

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-T16-27 - 29)
(June 27, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of MMA, filed on June 13, 2005: MMA/USPS-T16-27-29. An objection to question 26 was filed on June 23.

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 27, 2005

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MMA/USPS-T16-27

Please refer to Library References LR-USPS-K-67 and LR-USPS-K-101.

A. For each of these library references, please indicate whether the costs used to develop the unit delivery costs include costs associated with First Class letters that are not delivered by city or rural carriers (e.g. letters addressed to post office boxes). If there are any such costs, please provide the total costs, the associated volumes, a description of what such costs represent, and the source(s) for the data you provide.

B. If the referenced Library References do not contain any costs or volumes associated with deliveries of First Class letters other than by city or rural carriers, please indicate where the costs and volumes associated with such other delivery activities may be found in the R2005-1 record.

Response

A. Yes, both LR-K-67 and LR-K-101 contain collection costs which include a portion of mail pieces that will not be delivered by city and rural carriers.

However, the volumes (and hence, the costs) of those pieces collected by city and rural carriers that are not delivered via a city and rural carrier are unknown.

B. Not applicable. Please refer to my response to part A.

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MMA/USPS-T16-28

Please refer to your response to Interrogatory MMA/USPS-T16-16 where you revised the TY 2006 unit delivery cost for presorted letters as 10.92 and 2.41 cents for NonDPS and DPS letters, respectively.

A. Please confirm that the comparable costs from Library Reference LR-USPS-K-101 are 3.51 and 0.3 cents for NonDPS and DPS letters, respectively. If you cannot confirm, please explain.

B. Please explain why the Postal Service's new delivery cost methodology would raise the NonDPS unit cost by more than three times, from 3.51 cents to 10.92 cents.

C. Please explain why the Postal Service's new delivery cost methodology would raise the NonDPS unit cost by more than eight times, from .3 cents to 2.41 cents.

D. Please explain why the Postal Service's new delivery cost methodology would more than double the DPS unit savings, from 3.21 cents, (2.41 - 0.30) to 7.41 cents (10.92 - 3.51).

Response

A. Not confirmed. The NonDPS unit cost of 3.5 cents cited in the question is a unit casing cost derived by adjusting the unit casing cost from FY93 to the test year by adjusting the wage rate. The DPS unit cost of 0.3 cents is a unit casing cost derived from the formula in workbook LR-K-101.xls worksheet 'SummaryTY' cell A32 (solving a linear equation). Conversely, the NonDPS and DPS unit costs given in response to MMA/USPS-T16-16 are the total delivery unit costs for NonDPS and DPS letters (including all costs within cost segments 6, 7, and 10) from LR-K-67. LR-K-67 does not explicitly calculate unit casing costs referenced in LR-K-101, and they are not necessary in either methodology to derive the final unit delivery cost. However, my initial thoughts are that the methodology to calculate the unit casing costs for NonDPS and DPS letters utilized in LR-K-101 is adequate and therefore the unit casing costs for DPS and NonDPS letters using LR-K-67 would be identical to those derived in LR-K-101.

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B.-D. Please refer to my response to part A. To further illustrate the point that the two methodologies across cost segments 6, 7, and 10 do not result in drastically different unit delivery costs for presorted letters, refer to 'Table 1' of LR-K-101_Revised.xls and '1Table1' of LR-K-67_2ndrevised.xls, where the unit delivery costs for presorted letters are 3.979 and 3.954 cents using PRC and USPS methodologies respectively.

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MMA/USPS-T16-29

Please compare the unit costs and operational differences between a nonDPSed letter and a DPSed letter. Is there a specific relationship between the carrier route sequencing cost of the two types of letters such that the unit cost for the nonDPSed letter is dependent upon the unit cost for the DPSed letter? If so, please explain that relationship. If not, then would you agree that the unit cost for the nonDPSed letter has **no** relation to the unit cost of the DPSed letter?

Response

In general, First Class Mail pieces that are DPSed do not need to be cased and incur extremely low in-office costs, whereas First Class Mail pieces that are not DPSed need to be sorted by the carrier, through casing, into carrier route sequence and thus incur a nontrivial in-office cost. In addition, the DPSed letters are normally taken out in a separate bundle from the cased pieces.

Please refer to my response to MMA/USPS-T16-16 for a comparison of the unit costs for NonDPS and DPS presorted letters.

I am unsure of the nature of the remaining part of the question. Implicitly, the question seems to be asking whether the unit delivery costs for letters that need to be cased into carrier route sequence in an environment in which no letters arrive in carrier route sequence (i.e., DPS did not exist) would be the same as the unit delivery costs for nonDPS letters in the current environment, in which many letters arrive in carrier route sequence because DPS does exist. I do not know the answer to that question. It seems reasonable to me that the unit costs for NonDPS letters, which would translate to all letters under this scenario, would be different. DPSed letters, 81.85 percent of First Class presort, represent

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such a significant portion of the volume that carriers deliver on a daily basis, that the currently delivery network is designed to account for them. The scenario hypothesized would shift approximately 39 billion pieces from arriving in sequence to needing to be cased before being delivered. It is difficult for me to predict the consequences of a shift of this magnitude, but without more understanding of the implications of this scenario, I'm not sure how to respond as to whether or not there is a relationship between the unit cost of DPS mail and the unit costs of nonDPS mail.

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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