

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 THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF MMA (MMA/USPS-14 -15)  
(August 25, 2005)

The United States Postal Service hereby provides its responses to the following interrogatories of MMA, filed on August 11, 2005: MMA/USPS-14 - 15. These responses are provided notwithstanding the Postal Service's view that the questions are untimely, as explained in the Postal Service's Objection filed on August 22.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 25, 2005

## **RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF MMA**

### **MMA/USPS-14**

Please refer to Library Reference MMA-LR-1, page 1, where the collection costs are summarized for BY 2004 and TY 2006 using the Commission's and newly proposed USPS cost attribution methodologies for city delivery carriers.

- A. Please confirm that BY 2004 collection costs are \$752 million higher using the Postal Service's methodology (\$904 million) than using the Commission methodology (\$152 million). If you cannot confirm, please explain.
- B. Please confirm that TY 2006 collection costs are \$717 million higher using the Postal Service's methodology (\$910 million) than using the Commission methodology (\$193 million). If you cannot confirm, please explain.
- C. Please explain precisely why the collection costs using the Postal Service's newly proposed methodology are so much higher than the collection costs using the Commission's methodology.
- D. Please explain precisely how collection costs are defined under (1) the Postal Service's methodology and (2) the Commission's methodology, and state precisely where these definitions differ.
- E. Please explain why the collection costs increase 26.4% (\$193 million vs. \$152 million) between BY 2004 and TY 2006 under the Commission's methodology, but increase only 0.6% (\$910 million vs. \$904 million) under the Postal Service's methodology.

### **RESPONSE:**

A. It can be confirmed that, using the version of USPS-LR-K-101 as revised on June 17, 2005, and applying the methodology defined by witness Schenk in the last case for segregating collection costs, the results shown in MMA-LR-1 yield an estimate of the difference between USPS and PRC base year collection costs as stated in the question. (Although not specified in the question, all of the figures cited pertain to First-Class Single Piece Letters.) It should be noted, however, that closer review reveals that the June 17 revision of USPS-LR-K-101 contained a relevant cell referencing error, and that witness Schenk's R2001-1

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methodology omitted relevant portions of collection costs. The details of these errors, and the steps needed to rectify them, are discussed in the attachment to this response. As indicated in that attachment, correcting these errors results in non-trivial increases in the PRC version base year collection costs, and therefore, a decrease in the difference between the USPS and PRC base year collection costs. Nevertheless, the big picture story is the same, as USPS version base year collection costs (\$904 million) are still, as suggested by your question, substantially larger than the (corrected) PRC version costs (\$252 million).

B. It can be confirmed that, using the version of USPS-LR-K-101 as revised on June 17, 2005, and applying the methodology defined by witness Schenk in the last case for segregating collection costs, the results shown in MMA-LR-1 yield an estimate of the difference between USPS and PRC test year collection costs as stated in the question. It should be noted, however, that closer review reveals that witness Schenk's R2001-1 methodology omitted relevant portions of collection costs. The details of this problem, and the steps needed to rectify it, are discussed in the attachment to this response. As indicated in that attachment, correcting this error results in non-trivial increases in the PRC version test year collection costs, and therefore, a decrease in the difference between the USPS and PRC test year collection costs. Nevertheless, the big picture story is the same, as USPS version base year collection costs (\$910 million) are still, as suggested by your question, substantially larger than the (corrected) PRC version costs (\$253 million).

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C. The reason that the collection costs derived with the Postal Service's new methodology are higher than collection costs derived from the old methodology is the fact that the Postal Service employs a more comprehensive and more recent approach to estimating collection costs. The Postal Service's new methodology is "system wide" in the sense it includes all possible channels of causation from collection volume to cost. Specifically, the old methodology is limited to looking at additional load time caused by collection mail, but the new methodology includes both additional access and running time. Because the new methodology looks at all delivery time, it takes a broader view of the possible linkages between collection mail and cost. Similarly, the new approach includes the cost associated with collecting mail at stops that are not receiving mail. In the old LTV study, only stops that were already receiving mail were included, and that study could not look at the possibility that additional volume caused additional stops. In the case of collection, the LTV study did not account for the possibility that collection mail could cause a city carrier to stop where he or she otherwise would not. The new approach includes that cost channel.

