

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes

Docket No. R2006-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 16

(Issued September 28, 2006)

The United States Postal Service is requested to provide the information described below to assist in developing a record for the consideration of the Postal Service's request for changes in rates and fees. In order to facilitate inclusion of the required material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearing. The answers are to be provided within 14 days.

1. In the response to POIR 10, Question 2, and POIR 14, Question 5, witness Smith provides flat and parcel Adjustment Ratios and Adjusted Unit Costs for Standard ECR and First-Class presort, respectively.

Please provide, for the base year and the test year, versions of USPS-LR-L-53 and USPS-LR-L-99 (revised July 6, 2006) that incorporate these adjustments and calculate adjusted unit costs by MODS cost pool for the affected categories of mail. Please be sure to adjust all appropriate factors (including the ratio of TY to BY volumes) and link them to their sources. Please also include unit mail processing costs by MODS pool for (1) First-Class single-piece metered flats, and (2) First-Class single-piece permit imprint parcels, developed and presented in the same manner as the costs of First-Class single-piece metered letters. Please show all calculations, identify all data sources, and explain all assumptions.

2. POIR 14, Question 4, asked the Postal Service to develop a cost adjustment to account for the anticipated migration of single-piece (permit imprint) parcels to the proposed Business Parcel categories. The response does not provide one, citing the anomalously high cost of presort parcels and difficulty gauging the presort profile of the shifted volumes. Please develop and present a final cost adjustment for the anticipated migration using the adjusted unit cost for First-Class presort parcels developed by witness Smith in response to POIR 14, Question 5. Please also assume the same presort profile for parcels that is utilized in the rate design and (initial) revenue calculations, as shown in USPS-LR-L-129, WP-FCM-5c (revised August 24, 2006). To be consistent with the response to PSA/USPS-T32-17, utilize the unit cost of First-Class single-piece permit imprint parcels provided in the response to Question 1 of this POIR. Please make any further necessary assumptions, provide explanations for the assumptions made, show all calculations, and identify all data sources.
3. Please refer to the response to POIR 7, Question 1, USPS-LR-L-129, WP-FCM-5c (revised August 24, 2006), and the response to POIR 14, Question 2.
 - a. The response to POIR 14, Question 2, states that “there would be an incentive to keep the pieces at exactly 2 ounces or lighter than 2 ounces rather than exceed 2 ounces. There are no data to make an adjustment for changes in behavior to avoid either the nonmachinable surcharge or the additional ounce postage.” Please confirm that this means that the Postal Service’s position is that First-Class business parcels weighing between 1 and 2 ounces will pay the nonmachinable surcharge. If not confirmed, please explain.
 - b. Please confirm that the percentages of business parcels that will pay the nonmachinable surcharge (currently 3 percent of parcels from single-piece and 58 percent of parcels from presort) should be corrected to reflect the percentages of parcels weighing less than 2 ounces (about 19 percent of

single-piece and about 73 percent of presort). If confirmed, please provide a revised copy of USPS-LR-L-129 that includes this correction. If not confirmed, please explain.

4. Please refer to USPS-LR-L-52, revised August 22, 2006, and USPS LR-L-98, revised August 22, 2006.
 - a. In the worksheet TYPBack.USPS.XLS, it appears that the costs used to calculate the class-specific piggyback factors are not using the revised rollforward costs as filed by witness Waterbury on August 16, 2006 as USPS-LR-L-165 through 167. Please provide a revised TYPBack.USPS.XLS worksheet using the revised rollforward costs.
 - b. In the worksheet TYPBack.finaladj.USPS.XLS, it appears that the costs used to calculate the class-specific piggyback factors for final adjustments are not using the revised rollforward costs as filed by witness Waterbury on August 16, 2006 as USPS-LR-L-165 through 167. Please provide a revised TYPBack.FinalAdj.USPS.XLS worksheet using the revised rollforward costs.
 - c. In the worksheet TYPBack.PRC.XLS, it appears that the costs used to calculate the class-specific piggyback factors are not using the revised rollforward costs as filed by the Postal Service on August 16, 2006 as USPS-LR-L-168, LR-L-169 1 and LR-L-169 2. Please provide a revised TYPBack.PRC.XLS worksheet using the revised rollforward costs.
 - d. In the worksheet TYPBack.finaladj.PRC.XLS, it appears that the costs used to calculate the class-specific piggyback factors for final adjustments are not using the revised rollforward costs as filed by the Postal Service on August 16, 2006 as USPS-LR-L-168, LR-L-169 1 and LR-L-169 2. Please provide a revised TYPBack.finaladj.PRC.XLS worksheet using the revised rollforward costs.

