



POSTAL RATE COMMISSION

In the Matter of: )  
 ) Docket No.: R2006-1  
POSTAL RATE AND FEE CHANGES )

Suite 200  
Postal Rate Commission  
901 New York Avenue, N.W.  
Washington, D.C.

Volume 16  
Tuesday, August 29, 2006

The above-entitled matter came on for hearing  
pursuant to notice, at 9:32 a.m.

BEFORE:

- HON. GEORGE A. OMAS, CHAIRMAN
- HON. DAWN A. TISDALE, VICE-CHAIRMAN
- HON. TONY HAMMOND, COMMISSIONER
- HON. RUTH Y. GOLDWAY, COMMISSIONER
- HON. MARK ACTON, COMMISSIONER

APPEARANCES:

On behalf of United States Postal Service:

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C O N T E N T S

WITNESSES APPEARING:  
ALTAH H. TAUFIQUE

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Altaf H. Taufique	4769	--	--	--	--
by Mr. Anderson	--	4928	--	--	--
by Mr. Horwood	--	4965	--	--	--
by Mr. May	--	4980	--	--	--
by Mr. Hall	--	4998	--	--	--
by Mr. Scanlon	--	5008	--	--	--
by the ABA	--	5030	--	--	--

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Corrected designated written cross-examination of Altaf H. Taufique, USPS-T-32	4772
Responses of Witness Taufique to interrogatories, MMA/USPS-T32-2, 4 through 8 and APWU/USPS-T32-10 and 11	4913
American Postal Workers Union cross-examination exhibit, APWU-XE-1	4955

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected final direct testimony of Altaf H. Taufique, on behalf of the United States Postal Service, USPS-T-32	4768	4770
Corrected designated written cross-examination of Altaf H. Taufique, USPS-T-32	4771	4771
Responses of Witness Taufique to interrogatories, MMA/USPS-T32-2, 4 through 8 and APWU/USPS-T32-10 and 11	4912	4912
American Postal Workers Union cross-examination exhibit, APWU-XE-1	4949	4954

P R O C E E D I N G S

(9:32 a.m.)

1  
2  
3 CHAIRMAN OMAS: Good morning. Today we  
4 again continue hearings to receive testimony of the  
5 Postal Service witnesses in support of Docket No.  
6 R2006-1, Request for Rate and Fee Changes.

7 Does anyone have any procedural matter to  
8 discuss at this point this morning?

9 (No response.)

10 CHAIRMAN OMAS: Our witness today is already  
11 under oath in this particular proceeding, so we will  
12 continue.

13 Mr. Tidwell, would you please proceed?

14 MR. TIDWELL: Thank you. The Postal Service  
15 calls Altaf Taufique to the stand.

16 Whereupon,

17 ALTAF H. TAUFIQUE

18 having been previously duly sworn, was  
19 recalled as a witness herein and was examined and  
20 testified further as follows:

21 (The document referred to was  
22 marked for identification as  
23 Exhibit No. USPS-T-32.)

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DIRECT EXAMINATION

BY MR. TIDWELL:

Q Mr. Taufique, on the table before you are two copies of a document which is designated as the Final Direct Testimony of Altaf H. Taufique on Behalf of the United States Postal Service. It's enumerated as USPS-T-32.

Was that document prepared by you or under your supervision?

A Yes, it was.

Q It bears a revised date of August 25, 2006. Are there any additional changes you need to make to that document today?

A There are two changes that I would like to make. On page 3, line 16, the number 228 changes to 229, and page 3, line 17, 177 changes to 176. With those changes.

Q With those changes, that would be your oral testimony here today?

A It would be.

MR. TIDWELL: Thank you.

Mr. Chairman, the Postal Service moves into evidence the direct testimony of Altaf H. Taufique.

CHAIRMAN OMAS: Is there any objection?

(No response.)



1 Both changes have been made.

2 CHAIRMAN OMAS: Are there any additional  
3 corrections or additions you would like to make to  
4 those answers?

5 THE WITNESS: No.

6 CHAIRMAN OMAS: Counsel, would you please  
7 provide two copies of the corrected designated written  
8 cross-examination of Witness Taufique?

9 That material is received into evidence, and  
10 it is to be transcribed into the record.

11 (The document referred to was  
12 marked for identification as  
13 Exhibit No. USPS-T-32 and was  
14 received in evidence.)

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BEFORE THE  
 POSTAL RATE COMMISSION  
 WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
 OF UNITED STATES POSTAL SERVICE  
 WITNESS ALTAF H. TAUFIQUE  
 (USPS-T-32)

Party

Interrogatories

American Bankers Association and  
 National Association of Presort  
 Mailers

ABA-NAPM/USPS-T32-1-8, 10

ABA-NAPM/USPS-T22-1, 2a, c redirected to T32  
 APWU/USPS-T32-2-4  
 DFS & MSI/USPS-T32-1-2  
 MMA/USPS-T32-2, 4, 7a, c-d  
 OCA/USPS-T32-20  
 PSA/USPS-T32-2, 4, 20

American Postal Workers Union,  
 AFL-CIO

APWU/USPS-T32-1-9, 12

OCA/USPS-T32-8-9  
 PRC/USPS-POIR No.5 - Q2c redirected to T32

Douglas F. Carlson

DFC/USPS-T32-1-4

Greeting Card Association

GCA/USPS-T32-1-6  
 OCA/USPS-T32-19

Newspaper Association of America

MMA/USPS-T32-1  
 NAA/USPS-T32-1-3

PartyInterrogatories

Office of the Consumer Advocate

ABA-NAPM/USPS-T32-4, 6-8  
MMA/USPS-T32-6  
PSA/USPS-T32-1-3, 6, 9-11, 14  
TW/USPS-T32-4d

Parcel Shippers Association

PSA/USPS-T32-1-15, 17-21

Pitney Bowes Inc.

PB/USPS-T32-9, 11, 13, 15-20, 22, 38-40, 44, 53-58, 60  
PRC/USPS-POIR No.5 - Q2a(ver1), 2c redirected to T32

Postal Rate Commission

PRC/USPS-POIR No.5 - Q2c, POIR No.7 - Q1-2 redirected to T32

Time Warner Inc.

TW/USPS-T32-1, 4d

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.

VP/USPS-T32-1

VP/USPS-T40-1a, 2a, 4 redirected to T32

Respectfully submitted,

Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE (T-32)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

ABA-NAPM/USPS-T32-1

ABA-NAPM

ABA-NAPM/USPS-T32-2

ABA-NAPM

ABA-NAPM/USPS-T32-3

ABA-NAPM

ABA-NAPM/USPS-T32-4

ABA-NAPM, OCA

ABA-NAPM/USPS-T32-5

ABA-NAPM

ABA-NAPM/USPS-T32-6

ABA-NAPM, OCA

ABA-NAPM/USPS-T32-7

ABA-NAPM, OCA

ABA-NAPM/USPS-T32-8

ABA-NAPM, OCA

ABA-NAPM/USPS-T32-10

ABA-NAPM

ABA-NAPM/USPS-T22-1 redirected to T32

ABA-NAPM

ABA-NAPM/USPS-T22-2a redirected to T32

ABA-NAPM

ABA-NAPM/USPS-T22-2c redirected to T32

ABA-NAPM

APWU/USPS-T32-1

APWU

APWU/USPS-T32-2

ABA-NAPM, APWU

APWU/USPS-T32-3

ABA-NAPM, APWU

APWU/USPS-T32-4

ABA-NAPM, APWU

APWU/USPS-T32-5

APWU

APWU/USPS-T32-6

APWU

APWU/USPS-T32-7

APWU

APWU/USPS-T32-8

APWU

APWU/USPS-T32-9

APWU

APWU/USPS-T32-12

APWU

DFC/USPS-T32-1

Carlson

DFC/USPS-T32-2

Carlson

DFC/USPS-T32-3

Carlson

DFC/USPS-T32-4

Carlson

DFS & MSI/USPS-T32-1

ABA-NAPM

DFS & MSI/USPS-T32-2

ABA-NAPM

GCA/USPS-T32-1

GCA

GCA/USPS-T32-2

GCA

GCA/USPS-T32-3

GCA

GCA/USPS-T32-4

GCA



Interrogatory

PB/USPS-T32-60  
 PRC/USPS-POIR No.5 - Q2a(ver1) redirected to T32  
 PRC/USPS-POIR No.5 - Q2c redirected to T32  
 PRC/USPS-POIR No.7 - Q1 redirected to T32  
 PRC/USPS-POIR No.7 - Q2 redirected to T32  
 PSA/USPS-T32-1  
 PSA/USPS-T32-2  
 PSA/USPS-T32-3  
 PSA/USPS-T32-4  
 PSA/USPS-T32-5  
 PSA/USPS-T32-6  
 PSA/USPS-T32-7  
 PSA/USPS-T32-8  
 PSA/USPS-T32-9  
 PSA/USPS-T32-10  
 PSA/USPS-T32-11  
 PSA/USPS-T32-12  
 PSA/USPS-T32-13  
 PSA/USPS-T32-14  
 PSA/USPS-T32-15  
 PSA/USPS-T32-17  
 PSA/USPS-T32-18  
 PSA/USPS-T32-19  
 PSA/USPS-T32-20  
 PSA/USPS-T32-21  
 TW/USPS-T32-1  
 TW/USPS-T32-4d  
 VP/USPS-T32-1  
 VP/USPS-T40-1a redirected to T32  
 VP/USPS-T40-2a redirected to T32  
 VP/USPS-T40-4 redirected to T32

Designating Parties

Pitney Bowes  
 Pitney Bowes  
 APWU, Pitney Bowes, PRC  
 PRC  
 PRC  
 OCA, PSA  
 ABA-NAPM, OCA, PSA  
 OCA, PSA  
 ABA-NAPM, PSA  
 PSA  
 OCA, PSA  
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 ABA-NAPM, PSA  
 PSA  
 TW  
 OCA, TW  
 Valpak  
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION AND  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**ABA-NAPM/USPS-T32-1.** On page 30, lines 10-12 of your testimony (USPS-T-32), you state:

The passthroughs and the discounts that underlie the proposed rates were selected to balance several goals, including: (1) achieving the cost coverage target provided by witness O'Hara (USPS-T-31) . . .

You also state, beginning at line 18, page 15:

The Postal Service proposes that the rate design process begin with the establishment of separate revenue requirements for Single-Piece Letters and Presort Letters, with the goal of obtaining similar unit contributions from Single-Piece Letters in the aggregate and from Presort Letters in the aggregate.

- a. Please confirm from your sponsored library reference, LR-L-129 WP-FCM-12, that the per unit after rates TY2008 unit contributions are 23.5 cents for Single Piece Letters and 23.4 cents for Presort Letters.
- b. Please confirm that the unit contributions from a. above are based on the USPS volume variable cost methodology.
- c. What are the corresponding unit cost contributions for Single Piece and Presort letters using the Commission's volume variable cost methodology?

**RESPONSE**

- a. Confirmed.
- b. Confirmed.
- c. The estimates may be derived by using the revenue estimates from my Library Reference L-129 and PRC-version cost estimates from USPS Library Reference L-96.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABA-NAPM/USPS-T32-2.** Beginning on page 15, line 21, of your testimony (USPS-T-32), you state that “The objective of the approach introduced here is to gradually achieve a rate design paradigm in which both workshare and single-piece mail contribute equally to institutional costs on a unit contribution basis.”

a. Please confirm that your unit contributions for presort and single piece First-Class Mail also only differed by 1/10th of a cent in the test year after rates from R2005-1, namely 22.5 cents per piece for Single Piece, and 22.4 cents per piece for Presort.

b. Please confirm in the last fully litigated rate case, R2000-1, the per piece test year contribution proposed by USPS for single piece was somewhat higher than for presort, namely 18.1 cents for single piece and 17.5 cents for presort.

**RESPONSE**

a. Confirmed.

b. Witness Fronk’s workpaper in Docket No. R2001-1 (USPS-T-33, Workpaper) does not show the calculation of per piece test year contribution. His rate design methodology was different than what has been proposed in the instant docket. On page 2 of his workpapers information is available to derive test year per-unit contributions for single-piece and presort mail streams. Your calculation of the difference appears to be correct.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**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.

**RESPONSE**

(a) I am assuming that the FCLM financial statement referred to in your question is 3-Digit Automation Letter piece which currently pays \$0.308 for the first ounce and \$0.237 for the additional ounce. Confirmed that this piece currently pays \$0.545. The proposed rate for such a piece is \$0.331 for the first-ounce and the proposed additional ounce rate is \$0.155.

Confirmed that, under the proposed rate, such a piece would pay \$0.486.

(b) Confirmed that, under the proposed rates, such a piece would pay \$0.641, assuming that the mail piece referred to in your question is a 3-Digit Automation letter. Also, under the current rates, a 3-Digit automation letter piece weighing between 2 and three ounce would pay \$0.782.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**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.

**RESPONSE**

- a. Confirmed. The statement volume included in the Household Diary Study is provided in the table below. However, the Household Diary Study does not include business to business statement volume.

*Statements (Millions of pieces)*

2002	2003	2004	2005	2002-2005 Pct Chg
6.874	6.429	6.452	6.594	-4.1%

- b. Confirmed with regard to statements sent to households.
- c. Confirmed that the rates for automation presorted letters likely have higher implicit cost coverages than for the subclass overall, although I do not know the costs for statement mail, per se. Generally, the Postal Service does not use cost coverages below the subclass level for rate design purposes. Please see my revised response to PSA/USPS-T32-4.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**RESPONSE to ABA&NAPM/USPS-T32-4 (continued):**

- d. All else equal, a decline in the Automation Letters volume would reduce contribution to institutional costs.
- e. The proposed additional ounce rates are lower than the current rates for all categories in the Letters and Sealed Parcels subclass, and this is proposed in conjunction with the shape-based pricing changes. It is true that the proposed additional ounce rates lead to proposed rate reductions for all letters weighing more than an ounce. Specific circumstances of a particular omnibus filing may dictate the degree of such recognition on any particular category of mail.
- f. There are number of reasons for the so-called erosion of statements volume. Price is one of the factors affecting this volume. Given the absolute value of the price elasticity, my understanding is that this impact may be small. Please see witness Thress' testimony on page70, lines 16 and 17, and Table 16 on page 73.
- g. As stated in my response to subpart f, there are a number of factors affecting the volume for statements. To the extent price has any effect, a lower price such as those enabled by my proposal would have a positive volume effect. I am aware of no basis for assuming that the adoption of shape based rates could materially accelerate or slow down the decline of statements volume.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**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.

**RESPONSE**

Not confirmed. The productivities used in the workshare-related cost models are unrelated to my proposal for shape-based rates. It is my understanding that the cost models are intended to determine the costs avoided due to specific mailer activities and are unrelated to weight. Please see my testimony USPS-T-32, pages 17 through 20, for a discussion of the rationale for shape based rates. The proposed rate design approach does not require any differentiation by weight within these studies.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**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.

**RESPONSE**

- a. Confirmed, if you are referring to First-Class Mail single-piece letters data provided in the worksheet 'SP Letters' in USPS-LR-L-139.
- b. Confirmed, if you are referring to First-Class Mail single-piece letters data provided in the worksheet 'SP Letters' in USPS-LR-L-139.
- c. Confirmed, if you are referring to First-Class Mail single-piece letters data provided in the worksheet 'SP Letters' in USPS-LR-L-139.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**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.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**ABA&NAPM/USPS-T32-7 (continued):**

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					
	(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 Difference Coverage	Adjusted Revenue Difference Letter as Base	Adjusted Total Cost Difference 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								

**RESPONSE**

- a. I can confirm most of your calculations that are based on the estimates of unadjusted revenue (not including fees). I am not sure how the fee revenues were allocated to the various shapes. I have used the volume distribution, but I have not been able to replicate your numbers exactly. In general, I disagree with the premise that Single-Piece fee revenue can be allocated to shapes with the data available to us. Also, the Postal Service does not calculate cost coverages below the subclass level for rate design purposes. The implicit coverages that I have calculated are for the purpose of replicating your table in order to provide a response to your

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
RESPONSE to ABA&NAPM/USPS-T32-7 (continued):**

question and are very similar to your calculations. Please see the attached spreadsheet for the calculations.

- b. Confirmed. The implicit cost coverages for single-piece letter shaped pieces, using unadjusted revenue per-piece and the LR-L-139 cost by shape data for single-pieces, are: single-piece letter-shaped pieces 194 percent, single-piece flat-shaped pieces 170 percent and single-piece parcel-shaped pieces 112 percent.
- c. Not confirmed. Please see my response to subpart a, above. Using revenue per-piece including fee revenue (allocated using volume distribution by shape) and the LR-L-139 cost by shape data, the implicit cost coverages are 197 percent for single-piece letter shaped pieces, 171 percent for single-piece flat-shaped pieces, and 112 percent for single-piece parcel-shaped pieces.
- d. Confirmed.
- e. Confirmed. Based on the replication of your calculations in Table One, I can confirm that the cost difference between a FCM SP parcel-shaped piece and a FCM SP Letter shaped piece is \$1.46 (using LR-L-139 data) and the per-unit revenue is \$1.45 using the TYAR billing determinants. This makes the cost difference 1 cent larger than the per-unit revenue difference.
- f. Not confirmed. Please see the response to subpart a, above.

Attachment AB... MJUSPS-T32-7(a)

Shape	Current Rates		Proposed Rates		(5)	(6)	(7)=(6)/(5)	(8)	(9)
	1st Oz	1st Oz	1st Oz	1st Oz					
Letters	\$ 0.390	\$ 0.240	\$ 0.420	\$ 0.200	\$ 0.222	\$ 0.431	194.2%	0.437192	197%
Flats	\$ 0.520	\$ 0.240	\$ 0.620	\$ 0.200	\$ 0.691	\$ 1.176	170.3%	1.181772	171%
Parcels	\$ 0.520	\$ 0.240	\$ 1.000	\$ 0.200	\$ 1.682	\$ 1.884	112.0%	1.889262	112%

Shape	Cost Difference		Unadjusted		Adjusted Rev	
	Letters as Base	Rev. Diff.	Unadj. Tot. Cost Diff. Coverage	Unadj. Tot. Cost Diff. Coverage	Diff. Letter as a base	Adjusted Tot. Cost Coverage
Letters	(10)	(11)	(12)=(11)/(10)	(13)	(14)=(13)/(10)	
Flats	0.468	0.74	159.0%	0.745	159%	
Parcels	1.460	1.45	99.5%	1.452	99%	

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**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.

**RESPONSE**

(a) Not Confirmed. There is no specific consideration of "the \$3.0381 number"

in the rate design, however, in general, the added costs of parcels have traditionally been<sup>ed</sup> ostensibly "built into" the additional ounce rate. With shape-based rates, as proposed, some of this added cost due to shape is "built into" the base rates for the shape itself, thereby lessening the need for the additional ounce rate to shoulder this added cost which affects all pieces in the presort category, not just letters.

(b) Without regard to the specific \$3.0381 figure, the additional costs caused by parcel-shaped pieces would be recovered to a greater extent (than that which is proposed) in the additional ounce rate, if not for the proposed shape-based pricing. A higher additional ounce rate would affect all pieces, not just letters.

(c) Not confirmed. All else equal, it would be an upward bias for all rate cells in the presort category.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS**

**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.

**RESPONSE**

(a) I can confirm the arithmetic for this change in passthrough in isolation of any other changes. However, the cost savings that are used in your example, include unit delivery cost (in addition to mail processing cost), which were not included in the Postal Service's proposal. Also, please see my response to Presiding Officer's Information Request (POIR) Number 5, Question 2c. There, I explain the reasons for not including the unit delivery cost to calculate the savings that become the basis of presort discounts for automation letters.

(b) I can confirm the arithmetic. Please see my response to subpart (a) above.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO ABA&NAPM INTERROGATORIES  
REDIRECTED FROM WITNESS ABDIRAHMAN**

**ABA-NAPM/USPS-T22-1** Please confirm that the table below of incremental passthroughs using both the USPS and Commission volume variable cost assumptions is correct. If you fail to confirm fully, please produce a corrected table, along with supporting analysis sufficient to replicate your results.

**Automation Letters - Cost Savings, Discounts and Passthroughs  
(R2006-1, TY2008, After-Rates)**

<b>USPS Version (Cents)</b>					
FCLM Rate Category	Mail Processing Unit Cost	Cost Saving	Proposed Rates	Workshare Discounts	Incremental Pass Throughs
Mixed					
AADC	6.470		34.6		
AADC	5.325	1.145	33.5	1.1	96.0%
3-Digit	4.926	0.399	33.1	0.4	100.3%
5-Digit	3.625	1.300	31.2	1.9	146.1%
<b>PRC Version (Cents)</b>					
Mixed					
AADC	7.159		34.6		
AADC	5.842	1.317	33.5	1.1	83.5%
3-Digit	5.383	0.459	33.1	0.4	87.2%
5-Digit	3.886	1.497	31.2	1.9	126.9%

Sources: R2006-1, USPS & PRC mail processing unit costs and USPS proposed rates are obtained from USPS-LR-L-48, USPS-LR-L-110, and USPS-LR-L-129, respectively.

Sources: R2006-1, USPS & PRC mail processing unit costs and USPS proposed rates are obtained from USPS-LR-L-48, USPS-LR-L-110, and USPS-LR-L-129, respectively.

**RESPONSE**

*Not confirmed.* I have reproduced the USPS version portion of the table in the attached spreadsheet below. It appears that the difference in calculated incremental passthroughs occurs because of my use of rounded cost savings in the Cost Savings column, in contrast to the cost savings figures in your Table.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO ABA&NAPM INTERROGATORIES  
REDIRECTED FROM WITNESS ABDIRAHMAN**

**RESPONSE to ABA&NAPM/USPS-T22-1 (continued):**

AUTOMATION LETTERS  
USPS Version

	TOTAL MAIL		Proposed		
	PROCESSING	Savings	Rates	Workshare	Pass
	UNIT COST			Discounts	Throughs
	(Dollars)		(Dollars)		
Automation MAADC Presort Letters	\$ 0.065		\$ 0.346		
Automation AADC Presort Letters	\$ 0.053	\$ 0.011	\$ 0.335	\$ 0.011	100.0%
Automation 3-Digit Presort Letters	\$ 0.049	\$ 0.004	\$ 0.331	\$ 0.004	100.3%
Automation 5-Digit Presort Letters	\$ 0.036	\$ 0.013	\$ 0.312	\$ 0.019	146.1%

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO ABA&NAPM INTERROGATORIES  
REDIRECTED FROM WITNESS ABDIRAHMAN**

**ABA-NAPM/USPS-T22-2**

- a. Please confirm that the USPS, in determining cost avoidances and setting rates and discounts for workshared FCLM in this case, did not take into consideration any in-office delivery costs avoided by FCLM. If you fail to confirm without qualification, please explain fully and provide supporting analyses and data sufficient to replicate your results.
- b. Please provide the in-office delivery costs avoided by workshared FCLM, by automation rate category, in the same format as past cases, using both the USPS and PRC methodologies.
- c. Please revise the table set forth in ABA-NAPM/USPS-T22-1 to show the incremental passthroughs that result if the savings in in-office delivery costs are added to the mail processing cost savings already included in the table.

**RESPONSE**

- a. Confirmed. Please see my response to Presiding Officer's Information Request Number 5 (POIR 5) for the discussion of why delivery cost differences were not included in determining the discounts and rates for automation letter mail.
- b. Redirected to witness Kelley II (USPS-T-30).
- c. The following table provides the information you have requested based on USPS costing methodology. I have used the estimates of total unit delivery costs prepared by witness Kelley II, USPS-T-30.

**AUTOMATION LETTERS**

USPS Version

	TOTAL MAIL	Total	Total		Proposed		
	PROCESSING	Delivery	MP & Del.	Savings	Rates	Workshare	Pass
	UNIT COST	Unit Cost	Unit Cost			Discounts	Throughs
	(Dollars)	(Dollars)	(Dollars)		(Dollars)		
MAADC	\$ 0.065	\$ 0.042	\$ 0.106		\$ 0.346		
AADC	\$ 0.053	\$ 0.040	\$ 0.094	\$ 0.013	\$ 0.335	\$ 0.011	84.6%
3-Digit	\$ 0.049	\$ 0.040	\$ 0.089	\$ 0.005	\$ 0.331	\$ 0.004	80.0%
5-Digit	\$ 0.036	\$ 0.037	\$ 0.073	\$ 0.016	\$ 0.312	\$ 0.019	118.8%

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION**

4793

**APWU/USPS-T32-1** The first class rate design you propose involves several types of cost deaveraging, both across shapes and across rate categories.

- a) Did you make the decision to deaverage costs in this way?
- b) If your answer to b above is yes, why did you decide to deaverage across rate categories in addition to deaveraging only across shapes?
- c) If your answer to a above is no, please state how the decision was made.

**RESPONSE**

- a) As the Pricing witness for First-Class Mail rate design, I made the initial recommendations in the decision-making process that led to the Postal Service's proposals in this case.
- b) I have discussed in detail my reasons to delink the workshare rate design from single-piece in my testimony. Please see USPS-T-32, pages 12 through 17.
- c) Not applicable.

**APWU/USPS-T32-2** You state on page 15 of your testimony that the Postal Service is de-linking single piece and presort letters.

- a) What was the rationale for always linking those two in the past?
- b) What has changed that rationale?

**RESPONSE**

- a) First-Class Mail Single-Piece and Presort letters were initially linked as the available cost data did not produce independent measures of the costs of both categories. Thus, as a practical matter, the workshare rates were developed because the only available data came from studying the sorting operations that presorted mail was more likely to have avoided. Even though separate costs were eventually measured, the traditional cost avoidance method was employed by the Postal Service, though in the Classification Reform case (Docket No. MC95-1) the Postal Rate Commission rejected a proposal to establish Automation letters as a separate subclass.
- b) In this docket, the Postal Service is not proposing to establish separate subclasses for Single-Piece and Presort Letters in First-Class Mail. The Postal Service, by virtue of the separate line items in the CRA report for Single-Piece and Presort Letters, does have the wherewithal to approach the costing for Single-Piece and Presort Letters in such a way that the costs reflect all of the cost-causing characteristics; therefore, a different approach to the costing and pricing of Single-Piece and Presort Letters was adopted. Please see my testimony USPS-T-32 at pages 12 through 17, where I discuss the approach taken in this case, including the use of a

**RESPONSE TO APWU/USPS-T32-2 (continued):**

target of equal unit contribution from the two rate categories. I will also note that, over the past few years, there has been a lot of interest in possible annual rate increases, especially if postal legislative reform were enacted, both of which would argue for the ability to change rates for bulk business customers (Presort) without causing annual disruption by changing rates for Single -Piece mailers who use postage stamp. In order to do that and not create swings in the incentives for worksharing, delinking would be necessary. While that is not driving the proposal in this filing, the reduced linkage does allow for more flexibility. The proposal to use comparable unit contributions keeps the categories linked via the basic notion of efficient component pricing, while more fully utilizing the rich data source of the CRA to capture the broader cost avoidance concepts.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION**

4796

**APWU/USPS-T32-3** Do you consider the proposed methodology to be "bottom-up" pricing?

**RESPONSE**

No. "Bottom up" pricing implies developing unique cost coverage and contribution proposals. That is not the Postal Service's proposal. In this instance, the total estimated costs for Presort Letters are tied back to the CRA line item for Presort Letters (which is developed as a bottom-up cost approach), the remainder of the estimated savings from the presort tiers are developed by consideration of only those costs avoided by virtue of the changes in shape and presort activity, not the total array of cost characteristics for those individual presort tiers.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION**

4797

**APWU/USPS-T32-4** Section 3623(d) of the Postal Reorganization Act requires that the Postal Service

“Maintain one or more classes of mail.... the rate for each such class shall be uniform throughout the United States, its territories, and possessions.”

Would you agree with the statement that this requirement of a uniform rate within a class of mail was met in previous rate cases by calculating workshare discounts on the basis of costs avoided using a benchmark metered Single-Piece First Class letter with most of the same characteristics as a typical workshare letter?

**RESPONSE**

To the extent your question calls for a legal conclusion regarding the meaning of this provision, it is beyond my expertise as an economist. At a technical level pertaining to rate design, no, I do not agree. My proposed rate design or the use of a different benchmark were undertaken for the reasons expressed in my testimony and elsewhere in other interrogatory responses.

**APWU/USPS-T32-5** You state at page 15 of your testimony that

“[t]he Postal Service de-links the cost and rate development for Single-Piece Letters from the cost and rate development for Presort Letters.”

Setting aside the question of whether it has happened in this case, doesn't this approach to rate-setting create the possibility that, by “de-linking” the rates for Single-Piece and Presort letter mail you have created a system in which rates for First Class Single-Piece Mail and Workshared Mail may no longer be uniform?

**RESPONSE**

Please see my response to APWU/USPS-T32-4.

APWU/USPS-T32-6 You have stated at pages 15-16 of your testimony that the Postal Service's "objective... is to gradually achieve a rate design paradigm in which both workshare and single-piece mail contribute equally to institutional costs on a unit contribution basis."

- a) Is it the position of the Postal Service that a rate design system that seeks to equalize contribution to institutional costs by different types of letters within the same rate class meets the requirement that "[t]he rate for each... class shall be uniform throughout the United States and its Territories"?
- b) If the answer to question a above is in the affirmative, did the failure of the Postal Service to seek this outcome in previous cases violate the requirement that rates be uniform within the same rate class?
  - a. If the answer to question b above is in the negative, is the Postal Service re-defining uniformity of rates for purposes of Section 3623(d) of the PRA?

## RESPONSE

- a) To the extent your question calls for a legal conclusion regarding the meaning of this provision, it is beyond my expertise as an economist.  
  
From a rate design perspective, I do not view the two to be related.  
  
Equalizing contribution is simply a way of maintaining fairness within the rate structure and continuing the long-standing tradition of having a target of 100 passthroughs so that the discounted pieces pay unit contribution comparable to that paid by the single-piece counterparts. The Postal Service has expressed the position that mailers should experience rates that reflect the worksharing cost savings to the Postal Service but still pay similar unit contribution as the rest of the subclass.

**RESPONSE TO APWU/USPS-T32-6 (continued):**

- b) To the extent your question calls for a legal conclusion regarding the meaning of this provision, it is beyond my expertise as an economist. In previous cases, by trying to target passthroughs of 100 percent or lower, the Postal Service was, in essence, trying to maintain comparable unit contributions across workshare tiers.

**APWU/USPS-T32-7** You referred in your testimony (at pages 12, 15) to “considerable controversy” and “irreconcilable divisions” related to the Postal Service’s use of a benchmark piece of First Class Mail as a basis for calculating Workshare discounts.

- a) Does section 3623(c) of the Act provide a policy that controversy and divisions should be avoided in the setting of rates?
- b) If you had not changed your approach in this case, can you point to a controversial issue that would have arisen that did not arise and get resolved by the PRC and the Board of Governors in previous cases?
- c) Will the use of the newly-divided method of establishing rates eliminate controversy and divisions in the rate-setting process?

**RESPONSE**

- a) There is no explicit factor that mentions avoiding controversy, although I would argue that the considerations that were involved in the development for the delinking proposal would certainly be covered by Criterion 9. On the other hand, actively generating controversy or divisions is not a factor, either. I was noting, as part of the background for the proposal, the presence of “controversy” and “irreconcilable divisions”. Sometimes, in such an environment, it is worthwhile to examine the status quo to see if prudent changes can be made.
- b) I’m not sure that controversial issues are always “resolved” per se by Postal Rate Commission or Governors Decisions. In fact, many of the issues that are appearing in this case were arguably “resolved” in previous Decisions.
- c) No. But I think that examining and sometimes responding to issues of controversy in previous proceedings leads to potential improvements in rate design.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION**

4802

**APWU/USPS-T32-8** Section 3623(c) of the PRA requires that the Commission make a recommended decision on changing the rate schedule "in accordance with the policies of this title and" six listed factors.

- a) does your testimony make reference to any policy of the Act other than the six factors listed in Section 3623(c)?
- b) If your answer to question a above is yes, point out the place or places in your testimony where that reference(s) is made, point out where in the Act the policy in question is stated, and explain how your reference weighs the policy in question.
- c) If your answer to question a above is no, is it the position of the Postal Service that the phrase "in accordance with the policies of this title" adds nothing to the requirement that the recommended decision be in accordance with the six listed factors?

**RESPONSE**

- a) My testimony makes reference to the classification criteria listed in Section 3623 (c) in conjunction with the proposed classification changes proposed for First-Class Mail rate design in this docket. The pricing criteria are not enumerated in my testimony but are usually applied at the subclass level by the rate level witness O'Hara (USPS-T-31). Obviously, my rate design implicitly ensures that the proposed rates meet the requirement of the pricing criteria. One such example is my use of conservative passthroughs for the shape-based rates in order to mitigate the impact on mailers that mail flat and parcel shaped pieces (39 U.S.C. § 3622(b) (4)). The rate design starts with the estimates of volume variable costs and the test year after rates financials ensure that letters and cards subclasses cover their respective volume variable costs (39 U.S.C. § 3622(b) (3)).
- b) Please see my response to subpart a, above.

**RESPONSE TO APWU/USPS-T32-8 (continued):**

- c) I think my testimony, either by specific reference to the classification criteria, or by the more general discussions of all of the pricing proposals, is not only consistent with the specified criteria, but other notions embodied in the Act, such as those described in section 101(a).

**APWU/USPS-T32-9** Assume you have two pieces of identical business mail, both are uniform size, both are type-written but one piece is part of a large presort mailing and the other is part of a smaller non-discounted business mailing. Under the proposed system, isn't it likely that the non-discounted business mail will pay more toward the overhead costs of the Postal System than will the identical presort piece?

**RESPONSE**

Maybe, although by developing my proposal the way that I did, with a target of comparable unit contribution, yet mindful of the requirement for consideration of the impact on mailers and the establishment of smooth and understandable rate schedules, I am maintaining the goal of comparable unit contributions for discounted and non-discounted mailings. I would argue that my proposal is superior to proposals that would request separate subclasses for Single-piece and Presort Letters in that I have not intentionally decreased the contribution target for Presort Letters. Within each category, be it single-piece or presort, there is considerable degree of averaging, and contribution to the overhead costs could widely differ even though two mail-pieces maybe paying identical postage. I would also note that under the current system, it is possible that the smaller, non-discounted mailing provides less of a contribution since the larger mailing is not likely to be credited for the other cost-reducing requirements that are necessary to qualify as a workshare mailing. In the end, I believe the proposed rates are more likely to yield comparable contributions.

