

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-1 - 6)  
(June 9, 2005)

The United States Postal Service hereby provides its responses to the following interrogatories of ValPak: VP/USPS-1 - 6, filed on May 24, 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 9, 2005

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

**VP/USPS-1.**

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPSLR- K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7. Paragraph two of your response states: "The reason the 9.694-cent delivery unit cost for ECR Basic **Letters** is so much higher [than the corresponding cost of **flats**] is the way that the 'Rural Crosswalk' worksheet in LRK-101 allocates total BY 2004 Rural Carrier Cost System (RCCS) volumes across shapes" (emphasis added).

a. Please confirm that, in Docket No. R2001-1, the delivery unit cost for letters was only 0.086 cents higher than the corresponding cost for flats, and that now it is 3.756 cents higher. If you do not confirm, please provide corrected figures.

b. Please refer to file LR-K-101.xls and confirm that all of the volumes and the volume split factors contained on sheet 'RCCS EVAL' are identical to those on the corresponding file in Docket No. R2001-1, PRC-LR-7. If you do not confirm, please explain.

c. Sentence two of paragraph two of your response states: "Cell C25 in 'Rural Crosswalk' reallocates 1,395,586,000 RCCS ECR flats to ECR letters, based on the 'RCCS EVAL' analysis. Please confirm that the corresponding file in Docket No. R2001-1, PRC-LR-7, reallocates 1,218,016,000 pieces, only 12.7 percent fewer. If you do not confirm, please explain.

d. Sentence three of paragraph two of your response states: "These 1,395,568,000 reallocated flats account for over 29% of the original RCCS ECR total." Please state which "total" volume figure is the "original RCCS ECR total." (Note that candidate volumes would seem to be the flat volume in cell D11, the total volume in cell K11, or some volume less boxholder volume, but that none of these are consistent with the "29%" figure.) After specifying which volume reference is intended, please state whether the 29-percent proportion held also in Docket No. R2001-1. If it did not hold, please explain fully.

e. Sentence four of paragraph two of your response states: "Moreover, all 1,395,586,000 flats are reallocated to ECR Basic Auto letters and ECR Basic letters." Please confirm that this was true also in Docket No. R2001-1 and that the proportionate distributions of the 1,395,586,000-figure to each of ECR Basic Auto letters and ECR Basic letters in the instant docket are identical to the corresponding proportionate distributions in Docket No. R2001-1. If you do not confirm, please explain.

f. Sentence five of paragraph two of your response states: "Cell C39 in 'Rural Crosswalk' shows that this reallocation causes a corresponding reallocation of \$72,417,000 in rural ECR Basic flats delivery costs to ECR letters." Please confirm that the corresponding reallocation was \$70,134,000 in Docket No. R2001-1, only 3.15 percent lower. If you do not confirm, please explain.

g. Sentence six of paragraph two of your response states: "Furthermore, of this \$72,417,000, \$19,193,000 is allocated to ECR Basic Auto, and \$53,224,000 to ECR Basic." Please confirm that, in Docket No. R2001-1, the figure of \$70,134,000 was allocated \$18,588,000 to ECR Basic Auto and \$51,546,000 to ECR Basic, with the proportions of the distribution being exactly the same as in

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

the current docket. If you do not confirm, please explain.

h. Please confirm that from Docket No. R2001-1 to the instant docket, the delivery cost of ECR Basic **letters increased** 45.69 percent while the corresponding cost of ECR Basic **flats decreased** 3.06 percent. If you not confirm, please explain and state a figure that you believe to be correct.

i. In view of the similarities between the application of the rural crosswalk in the instant docket and in Docket No. R2001-1, many aspects of which are referenced in earlier parts of this question, please state whether you believe that the reason for the 45.69 percent increase in the delivery cost of ECR Basic letters, which is clearly associated with the fact that ECR Basic letters now appear to cost 40.09 percent (3.756 cents) more than corresponding flats, is due to the way that the rural crosswalk allocates base-year rural costs across shapes. If you so believe, please explain how this comes about, pointing out all similarities and differences between the two cases in the way the crosswalk is applied. If you do not so believe, please explain why the cost of letters increased 45.69 percent while the cost of flats decreased 3.06 percent.

