

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

POSTAL RATE AND FEE CHANGES, 2005 )

Docket No. R2005-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
THIRD INTERROGATORIES AND REQUESTS FOR  
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE  
WITNESS JOHN KELLEY (VP/USPS-T16-6-18)  
(May 20, 2005)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,

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May 20, 2005

**VP/USPS-T16-6.**

Please refer to the “PRC Test Year Unit Costs” in Table 1 of your testimony (USPS-T-16) beginning on page 5, for delivery of various categories of Standard Regular and Standard ECR mail, among others. Focusing on the nature of carrier operations, the physical nature of the mailpieces involved, the way the mail is prepared or otherwise arrives at the carrier station, and the costing information and steps that lead to these costs, please provide narrative responses to the following questions. Be sure to point out differences between in-office and street costs and between city and rural. Note that this question does not ask you to endorse PRC costing, but rather to describe what the costs mean and how they are developed.

- a. Please provide explanation and perspective on the result that ECR Basic **flats** cost 6.152 cents to deliver while ECR Basic **letters** cost 9.694 cents. That is, why and how does this result occur, and what does it mean? The obvious problem is that one would expect the cost of letters to be **less** than the cost of apparently corresponding flats.
- b. Do you agree that the results recounted in preceding part a are counter-intuitive, possibly in extreme degree? If you do not, please explain why. If you do, please explain the nature of the result that you would find intuitively acceptable.
- c. Please provide explanation and perspective on the result that **ECR** Basic flats cost only 6.152 cents to deliver while **Regular** flats cost 9.795 cents, the latter being indicated by the cost for “Regular Flat Subtotal.” Why and how does this result occur, and what does it mean?

- d. Please consider the two non-automation, letter categories of “ECR Basic Letters” and “Nonmach 3-Digit” Letters, and explain why ECR Basic Letters cost 9.694 cents to deliver and Non-machinable 3-Digit Letters cost only 6.552 cents. Why and how does this result occur, and what does it mean? Please provide any information available on the proportion of ECR Basic letters that are machinable.

**VP/USPS-T16-7.**

Please refer to the “USPS Test Year Unit Costs” in Table 1 of your testimony (USPS-T-16) beginning at page 5, for delivery of various categories of Standard Regular and Standard ECR mail, among others. Focusing on the nature of carrier operations, the physical nature of the mailpieces involved, the way the mail is prepared or otherwise arrives at the carrier station, and the costing information and steps that lead to these costs, please provide narrative responses to the following questions. Be sure to point out differences between in-office and street costs and between city and rural.

- a. Results are shown for the cost of detached address labels (“DALs”) distributed in two different ways, one on Saturation letters and the other on Saturation flats. Please explain which of these is more relevant for rate development purposes, and the extent to which it is relevant. If neither is relevant, provide alternative costs.
- b. For ECR Basic letters, the delivery cost of Auto letters is shown to be 2.902 cents and of non-Auto letters to be 5.358 cents.

- (i) Please explain the extent to which the lower cost for Basic Auto Letters is due to delivery point processing (“DPSing”). What proportion of these letters is DPS’d?
  - (ii) Please explain any factors other than DPSing that accounts for the lower costs of Basic Auto letters.
  - (iii) What proportion of the non-Auto Basic letters is DPS’d?
- c. For ECR letters, with DAL costs distributed to flats, please compare the delivery cost of Saturation letters, 3.876 cents, to the corresponding cost of Basic Auto letters, 2.902 cents.
- (i) Please confirm that Saturation letters must be pre-barcoded.
  - (ii) What proportions of the letters in these two categories are DPS’d?
  - (iii) Please explain any factors other than DPSing that explains the cost difference between these two categories.
  - (iv) To what extent is the proportion of Saturation letters that is DPS’d expected to increase in the test year?
- d. For each of the costs in Table 1 for Standard Regular and Standard ECR, please explain whether the USPS costing results are estimates of marginal costs. If they are, please outline the assumptions that must be made to arrive at a conclusion that they are proper estimates of marginal costs. If they are not, please explain the costing theory that guides the estimation process.