5. Please refer to USPS-LR-L-59, revised August 24, 2006, and USPS-LR-L-111, revised August 17, 2006.
 - a. In the worksheet Finaladjustments2008-USPS.XLS, specifically tab "roll forward", it appears that the costs are not the revised roll forward costs as filed by witness Waterbury on August 16, 2006 as USPS-LR-L-165 through 167. Please provide a revised Finaladjustments2008-USPS.XLS worksheet using the revised rollforward costs.
 - b. In the worksheet Final Adjustments2008-PRC.XLS, specifically tab "roll forward", it appears that the costs are not the revised rollforward costs as filed by the Postal Service on August 16, 2006 as USPS-LR-L-168, LR-L-169 1 and LR-L-169 2. Please provide a revised Final Adjustments2008-PRC.XLS worksheet using the revised rollforward costs.
 - c. Additionally, please include, in both Final Adjustments2008-USPS.XLS and Final Adjustments2008-PRC.XLS, the revised piggyback factors that are provided in the answer to the previous question above.
6. Please provide revised "D" reports (Exhibit USPS-10M), for both the USPS and PRC versions, which include the revised final adjustments provided in response to the previous question.
7. The Office of Personnel Management announced that the average increase in the Federal Employees Health Benefits Program (FEHBP) will be 1.8 percent. See www.opm.gov/whatsnew/index.aspx. The announcement stated that approximately 63 percent of FEHBP enrollees will not have a premium increase and another 15 percent will experience an increase of 5 percent or less.

Postal Service witness Loutsch in his testimony, USPS-T-6 revised at page 37, says that FEHBP premiums are estimated to rise 7 percent in January, 2007, before the impact of employee health plan changes and that is what he used to estimate the increase in health benefit costs. What effect would use of

the 1.8 percent figure have on Postal Service estimates for health benefits costs in FY 2007 and the test year?

8. Please refer to witness Thress's response to POIR 9, Question 1, where he acknowledged that the rates he used for forecasting Outside County Periodicals TYAR volumes were not the same as the rates proposed by the Postal Service for Outside County Periodicals. The resulting TYAR revenue calculated by witness Tang using the proposed rates and the above-mentioned volume forecast is, therefore, inaccurate. Please provide amended Outside County workpapers (USPS-LR-L-126) which calculate revenue that reflects a new volume forecast consistent with Postal Service proposed rates. Please compare your result with USPS-LR-L-174 (Workpapers of witness O'Hara, USPS-T-31, Filed August 25, 2006) for Outside County Periodicals, and make appropriate adjustments to arrive at a single, consistent result.

9. Please refer to: (1) USPS-LR-L-130 "Negotiated Service Agreements Spreadsheets (Taufique)" and (2) USPS-LR-L-174 "Workpapers of Witness O'Hara," filed August 25, 2006.
 - a. Please provide the NSA adjustments made to the revenue of First-Class automation letters, Standard regular and Standard ECR mail categories separately for FY 2006 Before Rates, FY 2007 Before Rates, TY 2008 Before Rates, FY 2007 After Rates, and TY 2008 After Rates. Please present the NSA revenue adjustments the same way as the NSA volume adjustments are shown in USPS-LR-L-174. Please show step-by-step how the NSA volume and revenue adjustments are calculated for the above mail categories and years. Please ensure that the final values of the NSA adjustments are not hard coded but are electronically linked to their source.

- b. If the process of answering question (a) results in changes to USPS-LR-L-130 and USPS-LR-L-174, please provide copies of the revised library references.
10. Please refer to: (1) USPS-LR-L-129 "First-Class Mail Rate Design Spreadsheets (Taufique)," revised August 24, 2006, and (2) USPS-LR-174 "Workpapers of Witness O'Hara," filed August 25, 2006.

