

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

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POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION  
(PSA/USPS-T32-1-6)

The United States Postal Service hereby files the responses of witness Altaf H. Taufique to the following interrogatories of Parcel Shippers Association: PSA/USPS-T32-1-6, filed on May 15, 2006.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 1, 2005

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-1.** Please refer to USPS-LR-L-129, WP-FCM-5a and page 23 of your testimony where you state, "On average single-piece parcels cost \$1.17 more to process and deliver compared to single-piece letters."

(a) Please confirm that in FY 2005 the average First-Class Mail single-piece parcel paid the single-piece rate plus the rate for 4.42 additional ounces and that you project the same to be true in TYAR. If not confirmed, please provide the correct figure.

(b) Please confirm that in FY 2005 the average First-Class Mail single-piece letter paid the single-piece rate plus the rate for .06 additional ounces and that you project the same to be true in TYAR. If not confirmed, please provide the correct figure.

(c) Please confirm that, at the proposed rates, the average First-Class Mail single-piece parcel will generate approximately 87 cents more in additional-ounce revenue than the average letter. If not confirmed, please provide the correct figure.

(d) Please confirm that, at the proposed rates, a First-Class Mail single-piece parcel will generate 58 cents more in additional first-ounce revenue than a First-Class Mail single-piece letter. If not confirmed, please provide the correct figure.

(e) Taking into account your response to subparts (c) and (d) of this interrogatory, please confirm that, at the proposed rates, the average First-Class Mail single-piece parcel will generate \$1.45 more revenue than the average First-Class Mail single-piece letter. If not confirmed, please provide the correct figure.

(f) Please confirm that the revenue difference at proposed rates between First-Class Mail single-piece parcels and First-Class Mail single-piece letters (\$1.45) is larger than the unit mail processing and delivery cost difference (\$1.17) between single-piece parcels and single-piece letters. If not confirmed, please explain fully.

**RESPONSE**

(a) Confirmed.

(b) Confirmed.

(c) Confirmed, as you have stated, at the proposed rates, the average First-Class Mail single-piece parcel will generate approximately 87 cents more in additional ounce revenue than the average letter. However, additional ounces are not distributed evenly across all weight increments. The following table provides the distribution of additional ounces:

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**RESPONSE to PSA/USPS-T32-1 (continued):**

FY 2005 Parcel Shaped Pieces by Weight Increments and Additional Ounces

	Pieces	Cumulative Percent	Additional Ounces	Cumulative Percent
1	15,047	3 %	0	0 %
2	78,836	19 %	78,836	4 %
3	64,732	33 %	129,463	9 %
4	72,371	47 %	217,112	19 %
5	51,887	58 %	207,549	29 %
6	41,619	67 %	208,097	38 %
7	31,259	73 %	187,556	47 %
8	32,193	80 %	225,351	57 %
9	28,470	86 %	227,756	67 %
10	22,383	90 %	201,444	76 %
11	19,063	94 %	190,629	85 %
12	15,856	97 %	174,412	93 %
13	13,047	100 %	156,563	100 %
	486,762		2,204,767	

A couple of examples from the above table would illustrate this phenomenon. 80 percent of the pieces fall into the weight category of 1 to 8 ounces, but the additional ounces generated from these weight increments are only 57 percent of all additional ounces from parcels. This means that only 20 percent of the pieces in the above 8 ounce weight range generate about 43 percent of the additional ounces. Similarly, 90 percent of the pieces (up to 10 ounce pieces) generate 76 percent of additional ounces. This implies that the other 10 percent generate about 24 percent of the additional ounces.

Additional ounces are the recovery mechanism for both weight and shape related costs in the current rate structure. The goal of the proposed rate structure is to

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**RESPONSE to PSA/USPS-T32-1 (continued):**

more directly recognize the shape related costs. Using the revenue difference caused by additional ounces to offset the cost difference caused by shape undermines the pricing message that is being sent and would not effectively recover costs from the lower weight increment pieces. This is of particular concern, because such high proportions of all shapes fall into lower weight increments.

The proposed reduction in the additional ounce rate from 24 cents to 20 cents allows us to recognize that, as shape is more explicitly recognized in the rate structure, given other ratemaking considerations, the additional ounce rate will be relieved of the burden to recover both the weight and shape based costs. The following table provides the proposed increase in rates at each weight increment. The proposed increases at the higher weight increments are substantially lower than the increases for lighter weight pieces.