Not surprisingly, the new approach leads to a higher amount of volume variable cost being attributed to collection mail. Another possible reason for the change is the fact that the existing study is so dated. It is impossible to know whether the observed change in variability is simply a product of the improved costing procedure, or whether there have also been material changes in carrier operations and/or customer practices (e.g., more mail left in customer mailboxes) since the data were collected for the earlier study in the 1980s.

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Finally, another possibility is that the new approach improves the estimation of the variability coefficients. The improvement in the estimation procedures is quite discernible, with much better goodness-of-fit measures generated by the recommended new regular delivery model, as compared with the old load time equations. For example, the established-methodology's SDR load-time regression, which is used to find the primary collection variability, has an R-Square coefficient of only 0.353, and an unusually large coefficient of variation (i.e., ratio of root mean square error to dependent variable mean) equal to 110.9 percent. In contrast, the R-Square coefficient of the regular-delivery regression used to derive the current elasticity of regular delivery time with respect to collections at customer mail boxes is much higher, at 0.818, and the coefficient of variation of this regression is much lower, at only 29.8 percent.

D. The definition of city-route collection costs is the same under both methodologies. Collection costs consist of (1) the costs of time spent by special-purpose route carriers collecting mail from blue street-collection boxes, (2) the costs of time spent by letter-route carriers collecting mail from blue street-collection boxes, and (3) the costs of time spent by letter-route carriers collecting mail at customer delivery points. The two methodologies differ in terms of how they measure and distribute these costs to mail classes and subclasses.

E. As noted above, the June 17 revision to LR-K-101 contains a cell referencing error. That error affected the base year, but not the test year. As shown in the attachment to this response, when the base year error is fixed, the circumstances described in this question are no longer applicable. The

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percentage changes between BY and TY collection costs are now comparable in the USPS and PRC versions.

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**ATTACHMENT TO RESPONSE TO MMA/USPS-14**

While the results shown in Library Reference MMA-LR-1 are correct in terms of general orders of magnitude, there are two known exogenous sources of error that impede the complete accuracy of those results. Those are discussed below, with appropriate reference to attached electronic spreadsheets. Also discussed is further detail on the difference between collection costs estimates from the new (USPS) and the old (PRC) methodologies, with similar references to the attached electronic spreadsheets.

**Base Year Error Carried Over from Revised LR-K-101**

First, the \$431,721,000 in cell E11 of sheet 'City Car Costs' in MMA-LR-1 is too low because of an incorrect reference in cell I8 of the 'Summary BY' sheet in "LR-K-101\_Revised.xls". Cell I8 should refer to cell L11, not cell K11, in sheet 'Support Distribution' of "CS06&7.K101.xls". Correcting this reference increases cell I8 from \$25,717,000 to \$272,342,000, and increases cell I4 in the 'Summary BY' sheet in "LR-K-101\_Revised.xls" by \$199,699,000, from \$20,824,000 to \$220,523,000. These corrections are shown in column I of the attached "LR-K-101\_Revised\_Summary BY.xls". The \$199,699,000 increase in cell I4 of 'Summary BY' also increases the \$431,721,000 in cell E11 of 'City Car Costs' by \$199,699,000, producing a corrected total of \$631,419,000. This correction is shown in cell G11 of the new column G in 'City Car Costs' in "MMA-LR-1\_Analysis\_of\_Collection\_Costs.Revised for MMA 14.xls".

