARD ENH.CARRIER ROUTE	9,039,834	25,918,785	64,798	35,023,418
STANDARD REGULAR	51,289,509	14,028,861	600,304	65,918,674	STANDARD REGULAR	50,560,811	14,573,851	784,012	65,918,674
PARCEL POST	0	3,158	384,647	387,805	PARCEL POST	1	5,127	382,677	387,805
BOUND PRINTED MATTER	0	269,143	314,631	583,774	BOUND PRINTED MATTER	789	273,233	309,751	583,774
MEDIA & LIBRARY MAIL	0	30,579	163,376	193,955	MEDIA & LIBRARY MAIL	501	30,351	163,103	193,955

**RESPONSE OF POSTAL SERVICE WITNESS MARC A. SMITH TO  
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PSA/USPS-T13-4**

**PSA/USPS-T13-4.** Please refer to lines 3-5 on page 35 of your testimony where you state, "ODIS-RPW volume reporting by shape is consistent with the reporting of cost by shape since both ODIS-RPW and cost systems are sample based and use the same methods to determine piece shape."

- (a) Do ODIS-RPW and cost systems also use the exact same methods to determine mail subclass? If your response is no, please explain fully.
- (b) Please provide the definition of a flat used in ODIS-RPW.
- (c) Please provide the definition of an IPP used in ODIS-RPW.
- (d) Please provide the definition of a parcel used in ODIS-RPW.
- (e) Please provide the definition of a flat used in cost systems.
- (f) Please provide the definition of an IPP used in cost systems.
- (g) Please provide the definition of a parcel used in cost systems.
- (h) According to ODIS-RPW, what shape is a 5" x 5<sup>3</sup>/<sub>4</sub>" x 1/2" cardboard box containing a CD or DVD in a rigid "jewel case"?
- (i) According to cost systems, what shape is the piece described in subpart (h) of this interrogatory?

**RESPONSE:**

- a. There may well be differences in the methods used to determine mail subclass, but I have not examined this. Please see LR-L-21 for the IOCS handbook and the documentation of the process used to determine subclass in LR-L-9. Also see Docket No. R2005-1, LR-K-21 and LR-K-22 for the other cost systems and ODIS-RPW handbooks.
- b-d. See Docket No. R2005-1, LR-K-22, *Data Collection User's Guide for Revenue, Volume and Performance Measurement Systems*, Handbook F-75, pages 3-67, 3-68, and 3-187 to 3-189.
- e-g. See LR-L-21, *Data Collection User's Guide for In-Office Cost System*, Handbook F-45, pages 8-5 to 8-8 for IOCS, and Docket No. R2005-1, LR-K-21 *Data Collection User's Guide for Cost Systems*, Handbook F-65, pages 4-28 to 4-32 and 4-71 to 4-72 for the Rural Carrier Cost System (RCCS). For City Carrier Cost System (CCCS) see LR-L-23,

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PSA/USPS-T13-4**

Supplemental Statistical Programs Policies and Data Collection

Instructions, SP Letter #4, FY 2005. The Transportation Cost System (TRACS) does not record shape information.

- h. I am told that the dimensions of this piece would make it fall into the flat category for the ODIS-RPW sample based system. See Docket No. R2005-1, LR-K-22, *Data Collection User's Guide for Revenue, Volume and Performance Measurement Systems*, Handbook F-75, pages 3-187 to 3-189.
- i. In IOCS a piece with these dimensions would be a flat. For CCCS, I am told such a piece would be defined as a flat for carriers with a One-Bundle Sliding-Shelf (OBSS) case, based on the piece dimensions as indicated in LR-L-23, Supplemental Statistical Programs Policies and Data Collection Instructions, SP Letter #4, FY 2005. If a city carrier still had separate letter and flat cases then piece shape is defined based on where it is cased. I am told RCCS records Compensation Category, not shape. For the 5" x 5 ¾" x ½" jewel case, the mail piece could be one of several compensation categories, depending on extra services, the orientation of the address, and whether or not the mail piece could be cased.

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PSA/USPS-T13-5**

**PSA/USPS-T13-5.** Please refer to lines 7-22 on page 34 of your testimony, which discusses the inconsistency between the cost and volume data that necessitates the Standard Regular flat-parcel adjustment.

(a) Is the classification of cost and volume of pieces that are between ¾” and 1¼” thick and prepared as flats the only inconsistency between the cost and volume data? If not, please list all other pieces for which the cost and volume data have classification inconsistencies.

(b) Are there any inconsistencies in how ODIS-RPW and cost systems classify the types of pieces listed in your response to subpart (a) of this interrogatory? If so, please explain fully.

**RESPONSE:**

- a. No. DMM section 301.3.4.2 allows automation flats rates for pieces longer up to 15-3/4 inches, while the cost systems have a 15 inch maximum length for flats.
- b. No. Both ODIS-RPW sample based systems and the cost systems would treat this piece as a parcel.

## 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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May 30, 2006