

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS ABDIRAHMAN TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T22-36-39, 41-52)

The United States Postal Service hereby files the responses of witness
Abdirahman to the above-listed interrogatories, filed on July 10, 2006.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-36

Please refer to your response to Interrogatory MMA/USPS-T22-1 where you do not confirm that your “fixed” cost pools (which you state are beyond the scope of your models) do not vary with the level to which mail is presorted.

- A. Please provide a list of your “fixed” cost pools that could vary based upon the degree of presort.
- B. For each cost pool listed in response to Part (A), please provide your reason(s) as to why the cost pool could vary with the degree of presort.
- C. Is there any empirical data to support your cost pool classifications in terms of whether or not they vary with the degree of presort? If so, please provide that data as well as any studies or workpapers associated with that data.

Response:

A. The “fixed” cost pools represent tasks that have not been modeled. It is possible that some costs within those cost pools vary for mail of different presort levels, but I have not studied them.

B-C. Please see my response to A.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

B. MMA/USPS-T22-37

Please refer to your response to Interrogatory MMA/USPS-T22-3(A) where you confirmed that you classified cost pools in this case in the exact same manner as you did in R2005-1.

A. Please confirm that you did in fact make changes as shown in the shaded areas of the table below. If you cannot confirm these changes, please explain.

Cost Pool	Presort Rate Category	Cost Pool Classification	
		R2005-1	R2006-1
1OPBULK	NonAutomation	Proportional	Proportional
1OPBULK	Automation	Worksharing-Related, Fixed	Proportional
1OPPREF	NonAutomation	Proportional	Proportional
1OPPREF	Automation	Worksharing-Related, Fixed	Proportional
1POUCHN G	NonAutomation	Proportional	Proportional
1POUCHN G	Automation	Worksharing-Related, Fixed	Proportional
1PRESORT	NonAutomation	Proportional	Fixed
1PRESORT	Automation	Worksharing-Related, Fixed	Fixed

Sources: R2005-1 USPS-LR-K-48, pages 6, 20, USPS-LR-L-48, p.3

B. Please confirm that your decision to combine CRA costs for Automation and Nonautomation letters necessitated that where costs pools were classified differently for Automation and Nonautomation in R2005-1, you

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

had to make a decision as to whether the cost pools for Automation and Nonautomation combined would be classified as either proportional or fixed in this case.

- C. Where particular cost pools were classified differently for NonAutomation letters and Automation letters in R2005-1, such as for the cost pools shown in Part (A), please explain why you chose to classify them either as proportional or fixed in this case.

Response:

- A. It is difficult to confirm the question because auto and nonauto costs are now combined in the cost by shape estimate that I obtain from witness Smith. I use the nonauto cost pool classifications because the nonauto models contain bundle sorting costs that are contained in the cost pools in the table. Those cost pools are therefore classified as proportional when the auto and nonauto models are aggregated together and compared to the mail processing unit cost by shape estimate. For the 1PRESORT cost pool, please refer to MMA/USPS-T22-25 where it is explained that the R2005-1 classification of this cost pool was in error.
- B. Confirmed.
- C. Please refer to the response to A.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-38

Please refer to your response to Interrogatory MMA/USPS-T22-4 where you were asked to confirm the derived total unit cost and proportional unit cost for First-Class single piece letters. In parts (A) and (B) you do not confirm the computations requested, but then you agree that the computations are correct. You also confirm the conclusions from those computations as requested in parts (C), (D), (E) and (F). Please explain specifically why you failed to confirm parts (A) and (B).

Response:

In response to MMA/USPS-T22-4, parts A and B, I confirmed the total unit costs and the proportional unit costs were as stated in the question when developed as described. The hesitation in providing an unqualified "Confirmed" was due to the fact that because the CRA cost for First Class single piece letters is available, there is no reason to model the cost or drive a proportional unit cost.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-39

Please refer to your response to Interrogatory MMA/USPS-T22-7(A) where you indicate that there is no conclusive evidence to suggest that the DPS percentages (DPS %s) actually vary among the machinable rate categories.

