

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 4,
QUESTIONS 1-3 AND 13-24
(June 14, 2006)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 4, Questions 1-3 and 13-24, issued June 1, 2006. The following witnesses are sponsoring the identified responses to this POIR:

Witness Smith	Questions 1, 2, 16, 17
Witness Mitchum	Question 3
Witness Harahush	Questions 13, 15
Witness Milanovic	Question 14
Witness Kiefer (T-37)	Questions 18, 22
Witness Mayes	Question 21
Witness Yeh	Questions 19, 20, 23, 24

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

The status of responses to Questions 4 through 12 was described in "Status Report of the United States Postal Service Regarding Responses to Items 4-12 of POIR

No. 4", filed on June 9, 2006.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4, QUESTION 1

1. Please provide the source for the 'Shift of BMC space to ISC' data in USPS-LR-L-54 in workbook fcilty05.xls on page I-15.

RESPONSE:

The source for the data, though not provided in LR-L-54, was briefly described at page 17 of my testimony, lines 4-7, as based on data from the FY 1999 Facility Survey data for the BMC where the shifted space is located.¹ More specifically, the data used to make this shift from BMC to ISC categories was the same data used in editing the survey results, as discussed in my testimony in Docket No. R2005-1, USPS-T-13, pages 26-27. As indicated there, the original survey data identified the international operations space at all major facilities, as part of the International category, consistent with the FY1999 definition of the mail processing International labor cost pool. An edit removed international operations space located at non-ISCs from the International category to the appropriate non-International operation to be consistent with the ISC based definition of the International cost pool for the FY 2000 CRA. As indicated at page 27: “[F]or 47 non-ISC facilities, 185,092 sq. ft. were shifted to non-international operations.” The bulk of this space ,167,980 sq. ft., was located at this particular BMC. The shift of this space from BMC to ISC in my current testimony was a reversal of the edit made in the original study. The shift of this space to ISC just restores the treatment of this space in the original survey data.

¹ BMC space was shifted to the ISC to make the facility space categories consistent with the mail processing labor cost pools. This shift was prompted by the changes in mail processing labor cost pools described by Witness Van-Ty-Smith, USPS-T-11. Witness Van-Ty-Smith, at page 5 of her testimony, indicates that the ISC cost pool has been modified due to the addition of international operations at a particular BMC.

RESPONSE OF POSTAL SERVICE WITNESS SMITH TO
POIR NO. 4, QUESTION 2

2. Please provide the source for FY 2008 annual equipment depreciation data in USPS-LR-54 in workbook TY08Equipment.xls on page IV-10.

RESPONSE:

The FY2008 annual depreciation for the equipment categories on page IV-10 is developed with two main steps. The first step is to estimate the test year depreciation for the equipment existing in the base year (or FY 2005). The second step is to determine the additional depreciation expected for the test year due to new equipment acquisitions over the FY 2006 to FY 2008 period. The test year depreciation is the sum of depreciation for the two steps. The estimation of the test year depreciation for the equipment categories on page IV-10 is done so as to be consistent with the overall projected test year equipment depreciation, included in the revenue requirement, as discussed below. This two-step process mirrors the calculations used to develop the overall test year depreciation estimates for the revenue requirement.

To obtain FY 2008 depreciation for the equipment existing in the base year, we start with the FY2005 annual depreciation by equipment type shown in LR-L-54, page IV-2 (of spreadsheet fy05equip.xls). The reduction in depreciation from assets that will be fully depreciated before or during FY2008 is estimated for each equipment type. The estimates are based on the Property and Equipment Accounting System (PEAS) data used in developing the FY 2005 depreciation costs and identifying equipment records by equipment type for equipment that will become fully depreciated by FY 2008. In the case of mail processing equipment, which has a 10-year service life, FY 2005 depreciation by equipment type was obtained for equipment purchased after January 1, 1998, eliminating all equipment purchased before FY1998 and that purchased in the

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POIR NO. 4, QUESTION 2

first three months of FY1998. (The elimination of the equipment purchased in the first three months of FY 1998 is an approximation of reduced test year depreciation associated with the equipment purchased during FY 1998, which will not have a full year's depreciation for FY 2008.) In addition, for equipment acquired during FY 2005, depreciation is augmented to reflect the full year depreciation for such equipment during FY 2008. This provides an estimate of the FY 2008 depreciation for equipment in use in the base year.

