

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

**NOTICE OF UNITED STATES POSTAL SERVICE OF FILING REVISED
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BOZZO (USPS-T-
46) TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 9, QUESTION 6
[ERRATA]**
(September 8, 2006)

The United States Postal Service hereby gives notice of filing a revised response of witness Bozzo (USPS-T-46) to Presiding Officer's Information Request (POIR) No. 9, Question 6, issued July 25, 2006. The revision extends the original response to Question 6 (a), filed on August 10, 2006, by adding references to not-handling tallies and PO/Station/Branch cost pools, and adding clarifying language. No other changes have been made. The attached revised response to Question 6 should be substituted for the original.

The question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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6. Please refer to witness Van-Ty-Smith Tables 5.1, 5.2, and 5.3 provided in USPS.T.11.Rule.53.Tables.xls showing volume variable costs by subgroup of cost pools for Plants, Post Offices, Stations and Branches, and BMCs. Examining the growth rate in total mail processing costs by subclasses between FY 2005 and FY 2004 shows that certain subclass cost increases appear disproportionate to their volume changes for the same period. For example, Outside County Periodicals volumes declined by .8 percent while its mail processing costs increased by 5 percent. Similarly, Standard ECR volume increased by 6 percent while its corresponding costs went up by 53 percent.
- a. Identify the cost drivers including any operational or cost methodological changes that may have led to such increases in Periodicals, Standard ECR, etc.
 - b. Please provide an explanation in those instances where the cost pool has increased or decreased more than 10 percent in FY 2005 compared to FY 2004.

RESPONSE.

- a. The discussion of subclass cost changes in USPS-T-46, Section IV.C (pages 31-41) is largely applicable both to the Postal Service and Commission costing methods. To facilitate discussion of certain differences, in Attachment 1 to this response, I show a table comparable to USPS-T-46, Table 6, based on the Commission's mail processing cost methods. In addition to the factors cited below, differences between the Postal Service and Commission methods in the treatment of not-handling tallies in certain cost pools, and in the formation of PO/Station/Branch cost pools lead to generally minor variations in results for various subclasses. The major differences are as follows:
 - Priority Mail; Package Services subclasses: These categories show smaller "distribution key" effects compared to the Postal Service methodology. This

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appears to be the result of the Commission's mixed-mail methods generally not making use of shape and item information from "identified" mixed-mail tallies in allied labor cost pools. Thus, my understanding is that the increased tallies for loose parcels in mixed containers (see USPS-T-46, page 40, lines 2-6) would be distributed, in large part, to non-parcel shape mail.

- Outside-County Periodicals: The unit cost increase in the Commission method, net of the increase in the volume-variable cost (VVC) level, is relatively small (3.5%) and no more than marginally significant (1.6 standard errors), though differs from Postal Service methods which show zero UVVC increase above the VVC cost level change. The difference appears to result from the differences from the Postal Service method in the distribution of certain mixed-mail and not-handling tallies in the Commission's method, as noted above.
- Express Mail: The "cost pool" effect is larger in the Commission's method, driven by a percentage increase in MODS workhours for the "Function 4" Express Mail cost pool (LD48 EXP) that exceeds the increase in the Postal Service's IOCS-based PO/Station/Branch costs in Express Mail pools. The Postal Service methodology, which consolidates Function 4 MODS costs with the non-MODS PO/Station/Branch cost pools, appears to mitigate this effect.

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b. Instances in which the cost associated with a cost pool has increased or decreased more than 10 percent in FY 2005 compared to FY 2004 reflect four main causes:

1. Redefinitions of cost pools, as described in Section B.1 of USPS-T-11, page 4 to page 6, starting at line 13, items 1-3. The following table shows the “gross” change from BY 2004 to BY 2005, the “would-have-been” change applying BY 2004 cost pool definitions to FY 2005 costs, and a description of the change.

SAS Name	Cost Pool	BY 04- BY 05 change	Change w/ BY04 pool definitions	Explanation
SPBSPRIO	SPBS – Priority	53%	5%	Transfer of costs from PMPC cost pool to specific MODS operations
PRIORITY	Manual Priority	36%	9%	
1PLATFRM	Platform	13%	9%	
PMPC	PMPCs	-100%	26%	Additional non-Priority Mail operations at L&DCs; increased Priority Mail volumes
INTL ISC	Int'l Service Centers	35%	1%	Transfer of costs for a facility from the BMC group to the ISC pool
LD 15	LDC 15 (Remote Encoding)	24%	4%	AFSM video coding transferred to LDC 15 cost pool (work carried out at RECs)

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2. Increases or decreases in mail processing workloads, as shown in the responses to TW/USPS-T11-b/c and to Docket No. R2005-1, TW/USPS-T11-11 (Docket No. R2005-1, Tr. 5/1478-1491). Please observe that for MECPARC, 1SACKS_M, and 1TRAYSRT, the percentage change in cost is smaller than the percentage change in workload.

