

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

REVISED RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS
ABDIRAHMAN TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T22-2-4, 20, 22-24)

The United States Postal Service hereby revises the responses of Witness
Abdirahman to the following interrogatory parts:

MMA/USPS-T22-2 E and F

MMA/USPS-T22-3 C, E and F

MMA/USPS-T22-4 A, B, D, and E;

MMA/USPS-T22-20 A and B

MMA/USPS-T22-22A

MMA/USPS-T22-23A

MMA/USPS-T22-24A

The original responses were filed on July 6, 2006.

Each interrogatory is stated verbatim and followed by the entire response,

including those parts that were not revised.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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MMA/USPS-T22-2

On page 6 of your testimony you discuss the problem associated with separating Nonautomation and Automation letter costs within the in-office cost system. To solve this problem you have obtained combined the costs from the CRA and used the mail flow models as the basis to de-average the CRA costs into Nonautomation and Automation costs. You also indicate that separate costs for Nonautomation and automation letters are no longer available to you.

- A. Has the postal service officially combined Nonautomation and Automation costs within the in-office cost system? If so, please provide the date when this change took place. If not, please provide the unit costs separately for Nonautomation and Automation letters as determined by the CRA data system.
- B. Please confirm that you show the total unit cost to process an average First-Class presorted letter (Nonautomation and Automation combined) and an average Standard presorted letter (Nonautomation and Automation combined) as 4.59 cents and 4.06 cents, respectively, for TY 2008 in this case. (See USPS-LR-L-48, pages 3 and 45) If not, please provide the correct total unit costs.
- C. Please confirm that in R2005-1, you showed that the total unit cost to process an average First-Class and Standard presorted letter (Nonautomation and Automation combined) for TY 2006 was 4.12 and 4.34 cents, respectively, as derived in the following table. If you cannot confirm, please provide the correct unit cost figures

	(1)	(2)	(3)	(4)
Rate Category	R2005-1 CRA TY Unit Cost (\$)	Associated Volume (000)	Total Cost (\$ 000) (1) x (3)	Combined Unit Cost (\$) (3) / (2)
First-Class:				
Nonautomation	0.1897	1,949,367	369,707	
Automation (No Car Rt)	0.0350	43,841,671	1,534,799	
Carrier Route	0.0186	718,203	13,352	
Presorted		46,509,242	1,917,859	0.0412
Standard:				
Nonautomation	0.1626	3,517,027	571,957	
Automation	0.0340	44,600,687	1,515,895	
Presorted		48,318,487	2,087,853	0.0434

Source: USPS-LR-K-53

- D. Please explain why the total unit cost to process presorted First-Class letters was **lower** by 0.22 cents than the total unit cost to process presorted Standard mail for the test year in R2005-1, but **higher** by 0.53 cents for the test year in R2006-1. Tom
- E. Please confirm that, for First-Class presorted letters, the total unit processing cost is expected to increase by 11.4% (4.59/4.12 -1.00) between the R2005-1 test year (2006) and the R2006-1 test year (2008). If not, please provide the correct percentage increase. Confirm
- F. Please confirm that, for Standard presorted letters, the total unit processing cost is expected to decrease by 6.5% (4.06/4.34 -1.00) between the R2005-1 test year (2006) and the R2006-1 test year (2008). If not, please provide the correct percentage increase. Confirm.

RESPONSE to MMA-T22-2:

- A. Redirected to witness Smith (USPS-T-13)
- B. Confirmed.
- C. Confirmed.
- D. Redirected to witness Bozzo (USPS-T-12)
- E. Confirmed that the calculations provided in MMA's table result in the calculated change as posed. It can be confirmed that the calculated unit costs increase by 11.4% but the change in unit costs as calculated should not be construed as a real increase in unit costs because between the base year used in R2005-1 (FY 2004) to develop TY 2006 costs and the base year used in R2006-1 (FY 2005) to develop TY 2008 costs, there was a change to the method used to collect and assign IOCS tallies. Therefore, because the change in costs and cost methodologies are indistinguishable, it cannot be concluded that the unit costs of processing an average First-Class presort letter increased by 11.4 % from Test year 2006 to Test year 2008.
- F. Confirmed that the calculations provided in MMA's table result in the calculated change as posed. It can be confirmed that the calculated unit costs decrease by 6.5% but the change in unit costs as calculated should not be construed as a real decrease in unit costs because between the base year used in R2005-1 (FY 2004) to develop TY 2006 costs and the base year used in R2006-1 (FY 2005) to develop TY 2008 costs, there was a change to the method used to collect and assign IOCS tallies.

