

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

NOTICE OF THE POSTAL SERVICE OF REVISED RESPONSE OF WITNESS
KELLEY TO VALPAK INTERROGATORY (VP/USPS-T16-21) -- ERRATA
(June 23, 2005)

The United States Postal Service hereby provides the revised response of witness Kelley to the following interrogatory of ValPak, filed on May 24, 2005: VP/USPS-T16-21. This answer provides additional information beyond what was filed on June 9, and fully replaces the answer filed then.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 23, 2005

**Revised 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

In FY04, the total volume variable cost of sequenced mail is \$92.5 million. 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 \$92.5 million., which corresponds to the total volume variable costs of \$26.4, \$59.7 and \$6.4 million (small difference due to rounding) in the sequenced cost pool for letters, flats, and small parcels respectively. This process is documented in worksheet '21ECRUnitCosts04.xls' which is part of LR-K-67_2ndrevised.xls.

To get the final distribution (assuming DAL costs are moved to their host pieces) of sequenced costs to letters, flats, and small parcels, two further adjustments need to be made from the allocation described in the preceding paragraph.

First, the costs associated with DALs (so they can be moved to their host pieces) must be derived from the \$26.4 total in the sequenced letter pool. The cost model used to derive unit delivery costs estimates that 50.4 percent of

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NonDPS ECR Saturation letter volume is sequenced. This results in an estimate, applying that percentage to the volume from the city carrier system, that 1,863,243,000 ECR Saturation letters are sequenced. Assuming the same proportion of DALs are sequenced as other NonDPS Saturation letters, then the estimated number of sequenced DALs is 1,056,061,000 (50.4 percent multiplied by DAL estimate of 2,095,359,000). The result of this calculation attributes 57 percent of the sequenced letter cost, \$14.9 million, to DALs which is moved to flats and small parcels.

Secondly, the parcel crosswalk moves \$6.3 million dollars from small parcels to flats. A more thorough explanation of the parcel crosswalk is provided in LR-K-67.doc on page 8, and the actual calculations are contained in LR-K-67_2ndRevised.xls worksheet '22ParcelCrosswalk'. The parcel crosswalk leaves \$111,500 for sequenced small parcels, which is less than 0.05 percent of the sequenced costs associated with sequenced flats and small parcels. As a result, I assumed that all of the \$14.9 million of DAL costs is moved to flats.

The final base year volume variable costs by shape (including DAL adjustment) for sequenced mail is the following, which totals \$92.5 million dollars.

Sequenced letters \$11.4 million

Sequenced flats \$81.0 million (including \$14.9 million from DALs and \$6.3 million from parcel crosswalk)

Sequenced small parcels \$111,500.

The entire \$11.4 million in sequenced letters is attributed to ECR Saturation letters. For flats, the original \$59.7 million plus the \$14.9 million from

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the DAL adjustment is allocated to ECR Saturation flats. The \$6.3 million that is shifted from parcels to flats due to the parcel crosswalk is partitioned amongst the ECR Basic, High Density, and Saturation rate categories by taking the proportion of each rate category to the total RPW ECR Parcel volume (this is done due to the less strict coverage requirements for ECR parcels in the DMM). Applying that methodology to the three rate categories allocates 20.0 percent of the shifted cost allocated to ECR Saturation flats, 79.6 percent to ECR Basic flats and 0.4 percent to ECR High Density flats. This results in \$1,280,000, \$5,000,000, and \$22,300 being distributed to ECR Saturation flats, ECR Basic flats and ECR High Density flats respectively. Those percentages are derived in rows 30 through 90 of column D in worksheet '3.CITYECRVOL' in workbook LR-K-67_2ndRevised.

The remaining \$111,500 in sequenced parcel costs is partitioned in the same manner across ECR parcel rate categories as the crosswalked flats cost in the preceding paragraph. This results in \$22,400, \$88,700, and \$400 allocated to ECR Saturation parcels, ECR Basic parcels, and ECR High Density parcels respectively.

In summary, the \$92.5 million in sequenced costs is allocated in the following manner (including the DAL adjustment) to rate categories.

ECR Saturation letters –	\$11,400,000
ECR Saturation flats -	\$75,900,000
ECR Basic flats -	\$5,000,000
ECR High Density flats -	\$22,300

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ECR Saturation parcels \$22,400

ECR Basic parcels \$88,700

ECR High Density parcels \$ 400

REVISED: JUNE 23, 2005

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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