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

RESPONSES OF POSTAL SERVICE WITNESS KELLEY
TO VALPAK INTERROGATORIES (VP/USPS-T16-30-38)
(June 20, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of ValPak: VP/USPS-T16-30-38, filed on June 6, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 20, 2005

VP/USPS-T16-30.
Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet EstimatesOfCased.Sat.Ltrs.Flts.
a. Please confirm that, in Base Year 2004, the total Standard ECR 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 is direct cost only, or whether the amount includes any piggybacks. If the $24,349,000, or the amount you provided, includes any piggybacked indirect costs, please provide only the amount of the direct cost 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 directs cost for casing letters indicated in response to part b, please describe: (i) the nature of each activity that accounts 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.-d. Please refer to my response to VP/USPS-T16-23.

VP/USPS-T16-31.
Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet EstimatesOfCased.Sat.Ltrs.Flts.
a. Please confirm that, in BY 2004, the total Standard ECR 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 is direct cost only, or whether the amount includes any piggybacks. If the $27,239,000, or the amount you provided, includes any piggybacked indirect costs, please provide only the amount of the direct cost 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 directs cost for casing flats indicated in response to part b, please describe:
(i) the nature of each activity or that accounts for any difference between the two responses as regards 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.-c. Please refer to my response to VP/USPS-T16-24.

VP/USPS-T16-32.
Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet EstimatesOfCased.Sat.Ltrs.Flts.
a. Please confirm that the following volumes (in thousands) and the distribution of Saturation letters handled by city carriers that were either delivery point sequenced ("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. Total FY 04 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 letter volume 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 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
3. Total 3,444,162,182
c. Please confirm that the following volumes (in thousands) and the distribution of 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 24.56
2. Non-DPS Saturation flats that
bypass casing (sequenced mail) 4,009,789 75.44
3. Total ECR Saturation flat volume 5,315,549 100.00%

Response

a.-c. Please refer to my response to VP/USPS-T16-25.

VP/USPS-T16-33.
Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet 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.*, using IOCS data, Revenue, Pieces and Weight ("RPW") data, data from some other sampling system, etc.

Response

Please refer to my response to VP/USPS-T16-26.

VP/USPS-T16-34.
Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet EstimatesOfCased.Sat.Ltrs.Flts. Cells E12 and E13 show, respectively, 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).
a. 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.
b. Please identify and provide a copy of any Postal Service study of the rate at which letters and flats are cased in vertical flat cases.

Response

a. Please refer to my response to VP/USPS-T16-27.

b. I am not unaware of any study of casing productivities that utilized vertical flat cases.

VP/USPS-T16-35.
Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet Casing. Please provide the source of the data in cells K43, K44, L43, and L44.

Response

Please refer to my response to VP/USPS-T16-28.

VP/USPS-T16-36.
Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet ECR Breakout, with spreadsheet title (cells A1 and D1): "Fiscal Year 2004 – Distribution of Standard Mail –Enhanced Carrier Route."
a. Please (i) 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 VP/USPS-T16-30, and (ii) describe the activities and provide the mail volume responsible for the difference in the two cost figures.
b. Do either of the two cost figures cited in preceding part a for casing of Saturation letters include any costs for casing detached address labels ("DALs")? Please explain.
c. Please (i) 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 VP/USPS-T16-31, and (ii) describe the activities and provide the mail volume responsible for the difference in the two cost figures.

Response

Please refer to my response to VP/USPS-T16-29.

VP/USPS-T16-37.
Please refer to USPS-LR-K-67, File LR-K-67_Revised.xls, Worksheet '2.summary TY,' and specifically to lines 77 and 80 showing costs for ECR Basic Auto Letters and ECR Saturation Letters, respectively, with costs before the DAL adjustment in column P and after the adjustment in column S. The spreadsheets cited below may be referred to by their number instead of their full name.
a. Cell B71 of spreadsheet 8 shows the volume of **rural** auto letters to be 890,089, which, when subtracted from cell M77 on spreadsheet 2, suggests a **city** volume of 1,448,110. If the **city** and **rural** costs behind cells N77 and O77, respectively, are expressed relative to their own volume instead of total volume, they become, 2.18 cents (city) and 3.39 cents (rural) (*i.e.*, 2.18 = 1.35 x 2,338,199/1,448,110, and 3.39 = 1.55 x 2,338,199/890,089). This suggests that **rural** delivery costs for these letters, are 1.56 times as much as **city** delivery.
(i) Do you agree with these figures? If you do not, please provide your own analysis of the **rural** vs. **city** cost implications of the figures cited in spreadsheet 2.
(ii) If you find that the figures referenced on spreadsheet 2 need correcting, please do so and provide revised figures.
(iii) Please explain, given the relative volumes involved, what you would expect the relative sizes of the city and rural per-piece cost contributions in cells N77 and O77 on spreadsheet 2 to be.
b. What percentage of ECR Basic automation letter volume and ECR Saturation letter volume, separately for both city and rural carriers, are delivery point sequenced?

