

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 ABA (ABA&NAPM/USPS-T16-6-12, 15-17)
(July 1, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of ABA and NAPM, filed on June 17, 2005: ABA&NAPM/USPS-T16-6-12, 15-17. The following interrogatories have been redirected: ABA&NAPM/USPS-T16-5 has been redirected to the Postal Service and ABA&NAPM/USPS-T16-13-14 have been redirected to witness Abdirahman,

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 Postal Service Witness John Kelley to Interrogatories Posed by the American Bankers Association and National Association of Presort Mailers

ABA&NAPM/USPS-T16-6.

In your answer to ABA&NAPM/USPS-T16-1, you state that “The unit delivery costs are lower for BMM since it has a higher DPS percentage than either automation mixed AADC letters or automation AADC letters.

- a. Please confirm that you have no direct DPS percentage measurements for BMM letters or for single piece metered letters, only a proxy from one of eight non-automation presort breakouts.
- b. Please confirm that BMM is not a presort category in the sense in which the Postal Service uses the term “presort”.
- c. Please confirm that the 3.929 cent non-automation presort machinable mixed AADC unit cost you use as a proxy for BMM could as well have been the same 3.929 cent non-automation presort machinable AADC. Why did you use the mixed category as your BMM proxy?
- d. Please confirm that the DPS percentage for non-auto machinable AADC FCLM is 82.14% and for automation AADC mail is 82.02%.
- e. Please confirm that there is not any statistically significant difference between these DPS percentages. If you do not confirm, please submit all necessary statistical test results that prove there is a statistically significant difference between the two DPS percentages.

Response

- a. It can be confirmed that I do not have a direct DPS percentage measurement for BMM letters or for single piece metered letters. I obtain DPS percentages from witness Abdirahman (USPS-T-21).
- b. Confirmed. Please refer to the response to ABA&NAPM/USPS-T16-13b.
- c. Please refer to the responses to ABA&NAPM/USPS-T16-13b.
- d. Confirmed.
- e. I do not know. I agree the difference is small and my understanding is that the DPS percentages are estimates. However, without the specific variances associated with each figure, I cannot determine whether the difference is statistically significant.

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ABA&NAPM/USPS-T16-7.

In your response to ABA&NAPM/USPS-T16-4, you state that “No activities on the DIOSS technology were considered in the derivation of the delivery costs in LR-K-67.”

- a. Please confirm that the DIOSS technology is already operational and in the field.
- b. Please confirm that according to the “2004 Comprehensive Statement on Postal Operations” DIOSS improvements were made to 346 mail processing centers in 2004 (see page 40).
- c. Please confirm from the same report, page 41, that about half of the 1,632 additional DBCS stacker modules for which funding was approved in 2004 were deployed in 2004.
- d. Would you agree that the changes described in b. and c. affect TY2006 unit costs for FCLM single piece and presort?
- e. Would you agree that the changes described in b. and c., had they been incorporated into TY2006 mail processing and delivery costs combined for FCLM likely would have reduced those costs relative to what appears in your rate case estimates as filed?
- f. Please provide estimates using engineering study information associated with the deployment of DIOSS and quad DBCS stacker modules of the degree to which your TY2006 mail processing and delivery costs are too high, either as a percentage of those unit costs as filed or in absolute unit costs for all FCLM rate categories.
- g. Please also state how these adjustments to reflect technology already widely distributed but not used as the basis for costs in this case impact the TY2006 total revenue requirement.
- h. Would your failure to incorporate DIOSS and quad stack module productivities in your TY2006 costs explain why these costs appear to be moving above trend as shown in the chart accompanying ABA&NAPM/USPS-T16-5 above?

Response

- a. Confirmed.
- b. Not confirmed. It is my understanding that while the Comprehensive Statements says that improvements were made in 346 mail processing centers, it does not indicated that all of those improvements specifically involved DIOSS.
- c. Confirmed
- d. I presume you are referring to unit delivery costs. I do not know. If the deployment of the equipment increases the overall DPS percentage for presorted

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letters, than it may lower the unit delivery cost. However, another important component in calculating the unit delivery cost is the relative proportion of volume delivered on city and rural routes. Without that information I cannot predict how the deployment of the equipment will affect the unit delivery costs.

e. I don't know. Please refer to my answer to part d.

f. I am not aware of any engineering studies available that would answer your question.

g. I do not know. The question is outside the scope of my testimony which was to update unit delivery costs by rate category for First Class Mail and Standard Mail for the test year.

h. I do not know. The question is outside the scope of my testimony which was to update unit delivery costs by rate category for First Class Mail and Standard Mail for the test year.

