Postal Rate Commission
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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

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA (MMA/USPS-T16-1 – 4, 5.b-d, 6)
(May 6, 2005)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of MMA, filed on April 22, 2005: MMA/USPS-T16-1 – 4, 5.b-d, 6. Question 5a was redirected to witness McCrery.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

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Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, Fax -5402
May 6, 2005

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

MMA/USPS-T-16-1

Please refer to page 4 of your direct testimony where you state that you sponsor Library Reference USPS-LR-K-67, Development of Delivery Costs by Rate Category for First-Class Mail and Standard Mail. You also note that this library reference "updates the analyses done in library reference USPS-LR-J-117/R2001-1". Further, you explain that a similar library reference, USPS-LRK-101, develops delivery costs using the Commission's attributable cost methodology.

A. Please identify separately and explain any and all differences in methodology between your derivation of First-Class delivery costs in Library Reference USPS-LR-K-67 in R2005-1 and the derivation of First-Class delivery costs in Library Reference USPS-LR-J-117 in R2001-1.

B. Please identify separately and explain any and all differences in methodology between your derivation of First-Class delivery costs in Library References USPS-LR-K-67 and USPS-LR-K-101, both filed in R2005-1.

C. Please identify separately and explain any and all differences in methodology between your derivation of First-Class delivery costs in Library Reference USPS-LR-K-67 filed in R2005-1 and the derivation of First-Class delivery costs in Library Reference USPS-LR-I-95 filed in R2000-1, particularly as they relate to the measurement of delivery cost savings between First-Class workshared letters and nonworkshared letters.

D. Please identify separately and explain any and all differences in methodology between your derivation of First-Class delivery costs in USPS-LR-K-101, filed in R2005-1 and the derivation of First-Class delivery costs in USPS-LR-I-95 filed in R2000-1, particularly as they relate to the measurement of delivery cost savings between First-Class workshared letters and non-workshared letters.

Response

a. The differences are as follows:

<u>1. Segment 6, 7, and 10 Cost Inputs</u>

The segment 6, 7, and 10 cost analyses provide inputs to the LR-J-117 and LR-K-67 derivations of delivery costs by shape and rate subcategory. Some of the methods used to produce these inputs changed between LR-J-117 and LR-K-67. The inputs to LR-J-117 are from the R2001-1 segment 6, 7, and 10 cost analyses, which

apply city and rural carrier costing methodologies used by the Postal Service prior to FY 2003. The inputs to LR-K-67 are from the R2005-1 cost analyses. In USPS-T-14, Witness Bradley explains how the city carrier methodologies applied to segment-7 city letter-route costs changed between the pre-FY 2003 approach and the R2005-1 analyses applied to BY 2004. For rural carriers, the FY 2000 segment 10 analysis that provides inputs to LR-J-117 implements a so-called rural flats adjustment, which moves portions of rural cost system (RCS) letters into flats, in order to adjust for differences between FY 2000 RCS and FY 2000 Mail Counts measurements of rural letters and flats. The BY 2004 segment 10 analysis that provides inputs to LR-K-67 no longer applies any such flats adjustment.

2. Rural and City Crosswalks

The 'Rural Crosswalk' sheet in LR-J-117 applies a crosswalk that moves significant portions of rural cost system (RCS) flat-shape volumes back into letters, and significant portions of RCS parcels into flats. This crosswalk operates in part as a reversal of the flats adjustment described in the preceding paragraph. The 'Delivery Volumes' sheet in LR-J-117 applies a different crosswalk. It moves large portions of city-carrier cost system (CCS) letters to flats, and large portions of CCS flats to parcels. LR-K-67 applies neither of these two crosswalks.

