

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA (MMA/USPS-T16-22.a-c, 23 - 25)
(June 17, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of MMA, filed on June 3, 2005: MMA/USPS-T16-22.a-c, 23-25. Part d of question 23 was redirected to the Postal Service.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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June 17, 2005

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Major Mailers Association

MMA/USPS-T16-22

Please refer to Library Reference LR-USPS-K-67 (revised), worksheet 9; Library Reference LR-USPS-K-101, worksheet "Delivery Volumes"; and your response to MMA-USPS-T16-17D. You provide BY 2004 volumes for First-Class letters in all three sources.

- A. Please confirm and correct the volumes shown below from all three sources for rural route carriers and explain any differences.

	Rural Route Volumes (000)		
First-Class Category	LR-K-67	LR-K-101	Int. MMA 17D
Single Piece Letters	6,955,698	10,276,825	10,276,825
Single Piece Flats	645,373	913,445	913,445
Single Piece Parcels	113,585	6,557	6,557
Total Single Piece	7,714,656	11,196,827	11,196,827
Presort Letters	12,293,318	12,391,555	12,391,542
Presort Flats	198,472	99,790	99,790
Presort Parcels	1,793	2,251	2,251
Total Presort	12,493,583	12,493,595	12,493,583

- B. Please confirm and correct the volumes shown below from all three sources for city carriers and explain any differences.

	City Carrier Volumes (000)		
First-Class Category	LR-K-67	LR-K-101	Int. MMA 17D
Single Piece Letters	17,565,046	17,565,046	17,548,389
Single Piece Flats	1,701,042	1,701,042	1,634,457
Single Piece Parcels	237,599	237,599	320,840
Total Single Piece	19,503,687	19,503,686	19,503,687
Presort Letters	29,355,620	29,355,620	29,201,824
Presort Flats	477,831	470,464	630,826
Presort Parcels	3,754	11,121	4,555
Total Presort	29,837,205	29,837,205	29,837,205

- C. Are the BY 2004 Single Piece Metered Letter volumes for City Carriers and Rural Carriers, that you provided in response to Interrogatory MMA/USPS-T17D, actual volumes or official USPS estimates? If so, please provide source(s) for those volume figures. If not, please explain exactly how you determined or derived the city and rural carrier volumes for metered letters.
- D. Please provide a fully revised Library Reference LR-USPS-LR-101 with the corrected volumes for the base year.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Major Mailers Association

Response

A. Confirmed. The LR-K-67 column reports lower rural-carrier volumes than the LR-K-101 column and the Int. MMA 17D column report, because the LR-K-67 volumes exclude collection volumes, and because they are not adjusted by the same rural crosswalk applied in LR-K-101, and in the derivation of the Int. MMA 17D volumes.

B. Confirmed. For all categories except Presort Flats and Presort Parcels, the LR-K-67 and LR-K-101 volumes equal the BY 2004 CCS volumes, whereas the Int. MMA 17D volumes are the corrected, post-crosswalk LR-K-101 volumes that my MMA-T16-17D response derived by correcting the error in LR-K-101, worksheet 'Delivery Volumes', cells M4 – M9.

