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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

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SCHENK TO INTERROGATORY OF VAL-PAK DIRECT MARKETING
SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T43-10)**

The United States Postal Service hereby provides the supplemental response of witness Schenk to the following interrogatory of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc.: VP/USPS-T43-10, filed on November 16, 2001. This supplemental response is being provided to present the cost data referenced in witness Hope's supplemental response to VP/USPS-T31-8(d) and (g), also filed today.

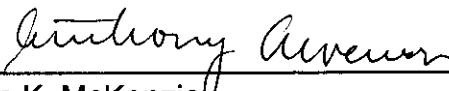
The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

for 
Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3089 Fax -5402
December 28, 2001

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INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.
AND VAL-PAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T43-10.

Please refer to your response to VP/USPS-T43-6, part a, where you state that it is your understanding that the unit costs need no adjustments for worksharing differences, in that the unit cost data you supplied to witness Hope are consistent with her unit revenue data insofar as both reflect the different profiles above and below the breakpoint.

- a. Please define the term "consistent" as you use it here, and explain in more detail what you mean when you state that unit costs are consistent with revenues.
- b. In your opinion, when computing implicit coverages for subdivisions of Standard ECR Mail (e.g., by shape or weight) is it generally important, or at least desirable, for cost data in the denominator to be consistent with revenue data in the numerator? Please explain fully any negative answer.
- c. If the Standard ECR unit cost data which you supplied to witness Hope are not consistent with her unit revenue data, would you recommend that she rely on your unit cost data when computing implicit coverages above and below the 3.3 ounce breakpoint and relying on those coverages for policy decisions about rate design for Standard ECR Mail? Please explain your reasoning.
- d. Is it your opinion that above and below the 3.3 ounce breakpoint, (i) the unit costs you supplied to witness Hope, or (ii) the unit costs in Attachment A of your response to VP/USPS-T43-7 are consistent with revenues in all respects? If your answer is affirmative, please explain all factors that you investigated or considered to ascertain that this is in fact the case.

RESPONSE:

- a. By "consistent," I mean that the unit costs and unit revenues used by witness Hope represent the same underlying groups of mail to the extent possible, given data limitations.
- b. In my opinion, it is desirable for the cost data in the denominator to be consistent with revenue data in the numerator to the extent possible, given data limitations.
- c. I recommended to witness Hope that she use the unit cost data from USPS-LR-58 to compute implicit coverage factors because these were the best data available for her analysis. In the event that there were some inconsistency

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between the cost and revenue data, whether or not witness Hope should employ the data would depend on the materiality of the inconsistency.

- d. Given that the costs and revenues involve statistical estimation, it is presumably not possible for the data to be consistent in "all respects." For example, sampling variation in the data used to develop the costs may result in costs being distributed to subclass "A" instead of subclass "B," which would lead to an inconsistency of a sort, albeit one that is statistically immaterial. It is my opinion that the unit cost data I supplied to witness Hope and provided in Attachment A are consistent with unit revenues used to the extent possible, and represent the best available data for the implicit cost coverage calculations.

SUPPLEMENTAL RESPONSE TO SUBPART C:

Witness Hope, in her Supplemental Response to subparts (d) and (g) of VP/USPS-T31-8, presents an alternative method for calculating the implicit coverages for Standard ECR mail. The following table provides the unit costs used by witness Hope in that Supplemental Response. The definitions used in these calculations are the same as those described by witness Hope in her Supplemental Response.

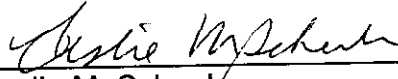
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Standard ECR TY03 Unit Costs Derived Using Alternative Method (Supplement to VP/USPS-T43-10 Response)	
Category	Unit Costs* (Alternative Method)
Total ECR Letters For 3.0 Ounce Breakpoint (Letter-shaped pieces below 3.0 ounces)	\$0.0655
Total ECR Nonletters For 3.0 Ounce Breakpoint (Letter-shaped pieces equal to or above 3.0 ounces and all nonletter-shaped pieces)	\$0.0754
Total ECR Letters For 3.5 Ounce Breakpoint (Letter-shaped pieces below 3.5 ounces)	\$0.0659
Total ECR Nonletters For 3.5 Ounce Breakpoint (Letter-shaped pieces equal to or above 3.5 ounces and all nonletter-shaped pieces)	\$0.0752
ECR Nonletters below 3.0 ounces	\$0.0693
ECR Nonletters equal to or above 3.0 ounces	\$0.0826
ECR Nonletters below 3.5 ounces	\$0.0702
ECR Nonletters equal to or above 3.5 ounces	\$0.0838

*Source: USPS-LR-J-58, LR58AE CR_revised.xls, sheets ECR all (detailed), ECR Letters (detailed), ECR Flats (detailed), and ECR Parcels (detailed).

DECLARATION

I, Leslie M. Schenk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Leslie M. Schenk

Dated: 12-28-01

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.

for/ Anthony Lewis
Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
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December 28, 2001