**Response**

a. Not confirmed. In Docket No. R2001-1, PRC-LR-7.xls, the Test Year delivery unit cost for letters was 0.323 cents higher than the corresponding cost for flats. Also, see Witness Kelley's response to R2005-1 MMA/USPS-T16-17c. The table presented in that response shows the revised LR-K-101 TY06 ECR Basic letters and flats unit costs that result from correcting errors in cells M4 – M9 of the 'Delivery Volumes' worksheet. Based on these revised unit costs, the excess of the LR-K-101 TY06 Basic letters unit cost over the corresponding Basic flats unit cost is now 3.619 cents instead of 3.756 cents.

The reason this excess is still so much higher than the corresponding 0.323 cents excess of the R2001-1 Basic letters unit cost over the R2001-1 Basic flats unit cost can be determined through an analysis of the attached table, also attached in Excel. Columns B and C in this table list the BY 2000 PRC-LR-7 rural-carrier unit costs for all ECR letters, and for all ECR flats. The column B unit costs equal total BY 2000 CS10.xls costs per RPW piece, and they are

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

therefore the pre-crosswalk rural-delivery unit costs. In contrast, the column C unit costs equal the post-crosswalk unit costs. They therefore account for the big increase in the letters total cost, and corresponding big reduction in the flats total cost that are caused by the crosswalk's reallocation of 1,218,016,000 total ECR RCCS flats into ECR letters. Row 4 shows further that the column B "pre-crosswalk" letters unit cost is close to 0.9 cents lower than the pre-crosswalk flats unit cost. This initial large deficiency of the letters unit cost below the flats unit cost ensures that, although the PRC-LR-7 rural crosswalk causes a major (124%) increase in the letters unit cost, and a corresponding big reduction in the flats cost, the post-crosswalk letters unit cost still exceeds the flats cost by only 0.258 cents.

Column F in the attached table lists the pre-crosswalk BY 2004 LR-K-101 rural- ECR unit costs. Unlike the corresponding column B pre-crosswalk unit costs, these column F pre-crosswalk letters and flats unit costs are virtually identical. Moreover, this initial near equality ensures that, although the LR-K-101 rural crosswalk causes a smaller (while still substantial) 49% increase in the letters unit cost, as compared to the 124% increase caused by the PRC-LR-7 rural crosswalk, the LR-K101 crosswalk produces a much bigger excess of the post-crosswalk letters unit cost over the post-crosswalk flats unit cost. Column G shows that the LR-K-101 post-crosswalk letters unit cost is nearly 1 cent higher than the flats cost, as compared with the corresponding PRC-LR-7 excess of only 0.258 cents (column C).

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

The results just presented apply equally to the comparison of the ECR Basic letters and ECR Basic flats unit costs as they do to the comparison of the total ECR letters and total ECR flats unit costs shown in the table. All of the ECR flats that the PRC-LR-7 and LR-K-101 crosswalks reallocate to letters are reallocated, specifically, from ECR Basic flats into ECR Basic letters, and, to a much lesser extent, into ECR Basic-Auto letters. Therefore, just as the crosswalks cause big increases and reductions in the total letters unit cost and total flats unit costs, respectively, they also cause big increases and reductions in the Basic letters and Basic flats unit costs. Moreover, the PRC-LR-7 crosswalk likewise changes an initial large deficiency in the Basic letters unit cost below the Basic flats unit cost into a small excess of the Basic letters cost above the Basic flats cost; and the LR-K-101 crosswalk changes much closer Basic letters and Basic flats unit cost into a large excess of the Basic letters unit cost over the Basic flats unit cost.

b. Confirmed.

c. Confirmed.

d. First of all, sentence three of paragraph two of that response refers not to "1,395,568,000 reallocated flats," but rather "1,395,586,000 reallocated flats." Secondly, 29% is a typographical error. Also, the total referred to is total ECR flats.

Thus, sentence three of paragraph two should be revised to read: "These 1,395,586,000 reallocated flats account for over 24% of the original total RCCS ECR flats." The corresponding proportion from R2001-1 was 22.6%.

