

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-T30-29 - 31)  
(August 16, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of the Major Mailers Association., filed on August 2, 2006: MMM/USPS-T30-29 – 31.

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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August 16, 2006

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

**MMA/USPS-T30-29**

Please refer to your response to Interrogatory MMA/USPS-T30-21. In your response to part (A) you claim that cost segment 6.1 costs for Automation letters increased by 3.6 % compared to a .5 % increase for single piece letters, as measured in the test years in R2005-1 and R2006-1. You also claim that within First-Class presorted letters, there was an average increase of 1.7 % and that "[t]he 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."

A. Please confirm that within First-Class presorted letters, the cost segment 6.1 increases for automation and nonautomation letters were 3.6% and **minus** 49.0 %, respectively. If you cannot confirm, please provide the increase/decrease for nonautomation letters, and show how you derived it.

B. Please confirm that, in R2005-1, the DPS % for all nonautomation letters was 46.76%. If you cannot confirm, please provide the DPS % for nonautomation letters, and show how you derived it.

C. Please confirm that, in R2006-1, you found the DPS % for nonautomation letters was 69.50 % ( $77.22\% \times .90$ ). If you cannot confirm, please provide the DPS % for nonautomation letters in R2006-1, and show how you derived it.

D. Please confirm that the nonautomation DPS % used in R2005-1 was based, in part, on 10-year old data that significantly understated the number of nonautomation letters that were machinable, as described in USPS witness Loetscher's response to MMA/USPS-T22-5 (C) and (D) (redirected from USPS witness Abdirahman). If you cannot confirm, please explain.

E. Please confirm that delivery costs for First-Class automation letters did not increase by 3.1% as you imply, but that the 3.1% increase results because of a significant understatement in nonautomation delivery costs in R2005-1, which in turn was caused by using 10-year old data, which understated the number of nonautomation letters that were machinable. If you cannot confirm, please explain.

Response

A. Not confirmed. In the context of the calculations I performed in my response to MMA/USPS-T30-17, the corresponding percentage change for 6.1 Direct Casing costs for non-automation letters is minus 21.9 percent, as I stated in response to MMA/USPS-T30-17D. The formula used for both percentage changes is the following:

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$$\frac{\left( (TY08 \text{ 6.1(Direct Casing) Costs}_i \times TY08 \text{ Piggy}_{FC \text{ Presort}}) / TY08 \text{ Volume}_i \right) - \left( (TY06 \text{ 6.1(Direct Casing) Costs}_i \times TY06 \text{ Piggy}_{FC \text{ Presort}}) / TY06 \text{ Volume}_i \right)}{TY06 \text{ UDC}_i}$$

*UDC* Unit Delivery Cost  
*i* Rate Category

B. Confirmed.

C. Confirmed.

D. I don't know how the DPS percentages from R2005-1 were derived. If the figures in the tables included with MMA/USPS-T22-5 are correct, they do indicate a significant decrease in the percentage of First Class non-machinable non-automation letters from BY05 as compared to BY04.

E. I am unsure of the 3.1 percent increase you refer to in the question. I will assume that you meant the 3.6 percent increase in 6.1 direct casing costs as calculated in part A for First Class Presort automation letters.

Not confirmed. If, as the question suggests, the DPS percentage for First Class non-automation letters was too low in Docket R2005-1, the direct casing unit costs for First Class non-automation letters would have been overstated, not understated, in Docket R2005-1. I don't know the impact of the understatement of automation letter 6.1 direct casing costs in Docket R2005-1 due to the use of the lower DPS percentage, but I suppose it could be a contributing factor to the 3.6 percent increase in direct casing unit costs referenced in the question.

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**MMA/USPS-T30-30**

Please refer to your response to Interrogatory MMA/USPS-T30-27. You were given a simple example and you confirmed that letters for Category A cost 5 cents per originating letter but 8.3 cents to deliver, and letters for Category B cost 7 cents per originating letter but 7.8 cents to deliver. The reason why Category A cost less than Category B per originating piece was that only 60% of Category A's letters were delivered by carriers while 90% of Category B letters were delivered by carriers.

A. In part (C) you were asked which letters, Category A or Category B, cost more to deliver. You answered that it costs more to deliver Category B "per originating letter", which was not the question. Then you added that you could not tell which costs more "in terms of total cost" because you do not know the originating volume of each category. That was not the question either. Given the example, does it cost the Postal Service more to deliver Category A or Category B letters? Please explain why your answer was not Category A simply because it costs 8.3 cents to deliver versus Category B, which costs 7.8 cents to deliver.

B. Please confirm that, according to the unit costs **per originating letter**, Category B letters cost more but that, according to the unit costs **per delivered letter**, Category A letters cost more. If you cannot confirm, please explain.

C. Please confirm that, under the hypothetical example given to you in Interrogatory MMA/USPS-T30-21, a comparison of the unit costs per **originating** letter did not correctly indicate which letter category costs more to **deliver**. If you cannot confirm, please explain.

