

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
(USPS-T-30) TO INTERROGATORIES OF MMA (MMA/USPS-T30-17 - 20)
(July 12, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of the Major Mailers Association., filed on June 28, 2006: MMA/USPS-T30-17 – 20.

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 12, 2006

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MMA/USPS-T30-17

Please refer to Library References USPS-LR-K-67 from R2005-1, pages 1 and 2, and USPS-LR-L-67, page 1. These pages summarize your derived unit delivery costs for various rate categories for TY 2006 in R2005-1 and TY 2008 in R2006-1.

- A. Please confirm the unit costs (cents) and percentage changes as shown in the following table. If you cannot confirm, please provide the correct unit costs as well as your computations.

Rate Category	R2005-1 TY 2006			R2006-1 TY 2008			% Increase (Decrease)		
	Letters	Flats	Parcels	Letters	Flats	Parcels	Letters	Flats	Parcels
FC Single Piece	7.189	12.416	30.049	7.734	14.327	35.094	7.6%	15.4%	16.8%
FC Automation	3.824			4.144			8.4%		
FC Nonautomation	6.939	9.424	20.636	4.696	11.588	35.790	-32.3%	23.0%	73.4%
FC Presorted	3.954			4.164			5.3%		
Std Reg Automation	3.710			3.596			-3.1%		
Std Reg Nonautomation	5.985	9.290	28.948	7.362	9.413	32.671	23.0%	1.3%	12.9%
Std Presorted	3.873			3.798			-1.9%		

- B. Please explain why the unit delivery cost for First-Class Single Piece is expected to rise by 7.6% while the unit delivery cost for First-Class Automation letters is expected to rise by 8.4%.
- C. Please explain why the unit delivery cost for First-Class Automation letters is expected to rise by 8.4% while the unit delivery cost for Standard Automation letters is expected to decline by 3.1%.
- D. Please explain why the unit delivery cost for First-Class Nonautomation letters is expected to decline by 32.3%.
- E. Please explain why the unit delivery cost for Standard Nonautomation letters is expected to rise by 23.0%.
- F. Please explain why the unit delivery cost for First-Class Presorted letters is expected to increase by 5.3% while the unit delivery cost for Standard Presorted letters is expected to decline by 1.9%.

Where more than one factor is responsible for the projected increase or decrease in particular unit delivery costs, please identify each factor separately and provide your best estimate of contribution such factor makes to the overall percentage increase or decrease in unit delivery costs.

Response:

A. Not Confirmed. In the table below, I provide what I believe to be appropriate revisions. In constructing this table, I changed the category for comparison of unit delivery costs from R2005-1 for Standard Regular letters from Auto/Non Auto to Machinable/Non-Machinable, to make them comparable with the unit delivery

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costs in the instant docket. Secondly, I changed the costs in the table for TY08 Standard Auto/Non Auto letters to reflect the addendum in my direct testimony. Lastly, I changed the row heading on the last row to Standard Regular rather than Standard Presort. The changes made to the table are in **bold underlined type**.

Rate Category	R2005-1 TY 2006			R2006-1 TY 2008			% Increase (Decrease)		
	Letters	Flats	Parcels	Letters	Flats	Parcels	Letters	Flats	Parcels
FC Single Piece	7.189	12.416	30.049	7.734	14.327	35.094	<u>7.6%</u>	15.4%	16.8%
FC Automation	3.824			4.144			<u>8.4%</u>		
FC Nonautomation	6.939	9.424	20.636	4.696	11.588	35.790	<u>-32.3%</u>	23.0%	73.4%
FC Presorted	3.954			4.164			<u>5.3%</u>		
Std <u>Reg Machinable</u>	<u>3.713</u>			<u>3.782</u>			<u>1.9%</u>		
Std <u>Reg Non-Machinable</u>	<u>11.050</u>	9.290	28.948	<u>8.069</u>	9.413	32.671	<u>-27.0%</u>	1.3%	12.9%
Std <u>Regular</u>	3.873			3.798			<u>-1.9%</u>		

B. The table below illustrates the major elements that constitute delivery costs and identifies the magnitude each element has in terms of the percentage change in delivery costs from TY06 to TY08. The piggyback factors are included in the calculation of the percentages in the table, so, as a result, the figures can be summed across cost segments 6, 7, and 10 to equal the percentage change in unit delivery costs from TY06 to TY08. For example, the delivery costs for First Class Single Piece Letters rose 7.6 percent from TY06 to TY08, which is comprised of 0.5 percent increase in 6.1 Direct Casing and 1.4 percent in Direct Non-Casing, etc.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
FC Single Piece	0.5%	1.4%	0.8%	0.0%	3.7%	0.6%	0.6%	7.6%
FC Automation	3.6%	1.2%	1.6%	-0.1%	0.9%	0.1%	1.2%	8.4%

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C. The table below displays the information in the same manner as I explained in my response to part B. This table compares the changes First Class Automation letters and Standard Regular Machinable letters from TY06 to TY08.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
FC Auto	3.6%	1.2%	1.6%	-0.1%	0.9%	0.1%	1.2%	8.4%
Std Reg Mach	-0.7%	0.5%	0.0%	-0.1%	0.5%	0.1%	1.5%	1.9%

D. The table below displays the information in the same manner as I explained in my response to part B. As the table shows, a large portion of the decrease in unit delivery costs is due to a sharp reduction in Direct Casing costs.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
FC Non-auto	-21.9%	0.6%	-5.7%	-0.1%	0.5%	0.1%	-5.8%	-32.3%