In the sheet "Prcl Presrt Assump. Reverse" of USPS-LR-L-129, witness Taufique calculates the adjustments to 2007 AR and 2008 TYAR volume and revenue of First-Class single-piece and presort letter categories that he thinks are necessary for reversing his initial assumption that 36 percent of single-piece and 100 percent of presort parcels will shift to the new proposed First-Class business parcels category. The reversal includes adjustments to the volume and revenue of single-piece and presort letter categories, calculated initially in the sheet "Rev. FY08BR&FY08AR" of USPS-LR-L-129.

It appears that witness Taufique's revenue adjustments are incorrect because in his calculations he did not use the Revenue Adjustment Factors (RAFs) from the 2005 Billing Determinants. This is inconsistent with the originally calculated revenue to which the adjustments are applied. The original revenue calculations in the sheet "Rev. FY08BR&FY08AR" of USPS-LR-L-129 correctly include the application of the 2005 RAFs.

- a. Please confirm that the 2007 AR and 2008 TYAR revenue figures for First-Class single-piece and presort letter categories calculated in the sheet "Rev. FY08BR&FY08AR" and adjusted in the sheet "Prcl Presrt Assump. Reverse" of USPS-LR-L-129 are incorrect. These incorrect after-rates revenue figures have been reported in Exhibit USPS-31B and the following four spreadsheets of USPS-LR-L-174: (1) "AR 2007 Vol & Rev;" (2) "AR 2007 Rev & Cost;" (3) "AR 2008 Vol & Rev;" and (4) "AR 2008 Rev & Cost."

Please show step-by-step how the pasted postage revenue figure of \$18,203,589 (000) in USPS-LR-L-174 is calculated.

- b. Please add six summary tables to USPS-LR-L-129, one for each of the following years: BY 2005, FY 2006 Before Rates, FY 2007 Before Rates, TY 2008 Before Rates, FY 2007 After Rates, and TY 2008 After Rates. Each table should show the annual volume, postage revenue, fees, and total revenue for the following First-Class mail categories: (1) single-piece letters, flats and parcels; (2) presort letters, flats and parcels; (3) automation letters, flats and parcels; (4) single-piece cards; (5) presort cards; and (6) automation cards. The tables should also show the NSA volume and revenue adjustments of First-Class workshared letters, flats and parcels. Please provide the sources of volumes and fees and show step-by-step how the postage revenue and the NSA volume and revenue adjustments are calculated for the above mail categories and years. Please ensure that the final values of volume, postage revenue, fees and NSA adjustments are not hard coded but are electronically linked to their source. Finally, please make sure that the figures of volume, postage revenue, fees, and NSA adjustments in the above six tables agree with those shown in the summary tables for the corresponding years in USPS-LR-L-174. Below is a template for the requested six tables:

Docket R2006-1: First-Class Mail -Summary of Volume and Revenue
(In Thousands)

First-Class Mail Categories	Year			Total Revenue (4)=(2)+(3)
	Volume (1)	Postage Revenue (2)	Fees (3)	
(a) Single-Piece Letters, Flats and Parcels				
(b) Presort Letters, Flats and Parcels				
(c) Automation Letters, Flats and Parcels				
(d)=(b)+(c) Total Presort or Workshared Pieces w/o NSA				
(e) NSA Adjustment				
(f)=(d)+(e) Total Presort or Workshared Pieces w/ NSA				
(g)=(a)+(f) Total Letters, Flats and Parcels				
(h) Single-Piece Cards				
(i) Presort Cards				
(j) Automation Cards				
(k)=(i)+(j) Total Presort or Workshared Cards				
(l)=(h)+(k) Total Cards				
m=(g)+(l) Total First-Class Mail				