- A. Please confirm that, in R2005-1, your machinable letter models produced results showing that DPS %s varied among the rate categories according to the degree of presort and that the finer the degree of presort, the higher the DPS %. If you cannot confirm, please explain.
- B. Please confirm that, in R2001-1 and R2000-1, USPS witness Miller's machinable letter models provided results that showed DPS %s varied among the rate categories according to the degree of presort and that his analyses showed that the finer the degree of presort, the higher the DPS %. If you cannot confirm, please explain.

Response:

A –B. Confirmed that the models in those cases produced DPS percentages as byproducts of the models and that in those rate cases, those byproducts were used as indicative of the DPS percentages for the different degrees of presort. The DPS percentages that have been calculated in the past were a byproduct of various inputs to the letter model. Please refer to the response to MMA/USPS-T22-7 and MMA/USPS-T42-7.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-40

Please refer to your response to Interrogatory MMA/USPS-T22-7(A) where you indicate that mail pieces that have been successfully processed (i.e., accepted) in an “upstream” automation operation are likely to be successfully processed in a “downstream” operation as well. Are mail pieces that have been unsuccessfully processed (i.e., rejected) in an “upstream automation operation more likely to be processed by manual operations in a “downstream” operation? If no, please explain.

Response:

Redirected to witness McCrery (USPS-T42).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-41

Please refer to your response to Interrogatory MMA/USPS-T22-8(C) where you would not confirm that, since R2001-1, the BMM model-derived unit costs understated the BMM CRA-derived unit costs as shown in the following table:

Docket No.	Bulk Metered Mail			
	CRA Cost	Model Cost	Prop Factor	Model % Under-estimate
R2000-1 (1998)	6.979	5.269	1.3245	-25%
R2000-1 (1999)	6.856	5.407	1.2680	-21%
R2001-1	6.447	4.276	1.5077	-34%
R2005-1	6.476	4.454	1.4540	-31%

- A. Please confirm that the title on page 2 of R2005-1 Library Reference USPS-LR-K-48 reads "FIRST CLASS MAIL BULK METERED LETTERS" just above where you derive the CRA mail processing unit cost. If you cannot confirm, please explain.
- B. Please confirm that the title on page 3 of R2005-1 Library Reference USPS-LR-K-48 reads "FIRST CLASS MAIL BULK METERED MAIL COST SHEET" just above where you derive the model-derived unit cost. If you cannot confirm, please explain.
- C. Please confirm that the title on page 8 of R2001-1 Library Reference USPS-LR-J-60, (Revised 11/5/01) reads "BULK METERED" just above where USPS witness Miller derived the CRA mail processing unit cost. If you cannot confirm, please explain.
- D. Please confirm that the title on page 15 of R2001-1 Library Reference USPS-LR-J-60, (Revised 11/5/01) reads "BULK FIRST CLASS METERED MAIL (BMM) LETTERS" just above where USPS witness Miller derived the model-derived mail processing unit cost. If you cannot confirm, please explain.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

- E. Please confirm that the title on page I-7 of R2000-1 Library Reference USPS-LR-I-162, reads "BULK METERED MAIL LETTERS" just above where USPS witness Miller derived the CRA mail processing unit cost. If you cannot confirm, please explain.
- F. Please confirm that the title on page I-16 of R2000-1 Library Reference USPS-LR-I-162, reads "FIRST CLASS METERED" just above where USPS witness Miller derived the model-derived mail processing unit cost. If you cannot confirm, please explain.
- G. Do any of the unit cost figures shown in the table above refer to a rate category that is something other than the Postal Service's benchmark defined as bulk metered mail? If not, please explain specifically how this is not so.
- H. Can you confirm that, in each of the last three cases, as shown in the table above, the model-derived unit cost for the benchmark bulk metered mail rate category was lower than the CRA-derived unit cost that was derived for the benchmark bulk metered mail rate category? If you cannot confirm, please explain.
- I. Please confirm that, in R2000-1, R2001-1 and R2005-1, you and USPS witness Miller increased the model-derived unit costs for hand addressed letters by the CRA Proportional Adjustment Factor derived from the figures shown in the table above. If you cannot confirm, please explain.