E. After I made my changes to the table provided in the question, the percentage change in delivery costs for Standard Non-Machinable letters is -27 percent. The table below displays the factors responsible for the decreased unit costs in the same manner as my response to part B. As the table indicates, a large portion of the decrease in unit delivery costs is due to the sharp reduction in Direct Casing costs.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
Standard Non-Mach	-20.0%	0.2%	-5.3%	-0.1%	0.2%	0.0%	-2.0%	-27.0%

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F. The table below compares the changes in unit delivery costs for First Class Presort letters and Standard Regular in the same manner as my response to part B.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
FC Presort	1.7%	1.1%	1.0%	-0.1%	0.8%	0.1%	0.7%	5.3%
Standard Regular	-3.0%	0.5%	-0.6%	-0.1%	0.5%	0.1%	0.7%	-1.9%

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MMA/USPS-T30-18

Please refer to your responses to Interrogatory MMA/USPS-T30-6 where you provide a breakdown of delivery costs for First Class letters by indicia. That answer indicates that the TY 2008 unit delivery costs per originating piece for stamped letters, metered letters and other letters are 7.608 cents, 9.316 cents and 5.300 cents, respectively.

- A. Please confirm that the unit costs you provide are not directly comparable in that you cannot conclude that it costs more to deliver a metered letter than a stamped letter simply because the number of originating pieces that do not incur delivery costs (i.e., such pieces are delivered to a post office box) may not be proportional for each category of letters. If you cannot confirm, please explain.
- B. Given your reported results, is it likely that stamped letters cost more to deliver than metered letters? Please explain your answer.
- C. Please compare your First Class single piece unit delivery costs by indicia to your response to Interrogatory MMA/USPS-T16-6 in R2005-1, particularly where you have provided the BY 2004 unit delivery cost for cost segment 6.1. Why has the unit delivery cost for "other" letters decreased by 76%, from 2.21 cents to .53 cents, between BY 2004 and BY 2005?

Response:

- A. I agree that the unit delivery costs derived in response to MMA/USPS-T30-6 are affected by the percentage of originating volume that is delivered by city and rural carriers. However, I think the unit costs are in some sense still comparable, since both are the ratio of volume variable costs incurred in cost segments 6, 7, and 10, to originating volume.
- B. No. Please note that I have revised my response to MMA/USPS-T30-6. My revised results in the table below show that the unit cost (per originating piece) is less for stamped letters than for metered letters. Therefore, I do not conclude that stamped letters cost more to deliver than metered letters.

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First Class Single Piece	TY08 Unit Delivery Cost (per originating piece) Cents
Stamped Letters	7.613.
Metered Letters	7.960

¹Source: MMA/USPS-T30-6 (revised)

C. My revised results are included in the table below. The unit casing costs for 'Other Letters' differs by -0.43 cent or, equivalently, a 19.5 percent decrease from BY04. Since the delivery costs and originating volume for 'Other Letters' dropped by more than fifty percent between BY05 and BY04, I find it difficult to explain changes in unit costs that have occurred.

First Class Single Piece	BY05 6.1 UDC (Cents)	BY04 6.1 UDC (Cents)
Stamped Letters	1.834	1.631
Metered Letters	2.037	2.106
Other Letters	1.777	2.206

¹Source: MMA/USPS-T30-6 (revised) and MMA/USPS-T16-6 (Docket R2005-1)

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MMA/USPS-T30-19

Please refer to your response to Interrogatory MMA/USPS-T30-2. Part (C) of that question asked you to provide unit delivery costs per delivered letters for various categories of First-Class letters.

- A. Please provide the source and derivation of each of the cost figures shown in your table.
- B. Please provide the source and derivation of each of the volume figures that you used in order to compute the unit costs as shown in your table.
- C. Please explain why it might cost the same to deliver a Mixed AADC Automation letter (4.464 cents) and a 5-digit Automation letter (4.464 cents).
- D. Please explain why it might cost more to deliver a single piece metered letter (15.23 cents) than a single piece stamped letter (12.64 cents).
- E. Please explain why it might cost more than three times as much to deliver a single piece metered letter (15.23 cents) as it costs to deliver an automation letter (4.55 cents).

Response:

A. and B. Refer to the attached workbook for the sources and derivations for the underlying figures from the table provided in response to MMA/USPS-T-30-2(C). The unit delivery costs in the attached spreadsheet were derived using the DPS percentages from the theoretical model rather than the DPS percentages from the carrier systems (otherwise all rate categories within automation would have the same unit delivery costs). One important result from using this method is the test year costs for First Class automation/non-automation will in the attached workbook will not equal the test year costs for First Class automation/nonautomation in USPS-LR-L-67.

B. Not applicable.

C. The delivery costs provided in the workbook for part A of this question (just the numerators) were derived using the methodology employed in Docket R2005-1, which relied on DPS percentages derived from a theoretical

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model. Since the carrier systems do not record mail volume at the rate category level within First Class Automation, the relative unit delivery costs rely solely on the DPS percentages from the model. The higher the DPS percentage, the lower the unit delivery cost. The DPS percentages based on this model are 80.07 and 80.18 for Mixed AADC and 5-digit automation letters respectively. Therefore, the unit delivery costs for 5-digit automation letters is slightly lower than for Mixed AADC letters. Carrying out the division to a finer level of precision than I provided in response to MMA/USPS-T30-2(C) produces unit delivery costs of 4.6441 cents for Mixed AADC and 4.6375 cents for 5-digit automation letters.

D. My response to MMA/USPS-T30-2(C) is being revised. It provided unit costs per delivered piece for single piece and metered letters, not stamped letters. The table below provides the unit costs (per delivered piece) for First Class single piece, stamped, metered, and other letters.

Since neither carrier system captures volume for First Class metered letters separately from other First Class Single Piece letters, the unit delivery costs rely solely on the 6.1 Direct Casing Costs recorded by the In-Office Cost System (IOCS). The higher the unit direct casing costs (per delivered piece) the higher the unit delivery costs. The test year unit casing costs and delivery costs for Single Piece, stamped, metered, and other letters are provided in the table below.