Therefore, because the change in costs and cost methodologies are indistinguishable, it cannot be concluded that the unit costs of processing an average Standard presort letter decreased by 6.5 % from Test year 2006 to Test year 2008.

MMA/USPS-T22-3

Please refer to Library Reference USPS-LR-L-48, pages 3 and 45, where you divide the CRA unit cost pools for presorted letters between “proportional” and “fixed” for First-Class and Standard presorted letters.

- A. Please confirm that you have defined “proportional” cost pools in exactly the same manner as you did in R2005-1. That is, if you deemed a cost pool to be “proportional” in R2005-1, you deem that same cost pool to be “proportional” in this case. If you cannot confirm, please explain any differences and why those changes were made.
- B. Please confirm that you show the “proportional” unit cost to process an average First-Class presorted letter (Nonautomation and Automation combined) and an average Standard presorted letter (Nonautomation and Automation combined) as 2.80 cents and 2.40 cents, respectively, for TY 2008 in this case. (See USPS-LR-L-48, pages 3 and 45) If not, please provide the correct “proportional” unit costs.
- C. Please confirm that in R2005-1, your data showed that the “proportional” unit costs to process an average First-Class and an average Standard presorted letter (Nonautomation and Automation combined) for TY 2006 were 2.26 and 2.26 cents, respectively, as derived in the following table. If you cannot confirm, please provide the correct unit cost figures.

	(1)	(2)	(3)	(4)
Rate Category	R2005-1 "Proportional" TY Unit Cost (\$)	Associated Volume (000)	Total "Proportional" Cost (\$ 000) (1) x (3)	Combined "Proportional" Unit Cost (\$) (3) / (2)
First-Class:				
Nonautomation	0.1078	1,949,367	210,193	
Automation	0.0189	44,559,875	840,404	
Presorted		46,509,242	1,050,597	0.0226
Standard:				
Nonautomation	0.0901	3,494,388	314,930	
Automation	0.0174	44,824,099	779,437	
Presorted		48,318,487	1,094,366	0.0226

Source: USPS-LR-K-48 Page 6, 20, 61, 62 52, 89

D. Please confirm that in R2005-1, had you defined worksharing related proportional cost pools in the exact same manner as you define "proportional" in R2006-1, then the "proportional" unit costs to process an average First-Class presorted letter and an average Standard presorted letter (Nonautomation and Automation combined) for TY 2006 would have been 2.41 and 2.53 cents, respectively, as derived in the following table. If you cannot confirm, please provide the correct unit cost figures. (Note that in order to coincide with your cost categories for this case there were several necessary changes. For First-Class Automation letters, the costs for the following pools have been switched from "workshare-related fixed" to "proportional:" 1OPBULK, 1OPREF, and 1POUCHING. For First-Class Nonautomation, the costs for 1PRESORT have been switched from "workshare-related proportional" to "fixed". For Standard Automation, the following cost pools have been switched from "workshare-related fixed" to

“proportional:” SPBS OTH, 1OPBULK, 1OPPREF, 1POUCHING and SPB. In addition the cost pool SPBSPRIO has been switched from “nonworkshare-related fixed” to “proportional” for both Standard Automation and Nonautomation).

	(1)	(2)	(3)	(4)
Rate Category	R2005-1 "Proportional" TY Unit Cost (\$)	Associated Volume (000)	Total "Proportional" Cost (\$ 000) (1) x (3)	Combined "Proportional" Unit Cost (\$ (3) / (2)
First-Class:				
Nonautomation	0.1073	1,949,367	209,139	
Automation (No Car Rt)	0.0206	43,841,671	904,673	
Carrier Route	0.0106	718,203	7,616	
Presorted		46,509,242	1,121,428	0.0241
Standard:				
Nonautomation	0.0903	3,517,027	317,446	
Automation	0.0202	44,600,687	901,480	
Presorted		48,117,714	1,218,925	0.0253