3. Calculation of DPS and non-DPS In-Office Direct Labor Costs

LR-J-117 separates the total unit in-office direct-labor cost of letter-shape First-Class Presort Letter mail into a DPS unit cost and a non-DPS unit cost by first finding the unit cost of sorting letters before DPS mail existed (1993). Next, it updates this unit non-DPS cost for inflation to BY 200. It then assumes that the observed BY 2000 total

unit cost – the total IOCS in-office direct labor cost per RPW piece – equals a weighted average of the non-DPS unit cost and the DPS unit cost. This assumption allows the BY 2000 DPS unit cost to be derived as a function of the total unit cost and the non-DPS unit cost. LR-K-67 uses IOCS to separate total in-office direct labor costs into casing costs and non-casing costs. It derives the DPS and non-DPS unit direct-labor costs from the total BY 2004 unit cost for all letter-shape First-Class Presort Letter mail by assuming that non-DPS letters generate both casing and non-casing costs, but that DPS letters generate only non-casing costs.

4. Distribution of Costs to Shape

LR-J-117 and LR-K-67 differ in how they distribute city street-time costs and certain rural-carrier costs to shape categories within each subclass. LR-J-117 distributes volume-variable access, coverage-related load-time, and route-time costs to shape based on RPW volumes, and it distributes elemental load time costs to shape based on the crosswalk that it derives in the 'Delivery Volumes' worksheet. LR-J-117 distributes rural costs in the DPS-letters delivered, sector-segment-letters delivered, other-letters-delivered, flats-delivered, and parcels-delivered rural-evaluation categories to shape categories based on the crosswalk that it implements in the 'Rural Crosswalk' sheet. LR-K-67 distributes all city street-time costs to shape in the same manner that USPS-T-9, Workpaper B, CS06&7.xls distributes these costs to shape. It does not apply any crosswalks to these worksheet CS06&7.xls distributions. LR-K-67 likewise distributes the rural letters, flats, and parcel-delivery costs in the rural-evaluation categories listed above in exactly the same way that USPS-T-9, Workpaper B, CS10.xls distributes these costs to shape.

b. The differences in methodology between the derivations of First-Class delivery costs in Library References R2005-1 USPS-LR-K-67 and R2005-1 USPS-LR-K-101 are identical to the differences in methodology described in part a. above between the derivations of First-Class delivery costs in LR-K-67 and R2001-1 USPS-LR-J-117. LR-K-101 is the R2005-1 update of the PRC version of LR-J-117. This PRC version of LR-J-117, which was R2001-1 PRC-LR-7, was the same as LR-J-117, except for the way that it calculated the volume-variable portions of the BY 2000 and TY 2003 segment 7 access and load-time cost pools, and the way that it distributed these volume-variable costs to products. Both such differences are completely unrelated to the question of how either LR-J-117 or PRC-LR-7 differs from LR-K-67. PRC-LR-7, like LR-J-117, differs from LR-K-67 simply because the access and load time cost pools don't even exist in LR-K-67. Instead, LR-K-67 uses the new segment 7 methodology that replaces access and load time costs with regular delivery time and parcel-accountable delivery time costs This substitution of regular and parcel-accountable delivery time for access and load time therefore distinguishes LR-K-67 from PRC-LR-7 in exactly the same way that it distinguishes LR-K-67 from LR-J-117. Moreover, because LR-K-101 is just an update of PRC-LR-7 to BY 2004 and TY 2006, this substitution of regular and parcel-accountable delivery time for access and load time is also what distinguishes LR-K-67 from LR-K-101.

c. I am only familiar with the current and proposed methodologies for calculating delivery costs by rate element for First-Class Mail and Standard Mail. USPS-LR-I-95 which was filed in R2000-1 is not the current or proposed methodology for calculating delivery costs by rate element for First-Class Mail and Standard Mail. My general

impression is that similar methods are used in USPS-LR-J-117 as were employed in USPS-LR-I-95.

d. Please refer to my response in part c.