12. Please refer to: (1) USPS-LR-L-174 “Workpapers of Witness O’Hara,” filed August 25, 2006; (2) Exhibit USPS-31A “Summary of Estimated TYBR Finances (O’Hara),” revised August 25, 2006; (3) Exhibit USPS-31B “Summary of Estimated TYAR Finances (O’Hara),” revised August 25, 2006; (4) Exhibit USPS-31C “Summary of Estimated Revenues, Interim Fiscal Years 2007BR and 2007AR (O’Hara),” revised August 25, 2006; (5) Exhibit USPS-6A “Statements of Revenue and Expense (Loutsch),” revised July 31, 2006; and (6) Exhibit USPS-6D “Mail and Special Services Revenue, Fiscal Year 2005–Test Year (Loutsch),” revised July 31, 2006.
- a. Please confirm that the individual revenue entries in the second column “TYBR Revenue” of Exhibit USPS-31A add up to the 2008 TYBR total revenue figure of \$73,632,163 (000), which is different from the pasted (hard coded) figure of \$73,580,134 (000).
 - b. Please confirm that the following five different numbers currently exist in the record for 2008 TYBR total revenue: (1) \$75,779,424 (000) in the column numbered 2; (2) \$75,674,351(000) in the column numbered 4 of the sheet “BR 2008 Vol & Rev” in USPS-LR-L-174; (3) \$73,580,134 (000) in the sheet “BR 2008 Rev & Cost” of USPS-LR-L-174; (4) \$73,632,163 (000) in Exhibit USPS-31A; and (5) \$73,568 (000,000) in Exhibits USPS-6A and USPS-6D.

- c. If (a) and (b) above are confirmed, please revise USPS-LR-L-174 and Exhibits USPS-31A, USPS-6A and USPS-6D, as well as any other relevant document, as needed, in order to produce one and only one estimate of 2008 TYBR total revenue that is consistent with the record. Please show step-by-step how 2008 TYBR total revenue is calculated. Please ensure that the mail category and special service revenue entries in all spreadsheets of USPS-LR-L-174 are electronically linked to the workpapers of pricing witnesses or provide detailed citations to the sources. Make sure that the figures in the workpapers of pricing witnesses agree with the revenue entries in all spreadsheets of USPS-LR-L-174.
- d. Please refer to the following six spreadsheets in USPS-LR-L-174: (1) "BY 2005 Vol \$ Rev;" (2) "BR 2006 Vol \$ Rev;" (3) "BR 2007 Vol \$ Rev;" (4) "BR 2008 Vol \$ Rev;" (5) "AR 2007 Vol \$ Rev;" and (6) "AR 2008 Vol \$ Rev." These spreadsheets are designed so that the calculated total revenue in columns (2) and (4) are equal. Both columns contain the same information—postage and fees of mail and special services. Column (2) contains postage plus unallocated fees and column (4) shows postage plus allocated fees to mail categories. Please confirm that in the following four spreadsheets, from the above six, the calculated total revenue figures in columns (2) and (4) are not the same: (1) "BY 2005 Vol \$ Rev;" (2) "BR 2006 Vol \$ Rev;" (3) "BR 2008 Vol \$ Rev;" and (4) "AR 2008 Vol \$ Rev." If the above is confirmed, please correct the four spreadsheets so that the calculated total revenue in columns (2) and (4) are equal.
- e. Please confirm that the FY 2005 (base year) actual total revenue calculated by witness O'Hara in the sheet "BY 2005 Vol & Rev" of USPS-LR-L-174 does not agree with the FY 2005 actual total revenue reported by witness Loutsch in Exhibits USPS-6A and USPS-6D. If the above is

confirmed, please revise sheet "BY 2005 Vol & Rev" of USPS-LR-L-174 and Exhibits USPS-6A and USPS-6B, if needed, so that the actual revenue figures for the individual mail and special services as well as the calculated total revenue for BY 2005 agree in all three documents. Please show step-by-step how BY 2005 total revenue is calculated.

