

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 VALPAK INTERROGATORIES (VP/USPS-T16-12, 14, 19-29)
(June 9, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of ValPak: VP/USPS-T16-12 and 14, filed on May 20, and VP/USPS-T16-19-29, filed on May 24, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, Fax -5402
June 9, 2005

Response of Witness John Kelley to Interrogatories Posed by Valpak Dealer's Association, Inc.

VP/USPS-T16-12.

Please refer to library reference USPS-LR-K-67, file FY04.ECR.Volumes.Sat.NonSat.ByShape.xls.

- a. What is the source of the data in cells C10 to C13?
- b. What is the source of the data in cells G6 to G16?

Response

a and b. The data sources requested are in the revised workbook

"FY04.ECRSat.Vols_Revised.xls." Cells C11, C12, and H15 of this workbook also contain corrected volumes for Saturation DALs associated with flat-shape host pieces, Saturation DALs associated with parcel-shape host pieces, and the flat-shape host pieces themselves. The sum of the corrected DALs in cells C11 and C12 equal the FY 2004 city letter-route total DAL mailings calculated in cell I7 of "FY2004.DAL.ESTIMATES.WithFootnotes.xls", which was filed with my response to VP/USPS-T16-10(b-h).

In addition to these corrected C11, C12, and H15 entries, the entries in cells G6, G16, G17, and H18 of "FY04.ECRSat.Vols_Revised.xls" have been revised in accordance with the corrections, described in my response to VP/USPS-T16-11a, to BY 2004 city letter-route casing costs for ECR Saturation letters and flats. These corrected casing costs appear in cells B12 and B13 of worksheet 'EstimatesOfCased.Sat.Ltrs.Flts' in the new workbook "Casing04_Revised.xls", which is also included in the June 9 revisions to LR-K-67. These corrected casing costs produce the revised cased Saturation letters and flats in 'EstimatesOfCased.Sat.Ltrs.Flts', cells M12 and M13, which, in turn, appear as revised entries G6, G16, and G17 in

Response of Witness John Kelley to Interrogatories Posed by Valpak Dealer's Association, Inc.

"FY04.ECRSat.Vols_Revised.xls," and revised entries in cells E175 and F175 of "city04.xls", which, as a result, is renamed "city04_revised.xls", and included with revised LR-K-67 as well. Entries G3, H3, G5, H5, and H16 in "FY04.ECRSat.Vols_Revised.xls" are also revised as a result of having been calculated based on formulas that refer to cells G6, G16, and G17. Moreover, because these revised "FY04.ECRSat.Vols_Revised.xls" and "city04_revised.xls" entries change the DAL-mailing costs, they are entered into sheet '10.DALsVsECR%-EstOfRurlCovrs' of a new, revised version of LR-K-67 called "LR-K-67_2nd.revised.xls." The resulting changes in DAL-mailing costs are shown in cells C69 and G69 of "LR-K-67_2nd.revised.xls," worksheet '1.Table 1'. These two cells list new estimates for the unit Saturation-letters and Saturation-flats delivery costs that are based on the allocation of all DAL costs to flats. Because these DAL costs are lower in LR-K-67_2nd.revised.xls than in the previous LR-K-67, the allocation of DAL costs to flats reduces the TY 2006 Saturation-letters unit-delivery cost to 4.137 cents (instead of to 3.876 cents), and it increases the TY 2006 Saturation-flats unit cost to 4.163 cents (instead of to 4.240 cents). The conventional TY 2006 Saturation-letters and flats unit delivery costs that are based on the allocation of DAL costs to letters also change. Cells C63 and G63 of "LR-K-67_2nd.revised.xls," '1.Table 1' show that these latter unit costs now equal 6.665 cents and 3.191 cents, respectively. Finally, the non-Saturation-rate ECR letters and flats unit costs also change by small amounts.

Response of Witness John Kelley to Interrogatories Posed by Valpak Dealer's
Association, Inc.

VP/USPS-T16-14.

Please refer to library reference USPS-LR-K-67, file
FY04.ECR.Volumes.Sat.NonSat.ByShape.xls.