Response:

- A. Confirmed.
- B. Confirmed.
- C. Confirmed.
- D. Confirmed.
- E. Confirmed.
- F. Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

G. First, the BMM letters cost estimate is not being used as a benchmark in this case. Second, BMM letters is not a rate category. BMM letters is one element of the First-Class Mail single-piece rate category. Third, the costs listed under the heading "CRA cost" reflect the costs for First-Class single-piece metered letters in total, which includes both BMM letters and metered letter bundles. That cost estimate has historically been used as a proxy for BMM letters because IOCS cannot be used to isolate a cost for BMM letters.

H. Confirmed.

I. Neither I nor witness Miller was the BRM witness in Docket No. R2005-1. Witness Hatcher was the BRM witness in Docket No. R2005-1. It can be confirmed, however, that BMM Proportional Adjustment Factor was applied to modeled cost of Handwritten Reply mail in the past three cases to develop QBRM cost savings estimates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-42

Please refer to your response to Interrogatory MMA/USPS-T22-8 (E) where state that you inserted updated inputs into your mail flow models and cost sheets. Other than updating the input parameters and combining the CRA costs for Automation and Nonautomation letters, were there any structural changes or improvements made to the mail flow models that were intended to improve the accuracy and quality of the model-derived unit costs? If so, please identify each change and explain each change, the reason for the change, and the expected improvement from each such change.

Response:

Since the letter mail processing technology had remained the same since the Docket No. R2005-1 models were developed, the inputs to the mail flow models were updated but no structural changes were made to the mail flow models.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-43

Please refer to your response to Interrogatory MMA/USPS-T22-9, Parts (A) and (B) where you would not confirm that, since R2001-1, the Automation models overstate the CRA costs that you indicated for Automation letters as shown in the following table:

Docket No.	Automation Letters			
	CRA Cost	Model Cost	Prop Factor	Model % Over-estimate
R2000-1 (1998)	2.553	2.866	0.891	12%
R2000-1 (1999)	2.63	2.923	0.900	11%
R2001-1	2.138	2.683	0.797	25%
R2005-1	1.886	2.668	0.707	41%

Please confirm that since R2000-1, you and USPS witness Miller nonetheless decreased the model-derived First-Class Automation unit costs for each presort category by the CRA Proportional Adjustment Factor derived from the figures shown in the table above. If you cannot confirm, please explain.

Response:

It can be confirmed that figures presented in the table are correct. However, it cannot be confirmed the purpose of the Proportional Adjustment factor is to drive down the modeled costs. The purpose of the Proportional Adjustment factor is to bring the modeled costs into alignment with the CRA costs. Please refer to MMA/USPS-T22-9, Part (A).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-44

Please refer to Library Reference USPS-LR-L48, page 2, where you derive a CRA Proportional Adjustment Factor of 1.013, indicating that your model-derived unit cost and your CRA-derived unit cost for First-Class presorted letters are quite close. Please confirm that the reason why your model-derived unit cost for presorted letters is so close to your CRA-derived unit cost is either (1) the overstatement in the model-derived costs for Nonautomation letters offsets the understatement in the model-derived costs for Automation letters, or (2) the CRA has attributed more costs to presorted letters than it did in previous cases or (3) a combination of both (1) and (2). Please explain your answer in detail. If you believe that your model-derived unit cost for Nonautomation letters does not understate the actual cost, please state so.

