

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 VALPAK (VP/USPS-T30-11 - 18)
(June 23, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of ValPak, Inc., filed on June 9, 2006: VP/USPS-T30-11 - 18.

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

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX -3084
June 23, 2006

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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 nonsequenced letters divided by the corresponding number of letters? If so, please explain.

c. In a section that provides definitions, Postal Service witness Milanovic (USPST-9) defines "volume variable cost" as "Volume times Marginal Cost." USPST-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

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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).

Response:

a. Yes, it is something far more specific. The unit cost in cell E9 does not represent the total marginal street cost of letters. Instead it represents only the regular delivery costs incurred by cased and DPS ECR letters on letter routes within delivery sections, divided by the estimated non-sequenced ECR letter volume. In the instant docket, a thorough explanation of the manner in which

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

total volume variable street time marginal costs are attributed to rate categories appears in USPS-LR-L-67.doc starting on page sixteen. For a specific rate category the base-year street time costs can be found by adding the costs in columns H and I for the desired rate category (which are in the rows) in workbook **UDCModel.USPS.xls** worksheet '11SummaryBY'.

b. Yes. The costs referred to in my response to USPS-T-30-1(b) include only regular delivery time costs incurred by non-sequenced ECR letters within delivery sections of letter routes.

c.(i) No. However, the volume referred to by witness Milanovic (USPS-T-9) is originating volume.

c. (ii) Yes. The unit cost in cell E9 is the ratio of volume variable regular delivery time letter costs to the estimated regular letter volume delivered by city carriers.

d. (i) I agree. However, the volume referred to by witness Bozzo is total originating volume

d (ii) No.

d. (iii) Yes, I agree that quantification of a partial derivative can be done only at a particular position. However, I disagree with your characterization of your specific base position as an appropriate place to quantify the marginal street time. The unit costs referred to VP/USPS-T-30-1(b) represent an average of marginal costs over the variety of 'base positions' that actually occur in city carrier street time actions, not just the specific 'typical' one, as you defined it, where one or more letters are already in place.

e. No.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

f. No. The underlying purpose of emphasizing that “delivery time encompasses a wide variety of activities” was to illustrate that the additional time could occur at a variety of points within a delivery section, not just at the mail receptacle.

g. I don't know. I am not familiar with the roll-forward process.

h. The time associated with the delivery of an additional letter depends a variety of factors. If the additional letter causes an additional access for the carrier, for example, then it seems reasonable that the additional driving and walking time could be significant relative to placing the extra letter in the mail receptacle.

i. (i). My understanding is that “obtaining mail from vehicles” involves taking mail from the vehicle and either placing it in a satchel or taking it directly to the delivery point to be delivered.

i. (ii). It could happen on all types of routes that utilize a vehicle.

i. (iii). It occurs whenever the carrier needs to remove mail from the vehicle.

j. (i) Not applicable.

j. (ii). I believe the volume variable regular delivery costs per delivered letter, flat, sequenced letter, and sequenced flat found in USPS-LR-L-67 worksheet '21ECRUnitCosts' to be reasonable. First, it seems plausible to me that an additional regular letter or flat is more likely than an additional sequenced letter or flat to cause an additional access within a ZIP Code (the Postal Service's street time model uses the ZIP Code, rather than the route as the primary unit of analysis). This is because sequenced mail is likely to be delivered on routes that are already receiving a substantial amount of other mail and thus already have high coverage rates. Consequently, the delivery of an additional sequenced

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

letter or flat is less likely to incur additional access time, on a nationwide basis than regular letters or flats. In addition, volume data at the stop level has indicated much higher averages pieces per stop for regular letters than for sequenced letters. In other words, on a nationwide basis, many more stops are likely to receive a regular letter than are likely to receive a sequenced letter. This suggests that it is more likely that a regular letter, as compared to a sequenced letter, would be delivered by itself. To the extent that a regular letter is delivered by itself, all of the loading time would be associated with that letter. Some activities, such as opening and closing the mail receptacle must be done regardless of the amount of mail delivered. Thus, when sequenced mail is delivered at stops that are already receiving other mail, then the loading time at the stop is shared across all pieces. Third, it seems reasonable to me that sequenced letters and flats are more likely to be delivered to newer residential developments, often an indication of higher income. These newer developments are served by, either curblin or NDCBU receptacles, generally regarded as a cheaper mode of delivery as compared to park and loop. Given that income and advertising mail volume are usually thought to be positively correlated, this yet again leads to the conclusion that an additional regular letter or flat is more likely to cause an additional access and as a result more time and a higher unit cost per delivered letter than a sequenced letter or flat. In sum, the relative street costs include far more considerations than the physical activities required to obtain mail from a tray and place it into a mail receptacle. For the reasons discussed above, I believe the volume variable costs in worksheet

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

'21ECRUnitCosts' are reasonable estimates – especially the result that regular letters and flats have a higher unit cost than sequenced letters and flats.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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.

Response:

a.-b. I will assume for the purposes of answering this question that you want me to answer VP/USPS-T-30-1(d), assuming it referred to additional carrier time on the street to cover the route instead of at a particular stop. I believe it is a reasonable expectation that the additional five DPS'd letters would cause approximately an additional nine seconds of time within delivery regular sections at the ZIP Code level, which is the primary unit of analysis of Postal Service's street time costing model. Since activities within delivery sections encompass such a wide variety of activities, I cannot allocate those nine seconds to specific functions within regular delivery sections.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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.