Source: USPS-LR-K-53

- E. Please confirm that the “proportional” unit processing cost of First-Class presorted letters is expected to increase by 16.2% (2.80/2.41-1.00) between the 2006 test year in R2005-1 and the 2008 test year R2006-1. If not, please provide the correct percentage increase and show how you derived it.
- F. Please confirm that the “proportional” unit processing cost of Standard presorted letters is expected to decrease by 5.1% (2.40/2.53-1.00) between the 2006 test year in R2005-1 and the 2008 test year R2006-1. If not, please provide the correct percentage increase and show how you derived it.
- G. Please explain why cost pools SPBS OTH, SPBSPRIO and SPB are proportional for Standard presorted letters but fixed for First-Class presorted letters, as defined by you in R2006-1.

RESPONSE to MMA-T22-3:

- A. Confirmed.
- B. Confirmed.
- C. Confirmed. The question asked if “your data” reflected the unit costs that MMA has calculated. The Postal Service’s data in Docket No. R2005-1 did not reflect the unit costs that MMA has calculated. However, MMA used the R2006-1 methodology in conjunction with information that was available on the record in the Docket No. R2005-1 case to calculate the unit costs shown.
- D. Confirmed.
- E. Confirmed that the calculations provided in MMA’s table result in the calculated change as posed. It can be confirmed that the calculated unit costs increase by 16.2% but the change in unit costs as calculated should not be construed as a real increase in “proportional” unit costs because between the base year used in R2005-1 (FY 2004) to develop TY 2006 costs and the base year used in R2006-1 (FY 2005) to develop TY 2008 costs, there was a change to the method used to collect and assign IOCS tallies. Therefore, because the change in costs and cost methodologies are indistinguishable, it cannot be concluded that the “proportional” unit costs of processing an average First-Class presort letter increased by 16.2% from Test year 2006 to Test year 2008.

F. Confirmed that the calculations provided in MMA's table result in the calculated change as posed. It can be confirmed that the calculated unit costs decreased by 5.1% but, the change in unit costs as calculated should not be construed as a real decrease in 'proportional' unit costs because between the base year used in R2005-1 (FY 2004) to develop TY 2006 costs and the base year used in R2006-1 (FY 2005) to develop TY 2008 costs, there was a change to the method used to collect and assign IOCS tallies. Therefore, because the change in costs and cost methodologies are indistinguishable, it cannot be concluded that the unit costs of processing an average Standard presort letter decreased by 5.1% from Test year 2006 to Test year 2008.

G. MODS SPBS OTH cost pool contains the cost related to Small Parcel and Bundle sorter (SPBS) bundle sorting operations at MODS facilities. The SPBS is not typically used to process First-Class Mail Letter bundles. It is, however, used to process Standard letter bundles.

MODS SPBSPRIO cost pool contains the cost related to Small Parcel and Bundle sorter (SPBS) priority mail sorting operations at MODS facilities. The SPBSPRIO is not typically used to process First Class Mail letters. Please refer to the response to MMA/USPS-T-22-21 (B)

The BMCS SP cost pool contains the costs related to SPBS operations at BMCs. First Class Mail is not processed at BMCs. The SPBS is used to process Standard Mail bundles at BMCs and therefore this cost pool was included in the Standard Mail model.

MMA/USPS-T22-4

Please refer to Library Reference USPS-LR-L-48, page 3 where you compute the CRA unit costs to process First Class Presorted letters, page 45, where you compute the CRA unit costs to process Standard Presorted letters, and Library Reference USPS-LR-L-53, the source for your cost pool data.

- A. Please confirm that, if you define cost pools in the exact same manner as you do for First-Class Presorted letters, the test year 2008 total unit cost and proportional unit cost for First-Class single piece letters are 12.02 cents and 7.66 cents, respectively. If you cannot confirm, please provide the correct total unit cost and proportional unit cost for First-Class single piece letters.
- B. Please confirm that, if you define cost pools in the exact same manner as you do for First-Class Presorted letters in R2006-1, the total unit cost and proportional unit cost for First-Class single piece letters in the 2006 test year in R2005-1 would be 11.42 cents and 7.16 cents, respectively. If you cannot confirm, please provide the correct total and proportional unit cost for First-Class single piece letters.
- C. Please confirm the unit costs and expected increases as shown in the table below. If not, please make any necessary corrections.

