

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 THE UNITED STATES POSTAL SERVICE  
TO VALPAK INTERROGATORIES (VP/USPS-7 - 11)  
(June 24, 2005)

The United States Postal Service hereby provides its responses to the following interrogatories of ValPak: VP/USPS-7 – 11, filed on June 10, 2005.

Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 24, 2005

Response of the United States Postal Service to Interrogatories Posed by Valpak Dealer's Association, Inc.

**VP/USPS-7**

Please refer to the response to VP/USPS-1a, which shows in an attached table that prior to the rural crosswalk, and thus, based on cost segment 10 costs, the unit rural cost of letters **increased** from Docket No. R2001-1 to the instant docket from 0.448 cents to 1.164 cents, an increase of 159.8 percent, while the unit rural cost of flats **decreased** from one docket to the next from 1.303 cents to 1.223 cents, a decrease of 6.1 percent.

- a. Please explain why the cost of letters increased 159.8 percent and the cost of flats decreased 6.1 percent.
- b. If there were changes in the methods by which rural costs were developed in the cost segment 10 analysis that contributed to the growth pattern outlined in this question, please explain separately each change, the reason for the change, and the effect of the change.
- c. The disparity/anomaly in the costs of letters and flats is said to be due in substantial degree to the effects of the rural crosswalk. Please explain why it is not even more reasonable to conclude that the disparity is caused by the massive increase in the segment 10 cost of letters, on top of which the crosswalk is applied.

**Response**

a. and b. The reason for these changes is that the rural-flats adjustment that the CRA applied to the BY 2000 CS10.xls rural letters and flats costs that were then input into the R2000-1 PRC-LR-7 analysis was discontinued prior to BY 2004.

Therefore, this adjustment was not applied to the CRA's BY 2004 CS10 letters and flats costs that were input into the R2005-1 LR-K-101 update to PRC-LR-7.

c. It is not more reasonable due to the fact that the rural unit delivery costs in LR-K-101 before the rural crosswalk are 1.164 and 1.223 cents (column F on the attached spreadsheet in response to VP/USPS-1a) for letters and flats respectively. This is an operationally reasonable result. The application of the crosswalk causes the unit delivery costs to become counter-intuitive with the delivery unit costs for letters being more than flats.

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The disparity that the VP/USPS-1a question and response refer to, and that justifies my rejection of the PRC-LR-7/LR-K-101 rural crosswalk methodology is not a disparity between R2001-1 and R2005-1 unit costs. It is instead a disparity between the unit costs derived for any given fiscal year with and without the rural crosswalk. For BY 2004, column F of the table attached to the VP/USPS-1a response shows that the CRA ECR unit costs, equal to the CS10 total costs divided by RPW letters and flats, are quite reasonable. They are slightly lower for letters than for flats. The rural crosswalk, however, causes an operationally implausible, massive increase in the ECR letters unit cost, and similarly massive decrease in the ECR flats unit cost such that the post-rural-crosswalk letters unit cost exceeds the post-crosswalk flats unit cost by an absurd 128%. It is even more reasonable to conclude that the rural crosswalk should be discontinued.

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**VP/USPS-8.**

Please refer to the response to VP/USPS-4d(ii), which includes the following statement: If the 'RCCS EVAL' crosswalk split factors do not accurately reflect current mail volumes, then it follows that the "ECR-letter category" rural costs derived from these factors will be incorrect. Do you believe that the split factors used in USPS-LR-K-101 are inaccurate in their representation of current mail volumes? If so, please present any evidence available showing how far from accurate the split factors are.

**Response**

The 'RCCS EVAL' split factors are no longer applicable to the distribution of mail delivered on rural routes. The primary rationale for implementation of the rural crosswalk was the discrepancy in shape definitions between the DMM and the National Mail Count which is used to evaluate rural routes. This discrepancy no longer exists. Please refer to the response of ADVO/USPS-T18-1c for the timing of the reconciliation between the shape definitions used for the DMM and the National Mail Count.

A specific example should illustrate this point more clearly. The post-crosswalked volumes are 5.7 billion and 14.8 billion for ECR and Standard Regular letters respectively (source LR-K-101 worksheet 'Rural Crosswalk'). The volumes derived from the RCCS system are 3.3 billion and 12.6 billion pieces (source LR-K-67 worksheet '9Delivery Volumes') for ECR and Standard Regular letters respectively. A comparison of these distributions indicates that ECR is 21 percent of the combined total of ECR and Standard Regular letters without the crosswalk and 28 percent of the total after the implementation of the crosswalk. As a result of the implementation of the crosswalk, ECR letters incur a significantly larger portion of the volume variable cost.

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Dealer's Association, Inc.

