

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-T32-7 THROUGH 13)

The United States Postal Service hereby files the responses of witness Altaf H. Taufique to the following interrogatories of Parcel Shippers Association: PSA/USPS-T32-7 through 13, filed on June 5, 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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**PSA/USPS-T32-7.** Please refer to your response to PSA/USPS-T32-2(d) where you state, “No, it would not be a more meaningful comparison for two reasons.” You then provide one reason. What is the other reason?

**RESPONSE**

The second reason is stated in the response to subpart e of PSA/USPS-T-32-2.

Explicit recognition of shape should lead to lower additional ounce rate.

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**PSA/USPS-T32-8.** Please refer to your response to PSA/USPS-T32-2(e) where you state, "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." Please list and discuss all of the other limitations and constraints to which your response refers.

**RESPONSE**

Generally speaking the other limitations and constraints are:

- (1) achieving the cost coverage target provided by the rate level witness.
- (2) recognizing the value of mailer worksharing;
- (3) avoiding changes in discount levels which result in unduly disruptive rate impacts; and
- (4) acknowledging the importance of mailer barcoding and presortation in overall postal operations.

Obviously, rate design is complex, and this is a non-exhaustive list; other constraints such as rate relationships and other factors may come into play.

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**PSA/USPS-T32-9.** Please refer to your response to PSA/USPS-T32-2 where you state, "It appears to me that your questions are attempting to confuse the additional ounce rate with the shape-based cost difference." Please also refer to your response to PSA/USPS-T32-1(c) where you state, "Additional ounces are the recovery mechanism for both weight and shape related costs in the current rate structure."

(a) Do you believe that the \$1.17 mail processing and delivery cost difference between the average First-Class Mail single-piece letter and the average First-Class Mail single-piece parcel is due primarily to the difference in shape and only secondarily to the difference in weight? Please explain your rationale fully.

(b) Please provide your best estimate of the percentage of the \$1.17 mail processing and delivery cost difference that is due to the difference in shape (holding weight constant). Please provide all of your underlying calculations.

(c) Please provide your best estimate of the percentage of the \$1.17 mail processing and delivery cost difference that is due to the difference in weight. Please provide all of your underlying calculations.

(d) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail single-piece letters. Please provide all of your sources and underlying calculations.

(e) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail single-piece parcels. Please provide all of your sources and underlying calculations.

(f) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail presort letters. Please provide all of your sources and underlying calculations.

(g) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail presort parcels. Please provide all of your sources and underlying calculations.

(h) Please confirm that additional ounces will still serve as a recovery mechanism for both weight and shape related costs in the proposed rate structure. Please your response fully. If not confirmed, please provide the passthrough of the weight-related costs that underlies the additional-ounce rate and all underlying calculations.

**RESPONSE**

- (a) The \$1.17 figure which is the difference between cost of processing and delivering parcels as opposed to letters is the average difference. I do not have the definitive data to suggest that it is predominantly due to shape. Please refer to DBP/USPS-40 where it appears that shape related cost difference between a one ounce letter shaped piece and a one ounce

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**RESPONSE to PSA/USPS-T32-9 (continued):**

parcel shaped piece is slightly over \$2.55. I did not rely on that particular study for the proposed rates or supporting analysis in my testimony.

- (b) Please see my response to subpart a, above.
- (c) Please see my response to subpart a, above.
- (d) Though I did not rely on the data, please see the institutional response of the Postal Service to DBP/USPS-40 for the cost by shape by weight increment data. These data provides the total cost by shape and weight increments for First-Class mail single-piece. My understanding is that mail processing and delivery combined constitute 87.1 percent of the total single-piece volume variable cost. This ratio may closely approximate the actual ratio for letters because of the relatively large number of letter-shaped pieces in this mailstream. Parcels and flats, representing a smaller portion of the mailstream, may exhibit a different ratio.
- (e) Please see my response to subpart d, above.
- (f) I do not have the data available. Please see the institutional response of the Postal Service to OCA/USPS-T-32-2 for the costs by shape for First-Class Mail presort rate category. The costs are provided for the first-ounce and combined costs for all other weight increments.
- (g) Please see my response to subpart f, above.