**APWU/USPS-T32-12** On page 14 you state that the CRA generated costs reflect the full range of cost differences between the groups of letter mail. If one of these groups has higher costs because it is sent to more remote, higher cost areas will the proposed methodology cause that group to bear the full costs of differential itself?

**RESPONSE**

Not explicitly. Unless the cost-causing characteristic is one that would be reflected in the letter and flats cost models presented by witnesses Abdirahman (USPS-T-22) and Miller (USPS-T-20), to the extent that one group of mail or mailers within the CRA line item of Presort Letters tends to mail to higher cost areas (in terms of distance) or have some other higher cost characteristics, that group within Presort will not bear the additional costs of those characteristics. That is one main distinction between my proposal and "bottom up" pricing. However, if there is a difference between the cost characteristics of Single-Piece and Presort mailers, for instance if Single-Piece mailers sent mail more often to remote, higher-cost areas, this difference would show up between the two CRA line items and the Single-Piece mailers would be covering more of that higher cost – the presort mailers would not be bearing the cost of the Single-Piece mailers mailing patterns.

**DFC/USPS-T32-1.** Please provide the dimensions and other mail-piece characteristics that will determine whether a particular First-Class Mail item will pay the rate for letters, for flats, or for parcels.

**RESPONSE**

Current information is reflected in the following sections of the Domestic Mail Manual, DMM 300, January 8, 2006.

dimensions, 601.1.2, 601.1.3  
discount flats, 301  
discount letters, 201  
discount parcels, 401  
retail mail, 101

The DMM will be amended through the usual Federal Register process at an appropriate time in the future. Please see my testimony USPS-T-32, pages 19 and 20, for a brief discussion of the proposed changes in this area.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF DOUGLAS CARLSON**

**DFC/USPS-T32-2.** Please provide the rate that a #10 envelope that weighs 1.5 ounces and is 0.5 inches thick would pay. In your response, please explain whether this envelope would be considered a letter, a flat, or a parcel.

**RESPONSE**

Computing postage is explained in Domestic Mail Manual section 604.7 and in sections pertaining to individual classes of mail. Processing categories for all classes of mail are described in DMM section 601.1.

Assuming that the proposed rates are recommended by the Commission and approved by the Governors and assuming that the thickness of the mail piece exceeds the maximum of 0.25 inches for letters, such a mail piece would pay 82 cents. This is the sum of the proposed 62-cent first ounce postage for a flat shaped piece, plus the applicable 20-cent additional ounce rate.

DMM standards for classification proposed in this docket will be developed through the usual Federal Register process at an appropriate time in the future. Ultimately, the determination would have to be based on the examination of an actual mail piece by an acceptance employee applying the standards that will be developed to implement the new rate schedule.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF DOUGLAS CARLSON**

**DFC/USPS-T32-3.** Please refer to your response to GCA/USPS-T32-1.

- a. Would the mail piece be considered a letter, a flat, or a parcel?
- b. Suppose the letter described in GCA/USPS-T32-1 weighed 1.5 ounces. Which rate would it pay?

**RESPONSE**

- a. Current processing categories for all classes of mail are explained in Domestic Mail Manual section 601.1. Also, please see my response to your interrogatory DFC/USPS-T32-2.
- b. Assuming that the proposed rates are recommended by the Commission and approved by the Governors and assuming that the mail piece does not meet the aspect ratio requirement for letters, it could qualify for a rate of 82 cents -- the first-ounce rate for a flat shaped piece, 62 cents, plus the proposed additional ounce rate of 20 cents. The ultimate determination would have to be based on the examination of an actual mail piece by an acceptance employee applying the standards that will be developed to implement the new rate schedule.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF DOUGLAS CARLSON**

**DFC/USPS-T32-4.** Under the Postal Service's proposal, please confirm that a letter could pay the rate for a flat and that a flat could pay the rate for a parcel. If you do not confirm, please explain.

**RESPONSE**

A mail piece that does not meet one or more requirements for a certain shape is proposed to be charged the next higher shape category rate. For instance, a mail piece that appears to be a letter, but exceeds the maximum thickness allowable for letter-shaped pieces, would be charged the first-ounce rate for a flat-shaped piece, plus any applicable additional-ounce postage.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNES TAUFIQUE  
TO INTERROGATORY OF  
DISCOVER FINANCIAL SERVICES & MORGAN STANLEY.**

**DFS&MSI/USPS-T32-1:** Separately for First-Class Single Piece mail and First-Class Presort mail, please provide the calculated values of revenue per piece, attributable cost per piece, and contribution per piece for each shape category (letters, flats, and parcels). Also, please provide the sources and details of the procedures used to make these calculations.

**RESPONSE**

Please see my revised response to PSA/USPS-T32-4.

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAH H. TAUFIQUE TO INTERROGATORIES  
OF THE GREETING CARD ASSOCIATION

**GCA/USPS-T32-1.** Please confirm that under the rate and classification changes proposed in this Docket, a single-piece First-Class letter which (i) weighs one ounce or less, and (ii) is less than 11.5 in. by 6.125 in. by 0.25 in. thick, but (iii) has an aspect ratio less than 1:1.3 or greater than 1:2.5 –

(a) Would be classed as a Flat, and

(b) Would pay a rate of \$0.62.

If you do not confirm, please explain why.

**RESPONSE**

(a) Not confirmed. Under the current proposal, they would pay a higher rate because the aspect ratio of the piece falls outside the automation compatibility range.

(b) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES  
OF THE GREETING CARD ASSOCIATION

**GCA/USPS-T32-2.** Please refer to page 17, lines 15 et seq., of your prefiled testimony.

- (a) Please identify and provide the "preliminary cost studies" which you state suggest that lightweight flats and parcels may not cover costs.
- (b) Please state your understanding of how the authors of the above-mentioned preliminary cost studies would classify (as between "letter" and "flat") the mailpiece described in the introductory portion of GCA/USPS-T32-1?

**RESPONSE**

- (a) The preliminary cost studies that I am referring to were included in Docket No. R2001-1 as Library Reference LR-J-58.
- (b) The authors of the study did not use aspect ratio as a criterion to make a distinction between flats and parcels, i.e., if the aspect ratio was less than 1.3 or greater than 2.5, but all other letter dimension requirements were met, the mail piece was classified as a letter, not a flat.

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES  
OF THE GREETING CARD ASSOCIATION

**GCA/USPS-T32-3.** Please refer to page 18, lines 5 et seq., of your prefiled testimony. Would it be consistent with your intention to mitigate the impact of your proposed singlepiece First-Class Letters rate design (insofar as it separates letters, flats, and parcels) if that rate design caused an identifiable type of mail, with distinct cost-causing characteristics, to pay an increase in rates greater than any additional cost it imposes? If your answer is not an unqualified "no," please explain.

**RESPONSE**

Yes, that is my intention. *I would like to note that letter shaped pieces that do not meet the aspect ratio requirements may end up being processed manually.*

Manual processing costs are significantly higher than the costs for automated processing. See USPS-T-42, page 12, line 4, for letter shaped pieces comparison of automated versus manual processing, and page 19, line 31 for the comparison for flat shaped pieces.

It is my understanding that a recent test conducted by the Postal Service at the request of the Greeting Card Association shows that any significant deviation from the automation-compatible aspect ratio causes the cancellation rates on the Advance Facer Cancellor (AFCS) to drop below 55 percent, compared to the 98 percent cancellation rates for pieces within or close to the automation-compatible aspect ratio requirement.

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES  
OF THE GREETING CARD ASSOCIATION

**GCA/USPS-T32-4.** Please state, for Base Year FY 2005 –

- (a) The volume of single-piece First-Class Letters pieces paying the nonmachinable surcharge; and
- (b) The respective volumes, within the category described in part (a), of
  - (i) letters,
  - (ii) flats, and
  - (iii) parcels,

as those shape descriptions are applied currently.

**RESPONSE**

- (a) 124,339,997 single-piece First-Class Mail letter shaped pieces paid the nonmachinable surcharge in FY 2005. 303,325,567 flat shaped pieces paid the nonmachinable surcharge in FY 2005, and 12,016,863 parcel shaped pieces. The total number of pieces that paid the nonmachinable surcharge added up to 439,682,427. Please refer to RPW by shape sponsored by witness Loetscher, USPS-T-28, LR-L-87.
- (b) Please see my response to subpart (a) above.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF GREETING CARD ASSOCIATION**

**GCA/USPS-T32-5**

Please refer to R2006-1, USPS LR-L-129, the Excel file LR-L-129.xls, worksheet "TYAR Volume."

- a. Please confirm that USPS witness Thress' after rates volume forecast for FCLM single piece in GFY 2007 is 39.105, not 39.401 billion pieces. If you cannot confirm, please provide the correct number.
- b. Please confirm that for the 2007 GFY in the above-referenced Excel spreadsheet you are using an after rates volume forecast of 39.401 billion pieces for First-Class single piece (as well as all other First Class mail categories) that is exactly the same as the before rates volume forecast. If you cannot confirm, please provide the correct number or explain why.
- c. If you confirm (b), please state if you or other witnesses have used the erroneous 39.401 billion piece figure for GFY 2007 in any calculations in this case, and specifically identify the calculations and the impact of using the erroneous figure.

**RESPONSE**

- a. Confirmed.
- b. Confirmed. FY 2007 is a split year based on the proposed implementation date during the month of May 2007. The forecast that is used for the calculation of FY 2007 After Rates revenue is available in WP -FCM 3 (spreadsheet "Split Vol. FY07") in cell I11 and matches witness Thress' forecast of 39.105 billion pieces. If the implementation of rates was assumed to start with the new fiscal year, then FY 2007 before and after rates volume for FY 2007 would be the same, but because of the projected earlier implementation in last quarter of FY 2007 there is a difference in TYAR forecasts and a split year forecast was produced and to the best of my knowledge was used by all pricing witnesses.
- c. Please see my response to part b, above.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF GREETING CARD ASSOCIATION**

**GCA/USPS-T32-6**

Please refer to the following table. The before rates and after rates annual forecasts for the periods 2006-2009 are obtained from USPS witness Thress. The Alternative trend forecasts are estimated based on simple linear trend projections of the actual volumes for the period 1997-2005 with 1997 as the starting year, signifying the last peak in First-Class single-piece volume.

Before Rates, After Rates, and Trend Volume Forecasts for First-Class Single-Piece Mail (in billion pieces)				
DATE	USPS		Alternative	
	Before Rates	After Rates	Trend Forecast	Trend Forecast Adjusted for Rate Increase
2006	41.410	41.410	42.641	42.641
2007	39.401	39.105	41.180	40.883
2008	38.162	37.206	39.719	38.764
2009	36.486	35.572	38.258	37.345
Source	USPS witness Thress, LR-L-66.			

- Please confirm your revenue requirement for Test Year 2008 uses the after rates volume from the above table. If you cannot confirm, please provide the correct number.
- Please confirm that had you used the linear trend projection starting from the year 1997, the forecast for the Test Year 2008 would have been 38.764 billion pieces, a value more than 1.5 billion pieces greater than USPS witness Thress' after rates volume forecast. If you cannot confirm please explain why.
- Please re-compute your revenue requirement for TY2008 for single piece FCM utilizing the trend volume of 38.764 billion pieces.

**RESPONSE**

- Confirmed.
- It is beyond the scope of my testimony to validate alternative volume forecasts. In any event, confirming the outcome of the trend analysis and attempting to determine how such an alternative would affect my rate design is inappropriate. The test year volume forecast provided by witness

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF GREETING CARD ASSOCIATION**

**RESPONSE TO GCA/USPS-T32-6 (continued):**

Thress is an integral part of the rate design exercise. Any exercise that would require me to change the volume forecast would require me to re-evaluate all the rates in light of the new volumes for the test year. Moreover, the Postal Service has proposed a set of rates balancing various concerns and meeting the revenue requirements in the test year. This exercise involved addressing the various classification changes as well as impact on mailers. Changing a key input in isolation would not necessarily lead to prices that would reflect this balancing of concerns and that meet the revenue requirement.

- c. The computation of revenue requirement was the responsibility of witness Loutsch (USPS-T-6) which is subsequently provided to witness O'Hara (USPS-T-31) who is responsible for ensuring that the rate levels proposed by the Postal Service provide sufficient revenue to cover the revenue requirement. As described in the testimony of witness O'Hara, this process requires a careful balancing of all of the pricing criteria of the Act. If your question is asking me to compute the Test Year After Rates (TYAR) revenues using the "trend" volume forecast you provided, I cannot be sure that the rate proposal would remain the same with a significant change in one of the basic inputs.

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

**MMA/USPS-T32-1**

Please refer to page 8 of your direct testimony where you discuss the proposed additional ounce rates for First Class letters and flats.

- A. Please explain why you propose *different* additional ounce rates for automation letters (15.5 cents) and single piece letters (20 cents) but propose the same additional ounce rate (20 cents) for both automation and single piece flats.
- B. Did you base your specific additional ounce rate proposals on any considerations, such as, for example, special studies or economic pricing principles, other than "the revenue requirements, pricing criteria, and special circumstances surrounding each rate request?" If yes, please identify such other considerations and explain how each affected your recommendations. If no, please explain why not. Please provide all documents you reviewed in formulating your positions on additional ounce rates.
- C. Please explain your position regarding the relationship between your proposed additional ounce rates and the costs for processing additional ounces for (1) single piece letters, (2) automation letters, (3) single piece flats and (4) automation flats.

**RESPONSE**

- A. The Postal Service's proposal in this docket recognizes, to a degree, the role of shape in cost causation and reflects this in the *proposed rates*. This recognition is consistent with the proposed reductions in additional ounce rates for both single-piece and presort mail pieces. The largest reduction in an additional ounce rate is for Automation Letters: *from 23.7 cents to 15.5 cents*, a reduction of 34.6 percent. My testimony discusses the specific reason for the lower additional ounce rate for Automation Letters.

(USPS-T32 at 38 and 39.):

As discussed in VI.A.2, I propose the establishment of a First-Class Mail Business Parcels rate category and a separate rate for flat-shaped pieces within the nonautomation presort rate category. These proposals reflect explicit recognition of shape as a cost-driving factor within all workshare First-Class Mail rate categories. Even if the passthroughs are less than 100 percent for shape based additional costs, explicit recognition of shapes in all rate categories relieves the

RESPONSE to MMA/USPS-T32-1 (continued):

additional ounce rate of the burden of recovering the costs caused by differences in shapes.

Accordingly, I also am proposing to reduce the additional ounce rate for nonautomation presort automation flats and the newly proposed Business Parcels rate categories from the current 23.7 cents to 20 cents, a 15.6 percent reduction. For Automation Letters, where shape is not an issue and all of the proposed Letter dimensions (including aspect ratio and maximum weight requirement of 3.5 ounces) are met, I propose an even lower additional ounce rate of 15.5 cents. This is a 34.6 percent reduction from the current rate of 23.7 cents.

The pricing of First-Class Mail is gradually moving in the direction of recognizing shape related costs in its rates, but the additional ounce rate still serves to recover some of the shape-related costs for nonletters.

- B. Consistent with the approach to rate design in previous dockets, the additional ounce rates are proposed, in part, based on the revenue that must be generated to meet the cost coverage targets established for First-Class Mail Letters and Sealed Parcels. However, as I discuss, the Postal Service's proposal also reflects a movement to more shape-based rates. I did not rely on any special studies in formulating the proposal for additional ounce rate. The guiding principle was to reflect the recognition of shape-related costs in the rates proposed for additional ounces given all the other requirements mentioned in your query such as revenue requirement, pricing criteria and special circumstances surrounding this filing.

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

**RESPONSE to MMA/USPS-T32-1 (continued):**

C. Again, I did not consult specific cost figures by ounce increment by shape.

See my response to subpart A regarding the rate design with respect to additional ounce rates.

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

**MMA/USPS-T32-2**

On pages 15 and 16 of your direct testimony you discuss the Postal Service's decision to take a fresh new look at the manner in which First-Class workshare letter rates are determined. You have proposed to de-link the costs and rates for presort letters from those of single piece letters. As part of your discussion you have proposed a new objective insofar as achieving an appropriate rate design for workshare letters: to obtain similar (but not necessarily equal) unit contributions to institutional costs from an average single piece and an average presort mail piece.

- A. Does the preamble to this interrogatory correctly state your position as to the reasoning and justification for your proposed rates for First Class presort mail? If not, please explain.
- B. Please explain how you decided upon this goal of equal unit contributions to institutional costs for single piece and presort mail.
- C. When you decided to adopt this new rate design goal, did you analyze any historical data to see whether, and the extent to which, such a goal has been met in the past? If so, please provide that data. If not, why not?
- D. Please explain the logic behind the goal of equal unit contributions to institutional costs for single piece and presort mail, in the aggregate.
- E. Is this goal something that the Postal Service would strive to achieve in future rate cases?

**RESPONSE**

- A. Yes.
- B. The rationale for this methodology has been discussed in my testimony.  
  
See USPS-T-32, page 15, lines 18 through 23 and page 16, lines 1 through 9. This was decided upon after consultation with Postal Service managers familiar with rate design for First-Class Mail.
- C. Yes. The attached spreadsheet provides the historical data. Between FY2000 and FY 2005 the per-unit contribution of presort mail was higher than the single-piece mail for four years, while for one year, FY2002, per-unit contribution of single-piece mail was higher and in one year, FY 2000 the unit contributions for the two mail streams were equal.
- D. Please see my response to subpart B, above.

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

**RESPONSE to MMA/USPS-T32-2 (continued):**

E. I cannot speculate on the nature of future rate filings; however, I would expect that, if it were appropriate given the specific circumstances in a future filing, this might be one of the goals.

## Attachment to Response to MMA/USPS-T32-2

	SINGLE-PIECE			PRESORT			Difference SP less Presort
	Average	Vol. Var.	Per Unit	Average	Vol. Var.	Per Unit	
	Revenue	Cost	Contribution	Revenue	Cost	Contribution	
2000	\$ 0.416	\$ 0.239	\$ 0.177	\$ 0.275	\$ 0.098	\$ 0.177	0.000
2001	\$ 0.421	\$ 0.243	\$ 0.178	\$ 0.280	\$ 0.101	\$ 0.179	(0.001)
2002	\$ 0.436	\$ 0.247	\$ 0.188	\$ 0.288	\$ 0.101	\$ 0.188	0.001
2003	\$ 0.455	\$ 0.252	\$ 0.203	\$ 0.307	\$ 0.098	\$ 0.209	(0.006)
2004	\$ 0.454	\$ 0.252	\$ 0.202	\$ 0.306	\$ 0.095	\$ 0.210	(0.009)
2005	\$ 0.453	\$ 0.264	\$ 0.189	\$ 0.305	\$ 0.101	\$ 0.203	(0.014)

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

**MMA/USPS-T32-4**

On page 19 of your direct testimony, you state that, in order to qualify for First-Class single piece letter rates, a letter-shaped piece of mail must weigh 3.5 ounces or less.

- A. If a letter-shaped piece of First-Class mail weighs 4.0 ounces, will it pay the flat rate or the parcel rate? Please explain your answer.
- B. Please explain precisely how the Postal Service determined that the cut-off weight for single piece letters should be 3.5 ounces and provide any studies or other documents relating to that determination.
- C. Did the Postal Service consider increasing the maximum weight for First-Class workshared letters from 3.3 ounces to 3.5 ounces? If not, why not? If so, please explain why the maximum weight for First-Class Single Piece letters should be 3.5 ounces but only 3.3 ounces for First-Class workshare letters.
- D. Please confirm that on average, First-Class single piece letters require more processing on Postal Service automated equipment than do workshared letters. If you cannot confirm, please explain.

**RESPONSE**

- A. The flat-size rate because the maximum weight of a letter-shaped piece would be 3.5 ounces. A 4.0 ounce letter shaped piece would pay the 4 ounce rate for a flat-shaped piece.
- B. Please refer to MMA/USPS-T42-5.
- C. Yes. Under this proposal, the maximum weight for both presort and single-piece letters is expected to be 3.5 ounces.
- D. It is my understanding that, all else equal, a single piece letter will require more processing than a workshared letter.

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

**MMA/USPS-T32-6**

On page 30 of your direct testimony, you describe the general means by which you determined the specific rates for First Class presort letters, encompassing five separate criteria. On pages 34-35 you state that "... the Presort categories are priced on the basis of cost causation attributes (preparation, entry profile, etc.) unrelated to Single-Piece mail." Please explain why the Postal Service does not consider consistently high originating volumes (from one mailer) as a primary and significant cost driver and, therefore, an appropriate cost causation basis to distinguish between Single-Piece mail and presorted mail. Please provide any studies or other documents that you believe support your position.

**RESPONSE**

My rate design does not establish presorted First-Class Mail Letter rates based on cost differentials between single-piece and presorted mail in the same way that has been done in previous dockets. Instead of using special cost studies, I use the results of the CRA to establish the overall price differences. Within the more general presort grouping, I use the more specialized cost studies to further differentiate the prices. Please see USPS-T-32, pages 12 through 17.

However, I do not use customer-specific data, including the volume of mail originating from any one customer as a cost driver for the First-Class Mail rates I am proposing. Furthermore, I am unaware of any studies that demonstrate that either higher or lower costs result based on the volume of mail originating from any one customer.

Generally, the presort structure does provide incentives for customers who have higher volumes or densities and, therefore, are able to achieve a greater depth of sort, and thus a lower price. Please see USPS-T-32, pages 31 through 33.

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

**MMA/USPS-T32-7**

On page 16 of your direct testimony, you state the following with respect to pricing First-Class workshared mail compared to First-Class single piece:

The goal of similar unit contributions from these two mail categories is not an absolute one; other rate design and rate impact considerations may require the Postal Service and the Commission to deviate from this goal. However, to the extent practicable, the Postal Service's intention going forward is to equalize the unit contribution from the Single-Piece Letter category and from the Presort Letter category.

- A. Please confirm that under the rates you propose, the TYAR unit contributions to institutional costs from First-Class single piece and presort letter mail are \$.2348 and \$.2343, respectively. If you cannot confirm, please provide the correct unit contributions to institutional costs for First-Class single piece and presort letter mail.
- B. Please confirm that, using the Commission's attributable cost methodology, if the rates you propose are adopted the TYAR unit contributions to institutional costs from First-Class single piece and presort letter mail are estimated to be \$.2104 and \$.2294, respectively, a difference of 1.9 cents. If you cannot confirm, please provide the correct unit contributions to institutional costs for First-Class single piece and workshared mail using the Commission's attributable cost methodology.
- C. Do you agree that, using the Commission's attributable cost methodology, the specific rates you propose do not satisfy your stated objective of equal unit contributions to institutional costs for First-Class single piece and presort letters? If no, please explain your answer.
- D. Please confirm that, under the Commission's rate recommendations in R2000-1, R2001-1, and R2005-1, First-Class presort letters have on average contributed 1.7 cents, 1.9 cents, and 1.9 cents, respectively, more to institutional costs than First Class single piece letters. Derivation of these unit cost contribution differences is shown on the following table. If you cannot confirm, please provide the correct unit cost contributions and demonstrate how they are derived.

Docket No.	R2005-1	R2001-1	R2000-1
<i>First-Class Single Piece</i>			
Revenues (000)	20,506,695	21,865,222	22,576,889
Attributable Costs (000)	12,056,748	13,691,814	14,684,352
Contribution (000)	8,449,947	8,173,408	7,892,537
Volume (000)	42,459,296	46,841,145	52,828,895
Unit Contribution (\$)	0.199	0.174	0.149
<i>First-Class Presorted</i>			
Revenues (000)	15,382,831	15,915,988	13,172,716
Attributable Costs (000)	4,929,340	5,985,539	5,305,138
Contribution (000)	10,453,491	9,930,449	7,867,578
Volume (000)	47,962,523	51,353,440	47,320,291

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

Unit Contribution (\$)	0.218	0.193	0.166
Presort - S.P. Unit Contrib (\$)	<b>0.019</b>	<b>0.019</b>	<b>0.017</b>

**RESPONSE to MMA/USPS-T32-7:**

- A. The revised numbers based on the changes in assumption regarding First-Class Mail Business/Presort parcels (See my response to USPS-T32-20) are:
- Single-Piece: \$ 0.2436    Presort: \$ 0.2303
- B. [Redirected to the USPS for institutional response.]
- C. Yes. However, that does not necessarily mean that the proposed rates do not meet the policy goals outlined in my testimony. As I have stated in my testimony, the goal of similar unit contribution is not an absolute one; other policy, rate design and rate impact considerations may require the Postal Service or Commission to deviate from this goal.
- D. Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO THE INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T32-1:** What are the unit institutional cost contributions for First Class single-piece letters, presort letters, flats, and parcels at your proposed rates?

**RESPONSE**

Please see my revised response to PSA/USPS-T32-5.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO THE INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T32-2:** Please refer to page 23, lines 5-15 of your testimony. Please discuss the economic rationale behind the use of different pass-through percentages at the first ounce for single piece flats and single piece parcels.

**RESPONSE**

The reason for using passthroughs of less than 100 percent for both flat and parcel shaped pieces is to mitigate the impact of the rate structure on lighter weight flat and parcel shaped pieces. The passthroughs are different (for flats and for parcels) since that allows for separate consideration of the impact of the prices on mailers of each shape.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO THE INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T32-3:** Please confirm that, in general, setting the rates for First Class flats and parcels at a larger pass-through of the cost differences would have the tendency to reduce the unit cost contributions of letters. If you cannot confirm, please explain why not.

**RESPONSE**

All else equal, if the passthroughs of the shape-related cost differences were greater, then more revenue might come from flats and parcels, which could enable a reduction in prices (and perhaps resulting contribution) for some other rate element or category, including, for instance, letters, or the additional ounce rate. My rate design (including the passthrough selection) balances all of the objectives of the rate design, including the resulting rate implications.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO INTERROGATORY  
OF THE OFFICE OF CONSUMER ADVOCATE**

4832

**OCA/USPS-T32-8.** This interrogatory seeks information on the percentage of First-Class Mail letters, flats and parcels by shape. Please refer to your testimony at page 17, lines 16-18, which states, "In FY 2005, 94.5 percent of the pieces in the Letters subclass were actually letter-shaped pieces, while 4.8 percent were flat-shaped and one-half of one percent of the pieces were parcel-shaped." Also, please refer to USPS LR-L129, Excel file "LR-L-129.xls," worksheet tab "SP Shp&Addl Ozs."

- a. Please provide the source(s) for the percentages stated in your testimony for letter-shaped, flat-shaped, and parcel-shaped pieces in the Letters subclass.
- b. Please reconcile the percentages stated in your testimony with the percentages shown in USPS LR-L-129.

**RESPONSE**

a & b. Please see the attached spreadsheet for the calculations of the percentages used in my testimony. A minor change occurs in the recalculation and I get 94.6 percent for letters. All other percentage figures remain the same. The sheet "SP Shp&Addl Ozs." deals with breakdown by shapes for single-piece, while my testimony provides the breakdown for the letters subclass which in addition includes nonautomation presort letters, flats and parcels, automation and carrier route letters, and automation flats.

Letters Subclass FY 2005

Total Volume	92,441,540,435	LR-L-129, WP-FCM-1, 'TYBR Volume', Cell B9
Automation		
Auto Letters	46,408,216,195	LR-L-129, WP-FCM-1, 'TYBR Volume', Sum Cells B14,16,18,20&22
Auto Flats	733,255,800	LR-L-129, WP-FCM-1, 'TYBR Volume', Sum Cells B15,17,19,&21
Nonautomation Presort		
Letters	1,739,316,649	LR-L-129, WP-FCM-5b, 'Shp & Addl. Ozs. Distribution', Cell K19
Flats	176,370,079	LR-L-129, WP-FCM-5b, 'Shp & Addl. Ozs. Distribution', Cell K20
Parcels	8,393,621	LR-L-129, WP-FCM-5b, 'Shp & Addl. Ozs. Distribution', Cell K21
Single-Piece		
Letters	39,317,030,918	LR-L-129, WP-FCM-5a, 'Shp & Addl. Ozs. Distribution', Cell D19
Flats	3,572,195,282	LR-L-129, WP-FCM-5a, 'Shp & Addl. Ozs. Distribution', Cell D20
Parcels	486,761,891	LR-L-129, WP-FCM-5a, 'Shp & Addl. Ozs. Distribution', Cell D21
Total Letters	87,464,563,762	Sum of B7,B10 and B15
Total Flats	4,481,821,161	Sum of B8,B11 and B16
Total Parcels	495,155,512	Sum of B12 & B17
Letter Percent	94.6%	
Flat Percent	4.8%	
Parcel Percent	0.5%	

**Attachment to Response to OCA/USPS-T32-8**

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO INTERROGATORY  
OF THE OFFICE OF CONSUMER ADVOCATE**

**OCA/USPS-T32-9.** This interrogatory seeks information on the rates for single-piece letter-shaped, flat-shaped, and parcel-shaped pieces. Please refer to your testimony at page 19, lines 5-8, which states, "Pieces that do not meet the letter machinability criteria (defined by length, height, width, thickness, rigidity, variation in thickness, or aspect ratio) become eligible for the next higher rate element, i.e. the first ounce rate for flat shaped pieces."

- a. Please provide the proposed rate for a nonmachinable letter-shaped piece weighing less than one ounce.
- b. Please provide the proposed rate for a nonmachinable letter-shaped piece weighing two ounces.
- c. Please provide the proposed rate for a nonmachinable flat-shaped piece weighing less than one ounce.
- d. Please provide the proposed rate for a nonmachinable flat-shaped piece weighing two ounces.
- e. Please provide the proposed rate for a nonmachinable parcel-shaped piece weighing less than one ounce.
- f. Please provide the proposed rate for a nonmachinable parcel-shaped piece weighing two ounces.

**RESPONSE**

- a. \$0.62
- b. \$0.82
- c. \$1.00
- d. \$1.20
- e. \$1.00
- f. \$1.20

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE**

**OCA/USPS-T32-19.** In the rate design you propose, have you reflected the following cost differences by shape, i.e., letters, flats and parcels?

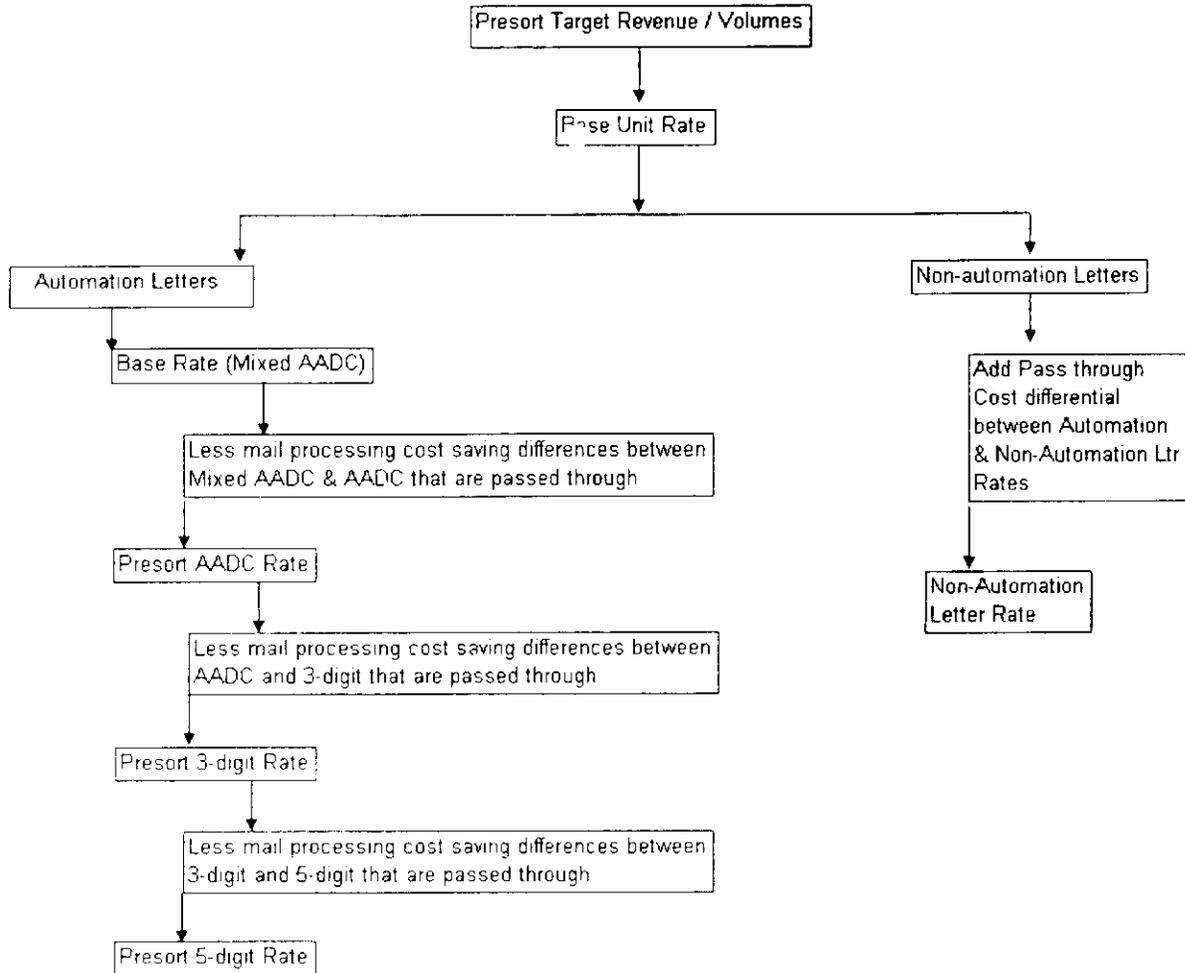
- a. The city carrier street time delivery costs, if not please explain.
- b. The in-office city carrier costs, if not please explain.
- c. The rural carrier segment 10 costs, if not please explain.
- d. Please provide the specific cites to your testimony and the relevant library references used to develop the information in parts a, b and c of this interrogatory.

**RESPONSE**

a.-d. I use an aggregate unit delivery cost estimate from witness Kelley, so I do not explicitly use the disaggregated components to which your question refers. Implicitly, I believe that they are reflected in the aggregate estimate, and therefore in my rate design, but questions about the components of the aggregate estimate would have to be directed to witness Kelley. The aggregate unit delivery cost estimates I use in my rate design are shown in my spreadsheets at WP-FCM-18 cells rows [w], [x], and [y] and column [l] in LR-L-129.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T32-20. Please confirm that the following flow chart provides a correct overview of the methodology you use in developing First-Class Presort Letter rates. If you are unable to confirm, please explain and indicate what changes need to be made to correct the chart.