- a. What is the source of the data in cells C10 to C13?
- b. What is the source of the data in cells G6 to G16?

Response

Please refer to my response to VP/USPS-T16-12.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-19.

Please refer to your testimony (USPS-T-16) at page 4 (ll. 8-9) where you state that library reference USPS-LR-K-67, which you sponsor, "updates the analyses done in library reference USPS-LR-J-117/2001-1...."

- a. Please explain the various steps in the procedure used to adjust for carrier inoffice (Segment 6) costs and out-of-office (Segment 7) costs of handling detached address labels ("DALs"), as well as the rationale for the procedure developed in USPS-LR-K-67.
- b. Please compare and contrast the methodology for the cost of handling DALs in USPS-LR-K-67 with the methodology in USPS-LR-J-117.
- c. Aside from the methodology for the DAL adjustment discussed in preceding parts a and b, for all subclasses of Standard Mail (*i.e.*, Regular (Commercial), Regular Nonprofit, ECR (Commercial), and Nonprofit ECR), please identify and explain every other change in methodology used to derive delivery costs in USPS-LR-K-67 and USPS-LR-J-117.

Response

- a. USPS-LR-K-67 differentiates DAL costs from other ECR Saturation letter costs. The purpose of this separation is to allow for the allocation of the city-carrier street-time and total rural costs of DALs associated with flat-shape host pieces to these host pieces.

The 2004 Household Diary Study provides an estimate of 0.5 DALs per household per week. This is interpreted as an average of 0.5 DALs per residential delivery point per week over all city letter routes and rural routes combined. This result is then combined with data on total city and rural possible delivery points in the workbook FY2004.DAL.ESTIMATES.WithFootnotes.xls (filed in response to VP/USPS-T16-10(b-h)). This files also disaggregates the average of 0.5 DALs per residential delivery point into a slightly higher city letter-route DALs per delivery point, and a slightly lower rural DALs per delivery point. Next, it multiplies these city and rural DALs per delivery by corresponding total delivery points to estimate BY 2004 totals of 2,085,359,000 DAL mailings

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

delivered to city letter routes, and 817,139,000 DAL mailings delivered to rural routes. These totals are substituted into cells C8 and C9 of worksheet '10.DALsVsECR%-EstOfRurlCovrs' in the revised LR-K-67 ("LR-K-67_2nd.revised.xls") filed June 9, 2005. This '10.DALsVsECR%-EstOfRurlCovrs' worksheet uses the DAL mailing estimates, along with estimates of cased and non-cased city letter-route Saturation letters and flats obtained from "FY04.ECRSat.Vols_Revised.xls" to estimate the DAL and non-DAL (i.e. attached-label) portions of Saturation-letter city street-time costs and total Saturation-letter rural costs, plus the host-piece and non-host-piece (attached-label) portions of total Saturation-flat city street-time costs and total Saturation-flat rural costs. The DAL portions of the city street-time costs, and of the total rural costs, are then allocated to the flat-shape host pieces for purposes of calculating those versions of total unit Saturation-letter and Saturation-flat delivery costs that allocate all DAL costs to flats. For TY 2006, these versions are unit costs listed in cells C69 and G69 of sheet '1.Table 1' in LR-K-67_2nd.revised.xls.

b. USPS-LR-K-67 separates DAL costs from non-DAL Saturation letter costs in order to calculate a set of ECR Saturation letter and flat unit costs in which the DAL costs are attributed to the flat-shape host pieces to which they are associated. To accomplish this, LR-K-67 reallocates the DAL costs from the numerator of the Saturation letter unit cost to the numerator of the Saturation flat unit cost. The Saturation letter and flat unit costs calculated in the manner are listed in cells C69 and G69 of LR-K-67 worksheet '1.Table 1'.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

USPS-LR-J-117 does not explicitly distinguish between DAL costs and non-DAL Saturation letter costs. It does not calculate a separate set of Saturation letter and flat unit costs in which the total DAL costs are allocated to Saturation flats.

c. The differences are as follows:

1. Segment 6, 7, and 10 Cost Inputs

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 RCCS 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

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

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. However, USPS-LR-K-67 applies a parcel crosswalk that shifts a portion of city carrier costs from parcels into flats. Please refer to LR-K-67.doc, page 10 for details on how this parcel crosswalk is implemented.

