

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KELLEY  
TO INTERROGATORIES OF VALPAK. (VP/USPS-T30-1 – 3.a, 4)  
(June 2, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of ValPak, Inc., filed on May 19, 2006: VP/USPS-T30-1 – 3.a, and 4. Parts b-d of question 3 have been redirected to the Postal Service.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992, FAX -3084  
June 2, 2006

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**VP/USPS-T30-1.**

Please refer to your workbook UDCModel.USPS.xls, in USPS-LR-L-67, sheet '21.ECRUnitCosts.' In order to simplify the discussion, this interrogatory assumes carrier times of one second per cent, and talks in terms of marginal seconds (per piece) instead of marginal cost (per piece). One second per cent, or one cent per second, for FY 2005 is implied approximately by the carrier wage of \$35.471 per hour shown in cell C12 of the 'Inputs' sheet of your workbook UDCInputs.xls, also in USPS-LR-L-67 ( $35.471 \text{ \$/hr} * 100 \text{ \¢/\$} * (1/3,600) \text{ hr/sec} = 0.9853 \text{ \¢/sec} \approx 1 \text{ \¢/sec}$ ).

a. Are the CCS volumes shown in column D estimates of the volumes carried by city carriers? If not, how should these volumes be viewed and are other volume estimates available? If so, please provide references.

b. The figure in cell E9 suggests that from a typical base position, which would mean that one or more letters are already in place, an additional letter takes the carrier an additional 1.81 seconds of street time to handle and deliver. Do you agree with this interpretation of the cost of \$0.0181 as shown and with the marginal nature of the cost? If you do not, please provide your own interpretation of the cost.

c. Do you agree that most of the time an additional letter for the carrier takes the form of the carrier having one more letter in the carrier's group of delivery point sequenced ("DPS'd") letters for the route? If you do not agree, please explain how you would conceptualize the marginal situation leading to the marginal cost of \$0.0181.

d. Please assume that all letters being delivered on the street by a carrier have been DPS'd and that in the base position, a particular stop receives four letters. Would it be your expectation that if the carrier had an additional five letters for the stop, it would take the carrier an additional 9.05 seconds at the stop to accomplish delivery ( $9.05 \text{ sec} = 5 * 1.81 \text{ sec}$ )? If this is your expectation, or approximately your expectation, please explain, in terms of operations, why you believe it is a reasonable expectation. Specifically, what steps and motions and other activities would the carrier go through to use an additional 9.05 seconds? If you do not believe this is a reasonable expectation, what steps do you believe could be taken to improve the analysis?

e. The figure in cell I13 suggests that from a typical base situation, which could mean that zero or maybe one sequenced letter or flat is already in place, an additional sequenced letter takes the carrier an additional 1.22 seconds of street time to handle and deliver. Do you agree with this interpretation of the cost of \$0.0122 as shown and with the marginal nature of the cost? If you do not, please provide your own interpretation of the cost.

f. Do you agree that, in the predominant situation, an additional sequenced letter for a carrier takes the form of the carrier having to reach into a separate pile or bundle and procure a letter, and merge it with other mail for delivery, but, without the additional sequenced letter, the carrier would not have to reach into the separate pile at all? If you do not agree, please explain how you would conceptualize the marginal situation leading to the marginal cost of \$0.0122.

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g. Please compare the additional time of 1.81 seconds to handle an additional nonsequenced letter (most likely in a DPS'd bundle) to the additional time of 1.22 seconds to reach into a separate pile and procure a sequenced letter and merge it with other mail, and explain whether you view these results as reasonably well aligned with the activities that would be expected of the carrier, given the nature of the operations involved. If you do not believe these results are reasonable, what steps do you believe could be taken to improve the analysis?

h. Please compare the additional time of 1.98 seconds to handle an additional flat in a group of flats cased by the carrier (a group that could also have a non-DPS'd letter) to the additional time of 1.33 seconds to reach into a separate pile and procure a sequenced flat and merge it with other mail, and explain whether you view these results as reasonably well aligned with the activities that would be expected of the carrier, given the nature of the operations involved. If you do not believe these results are reasonable, what steps do you believe could be taken to improve the analysis?