Response

a. (i) I do not agree with these figures. The question combines base year volumes with test year costs. For simplicity, I will discuss the relative unit costs in terms of the base year which can be easily translated into the test year.

The ECR Basic Auto base year estimated volumes are 890,089,000 and on 845,687,000 (source workbook LR-K-67_2nd revised worksheet '3CITYECRVOL') on rural and city routes respectively. Volumes on city or rural routes do not need to be derived by subtracting a particular delivery mode from RPW, since the city carrier system and the rural carrier system estimate these volumes directly.

The ECR Basic Auto base year volume variable costs are $30,118 and $26,804 (source workbook LR-K-67_2nd revised worksheet '11.sumBYInOffDalstoFltsPrclCwlk') on rural and city routes respectively. These costs and volumes correspond to ECR Basic Auto unit delivery costs, as you define them, of 3.384 and 3.169 cents on rural and city routes respectively. These unit costs lead to ratio of rural unit costs to city unit costs being 1.07 for the base year.

To convert the base year volumes to test year volumes take the ratio of test year ECR Auto letter volume to base year ECR Auto Volume (2,338,199,000/2,115,099,000) and multiply that number by the corresponding rural and city base year volumes. This calculation gives the test year ECR Auto letter rural and city test year volumes to be 983,976,000 and 934,890,000 respectively for a unit delivery cost of 3.69 and 3.33 cents on rural and city routes respectively which equals a ratio of 1.11 of rural unit delivery cost to city unit delivery cost for the test year rather than the 1.56 as is suggested in the question.

(ii). No corrections to worksheet '2SummaryTY' are necessary.

(iii). Two factors lead me to conclude that the per piece contributions in cells N77 and O77 of worksheet '2SummaryTY' are reasonable. First, rural carriers deliver a higher percentage (42%) of test year volume than city carriers (40%). Secondly, the estimated DPS percentage is lower for ECR Auto on rural routes (55%) than on city routes (76%). The DPS percentage has a significant impact on unit delivery costs. On city routes, a higher DPS percentage reduces casing

costs and on rural it shifts more volume to a compensation category that receives less time per piece than other letters.

b. The requested DPS percentages are the following:

City ECR Basic Auto 76.0%

Rural ECR Basic Auto 54.7%

City ECR Saturation Letters 28.1%

Rural Saturation Letters 24.8%

VP/USPS-T16-38.
Please refer to the Attachment to this interrogatory, derived from USPS-LR-K-67, File LR-K-67_Revised.xls, Worksheet '2.summary TY.'
a. Please confirm that the numbers shown on page 1, columns 3, 4, and 5 have been transcribed correctly.
b. Columns 1 and 2 on page 1 of the attachment have been computed from the ratios shown in the bottom portion of page 2 of the attachment. These ratios are derived from other cost data in the above cited spreadsheet, and shown in the upper portion of page 2 of the attachment. Please confirm that the unit costs for in-office and street work are correct. If you do not confirm, please provide the correct unit costs.
c. After the DAL adjustment, the unit delivery cost of **Saturation letters** is shown to be 3.88 cents (cell S80 in the above-referenced speadsheet) and of **Basic automation letters** to be 2.90 cents (cell P77). Since all **Saturation letters** now must be prebarcoded by the mailer, and therefore present to the Postal Service all processing options provided by **Basic automation letters** plus some others (*e.g.*, taking Saturation letters to the route as sequenced mail), would it be reasonable to expect the unit delivery costs of Saturation letters to be lower than the unit delivery costs of Basic automation letters? Please explain.
d. If all **ECR Saturation letter** mail were to convert to **ECR Basic automation**, do you believe that the Postal Service would save approximately 1.0 cents per piece in delivery costs? Please explain any answer other than an unqualified affirmative.
e. Please refer to column 3 of Attachment to VP/USPS-T16-38, page 1, and, in column 3, to rows 1 and 4, and explain why the total city carrier unit cost for **Saturation letters** (after the DAL adjustment) is $0.0169 greater than the total city carrier unit cost for **Basic automation letters**.
f. Please refer to column 2 of Attachment to VP/USPS-T16-38, page 1, and, in column 3, to rows 4 and 7, and explain why the city carrier street cost for Saturation **letters** (after the DAL adjustment) is $0.0048 greater than the city carrier street cost for Saturation **flats**.

