

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO VAL-PAK INTERROGATORIES
(VP/USPS-4-8)

The United States Postal Service hereby provides responses to the following interrogatories of Val-Pak Direct Marketing Systems, Inc., and Val-Pak Dealers' Association, Inc.: VP/USPS-4-8, filed on November 13, 2001.

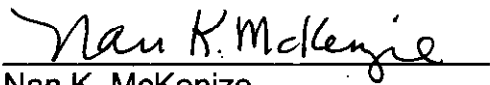
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 27, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF VAL-PAK
DIRECT MARKETING SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC**

VP/USPS-4.

Please refer to the table and graph in interrogatory OCA/USPS-106.

- a. Please examine the Management Operating Data System ("MODS") operations and In-Office Cost System ("IOCS") tallies that underlie the mail processing unit costs for First-Class single piece and Standard Regular letter-shaped mail in the 0-1 and 2-3 ounce increments and explain which MODS operations are the major cause for mail processing unit costs of First-Class Single Piece Mail between 2-3 ounces to increase by 249 percent (0.4017/0.1151), while the unit cost for 2-3 ounce Standard Regular Mail increases by only 28 percent (0.0638/0.0497) over that of 0-1 ounce Standard Regular Mail. That is, in which particular MODS operations for letters did the tallies for First-Class single piece mail increase relative to those for Standard Regular, as weight increased to the 2-3 ounce range?
- b. Please examine the Management Operating Data System ("MODS") operations and In-Office Cost System ("IOCS") tallies that underlie the mail processing unit costs for First-Class Presort and Standard Regular letter-shaped mail in the 0-1 and 2-3 ounce increments and explain which MODS operations are the major cause for mail processing unit costs of First-Class Presort between 2-3 ounces to increase by 419 percent (0.2207/0.0425), while the unit cost for 2-3 ounce Standard Regular Mail increases by only 28 percent (0.0638/0.0497) over that of 0-1 ounce Standard Regular Mail. That is, in which particular MODS operations for letters did the tallies for First-Class Presort increase relative to those for Standard Regular, as weight increased to the 2-3 ounce range?
- c. Since mail processing unit costs for all three categories in the above-referenced interrogatory are confined to letter-shaped mail, please explain why the mail processing unit costs for First-Class single piece and First-Class Presort letter mail increase so much more with weight than does the mail processing unit cost for Standard Regular letters.
- d. Please discuss whether, in the Postal Service's opinion, the weight-cost relationship for First-Class single piece letters is distinctly different from the weight-cost relationship for Standard Regular letters and, if so, why.

RESPONSE:

- a. After analyzing the data in USPS-LR-J-58, it was determined that the cost pools for letters that show the greatest relative increase in unit mail processing cost for First-Class single piece mail compared to those for Standard Regular (commercial and nonprofit) as weight increases from the 0-1 ounce range to the 2-3 ounce range were the manual sortation cost pools and the allied cost pools, and to a lesser degree the mechanized sortation cost pools. The costs, unit

**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF VAL-PAK
DIRECT MARKETING SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC**

costs, and increases are shown in Attachment A. As shown in Attachment A, the identified cost pools account for 80 percent of the 0.2866 cents unit cost difference in First-Class single-piece letters from 0-1 ounces to 2-3 ounces (0.1151 to 0.4017). For information on which MODS operations are included in each cost pool, see USPS-LR-J-55, Table I-2B, pages I-12 to I-27.

- b. After analyzing the data in USPS-LR-J-58, it was determined that the cost pools for letters that show the greatest relative increase in unit mail processing cost for First-Class presort mail compared to those for Standard Regular (commercial and nonprofit) as weight increases from the 0-1 ounce range to the 2-3 ounce range were the manual sortation cost pools and the allied cost pools, and to a lesser degree the mechanized sortation cost pools. The costs, unit costs, and increases are shown in Attachment A. As shown in Attachment A, the identified cost pools account for 81 percent of the 0.1782 cents unit cost difference in First-Class presort letters from 0-1 ounces to 2-3 ounces (0.0425 to 0.2207).
- c. Weight is not the only factor driving the observed mail processing cost differences between 0-1 ounce and 2-3 ounce First-Class single piece, First-Class Presort, and Standard letters. In addition to subclass and shape, mail processing unit costs will be affected in part by the characteristics of the mail piece (e.g., automation compatibility) and the level of workshare. For example, heavier Standard letters tend to be more automation compatible than heavier First-Class Presort letters. (89 percent of 2-3 ounce Standard letters are automation compatible, but only 61 percent of 2-3 ounce First-Class Presort letters are automation compatible, according to data in Tables 12 and 17 in USPS-LR-J-112.) Heavier First-Class letters may need manual sortation more

