

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-T14-1, 5, 8 – 12)
(June 6, 2006)

The United States Postal Service hereby provides the response of witness Bradley to the following interrogatories of ValPak, Inc., filed on May 23, 2006: VP/USPS-T14-1, 5 8-12. Questions 2-4 and 6-7 have been redirected to the Postal Service.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 6, 2006

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

VP/USPS-T14-1

Please refer to your testimony at page 10, lines 9-12, where you state that the costing methodology presented by the Postal Service in this docket is the same as that chosen by the Commission in Docket No. R2005-1.

- a. Please confirm that the “same” costing methodology means using the same econometric equations and other estimating techniques that you recommended from among the various econometric models and techniques discussed in your testimony in Docket No. R2005-1, USPS-T-14, at pages 32-55. If you do not confirm, please explain what is intended by your statement.
- b. Aside from using the same methodology as that in Docket No. R2005-1, were any equations previously employed re-estimated, using data more recent than those which you used in Docket No. R2005-1, or are all city carrier cost distributions in this docket based on the previous data, as well as the methodology, presented in Docket No. R2005-1? If any equations were reestimated, please provide all new parameters which you estimated using more recent data than those used in Docket No. R2005-1.
- c. In the event that you did not do any re-estimation using more recent data, please explain what precluded using more recent data, in light of the statement in your testimony in Docket No. R2005-1, USPS-T-14, page 13, lines 6-14, where you state that “the new study should be consistent with ongoing USPS city carrier data collection efforts” so as to avoid the drawback of the previous methodology which “precluded updates being done on a timely basis.”

Response:

- a. Not confirmed. The statement referred to the use of the same methods for cost pool formation, construction of volume variable costs, and distribution of volume variable costs to products. That said, the equations that I recommended in Docket No. R2005-1 are a necessary predicate for the application of the variabilities and are thus implicitly incorporated.
- b. No.

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c. As I explained in my testimony, there was one week between the issuance of the Commission's Opinion and Recommended Decision and when the inputs into the city carrier street time model were due. I think that a reasonable interpretation of "timely" anticipates a period of time longer than one week.

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VP/USPS-T14-5

Please confirm that the practice of pivoting could not have had an effect on the data collected in the “old” system for determining attributable city carrier cost. If you do not confirm, please explain which component(s) of the old system would have been affected (e.g., access time, load time, route time, the CAT/FAT split, etc.).

Response:

Not confirmed. One of the main components of the old approach was the STS (Street Time Sampling) system. This system “beeped” the carrier three times a day and inquired as to his or her activity at the time. “Pivoting” could have affected the responses to this survey and thus influenced the results.

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VP/USPS-T14-8

For those occasions when some carriers who participated in the CCCS had significantly more mail than they could sort and deliver within their allotted 8 hours, and the mail for a portion of their respective routes was given to other carriers in the delivery unit who experienced undertime on their routes, please explain all steps that were taken to assure consistency of data as between (i) the time recorded by carriers with excess volume, and (ii) the volume of mail actually delivered by those carriers with excess volume.

Response:

The delivery time and volumes were recorded by route, not carrier. This ensures consistency between the volumes and delivery times regardless of which carriers is performing the action.

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VP/USPS-T14-9

- a. Please explain the extent to which you believe carriers, with an interest in getting their work done within the allotted time and in providing some relief to themselves when feasible, might endeavor to cover the route at a more rapid rate (i.e., at an “above-normal” rate) on high-volume days and work at a normal or below-normal (i.e., more leisurely) rate on low-volume days.
- b. Did you discuss the issue raised in part a. with anyone familiar with carrier operations?
- c. Have you looked for evidence concerning whether the practice in part a occurs, such as by analyzing overtime and volume? If so, please describe what you found.
- d. If the practice described in part a. should in fact occur, please describe the effect it would have on the econometrics you used in Docket No. R2005-1 (USPS-T14).
- e. If the practice in part a occurs, might the additional time taken on a high-volume day tend to be much smaller than would be implied by the characteristics and volume of the mail? Please explain.

Response:

- a. I don't see how working harder on high volume days would provide a carrier with any “relief” as the questions suggests. Thus, I have no basis for confirming this speculation.
- b. My recollection is not sufficiently sharp so as to cite a specific conversation, but my general recollection is that operations experts did not assert the existence of the specified behavior.