It is then necessary to determine the additional FY 2008 depreciation by equipment type arising from equipment purchases in the period FY 2006 to FY 2008. Capital budget information is used to estimate the amount for each equipment type. I was provided estimates of expenditure for each capital program based on the capital budget. For many programs these estimates are closely held to avoid interfering with procurement actions that will be undertaken in the future. The amount of expenditure by equipment type per year is calculated using these program expenditure estimates, and is reconciled, generally adjusted downward, to be consistent with the total projected expenditures shown in LR-L-50, chapter 5, section J, pages 234-5, in the third column called "Cash Flow," for the years FY 2006 to FY 2008. For each equipment type, the projected expenditures for FY 2006 and FY 2007 would have a full year's depreciation in FY 2008. Given the 10-year service life for mail processing equipment, the FY 2008 depreciation associated with the total expenditure for these two years is 10 percent of the total expenditures. For expenditures during FY2008, such equipment would have a partial year of depreciation. It is assumed such expenditures will be depreciated on average for half the year. One-half of the annual depreciation is 5 percent, and 5

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POIR NO. 4, QUESTION 2

percent of FY 2008 expenditures are included in FY 2008 depreciation. For each equipment type, the additional FY 2008 depreciation due to FY 2006 to FY 2008 purchases is added to the FY 2008 depreciation estimated for the base year equipment to obtain the total FY 2008 depreciation.

This process mirrors that used to develop the depreciation estimates in the revenue requirement. See USPS LR-L-50, chapter 5, section J, pages 234-5; or see USPS LR-L-50 data files, folder "Model," spreadsheet Input_06.xls, sheet "Depreciation." For example, the determination of the FY 2006 mail processing depreciation is shown in row 59. The starting point is the Adjusted Base from FY 2005 in cell B59 of \$606,998,558. This is the annual depreciation of existing assets as of 9/30/05. This is below the actual FY 2005 depreciation of \$763,868,752 due to a large amount of assets that became fully depreciated in FY 2005. This figure also reflects the full annual depreciation for assets added in FY 2005, since such assets will have a full year's depreciation for FY 2006. The amount of added equipment in FY 2006 is projected to be \$986,843,032 (see cell F59). If this equipment were all added on the first day of FY 2006, and had a full year's worth of depreciation for FY 2006, the depreciation would be that shown in cell J59 of \$98,684,303, which is one tenth of the amount added. However, since this equipment will be added throughout the year, a first year factor is .5 (in cell K59), which implicitly assumes all of the added equipment will have a half year's depreciation. Thus half of the \$98,684,303 is added to the adjusted base to get the FY 2006 depreciation estimate of \$656,340,709 in cell M59.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM TO
POIR NO. 4, QUESTION 3

3. Please refer to both USPS-LR-L-123 and USPS-LR-L-124. The source for TYAR volumes for CONFIRM is listed as "TYAR Volume is estimated based on base year usage by existing customers." Please provide a spreadsheet with step-by-step calculations indicating how to develop the volumes.

RESPONSE:

The volumes for Confirm® service were calculated using the process presented below.

The attached spreadsheet presents an example of the calculations.

1. Estimate the annual number of scans used for each subscriber based on the current subscription usage as of December 2005. In those cases where the subscriber had a previous subscription that ended after September of 2005, the number of scans used in the previous subscription period was used.
2. Reduce the number of scans for each subscriber by 10 percent to reflect a contraction in demand as a result of the increased prices. This was intended to represent a 10 percent decrease in total scans, rather than a 10 percent reduction for every customer. However, since there was no way to determine how each individual user would respond, the decrease was spread across all users.
3. Assume that there would continue to be 180 subscribers.
4. Split the scan volume into First-Class Mail and Other
5. Multiply the number of Other scans by 5 to get the number of units used for other classes.
6. For each subscriber add the number units used for First-Class Mail scans (one unit per scan) to the number of units used for Other scans to arrive at the total unit volume.