Letter Rate Category	Total Unit Cost			"Proportional" Unit Cost		
	TY 2006 R2005-1	TY 2008 R2006-1	Percent Increase	TY 2006 R2005-1	TY 2008 R2006-1	Percent Increase
Single Piece	11.42	12.02	5.3%	7.16	7.66	7.0%
Presorted	4.12	4.59	11.4%	2.41	2.80	16.2%
Standard Presorted	4.34	4.06	-6.5%	2.53	2.40	-5.1%

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- D. Please confirm that the total unit cost of processing First-Class Presorted letters is expected to increase at more than twice the rate of Single Piece letters (11.4% compared to 5.3%) between the 2006 test year in R2005-1 and the 2008 test year in R2006-1. If you cannot confirm, please explain.
- E. Please confirm that the “proportional” unit cost of processing First-Class Presorted letters is expected to increase at more than twice the rate of Single Piece letters (16.2% compared to 7.0%). If you cannot confirm, please explain.
- F. Please confirm that, while the total and proportional unit costs for First-Class single piece and presorted letters are expected to rise between TY 2006 and TY 2008, such costs are expected to decline for Standard presorted letters, as shown in the table to part (C). If you cannot confirm, please explain.

RESPONSE:

- A. Confirmed. However, classifying the cost pools the same way as before would be inconsistent with the methodology in this case.
- B. Confirmed. However, classifying the cost pools the same way as before would be inconsistent with the methodology in this case.
- C. Confirmed.
- D. Confirmed that the calculations provided in MMA’s table result in the calculated change as posed. It can be confirmed that the calculated unit costs increase from 5.3% to 11.4% but, the change in unit costs as calculated should not be construed as a real increase in unit costs because between the base year used in R2005-1 (FY 2004) to develop TY 2006 costs and the base year used in R2006-1 (FY 2005) to develop TY 2008 costs, there was a change to the method used to collect and assign IOCS tallies. Therefore, because the change in costs and cost methodologies are indistinguishable, it cannot be concluded that the unit costs of processing an average First-Class presort letter increased from 5.3 % to 11.4% from Test year 2006 to Test year 2008.

E. Confirmed that the calculations provided in MMA's table result in the calculated change as posed. It can be confirmed that the calculated unit costs increase from 7.0% to 16.2% but, the change in unit costs as calculated should not be construed as a real increase in unit costs because between the base year used in R2005-1 (FY 2004) to develop TY 2006 costs and the base year used in R2006-1 (FY 2005) to develop TY 2008 costs, there was a change to the method used to collect and assign IOCS tallies. Therefore, because the change in costs and cost methodologies are indistinguishable, it cannot be concluded that the "proportional" unit costs of processing an average First-Class presort letter increased from 7.0 % to 16.2% from Test year 2006 to Test year 2008.

F. Confirmed.

MMA/USPS-T22-20

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for the 2006 test year in R2005-1 and the 2008 test year in R2006-1.

A. For cost pool “SPBS OTH”, please confirm that you have categorized such costs as shown in the table below. If you cannot confirm, please explain.

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

- B. 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. Please explain why these costs are classified as fixed for First Class Presorted but classified as proportional for Standard Presorted in R2006-1.
- D. Are costs reported in cost pool “SPBS OTH” fixed or proportional? Please explain your answer.

RESPONSE:

- A. Confirmed.
- B. The SPBS OTH cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) bundle sorting operations at MODS facilities. The SPBS is not typically used to process First-Class Mail letter bundles. It is, however, used to process Standard letters bundles. Standard nonautomation presort letter trays can contain bundles and bundle sorting costs were included in the cost model :

therefore a “worksharing related proportional” classification was used. Standard Automation presort trays should not contain bundles.

- C. The MODS operation numbers mapped to this cost pool represent operations used to process Standard mail.
- D. For the classification of the SPBS OTH cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

MMA/USPS-T22-22

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for test year 2006 in R2005-1 and test year 2008 in R2006-1.