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

MMA/USPS-T-16-2

Please refer to your direct testimony at page 5 where you provide Table 1 showing Test Year FY06 Unit Delivery Costs.
A. Please confirm that you are the USPS witness that is fully responsible for deriving First-Class unit delivery costs by category. If you cannot confirm, please identify each of the other USPS witnesses with whom you share responsibility for deriving First-Class unit delivery costs by category, and explain specifically the work performed by or for each other witness.
B. Please explain why the unit delivery cost for First-Class single piece letters (7.188 cents) using the USPS cost methodology is 23% higher than the same unit delivery cost (5.844 cents) using the Commission's cost methodology.
C. Please explain why the unit delivery cost for First-Class Auto 3-digit letters (3.846 cents) using the USPS cost methodology is 1.5% lower than the same unit delivery cost (3.903 cents) using the Commission's cost methodology?

Response

a. Confirmed, except to the extent that I obtain inputs from other witnesses, as indicated in my testimony and documentation.

b. The USPS-version cost per piece for letter-shape pieces in the First-Class Single Piece Mail subclass is 23% higher than the corresponding PRC-version cost per piece because of the substantial excess of the **total** BY 2004 First-Class Single Piece cost (summed over all shapes) in USPS-T-9, Workpaper B, CS06&7.xls over the corresponding total PRC-version cost in USPS-LR-K-93, Workpaper B, CS06&7.xls. This excess is carried forward to TY 2006.

The sources of this BY 2004 excess are shown in line 1 in the table below. Columns 1-3 list the PRC-version CS06&7.xls total First-Class Single-Piece costs, and Columns 4-6 list the USPS-version CS06&7.xls total costs. Columns 7 and 8 show that the USPS costs exceed the PRC costs by 7.7% in segment 6, and by 52.7% in segment 7. The USPS version segment 6 First-Class Single Piece cost is 7.7% higher because

of the 13.3% excess of the total accrued USPS segment 6 cost over the total accrued PRC segment 6 cost. (Line 4, column 7). This higher accrued cost more than offsets the lower USPS aggregate segment 6 volume variability of 82.4%, compared with the 86.6% PRC variability. (Line 5, columns 1 and 4). The net result is that the aggregate volume-variable USPS segment 6 cost is 7.8% higher than the aggregate volume-variable PRC segment 6 cost. (Line 3, column 7). Because the distribution keys applied to these two total costs are virtually the same, this 7.8% excess translates into virtually the same percentage excess (7.7%) of the total USPS segment 6 volume-variable First-Class Single Piece cost over the corresponding PRC cost.

The USPS-version segment 7 First-Class Single Piece cost is 52.7% higher than the PRC segment 7 cost, for two reasons. First, although the total USPS accrued segment 7 cost is 5.1% lower than the corresponding PRC total (line 4, column 8), the aggregate USPS segment 7 volume variability is 36.8%, compared to a 33.8% aggregate PRC variability. This higher segment 7 variability ensures that the total USPS segment 7 volume variable cost exceeds the total PRC segment 7 volume-variable cost by 3.5%. (Line 3). Second, the USPS distribution key allocates 31.0% of this segment 7 total to First-Class Single Piece mail, whereas the PRC distribution key allocates only 21.0% of the PRC total volume-variable cost to First-Class Single Piece mail. (Line 6). It is this much higher distribution key percentage, combined with the higher aggregate volume variability, that makes the USPS segment 7 volume-variable First-Class Single Piece cost 52.7% higher than the corresponding PRC cost.