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POIR NO. 4, QUESTION 3

7. Determine the number of blocks of units each subscriber would need to purchase based on the number of units used.
8. Aggregate the number of blocks across all users.

Calculating the number of blocks used by each subscriber requires the acknowledgement that the first million units are included in the base price for each subscriber. See example below:

	Units Used	Additional Units Needed	Blocks Needed
User 1	9,500,000	8,500,000	9
User 2	9,500,000	8,500,000	9
User 3	9,500,000	8,500,000	9
User 4	9,500,000	8,500,000	9
User 5	9,500,000	8,500,000	9
Total	47,500,000		45
User 6	47,500,000	46,500,000	47

In the example, each of the of the first five users use 9.5 million units (a total of 47.5 million units), which requires them to buy 9 additional blocks each (a total of 45 blocks). User six also uses 47.5 million units but needs to buy 47 additional blocks.

The attached spreadsheet provides an example showing the derivation of the TYAR volume for a hypothetical subscriber who used 500,000,000 scans in the most recent subscription period. This process was repeated for all of the subscribers, and then summed. Given the limited number of subscribers, providing the individual

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POIR NO. 4, QUESTION 3

subscriber's proprietary data could enable the identification of certain subscribers and reveal characteristics about their Confirm use or mailing patterns.

Number of Estimated Scans from Previous or Current Subscription (Step 1)

500,000,000

This Volume was Reduced by 10 percent to reflect a contraction in demand as a result of the increase in prices (Step 2)

450,000,000

This volume was split into two parts, First-Class Mail and Other (Step 3)

FCM	247,500,000
Other	<u>202,500,000</u>
Total	450,000,000

The number of units for each subset was determined by multiplying the number of scans by the number of units per scan by class, 1 unit per scan for First-Class Mail and 5 units for other classes of mail. The sum of these is the total units used by the subscriber. (Step 4)

FCM	247,747,500
Other	<u>1,012,500,000</u>
Total	1,260,247,500

RESPONSE OF POSTAL SERVICE WITNESS HARAUSH TO
POIR NO. 4, QUESTION 13

13. This question seeks clarification of the definition of "Collection Mail."
- a. USPS-LR-L-11 at pages 22-23 discusses the formation of estimates of collection mail. Please clarify whether the volume of collection mail estimated by the City Carrier Cost System (CCCS) is confined to mail taken from "blue collection boxes" by carriers on special purpose routes; mail collected by regular city carriers at regular delivery stops with some "blue box collection mail volume," or a combination of mail collected by regular and special purpose carriers.
 - b. If your answer to "a" above includes, or is limited to, collections made by carriers serving special purpose routes, please provide an Excel file showing the separate distributions to subclasses of FY 2005 mail collected by regular city carriers and mail collected by carriers serving special purpose routes, show any calculations made, and identify the source(s) used in your calculations.
 - c. Please identify the variable names associated with the values in the first column in files WTEST.PQ1FY05, WTEST.PQ2FY05, WTEST.PQ3FY05, and WTEST.PQ4FY05, found in USPS-LR-L-11.

RESPONSE:

- a. The city carrier cost system samples only letter routes, thereby excluding special purpose routes. However, mail from "blue collection boxes," individual customer boxes and neighborhood delivery and collection box units is included and counted.
- b. Not applicable.
- c. 2 = First Class, 3 = Priority, 4 = Periodicals, 5 = Express, 6 = Standard, 7 = Package Services, 8 = International Economy, 9 = International Airmail, 10 = Other, 12 = Total. 1 and 11 are blank by definition at this time.