- f. Please confirm that the 2008 TYAR total revenue calculated by witness O'Hara in the sheet "AR 2008 Vol & Rev" of USPS-LR-L-174 and shown in Exhibit USPS-31B does not agree with the TYAR total revenue reported by witness Loutsch in Exhibits USPS-6A and USPS-6D. If the above is confirmed, please revise sheet "AR 2008 Vol & Rev" of USPS-LR-L-174 and Exhibits USPS-31B, USPS-6A and USPS-6B so that the revenue figures for individual mail and special services as well as the calculated total revenue for 2008 TYAR agree in all four documents. Please show step-by-step how 2008 TYAR total revenue is calculated.
- g. Please confirm that the 2008 TYBR net income deficiency calculated by witness O'Hara in the sheet "BR 2008 Rev & Cost" of USPS-LR-L-174 and shown in Exhibit USPS-31A does not agree with the deficiency reported by witness Loutsch in Exhibit USPS-6A. If the above is confirmed, please revise sheet "BR 2008 Rev & Cost" of USPS-LR-174 and Exhibits USPS-31A and USPS-6A so that only one correctly calculated deficiency figure for 2008 TYBR is shown in all three documents. Please show step-by-step how TYBR net income deficiency is calculated.
- h. Please confirm that the 2008 TYAR net income calculated by witness O'Hara in the sheet "AR 2008 Rev & Cost" of USPS-LR-L-174 and shown in Exhibit USPS-31B does not agree with the surplus reported by witness Loutsch in Exhibit USPS-6A. If the above is confirmed, please revise sheet "AR 2008 Rev & Cost" of USPS-LR-174 and Exhibits USPS-31B and USPS-6A so that only one correctly calculated surplus figure for 2008

TYAR is shown in all three documents. Please show step-by-step how 2008 TYAR net income is calculated.

- i. Currently, Exhibits USPS-31A through USPS-31E have been submitted as a PDF file. Please resubmit Exhibits USPS-31A through USPS-31E as electronic spreadsheets with the numerical entries electronically linked to or provide detailed citations to their sources.
13. In Docket No. R2005-1, witness Kelley testified that he determined the strata boundary for the sample of the two smaller sized strata in the 2002 City Carrier Street Time Study (CCSTS) according to the cum \sqrt{f} rule, and that the third stratum contained all ZIP Codes with more than 60 letter routes.¹
- a. Were the same rules used to determine the strata boundaries in the 2004 Survey? If not, please explain the rules and statistical formulae used to determine strata boundaries.
 - b. Please populate the table provided in the Postal Service response to OCA/USPS-T16-3 with the corresponding values from the 2004 survey. That table had one column entitled “City Routes per ZIP Code” and six rows with number of routes increasing by increments of 10. The second column showed the frequency of City Routes corresponding to each row in column 1, and the third column showed the cum \sqrt{f} corresponding to each row in column 1.
14. In Docket No. R2005-1, witness Kelley (USPS-T-16) discussed the process by which the original CCSTS sample of 221 ZIP Codes was reduced to a final sample of 167 ZIP Codes.² In the 2004 Survey, 122 ZIP Codes were presented as the final sample.

¹ Docket No. R2005-1, Direct Testimony of John Kelley on Behalf of the United States Postal Service, USPS-T-16, at 5.

² *Id.* at 11-13.

- a. Please explain the decisions, rules, and statistical formulae used to determine optimal sample size for the 2004 Survey.
 - b. Was the 2004 Survey reduced from an initially larger optimal sample size? If so, discuss the methods by which the sample was reduced and the statistical implications of this reduction.

15. Please populate a table with each column calculated in the same manner as it was in response to OCA/USPS-T16-7, in Docket No. R2005-1, for DPS'd letters, cased letters, cased flats, sequenced mail, collection mail, small parcels, large parcels, and accountables.

16. LR-L-179.doc, found in USPS-LR-L-179, states on page 4 that "...time pool proportions were not calculated by delivery mode...."
 - a. Please confirm that all cells in USPS-LR-L-5, "CS06&7.XLS," worksheet entitled "Outputs to CRA," can be derived without reference to cell values from worksheets in this file that are differentiated according to delivery mode.
 - b. If you confirm, please match each value in USPS-LR-L-179, file "Street_Costpools final.xls," worksheet 1, to the appropriate cells in USPS-LR-L-5, "CS06&7.XLS," to produce the file "Outputs to CRA" updated with appropriate values from the 2004 Survey.
 - c. If you do not confirm, please use data from the 2004 Survey to populate the cells contained in Docket No. R2005-1, USPS-LR-K-79, "MDCD.CPSUM.FINAL.xls," as requested in Presiding Officer's Information Request No.4, Question 5.b.
 - d. Please confirm that all cells in all files contained in USPS-LR-L-67 Revised can be derived without reference to any cells in USPS-LR-L-5, "CS06&7.XLS," that are currently differentiated according to delivery mode.