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

- e. Confirmed.
- f. Confirmed.
- g. Confirmed.
- h. Please see Witness Kelley's response to R2005-1 MMA/USPS-T16-17c. The table presented in that response shows the revised LR-K-101 TY06 ECR Basic letters and flats unit costs that result from correcting errors in cells M4 – M9 of the 'Delivery Volumes' worksheet. Based on these revised unit costs, the TY06 Basic letters unit cost equals 9.751 cents. This is 46.54% higher than the corresponding R2001-1 PRC-LR-7 letters unit cost. Also, the TY06 ECR Basic flats unit cost now equals 6.132 cents, which is 3.24% lower than the corresponding PRC-LR-7 flats cost.
- i. Clearly, an important reason the ECR Basic letters unit cost increased by 46.54% between R2001-1, PRC-LR-7 and R2005-1, LR-K-101 was the continued application of the rural crosswalk. As the response to POIR No. 3, question 3d shows, had the rural crosswalk not been applied in R2005-1, LR-K-101, the TY06 LR-K-101 ECR Basic Letters unit cost would have equaled only 7.856 cents. Moreover, although the correction referred to in the answer to part b above, increases this "no-rural-crosswalk" cost to 7.889 cents, 7.889 cents is still only 18.07% higher (not 46.54% higher) than the R2001-1 PRC-LR-7 ECR Basic letters unit cost. Furthermore, as the response to VP/USPS-2d below indicates, the justification for doing the rural crosswalk in R2001-1 no longer applied in R2005-1. The R2001-1 rural crosswalk was needed, to a large extent, to reverse the flats adjustment that had been applied in the BY 2000 CS10.xls, in order to

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

move large portions of RCCS letters into RCCS flats. The BY 2004 CS10.xls used in R2005-1 did not, however, implement any such flats adjustment. Thus, there was no need for LR-K-101 to continue to implement the rural crosswalk in order to reverse the flats adjustment, since there was no longer anything to reverse.

It should also be reemphasized, for purposes of the issues discussed in this interrogatory, that the objective of LR-K-101 was simply to employ the established methodology by applying R2005-1 BY 2004 and TY 2006 cost and volume inputs to the R2001-1 PRC-LR-7 methodology. The dilemma presented under these circumstances of retaining or excluding the rural crosswalk underscores the practical perils of attempting to employ a static established methodology in a dynamic environment.

Mail Subclass - Shape	PRC-LR-7 BY 2000		POST	PERCENTAGE	LR-K-101 BY 2004		POST	PERCENTAGE
	RURAL COSTS PER RPW PIECE, PRIOR TO CROSSWALK	RURAL COSTS PER RPW PIECE, POST CROSSWALK	CROSSWALK UNIT COST MINUS PRE- CROSSWALK UNIT COST	CHANGE BETWEEN THE PRE- CROSSWALK AND POST-CROSSWALK UNIT COSTS	RURAL COSTS PER RPW PIECE, PRIOR TO CROSSWALK	RURAL COSTS PER RPW PIECE, POST CROSSWALK	CROSSWALK UNIT COST MINUS PRE- CROSSWALK UNIT COST	CHANGE BETWEEN THE PRE- CROSSWALK AND POST-CROSSWALK UNIT COSTS
ECR Letters	0.448	1.002	0.554	123.8%	1.164	1.728	0.565	48.5%
ECR Flats	1.303	0.744	-0.559	-42.9%	1.223	0.758	-0.465	-38.0%
Excess of ECR Letters over ECR Flats	-0.855	0.258	1.113	N/A	-0.060	0.970	1.030	N/A

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

**VP/USPS-2.**

Please refer to your response to POIR No. 3, Question 3(d), which discusses the role and the effects of the rural crosswalk.