RESPONSE OF POSTAL SERVICE WITNESS MILANOVIC TO
POIR NO. 4, QUESTION 14

14. The following questions address discrepancies in volume calculations made in the file LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11. Note, these questions assume that entries for the column "Letters" is the sum of "DPS Letters and Other Letters" in LOTUS.CITY.SATURATN.FY2005. Questions A and B apply to large parcels, small parcels, flats, and letters. Questions C through E apply to small parcels, flats, and letters.
- a. Please confirm that International Airmail Express Priority (AW38+AX38+AY38) in the above-mentioned file is not included in the International Mail Category in USPS-LR-L-5, B_Workpapers folder, File "CS06&7.XLS" worksheet 7.08. If not, why not?
 - b. Please confirm that volumes for the category "Other" in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11 (AW55+AX55+AY55) is positive, but there is no corresponding value in cell AA62 in USPS-LR-L-5, B_Workpapers, File "CS06&7.XLS, worksheet 7.08."
 - c. Please confirm that volumes for Standard ECR All Other (AW14+AX14+AY14) in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11 is positive, but there is no corresponding value in USPS-LR-L-5, B_Workpapers, File "CS06&7.XLS, worksheet 7.08."
 - d. Please confirm that small parcel volumes for Standard ECR (AW12+AX12+AY12) in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11 is positive, but there is no corresponding value in USPS-LR-L-5, B_Workpapers, File "CS06&7.XLS, worksheet 7.08."
 - e. Please account for the discrepancy between the sum of "Standard ECR All Other" and "Standard ECR" in LOTUS.CITY.SATURATN.FY2005 and "Enhanced Carrier Route" in file "CS06&7.XLS, worksheet 7.08."

RESPONSE:

- a. Not confirmed. Codes AW38, AX38 and AY38 are included in column Z (24), USPS-LR-L-5, B_Workpapers folder, File "CS06&7", worksheet 7.0.8. This product is included in the "Accountable" category because it requires a signature from the customer upon delivery.
- b. Confirmed.
- c. Not confirmed. Volumes for Standard ECR All Others can be found in USPS LR-L-5, B_Workpapers folder, File "CS06&7", worksheet 7.0.8. They are included in cells E31, F31, H31, and AA31.
- d. Not confirmed. Small parcel volumes for Standard ECR can be found in USPS LR-L-5, B_Workpapers folder, File "CS06&7", worksheet 7.0.8. They are included in cell H31 (Sequenced).

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- e. The best way to verify that all of ECR included in USPS-LR-L-11 is included in worksheet 7.0.8 is to add cells U31, V31, W31, X31, Y31, Z31 and AA31, which sums to the same total (i.e. 23,591,992) as summing AW12, AX12, AY12, AW14, AX14, and AY14 in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11. The codes you mention are separated among two categories called ECR-Saturation (i.e. Sequenced) and ECR-Non-Saturation. More information on this is included in the instant docket in the direct testimony of witness Kelley, USPS-T30, beginning on page 7, line 18, as well as in Docket No. R2005-1, in the testimony of witness Bradley, USPS-T14, beginning on page 58, line 1.

RESPONSE OF POSTAL SERVICE WITNESS HARA HUSH TO
POIR NO. 4, QUESTION 15

15. The variable "RCAT," is identified as Route Category on page 34 of USPS-LR-L-11. The file entitled "z.sas7bdat" in USPS- LR-L-11 contains the following values for the variable "RCAT:" 1, 2, 3, 4, and 5. Please identify the Route Categories which correspond to these five numbers.

RESPONSE:

Please see page 7 in USPS-LR-L-11 for an explanation of all values 1 – 8 for RCAT.

RESPONSE OF POSTAL SERVICE WITNESS SMITH TO
POIR No. 4, QUESTION 16

16. In USPS-LR-L-52, workbook MPPGBY08.xls, tab H, cell D98 contains the formula '=!C80.' Should the formula actually be '=!G80'? If not, please explain.

RESPONSE:

Yes, cell D98 should be '=!G80'. Likewise, cells E98 and F98 should be '=!H80' and '=!I80', respectively.

In addition, a minor correction is made in cells G98, H98 and I98 in the same way as shown below for G98. The second term is changed from:

+ 'C'!\$J\$20*!G\$52*(E!\$K101/E!\$Q\$13)

to

+ 'C'!\$J\$20*!G\$50*(E!\$K101/E!\$Q\$13)

where !G\$52 is changed to "!G\$50."