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ABA&NAPM/USPS-T16-8.

In response to MMA/USPS-T-16-2. b., you state that the USPS volume variability for cost segment 6 is 82.4%, and for cost segment 7 is 36.8%. Please list the factors associated with and explain fully what accounts for the non-volume variable costs in each cost segment.

Response

For a complete explanation of the volume variable costs contained in cost segments 6 and 7 please refer to USPS-LR-K-1 pages 6-1 through 6-4 (cost segment 6) and pages 7-1 through 7-6 (cost segment 7).

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ABA&NAPM/USPS-T16-9.

Please refer to your testimony page 7 lines 19-20. You state “The USPS version utilizes more consistent and justifiable methods to calculate delivery costs by rate category than previous efforts.” Please explain in what way(s) USPS methodology is “more consistent” as compared to PRC. Please provide any studies that you or others may have conducted that justify this statement. Or textbooks and professional articles which demonstrate your methods are more consistent and justifiable than previous efforts.

Response

The quotation from my testimony referenced in the first line of the question is not intended to be a comparison of USPS and PRC methodologies. It is a comparison between the current USPS methodology (Docket No. R2005-1/LR-K-67) and the previous USPS methodology (Docket No. R2001-1/LR-J-117).

Please refer to my testimony page 7 line 6 for further discussion on this issue.

I am unaware of any studies or professional articles that compare the derivation of unit delivery costs by rate category using the current USPS methodology with the previous USPS methodology.

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ABA&NAPM/USPS-T16-10.

Please refer to your testimony page 10 lines 7-9. You state that “There are a variety of methods of allocating a fixed sample size amongst defined strata. Neyman allocation was utilized...” Please explain why you chose Neyman methodology as opposed to any other allocation methodology.

Response

Neyman allocation was utilized since it allocates the sample to each stratum in a manner that minimizes the variance on the estimated mean¹.

¹ Cochran, William G. Sampling Techniques 3rd Edition.(John Wiley and Sons, 1977), p98.

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ABA&NAPM/USPS-T16-11.

Please refer to USPS LR-K-67, and USPS LR-J-117. Please confirm that cost segment 7.1 in LR-K-67 corresponds to the sum of cost segments 7.1, 7.3, and 7.4 in LR-I-117. If not confirmed, please provide the corresponding crosswalk.

Response

Not confirmed. My understanding is there is no direct crosswalk between cost segment 7 from LR-J-117 to LR-K-67. Please refer to the Chapter 7 from respective Summary Descriptions (USPS-LR-J-1, USPS-LR-K-1) for a description of the separate components of cost segment 7 costs. In LR-K-67, references to 7.1 costs (e.g. worksheet '2SUMMARYTY' column G) correspond to 7.2 costs in USPS-LR-K-1 and references to 7.2 costs (e.g. '2SUMMARYTY' column H) correspond to 7.3 costs in USPS-LR-K-1. The 7.1 costs from USPS-LR-K-1 are not included in LR-K-67, since they are institutional costs associated with network travel, as explained on page 7-3 of the Summary Description.

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ABA&NAPM/USPS-T16-12

Please refer to USPS LR-K-67, Excel sheet "2.summary TY" column C, 6.1 Unit Cost. Please explain why, unlike the corresponding table from R2001-1, there are no unit costs for "Nonautomation -- Nonmach Mixed ADC," "Nonautomation -- Nonmach, Nonmach ADC," "Nonautomation -- Nonmach 3-Digit," and "Nonautomation -- Nonmach 5- Digit." If an oversight, please provide a corrected page with the unit cost figures.

Response

This is an oversight. The missing unit costs can be found by adding the costs from columns D and E from the corresponding row and dividing by the test year volume (column M corresponding row) for that rate category. It is worth noting that these unit costs are not necessary to derive the unit delivery costs in 'Table 1' of LR-K-67_2ndrevised.xls. Below are the formulas and the unit costs for the categories you requested. All cell references refer to cells contained within LR-K-67_2ndRevised.xls worksheet '2SummaryTY'.

