

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 VALPAK (VP/USPS-T30-23 - 25)
(July 19, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of ValPak, Inc., filed on July 5, 2006: VP/USPS-T30-23 - 25.

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 19, 2006

**Response of Postal Service Witness Kelley to Interrogatories
Posed by Valpak**

VP/USPS-T30-23.

Please refer to your response to VP/USPS-T30-10, and the table in which you provide unit delivery costs — that you do not endorse — for DALs delivered by city carriers.

- a. The volume variable street time cost for a Cased DAL and Host-Piece Sequenced Flat, as shown in your table, is \$0.0462. That amount is not equal to the sum of (i) a Cased DAL (\$0.0254) and (ii) a Sequenced Flat (\$0.0198), the sum of which equals \$0.0452. Please explain the difference.
- b. The volume variable street time cost for a Sequenced DAL and Host-Piece Sequenced Flat, as shown in your table, is \$0.0380. That amount is not equal to the sum of (i) a Sequenced DAL (\$0.0171) and (ii) a Sequenced Flat (\$0.0198), the sum of which equals \$0.0369. Please explain the difference.

Response

- a. and b. My revised response to VP/USPS-T30-10 resolves the issues posed in these questions.

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VP/USPS-T30-24.

Please refer to your response to VP/USPS-T30-10, and the table in which you provide unit delivery costs — that you do not endorse — for DALs delivered by city carriers. Also refer to the Postal Service “Request,” Attachment A, page 21, footnote 7, which proposes a 1.5 cent surcharge for DALs.

- a. On those occasions when city carriers case DALs, what is the estimated unit cost per DAL?
- b. What is the combined, weighted average in-office and street time unit cost per DAL for city carriers to process and deliver DALs? Please explain how your answer is derived.
- c. What is the average unit cost per DAL for rural carriers to handle DALs? Please explain how your answer is derived.

Response

a. and b. My revised response to VP/USPS-T30-10 only refers to street time unit (per CCCS piece) delivery costs. The table below shows the in-office and street costs and unit costs for a cased Saturation DAL (per CCCS) piece for the base year. The last row of the table shows the unit cost per DAL delivered on city routes to equal 3.768 cents. It is derived by taking the ratio of the aggregate piggybacked office and street DAL costs to the DAL volume delivered on city routes.

ECR Saturation DAL	Volume (000)	In-Office Costs (000) (Piggy included)	Street Costs (000) (Piggy included)	In-Office Unit Cost (Cents)	Street Unit Cost (Cents)	City (Office and Street)Unit Cost (Cents)
Cased	1,292,953	\$43,509	\$32,876	3.365	2.543	5.908
Sequenced	1,514,931	\$ 3,423	\$25,997	0.226	1.716	1.942
Total	2,807,885	\$46,932	\$58,873	1.671	2.097	3.768

c. The estimated base year unit cost for rural carriers to 5.265 cents per DAL delivered on rural routes. This is derived by taking a weighted average, by volume, of the unit costs from the relevant compensation categories for DALs. Since USPS-LR-L-67 assumes that no DALs are DPS'd, the relevant

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compensation categories and units costs for DALs are 1) 'Other Letters' (unit cost 4.508 cents) and 2) 'Boxholder' (unit cost 3.100 cents). Applying the appropriate weights of 0.97 and 0.03 (based on assumption that three percent of DALs on rural routes use simplified addresses) to the 'Other Letter' and 'Boxholder' unit costs, respectively, produces a base year unit cost without piggybacks of 4.465 cents. Applying the base year piggyback factor of 1.179 produces a base year cost of 5.265 cents per DAL delivered on rural routes.

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VP/USPS-T30-25.

Please refer to the delivery costs for ECR letters, as contained in (1) USPS-LR-L-67 (at USPS costing) and USPS-LR-L-101 (at PRC costing) in the instant docket and (2) USPS-LR-K-67 (at USPS costing) and USPS-LR-K-107 (at PRC costing) in Docket No. R2005-1.

Please explain why high-density letters were shown as a separate category in the studies of Docket No. R2005-1 but are not shown as a separate category in the studies of the instant docket, and describe the effects of this change.

Response

Although I do not believe that it has any effect on my answer, in your question, I assume you meant to refer to USPS-LR-K-101, rather than USPS-LR-K-107.

After discussions with rate design personnel, it was my understanding that aggregated ECR Non-Saturation unit delivery costs, as subsequently presented in USPS-LR-L-67 and USPS-LR-L-101, would be sufficient for their purposes. Specifically, no one told me that they needed disaggregated rate category costs for the Non-Saturation rate categories. As a result, I decided to combine all of the ECR Non-Saturation rate categories, by shape, into average unit delivery costs. This has no effect on the underlying costs, but it could lead to misinterpretation of the reported costs. Specifically, if one were to assume (erroneously) that the aggregate unit delivery cost reported for ECR Non-Saturation is equal for each rate category to the unit cost estimate that would result if each component were estimated separately, one would be overstating the unit cost of High Density letters, as in reality the costs for High Density are lower than those for the other components of the aggregate Non-Saturation costs.

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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