**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF VAL-PAK
DIRECT MARKETING SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC**

frequently than Standard letters. First-Class single piece letters may also require hand-cancellation. If undeliverable-as-addressed, First-Class letters are subject to additional workload that Standard letters are not subject to. The effect of these factors will be that measured First-Class letter costs for higher ounce increments will be larger, relative to lower ounce increments, than Standard letter costs. Other mail piece characteristics not discussed here may also affect mail processing costs. The precise effects of these factors have not been quantified by the Postal Service, to my knowledge.

- d. For the reasons discussed in part c above, there may be piece characteristics other than weight and workshare differences that may result in differences in the measured costs by weight increment for First-Class single piece and Standard Regular letters.

**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF VAL-PAK
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Attachment A to VP/USPS-4

TY03 Volume Variable Mail Processing Costs (\$000) for Clerks and Mailhandlers - All Offices

Cost Pool	First-Class Single Piece Letters			First-Class Presort Letters			Standard Regular Letters		
	0-1 oz	1-2 oz	2-3 oz	0-1 oz	1-2 oz	2-3 oz	0-1 oz	1-2 oz	2-3 oz
BCS/	220,883	18,399	3,643	109,497	8,685	1,742	78,126	18,005	3,090
BCS/DBCS	691,871	49,304	6,379	441,789	40,671	4,532	305,702	58,851	14,342
OCR/	217,663	21,934	4,687	69,977	8,582	483	60,717	16,912	3,509
MANL	519,232	62,230	18,330	140,479	13,112	3,224	135,737	35,474	11,209
1CANCMPP	369,559	55,220	17,489	22,060	2,202	2,419	13,997	2,234	300
1OPPREF	230,149	21,930	9,150	124,670	11,380	2,185	84,973	21,021	5,630
1PLATFRM	361,687	38,177	15,199	164,818	14,863	2,566	141,078	32,824	8,307
1POUCHNG	156,998	15,484	7,082	71,526	7,841	1,513	57,309	12,294	3,105
Allied*	1,092	380	0	214	0	0	44,346	7,141	5,209
Manual Letter*	519,603	41,584	7,801	205,265	13,517	2,996	164,227	26,971	10,178
Other pools	1,409,927	113,849	28,568	735,691	51,400	6,359	555,956	97,425	31,082

TY 03 Unit Mail Processing Costs

Cost Pool	First-Class Single Piece Letters			First-Class Presort Letters			Standard Regular Letters		
	0-1 oz	1-2 oz	2-3 oz	0-1 oz	1-2 oz	2-3 oz	0-1 oz	1-2 oz	2-3 oz
BCS/	0.0054	0.0104	0.0124	0.0022	0.0072	0.0137	0.0024	0.0025	0.0021
BCS/DBCS	0.0169	0.0277	0.0217	0.0090	0.0338	0.0357	0.0093	0.0083	0.0095
OCR/	0.0053	0.0123	0.0159	0.0014	0.0071	0.0038	0.0018	0.0024	0.0023
MANL	0.0127	0.0350	0.0622	0.0029	0.0109	0.0254	0.0041	0.0050	0.0074
1CANCMPP	0.0091	0.0311	0.0594	0.0004	0.0018	0.0191	0.0004	0.0003	0.0002
1OPPREF	0.0056	0.0123	0.0311	0.0025	0.0095	0.0172	0.0026	0.0030	0.0037
1PLATFRM	0.0089	0.0215	0.0516	0.0034	0.0124	0.0202	0.0043	0.0046	0.0055
1POUCHNG	0.0038	0.0087	0.0240	0.0015	0.0065	0.0119	0.0017	0.0017	0.0021
Allied*	0.0000	0.0002	0.0000	0.0000	0.0000	0.0000	0.0013	0.0010	0.0035
Manual Letter*	0.0127	0.0234	0.0265	0.0042	0.0112	0.0236	0.0050	0.0038	0.0068
Other pools	0.0345	0.0641	0.0970	0.0150	0.0427	0.0501	0.0168	0.0137	0.0207

Percent Difference 2-3 oz. to 0-1 oz.

