

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

RESPONSE OF POSTAL SERVICE TO INTERROGATORY OF ABA
(ABA&NAPM/USPS-T16-5), REDIRECTED FROM WITNESS KELLEY
(July 1, 2005)

The United States Postal Service hereby provides its response to the following interrogatory of ABA and NAPM, filed on June 17, 2005: ABA&NAPM/USPS-T16-5, which was redirected from witness Kelley.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 1, 2005

Response of the United States Postal Service to Interrogatories Posed by the
American Bankers Association and National Association of Presort Mailers,
Redirected from Witness Kelley

ABA&NAPM/USPS-T16-5.

See the attached update to ABA&NAPM-SRT-1, Workpaper 1 from R2001-1. The table of numbers and the chart display longer term trends in unit delivery costs for First Class single piece and presort letters. Average annual percentage cost changes are computed for two periods, 1992-2006, and 1997-2006.

- a. The presort unit delivery costs are nearly stable (+0.4%) or slightly falling (-1.5%) based on what period is selected. What delivery cost factors associated with worksharing explain this trend, both absolutely and by comparison with the very different cost dynamics for single piece?
- b. The single piece unit delivery costs are rising in both periods, and the more recent period 1997-2006 shows an acceleration. What delivery cost factors explain the faster increase than in presort, and the acceleration since 1997?
- c. The chart shows that unit delivery costs for single piece mail have risen above trend since 2002. Why?
- d. The chart shows that unit delivery costs, after falling for presort between 2003 and 2004, are projected to rise above trend for 2005 and 2006. Why?

Response

- a. The Postal Service has not conducted a study to investigate the trend you refer to in the question.
- b. The Postal Service has not conducted a study to investigate the issue raised in the question.
- c. One plausible explanation for the rise in First Class Single Piece Letter delivery costs since FY2002 is the new cost segment 7 methodology. Please refer to USPS-LR-K-1 (Summary Description) for an explanation of the current manner in which segment 7 costs are allocated to subclasses.
- d. The Postal Service has not conducted a study to investigate the changes referenced in the question. It can be noted, however, that the range of estimates for years FY2002-FY2006 is fairly tight, between 3.11 and 3.24, and it would be difficult under any circumstances to attribute annual variations within such a tight range to particular factors.

**Attachment to ABA&NAPM/USPS-T16-5
First-Class Delivery Unit Attributable Cost
(Cents per Piece)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	1992-2006 Annual Growth Rate	1997-2006 Annual Growth Rate
First Class Mail																	
Single-Piece Letters and Parc Percentage Change	3.86	3.94	4.11	4.24	4.08	3.91	3.95	4.28	4.25	4.47	5.19	5.89	6.01	6.16	6.26	3.5%	5.4%
Presort Letters and Parcels Percentage Change	4.02	3.88	3.93	3.70	3.26	3.12	2.88	3.19	2.83	2.92	3.11	3.22	3.11	3.19	3.24	-1.5%	0.4%
Difference	-0.15	0.06	0.19	0.54	0.82	0.79	1.06	1.09	1.43	1.55	2.08	2.67	2.91	2.98	3.02		
Percentage Change		-137.13%	222.38%	193.68%	50.73%	-3.67%	34.79%	2.02%	31.18%	8.93%	34.07%	28.24%	8.98%	2.29%	1.39%		

Note: First-Class Delivery Unit Attributable Cost = Delivery Cost / Volume.

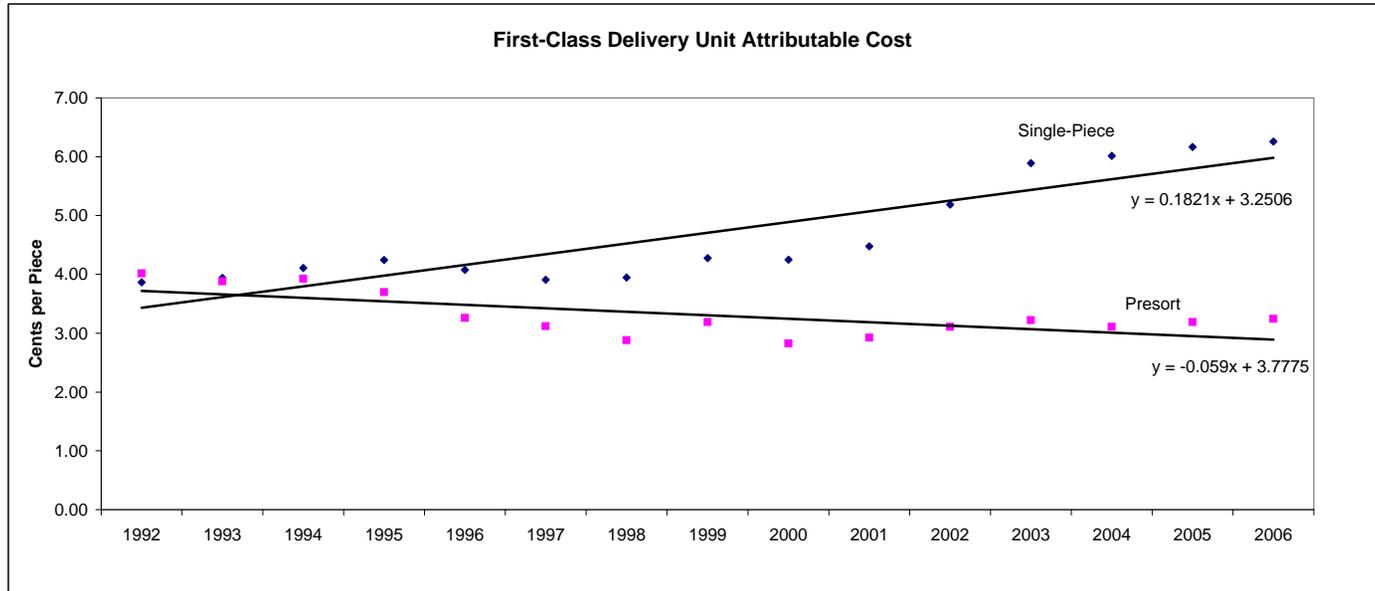
Sources:

Fiscal Years 1992 through 2003: USPS, Cost and Revenue Analysis and Cost Segments and Components.

Base Year 2004: R2005-1, USPS LR-K-4, Cost Segments and Components, C&D Reports; and volume from R2005-1, USPS-T-7, USPS-LR-K-115 Exhibit USPS 7A, Page 1.

Year 2005 and Test Year 2006 After Rates: R2005-1, USPS-T-10, Cost Segments and Components, C&D Reports; and volume from R2005-1, USPS-T-7, USPS-LR-K-115 Exhibit USPS 7A, Page 1.

Direct Labor for City and Rural Carrier Unit variable Costs are from Cost Segment 6, 7 & 10.



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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