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First Class	TY 6.1 Direct Casing Cost	TY City Volume	Unit TY6.1 Cost (per City Volume) Cents	UDC TY (per City + Rural Volume) Cents
Single Piece	\$693,361	15,023,144	4.615	12.640
Stamped	\$398,267	8,964,238	4.443	12.441
Metered	\$268,072	5,431,109	4.936	13.008
Other	\$27,022	627,797	4.304	12.282

The unit delivery costs, derived in this manner, for metered letters are more than for stamped or other letters because the unit direct casing costs are higher for metered letters than for stamped or other letters.

E, After my revision to the unit delivery cost (per delivered piece) for metered letters, the relevant unit costs are 13.008 and 4.550 cents for metered and automation letters, respectively. The resulting ratio of unit costs of metered letters to automation letters is 2.86, rather than greater than three. The table below illustrates the test year unit costs by subcomponent (with piggybacks included) which shows that a large portion of the difference can be found in 6.1 direct casing (2.644 cents) and 7.1 delivery activity (3.468 cents). The difference in casing costs is probably due to automation letters having a higher DPS percentage than metered letters. The disparity in delivery activity costs can be explained by the collection costs incurred by metered letters and not by automation letters.

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Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non- Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total (Cents)
FC Metered	3.753	0.677	1.248	0.200	5.213	0.686	1.232	13.008
FC Auto	1.109	0.197	0.370	0.069	1.745	0.214	0.846	4.550
Difference (Met-Auto)	2.644	0.479	0.878	0.131	3.468	0.472	0.386	8.458

Worksheet	Function							
UDC Summary	Table with TY08 Unit Delivery Costs per Delivered Piece for Requested Categories							
UDCMMA19	Derivation of Unit Costs to answer Interragatory MMS/USPS-T30-19							
TYPresortLettersUSPS	Derivation of Test Year Unit Delivery Costs for Presorted Letters by Rate Category							
BYPresortLettersUSPS	Derivation of Base Year Unit Delivery Costs for Presorted Letters by Rate Category							
RuralBY	Derivation of Base Year Rural Delivery Costs							
Casing	Calculates casing cost per piece based on aggregate DPS percentage for First Class Presort							

Category	TY08 UDC Per Delivered Piece Cents
FC Single Piece	12.640
FC Metered	13.008
Nonautomation	7.249
Automation	4.550
Mixed AADC	4.644
AADC	4.493
3 Digits	4.425
5 Digits	4.637

Column	TY Costs (1)	TY/BY Volume (2)	TY Orig Vol (3)	BY RPW Volume (4)	City BY Volume (5)	Rural BY Volume (6)	City TY Volume (7)	Rural TY Volume (8)	City + Rural (9)	\$ Cost/Delivered (10)
Source	LR-67 '2Summary TY'		LR-67 '2Summary TY'	LR-67 'SummaryBY'	LR-67 '9DeliveryVolumes'	LR-67 '9DeliveryVolumes'				
Derivation		(3)/(4)					(5)*(2)	(6)*(2)	(7)+(8)	(1)/(9)
Single Piece	\$ 2,675,500	0.87988155	34,594,330	39,317,031	17,074,053	6,983,381	15,023,144	6,144,548	21,167,692	\$ 0.12640
Metered	\$ 995,455	0.87988155	12,506,408	14,213,740	6,172,545	2,524,605	5,431,109	2,221,353	7,652,462	\$ 0.13008
Nonautomation	\$ 111,413	0.98619516	1,715,306	1,739,317	1,082,466	475,921	1,067,523	469,351	1,536,874	\$ 0.07249
Automation	\$ 1,865,740	0.98619515	45,767,558	46,408,216	28,882,218	12,698,469	28,483,503	12,523,168	41,006,672	\$ 0.04550
Mixed AADC	\$ 117,988	0.98619516	2,835,579	2,875,272	1,789,429	786,747	1,764,726	775,887	2,540,613	\$ 0.04644
AADC	\$ 99,269	0.98619516	2,465,848	2,500,365	1,556,106	684,163	1,534,624	674,719	2,209,342	\$ 0.04493
3 Digits	\$ 895,751	0.98619516	22,592,733	22,908,988	14,257,440	6,268,482	14,060,619	6,181,946	20,242,565	\$ 0.04425
5 Digits	\$ 715,037	0.98619516	17,208,781	17,449,671	10,859,827	4,774,674	10,709,909	4,708,760	15,418,669	\$ 0.04637
Presort Total	\$ 1,977,153	0.98619516	47,482,864	48,147,533	29,964,684	13,174,390	29,551,026	12,992,520	42,543,546	\$ 0.04647
Notes - Columns										
(1) In USPS-LR-L-67 Test Year Costs are only available for FC Single Piece, Auto, and Non Auto										
For rate categories within FC Presort, the test year costs come from worksheet 'TestYearPresort Letters' within this workbook										
FC Metered 'TY costs come from the response to MMA/USPS-T-30-6 (revised)										
(3) FC Single Piece Metered volume is derived by taking the ratio of TY FCSP/BYFC SP * BYFCMet										
(3) TYVol for Rate Categories within FC Presort are derived similarly TYFCPS/BYFCPS *BYFCPS (Rate Cat i)										
(5)and (6) Since FC Metered Volume not estimated by carrier systems volume is estimated with FC Single Piece ratio										
(5)and (6) City and Rural Volume for Auto/Non-Auto and rate categories within Auto the RPW ratio was used										