SAS Name	Cost Pool	BY 04- BY 05 increase	Explanation
FSM/	FSM 881	-100%	FSM 881 equipment withdrawn from service
MECPARC	Mechanized parcels (MODS)	-29%	Workload (TPH) decrease of 54%.
1SACKS_M	Mechanized Sort— Sacks/Outsides (MODS)	-19%	Workload (TPH) decrease of 36%
1TRAYSRT	Mechanized Tray Sorter (MODS)	14%	Workload (TPH) increase of 31%

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3. Updates in cost pool MODS hours as shown in Table I-2A of USPS-LR-L-55 as compared with Table I-2A of USPS-LR-K-55.

SAS Name	Cost Pool	BY 04- BY 05 increase	Comment
1PRESORT	Presorted Mail	169%	MOD 002 set as TACS base operation for LDC 17.
MAILGRAM	Mailgram	-18%	Declining volume for Mailgram product.
REWRAP	Damaged Parcel Rewrap	24%	Increase in MOD 109 hours
1MISC	Miscellaneous Activities (MODS Function 1)	12%	Increase in MOD 083 (PARS Waste Mail) due to increased PARS volumes. Also increases in MOD 560-564 (Misc. Activity).
LD42	Unit Distribution—Mechanized	103%	Redeployment of some UFSM 1000 equipment to smaller offices, including Function 4 facilities
LD48 EXP	Customer Service—Express Mail	118%	See note below.
LD48 OTH	Customer Service—Other	23%	

The costs for the LD48 EXP and LD48 OTH pools (and, by extension, the other LDC 48 pools) are affected by changes in MODS participation by customer service (Function 4) facilities. Overall LDC 48 costs from the pay data system are believed to be reliable, as workhour and cost data by LDC do not depend on MODS participation, but the base of MODS hours used to distribute the LDC costs to cost pool has become markedly

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smaller as Function 4 offices have ceased reporting MODS, raising the question of whether remaining Function 4 facilities reporting MODS are fully representative. Thus, the Postal Service's recommended method assigns PO/Station/Branch mail processing to cost pools based on IOCS data, which are also independent of MODS participation, similar to the treatment of "non-MODS" post offices, stations, and branches in both the Commission and Postal Service methods.

4. Cost pools affected by the IOCS Redesign as summarized in USPS-T-11, page 6, item 5; also described in USPS-T-46, section II.C.1 and IV.B. This affects the PO/STA/BR and BMC cost pools which rely on IOCS activity information to assign costs to cost pools, all of which (except BMC NMO) show cost changes exceeding 10 percent.

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Attachment 1, Response to POIR No. 9, Question 6

Decomposition of Changes in Mail Processing Cost (as in Table 6, USPS-T-46), Using Commission Cost Methods

Subclass	Cost Pool	Dist Key	Cost Level	Total Cost	Volume	Unit Cost	Unit Cost vs. Cost Level	Approximate Standard Difference*
First-Class SngIPC	-0.6%	-3.8%	4.1%	-0.5%	-4.0%	3.6%	-0.5%	-0.50
First-Class Presort	0.7%	6.8%	4.1%	11.9%	3.7%	8.0%	3.7%	1.54
FCM SngIPC - CARD	-1.7%	-2.1%	4.1%	0.2%	-0.2%	0.4%	-3.6%	-0.74
FCM Presort - CARD	-1.0%	20.2%	4.1%	23.9%	7.0%	15.8%	11.2%	1.32
Priority	3.0%	3.9%	4.1%	11.3%	4.6%	6.5%	2.3%	1.17
Express	14.3%	4.0%	4.1%	23.7%	2.5%	20.7%	15.9%	4.16
Within-County Periodicals	0.0%	41.8%	4.1%	47.6%	0.3%	47.1%	41.3%	2.52
Outside-County Periodicals	-2.2%	5.0%	4.1%	6.9%	-0.8%	7.8%	3.5%	1.60
Standard-ECR	-4.5%	52.9%	4.1%	52.1%	6.1%	43.3%	37.7%	10.99
Standard-Regular	-1.2%	-5.2%	4.1%	-2.5%	5.4%	-7.4%	-11.0%	-8.79
Parcel Post	3.8%	8.6%	4.1%	17.3%	3.2%	13.6%	9.2%	2.33
Bound Printed Matter	3.3%	1.4%	4.1%	9.0%	5.4%	3.4%	-0.7%	-0.12
Media Mail	6.2%	-9.1%	4.1%	0.5%	-4.3%	5.0%	0.9%	0.14
International Mail	-0.7%	-4.4%	4.1%	-1.2%	0.9%	-2.1%	-6.0%	-2.05

* "Unit Cost vs Cost Level" divided by the approximate CV.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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