**VP/USPS-T16-8.**

In footnote 1 on page 6 of your testimony, you say: “The large discrepancies between the methods leads to the conclusion that they cannot be compared.”

- a. Does the word “methods” in the quoted sentence refer to the USPS costing method and the PRC costing method? If it does not, please explain what it refers to.
- b. By “discrepancies,” do you mean the differences in the costs found by the two approaches? Please explain any other meaning.
- c. What is it about the size of the discrepancies that leads you to the conclusion that they cannot be compared? Alternatively, how small would the discrepancies have to be to allow you to “compare” them?
- d. Do you agree that it is possible to explain the information inputs to each method, the steps that led to the results in each method, and therefore what each result reflects? If you do not, please explain why not.

**VP/USPS-T16-9.**

Please provide the percentage of letters in each category of Regular and ECR mail that is delivery point sequenced.

- a. Please explain the role that the extent of DPSing plays in explaining the relative levels of the various results for letters.
- b. Please explain the relative proportions of DPS'd mail that one should expect in the test year.

**VP/USPS-T16-10.**

Please refer to library reference USPS-LR-K-67, revised, file  
FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls.

- a. Cell D16 computes DAL mailings to Rural Business Delivery Points. Please explain why cell D15 does not have a corresponding estimate for DAL mailings to City Business Delivery Points.
- b. Please provide a spreadsheet with footnotes that indicate the source of the data contained in cells B7 to B10 and B15 to B18.
- c. Please provide a spreadsheet with footnotes showing the source of the data in cells F7 and F8.
- d. The first part of the heading for column G states "Ratio of cell F8 to Cell D8" and the formula in G7 is "F7/D7." Please explain the relationship between this part of the heading and the formula. Also explain the purpose and use of the ratio in cell G7.
- e. The second part of the heading for column G states "Ratio of cell F9 to Cell D23" and the formula in G8 is "F8/(D8+D10)." Please explain the relationship between this part of the heading and the formula. Also, please explain the purpose and use of the ratio in cell G8.
- f. The heading for column H states "Ratio of cell G8 to Cell G9" and the formula in H7 is "G7/G8." Please explain the relationship between the heading and the formula. Also, please explain the purpose and use of this ratio.

- g. The heading for column I states “Estimated Rural DAL Mailings Per Week Per Possible Delivery Point Based on Column H Ratio.” Please explain why there is an entry in a column designated as rural DAL mailings for a row designated as “city.”
- h. Please provide the formulas for computing the entries in cells L6 and L7, and explain the difference between the entries in cells J7 and J8, designated “Revised Estimates of City and Rural DAL Mailings per Year” and the entries in cells L6 and L7, also designated “Revised Estimates of City and Rural DAL Mailings per Year.”
- i. The footnote states that “The deliveries shown in the 2003 Annual Report reflect...” Please explain why you used data from the 2003 Annual Report, rather than data applicable to Base Year 2004.

**VP/USPS-T16-11.**

Please refer to library reference USPS-LR-K-67, spreadsheet “Casing.”

- a. Please refer to the data in cells B12 and B13, in the column heading under the column headed “FY04 CARRM File.” Please provide a spreadsheet with footnotes indicating the source of these data. If they are from FY04 CARRM File, please indicate the cells in which they occur, and, if they are computed, then indicate the formulas and source of the data used to compute these entries.

- b. The headings in cells C11 and D11 are identical, and read “FY04 CCS,” but the entries in cells C12-C13 are quite different from the entries in cells D12-D13. Please explain fully the difference between these two columns.
- c. Please refer to the entries in cells E121-E13, under the heading “R90-1, USPS-T-10.” Please indicate where in the indicated reference each datum can be found, and explain whether the numbers 41.2 and 27.4 represent costs, volumes, or something else.