The Base Year error that caused cell E11 in 'City Car Costs' to be too low by \$199,699,000 was not, however, repeated for the Test Year. Cells I9 and I5 in the 'Summary TY' sheet of "LR-K-101\_Revised.xls" correctly report Test Year total First-Class single piece Street Support and letter-shape single piece Street Support costs of \$268,423,000 and \$217,296,000, respectively. This \$217,296,000 plus the other street-time costs in cells F5 – H5 of 'Summary TY' equal the correct TY 2006 Segment 7 total of \$619,923,000 shown in cells F11 and H11 of 'City Car Costs' in "MMA-LR-1\_Analysis\_of\_Collection\_Costs.Revised for MMA 14.xls".

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### Base Year Error Carried Over from Witness Schenk

The second MMA-LR-1 error is its application of the methodology Witness Schenk used in response to R2001-1 MMA/USPS-T42-18(A) to calculate First-Class single piece city collection costs. Part d of this response defines “% Collection Costs” as the sum of collection costs in cells C12, D12, M12, P12, S12, and T12 in worksheet 7.0.3 of CS06&7.xls divided by the sum of cells E11, F11, and G11 in worksheet ‘Outputs to CRA’. Part d defines “% Delivery Costs for Cost Segment 7” as 1 minus this “% Collection Costs”. MMA-LR-1 uses these definitions to calculate a BY 2004 total First-Class single piece Collection cost of \$75,818,000 in cell E14 of ‘City Car Costs’, and “% Collection” and “% Delivery” percentages of 15.16% and 84.84%, respectively, in cells E16 and E13.

These cell E13, E14, and E16 costs and percentages are incorrect, because collection cost defined as the sum of cells C12, D12, M12, P12, S12, and T12 in worksheet 7.0.3 fail to include the collection portions of the SDR, MDR, and BAM load-time costs in cells G12, H12, and I12 of that worksheet. For BY 2004, these cell G12 - I12 collection costs, which are costs of collecting First-Class single piece mail at customer delivery points, equal the cell G11 costs in sheets ‘7.0.6.5,’ 7.0.6.6,’ and ‘7.0.6.7’ of the PRC-version CS06&7.xls. They sum to a total of \$38,010,000. Adding this \$38,010,000 to the \$75,818,000 in cell E14 of ‘City Car Costs’ increases the BY 2004 city collection cost to the correct \$113,827,000 shown in cell G14 of ‘City Car Costs’ in “MMA-LR-1\_Analysis\_of\_Collection\_Costs.Revised for MMA 14.xls”. Moreover, this increase causes the “% Collection Cost” to increase to 22.76%, the ‘% Delivery Cost’ to fall to 77.24%, and the total BY 2004 city collection cost to increase to \$185,314,000, as shown in cells column G of this ‘City Car Costs’ worksheet. Finally, at this higher total city collection cost, the BY 2004 “PRC Current Methodology” BY 2004 total collection cost increases to \$251,636,000, as shown in cell C6 of the ‘Summary’ sheet and cell C26 of the ‘Cover’ sheet in “MMA-LR-1\_Analysis\_of\_Collection\_Costs.Revised for MMA 14.xls”. Therefore, the total

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BY 2004 collection cost is now \$653 million higher (not \$752 million higher) using the Postal Service's methodology (\$904 million) than using the Commission methodology.

### Test Year Error Carried Over from Witness Schenk

The second of the two errors identified above -- the failure to include costs of collections at SDR, MDR, and BAM delivery points -- affects the Test Year as well as Base Year calculations. 84.84% is too high for the Test Year "% Delivery Costs," just as it was for the Base Year, and 77.24% is the correct "% Delivery Costs" for both years. At this 77.24%, cell H30 of 'City Car Costs' in "MMA-LR-1\_Analysis\_of\_Collection\_Costs.Revised for MMA 14.xls" calculates a TY06 city collection cost of \$184,545,000, instead of \$123,893,000, and this \$184,545,000 increases the TY 2006 "PRC Current Methodology" value to the correct grand total collection cost of \$253,158,000, as shown in cell C7 of the 'Summary' sheet, and cell C27 of the 'Cover' sheet. The total TY 2006 collection cost is thus \$657 million higher (not \$717 million higher) using the Postal Service's methodology (\$910 million) than it is using the Commission methodology.

