

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

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
THIRD INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS JOHN P. KELLEY (VP/USPS-T30-11-18)
(June 9, 2006)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,

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VP/USPS-T30-11.

Please refer to your response to VP/USPS-T30-1(b), which asked if the amount in cell E9 of tab '21.ECRUnitCosts' in workbook UDCModel.USPS.xls in USPS-LR-L-67 means that, from a typical base position, an additional letter takes the carrier an additional 1.81 seconds of street time to handle and deliver.

Your response is that you “do not agree.” You go on to explain that the figure in cell E9 is “the volume variable regular-delivery-time cost per letter delivered” and that “[r]egular delivery time encompasses a wide variety of activities within city letter route delivery sections including but not limited to driving, walking, obtaining mail from vehicles, putting mail into satchels, and loading mail into receptacles.” You add: “The additional letter that is posited could cause additional time in one or more of those activities with a delivery section, regardless of whether one or more letters is already in place. The unit cost referenced in the question is an estimate of the volume variable regular-delivery time cost per letter.”

- a. Is it your position that the cell E9 amount is something other than an estimate of the marginal street cost of letters? If so, please explain the difference between the nature of the cell E9 amount and the marginal street cost of non-sequenced letters, and state the location(s) in the Postal Service’s filing in the instant docket where a marginal street cost of letters is estimated or otherwise provided.
- b. When you refer to “the volume variable regular-delivery time cost per letter,” are you referring to something other than the volume variable street cost of non-sequenced letters divided by the corresponding number of letters? If so, please explain.

- c. In a section that provides definitions, Postal Service witness Milanovic (USPS-T-9) defines “volume variable cost” as “Volume times Marginal Cost.” USPS-T-9, Exhibit USPS-9C, p. 6.
- (i) Do you disagree in any way with witness Milanovic’s definition of “volume variable cost”? If so, please explain.
 - (ii) Do you believe the “volume variable regular-delivery time cost per letter” to be something different from the volume variable cost of letters divided by the corresponding volume of letters? If so, please explain.
- d. Please refer to the testimony of Postal Service witness Bozzo in Docket No. R2005-1, USPS-T-12, page 18, line 21, which shows marginal cost to be a partial derivative of cost with respect to volume, with variables appropriately defined.
- (i) Please explain any extent to which you disagree with witness Bozzo’s definition of “marginal cost.”
 - (ii) Do you believe anything in the definition of “marginal cost” precludes recognition of any additional driving time, walking time, time obtaining mail from vehicles, time putting mail into satchels, and time loading mail into receptacles? If so, please explain.
 - (iii) Do you agree that quantification of a partial derivative can be done only at a particular position, which was referred to in VP/USPS-T30-1(b) as a “typical base position”? If you do not agree, please explain. If you do agree, please explain the role and importance of the phrase “regardless

of whether one or more letters is already in place,” as used in your response to VP/USPS-T30-1(b).

- e. Does the datum in cell E9 relate to any costs that are not street costs? If it does, please explain what those costs are.
- f. Is it your position that because the datum in cell E9 covers any additional time for such activities as driving and walking, it is not an estimate of the cost of the additional street time caused by an additional letter, as asked in the question? If so, please explain. If not, please explain the emphasis you place on the fact that “delivery time encompasses a wide variety of activities.”
- g. Do you believe that the cell E9 amount is, in any way, ill-suited for use in a roll-forward process of the kind discussed to by Postal Service witness Waterbury (USPS-T-10)? If so, please explain how it is ill-suited.
- h. Based on your understanding of carrier operations, please discuss whether the additional driving and walking cost of an additional letter would be a substantial portion of the additional street cost of an additional letter.
- i. Regarding the activity of “obtaining mail from vehicles,” as used in your response to VP/USPS-T30-1(b), please discuss:
 - (i) what is involved in this activity;
 - (ii) the types of routes on which this activity occurs; and
 - (iii) when this activity occurs.
- j. Based on your understanding of carrier operations, please discuss whether, among letters, flats and sequenced mail, you would expect different marginal

costs of “driving, walking, obtaining mail from vehicles, [and] putting mail in satchels,” as used in your response to VP/USPS-T30-1(b).

- (i) Do you believe these portions of the marginal costs should be the same or approximately the same? If so, please explain.
- (ii) Do you believe the marginal costs of these activities are probably different? If so, please indicate the marginal costs you believe to be larger and your reason(s). Also, if you are able to indicate how much different they might be, please do so (*e.g.*, you might indicate that the cost of obtaining 100 flats from a vehicle and putting them into a satchel would be at least 20 percent larger than the corresponding cost for letters).

VP/USPS-T30-12.

