

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-T30-21 - 28)  
(July 28, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of the Major Mailers Association., filed on July 14, 2006:

MMM/USPS-T30-21 – 28.

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 28, 2006

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

### **MMA/USPS-T30-21**

Please refer to your response to Interrogatory MMA/USPS-T30-17. In your response you isolate and identify which delivery cost segments have changed significantly from the test years in R2005-1 and R2006-1.

A. In your response to Part (B), you note that cost segment 6.1 (direct casing) appears to increase by 3.6% for First-Class presort but just 0.5% for First-Class single piece. Can these results be explained by some specific phenomenon, for example, a change in the way cost data was collected or a significant change in the number of letters that can be delivery point sequenced (DPSed), or simply the result of unanticipated year to year fluctuations in the make-up of mail and/or the manner in which the Postal Service processes the letters for delivery? Please explain your answer.

B. In your response to Part (C), you note that cost segment 6.1 (direct casing) appears to increase by 3.6% for First-Class Automation but decreases by 0.7% for Standard Machinable Can these results be explained by some specific phenomenon, for example, a change in the way cost data was collected or a significant change in the number of letters that can be DPSed, or simply the result of unanticipated year to year fluctuations in the make-up of mail and/or the manner in which the Postal Service processes the letters for delivery? Please explain your answer.

C. In your response to Part (F), you note that cost segment 6.1 (direct casing) appears to increase by 1.7% for First-Class Presort but decreases by 3.0% for Standard Regular. Can these results be explained by some specific phenomenon, for example, a change in the way cost data was collected or a significant change in the number of letters that can be DPSed, or simply the result of unanticipated year to year fluctuations in the make-up of mail and/or the manner in which the Postal Service processes the letters for delivery? Please explain your answer.

### **Response**

A. My response to Interrogatory MMA/USPS-T30-17 (B) compared the change in unit delivery costs between First Class Presort Automation and First Class Single Piece letters. When comparing those two rate categories, the 6.1 direct casing costs increase by 3.6 and 0.5 percent for First Class Presort Automation and First Class Single Piece letters respectively.

The 3.6 percent increase in 6.1 direct casing costs for First Class Presort automation letters must be analyzed in conjunction with the 1.7 percent increase in 6.1 direct casing costs for First Class Presort automation and non-automation

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letters combined. The reason the percentage increase was higher for the automation rate category (and lower for the non-automation category) is due to the different estimated DPS percentages for automation letters used for the two years. USPS-LR-L-67 uses the DPS percentages to partition First Class Presort letter 6.1 costs to rate categories. In Docket No. R2005-1, the DPS percentage for First Class automation letters was 83.38 percent and in Docket No. R2006-1 the corresponding DPS percentage was 76.71 percent ( $0.9 \times 85.24\%$ ). The lower DPS percentage causes a higher proportion of First Class Presort letter costs being allocated to automation letters this year as opposed to last year.

The 0.5 percent change in 6.1 direct casing costs for First Class Single Piece letters is small enough that it appears to me to be within the expected year to year sampling variation.

B. My response to part A. addressed the reason for the increase in First Class Presort Automation 6.1 direct casing costs. My understanding is that the reduction in 6.1 direct casing costs for Standard Regular Machinable letters may be explained by the introduction of the IOCS redesigned data collection instrument. Witness Bozzo (USPS-T-46) discusses this issue further on page 38 of his direct testimony.

C. I assume that nature of your question is to seek an explanation on why the year to year change in 6.1 direct casing costs are moving in opposite directions for First Class Presort and Standard Regular letters. Both of these changes are rather small, but I will try to provide plausible explanations for each separately. I suspect that the 1.7 percent increase in First Class Presort direct casing costs is

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likely within the expected year to year sampling variation. My understanding is that the three percent decrease in casing costs for Standard Regular letters may be explained by the introduction of the IOCS redesigned data collection instrument. Witness Bozzo (USPS-T-46) discusses this issue further on page 38 of his direct testimony.

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### MMA/USPS-T30-22

Please refer to your response to Interrogatory MMA/USPS-T30-18, which asked you about your **original** response to Interrogatory MMA/USPS-T30-6, where you showed, among other things, that, for TY 2008, the unit delivery cost per originating piece for stamped letters (7.608 cents) is lower than the comparable unit delivery cost for metered letters (9.316 cents). On July 12, 2006, you filed a revised response to Interrogatory MMA/USPS-T30-6 showing that, for TY 2008, the unit delivery cost per originating piece for stamped letters (7.613 cents) is lower than the comparable unit delivery cost for metered letters (7.960 cents). Based on those revisions, in response to Part B of MMA/USPS-T30-18 you state that you do not conclude that Single Piece stamped letters cost **more** to deliver than metered letters. Can you now confirm that stamped letters cost **less** to deliver than metered letters? If yes, please support your answer. If no, please explain why not.

