

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
DANIEL TALMO TO INTERROGATORIES OF ADVO INC.
(ADVO/USPS-T27-1-5)
(July 26, 2006)

The United States Postal Service hereby provides the responses of Postal Service witness Talmo (USPS-T-27) to interrogatories ADVO/USPS-T27-1-5, filed on July 12, 2006.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF POSTAL SERVICE WITNESS TALMO TO
INTERROGATORY OF ADVO INC.

ADVO/USPS-T27-1. Please provide a version of USPS-LR-L-84 (in spreadsheet format) that breaks out the following:

(a) BY and TY DAL mail processing costs associated with ECR/NECR saturation flats (by cost pools).

(b) BY shape by density level mail processing costs (for each cost pool) associated with direct tallies, mixed mail tallies, and not handling tallies.

RESPONSE:

(a) See worksheet "ECR-BY&TY DAL" in the attached workbook "ADVO-USPS-T27-1.xls". Base year costs are obtained from the same program as in USPS-LR-L-84 (mpproc05_ecr.f) with a slight modification to separate DAL costs by pool. DAL costs are identified through IOCS question 23B01. Test year costs are obtained using the same methodology as in USPS-LR-L-84. This methodology also uses the same cost ratio, piggyback factor, and other adjustment factor inputs as in USPS-LR-L-84.

(b) See worksheet "ECR-DirectMixed" in the attached workbook "ADVO-USPS-T27-1.xls". Base year costs are obtained from the same program as in USPS-LR-L-84 (mpproc05_ecr.f) with a slight modification to print costs by tally type. Three cost pools (MODS LD15, MODS 1SUPP_F1, and NonMODS EXPRSOUT) use a cost distribution methodology that is not based on their tallies. Costs by tally type are not shown for these costs pools. See USPS-T-11 for more details. In addition to costs from direct tallies, mixed mail tallies, and not handling tallies, costs from class specific mixed mail tallies are shown separately.

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ADVO/USPS-T27-2. Please explain:

(a) Why USPS-LR L-55 is not used to develop the ECR/NECR mail processing costs by cost pools, shapes, and rate categories.

(b) Why USPS-LR-L-84 uses Fortran programs rather than SAS programs.

RESPONSE:

(a) USPS-LR-L-84 replicates the methods and results from USPS-LR-L-55 at the subclass/shape level while also providing additional rate category detail using those methods. The FORTRAN programs are easily adaptable to provide the levels of IOCS disaggregation needed by the various cost and rate witnesses that require these data inputs.

(b) The original FORTRAN programs, of which those in USPS-LR-L-84 are based, date from an investigation where it was important to replicate IOCS results using completely independent software. The enhanced reliability of all estimates through this independent replication process continues to have value.

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ADVO/USPS-T27-3. Please identify each instance where the LR-L-84 distribution keys allocating total ECR/NECR mail processing costs among the three density-related rate categories differ from those in LR-L-55 used to allocate total mail processing costs among the subclasses and shapes.

RESPONSE:

There are no differences at the reporting level of USPS-LR-L-55. USPS-LR-L-84 BY costs are presented by shape, cost pool, and rate level (basic, auto basic, WSS/WSH). BY costs in USPS-LR-L-55 are only by shape and cost pool. For each shape and cost pool, the sum of USPS-LR-L-84 BY costs across rate level match the USPS-LR-L-55 BY costs by shape and cost pool, up to a rounding error.

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ADVO/USPS-T27-4. Please explain how “counted mixed mail” mail processing tallies by shape are distributed among the three density-related categories of ECR/NECR.

RESPONSE:

“Counted mixed mail” is interpreted to mean a tally of a mixed-mail "item" where the subclass information was recorded in IOCS question 24. Unlike question 23 direct tallies, question 24 tallies do not identify markings for specific ECR rate categories. The few ECR counted mixed item tallies are all assigned to the basic rate level.

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ADVO/USPS-T27-5. Please explain why the costs and volumes of High Density and Saturation rate categories are combined in your LR-L-84 analysis.

RESPONSE:

Estimated costs by shape for High Density ECR demonstrate considerable sample variation. Combined with sample variation in Saturation ECR costs, the estimated cost difference by shape between High Density and Saturation costs also shows considerable variation. Due to the uncertainty in the estimated difference in costs, High Density and Saturation cost by shape are treated as having the same mail processing costs.