

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 BRADLEY
TO INTERROGATORIES OF VALPAK (VP/USPS-T14-9 – 10, 12)
(June 23, 2005)

The United States Postal Service hereby provides the responses of witness Bradley to the following interrogatories of ValPak: VP/USPS-T14-9 -10, 12, filed on June 9, 2005. Questions 11 and 14.b were redirected to witness Stevens, questions 13, 14.a, and 14.c-d to witness Kelley.

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

Response of Postal Service Witness Michael D. Bradley
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VP/USPS-T14-9.

Please refer to your testimony (USPS-T-14) where you state at page 58 (ll. 2-3): **Sequenced Mail** is ECR Saturation mail that is delivered by the mailer to the **delivery unit** already prepared, by the mailer, in walk sequence. [Emphasis added.]

a. Did you intend that the term “delivery unit,” as used in this sentence, be limited to Destination Delivery Units (“DDUs”)? If not, please explain.

b. Please define the term “Sequenced Mail” as you use it at this point of your testimony. In particular, please explain whether your definition of “Sequenced Mail” includes ECR Saturation mail that is entered at DDUs, as well as upstream of DDUs — e.g., at SCFs and BMCs, or even entered locally at some originating facility. If your definition excludes ECR Saturation mail that is entered upstream of delivery units, please explain why.

c. Please refer to the response of witness Lewis to VP/USPS-T30-24 and the response of the Postal Service to VP/USPS-T30-28 (redirected from witness Lewis) and indicate whether “Sequenced Mail,” as used in your study of city carrier costs, included any items (other than Saturation mail) that may be taken to the street without prior in-office casing; e.g., High Density ECR mail, or unaddressed periodicals, Standard Mail flats, or Bound Printed Matter accompanied by detached address labels (“DALs”).

d. Please indicate whether “Sequenced Mail,” as used in your study of city carrier costs, included only addressed Saturation mail, or whether it also included Saturation mail with a simplified address.

e. Please indicate whether “Sequenced Mail,” as used in your study of city carrier costs, also included any ECR High Density mail.

RESPONSE:

a. In the CCSTS, the delivery unit is the physical location where the carriers prepare the mail for delivery on the street. The designation “Destination Delivery Unit” was not relevant for the study and thus played no role. The Zip Codes and their associated delivery units were selected following appropriate statistical practice. Please see the testimony of witness Kelley, USPS-T-16, for a discussion of the selection of the Zip Codes.

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- b. Sequenced mail includes mailer prepared full coverage mailings, either letters or flats, which do not require casing. The mail counts taken at the delivery unit make no assumption about where the mail was entered.

- c. Please recall that there are two steps to the calculation of volume variable costs for a city carrier street time cost pool: determination of the variability for the cost pool and then distribution of the costs to classes and subclasses. In the first part of the CCSTS, the determination of the variability of sequenced mail cost pool, the definition of sequenced mail is given by my answer to part b. above. Sequenced mail is mail that includes full coverage mailings, either letters or flats, which do not require casing without regard to class and subclass. In the second part of the cost attribution method the volume variable costs are attributed to products. Currently the CCS does not have a measure distribution key for sequenced mail. Thus, in forming the distribution key, it was assumed that all sequenced mail is ECR mail.

- d. The CCSTS attributes cost to class and subclass of mail. Thus, its finest level of detail is ECR. I am informed that the term "simplified address" is a designation relevant only to rural routes and would not be applicable to a study of city carriers.

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- e. In the CCSTS costs are distributed to class and subclass, so sequenced mail costs are distributed to ECR. In calculating the amount of ECR that occurs in the Sequenced cost pool as opposed to the letter and flat cost pools, it was assumed that all sequenced letter and flat mail was ECR saturation. Sequenced parcels were just assumed to be ECR, so they could include ECR High Density.

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VP/USPS-T14-10.

a. Why do you separately treat “Sequenced Mail” in its own cost pool? (See USPS-T-14, pp. 58-59.) Is it because delivered “third bundles” have different city carrier street time cost characteristics than delivery-point sequenced (“DPS’d”) or cased letters and cased flats?

b. If your answer to the second question in part a is affirmative, please explain whether “Sequenced Mail” in your study included all items that can be (or were) taken directly to the street without prior in-office casing.

Response:

a. As explained in the response to VP/USPS-T14-9, the attribution of city carrier street time costs to classes and subclasses is done in two steps. This two-step approach is known as the “volume variability-distribution key” approach, signifying that in the first step the volume variability is determined, and in the second step a distribution key is used to distribute the volume variable costs to classes and subclasses. In the determination of the volume variability, a cost driver is typically used.¹ In the CCSTS the cost driver is delivered mail by workload measure or, loosely speaking, by “shape.” In Postal Service delivery operations, workload is measured separately for letters, flats, parcels, accountables, collection mail, and sequenced mail. Volumes for each of these categories thus become the cost drivers for the CCSTS. As to why sequenced mail is treated as a separate cost driver, there are two reasons. First, the cost of

¹ For a complete discussion of the volume variability/distribution key approach and the use of cost drivers please see Appendix H to the “Summary Description of USPS Development of Costs By Segments and Components,” filed as Library LR-K-1.

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handling sequenced mail on the street may be different from the cost of handling other types of mail on the street. This may be because the nature of fingering and loading sequenced mail is different or because sequence mail has a different propensity to cause accesses. Second, Postal Service operations personnel do not distinguish between letters and flats when measuring sequenced mail. Thus it is not possible to remap sequenced mail into the letters and flats at the Zip Code level.

b. No. It is my understanding that sequenced mail includes only mailer prepared full coverage mailings that are not cased.

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VP/USPS-T14-12.

a. Did you use the volume variability developed in your recommended regression equation to compute the volume variable cost of "Sequenced Mail" for Base Year 2004?

b. If so, please indicate where in your testimony, or in library references sponsored by you, this calculation can be found.

c. If not, please indicate which witness made this computation, where in the testimony of that witness (or library references sponsored by that witness) the computation of volume variable cost of "Sequenced Mail" for Base Year 2004 can be found, and what that cost is.

Response:

a. No.

b. Not applicable.

c. Witness Meehan. I am informed that the "Sequenced Mail" computation is performed in the B workpapers of Witness Meehan, USPS-T9. I have been told that the library reference is LR-K-5, workbook CS06&7.xls, worksheets 7.0.4.2, cells D20-I20, 7.0.6.5, column F; 7.0.6.6 column F, 7.0.6.7, column F; 7.0.6.8 column F; and 7.0.6.9, column F. I was also told that the inputs that produce these numbers can be found in I-FORMS.xls, worksheet I-CS 6&7 FACTORS NEW, cell C32. Finally, I am informed that the FY 2004 cost is \$92.456 million.

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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