### Response

The fact that the unit delivery cost, per originating piece, for stamped letters is less than for metered letters leads me to conclude that it costs less to deliver stamped letters than metered letters. Speculating further on a possible reason for this result, I suspect that a smaller proportion of stamped letters are delivered by city and rural carriers than metered letters. I envision a large portion of metered mail originating with businesses being sent to residences or other businesses. My view is that bill payments represent a significant portion of stamped volume, and often are delivered to post office boxes, thus not incurring delivery costs. However, since the city and rural carrier cost systems do not distinguish between stamped and metered volume, my supposition cannot be verified.

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### **MMA/USPS-T30-23**

In response to Interrogatory MMA/USPS-T30-19 (C) you state “[t]he 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.” Please explain why the unit direct casing costs are higher for metered letters than for stamped letters. Do you believe these results are reasonable? If yes, please explain why. If no, please explain why not.

### **Response**

I don't know. For the purposes of responding to this question, I will speculate on a possible reason that the unit direct casing costs for metered letters are higher than for stamped letters. I suspect that a larger proportion of stamped letters are delivered by city carriers than metered letters. I envision a large portion of metered mail originating with businesses being sent to residences or other businesses. My view is that bill payments represent a significant portion of stamped letters, and often are delivered to post office boxes, thus not incurring carrier casing costs. I conclude that there are more metered letters for city carriers to case, and as a result the unit casing cost per originating piece is higher for metered letters than stamped letters. However, since the city carrier cost system does not distinguish between stamped and metered volume delivered by city carriers, my supposition cannot be verified.

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### **MMA/USPS-T30-24**

Please refer to your revised attachment to Interrogatory MMA/USPS-T30-6, particularly where you compute the total piggybacked costs for R2006-1 BY 2005 using the USPS attributable cost methodology. Please explain why the base year total piggybacked cost for all First-Class single piece letters is now \$3,094,367 (in 000's) when the comparable figure in your original answer and the comparable figure shown in USPS-LR-L-67 is \$2,795,360 (in 000's).

### **Response**

I do not understand the nature of your question. In my revised response to MMA/USPS-T30-6, the base year total piggybacked cost for First Class Single Piece letters is \$2,795,360, as it is in USPS-LR-L-67.

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### **MMA/USPS-T30-25**

Please refer to your revised response to Interrogatory MMA/USPS-T30-2. In that revised answer you show that, if a letter is delivered by a city or rural carrier, it costs the Postal Service 13.01 cents to deliver a First-Class metered letter and 4.55 cents to deliver a First-Class automation letter.

A. Please confirm that, on average, a single piece metered letter costs 8.46 (13.01 – 4.55) cents more to prepare for delivery and deliver than a First-Class automation letter. If you cannot confirm without qualification, please explain.

B. Please confirm that on average, 89.6% of First-Class automation letters are delivered by city or rural carriers. (See your response to MMA/USPS-T30-11). If you cannot confirm, please explain.

C. Please confirm that of the 8.46 cent difference between the cost of preparing for delivery and delivering a First-Class single piece metered letter and the comparable cost for a First-Class automation letter, 89.6% of the difference, or 7.58 cents, is the result of delivery cost differences and 10.4% of the difference or 0.88 cents is due to the fact that 10.4% of automation letters do not require delivery service. If you cannot confirm, please explain.

### **Response**

A. Not confirmed. My interpretation of “prepare for delivery and deliver” is that collection costs should be excluded. However, the 13.01 unit cost for metered letters, per delivered piece, includes collection costs. The unit collection cost for metered letters per delivered piece is approximately 4.22 cents. Subtracting the unit collection cost from the total delivery cost equals a unit cost of 8.79 cents “to prepare for delivery and deliver” metered letters. Comparing this cost with the 4.55 cents for First Class automation letters (which incur no collection costs) gives a difference of 4.24 cents between the two delivery (without collection) costs.

