

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. 7,
QUESTIONS 1 AND 2
(July 17, 2006)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request No. 7, Questions 1-2, issued on June 29, 2006. The responses are being sponsored by witness Taufique (USPS-T-32). Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAUFIQUE (USPS-T-32)
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7**

1. Please refer to USPS-LR-L-129, WP-FCM-5c.
 - a. At the bottom of WP-FCM-5c, a note states that pieces weighing less than 1.6 ounces will be subject to the nonmachinable surcharge. Please reconcile this note with USPS-T-32, page 20, at lines 2 and 3, which states that pieces weighing less than two ounces will be subject to the nonmachinable surcharge.
 - b. Please identify the source of the assumption that 3 percent of the FCM Business Parcels that migrate from Single-Piece will be subject to the nonmachinable surcharge. Please also provide the rationale for the assumption.
 - c. Please identify the source of the assumption that 58 percent of the FCM Business Parcels that migrate from Nonautomation Presort will be subject to the nonmachinable surcharge. Please also provide the rationale for the assumption.

RESPONSE

- a. The Postal Service's proposal for the nonmachinable surcharge for First-Class Mail Business or Presort is applicable to pieces weighing less than 2 ounces as stated in my page 20 of my testimony, USPS-T-32. The 1.6 ounces referenced in WP-FCM 5c is the minimum weight specification for the Automated Package Processing System (APPS) equipment and was not intended to be the weight requirement for nonmachinable pieces. The 2 ounce requirement is to ensure that the pieces are safely above the minimum engineering requirement without subjecting the mailers pay postage for another additional ounce.
- b. In WP-FCM-4, LR-L-129, I have provided the distribution of single-piece volume by shape and ounce increments for FY 2005. The volume for parcel shaped pieces between 0 and 1 ounce is slightly over 15 million pieces, which is slightly over 3 percent of the total volume of 487 million

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAUFIQUE (USPS-T-32)
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7**

RESPONSE TO Question 1 (continued):

- pieces. The rationale for using 3 percent of the pieces paying the nonmachinable surcharge is that mailers of these pieces would rather pay the nonmachinable surcharge of 5 cents rather than the additional ounce postage of 20 cents. Mailers of pieces weighing between 1 and 2 ounces would likely prepare a heavier weight piece than pay the nonmachinable surcharge.
- c. Please see my response to subpart b. The 58 percent proportion was derived by using the information provided in WP-FCM-6; Distribution of Nonautomation Presort pieces by ounce increments and shape for FY 2005. The proportion of pieces weighing between 0 and 1 ounce is 58 percent (4.9 million pieces divided by 8.4 million pieces).

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAUFIQUE (USPS-T-32)
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7**

2. Please refer to USPS-LR-L-129, WP-FCM-18.
 - a. Please confirm that the presort parcel savings in column [B], rows [l], [m], and [n] are calculated based on the costs presented in USPS-LR-L-43, FCM PRESORT FLATS.xls, sheet "BUNDLE OPS SUMMARY," column (5) Additional Unit Cost. If not confirmed, please provide the source of the figures. If confirmed, please provide the rationale for estimating the cost savings from the presortation of parcels based on the additional unit cost of parcels above the unit cost of flats, as opposed to the estimated costs of the parcels presented in column (4) Bundle Operations Piece Distribution.
 - b. Please identify the specific source of the additional cost of nonmachinable parcels presented in column [B] row [r]. Please also provide the rationale for the selection of this figure.
 - c. Please confirm that the parcel costs presented in columns [H], [I], and [J], row [y] represent costs of First-Class Presort parcels. If not confirmed, please provide the source of the figures. Since WP-FCM-5c indicates that roughly 150 million of the 154 million TYAR volume of FCM Business Parcels derives from what would otherwise be Single-Piece parcels, please explain the rationale for utilizing Presort parcel costs to estimate the additional cost (above letter costs) of these pieces.

RESPONSE

- a. Please see my response to PSA/USPS-T32-15. There, I discuss my erroneous use of column 5 instead of column 4 to derive the presort savings for parcels. The use of correct and updated numbers would reduce my passthroughs underlying the discounts and the presort rates proposed for parcels in this docket. The passthroughs to maintain the proposed rates would be 34, 10 and 28 percent, respectively, for ADC, 3-Digit and 5-Digit presort levels, instead of 45, 20 and 40 percent.
- b. The specific source for that number is LR-L-43 page 4 column 5 and row titled nonautomation. I should have used column 4 instead of column 5, as

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WITNESS TAUFIQUE (USPS-T-32)
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7**

RESPONSE TO Question 1 (continued):

- stated in my response to subpart a The revised cost estimate for nonautomation parcels is 85.7 cents, instead of 49.264. Instead of using the unit cost estimate for nonautomation parcels, I should have used the difference between the Nonautomation and the weighted average of MADC, ADC, 3-Digit and 5-Digit. The weighted average is 54.292 cents for the presort categories and the difference between nonautomation and weighted average is 31.409 cents. The passthrough for this cost difference would be 16 percent instead of 10 percent used in my workpapers.
- c. Confirmed. Currently parcel shaped pieces pay letter rates for the first ounce and the applicable additional ounce postage based on their weight. If parcel shaped pieces weigh 1 ounce or less, they are assessed a nonmachinable surcharge of 13 cents for single-piece, and 5.8 cents for nonautomation presort parcels. My testimony on page 36 discusses the rationale for shape based rates. Also, I am proposing to delink the presort and single-piece rate design (see my testimony USPS-T-32, pages 12 through 17). My benchmark rate to derive the rates for Presort or Business Parcels is not the single-piece parcel. Rather, it is the internal benchmark from within presort, which is the Mixed AADC letter rate.