### Comparison of Old and New Versions of Collection Costs

The reason that collection costs derived from the Postal Service's new methodology are higher than collection costs derived from the previous methodology is the new, much higher estimate of the costs of collections at customer delivery points. The existing methodology BY 2004 estimate of the cost of collecting First-Class single piece mail at customer delivery points is \$38,010,000. In contrast, the Postal Service's new estimate is \$587,282,000, which equals the sum of cells G11 in sheets '7.0.6.5,' '7.0.6.6,' '7.0.6.7,' '7.0.6.8' and '7.0.6.9' of the USPS-version BY 2004 CS06&7.xls.

The details of this result are shown in the new worksheet 'PRC-USPS BY04 City' in "MMA-LR-1\_Analysis\_of\_Collection\_Costs.Revised for MMA 14.xls". Column B of this new sheet shows the PRC elasticities of SDR, MDR, and BAM load times with respect to collections at customer deliveries.

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Multiplication of each elasticity by the accrued load-time cost defines the SDR, MDR, and BAM volume-variable collection costs, which sum to \$40,506,000 in cell B11, which, in turn, equals 1.62% of the \$2,495,604,000 total accrued load-time cost. The PRC-Version CS06&7 distributes \$38,010,000 of this \$40,506,000 to First-Class single piece.

In contrast to the \$2,495,604,000 PRC accrued cost, the relevant USPS accrued cost is the \$7,111,994,000 total delivery-time cost (cell C10). The USPS total volume-variable cost of collections at customer deliveries equals this \$7,111,994,000 times the 8.8% elasticity. Of the resulting \$625,855,000, \$587,282,000 is distributed to First-Class single piece (cell C13).

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**MMA/USPS-15**

The following cost data are taken directly from Library References USPS-LR-K-3 and USPS-LR-K-94 for BY 2004.

**City Carrier Delivery Costs for BY 2004 Using the USPS and PRC  
Cost Attribution Methodologies  
(\$ 000's)**

<b>Cost Category</b>	<b>Rate Category</b>	<b>USPS Methodology</b>	<b>PRC Methodology</b>	<b>USPS-PRC</b>
Segment 6 (In-Office)	Single Piece	1,231,576	1,143,214	88,362
Segment 6 (In-Office)	Workshare	566,736	522,968	43,768
Segment 6 (In-Office)	First Class	1,798,312	1,666,182	132,130
Segment 6 (In-Office)	All Other	2,071,648	1,922,576	149,072
Segment 6 (In-Office)	Total	3,869,960	3,588,758	281,202
Segment 7 (Delivery)	Single Piece	1,044,816	500,222	544,594
Segment 7 (Delivery)	Workshare	552,395	483,177	69,218
Segment 7 (Delivery)	First Class	1,597,211	983,399	613,812
Segment 7 (Delivery)	All Other	1,773,951	1,650,190	123,761
Segment 7 (Delivery)	Total	3,371,162	2,633,589	737,573
Segment 7 (Support)	Single Piece	134,689	272,342	(137,653)
Segment 7 (Support)	Workshare	67,279	170,113	(102,834)
Segment 7 (Support)	First Class	201,968	442,455	(240,487)
Segment 7 (Support)	All Other	235,152	604,645	(369,493)
Segment 7 (Support)	Total	437,120	1,047,100	(609,980)
Segment 7 (Total)	Single Piece	1,179,505	772,564	406,941
Segment 7 (Total)	Workshare	619,674	653,290	(33,616)
Segment 7 (Total)	First Class	1,799,179	1,425,854	373,325
Segment 7 (Total)	All Other	2,009,103	2,254,835	(245,732)
Segment 7 (Total)	Total	3,808,282	3,680,689	127,593
Total City Carrier Delivery Costs	Single Piece	2,411,081	1,915,778	495,303
Total City Carrier Delivery Costs	Workshare	1,186,410	1,176,258	10,152
Total City Carrier Delivery Costs	First Class	3,597,491	3,092,036	505,455
Total City Carrier Delivery Costs	All Other	4,080,751	4,177,411	(96,660)
Total City Carrier Delivery Costs	Total	7,678,242	7,269,447	408,795

- A. Please confirm that the data in the table above are correct. If they are not correct, please reproduce the table with the correct data.
- B. Please explain why, as a result of implementing the Postal Service's methodology, Segment 6 (In-Office) attributable costs increase by \$281 million and why First-Class letters constitutes 47% of that total.