i. These results show that the additional street time for delivering an additional sequenced flat is 1.33 seconds, but that the additional street time for delivering an additional DPS'd letter is 36 percent higher at 1.81 seconds. In terms of the motions and other operations required of carriers, please explain why it takes 36 percent longer to handle an additional DPS'd letter than to handle an additional sequenced flat, when delivering the sequenced flat requires reaching into a separate pile, procuring the additional flat, and merging it with the other mail for delivery.

j. In developing street costs, did you consider supplementing your primary analysis with a separate inquiry, using either MTM methods or a controlled experiment, or some other approach, into the relative times taken by some of the basic operations at issue in this question? If you did, please provide the results of that consideration. If you did not, please comment on whether you think such an approach might be a reasonable way to introduce into the analysis reviewable relationships that are focused in a clear way on the details of actual operations.

**Response**

a. Yes, the volumes in column D are estimated volumes that are delivered by city carriers. I will briefly explain the derivation of each estimate in column D.

Cell D9 is an estimate of the ECR regular letters (non-sequenced) delivered by city letter carriers for FY2005. The number is derived by taking the total estimated ECR letter volume from CCCS and subtracting the estimated sequenced letter volume. The estimated letter and flat sequenced volume is

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calculated in the manner described on page 7 line 18 of my direct testimony (USPS-T-30).

Cell D10 is an estimate of the ECR regular flats (non-sequenced) delivered by city letter carriers for FY2005. The number is derived by taking the total estimated ECR flat volume from CCCS and subtracting out the sequenced flat volume.

Cell D11 is an estimate of the ECR small parcels regularly delivered (non-sequenced) by city letter carriers. It equals zero since all ECR parcels are host pieces of DAL mailings and are assumed to be sequenced, which leaves zero regularly delivered small parcels.

Cells D13, D14, and D15 are the estimated FY2005 sequenced volumes for letters, flats, and small parcels. Cell C12 is the sum of the sequenced letter, flat, and small parcel volume.

Cell D16 is the estimated ECR large parcel volume. This estimate is taken directly from CCCS.

b. I do not agree. My interpretation of the \$0.0181 is that it estimates the volume variable regular-delivery-time cost per letter delivered. Regular delivery time encompasses a wide variety of activities within city letter route delivery sections including but not limited to driving, walking, obtaining mail from vehicles, putting mail into satchels, and loading mail into receptacles. The additional letter that is posited could cause additional time in one or more of those activities within a delivery section, regardless of whether one or more letters is already in

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place. The unit cost referenced in the question is an estimate of the volume variable regular-delivery-time cost per letter.

c. I do not agree. Refer to part b. for my interpretation of the \$0.0181.

d. I don't know. The current street time model captures total additional regular delivery time across all delivery activities which includes functions such as driving; walking; and obtaining mail from vehicles, in addition to time spent at delivery stops. Therefore, total additional delivery time encompasses a broader set of activities within delivery sections than just the additional time spent at a stop delivering mail from a 'base' position.

e. I do not agree. The \$0.0122 in cell I13 is an estimate of the volume variable regular delivery cost per sequenced letter.

f. I agree.

g. Given that these times are so broadly defined and that there exists a minute difference in the times, I do not view them as unreasonable.

h. Refer to my response to part g.

i. Refer to my response to part g.

j. No. I consider the primary analysis for USPS-LR-L-67 to be cost segments 6, 7 and 10 of the CRA. MTM is not used for those cost segments in the CRA. My initial thoughts are that applying MTM methods to study carrier times by operation would be extremely costly, and not necessary to produce the CRA. In addition, the Commission rejected a MTM method for cost segment 7 that was proposed in R2000-1. Refer to the R2000-1 Opinion and Recommended Decision for further information.

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**VP/USPS-T30-2.**

Please refer to pages 8 and 9 of your testimony, USPS-T-30, where you discuss a process for estimating the proportion of Saturation letters that is delivery point sequenced or cased. To the extent to which you have developed estimates, please state: (i) the proportion of Saturation letters that are DPS'd; (ii) the proportion of Saturation letters that are cased; (iii) the proportion of Saturation letters that are handled as "sequenced" mail; and (iv) how you expect these proportions to change between the base year and the test year.

**Response**

- (i) The estimated proportion of ECR Saturation letters delivered on city routes that are DPS'd is 28.3 percent.
- (ii) The estimated proportion of ECR Saturation letters delivered on city routes that are cased is 39.9 percent.
- (iii). The estimated proportion of ECR Saturation letters delivered on city routes that are handled as "sequenced" mail is 31.8 percent.
- (iv) USPS-LR-L-67 assumes no changes in these percentages from the base year to the test year.