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-shaped Standard-Regular 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 (FY 1993). Next, it updates this unit non-DPS cost to BY 2000 by inflating it to account for increases in the city-carrier wage rate between FY 1993 and BY 2000. It further assumes that the observed BY 2000 total unit cost – the total IOCS in-office direct labor cost per RPW piece for all Standard-Regular letters – 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 rejects this method of deriving the DPS and non-DPS unit costs. It instead uses the BY 2004 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 Standard Mail by

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

assuming that non-DPS letters generate both casing and non-casing costs,
whereas 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 subclass-level volume-variable access, coverage-related load-time, and route-time costs to shape based on RPW volumes, and it distributes subclass-level 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, rural flats, and rural 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.

5. Distributions of Costs to Rate Category within Shape

LR-J-117 and LR-K-67 also differ in how they distribute Standard-ECR city street-time costs to rate categories within each subclass-mail shape category. After using the post-crosswalk city-carrier CCS volumes in cells G11 – I16 of

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

R2001-1, "USPS-LR-J-117_revised.xls," sheet 'Delivery Volumes' to distribute ECR city-carrier elemental load-time costs to shape, LR-J-117 uses RPW volumes to distribute each subclass-shape cost to rate categories. LR-K-67 distributes each such cost to rate categories based on CCS volumes.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-20.

At page 4 (ll. 25-26) of your testimony, you state that library reference USPS-LR-K-101 develops delivery costs using the Commission's attributable cost methodology. Does USPS-LR-K-101 include an adjustment for DAL costs that is comparable to that contained in USPS-LR-K-67? If so, please indicate where it can be found.

Response

No. USPS-LR-K-101 makes no effort to distinguish DAL costs from other ECR Saturation letters.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-21.

Please explain how the street costs for sequenced mail are distributed to each rate category, such as (but not limited to) ECR Saturation letters and flats.

Response

I assume your question refers to the manner in which street time costs for sequenced mail are distributed to rate categories on city routes.

First, the volume variable costs for sequenced mail from cost segment 7 are distributed to shapes within sequenced mail. In FY04, the total volume variable cost of sequenced mail is \$92,456,000. This is distributed to letters, flats, and small parcels by their respective portions of the total cost. To obtain those respective portions, first, the cost per city carrier piece for a shape, across all mail delivered on city routes, is multiplied by the city carrier sequenced volume for that corresponding shape. Applying this method results in \$33.7 million, \$76.4 million, and \$8.2 million for letters, flats, and small parcels respectively. Aggregating the total costs across letters, flats, and small parcels equals \$118.3 million. The relevant proportions, therefore, are $33.7/118.3$, $76.4/118.3$, and $8.2/118.3$. These proportions are used to distribute the \$92,456,000., which corresponds to the total volume variable costs in the sequenced cost pool. This process is documented in worksheet '21ECRUnitCosts04.xls' which is part of USPS-LR-K-67_2nd.revised.xls.

Subsequent to city carrier volume variable costs being partitioned to shapes, the costs are distributed to rate category by their relative volume by shape within the sequenced cost pool.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-22.

- a. In Base Year 2004, what was the percentage of ECR Saturation letters that were (i) delivery point sequenced ("DPS'd"), (ii) cased by carriers, and (iii) taken to the street as sequenced mail?
- b. In Base Year 2004, what was the percentage of ECR Saturation flats that were (i) cased by carriers, and (ii) taken to the street as sequenced mail?

Response:

a. I am including information for ECR Saturation letters delivered on city and rural routes in part (i) since it has an impact on both city and rural delivery costs. However, in parts (ii), (iii), and b., I am only giving a percentage based on volume delivered to city letter routes. The reason for this is two fold: 1) the percentage of NonDPS ECR Saturation letters that are cased or taken directly to the street on rural routes has no impact on rural delivery costs and 2) the values are not known.