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**RESPONSE to PSA/USPS-T32-9 (continued):**

(h) Confirmed. With this proposal, the Postal Service is moving in the direction of explicitly recognizing the cost causation due to shape. Currently, the appropriate data is not available and our approach is to gradually move in the direction of this type of de-averaging.

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**PSA/USPS-T32-10.** For the purpose of this interrogatory, please assume that weight has no effect on the unit cost of a First-Class Mail parcel or a First-Class Mail letter. Please also refer to your response to PSA/USPS-T32-1(c) where you confirm that the average single-piece First-Class Mail parcel will generate 87 cents more in additional-ounce revenue than the average single-piece First-Class Mail letter and where you state, "Additional ounces are the recovery mechanism for both weight and shape related costs in the current rate structure."

(a) Please confirm that, in the hypothetical where weight has no effect on cost, additional ounces serve entirely as a recovery mechanism for shape related costs. If not confirmed, please explain fully.

(b) Please confirm that, in the hypothetical where weight has no effect on cost, additional ounces will recover an average of 87 cents of shape related costs (that is, because parcels pay an average of 87 cents more in additional-ounce postage than do letters). If not confirmed, please explain fully.

(c) Please confirm that your proposed rates will recover shape based costs through both the shape-based rate difference (holding weight constant) and through additional ounces. If not confirmed, please explain fully.

(d) Did you consider reducing the additional ounce rate for single-piece parcels to less than 20 cents? If so, why did you reject this proposal?

(e) Did you consider reducing the additional ounce rate for single-piece parcels to less than the additional ounce rate for single-piece letters and single-piece flats? If so, why did you reject this proposal?

(f) Did you consider reducing the additional ounce rate for Business Parcels to less than 20 cents? If so, why did you reject this proposal?

(g) Did you consider reducing the additional ounce rate for Business parcels to less than the additional ounce rate for presort letters and flats? If so, why did you reject this proposal?

**RESPONSE**

(a) Not confirmed. The additional ounce rate serves more than the purposes enumerated in your question, i.e., shape or weight related costs.

Additional ounces are an important source of revenue in achieving the necessary contribution to institutional costs for First-Class Mail. As I have stated on page 4, line 23 and page 5 lines 1 through 7 of my testimony,

USPS-T-32:

As the Postal Service explicitly recognizes the shape differences in First-Class Mail rates, the additional ounce rate may be reduced, as

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**RESPONSE to PSA/USPS-T32-10 (continued):**

illustrated in the instant request. Revenue generated from additional ounces is substantial and an important source in meeting the revenue requirements for the subclass and the Postal Service as a whole. Given the specific circumstance of any particular docket and all of the factors that must be balanced in any given case, there is no guarantee that shape recognition will be an overriding objective that leads to greater changes in additional ounce rates.

- (b) I would like to put the cost and revenue for single-piece parcel shaped pieces in perspective. The average mail processing and delivery cost for single-piece parcels for the test year is \$1.368 (USPS-LR-L-129, WP-FCM 14, spreadsheet 'Rate Design SP Flts & Parcels', Cell C21). Mail Processing and Delivery make up approximately 87 percent of the volume variable cost for single-piece. Using this 87 percent (for parcel shaped pieces this ratio may be less than 87 percent) ratio the average total cost for parcel shaped pieces for the test year is estimated to be \$1.57 (this is a conservative estimate because one could safely assume that parcel shaped pieces' transportation and retail acceptance costs are proportionally higher than those for letter shaped pieces). Using this cost estimate for single-piece parcels and the TYAR postage of \$1.88 (including the postage for additional ounces) provided in my response to your interrogatory PSA/USPS-T32-4 the implicit cost coverage for First-Class Mail single-piece parcels could be 120 percent. The proposed implicit cost coverage for all of single-piece is in the neighborhood of 183 percent (USPS-LR-L-129, WP-FCM 12, spreadsheet 'Revenue

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**RESPONSE to PSA/USPS-T32-10 (continued):**