**RESPONSE**

Generally, the flow chart accurately depicts the estimation of automation letter rates, except that the base unit rate is the same as the Mixed AADC rate. Also, this rate continually changes due to a leakage (discount) or an additional charge such as additional revenue due to shapes.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-9.** Please refer to Section 2, Section 2.1.1 of the *Transformation Plan Progress Report* of November 2004:

- a. Please confirm that there is a heading "Move Simple Transactions Away from the Retail Counter." If you do not confirm, please provide the correct heading.
- b. Please confirm that the first sentence of text following this caption reads "Many customers are unaware that there are convenient alternatives for buying stamps other than at a Post Office retail counter." If you do not confirm, please provide the correct text.
- c. Please list and describe each of these convenient alternatives.
- d. Please provide any data addressing the issue of customer awareness of convenient alternatives for buying stamps other than at a Post Office Retail Counter.

**RESPONSE**

- a. The heading has been accurately reproduced in the question.
- b. The first sentence also has been accurately reproduced in the question.
- c. Convenient alternatives include consignment locations such as supermarkets, contract postal units, automated postal centers (APCs), traditional stamp vending machines, Stamps by Mail, Stamps by Phone, Stamps by Internet, rural carriers, and PC postage.
- d. There is no data available that addresses the issue of customer awareness of convenient alternatives for buying stamps other than at a Postal Service retail counter.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-11.** Please refer to Section 2, Section 2.1.1 of the *Transformation Plan Progress Report of November 2004*:

- a. Please confirm that the fourth sentence of text under the heading "Move Simple Transactions Away from the Retail Counter" states "Increasing awareness of retail alternatives to move simple transactions away from the retail counter is an ongoing effort that has been incorporated into normal business processes." If you do not confirm, then please provide the correct text.
- b. Please explain in detail how the Postal Service has incorporated "increasing awareness . . . into normal business processes."
- c. Has the Postal Service considered financial incentives as a way to move simple transactions away from the window? Please discuss your response.

**RESPONSE**

- a. That is what the sentence says.
- b. The Postal Service has incorporated information about alternate access locations into signage and advertising. Signage and post cards about Automated Postal Centers, post cards about alternate access (Cathy and Dilbert), signage regarding nearby consignment locations and Contract Postal Units, and signage/advertising about usps.com services are examples.
- c. The Postal Service pays Contract Postal Unit owners a percentage based on performance; pays American Bank Note (ABN) for the services they provide for the Consignment program. If your question deals with incentives for the customers, the only thing that may be considered an incentive is offering Delivery Confirmation free with Priority Mail via usps.com.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-13.** Please refer to Section I.B.3 of the *Strategic Transformation Plan 2006-2010* dated September 2005:

- a. Please confirm that the fifth sentence of the last paragraph on page 17 reads, "Similarly, PC Postage partners offer customers the capability to print postage at home or the office, along with providing other value-added services." If you do not confirm, then please provide the correct text.
- b. When did the Postal Service first offer postage through PC Postage partners?
- c. How many single-piece First-Class Mail letter stamps were sold through PC Postage partners in the Base Year?
- d. How many single-piece First-Class Mail letter payment indicia (postage units) were sold through PC Postage partners in each of the five years before the Base Year?
- e. How many single-piece First-Class Mail letter postage units will be sold through PC Postage partners in the Test Year?

**RESPONSE**

- a. The fifth sentence uses those words in that sequence.
- b. The first PC Postage providers were approved to offer their products to customers in August 1999. Prior to that date, PC Postage products were undergoing test and evaluation and were offered to customers who chose to participate in the tests.
- c. This information is not available.
- d. This information is not available.
- e. This information is not available.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-15.** In the Base Year, how many USPS vending machines were deployed?

**RESPONSE**

There were no new vending machines deployed during FY '05; machines were maintained in sales locations.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-16.** How many USPS vending machines will be deployed in the Test Year?

**RESPONSE**

Not applicable at this time. Funding has not been approved for FY 2008.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-17.** Please provide the deployment schedule and all DARs for USPS vending machines.

**RESPONSE**

Not applicable at this time. Funding has not been approved for FY 2007.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-18.** How many single-piece First-Class Mail letter stamps were sold through USPS vending machines in the Base Year?

**RESPONSE**

There were approximately 1.297 billion single-piece First-Class Mail letter stamps sold through USPS vending machines in FY 05.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-19.** How many single-piece First-Class Mail letter stamps are expected to be sold through USPS vending machines in the fiscal year following the Base Year?

**RESPONSE**

It is estimated that 1.166 billion single-piece First-Class Mail letter stamps will be sold through USPS vending machines in FY 06.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-20.** How many single-piece First-Class Mail letter stamps were sold through USPS vending machines in each of the five years before the Base Year?

**RESPONSE**

FY 2004 --- 1.57 billion

FY 2003 --- 1.548 billion

Data are not available for fiscal years 2000 through 2002.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-22.** *When did the Postal Service first offer Stamps by Mail?*

**RESPONSE**

The earliest reference to (Management Instructions) to Stamps by Mail that could be located was dated 5/1/1989.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-38.** When did the Postal Service first offer stamps through contract postal units?

**RESPONSE**

Actual numbers of CPUs are first mentioned in the Annual reports of the USPS beginning in 1971. It is believed that the CPU program has existed for over 100 years.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-39.** How many single-piece First-Class Mail letter stamps were sold through contract postal units in the Base Year?

**RESPONSE**

There is no way of determining this number because Contract Postal Units report stamp sales in a unique Account Identifier Code (AIC). This includes stamps of all denominations, including First-Class Mail letter stamps.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PITNEY BOWES  
REDIRECTED FROM WITNESS TAUFIQUE**

**PB/USPS-T32-40.** How many single-piece First-Class Mail letter stamps will be sold through contract postal units in each of the five years before the Base Year?

**RESPONSE**

Please see the response to PB/USPS-T32-39.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T32-44.** Please define "drop letters." For your convenience, you may wish to refer to the testimony of Richard B. Kielbowicz in MC 95-1.

**RESPONSE**

Page 7 of the *United States Official Postal Guide* (July 1933) reflects the existence of rate differentials for First-Class Mail *drop letters* "mailed for local delivery at post offices having city or village letter carrier service, or at any post office for local delivery to patrons thereof on a rural or star route therefrom, or by patrons on a rural or star route for local delivery at the post office or on another rural or star route therefrom . . . ." According to the page 12 of the 1953 edition, similar rate differentials for *drop letters* "mailed at offices where letter carrier service is not established, provided the addressees are not served by rural or star route carriers . . . ." The Postal Service, which has not maintained a First-Class Mail *drop letters* classification or rate differential for some time, has not directed me to develop any definitions for purposes of this docket. Accordingly, I have not studied or analyzed any historical definitions or what sort of definition could be applied to define such a classification or to justify such a rate differential in today's environment or in the near future.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T32-53.** Please confirm that you were the pricing witness for Periodicals in R97-1, R2000-1, and R2001-1.

**RESPONSE**

Please read the Autobiographical Sketch in my Docket No. R2006-1 testimony,

USPS-T-32.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T32-54.** Please confirm that your rate design in R97-1, R2000-1, and R2001-1 had dropship discounts and zoning discounts. If you cannot confirm, please explain fully.

**RESPONSE**

The rate design proposed on behalf of the Postal Service in those testimonies included destination entry discounts and zoned rates.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T32-55.** Please confirm that you agree that these discounts did not increase the combined costs of the Postal Service and the mailing community. If you cannot confirm, please explain why.

**RESPONSE**

It is assumed that your question refers to the Periodicals discounts approved by the Governors in Docket Nos. R97-1, R2000-1 and R2001-1. The Periodicals pricing proposals were intended to, among other objectives, reflect costs.

Neither the goal, nor the outcome of the pricing proposals was to increase the combined costs of the Postal Service and the mailing community.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T32-56.** Please refer to the Response of the United States Postal Service to Interrogatories of Pitney Bowes Redirected from Witness Shaw PB/USPS-T1-11, filed in N2006-1. The Postal Service responded "No" to the interrogatory "Do First-Class Mail presort letters that are entered at the facility where they will be delivery point sequenced incur a smaller amount of non-distance related surface transportation costs by the Postal Service than other First-Class Mail presort letters? If so, please explain why." Please state whether you agree with this response; provide a detailed explanation of your reasoning for agreeing or disagreeing; and produce (or cite to) documents sufficient to verify your response.

**RESPONSE**

I am neither an operations nor a costing witness in this proceeding. I have no basis for addressing the costing and operations issues raised by your question.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T32-57.** Please confirm that it would be possible to design destination entry discounts for First-Class Presort Mail that would be both revenue neutral and that would not affect the First-Class Single Piece rate.

**RESPONSE**

With some combination of data and assumptions, one could possibly design First-Class Mail presort and automation prices that included destination entry discounts and that achieved cost coverage, revenue and contribution targets. This complex exercise is not part of Postal Service's proposal in this docket.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T32-58.** Please confirm that it would be possible to design destination entry discounts for First-Class Presort Mail that would mitigate any rate shock effect of such rates.

**RESPONSE**

The term "rate shock" is subjective in nature and can only be addressed within the context of an overall pricing proposal. In general, new discounts often require an increase in other prices, assuming some of the workshare activity is already occurring absent the discount. The specific resulting increase would need to be viewed in the context of the pricing criteria in order to determine if it constituted "rate shock."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF PITNEY BOWES

**PB/USPS-T32-60.** Please refer to USPS-LR-L-129, WP-FCM-91:

- a. Please confirm that under the current rate structure, the additional ounce rate for First-Class Mail Non-automation Presort Letters is \$.237.
- b. Please confirm that under the current rate structure, the additional ounce rate for First-Class Mail Automation Letters is \$.237.
- c. Please confirm that under the proposed rate structure, the additional ounce rate for First-Class Mail Non-automation Presort Letters is \$.200.
- d. Please confirm that under the proposed rate structure, the additional ounce rate for First-Class Mail Automation Letters is \$.155.
- e. Please provide and describe any information collected or studies undertaken by the Postal Service to assess the impact on the mailing community of the proposed differential pricing of additional ounce rates for Automation and Non-automation Presort First-Class Mail Letters.
- f. If the Postal Service did not attempt to assess the impact of the proposed differential pricing of additional ounce rates for Automation and Non-Automation Presort First-Class Letters, please explain why not.

**RESPONSE**

- a. Confirmed
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. The Postal Service did not conduct studies to assess the impact on the mailing community of the proposed differential pricing of additional ounce rates for Automation and Non-Automation Presort First-Class Letters.
- f. The rationale for proposed additional ounce rates is described in my testimony USPS-T-32 on pages 38 and 39. These proposals did not require a specific study "to assess the impact on the mailing community of the proposed differential pricing of additional ounce rates for Automation and Non-Automation Presort First-Class Letters."

RESPONSE OF U. S. POSTAL SERVICE WITNESS TAUFIQUE TO PRESIDING  
OFFICER'S INFORMATION REQUEST (POIR) No. 5, QUESTION 2

2. In Docket No. MC95-1, the Postal Service developed unit attributable cost from the "bottom up," by shape, for the presort and prebarcoded rate categories in First-Class and Standard Mail. Total unit attributable cost for each rate category was equal to the sum of unit attributable mail processing cost, unit attributable delivery cost, unit attributable transportation cost, and all other unit attributable costs. See Docket No. MC95-1, Exhibit USPS-T-12C. The Postal Service proposed to use differences in unit total attributable cost as the basis for setting the discounts (i.e., the rate differentials) between rate categories. The Commission rejected that approach in favor of using only differences in unit attributable mail processing costs plus unit attributable delivery costs (in-office and street time) as the basis for rate differences. The Commission explained that presorting and prebarcoding would only directly affect mail processing and delivery costs and that any other differences in total attributable cost would be due to factors other than worksharing. PRC Op. MC95-1, paras. 4208-13. Accordingly, beginning with the restructured rates implemented in Docket No. MC95-1, worksharing differentials in First-Class, Standard Mail, and Periodicals (excluding dropship discounts) have been based on differences in both unit attributable mail processing costs and unit attributable delivery costs.

- In the current docket, the cost basis of the Postal Service's proposed worksharing discounts varies from subclass to subclass. First-Class worksharing rate differentials are based on unit attributable mail processing costs. The piecebased worksharing differentials in Periodicals reflect differences in both unit attributable mail processing costs and unit attributable delivery costs. The worksharing rate differentials in Standard Regular and Regular Nonprofit reflect only differences in unit attributable mail processing cost. Worksharing rate differentials in Enhanced Carrier Route and Non-Profit Enhanced Carrier Route reflect differences in both unit attributable mail processing and delivery costs.
- a. A review of the unit attributable delivery costs in USPS-LR-L-67, Table 1, shows that for some subclasses, delivery costs vary only by shape. Thus, for example, within a flat-shaped mail category, the unit attributable delivery cost would be the same for each presort and barcode category. This could be a reason for ignoring delivery cost, at least when calculating presort/barcode discounts. However, in First-Class there are differences in unit attributable delivery cost between nonautomated letters and automated letters and in Standard Mail there are differences in unit attributable delivery cost between nonmachinable and machinable letters. The rate design witnesses for First-Class and Standard Mail have not provided a rationale for departing from the "MC95-1" approach and ignore those differences. The Postal Service is requested to have the appropriate witness for each subclass provide a rationale for departing from the MC95-1 approach, or, if the Postal Service prefers, provide revised rate design spreadsheets that incorporate both differences in mail processing and delivery unit attributable cost.
  - b. The rate design for Bound Printed Matter (BPM) proposed by the Postal Service is also inconsistent with the precedent established in Docket No. MC95-1. The proposed presort differentials are based on unit mail processing attributable cost only, which is consistent with past rate cases, but the flat-

RESPONSE OF U. S. POSTAL SERVICE WITNESS TAUFIQUE TO PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5, QUESTION 2

parcel differential is based on only differences in unit attributable delivery cost. Similarly, Media Mail presort discounts are based on differences only in unit attributable mail processing costs, ignoring unit attributable delivery costs. In Docket No. R2001-1, the Postal Service acknowledged that BPM shape-related cost differences could include mail processing cost differences, adding that it would explore this possibility in future rate cases. (See Docket No. R2001 -1, USPS-T-33 at 30.) The Postal Service is requested to have its rate design witness for BPM and Media Mail provide a rationale for departing from the MC95-1 approach, or alternatively, to provide revised rate design spreadsheets that incorporate unit attributable costs for both mail processing and delivery.

- c. In prior rate cases, the Postal Service provided the unit attributable delivery cost for all letter rate categories in First-Class Mail and Standard Mail. (See, for example, Docket No. R2005-1, USPS-LR-K-67, Table 1.) The separate rate category unit costs reflected differences in the percentage of DPS letters. As noted above, in this docket, the Postal Service has not provided unit attributable delivery cost for all letter rate categories. Please provide the rationale for not calculating unit attributable delivery costs for all letter rate categories reflecting differences in the percentage of DPS mail.

**RESPONSE**

- a. In First-Class Mail rate design, the differences between automation and nonautomation letters are derived using both the mail processing and delivery volume variable unit cost differences. Please see LR-L-129, WP-FCM 19, 'Rate Design - Presort' Row 74, Columns C through F. Lines 13 and 14 on page 37 of my testimony will be revised to reflect it. An errata will be filed.
- b. Response filed by witness Yeh.
- c. It is my understanding that the differences in delivery costs for the various presort levels of automation are driven solely by the different Delivery Point Sequencing (DPS) figures that come from the letter model estimated by witness Abdirahman, USPS-T-22. Those differences happen because the less presorted the letters are, the more equipment they go across and thus,

RESPONSE OF U. S. POSTAL SERVICE WITNESS TAUFIQUE TO PRESIDING  
OFFICER'S INFORMATION REQUEST (POIR) No. 5, QUESTION 2

*the more opportunities they have to be rejected. However, the reject rates for the various letter sorting equipment are not unique to class and/or rate category of the letters in question and reflect all of the letters worked on that equipment. It is my understanding that DPS percentages are not an input to the cost models and there are no data indicating that DPS percentages actually differ among the presort rate categories. Furthermore, the reject rates that create the differences in the DPS percentages and resulting different delivery costs for the various presort levels for letters could be affected by the reject rates for single-piece letters, which is not a component of the cost models.*

**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

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

**RESPONSE TO Question <sup>2</sup> 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.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-1.** Please refer to USPS-LR-L-129, WP-FCM-5a and page 23 of your testimony where you state, "On average single-piece parcels cost \$1.17 more to process and deliver compared to single-piece letters."

(a) Please confirm that in FY 2005 the average First-Class Mail single-piece parcel paid the single-piece rate plus the rate for 4.42 additional ounces and that you project the same to be true in TYAR. If not confirmed, please provide the correct figure.

(b) Please confirm that in FY 2005 the average First-Class Mail single-piece letter paid the single-piece rate plus the rate for .06 additional ounces and that you project the same to be true in TYAR. If not confirmed, please provide the correct figure.

(c) Please confirm that, at the proposed rates, the average First-Class Mail single-piece parcel will generate approximately 87 cents more in additional-ounce revenue than the average letter. If not confirmed, please provide the correct figure.

(d) Please confirm that, at the proposed rates, a First-Class Mail single-piece parcel will generate 58 cents more in additional first-ounce revenue than a First-Class Mail single-piece letter. If not confirmed, please provide the correct figure.

(e) Taking into account your response to subparts (c) and (d) of this interrogatory, please confirm that, at the proposed rates, the average First-Class Mail single-piece parcel will generate \$1.45 more revenue than the average First-Class Mail single-piece letter. If not confirmed, please provide the correct figure.

(f) Please confirm that the revenue difference at proposed rates between First-Class Mail single-piece parcels and First-Class Mail single-piece letters (\$1.45) is larger than the unit mail processing and delivery cost difference (\$1.17) between single-piece parcels and single-piece letters. If not confirmed, please explain fully.

**RESPONSE**

(a) Confirmed.

(b) Confirmed.

(c) Confirmed, as you have stated, at the proposed rates, the average First-Class Mail single-piece parcel will generate approximately 87 cents more in additional ounce revenue than the average letter. However, additional ounces are not distributed evenly across all weight increments. The following table provides the distribution of additional ounces:

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**RESPONSE to PSA/USPS-T32-1 (continued):**

FY 2005 Parcel Shaped Pieces by Weight Increments and Additional Ounces

	Pieces	Cumulative Percent	Additional Ounces	Cumulative Percent
1	15,047	3 %	0	0 %
2	78,836	19 %	78,836	4 %
3	64,732	33 %	129,463	9 %
4	72,371	47 %	217,112	19 %
5	51,887	58 %	207,549	29 %
6	41,619	67 %	208,097	38 %
7	31,259	73 %	187,556	47 %
8	32,193	80 %	225,351	57 %
9	28,470	86 %	227,756	67 %
10	22,383	90 %	201,444	76 %
11	19,063	94 %	190,629	85 %
12	15,856	97 %	174,412	93 %
13	13,047	100 %	156,563	100 %
	486,762		2,204,767	

A couple of examples from the above table would illustrate this phenomenon. 80 percent of the pieces fall into the weight category of 1 to 8 ounces, but the additional ounces generated from these weight increments are only 57 percent of all additional ounces from parcels. This means that only 20 percent of the pieces in the above 8 ounce weight range generate about 43 percent of the additional ounces. Similarly, 90 percent of the pieces (up to 10 ounce pieces) generate 76 percent of additional ounces. This implies that the other 10 percent generate about 24 percent of the additional ounces.

Additional ounces are the recovery mechanism for both weight and shape related costs in the current rate structure. The goal of the proposed rate structure is to

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**RESPONSE to PSA/USPS-T32-1 (continued):**

more directly recognize the shape related costs. Using the revenue difference caused by additional ounces to offset the cost difference caused by shape undermines the pricing message that is being sent and would not effectively recover costs from the lower weight increment pieces. This is of particular concern, because such high proportions of all shapes fall into lower weight increments.

The proposed reduction in the additional ounce rate from 24 cents to 20 cents allows us to recognize that, as shape is more explicitly recognized in the rate structure, given other ratemaking considerations, the additional ounce rate will be relieved of the burden to recover both the weight and shape based costs. The following table provides the proposed increase in rates at each weight increment. The proposed increases at the higher weight increments are substantially lower than the increases for lighter weight pieces.

Current and Proposed Postage for FCM Single-Piece Parcels

Weight	Current Postage	Proposed Postage	Percent Change
1	\$ 0.52	\$ 1.00	92.3 %
2	\$ 0.63	\$ 1.20	90.5 %
3	\$ 0.87	\$ 1.40	60.9 %
4	\$ 1.11	\$ 1.60	44.1 %
5	\$ 1.35	\$ 1.80	33.3 %
6	\$ 1.59	\$ 2.00	25.8 %
7	\$ 1.83	\$ 2.20	20.2 %
8	\$ 2.07	\$ 2.40	15.9 %
9	\$ 2.31	\$ 2.60	12.6 %
10	\$ 2.55	\$ 2.80	9.8 %
11	\$ 2.79	\$ 3.00	7.5 %
12	\$ 3.03	\$ 3.20	5.6 %
13	\$ 3.27	\$ 3.40	4.0 %

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**RESPONSE to PSA/USPS-T32-1 (continued):**

- (d) Confirmed.
- (e) Confirmed.
- (f) Confirmed that, as you have stated, the average revenue difference at proposed rates is larger than the average unit mail processing and delivery cost difference. However, my use of only those two areas of cost incurrence as the touchstone for my rate design difference is a conservative approach. It is intended to move the rates for letters and parcels further apart, without shocking the parcel mailers, by proposing rates that would reflect the full range of cost differences. The cost differences in mail processing and delivery were identified and measured and are unlikely to reflect the full range of possible cost differences between letters and parcels. For instance, if parcels are heavier or larger in cube, do they incur more transportation costs than would a letter? There may be differences in window costs or in other areas of cost. Are single-piece parcels more often entered at a retail window than dropped into a collection box, relative to letters? As I confirm that the average revenue difference is larger than the average unit mail processing and delivery cost difference, I cannot confirm that the average revenue difference is larger than the average total cost difference. I do not have enough data to fully explore that comparison.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-2.** Please refer to pages 22 through 24 of your testimony where you discuss rates for flat and parcel shaped pieces and your response to subpart (f) to PSA/USPS-T32-1.

(a) Please confirm that the mail processing and delivery cost difference between letters and parcels shown in the table on page 23 reflects all mail processing and delivery cost difference between letters and parcels (including the effect of differences in both shape and weight). If not confirmed, please explain fully.

(b) Please confirm that the \$0.58 "surcharge" shown in the table on page 23 is the rate difference between letters and parcels that both weigh one ounce. If not confirmed, please explain fully.

(c) Please confirm that the 50% passthrough in the table on page 23 is equal to the rate difference between letters and parcels when holding weight equal divided by the cost difference between letters and parcels at their respective average weights. If not confirmed, please explain fully.

(d) Wouldn't comparing the rate difference between letters and parcels at their respective average weights with the cost difference also at their respective average weights be a more meaningful comparison? Please explain your response fully.

(e) Please confirm that the passthrough of the mail processing and delivery unit cost difference calculated by dividing the rate difference between single-piece parcel and letter (\$1.45) at their respective average weights and the corresponding cost difference (\$1.17) is 124%. If not confirmed, please provide the correct figure.

**RESPONSE**

It appears to me that your questions are attempting to confuse the additional ounce rate with the shape-based cost differences. I disagree with the implication that the additional ounce rate be solely derived in order to create a rate structure that would maintain some form of precise difference in rates for each shape within First-Class Mail at the risk of ignoring rate relationships, rate impact and a variety of other rate design implications. The Postal Service's proposal is intended to balance concerns, so as to prevent the possible end result of narrow approaches to rate design that could lead to much lower light-weight parcel rates that do not cover the associated costs, for example. Or, as another example, lower rate increases for heavier weight items that increase the gap between 13

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**RESPONSE to PSA/USPS-T32-2 (continued):**

ounce First-Class Mail parcels and one-pound Priority Mail items beyond a reasonable amount.

- (a) It is my understanding that the average mail processing and delivery cost difference between letters and parcels to which you refer reflects all of the mail processing and delivery costs in aggregate over the full range of weights.
- (b) I confirm that at every one-ounce weight increment between 1 and 13 ounces, the difference between the rates for letter and parcel shaped pieces is \$0.58. Surcharge is not the term I intended to use. The term "rate difference" better reflects my thoughts.
- (c) As your question is phrased, I confirm the statement. However I would note that the 50 percent pass-through applies to every one-ounce weight increment between 1 and 13 ounces. Since I do not know the cost difference between letters and parcels at each weight increment, the same difference in cost, \$1.17, is applied with a 50 percent passthrough at each one ounce weight increment between 1 and 13 ounces.
- (d) No, it would not be a more meaningful comparison for two reasons. First, as noted in my response to PSA/USPS-T32-1(c), the *contribution of additional ounce postage is skewed toward the heavier pieces.*

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**RESPONSE to PSA/USPS-T32-2 (continued):**

- (e) I confirm the arithmetic. However, I have reservations that I have stated in response to PSA/USPS-T32-1(c). As I have stated earlier, the benefit of a shape based rate design should lead to a lower additional ounce rate, which is what we have proposed, given all the other limitations and constraints.

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TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-3.** Please refer to page 24 of your testimony where you state, "The moderate passthroughs that I select for shape-based rate design reflect sensitivity to the adverse impact on mailers." Please explain how setting rates such that the average postage difference between single-piece parcels and single-piece letters (\$1.45) is larger than the mail processing and delivery cost difference (\$1.17) "reflects sensitivity to the adverse impact on mailers."

**RESPONSE**

I have already expressed my reservations regarding your calculations, which are the basis of your question.

In the case of designing rates for First-Class Mail single-piece as well as presort parcels, we were acutely aware that this de-averaging could cause a substantial increase in parcel rates. So, given the methodology that we chose, we selected conservative measures of cost and passthroughs to develop the rate impact of reflecting additional costs caused by shape. I am proposing a 50 percent passthrough in the case of single-piece parcels and only 15 percent for the FCM Business Parcels category. We also hope that some mailers may be able convert their lighter weight pieces into other shapes that are cheaper for the Postal Service to process, and also this conversion would mitigate the impact of this rate increase.

Also, the proposed First-Class Business Mail Parcels category would allow an alternative for mailers to presort and barcode parcel shaped pieces, thereby reducing the impact of the proposed increase.

**REVISED RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE  
TO PARCEL SHIPPERS ASSOCIATION INTERROGATORY**

**Revised: July 24, 2006**

**PSA/USPS-T32-4.** Please provide unit TYBR postage, unit TYAR postage, and unit Test Year costs for single-piece First-Class Mail single-piece parcels.

**RESPONSE**

TYBR average unit postage is \$ 1.45, and TYAR average unit postage is \$ 1.88.

After the filing of the Postal Service institutional response to interrogatory DBP/USPS-40 and USPS Library Reference LR-L-139), it became apparent that some data regarding Single-Piece costs by shape was available in a different configuration than I used in my rate design. (I used the combination of mail processing and delivery costs provided by witnesses Smith and Kelly). Also, in response to interrogatory OCA/USPS-26, the Postal Service plans to file similar data for First-Class presort mail. I did not utilize the data in USPS LR-L139 or that which is being provided in response to OCA/USPS-26 for average total costs by shape for either shape based rate design or the additional ounce rate. It is my understanding that mail processing and delivery are the largest components of the costs for First-Class Mail and are the only two that seem to differ by shape in a pronounced way. It was the mail processing and delivery cost data that I have used in my rate design work. It is my understanding that there are a number of issues related to cost estimates by weight increment and shape. However, these cost by shape data, in the aggregate, provide reasonable estimates of costs by shape for both presort and single-piece First-Class Mail, except where the target population is small, such as parcels in the Presort category. The attached Excel spreadsheet provides the per-unit cost and

**REVISED RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE  
TO PARCEL SHIPPERS ASSOCIATION INTERROGATORY**

**Revised: July 24, 2006**

**RESPONSE to PSA/USPS-T32-4 (continued):**

revenue estimates for letters, flats and parcels both within single-piece and presort.

## Attachment to Revised Response to PSA/USPS-T32-4

**Single-Piece**

	<b>Volume</b>	<b>Rate</b>	<b>Postage</b>	<b>Cost/Pc.</b>	<b>Implicit* Coverage</b>	<b>Per Unit Contr.</b>
Letters	33,724,803,854	\$ 0.420	\$ 14,164,417,619			
Additional Ounces	1,904,667,435	\$ 0.200	\$ 380,933,487			
<b>Total</b>			<b>\$ 14,545,351,106</b>			
Revenue and Cost Per Piece & Implicit Coverage			\$ 0.431	\$ 0.222	194%	\$ 0.209
Flats	3,064,106,887	\$ 0.620	\$ 1,899,746,270			
Additional Ounces	8,519,077,035	\$ 0.200	\$ 1,703,815,407			
<b>Total</b>			<b>\$ 3,603,561,677</b>			
Revenue and Cost Per Piece & Implicit Coverage			\$ 1.176	\$ 0.691	170%	0.49
Parcels	417,527,695	\$ 1.000	\$ 417,527,695			
Additional Ounces	1,844,525,463	\$ 0.200	\$ 368,905,093			
<b>Total</b>			<b>\$ 786,432,788</b>			
Revenue and Cost Per Piece & Implicit Coverage			\$ 1.884	\$ 1.682	112%	0.20

Volume, Rates &amp; Postage LR-L-129, cost per piece LR-L-139

**Presort**

Letters						
Mixed AADC	2,918,777,525	\$ 0.346	\$ 1,009,897,024			
AADC	2,538,198,148	\$ 0.335	\$ 850,296,379			
3-Digit	23,024,390,316	\$ 0.331	\$ 7,621,073,195			
5-Digit	18,233,989,119	\$ 0.312	\$ 5,689,004,605			
Additional Ounces	1,582,850,657	\$ 0.155	\$ 245,341,852			
<b>Total</b>			<b>\$ 15,415,613,055</b>			
Revenue and Cost Per Piece & Implicit Coverage			\$ 0.330	\$ 0.101	327%	0.23
Flats						
Mixed ADC	46,773,535	\$ 0.465	\$ 21,749,694			
ADC	111,844,500	\$ 0.433	\$ 48,428,669			
3-Digit	274,864,435	\$ 0.423	\$ 116,267,656			
5-Digit	349,107,108	\$ 0.398	\$ 138,944,629			
Additional Ounces	1,117,431,978	\$ 0.200	\$ 223,486,396			
<b>Total</b>			<b>\$ 548,877,043</b>			
Revenue and Cost Per Piece & Implicit Coverage			\$ 0.701	\$ 0.435	161%	0.27
Parcels						
ADC	22,974,619	\$ 0.727	\$ 16,702,548			
3-Digit	57,877,964	\$ 0.717	\$ 41,498,500			
5-Digit	73,511,179	\$ 0.643	\$ 47,267,688			
Additional Ounces	669,944,658	\$ 0.200	\$ 133,988,932			
Nonmachinable Pcs.	6,860,498	\$ 0.050	\$ 343,025			
<b>Total</b>			<b>\$ 239,800,693</b>			
Revenue and Cost Per Piece & Implicit Coverage			\$ 1.553	\$ 3.484	45%	(1.93)

**Presort parcels assumption change - See response to PSA/USPS-T20**

Pieces	154,363,762	\$ 1.000	\$ 154,363,762			
	669,944,658	\$ 0.200	\$ 133,988,932			
<b>Total</b>			<b>\$ 288,352,693</b>			
Revenue and Cost Per Piece & Implicit Coverage			\$ 1.868	\$ 3.484	54%	(1.62)

Volume, Rates &amp; Postage LR-L-129, cost per piece - institutional response to OCA/USPS-26

\* Cost coverages are calculated only at subclass level.

**REVISED RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE  
TO PARCEL SHIPPERS ASSOCIATION INTERROGATORY  
Revised: July 24, 2006**

**PSA/USPS-T32-5.** Please provide unit TYBR postage, unit TYAR postage, and unit Test Year costs for First-Class Mail Business Parcels.

**RESPONSE**

TYBR unit postage is \$ 1.45, and TYAR unit postage is \$ 1.87 (based on the assumption change discussed in PSA/USPS-T32-20). Please see my revised response to PSA/USPS-T32-4.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
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TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-6.** Please refer to page 23 and page 36 of your testimony.

(a) Please confirm that your testimony reports a unit mail processing and delivery cost for First-Class Mail single-piece parcels of \$1.368 and a unit mail processing and delivery cost for First-Class Mail presort parcels of \$3.368. If not confirmed, please provide the correct figures.

(b) Do you believe that it costs the Postal Service \$2 more to process a presorted First-Class Mail parcel than a First-Class Mail single-piece parcel? If not, why are you using data that produce this incorrect result in your First-Class Mail rate design? Please explain your response fully.

**RESPONSE**

(a) Confirmed. Due to the use of an earlier version, there is a slight difference in the numbers used in my testimony and those that were provided by witnesses Smith (USPS-T-13) and Kelley II (USPS-T-30) but that does not materially change the conclusion derived in your question.

(b) Witness Smith has noted in his response to PSA/USPS-T13-1(c) that the results were anomalous. The volume of presort parcels in FY 2005 is only 8.3 million, about 0.4 percent of the nonauto presort volume of 1.9 billion pieces, and a still smaller percent of the presort or total Letter subclass volume. The results appeared anomalous to me and that is why the passthrough for this cost is only 15 percent.

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**PSA/USPS-T32-7.** Please refer to your response to PSA/USPS-T32-2(d) where you state, "No, it would not be a more meaningful comparison for two reasons." You then provide one reason. What is the other reason?

**RESPONSE**

The second reason is stated in the response to subpart e of PSA/USPS-T-32-2.

Explicit recognition of shape should lead to lower additional ounce rate.

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WITNESS TAUFIQUE TO INTERROGATORY  
OF PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-8.** Please refer to your response to PSA/USPS-T32-2(e) where you state, "As I have stated earlier, the benefit of a shape based rate design should lead to a lower additional ounce rate, which is what we have proposed, given all the other limitations and constraints." Please list and discuss all of the other limitations and constraints to which your response refers.

**RESPONSE**

Generally speaking the other limitations and constraints are:

- (1) achieving the cost coverage target provided by the rate level witness.
- (2) recognizing the value of mailer worksharing;
- (3) avoiding changes in discount levels which result in unduly disruptive rate impacts; and
- (4) acknowledging the importance of mailer barcoding and presortation in overall postal operations.

Obviously, rate design is complex, and this is a non-exhaustive list; other constraints such as rate relationships and other factors may come into play.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO INTERROGATORY  
OF PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-9.** Please refer to your response to PSA/USPS-T32-2 where you state, "It appears to me that your questions are attempting to confuse the additional ounce rate with the shape-based cost difference." Please also refer to your response to PSA/USPS-T32-1(c) where you state, "Additional ounces are the recovery mechanism for both weight and shape related costs in the current rate structure."

