

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 WITNESS KELLEY
TO INTERROGATORIES OF GCA (GCAA/USPS-T16-1 – 2)
(July 1, 2005)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of GCA, filed on June 17, 2005: GCA/USPS-T16-1 – 2.

Each 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 Witness John Kelley to Interrogatories Posed by the Greeting Card Association

GCA/USPS-T16-1.

In response to MMA/USPS-T-16-2. b. , you state that USPS unit single piece delivery costs for [CRA-defined] cost segment 7 are 52.7% higher than using the PRC method. Please explain in unit cost amounts which specific factor accounts for which unit cost incremental difference underlying the 7.188 cents – 5.844 cents = 1.344 cent total cent difference, e.g. .3 cents of the difference is due to different distribution keys, .2 cents is due to different volume variabilities, etc.

Response

The revised difference in unit delivery costs is 1.405 cents (7.189 cents for single piece with USPS methodology and 5.784 cents with PRC methodology).

The unit delivery cost difference translates into a total volume variable cost difference of \$547.4 million dollars in test year delivery costs between the two methodologies.

The difference is primarily due to the higher volume variable costs in cost segment 7 for First Class Single Piece Letters (subclass level) with the current USPS methodology as compared with the PRC methodology. To further illustrate this point, please refer to the table submitted with the response to MMA/USPS-T16-2b. It shows that the difference in segment 7 volume variable costs between the two methodologies is \$406 million which, after applying the appropriate base year piggyback factors for each methodology, results in \$493 million more in segment 7 volume variable base year costs attributed to the First Class Single Piece Letters (subclass level) using the USPS methodology as compared to the PRC methodology. Updating the costs in the table as part of my response to MMA/USPS-T16-2b to the test year gives a difference of approximately \$620 million at the First Class Single Piece Letter (subclass level). Multiplying the \$620 million by 90 percent to derive the First Class single piece

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(letter shaped) difference in city street time volume variable costs between the two methods is approximately \$560 million or 1.44 cents per piece which essentially equals the difference (1.41 cents) in the unit delivery costs between the USPS and PRC methods of deriving those unit costs.

In summary, my understanding is that the higher proportion of segment 7 volume variable costs allocated to First Class Single Piece letter shaped pieces with the USPS methodology largely explains the differential in unit delivery costs between the two methods. My understanding is that the principal reason that the volume variable costs are higher for First Class Single Piece Letters (subclass) is due to the higher volume variable collection costs from customer boxes that result from the USPS cost segment 7 methodology. My understanding is that the variability factor applied to the delivery costs (which represents 72.3 percent of the accrued street costs) is 8.8 percent as compared with the variability (on a different total which represented 25.3 percent of the accrued street cost) of 1.6 percent with the PRC methodology. Please refer to my response to MMA/USPS-T16-13 for further explanation of the location and magnitude of the collection costs in LR-K-67.

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GCA/USPS-T16-2.

In response to MMA/USPS-T-16-2. b. , you state that the USPS costs for cost segment 7 utilizes a 31.0% distribution key for FCLM while the Commission utilizes a 21% distribution key. What accounts for the different distribution key assumptions?

Response

The percentages referenced in the question are not assumptions, they are derived by taking the ratio of segment 7 volume variable costs for single piece letters (subclass level) to the total segment 7 volume variable costs for all subclasses for the USPS and PRC methods. The different relative proportions that result are directly related to the manner by which each method allocates segment 7 accrued costs to volume variable costs by subclass, but those details are beyond the scope of my testimony.

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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