

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 NAA (NAA/USPS-T30-1 - 7)
(July 5, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of NAA, filed on June 21, 2006: NAA/USPS-T30-1 – 7.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 5, 2006

Response of Postal Service Witness Kelley to Interrogatories Posed by the
Newspaper Association of America

NAA/USPS-T30-1: In Library Reference L-67, please refer to the sheet labeled UDCModel.USPS.xls, Distributed City Carrier In-Office Direct Costs Without Piggybacks.” Please define the term “WSS-Saturation” as used therein. In particular, please state whether that definition is the same as the definition for saturation mail eligible to use detached address labels found in DMM Section 602.4.1.2.

Response

WSS-Saturation is a rate category within the subclass Enhanced Carrier Route (ECR). “ECRWSS” is the marking required on mail pieces that pay the ECR Saturation rate. WSS-Saturation, as it is used in the spreadsheet referenced in the question, refers to all shapes that qualify for the saturation rate. However, DMM Section 602.4.1.2 discusses the requirements for saturation flat mailings to be accompanied by Detached Address Labels (DALs). My understanding is that the ECR saturation density requirement is the same for letters and parcels as it is for flats (mailing must be delivered to either seventy-five percent of all addresses or ninety percent of residential addresses on a carrier route).

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NAA/USPS-T30-2: In Library Reference L-67, please refer to the sheet labeled UDCModel.USPS.xls, Distributed City Carrier In-Office Direct Costs Without Piggybacks.” Please define the term “ECR Non-Saturation” as used therein.

Response

ECR Non-Saturation includes all rate categories within the subclass ECR other than Saturation. Specifically, ECR Non-Saturation, as used in the spreadsheet referenced in the question, includes the rate categories Basic, Automation Basic, and High Density within the subclass ECR.

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NAA/USPS-T30-3: Please confirm that in Library Reference L-67, the sheet labeled UDCModel.USPS.xls, Distributed City Carrier In-Office Direct Costs Without Piggybacks,” High-Density mail would be considered “ECR Non-Saturation.” If you cannot confirm, please explain why not.

Response

Confirmed.

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NAA/USPS-T30-4: Footnote 6 to your testimony references the testimony of Postal Service witness Thomas Shipe from Docket No. R90-1. Does your testimony rely on Mr. Shipe's testimony from that case for any other purpose than that for which footnote 6 is the citation?

Response

No.

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NAA/USPS-T30-5: Please refer to page 12, lines 3 through 6, of your testimony:

- a. Please identify the “federal law” to which you refer.
- b. Please explain why you choose to reduce your assumption of the number of rural route mailings that use simplified addresses from 20 percent to three percent, rather than by some other amount.
- c. Please explain why no corresponding adjustment is made for city carrier costs.

Response

- a. The federal law I referred to in my testimony was the DECEPTIVE MAIL PREVENTION AND ENFORCEMENT ACT, Public Law 106-168, amending 39 U.S.C. § 3001.
- b. In the instant docket, I reduced my estimate of DALs with simplified addresses based on three factors: 1) the federal law referenced in my response to part a.; 2) the magnitude of DALs impacted by the law referenced in part a.; and 3) several field visits to rural post offices, which produced very few observations of DALs with simplified addresses.
- c. No adjustment was made for city carrier costs because simplified addresses are not permitted for ECR mail delivered on city routes.

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NAA/USPS-T30-6: Please refer to page 2, lines 7-12 of your testimony. You state that your testimony “updates the analyses done in library reference USPS-LR-K-67 in Docket No. R2005-1.”