(a) Do you believe that the \$1.17 mail processing and delivery cost difference between the average First-Class Mail single-piece letter and the average First-Class Mail single-piece parcel is due primarily to the difference in shape and only secondarily to the difference in weight? Please explain your rationale fully.

(b) Please provide your best estimate of the percentage of the \$1.17 mail processing and delivery cost difference that is due to the difference in shape (holding weight constant). Please provide all of your underlying calculations.

(c) Please provide your best estimate of the percentage of the \$1.17 mail processing and delivery cost difference that is due to the difference in weight. Please provide all of your underlying calculations.

(d) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail single-piece letters. Please provide all of your sources and underlying calculations.

(e) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail single-piece parcels. Please provide all of your sources and underlying calculations.

(f) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail presort letters. Please provide all of your sources and underlying calculations.

(g) Please provide the Postal Service's best estimate of the unit mail processing and delivery cost per additional postage ounce for First-Class Mail presort parcels. Please provide all of your sources and underlying calculations.

(h) Please confirm that additional ounces will still serve as a recovery mechanism for both weight and shape related costs in the proposed rate structure. Please your response fully. If not confirmed, please provide the passthrough of the weight-related costs that underlies the additional-ounce rate and all underlying calculations.

**RESPONSE**

- (a) The \$1.17 figure which is the difference between cost of processing and delivering parcels as opposed to letters is the average difference. I do not have the definitive data to suggest that it is predominantly due to shape. Please refer to DBP/USPS-40 where it appears that shape related cost difference between a one ounce letter shaped piece and a one ounce

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**RESPONSE to PSA/USPS-T32-9 (continued):**

parcel shaped piece is slightly over \$2.55. I did not rely on that particular study for the proposed rates or supporting analysis in my testimony.

(b) Please see my response to subpart a, above.

(c) Please see my response to subpart a, above.

(d) Though I did not rely on the data, please see the institutional response of the Postal Service to DBP/USPS-40 for the cost by shape by weight increment data. These data provides the total cost by shape and weight increments for First-Class mail single-piece. My understanding is that mail processing and delivery combined constitute 87.1 percent of the total single-piece volume variable cost. This ratio may closely approximate the actual ratio for letters because of the relatively large number of letter-shaped pieces in this mailstream. Parcels and flats, representing a smaller portion of the mailstream, may exhibit a different ratio.

(e) Please see my response to subpart d, above.

(f) *I do not have the data available. Please see the institutional response of the Postal Service to OCA/USPS-T-32-2 for the costs by shape for First-Class Mail presort rate category. The costs are provided for the first-ounce and combined costs for all other weight increments.*

(g) Please see my response to subpart f, above.

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**RESPONSE to PSA/USPS-T32-9 (continued):**

(h) Confirmed. With this proposal, the Postal Service is moving in the direction of explicitly recognizing the cost causation due to shape. Currently, the appropriate data is not available and our approach is to gradually move in the direction of this type of de-averaging.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
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**PSA/USPS-T32-10.** For the purpose of this interrogatory, please assume that weight has no effect on the unit cost of a First-Class Mail parcel or a First-Class Mail letter. Please also refer to your response to PSA/USPS-T32-1(c) where you confirm that the average single-piece First-Class Mail parcel will generate 87 cents more in additional-ounce revenue than the average single-piece First-Class Mail letter and where you state, "Additional ounces are the recovery mechanism for both weight and shape related costs in the current rate structure."

(a) Please confirm that, in the hypothetical where weight has no effect on cost, additional ounces serve entirely as a recovery mechanism for shape related costs. If not confirmed, please explain fully.

(b) Please confirm that, in the hypothetical where weight has no effect on cost, additional ounces will recover an average of 87 cents of shape related costs (that is, because parcels pay an average of 87 cents more in additional-ounce postage than do letters). If not confirmed, please explain fully.

(c) Please confirm that your proposed rates will recover shape based costs through both the shape-based rate difference (holding weight constant) and through additional ounces. If not confirmed, please explain fully.

(d) Did you consider reducing the additional ounce rate for single-piece parcels to less than 20 cents? If so, why did you reject this proposal?

(e) Did you consider reducing the additional ounce rate for single-piece parcels to less than the additional ounce rate for single-piece letters and single-piece flats? If so, why did you reject this proposal?

(f) Did you consider reducing the additional ounce rate for Business Parcels to less than 20 cents? If so, why did you reject this proposal?

(g) Did you consider reducing the additional ounce rate for Business parcels to less than the additional ounce rate for presort letters and flats? If so, why did you reject this proposal?

**RESPONSE**

(a) Not confirmed. The additional ounce rate serves more than the purposes enumerated in your question, i.e., shape or weight related costs.

Additional ounces are an important source of revenue in achieving the necessary contribution to institutional costs for First-Class Mail. As I have stated on page 4, line 23 and page 5 lines 1 through 7 of my testimony,

USPS-T-32:

As the Postal Service explicitly recognizes the shape differences in First-Class Mail rates, the additional ounce rate may be reduced, as

**RESPONSE OF UNITED STATES POSTAL SERVICE  
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**RESPONSE to PSA/USPS-T32-10 (continued):**

illustrated in the instant request. Revenue generated from additional ounces is substantial and an important source in meeting the revenue requirements for the subclass and the Postal Service as a whole. Given the specific circumstance of any particular docket and all of the factors that must be balanced in any given case, there is no guarantee that shape recognition will be an overriding objective that leads to greater changes in additional ounce rates.

- (b) I would like to put the cost and revenue for single-piece parcel shaped pieces in perspective. The average mail processing and delivery cost for single-piece parcels for the test year is \$1.368 (USPS-LR-L-129, WP-FCM 14, spreadsheet 'Rate Design SP Flts & Parcels', Cell C21). Mail Processing and Delivery make up approximately 87 percent of the volume variable cost for single-piece. Using this 87 percent (for parcel shaped pieces this ratio may be less than 87 percent) ratio the average total cost for parcel shaped pieces for the test year is estimated to be \$1.57 (this is a conservative estimate because one could safely assume that parcel shaped pieces' transportation and retail acceptance costs are proportionally higher than those for letter shaped pieces). Using this cost estimate for single-piece parcels and the TYAR postage of \$1.88 (including the postage for additional ounces) provided in my response to your interrogatory PSA/USPS-T32-4 the implicit cost coverage for First-Class Mail single-piece parcels could be 120 percent. The proposed implicit cost coverage for all of single-piece is in the neighborhood of 183 percent (USPS-LR-L-129, WP-FCM 12, spreadsheet 'Revenue

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**RESPONSE to PSA/USPS-T32-10 (continued):**

SP&Presort', cell B44). The proposed postage for one to three ounce single-piece parcel shaped pieces is less than the estimated average total cost for of \$1.57. A four ounce single-piece parcel shaped piece at \$1.60 postage, barely covers the estimated average cost of \$1.57. Granted, the data are not on par with subclass-level data and we do not calculate cost coverages by rate cell; however these data, and the data provided in the institutional response to DBP/USPS-40, provide an indication that parcel shaped pieces may have a relatively lower cost coverage -- and some of the lighter weight pieces may not even cover the cost associated with transporting, processing and delivering them. I can confirm that parcels, on average, pay 87 cents more and therefore, based on your hypothetical, provide 87 cents additional recovery for the shape-based costs.

(c) Confirmed. I do not believe that we are recovering all of the shape based costs through the proposed differential of \$0.58; therefore, additional ounces are not completely relieved of the burden of recovering shape related costs. Please see my response to subpart c, above and to PSA/USPS-T32-9 subpart h.

(d) No, I did not consider such a proposal. I believe, in general, FCM parcel shaped pieces have a lower cost coverage than the average, and also

**RESPONSE OF UNITED STATES POSTAL SERVICE  
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**RESPONSE to PSA/USPS-T32-10 (continued):**

lighter weight parcels are not covering the cost of transporting, processing and delivering them.

- (e) No, I did not consider such a proposal.
- (f) No, I did not consider such a proposal.
- (g) No, I did not consider such a proposal.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
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OF PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-11.** Please refer to your response to PSA/USPS-T32-6(b) where you state, "The results appeared anomalous to me and that is why the passthrough for this cost is only 15 percent."

(a) Given that the result appears anomalous, is it also accurate to say that the passthrough is unknown because the Postal Service does not have an accurate estimate of the unit mail processing and delivery cost of First-Class Mail presort parcels?

(b) Please provide your best estimate of the unit mail processing and delivery cost of First-Class Mail presort parcels. Please provide all of your sources and underlying calculations.

(c) Given that the same method and data sources were used to estimate the cost of single-piece parcels and presort parcels, can you rule out the possibility that the unit mail processing cost for single-pieces parcels is also inaccurate? Please explain your response fully.

**RESPONSE**

(a) For some classes of mail which are relatively small, the cost or volume estimates in some cases provide direction rather than the precise level or difference. The reason for some anomalous results is not the methodology or data source; rather it is the size of the subclass or rate category under consideration. In my judgment, based on all the other data on First-Class Mail parcels, the difference between presort letter and parcel shaped pieces provided an accurate indicator of direction; and by using a very conservative passthrough of 15 percent, the proposed classification change is appropriate. Our goal was, and remains, to move in the *direction of parcel shaped pieces covering their costs*. We do not expect that all of the shape related costs would be recovered with the changes proposed in this docket. The effective passthrough may very well be much lower than what I have proposed.

(b) I have provided my best estimate in my testimony and workpapers.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
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OF PARCEL SHIPPERS ASSOCIATION**

**RESPONSE to PSA/USPS-T32-11 (continued):**

- (c) There are approximately 486 million parcels in single piece compared to 8.4 million presorted parcels, which gives me greater confidence in the estimates derived for single-piece compared to presort.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO INTERROGATORY  
OF PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-12.** Please refer to your response to PSA/USPS-T32-1(c) where you state, "The proposed reduction in the additional ounce rate from 24 cents to 20 cents allows us to recognize that, as shape is more explicitly recognized in the rate structure, given other ratemaking considerations, the additional ounce rate will be relieved of the burden to recover the weight and shape based costs.

(a) Please confirm that the proposed 4-cent reduction in the additional ounce rate reduces additional ounce postage for the average single-piece First-Class Mail parcel by approximately 18 cents. If not confirmed, please provide the correct figure.

(b) Please confirm that this reduction in additional ounce revenue is approximately 30% of the proposed 58-cent shape-based postage difference being proposed. If not confirmed, please provide the correct figure.

**RESPONSE**

(a) Confirmed.

(b) Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO INTERROGATORY  
OF PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-13.** Please refer to USPS-LR-L-129, WP-FCM-10a.

- (a) Please confirm that you project that the average First-Class Mail Business Parcel will pay for 4.34 additional ounces in the Test Year. If not confirmed, please provide the correct figure.
- (b) Please confirm that you project that the average First-Class Mail presort letter will pay for .04 additional ounces in the Test Year. If not confirmed, please provide the correct figure.
- (c) Please confirm that, at the proposed rates, the average First-Class Mail Business presort parcel will generate approximately 86 cents more in additional-ounce revenue than the average First-Class Mail presort letter. If not confirmed, please provide the correct figure.

**RESPONSE**

- (a) Confirmed
- (b) Confirmed.
- (c) Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-14.** Please refer to your response to PSA/USPS-T32-11 where you state, "The reason for some anomalous results is not the methodology or data source; rather it is the size of the subclass or rate category under consideration." Please also refer to witness Czigler's response to PSA/USPS-T13-1(b), which shows an approximate coefficient of variation of 11.4% for First-Class Mail Presort Letter parcels. Finally, please refer to witness Smith's response to PSA/USPS-T13-9(a) where he confirms that "given the CVs provided by Witness Czigler, the anomalously large unit costs for parcels in the three subclasses [which include First-Class Mail Presort] identified in PSA/USPS-T13-1(c)-(e) are very unlikely to be entirely due to sampling error."

(a) Please provide all analyses that you have performed in support of you statement that "[t]he reason for some anomalous results is not the methodology or data source; rather it is the size of the subclass or rate category under consideration."

(b) Taking into account the quoted responses from witnesses Czigler and Smith, do you believe that the reason for the anomalous results for First-Class Mail Presort parcels "is not the methodology or data source; rather it is the size of the subclass or rate category under consideration."

**RESPONSE**

(a) I am not a statistician; my statement was based on my general experience as a user and recipient of data involving small groupings of mail within a subclass derived from various cost and volume systems. I have not performed any analysis on this particular subject. The potential differences (in a different context) between cost systems and Postal One are discussed in witness Harahush's (USPS-T-4) response to POIR Number 5, *Question 16b*.

(b) I will defer to the experts to explain the reasons for the anomalous results in this case. My use of the cost estimates is based on a broader consideration of the impact of proposed rates, as well as the estimates of additional costs caused by shape or other characteristics.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-15.** Please refer to USPS-LR-L-129, WP-FCM-18 and confirm that the average cost savings for First-Class Mail Business Parcels as compared to Mixed ADC parcels is 37.0 cents. If not confirmed, please provide the weighted average cost savings of First-Class Mail Business Parcels relative to Mixed ADC parcels.

**RESPONSE**

I can confirm the calculation based on the numbers provided in the above referenced workpaper in USPS-LR-L-129. Two factors have caused this number to change to 54 cents. First, I should have used column 4, instead of column 5 to calculate the cost savings. Second, witness Miller (USPS-T-20) has filed errata. Based on this new information, and using column 4, the weighted average cost savings of First-Class Mail Business or Presort Parcels, relative to Mixed ADC parcels cost calculated by witness Miller, is approximately 54 cents.

	Unit Cost Cents	Estimated Volume	Weights
Automation MADC	118.829		
Automation ADC	86.455	23,584,694	0.148834276
Automation 3-Digit	75.985	59,414,874	0.374945281
Automation 5-Digit	49.895	75,463,218	0.476220443
		158,462,786	
Weighted Average	65.119		
Difference	53.710		

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-17.** Please refer to USPS-LR-L-129, WP-FCM-5a. Please confirm that you assume that 36% of First-Class Mail single-piece parcels (which translates into 150.3 million TYAR parcels) will shift to FCM Business Parcels. If confirmed, please explain the basis of your assumption. If not confirmed, what percentage of First-Class Mail single-pieces parcels did you assume will shift to FCM Business Parcels?

**RESPONSE**

In the cited Library Reference, I show 36 percent of FCM Single-Piece parcels shifting to FCM Business Parcels. In FY 2005, postage for approximately 36 percent of the parcels was paid by using permit indicia. It is reasonable to assume that some of these parcels will take advantage of the presort prices. However, as noted in my response to PSA/USPS-T32-20, there is no accompanying cost calculation to reflect any potential shift. Therefore, to ensure consistency between costs and revenue, I will be adjusting my volume and revenue calculations to reflect no shifting of volume.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-18.** Please refer to USPS-LR-L-129, WP-FCM-5b.

(a) Please confirm that you assume that all 4.1 million TYAR Nonautomation parcels will shift to the Automation Parcel Category. If confirmed, please explain the basis of your assumption. If not confirmed, how many TYAR Nonautomation parcels did you assume will shift to the Automation Parcel Category?

(b) In FY 2005, were any First-Class Mail Nonautomation parcels barcoded? If so, what percentage of these parcels were barcoded?

**RESPONSE**

(a) Confirmed. It was a policy decision by the Postal Service to require barcodes to facilitate efficient processing and handling of parcels.

(b) I do not have the number of nonautomation barcoded parcels in FY 2005.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-19.** Please refer to USPS-LR-L-129, WP-FCM-5b and WP-FCM-5c.

(a) Please confirm that you assume that the distribution of First-Class Mail Business Parcels by presort level will be the same as for Automation Flats (excluding MADC flats). If confirmed, please explain the basis of your assumption. If not confirmed, what assumption did you make to determine the distribution by presort level?

(b) Please provide the FY 2005 distribution of First-Class Mail Nonautomation parcels by presort level and all of your underlying calculations.

**RESPONSE**

(a) See my response to PSA/USPS-T32-17. Data regarding the potential presort mix for these parcels were not available. So, in the cited Library Reference, I used the distribution of automation flats.

(b) The presort level distribution of First-Class Mail nonautomation parcels for FY 2005 is not available.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T32-20.** Please refer to USPS-LR-L-129, WP-FCM-5a, WP-FCM-5b, WP-FCM-5c, and WP-FCM-18 and your responses to PSA/USPS-T32-15-19.

(a) Please provide your best estimate of the total TYAR cost savings that will result from parcels shifting from First-Class Mail Single-Piece parcels and Nonautomation parcels to First-Class Mail Business Parcels. Please provide all of your underlying calculations.

(b) Has the Postal Service included any adjustments to First-Class Mail TYAR costs to reflect the cost savings from these shifts in mail mix? If so, please provide a citation to where these cost savings have been included.

**RESPONSE**

(a-b) No estimate of any cost savings is calculated or presented in the Postal Service request. Although I present a scenario entailing the shift of nonpresorted parcels to the new presort parcel tiers by using the presort mix of flats, it is unclear that parcels will be similarly presorted. Also, although costs are provided to offer guidance on the level of the proposed presort discounts, a total cost adjustment that would reflect any additional presorting is not calculated. Therefore, I am revising my revenue projections to be consistent with the costs for the subclass, and to reflect no shifting of volume. See my response to PSA/USPS-T32-17.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS- T32-21.** Please refer to your responses to PSA/USPS-T32-4 and PSA/USPS-T32-5 where you show a TYBR average unit postage estimate of \$1.45 for both First-Class Mail single-piece parcels and for First-Class Mail Business Parcels. Please also refer to your response to PSA/USPS- T32-5 where you show a TYAR unit postage for *First-Class Mail Business Parcels* of \$1.55.

(a) Please explain why the TYBR average unit postage is the same for First-Class Mail single-piece parcels and First-Class Mail Business Parcels.

(b) Please confirm that the TYBR and TYAR average unit postage estimates for *First-Class Mail Business Parcels* are calculated based upon different "mail mix" assumptions and list all differences in "mail mix" assumptions used to develop these estimates.

**RESPONSE**

(a) Please see the attached spreadsheet for the calculations of the TYAR and TYBR average unit postage estimates for both single-piece and First-Class Mail Business or Presort parcels. The TYBR numbers are the same because a majority of First-Class Mail Business or Presort parcels in the test year before rates environment are single-piece parcels. Only a small portion of First-Class Mail Business or Presort parcels are from the nonautomation presort rate category.

(b) The "mail mix" assumptions are the same as used in LR-L-129. Please see the attached spreadsheet for the calculations and the "mail mix" used. Also, please see my response to PSA/USPS-T32-20 for the changes in TYAR "mail mix" for the purpose of calculating FCM Letters and Sealed Parcels subclass in the test year.

**TYBR Parcels**

**TYAR Parcels**

	Pieces	Rate	Postage				
Single-Piece	428,247,139	\$ 0.39	\$ 167,016,384	267,217,725	\$ 1.00	\$ 267,217,725	
Additional Ounces	1,891,881,095	\$ 0.24	\$ 454,051,463	1,180,496,296	\$ 0.20	\$ 236,099,259	
Nonmachinable Surcharge @ 3%	12,847,414	\$ 0.13	\$ 1,670,164			\$ 503,316,984	
			\$ 622,738,011				
Per-Piece Postage*		\$ 1.45			\$ 1.88		

\* Not including fees or the revenue adjustment factor

**TYAR FCM Business Parcels**

Nonauto Presort	4,293,815	\$ 0.371	\$ 1,593,006	ADC	22,974,619	0.727	\$ 16,702,548
Additional Ounces	6,265,746	\$ 0.237	\$ 1,484,982	3-Digit	57,877,964	0.717	\$ 41,498,500
Nonmachinable Surcharge @ 58 %	2,490,413	\$ 0.058	\$ 144,444	5-Digit	73,511,179	0.643	\$ 47,267,688
			\$ 3,222,431	Add. Ozs.	669,944,658	0.200	\$ 133,988,932
				Srchrg.	6,860,498	0.050	\$ 343,025
Per-Piece Postage*		\$ 0.75			154,363,762		\$ 239,800,693

\* Not including fees or the revenue adjustment factor

Weighted Average		\$ 1.45			\$ 1.55		
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF TIME WARNER INC.**

**TW/USPS-T32-1** Please refer to page 24 of your testimony, USPS-T-32, beginning on line 16, where you say: "The proposed increase in the QBRM postage rate will maintain the QBRM discount at 2.5 cents below the single-piece rate, which is the same discount that prevailed prior to the across-the-board increases of Docket No. R2005-1."

Please refer also to page 5 of Attachment A of the Postal Service Request, Docket No. R2005-1, which shows a "Current" first-ounce rate of \$0.370 and a QBRM rate of \$0.340.

Please reconcile your statement that a 2.5-cent discount "prevailed prior to the across-the-board increases of Docket No. R2005-1" with the apparent difference shown in the Request of that docket of 3.0 cents  $((\$0.370 - \$0.340) \cdot 100 \text{ } \$/\$)$ .

**RESPONSE**

My statement on page 24 of my testimony, "The proposed increase in the QBRM postage rate will maintain the QBRM discount at 2.5 cents below the single-piece rate, which is the same discount that prevailed prior to the across-the-board increases of Docket No. R2005-1." is incorrect.

Witness Robinson in Docket R2001-1 proposed a reduction in the QBRM discount from 3 cents to 2.5 cents. But, as a result of the settlement in that case, the proposed discount increased to 3 cents. This 3-cent discount was recommended by the Commission and was implemented by the Postal Service after the approval by the Governors.

My proposal is to reduce this discount to 2.5 cents, even though the measured cost savings are 1.52 cents. Therefore, I am proposing a passthrough of 165 percent of this measured cost savings.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF TIME WARNER**

**TW/USPS-T32-4.** Please refer to pages 12-17 of your testimony, where you discuss recognizing the "full range of differences between" (p. 14, ll. 9-10) singlepiece and presorted letters, including, among other factors, "the readability of the mail, the proportions of the mail that are undeliverable-as-addressed, the utilization of retail facilities for entry, etc." (id. at ll. 15-17).

- a. Do you agree that virtually ail QBRM pieces have highly readable addresses and barcodes, as well as accurate addresses? Please explain if you do not agree.
- b. Do you agree that QBRM pieces are almost never undeliverable as addressed and are almost never forwarded or returned? Please explain if you do not agree.
- c. Are any Postal Service constraints placed on the return addresses on QBRM pieces? If yes, please explain.
- d. Does QBRM have any countervailing characteristics which you believe would make recognizing its low-cost characteristics illadvised? If it does, explain what they are.

**RESPONSE**

- a-c. Redirected to the Postal Service for an institutional response.
- d. The single-piece mail stream has a variety of characteristics, some of which cause costs to be higher, e.g., handwritten addresses and a variety of colors. Others are cost saving in nature, such as a machine generated address, a Facing Identification Mark and a barcode. See my testimony, USPS-T-32, at page 13, lines 6 through 11. These latter features are inherent in QBRM.

Only in limited circumstances, such as with square envelopes that do not meet the aspect ratio requirements and are incompatible with our automated mail processing equipment, does the Postal Service currently

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF TIME WARNER**

**RESPONSE to TW/USPS-T32-4(d) continued:**

address such characteristics in the single-piece rate schedule. For instance, there is the current nonmachinable surcharge. In addition, we have proposed to reclassify and rate single-piece mail by shape in our current request.

*Regarding the QBRM mail which is the subject of your interrogatories, our proposal not only recognizes the cost saving characteristics of this mail but offers a discount that is 165 percent of the measured cost savings.*

The postal rate and classification criteria do not require the Postal Service to automatically propose a de-averaging rate and a classification change to recognize all characteristics that might cause there to be cost differences among mail pieces within a particular subclass or rate category. I am aware of no characteristics of QBRM that would make recommendation of the Postal Service's proposed QBRM discount "ill-advised."

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**VP/USPS-T32-1.**

Please refer to page 21 of your testimony, USPS-T-32, beginning on line 15, where you state: The rate design for Single-Piece First-Class Mail starts with the Test Year Before Rates (TYBR) rollforward costs for Single-Piece and Presort mail within the First-Class Mail Letters and Sealed Parcels subclass. A per-unit contribution is simultaneously estimated for both Single-Piece and Presort mail to meet the Letters subclass revenue requirement. The target per-piece revenue estimate is then multiplied by the TYBR volume to derive the target revenue for both Single-Piece and Presort.

- a. Please identify the per-unit contribution in cents per piece that you "simultaneously estimated for both Single-Piece and Presort mail to meet the Letters subclass revenue requirement."
- b. Please identify "the Letters subclass revenue requirement" that your "per-unit contribution" was estimated to meet. As among the categories of Single-Piece, presorted, automation letters, automation flats, and business parcels (shown on page 4 of Attachment A of the Request, Schedule 221), or some other categories that you choose, please state which categories are covered by your "revenue requirement."
- c. Please explain, step by step, how you arrived at the "Letters subclass revenue requirement" that your "per-unit contribution" was estimated to meet. If this revenue requirement was given to you by another witness, please so state.
- d. Given the revenue requirement stated in part b and explained in part c, please explain, step by step, how you "estimated" the "per-unit contribution ... for both Single-Piece and Presort mail...."
- e. After you completed the rate development process, what was the final resulting "per-unit contribution ... for both Single-Piece and Presort mail"?
- f. If there are differences, please identify and explain the factors associated with the per-unit contributions of Single-Piece and Presort being different from each other and/or being different from the one you state in part a.
- g. Is the "target per-piece revenue estimate" different from the sum of the unit cost and the "per-unit contribution" that you estimate? If so, please explain.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**RESPONSE to VP/USPS-T32-1.**

- a. Please see my library reference, LR-L-129, WP-FCM12, spreadsheet – ‘Revenue – SP&Presort’ cells B26 and C26. The starting per-unit contributions are \$0.230 (single-piece) and \$0.231 (presort).
- b. Please see the spreadsheet mentioned in my response to subpart a, cell C30. The number is \$35,883,298,721. All of Letter and Sealed Parcels subclass is covered by this revenue requirement. This includes revenue from all single-piece rate elements which in the after rates world are:
  1. First-Ounce Letters, Flats and Parcels.
  2. Single-Piece Additional Ounce Rate
  3. QBRM

For the Presort category the following are included:

1. Nonautomation Presort first-ounce letters and flats
2. Nonautomation presort additional ounce rate
3. Automation Letters including Mixed AADC, AADC, 3-Digit and 5-Digit.
4. Automation Letters additional ounce rate.
5. Automation Flats including Mixed ADC, ADC, 3-Digit and 5-Digit.
6. Automation Flats additional ounce rate.
7. Presort of Business Parcels including ADC, 3-Digit and 5-Digit.
8. Presort or Business Parcels additional ounce rate.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**RESPONSE to VP/USPS-T32-1 (continued):**

9. Non-machinable, non-barcoded surcharge for presort or business parcels.
- c. The revenue requirement is established by the rate level witness. In this docket, Postal Service's rate level witness is Dr. O'Hara, USPS-T-31.
- d. In my case it was an iterative process through which I evaluated various combinations of per-unit contribution and the resulting total letters subclass revenue requirement.
- e. Please see the spreadsheet mentioned in my response to subpart a, cells B43 and C43. The resulting per-unit contributions are slightly higher. \$0.235 for single-piece and \$0.234 for presort.
- f. I do not believe that the resulting numbers reported in subpart e are much different than the starting numbers illustrated in subpart a. I do not believe that the per-unit contribution from single-piece and presort categories should necessarily be the same. As I have stated in my testimony:

The objective of the approach introduced here is to gradually achieve a rate design paradigm in which both workshare and single-piece mail contribute equally to institutional costs on a unit contribution basis. The goal of similar unit contributions from these two mail categories is not an absolute one; other rate design and rate impact considerations may require the Postal Service and the Commission to deviate from this goal. USPS-T-32, pages 15 and 16.

These differences arise because of the rate design process which not only considers per-unit contribution but also rate relationships, rate changes,

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**RESPONSE to VP/USPS-T32-1(continued):**

classification changes and the effect on customers, competitors and the other factors enumerated in 3622 and 3623.

- g. The target per-piece revenue does not have to be the same as the resulting per-unit contribution. As I have stated in my response to subpart f, the rate design process takes into account number of other factors that may not necessarily be addressed if a rigid contribution goal were established. Therefore, the resulting per-unit contribution could be substantially different from the starting point.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF VALPAK  
REDIRECTED FROM WITNESS MITCHUM**

**VP/USPS-T40-1.**

- a. Under the fees which you propose for special services, will the Postal Service continue its practice of returning to sender, free of charge, non-forwardable UAA First-Class Mail that (i) bears no special address correction service or return service endorsements, and (ii) has been mailed in the presort or automation rate categories? In your response, please focus on First-Class Mail that is not submitted under negotiated service agreements ("NSAs") that contain special provisions and endorsements for handling UAA mail.
- b. What is the Postal Service's unit cost for physical return to sender of nonforwardable UAA First-Class Mail?

**RESPONSE:**

- a. Yes.
- b. Response to be provided by witness Cutting.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF VALPAK  
REDIRECTED FROM WITNESS MITCHUM**

**VP/USPS-T40-2.**

- a. Please refer to your testimony at page 8, lines 6-7. If a piece of discounted (*i.e.*, "bulk") First-Class Mail is UAA and non-forwardable, when it is returned to sender does the Postal Service indicate the reason for the return?
- b. Could the stated reason(s) for the return be transmitted electronically to "bulk" First-Class Mail mailers?
- c. In FY 2005, what is the Postal Service's unit cost for electronic return to sender of relevant information concerning non-forwardable UAA First-Class Mail?

**RESPONSE:**

- a. Yes
- b. Response to be provided by witness Mitchum.
- c. Response to be provided by witness Cutting.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF VALPAK  
REDIRECTED FROM WITNESS MITCHUM  
Revised: July 11, 2006**

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**VP/USPS-T40-4.**

Please refer to your testimony at page 9, lines 20-22, where you note that address correction service covers all of its own costs.

- a. From an economic perspective, would you agree that it would be appropriate to regard the free return to sender of UAA First-Class Mail as having a price (implicit) of \$0.00? If not, please explain why not. If so, please explain why that (implicit) price should not be subjected to the pricing criteria of the Act in the same manner as are fees for address correction service.
- b. Please explain the extent to which the physical return of UAA First-Class Mail that cannot be forwarded covers its costs.
- c. Please explain why "bulk," or discounted (*i.e.*, presort and automation), First-Class Mail should not be required to pay a fee for physical return of nondeliverable UAA mail that is designed to cover the cost of such physical return service.

**RESPONSE:**

- a. No I do not believe that returning UAA First-Class Mail to the sender for no additional charge should be regarded as having a price of \$0.00. This is a feature of the First-Class Mail product.
- b. As indicated above, the return of UAA mail is a feature of the service provided to First-Class Mail. I am informed that the cost of this activity is reflected into the cost estimates for First-Class Mail. My rates are designed to cover those costs.
- c. See response to part b.

1 CHAIRMAN OMAS: Is there any additional  
2 written cross-examination for Mr. Taufique?

3 Mr. Hall, please identify yourself.

4 MR. HALL: Mr. Chairman, Mike Hall on behalf  
5 of Major Mailers Association.

6 I provided the witness with additional  
7 interrogatories we would like to designate, and I  
8 would ask him now have you had a chance to review  
9 those?

10 THE WITNESS: I looked at them.

11 MR. HALL: Okay. And if we asked you those  
12 same --

13 MR. ANDERSON: I'm sorry, Mr. Hall.

14 Mr. Chairman, Darryl Anderson on behalf of  
15 the American Postal Workers Union. I didn't hear the  
16 witness' response to the question of whether he had a  
17 chance to review them.

18 THE WITNESS: I did get a chance to review  
19 them.

20 MR. HALL: If I asked you the same questions  
21 that are in the interrogatories today would your  
22 answers be the same as appear there?

23 THE WITNESS: Yes, they would.

24 MR. HALL: Mr. Chairman, at this point I  
25 would like to hand two copies to the reporter.

1 CHAIRMAN OMAS: He'll do it.

2 MR. HALL: I'll ask my colleague. I ask  
3 that they be transcribed.

4 CHAIRMAN OMAS: Without objection. So  
5 ordered.

6 MR. ANDERSON: May I ask, Mr. Chairman,  
7 whether copies of there interrogatories have been  
8 served on the other parties at this point and how  
9 recently they were provided to Mr. Taufique?

10 THE WITNESS: They were given to me this  
11 morning.

12 MR. HALL: Right.

13 MR. ANDERSON: May we see a copy, please?

14 MR. HALL: Sure. I can identify them for  
15 you.

16 CHAIRMAN OMAS: Mr. Hall, do you have an  
17 extra packet or an extra copy?

18 MR. HALL: Not an additional packet, no.

19 MR. ANDERSON: It's not that I'm interested  
20 in the nomenclature. I'd like to see the exhibit.

21 They're about to be admitted into evidence  
22 and transcribed without objection as I heard the  
23 Chairman recite, but I haven't seen them.

24 MR. HALL: They are MMA/USPS-T32-2, 4  
25 through 6, 7, 8 and APWU/USPS-T32-10 and 11.

1                   MR. ANDERSON: Perhaps I misunderstand. I  
2 thought that there was a new interrogatory propounded  
3 this morning. These are just new designations?

4                   MR. HALL: No.

5                   MR. ANDERSON: No objection. Thank you, Mr.  
6 Hall. Thank you, Mr. Chairman.

7   (The documents referred to  
8 were marked for  
9 identification as Exhibit  
10 Nos. MMA/USPS-T32-2, 4  
11 through 8 and APWU/USPS-T32-  
12 10 and 11, and were received  
13 in evidence.)

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

**MMA/USPS-T32-2**

On pages 15 and 16 of your direct testimony you discuss the Postal Service's decision to take a fresh new look at the manner in which First-Class workshare letter rates are determined. You have proposed to de-link the costs and rates for presort letters from those of single piece letters. As part of your discussion you have proposed a new objective insofar as achieving an appropriate rate design for workshare letters: to obtain similar (but not necessarily equal) unit contributions to institutional costs from an average single piece and an average presort mail piece.

- A. Does the preamble to this interrogatory correctly state your position as to the reasoning and justification for your proposed rates for First Class presort mail? If not, please explain.
- B. Please explain how you decided upon this goal of equal unit contributions to institutional costs for single piece and presort mail.
- C. When you decided to adopt this new rate design goal, did you analyze any historical data to see whether, and the extent to which, such a goal has been met in the past? If so, please provide that data. If not, why not?
- D. Please explain the logic behind the goal of equal unit contributions to institutional costs for single piece and presort mail, in the aggregate.
- E. Is this goal something that the Postal Service would strive to achieve in future rate cases?