- a. In all prior cases in which the Postal Service has presented the rural crosswalk, has the Commission ever rejected or altered any part of it? If yes, please explain.
- b. In all prior cases in which the Postal Service has presented the rural crosswalk, has the Commission ever made suggestions for improvement? If yes, please explain.
- c. In all prior cases in which the Postal Service has presented the rural crosswalk, has the Commission ever indicated that it was committed to a certain way of handling the crosswalk and/or that it would be resistant, or require a high standard of evidence, to make changes or improvements in it? Please explain any affirmative answer.
- d. File LR-K-67.doc of USPS-LR-K-67 states at page 8: "In Docket No. R2001-1, an adjustment was made to the RCS volumes to account for the discrepancy between the shape dimensions for pieces delivered on rural routes and those in the DMM. Since that incongruity has been eliminated, no adjustment is made to the FY04 RCS volumes." Please explain how the "discrepancy" and the "incongruity" were eliminated. Include in your explanation a discussion of whether pieces higher than 5 inches but less than 6 1/8 inches still exist, how rural carriers are paid for them, and how they are treated in the costing process.

**Response**

a-c. From a review of Commission documents, the Commission has never made any statements that apply specifically to the 'Rural Crosswalk' worksheet in PRC-LR-7.

d. The discrepancy referred to was the gap between the BY 2000 ratio of RCCS letters to the sum of RCCS letters and flats, and the significantly lower Rural-Mail-Counts ratio of letters to letters plus flats. This gap was attributed to the results of an analysis of the BY 2000 RCCS and Rural-Mail-Counts pieces that were higher than 5 inches, but less than 6 1/8 inches, and that should have been recorded as flats. These results indicated that a large portion of the RCCS pieces in this category were erroneously recorded as letters. The BY 2000

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

CS10.xls therefore applied an adjustment – known as the flats adjustment – that eliminated this discrepancy (or incongruity) by reallocating a large portion of the RCCS letters into RCCS flats.

The rural crosswalk implemented by the R2001-1 PRC-LR-7 and USPS-LR-J-117 analyses was based, to a significant extent, on the view that many, if not all of these BY 2000 RCCS letters that had been reallocated to flats were nevertheless still letters according to DMM definitions. Therefore, the rural crosswalk was designed largely to reverse the BY 2000 CS10.xls flats adjustment.

By FY 2004, however, both the RCCS and Rural Mail Counts were defining pieces higher than 5 inches but less than 6 1/8 inches as letters, not flats. Possibly for this reason, it was also determined that there was no longer any discrepancy between the RCCS and Rural-Mail-Counts measurements of letters and flats, and that, in particular, both systems were correctly counting pieces higher than 5 inches but less than 6 1/8 inches as letters. Therefore, the BY 2004 CS10.xls did not implement any flats adjustment. Moreover, for this reason, there was no longer any need to apply a rural crosswalk in the cost-by-shape analysis to reverse a flats adjustment. The decision to remove the rural crosswalk from the R2005-1 LR-K-67 was the correct decision.

Regarding the payments made for pieces higher than 5 inches but less than 6 1/8 inches, the BY 2000 Rural-Mail Counts defined such pieces as flats, and carriers were paid for delivering the pieces at the minutes per piece rate defined for all delivered flats. The BY 2004 Rural-Mail Counts defined these

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

pieces as letters, and paid carriers at the non-DPS letters, DPS letters, or sector-  
segment letters minutes per piece rates, depending on how the letters were  
distributed across these letter-shape evaluation categories.

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

**VP/USPS-3.**

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPSLR- K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7. Please confirm that (i) the piggyback factor for rural carrier costs in the instant docket is 1.193 and, in Docket No. R2000-1, it was 1.259, and (ii) ceteris paribus, this would tend to lower rural carrier costs in this case and to reduce any effects attributable to the rural crosswalk. If you do not confirm, please explain.

**Response**

Confirmed.

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

**VP/USPS-4.**

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPSLR- K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7.

a. Please confirm that, according to the sheets referenced, the unit delivery cost of ECR Basic Letters increased 45.68 percent from Docket No. R2001-1 to the instant docket. See cell O88 on 'summary TY' in LR-K-101 and cell O86 in PRC-LR-7. If you do not confirm, please explain and present the correct figures.

b. PRC-LR-7 shows a volume of ECR Basic Letters in cell L86 of 'summary TY' of 4,892,022. It also shows a rural volume of ECR Basic Letters of 1,762,679, cell C68 of sheet 'Rural Crosswalk'. Please explain whether this implies a city carrier volume of ECR Basic Letters in Docket No. R2001-1 of 3,129,343 (where all volumes are in thousands). If it does not, please explain the flaws and inaccuracies in the procedure used to arrive at these estimates.

