Postal Rate Commission
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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-T30-26 - 27) (July 20, 2006)

The United States Postal Service hereby provides the response of witness Kelley to the following interrogatories of ValPak, Inc., filed on July 6, 2006: VP/USPS-T30-26 – 27.

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 20, 2006

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

VP/USPS-T30-26.

Please refer to your response to VP/USPS-T30-10.

a. When you emphasize that USPS-LR-L-67 only disaggregates, or partitions, delivery costs from the subclass level in the CRA to the rate category level, does this mean that if the unit costs provided in your response were to be (i) multiplied by the city carrier volumes of each category, and (ii) then summed, the result would equal the volume variable street time cost (segment 7) for all ECR saturation flats? If this is not correct, please indicate what such a sum would represent.

b. With reference to the unit costs provided in your response, is it reasonable to infer that the street time unit cost of handling a Cased DAL ($0.0254) is about 92 percent of the unit cost of handling a Cased ECR Saturation Flat ($0.0277)? If this is not a reasonable inference, please explain why not, and indicate how one would go about comparing the volume variable street time unit cost of these two items.

c. Is it reasonable to infer that the street time unit cost of handling a Cased DAL ($0.0254) is about 149 percent of the cost of handling a Sequenced DAL ($0.0171)? If this is not a reasonable inference, please explain why not, and indicate how one would go about comparing the volume variable street time unit cost of these two items.

d. Is it reasonable to infer that the street time unit cost of handling a Sequenced Saturation Flat ($0.0198) is about 71 percent of the cost of handling a Cased ECR Saturation Flat ($0.0277)? If this is not a reasonable inference, please explain why not, and indicate how one would go about comparing the volume variable street time unit cost of these two items.

e. Is it reasonable to interpret the unit costs provided in your response to VP/USPS-T30-10 as the marginal street time costs for city carriers to handle one more (or less) Saturation Flat/DAL when taken to the street in the various conditions described (*e.g.*, cased or sequenced)? If it is not reasonable to interpret these unit costs as the marginal street time costs for city carriers to handle one more (or less) Saturation Flat/DAL, please indicate where a better estimate of the marginal cost can be found, or how it can be derived.

Response

a. Yes. The table below demonstrates the calculation.

ECR Saturation	Segment 7 Unit Cost (cents) (including piggybacks)[1]	CCCS Volume (000)	Segment 7 Volume Variable Cost (000)[2]
Cased Flat	2.769	1,065,486	$29,504
Sequenced Addressed Flat	1.869	2,232,345	$41,718
Sequenced Unaddressed Flat	1.884	2,807,885	$52,912
Cased DAL	2.543	1,292,953	$32,876
Sequenced DAL	1.716	1,514,931	$25,997
ECR Saturation Flat (DAL costs included)	2.997	6,105,716	$183,007

[1]Source: Revised response to VP/USPS-T30-10

[2]Multiplication of the unit costs by CCCS volume may not equal total in column 3 due to rounding.

b. – d. My revised response to VP/USPS-T30-10 changes the unit costs posed in this question. The table below has the correct unit costs as well as the relevant percentages posed in the question.

ECR Saturation	**Segment 7 Unit Cost (Cents) per CCCS Piece (Piggy Included)[1]**	**Correct Relevant Posed in VP/USPS-T30-26**
Cased DAL	2.543	$\frac{Cased\ DAL}{Cased\ Saturation\ Flat} = 92\%$
Sequenced DAL	1.716	$\frac{Cased\ DAL}{Sequened\ DAL} = 148\%$
Cased Saturation Flat	2.769	
Sequenced Saturation Flat	1.877	$\frac{Sequenced\ Saturation\ Flat}{Cased\ Saturation\ Flat} = 68\%$

[1]Source: Revised Response to VP/USPS-T30-10

My response to Interrogatory VP/USPS-T30-11(j) provided the reasons I believe that the regular delivery time unit costs are reasonable. These unit costs reflect the costs incurred by the mail shapes across the entire city carrier delivery network and thus embody more than the relative amount of time required for handling a piece on any given route. Since ECR Saturation letter and flat costs incurred within delivery sections of letter routes account for such a large portion of the total street time costs, I view the unit costs provided in my revised response to VP/USPS-T30-10 as reasonable for the exact same reasons I stated in my response to VP/USPS-T30-11(j).

e. No, not without further study. The marginal costs you are asking about are very detailed. They are the marginal costs at the rate category level, by shape, by mail characteristic or preparation. Note that the base-year model produces marginal costs at the subclass level, and your request goes far beyond that level. I have not done an analysis of the costs calculated at the rate category level, by shape, by mail preparation or characteristic, to determine if these disaggregated costs are valid estimates of the marginal street time costs to handle one more Saturation flat/DAL. I do not know of any location where such a marginal cost analysis can be found. My analysis was done solely to assist pricing witnesses in their determinations. My understanding is that witness Bradley provides the method for calculating marginal delivery times by shape in his response to VP/USPS-T14-17.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

VP/USPS-T30-27.
Please refer to your response to NAA/USPS-T30-7, which provided separate delivery costs for Basic and High Density ECR flats, at USPS costing.
a. Please provide similar delivery costs for Basic and High Density ECR letters, at USPS costing.
b. Provide costs for ECR letters, Basic and High Density, at PRC costing, consistent with USPS-LR-L-101.
c. Provide costs for ECR flats, Basic and High Density, at PRC costing, consistent with USPS-LR-L-101.

Response

a. The unit delivery costs for ECR Basic and High Density letters are contained in the table below.

ECR letters (USPS)	TY Costs (including piggybacks) (000)	TY Volume (000)	TY Unit Delivery Cost USPS Methodology (Cents)
Basic	$215,238	4,143,769	5.194
High Density	$27,091	660,947	4.099
Total Non-Saturation	$242,329	4,804,715	5.044

b. The unit delivery costs for ECR Basic and High Density letters are contained in the table below.

ECR letters (PRC)	TY Costs (including piggybacks) (000)	TY Volume (000)	TY Unit Delivery Cost PRC Methodology (Cents)
Basic	$216,660	4,143,369	5.229
High Density	$27,271	660,947	4.126
Total Non-Saturation	$243,931	4,804,715	5.077

c. The unit delivery costs for ECR Basic, Automation, and High Density letters are contained in the table below.

ECR Flats (PRC)	TY Costs (including piggybacks) (000)	TY Volume (000)	TY Unit Delivery Cost PRC Methodology (Cents)
Basic	$1,024,455	13,893,961	7.373
High Density	$100,679	1,886,024	5.338
Total Non-Saturation	$1,125,134	15,779,784	7.130

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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