**RESPONSE**

- A. Yes.
- B. The rationale for this methodology has been discussed in my testimony.  
  
See USPS-T-32, page 15, lines 18 through 23 and page 16, lines 1 through 9. This was decided upon after consultation with Postal Service managers familiar with rate design for First-Class Mail.
- C. Yes. The attached spreadsheet provides the historical data. Between FY2000 and FY 2005 the per-unit contribution of presort mail was higher than the single-piece mail for four years, while for one year, FY2002, per-unit contribution of single-piece mail was higher and in one year, FY 2000 the unit contributions for the two mail streams were equal.
- D. Please see my response to subpart B, above.

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

**RESPONSE to MMA/USPS-T32-2 (continued):**

E. I cannot speculate on the nature of future rate filings; however, I would expect that, if it were appropriate given the specific circumstances in a future filing, this might be one of the goals.

## Attachment to Response to MMA/USPS-T32-2

	SINGLE-PIECE			PRESORT			Difference SP less Presort
	Average	Vol. Var.	Per Unit	Average	Vol. Var.	Per Unit	
	Revenue	Cost	Contribution	Revenue	Cost	Contribution	
2000	\$ 0.416	\$ 0.239	\$ 0.177	\$ 0.275	\$ 0.098	\$ 0.177	0.000
2001	\$ 0.421	\$ 0.243	\$ 0.178	\$ 0.280	\$ 0.101	\$ 0.179	(0.001)
2002	\$ 0.436	\$ 0.247	\$ 0.188	\$ 0.288	\$ 0.101	\$ 0.188	0.001
2003	\$ 0.455	\$ 0.252	\$ 0.203	\$ 0.307	\$ 0.098	\$ 0.209	(0.006)
2004	\$ 0.454	\$ 0.252	\$ 0.202	\$ 0.306	\$ 0.095	\$ 0.210	(0.009)
2005	\$ 0.453	\$ 0.264	\$ 0.189	\$ 0.305	\$ 0.101	\$ 0.203	(0.014)

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

**MMA/USPS-T32-4**

On page 19 of your direct testimony, you state that, in order to qualify for First-Class single piece letter rates, a letter-shaped piece of mail must weigh 3.5 ounces or less.

- A. If a letter-shaped piece of First-Class mail weighs 4.0 ounces, will it pay the flat rate or the parcel rate? Please explain your answer.
- B. Please explain precisely how the Postal Service determined that the cut-off weight for single piece letters should be 3.5 ounces and provide any studies or other documents relating to that determination.
- C. Did the Postal Service consider increasing the maximum weight for First-Class workshared letters from 3.3 ounces to 3.5 ounces? If not, why not? If so, please explain why the maximum weight for First-Class Single Piece letters should be 3.5 ounces but only 3.3 ounces for First-Class workshare letters.
- D. Please confirm that on average, First-Class single piece letters require more processing on Postal Service automated equipment than do workshared letters. If you cannot confirm, please explain.

**RESPONSE**

- A. The flat-size rate because the maximum weight of a letter-shaped piece would be 3.5 ounces. A 4.0 ounce letter shaped piece would pay the 4 ounce rate for a flat-shaped piece.
- B. Please refer to MMA/USPS-T42-5.
- C. Yes. Under this proposal, the maximum weight for both presort and single-piece letters is expected to be 3.5 ounces.
- D. *It is my understanding that, all else equal, a single piece letter will require more processing than a workshared letter.*

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

**MMA/USPS-T32-5**

Please refer to the table shown on pages 29 and 30 of your direct testimony. There you show the unit costs to process automation letters and derive the percent pass-throughs for the rates you propose. Please explain why you didn't include delivery cost differences that the Postal Service has shown to exist in the past among the various presort levels. See, for example, R2005-1 Library Reference USPS-LR-K-67 sponsored by USPS witness Kelley.

**RESPONSE**

Please see my response to Presiding Officer's Information Request Number 5, Question 2c.

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

**MMA/USPS-T32-6**

On page 30 of your direct testimony, you describe the general means by which you determined the specific rates for First Class presort letters, encompassing five separate criteria. On pages 34-35 you state that "...the Presort categories are priced on the basis of cost causation attributes (preparation, entry profile, etc.) unrelated to Single-Piece mail." Please explain why the Postal Service does not consider consistently high originating volumes (from one mailer) as a primary and significant cost driver and, therefore, an appropriate cost causation basis to distinguish between Single-Piece mail and presorted mail. Please provide any studies or other documents that you believe support your position.

**RESPONSE**

My rate design does not establish presorted First-Class Mail Letter rates based on cost differentials between single-piece and presorted mail in the same way that has been done in previous dockets. *Instead of using special cost studies, I use the results of the CRA to establish the overall price differences. Within the more general presort grouping, I use the more specialized cost studies to further differentiate the prices. Please see USPS-T-32, pages 12 through 17.*

However, I do not use customer-specific data, including the volume of mail *originating from any one customer as a cost driver for the First-Class Mail rates I am proposing.* Furthermore, I am unaware of any studies that demonstrate that either higher or lower costs result based on the volume of mail originating from any one customer.

Generally, the presort structure does provide incentives for customers who have *higher volumes or densities and, therefore, are able to achieve a greater depth of sort, and thus a lower price.* Please see USPS-T-32, pages 31 through 33.

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

**MMA/USPS-T32-7**

On page 16 of your direct testimony, you state the following with respect to pricing First-Class workshared mail compared to First-Class single piece:

The goal of similar unit contributions from these two mail categories is not an absolute one; other rate design and rate impact considerations may require the Postal Service and the Commission to deviate from this goal. However, to the extent practicable, the Postal Service's intention going forward is to equalize the unit contribution from the Single-Piece Letter category and from the Presort Letter category.

- A. Please confirm that under the rates you propose, the TYAR unit contributions to institutional costs from First-Class single piece and presort letter mail are \$.2348 and \$.2343, respectively. If you cannot confirm, please provide the correct unit contributions to institutional costs for First-Class single piece and presort letter mail.
- B. Please confirm that, using the Commission's attributable cost methodology, if the rates you propose are adopted the TYAR unit contributions to institutional costs from First-Class single piece and presort letter mail are estimated to be \$.2104 and \$.2294, respectively, a difference of 1.9 cents. If you cannot confirm, please provide the correct unit contributions to institutional costs for First-Class single piece and workshared mail using the Commission's attributable cost methodology.
- C. Do you agree that, using the Commission's attributable cost methodology, the specific rates you propose do not satisfy your stated objective of equal unit contributions to institutional costs for First-Class single piece and presort letters? If no, please explain your answer.
- D. Please confirm that, under the Commission's rate recommendations in R2000-1, R2001-1, and R2005-1, First-Class presort letters have on average contributed 1.7 cents, 1.9 cents, and 1.9 cents, respectively, more to institutional costs than First Class single piece letters. Derivation of these unit cost contribution differences is shown on the following table. If you cannot confirm, please provide the correct unit cost contributions and demonstrate how they are derived.

Docket No.	R2005-1	R2001-1	R2000-1
<b>First-Class Single Piece</b>			
Revenues (000)	20,506,695	21,865,222	22,576,889
Attributable Costs (000)	12,056,748	13,691,814	14,684,352
Contribution (000)	8,449,947	8,173,408	7,892,537
Volume (000)	42,459,296	46,841,145	52,828,895
Unit Contribution (\$)	0.199	0.174	0.149
<b>First-Class Presorted</b>			
Revenues (000)	15,382,831	15,915,988	13,172,716
Attributable Costs (000)	4,929,340	5,985,539	5,305,138
Contribution (000)	10,453,491	9,930,449	7,867,578
Volume (000)	47,962,523	51,353,440	47,320,291

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Unit Contribution (\$)	0.218	0.193	0.166
Presort - S.P. Unit Contrib (\$)	<b>0.019</b>	<b>0.019</b>	<b>0.017</b>

**RESPONSE to MMA/USPS-T32-7:**

- A. The revised numbers based on the changes in assumption regarding First-Class Mail Business/Presort parcels (See my response to USPS-T32-20) are:
- Single-Piece: \$ 0.2436    Presort: \$ 0.2303
- B. [Redirected to the USPS for institutional response.]
- C. Yes. However, that does not necessarily mean that the proposed rates do not meet the policy goals outlined in my testimony. As I have stated in my testimony, the goal of similar unit contribution is not an absolute one; other policy, rate design and rate impact considerations may require the Postal Service or Commission to deviate from this goal.
- D. Confirmed.

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

**MMA/USPS-T32-8**

Please refer to your response to Interrogatory MMA/USPS-T32-6, particularly where you state, "I am unaware of any studies that demonstrate that either higher or lower costs result based on the volume of mail originating from any one customer."

A. Please explain why you would need a specific study to conclude that consistently high volume mailings from one mailer have a positive impact on Postal costs (i.e. results in lower unit costs for the Postal Service) with respect to operations such as:

1. Mail acceptance
2. Postage verification
3. Tray banding
4. Tray labeling
5. Tray sorting
6. Palletization
7. Pallet labeling
8. Pallet sorting
9. Plant loading
10. Postal One!
11. Transportation

B. Please compare two mailers. Mailer A consistently sends out 500 1-ounce non-local pieces, all presorted to 5-digits. Mailer B consistently sends out 1 million 1-ounce non-local pieces all presorted to 5-digits. Will Mailer A pay the same unit postage as Mailer B under the current rate structure? If the unit postage paid by the two mailers is different, please explain.

C. Comparing the two mailers described in Part B, please explain whether the Postal Service's unit cost for processing Mailer A's mail would be higher than, lower than, or the same as the unit cost for processing Mailer B's mail. Please consider all of the costs associated with each operation listed in Part A. If you do not know whether the Postal Service's unit cost for processing Mailer A's mail would be higher than, lower than, or the same as the unit cost for processing Mailer B's mail, please so state and explain why.

**RESPONSE**

- A. I am not a postal costing expert and am not offering costing testimony in this docket. Accordingly, I would be inclined to defer to the Postal Service's costing experts and any studies they may have conducted to assess the effect (positive or negative) of such matters.

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

- B. Yes, assuming that the Mailer A and Mailer B's pieces are identical with respect to the application of the nonmachinable surcharge.
- C. Please see my response to subpart A, above.

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2. In Docket No. MC95-1, the Postal Service developed unit attributable cost from the "bottom up," by shape, for the presort and prebarcoded rate categories in First-Class and Standard Mail. Total unit attributable cost for each rate category was equal to the sum of unit attributable mail processing cost, unit attributable delivery cost, unit attributable transportation cost, and all other unit attributable costs. See Docket No. MC95-1, Exhibit USPS-T-12C. The Postal Service proposed to use differences in unit total attributable cost as the basis for setting the discounts (i.e., the rate differentials) between rate categories. The Commission rejected that approach in favor of using only differences in unit attributable mail processing costs plus unit attributable delivery costs (in-office and street time) as the basis for rate differences. The Commission explained that presorting and prebarcoding would only directly affect mail processing and delivery costs and that any other differences in total attributable cost would be due to factors other than worksharing. PRC Op. MC95-1, paras. 4208-13. Accordingly, beginning with the restructured rates implemented in Docket No. MC95-1, worksharing differentials in First-Class, Standard Mail, and Periodicals (excluding dropship discounts) have been based on differences in both unit attributable mail processing costs and unit attributable delivery costs.

In the current docket, the cost basis of the Postal Service's proposed worksharing discounts varies from subclass to subclass. First-Class worksharing rate differentials are based on unit attributable mail processing costs. The piecebased worksharing differentials in Periodicals reflect differences in both unit attributable mail processing costs and unit attributable delivery costs. The worksharing rate differentials in Standard Regular and Regular Nonprofit reflect only differences in unit attributable mail processing cost. Worksharing rate differentials in Enhanced Carrier Route and Non-Profit Enhanced Carrier Route reflect differences in both unit attributable mail processing and delivery costs.

- a. A review of the unit attributable delivery costs in USPS-LR-L-67, Table 1, shows that for some subclasses, delivery costs vary only by shape. Thus, for example, within a flat-shaped mail category, the unit attributable delivery cost would be the same for each presort and barcode category. This could be a reason for ignoring delivery cost, at least when calculating presort/barcode discounts. However, in First-Class there are differences in unit attributable delivery cost between nonautomated letters and automated letters and in Standard Mail there are differences in unit attributable delivery cost between nonmachinable and machinable letters. The rate design witnesses for First-Class and Standard Mail have not provided a rationale for departing from the "MC95-1" approach and ignore those differences. The Postal Service is requested to have the appropriate witness for each subclass provide a rationale for departing from the MC95-1 approach, or, if the Postal Service prefers, provide revised rate design spreadsheets that incorporate both differences in mail processing and delivery unit attributable cost.
- b. The rate design for Bound Printed Matter (BPM) proposed by the Postal Service is also inconsistent with the precedent established in Docket No. MC95-1. The proposed presort differentials are based on unit mail processing attributable cost only, which is consistent with past rate cases, but the flat-

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parcel differential is based on only differences in unit attributable delivery cost. Similarly, Media Mail presort discounts are based on differences only in unit attributable mail processing costs, ignoring unit attributable delivery costs. In Docket No. R2001-1, the Postal Service acknowledged that BPM shape-related cost differences could include mail processing cost differences, adding that it would explore this possibility in future rate cases. (See Docket No. R2001 -1, USPS-T-33 at 30.) The Postal Service is requested to have its rate design witness for BPM and Media Mail provide a rationale for departing from the MC95-1 approach, or alternatively, to provide revised rate design spreadsheets that incorporate unit attributable costs for both mail processing and delivery.

- c. In prior rate cases, the Postal Service provided the unit attributable delivery cost for all letter rate categories in First-Class Mail and Standard Mail. (See, for example, Docket No. R2005-1, USPS-LR-K-67, Table 1.) The separate rate category unit costs reflected differences in the percentage of DPS letters. As noted above, in this docket, the Postal Service has not provided unit attributable delivery cost for all letter rate categories. Please provide the rationale for not calculating unit attributable delivery costs for all letter rate categories reflecting differences in the percentage of DPS mail.

**RESPONSE**

- a. In First-Class Mail rate design, the differences between automation and nonautomation letters are derived using both the mail processing and delivery volume variable unit cost differences. Please see LR-L-129, WP-FCM 19, 'Rate Design - Presort' Row 74, Columns C through F. Lines 13 and 14 on page 37 of my testimony will be revised to reflect it. An errata will be filed.
- b. Response filed by witness Yeh.
- c. It is my understanding that the differences in delivery costs for the various presort levels of automation are driven solely by the different Delivery Point Sequencing (DPS) figures that come from the letter model estimated by witness Abdirahman, USPS-T-22. Those differences happen because the less presorted the letters are, the more equipment they go across and thus,

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the more opportunities they have to be rejected. However, the reject rates for the various letter sorting equipment are not unique to class and/or rate category of the letters in question and reflect all of the letters worked on that equipment. It is my understanding that DPS percentages are not an input to the cost models and there are no data indicating that DPS percentages actually differ among the presort rate categories. Furthermore, the reject rates that create the differences in the DPS percentages and resulting different delivery costs for the various presort levels for letters could be affected by the reject rates for single-piece letters, which is not a component of the cost models.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION**

**APWU/USPS-T32-10** On page 13 of your testimony you state that a "significant percentage" of single piece letters have handwritten addresses. How many letters in the test year had handwritten addresses? What percentage of handwritten letters are automation compatible?

**RESPONSE**

We do not have the data on the number of single-piece letters with hand written addresses.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION**

**APWU/USPS-T32-11** On pages 16 and 17 of your testimony you state that "the starting point would be the Mixed AADC rate, a benchmark internal to Presort Letters. However, the discounts are each calculated from the presort level that immediately precedes it in aggregation. Why are the costs avoided and discounts not all calculated from the single benchmark?"

**RESPONSE**

Given the associative principle of mathematics, with the goal of passthroughs that approach 100%, it would make no difference what the starting point was.

This can be illustrated by the following example. Suppose there are identical cost avoidances of three cents between workshare categories A, B, and C. I can start with a 3-cent rate at A and add another three cents to B (6 cents) and another 3 cents to C (9 cents.) Or I can start with C at 9 (cents) and subtract 3 cents twice to arrive at the 3-cent rate for A.

1                   CHAIRMAN OMAS: Is there anyone else who  
2 would like to admit additional cross-examination for  
3 Witness Taufique?

4                   (No response.)

5                   CHAIRMAN OMAS: There being none, this  
6 brings us to oral cross-examination.

7                   Three participants have requested oral  
8 cross: the American Postal Workers Union, Greeting  
9 Card Association and the Parcel Shippers Association.

10                  Mr. Anderson, would you like to begin, and  
11 would you please identify yourself?

12                  MR. ANDERSON: Thank you, Mr. Chairman. I'm  
13 Darryl Anderson representing the American Postal  
14 Workers Union.

15                                   CROSS-EXAMINATION

16                   BY MR. ANDERSON:

17                  Q     Good morning, Mr. Taufique.

18                  A     Good morning.

19                  Q     I only have a few questions for you, Mr.  
20 Taufique. Mr. Taufique, could I ask you to refer to  
21 page 6 of your testimony?

22                                   With reference to the tables there on page  
23 6, I'm correct, am I not, that the tables show the  
24 single piece first class rate increasing by 7.7  
25 percent for first ounce letters?

1           A     According to the change between 39 cents and  
2     42 cents?

3           Q     Yes.

4           A     Yes.

5           Q     For first ounce letters, right. Also lower  
6     on the page the table shows presort discounts  
7     increasing by smaller percentages in each case for the  
8     various types of automation letters. Isn't that  
9     correct? They're smaller in each case?

10          A     The presort rates are increasing by a  
11     smaller percent.

12          Q     Thank you. That's what I intended to ask.  
13     Now, by definition presort rates are lower than full  
14     first class rates, and necessarily therefore -- I know  
15     you'll agree with me, but I simply want it said at  
16     this point in the record that the actual rate  
17     therefore is increasing by a smaller amount for  
18     presort than it is for full first class rates. Isn't  
19     that correct?

20          A     That would be correct.

21          Q     Simple mathematics. Now, this occurs  
22     because you're calculating rates based on the cost of  
23     processing this presort mail and that the cost of the  
24     presort mail is relatively low because it's relatively  
25     clean mail.

1           Isn't that basically what's going on here?  
2           The cost calculations that you've used are based upon  
3           features including mail hygiene?

4           A     Historically the cost numbers for presort  
5           mail have been lower than single piece mail, yes.

6           Q     In other words, these rates that are  
7           calculated for the workshared mail are taking into  
8           account features that have not been recognized in the  
9           past as a basis for presort discounts?

10          A     Could you repeat that question one more  
11          time, please?

12          Q     Yes. One of the reasons why you're  
13          calculating a lower rate of increase for this  
14          workshared mail is that it's relatively clean mail. I  
15          think you just agreed with me on that point.

16          A     Basically I said historically the cost per  
17          piece of mail has been lower than single piece.

18          Q     Okay. But one of the factors that makes it  
19          a lower cost is mail hygiene, for example?

20          A     A number of factors.

21          Q     In fact including mail hygiene?

22          A     I have not looked into all the factors that  
23          would make this mail lower cost compared to this mail.

24          Q     Right, but I think you've acknowledged in  
25          your testimony that it does take into account the fact

1 that it's relatively clean mail?

2 A Where did I say that?

3 Q Well, let me look. Would you look on page  
4 14, please?

5 A Yes.

6 Q I think from lines 6 to 13, and in  
7 particular from lines 9 through 13, there's a sentence  
8 there. Do you see where I'm pointing?

9 A Yes. Basically what I'm saying over there  
10 is there's a range of differences between the two mail  
11 streams.

12 The CRA costs that we are using in this  
13 particular docket to propose the rates do take into  
14 account the range of differences that exist between  
15 the two mail streams.

16 Q Right. I would simply ask you perhaps more  
17 awkwardly than you phrased it in your testimony, but  
18 which I gather you still agree with, that these  
19 differences reflect differences unrelated to the  
20 actual worksharing activity, but reflective of the  
21 different cost characteristics of business originated  
22 mail entered in large quantities as compared to those  
23 of single piece mail? You still adhere to that, do  
24 you not?

25 A If I understand your question, what you're

1 asking is the calculation of the cost difference  
2 between single piece and presort and how I have  
3 treated it.

4 Basically the answer is, if you will indulge  
5 me for a few minutes, the mail, if you're looking in  
6 terms of single piece mail, the heterogeneous class  
7 that has different types of mail that are handled in  
8 pieces. There is CRM. There is BMM. There is office  
9 mail that is being converted into workshared mail.

10 The choice of a benchmark is essentially, if  
11 I could use the term that we use when we talk  
12 economics, to serve its purpose, you basically assume  
13 that all other things are basically the same about the  
14 two mail pieces. The only difference between the two  
15 mail pieces would be the worksharing.

16 If BMM were the only candidate mail then  
17 that description does fit. The only difference  
18 between BMM is very much like presort mail, the  
19 difference being it is not barcoded and it is not  
20 presorted.

21 Our argument in this particular case is that  
22 BMM is no longer the only candidate mail. The mail  
23 traffic we're dealing with in single piece is a very  
24 heterogeneous class, and the pieces that are shifting  
25 from single piece to presort more reflect the average

1 cost, the cost causing characteristic of single piece.  
2 And there is historical precedent in that verdict that  
3 the Garr Commission has used that --

4 Q I'm sorry. Let me have you pause for a  
5 moment. Two problems with your answer, and I'll come  
6 back to you, but --

7 A Would you like me to explain?

8 Q Let me cut you off because you're, A, not  
9 answering a question that I asked. I was trying to be  
10 very indulgent of your right to testify as you wish,  
11 but at the same time you're not answering a question.

12 I would ask you to try to answer my  
13 questions, as opposed to offering additional testimony  
14 of the sort that you may wish to offer, which you had  
15 an opportunity to do in your direct testimony.

16 I interrupted you only because you were  
17 accelerating, and as you accelerated I was unable to  
18 follow your testimony so I really was trying to be  
19 indulgent of your desire to offer gratuitous  
20 testimony, but at the same time I don't want to let  
21 you offer gratuitous testimony that I can't follow.

22 A Okay.

23 Q You're going to have to slow down a little  
24 bit.

25 A I'll slow down.

1           Q     Where I sort of fell off the sled is at the  
2 point where you were talking about how bulk business  
3 mail or bulk metered mail rather is not the only  
4 candidate mail.

5                     Then you started accelerating at that point  
6 about how there are other characteristics or something  
7 like that, and I just couldn't follow you at all.

8           A     I apologize for speeding up.

9           Q     Now, I have not asked you much about the  
10 benchmark. Why don't we come back to this later, if  
11 we may? This is my cross-examination, so I get to ask  
12 the questions.

13          A     Sure.

14          Q     Just ask Mr. Tidwell. He'll tell you. I'm  
15 volunteering to come back to what you want to talk  
16 about, but I want to talk about first what I want to  
17 talk about.

18          A     Sure.

19          Q     Okay. Thank you. You're a good witness. I  
20 appreciate your cooperation.

21                     It seems to me that one of the effects of  
22 what you folks are proposing is that you've  
23 deaveraged, and this is your term. This is a foreign  
24 language to me, so you'll pardon me. I'm using the  
25 word deaverage even though it's something I'm

1 struggling to comprehend.

2 As I understand it, and you can help me, I  
3 know, you've deaveraged the cost of first class single  
4 piece mail, first class, from the cost of presorted  
5 first class mail so that you've taken all this  
6 presorted mail over here and you've calculated a cost  
7 basis here, and you're figuring now workshare  
8 discounts from that cost basis.

9 All the single piece letters you've costed  
10 over here in a separate cost separately so that you're  
11 averaging the cost of all the single piece letters,  
12 and you're averaging the cost of all the workshared  
13 letters separately and comparing the two. Fair  
14 statement?

15 A Okay. Let's see if I can be responsive and  
16 not speed up.

17 Q I'm not interested in an essay on benchmarks  
18 or anything of the sort. I'm asking you about  
19 averaging.

20 A The proposal has to be looked at in its  
21 entirety. You're looking at one part of the proposal,  
22 and I agree with you that we have used the cost  
23 difference between single piece and presort mail to  
24 provide the benchmark that is the starting point for  
25 all the presort mail. I agree with you.

1 Q Okay.

2 A Is that what you asked me?

3 Q Say that again.

4 A In our proposal we have used the cost  
5 difference between single piece and presort mail,  
6 which are the CRA costs, to devise the benchmark for  
7 the presort level of presort mail, if that's what  
8 you're asking.

9 Q The proposal that you're making? You're  
10 saying this is what you're proposing now?

11 A This is one part of what we have done.

12 Q In what sense are you using the cost  
13 differences between single piece and presort to derive  
14 a workshare discount?

15 A Again I'll come back to the same issue that  
16 traditionally we use the bulk metered benchmark to  
17 devise to cost avoidance.

18 Q Yes.

19 A Okay. You would agree with me on that. Our  
20 feeling and what we have seen in the industry, what we  
21 have seen in the data in terms of the mail  
22 heterogeneity, we feel that the bulk meter mail is not  
23 the only candidate mail that is shifting from single  
24 piece to presort.

25 Q That's sort of where I fell off the sled in

1 your earlier answer.

2 A Because of that, we think the pieces that  
3 are moving from single piece to presort are more like  
4 the average pieces than single piece.

5 Q Do you have any evidence of that, sir? You  
6 feel it. I know you feel it, but can you prove it?

7 A The evidence that we have seen is that,  
8 first of all, the presort industry is a mature  
9 industry. The growth mail in presort is not all from  
10 single piece. We know that there's much more  
11 advertising now.

12 Q Okay, but you're not suggesting that  
13 advertising was single piece mail? I don't advertise  
14 through the mail, and I don't think you do either, so  
15 you're not suggesting that advertisers were single  
16 piece mailers?

17 A No, no. All that I'm suggesting is that the  
18 growth in the presort industry is happening. First of  
19 all, there's no growth, not a whole lot of growth, in  
20 both of these categories.

21 Q Correct.

22 A Okay. Traditionally what was shifting was  
23 the clean mail because initially when we offered the  
24 discount people who could presort their mail on the  
25 computer lists are the first ones to shift.

1 Q Sure. There you go.

2 A What we get now, and we have seen a lot of  
3 evidence of that, is that large presort bureaus are  
4 picking up office mail, which is not BMM mail, which  
5 is not trayed, which is not faced.

6 Q Who's picking up this mail?

7 A Large presort bureaus are picking up office  
8 mail and converting that into presort mail, which is  
9 not the same thing as the BMM mail which is metered,  
10 which is faced and which is trayed. The cost causing  
11 characteristics --

12 Q What evidence do you have, sir, that that's  
13 happening? You feel it, but do you have any real  
14 evidence? It's hypothetically possible.

15 A As a pricing witness --

16 Q Are you telling me it's theoretically  
17 possible? Is that what you're saying, sir?

18 A Instead of putting words in my mouth, if you  
19 would let me talk about it?

20 Q Well, you say you feel it, but feeling it  
21 doesn't do it for me. You have to prove it to me.

22 CHAIRMAN OMAS: Mr. Anderson, will you give  
23 the witness a little time to answer the questions,  
24 please?

25 MR. ANDERSON: Yes.

1 CHAIRMAN OMAS: Thank you.

2 THE WITNESS: As a pricing witness, I keep  
3 up with the industry. I try to visit both our plants  
4 and the plants of the people who prepare mail for us,  
5 sir, and talk to the costing people who see the mail  
6 coming in so it is not a feeling.

7 It is based on observations from the folks  
8 who work in the field, folks who process the mail and  
9 our own personal experiences from persons in the  
10 plant, the three or four bureaus' activities, actually  
11 the costing people.

12 I have actually visited more than one  
13 facility where we've seen that the mail that is being  
14 converted into presort is not the clean mail of the  
15 past. It is a heterogeneous stream of mail that is  
16 being converted, and that is why we need to look at  
17 the benchmark issue in a different light.

18 We are not abandoning the official component  
19 pricing in this regard. That is based on the  
20 observations of the Postal Service that this is  
21 happening, and we need to change the benchmark in  
22 relation to the new industry that we're looking at  
23 right now.

24 BY MR. ANDERSON:

25 Q So as I understand your testimony, there's

1 no data collected and no calculated shift that you can  
2 point to anywhere in the data, but it's an observation  
3 that you've made, that you and others have made in the  
4 field?

5 A There is no data that BMM was the only mail  
6 that was converting when we used -- the Commission and  
7 the Postal Service established the benchmark of BMM.

8 I don't think there's any data to support  
9 that this should be the benchmark and this is the only  
10 candidate mail that would be converting from single  
11 piece to presort. Basically we went by what we knew  
12 about the industry at that time, and we think the  
13 industry has changed so we need to recognize that.

14 Q So the answer to my question is yes, it's  
15 based upon your observations and not upon any data or  
16 any calculated change that you can point to? Isn't  
17 that correct? The answer to that question is yes?

18 A My answer is that the choice of benchmarks  
19 in the previous cases were not based on data. It was  
20 based on an educated observation of the industry, as  
21 well as the Postal Service.

22 Q You're entitled to qualify your answer, but  
23 I think I'm entitled to a direct answer as well, and I  
24 think the answer is yes, isn't it?

25 A Yes.

1           Q     Thank you.  Maybe there's something we can  
2 agree on.  Assuming that there are going to be a lot  
3 of small businessmen like myself who generate what I  
4 consider lots of mail, clean business mail, but  
5 they're all single piece letters and I don't use a  
6 presort bureau to mail them.  I send them down to the  
7 post office with Wendell, who works for us.

8                     Now, small businessmen like myself who don't  
9 use presort bureaus and generating clean business  
10 mail, single piece, we're going to have our costs  
11 calculated together with what you described as sort of  
12 the handwritten mail, the more difficult mail, isn't  
13 that correct, as opposed to being averaged together  
14 with the workshared mail?

15           A     Again, you will blame me for giving an  
16 indirect answer, but what we have done in this  
17 particular case, and I'll get to your point also in a  
18 minute, what we have done is we have made it a target  
19 that the per unit contribution of single piece and per  
20 unit contribution of presort mail be the same.

21                     To deaverage it completely, and I have never  
22 done rate level testimony before, but I would imagine  
23 that the cost coverage for presort or for even  
24 contribution for presort would not be as high as it is  
25 now when we are requiring that the per unit

1 contribution between single piece and presort remains  
2 the same. That is our target. That is our goal.

3 The deaveraging that we are doing is  
4 providing the right signals to the mailers who are  
5 converting all kinds of mail from single piece into  
6 presort, and those right signals would lead to higher  
7 institutional costs of the presort mail that helps the  
8 overall Postal Service, so I don't think I'm hurting  
9 the single piece mailers as a result of what I'm  
10 proposing.

11 I think if you provide the right signals and  
12 folks react to the right signals then they can do  
13 their job in the best fashion based on their own  
14 circumstances and economics. The Postal Service and  
15 all of its other customers also benefit from their  
16 contribution to the institutional cost.

17 I disagree with you that I'm causing the  
18 single piece rates to go up because of that. It may  
19 seem that way, but generally speaking if you do your  
20 pricing accurately then it will benefit all the  
21 customers.

22 Q I think you misunderstood the direction of  
23 my question. I wasn't focusing on single piece rates  
24 on the average. I was focusing on single piece rates  
25 paid by small businessmen like myself.

1           It seems to me, and you're a quick study so  
2 I'll just jump right to the point here so you'll know  
3 where I'm heading. You don't have to guess.

4           I mean, it seems to me that you would agree  
5 with me that small business mailers with this clean  
6 typewritten hygienic mail, we're going to be making a  
7 higher contribution to overhead than presort mailers  
8 will be making because we're being averaged in with  
9 all those people with all that less clean mail.

10           I wouldn't call it dirty mail, but it's less  
11 clean mail, less hygienic mail. Wouldn't you agree  
12 with that?

13           A     You would always average.

14           Q     Sure.

15           A     You're not making any big change to the type  
16 of mail. It's always averaged -- greeting cards and  
17 handwritten pieces and regular envelopes and all of  
18 those.

19           I'm not proposing that we deaverage  
20 everything. I don't think that is the goal of our  
21 proposal.

22           Q     I didn't accuse you of obliterating every  
23 distinction in the world or creating all kinds of  
24 distinctions.

25           I think the short answer again was yes, you

1 agree with me that I'll be making a bigger  
2 contribution. I'll be making a bigger contribution  
3 per piece to overhead than would presort mail.

4 A Not as a result of this docket. You will  
5 always be making a bigger contribution compared to the  
6 other mailers that mail. Nothing that we have done  
7 would cause you to be different now than what you  
8 were.

9 Q I think there you and I do disagree because  
10 it seems to me that you have extracted by deaveraging.

11 By averaging separately single piece and  
12 workshared mail you've left me and other mailers like  
13 myself lumped together with the expensive mail, and  
14 while you're still trying to get an overall average  
15 contribution to overhead your goal is to make the  
16 average contribution the same between those two  
17 categories.

18 In my own little category of single piece  
19 I'm the guy whose mail is easy to process and I'm  
20 lumped together with those other guys, so to average  
21 me with them creates a higher contribution to overhead  
22 by me. I think that is a result of what --

23 A All the folks who send mail to pay their --

24 Q I'm sorry. All the folks who do what?

25 A All the folks who pay their bills, their

1 credit card bills by mail. A lot of them don't at  
2 this point in time, but people claim the same thing,  
3 that their mail is actually barcoded. It's uniform  
4 shaped, and it's averaged with all the other pieces.

5 That averaging, I think that does not change  
6 as a result of what I have done. I disagree with you.

7 Q Okay. I understand your answer.

8 I think you already agreed with me a few  
9 minutes ago, something we did agree on, or maybe we  
10 didn't. Presort discounts have increased in an  
11 absolute sense. Isn't that correct?

12 A If I could take you to -- let me see what  
13 page it falls on in my testimony. I want to find the  
14 right page where I discuss the presort sector between  
15 R2001-1.

16 MR. HALL: Mr. Chairman, could I ask that  
17 counsel's last question be repeated or read by the  
18 reporter? I'm not sure I understood it.

19 CHAIRMAN OMAS: Mr. Anderson, would you  
20 repeat your question?

21 MR. ANDERSON: Yes.

22 BY MR. ANDERSON:

23 Q Mr. Taufique, I believe you would agree with  
24 me that the presort discounts have increased in an  
25 absolute sense, measured in an absolute sense of

1 discounts off the first class stamp? The discounts  
2 have increased in this rate case, or you're proposing  
3 an increase I should say?

