

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 BRADLEY
TO INTERROGATORIES OF VALPAK (VP/USPS-T14-15 – 17)
(July 24, 2006)

The United States Postal Service hereby provides the response of witness Bradley to the following interrogatories of ValPak, Inc., filed on July 10, 2006: VP/USPS-T14-15 - 17. Questions 18 - 19 have been redirected to the Postal Service, they relate to the same 2004 data collection effort that was the subject of POIR No. 4, items 4-12, and therefore the Postal Service anticipates providing responses to those questions (along with 13-14) concurrently with its responses to POIR No. 4, items 4-12.

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 24, 2006

Response of Postal Service Witness Michael D. Bradley
To Interrogatories Posed by Valpak

VP/USPS-T14-15.

This interrogatory concerns your testimony (USPS-T-14) in Docket No. R2005-1, which is referenced in your testimony in this docket (USPS-T-14, p. ii, l. 16). The purpose of this interrogatory is to obtain information about the data entries for sequenced mail in your CCSTS data set, which provides the basis for the recommended volume variability derived from your econometric analysis and discussed at pages 34-41 of your testimony (USPS-T-14) in Docket No. R2005-1.

- a. What was the total number of observations in the CCSTS data set used for your Full Quadratic and Restricted Quadratic regression analyses (*i.e.*, the number of observations after completion of all editing)?
- b. In how many of those observations was the volume of sequenced mail greater than zero?
- c. In how many of those observations was the volume of sequenced mail equal to zero?

VP/USPS-T14-15 Response:

- a. 1,545.
- b. 702.
- c. 843.

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VP/USPS-T14-16.

- a. In view of the density requirement for saturation mail, would you agree that, with respect to an individual route, it essentially tends to be an “all or nothing” proposition for a mailer (*i.e.*, either mail to all, or almost all, of the addresses on the route, or don’t mail to that route)? Please explain fully any disagreement.
- b. Would you agree that the other variables for mail delivered by city carriers in your model — *i.e.*, letters, flats, and small parcels — are likely to appear on every route, whereas city carriers on some routes may never have a saturation (“sequenced”) mailing to deliver? Please explain fully any disagreement.
- c. Would you agree that saturation mailers tend to mail recurringly to the same areas, and on a fairly regular basis, but some saturation mailers mail to some areas weekly, whereas some may mail to other areas only monthly? Please explain fully any disagreement.
- d. In view of the facts that (i) saturation mail is not sent to all routes or ZIP codes, (ii) saturation mailers send their mail on a fairly regular basis, but mail weekly to some areas and only monthly to other areas, and (iii) the survey data covered only 11 delivery days, with an important holiday in the middle of the survey period, please discuss:
 - (i) what checks you made at the time you did your analysis to ascertain whether the data for sequenced mail were reasonably representative of the universe; and
 - (ii) why, in retrospect, the sequenced mail data used in your analysis should be viewed as reasonably representative of the universe of saturation mail that is taken directly to the street by carriers as sequenced mail.

VP/USPS-T14-16 Response:

- a. While your assertion sounds plausible, I am not sufficiently familiar with the strategies taken by saturation mailers to provide an informed confirmation or denial.
- b. I would agree that letter and flats tend to appear on routes with a daily frequency. On the other hand, I think it is quite possible for a particular route to receive no small parcels on a given day. I would also agree that there will be days in which entire routes deliver no sequenced mailings (as defined by the Postal Service). I am informed that it is unlikely that there may be routes that have never received a sequenced mailing.

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- c. I am not sufficiently familiar with the patterns of mailing by saturation mailers to provide an informed confirmation or denial.
- d.i. The CCSTS database is at its core a “cross-sectional” database in which the values of both the dependent and independent variables vary across observational units. Thus, there are multiple realizations of the underlying relationship between dependent and independent variables. I thus checked to ensure that the sample underlying the CCSTS was selected randomly following accepted statistical practice for such a data collection efforts. It is my understanding that the ZIP CODES included in the study were randomly selected to provide a sample that reflects the characteristics of the national city carrier delivery network, to provide acceptably accurate estimates of the cost pool proportions, and to provide sufficient observations to support an econometric analysis of the relationship between delivery time and volume. In addition, it is my understanding that the sample was taken at a time to avoid the known seasonal peaks and troughs in mail delivery.
- d.ii. If one takes the assertions presented in the question as being stipulated, it is my sense that the CCSTS database reflects the characteristics of sequenced mail described. For example, it includes observations in which there is no sequenced mail being delivered despite the presence of other letters and flats being delivered as well as observations in which a sequenced mainlining is being delivered. This reflects the described characteristic of sequenced mail being targeted to some areas

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and not in others. In addition, it is my sense that when there is sequenced mail being delivered, in many observations, the number of sequenced mail pieces delivered on a route is quite close to or equal to the number of delivery points. This reflects the characteristic of sequenced mail being “all or nothing.”

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VP/USPS-T14-17.

In your testimony (USPS-T-14) in Docket No. R2005-1, which is referenced in your testimony (USPS-T-14, p. ii, l. 16) in this docket at pages 40-41, lines 6-8, you explained that “the variabilities listed in Table 6 ... do *not* reflect the relative marginal delivery times for each shape.” (Emphasis original.) Please explain how the marginal delivery times (and marginal cost) for each shape can be derived from your analytic approach.

VP/USPS-T14-17 Response:

The marginal times for regular delivery in delivery sections that are embodied in the estimated equations can be calculated with the following formula:

$$MT_{ij} = \varepsilon_{ij} \frac{T_{ij}(\bar{V}, \bar{X})}{\bar{V}_{ij}} = \frac{\partial T_{ij}}{\partial V_{ij}},$$

where MT_{ij} is the marginal time for shape “i” in specification “j,” ε_{ij} is the variability for shape “i” in specification “j,” \bar{V}_{ij} is the average volume for shape “i” in specification “j,” and $T_{ij}(\bar{V}, \bar{X})$ is the delivery time for specification j evaluated at the mean values for volumes and non-volume variables (X).

In concept, calculating marginal cost by shape would require calculating the total volume variable cost by shape and the dividing that by the originating volume for that shape. Note that this is more complex than the above calculation, because it requires calculating volume variable costs by shape across a number of cost pools and then combining them.

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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