Response:

a. Yes, it is something far more specific. The amount in cell I13 does not represent the marginal street cost of a sequenced letter. Instead, it represents only the delivery costs incurred by sequenced letters, on letter routes within delivery sections, divided by the estimated CCCS sequenced ECR letter volume. It does not include letter route support costs, nor special purpose route costs.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

Nor does it include piggybacks. The unit street time cost per CCCS piece is not explicitly presented in USPS-LR-L-67. The volume variable street time cost of sequenced letter (per CCCS piece) is \$0.0171.

b. No, I am only referring to the volume variable street time costs allocated to sequenced letters incurred within delivery sections. The volume variable regular delivery costs account for seventy-one percent of the volume variable street time costs while support and piggybacks account for the remaining twenty-nine percent of the costs.

c. No.

d. Yes. The unit cost in cell E9 is the ratio of volume variable regular delivery time sequenced letter costs to the estimated sequenced letter volume delivered by city carriers.

e. I don't know. I am not familiar with the roll-forward process.

f. The time associated with the delivery of an additional sequenced letter depends a variety of factors. If the additional sequenced letter causes an additional access for the carrier, for example, then it seems reasonable that the additional driving and walking time could be significant relative to placing the extra sequenced letter in the mail receptacle.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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.

Response:

- a. My response to VP/USPS-T30-1(j) referred to my thoughts on the total cost, not the relative cost, of a MTM approach. I envision a MTM study involving direct observations, by professional data collectors, of the street activities of several hundred and possibly thousands of letter carriers on multiple occasions. I foresee such an undertaking as extremely expensive.
- b. I have no preconceived notions of the Commission's thoughts on MTM analysis.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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 be 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.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

Response:

a. No.

a.(i). Not applicable

a. (ii). I believe that my understanding of carrier operations gives me the ability to question seemingly anomalous results. However, before making adjustments to the delivery cost model, I consult with delivery operations personnel to confirm that my understanding in these specific instances is credible.

b. It may be.

c.(i) I don't know. As no such axioms exist, I have not studied the issue proposed in the question.

d.(i) and (ii). As I stated in my direct testimony, USPS-LR-L-67 disaggregates delivery costs from the subclass level to the rate category level. Therefore, the sum of the delivery costs at the rate level within a subclass must equal the CRA delivery costs for that subclass. To the extent the CRA delivery costs embody the variabilities estimated by Dr. Bradley, they are inherent in my disaggregation of those costs to the rate category level.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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.

Response:

a. The unit delivery cost of 5.213 cents, presented in Table 1, includes the carrier costs of handling DALs that accompany corresponding flats. The 1.333 cents does not include the cost of handling DALs and is only included in the model for use in performing other calculations to derive the final test year unit delivery costs. USPS-LR-L-67 estimates base year DAL costs are in workbook **UDCModel.USPS** worksheet 'Summary BY' cells E79 through K79.

b. Not applicable.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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.

Response:

- a. Not applicable.
- b. I think that USPS-LR-L-67 provides a reasonable estimate of the delivery costs for DALs, given the current operating procedures and volume. It estimates base year DAL costs of approximately \$165 million. However, I do not think that the DAL costs in USPS-LR-L-67 can be mechanistically applied to estimate the change in total costs that would be anticipated for a substantial reduction in DALs (e.g., 50 percent, or 100 percent). The difficulty arises because if, for example, 100 percent of DALs disappeared, all of the costs associated with those DALs would, by definition, disappear as well. But the issue with respect to total costs would be the cost consequences of handling the associated flats (i.e., the no-longer-host pieces). Depending on how the remaining flat pieces are handled, additional costs might or might not offset some portion of the savings obtained by not having to handle the DALs.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

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.

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

Response:

- a. I agree that $(1.98-1.22)/1.22$ is equal to sixty-two percent.
- b. Total volume variable street time is calculated by multiplying the marginal street time for a particular subclass of mail by the total originating volume for that subclass.
- c.(i) My response to VP/USPS-T-30 1(g), (h), and (i) did not compare the sixty-two percent difference between 1.98 seconds and 1.22 seconds. Therefore, I never said such a difference was "minute".
- c.(ii) A sixty-two percent difference, depending on the magnitude of the numbers being considered, can be "minute" or not "minute". Apart from an expectation that two numbers should be about the same, a "minute" difference between two figures does not address the reasonableness of the numbers.
- d. and e. No, a difference being minute does not necessarily make the times reasonable. For instance, if the model estimated a marginal time of 20 minutes for a sequenced letter and 20.01 minutes for a cased letter, I view the difference between the marginal times as minute but do not regard those marginal times as reasonable.
- f. The estimated marginal time of 1.22 seconds includes more activities than simply placing an additional sequenced letter in a mail receptacle. As I stated in my response to VP/USPS-T-30-1(d), this time is an estimate of extra time within delivery sections that would occur with an additional sequenced letter. The purpose of using the term 'broadly defined' was to emphasize that it represents

**Response of Postal Service Witness John P. Kelley to Interrogatories
Posed by the Valpak Direct Marketing Systems and Valpak Dealers'
Association, Inc**

more than the additional time to load a sequenced letter into a mail receptacle given that the carrier is already at the receptacle before the additional sequenced letter is introduced. I think it is reasonable to take all activities into account when measuring volume variable street time per piece.

g. (i) I do not know. I am not a rates witness.

g. (ii) I agree that 500 million multiplied by \$0.0065 is approximately \$3.25 million.

g (iii) As I stated in my response to parts d. and e, a difference being minute does not typically, in and of itself, make the results reasonable. A "minute" difference multiplied by a large enough number will render significant results. However, that fact does not translate into minute differences being unreasonable either.

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.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
June 23, 2006