4 A Presort letter discounts, right?

5 Q Yes.

6 A Automation letters.

7 Q Yes.

8 A I'll point you to page 35 in my testimony.  
9 If you could talk about that a little bit then I can  
10 sort of --

11 Q Yes?

12 A From my perspective, when I designed the  
13 rates I wanted to compare it to the last real omnibus  
14 case, which was R2001-1, because R2005-1 was a  
15 different case altogether where we increased the  
16 discounts, as well as the rates, by the same percent.

17 If you look at the difference between single  
18 piece rate and mixed ADC rate in R2001-1, it was 6.1  
19 cents at the bottom of the last table, the first line  
20 under the R2001-1 discount structure. What we are  
21 proposing is a difference of 7.4 cents.

22 Q Yes.

23 A Okay. Now, the argument that we have in  
24 mind in terms of proposing what we are proposing is  
25 that the pieces that are shifting from single piece to

1 presort are more like the average single piece cost  
2 causing characteristic.

3 Now, somebody could argue that we know 6.1  
4 cents, based on the BMM benchmark, I think most people  
5 would agree that this is too low because the mail that  
6 is moving from single piece to presort is not just  
7 BMM, so 6.1 is too low. Some people would argue that  
8 7.4 is too high.

9 At this point in time, we don't have any  
10 evidence to spread the difference between 6.1 and 7.4,  
11 and we think that what is moving from single piece to  
12 presort is more like the average piece single piece,  
13 average cost causing characteristics, so that is the  
14 basis of our proposal, and that is why you're saying  
15 that the presort discounts are increasing slightly  
16 more than what they were in the past, and I would  
17 agree with you.

18 Q You know, I'm not sure whether you included  
19 in your testimony the comparison of R2005-1 rates to  
20 the present rates. You made reference to R2001-1, but  
21 there's an increase from R2005-1 to what you're  
22 proposing?

23 A Right. My purpose in comparing, I think I  
24 was being intellectually honest by going to R2001-1  
25 because the R2005-1 sort of distorted some of the

1 discounts because of the fact it was a 5.4 percent  
2 increase across the board.

3 The reason for that, I supported the reason,  
4 but it did have some side effects.

5 Q I understand. Focusing on the discounts  
6 that you're proposing in this case, if you were to use  
7 the old benchmark of bulk metered mail would you agree  
8 with me that the Postal Service could not show the  
9 cost avoided from bulk metered mail to equal these  
10 discounts?

11 A I don't even recall seeing -- we were so  
12 concerned about the proposal that we were proposing  
13 and supporting that I don't think I have even -- if I  
14 have looked at the numbers, I don't recall the numbers  
15 right now.

16 Q All right. Do you have before you USPS  
17 Library Reference L-141?

18 A No, I don't.

19 Q All right. Let me provide a copy if I may.

20 A Thank you.

21 Q Mr. Taufique, do you remember seeing this  
22 library reference?

23 A I'm sure I've used portions of this library  
24 reference in my testimony and in my workpapers also.

25 Q All right. It's my understanding that this

1 is a calculation of first class mail presort letters  
2 using the Postal Rate Commission's methodology.

3 A Then in that case I have not seen this in as  
4 much detail as I explained earlier.

5 MR. ANDERSON: This exhibit, I guess I need  
6 to have this marked, please. It would be APWU Exhibit  
7 -- maybe this is our first, No. 1. We have modified  
8 this exhibit by showing --

9 CHAIRMAN OMAS: Identify your exhibit,  
10 please.

11 MR. ANDERSON: Yes. This is APWU proposed  
12 Exhibit 1. It is USPS Library Reference L-141.

13 CHAIRMAN OMAS: It would be APWU-XE-1.

14 MR. ANDERSON: Thank you.

15 (The document referred to was  
16 marked for identification as  
17 Exhibit No. APWU-EX-1.)

18 BY MR. ANDERSON:

19 Q It's page 1 of 2. It shows it was revised  
20 on 8-23-06, and it's headed First Class Mail Presort  
21 Letters Summary.

22 The APWU has added in the far right margin  
23 of this exhibit a column that shows the proposed  
24 discounts for non-automation presort letters and then  
25 the other categories below, four categories below --

1 automation mixed AADC letters, automation AADC  
2 letters, automation three-digit presort letters and  
3 automation five-digit presort letters.

4 I don't think those numbers in the right  
5 margin are subject to dispute. Those are simply from  
6 the witness' testimony showing the amount of the  
7 discounts proposed.

8 This exhibit also shows worksharing related  
9 unit cost savings, which in each case are lower. The  
10 cost savings using the PRC methodology are lower than  
11 the proposed discounts.

12 I show you this exhibit, Mr. Taufique, in  
13 support of the question I asked you, whether you would  
14 agree with me that the Postal Service could not  
15 justify the level of discounts it is proposing by  
16 reference to cost avoided using the old benchmark  
17 system of bulk metered mail?

18 MR. HALL: Mr. Chairman, I believe Mr.  
19 Anderson has mischaracterized this as the PRC  
20 methodology. Did I hear that correctly?

21 MR. ANDERSON: I characterized it as that.  
22 Perhaps I'm mistaken.

23 MR. HALL: It's our understanding that  
24 that's the USPS methodology, and I believe it's from  
25 the last case. In any event, this last case was

1 settled, so I think I'm going to object on relevance  
2 grounds.

3 MR. ANDERSON: This is a library reference  
4 in this case, not the previous case, and it is our  
5 understanding, subject to double checking. It's our  
6 understanding this is the PRC methodology.

7 This was calculated by the Postal Service we  
8 believe using the PRC methodology. That's what we  
9 think this is. It was in response to a POIR.

10 BY MR. ANDERSON:

11 Q Mr. Taufique, you don't recognize this  
12 table?

13 A I've seen similar tables that look very much  
14 alike, but I can't tell you that this is exactly the  
15 one that I've seen before or not. I've used the  
16 numbers, and I don't even recall.

17 In fact, if you'll give me a minute I can  
18 tell you what reference I used for the discounts.

19 Q When you say reference you used for your  
20 discounts, I'm not sure whether that's going to  
21 address my question or not.

22 MR. TIDWELL: Well, it may clarify.

23 MR. ANDERSON: Sure. Whatever helps. By  
24 all means.

25 //

1 BY MR. ANDERSON:

2 Q Go ahead, Mr. Taufique. You wanted to make  
3 reference to something else?

4 A Okay. This looks like the workpaper from  
5 Witness Abdirahman. Let's see what library reference  
6 I used from him. No, I don't have the library  
7 reference on this particular page.

8 MR. TIDWELL: Are you thinking of Library  
9 Reference L-48?

10 THE WITNESS: I think I was thinking of  
11 L-48. Thank you.

12 BY MR. ANDERSON:

13 Q Would you take a look at that please, Mr.  
14 Taufique?

15 A L-48?

16 Q Yes.

17 A I don't have L-48 in front of me. I have  
18 L-141, which is the PRC methodology probably.

19 Q I see. I guess L-48 is the one that you  
20 calculated using your own benchmark, the new auto  
21 presort benchmark? Okay. That's a different library  
22 reference.

23 A I used information from LR-L-48 --

24 Q Right.

25 A -- for computing the presort discount of the

1 new benchmark that I have calculated.

2 Q Okay. Right. Thank you. Coming back to my  
3 question now, maybe perhaps this exhibit will serve to  
4 refresh your recollection about my question, which is  
5 if you were to use the old bulk metered mail  
6 benchmark, the costs avoided would be less than the  
7 proposed workshare discounts. Isn't that correct?

8 A I think all along if you look at the total  
9 cost difference or if you use a cost avoidance, a bulk  
10 metered mail benchmark, it goes without saying that  
11 the differences would be larger with our methodology  
12 compared to the difference that would be calculated  
13 given the BMM benchmark methodology.

14 The discount number calculated is unfamiliar  
15 to me because I have done incremental pass throughs,  
16 incremental changes from one level to the other.

17 MR. ANDERSON: Thank you.

18 Mr. Chairman, with apologies, we would like  
19 to have this exhibit entered. I guess I cannot get it  
20 verified at this point.

21 May we leave it numbered subject to  
22 confirmation of its origin and request later that the  
23 Commission make it part of the record?

24 CHAIRMAN OMAS: Well, we can make it part of  
25 the record right now.

1 MR. ANDERSON: Okay.

2 CHAIRMAN OMAS: It can be APWU-XE-1.

3 MR. ANDERSON: Thank you very much, Mr.  
4 Chairman.

5 MR. TIDWELL: Am I clear that it's just  
6 being transcribed?

7 CHAIRMAN OMAS: It will be transcribed.

8 MR. ANDERSON: Transcribed, yes.

9 MR. TIDWELL: As opposed to being entered  
10 into the evidence?

11 MR. ANDERSON: Yes.

12 CHAIRMAN OMAS: And it will be transcribed.

13 MR. ANDERSON: Thank you.

14 (The document referred to,  
15 previously identified as  
16 Exhibit No. APWU-XE-1, was  
17 transcribed into the record.)

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FIRST-CLASS MAIL PRESORT LETTERS SUMMARY

BENCHMARK RATE CATEGORY	Mail Processing		Delivery	Total		Proposed Discounts
	Total Unit Cost (1)	Worksharing	Worksharing	Worksharing	Worksharing	
		Related Unit Cost (2)	Related Unit Cost (3)	Related Unit Cost (4)	Related Unit Cost Savings (5)	
Bulk Metered Mail (BMM) Letters	13,129	11,410	4,126	15,536		
Nonautomation Presort Letters	24,529	21,091	4,130	25,220	(9,685)	2
Nonautomation Nonmachinable Mixed ADC	87,740	84,302	9,008	93,309	(77,774)	
Nonautomation Nonmachinable ADC	70,429	66,991	9,008	75,999	(60,463)	
Nonautomation Nonmachinable 3-Digit	61,583	58,145	9,008	67,152	(51,617)	
Nonautomation Nonmachinable 5-Digit	33,626	30,188	9,008	39,196	(23,660)	
Nonautomation Machinable Mixed AADC	24,595	21,157	4,126	25,282	(9,747)	
Nonautomation Machinable AADC	24,595	21,157	4,126	25,282	(9,747)	
Nonautomation Machinable 3-Digit	22,994	19,556	3,992	23,548	(8,012)	
Nonautomation Machinable 5-Digit	22,994	19,556	3,992	23,548	(8,012)	
Nonautomation Machinable Letters (All Presort Levels)	23,885	20,447	4,066	24,513	(8,977)	
Automation Mixed AADC Letters	6,017	5,437	4,278	9,715	5,821	7.4
Automation AADC Letters	4,958	4,378	4,132	8,510	7,026	8.5
Automation 3-Digit Presort Letters	4,589	4,009	4,067	8,075	7,460	8.9
Automation 5-Digit Presort Letters	3,383	2,803	3,795	6,597	8,938	10.8
Automation 5-Digit Presort Letters (CSBCS/Manual Sites)	3,717	3,136	6,063	9,199	n/a	
Automation Carrier Route Presort Letters	2,582	2,001	5,904	7,905	1,294	

Sources:

- [1] Total estimated costs including CRA adjustment factors
- [2] Estimated mail processing cost excluding non-worksharing fixed CRA adjustment factor.
- [3] Estimated mail processing cost excluding non-worksharing fixed CRA adjustment factor.
- [4] [2] + [3]
- [5] Appropriate benchmark [4] - rate category [4]

1                   MR. HALL: Will it be entered as evidence at  
2 this point?

3                   MR. ANDERSON: Yes. I would like to have it  
4 entered into evidence at this point. Its value will  
5 depend on confirmation of its origin, but it will be  
6 in evidence.

7                   MR. TIDWELL: As evidence supported by and  
8 presented by what party? The Postal Service is not  
9 sponsoring it.

10                  MR. ANDERSON: Maybe counsel for the Postal  
11 Service will recognize this as a POIR response by the  
12 Postal Service. If he does then that will solve the  
13 problem.

14                  MR. TIDWELL: I don't see any indication on  
15 that.

16                  MR. ANDERSON: No, I know you don't. That's  
17 not the question. I wonder whether counsel would like  
18 to confirm now and save me the trouble of having to do  
19 it later that it is in fact as I represented it.

20                  MR. TIDWELL: I have no way of confirming  
21 that.

22                  MR. ANDERSON: Okay. In that event --

23                  CHAIRMAN OMAS: You have no way of  
24 confirming that it was a POIR?

25                  Just a minute, Mr. Hall.

1           Mr. Tidwell, you have no way of identifying  
2 where this came from?

3           MR. TIDWELL: It indicates that it's from  
4 Library Reference L-141, which I understand to be PRC  
5 version costs which the Postal Service is not  
6 sponsoring in this proceeding and so I don't know that  
7 there's a basis.

8           There's been no witness to sponsor these  
9 costs in the record, so I don't think there's a  
10 foundation for trying to enter it into evidence at  
11 this point.

12           Now, if APWU wants to put on a witness to  
13 testify to these costs when their opportunity comes  
14 there's that, but we're not there yet.

15           CHAIRMAN OMAS: Okay. Mr. Anderson, would  
16 you please give me a written motion in order to admit  
17 it into evidence?

18           MR. ANDERSON: Yes, I certainly will, Mr.  
19 Chairman. Thank you.

20           CHAIRMAN OMAS: Thank you. Please move  
21 forward.

22           MR. ANDERSON: Thank you, sir.

23           BY MR. ANDERSON:

24           Q   Mr. Taufique, could I refer you to your  
25 testimony again? I'm sorry. Not to your testimony.

1 Pardon me. I want to refer you to APWU/USPS-T32-8(c).

2 We had asked you in that interrogatory  
3 whether the Postal Service had considered policies  
4 embodied in the Postal Reorganization Act other than  
5 the six factors listed in Section 3623(c).

6 While I don't want to quarrel with you, I do  
7 want to sharpen the focus a little bit here  
8 particularly with reference to Section 101(a) of the  
9 Act.

10 You reference that as being a notion, and it  
11 strikes me, I think you would agree with me, that it's  
12 a policy and not a notion, wouldn't you?

13 A The reason for listing Section 101(a) was  
14 basically we start off with the existing rate, and a  
15 lot of policies, a lot of the requirements in the  
16 policy are basically being met by the existing rates.

17 Unless you make a change, the reason to list  
18 3623(c) in my testimony was because you're making  
19 classification changes and you want to justify those  
20 changes in light of the classification criteria.

21 When you asked the question if I had used  
22 the pricing criteria, 3623(c), my answer was that my  
23 testimony, as well as the proposal, embodies all of  
24 the policies in Section 101(a), which talks about  
25 binding the nation together.

1           There's nothing that we have in this  
2 proposal that would change the notion that the Postal  
3 Service's goal is to bind the nation together through  
4 providing mail services.

5           Q     Maybe I can get you to do what I got an  
6 earlier witness to do, and that is to change one word  
7 in your response to that interrogatory and change the  
8 word "notion" to "policies" perhaps.

9                     Would you agree with me that those are  
10 policies and not notions?

11          A     I have no problem. I think we can make that  
12 change. I'll make the change. How do we go about  
13 making the change?

14          Q     No, no, no. You can just say so.

15          A     I'm saying that.

16          Q     Just say so, sir. That will do it. Thank  
17 you.

18                     Let me ask you about one other policy. I  
19 think you'll agree with this policy too. I'm reading  
20 from an earlier Postal Rate Commission decision. If  
21 you can't follow it -- I'll try to read slowly. It's  
22 just one sentence.

23          A     Okay.

24          Q     The Commission stated in MC95-1 at page  
25 Roman III-28, and now here comes the quote, "In

1 particular, there is no reason to shift institutional  
2 burdens from mailers who already benefit from a  
3 financially advantageous discount rate to other  
4 mailers, many of whom may not be able to take  
5 advantage of the discount."

6           Would you agree that there's no reason to  
7 shift the institutional burdens from the category from  
8 presort mailers to individuals?

9           MR. TIDWELL: Counsel, might the witness  
10 have an opportunity to benefit from reading the  
11 statement in context?

12           MR. ANDERSON: Absolutely. I only have one  
13 copy, but here, counsel. I've highlighted it in  
14 yellow and put two little arrows in the right margin.  
15 You can show it to him.

16           Feel free to read the whole passage if you'd  
17 like to. In fact, I hope the Commission will as well.

18           (Pause.)

19           THE WITNESS: Yes. I've looked at the  
20 phrase. In fact, our proposal does exactly what we're  
21 being asked to do over here by requiring that the  
22 contribution of presort category should be the same as  
23 the contribution of single piece.

24           BY MR. ANDERSON:

25           Q     Okay. So you agree with that highlighted

1 passage that I quoted and believe in fact that your  
2 proposal conforms to that policy? Is that correct?

3 A I sincerely believe that we try to -- in all  
4 of this delinking, our goal was not to propose  
5 separate subclasses. We did not provide any evidence  
6 or any testimony in support to propose separate  
7 subclasses between presort and single piece.

8 We wanted to keep the link because there's  
9 still an overlap between single piece and presort. We  
10 wanted to keep the link alive. We wanted to make sure  
11 that both of these categories essentially pay the same  
12 contribution even though there are significant cost  
13 differences on a per unit basis.

14 Q So what you've done is you've set up new  
15 categories without setting up a new subclass  
16 essentially? You avoided a subclass by setting up new  
17 categories?

18 A When we have subclasses we have separate  
19 markets, separate cost coverages, separate  
20 contribution.

21 By keeping this link, I don't think this  
22 link has been appreciated in this whole discussion  
23 over here. We are requiring both of these mail  
24 categories to contribute equally to the institutional  
25 cost.

1           All of the delinking, because of the changes  
2           in both single piece and presort, what we're dealing  
3           in is how we develop the rates, but the strong link  
4           that is by keeping the contributions the same, this is  
5           one subclass.

6           We agree with the notion that just because  
7           somebody is in worksharing that their contribution to  
8           the institutional costs should go down because of the  
9           worksharing. I don't think we have -- unless I have  
10          missed something, I don't think we have done anything  
11          to violate this particular principle.

12          Q     I think you may have mis-spoken. You agree  
13          that their contribution to institutional costs should  
14          not go down simply because they're worksharing?  
15          That's what you meant to say, I think.

16          A     Our target, and we're not always able to  
17          achieve our target when we start out doing rate  
18          factors that go into rate design. Our target is to  
19          reach a point where both of these categories provide  
20          the same per unit contribution to institutional costs.  
21          That is the goal.

22          We started out with that goal, and I think  
23          in the end we're not that far off. Our goal is to  
24          maintain these contributions to be the same between  
25          these two categories.

1           Q     You certainly stayed with that message very  
2 nicely this morning, but no further comment.

3                     Let's go back to another much more specific  
4 question and see if I can get you to agree with  
5 something on a different topic.

6                     It's my understanding, and let's see if you  
7 agree with me from your observation about presort  
8 bureaus, that they typically take business mail with  
9 the expected postage on it, that is the discounted  
10 postage already on it. Isn't that typically what  
11 presort mailers deal with?

12           A     There are a number of business margins. I'm  
13 not familiar with all of them.

14           Q     All right. Would you agree with me that  
15 many of the discounted rates require fractions of  
16 pennies? The discounted rates are not all in whole  
17 pennies, whole cents?

18           A     In designing rates, all of our retail rates  
19 are rounded to a whole penny, but on the bulk side  
20 we're not so concerned about maintaining the rounding  
21 to a whole cent or in some cases five cents.

22           Q     So that presorted mail is typically metered  
23 and faced because it has to run through a meter  
24 machine, correct, in order to have that kind of  
25 postage on it?

1           A     I asked a bunch of customers because I was  
2 confused myself. It appears that the precanceled  
3 stamps also can be used. What cannot be used -- this  
4 is my understanding. I'm not an expert on that  
5 subject, but I asked a bunch of questions on this  
6 subject.

7                     It's my understanding that most of the mail  
8 would be metered. Precanceled stamps could be used.  
9 What cannot be used is the light stamp.

10           Q     Right.

11           A     A stamp that has phosphorous and can go  
12 through the FCS and canceling process.

13           Q     So you would agree with me that all the  
14 stuff that goes through the presort bureaus looks a  
15 lot more like bulk metered mail than collection mail?

16           A     Amazingly enough, I think if you look at the  
17 breakdown, and I think I've provided that. I'm not  
18 sure if it's been provided or not.

19                     If you look at the indicia of single piece  
20 there is so much mail. There's a lot of metered mail.  
21 There's a lot of -- 58 percent I think or a slightly  
22 higher percent is stamped mail. I think it's metered  
23 mail, as well as maybe there's some people who may  
24 have permits. I'm not sure.

25                     MR. ANDERSON: Okay. That's all I have for

1 you. Thank you. Thank you very much for your  
2 testimony.

3 THE WITNESS: Thank you.

4 CHAIRMAN OMAS: Thank you, Mr. Anderson.

5 Greeting Card Association, Mr. Horwood? Mr.  
6 Horwood, would you identify yourself for the record,  
7 please, and proceed?

8 MR. HORWOOD: I'm James Horwood representing  
9 the Greeting Card Association.

10 CROSS-EXAMINATION

11 BY MR. HORWOOD:

12 Q Good morning, Mr. Taufique.

13 A Good morning.

14 Q In developing your proposed rate design for  
15 single piece first class letter mail did you give  
16 individual consideration to any characteristics  
17 belonging to particular subtypes of letter?

18 A What do you mean by subtypes of letters?

19 Q Low aspect letters, letter-shaped that's  
20 abnormal thickness of letters.

21 A In the current proposal, the Postal Service  
22 has chosen to propose rates by shapes. For that  
23 reason, basically the non-machineable surcharge is  
24 applicable to either lightweight parcels, lightweight  
25 flats or letters that were not machineable on letter

1 equipment or letter automation for paying the non-  
2 machineable surcharge.

3 In this particular case since we have  
4 decided to propose rates based on shapes -- letters,  
5 flats and parcels -- basically all the pieces that  
6 cannot be machineable on the letter automation  
7 equipment are proposed to pay the higher rate  
8 category, which is the rate for flats.

9 That's our proposal in this case. I don't  
10 know if I answered your question or not.

11 Q So the degree of machinability was the  
12 factor that you considered?

13 A My understanding is that a letter-shaped  
14 piece goes through letter automation starting from the  
15 facer canceler to the BBCS and all the other machines.

16 If those pieces are rejected through the  
17 AFCS they are either processed manually or processed  
18 on a different type of equipment, so those pieces are  
19 required to pay the higher flat-shaped rate.

20 Q Would it be fair to say then that you  
21 proceeded by calculating the difference between one  
22 cost aggregate comprising all single pieces and  
23 another aggregate comprising all single piece flats  
24 and based your letter versus flat rate differential on  
25 that difference?

1           A     Let's go to my testimony where I explain the  
2 shape-based rates.

3           Q     Okay.

4           A     If you can find that before I can, please  
5 point me to that.

6                     Okay. I think page 23 would be the place  
7 that I would look at. I did not look at all the  
8 aspects, all the cost causing characteristics of flats  
9 and parcels versus letters.

10                    I looked at only mail processing and  
11 delivery cost, looked at the difference between  
12 letter-shaped pieces and flat-shaped pieces and  
13 applied a very conservative factor of 55 percent for  
14 flats to come up with the additional cost that would  
15 be borne by pieces that are flat-shaped.

16                    Does that answer your question?

17           Q     Yes. You observed that where the cost of  
18 converting to a lower cost shape is low and the new  
19 shape is consistent with the mailer's needs, the  
20 result will be more lower cost mail than where the  
21 mailer needs to go on sending, for instance, flats  
22 rather than letters.

23                    There will continue to be costly shapes, but  
24 the Postal Service will be better compensated for  
25 them. Would that be a fair characterization of your

1 testimony?

2 A Are you reading from my testimony? What  
3 page?

4 Q I'm looking at page 22 and page 23.

5 A Okay. Page 22. Like I said in my  
6 discussion with APWU counsel, if you're able to  
7 provide a good signal to the mailers then either they  
8 can change their behavior if it's possible or they  
9 know that the cost causing characteristic of their  
10 mail piece is priced and they should be bearing the  
11 cost rather than everybody else bearing the cost.

12 Q Did you consider a situation in which the  
13 mailer who let's say has the option of mailing or not  
14 would be discouraged by the new higher rate for a flat  
15 from sending the contemplated piece at all through the  
16 mail?

17 A Generally speaking, the price elasticity is  
18 considered when we go through the factors in our rate  
19 design.

20 We would propose and come up with a set of  
21 rates. We provide the rates to the people who do  
22 forecasting, and they run the new rates through their  
23 own forecasting models. Price elasticity is one of  
24 the factors. There are a number of other factors.

25 They would give us back volume forecasts

1 that would be different than the rate and volume  
2 forecasts. The price elasticity, generally speaking,  
3 is taken into account through that process, if that is  
4 your question.

5 I do not do any forecasting or price  
6 elasticity work in my rate design if that is your  
7 question.

8 Q Your proposed single piece first class rate  
9 design involves a change in mail classification,  
10 doesn't it?

11 A Yes, it does.

12 Q Okay. Is it your understanding that in  
13 order to be able to recommend that rate design or any  
14 significant aspect of it the Commission would have to  
15 find that what it was recommending was consistent with  
16 the standards of the Postal Reorganization Act?

17 A I think we would be concerned about making  
18 sure that what we are proposing conforms to the  
19 standards and requirements of the Postal  
20 Reorganization Act also.

21 Q And when you say you would be concerned, is  
22 it your understanding that it must conform?

23 A Yes, it must because our attorneys would  
24 give a green signal to the proposal before it's filed.

25 Q Is it your view that one of the criteria of

1 some mail classification is that groupings of mail  
2 should be homogeneous?

3 A Are you referring to the pricing criteria,  
4 the nine pricing criteria? I don't have a copy of  
5 that.

6 Q I'm not talking about theatrically, but just  
7 whether your view of some mail classification is that  
8 groupings of mail should be homogeneous.

9 A Beyond the policies, in terms of creating  
10 subclasses the Commission has had many requirements of  
11 how would you justify a subclass.

12 In fact, the discussion that we had on  
13 MC95-1 talked about the Postal Service proposed a  
14 subclass for presort and single piece, and that was  
15 rejected by the Commission based on the argument that  
16 there were not significant market differences between  
17 those two subclasses, those two categories of mail.

18 There are a number of reasons why things  
19 would be lumped into one subclass. I have not given  
20 it much thought as to all that would be required to  
21 define a subclass or not define a subclass because our  
22 proposal was not to create subclasses in this  
23 particular docket.

24 Q Is it a feature of the existing design of  
25 single piece first class rate that pieces with widely

1 different cost characteristics are lumped together as  
2 letters?

3 A The Postal Service defines letters based on  
4 its processing capabilities. If some pieces can be  
5 processed on a certain type of equipment they're  
6 defined as letters. If they're not processed on this  
7 type of equipment then --

8 Q Okay. You're talking about letter shape,  
9 are you not? I'm just talking about the overall  
10 subclass of letters. Aren't those widely divergent?  
11 It's kind of a catch-all category for single piece  
12 first class mail?

13 A The subclass that is called single piece  
14 letters and sealed parcels has all kinds of mail, yes,  
15 if that is your question. Letters and sealed parcels  
16 have letters, flats, parcels and odd shaped pieces  
17 also.

18 Q Okay. So your proposed rate design sets out  
19 to group pieces with similar cost categories together  
20 in more than one category then -- some as letters,  
21 some as flats, some as parcels?

22 A The purpose of this particular proposal, the  
23 goal of this proposal was to differentiate mail based  
24 on how the Postal Service processes the mail.

25 You don't process a flat-shaped piece the

1 same way that you process a letter-shaped piece versus  
2 a parcel-shaped piece, so the goal in this particular  
3 docket was to propose rates that would provide a  
4 processing of the mail.

5 Q Do these differences lead to cost  
6 differences?

7 A That is what I have used, the cost  
8 differences, in order to prepare the rates that I  
9 propose for flats and parcels.

10 Q So is it fair to say that a goal or at least  
11 a foreseeable result of your proposal would be to  
12 create three groupings that are each more homogeneous  
13 than the existing grouping?

14 A In terms of our processing, yes, it would  
15 be.

16 Q Let's turn, please, to pages 44 and 45 of  
17 your testimony.

18 On page 45 beginning on line 7 and following  
19 you speak of mailers who will, and I'm quoting,  
20 "continue to send flat- or parcel-shaped first class  
21 mail pieces." By that phraseology are you --

22 A What line number?

23 Q Line 7 and following. Yes, line 7. "It is  
24 expected that many mailers will continue to send flat-  
25 or parcel-shaped first class mail pieces."

1           By that phraseology are you simply referring  
2 to pieces that under your proposal would pay the flats  
3 rate or the parcels rate as the case may be?

4           A     Yes.

5           Q     Okay. Let's go back to pages 22 and 23 of  
6 your testimony. In the table on page 23 you show cost  
7 differences between a letter and a flat. I'm sorry.  
8 Between single piece letters and single piece flats.

9           I want to make sure I understand how you  
10 arrived at your 37.1 cent unit cost difference between  
11 a letter and a flat is the sum of the unit mail  
12 processing cost difference and the unit delivery cost  
13 difference. Is that right?

14          A     Okay. If you look at the rural label  
15 letters --

16          Q     Yes.

17          A     -- the unit cost for mail processing for a  
18 single piece letter is 12 cents.

19          Q     Right.

20          A     The delivery unit cost is 7.7 cents. Add  
21 those two numbers up. That gives us 19.7 cents.

22                 The rural label flats, the unit mail  
23 processing cost of flats for single piece flats is  
24 42.5 cents. Delivery cost is 14.3 cents. Add those  
25 two up, and you get 56.9.

1                   The difference between 56.9 and 19.7 I hope  
2 will give you 37 cents. If I've not done the  
3 arithmetic right I am to be blamed, but that was the  
4 goal.

5           Q       Okay. Am I correct that the unit costs that  
6 produced those differences are the costs computed by  
7 Mr. Smith and Mr. Kelley?

8           A       Yes. There's a footnote under the table  
9 that refers to them. Yes.

10          Q       Yes. In arriving at his 12 cent unit  
11 processing cost for letters, did Mr. Smith, to your  
12 knowledge, include all single piece first class  
13 letters in his calculation?

14          A       Didn't you ask me an interrogatory on the  
15 subject? I thought there was something that GC had  
16 asked me on that subject.

17          Q       I don't think it was one of our  
18 interrogatories.

19          A       You're right. Okay. Maybe not.

20                   My understanding is that for CRA purposes  
21 they define letters based on the traditional  
22 definition of letters, and they go with the  
23 traditional definition of flats that is given in the  
24 DMM. Don't ask me to define them. I won't be able to  
25 do it for you.

1                   Yes, they would look at all the letters and  
2 all the flats in that regard.

3           Q     So it is all single piece first class  
4 letters for his 12 cent calculation and flats for his  
5 42.5 cent unit cost calculation?

6           A     Yes.

7           Q     As far as you know, did Mr. Kelley include  
8 all single piece letters and all single piece flats in  
9 calculating his unit delivery cost of 7.7 cents for  
10 letters and 14.3 cents for flats?

11          A     As far as I know. I have not looked at his  
12 work in detail. I used the numbers that people  
13 provided.

14          Q     If we assume that that's what he did would  
15 it be correct then to say that the unit costs you used  
16 reflect single piece mail streams that have a certain  
17 proportion of non-machineable pieces in them?

18          A     Probably more in proportion. I was asked to  
19 break it down by letters, flats and parcels, and I did  
20 that. I think those numbers are there.

21          Q     The letter-shaped mail stream used by Mr.  
22 Smith and Mr. Kelley then would presumably have  
23 included some low aspect ratio letters, wouldn't it?

24          A     I have stated that in my interrogatory  
25 response, I think. You asked that question, and I

1 said yes, that would be the case.

2 Q Okay. Let's go to page 12. There you  
3 discuss your proposal to delink workshare and single  
4 piece rates in the rate design.

5 You discuss the idea that establishing rate  
6 differentials by reference to particular cost  
7 characteristics may not, and I am now quoting, "ignore  
8 cost causing characteristics that while not expressly  
9 associated with the worksharing activity for which the  
10 cost avoidance and discount are being measured and  
11 developed nevertheless are associated with their  
12 mail."

13 A I apologize. I flashed off. What number  
14 were you on?

15 Q Page 12, or actually page 13.

16 A Of my testimony?

17 Q Looking at line 3 and following.

18 A Page 12 or 13?

19 Q Page 13, lines 3 through 6.

20 A Okay.

21 Q On line 13 when you talk about "associated  
22 with their mail," there do you mean users of the  
23 presort categories?

24 A Line 13?

25 Q I'm sorry. Line 6 on page 13. Excuse me.

1           A     Line 6 on page 13.  Okay.  That is a long  
2 sentence, isn't it?

3           Q     I just want to make sure I understand what  
4 the antecedent of the word "their" is.

5           A     In the context, "their" would be their  
6 presort mail.

7           Q     Okay.  Are some of the unrecognized  
8 characteristics present in some mail not entered in  
9 the presort category?

10          A     One more time, please.

11          Q     Okay.  Are some of those unrecognized  
12 characteristics that are present in some mail not  
13 entered in a presort category?

14          A     I'll tell you my ignorance basically, but by  
15 using the cost numbers the way they are presented in  
16 CRA --

17          Q     Yes.

18          A     -- I don't have to know all the details of  
19 cost differences between those two.

20                 If you're asking me about specific cost  
21 characteristics, I have not studied those.  There are  
22 significant differences.  The CRA is the bottom of  
23 cost number which includes all the cost causing  
24 characteristics of each type.

25          Q     Okay.  Just one final matter.  Let's turn to

1 pages 15 and 16 of your testimony. You there discuss  
2 the goal of equal unit contributions from presort and  
3 single piece letters.

4 At the top of page 16 you say, and I'm  
5 quoting, "Other rate design and rate impact  
6 considerations may require the Postal Service and the  
7 Commission to deviate from this goal."

8 Can you give me an example of a rate impact  
9 consideration that would require such a deviation?

10 A The revenue requirement from the overall  
11 first class subclass could cause us to deviate.  
12 Deaveraging in one place or the other would cause us  
13 to deviate from that goal.

14 All that we're saying is that we want to  
15 maintain that goal and we want to strive towards that  
16 goal. We will not achieve it all the time.

17 Q If you saw a sharp decline in presort volume  
18 after the rate increase went into effect would that  
19 cause you to then deviate from this equality in the  
20 next rate case?

21 A First of all, I hope not.

22 Q Hypothetically assume that there were a  
23 sharp decline. Would that cause you to deviate from  
24 this principle in the next case?