Cost Pool	FC Single Piece	FC Presort	Standard
BCS/	129%	515%	-13%
BCS/DBCS	28%	297%	3%
OCR/	198%	167%	27%
MANL	389%	788%	81%
1CANCMPP	556%	4142%	-53%
1OPPREF	451%	578%	45%
1PLATFRM	482%	502%	29%
1POUCHNG	525%	718%	19%
Allied*	-100%	-100%	158%
Manual Letter*	108%	465%	36%
Other pools	181%	234%	23%

Unit Cost Difference 2-3 oz. To 0-1 oz.

Cost Pool	FC Single Piece	FC Presort	Standard
BCS/	0.0070	0.0115	-0.0003
BCS/DBCS	0.0047	0.0267	0.0003
OCR/	0.0106	0.0024	0.0005
MANL	0.0495	0.0225	0.0033
1CANCMPP	0.0503	0.0186	-0.0002
1OPPREF	0.0254	0.0147	0.0012
1PLATFRM	0.0427	0.0169	0.0012
1POUCHNG	0.0202	0.0105	0.0003
Allied*	0.0000	0.0000	0.0021
Manual Letter*	0.0138	0.0194	0.0018
Other pools	0.0624	0.0351	0.0038

Source for cost and volume data: USPS-LR-J-58

*Non-MODS cost pools

All but 'Other'	0.2242	0.1431	0.0102
Total difference	0.2866	0.1782	0.0141
Percent of total	78%	80%	72%

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.**

VP/USPS-5

Please refer to the Postal Service's response to VP/USPS-T-39-10(b), where it describes the collation of flat pieces from multiple Detached Address Label ("DAL") mailings into trays for delivery on the same day. For purposes of responding to this interrogatory, please add the following assumptions to those in VP/USPS-T39-10: (i) each mailing has just enough DALs (specifically addressed to an individual customer or residence) to satisfy the minimum requirements necessary to qualify for the saturation rate, so that each stop on the route will not receive one of the pieces in each DAL mailing; (ii) many of the "omitted" stops in each mailing do not coincide; and (iii) in each mailing the number of DALs is exactly equal to the number of wraps in that mailing. To elaborate briefly, a number of the stops along the route may receive all of the different wraps being delivered that day, but some of the stops will not receive all of them. Please explain how a mounted carrier who has pre-collated all of the wraps and taken them on the route will handle delivery as the carrier proceeds from stop to stop; e.g., at stops where at least one of the wraps is not to be delivered, does the carrier set aside the "omitted" wrap(s) for delivery later? If not, what procedure does the carrier follow?

Response:

If the carrier on a mounted route has collated the unaddressed pieces for two separate mailings; and *if* some of the addresses only received a DAL for one of the mailings; and *if* each mailing had exactly the same number of pieces as DAL's; and *if* addresses in these mailings did not exactly coincide; the unaddressed piece not intended for a given address, if necessary, would be set aside for subsequent handling with an appropriate DAL.

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.**

VP/USPS-6

Please refer to the Postal Service's response to VP/USPS-T39-24.

- a. In the response to part d, it states that "[t]he DAL and host mailpiece are considered two pieces for costing purposes. " Please indicate specifically all instances where the DAL and host piece are considered as two pieces for costing purposes.
- b. In the response to part e (ii), it states that "When volume exists to saturate a route, DALs facilitate the casing and delivery of some flats and parcels. " (Emphasis added.) Please provide examples of instances where DALs do not facilitate the casing and delivery of [some] flats and parcels.

Response:

- a. See response to VP/USPS-2a.
- b. In the vast majority of situations, DALs do facilitate casing and delivery of flats and parcels. An instance of when DALs do not facilitate delivery of unaddressed flats and parcels is when there is total saturation for every delivery point in an entire delivery unit. In this situation carriers know that every delivery point is to get a piece, therefore, a DAL is not necessary. However, given that addresses are required for mail destined for city routes and P.O. boxholders -- except for official matter per DMM A040 -- addresses on DALs are still preferred over addresses on flats and parcels.

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.**

VP/USPS-7 Please refer to the Postal Service's response to VP/USPS-T39-28.