A. For cost pool “1OPBULK”, please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
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	

- B. Please explain why these costs were classified in R2005-1 as fixed for First-Class Metered and Automation letters, as fixed for Standard Automation letters but as proportional for First Class NonAutomation and Standard NonAutomation letters.
- C. Please explain why these costs were classified as fixed for some categories in R2005-1 but are classified as proportional for First Class Presorted and Standard Presorted in R2006-1.
- D. Are costs reported in cost pool “1OPBULK” fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In Docket No. R2005-1, the 1OPBULK cost pool for Metered, First Class Mail auto presort letters and Standard Regular auto presort letters were classified as “workshared related fixed”. For First-Class Mail and Standard

non auto, the “worksharing related proportional” classification was used. In this docket, 10PBULK cost pools are classified as proportional.

B-C. The 10PBULK cost pools are now classified as proportional because the Docket No. R2005-1 nonauto classifications for these cost pools were “worksharing related proportional”. The cost by shape estimate used in the instant proceeding is for all presort letters (auto and nonauto combined). Since some of the mail flows through the operation underlying this cost pool, the costs are modeled and therefore the cost pool is classified as proportional. In Docket No. R2005-1, separate cost by shape estimates were used for auto presort letters and nonauto presort letters.

D. For the classification of the 10PBULK cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

MMA/USPS-T22-23

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for the 2006 test year in R2005-1 and the 2008 test year in R2006-1.

A. For cost pool "1OPPREF", please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
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	

- B. Please explain why these costs were classified in R2005-1 as fixed for First-Class Metered and Automation letters and Standard Automation but were classified as proportional for First Class and Standard NonAutomation.
- C. Please explain why these costs were fixed for some categories in R2005-1 but are classified as proportional for First-Class Presorted and Standard Presorted in R2006-1.
- D. Are costs reported in cost pool "1OPPREF" fixed or proportional? Please explain your answer.

RESPONSE:

B. Not confirmed. In Docket No. R2005-1, the 1OPPREF cost pool for Metered, First Class Mail auto presort letters and Standard Regular auto presort letters were classified as "workshared related fixed". For First-Class Mail and Standard non auto, the "worksharing related proportional" classification was used. In this docket, 1OPPREF cost pools are classified as proportional.

B-C The 1OPPREF cost pools are now classified as proportional because the Docket No. R2005-1 nonauto classifications for these cost pools were “worksharing related proportional”. The cost by shape estimate used in the instant proceeding is for all presort letters (auto and nonauto combined). Since some of the mail flows through the operation underlying this cost pool, the costs are modeled and therefore the cost pool is classified as proportional. In Docket No. R2005-1, separate cost by shape estimates were used for auto presort letters and nonauto presort letters.

D. For the classification of the 1OPPREF cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

MMA/USPS-T22-24

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for the 2006 test year in R2005-1 and the 2008 test year in R2006-1.

A. For cost pool “1POUCHING”, please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
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	

- B. Please explain why these costs were classified as in R2005-1 fixed for First-Class Metered and Automation letters and for Standard Automation but classified as proportional for First Class and Standard NonAutomation.
- C. Please explain why these costs were classified as fixed for some categories in R2005-1 but classified as proportional for First-Class Presorted and Standard Presorted in R2006-1.
- D. Are costs reported in cost pool “1POUCHING” fixed or proportional? Please explain your answer.

RESPONSE:

C. Not confirmed. In Docket No. R2005-1, the 1POUCHING cost pool for Metered, First Class Mail auto presort letters and Standard Regular auto presort letters were classified as “workshared related fixed”. For First-Class Mail and Standard non auto, the “worksharing related proportional” classification was used. In this docket, 1POUCHING cost pools are classified as proportional.

B-C The 1POUCHING cost pools are now classified as proportional because the Docket No. R2005-1 nonauto classifications for these cost pools were “worksharing related proportional”. The cost by shape estimate used in the instant proceeding is for all presort letters (auto and nonauto combined). Since some of the mail flows through the operation underlying this cost pool, the costs are modeled and therefore the cost pool is classified as proportional. In Docket No. R2005-1, separate cost by shape estimates were used for auto presort letters and nonauto presort letters.

D. For the classification of the 1POUCHING cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

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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July 24, 2006