RESPONSE OF POSTAL SERVICE WITNESS SMITH TO
POIR NO. 4, QUESTION 17

17. In USPS-LR-L-52, workbook MPPGBY08.xls, tab H, cell D99 contains the formula '=!C81.' Should the formula actually be '=!G81'? If not, please explain.

RESPONSE:

Yes, cell D99 should be '=!G81'. Likewise, cells E99 and F99 should be '=!H81' and '=!!81', respectively.

In addition, a minor correction is made in cells G99, H99 and I99 in the same way as shown below for G99. The second term is changed from:

+ 'C'!\$J\$20*!G\$52*(E!\$K102/E!\$Q\$13)

to

+ 'C'!\$J\$20*!G\$50*(E!\$K102/E!\$Q\$13)

where !G\$52 is changed to "!G\$50."

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO
POIR NO. 4, QUESTION 18

18. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Inputs." Item 20 shows TYBR Fees of \$1,095,837; item 21 shows TYAR Fees of \$1,047,000. In contrast, the workpapers supporting USPS-T-39 (USPS-LR-L-123) show TYBR fees of \$1,163,212 (WP-29, cell D64) and TYAR fees of \$1,189,636 (WP-30, cell D65). Please reconcile the foregoing amounts. Also, regarding USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Inputs," the notes section cites USPS-T-31 as the source for the numbers. Please confirm the source for these numbers.

RESPONSE:

The correct Parcel Post fee values should be TYBR: \$1,163,212 and TYAR: \$1,186,311. I understand witness Berkeley (USPS-T-39) will file revised workpapers consistent with these corrected fees. Witness Berkeley (USPS-T-39) is the correct source for these fees.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO
POIR NO. 4, QUESTION 19

19. Please refer to USPS-LR-L-41, workbook "R2006_USPS-LR-L-41_BPM Spreadsheets," sheet "Inputs." Items 15 and 16 show TYBR Fees as \$1,154,329 and TYAR Fees as \$1,383,000, respectively. In contrast, USPS-T-39 workpapers (USPS-LR-L-123) show TYBR fees of \$1,256,179 (WP-29, cell E64) and TYAR fees of \$1,495,483 (WP-30, cell E65). Please reconcile the foregoing amounts.

RESPONSE:

Please see POIR.4.Q.19.attach.xls, attached. It is my understanding that Witness Berkeley is revising Bound Printed Matter fees. The "Inputs" sheet has been updated with revised fees from Witness Berkeley.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO
POIR NO. 4, QUESTION 20

20. Please refer to USPS-LR-L-41, workbook "R2006_USPS-LR-L-41_Media and Library Spreadsheets," sheet "Inputs." Item 13 shows TYBR fees of \$434,103 for Media Mail and \$47,473 for Library Mail. Item 14 shows TYAR fees of \$467,000 for Media Mail and \$53,000 for Library Mail. In contrast, USPS-T-39 workpapers (USPS-LR-L-123) show TYBR fees of \$460,184 for Media Mail and \$49,559 for Library Mail (WP-29, cells G64 and H64), and TYAR fees to be \$493,710 for Media Mail and \$54,663 for Library Mail (WP-30, cells G65 and H65). Please reconcile the foregoing amounts.

RESPONSE:

Please see POIR.4.Q.20.attach.xls, attached. It is my understanding that Witness Berkeley is revising Media Mail and Library Mail fees. The "Inputs" sheet has been updated with revised fees from Witness Berkeley.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
POIR NO. 4, QUESTION 21

21. Please refer to USPS-T-38, page 8, footnote 4. The footnote states that Non-Dropship Zone 5 transportation costs were used as a proxy for DBMC Zone 5 transportation costs because DBMC Zone 5 transportation costs were “inexplicably high.”
- a. Please identify the factors causing (or are believed to be causing) DBMC Zone 5 transportation costs to be unreliable.
 - b. High DBMC Zone 5 transportation costs for BMC and Parcel Post have been a common occurrence in past cases as well. Please discuss Postal Service efforts to improve the reliability by which these costs are measured.