Response:

Not confirmed. The cost models are used because actual costs are not available. I cannot confirm that the models overstate or understate actual costs. Please see MMA/USPS-T22-9A. In addition, the changes to IOCS between base years 2004 and 2005 could have led to changes in the CRA unit cost for letters, bringing it more in line with the results of my model. As I said in the response to POIR 1, question 1a in Docket No. R2005-1, the costs for auto and nonauto were both suspect, so there was uncertainty about the quality of the disaggregated unit costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-45

Please refer to your response to Interrogatory MMA/USPS-T22-11 (A). There you confirmed the number of rejects from automation to manual operations shown in the table included in the referenced interrogatory, but you qualified your response by stating "I cannot confirm that the pieces rejected were actually of the presort levels shown." Can you confirm that the number of rejects shown in that table originated from the mail flow model each presort level? If yes, please explain why you could not confirm the model's projection of rejected pieces in the first place? If no, please explain why you cannot confirm that the number of rejects shown are from each presort level.

Response:

Confirmed. However, the reject rates in the models reflect average rates for all mail pieces processed through a given operation, regardless of the class and/or rate category. The chart in 11A implies that I know the distribution of rejects by presort level, but I have no information that would provide that distribution.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-46

Please refer to your response to Interrogatory MMA/USPS-T22-11(C). There you did not confirm that, according to your models, the probability of a letter being processed by automation from mail acceptance to delivery is as follows:

Automation Rate Category	Automation Probability
MAADC	88.4%
AADC	91.1%
3-Digit	92.4%
5-Digit	95.6%

Please note that the probabilities in the table above were derived from the specific reject rates you confirmed in response to Part A of that interrogatory. Please explain specifically why you cannot confirm that, according to each of your models, the probability percentages shown above correctly reflect what the models indicate at each presort level?

Response:

It can be confirmed that the cost models show that the percentage of mail processed through automation operations reflects the data in the table, but this is not the same as trying to estimate the probability that a given mail piece from a specific rate category is successfully processed through automation. Such determination could not be accurately made without more rate category specific data (e.g., acceptance rates). The fact that the percentages in the table (from the models) may not reflect the actual probabilities for a given rate category is the type of reason why we apply CRA proportional adjustment factors. Please see my responses to MMA/USPS-T22-7A and MMA/USPS-T22-45.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-47

Please refer to your response to Interrogatory MMA/USPS-T22-20 where you discuss the classification of cost pool "SPBS OTH". In Part (A) of that interrogatory, you failed to confirm the classifications in the following table, claiming that all the costs in R2005-1 were classified as either "nonworksharing related fixed" or "worksharing related fixed":

Cost Pool	Docket No.	Rate Category	Cost Pool Category
SPBS OTH	R2005-1	First Class Metered	Fixed
SPBS OTH	R2005-1	First Class Automation	Fixed
SPBS OTH	R2005-1	First Class NonAutomation	Fixed
SPBS OTH	R2005-1	Standard Automation	Fixed
SPBS OTH	R2005-1	Standard NonAutomation	Proportional
SPBS OTH	R2006-1	First Class Presorted	Fixed
SPBS OTH	R2006-1	Standard Presorted	Proportional

- A. Please explain how the cost pool "SPBS OTH" is not classified as proportional when, as shown page 61 of R2005-1 Library Reference USPS-LR-K-48, the unit cost of .122 is clearly indicated under the column headed "WRP MP UNIT COSTS."
- B. Assuming that you confirm that the cost pool "SPBS OTH" was classified as workshared-related proportional in R2005-1 for Standard Nonautomation letters, please explain why these costs were classified as fixed for all First-Class categories and Standard Automation but were classified as proportional for Standard Nonautomation in R2005-1.
- C. Is it your position that, if costs are measured within a cost pool that should not be incurred, such costs cannot be classified as proportional? Please explain your answer.
- D. Is the reason why you did not confirm the original statement in Part (A) of Interrogatory MMA/USPS-T22-20 related to use of the word "fixed" without qualification, because you have two definitions for