Current and Proposed Postage for FCM Single-Piece Parcels

Weight	Current Postage	Proposed Postage	Percent Change
1	\$ 0.52	\$ 1.00	92.3 %
2	\$ 0.63	\$ 1.20	90.5 %
3	\$ 0.87	\$ 1.40	60.9 %
4	\$ 1.11	\$ 1.60	44.1 %
5	\$ 1.35	\$ 1.80	33.3 %
6	\$ 1.59	\$ 2.00	25.8 %
7	\$ 1.83	\$ 2.20	20.2 %
8	\$ 2.07	\$ 2.40	15.9 %
9	\$ 2.31	\$ 2.60	12.6 %
10	\$ 2.55	\$ 2.80	9.8 %
11	\$ 2.79	\$ 3.00	7.5 %
12	\$ 3.03	\$ 3.20	5.6 %
13	\$ 3.27	\$ 3.40	4.0 %

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**RESPONSE to PSA/USPS-T32-1 (continued):**

- (d) Confirmed.
- (e) Confirmed.
- (f) Confirmed that, as you have stated, the average revenue difference at proposed rates is larger than the average unit mail processing and delivery cost difference. However, my use of only those two areas of cost incurrence as the touchstone for my rate design difference is a conservative approach. It is intended to move the rates for letters and parcels further apart, without shocking the parcel mailers, by proposing rates that would reflect the full range of cost differences. The cost differences in mail processing and delivery were identified and measured and are unlikely to reflect the full range of possible cost differences between letters and parcels. For instance, if parcels are heavier or larger in cube, do they incur more transportation costs than would a letter? There may be differences in window costs or in other areas of cost. Are single-piece parcels more often entered at a retail window than dropped into a collection box, relative to letters? As I confirm that the average revenue difference is larger than the average unit mail processing and delivery cost difference, I cannot confirm that the average revenue difference is larger than the average total cost difference. I do not have enough data to fully explore that comparison.

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**PSA/USPS-T32-2.** Please refer to pages 22 through 24 of your testimony where you discuss rates for flat and parcel shaped pieces and your response to subpart (f) to PSA/USPS-T32-1.

(a) Please confirm that the mail processing and delivery cost difference between letters and parcels shown in the table on page 23 reflects all mail processing and delivery cost difference between letters and parcels (including the effect of differences in both shape and weight). If not confirmed, please explain fully.

(b) Please confirm that the \$0.58 “surcharge” shown in the table on page 23 is the rate difference between letters and parcels that both weigh one ounce. If not confirmed, please explain fully.

(c) Please confirm that the 50% passthrough in the table on page 23 is equal to the rate difference between letters and parcels when holding weight equal divided by the cost difference between letters and parcels at their respective average weights. If not confirmed, please explain fully.

(d) Wouldn't comparing the rate difference between letters and parcels at their respective average weights with the cost difference also at their respective average weights be a more meaningful comparison? Please explain your response fully.

(e) Please confirm that the passthrough of the mail processing and delivery unit cost difference calculated by dividing the rate difference between single-piece parcel and letter (\$1.45) at their respective average weights and the corresponding cost difference (\$1.17) is 124%. If not confirmed, please provide the correct figure.

**RESPONSE**

It appears to me that your questions are attempting to confuse the additional ounce rate with the shape-based cost differences. I disagree with the implication that the additional ounce rate be solely derived in order to create a rate structure that would maintain some form of precise difference in rates for each shape within First-Class Mail at the risk of ignoring rate relationships, rate impact and a variety of other rate design implications. The Postal Service's proposal is intended to balance concerns, so as to prevent the possible end result of narrow approaches to rate design that could lead to much lower light-weight parcel rates that do not cover the associated costs, for example. Or, as another example, lower rate increases for heavier weight items that increase the gap between 13

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**RESPONSE to PSA/USPS-T32-2 (continued):**

ounce First-Class Mail parcels and one-pound Priority Mail items beyond a reasonable amount.