Response

a. Not confirmed. The corrected columns (3), (4), and (5) are in the table below.

Unit Costs for Delivery of ECR Mail

Row	Letters (ECR)	(1) City Carrier In-Office Costs	(2) City Carrier Street Costs	(3) Total City Carrier	(4) Total Rural Carrier	(5) Total
1.	Basic Auto	.0022	.0111	.0133	.0155	.0289
2.	Basic	.0210	.0184	.0394	.0139	.0533
3.	High Density	.0127	.0238	.0365	.0083	.0448
4.	Saturation (w/ DAL Adj)	.0120	.0209	.0330	.0084	.0414
	Flats (ECR)					
5.	Basic	.0199	.0191	.0390	.0224	.0614
6.	High Density	.0103	.0199	.0303	.0158	.0461
7.	Saturation (w/DAL Adj)	.0053	.0188	.0241	.0175	.0416

Source: All data from **LR-K-67_2nd Revised.xls**, Worksheet '2SummaryTY'
Data in columns (3)-(5) for rows 1.-3. from columns N-P, rows 77-79 and 84-85 respectively.
Data in columns (3)-(5) for rows 4. and 7. from columns Q and S rows 80 and 86 respectively.

b. Not confirmed. Please refer to the table in part a.

c. First, as the table in part a. shows, the correct unit costs are 2.89 cents and 4.14 cents for ECR Auto and ECR Saturation letters respectively. Second, my understanding is that not all ECR Saturation letters need to be prebarcoded

as, for example, ECR Saturation letters delivered on a rural route with a simplified address do not require prebarcdoing.

The unit delivery costs for ECR Basic Auto letters and ECR Saturation letters derived within USPS-LR-K-67 are not unreasonable when one considers the following two factors: 1) the relative volume delivered on rural and city routes; and 2) the in-office costs for ECR Basic Auto letters may be understated by IOCS.

The relative test year volume for ECR Basic Auto letters is 42% and 40% respectively for rural and city routes whereas for ECR Saturation letters the relative test year volume (after removing DAL volume) is 12% and 80% for rural and city routes respectively. The much higher relative proportion on city routes, which is generally a more expensive mode than rural on a unit basis, drives the unit costs for ECR Saturation letters higher. In addition, the in-office unit cost for ECR Basic Auto letters is extremely low (0.22 cents per piece) and may be understated by IOCS. For a more detailed explanation of this issue, please refer to the response to POIR No 1. Item 1.

d. I am not sure that the hypothetical posed in the question accurately reflects the implications of my unit delivery cost model. My model derives the unit delivery costs by rate category, given the characteristics and volume of the mail in each category. As such, my models are not designed to estimate the impact of conversion between categories when each category has different characteristics. In addition, the hypothetical you pose shifts approximately four

billion pieces from one rate category to another. It is difficult for me to predict the consequences of a shift of mail volume of this magnitude.

e. First, the correct difference is the unit city cost is 1.97 cents per piece as shown in table 1 in part a. The city unit cost difference can be explained by a couple of factors. First, the relative proportion of ECR Basic Auto delivered on rural and city routes is 42% and 40% respectively but for ECR Saturation letters (after removing DALs) the relative proportions are 12% and 80% for rural and city routes respectively. Therefore, when comparing the city unit costs of the two rate categories one would expect a higher unit cost since a greater proportion of the test year ECR Saturation letter volume is being handled by city carriers. Secondly, the city in-office costs for ECR Basic Auto may be understated. For further explanation on that issue please refer to the response to POIR No. 1 Item 1.

f. First the correct difference in unit street costs is 0.22 cents (as shown in table 1) per piece rather than 0.48 cents per piece as suggested in the question. This can be explained by the different relative proportions delivered on rural and city routes for ECR Saturation letters (removing DAL volume) and ECR Saturation flats (adding DAL volume). For the test year the relative proportions for letters are 12% and 80% as compared to 12% and 58% for flats delivered on rural and city routes respectively. Since a lower percentage of test year ECR Saturation flat shaped pieces are being delivered on city routes, the unit street time costs are lower for flats as compared to letters.

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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