

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA (MMA/USPS-T16-18 -20)
(June 14, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of MMA, filed on May 31, 2005: MMA/USPS-T16-18 - 20.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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June 14, 2005

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Major Mailers Association

MMA/USPS-T16-18

Please refer to Library Reference LR-USPS-K-67 (revised), worksheets 11 and 14, where you analyze segment 6.1 costs for First-Class mail.

- A. The total segment 6.1 direct labor in-office - casing costs for nonautomation letters is \$43,031,000, as shown for all 8 subcategories on worksheet 11. The total segment 6.1 direct labor in-office - casing costs for nonautomation letters is \$92,993,908 as shown on worksheet 14. Please reconcile these two figures.
- B. The total segment 6.1 direct labor in-office – non-casing costs for nonautomation letters is \$1,983,000, as shown for all 8 subcategories on worksheet 11. The total segment 6.1 direct labor in-office – non-casing costs for nonautomation letters is \$14,384,417 as shown on worksheet 14. Please reconcile these two figures.

Response

A. In deriving the unit delivery costs for the test year, the \$43.0 million dollar casing cost is the relevant figure for USPS-LR-K-67. The \$43.0 is calculated by partitioning the \$350.1 million total letter-shape First-Class Presort Letter cost to rate categories based on the established methodology adopted in R2001-1, PRC-LR-7. An allocation method is required since IOCS does not capture information for all rate categories within First Class presort letter mail.

The portion of the \$350.1 million total that this methodology allocates to each rate category equals the casing cost per cased piece times the category's total estimated cased CCS letters. The rate category's cased CCS letters are, in turn, calculated as the total letter-shape CCS First-Class Presort Letters, times the category's percentage of total letter-shape RPW First-Class Presort Letters, times the estimated percentage of these letter-shape RPW pieces that are non-DPS, and therefore cased. The methodology applied in LR-K-67 differs from the established methodology

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only in terms of how it calculates the casing cost per cased piece. Please see my responses to R2005-1, MMA/USPS-T16-1A and 1b regarding how this calculation changed between both PRC-LR-7 and LR-K-101, and LR-K-67.

The \$93 million, on the other hand, comes directly from IOCS for Nonauto First Class presort mail. But since IOCS does not provide similar direct estimates for the eight categories of Nonauto, some type of allocation procedure is required. The established procedure is to start from the \$350.1 million presort letter total, as described above, and thus not to use the \$93 million estimate.

B. The explanation provided in part A with respect to casing costs applies to non-casing costs as well. Under the established methodology, the relevant figure is the \$1.983 million, and the \$14.384 figure is not used.

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MMA/USPS-T16-19

Please refer to Library Reference LR-USPS-K-67 (revised), worksheet 9, and Library Reference LR-USPS-K-101, worksheet "Delivery Volumes". There you list the First-Class volumes delivered by rural carriers, city carriers and the First-Class volumes delivered to post office boxes. Please explain why the total number of First-Class single piece letters (all shapes) delivered by rural carriers is 11,196,625 in Library Reference LR-USPS-K-101, but the corresponding number is 7,714,656 in Library Reference LR-USPS-K-67. Which is correct?

Response

7,714,656 is the FY04 estimated volume of single piece letters (all shapes) delivered on rural routes. The discrepancy is due to the fact that the LR-K-67 volumes exclude collection volumes, and because they are not adjusted by the same rural crosswalk applied in LR-K-101.

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Please refer to Library Reference LR-USPS-K-67 (revised), worksheet 2, where you compute the “Total Unit Cost” in the last column for the various categories of First-Class mail.

- A. Please confirm that these “Total Unit Cost” figures are derived by dividing total delivery costs for rural and city carriers by the total RPW volume. If you cannot confirm, please explain.
- B. Please confirm that the RPW volume used to derive these “Total Unit Cost” figures includes not only volumes that are delivered by rural or city carriers but also volumes that are delivered to post office boxes or returned for postage due. If you cannot confirm, please explain.
- C. Please confirm that the total unit cost figures that you derive in Table 1 of Library Reference LR-USPS-K-67 (and provided to USPS witness Abdirhaman) do not represent the volume variable cost of a First-Class letter that is actually delivered by a city or rural carrier. If you cannot confirm, please explain.
- D. Please confirm that the table below isolates the unit delivery costs for pieces that are actually delivered by city or rural carriers.

First-Class Letter Category	Total Delivery Costs (\$000)	Total Volume Delivered (000)	Unit Delivery Cost Per Piece Delivered (Cents)
Single Piece Letters	2,789,330	24,520,744	11.375
Single Piece Nonletters	577,493	2,658,213	21.725
Total Single Piece	3,366,823	27,178,957	12.388
Workshare Letters	1,739,773	41,648,938	4.177
Workshare Nonletters	74,454	676,303	11.009
Total Workshare Letters	1,814,227	42,325,240	4.286

- E. If you can confirm the computations in part D, please explain how the 7.198 cent difference in the unit delivery costs for workshare and single piece letters (11.375 – 4.177) compares to the difference in the unit delivery costs of only 3.235 cents (7.189 – 3.954) that you show on Library Reference LR-USPS-K-67, page 1.

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- F. Please confirm that worksharing has no impact on the delivery costs if the letter is not delivered by a rural or city carrier. If you cannot confirm, please explain.
- G. Please explain why the “unit cost per RPW”, as you use that term in the last five columns of Library Reference LR-USPS-K-67, page 11, has any relevance to the concept of workshare-related unit delivery costs.

Response

A. Confirmed, with the understanding that the volume figures are test year forecasts for RPW categories, rather than historical RPW figures.

B. Confirmed. The volume used to derive the unit delivery costs is the total originating volume, by rate category, for the test year.

C. Confirmed. USPS-LR-K-67 does not (and was not intended to) calculate the ratio of volume variable delivery costs to volumes delivered by city and rural carriers.

D. Not confirmed. The table below has the correct figures for the base year based on your denominator being volume delivered on city and rural routes.

First-Class Letter Category	Total Delivery Costs (\$000)	Total Volume Delivered (000)	Unit Delivery Cost Per Piece Delivered (Cents)
Single Piece Letters	2,789,330	24,520,744	11.375
Single Piece Nonletters	577,493	2,697,599	21.408
Total Single Piece	3,366,823	27,218,343	12.370
Workshare Letters	1,739,773	41,648,938	4.177
Workshare Nonletters	74,454	681,850	10.919
Total Workshare Letters	1,814,227	42,330,788	4.286

***Changes in Bold** – Source of changes LR-K-67_2ndrevised.xls worksheet ‘9DeliveryVolumes’

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E. The disparity in the differences between the unit costs can be explained by two factors. The first is that your table uses base year figures, while Table 1 from USPS-LR-K-67 reports test year figures. Second, different denominators are used to derive them. The unit costs in the last column in your table use base year volume delivered on city and rural routes, whereas the unit costs in Table 1 use total forecasted test year originating volume.

F. In terms of the delivery costs that are the subject of USPS-LR-K-67, I confirm.

G. Unit delivery cost per originating (RPW) piece in USPS-LR-K-67 has relevance to the same extent it did in both USPS-LR-J-117 and PRC-LR-7 in Docket No. R2001-1.

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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