For Presort Flats and Presort Parcels, the LR-K-101 volumes are again just the BY 2004 CCS piece counts, whereas the Int. MMA 17D volumes are again the post-crosswalk volumes which my MMA-17D response derived by correcting the 'Delivery Volumes' error in LR-K-101. The LR-K-67 Presort Flat and Presort Parcel volumes, however, result from the parcel crosswalk applied in worksheet "22.Parcel Crosswalk" of LR-K-67. This crosswalk moves 7,367,000 CCS Presort Parcels into CCS Presort Flats, thereby increasing total Presort Flats from the 470,464,000 listed in the LR-K-101 column, to the 477,831,000 listed in the LR-K-67 column, and reducing total Presort Parcels from the 11,121,000 LR-K-101 total, to the 3,754,000 LR-K-67 total.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
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C. They are estimates. The 12,966,748,000 BY 2004 Single -Piece Metered Letters equal the sum of cells E14 and E20 in R2005-1, USPS-LR-K-87, "First-Class Single Piece Indicia.xls", sheet 'SP Indicia'. In my response to MMA-USPS-T16-17D, I estimated the city-carrier, rural-carrier, and P.O. Box portions of this 12,966,748,000 total as this total times the ratios of the corrected LR-K-101 city-carrier, rural-carrier, and P.O. Box Single-Piece letters (listed in row 1 of my table in the 17D response) over the grand total of 40,932,061,000 RPW Single-Piece letters. I correctly calculated these ratios as 0.429 for city, 0.251 for rural, and 0.320 for P.O. Box. However, I mistakenly multiplied these ratios by 12,996,748,000, instead of 12,966,748,000, thereby obtaining the estimates of 5,571,965,000 city-carrier, 3,263,098,000 rural-carrier, and 4,161,686,000 P.O. Box Single-Piece Metered letters shown in row 6 of my VP-T16-17D BY 2004 table. Fixing this error reduces these volumes to the correct LR-K-101 estimates of 5,559,103,000 city-carrier, 3,255,566,000 rural-carrier, and 4,152,080,000 P.O. Box Single-Piece Metered letters.

D. Redirected to the Postal Service.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
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MMA/USPS-T16-23

Please refer to your response to MMA/USPS-T16-16 where you provide the unit delivery costs of DPSed and non-DPSed presorted letters.

- A. Please confirm that the BY 2004 unit costs of 2.28 and 10.35 cents for DPSed and Non-DPSed letters, respectively, represent not the actual unit costs to deliver each piece but unit costs calculated by dividing (1) the total cost to deliver all pieces that are delivered by rural and city carriers by (2) all presorted letters, including those that are not actually delivered by city or rural carriers. If you cannot confirm, please explain.
- B. Please provide the BY volume variable unit cost incurred by the Postal Service to deliver (via a city carrier or rural carrier) a (1) DPSed and (2) Non-DPSed presorted letter and provide your computations and sources.

Response

- A. Partially confirmed. The 2.28 and 10.35 cents do equal the total city plus rural delivery costs for DPS and non-DPS presorted letters divided by the total originating presorted letter pieces as measured by RPW, where these total originating pieces do include pieces not delivered by city or rural carriers. These 2.28 and 10.35 cents are therefore estimates of the unit cost that is defined as delivery cost per originating piece.
- B. Presumably, the question is asking for a unit cost with the combined city and rural volumes as the denominator rather than base volume. I do not endorse this as a meaningful number for deriving unit delivery costs. Please refer to the attached worksheet for the requested calculations.

Response MMA-T-16-23B

BY04 COSTS AND VOLUMES	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(000s)	(000s)	(000s)	(\$0.000)	(\$0.000)	(\$0.000)
Mail Category	6.1 IN-OFFICE DIRECT LABOR, CASING	6.1 IN-OFFICE DIRECT LABOR, NON-CASING	6.2 IN-OFFICE OVERHEAD, PLUS THE PORTION OF IN-OFFICE DELIVERY PREP THAT IS BURDENED ON OFFICE DIRECT	7.1 DIRECT DELIVERY ACTIVITIES	7.2 DELIVERY ACTIVITIES SUPPORT	6.2 IN-OFFICE DELIVERY PREP BURDENED ON STREET DIRECT	10 RURAL CARRIERS	TOTAL PIGGYBACKED CITY CARRIER COSTS	TOTAL PIGGYBACKED RURAL CARRIER COSTS	GRAND TOTAL PIGGYBACKED COSTS	CITY VOLUME	RURAL VOLUME	CITY PLUS RURAL VOLUME	UNIT CITY DELIVERY COST	UNIT RURAL DELIVERY COST	UNIT TOTAL DELIVERY COST
First-Class Presort Letters Subclass - Non DPS Letter Pieces Delivered on City and Rural Routes	350,080	8,589	97,934	98,744	12,035	4,266	136,460	713,840	160,372	874,212	4,636,588	2,957,719	7,594,307	\$0.1540	\$0.0542	\$0.1151
First-Class Presort Letters Subclass - DPS Letter Pieces Delivered on City and Rural Routes	0	38,728	10,575	442,789	53,968	19,131	135,960	705,776	159,785	865,561	24,719,032	9,335,599	34,054,631	\$0.0286	\$0.0171	\$0.0254
First-Class Presort Letters Subclass - All Letter Pieces	350,080	47,317	108,509	541,533	66,004	23,398	272,420	1,419,616	320,157	1,739,773	29,355,620	12,293,318	41,648,938	\$0.0341	\$0.0077	\$0.0418