**VP/USPS-9.**

Please refer to the response to VP/USPS-4e(ii), which explains that “because the ratios of RCCS letters to RPW letters vary across” the categories of “Basic-Auto letters, Basic-Non-Auto letters, and the combination of High-Density and Saturation letters,” the “rural ECR letter costs per RPW letter differ substantially across these categories.” Please explain how any differences in these “costs per RPW letter” for the categories in question translate into any differences in rates or discounts for the categories.

Response

The unit delivery costs derived in USPS-LR-K-101 were not used to develop rates in Docket No. R2005-1.

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**VP/USPS-10.**

Please refer to the responses to VP/USPS-5b(ii) and (iii), which agree that very rough estimates can be prepared which suggest that the fully-piggybacked, post-rural-crosswalked cost of delivering a letter on a rural route has **decreased** between Docket No. R2001-1 and the instant docket by something in the neighborhood of 2.74 percent.

a. Please reconcile this estimate of a 2.74-percent **reduction** with the indication in the table attached to the response to VP/USPS-1 that the post-rural-crosswalked cost of a letter **increased** over the same period from 1.002 cents to 1.728 cents, an increase of 72.4 percent.

b. Please confirm that instead of adding rural and city costs per RPW piece to get a total delivery cost, one could just as easily and with the same result calculate a specific cost for rural delivery (such as the estimate of 5.63 cents developed in the response to VP/USPS-5b(i)) and a specific cost for city delivery, and take an appropriate weighted average of the two. If you do not confirm, please explain in detail why this could not be done.

c. Please consider the approach of taking a weighted average of a 5.63-cent figure and a corresponding figure for city routes. If the increase in the 5.63-cent figure has been somewhere in the neighborhood of 2.74 percent and the increase in weighted average has been somewhere in the neighborhood of 46.54 percent, as suggested in the response to VP/USPS-1h, please explain the implications for the increase in the specific cost of city delivery.

Response

**Response**

a. The 2.74 percent cited in the question refers to a unit delivery cost per rural delivered piece. The 72.4 percent increase cited in the question is calculated by taking rural costs divided by originating volume. Incidentally, if the numerators of these 1.002 cent and 1.728 cent costs are divided by RCCS volumes instead of RPW volumes, they equal 4.243 cents and 4.567 cents, respectively, implying a 7.63 percent increase, instead of a 2.74 percent reduction.

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b. Confirmed as long as the proper weights are applied to the unit costs. A weighted average with the formula below will equal the unit delivery costs as calculated in LR-K-101 as well as LR-K-67.

Notation:

C test year cost

V test year volume

c city

j rate category

o originating

r rural

w weight

U unit cost

$$U_{rj} = \frac{C_{rj}}{V_{rj}}, U_{cj} = \frac{C_{cj}}{V_{cj}}$$

$$w_{rj} = \frac{V_{rj}}{V_{oj}}, w_{cj} = \frac{V_{cj}}{V_{oj}}$$

Unit Delivery Cost (UDC), for rate category I, as calculated in LR-K-101 and LR-

K-67 is  $UDC_j = w_{rj}U_{rj} + w_{cj}U_{cj} = \frac{C_{rj} + C_{cj}}{V_{oj}}$

c. In order to explain the unit cost implications for city delivery, as you define it, the previous and current weights as defined in part b. need to be known. The relative proportion of volume delivered on city and rural routes has a significant impact on the unit delivery cost per originating piece.

Response of the United States Postal Service to Interrogatories Posed by Valpak Dealer's Association, Inc.

**VP/USPS-11.**

Please refer to the response to VP/USPS-4f(i and ii), which states that payments to rural carriers “vary only according to mail shape, and according to whether the mail piece is delivered or collected, whether the delivered piece is a boxholder or a non-boxholder piece, and whether the delivered piece has postage due.”

Please explain whether the payment to rural carriers varies for letters according to whether they are delivery point sequenced, which, as explained in the response to VP/USPS-6(a), would be expected to cause increased mail processing costs. If it does not, please explain whether it follows that neither the mailers nor the Postal Service generally are receiving any benefit from delivery point sequencing letters on rural routes and that, indeed, they may be paying a penalty.

**Response**

Payments made to rural carriers for letters do vary for according to whether the letters are delivery point sequenced. In BY 2004, rural carriers received an allowance of 0.0333 minutes per DPS letter, 0.0587 minutes per sector segment letter, and 0.0699 minutes non-DPS/non-sector-segment letter. The term “costs-by-shape” is often used to refer to variations in rural costs per delivered piece across all rural-evaluation categories, including categories such as DPS, sector-segment, and regular letters that really have the same shape.

## 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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