B. Confirmed.

C. Not confirmed. The unit costs of 13.01 and 4.55 cents for metered and automation letters respectively are per delivered piece. If these figures were per

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originating piece, then differences in the proportion of delivered pieces between the two categories might explain part of the discrepancy. Since these are per delivered piece, however, I do not see how the differences between the unit costs can be divided between the delivered and non-delivered proportions.

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### **MMA/USPS-T30-26**

Please refer to the attachment to your July 12, 2006 revised response to Interrogatory MMA/USPS-T30-6 and the following explanatory statement on the cover of that response: The response to MMA/USPS-T30-6 is being revised because the in [sic] original response, Information Based indicia (IBI) volume was included with 'Other Letters,' but the costs were included with 'Metered Letters'. In the revised response, both the costs and volumes associated with IBI are included with 'Metered Letters'.

- A. When you provided a similar response to R2005-1 Interrogatory MMA/USPS-T16-6, please confirm that IBI volumes were included with 'Other Letters'. If no, please indicate where IBI volumes were included and why it was done that way.
- B. When you provided a similar response to R2005-1 Interrogatory MMA/USPS-T16-6, were IBI costs included with 'Metered Letters' or with 'Other Letters'?
- C. When you provided a similar response to R2005-1 Interrogatory MMA/USPS-T16-6, was that response accurate or should you have made the same modifications to the IBI volumes that you have made in your revised response to Interrogatory MMA/USPS-T30-6?

### **Response**

- A. Confirmed. In my response to MMA/USPS-T16-6 (Docket No. R2005-1), I included IBI volume with 'Other Letters'.
- B. In my response to MMA/USPS-T-16-6 (Docket No. R2005-1), IBI costs were included with 'Metered Letters'.
- C. My response to MMA/USPS-T16-6 (Docket No. R2005-1) was incorrect. The same modifications to my response that I made to my revised response to MMA/USPS-T30-6 (Docket No. R2006-1) would have been applicable in that docket as well.

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### **MMA/USPS-T30-27**

Please refer to your response to Part A of Interrogatory MMA/USPS-T30-18 where you state that you think that two delivery costs per originating piece are comparable “in some sense” even if some portion of the originating pieces does not incur delivery costs. Please assume that there are two categories of letters: Category A has a unit delivery cost per originating letter of 5 cents and Category B has a unit delivery cost per originating letter of 7 cents. The percentage of pieces that are actually delivered by city and rural carriers are different.

A. Which category of letters, A or B, costs more to deliver? Please explain your answer.

B. Now please assume that 60% of Category A letters are actually delivered by city and rural carriers while 90% of Category B letters are actually delivered by city and rural carriers. Under this assumption, please confirm that the unit cost to deliver letters in Category A is 8.3 cents and the unit cost to deliver letters in Category B is 7.8 cents. If you cannot confirm, please explain.

C. Under the assumption in Part (B), which category of letters, A or B costs more to deliver. Please explain your answer.

D. Please explain in what “sense” the unit delivery costs per originating piece are comparable.

### **Response**

A. On a unit basis per originating letter, Category B letters cost more to deliver.

B. If your unit delivery costs are per delivered piece, then I confirm.

C. Per originating letter, Category B letters costs more to deliver. In terms of total cost, I cannot tell without knowing the originating volume for each category.

D. Unit delivery costs per originating piece are comparable since both are the ratios of volume variable delivery costs (cost segments 6, 7, and 10) to originating volume.

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### **MMA/USPS-T30-28**

Please refer to your response to Interrogatory MMA/USPS-T30-13. That interrogatory referred you to R2006-1 Library Reference USPS-LR-L-67, book UDCModel.USPS.xls, sheets 2.Summary TY and 11.Summary BY and your response to R2005-1 Interrogatory MMA/USPS-T16-13. You were then asked to provide a table, similar to the one you provided in R2005-1, showing delivery costs for First Class single piece letters with collection costs removed for R2006- 1 BY 2005 and TY 2008. Instead of providing the requested table, your response provided the results and instructions on how to derive them. As part of informal discussions to clarify your instructions, MMA received the attached table (MMA.13.rewrite.collect.xls) from USPS counsel.

A. Please confirm that the attached table was prepared by you or under your direction and supervision.

B. Please confirm that the table accurately shows, for R2006-1 BY 2005 and TY 2008, collection costs for First Class single piece letters, flats, and parcels, and the total and unit delivery costs without collection costs by shape.

### **Response**

A. Confirmed.

B. Confirmed.

## 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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