RESPONSE:

a. - b. The transportation costs for Zone 5 are not measured, they are estimated. The development of the estimate of Zone 5 DBMC Bound Printed Matter transportation unit cost is shown at page 4 of Attachment A of USPS-LR-L-89. The development of the estimate of Zone 5 transportation unit cost for DBMC Parcel Post is shown at page 12 of Attachment B of USPS-LR-L-89, and for Intra-BMC at page 11 of the same Attachment. Although the figures associated with Zone 5 DBMC transportation costs are much higher than those associated with lower zones, I would not characterize the figures as “unreliable,” nor would I agree that efforts need to be made to improve the reliability of these estimates. It is my understanding that the witnesses who use these costs to develop rates have taken the view that in the development of smooth rate relationships in rate design, it is not always necessary to trace the cost relationships precisely.

It is worth noting that only one BMC service area in the United States even has a Zone 5; all other BMC service areas are smaller in great circle distance. There is extremely little volume in Zone 5 DBMC. Zone 5 DBMC volume represents 0.05% of total Parcel Select volume, including Parcel Return Service (PRS), as shown in the

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
POIR NO. 4, QUESTION 21

adjusted volume distribution on page 24 of Attachment B. Zone 5 DBMC volume represents 0.18% of DBMC Parcel Select volume, as shown on the same page. Within Bound Printed Matter, an estimated 0.07% of total DBMC Bound Printed Matter pounds travel as Zone 5 DBMC. The estimated cubic feet associated with DBMC Zone 5 Parcel Post parcels is 0.12% of total DBMC Parcel Post cubic feet, and the cubic foot miles for Zone 5 DBMC Parcel Post are 2.26% of total DBMC Parcel Post cubic foot miles. DBMC Zone 5 Bound Printed Matter pound miles represent 0.56% of total DBMC Bound Printed Matter pound miles.

The two types of transportation costs assigned to DBMC parcels are local costs, which are distributed on the basis of cubic feet for Parcel Post and pounds (as proxy for cubic feet due to the density of BPM and the lack of data on cube by weight increment for BPM) for Bound Printed Matter, and intermediate, which are distributed on the basis of cubic foot miles for Parcel Post and pound miles for Bound Printed Matter. The development of the unit transportation cost for DBMC Zone 5 adds the local and intermediate costs and divides by the cubic feet associated with DBMC for Parcel Post. The local and intermediate costs are divided by pounds for Bound Printed Matter.

The estimates of cubic feet and cubic foot miles in Parcel Post Zone 5 DBMC are developed on page 6 of Attachment B. The cubic feet are estimated using the regression results from page 1 multiplied by the Parcel Select volume developed on page 19. This distribution of Parcel Select volume includes the addition of relevant Parcel Return Service pieces, as well as the non-PRS volumes reported in the FY 2005 Billing Determinants and inflated from 2005 to 2008 based on the TYBR volume forecast. Similarly, on page 6 of Attachment B, the estimated PRS cubic foot miles from page 28 of Attachment B are added to the cubic foot miles for DBMC obtained from

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USPS-LR-L-47. Unlike for Inter-BMC and Intra-BMC, the intermediate costs for DBMC are considered to be zone-related and while distributed to rate category on the basis of cubic feet on page 9, DBMC's share of these costs is distributed to DBMC zone on the basis of cubic foot miles.

The estimated pounds and pound miles for Bound Printed Matter are developed on page 4 of Attachment A. On the same page, the local costs are distributed to zone based on pounds and intermediate costs are distributed to zone based on pound miles. The local and intermediate costs by zone are then divided by the pounds in each zone to derive the cost per pound figures by zone that are provided to the pricing witness for rate development.