The combination of this 52.7% excess, and the 7.7% excess of USPS total segment 6 First-Class Single Piece cost over the equivalent PRC total cost results in a

25.9% excess of USPS total segment 6 plus 7 cost over total PRC segment 6 plus 7 cost. (Line 1, column 9). The roll forward of these BY 2004 results to TY 2006 produces virtually the same percentage differences for TY 2006. The TY 2006 USPS total segment 6 plus 7 First-Class Single Piece cost exceeds the corresponding PRC total by 26.3% instead of 25.9%. However, because the TY 2006 USPS total segment 10 First-Class Single Piece cost is only 0.06% higher than the total segment 10 PRC cost, the sum of the TY 2006 segments 6, 7, and 10 USPS First-Class Single Piece costs, $2,691,019,000, exceeds the corresponding PRC sum, $2,196,614,000, by 22.5%. Multiplication of these totals by the TY 2006 USPS piggyback factors, and the somewhat higher TY 2006 PRC piggybacks increases the USPS total to $3,381,456,000, which is 20.8% higher than the new, higher PRC total of $2,798,921,000. Finally, because of differences between the way the USPS and PRC versions allocate these two TY 2006 totals to letters, flats, and parcels, the USPS allocates 82.8%, or $2,800,757,000 out of the $3,381,456,000 total to First-Class Single Piece letter shape pieces, whereas the PRC allocates 81.5%, or $2,276,864,000 out of the $2,798,921,000 total to letter shape pieces. The USPS letter shape total divided by TY 2006 national-level letter-shaped First-Class Single Piece volumes equals 7.188 cents. This is 23.0% higher than the 5.844 cent ratio of the PRC letter shape total over the same total volumes.

Line No.	COMPARISON OF USPS AND PRC BY04 SEGMENT 6 AND 7 COSTS	CS 6 PRC	CS 7 PRC	CS 6 & 7 PRC	CS 6 USPS	CS 7 USPS	CS 6 & 7 USPS	RATIO OF USPS TO PRC CS 6	RATIO OF USPS TO PRC CS 7	RATIO OF USPS TO PRC CS 6 & 7
	First-Class Mail	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Single Piece Letters	1,143,214	772,563	1,915,777	1,231,443	1,179,505	2,410,948	1.0772	1.5267	1.2585
2	Presort Letters	522,968	653,289	1,176,257	566,675	619,674	1,186,349	1.0836	0.9485	1.0086
3	Total Volume Variable - All Subclasses	3,588,758	3,680,687	7,269,445	3,869,541	3,808,279	7,677,820	1.0782	1.0347	1.0562
4	Total Accrued	4,144,097	10,889,101	15,033,198	4,694,437	10,338,252	15,032,689	1.1328	0.9494	1.0000
5	Aggregate Volume Variability	86.6%	33.8%	48.4%	82.4%	36.8%	51.1%			
6	First-Class Single Piece Letters Cost as a Percentage of Total Volume Variable Cost	31.9%	21.0%	26.4%	31.8%	31.0%	31.4%			
7	First-Class Presort Letters Cost as a Percentage of Total Volume Variable Cost	14.6%	17.7%	16.2%	14.6%	16.3%	15.5%			

c. The above table also explains why the USPS-version unit delivery cost for First-Class Auto 3-digit letters is 1.5% lower than the corresponding PRC-version unit delivery cost. Letter-shape Auto 3-digit mail is a subcategory of total letter-shape First-Class Presort Letters mail. Whereas total BY 2004 USPS segment 6 and 7 First-Class Single Piece volume-variable cost is 25.9% higher than the corresponding PRC-version cost, the USPS and PRC-version segment 6 and 7 First-Class Presort Letter costs differ by only 0.9%. For the entire Presort Letter subclass, the USPS aggregate segment 6

volume variable cost exceeds the PRC segment 6 cost, again because of the 13.3% excess of the USPS segment 6 accrued cost over the PRC accrued cost. However, this segment 6 excess is offset by the higher PRC segment 7 Presort Letter volume-variable cost. The PRC cost is higher because the PRC distributes 17.7% of total volume-variable segment 7 cost to the First-Class Presort Letter subclass, compared to 16.3% distributed by the USPS version. The net effect is a total segment 6 plus 7 USPS First-Class Presort Letter cost that is 0.9% higher than the PRC cost.