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- C. Please explain why, as a result of implementing the Postal Service's methodology, Segment 7 (Delivery) attributable costs increase by \$738 million and why First-Class letters constitutes 83% of that total.
- D. Please explain why, as a result of implementing the Postal Service's methodology, Segment 7 (Support) attributable costs decrease by \$610 million and why First-Class letters constitutes 39% of that total.
- E. Please explain why, as a result of implementing the Postal Service's methodology, Segments 6 and 7, Total City Carrier Delivery attributable costs increase by \$409 million, and why these costs increase by \$505 million for First Class while they decrease by \$97 million for all other categories of mail.
- F. Please explain why \$505 million of Segments 6 and 7, Total City Carrier Delivery Costs, which were heretofore deemed to be institutional costs, are now deemed to be attributable to First-Class, as a result of implementing the Postal Service's methodology.
- G. Please explain why \$97 million of Segments 6 and 7, Total City Carrier Delivery Costs, which were heretofore deemed to be attributable to all categories other than First-Class letters, are now deemed to be institutional, as a result of implementing the Postal Service's methodology.

**RESPONSE:**

Before proceeding to the specific questions posed, it is necessary to clarify the context. As Prof. Bradley describes in his testimony (USPS-T-14), the Postal Service has developed and implemented an entirely new approach to the attribution and distribution of city carrier costs. Prof. Bradley identifies and discusses deficiencies in the established methodology, and explains why the proposed new approach constitutes a substantial improvement over the outdated and fragmented approach relied upon previously. Both the established methodology and the proposed methodology start with the same total accrued costs in Cost Segments 6 and 7. Beyond that, those total costs are partitioned into different cost pools, and different modes of analysis are employed. It is therefore difficult, if not impossible, to explain exactly why

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each specific result is different by an observed magnitude, in an observed direction. In every instance, an obviously tautological response could be provided by simply indicating that the different results are the product of different inputs and different methodologies.

Part of the difficulty in this exercise is its simplistic focus on specific results, intentionally selected from a broader set of results to create particular impressions or misimpressions. The development of the Postal Service's approach, however, was as described at pages 11-14 of Prof. Bradley's testimony. As he stated, the goals of the study, set before it was begun, were "to produce accurate measurements of volume variable street time costs per class and subclass and to build a cost structure that provides reliable costs through time." USPS-T-14 at 11. There were no *a priori* expectations regarding whether, or to what extent, the new methodology would produce different results from the prior methodology. Given the reliance of the prior study on data collected in the mid to late 1980s, moreover, it is difficult to determine whether the observed differences in results solely reflect technical improvements in the estimation approach, or additionally reflect changes that have occurred in the real world. Preferring one set of results over another, however, based on the change in attributable costs for one particular class or subclass, does not constitute an objective basis to choose between competing costing methodologies.

A. While the data in your table are not incorrect, they may be considered somewhat misleading. Specifically, the row labeled Total in each

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section of the table could easily be mistaken for Total Accrued costs, when, in fact, it is actually Total Volume Variable costs (or, strictly speaking in the PRC version, Total Attributable costs). Therefore, in the attachment to this response, your table has been replicated, with the Total row label from your table changed to Total Volume Variable, and with an additional row added to show Total Accrued costs. Including the Total Accrued row allows a more complete summarization of relevant information. Also, the row labeled "First-Class" in your table omits Cards and reflects only First-Class Letters. That row has also been relabeled to so indicate.