D. In part (D) you were asked to explain in what "sense" the unit delivery costs **per originating letter** are comparable. You indicated that both are ratios of volume variable delivery costs (cost segments 6, 7, and 10) to originating volume. Given that, under the example given to you, 40% of Category A letters **are not delivered** by city and rural carriers and, therefore, **do not** incur delivery costs while only 10% of Category B letters **are not delivered and do not incur delivery costs**, in what sense are the ratios of volume variable delivery costs (cost segments 6, 7 and 10) to originating volumes meaningful?

Response

A. Interrogatory MMA/USPS-T30-27 was ambiguous. I was not sure if the question was referring to total delivery costs or unit delivery costs. My answer to MMA/USPS-T30-27 was not category A because it is not necessarily true that it costs more to deliver Category A than Category B. In terms of total delivery costs, it depends on the volume of each category. It could easily cost the Postal Service **less** to deliver Category A letters than Category B letters. In conjunction

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with your hypothetical example, suppose Category A has an originating volume of one-hundred and Category B has an originating volume of one-thousand.

Therefore, sixty Category A letters are delivered with a unit cost of 8.3 cents for a **total delivery cost** of \$4.98 and nine-hundred Category B letters are delivered with a unit cost of 7.8 cents for a **total delivery cost** of \$70.20. This example shows that Category B letters can cost more to deliver than Category A letters.

B. Confirmed.

C. For the purposes of answering this question, I will assume that it refers to MMA/USPS-T30-27, as a hypothetical was not posed in MMA/USPS-T30-21.

Not confirmed. As I stated in response to MMA/USPS-T30-27(C), without originating volume, I do not know which category costs more to deliver.

D. The delivery costs per originating piece between two rate categories are comparable, especially in conjunction with total unit costs by rate category (across all cost segments), since they demonstrate the proportion of the total unit cost that is consumed by delivery activities as compared with other activities (e.g. mail processing and contract transportation). The costs that the Postal Service provides in omnibus rate cases are product costs. These products utilize a broad variety of activities in varying amounts inside and outside delivery. Within delivery, these products can be delivered on city (cost segments 6 and 7) or rural (cost segment 10) routes. Outside of delivery, many of these products utilize mail processing (cost segment 3) and contract transportation (cost segment 14). The only rational basis for deriving product costs across all activities that a product consumes is per originating piece. Aggregating, for example, a cost per

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delivered piece with a cost per transported piece with a cost per mail processing piece has no meaning. This is not to say that a cost per delivered piece is meaningless. It may be helpful to delivery operations to know and understand the reasons the costs per delivered piece differ by class of mail. But that is not my understanding of the Postal Service's objective in presenting these costs. They are for the purposes of calculating product costs, and that should be done per originating piece, as has been done historically, and I have done in USPS-LR-L-67.

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**MMA/USPS-T30-31**

Please refer to your response to Interrogatory MMA/USPS-T30-28 where you confirm your previous computations regarding the removal of collection costs for First-Class single piece letters. Please review the computations provided in the table below and confirm that the resulting test year unit costs for First-Class single piece, Nonautomation and Automation letters have been correctly derived with and without collection costs and per originating piece and per delivered piece. If you cannot confirm that these computations reflect your delivery cost results, please explain why and provide corrected computations.

	(1)	(2)	(3)	(4)
First-Class Letter Category	RPW Volume (000)	City Carrier + Rural Carrier Delivered Volume (000)	Total Delivery Costs With Collection (\$000)	Total Delivery Costs Without Collection (\$000)
Single Piece	34,594,330	21,167,692	2,675,500	1,782,394
Nonautomation	1,715,306	1,536,874	80,558	80,558
Automation	45,767,558	41,006,672	1,896,595	1,896,595
Presorted	47,482,864	42,543,546	1,977,153	1,977,153

TY Unit Costs  
(Cents)

	(5)	(6)	(7)	(8)
First-Class Letter Category	Unit Delivery Cost With Collection Per Orig Piece	Unit Delivery Cost With Collection Per Delivered Piece	Unit Delivery Cost Without Collection Per Orig Piece	Unit Delivery Cost Without Collection Per Delivered Piece
Computation	$(3) / (1) * 100$	$(3) / (2) * 100$	$(4) / (1) * 100$	$(4) / (2) * 100$
Single Piece	7.734	12.640	5.152	8.420
Nonautomation	4.696	5.242	4.696	5.242
Automation	4.144	4.625	4.144	4.625
Presorted	4.164	4.647	4.164	4.647

Sources:

- (1) USPS-LR-L-67, UDCModel.USPS.xls, p. 2
- (2) MMA/USPS-T30-19, MMA.19.attach, p. UDCMMA19
- (3) USPS-LR-L-67, UDCModel.USPS.xls, p. 2
- (4) S.P.: MMA/USPS-T30-28, MMA.13.rewrite.collect.xls  
Nonauto and Auto: Col (3)

Please include in your response the derivation of, and sources for, any corrected computations

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Response

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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