c. USPS-LR-K-101 shows a volume of ECR Basic Letters in cell L88 of 'summary TY' of 2,165,011. It also shows a rural volume of ECR Basic Letters of 2,019,640 in cell B60 of 'Rural Crosswalk.' Please explain whether this implies a city-carrier volume of ECR Basic Letters in the instant docket of 145,371 (where all volumes are in thousands), a 95.4 percent decrease from Docket No. R2001-1. If it does not, please explain the flaws in the procedure used to arrive at these estimates.

d. Cells J87 through J109 of sheet 'summary TY' of file LR-K-101 show that the rural delivery cost is allocated to the letter categories of ECR on the basis of splits obtained, essentially, from the sheet 'RCCS EVAL.'

(i) Is the above statement correct? If not, please provide a correct statement.

(ii) If it is the case that rural costs are allocated on crosswalk split factors, and if these split factors do not accurately reflect current mail volume (possibly because the proportionate number of prebarcoded pieces has increased substantially), please explain whether it follows that the rural costs allocated to the ECR letter categories, which are used to provide discounts to mailers, are in error.

(iii) Please state the observation period to which the volumes and split factors in the sheet 'RCCS EVAL' apply.

e. Cells J87 through J90 of sheet 'summary TY' of file LR-K-101 appear to show that the rural delivery cost for ECR letters is allocated to the letter categories of ECR on the basis of the number of pieces.

(i) Is the above statement correct? If not, please provide a correct statement.

(ii) If the purpose of the analysis is to find the differences in the unit costs of Basic, Basic auto, High Density, and Saturation letters, and the costs are allocated on the basis of the number of pieces, please explain whether this predetermines that, as far as rural carriers are concerned, the costs of all of the categories are the same and no contribution will be made to

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

any discounts for mailers of the various categories of letters.

f. (i) Is the payment system for rural carriers such that, on rural routes, the Postal Service pays the same for High Density and Saturation mailings as it does for Basic ECR mailings? Please explain.

(ii) If the answer to the preceding part (i) is negative, please explain all differences in the way the Postal Service pays rural carriers for handling each of the above three rate categories.

**Response**

a. Please refer to the response to VP-USPS-1h.

b. The 4,892,022 in cell L86 of PRC-LR-7 'summary TY' is the TY 2003 ECR Basic Letters volume, whereas the 1,762,679 in cell C68 of PRC-LR-7 'Rural Crosswalk' is the BY 2000 rural (RCCS) volume. The PRC-LR-7 methodology for deriving city-carrier volumes does not lend itself to deriving city-carrier Basic Letters volume from this or any other combination of test year volume and base year RCCS volume.

c. The 2,165,011 in cell L88 of LR-K-101 'summary TY' is the TY 2006 ECR Basic Letters RPW volume, whereas the 2,019,640 in cell B60 of LR-K-101 'Rural Crosswalk' is the BY 2004 rural (RCCS) volume. The LR-K-101 methodology for deriving city-carrier volumes does not lend itself to deriving a city-carrier Basic Letters volume from this or any other combination of a test year volume and base year RCCS volume.

d(i). This statement is not quite correct. The total ECR-letters rural-delivery cost is allocated to Basic-Auto letters, Basic-Non-Auto letters, and the combination of High Density and Saturation letters on the basis of the splits obtained from sheet 'RCCS EVAL.' However, the resulting High-Density plus Saturation letter cost is

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

disaggregated into a High-Density-only cost and a Saturation-only cost on the basis of RPW volumes.

d(ii) 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.

d(iii) The volumes and split factors in 'RCCS EVAL' were derived from a study conducted between September and November 1998. See R2000-1, USPS-LR-I-173.

e(i) This statement is essentially correct. To be precise, LR-K-101 allocates the rural delivery cost for ECR letters to Basic-Auto letters, Basic-Non-Auto letters, and the combination of High-Density and Saturation letters on the basis of the post-rural-crosswalk measures of RCCS letter pieces. The resulting total High-Density plus Saturation letter-cost is then allocated to High-Density and Saturation based on RPW letters.