Note that for the section of our table "Cost Segment 7 (Delivery)", the Accrued costs from USPS-LR-K-3 shown in the USPS version are for Cost Segment 7.1 "Network Travel," plus Cost Segment 7.2 "Delivery Activities." (Please see USPS-LR-K-1 for a description of the segments and components in the USPS version.) Including the Network Travel costs does not change any of the volume variable cost rows, because (as explained in LR-K-1) all Network Travel costs are treated as non-volume variable. Nevertheless, it is the sum of those two components (7.1 and 7.2) in the USPS version that is comparable to the PRC version "Cost Segment 7 (Delivery)" figures shown in the table, which are simply the total of Cost Segment 7, minus Delivery Support.

B. As noted in the response of witness Kelley to MMA/USPS-T16-2 (Tr. 7/2756-57), the difference between the Cost Segment 6 results of the two methodologies is a function of different accrued costs, and different

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variabilities. While the focus of the new study was on street costs, and Cost Segment 6 consists of in-office costs, the proposed new methodology more broadly treats as in-office costs certain support costs that were treated as street costs in the previous (PRC) approach. Consequently, the new methodology increases the share of total carrier costs estimated to be incurred during in-office activities, and the USPS version of Cost Segment 6 has higher accrued costs. Those higher accrued costs are only partially offset by a lower variability. Note, however, that in each of row of volume variable costs, the increase in costs moving from USPS to PRC version is uniformly between 7 and 8 percent, refuting any potential suggestion that Single Piece is being treated disparately.

Category	(USPS-PRC)/USPS
Single Piece	0.072
Workshare	0.077
First Class	0.073
All Other	0.072
Total Vol.	
Variable	0.073

C. As noted in the response of witness Kelley to MMA/USPS-T16-2 (Tr. 7/2757), the difference between the Cost Segment 7 results of the two methodologies is a function of different accrued costs, different variabilities, and different distribution factors. Specifically with respect to Delivery Activities as shown in our table, comparing the USPS version with the PRC version, both the accrued costs and the variability (i.e., the ratio of volume variable costs to accrued cost) are higher, resulting in higher overall volume variable costs in the USPS version. Moreover, a higher proportion of those

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volume variable costs are distributed to Single Piece FCM than in the established methodology. Consequently, of total accrued Delivery Activities costs, about 11 percent are distributed to Single Piece FCM in the USPS version, compared with about 6 percent in the PRC version. These results are the product of a large amount of interaction among the components of the new carrier methodology. For more discussion, see the response to part E, below.

D. As can be seen from our table, the accrued costs in “Segment 7 (Support)” are about half in the USPS version what they are in the PRC version. (Recall from the response to part B above that the difference in accrued cost in Cost Segment 6 was the shift in the new USPS version of certain support costs from Cost Segment 7 to Cost Segment 6. Obviously, that shift has an effect in the opposite direction on Cost Segment 7 support costs.) Moreover, the USPS variability is also lower, with resulting lower total volume variable costs in the USPS version. USPS-LR-K-1 explains that volume variable delivery support costs are distributed to mail categories in the same proportion as the costs of delivery activities. This can be confirmed from the table, as approximately 31 percent of both Delivery and Support volume variable costs are distributed to single piece FCM in the USPS version.

E. As the bottom portion of our table would suggest, of total Cost Segments 6 & 7 Accrued Costs of \$15.033 million, the USPS version treats 51 percent as volume variable, while the corresponding figure from the PRC

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version is 48 percent. In terms of single-piece FCM, 16 percent of total accrued costs are distributed to that category in the USPS version, compared with 13 percent in the PRC version. In the greater scheme of things, given the wholesale revision of city carrier costing which the Postal Service's new approach represents, these differences are not that large. As suggested earlier, they potentially reflect the combination of changes in costs pools (i.e., accrued costs), changes in variabilities applied to those costs pools, and changes in distribution factors.