Category	Formula	Result
Nonautomation – Nonmach Mixed ADC	$\frac{D11 + E11}{M11}$.0438
Nonautomation – Nonmach ADC	$\frac{D12 + E12}{M12}$.0438
Nonautomation – Nonmach 3 digit	$\frac{D15 + E15}{M15}$.0438
Nonautomation – Nonmach 5 digit	$\frac{D15 + E15}{M15}$.0438

They all calculate to the same value because the DPS percentage for each of the four rate categories is the same. Please refer to my response to MMA/USPS-

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T16-18 for an explanation of the manner in which the in-office costs are allocated
to rate categories.

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ABA&NAPM/USPS-T16-15.

As between R2001-1 and R2005-1, the shares of various delivery cost segments as a percent of total unit delivery costs appears to have shifted, specifically out of C. S. 6.1 and into C. S. 7.1. While this is not true for all rate categories, it is true for about 2/3 of them.

- a. Is this one result of the use of the new delivery cost study? If so, please explain what elements of that study have caused this shift.
- b. If your answer to a. is "No.", please explain what other factors have caused this shift, such as increased DPS, increased use of DIOSS and quad stacker modules, etc.

Response

a. My understanding is that the current USPS cost segment 7 methodology has different cost pools and variability factors than the one utilized in R2001-1 has different cost pools and variabilities. The resulting effect of the different costs pools and variability factors is that a larger proportion of cost segment 7 accrued costs are considered volume variable.

To further illustrate this point, in FY2000 (base year for R2001-1) approximately 29 (2.6/9) percent of the accrued costs were considered volume variable as compared to FY2004 approximately 37 percent (3.8/10.3) of the accrued costs are considered volume variable.

The increase in the percentage of cost segment 7 costs that are considered volume variable results in a shift mentioned in the question since volume variable cost segment 6 costs (3.7 billion in FY2000 and 3.9 billion in FY2004) have not varied greatly from FY2000 to FY2004.

b. Please refer to my response to part a.

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ABA&NAPM/USPS-T16-16.

Please explain what c. s. 6.1 “in office direct labor non-casing” activities are, and please differentiate such activities from C. S. 7.1 activities.

Response

In terms of cost segment 6.1, please refer to my response to VP/USPS-T16-23.

Cost segment 7.1 activities are fully explained in USPS-LR-K-1, although please note that what are referred to in USPS-LR-K-67 as 7.1 activities correspond to what are described as cost segment 7.2 activities in USPS-LR-K-1.

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ABA&NAPM/USPS-T16-17.

- a. Would you agree that the greater the degree of worksharing in FCLM, the greater the proportion of delivery cost savings in the total worksharing savings, and the less the proportion of mail processing cost savings?
- b. In light of your answer to a., is the reason an extremely low cost proxy is used as the benchmark against which workshared delivery cost savings are measured to dampen the magnitude of those savings? If your answer is anything other than an unqualified "Yes", please explain fully.
- c. Please provide the unit delivery cost for non-automation presort letters as a whole for this case, on the same methodological basis as it was provided in R2000-1, where its value was 5.479276 cents.
- d. Please provide the FCLM unit delivery cost for "Auto Basic Letters" as a whole for this case as well as for R2001-1, on the same methodological basis as it was provided in R2000-1, where its value was 4.319397 cents.

Response

- a. I do not know. My task was to update the unit delivery costs by rate category, which does not involve considering mail processing cost savings.
- b. Please refer to my response to part a.
- c. I am not sure how those were calculated in R2000-1. Logically, it seems as though it would just be a weighted average (by test year volume) of the unit costs of the eight non-automation presort categories. Applying the calculation to the current USPS (LR-K-67) unit delivery methodology derives a unit delivery cost of 6.94 cents per piece, and with the PRC methodology, the unit delivery costs is 6.47 cents per piece.
- d. I am unsure as to the specific rate category or aggregation of rate categories that you are referring to in the question. The unit delivery costs for First Class auto presort letters that I calculate using the R2001-1 methodology

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and the USPS and PRC methodologies from R2005-1 are 3.99 cents, 3.82 cents,
3.87 cents for the R2001-1, USPS R2005-1 (LR-K-67), and the PRC R2005-1
(USPS-LR-K-101) methodologies, respectively.

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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