(i) USPS-LR-K-67 has the data necessary to calculate the DPS percentage for ECR Saturation letters. The DPS percentage for ECR Saturation letters delivered on city routes is found in city04_revised.xls (cells G174/J174) which equals 28.1 percent. On rural routes the data to calculate the DPS percentage is in '4RCCSECRPIECES' (cells D20/D21) which equals 24.8 percent. Combining the two volumes gives an overall DPS percentage of 27.5 percent for ECR Saturation letters.

(ii) For FY04, an estimate of 35.6 percent of ECR Saturation letters delivered on city letter routes was cased by carriers in FY04. For a more detailed discussion of the manner in which ECR Saturation letter volume is separated into the

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

categories 1) DPS, 2) other letters, and 3) sequenced please refer to witness
Bradley's (USPS-T-14) direct testimony section A.3.

(iii). The residual from parts (i) and (ii) produces an estimate of 36.2 percent of
ECR Saturation letters delivered on city letter routes were taken to the street as
sequenced mail in FY04.

b. (i) An estimate of 25.7 percent of ECR Saturation flats delivered on city letter
routes were cased by carriers in FY04. For a more detailed discussion of the
manner in which ECR Saturation flat volume is partitioned into the two categories
1) flats, and 2) sequenced, please refer to witness Bradley's (USPS-T-14) direct
testimony section A.3.

(ii). The residual from part (i) produces an estimated 74.3 percent of ECR
Saturation flats delivered on city letter routes were taken to the street as
sequenced mail in FY04.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-23.

Please refer to library reference USPS-LR-K-67, file CASING04.xls, tab
'EstimatesOfCased.Sat.Ltrs.Flts.'

- a. Please confirm that in BY 2004 the total Saturation Mail Letter Route Casing Costs for Saturation letters was \$24,349,000. If you do not confirm, please provide the correct amount.
- b. Please explain whether the amount that you either confirmed or provided in response to preceding part a excludes all piggybacks and are direct costs only, or whether the amount includes any piggybacks. If the \$24,349,000 (or other provided amount) includes any piggybacked indirect costs, please provide the direct costs for casing Saturation letters.
- c. In BY 2004, what was the total in-office direct carrier cost (*i.e.*, excluding all piggybacked indirect costs) attributed to Saturation letters?
- d. If the total direct costs provided in response to preceding part c exceed the direct costs for casing letters indicated in response to part b, please describe (i) the activity or activities that account for any difference between the two responses as regards direct costs for Saturation letters, and (ii) the type of activities recorded on the In-Office Cost System ("IOCS") tallies that account for any "other" direct costs.

Response

- a. Not confirmed. The total direct casing costs for Saturation letters is \$25,600,000 (this is made up of \$25,439,000 from letter routes and \$121,000 from special purpose routes). Please refer to USPS-LR-K-67 workbook CASING04_Revised.xls worksheet 'EstimatesOfCased.Sat.Ltrs.Flts' cell B12.
- b. The number provided in part a. excludes all piggyback costs.
- c. The total in-office direct carrier costs in BY 2004 was \$27,525,000.
- d. (i) My understanding is that the type of activities that could account for the difference in costs between part c. and part a. are included but not limited to the following: 1) handling undeliverable-as-addressed mail; 2) sweeping mail; 3) writing markups; and 4) loading and unloading vehicle.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

(ii). Based upon a review of the IOCS data collection procedures and methodologies, my understanding is that the component city carrier in-office direct labor (tallies that lead to cost in part c.) includes all IOCS tallies except the following: 1) street time; 2) obtaining mail or keys; 3) checking a vehicle; 4) attending a safety meeting; 5) training; 6) break and personal needs; 7) clocking in or out; and 8) moving empty equipment.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-24.

Please refer to library reference USPS-LR-K-67, file CASING04.xls, tab 'EstimatesOfCased.Sat.Ltrs.Flts.'