- e. If you confirm, please match each value in USPS-LR-L-179, file "Street_Costpools final.xls," worksheet 1, to the appropriate cells in the files contained in USPS-LR-L-67 Revised. If you do not confirm, please use data from the 2004 Survey to populate the cells contained in USPS-LR-K-79, "MDCD.CPSUM.FINAL.xls," as requested in Presiding Officer's Information Request No.4, Question 5.b.
17. Please refer to the SAS Log entitled "City Carrier Street Time Model.2004 data.variability equations.encrypted.log" in USPS-LR-L-180, where the text begins "Note: 36226 records were read from the infile PAVOL," yet four lines later, the log reads "[t]he data set work.pavol has 36224 observations...."
- a. Please confirm that the file entitled "PAVolume.MaskedZips.xls," found in USPS-LR-L-179 is the source for file PAVolume.MaskedZips.prn.
 - b. Please confirm that PAVolume.MaskedZips.xls has 36226 observations.
 - c. Please confirm that the PAVolume.MaskedZips.xls does not contain an "XX" value for the variable rteno.
 - d. If you do not confirm, please identify which ZIP Code, date combination(s) contains a rteno value of "XX."
 - e. Please confirm that SAS would not create any missing observations for the term $nrteno = 1 * rteno$ produced in the portion of "City Carrier Street Time Model.2004 data.variability equations.encrypted.log", line 1121, entitled "data pavol2."
 - f. If you do not confirm, please identify the ZIP Code, date, and rteno combination(s) for which SAS creates a missing value(s) for $nrteno = 1 * rteno$.

- g. If you confirm either c. or e., please explain why the SAS log in the above-mentioned file contains two fewer observations for the file entitled work.pavol1 than the infile PAVOL.” Please identify the two observations deleted from PAVolume.MaskedZips.xls by ZIP Code, date, and rteno combination.
18. Please refer to USPS-LR-L-180, file “City Carrier Street Time Model.2004 data.variability equations.encrypted.sas.” Please confirm whether the following are true:
 - a. the term “ldp*mlet*dp” in the pdelt calculation should, instead, be “ldp*mlet*mdp;”
 - b. the term “dens*mdens” should also be included in this same calculation for the variable pdelt; and
 - c. if confirmed, please provide the corrected elasticities for each calculation of pdelt where these errors occurred.
19. The September 22, 2006 Response of Postal Service Witness Michael D. Bradley to Presiding Officer’s Information Request No.4, Question 11, states “I thus eliminated just the cross product terms including possible deliveries.” The Restricted Quadratic models witness Bradley performed in this response also include several variables that were not included in his USPS-T-14 testimony in Docket No. R2005-1.

This question requests the variabilities from a model most similar in form to the Restricted Quadratic model used in witness Bradley’s July 6, 2005 Response of the United States Postal Service to Item 9 of Presiding Officer’s Information Request No. 9, Docket No. R2005-1.

 - a. Please estimate the variabilities for letters, flats, sequenced mail, collection volume, and small parcels, by eliminating just the cross product terms including possible deliveries, from the first Full Quadratic Model

provided in the September 22, 2006 response referred to in the introduction to this question.

20. The variables LTRA,LHAM, FTUB,FHAM,MHAM, PTUB found in USPS-LR-L-179, file "PAVolume.MaskedZips.xls" contain values such as .25 .50, and .75.
 - a. Please confirm that a value such as .50 refers to a half-full container.
 - b. If you do not confirm, please explain the units by which these variables are measured.

21. Please refer to USPS-LR-L-180, file "City Carrier Street Time Model.2004 data.variability equations.encrypted.sas." At one point, this file calculates the variable "cv" by multiplying several variables by some numbers. For example:
$$ltra*271.16 + lham*3403.29 \dots$$
 - a. Please confirm whether the numbers, such as 271.16 and 3403.29, refer to the average number of mailpieces that can be held in each type of container.
 - b. If you do not confir, please explain the units to which these values refer.

George Omas
Presiding Officer