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- c. To the extent the hypothesized behavior exists, it does not appear to have significant impact on the econometric results. As I explained in testimony cited in the question:¹

Given that mail volume fluctuates by the day of the week a hypothesis that bears investigation is that “heavy” days are different from “light” days. This is known as the “day of week” effect and can be tested by including categorical variables in the regression, one for each day of the week.

Analysis of the day of week categorical variables revealed that only one, Wednesday was significantly different from zero. The model was reestimated with this categorical variable included and the resulting variabilities are presented in the following table. These results are virtually the same as the recommended model indicating that the day of week effect is not important for estimating variabilities.

- d.&e. If the described behavior does it exist, the effect appears to be too small to have material effect on the econometric results. Please see my answer to part c. above.

¹ See, Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, USPS-T-14, Docket No. R2005-1, at 48.

Response of Postal Service Witness Michael D. Bradley
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VP/USPS-T14-10.

- a. In Base Year 2005, according to your analysis of city carrier street costs, what was the unit cost for delivering the following:
- (i) DPS'd letter;
 - (ii) cased letter;
 - (iii) sequenced letter;
 - (iv) cased flat; and
 - (v) sequenced flat?
- b. In your opinion, when the effort and extra motions required to handle extra (i.e., "third") bundles of sequenced mail on the street are taken into account, does a reasonable relationship exist among the unit costs supplied in response to part a? Please explain why, or why not.

Response:

- a. I have not done any analysis of city carrier street costs for Base Year 2005, so I have no basis for providing an answer to this question. Moreover, even in the last case, my testimony and analysis were focused on measuring the elasticity of delivery time and distributing the volume variable street time costs to classes of mail.
- b. Not applicable.

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

VP/USPS-T14-11

In the study described in your testimony (USPS-T-14) in Docket No. R2005-1, did you give any consideration to, or do any analysis relating to, the question of whether the additional time on the street for an additional addressed flat would or would not be the same as the additional time on the street for an unaddressed flat with a DAL that was not cased? If you did, please describe the consideration or what the analysis showed. If you did not, please state whether you believe the question is important or unimportant, and explain your reasoning.

Response:

In the study described in my testimony in Docket No. R2005-1, I did not do an analysis of the relative costs of one-piece addressed flat mailings versus two-piece unaddressed flat mailings. Such an analysis was not required for developing total volume variable cost by class. As to whether or not the question is important, I think the answer would depend upon one's frame of reference. Moreover, establishing the standard for "importance" can be itself problematic. Notwithstanding the foregoing, I would note that such a comparative analysis of costs is not a necessary prerequisite for calculating costs by class or subclass. To see this, assume that the one-piece mailing and the two-piece mailing are the same class. The volume variable costs of both types of mailings would enter the total volume variable costs for the class.

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VP/USPS-T14-12

In planning your study described in Docket No. R2005-1, USPS-T-14, or in interpreting your results, did you give any consideration to whether the additional time on the street for an additional letter that is DPS'd should be greater than, or less than, the additional time on the street for an additional addressed flat that is cased? If so, please explain what you concluded.

Response:

In terms of planning the study, the question is asking if I formed what is known as a "prior" belief about the relative street time for a delivery point sequenced letter as compared to a cased flat. Such a prior would be difficult to form because of the number of different cost causing activities that take place on the street, some of which may "favor" DPS letters and some of which may "favor" addressed flats. Examples of these cost causing activities include driving or walking along the route sections, preparing mail for delivery on foot sections, accessing the delivery stops, accessing and obtaining mail from relay boxes, or loading mail in the receptacles. The formation of such a belief is further complicated by distribution of actual volumes across Zip Codes. For example, the belief might have to account for the fact that delivery point sequenced letters and cased flats may not be delivered in the same proportions on motorized and foot routes. This complexity should lead to the formation of a relative diffuse prior, in which strong and precise beliefs are not formulated. It also emphasizes the need for collecting and analyzing data before coming to conclusions. In terms of interpreting the study, I think the results are reasonable given that the unit street time costs for letters and flats are in the same general range and both are less than cost for more time consuming items such as accountables or large parcels that can require a secondary access.

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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