e(ii) The LR-K-101 allocation of costs described in the preceding response to e(i) does determine that the rural ECR letter costs per delivered (i.e., RCCS) letter piece will be the same for Basic-Auto letters, Basic-Non-Auto letters, and the combination of High-Density and Saturation letters. However, because the ratios of RCCS letters to RPW letters vary across these three letter categories, the rural ECR letter costs per RPW letter differ substantially across these categories. Furthermore, because RPW letters are also used to split the total rural cost for High Density plus Saturation letters into separate High-Density and Saturation costs, the High-Density and Saturation rural costs per RPW equal one another,

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

while they also differ substantially from the Basic-Auto and Basic-Non-Auto unit costs per RPW.

f(i and ii) The payment system for rural carriers does not determine payments based on differences across mail subclass, or across rate categories within subclass. Therefore, it does not distinguish between High Density and Saturation mailings and Basic mailings within the ECR subclass. Payments per piece 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.

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

**VP/USPS-5.**

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPSLR-K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7. Line 12 of the third paragraph of your response refers to “[t]he piggyback-inflated rural ECR Basic letters unit cost,” as shown on sheet ‘summary BY’ of file LR-K-101 and, in rolled-forward form on sheet ‘summary TY’ of the same file, cells N87-N90.

Corresponding costs for Docket No. R2001-1 may be found in cells N85-N88 of sheet ‘summary TY’ in PRC-LR-7. Drawing on the cells referenced, note that the “piggyback-inflated ECR Basic letters unit cost,” to which you refer in your response, increases from 2.31 cents in Docket No. R2001-1 to 5.81 cents in the instant docket, an increase of 151.5 percent.

a. Given that the costs of 2.31 cents and 5.81 cents are derived by dividing an estimate of rural cost by a volume figure that includes both city volume and rural volume, please confirm that these cost figures really have little or nothing to do with the cost of rural delivery in question. Please explain any disagreement, describing what those cost figures actually represent.

b. Suppose the piggyback-inflated estimates of rural costs (such as those that would be obtained by multiplying cell K88 times cell J120 on sheet ‘summary TY’ of file LR-K-101) were divided by the volumes shown in cells B59 through B61 of sheet ‘Rural Crosswalk’ of the same file, with appropriate adjustment for the fact that separate volumes are not shown for High Density and Saturation.

(i) Please explain whether the result of this division would provide a meaningful estimate of unit rural delivery costs. If you explain that this procedure has limitations, please provide an improved estimate.

(ii) Please confirm that use of this procedure generates a unit rural cost in Docket No. R2001-1 of 6.40 cents, and, in the instant docket, of 6.22 cents, a decrease of 2.81 percent.

(iii) To the extent to which there are strong similarities with respect to the application of the rural crosswalk in Docket No. R2000-1 and the instant docket, as suggested in VP/USPS-1, please explain whether this implies that, with respect to an increase in the cost of Basic ECR letters in the instant docket (which might contribute to a higher cost for Basic ECR letters than for Basic ECR flats, which was the subject POIR question), the problem is in the costing on city routes and not in either the costing of rural routes or in any procedure associated with the rural crosswalk.

**Response**

a. The costs referred to are estimates of rural-carrier Basic letter costs per RPW letter piece - defined as the piggyback-inflated ECR Basic letter rural cost per

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

delivered (RCCS) letter, times the ratio of rural-delivered Basic letters to RPW Basic letters. Since the RPW Basic letters are the totals delivered everywhere, not just to rural routes, the ECR Basic letter cost per RPW is the rural-delivery Basic-letter unit cost times the percentage of RPW Basic letters delivered on rural routes. Thus, the rural ECR Basic letter cost per RPW does equal the true expected rural-carrier delivery cost per piece, in the sense that it equals the cost of delivering the piece on a rural route, times the likelihood that this piece will be delivered to a rural route, instead of to a city route, post office box, or some other non-rural location.

b(i) First, it is assumed that, in the first sentence of your question, you meant to multiply cells K87 through K88 by cell J120 on LR-K-101, 'Summary TY', and divide by the letter volumes in cells B59 through B60 of LR-K-101, 'Rural Crosswalk'. You also meant to multiply the sum of cells K89 and K90 by cell J120 in 'Summary TY', and divide by cell B61 in 'Rural Crosswalk'. Given this clarification of the question, the results of these divisions would provide meaningful estimates of unit rural-delivery costs in the sense that, if the numerators and denominators referred to are accurate measures of the true rural-delivery costs, and true letter pieces delivered, then those divisions do produce the correct unit rural-delivery costs per delivered piece.