25 A I really can't comment on that. This whole

1 rate design -- there's a lot of people who have input,  
2 and a lot of people look at the rates that we design  
3 so I really don't know if a sharp decline in one or  
4 the other. I don't think I'm in a position to answer  
5 that.

6 Q Would you at that time look into the causes  
7 for the sharp decline?

8 A Of course. We would definitely be concerned  
9 about the causes of sharp decline, but the rate design  
10 and how that would be affected, I am not sure right  
11 now. I have not thought about it.

12 Q When would you consider deviating from this  
13 equality principle if there were a sharp decline? I'm  
14 not asking you if that's the decision you would make,  
15 but whether it would be a consideration.

16 A Among many of the considerations, that would  
17 be one of them.

18 MR. HORWOOD: Thank you. I have no further  
19 questions.

20 CHAIRMAN OMAS: Thank you, Mr. Horwood.

21 Our next cross-examiner is Mr. May with  
22 Parcel Shippers Association. Mr. May, would you  
23 please introduce yourself for the record?

24 MR. MAY: I am Timothy May, counsel for the  
25 Parcel Shippers Association.

1 CROSS-EXAMINATION

2 BY MR. MAY:

3 Q Good morning, Mr. Taufique.

4 A Good morning.

5 MR. TIDWELL: I hate to interrupt, Mr.  
6 Chairman, but I was wondering if we might afford the  
7 witness a brief break at this time?

8 CHAIRMAN OMAS: Sure. I guess we could take  
9 a 10 minute break.

10 MR. TIDWELL: Thank you.

11 (Whereupon, a short recess was taken.)

12 CHAIRMAN OMAS: Mr. May?

13 MR. MAY: Yes.

14 CROSS-EXAMINATION

15 BY MR. MAY:

16 Q Mr. Taufique, I am going to ask you some  
17 questions about first class parcels. If you would  
18 refer to your answer to Parcel Shippers Question 4?

19 A Mm-hmm.

20 Q Thank you. Yes. Am I correct that there  
21 you said that you're proposing to increase the average  
22 rate for first-class mail single piece parcels from  
23 \$1.45 to \$1.88? Is that what you say there?

24 A What I'm saying in this response is the  
25 average unit postage for PYGR is \$1.45, and the

1 average in postage for that -- I'm sorry. I  
2 apologize. Let me repeat that again.

3 Q Isn't the answer yes? Isn't that all we  
4 need to say is yes?

5 A Not on this one.

6 Q No, I said are you there proposing to  
7 increase the average rate for first-class mail single  
8 piece parcels from \$1.45 to \$1.88?

9 A On average that is true.

10 Q Thank you. Now, if you could do some rough  
11 mathematics isn't that about an average rate increase  
12 of 30 percent?

13 A Don't have a calculator with me. Subject to  
14 check I'll accept that.

15 Q Thank you. In 2005 almost all first-class  
16 mail parcels were entered at single piece rates. Is  
17 that correct?

18 A The majority was entered at single piece  
19 rate. Yes.

20 Q I think the reference is in your library  
21 workpaper 129. Do you have that by the way?

22 A Yes, I do.

23 Q I'm going to ask you some questions about  
24 that today. So you do have that handy?

25 A Sure. I do have that handy.

1 Q I believe that the FCM-5(a) and 5(b) have  
2 those numbers do they not where it shows that indeed  
3 that parcels were 311,527,000 versus business parcels  
4 of 8,393,621, so that would be the case that almost  
5 all first-class mail parcels were entered at single  
6 piece rates would they not be in 2005?

7 A Yes. The numbers are I think 486 million  
8 parcels in first-class single piece and 8.4 million  
9 parcels in presort for 2005.

10 Q Well, I believe if you look at 4(a) the  
11 single piece parcels at the bottom of the page there  
12 are 311 million.

13 A I'm trying to look. What number is this?

14 Q 5(a).

15 A Okay.

16 Q FCM-5(a).

17 A These are different ones that reverse later  
18 on as the reverse of PSA Interrogatory No. 20, so but  
19 the new revised worksheet has that the parcel reversal  
20 also which is the new sheet that was added in my  
21 revision of the workpapers, so we reversed that  
22 basically because your question had asked us to  
23 identify the cost reductions that would result as a  
24 result of mailers presorting the parcels.

25 Q Well, we'll get to that.

1 A To make it consistent we --

2 Q I know. I'm going to ask you about that by  
3 the way, but suffice it to say you would agree that  
4 almost all first-class mail parcels in 2005 were  
5 entered at single piece rates were they not?

6 A Most of them. Yes, they are.

7 Q Now, just for the record you were looking at  
8 USPS-LR-L-129 and for the record there is the original  
9 that you filed and then a revised version that you  
10 filed on August 24. Is that correct? Just so the  
11 record is clear on that.

12 A Yes.

13 Q Okay. Now, if you will turn to your answer  
14 to PSA Question No. 1?

15 A Yes, sir.

16 Q If you look at the second and third pages,  
17 particularly page 3, in that response you have a table  
18 at the bottom of the page.

19 A Yes, sir. I do.

20 Q Now, according to that you are proposing a  
21 92.3 percent rate increase for one ounce single piece  
22 parcels. Is that correct?

23 A Yes, sir.

24 Q And a 90.5 percent rate increase for two  
25 ounce single piece parcels?

1           A     That is accurate.

2           Q     And a 60.9 percent increase for three ounce  
3 single piece parcels?

4           A     That is accurate.

5           Q     And a 44.1 percent rate increase for four  
6 ounce single piece parcels?

7           A     That is accurate.

8           Q     Now, nearly half of all first-class mail  
9 single piece parcels weigh four ounces or less, do  
10 they not, referring to the table you have on page 2?

11          A     Yes.

12          Q     Thus that means that you are proposing an  
13 increase of at least 44 percent and as high as 92  
14 percent for almost half of first-class mail parcels.  
15 Is that correct?

16          A     When you start with the whole issue of  
17 calculating percent changes, when you start with the  
18 artificially lower base an increase looks very big.  
19 In this case the goal was to recognize these shapes  
20 and the cost that is caused by shapes in our rates and  
21 to relieve the burden that additional ounces were  
22 carrying.

23                   Additional ounces were carrying the burden  
24 of both the additional rate and the cost that is  
25 caused by shapes. I completely understand your

1 argument that there could have been some sort of an  
2 average if that is what you're asking. The 30 percent  
3 was the overall average. Why didn't we do the 30  
4 percent across the board for all of the parcels at  
5 different weight increments?

6 But it appears that the heavier weight  
7 parcels that have a huge number of additional ounces  
8 are compensating, they have more revenues associated  
9 with additional ounces, and the lower weight,  
10 especially in the two to three ounce range, we don't  
11 look at the implicit cost coverages by shape, but  
12 basically that is the problem that's happening, and in  
13 order to recognize the affect of shape, we did  
14 whatever we could do to mitigate this increase also.

15 I mean, we used the best number that we  
16 knew. In fact, we did not even look at the overall  
17 cost difference, we only selected two of the major  
18 categories of cost, which is mail processing and  
19 delivery, and we applied a pass-through for around 50  
20 percent to come up with the cost difference that was  
21 applied to the letter shaped mail to come up with the  
22 new rate for flats and parcels.

23 So, but I understand your concern, but in  
24 the context of what was happening in the proposal to  
25 recognize these costs of shapes in our mailstream and

1       how they're processed in our mailstream we did  
2       whatever we could do to mitigate the impact, but the  
3       result is that when you start with the small base the  
4       percents look significantly larger than the overall  
5       increase.

6           Q       That's all very interesting, but the only  
7       thing I asked you whether or not it was the fact that  
8       you were proposing rate increases from 44 to 92  
9       percent for almost half of the class of single piece  
10      parcels and the answer is yes, you are proposing that.  
11      Now, you explained why, but you are proposing that are  
12      you not?

13           A       For about 47 percent.   Yes.

14           Q       All right.   Thank you.   Have you ever  
15      proposed a 44 percent rate increase for any other mail  
16      category in all your years in postal rate making?

17           A       I don't know.

18           Q       Can you recall?

19           A       See, I've worked with periodicals for most  
20      of my postal career and there were some really strange  
21      things, but I don't know.   I can't say one way or the  
22      other honestly.

23           Q       Would the fact that the impact of such high  
24      increases, would that have deterred you from such high  
25      proposals in the past?

1           A     I think in this particular case also the  
2     impact would have been much higher if we had not  
3     mitigated the impact by using conservative pass-  
4     throughs and by using only two cost components, not  
5     all of the cost differences. So I think we have  
6     reduced the impact as much as we could given the  
7     nature of the proposal.

8           Q     I'd like to discuss the errata you filed in  
9     your LR-L-129.

10          A     Yes, sir.

11          Q     I just want to make sure we understand what  
12     you did there.

13          A     Okay.

14          Q     Do you have your original library reference  
15     handy?

16          A     No. I don't have the original, I have the  
17     revised one.

18          Q     Well, let me ask you this. Maybe you can  
19     just confirm that in your original library reference  
20     you assumed that 36 percent of single piece parcels  
21     and all presort parcels would shift to the new first-  
22     class mail business parcel category did you not?

23          A     Yes. We assumed that.

24          Q     By the way the reference for that for the  
25     purpose of the record would be Workpaper FCM-5(a) of

1 the original workpaper. Just for the record. Now, no  
2 one made an adjustment did they to first-class mail  
3 parcel costs to reflect this migration to the new mail  
4 business parcel category? In other words nobody  
5 reduced the costs of the migration of those parcels to  
6 a different subclass did they?

7 At least that's what your answer to Question  
8 No. 20 said. Is that correct?

9 A That is accurate, and that is why the errata  
10 was filed, to shift the volume back.

11 Q Yes. That's what your answer says.  
12 Therefore you're revising your revenue projections to  
13 be consistent with the cost of the subclass and to  
14 reflect no shifting of volume. Is that correct?

15 A For the calculation of revenue the proposal  
16 still stands that we are -- our goal was to provide an  
17 alternative for business mailers who could presort  
18 their parcels and then make them automation compatible  
19 to the extent that we're asking for to give them an  
20 alternative to get lower rates in light of what we  
21 were proposing for single piece parcels, so that is  
22 why we had proposed the business presort category for  
23 parcels and first-class mail and unfortunately we  
24 overlooked the part of shifting the cost.

25 That is why for every calculation purposes

1 we shifted the volume back, but the proposal still  
2 stands that there is an alternative available for  
3 business mailers who can presort their parcels to  
4 either ADC, three digit or five digit and make them  
5 automation compatible with the five digit barcode to  
6 be able to use those rates that are much lower than  
7 the 92 percent that we proposed for single piece.

8 Q Right. In other words you originally  
9 shifted 36 percent into the new business parcel class,  
10 so the revenue went there, but you left the cost  
11 behind still stuck on single piece parcels, so to  
12 correct that in your refiling you moved the volume  
13 back into single piece parcels. Is that correct?

14 A I don't think we look at revenue for parcels  
15 by several costs for parcels. The costs stayed with  
16 single piece category, which was letters, flats and  
17 parcels, and parcels as you know are a very small  
18 portion of single piece compared to about  
19 approximately 40 billion pieces of parcels, a half a  
20 billion pieces.

21 So the costs did not stay with parcels  
22 alone. It was the single piece category and not in  
23 the presort category.

24 Q Well, just let's take you through the steps  
25 of the revision. If you have before you a paper, it's

1 about the 37th page. There's no enumeration on this  
2 workpaper, but it's about the 37th page of the revised  
3 workpaper and at the bottom there's a tab that says  
4 parcel presort assumption reverse.

5 A I think I have that page without the  
6 indication at the bottom, but I think I have the page.  
7 Yes.

8 MR. MAY: Counsel, do you want a copy?

9 (Nonverbal response.)

10 BY MR. MAY:

11 Q Again, for the record this workpaper is  
12 either on one or two pages depending upon how your  
13 computer prints it out. Mr. Taufique, you're with me?  
14 You have the same document I have do you not?

15 A I think so.

16 Q Good. Now, in that worksheet your errata  
17 reduced the test year after rate first-class mail  
18 business parcel postage by around \$240 million did it  
19 not?

20 A That's true.

21 Q Yes. Then the second step your errata then  
22 increased the test year after rate first-class mail  
23 single piece parcel revenue by \$238 million. Is that  
24 correct? That would be right below that.

25 A \$283 million.

1 Q Pardon me?

2 A \$283?

3 Q \$283.1 million.

4 A Right. Right.

5 Q Your errata also increased the test year  
6 after rate first-class mail single piece presort  
7 parcel revenue by \$5.2 million.

8 A Those are the small parcels or number of  
9 parcels that remain in presort.

10 Q Right. So if you add that up that would be  
11 a net increase in revenue from first-class mail  
12 parcels of nearly \$50 million, would it not, as  
13 compared to your original projections? The math in  
14 that is you've subtracted \$239.8 million and you've  
15 added in \$283.1 million and \$5.2 million to get you to  
16 a net increase of about \$50 million. Is that not  
17 correct?

18 A Approximately. A little bit less, but yeah,  
19 approximately.

20 Q Yes. Okay. Now, you are projecting 11 to  
21 12 cents per piece in additional postage from first-  
22 class mail parcels. That would be relative to your  
23 original estimate. In other words you have 417  
24 million parcels, you've got an additional \$50 million  
25 more revenue than you began with for the same number

1 of parcels and if you divide that \$49 million  
2 additional by the 417 million you get between 11 and  
3 12 cents per piece increase. Is that not correct?

4 A What it increases would be different between  
5 the weighted average rate of presort parcels that  
6 we're proposing and the application of single piece  
7 rates for the same parcels.

8 Q No. I'm talking about the fact that there  
9 are a total of 417 million parcels before and after  
10 you adjustment. The same number of parcels. That  
11 hasn't changed total. Isn't that correct? If you  
12 look at Workpaper FCM-5(a) you'll see in the test year  
13 after rates 417.5 million total parcels. Test year  
14 after rates.

15 A What page were you on?

16 Q Workpaper FCM-5(a).

17 A Okay. This is in TYAR, right?

18 Q Yes. TYAR, test year after rates.

19 A Right.

20 Q 417 million parcels.

21 A 417 single piece parcels.

22 Q That's correct. 417 single piece parcels.  
23 You now have an additional \$50 million or \$49 million  
24 of revenue you have agreed that is being produced  
25 after your adjustment.

1           A     Based on the assumption -- I need to clarify  
2           that we're not abandoning the proposal that parcels  
3           could use -- Postal who presort their parcels to three  
4           digit and five digit could use the presort rate. In  
5           order to match the revenue with costs this shift was  
6           done, but the proposal still remains that a lot of  
7           these parcels would take advantage of the lower  
8           presort rates and would presort their parcels, so  
9           we're not abandoning that part.

10                     This is basically an exercise to make sure  
11           that our cost numbers match our revenue numbers. Is  
12           that your -- I'm not sure.

13           Q     Well, but, Mr. Taufique, you went through  
14           this and this is on what you call your presort  
15           assumption and reverse where you reduced the revenue  
16           in your new business class by \$239.8 million, you  
17           removed that \$239.8 million, but then you added back  
18           in to single piece parcels \$283 million and \$5 million  
19           for a net increase in the total revenue of almost \$50  
20           million. Is that not correct?

21           A     That is correct, and that was done to match  
22           the --

23           Q     I don't care why. I'm just saying isn't  
24           that correct?

25           A     It is correct.

1           Q     Now, you have 417 million parcels and if you  
2     spread that \$50 million or \$49 million increase over  
3     those 417 million parcels then you get a total  
4     increase of 11 to 12 cents per piece do you not?

5           A     That is assuming that we're abandoning the  
6     proposal that parcels that are able to be -- parcel  
7     mailers were able to presort due to greater degree and  
8     make the parcels automation compatible would not use  
9     that category because we still think that the proposal  
10    is to provide an alternative for parcel mailers to  
11    presort. So to assume that all of the \$50 million  
12    would be used to reduce the single piece rates would  
13    not be accurate.

14          Q     Well, but that's what you did in your  
15    revision.

16          A     In my revision as I stated that since the  
17    cost numbers did not include the reduction in cost of  
18    the cost of the presorting of the parcel we wanted to  
19    make sure that the revenues and costs matched  
20    accurately, but we're not taking back our proposal  
21    that parcel mailers should be able to use the presort  
22    rate. If they're able to use the presort rate the  
23    revenue would decline and so would the cost, but there  
24    would be movement from single piece to presort.

25          Q     Yes, but that is not what your revision

1 says. Your revision says you will not have this 36  
2 percent of parcels shifting. That will happen and  
3 therefore the revenues have to change. That's what  
4 your revision says, and I want to know why didn't you  
5 use the additional 10 to 11 cents per piece parcel of  
6 revenue to reduce some parcel business, first-class  
7 parcel rates?

8 Why didn't you use that instead of simply  
9 once you made the adjustment pocketing the additional  
10 \$50 million?

11 A I would not use the term pocketing the \$50  
12 million, but the issue is evasive. We proposed an  
13 alternative for parcel mailers. We're not giving up  
14 on that. We think that is a good proposal. We think  
15 that some parcel mailers would be able to use the  
16 rates that we have proposed for presort parcels.

17 If you're talking abandon, that particular  
18 category, the presort parcel category, then I would  
19 buy your argument that the additional \$50 million  
20 could have been used for some other purpose. I don't  
21 know what purpose that would be. So I think the  
22 answer to your question is that I did not do that  
23 because we are still maintaining that the business  
24 presort parcel is the category that we're proposing.

25 We hope the Commission will recommend it.

1 We hope that the mailers who are able to take  
2 advantage of that will presort their parcels and that  
3 will help us as well as the mailers.

4 Q If they did that and some of those things do  
5 shift then the costs would also shift, would they not,  
6 so that would reduce the costs for single piece  
7 parcels. That's what you failed to do in your  
8 original workpaper. Isn't that correct?

9 A Okay. Maybe if I'm understanding your  
10 question accurately. Let me sort of see. What you're  
11 implying is that I should look at parcels as a  
12 separate subclass. If I look at parcel revenues,  
13 what's the parcel cost overall, your implication is  
14 that I should be looking at parcels as a separate  
15 subclass and we don't do that.

16 We don't even calculate cost coverages for  
17 parcels even though -- just for educational purposes,  
18 I think for ability to understand what we're talking  
19 about, if you can refer to the ABA -- I did not do  
20 that on my own, I did not even calculate the numbers  
21 -- ABA-7 I believe. ABA-7 and APM-7.

22 In this particular interrogatory I was asked  
23 to calculate the implicit cost coverages which like I  
24 said as a matter of policy we do not calculate  
25 implicit cost coverages within a subclass --

1           MR. MAY: Mr. Chairman, I'm objecting. I  
2 did not ask any question of this witness whatsoever  
3 about implicit cost coverages. He's answered that for  
4 somebody else. I didn't ask him any such questions  
5 and that's not the question I posed. If I can  
6 rephrase the question and let me ask it again?

7           CHAIRMAN OMAS: Mr. Taufique, let counsel  
8 rephrase the question and --

9           THE WITNESS: Sure. I'll do my best.

10          CHAIRMAN OMAS: Thank you.

11          BY MR. MAY:

12           Q     Mr. Taufique, let me put it in a nutshell.  
13 I want to know why instead of having increases as high  
14 as 92 percent for single piece parcels, first-class  
15 parcels, you didn't use some of the \$49 million of  
16 additional revenue to mitigate increases as high as 92  
17 percent? That's my question.

18           A     My answer is that we never looked at the  
19 total parcel revenue and total parcel costs because  
20 that is done for subclasses only. We're not  
21 abandoning our proposal that we have a presort  
22 category for business parcels.

23          MR. MAY: That's all, Mr. Chairman.

24          CHAIRMAN OMAS: Thank you, Mr. May.

25                   Are there any other participants who want to

1 cross-examine Witness Taufique? I think Mr. Hall has  
2 requested, and I think Mr. Scanlon has requested.

3 Would you like to come up to the table,  
4 please, Mr. Hall and Mr. Scanlon?

5 MR. HALL: Which order would you like us to  
6 go in?

7 CHAIRMAN OMAS: Well, I think Major Mailer  
8 was before Pitney Bowes, so you go first, Mr. Hall. I  
9 thought maybe you could all fit up there.

10 MR. HALL: He probably asks better questions  
11 than I do, so maybe that would speed things up. Mr.  
12 Chairman, I'd like to approach the witness with some  
13 documents that were MMA interrogatories and I'll be  
14 referring him to those.

15 CROSS-EXAMINATION

16 BY MR. HALL:

17 Q Mr. Taufique, if I didn't say so before my  
18 name is Mike Hall, and I'm going to be asking you some  
19 questions on behalf of --

20 CHAIRMAN OMAS: Mike Hall, would you please  
21 say who you represent for the record?

22 MR. HALL: Yes. Major Mailers Association.

23 CHAIRMAN OMAS: Thank you.

24 BY MR. HALL:

25 Q Mr. Taufique, are you familiar with rate

Heritage Reporting Corporation  
(202) 628-4888

1 design for QBRM?

2 A Yes. Little bit.

3 Q Okay. As a matter of fact you handled the  
4 discount from the basic first-class rate. Is that  
5 correct?

6 A For QBRM. Yes.

7 Q For QBRM. Right. In terms of the per piece  
8 fee do you understand that in I believe it was R2000-1  
9 the Postal Service proposed and the Commission  
10 approved de-averaging of the per piece fee?

11 A I did not deal with the fee portion, so I'm  
12 not familiar with that part. Basically look at the  
13 postage.

14 Q You're aware that happens?

15 A Not in particular.

16 Q Okay. If you could look to Interrogatory  
17 MMA/USPS-T-32-6 and your response to that?

18 A Right.

19 Q There we were asking you basically why you  
20 didn't consider consistently high originating volumes  
21 from one mailer as a primary and significant cost  
22 driver and reflect it in your rate design. Do you see  
23 that?

24 A Yes.

25 Q First let me apologize. There's maybe my

1 poor scribner skills here. When we used the term one  
2 mailer we didn't mean just one mailer, we meant  
3 individual mailers so that consistently high volumes  
4 would be coming not just from one mailer, but from  
5 mailers at different facilities. Did you understand  
6 the question to be that way or did you take it to be  
7 just one customer?

8 A I took it to be large volume mailer, not  
9 just one customer.

10 Q Okay. Part of your response that I've  
11 marked there says I'm unaware of any studies that  
12 demonstrate that either higher or lower costs result  
13 based on the volume of mail originating from any one  
14 customer. Do you see that?

15 A Yeah. I said that because there was no  
16 quantification available for me to work with.

17 Q Right. When you got the question and  
18 answered it this way did you consult with other people  
19 at headquarters? Costing experts?

20 A Normally we do. Yes.

21 Q Did you in this case?

22 A Yes. In this case I think I may have talked  
23 to some people over there.

24 Q Okay. The costing experts, are any of them  
25 witnesses in this case?

1           A     Probably.

2           Q     Would you care to tell us their identities,  
3 please?

4           A     I may have talked to Witness Mayes on that  
5 particular subject as to if he had anything. We  
6 talked about that, so I think that may be the person.

7           Q     You mean Virginia Mayes?

8           A     Yes

9           Q     Mayes?

10          A     I may have talked to her on that subject.

11          Q     Okay. Are you familiar with the term one  
12 rate fits all?

13          A     One rate fits all. Yeah. In general terms.  
14 Or one price fits all.

15          Q     Or one price fits all?

16          A     Right.

17          Q     One price fits all is a term that you used  
18 in quotations in your rebuttal testimony in MC-96-3.  
19 Do you recall that?

20          A     Now that you remind me. I don't recall that  
21 particularly, but I think I may have used it. This  
22 was MC-96-3?

23          Q     Right. I'd just like to read you the  
24 sentence and I can hand you the entire paragraph if  
25 you want to review it, but let's see if we can do it

1 just this way.

2 A Sure.

3 Q You say the Postal Service acknowledges that  
4 a one price fits all approach may not be the most  
5 efficient method of pricing post office boxes.

6 A I recall exactly what the context was now.

7 Q Okay When you said that you had in mind  
8 that there were certain considerations that would  
9 cause you to deviate from a one price fits all  
10 approach?

11 A I'll have to look at the whole 96-3 docket  
12 to see what the issues were in that docket, but I seem  
13 to recall there was some discussion of pricing post  
14 office boxes by geographic regions in that area in  
15 that particular docket. Pricing P.O. boxes by regions  
16 of the country where there have been high cost regions  
17 versus low cost.

18 I don't recall. This is 10 years ago. I  
19 have not looked at that particular testimony in a  
20 long, long time, so I will be --

21 Q I didn't mean to trick you, I just love the  
22 phrase one price fits all since I think it relates to  
23 what I want to talk to you about and that is if you  
24 could turn to your response to MMA/USPS-T-32-8? In  
25 part (b) do you see that you were asked to compare two

1 mailers?

2 A Mailer A consistently sends out 500 one  
3 ounce nonlocal pieces all presorted to five digits and  
4 a Mailer B consistently sends out one million one  
5 ounce nonlocal pieces all presorted to five digit.  
6 There I believe you confirmed that the mailers would  
7 pay the same prices didn't you?

8 A Yes. Assuming that on the application of  
9 nonmachineable surcharge they were identical in that  
10 respect also. Yes. Yes.

11 Q That's right. So in that sense the existing  
12 rate structure for work shared mail and perhaps even  
13 the rate structure that you're proposing in this case  
14 are sort of a one price fits all approach, isn't it?

15 A In terms of pricing the number of  
16 considerations in cost studies that are done, if there  
17 were some cost studies available in that respect where  
18 there were significant differences in cost because of  
19 one mailer or a few mailers providing large volume of  
20 mail, that could be one consideration in our rate  
21 design. It's possible. I can't speak for how the  
22 overall proposal will shape up, if we considered that  
23 or did not consider that.

24 Q Okay. Well, if I just told you -- I guess I  
25 can't refresh your recollection, but getting back to

1 QBRM per piece fee that it was divided up into a high  
2 volume per piece fee and a low volume per piece fee  
3 that was based generally on the observation that when  
4 QBRM was received in high volumes the Postal Service  
5 could employ special counting techniques that were  
6 less expensive than the methods they used to count  
7 pieces when they were received in low volumes, so I  
8 think that's what we're discussing here except that  
9 I'm trying to get at the question of high volumes  
10 being sent out by certain mailers.

11 A From our perspective it would be the cost  
12 causing characteristics mail, the significant  
13 differences and taking into account all of the facts  
14 that is one of the factors. In fact that is one of  
15 the factors in determining the rate for presort mail.  
16 The cost causing characteristic of presort mail is  
17 different than the cost causing characteristic of  
18 single piece mail.

19 So that will be one consideration, not the  
20 only consideration.

21 Q No. I understand that. Finally let me ask  
22 you a question about your proposed rate for additional  
23 ounces for work shared mail.

24 Are you familiar with the practice of  
25 splitting up mail to save costs so that say a mailer

1 has content that must go first-class and has  
2 additional content that could be sent standard mail,  
3 the mailer might like to send it all out in one  
4 envelope at first-class, but it goes over an ounce and  
5 if just the first-class content is included it's under  
6 an ounce are you familiar with the fact that customers  
7 will limit the first-class mailing to one ounce and  
8 then have a whole separate mailing of mail that can go  
9 at standard mail rates?

10 A Not specifically, but I'm not surprised that  
11 somebody would do that. I'm not familiar with that  
12 specifically.

13 Q Okay. So discouraging that type of practice  
14 -- well, first let me just ask you in that situation  
15 the mailer would probably be saving money otherwise he  
16 wouldn't do it. Can we agree on that?

17 A I guess so because the mailer would look at  
18 the speed of delivery versus how much money they would  
19 have to spend and decide to do something, so yeah,  
20 that's possible.

21 Q At the same time the practice would impose  
22 additional costs on the Postal Service wouldn't it?

23 A By splitting the mailing there would be  
24 additional costs for the Postal Service? My  
25 perspective in pricing is very simple. If you price

1 it accurately, then regardless of what the behavior  
2 is, we would not be worse off. If we provide the  
3 right statements based on our processing costs, I  
4 mean, they will be paying the rate for the standard  
5 mail that is covering its costs and providing  
6 contribution to the institutional costs.

7 Q Okay. Well, let me just put it this way.  
8 Instead of one mail piece going out, there would now  
9 be two mail pieces going out, and that's more cost for  
10 the Postal Service, isn't it?

11 A As long as the rates reflect the cost of  
12 processing and delivering the mail we should be  
13 indifferent between one piece or two pieces.

14 Q Okay, but you agree that the total postage  
15 paid by the mailer would be less than if you sent it  
16 out all at first-class rates?

17 A I have not looked at the standard mail  
18 chart, but I would assume that's the case.

19 Q Okay. In making your additional ounce  
20 proposal did you give any consideration to this  
21 phenomenon of splitting up mailings to save money, and  
22 were you trying to discourage it?

23 A I was not even aware of it. How could I  
24 discourage it? I mean, basically I'm not surprised  
25 somebody would do that, but I was not specifically

1 aware of the phenomenon, and the rate design was not  
2 meant to discourage this. I don't think that was our  
3 purpose.

4 Q Relative to the existing additional ounce  
5 rate it would provide some discouragement wouldn't it?

6 A I thought in our proposal we have proposed  
7 the reduction in additional ounce rates in all  
8 categories. Right now the additional ounce rate my  
9 recollection is 24 cents for single piece, 23.7 cents  
10 for presort mail and our proposal is 20 cents for  
11 single piece all shapes, 20 cents for flats and  
12 parcels in the presort category and 15.5 cents for the  
13 letter shaped pieces, so I think these are encouraging  
14 additional ounces as a result of the proposal that we  
15 have on the table.

16 Q I think you and I are on the same page.  
17 You're encouraging use of additional ounces for  
18 example in first-class and that would tend to  
19 discourage the practice of splitting up mailings  
20 between first-class and standard because the total  
21 savings that the mailer could realize would be  
22 lower --

23 A The reason for the reduction in the  
24 additional ounce rate was the recognition of shapes in  
25 all classes and that is how --

1 MR. HALL: Okay. That's all I have. Thank  
2 you very much for your time.

3 CHAIRMAN OMAS: Thank you, Mr. Hall.

4 Mr. Scanlon? Please introduce yourself, Mr.  
5 Scanlon, for the record.

6 MR. SCANLON: Michael Scanlon on behalf of  
7 Pitney Bowes.

8 CROSS-EXAMINATION

9 BY MR. SCANLON:

10 Q Good afternoon, Mr. Taufique.

11 A Good morning.

12 Q Good morning. Close enough. I want to talk  
13 to you today about rate design in general and about  
14 first-class rate design in particular.

15 A Okay.

16 Q I'd like specifically to discuss the Postal  
17 Service's efforts in this case to incorporate a  
18 broader recognition of the cost differences between  
19 rate categories within first-class mail.

20 I want to begin by discussing with you some  
21 of the cost causative attributes of first-class mail  
22 that are reflected under the current and proposed rate  
23 design and then we can move on to discuss some  
24 additional cost causative attributes of first-class  
25 mail that are not reflected in the current or proposed

1 rate design, okay?

2 A Okay.

3 Q So let's begin with weight. Would you agree  
4 that subject to very limited exceptions rates within  
5 classes, subclasses and rate categories reflect  
6 weight?

7 A Rates within subclasses? One more time,  
8 please?

9 Q All I'm asking is whether or not you would  
10 agree that rates generally reflect weight?

11 A Rates in our case reflect the overall cost  
12 of single piece versus overall cost for presort and  
13 weight is one part of it.

14 Like I said that by using the CRA costs,  
15 which are bottom of costs, we did not have to involve  
16 this whole discussion of what cost causing  
17 characteristic belong for single piece and what cost  
18 causing characteristics are there for presort, so I'm  
19 sure weight becomes one of the factors, but we've used  
20 the CRA cost numbers that include all of these cost  
21 causing characteristics.

22 Q Right. No. I understand all of that. All  
23 I'm asking about at this point is whether or not the  
24 current and proposed rate design reflects weight as  
25 one cost causative attribute of first-class mail?

1           A     Not explicitly and specifically. Like I  
2     said explicitly what we have done is we've used the  
3     CRA costs, which are bottom of costs, and that  
4     reflects all of the cost causing characteristics. So  
5     explicitly we have not done that part.

6           Q     Well, aren't there extra ounce rates?

7           A     Yes. There are --

8           Q     Okay. Letters that weigh more cost more.  
9     Isn't that right?

10          A     Generally speaking, but additional ounce  
11     rates also carry the burden of some of the cost  
12     causing characteristics of that mailstream.

13          Q     Okay. If you would agree that in fact  
14     weight is a cost causative attribute that is reflected  
15     in the rates would you also agree that the design is  
16     intended to reflect those differences in weight  
17     because for the very reason that typically letters  
18     that weigh more cost more for the Postal Service?

19          A     I'm going to go back to what we have done  
20     and what we have proposed.

21          Q     Okay. I'm not asking you about what you've  
22     done or what you've proposed. I'm simply asking  
23     whether or not the rates --

24          A     The proposal that we have on the table is  
25     the point of discussion here, right?

1 Q It is, but not for this question. For this  
2 question I'm simply asking whether or not the rate  
3 design incorporates weight as a cost causative  
4 characteristic of mail?

5 A Not explicitly. Generally speaking it does.

6 Q Okay. So generally speaking it does. Okay.  
7 Now, I also want to look at shape. You testified  
8 earlier today and in your written testimony and I want  
9 to ask you would you agree that in this case in  
10 particular the Postal Service has attempted to develop  
11 rates within first-class mail that reflect differences  
12 in shape as well?

13 A Yes. It has explicitly done that. Right.

14 Q Okay. You would agree that as with weight  
15 the rate differences are designed to reflect  
16 differences in shape because shape is a cost causative  
17 characteristic of mail?

18 A Yes. Shape is a cost causative  
19 characteristic.

20 Q Okay. So we have weight, and we have shape  
21 and now let's turn to work share. Would you agree  
22 that first-class mail rates reflect differences  
23 associated with work share activities?

24 A You said we have weight and we have shape.  
25 We sort of agreed that weight was from my perspective

1 explicitly accounted for and now you said shape was  
2 explicitly accounted for and the third one is now?

3 Q Work share related activities. What I'm  
4 asking now is whether the rates for first-class mail  
5 reflect differences based on work share related  
6 activities?

7 A Yes, they do.

8 Q Okay. Again, as with weight and shape the  
9 rate design reflects those differences that are  
10 associated with work share related activities because  
11 work share related activities in first-class mail are  
12 a cost causative attribute of that mail?

13 A The work sharing that is performed by the  
14 mailers saves Postal Service the cost of processing  
15 the mail to the entire level, so yeah, it is reflected  
16 in the rate.

