

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006) Docket No. R2006-1
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SECOND SET OF INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS
TO USPS WITNESS TAUFIQUE
(ABA-NAPM/USPS-T32-3-10)

(July 11, 2006)

Pursuant to sections 25, 26 and 27 of the rules of practice, the American Bankers Association and the National Association of Presort Mailers direct the following interrogatories to United States Postal Service witness Taufique (USPS-T-327). If the witness cannot answer a question or subpart, we request that the Postal Service answer through another witness or submit an institutional response.

Respectfully submitted,

/S/ Robert J. Brinkmann

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ABA-NAPM/USPS-T32-3 Please refer to pages 17-20 of your testimony (USPS-T-32), where you discuss the Postal Service's proposal for shape-based rates for First-Class Mail. Please confirm the following statements. Explain fully any failure to confirm.

(a) A 3 digit FCLM financial statement weighing between 1 and 2 ounces would cost \$0.486 under your proposed rates, compared to \$0.545 currently.

(b) A 3 digit FCLM statement weighing between 2 and 3 ounces would cost \$0.641 under your proposed rates, compared to \$0.782 currently.

ABA-NAPM/USPS-T32-4 Please confirm the following statements. Explain fully any failure to confirm.

- a. The Household Diary Study indicates that the volume of statements mail declined by 4.1% between 2002 and 2005.
- b. According to the Household Diary Study, about 6.6 billion pieces of First-Class letter mail in 2005 were statements mail.
- c. Rates for statements mail have a relatively high implicit coverage ratio.
- d. A further decline of statements mail volume could cost the Postal Service hundreds of millions of dollars in contribution annually.
- e. The greater recognition of shape proposed by the Postal Service, all other things being equal, will reduce the average rate per piece paid by statements mail weighing more than once ounce.
- f. Adoption of shape based rates are likely to slow, to some degree, the erosion of statements mail volume carried by the Postal Service.
- g. Failure to adopt shape based rates would likely accelerate the, loss of statements volume.

ABA-NAPM/USPS-T32-5 In this case you propose to base First Class rates on shape rather than weight, and as a result of this change you propose to reduce the extra ounce rate. Please confirm that your approach is supported by the fact that the Postal Service uses the same productivities in its cost models for letters weighing more than one ounce as it does for letters weighing one ounce or less.

ABA-NAPM/USPS-T32-6. Please confirm that USPS-LR-L-139 supports the following statements. Explain fully any failure to confirm.

- a. Pieces of FCLM reported as weighing more than 4.0 ounces represent only 0.07% of the total number of FCLM pieces.
- b. Pieces of FCLM reported as weighing more than 4.0 ounces represent only 0.9% of the total weight of FCLM.
- c. Pieces of FCLM reported as weighing more than 4.0 ounces account for only 0.32% of the total volume variable costs of FCLM.

ABA-NAPM/USPS-T32-7

- a. Please confirm that the numbers in the attached Table One are correct. If you fail to confirm fully, please produce a corrected table, along with supporting analysis sufficient to replicate your results.
- b. Please confirm that under your proposed shape based rate structure—using all costs for First-Class parcels and not just mail processing and delivery costs—the unadjusted (for fees) cost coverage is 112% for First-Class parcels, while the cost coverage is 194% for First-Class letters, and 170% for First-Class flats.
- c. Please confirm that under your proposed shape based rate structure—using all costs for First Class parcels and not just mail processing and delivery costs—the adjusted (for fees) cost coverage for parcels is 114%, while the cost coverage for First Class letters is 197% and for flats 173%.
- d. In PSA/USPS-T32-1.e. you were asked to confirm that the revenue difference between First Class Parcels and Letters under your proposed shape based rates was somewhat greater than the difference in costs, namely \$1.45 versus \$1.17. Please confirm that this calculation was limited to mail processing and delivery costs, and did not consider total unit cost differences.
- e. Please confirm that the total cost differences between a First Class Parcel and a First Class letter are \$1.46, one cent *more* than the total unadjusted revenue differences under the proposed shape-based rates.
- f. Please confirm that the total cost differences between a First Class Parcel and a First Class letter are \$1.46, one cent *less* than the total adjusted revenue differences under the proposed shape based rates.

Table One

Shape	Current Rates		Proposed Rates		Total Unit Cost	Unadjusted Unit TYAR Postage Revenue	Unadjusted Total Cost Coverage	Adjusted Unit TYAR Postage Revenue	Adjusted Total Cost Coverage
	1st Oz	Add'l Oz	1st Oz	Add'l Oz	Cost	Revenue	Coverage	Revenue	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(6)/(5)	(8)	(9)=(8)/(5)
Letters	\$0.390	\$0.240	\$0.420	\$0.200	\$0.222	\$0.43	194.2%	\$0.44	197.0%
Flats	\$0.520	\$0.240	\$0.620	\$0.200	\$0.691	\$1.18	170.2%	\$1.19	172.6%
Parcels	\$0.520	\$0.240	\$1.000	\$0.200	\$1.682	\$1.88	112.0%	\$1.91	113.6%
Shape					Cost Difference Letter as Base	Unadjusted Revenue Difference Letter as Base	Unadjusted Total Cost Coverage	Adjusted Revenue Difference Letter as Base	Adjusted Total Cost Coverage
					(10)	(11)	(12)=(11)/(10)	(13)	(14)=(13)/(10)
Letters					-	-	-	-	-
Flats					\$0.469	\$0.75	158.8%	\$0.76	161.1%
Parcels					\$1.460	\$1.45	99.5%	\$1.47	100.9%
Sources:	Weight increment unit costs from LR-L-139.								
	Unit TYAR postage revenue based on USPS-T-32, USPS-LR-L-129, WP-FCM-11a.								

ABA-NAPM/USPS-T32-8 In his response to PSA/USPS-T13-1.c., USPS witness Smith states that the large difference in Test Year unit mail processing costs between presort parcels and single piece parcels (\$3.0381 versus \$1.0249) “appears to be anomalous and I do not know why it is so large.” Please confirm the following statements. Please explain fully any failure to confirm without qualification.

(a) Without shape based rates, the \$3.0381 number would be built into extra ounce costs for presort letters.

(b) Without shape based rates, the inclusion of the \$3.0381 value in the extra ounce costs of presort letters would introduce an upward bias into the estimated costs of such letters.

ABA-NAPM/USPS-T32-9. In your response to ABA-NAPM/USPS-T22-2(c), you provided a table labeled “AUTOMATION LETTERS, USPS Version.” Please provide a “PRC version” of the table (i.e., a table using the PRC costing methodology in R2005-1), as requested by ABA-NAPM/USPS-T22-2(c).

ABA-NAPM/USPS-T32-10 Please refer to the table “AUTOMATION LETTERS USPS Version” provided in your response to ABA-NAPM/USPS-T22-2(c). The table indicates that your proposed rates would produce the incremental passthroughs of 84.6% for AADC, 80% for 3-digit and 118.8% for 5-digit.

(a) Please confirm that incremental passthroughs of 100% would result for each of the above three automation rate categories, under the same costing methodology, from the following rates:

AADC	33.3 cents
3 digit	32.8 cents
5-digit	31.2 cents

Please explain fully any failure to confirm.

(b) Please confirm that the rates identified in part (a) differ from the rates proposed by the USPS by the following amounts:

AADC	-0.2 cents
3-digit	-0.3 cents
5-digit	no difference

Please explain fully any failure to confirm.