First Class Presort Letters	DPS% (1)	Cased % (2)	TOTAL IN-OFFICE DIRECT LABOR CASING COST (3)	NON-CASING % (4)	TOTAL IN-OFFICE DIRECT LABOR CASING PLUS NON-CASING COST PER TOTAL CCS PIECE (5)	CCS VOLUME BY PERMIT CATEGORY (6)	TOTAL IN-OFFICE DIRECT LABOR CASING PLUS NON-CASING COST (7)	Permit Volume (8)	6.1 In-Office Direct Labor, Casing (9)	6.1 In-Office Direct Labor, Non-Casing (10)	6.2 In-Office Overhead, & Support Burdened on Office (11)	7.1 Delivery Activities (12)	7.2 Delivery Activities Support (13)	6.2 In-Office Support Burdened on Street (14)	10 Rural Carriers (15)	Total City (16)	USPS City Piggyback Factor (17)	USPS Rural Piggyback Factor (18)	Total Piggyback Costs (19)	City Unit Delivery Cost (20)	Rural Unit Delivery Cost (21)	Unit Delivery Cost (22)
Nonautomation -- Nonmach Mixed ADC	0.00%	100.00%	\$ 297.52	0.00%	\$ 0.04761	6,337	\$ 312	10,042	298	14	\$ 88.20	\$ 124	\$ 15	\$ 5	\$ 144	\$ 544	1.263	1.188	\$ 859	\$ 0.0685	\$ 0.0171	\$ 0.0855
Nonautomation -- Nonmach ADC	0.00%	100.00%	\$ 140.80	0.00%	\$ 0.04761	2,999	\$ 147	4,752	141	7	\$ 41.74	\$ 59	\$ 7	\$ 2	\$ 68	\$ 258	1.263	1.188	\$ 407	\$ 0.0685	\$ 0.0171	\$ 0.0855
Nonautomation -- Mach Mixed AADC	82.65%	25.61%	\$ 46.23	74.39%	\$ 0.01379	3,845	\$ 55	6,093	46	9	\$ 15.50	\$ 75	\$ 9	\$ 3	\$ 38	\$ 158	1.263	1.188	\$ 245	\$ 0.0327	\$ 0.0075	\$ 0.0402
Nonautomation -- Mach AADC	82.65%	25.61%	\$ 9.36	74.39%	\$ 0.01379	778	\$ 11	1,233	9	2	\$ 3.14	\$ 15	\$ 2	\$ 1	\$ 8	\$ 32	1.263	1.188	\$ 50	\$ 0.0327	\$ 0.0075	\$ 0.0402
Nonautomation -- Nonmach 3-Digit	0.00%	100.00%	\$ 20,937.21	0.00%	\$ 0.04761	445,948	\$ 21,927	706,662	20,937	990	\$ 6,206.94	\$ 8,748	\$ 1,074	\$ 345	\$ 10,164	\$ 38,301	1.263	1.188	\$ 60,449	\$ 0.0685	\$ 0.0171	\$ 0.0855
Nonautomation -- Nonmach 5-Digit	0.00%	100.00%	\$ 6,981.54	0.00%	\$ 0.04761	148,702	\$ 7,312	235,637	6,982	330	\$ 2,069.71	\$ 2,917	\$ 358	\$ 115	\$ 3,389	\$ 12,771	1.263	1.188	\$ 20,157	\$ 0.0685	\$ 0.0171	\$ 0.0855
Nonautomation -- Mach 3-Digit	84.92%	23.57%	\$ 4,310.37	76.43%	\$ 0.01286	389,499	\$ 5,175	617,210	4,310	864	\$ 1,464.84	\$ 7,641	\$ 938	\$ 301	\$ 3,736	\$ 15,520	1.263	1.188	\$ 24,040	\$ 0.0318	\$ 0.0072	\$ 0.0390
Nonautomation -- Mach 5-Digit	84.92%	23.57%	\$ 933.55	76.43%	\$ 0.01286	84,359	\$ 1,121	133,677	934	187	\$ 317.26	\$ 1,655	\$ 203	\$ 65	\$ 809	\$ 3,361	1.263	1.188	\$ 5,207	\$ 0.0318	\$ 0.0072	\$ 0.0390
Automation Mixed AADC	80.07%	27.93%	\$ 23,468.35	72.07%	\$ 0.01485	1,789,429	\$ 27,440	2,835,579	23,468	3,971	\$ 7,767.43	\$ 35,104	\$ 4,310	\$ 1,383	\$ 18,514	\$ 76,004	1.263	1.188	\$ 117,988	\$ 0.0339	\$ 0.0078	\$ 0.0416
Automation AADC	82.54%	25.72%	\$ 18,787.64	74.28%	\$ 0.01384	1,556,106	\$ 22,241	2,465,848	18,788	3,453	\$ 6,295.86	\$ 30,527	\$ 3,748	\$ 1,202	\$ 15,504	\$ 64,014	1.263	1.188	\$ 99,269	\$ 0.0328	\$ 0.0075	\$ 0.0403
Auto 3-Digit Letters	83.65%	24.72%	\$ 165,440.43	75.28%	\$ 0.01338	14,257,440	\$ 197,081	22,592,733	165,440	31,641	\$ 55,788.60	\$ 279,696	\$ 34,341	\$ 11,015	\$ 139,589	\$ 577,922	1.263	1.188	\$ 895,751	\$ 0.0323	\$ 0.0073	\$ 0.0396