This result is reversed by application of the BY 2004 segment 6 & 7 piggyback factors. The 1.277 PRC piggyback factor exceeds the 1.249 USPS factor by 2.3%. Therefore, the piggyback-inflated PRC First-Class Presort Letter cost exceeds the USPS piggyback-inflated cost by 1.4%.

This small percentage difference is carried forward to TY 2006, changing only slightly to 0.8%. After segment 10 costs are added, and the resulting TY 2006 total segment 6 plus 7 plus 10 costs are distributed to Auto 3-digit letters and divided by corresponding volumes, this PRC excess increases from 0.8% to 1.5%.

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

MMA/USPS-T-16-3

Please refer to Library Reference USPS-LR-K-101 and page 6 of your direct testimony where you state "[t]o the extent that, in response to Commission Rule 53, I discuss and compare PRC versions of delivery costs by rate category for First-Class Mail I do not sponsor those materials, or in any way endorse the methodologies used to prepare them."

A. Please confirm that, on the sheets labeled "summary BY" and "summary TY", the costs for First-Class Presorted Letters are deaveraged for each of the 15 subcategories shown by utilizing the (1) DPS %'s from USPS witness Abdirahman and (2) unit cost data from FY 1993 as shown on the sheet labeled "letters 93". If you cannot confirm, please explain specifically how such costs are de-averaged.

B. Please confirm that the delivery cost data for FY 1993 was used in this study in order to estimate the costs of manually casing mail to carrier sequence. If you cannot confirm, please explain the purpose for which cost data for FY 1993 were used in this study.

C. Please refer to the $FY93 unit cost as shown on column 5 on the sheet labeled "letters 93". Please confirm that you divided total delivery costs by total volumes (including those volumes that were delivered to post office boxes). If you cannot confirm, please explain which volumes you used.

D. Please refer to Docket No. R2001-1, Exhibits MMA-ST-1, page 20, lines 8-20 and MMA-4A. Can you confirm that the mail mix (i.e. the relative proportions of mail delivered (1) to post office boxes, (2) to addressees by rural carriers, and (3) to addressees by city carriers) has changed since 1993? If you cannot confirm, please provide data for each fiscal year since 1993 showing how many First-Class letters were delivered (1) to post office boxes, (2) to addressees by rural carriers, and (3) to addressees by city carriers. Please provide this data separately for First-Class single piece and bulk.

E. Aside from the fact that you do not endorse the methodologies used to prepare Library Reference USPS-LR-K-101, do you agree that the unit costs shown for FY93, which are subsequently updated to BY 04 and TY 06, are necessarily understated and inaccurate because the costs have been derived from and applied to volumes that were delivered to post office boxes that did not incur those costs? Please explain your answer.

Response

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Confirmed.

e. I agree that the unit costs in USPS-LR-K-101 are open to question on the grounds you suggest. USPS-LR-K-67, which is the USPS version for calculating unit delivery costs by rate element, uses volumes delivered to city routes and volumes delivered to rural routes rather than RPW volumes to derive the unit delivery costs. This change in methodology gives more accurate unit delivery costs in USPS-LR-K-67 as compared to the unit delivery costs derived in USPS-LR-K-101.

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

MMA/USPS-T-16-4

Please refer to Library Reference USPS-LR-K-67. The following interrogatories refer only to First-Class letters.

A. Please provide a copy of Library Reference USPS-LR-K-67 that includes footnotes and sources for each column shown.

B. Please confirm that you did not derive a unit delivery cost for bulk metered mail. If you confirm, please explain why you did not do so. If you did derive a unit delivery cost for bulk metered mail, please provide the derivation of the unit delivery cost, complete with footnotes and sources.

C. Please confirm that you did not derive a unit delivery cost for single piece metered mail. If you confirm, please explain why you did not do so. If you did derive a unit delivery cost for single piece metered mail, please provide the derivation of the unit delivery cost, complete with footnotes and sources.

D. Please confirm that you did not derive a unit delivery cost for machinable single piece letters. If you confirm, please explain why you did not do so. If you did derive a unit delivery cost for machinable single piece letters, please provide the derivation of the unit delivery cost, complete with footnotes and sources.