- a. Please confirm that in BY 2004 the total Saturation Mail Letter Route Casing Costs for Saturation flats was \$27,239,000. If you do not confirm, please provide the correct amount.
- b. Please explain whether the amount that you either confirmed or provided in response to preceding part a excludes all piggybacks and are direct costs only, or whether the amount includes any piggybacks. If the \$27,239,000 (or other provided amount) includes any piggybacked indirect costs, please provide the the direct costs for casing Saturation flats.
- c. In BY 2004, what was the total in-office direct carrier cost (*i.e.*, excluding all piggybacked indirect costs) attributed to Saturation flats?
- d. If the total direct costs provided in response to preceding part c exceed the direct costs for casing flats indicated in response to part b, please describe (i) the nature of the activity or activities that account for any difference between the two responses regarding direct costs for Saturation flats, and (ii) the type of activities recorded on the IOCS tallies that account for these "other" direct costs.

Response

- a. Not confirmed. The total direct casing costs for Saturation flats was \$28,573,000 (which consists of \$28,452,000 from letter routes and \$121,000 from special purpose routes). Please refer to USPS-LR-K-67 workbook CASING04_Revised.xls worksheet 'EstimatesOfCased.Sat.Ltrs.Flts' cell B13.
- b. The figure in part a. excludes piggyback costs.
- c. The total in-office direct labor costs attributed to Saturation flats is \$31,792,000.
- d. Refer to my response to VP/USPS-T-16-23d.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-25.

Please refer to library reference USPS-LR-K-67, file CASING04.xls, tab
'EstimatesOfCased.Sat.Ltrs.Flts.'

a. Please confirm that the following FY 2004 volumes and distribution of ECR Saturation letters handled by city carriers that were either DPS'd, or cased, or taken directly to the route as sequenced mail are correct. If you do not confirm, please provide the correct volumes and distribution.

Volume (000) Dist.

1. DPS CCS Saturation letters 1,447,283 28.2%
2. Cased Saturation letters 1,755,605 34.1
3. Non-DPS Saturation letters that
bypass casing (sequenced mail) 1,940,878 37.7
4. Total Saturation letters 5,143,766 100.0%

b. Regardless of whether you confirm the volume data shown in preceding part a or provide alternative data, please reconcile the total volume of ECR Saturation letter mail in that response with the total volume of Saturation letter mail in the billing determinants — namely:

1. Commercial ECR Saturation letters 2,783,103,074
2. Nonprofit ECR Saturation letters 661,059,108
- TOTAL 3,444,162,182

c. Please confirm that the following volumes (in thousands) and the distribution of ECR Saturation flats handled by city carriers that were either cased or taken directly to the route as sequenced mail are correct. If you do not confirm, please provide the correct volumes and distribution.

Volume

(000) Dist.

1. Cased Saturation flats 1,305,760 24.6%
2. Non-DPS Saturation flats that
bypass casing (sequenced mail) 4,009,789 75.4
3. Total ECR Saturation flats 5,143,766 100.0%

Response

a. Not confirmed. Here are the correct figures.

DPS CCS Saturation letters 1,447,283 – 28.1%

Cased Saturation letters 1,833,667 -35.6%

Non-DPS Saturation letters that bypass casing (sequenced mail)

1,863,243 - 36.2%

Total Saturation letters 5,144,193 – 100%

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

b. The estimates in part a. are from the City Carrier Cost System (CCCS). CCCS counts each delivered piece separately. In CCCS, a DAL mailing with a flat host piece counts as two pieces, an ECR Saturation letter and flat as compared to the billing determinants only the flat host piece is counted as volume.

c. Not confirmed. The correct values are located in City04_Revised.xls in cells F174 through F176.

Cased Saturation Flats (000) – 1,366,096 (25.7%)

Saturation flats that bypass casing – 3,949,453 (74.3%)

Total ECR Saturation flats – 5,315,549 (100%)

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-26.

Please refer to library reference USPS-LR-K-67, file CASING04.xls, tab 'EstimatesOfCased.Sat.Ltrs.Flts.' Cell D12 shows a volume of 1,447,283,000 as FY04 Total DPS CCS Saturation Mail Volume. Please explain how this estimate of DPS'd Saturation letter volume was derived — e.g., IOCS data, Revenue, Pieces, and Weight ("RPW") data, some other sampling system data, etc.