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**VP/USPS-T30-3.**

Footnote 8 of your testimony (USPS-T-30, p. 11) states: "The Postal Service permit system started compiling data on the volume of DAL mailings in February 2006." In his rebuttal testimony in Docket No. R2005-1, Postal Service witness Kiefer (USPS-RT-1, p. 32, ll. 7-10) said: "As indicated on page 11 of the Postal Bulletin, the new postage statements became available effective April 3, 2005, and mailers using DALs were among the few not allowed to continue to use the previous postage statements." On page 13 of your testimony, you explain that you did not use any actual data regarding the number of DALs.

- a. Please explain why you were unable to use any actual data on the volume of DALs. Please include in your explanation why a proportion from some relevant period could not be applied to a base year.
- b. In the form of a proportion of an established and relevant category, for whatever periods of time are available, please provide the number of DALs as compiled thus far by the permit system.
- c. Please explain the coverage of the permit system and whether information on the number of DALs is being compiled, or otherwise developed, in any other system.
- d. If no information on the actual number of DALs is currently available, or even if a limited amount is currently available, please explain the schedule over the remainder of CY 2006 for additional information becoming available, giving both the dates and the nature of the information. Also, please explain what is expected to be the normal frequency for compiling DAL data and making results available.

**Response:**

- a. In the two sentences immediately following the sentence you have quoted from the rebuttal testimony of witness Kiefer in the last case, he further stated:

I am informed that the Postal Service's data systems personnel are proceeding through the steps necessary to capture the new DAL information from the postage statements for data system reporting purposes. It is my understanding that completion of that process is anticipated sometime after the start of FY 2006.

Therefore, it is clear from that testimony that no comprehensive DAL information from that source would be available for FY 2005, which was the period for which I needed an estimate for purposes of my analysis in this proceeding.

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Moreover, I disagree with your characterization of my testimony. To the extent that my FY05 estimate is based on the FY04 estimate applied by the Commission in the last case, which in turn was heavily dependent on actual data supplied by Advo on the record in that proceeding, I believe that my analysis does use actual data, although admittedly actual data from FY2004. I think that the FY2004 estimate is sufficiently reliable due to the extent that it was thoroughly litigated during Docket No. R2005-1. Given that I had no information from FY 2005 with which to work, I started with the FY2004 DAL figure and applied the ratio outlined on page 13 of my testimony. I believe that this procedure provides the most accurate estimate available of FY2005 DAL volumes.

- b. Redirected to the Postal Service.
- c. Redirected to the Postal Service.
- d. Redirected to the Postal Service.

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**VP/USPS-T30-4.**

Please refer to page 12, lines 17-19, of your testimony (USPS-T-30), where you say: "Secondly, an assumption is made that DALs are cased at the same casing productivity rate (41.2 per minute), and with the same probability, as other non-DPS ECR Saturation letters."

- a. On days that a sequenced mailing of flats is delivered, is it not generally correct that any associated DAL is also delivered? Explain any failure to agree.
- b. On days that a sequenced mailing of letters is delivered, is it not correct that there are no associated DALs to be delivered? Please explain any failure to agree.
- c. Would you agree that there are instances, perhaps a good many instances, where a sequenced mailing of flats is to be delivered but the carrier, for one reason or another, decides to case an associated DAL? Please explain any failure to agree.
- d. Would you agree that there are never instances where a sequenced mailing of letters is to be delivered but the carrier decides to case an associated DAL? Please explain any failure to agree.
- e. If the question of whether to case non-DPS'd letters occurs on days when a sequenced mailing might or might not exist and the question of whether to case DALs always occurs on days when there is already at least one sequenced mailing, please explain why the probability of casing the DAL would not be higher than the probability of casing the letter.

**Response**

a.-e. That part of my assumption stating that DAL are cased "with the same probability as other Non-DPS ECR Saturation letters" is incorrect and should have been omitted from my direct testimony. The actual assumption made in USPS-LR-L-67 is that DAL and other Non-DPS ECR Saturation letters are cased at the same rate (41.2 per minute), not with the same probability.

## 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

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992, FAX: -5402  
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