E. Please confirm that you obtained the delivery point sequence percentages (DPS %'s) from USPS witness Abdirahman and that you utilized these percentages in your derivations to de-average unit delivery costs for First-Class nonautomation letters. If you cannot confirm, please explain. If you used the DPS %'s for any other reason, please explain.

F. Did you independently evaluate the reasonableness and accuracy of the DPS %'s that witness Abdirahman provided to you? If you independently evaluated the reasonableness and accuracy of the DPS%, please provide your findings and conclusions and explain why you felt an independent evaluation of the reasonableness and accuracy of the DPS %'s was necessary or appropriate.

G. Please explain precisely for what purpose you de-averaged presorted nonautomation letters into 8 separate categories that comprise only about 2% of First-Class letter-shaped pieces.

H. Please explain how you handled collection costs associated with city delivery carriers and rural carriers as such costs relate to First Class single piece mail.

Response

a. Please refer to the revisions in USPS-LR-K-67 filed in response to POIR No. 2 question 11.

b. Confirmed. The unit delivery costs in USPS-LR-K-67 are derived to assist with rate design. Historically, a unit delivery cost for bulk metered mail was not needed for rate design purposes. In addition, the previous efforts to compute unit delivery costs by rate element for First Class letters have not included a separate unit cost for bulk metered mail.

c. Confirmed. The unit delivery costs in USPS-LR-K-67 are derived to assist with rate design. Historically, a unit delivery cost for single piece metered mail was not needed for rate design purposes. In addition, the previous efforts to compute unit delivery costs by rate element for First Class letters have not included a separate unit cost for single piece metered mail.

d. Confirmed. The unit delivery costs in USPS-LR-K-67 are derived to assist with rate design. Historically, a unit delivery cost for machinable single piece letters was not needed for rate design purposes. In addition, the previous efforts to compute unit delivery costs by rate element for First Class letters have not included a separate unit cost for machinable single piece letters.

e. Confirmed.

f. I did not.

g. Cost estimates for the eight nonautomation presort letters subcategories were first presented in Docket No. R2001-1 to support the proposed expansion of the nonmachinable surcharge. The methodology was described in Docket No. R2001-1, USPS-T22, Section VI.

h. First-Class Single Piece city delivery collection costs are obtained from USPS -T-9, Workpaper B, CS06&7.xls. These costs are distributed to shape in row 16 of the

'CityDelAct.ParcelCrosswalk' sheet in LR-K-67. First-Class Single Piece rural carrier costs are calculated and distributed to shape in the 'RrlCwlk-RevSatBxds.Rev.Prcls' sheet of LR-K-67. A two step procedure is implemented to compute these rural costs by shape. First-Class Single Piece RCS volumes reported in the "letters/flats collected" evaluation category are distributed to letters and flats individually in proportion to the RCS letters and flats delivered volumes. Second, the resulting estimates of RCS letters collected and RCS flats collected are multiplied by the "letters/flat collected" evaluation cost per piece to compute the corresponding total letters collected cost and total flats collected cost. First-Class Single Piece RCS volumes in the "parcels-accepted" evaluation category are likewise multiplied by the corresponding "parcels-accepted" cost per piece to compute the total parcels-accepted cost.

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

MMA/USPS-T-16-5

Please refer to R2001-1, TR 5/666 and TR 5/859, where USPS witness Schenk discussed the impact of worksharing (presortation) on delivery costs. Please compare two machinable letters that are to be delivered by a city carrier. In making this comparison, please assume that both machinable letters are identical except one letter is prebarcoded and presorted whereas the other is not prebarcoded or presorted.

A. On average, if both letters are processed through the Postal Service, what is the likelihood that one letter will be DPSed while the other letter will not be DPSed? Please explain your answer.