Note, however, that the numerators referred to in the part b question are estimates of TY 2006 total costs, whereas the denominators are estimates of BY 2004 rural volumes. If LR-K-101 is to be used to compute TY 2006 unit rural-delivery costs per delivered piece for the ECR letter categories, then the TY 2006

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

total costs in these categories should be divided by estimates of corresponding TY 2006 rural letter volumes, not BY 2004 volumes. One way to derive such test year letter volumes is to multiply the BY 2004 rural letter volumes in cells B59 through B61 of 'Rural Crosswalk' by the ratio of the TY 2006 RPW volumes in cells K87 through K90 of 'Summary TY' over the BY 2004 RPW volumes in cells K86 through K89 of 'Summary BY'. Note that this method derives the TY 2006 rural letter volumes based on the view that they increased between BY 2004 and TY 2006 at the same rate as the RPW letter volumes increased. The TY 2006 total costs divided by the TY 2006 rural letter volumes derived in this manner equal 5.63 cents.

It should also be emphasized that, although the unit rural-delivery costs per delivered piece calculated in the manner just described are conceptually valid LR-K-101 measures of how much rural-delivery cost is generated by the delivery of one ECR letter to one rural route, computing such measures is not the objective of the LR-K-101 or LR-K-67 analyses. The objective is instead to measure rural delivery costs per RPW piece, and to combine these measures with estimates of city-carrier costs per RPW piece to produce the total TY 2006 delivery costs per test year volume reported in the 'Table 1' worksheets of both library references.

b(ii) Partially confirmed. The R2005-1 Basic letters unit rural-delivery cost is 6.23 cents, not 6.22 cents, and the decrease between the R2001-1 unit cost and this 6.23 cents is 2.74 percent, not 2.81 percent.

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

b(iii) Please see the responses to VP/USPS-1(i), 4(b), and 4(c) above.

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

**VP/USPS-6**

Please refer to your response to Question 3(c) of POIR No. 3. In the first paragraph you state: "There are several reasons why the mail processing unit cost of Basic ECR letters (non-automation rate) is greater than that of Basic ECR nonletters." You go on to state that many of these letters are now delivery point sequenced on automated equipment and that "[t]his additional distribution step at the plant, along with accompanying allied labor activities, increases mail processing costs of ECR letters relative to nonletters, all other things being equal." The costs at issue are PRC-version costs and are developed in library reference USPSLR-K-107.

a. When letters are shifted from manual carrier operations to automated delivery point sequence ("DPS") operations in plants, should not the decrease in the cost of carrier operations be larger than the increase in cost of the automated plant operations, including the effect of the piggyback factors you discuss in the second paragraph of your answer? Please explain in detail any negative answer.

b. Would you agree that, if the result outlined in part a does not occur, the DPS equipment and associated program could not show a positive return on investment? Please explain any disagreement.

c. Please quantify the decrease in carrier cost associated with the increase in plant operations costs attendant to a shift to delivery point sequencing the letters in question, including the effects of the piggyback factors.

d. Please discuss the relative sensitivities of the analytical methods and procedures in library references USPS-LR-K-107 and USPS-LR-K-84 to any reduction in carrier costs associated with recent shifts toward DPS operations in plants for ECR letters.

**RESPONSE:**

(a) Yes, for automation compatible pieces the practice of capturing and/or backhauling letters to the plant for DPS processing should, in theory, produce carrier cost savings that are greater than the costs associated with DPS processing itself.

(b) Yes, though the economic return of DPS processing depends on the net cost savings for all DPS letters, and not the cost savings for basic ECR letters alone.

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

(c) We do not have any estimates of the decrease in carrier costs associated with the DPS of ECR Basic letters.

(d) Since both library references describe mail processing cost analyses, neither would directly be sensitive to carrier cost changes.

## 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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June 9, 2005