- a. For DAL mailings delivered on rural routes, please provide the best estimate of the share, or percentage, that have simplified addresses, and the share, or percentage, that are specifically addressed to an individual customer or residence.
- b. In part b of that response, it states that "[a]ll DAL mailings count as two mail pieces on rural routes." For purposes of distributing rural delivery costs to letters versus flats, please explain whether DAL mailings count as (i) two flats, or (ii) one letter and one flat.
- c. In part b of that response, it also provides the time value of DALs for sortation, depending on whether the DAL (i) is specifically addressed to a customer or (ii) uses a simplified address. Regardless of which address form is used, during the specified count period, is the time value for sorting DALs treated as a cost of sorting letters or flats? Please explain.

Response:

- a. The USPS does not maintain a record of the frequency or percentage of specific types of mailings to rural routes such as "simplified address" or those that have the address affixed to the actual mail piece. Therefore, an estimate will not be possible.
- b. Again, how DAL mail pieces are classified depends on the addressing. If the DAL has a simplified address and the associated piece is unaddressed, both pieces are counted as boxholder mail. For purposes of distributing rural costs to letters or flats, specifically addressed DALs are counted as letters and the unaddressed associated pieces are normally counted as boxholders, regardless of their size.
- c. Again, how DAL mail pieces are classified depends on the addressing. If the DAL has a simplified address and the associated piece is unaddressed, both pieces are counted as boxholder mail. Neither is

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.**

considered as a letter or flat piece as boxholders have their own time value (0.04 minutes per piece handling rate). For purposes of distributing rural costs to letters or flats, specifically addressed DALs are normally counted as letters (unless they are oversized DALs). The time value for sorting these pieces is included with the letter rate for all pieces sorted. This letter rate is 0.0625 minutes per piece. The associated piece with this DAL is normally an unaddressed flat that is considered as boxholder because of its addressing.

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.**

VP/USPS-8 Please refer to the Postal Service's response to VP/USPS-T39-28, part a, which provides the time value for sorting and pulldown time of DALs while rural carriers are in the office.

- a. Do these time values for sorting and pulldown reflect the entire consideration that enters into a computation of volume variable rural carriers costs when handling DALs and the associated pieces, or do the carriers receive additional time value credits when handling such pieces along the route?
- b. If the answer to the preceding question is that additional time values apply to delivery of various types of items, please provide the time values applicable to ordinary letters, flats, DALs, and the mail pieces associated with DALs.
- c. When DALs are included in a National Rural Mail Count, please specify whether they are counted as letters or flats.
- d. If DALs are counted as letters, please indicate whether the cost of handling DALs by rural carriers is reflected in the aggregate cost of letters. If the cost of handling DALs is not included in the cost of letters, please specify where these costs would appear when costs are aggregated by shape of mail.

Response:

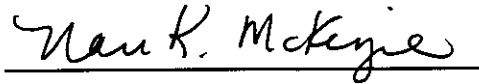
- a. How DAL mail pieces are addressed also effects the strapout or pulldown allowance. If the DAL is specifically addressed, then the DAL is counted as a letter and included in the strapout costs. However, if the piece is unaddressed or uses a simplified address, then the carrier has an option to case the piece or carry it directly to the street as a separate bundle. Routes are credited with 0.04 minutes per piece of simplified pieces handled. These pieces are not included in the strapout allowance.
- b. See response to VP/USPS-T-39-28 redirected to the Postal Service for letter, boxholder and strapout (or pulldown) times for rural carriers. The time value for flats is 0.125 minutes per piece. DALs could be classified as letters or boxholders depending on their addressing.

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.**

- c. If the DAL has a simplified address or no address, the piece is counted as a boxholder. If the DAL is specifically addressed, then it is counted as a letter.
- d. The rural carrier cost system would count the DAL as either an "other letter" or a boxholder, depending on the address format. Any boxholder count in the rural carrier system data could represent a letter shape, a flat shape, or a parcel shape. Estimated volumes from the rural carrier cost system are utilized to produce proportions of mail in each subclass in each evaluation factor (letter, flat, boxholder, parcel). The proportions are then used to distribute volume variable costs to subclasses of cost segment 10.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in cursive script, reading "Nan K. McKenzie", is written over a horizontal line.

Nan K. McKenzie

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