Response of Postal Service Witness John Kelley to Interrogatories Posed by
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MMA/USPS-T16-24

Please refer to your responses to MMA/USPS-T16 B and C. In MMA/USPS-T16 B, you were asked to provide a judgment as to how the unit cost of a nonpresorted letter would compare to the unit cost of a workshare letter if neither letter was DPSed. You responded as follows:

I do not know. I have not compared the unit delivery costs between a workshared letter and a single piece letter that is not DPSed.

In MMA/USPS-T16 C, you were asked to provide a judgment as to how the unit cost of a nonpresorted letter would compare to the unit cost of a workshare letter, if both letters were DPSed. Again, you responded as follows:

I do not know. I have not compared the unit delivery costs between a workshared letter and a single piece letter that are DPSed.

- A. Please confirm that for letters that are not DPSed, you have not provided the Commission with unit costs for single piece letters compared to workshared letters, and that you do not even have any intuition as to which letter would cost more. If you cannot confirm, please provide your best judgment on this matter (as MMA's original question requested) and explain.
- B. Please confirm that for letters that are DPSed, you have not provided the Commission with unit costs for single piece letters compared to workshared letters, and that you do not even have any intuition as to which letter would cost more. If you cannot confirm, please provide your best judgment on this matter (as MMA's original question requested) and explain.
- C. In order for the Commission to understand the cost savings impact that result from worksharing on delivery operations, do you think it would be important to know the unit costs for workshared and non-workshared letters that are not DPSed? If no, please explain. If yes, why did the Postal Service not attempt to study this type of information?
- D. In order for the Commission to understand the cost savings impact that result from worksharing on delivery operations, do you think it would be important to know the unit costs for workshared and non-workshared letters that are DPSed? If no, please explain. If yes, why did the Postal Service not attempt to study this type of information?

Response

A. Confirmed.

B. Confirmed.

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C. In reviewing Commission documents, I cannot locate the Commission requesting the unit delivery costs suggested in the question. Exploring this issue was not part of my task of updating the unit delivery costs by rate category from Docket No. R2001-1.

D. In reviewing Commission documents, I cannot locate the Commission requesting the unit delivery costs suggested in the question. Exploring this issue was not part of my task of updating the unit delivery costs by rate category from Docket No. R2001-1.

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MMA/USPS-T16-25

Please refer to your response to MMA/USPS-T16G. There you compute the implied DPS % for single piece letters as 43.8% under the assumption given to you: that DPSed nonpresorted and workshared letters would cost the same to deliver and that non-DPSed nonpresorted and workshared letters would cost the same to deliver.

- A. Can you categorically reject that 43.8% as being a reasonable DPS % for all First-Class nonpresorted letters? If not, please explain.
- B. Do you have any intuition or judgment as to what the approximate magnitude is for the DPS % of nonpresorted letters? If so, please provide your best estimate and explain the basis for it.
- C. If you feel that the implied DPS % of 43.8% is too low, will this support a contention that the unit cost for nonpresorted letters that are not DPSed is very likely higher than the unit cost for workshared letters that are not DPSed? If no, please explain.
- D. If you feel that the implied DPS % of 43.8% is too low, will this support a contention that the unit cost for nonpresorted letters that are DPSed is very likely higher than the unit cost for workshared letters that are DPSed? If no, please explain.

Response

- A. My response to MMA/USPS-T-16G was based on a specific assumption and was not intended to be an estimate for the DPS percentage of nonworkshared letters. Since I have not studied the issue thoroughly, I cannot categorically reject that 43.8 percent of nonpresorted letters are DPSed.
- B. No.
- C. I have not studied the issue thoroughly enough to feel one way or the other, so I cannot answer the question.
- D. I have not studied the issue thoroughly enough to feel one way or the other, so I cannot answer the question.

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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