Please refer to your response to VP/USPS-T30-1(d). The question in VP/USPS-T30-1(d) concerned the additional carrier time at “a particular stop” for an additional five letters.

Your response is: “I don’t know.” You go on to explain: “The current street time model captures total additional regular delivery time across all delivery activities which includes functions such as driving; walking; and obtaining mail from vehicles, in addition to time spend at delivery stops. Therefore, total additional delivery time encompasses a broader set of activities within delivery sections than just the additional time spent at a stop delivering mail from a ‘base’ position.”

- a. Your response appears to suggest that inclusion of the phrase “at a particular stop” in the interrogatory caused difficulty in formulating your response. Please respond to VP/USPS-T30-1(b) assuming it referred to additional carrier time on the street to cover the route, instead of at a particular stop.
- b. If you are unable to formulate a response to part a, please explain whether you believe your analysis sheds light on the situation asked about in VP/USPS-T30-1(b), as well as why the question concerning additional carrier time for delivery of multiple pieces of mail cannot be answered.

VP/USPS-T30-13.

Please refer to your response to VP/USPS-T30-1(e), which asked if the amount in cell I13 of tab ‘21.ECRUnitCosts’ in workbook UDCModel.USPS.xls in USPS-LR-L-67 means that, from a typical base position, an additional sequenced letter takes the carrier an additional 1.22 seconds of street time to handle and deliver.

Your response is that you “do not agree.” You go on to explain that the amount in cell I13 is “an estimate of the volume variable regular delivery cost per sequenced letter.”

- a. Is it your position that the cell I13 amount is anything other than an estimate of the marginal street cost of sequenced letters? If it is, please explain the difference between the nature of the cell I13 amount and the marginal street cost of sequenced letters, and state the location(s) in the Postal Service’s filing in the instant docket where a marginal street cost of sequenced letters is estimated or otherwise provided.

- b. Within the context of your analysis of carrier street time, which is the subject of VP/USPS-T30-1(b), when you refer to “the volume variable regular delivery cost per sequenced letter,” are you referring to the volume variable street cost of sequenced letters divided by the corresponding number of letters? If not, please explain.
- c. Does the cell I13 amount relate to any costs that are not street costs? If it does, please explain what those costs are.
- d. Is it your position that, because the datum in cell I13 covers any additional time for such activities as driving and walking, it is not an estimate of the cost of the additional street time caused by an additional sequenced letter, as asked in the question? If it is, please explain your position.
- e. Do you believe that the datum in cell I13 is, in any way, ill-suited for use in a roll-forward process of the kind discussed by Postal Service witness Waterbury (USPS-T-10)? If so, please explain how it is ill-suited.
- f. Based on your understanding of carrier operations, please discuss whether the additional driving and walking cost of an additional letter would be a substantial portion of the additional street cost of an additional sequenced letter.

VP/USPS-T30-14.

Please refer to your response to VP/USPS-T30-1(j), which asked whether you considered supplementing your primary analysis with a separate inquiry, using either MTM

methods or a controlled experiment, or some other approach, regarding the relative times taken by some of the basic operations at issue in the analysis of carrier street costs.

Your response is: “No.” You go on to explain that you align your analysis with “cost segments 6, 7 and 10 of the CRA.” You also explain that an MTM analysis might be “extremely costly” and that the Commission rejected an MTM analysis for cost segment 7 in Docket No. R2000-1.

- a. Please explain why an MTM analysis would be “extremely costly,” presumably relative to other analytical methods.
- b. Is it your belief that the Commission has never accepted an MTM analysis, or that the Commission is predisposed against MTM analyses? If so, please explain the basis for your belief.

VP/USPS-T30-15.

Please refer to your response to VP/USPS-T30-1(j), which asked whether you considered supplementing your primary analysis with a separate inquiry, using either MTM methods or a controlled experiment, or some other approach, regarding the relative times taken by some of the basic operations at issue in the analysis of carrier street costs. Please suppose, based on a separate inquiry, or just on your understanding of carrier operations, that you adopted what might called an axiomatic approach to the analysis of carrier street costs, with axioms such as the following:

1. The marginal cost of a DPS'd letter should be the lowest street cost of all candidate pieces, which cost may be called x .

2. The marginal cost of a letter in a cased group should be greater than x , but no less than $1.2x$.
3. The marginal cost of a flat in a cased group should be greater than $1.2x$, but no less than $1.3x$.
4. The marginal cost of a sequenced letter should be greater than $1.3x$, but no less than $1.7x$.
5. The marginal cost of a sequenced addressed flat should be greater than $1.7x$, but no less than $2x$.
6. The marginal cost of a sequenced flat with a DAL should be greater than $2x$, but no less than $2.3x$.