Auto 5-Digit Letters CSBCS/Manual Sites	49.85%	55.13%	\$ 59,106.19	44.87%	\$ 0.02721	2,283,389	\$ 64,174	3,618,321	59,106	5,067	\$ 18,165.90	\$ 44,795	\$ 5,500	\$ 1,764	\$ 34,351	\$ 134,398	1.263	1.188	\$ 210,554	\$ 0.0469	\$ 0.0113	\$ 0.0582
Auto 5-Digit Letters Other Sites	88.26%	20.57%	\$ 82,825.05	79.43%	\$ 0.01150	8,576,438	\$ 101,858	13,590,460	82,825	19,033	\$ 28,833.45	\$ 168,249	\$ 20,657	\$ 6,626	\$ 77,828	\$ 326,224	1.263	1.188	\$ 504,483	\$ 0.0303	\$ 0.0068	\$ 0.0371
Auto 5-Digit Letters	80.18%	27.84%	\$ 141,931.24	72.16%	\$ 0.01480	10,859,827	\$ 166,032	17,208,781	141,931	24,101	\$ 46,999.34	\$ 213,043	\$ 26,157	\$ 8,390	\$ 112,179	\$ 460,622	1.263	1.188	\$ 715,037	\$ 0.0338	\$ 0.0077	\$ 0.0416
Auto OR Letters	52.54%	52.71%	\$ 10,380.36	47.29%	\$ 0.02611	419,416	\$ 11,311	664,618	10,380	931	\$ 3,201.90	\$ 8,228	\$ 1,010	\$ 324	\$ 6,134	\$ 24,075	1.263	1.188	\$ 37,695	\$ 0.0458	\$ 0.0110	\$ 0.0567
Presort Letters Subtotal	80.02%	27.98%	\$ 393,664.61	72.02%	\$ 0.01487	29,964,684	\$ 460,163	47,482,864	\$ 393,664.61	\$ 66,498.68	\$ 130,260.47	\$ 587,834.43	\$ 72,173.28	\$ 23,150.99	\$ 310,279.25	\$ 1,273,582	1.263	1.188	\$ 1,977,153	\$ 0.0339	\$ 0.0078	\$ 0.0416
Presort Letters Subtotal*Check			\$ 393,664.62			29,964,684	\$ 460,163.30	47,482,864	\$ 393,664.62	\$ 66,498.68	\$ 130,260.47	\$ 587,834.43	\$ 72,173.28	\$ 23,151	\$ 310,279	\$ 1,273,582	1.263	1.188	\$ 1,977,153	\$ 0.0339	\$ 0.0078	\$ 0.0416
Formula - Source of Column - Source Row 18 (Column Total) if applicable																						
(1) Witness Abdirahman model																						
(2) 1-(0.9*(1))																						
(3) Casing cost per piece * volume cased - worksheet 'Casing'																						
(4) 1-(2)																						
(5) Casing + Noncasing cost per piece - worksheet 'Casing'																						
(6) City volume divided using RPW proportions - USPS-LR-L-67 workbook UDInputs.USPS.xls worksheet DPS%																						
(7) (5) * cased volume - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(8) base year originating volume - USPS-LR-L-87																						
(9) =(3) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(10) (7) - (3) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(11) (9)+(10)+(11)+(12) * tot13 - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(12) ratio of RPW volume * 7.1 cost - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(13) ratio of RPW volume * 7.2 cost - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(14) ratio of RPW volume * 6.2 cost - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(15) worksheet Ruralcosts - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(16) (9)+(10)+(11)+(12)+(13)+(14)																						
(17) USPS-LR-L-67 workbook UDInputs.USPS.xls worksheet 'TYPack'																						
(18) USPS-LR-L-67 workbook UDInputs.USPS.xls worksheet 'TYPack'																						
(19) (16)*(17) + (15)*(18) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(20) (16)/(8) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(21) (15) / (8) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						
(22) (19)/(8) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryTY'																						