If one nonetheless wishes to focus on discrete factors which might play a more prominent role in development of the overall picture, clearly the most visible candidate would be collection costs. As detailed in response to MMA/USPS-14, the estimated difference in Single Piece collection costs between the USPS and PRC version is, by itself, in excess of the \$505 million difference in total FCM Letter Cost Segments 6 & 7 costs shown in the attached table and cited in your question.

The difference in collection costs relates essentially to differences in the estimate of costs associated with collection of mail by city carriers at customer mail boxes (as opposed to collection from blue street collection boxes). In the previous methodology, collection from customer boxes was considered part of the load time cost pool (which is a considerably smaller cost pool than the current methodology's Delivery cost pool), and the variability was much lower (a weighted average of stop types of 1.6 percent, versus a directly estimated 8.8 percent in the new study).

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To focus directly on why Prof. Bradley's current collection variability estimate is reasonable, however, it may be useful to consider the estimate of marginal carrier time associated with this variability. Prof. Bradley provided that figure in response to Question 6 of POIR No. 6, and it appears at Tr. 6/2221. The collection marginal time estimate for the recommended model is 4.00 seconds. In other words, the variability estimate suggests that as a carrier approaches a customer mailbox (perhaps with mail to be delivered in hand), opens the mailbox, and finds a piece of outgoing mail inside, it takes, on average, 4 seconds to pull that piece out of the box and place it with other outgoing mail, before returning to the activity of placing the delivered mail in the box. That estimate seems eminently plausible. Moreover, it cannot be surprising that the vast majority of such outgoing mail left by customers in their boxes is single-piece FCM. Therefore, to the extent that one result of the new methodology is to show a stronger causal relationship between carrier costs and collection mail in customer boxes, the relatively higher impact on single piece FCM is to be expected.

F. This question is potentially misleading, to the extent that it appears to suggest the existence of a discrete pool of costs, containing \$505 million, that was examined under the previous methodology and determined to be institutional, and that has now been re-examined under the new methodology and determined to be attributable to FCM letters. In fact, there is no such discrete pool of costs. Overall, as explained above, replacing 20-year old data and improving the applied analytic procedures have resulted in different

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levels of volume variable costs, and different distributions. It would be surprising under these circumstances if there were no differences between the results of the two methodologies. The amount cited in your question is approximately 3 percent of accrued city carrier costs.

Going back to the full sets of data in LR-K-3 and LR-K-94, the inappropriateness of this type of question becomes apparent. If total Cost Segment 6 and 7 costs are calculated for each subclass and service, and compared between USPS and PRC versions, Single Piece letters and Workshare letters are not the only rows which show higher USPS than PRC total city carrier costs. The other rows with higher USPS costs include FCM Cards, Priority Mail, Regular Standard Mail, Parcel Post, Bound Printed Matter, International Mail, Registry, Certified, Insurance, and COD. In fact, what your table does is merely pick out two of the categories with increasing costs (Single Piece and Workshare Letters), show them separately, and lump everything else into one composite category. It would be equally valid to aggregate all of the increasing cost subclasses into one group, and all of the decreasing cost subclasses into another. For aggregate Cost Segment 6 & 7 costs (i.e., the bottom section of the table), the result would be an alternative like this:

Total City Carrier Cost (\$Mil)	USPS	PRC	Difference
Increasing Categories	6,318	5,732	586
Decreasing Categories	1,361	1,538	(177)
Total Volume Variable	7,678	7,269	409
Total Accrued	15,033	15,033	0

The last two rows are identical to those in the attached table. The first two

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rows, however, show that \$586 million is the total amount by which volume variable costs rose for the subclasses for which they rose, and \$177 million is the total amount by which volume variable costs fell for the subclasses for which they fell. In total, however, only \$409 million shifted from non-volume variable to volume variable. It is therefore not possible (as the question erroneously suggests) for \$505 million of previously institutional (i.e., non-volume variable) costs to have shifted to FCM letters. Instead, some of the costs would have had to have shifted not from institutional costs, but from some of the subclasses with decreasing volume variable costs.