- a. Please confirm that you were the witness responsible for USPS-LR-K-67 in Docket No. R2005-1.
- b. Please confirm that in USPS-LR-K-67_Revised.xls, cells G67, G68, and G69 of worksheet “Table 1,” you estimated flats delivery costs for Standard ECR Basic, High Density, and saturation separately.
- c. Please confirm that in USPS-LR-L-67, cells G45 and G46 in worksheet “1.Table 1” of workbook “UDCModel.USPS.xls”, you do not estimated costs for Standard ECR and High Density ECR separately, but instead include them in “ECR Non-Saturation.”
- d. If you cannot confirm (b) or (c), please explain why not.
- e. Why did you change the way in which you estimated carrier delivery costs?
- f. Please provide separate estimates of unit delivery costs for Standard ECR Basic and High Density in the manner that you presented them in Docket No. R2005-1.

Response

- a. Confirmed.
- b. Confirmed.
- c. Partially confirmed. The cell references in Table 1 of UDC.Model.USPS.xls are C45 and G45 for ECR Non-Saturation letters and flats respectively.
- d. Not applicable.
- e. After discussions with rate design personnel, it was made clear to me that aggregated ECR Non-Saturation unit delivery costs, as presented in USPS-LR-L-67, were sufficient for their purposes. As a result, I decided to combine all of the ECR Non-Saturation rate categories, by shape, into average unit delivery costs.
- f. The requested unit delivery costs are contained in the table below.

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Rate Category	TY08 Unit Delivery Cost (Cents)
ECR Basic Flats	7.325
ECR High Density Flats	5.303

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NAA/USPS-T-30-7: Please refer to “Table 1: Test Year Unit Delivery Costs” in your testimony and to Table 1: Test Year FY2006 Unit Delivery Costs from your 2005 testimony (Docket No. R2005-1, USPS-T-16, second revision). Note that the unit delivery cost for Standard Enhanced Carrier Route High Density flats was estimated at 4.609 cents in your 2005 testimony as revised.

- a. Please confirm that in your testimony in this case, the Test Year unit delivery costs for Standard ECR High-Density mail are included in “ECR Non-Saturation flats.” If you cannot confirm, please explain where such a figure is presented.
- b. Please confirm that the Test Year unit delivery cost for Standard “ECR Non-Saturation” flats in your testimony is estimated to be 7.083 cents.
- c. Please confirm that the estimated unit delivery costs for Standard ECR High Density mail has increased from 4.609 cents in your R2005-1 testimony (where presented separately) to 7.083 cents in your current testimony (as part of “Non-Saturation”), an increase of 2.474 cents.
- d. Please identify the source(s) of the cost increase in (c).
- e. Please explain why estimated delivery costs for Standard ECR High Density flats have increased by 2.474 cents while the estimated unit delivery costs for Standard Basic and saturation flats have increased by only 0.94 cents and 1.05 cents respectively. In particular, what factors unique to High Density flats would cause such a disproportionate increase in cost?

Response

- a. Confirmed.
- b. Confirmed.
- c. Not Confirmed.
- d. The unit delivery costs I was asked to evaluate in part c. of this question are not comparable. A valid comparison can be made from the unit delivery cost of ECR High Density flats from the previous docket to the instant docket. In R2005-1 the unit delivery cost was 4.609 cents and, as shown in the table below, it is 5.303 cents in the instant docket. The difference between the two unit costs is approximately 0.7 cent, which is explained by the 0.3 cent higher unit casing costs for base year 2005 as compared with 2004. After in-office support and piggybacks are applied to the higher casing costs, it accounts for 0.6 cent of the

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0.7 cent difference in unit delivery costs. The difference in rural costs explains the remaining 0.1 cent difference between the two unit delivery costs.

e. Since the table below shows that the unit delivery costs for ECR High Density flats has not risen more than either ECR Basic or Saturation flats, your question is no longer applicable.

Rate Category	TY08 Unit Delivery Cost (Cents)	TY06 Unit Delivery Cost (Cents)	Difference TY08-TY06	Change
ECR Basic Flats	7.325	6.143	1.182	19%
ECR High Density Flats	5.303	4.609	0.694	15%
ECR Saturation Flats	5.213	4.163	1.050	25%

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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