First Class Presort Letters	DPS%	(1)	Cased % (2)	TOTAL IN-OFFICE DIRECT LABOR CASING COST (3)	NON-CASED % (4)	TOTAL IN-OFFICE DIRECT LABOR CASING COST PER TOTAL CCS PIECE (5)	CCS VOLUME BY PERMIT CATEGORY (6)	TOTAL IN-OFFICE DIRECT LABOR CASING PLUS NON-CASING COST (7)	Permit Volume (8)	6.1 In-Office Direct Labor, Casing (9)	6.1 In-Office Direct Labor, Non-Casing (10)	6.2 In-Office Overhead, & Support Burdened on Office (11)	7.1 Delivery Activities (12)	7.2 Delivery Activities Support (13)	6.2 In-Office Support Burdened on Street (14)	10 Rural Carriers (15)	Total City (16)	USPS City Piggyback Factor (17)	USPS Rural Piggyback Factor (18)	Total Piggyback Costs (19)	City Unit Delivery Cost (20)	Rural Unit Delivery Cost (21)	Unit Delivery Cost (22)
Nonautomation -- Nonmach Mixed ADC	0.00%	100.00%	\$ 288.09	0.00%	\$0.04761	6,337	\$ 302	10,182	288	14	\$ 82.20	\$ 116	\$ 14	\$ 5	\$ 134	\$ 519	1,249	1.179	\$ 806	\$ 0.0636	\$ 0.0155	\$ 0.0792	
Nonautomation -- Nonmach ADC	0.00%	100.00%	\$ 136.34	0.00%	\$0.04761	2,999	\$ 143	4,819	136	6	\$ 38.90	\$ 55	\$ 7	\$ 2	\$ 63	\$ 245	1,249	1.179	\$ 381	\$ 0.0636	\$ 0.0155	\$ 0.0792	
Nonautomation -- Mach Mixed AADC	82.65%	25.61%	\$ 44.77	74.39%	\$0.01379	3,845	\$ 53	6,178	45	8	\$ 14.45	\$ 70	\$ 9	\$ 3	\$ 35	\$ 149	1,249	1.179	\$ 228	\$ 0.0302	\$ 0.0068	\$ 0.0369	
Nonautomation -- Mach AADC	82.65%	25.61%	\$ 9.06	74.39%	\$0.01379	778	\$ 11	1,250	9	2	\$ 2.92	\$ 14	\$ 2	\$ 1	\$ 7	\$ 30	1,249	1.179	\$ 46	\$ 0.0302	\$ 0.0068	\$ 0.0369	
Nonautomation -- Nonmach 3-Digit	0.00%	100.00%	\$ 20,273.51	0.00%	\$0.04761	445,948	\$ 21,232	716,554	20,274	958	\$ 5,784.66	\$ 8,153	\$ 1,001	\$ 321	\$ 9,436	\$ 36,492	1,249	1.179	\$ 56,715	\$ 0.0636	\$ 0.0155	\$ 0.0792	
Nonautomation -- Nonmach 5-Digit	0.00%	100.00%	\$ 6,760.23	0.00%	\$0.04761	148,702	\$ 7,080	238,936	6,760	320	\$ 1,928.90	\$ 2,719	\$ 334	\$ 107	\$ 3,146	\$ 12,168	1,249	1.179	\$ 18,912	\$ 0.0636	\$ 0.0155	\$ 0.0792	
Nonautomation -- Mach 3-Digit	84.92%	23.57%	\$ 4,173.74	76.43%	\$0.01286	389,499	\$ 5,011	625,850	4,174	837	\$ 1,365.19	\$ 7,121	\$ 874	\$ 280	\$ 3,469	\$ 14,652	1,249	1.179	\$ 22,395	\$ 0.0292	\$ 0.0065	\$ 0.0358	
Nonautomation -- Mach 5-Digit	84.92%	23.57%	\$ 903.96	76.43%	\$0.01286	84,359	\$ 1,085	135,548	904	181	\$ 295.68	\$ 1,542	\$ 189	\$ 61	\$ 751	\$ 3,173	1,249	1.179	\$ 4,850	\$ 0.0292	\$ 0.0065	\$ 0.0358	
Automation Mixed AADC	80.07%	27.93%	\$ 22,724.42	72.07%	\$0.01485	1,789,429	\$ 26,570	2,875,272	22,724	3,845	\$ 7,238.99	\$ 32,716	\$ 4,017	\$ 1,288	\$ 17,188	\$ 71,830	1,249	1.179	\$ 110,004	\$ 0.0312	\$ 0.0070	\$ 0.0383	
Automation AADC	82.54%	25.72%	\$ 18,192.08	74.28%	\$0.01384	1,556,106	\$ 21,536	2,500,365	18,192	3,344	\$ 5,867.53	\$ 28,450	\$ 3,493	\$ 1,120	\$ 14,394	\$ 60,467	1,249	1.179	\$ 92,513	\$ 0.0302	\$ 0.0068	\$ 0.0370	
Auto 3-Digit Letters	83.65%	24.72%	\$ 160,186.04	75.28%	\$0.01338	14,257,440	\$ 190,834	22,908,988	160,186	30,638	\$ 51,993.14	\$260,668	\$ 32,004	\$ 10,266	\$129,591	\$ 545,765	1,249	1.179	\$ 834,623	\$ 0.0298	\$ 0.0067	\$ 0.0364	
Auto 5-Digit Letters CSBCS/Manual Sites	49.85%	55.13%	\$ 57,232.55	44.87%	\$0.02721	2,283,389	\$ 62,139	3,668,971	57,233	4,907	\$ 16,930.02	\$ 41,747	\$ 5,126	\$ 1,644	\$ 31,891	\$ 127,586	1,249	1.179	\$ 196,995	\$ 0.0434	\$ 0.0102	\$ 0.0537	
Auto 5-Digit Letters Other Sites	88.26%	20.57%	\$ 80,199.53	79.43%	\$0.01150	8,576,438	\$ 98,629	13,780,700	80,200	18,430	\$ 26,871.82	\$156,802	\$ 19,252	\$ 6,175	\$ 72,253	\$ 307,731	1,249	1.179	\$ 469,641	\$ 0.0279	\$ 0.0062	\$ 0.0341	
Auto 5-Digit Letters	80.18%	27.84%	\$137,432.08	72.16%	\$0.01480	10,859,827	\$ 160,769	17,449,671	137,432	23,337	\$ 43,801.84	\$198,549	\$ 24,378	\$ 7,820	\$104,144	\$ 435,317	1,249	1.179	\$ 666,636	\$ 0.0312	\$ 0.0070	\$ 0.0382	
Auto CR Letters	52.54%	52.71%	\$ 10,051.31	47.29%	\$0.02611	419,416	\$ 10,953	673,921	10,051	901	\$ 2,984.06	\$ 7,668	\$ 941	\$ 302	\$ 5,695	\$ 22,848	1,249	1.179	\$ 35,259	\$ 0.0424	\$ 0.0100	\$ 0.0523	
Presort Letters Subtotal	80.02%	27.98%	\$381,185.61	72.02%	\$0.01487	29,964,684	\$ 445,576	48,147,533	\$381,185.62	64,391	\$ 121,398	\$547,842	\$ 67,263	\$ 21,576	\$288,055	\$1,203,656	1,249	1.179	\$1,843,368	\$ 0.0314	\$ 0.0071	\$ 0.0383	
Presort Letters Subtotal*Check			\$381,185.62			29,964,684	\$445,576.32	48,147,533	\$381,185.62	\$64,390.70	\$121,398.46	\$547,842	\$ 67,263	\$ 21,576	\$288,055	\$1,203,656	1,249	1.179	\$1,843,368	\$ 0.0312	\$ 0.0071	\$ 0.0383	
Formula - Source of Column - Source Row 18 (Column Total) if applicable																							
(1) Witness Abdurahman model																							
(2) 1-(0.9^(1))																							
(3) Casing cost per piece * volume cased - worksheet 'Casing'																							
(4) 1-(2)																							
(5) Casing + Noncasing cost per piece - worksheet 'Casing'																							
(6) City volume divided using RPW proportions - USPS-LR-L-67 workbook UDCInputs.USPS.xls worksheet 'DPS%'																							
(7) (5) * cased volume - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(8) base year originating volume - USPS-LR-L-67																							
(9) = (3) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(10) (7) - (3) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(11) (9)+(10)/(11)+(12) * tot13 - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(12) ratio of RPW volume * 7.1 cost - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(13) ratio of RPW volume * 7.2 cost - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(14) ratio of RPW volume * 6.2 cost - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(15) worksheet Ruralcosts - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(16) (9)+(10)+(11)+(12)+(13)+(14)																							
(17) USPS-LR-L-67 workbook UDCInputs.USPS.xls worksheet 'BYPack'																							
(18) USPS-LR-L-67 workbook UDCInputs.USPS.xls worksheet 'BYPack'																							
(19) (16)*(17) + (15)*(18) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(20) (16)/(8) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(21) (15) / (8) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							
(22) (19)/(8) - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 'SummaryBY'																							