- SP&Presort', cell B44). The proposed postage for one to three ounce single-piece parcel shaped pieces is less than the estimated average total cost for of \$1.57. A four ounce single-piece parcel shaped piece at \$1.60 postage, barely covers the estimated average cost of \$1.57. Granted, the data are not on par with subclass-level data and we do not calculate cost coverages by rate cell; however these data, and the data provided in the institutional response to DBP/USPS-40, provide an indication that parcel shaped pieces may have a relatively lower cost coverage -- and some of the lighter weight pieces may not even cover the cost associated with transporting, processing and delivering them. I can confirm that parcels, on average, pay 87 cents more and therefore, based on your hypothetical, provide 87 cents additional recovery for the shape-based costs.
- (c) Confirmed. I do not believe that we are recovering all of the shape based costs through the proposed differential of \$0.58; therefore, additional ounces are not completely relieved of the burden of recovering shape related costs. Please see my response to subpart c, above and to PSA/USPS-T32-9 subpart h.
- (d) No, I did not consider such a proposal. I believe, in general, FCM parcel shaped pieces have a lower cost coverage than the average, and also

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**RESPONSE to PSA/USPS-T32-10 (continued):**

lighter weight parcels are not covering the cost of transporting, processing and delivering them.

- (e) No, I did not consider such a proposal.
- (f) No, I did not consider such a proposal.
- (g) No, I did not consider such a proposal.

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**PSA/USPS-T32-11.** Please refer to your response to PSA/USPS-T32-6(b) where you state, “The results appeared anomalous to me and that is why the passthrough for this cost is only 15 percent.”

(a) Given that the result appears anomalous, is it also accurate to say that the passthrough is unknown because the Postal Service does not have an accurate estimate of the unit mail processing and delivery cost of First-Class Mail presort parcels?

(b) Please provide your best estimate of the unit mail processing and delivery cost of First-Class Mail presort parcels. Please provide all of your sources and underlying calculations.

(c) Given that the same method and data sources were used to estimate the cost of single-piece parcels and presort parcels, can you rule out the possibility that the unit mail processing cost for single-pieces parcels is also inaccurate? Please explain your response fully.

**RESPONSE**

(a) For some classes of mail which are relatively small, the cost or volume estimates in some cases provide direction rather than the precise level or difference. The reason for some anomalous results is not the methodology or data source; rather it is the size of the subclass or rate category under consideration. In my judgment, based on all the other data on First-Class Mail parcels, the difference between presort letter and parcel shaped pieces provided an accurate indicator of direction; and by using a very conservative passthrough of 15 percent, the proposed classification change is appropriate. Our goal was, and remains, to move in the direction of parcel shaped pieces covering their costs. We do not expect that all of the shape related costs would be recovered with the changes proposed in this docket. The effective passthrough may very well be much lower than what I have proposed.

(b) I have provided my best estimate in my testimony and workpapers.

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**RESPONSE to PSA/USPS-T32-11 (continued):**

- (c) There are approximately 486 million parcels in single piece compared to 8.4 million presorted parcels, which gives me greater confidence in the estimates derived for single-piece compared to presort.

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**PSA/USPS-T32-12.** Please refer to your response to PSA/USPS-T32-1(c) where you state, “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 the weight and shape based costs.

(a) Please confirm that the proposed 4-cent reduction in the additional ounce rate reduces additional ounce postage for the average single-piece First-Class Mail parcel by approximately 18 cents. If not confirmed, please provide the correct figure.

(b) Please confirm that this reduction in additional ounce revenue is approximately 30% of the proposed 58-cent shape-based postage difference being proposed. If not confirmed, please provide the correct figure.

**RESPONSE**

(a) Confirmed.

(b) Confirmed.

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**PSA/USPS-T32-13.** Please refer to USPS-LR-L-129, WP-FCM-10a.

(a) Please confirm that you project that the average First-Class Mail Business Parcel will pay for 4.34 additional ounces in the Test Year. If not confirmed, please provide the correct figure.

(b) Please confirm that you project that the average First-Class Mail presort letter will pay for .04 additional ounces in the Test Year. If not confirmed, please provide the correct figure.

(c) Please confirm that, at the proposed rates, the average First-Class Mail Business presort parcel will generate approximately 86 cents more in additional-ounce revenue than the average First-Class Mail presort letter. If not confirmed, please provide the correct figure.

**RESPONSE**

(a) Confirmed

(b) Confirmed.

(c) Confirmed.