Please address the following questions.

- a. Do you believe your understanding of the nature of carrier operations is adequate to allow you to establish and defend any such axioms or constraints?
 - (i) If so, what relationships would you establish?
 - (ii) If not, please explain how far your insights would allow you to go in forming expectations concerning results and in assessing results.
- b. Do you believe it is reasonable for analysts to reject results which appear to be at unreasonable levels or that have anomalous and inexplicable relationships with each other? If not, please explain.
- c. If you could honor a set of axioms (or constraints) such as those stated above, do you believe that you could do so while, at the same time, aligning your analysis with the results of Postal Service witness Bradley (USPS-T-14), and

possibly honoring his overall variability, instead of his disaggregate variabilities? If so, please briefly describe how this might be done. If not, please explain why this would cause difficulties.

- d. As the principal analyst providing carrier costs for subclasses and rate categories, were you constrained to honor all of witness Bradley's variability findings, even when they led to results that you found difficult to accept?
- (i) If so, please explain.
 - (ii) If not, please explain the freedom you had to pursue an altered analysis, or to place constraints on your results.

VP/USPS-T30-16.

Please refer to tab '1.Table 1' in your workbook UDCModel.USPS.xls, in USPS-LR-L-67, which shows a cost for saturation flats in cell G46 of 5.213 cents. Also, please refer to tab '21.ECRUnitCosts' in the same workbook, which shows a street cost for sequenced flats in cell I14 of 1.333 cents. Please explain whether these cost figures include the carrier costs of handling any DALs that accompany corresponding flats.

- a. If so, please identify the location in your workbook where the DAL costs are recognized.
- b. If not, please explain the suitability of the cost that you provide as a reference point for developing rates.

VP/USPS-T30-17.

Please refer to the response of witness Kiefer (USPS-T-36) to VP/USPS-T23-2(c)-(d), redirected from witness Page, which says: “I understand that the Postal Service has not done any studies of the net costs of DALs that would produce a reliable estimate of the total cost impact of assuming a 50% reduction in DAL usage.” Whether based on a special study, or not, do you agree that no reasonable estimate of, or proxy for, the cost of a DAL can be easily developed?

- a. If you agree, please explain the parts of such cost that are known and the parts that are essentially unknown.
- b. If you do not agree, please provide the estimate you would suggest, along with any limitations.

VP/USPS-T30-18.

Please refer to your responses to VP/USPS-T30-1(g), (h) and (i), which concerned marginal street times ranging from 1.22 to 1.98 seconds, within a situation where one second is approximately one cent.

Your response to VP/USPS-T30-1(g) states: “Given that these times are so broadly defined and that there exists a minute difference in the times, I do not view them as unreasonable.”

- a. Would you agree that 1.98 seconds is approximately 62 percent greater than 1.22 seconds? If not, please provide what you believe to be the correct figure.

- b. Would you agree that total variable street time to deliver each type of mail can be obtained by multiplying the marginal time by the billions of pieces of mail delivered by city carriers? If you do not agree, please explain the relationship between these marginal street times and total variable street time.
- c. Please explain (i) why you regard a 62 percent difference as “minute,” and (ii) what it is about the differences being “minute” that helps to make them reasonable.
- d. Do you believe that characterizing the difference as “minute” carries any implications about how good either estimate is? If so, please explain state the implication(s) and your reasoning.
- e. If the correct times were substantially different from the ones you found, do you believe that a result involving “minute” differences would indicate that the results are reasonable? Please explain your answer.
- f. One of your results is that the marginal time of a sequenced letter is about 1.22 seconds. Please explain what it is about the time of 1.22 seconds that is “so broadly defined” and how this broad definition helps to make the times reasonable.
- g. Please assume that the marginal time for a regular flat is 1.98 seconds and the marginal time for a sequenced flat is 1.33 seconds, yielding a result that a regular flat takes 0.65 seconds longer than a sequenced flat. Please assume further that the correct result is reversed, meaning that the regular flat actually takes 1.33 seconds and the sequenced flat actually takes 1.98 seconds.

- (i) Do you agree that if these times were to translate directly into rates, with no markup, at one cent per second, the rate for regular flats would decline 0.65 cents per piece when shifting to the correct result? Please explain if you do not agree.
- (ii) Do you agree that, for a mailer sending 500 million pieces per year, a postage difference of 0.65 cents results in an annual postage bill that changes by \$3.25 million? If you do not agree, please present your own assessment.
- (iii) If changes in results within a range, that you would call “minute,” cause postage swings in the range of \$3.25 million per year, please explain how an observation of “minuteness” lends any support at all to the acceptability of the results.