- (a) It is my understanding that the average mail processing and delivery cost difference between letters and parcels to which you refer reflects all of the mail processing and delivery costs in aggregate over the full range of weights.
- (b) I confirm that at every one-ounce weight increment between 1 and 13 ounces, the difference between the rates for letter and parcel shaped pieces is \$0.58. Surcharge is not the term I intended to use. The term “rate difference” better reflects my thoughts.
- (c) As your question is phrased, I confirm the statement. However I would note that the 50 percent pass-through applies to every one-ounce weight increment between 1 and 13 ounces. Since I do not know the cost difference between letters and parcels at each weight increment, the same difference in cost, \$1.17, is applied with a 50 percent passthrough at each one ounce weight increment between 1 and 13 ounces.
- (d) No, it would not be a more meaningful comparison for two reasons. First, as noted in my response to PSA/USPS-T32-1(c), the contribution of additional ounce postage is skewed toward the heavier pieces.

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**RESPONSE to PSA/USPS-T32-2 (continued):**

- (e) I confirm the arithmetic. However, I have reservations that I have stated in response to PSA/USPS-T32-1(c). As I have stated earlier, the benefit of a shape based rate design should lead to a lower additional ounce rate, which is what we have proposed, given all the other limitations and constraints.

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**PSA/USPS-T32-3.** Please refer to page 24 of your testimony where you state, “The moderate passthroughs that I select for shape-based rate design reflect sensitivity to the adverse impact on mailers.” Please explain how setting rates such that the average postage difference between single-piece parcels and single-piece letters (\$1.45) is larger than the mail processing and delivery cost difference (\$1.17) “reflects sensitivity to the adverse impact on mailers.”

**RESPONSE**

I have already expressed my reservations regarding your calculations, which are the basis of your question.

In the case of designing rates for First-Class Mail single-piece as well as presort parcels, we were acutely aware that this de-averaging could cause a substantial increase in parcel rates. So, given the methodology that we chose, we selected conservative measures of cost and passthroughs to develop the rate impact of reflecting additional costs caused by shape. I am proposing a 50 percent passthrough in the case of single-piece parcels and only 15 percent for the FCM Business Parcels category. We also hope that some mailers may be able convert their lighter weight pieces into other shapes that are cheaper for the Postal Service to process, and also this conversion would mitigate the impact of this rate increase.

Also, the proposed First-Class Business Mail Parcels category would allow an alternative for mailers to presort and barcode parcel shaped pieces, thereby reducing the impact of the proposed increase.

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**PSA/USPS-T32-4.** Please provide unit TYBR postage, unit TYAR postage, and unit Test Year costs for single-piece First-Class Mail single-piece parcels.

**RESPONSE**

TYBR average unit postage is \$ 1.45, and TYAR average unit postage is \$ 1.88.

The Postal Service does not estimate the CRA costs based on shape, therefore,

I do not have the “bottom up” test year costs for single-piece parcels.

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**PSA/USPS-T32-5.** Please provide unit TYBR postage, unit TYAR postage, and unit Test Year costs for First-Class Mail Business Parcels.

**RESPONSE**

TYBR unit postage is \$ 1.45, and TYAR unit postage is \$ 1.55. The Postal Service does not estimate the CRA costs based on shape, therefore, I do not have the “bottom up” test year costs for First-Class Mail Business Parcels.

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**PSA/USPS-T32-6.** Please refer to page 23 and page 36 of your testimony.

(a) Please confirm that your testimony reports a unit mail processing and delivery cost for First-Class Mail single-piece parcels of \$1.368 and a unit mail processing and delivery cost for First-Class Mail presort parcels of \$3.368. If not confirmed, please provide the correct figures.

(b) Do you believe that it costs the Postal Service \$2 more to process a presorted First-Class Mail parcel than a First-Class Mail single-piece parcel? If not, why are you using data that produce this incorrect result in your First-Class Mail rate design? Please explain your response fully.

**RESPONSE**

(a) Confirmed. Due to the use of an earlier version, there is a slight difference in the numbers used in my testimony and those that were provided by witnesses Smith (USPS-T-13) and Kelley II (USPS-T-30) but that does not materially change the conclusion derived in your question.

(b) Witness Smith has noted in his response to PSA/USPS-T13-1(c) that the results were anomalous. The volume of presort parcels in FY 2005 is only 8.3 million, about 0.4 percent of the nonauto presort volume of 1.9 billion pieces, and a still smaller percent of the presort or total Letter subclass volume. The results appeared anomalous to me and that is why the passthrough for this cost is only 15 percent.