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

“fixed”, i.e., with workshared-related fixed or nonworkshared-related fixed? If no, please explain precisely why you could not confirm the statement in Part (A) of Interrogatory MMA/USPS-T22-20

Response:

- A. It can be confirmed that for Standard Mail nonauto, the cost pool “SPBS OTH” was classified as proportional, as shown on page 61 of R2005-1 Library Reference USPS-LR-K-48. A revised response to MMA/USPS-T22-20A will be filed.
- B. Please see my response to MMA/USPS-T22-20 (B).
- C. Yes. I do not model costs of all possible mail processing operations. My models utilize the mail flows that Operations analysts inform me are standard or common practices. The cost pool classifications are based on the operations/tasks mapped to the given cost pools, as described in USPS-LR-L-55.
- D. Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-48

Please refer to your response to Interrogatory MMA/USPS-T22-21 where you discuss the classification of cost pool SPBSPRIO. In Part (A) of that interrogatory, you failed to confirm the classifications in the following table:

Cost Pool	Docket No.	Rate Category	Cost Pool Category
SPBSPRIO	R2005-1	First Class Metered	Fixed
SPBSPRIO	R2005-1	First Class Automation	Fixed
SPBSPRIO	R2005-1	First Class NonAutomation	Fixed
SPBSPRIO	R2005-1	Standard NonAutomation	Fixed
SPBSPRIO	R2005-1	Standard Automation	Fixed
SPBSPRIO	R2006-1	First Class Presorted	Fixed
SPBSPRIO	R2006-1	Standard Presorted	Proportional

- A. Do you classify these costs in R2006-1 as proportional for Standard Nonautomation and as fixed for First-Class Nonautomation because Standard Nonautomation is likely to incur such costs but First-Class Nonautomation is not?
- B. Is the reason why you did not confirm the R2005-1 classifications in the above table related to use of the word "fixed" without qualification, because you have two definitions for "fixed," i.e., workshared-related fixed and nonworkshared-related fixed? If no, please explain precisely why you could not confirm the classifications in the above table.

Response:

- A. Yes. Please refer to my response to MMA/USPS-T22-21 (B).
- B. Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
 ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-49

Please refer to your response to Interrogatory MMA/USPS-T22-22. Part (A) of that interrogatory you failed to confirm the cost classifications shown in the following table:

Cost Pool	Docket No.	Rate Category	Cost Pool Category
1OPBULK	R2005-1	First Class Metered	Fixed
1OPBULK	R2005-1	First Class Automation	Fixed
1OPBULK	R2005-1	First Class NonAutomation	Proportional
1OPBULK	R2005-1	Standard Automation	Fixed
1OPBULK	R2005-1	Standard NonAutomation	Proportional
1OPBULK	R2006-1	First Class Presorted	Proportional
1OPBULK	R2006-1	Standard Presorted	Proportional

- A. In response to Part (A) of that interrogatory, you indicate that cost pool “1OPBULK” was classified as workshared-related **fixed** for Standard Nonautomation letters in R2005-1. Then, in the next sentence, you indicate that such costs were classified as workshared-related **proportional** for “Standard non auto” in R2005-1. Which is correct? Can you now confirm the classifications shown in the table above? If not, why not?
- B. Is the reason why you could not confirm the classifications in the table above related to use of the word “fixed” without qualification, because you have two definitions for “fixed”, i.e. workshared-related fixed and nonworkshared-related fixed? If no, please explain precisely why you could not confirm the classifications in the table above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

Response to MMA/USPS-T22-49:

A. The response should have said “workshare related fixed” for Standard Regular Auto. I did say in the second sentence that the costs were proportional for Standard Regular Nonauto. I confirm the classifications shown on the table. A revised response to MMA/USPS-T22-22A will be filed.

B. Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-50

Please refer to your response to Interrogatory MMA/USPS-T22-23. In Part (A) of that interrogatory, you failed to confirm the classifications in the following table:

Cost Pool	Docket No.	Rate Category	Cost Pool Category
1OPPREF	R2005-1	First Class Metered	Fixed
1OPPREF	R2005-1	First Class Automation	Fixed
1OPPREF	R2005-1	First Class NonAutomation	Proportional
1OPPREF	R2005-1	Standard Automation	Fixed
1OPPREF	R2005-1	Standard NonAutomation	Proportional
1OPPREF	R2006-1	First Class Presorted	Proportional
1OPPREF	R2006-1	Standard Presorted	Proportional

- A. In response to Part (A) of that interrogatory, you indicate that the cost pool “1OPPREF” was classified as workshared-related **fixed** for Standard Nonautomation letters in R2005-1. Then in the next sentence you indicate that such costs were classified as workshared-related **proportional** for “Standard non auto” in R2005-1. Which is correct? Can you now confirm the classifications shown in the above table? If not, why not?
- B. Is the reason why you could not confirm the classifications in the table above related to use of the word “fixed” without qualification, because you have two definitions for “fixed”, i.e., workshared-related fixed and nonworkshared-related fixed? If no, please explain precisely why you could not confirm the classifications in the table above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

Response to MMA/USPS-T22-50:

A. The response should have said “workshare related fixed” for Standard Regular Auto. I did say in the second sentence that the costs were proportional for Standard Regular Nonauto. I confirm the classifications shown on the table. A revised response to MMA/USPS-T22-23A will be filed.

B. Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-51

Please refer to your response to Interrogatory MMA/USPS-T22-24. In Part (A) of that interrogatory, you failed to confirm the classifications in the following table:

Cost Pool	Docket No.	Rate Category	Cost Pool Category
1POUCHNG	R2005-1	First Class Metered	Fixed
1POUCHNG	R2005-1	First Class Automation	Fixed
1POUCHNG	R2005-1	First Class NonAutomation	Proportional
1POUCHNG	R2005-1	Standard Automation	Fixed
1POUCHNG	R2005-1	Standard NonAutomation	Proportional
1POUCHNG	R2006-1	First Class Presorted	Proportional
1POUCHNG	R2006-1	Standard Presorted	Proportional

- A. In response to Part (A) you indicate that the cost pool “1POUCHING” was classified as workshared-related **fixed** for “Standard Regular Nonauto presort letters” in R2005-1. Then in the next sentence you indicate that such costs were classified as workshared-related **proportional** for “Standard non auto” in R2005-1. Which is correct? Can you now confirm the classifications shown in the table above? If not, why not?
- B. Is the reason why you did not confirm the classifications in the table above related to use of the word “fixed” without qualification, because you have two definitions for “fixed”, i.e., workshared-related fixed and nonworkshared-related fixed? If no, please explain precisely why you could not confirm the classifications in the table above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

Response to MMA/USPS-T22-51:

A. The response should have said “workshare related fixed” for Standard Regular Auto. I did say in the second sentence that the costs were proportional for Standard Regular Nonauto. I confirm the classifications shown on the table. A revised response to MMA/USPS-T22-24A will be filed.

B. Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-52

Please refer to your response to Interrogatory MMA/USPS-T22-26. In part (A) of that interrogatory, you failed to confirm the classifications in the following table:

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
SPB	R2005-1	Standard Automation	Fixed	
SPB	R2005-1	Standard NonAutomation	Proportional	
SPB	R2006-1	Standard Presorted	Proportional	

Is the reason why you did not confirm the classifications in the table above related to use of the word "fixed" without qualification, because you have two definitions for "fixed", i.e., workshared-related fixed and nonworkshared-related fixed? If no, please explain precisely why you cannot confirm the classifications in the table above.

Response:

Yes.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Nan K. McKenzie

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