

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-T16-30 - 31)  
(July 5, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of MMA, filed on June 21, 2005: MMA/USPS-T16-30-31.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
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July 5, 2005

**RESPONSE OF POSTAL SERVICE WITNESS KELLEY  
TO INTERROGATORIES OF MMA**

**MMA/USPS-T16-30**

Please refer to your further revised response to Interrogatory MMA/USPS-T16-13 (Errata) filed June 17, 2005. There you provided the collection costs that were included in your First-Class single piece delivery costs as part of your analysis provided in Library Reference LR-USPS-K-67. Please also refer to USPS witness Schenk's response to Interrogatory MMA/USPS-T43-6 in R2001-1.

A. Please confirm that the unit collection cost that you derive for single piece letters for TY 2006 is 2.335 cents, which represents the difference between 7.189 cents (unit cost with collection costs) and 4.854 cents (unit cost without collection costs). If you cannot confirm, please provide the TY 2006 unit city carrier collection cost for First-Class letters.

B. Please confirm that according to USPS witness Schenk, the R2001-1 unit city carrier collection cost that she derived for single piece letters for BY 2000 is .65 cents, the difference between 10.22 cents (unit cost with collection costs) and 9.57 cents (unit cost without collection costs). If you cannot confirm, please explain.

C. Please confirm that, according to USPS witness Schenk, the R2001-1 unit rural collection cost that she derived for single piece letters for BY 2000 is .64 cents, the difference between 3.71 cents (unit cost with collection costs) and 3.07 cents (unit cost without collection costs). If you cannot confirm, please explain.

D. Please confirm that, between BY 2000 in R2001-1 and TY 2006 in R2005-1, the unit cost for collecting First-Class letters, as estimated by the Postal Service, increased approximately 260 %, from .65 cents to 2.335 cents.

E. Please confirm that, between BY 2000 in R2001-1 and TY 2006 in R2005-1, the average wage rate has increased 32% from \$27.745 to \$36.716, as shown in Library References LR-USPS-J-117 (R2001-1) and LR-USPS-K-101 (R2005-1). If you cannot confirm, please provide the correct average wage rates for BY 2000 and TY 2006.

F. Please explain exactly why the collection costs have increased by 260% whereas labor costs have increased by only 32%.

**Response**

A. Confirmed

B. It can be verified that, according to LR-J-117, the ratio of total segment 6 and 7 (with piggybacks applied) single piece letter costs to city carrier single piece letter volume is 10.22 cents. Witness Schenk, in her response to R2001-1/MMA/USPS-T43-6A, stated that if collection costs were removed from the numerator, the ratio is reduced to 9.57 cents for a difference of 0.65.

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However, the 0.65 “unit cost” is not comparable to the 2.33 cent unit collection single piece letter cost confirmed in part A. Neither the numerator nor denominator are comparable with the two ratios. The 2.33 cent unit cost is derived by dividing the collection costs from cost segments 6, 7, and 10, which are approximately \$910 million, by the originating test year single piece letter volume. The 0.65 cent “unit cost” is derived by taking the ratio of city carrier base year single piece letter collection costs for FY2000 to city carrier base year single piece letter volume. As a result of the different nature of the process by which they are derived, they are not comparable.

C. Not confirmed. It can be verified that, according to LR-J-117, the ratio of piggybacked segment 10 single piece letter base year costs to rural cross-walked single piece letter volume is 3.07 cents. After removing collection costs and volumes, as witness Schenk’s did in response to R2001/MMA/USPS-T43-6C, I calculated a ratio of 3.61 cents rather than 3.71 cents.

Regardless of the value of the ratio, I do not know how to interpret the “unit costs” derived in the manner suggested in the question. One (3.07 cents) is calculated with all cost segment 10 costs (including collection costs) and collection volumes, and the other (3.61 cents) uses cost segment 10 costs, excluding collection costs, and cost segment 10 volumes, excluding collection volumes.

Logically, if an activity that incurs costs, collection for example, is eliminated from the delivery process, then the unit costs will be lower without those costs. In this question, however, “unit costs” have been derived in such a

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manner that the “unit cost” of delivering single piece letters without collection costs (3.61 cents) is more expensive than with collection costs included (3.07 cents). This result is not reasonable. It occurs, of course, because the ratios were calculated with different numerators and denominators. It illustrates, however, the importance, when deriving unit delivery costs by rate category, of using a consistent denominator, such as the originating test year volume by rate category that is used in the CRA.

D. Not confirmed.

E. Confirmed.

F. I do not confirm the percentage increase cited in the question. My understanding is that collection costs have increased since R2000-1 largely due to the new cost segment 7 methodology. One component of the new methodology is that it applies a higher variability factor to a larger pool of dollars to derive volume variable collection costs from customer boxes.

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**MMA/USPS-T16-31**

Please refer to your further revised response to Interrogatory MMA/USPS-T16-13 (Errata) filed June 17, 2005. where you provided the collection costs that were included in your single piece letter delivery costs as part of your analysis provided in Library Reference LR-USPS-K-67. Please also refer to your responses to MMA/USPS-T-16-19 and 22 where you explain the discrepancy between the rural route volumes shown in Library References LR-UPSP-K-67 and those shown in LR-USPS-K-101.

A. Please confirm that collection costs are included in the derivation of unit delivery costs for First-Class letters in both library references. If not, please explain.

B. Please confirm that LR-USPS-K-67 uses 6,955,698 for the First-Class rural route letter volume and LR-USPS-K-101 uses 10,635,376 for the First-Class rural route letter volume. If you cannot confirm, please provide the two correct volume figures.

C. Please confirm that the difference (3,679,678) in the two First-Class rural route letter volume figures (shown in Library References LR-USPS-K-67 and LR-USPS-K-101) reflects rural route volumes that are collected. If you cannot confirm, please explain exactly what this difference represents.

D. Please confirm that, according to your delivery cost study, it costs the Postal Service a total of \$67.7 million to collect 3.680 billion pieces, or about 1.84 cents per piece. If you cannot confirm, please provide the correct unit collection cost for rural carriers and explain your calculations.

E. Using the Postal Service's delivery cost methodology, please provide the comparable unit collection cost for First-Class letters collected by city carriers and provide the total collection cost and volumes used in that computation.

**Response**

A. Confirmed.

B. Confirmed.

C. Not confirmed. LR-K-101 estimates a rural collection volume of 3,191,920,000 letters. This value is located in cell N18 in worksheet 'Rural Crosswalk' of LR-K-101\_Revised.xls. The rural crosswalk also needs to be applied to derive the total rural single piece letters of 10,635,376,000 that is part of LR-K-101.

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D. Not confirmed. The question computes a ratio of a test year cost to base year volume. A ratio of \$67.7 million of rural test year single piece letter collection costs to 3 billion test year single piece letters collected volume on rural routes is approximately 2.2 cents per piece.

E. Please refer to my response to MMA/USPS-T16-13 for the city test year collection costs. My understanding is that the city collection volumes are unavailable, so the requested ratio cannot be computed.

## 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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