B. On average, if both letters are processed through the postal system and are DPSed at the delivery office, what delivery cost differences, if any, will result? Please explain your answer.

C. On average, if both letters are processed through the postal system and are not DPSed at the delivery office, what delivery cost differences, if any, will result? Please explain your answer.

D. Please provide separately the unit delivery costs for single piece and presorted First-Class letters that are DPSed and the unit delivery costs for single piece and presorted First-Class letters that are not DPSed.

E. Please provide the overall DPS %'s that the Postal Service experienced in BY 2004 separately for First-Class letters mailed as (1) single piece and (2) presorted.

F. Please provide the overall DPS %'s that the Postal Service expects in TY 2006 separately for First-Class letters mailed as (1) single piece and (2) presorted.

Response

a. Redirected to witness McCrery

b. Ignoring collection costs, the delivery costs would be the same, on average, for both letters.

c. Ignoring collection costs, the street time unit costs for both letters, on average, should be the same. Assuming that both letters need to be cased in order to be delivered, the in-office unit costs for the presorted and prebarcoded letter should be lower since the casing rate, on average, for the prebarcoded and presorted letter is expected to be higher than for the piece that is not prebarcoded nor presorted.

d. The presorted First-Class letters unit delivery costs derived from LR-K-67 are:

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

1. BY04

a. Non-DPS letters: $0.0914

b. DPS letters: $0.0254

2. TY06

a. Non-DPS letters: $0.0960

b. DPS letters: $0.0270

LR-K-67 First-Class Single Piece unit delivery costs cannot be separated into non-DPS and DPS unit costs.

e. These numbers are unavailable An estimate of the DPS percentage for First-Class presorted letters can be computed by calculating a weighted average of the RPW volumes multiplied by the DPS percentages from Witness Abdirahman's DPS model. Using that methodology an estimate of the First Class presort letters that go through DPS is 81.85%. This procedure cannot be used for First Class single piece since the DPS percentage is unavailable.

f. Test year estimates of the percentage of First Class single piece or First Class presorted letters that go through DPS are unavailable. USPS-LR-K-67 assumes the same DPS percentages for the test year as the base year.

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

MMA/USPS-T-16-6

Please refer to Library Reference USPS-LR-J-191 submitted by USPS witness Schenk in response to Interrogatory MMA/USPS-T-43-13 (Part A) in R2001-1. There, Dr. Schenk provided, for Base Year 2000 and Test Year 2003, unit delivery costs for First-Class single piece letters broken down by indicia, i.e., stamped letters, metered letters, and other letters. Please provide similar unit delivery costs, broken down by indicia, for Base Year 2004 and Test Year 2006 in R2005-1 using (1) the Postal Service's costing methodology and (2) the Commission's costing methodology.

Response

The BY 2004 and TY 2006 total First-Class Single Piece delivery costs derived by both the Postal Service's methodology and the Commission's methodology can only be distributed to indicia category based on volume percentages derived from the national-level volumes by indicia listed in the LR-K-87 workbook "First-Class Single Piece Indicia.xls". Such a distribution would allocate the total First-Class Single Piece costs to indicia in the same proportion as these total volumes are distributed. Therefore, the resulting unit delivery costs would be the same across all the indicia categories. Specifically, they would all equal the corresponding total unit First-Class Single Piece delivery costs, which are listed in LR-K-67, sheets 'sumBYInOffDalstoFltsPrclCwlk' and 'Table 1', for the Postal Service methodology, and in LR-K-101, sheets 'summary BY' and 'Table 1', for the Commission methodology.

In R2001-1 USPS-LR-J-191, Witness Schenk implemented a separate allocation to indicia of just the segment 6 portions of the total First-Class Single Piece delivery costs. However, this allocation relied upon IOCS data that the Postal Service no longer produces, and it therefore cannot be updated to Base Year 2004 or Test Year 2006.

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.

_____
Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
(202) 268-2992, FAX: -5402
May 6, 2005