The primary point to be made, however, is the futility of this mode of analysis, which looks only at results, without any acknowledgement of the substantive merits of the two alternatives. The results of the proposed USPS methodology represent the best available current estimate of city carrier costs. The results of the previous methodology represent estimates based on an outdated approach and outdated data. Basically, to the extent that the proposed new methodology reflects an improvement of the previous methodology, all of the amounts cited in this entire series of questions are nothing more than reflections of the magnitude by which the previous methodology was misestimating costs.

G. This question is potentially misleading, to the extent that it appears to suggest the existence of a discrete pool of costs, containing \$97 million, that was examined under the previous methodology and determined to be attributable to all classes other than FCM letters, and that has now been re-

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examined under the new methodology and determined to be institutional. In fact, there is no such discrete pool of costs. Overall, as explained above, replacing 20-year old data and improving the applied analytic procedures have resulted in different levels of volume variable costs, and different distributions. It would be surprising under these circumstances if there were no differences between the results of the two methodologies. As indicated in response to part F, volume variable costs for some subclasses other than FCM Letters increased, and for some others decreased. The amount cited in your question is less than one percent of accrued city carrier costs.

**ATTACHMENT TO RESPONSE, MMA/USPS-15**

<b>Cost Category</b>	<b>Rate Category</b>	<b>USPS Methodology</b>	<b>PRC Methodology</b>	<b>USPS-PRC</b>
Segment 6 (In-Office)	Single Piece	1,231,576	1,143,214	88,362
Segment 6 (In-Office)	Workshare	566,736	522,968	43,768
Segment 6 (In-Office)	First Class Letters	1,798,312	1,666,182	132,130
Segment 6 (In-Office)	All Other	2,071,648	1,922,576	149,072
Segment 6 (In-Office)	Total Vol. Variable	3,869,960	3,588,758	281,202
Segment 6 (In-Office)	Total Accrued	4,694,946	4,144,097	550,849
Segment 7 (Delivery)	Single Piece	1,044,816	500,222	544,594
Segment 7 (Delivery)	Workshare	552,395	483,177	69,218
Segment 7 (Delivery)	First Class Letters	1,597,211	983,399	613,812
Segment 7 (Delivery)	All Other	1,773,951	1,650,190	123,761
Segment 7 (Delivery)	Total Vol Variable	3,371,162	2,633,589	737,573
Segment 7 (Delivery)	Total Accrued	9,151,844	8,633,562	518,282
Segment 7 (Support)	Single Piece	134,689	272,342	-137,653
Segment 7 (Support)	Workshare	67,279	170,113	-102,834
Segment 7 (Support)	First Class Letters	201,968	442,455	-240,487
Segment 7 (Support)	All Other	235,152	604,645	-369,493
Segment 7 (Support)	Total Vol Variable	437,120	1,047,100	-609,980
Segment 7 (Support)	Total Accrued	1,178,968	2,255,541	-1,076,573
Segment 7 (Total)	Single Piece	1,179,505	772,564	406,941
Segment 7 (Total)	Workshare	619,674	653,290	-33,616
Segment 7 (Total)	First Class Letters	1,799,179	1,425,854	373,325
Segment 7 (Total)	All Other	2,009,103	2,254,835	-245,732
Segment 7 (Total)	Total Vol Variable	3,808,282	3,680,689	127,593
Segment 7 (Total)	Total Accrued	10,338,254	10,889,103	-550,849
Total City Carrier Delivery Costs	Single Piece	2,411,081	1,915,778	495,303
Total City Carrier Delivery Costs	Workshare	1,186,410	1,176,258	10,152
Total City Carrier Delivery Costs	First Class Letters	3,597,491	3,092,036	505,455
Total City Carrier Delivery Costs	All Other	4,080,751	4,177,411	-96,660
Total City Carrier Delivery Costs	Total Vol Variable	7,678,242	7,269,447	408,795
Total City Carrier Delivery Costs	Total Accrued	15,033,200	15,033,200	0

## 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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Eric P. Koetting

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August 25, 2005