	Permit Volume (1)	Permit Volume % (2)	DPS% (3)	Cased % (4)	DPS Permit Volume (5)	% of Total DPS Permit Volume (6)	DPS Cost (7)	Other Letter Permit Volume (8)	% of Total Other Letter Permit Volume (9)	Other Letter Cost (10)	Sector- Segment Permit Volume (11)	% of Total Sector- Segment Permit Volume (12)	Sector Segment Cost (13)	Boxholder Volume (14)	% of Boxholder Permit Volume (15)	Boxholder Cost (16)	Postage Due Volume (17)	% of Postage Due Permit Volume (18)	Postage Due Cost (19)	Total Rural (20)
First Class Presort Letters																				
Nonautomation -- Nonmach Mixed ADC	10,182	0.02%	0.00%	100.00%	-	0.00%	-	9,462	0.11%	\$ 124.63	720	0.11%	\$ 9.31	5	0.11%	\$ 0.15	0.04	0.0211%	\$ 0.0034	\$ 134
Nonautomation -- Nonmach ADC	4,819	0.01%	0.00%	100.00%	-	0.00%	-	4,478	0.05%	\$ 58.98	341	0.05%	\$ 4.41	2	0.05%	\$ 0.07	0.02	0.0100%	\$ 0.0016	\$ 63
Nonautomation -- Mach Mixed AADC	6,178	0.01%	82.65%	25.61%	5,106	0.01%	21	996	0.01%	\$ 13.12	76	0.01%	\$ 0.98	1	0.01%	\$ 0.02	0.03	0.0128%	\$ 0.0021	\$ 35
Nonautomation -- Mach AADC	1,250	0.00%	82.65%	25.61%	1,033	0.00%	4	202	0.00%	\$ 2.65	15	0.00%	\$ 0.20	0	0.00%	\$ 0.00	0.01	0.0026%	\$ 0.0004	\$ 7
Nonautomation -- Nonmach 3-Digit	716,554	1.49%	0.00%	100.00%	-	0.00%	-	665,878	7.45%	\$ 8,770.38	50,676	7.45%	\$ 655.04	338	7.45%	\$ 10.46	3.00	1.4882%	\$ 0.2407	\$ 9,436
Nonautomation -- Nonmach 5-Digit	238,936	0.50%	0.00%	100.00%	-	0.00%	-	222,038	2.48%	\$ 2,924.49	16,898	2.48%	\$ 218.42	113	2.48%	\$ 3.49	1.00	0.4963%	\$ 0.0803	\$ 3,146
Nonautomation -- Mach 3-Digit	625,850	1.30%	84.92%	23.57%	531,480	1.38%	2,226	87,696	0.98%	\$ 1,155.06	6,674	0.98%	\$ 86.27	44	0.98%	\$ 1.38	2.62	1.2999%	\$ 0.2102	\$ 3,469
Nonautomation -- Mach 5-Digit	135,548	0.28%	84.92%	23.57%	115,109	0.30%	482	18,993	0.21%	\$ 250.17	1,445	0.21%	\$ 18.68	10	0.21%	\$ 0.30	0.57	0.2815%	\$ 0.0455	\$ 751
Automation Mixed AADC	2,875,272	5.97%	80.07%	27.93%	2,302,325	5.98%	9,642	532,427	5.96%	\$ 7,012.68	40,520	5.96%	\$ 523.76	270	5.96%	\$ 8.37	12.03	5.9718%	\$ 0.9658	\$ 17,188
Automation AADC	2,500,365	5.19%	82.54%	25.72%	2,063,753	5.36%	8,643	405,734	4.54%	\$ 5,343.98	30,878	4.54%	\$ 399.13	206	4.54%	\$ 6.38	10.46	5.1931%	\$ 0.8398	\$ 14,394
Auto 3-Digit Letters	22,908,988	47.58%	83.65%	24.72%	19,163,296	49.74%	80,258	3,480,790	38.94%	\$ 45,846.01	264,901	38.94%	\$ 3,424.13	1,764	38.94%	\$ 54.70	95.86	47.5808%	\$ 7,6947	\$ 129,591
Auto 5-Digit Letters CSBCS/Manual Sites	3,668,971	7.62%	49.85%	55.13%	1,829,028	4.75%	7,660	1,709,819	19.13%	\$ 22,520.29	130,124	19.13%	\$ 1,681.99	867	19.13%	\$ 26.87	15.35	7.6203%	\$ 1.2323	\$ 31,891
Auto 5-Digit Letters Other Sites	13,780,700	28.62%	88.26%	20.57%	12,162,335	31.57%	50,937	1,503,912	16.82%	\$ 19,808.25	114,453	16.82%	\$ 1,479.43	762	16.82%	\$ 23.63	57.66	28.6218%	\$ 4.6287	\$ 72,253
Auto 5-Digit Letters	17,449,671	36.24%	80.18%	27.84%	13,991,363	36.32%	58,598	3,213,731	35.95%	\$ 42,328.54	244,577	35.95%	\$ 3,161.42	1,629	35.95%	\$ 50.50	73.01	36.2421%	\$ 5.8610	\$ 104,144
Auto CR Letters	673,921	1.40%	52.54%	52.71%	354,072	0.92%	1,483	297,229	3.32%	\$ 3,914.85	22,620	3.32%	\$ 292.39	151	3.32%	\$ 4.67	2.82	1.3997%	\$ 0.2264	\$ 5,695
Presort Letters Subtotal, Check	48,147,533	100.00%	80.02%	27.98%	38,527,538	100.00%	161,358	8,939,654	100%	\$ 117,746	680,341	100.00%	\$ 8,794.14	4,532	100.00%	\$ 140.48	201.46	100.0000%	\$ 16.1719	\$ 288,055
Presort Letters Subtotal*	48,147,533																			288,055
	48,147,533	100%			\$ 38,527,538	100%	\$ 161,358	\$ 8,939,654	100%	\$ 117,746	680,341	100%	\$ 8,794	453153%	100%	\$ 140.48	201.46	100%	\$ 16.17	\$ 288,055
Ratio of Oth Ltrs to the Sum of Oth Ltrs and SecSeq Ltrs	92.93%																			
Formula - Source of Column																				
(1) Originating Volume - USPS-LR-L-87																				
(2) % by rate category																				
(3) Witness Abdirahman's model																				
(4) 1-(0.9*(3))																				
(5) (3)*(1)																				
(6) % DPS by rate category																				
(7) (6) * Rural Standard Letter DPS cost - USPS-LR-67 workbook UDCModel.USPS.xls worksheet '11b Rural Disagg																				
(8) (1)-(5) *(other letters/other + sector segment) - USPS-LR-67 workbook UDCModel.USPS.xls worksheet '11b Rural Disagg																				
(9) % other by rate category																				
(10) (9) * Rural Standard Other Letter cost - USPS-LR-67 workbook UDCModel.USPS.xls worksheet '11b Rural Disagg																				
(11) (1)-(5)-(8)																				
(12) % sector segment by rate category																				
(13) (12) * Rural Standard Sector Segment cost - USPS-LR-67 workbook UDCModel.USPS.xls worksheet '11b Rural Disagg																				
(14) Ratio of total boxholder volume by rate category - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet 8.RuralCrosswalk																				
(15) total boxholder standard letters by rate category																				
(16) (15) * Rural Standard Boxholder letter cost - USPS-LR-67 workbook UDCModel.USPS.xls worksheet '11b Rural Disagg																				
(17) total postage due standard letters by rate category																				
(18) % postage due by rate category																				
(19) (18)*Rural Standard Postage Due letter cost -USPS-LR-67 workbook UDCModel.USPS.xls worksheet '11b Rural Disagg																				
(20) (7)+(10)+(13)+(16)+(19) - USPS-LR-67 workbook UDCModel.USPS.xls worksheet 'Summary BY																				

