

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

NOTICE OF THE UNITED STATES POSTAL SERVICE OF REVISED PAGES TO
DIRECT TESTIMONY OF WITNESS KELLEY
(USPS-T-30) --ERRATA
(August 17, 2006)

The United States Postal Service hereby provides notice of revised pages to the direct testimony of witness Kelley. The changes correct minor errors in wording, and do not change any of the results. On page 7, line 24, delete "Saturation." On page 8, line 2, add "and non-Saturation parcels." On page 10, line 14, delete "Saturation." On page 12, lines 18-19, delete "and with the same probability." The revised pages are attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1 On city routes, however, the DPS percentage is only relevant for subclasses that
2 have more than one letter shape rate category within them. For example, the DPS
3 percentage is not important in deriving the cost segment 6 volume variable cost for First
4 Class Single Piece (letter-shaped) pieces, since there is only one letter shape rate
5 category within the subclass. Therefore, the rate category gets the entire cost segment
6 6 volume variable costs that are attributed to First Class Single Piece (letter-shaped)
7 pieces.

8 For First Class Presort Letters, however, the DPS percentage is important in
9 distributing direct labor casing costs to Non-Automation letters and Automation Letters.
10 The First Class Presort Non-Automation letters receive a higher unit casing cost due to
11 the lower DPS percentage (77 percent for non-auto and 85 percent for auto) estimated
12 from the carrier cost system.

13 In summary, the current version of deriving unit delivery costs utilizes both carrier
14 cost systems to estimate the percentage of letters by rate category that pass through
15 DPS processing. This is a more consistent approach than has been used previously.
16 The impact of the change is minimal, however, since the DPS percentages estimated
17 from the carrier cost systems and the mail processing model are very similar.

18 **Sequenced Mail**

19 The purpose of this section is to explain how costs from the sequenced cost pool
20 are distributed to rate categories. The city carrier street cost model has a cost pool for
21 sequenced mail. Therefore the term sequenced mail is only relevant on city routes.
22 The total Segment 7 cost for sequenced mail (in FY 2005 \$94 million) is developed in
23 the CRA, and the current cost exercise just distributes that costs to rate categories. To
24 do so, I make the assumption that all sequenced mail is ECR mail, and thus

1 distribute the \$94 million in base year costs to letters, flats, and parcels within ECR
2 Saturation, and non-Saturation parcels.

3 As defined by Professor Bradley in his city carrier analysis upon which the CRA
4 is based, sequenced Mail is ECR Saturation mail that is delivered by the mailer to the
5 delivery unit already prepared, by the mailer, in walk sequence. By definition, the carrier
6 does not case sequenced mail, and it is delivered on the route as an additional bundle
7 or tray³. It is important to recognize that not all ECR Saturation mail is sequenced.
8 Some ECR saturation mail is delivery-point sequenced by the Postal Service. This mail
9 comes to the carrier unit intermingled with other delivery-point sequenced mail and is
10 delivered as a regular letter. It is not sequenced mail (as that term is used in city carrier
11 cost analysis) and should not be included in that cost pool.

12 In addition, on foot and park-and-loop routes, (and on park-and-loop sections
13 within all routes), the saturation mail may be cased (or collated) because the saturation
14 mail bundle, when combined with the other bundles, exceeds the carrier's capacity to
15 carry bundles. This saturation mail is also delivered like a regular letter or flat and is not
16 sequenced mail. In sum:

17 *Sequenced Mail = Total ECR Saturation – DPS ECR Saturation – Cased ECR Saturation*

18 Although the Carrier Cost System provides an estimate of the total ECR
19 Saturation volume delivered, it does not separately identify how much of ECR
20 Saturation is sequenced mail. The volume of ECR Saturation that is sequenced mail
21 must be calculated. The first part of the calculation is to identify the ECR Saturation that
22 is delivery-point sequenced. Fortunately, the Carrier Cost System measures delivery-

³ Note that mailer prepared walk sequenced mail that comes to a delivery unit but is not taken to the street as an additional bundle is not defined as Sequence Mail within the Postal Service data systems.

1 shapes. In FY 2005 the total volume variable cost of sequenced mail is \$93,989,000.
2 This is distributed to letters, flats, and small parcels according to proportions estimated
3 on the implicit assumption that the unit costs by shape of sequenced mail bear the
4 same relationship to each other as the unit costs by shape of nonsequenced mail.
5 Thus, we begin estimating the distribution proportions for sequenced mail by multiplying
6 each of the sequenced shape volumes by the unit cost for that shape of nonsequenced
7 mail. This multiplication results in \$32.3 million, \$99.5 million, and \$7.5 million for
8 letters, flats, and small parcels respectively. Aggregating those costs across the three
9 shapes equals \$139.2 million. The \$139.2 million serves as the denominator to derive a
10 distribution factor to distribute the total volume variable costs for sequenced mail to
11 shapes. The relevant proportions by shape, therefore are $32.3/139.2$, $99.5/139.2$, and
12 $7.5/139.2$. These proportions are used to distribute the \$93,989,000, which results in
13 final costs by shape for sequenced mail of \$21.8 million for ECR Saturation letters,
14 \$67.1 for ECR Saturation flats, and \$5.1 million for ECR parcels.

15 **Detached Address Labels (DALs)**

16 DALs are common with ECR Saturation flats. They consist of a card with an
17 address which usually accompanies a wrap of advertisements. DAL mailings can occur
18 with other rate categories, but they are predominantly associated with ECR Saturation
19 mailings. I do not separate out DAL costs for any other rate category because they are
20 insignificant. The reason DAL mailings require special consideration in deriving unit
21 delivery costs is that cost and volume systems within the Postal Service treat these
22 pieces differently. For example, the In-Office Cost System (IOCS) distributes tallies
23 from DALs to their host pieces. The carrier cost systems count the DALs as letters and
24 the wraps as flats. This means that the carrier cost systems treat DAL mailings as two

1 USPS-LR-L-67 estimates that three percent of DAL mailings on rural routes use
2 simplified addresses. In Docket No. R2005-1, the assumption was that twenty percent
3 used simplified addresses, but a major mailer of DALs has greatly reduced or stopped
4 using simplified addresses in order to comply with a federal law that mandates that
5 customers who do not want to receive mailings regarding sweepstakes can be removed
6 from the mailing list. This is the reason for the reduction in the estimate of DALs with
7 simplified addresses, relative to the estimate produced for Docket No. R2005-1. In
8 terms of cost implications, the effect of reducing the percentage of DALs with simplified
9 addresses raises the cost segment 10 costs for DALs which increases the costs for
10 ECR Saturation flats, since the DAL costs are eventually transferred to ECR Saturation
11 flats.

12 Two other issues regarding DALs merit discussion before proceeding to an an
13 explanation of how the volume estimate is calculated. First, an assumption is made that
14 zero DALs pass through DPS processing. The justification for this assumption is that
15 the paper stock that is used for DAL mailings is too thin to run on mail processing
16 equipment. Since the DALs are not barcoded at the time of mailing, they require
17 multiple runs on mail processing equipment to reach DPS. Secondly, an assumption is
18 made that DALs are cased at the same casing productivity rate (41.2 per minute) as
19 other non-DPS ECR Saturation letters.

20 **Estimation of the Number of DALs on city and rural routes**

21 In transferring segment 7 and 10 costs from ECR Saturation letters to ECR
22 Saturation flats, it is important to begin with a reasonable volume estimate of the
23 number of DALs delivered on city and rural routes. USPS-LR-L-67 contains DAL

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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