17 Q Okay. So the rates are intended to send the  
18 right pricing signals to mailers?

19 A That's our hope.

20 Q Okay. So then bearing those three things in  
21 mind, first-class mail rates have been de-averaged  
22 across three dimensions that affect cost, implicitly  
23 in your view for weight, explicitly for shape and work  
24 share related activities. Is that correct?

25 A That's accurate. That's accurate.

1 Q Yes? Okay. Now, if you would I'd like to  
2 direct you to your testimony at page 14.

3 A Okay.

4 Q Specifically in your testimony at page 14,  
5 lines 14 through 17, there you list some additional  
6 cost causative characteristics which are unrelated to  
7 weight, they're unrelated to shape and they're  
8 unrelated to work share related activities. Isn't  
9 that right?

10 A For the purposes of discussion, basically to  
11 justify using the CRA costs, we've seen that there are  
12 a number of different cost causing characteristics  
13 between the two mail streams, and we don't need to  
14 account for all of those because the CRA costs if  
15 there are bottom costs will include those cost causing  
16 characteristics, yes.

17 Q Okay. And so then you would agree that in  
18 addition to the three dimensions of weight, shape and  
19 work share related activities there could be other  
20 cost causative characteristics of first-class mail  
21 that you have not de-averaged or that are not  
22 reflected in the rate design?

23 A There's numerous differences in any mailer  
24 fee that are not accounted for in our rates.

25 Q Okay.

1           A     The complaint that you heard from the APW  
2     counsel on his keen mailing and the average with all  
3     the other handled pieces is an example of that.

4           Q     Okay. Well, I'd like to get to that and I'd  
5     like to talk about a couple of examples. The first  
6     I'd like to begin with are distance related costs.  
7     Specifically excluding priority mail would you agree  
8     that the current rate design for first-class mail does  
9     not include either a destination entry discount or  
10    distance based zone rates?

11          A     That is true.

12          Q     Okay. Yet would you also agree that in  
13    every other class of mail distance related discounts  
14    had been provided and they've been provided to incent  
15    mailers to enter the mail closer to or at the facility  
16    where the mail receives its final sort prior to  
17    delivery? For example in periodicals and package  
18    services you have zoned rates, standard mail has  
19    destination entry discounts. Would you agree with  
20    that?

21          A     I may have answered something from you on  
22    that, but could you point me to that?

23          Q     Well, I think actually the interrogatories  
24    that we propounded to you asking about distance  
25    related discounts were by and large redirected to the

1 Postal Service, but I guess more generally for any  
2 class of mail where you have a distance related  
3 discount --

4 A Not all of them I don't think. I think that  
5 there were Pitney Bowes interrogatories that have been  
6 answered, so it would be easier if we can go to my  
7 answers that were there.

8 Q Okay. Well, I don't have a specific other  
9 class in mind. I think what we're really trying to  
10 establish here is just generally speaking that for any  
11 other class of mail where you've provided a distance  
12 related discount whether it's in the form of a  
13 destination entry discount such as standard mail or  
14 whether it's in the form of zone based rates that's  
15 done to provide incentives for mailers to enter the  
16 mail further into the mailstream. Isn't that correct?

17 A I can speak from my experience. In  
18 periodicals there are rates for drop shipping mail  
19 closer to destination and one of the questions that  
20 asked me, I think your question was that if the  
21 purpose was to reduce the lowest combined cost. Could  
22 you help me with the interrogatory number on that one?

23 MR. TIDWELL: Are you referring to Pitney  
24 Bowes No. 55?

25 THE WITNESS: No. 55. Thank you, sir. And

1 yes, I provided a response that at least these --  
2 there was a -- right.

3 BY MR. SCANLON:

4 Q Okay. So generally speaking then whether  
5 it's periodicals or whether it's standard mail with  
6 destination entry, would you agree that these  
7 discounts are provided as incentives to mailers in  
8 part because transportation is expensive? That mail  
9 entered deeper into the system incurs fewer  
10 transportation costs than mail entered at an origin  
11 facility for example?

12 A Can't speak for all classes of mail, but in  
13 periodicals essentially the piecing costs were so  
14 significant over and above the overall cost for all of  
15 the classes of mail that whatever we could do to  
16 provide incentives to reduce the work we did. It's  
17 not just for drop shipment but for prioritization was  
18 an example.

19 But we have not succeeded in reducing the  
20 cost for periodicals. Even in this docket, the costs  
21 were significantly higher than the average cost of a  
22 piece for the overall, all of the mail classes.

23 Q Okay. The question is generally speaking  
24 those discounts are provided because transportation is  
25 expensive?

1           A     Generally speaking those discounts are  
2     provided because the discounts are provided based on  
3     the cost savings for the Postal Service whether it's  
4     transportation or handling of the mail.

5           Q     Well, right. We can include mail processing  
6     costs as well that are associated with where the mail  
7     is entered into the system. In this case I was simply  
8     talking about for example in first-class mail the  
9     costs associated with transportation. Purchase  
10    transportation for first-class mail.

11           If you're looking at these other discounts  
12    in other classes of mail you recognize then that  
13    transportation or distance is a cost causative  
14    attribute of the mail.

15           A     Have I said that in my testimony? I'm  
16    sorry. You're putting me to something that I have not  
17    either proposed nor said in my testimony, right?

18           Q     Well, let me ask you the questions again and  
19    we can take periodicals as an example where there are  
20    zoned rates. Is it true that periodicals have zoned  
21    rates in part because transportation is a cost  
22    causative characteristic of that mail?

23           A     In periodicals, transportation costs are  
24    utilized to estimate the rates for the zoned  
25    advertising count, but that is not true completely

1 because in periodicals, there is an unassumed  
2 editorial count rate also. So there are differences  
3 in different -- my problem in sort of comprehending  
4 your questions is, you know, you're referring to  
5 things that are not in my testimony and that are not  
6 proposed.

7 I thought the purpose of this whole thing  
8 was to defend the proposal the Postal Service has  
9 presented and ask me questions about the proposal that  
10 we have and how we justify the proposal.

11 Q Well, I think we're talking about both  
12 things that you do propose and here we're talking  
13 about things you didn't propose. For example other  
14 things that are cost causative attributes of mail  
15 where the Postal Service chose not to de-average them  
16 or not to recognize them in the rate design in this  
17 case.

18 A I thought the form allowed intervenors to  
19 provide their own testimony on their own proposals. I  
20 would be willing to defend what our proposal is and  
21 then if want to talk about my testimony or my  
22 workpapers I'm more than happy to talk about those  
23 things.

24 MR. SCANLON: Mr. Chairman, if counsel has  
25 an objection as to relevance or some other basis we're

1 happy to discuss it, but otherwise we'd appreciate  
2 the --

3 CHAIRMAN OMAS: Mr. Taufique, can you answer  
4 the question?

5 THE WITNESS: One more time.

6 MR. SCANLON: Sure.

7 CHAIRMAN OMAS: Thank you.

8 MR. SCANLON: Let me try to make it a little  
9 less complicated.

10 BY MR. SCANLON:

11 Q Generally speaking would you agree that for  
12 those classes of mail -- and you can use periodicals  
13 or you can use another class of mail, standard mail or  
14 you can use package services -- where you have a  
15 distance related discount that if mail within those  
16 classes is entered further in the mailstream that it  
17 avoids costs to the Postal Service and that if it  
18 avoids costs if they do something and the rate design  
19 reflects that then it must also mean that same  
20 activity, in this case transportation or distance, is  
21 a cost causative attribute of the mail?

22 Would you agree with that general  
23 proposition?

24 A General proposition. Transportation is one  
25 of the cost components. If you look at cost segments

1 and component report, No. 15, transportation cost is  
2 one of them of course.

3 Q Okay. That's what I'm asking. Whether or  
4 not you'd agree generally speaking that transportation  
5 is a cost causative attribute of the mail. In this  
6 case we're looking at first-class mail. Isn't it also  
7 a cost causative attribute of first-class mail?

8 A I'm sure it is. I have not looked at the  
9 cost segments and component report for the breakdown,  
10 but it is.

11 Q So it is yet the Postal Service has not  
12 proposed to de-average based on distance or  
13 transportation for first-class mail. Isn't that  
14 correct?

15 A That has not been our proposal. Yes.

16 Q Okay. Let's look at another example. This  
17 example has to do with the sales channel. In other  
18 words where people are buying first-class postage or  
19 the postage evidencing on the mailed piece. Here,  
20 again, the general proposition is selling stamps  
21 across a Postal Service retail counter is expensive?

22 A Now you're really going beyond my level of  
23 expertise. I saw your interrogatories and a number of  
24 other people answered those as institutional  
25 responses, so you're really going beyond my level of

1 expertise in sales channels and of what the cost of --

2 Q Okay. Well, bear with me and if you can't  
3 answer the question you can say I can't answer the  
4 question. If you'd refer, please, to PB-T-32-4?

5 A Was that my response?

6 MR. TIDWELL: Is this an institutional  
7 response or a response by this witness?

8 MR. SCANLON: This is an interrogatory  
9 propounded to this witness that was redirected to the  
10 Postal Service.

11 MR. TIDWELL: Because it wasn't relevant to  
12 his testimony, it asks for information not pertinent  
13 to his testimony, we redirected it to the institution.  
14 The institution provided a response. I'm not sure  
15 that it's going to be very fruitful to drudge up all  
16 of the institutional interrogatories today and to try  
17 to funnel additional information out of this witness.

18 BY MR. SCANLON:

19 Q Well, this is the only one actually, so we  
20 won't have to drudge up too many and I think, again,  
21 along the same lines what we're looking at here are  
22 cost causative attributes to the mail. We believe  
23 sales channel is another. Understanding that you  
24 didn't answer this question we'd simply say it's  
25 subject to check. Okay. So subject to check would

1 you agree --

2 MR. TIDWELL: Well, if the Postal Service  
3 would reject. If he didn't answer it, it's outside  
4 the scope of his testimony, it would seem improper to  
5 simply take an institutional interrogatory response,  
6 throw it at the first available witness and expect  
7 that witness to expound on the answer brought by the  
8 institution and then impose upon him the burden of  
9 confirming or gathering additional information if he's  
10 unable to answer the question.

11 MR. SCANLON: Mr. Chairman, we appreciate  
12 the Postal Service's concern, but this is the rate  
13 design witness and the Postal Service --

14 CHAIRMAN OMAS: I think you need to move on  
15 to the next question, Mr. Scanlon.

16 MR. SCANLON: Okay.

17 BY MR. SCANLON:

18 Q Then let's take another example. How about  
19 address quality which is an issue that was discussed  
20 earlier today in terms of clean and dirty mail without  
21 objection. Here I'd refer you to the Christiansen  
22 study included with the Postal Service request in this  
23 case which was sponsored by Witness Cutting, LR-L-61.  
24 In that study that was proposed it's clear that,  
25 again, undeliverable as addressed mail is very

1 expensive for the Postal Service.

2 I think in the base for 2004 it was \$1.86  
3 billion.

4 A Mr. Cutting was on the stand, right? Mr.  
5 Cutting did take the stand on this subject, right?

6 Q Yes. I'm not asking about the study. What  
7 I'm asking about is the rate design philosophy of the  
8 Postal Service in terms of whether or not it wishes to  
9 include certain items in its rate design. So what I'd  
10 like to focus on specifically are the costs of  
11 forwards and returns for clean and dirty mail.

12 In other words with respect to mail that has  
13 very good address hygiene and mail that has very poor  
14 address hygiene. Would you agree generally speaking  
15 that address hygiene is a cost causative  
16 characteristic of the mail?

17 A Generally speaking, yes.

18 Q Okay. Would you also agree that in first-  
19 class mail there is no charge for forwarding or return  
20 services for mail pieces?

21 A That is true.

22 Q Okay. Would you also agree that in other  
23 classes of mail, in standard mail for example, mailers  
24 can elect to purchase address correction or forwarding  
25 services?

1           A     I'm not familiar with other classes of mail  
2     and what the choice, how that works.

3           Q     Okay. Well, then going back to first-class  
4     where there is no charge for it wouldn't it be  
5     possible in your view to design a set of rates where  
6     the Postal Service could offer discounts set at cost  
7     avoided because it is a cost causative characteristic  
8     for properly addressed pieces and also design a charge  
9     or a surcharge, again, at cost for first-class mail  
10    that required a forward or return service?

11          A     Your question is it possible to design  
12    rates? Yes, it's possible given -- but there are a  
13    number of other constraints and policy considerations  
14    available that we are to work with, but yeah, it's  
15    possible to design rates with any cost avoidances that  
16    would make them off that.

17          Q     Okay. Well, so it's possible. Let's look  
18    at whether or not it would be a good idea. If we  
19    establish that because mail with a better address  
20    hygiene has a different cost than mail with poor  
21    address hygiene, that is to say mail that requires a  
22    forwarding or return service, wouldn't you agree then  
23    that de-averaging along these costs, the costs  
24    associated with address hygiene, so that rates reflect  
25    those costs as well would also promote economic

1 efficiency?

2           A     I've testified earlier in talking to the APW  
3 counsel that there is a lot of averaging that is  
4 within any class of mail. I don't think our proposal  
5 is to de-average everything and look at the cost  
6 causing characteristic of every single piece of mail.  
7 I don't know. How far do you want to go with de-  
8 averaging? I think we want to take a cumulative  
9 approach and take one step at a time and see how that  
10 works, but I don't think our proposal is to de-average  
11 based on all cost causing characteristics of any mail.

12           Q     Excuse me. I didn't mean to interrupt you.  
13 I understand the Postal Service is not proposing in  
14 this case to de-average a lot of these lines where  
15 there are cost causative attributes to the mail, but I  
16 think stepping back again, I mean, would you agree to  
17 the basic economic argument for cost based rate  
18 differentials is the same whether or not the costs are  
19 work share related costs or non-work share related  
20 costs?

21           A     I think in this particular case we were very  
22 careful and we talked about that we did not want to  
23 propose separate subclasses of mail for between  
24 presort and single piece and that was the reason sort  
25 of, but to maintain the per unit contribution to be

1 the same. We thought that was, you know, recognizing  
2 the spirit of efficient component pricing, but  
3 recognizing the cost differences at the same time.

4 Beyond that in terms of de-averaging we've  
5 moved in that direction to an extent with the shape  
6 based rates, but I don't think in either class of  
7 mail, whether it be first-class or any other class of  
8 mail, we would like to de-average.

9 I mean, if we end up de-averaging to the  
10 extent that we would have to sort of cost each bulk  
11 mail that comes in and put a mark up on it, if you  
12 knew the exact cost causing characteristic of a  
13 particular mail that is brought in and then put a mark  
14 up on it, I don't think we want to go to that extent.

15 Q I understand you don't have perfect  
16 information either for a lot of this. I do  
17 understand. All I'm asking is I think a more simple  
18 and general question which is that as a basic economic  
19 proposition is there any difference between  
20 recognizing costs in terms of having cost rate  
21 differentials based on work shared related costs as  
22 opposed to non-work shared related costs.

23 Isn't the economic argument the same?

24 A On the economic argument I will disagree.  
25 It will be inefficient. The reason for bulk metered

1 mail and if I was convinced that bulk metered mail was  
2 the only candidate mail that was going to convert from  
3 single piece to presort I would not have changed the  
4 rate design the way I did. But cost avoidances  
5 provide better signals to the mailers.

6 We think that the candidate mail has changed  
7 and that is why we proposed what we proposed. But  
8 within a certain subclass, I would accept the cost  
9 avoidances rather than cost differences except that in  
10 this case, the argument that we have is basically that  
11 the nature of mail that is shifting from single piece  
12 to presort is not exactly the same.

13 It's not just bulk metered mail, it's all  
14 kinds of mail, so the average would reflect the cost  
15 causing characteristic of the mail that is shifting.  
16 But I don't buy the argument that in all cases, the  
17 cost differences would be the same thing as the cost  
18 avoidances in a single tract of mail because I think  
19 cost avoidances would provide better, more efficient  
20 signals I think.

21 Q Okay. You disagree with me there, but you  
22 do agree that for this case at least the Postal  
23 Service has taken one step in that direction with  
24 respect to de-averaging based on shape as a cost  
25 causative attribute. Is that correct?

1           A     Because we process that mail separately, we  
2 process that mail differently, and the cost is  
3 significantly higher for the nonletter shaped mail  
4 whether it be flats or --

5           Q     I understand, but I'm not asking that. All  
6 I'm asking is that's a non-work share related cost  
7 that the rates now reflect. Isn't that correct?

8           A     We look at shapes in a different light  
9 altogether because shapes are not work sharing.  
10 You're not in the business of converting shapes. If  
11 you get a flat shaped piece we don't convert that into  
12 a letter shaped piece. We process the flat shaped  
13 piece as it comes to us.

14                     So to me you're mixing two different things  
15 and I'm not sure exactly -- the shapes are recognized  
16 because of the mail processing characteristics of the  
17 particular shape because they go in different  
18 directions. Work sharing is mail that is similar in  
19 all respects except for the amount of work that was  
20 done on this mail compared to this mail.

21                     So I don't know if I answered your question  
22 or not.

23           Q     Yes. I mean, your answer is you look at  
24 shape differently then?

25           A     Yes.

1 Q Okay. Moving to a different subject  
2 altogether. Refer you to your library reference  
3 USPS LR-129, and I specifically refer you to work  
4 paper FCM-12.

5 (Pause)

6 A I apologize. I think I'm missing some  
7 papers. Let me see if I can find them.

8 Okay, there we are.

9 Q I'd like to direct your attention  
10 specifically down toward the bottom of the page under  
11 FY 2008, Test Year After Rate Financials. Could you  
12 just please confirm for the record that the per unit  
13 contribution for single piece mail is .235 and the per  
14 unit contribution for pre-sort mail is 0.234?

15 A Could you repeat the number again?

16 Q I'm looking at the row per unit contribution  
17 under FY 2008, Test Year After Rate Financials.

18 A Uh huh.

19 Q I was just looking to confirm for the record  
20 that in fact the per unit contribution for both single  
21 piece at 0.235 and pre-sort first class letter mail at  
22 0.234 is virtually the same.

23 A I would ask my counsel if he has a better  
24 copy. Something is wrong with this copy over here,  
25 sir. I apologize. I should have looked at it more

1 carefully.

2 (Pause)

3 MR. TIDWELL: Mr. Chairman, could you  
4 indulge us for a minute so we can check and make sure  
5 everything is literally on the same page?

6 CHAIRMAN OMAS: Yes. Thank you.

7 (Pause)

8 MR. SCANLON: Thank you, Mr. Chairman. We  
9 have nothing further.

10 CHAIRMAN OMAS: Thank you, Mr. Scanlon.  
11 Is there anyone else who wishes to -- Mr.  
12 Brinkman?

13 MR. BRINKMAN: Robert Brinkman. I represent  
14 the American Bankers Association. I just have one or  
15 two brief questions.

16 CROSS-EXAMINATION BY THE ABA

17 BY MR. BRINKMAN:

18 Q If you could just turn to page, I just want  
19 to make sure I understand something. The implications  
20 aren't clear.

21 If you could turn to page 23 of your  
22 testimony, line 15. The chart there.

23 A Yes, sir.

24 Q If you look at the number on the flats under  
25 the category of pass-throughs where it says 55

1 percent. Am I correct that that 55 percent is passing  
2 through the differences between the, in this case it  
3 would be between single piece letters and single piece  
4 flats?

5 A The cost difference between single piece  
6 letters and single piece flats is 37 cents. Fifty-  
7 five percent of that is 20 cents. So yes, this is the  
8 cost difference that is being passed through to the  
9 rates for single piece flats.

10 Q So that's saying that the flats are paying,  
11 for every dollar's worth of cost difference the flats  
12 are paying 55 cents of the dollar but 45 cents is  
13 still being paid by the letters because it's not being  
14 passed through? Is that correct?

15 A That's the first time I've heard it  
16 described in that fashion, but of the additional cost  
17 of flats, only 55 percent is being passed through.

18 Q And therefore 45 percent is not.

19 A Forty-five percent is not being passed  
20 through.

21 Q If you could turn to page 18 of your  
22 testimony.

23 A I'm there.

24 Q Page 18, lines 10 through 12, and I'll read  
25 the following sentence to make sure we're on the same

1 paragraph. "These pass-throughs range from 15 to 55  
2 percent, considerably less than the 100 percent that  
3 would be used if the Postal Service were to recover  
4 all of the additional costs caused by shape."

5 Are you with me there?

6 A I'm there.

7 Q So in those instances, wherever there may  
8 be, where only 15 percent is being passed through for  
9 shape, that would mean though, would it not, that  
10 whatever shape is being passed through, be it parcels  
11 or flats, is paying 15 cents of a dollar's worth of  
12 cost difference and the letters are still paying 85  
13 cents?

14 A The over class is paying 85 cents but in  
15 this particular case the 15 percent pass-through is  
16 also in recognition that the cost numbers that I was  
17 working with were derived from a very small category  
18 of mail and sometimes the reliability of the estimate  
19 from small volume categories is not as good, so that  
20 is why 15 percent --

21 Q I'm not challenging you. That's okay. I  
22 just want to make sure we understand that.

23 MR. BRINKMAN: I have no more questions, Mr.  
24 Chairman.

25 CHAIRMAN OMAS: Thank you.

1                   Is there anyone else who wishes to cross-  
2                   examine?

3                   (No audible response)

4                   CHAIRMAN OMAS: Is there any follow-up  
5                   cross-examination?

6                   (No audible response)

7                   CHAIRMAN OMAS: Mr. Taufique, I do have a  
8                   couple of questions for you, please.

9                   Please refer to your response to POIR #7,  
10                  Question 1.

11                  WITNESS TAUFIQUE: Seven, question one?

12                  CHAIRMAN OMAS: Yes.

13                  In your revenue calculations where do you  
14                  include extra additional revenue to reflect mail  
15                  shifted to avoid the non-machinable parcels surcharge?

16                  WITNESS TAUFIQUE: Mail shifted to avoid the  
17                  non-machinable parcel surcharge?

18                  CHAIRMAN OMAS: Yes. Where do you include  
19                  extra additional ounce revenues to reflect mail  
20                  shifted to avoid the non-machinable parcel surcharge?

21                  WITNESS TAUFIQUE: Let me see if I can  
22                  explain it. The way I calculate additional ounces is  
23                  basically by looking at the base year 2005. I have  
24                  the additional ounces for letter shift pieces, flat  
25                  shift pieces and parcel shift pieces and those were

1 using the forecast numbers that you use, the same  
2 proportions for the test here.

3 Some of the parcels that are unable to meet  
4 the machinable requirement which is the less than two  
5 ounces, lacking a bar code, they would pay a non-  
6 machinable surcharge.

7 I'm further lost to how additional ounces,  
8 I'm confused as to, I would like to answer, I'm just  
9 not sure exactly --

10 CHAIRMAN OMAS: The additional ounce revenue  
11 that reflects what you shifted to avoid the non-  
12 machinable parcel surcharge.

13 WITNESS TAUFIQUE: There is no shift in  
14 revenue because of the avoidance of parcel -- The  
15 additional ounces remain the same. Some pieces that  
16 weigh less than two ounces pay the --

17 CHAIRMAN OMAS: Mr. Taufique --

18 WITNESS TAUFIQUE: Let me look at my numbers  
19 one more time.

20 CHAIRMAN OMAS: I was going to suggest,  
21 counsel, can I just give you this question later and  
22 you answer it for us for the record please?

23 WITNESS TAUFIQUE: That would be better,  
24 actually, in this particular case.

25 CHAIRMAN OMAS: That will be okay?

1 MR. TIDWELL: Perfectly.

2 CHAIRMAN OMAS: Thank you.

3 WITNESS TAUFIQUE: That would be better.

4 CHAIRMAN OMAS: Thank you.

5 Now would you please turn to POIR #7,

6 Question 2(c).

7 WITNESS TAUFIQUE: Yes, sir. I'm there.

8 CHAIRMAN OMAS: The question now that I'm  
9 going to ask you focuses on costs. I would like to  
10 know why you used pre-sort parcel costs as  
11 representative of the costs for the new business  
12 parcel category.

13 Do you expect that the single piece parcel  
14 that moves into this new category will have the cost  
15 characteristics of pre-sort parcels? Or is there some  
16 other reason?

17 WITNESS TAUFIQUE: The cost numbers that  
18 were given to me by Witness Miller reflected the cost  
19 of pre-sorting bundles. Parcels and bundles. And  
20 from what I could tell, those were the best costs  
21 available for parcels that are machinable that go  
22 through our automation.

23 Again, if there is any more confusion, in  
24 writing would be fine.

25 CHAIRMAN OMAS: Again. I'll provide this

1 question as well and ask you to provide the answer in  
2 writing. We'd be most appreciative.

3 WITNESS TAUFIQUE: Okay, sir.

4 CHAIRMAN OMAS: Thank you. That's all I  
5 have.

6 Are there any questions from the bench?  
7 Commissioner Goldway?

8 COMMISSIONER GOLDWAY: Thank you.

9 I want to go back to the discussion you had  
10 with your first interrogator about the concern of  
11 small businesses who have clean mail that basically  
12 take it to the Postal Service as single piece.

13 Did you in your estimates if you price it  
14 right, there would be the right signals, come up with  
15 any estimates as to how much mail such a small  
16 business would have to have in order for it to benefit  
17 from a consolidator or shifting to bulk handling? Is  
18 there a number where you could say this is going to be  
19 cost effective for a small business person?

20 WITNESS TAUFIQUE: I honestly don't know  
21 what the answer is. What I know is that people who  
22 are generating more business are actually approaching  
23 offices or small businesses for what is called white  
24 mail to get the mail into the pre-sort barrels and  
25 then put in five digits. I don't know what the

1 agreements are between the pre-sort bureaus and the  
2 small mailers. I do not know what the economic  
3 quantity is that would be, make it feasible for a  
4 person to give their mail to the pre-sort bureau.

5 But we know that for any individual business  
6 to enter their mail as pre-sort they would require 500  
7 pieces. So that is a requirement. I don't know if  
8 100 pieces or 200 pieces. I've not looked at that at  
9 all.

10 But I know that the mail is being converted  
11 into pre-sort mail stream by enterprising pre-sort  
12 bureaus that are going out and attracting that  
13 business.

14 COMMISSIONER GOLDWAY: Okay. I have another  
15 question.

16 I believe in your conversation at that time  
17 also you indicated that in addition to this business  
18 mail which is clean mail and is going to have to pay a  
19 higher, or will not get the discount that other large  
20 mailers will get in your pricing proposal, that  
21 another form of very clean mail that has low cost is  
22 the customer reply envelope mail.

23 WITNESS TAUFIQUE: It's averaged with all of  
24 the --

25 COMMISSIONER GOLDWAY: It's averaged with

1 all the others and there have been years and years of  
2 testimony demonstrating that the cost to the Postal  
3 Service for that mail is much less than other kinds of  
4 first class mail. Isn't that correct?

5 You said it yourself.

6 WITNESS TAUFIQUE: The mail is --

7 COMMISSIONER GOLDWAY: In fact there were  
8 suggestions for separate categories for that mail at  
9 various time, the Postal Rate Commission recommended  
10 it.

11 Did you ever consider in the efforts to, I  
12 guess it's not in a sub-class, but in --

13 WITNESS TAUFIQUE: Yes, it's --

14 COMMISSIONER GOLDWAY: -- categories of  
15 first class mail to give benefits to the less  
16 expensive mail. Did you ever consider when to give a  
17 benefit to this customer reply mail?

18 WITNESS TAUFIQUE: It is about 15 percent.  
19 I saw the numbers yesterday, about 15 percent of the  
20 overall single piece. I don't think it was considered  
21 in this docket but it would be averaged in terms of --

22 COMMISSIONER GOLDWAY: So you ignored all of  
23 the testimony of years before in the identification of  
24 this mail as something that's clean, and that is  
25 easily identifiable, and that has been unfairly

1 carrying the burden of institutional costs via the  
2 small single piece mailer. You didn't consider that  
3 at all, but you did want to reduce the burden for the  
4 largest mailer?

5 WITNESS TAUFIQUE: The burden for the  
6 largest mailer -- The exercise in my mind at least was  
7 to recognize the fact that what is being converted  
8 from single piece into pre-sort is not the same BMM,  
9 the bulk metered. It's not just that. The bulk meter  
10 mail that is being converted. But there are also  
11 other --

12 In my mind at least the recognition was to  
13 recognize that what is being converted from single  
14 piece to pre-sort is more heterogeneous than what we  
15 had assumed, than what was true in the past. The  
16 recognition of, just to recognize that pre-sort  
17 mailers should get a break, but the recognition that  
18 what is being converted is much higher cost than the  
19 bulk metered mail that we'd assumed was only candidate  
20 mail.

21 But as far as the courtesy reply mail, I've  
22 not looked at the data, but it's also a category in  
23 the sense that --

24 COMMISSIONER GOLDWAY: It might not be if it  
25 got some of the benefits that you're proposing.

1           I had a question about the fact that it  
2           seems to me anyway in this rate proposal that the  
3           extra ounce is given a reduction, actually. Whether  
4           you've estimated any indication that mailers will mail  
5           heavier envelopes because they get a cheaper extra  
6           ounce. Will they consolidate two mailings into one  
7           because it's going to be so much cheaper for that 20  
8           cent extra ounce to do that? Or will they just stuff  
9           lots and lots more stuff into the first class mail?  
10          and will that 20 cents cover your costs if in fact  
11          many many many more mailers use that extra 20 cent  
12          ounce?

13                    WITNESS TAUFIQUE: The purpose in the  
14                    reduction of the additional ounce rate was that the  
15                    additional ounce weight was carrying the burden of not  
16                    just the additional rate but it was also carrying the  
17                    burden of the cost-causing characteristics of other  
18                    shapes.

19                    So when you recognize the shape, in my mind  
20                    the issue of fairness, when you recognize the shapes  
21                    as separate cost causing characteristic and reflect it  
22                    in the rates, then the burden from the additional  
23                    ounces should be removed at one point.

24                    COMMISSIONER GOLDWAY: But did you explore  
25                    the implications of that in terms of a shift in

1 volumes or a shift in the characteristic of first  
2 class mail? Because, this is the one area where there  
3 is a real decrease in rates.

4 WITNESS TAUFIQUE: Is it your proposition  
5 that it's possible that some volume could be shifted  
6 into heavier pieces, but also it could induce people  
7 to mail more heavier pieces, use the mail piece for  
8 other purposes also? I'm not sure, we did not look  
9 into that, that's true. But the implications could be  
10 broader than what you just implied I think.

11 COMMISSIONER GOLDWAY: Okay.

12 Thank you for affirming areas that you  
13 haven't considered anyway, in my questions to you.

14 CHAIRMAN OMAS: Thank you, Commissioner  
15 Goldway.

16 Commissioner Acton?

17 COMMISSIONER ACTON: Thank you, Mr.  
18 Chairman.

19 Mr. Taufique, I'm going to ask you a few  
20 questions on behalf of the technical staff here at the  
21 agency. Some of it may touch on issues that you  
22 covered earlier with Counselor May, but please be  
23 patient with me for the sake of the record.

24 WITNESS TAUFIQUE: Okay.

25 COMMISSIONER ACTON: Last week you filed a

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1 revision to your Library Reference No. 129. In that  
2 revision you un-do the revenue adjustment for the  
3 movement of single piece parcels to the new business  
4 parcel category.

5 I believe that you say there is no  
6 corresponding adjustment of cost. Is that correct?

7 WITNESS TAUFIQUE: Initially, if you look at  
8 PSA-20 which was the interrogatory of Parcel Shippers  
9 Association, they asked me to identify if the costs in  
10 fact were calculated for this movement of parcels from  
11 single piece into pre-sort. That was an oversight on  
12 our part to keep the record straight in terms of  
13 costs. The revenues now reflect the parcels moving  
14 back into single piece category, but that does not  
15 mean we've abandoned the proposal that parcels go  
16 through pre-sort and get a lower rate.

17 That was the purpose of filing the revision  
18 to the library reference.

19 COMMISSIONER ACTON: Okay. This goes to the  
20 next question.

21 Is it the Postal Service's expectation that  
22 no single piece parcels will move into the new  
23 business parcel category?

24 WITNESS TAUFIQUE: No, that is not our  
25 expectation. That is why when I answered Mr. May

1 regarding not reducing the parcel rates because of the  
2 additional revenue is because you still expect the  
3 parcels to move to this new category. We think it's a  
4 good alternative, especially in light of the  
5 recognition of shifts in our rate base.

6 COMMISSIONER ACTON: Can you tell us why you  
7 elected to un-do the revenue adjustment as opposed to  
8 developing and presenting a new cost adjustment?

9 WITNESS TAUFIQUE: I know there was a  
10 discussion on that subject and I don't recall exactly  
11 why this resolution was arrived at, but our goal was  
12 to either do one or the other to keep the record  
13 straight.

14 COMMISSIONER ACTON: After your revision are  
15 the unit cost contributions of first class single  
16 piece letters and sealed parcels and work sharing  
17 letters and sealed parcels still equivalent?

18 WITNESS TAUFIQUE: Those are the numbers  
19 that we tried to answer with the Pitney Bowes  
20 interrogatory and I was not able to get the right  
21 numbers. But the net impact of that change would be  
22 that the per unit contribution of single piece would  
23 be slightly higher than what it should be.

24 COMMISSIONER ACTON: Thank you.

25 CHAIRMAN OMAS: Mr. Tidwell, do you need

1 some time with your witness?

2 MR. TIDWELL: Two minutes.

3 CHAIRMAN OMAS: Two minutes. Thank you very  
4 much.

5 (Whereupon, a brief recess was taken)

6 CHAIRMAN OMAS: Mr. Tidwell?

7 MR. TIDWELL: Mr. Chairman, the Postal  
8 Service has no redirect but we might want to tidy up  
9 one housekeeping matter just to make sure the record  
10 is clear.

11 I just want to get Witness Taufique to  
12 confirm that Library Reference 129 which has been the  
13 subject of much discussion here was prepared by him  
14 and under his supervision and he is sponsoring that  
15 library reference in association with his testimony.

16 WITNESS TAUFIQUE: Yes, I am.

17 CHAIRMAN OMAS: Without objection, so  
18 ordered.

19 This concludes today's hearings. We will  
20 reconvene tomorrow morning at 9:30 when we will  
21 receive testimony from Postal Service Witness O'Hare.

22 Thank you.

23 (Whereupon, at 12:50 p.m. the hearing was  
24 recessed, to reconvene at 9:30 a.m. on Wednesday,  
25 August 30, 2006.)

5045

REPORTER'S CERTIFICATE

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I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission

Date: 8/29/06

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