Line No.		Total In-Office Direct Labor Casing Plus Non-Casing, All Route Groups	Casing Portion Of In-Office Direct Labor, All Route Groups	Casing Portion Of In-Office Direct Labor, Letter Routes Only	Non-Casing Portion Of In-Office Direct Labor, All Route Groups	Assumed % Dps Mail Cased	CCS Volume	% DPS	% Cased	% Non-Cased	In-Office Direct Labor Casing Cost Per CCS Piece - Cased Pieces	In-Office Direct Labor Casing Plus Non-Casing Cost Per CCS Piece - Cased Pieces	In-Office Direct Labor Non-Casing Cost Per CCS Piece - Applied to All Pieces
	Col. No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Units	\$(000)	\$(000)	\$(000)	\$(000)		Pieces (000)						
	Source/Calculations	IOCS CARMM	IOCS CARMM	IOCS CARMM	IOCS CARMM			Theoretical Model	(1 - C7) + (C7 x C5)	C7 x (1 - C5)	C2 / (C8 x C6)	C2 / (C8 x C6) + C12	C4 / C6
1	FC Presort - Letter-Shape Pieces Only	445,576	381,186	373,394	64,391	10.0%	29,964,684	80.02%	27.98%	72.02%	0.0455	0.0476	0.0021

Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-20

Please refer to your response to Interrogatory MMA/USPS-T30-7, specifically where you acknowledge the anomaly suggested by Part (e) and your explanation in Part (f). Please explain why you feel it is appropriate to rely on this data for your purposes of deriving DPS %s for First Class Automation and Nonautomation letters when the volume of Nonautomation letters is clearly outside the bounds of reasonableness?

Response:

Given the inherent difficulties in post hoc identification of letters as either Automation rate versus Non-Automation rate, any procedure to disaggregate costs along this dimension will face significant challenges. I felt that the best option available to me was to use the DPS percentages from the carrier systems, as opposed to a theoretical model, for two reasons. First, the Postal Service no longer believed that the model used to derive DPS percentages was valid. Secondly, the consolidation in the instant docket (as compared with Docket No. R2005-1) of unit delivery costs to a higher level of aggregation, separate costs for First Class Auto/Non-Auto only, permitted me to use the information collected on city and rural routes which is specifically designed to allocate city street delivery costs and all rural delivery costs to classes of mail. I viewed as beneficial the ability to confine my analysis to data collected by the carrier cost systems, rather than having to rely on estimates from another source.

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.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
July 12, 2006