The primary driver of Zone 5 DBMC transportation costs is the average haul. Please refer to cell E84 on page 28 of Attachment B. There you will see the average haul that is implicit in the origin/destination zones for Zone 5 DBMC Parcel Post is 997 miles. This average haul is calculated by dividing the total cubic foot miles for DBMC in USPS-LR-L-47 by the total cubic feet for DBMC in USPS-LR-L-47. That average haul is nearly three times the average haul of Zone 4 DBMC pieces. The same situation arises in Bound Printed Matter: the average haul for Zone 5 DBMC BPM pieces is 800 miles whereas the average haul for Zone 4 DBMC BPM pieces is only 342 miles. Again, this relatively long average haul for Zone 5 DBMC is related to the relatively few origin/destination pairs which can yield a Zone 5 DBMC designation.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO
POIR NO. 4, QUESTION 22

22. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Leakages & Surcharges." Column [B] shows per piece rate differences and surcharges. Please explain why the Intra-Inter BMC differential, all of the Drop Ship discounts, and the RBMC nonmachinable surcharge are not rounded to reflect the actual rate differences, as was done in past rate cases. Please make the necessary corrections or explain why the rate differences per piece should not be rounded to reflect the actual rate difference used.

RESPONSE:

In the "Leakages & Surcharges" sheet, a distinction is made between items that are final rate elements (such as the barcode discount and nonmachinable surcharges) and those that are intermediate quantities. Intermediate quantities, which include the Intra-Inter BMC differential and the drop-ship discount differentials, are combined with other quantities (including other intermediate quantities) to form, first, the preliminary rates, and then, after adjustment, the constrained, or final, rates. These intermediate quantities, and even the preliminary rates themselves, receive further mathematical manipulation before the final rates stage, and are carried forward with more than two decimal places to avoid introducing potential rounding anomalies along the way. Once the constrained, or final, rates are produced, they are subjected to the customary whole-cent rounding constraint. These intermediate quantities, are therefore, not true rate differences per se, and so are not rounded separately. Inspection of the Postal Service's workpapers from Docket No. R2001-1 will show that this practice was followed in that earlier case also.

The RBMC nonmachinable surcharge, also mentioned in the question, is a final rate element and therefore should have been rounded to whole cents, as were the other surcharges. Correcting this error has no impact on rates or estimated revenues.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO
POIR NO. 4, QUESTION 23

23. Please refer to USPS-LR-L-41, workbook "R2006_USPS-LR-L-41_BPM Spreadsheets.xls," sheet "Revenue Leakages." Column [D] shows the rate difference per piece. Please confirm that in past rate cases, the rate differences per piece were rounded to the nearest hundredth or thousandth to reflect the actual rate difference used. Please make the necessary corrections or explain why the rate differences per piece should not be rounded to reflect the actual rate difference used.

RESPONSE:

Inspection of the Postal Service's workpapers from Docket No. R2001-1 confirms that the rate differences per piece were rounded to the nearest thousandth to reflect the actual rate differences used. The rate differences per piece, shown in the "Revenue Leakages" sheet, column [D], are preliminary rate elements. Rates are finalized by making necessary mathematical adjustments to preliminary rate elements. In order to avoid introducing potential rounding anomalies, preliminary rate elements are rounded to more than two decimal places before the final rates stage.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO
POIR NO. 4, QUESTION 24

24. Please refer to USPS-LR-L-41, workbook "R2006_USPS-LR-L-41_BPM Spreadsheets.xls," sheet "Pound and Piece Charges." For the per pound component each cost markup in column [F] is derived by adjusting the cost coverage markup factor including contingency (125%) by some positive or negative set amount. Please explain how the adjustments to the markup factor were derived for each per pound charge, and the reasoning behind using each.

RESPONSE:

The adjustments to the markup factor for each per pound charge were derived iteratively to satisfy three rate design objectives: generate sufficient contribution, produce acceptable rate increases and maintain reasonable rate relationships. In most cases, had no adjustments been made, lower zone rates (zones 1, 2, and 3) would have seen unacceptably high rate increases. For Single-Piece and Non-Drop-shipped Presort rates, I applied below average markups to lower zone rates. I then applied above average markups to higher zone rates (zones 4 – 8) in order to recover revenue lost from the lower zones. For Drop-shipped Presort rates, I applied below average markups to DBMC rates to offset unacceptably high DBMC rate increases and above average markups to DSCF and DDU rates to recover revenue lost from DBMC.