Response

Please refer to the response to VP/USPS-T14-8, redirected to witness Harahush (USPS-T-5).

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-27.

Please refer to library reference USPS-LR-K-67, file CASING04.xls, tab 'EstimatesOfCased.Sat.Ltrs.Flts.' Cells E12 and E13, which show, respectively, the rate of pieces cased per minute of 41.2 for Saturation letters and 27.4 for Saturation flats, with the source given as testimony from Docket No. R90-1, USPS-T-10 (witness Shipe). Were these rates for casing Saturation letters and flats based on sampled observations of carriers using vertical flat cases? If not, please explain why you consider it appropriate to apply these data to the current casing environment.

Response

My understanding is that the rates were not based on sampled observations from carriers using vertical flat cases. A casing productivity is necessary to account for the non-trivial direct casing costs for ECR Saturation letters and flats derived from IOCS. For a further discussion of the appropriateness of utilizing the study please refer to the response to VP/USPS-T-14-7b, redirected to witness Lewis (USPS-T-30).

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-28.

Please refer to library reference USPS-LR-K-67, file CASING04.xls, tab 'Worksheet Casing.' Please provide the source of the data in cells K43, K44, L43, and L44.

Response

Please refer to the response to witness Shaw's (USPS-T-2) ADVO/USPS-T-16-1b.

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

VP/USPS-T16-29.

Please refer to library reference USPS-LR-K-67, file CASING04.xls, tab 'ECR Breakout,' with worksheet title (in cells A1 and D1): "Fiscal Year 2004 – Distribution of Standard Mail – Enhanced Carrier Route."

- a. Please reconcile the ECR Saturation letters cost of \$25,600,000 shown in cell K31 for "City Carrier – In-Office (All Routes) Casing Only" with the \$24,349,000 cost for casing Saturation letters referred to in VP/USPS-T16-23, and describe the activities responsible for the difference in the two cost figures. If the volumes of mail associated with these two cost figures differ, please specify what the difference in volume is and explain how much of the \$1,251,000 cost difference is accounted for by the difference in volumes.
- b. Do either of the two cost figures cited in preceding part a for casing of ECR Saturation letters include any costs for casing DALs? Please explain.
- c. Please reconcile the ECR Saturation flats cost of \$28,573,000 shown in cell K32 for "City Carrier – In-Office (All Routes) Casing Only" with the \$27,239,000 cost for Saturation flats referred to in VP/USPS-T16-24, and describe the activities responsible for the difference in the two cost figures. If the volumes of mail associated with these two cost figures differ, please specify what the difference in volume is and explain how much of the \$1,334,000 cost difference is accounted for by the difference in volumes.

Response

- a. Both cost figures reflect direct casing costs of ECR Saturation letters. However, the larger figure \$25,600,000 includes \$121,000 casing costs from special purpose routes as well as regular letter routes. The \$25,439,000 cost only includes casing costs incurred on city letter routes. (please refer to cell B12 in worksheet 'EstimatesOfCased.Sat.Ltrs.Flts' which is part of the workbook CASING04_Revised.xls). I do not know the volume difference between the two figures, but reason that it is minor due to the small differences between the cost figures.
- b. Yes, they do include casing costs for DALs. USPS-LR-K-67 assumes that the proportion of DALs cased by city carriers is the same as the proportion of ECR Saturation letters that are cased – 49.6%. For a further discussion on the

Response of Postal Service Witness John Kelley to Interrogatories Posed by
Valpak Dealer's Association, Inc.

derivation of this percentage, please refer to witness Bradley's (USPS-T-14)
direct testimony section A.3.

c. The \$28,573,000 includes costs incurred on special purpose routes as well as regular letter routes. The \$28,452,000 cost only includes casing costs incurred on city letter routes (please refer to cell B13 in worksheet 'EstimatesOfCased.Sat.Ltrs.Flts' which is part of the workbook CASING04_Revised.xls). I do not know the volume difference between the two figures, but reason that it is minor due to the small differences between the cost figures.

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
June 9, 2005