**VP/USPS-T16-12.**

Please refer to library reference USPS-LR-K-67, file

FY04.ECR.Volumes.Sat.NonSat.ByShape.xls.

- a. What is the source of the data in cells C10 to C13?
- b. What is the source of the data in cells G6 and G16?

**VP/USPS-T16-13.**

Please refer to USPS-LR-K-67, revised, file FY2004

DAL.MAILING.VOLUME.ESTIMATES.xls.

- a. Cell D16 computes DAL mailings to Rural Business Delivery Points. Please explain why cell D15 does not have a corresponding estimate for DAL mailings to City Business Delivery Points.
- b. Please provide a spreadsheet with footnotes that indicate the source of the data contained in cells B7 to B10 and B15 to B18.

- c. Please provide a spreadsheet with footnotes showing the source of the data in cells F7 and F8.
- d. The first part of the heading for column G states "Ratio of cell F8 to Cell D8" and the formula in G7 is "F7/D7." Please explain the relationship between this part of the heading and the formula. Also explain the purpose and use of the ratio in cell G7.
- e. The second part of the heading for column G states "Ratio of cell F9 to Cell D23" and the formula in G8 is "F8/(D8+D10)." Please explain the relationship between this part of the heading and the formula. Also, please explain the purpose and use of the ratio in cell G8.
- f. The heading for column H states "Ratio of cell G8 to Cell G9" and the formula in H7 is "G7/G8." Please explain the relationship between the heading and the formula. Also, please explain the purpose and use of this ratio.
- g. The heading for column I states "Estimated Rural DAL Mailings Per Week Per Possible Delivery Point Based on Column H Ratio." Please explain why there is an entry in a column designated as rural DAL mailings for a row designated as "city."
- h. Please provide the formulas for computing the entries in cells L6 and L7, and explain the difference between the entries in cells J7 and J8, designated "Revised Estimates of City and Rural DAL Mailings per Year" and the entries in cells L6 and L7, also designated "Revised Estimates of City and Rural DAL Mailings per Year."

- i. The footnote states that “The deliveries shown in the 2003 Annual Report reflect....” Please explain why you used data from the 2003 Annual Report, rather than data applicable to Base Year 2004.

**VP/USPS-T16-14.**

Please refer to library reference USPS-LR-K-67, file  
“FY04.ECR.Volumes.Sat.NonSat.ByShape.xls.”

- a. What is the source of the data in cells C10 to C13?
- b. What is the source of the data in cells G6 and G16?

**VP/USPS-T16-15.**

Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B. What are the definitions of letters, flats and parcels as used in the column headings? Specifically, do they represent definitions that are based on shape as defined in the Domestic Mail Manual (“DMM”) and, if not, what is the basis or source of the definitions?

**VP/USPS-T16-16.**

Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B. The volume of “flats” entered at Letter ECR Basic Piece Rates in cells E11 and E12 amounts to 451,126,847 pieces. Similarly, the volume of “flats” entered at Letter ECR High Density Piece Rate and Letter ECR Saturation Piece Rate, in cells E16 and E20, respectively, were 2,245,294 and 18,958,889 pieces.

- a. Please give a general description of the “flats” that were entered at the ECR Basic, High Density and Saturation Letter Piece Rates.
- b. Were these pieces indeed flats, as defined in the DMM?
  - (i) If so, how did they come to be entered at letter piece rates, and should they have paid the minimum (higher) piece rate for flats?
  - (ii) If they were not flats as defined in the DMM, why are they listed in the “flats” column?
- c. Please provide the source of data that distinguishes and identifies these “flats” that paid the ECR Letter Piece Rates from “letters” that paid the same rate. Are the data shown in the above-cited cells taken or derived from the forms used to enter the mail with the Postal Service, or are the data derived from one (or more) of the Postal Service’s sampling systems? If the latter, please specify which.
- d. Please confirm that all revenue from the “flats” volume in the above-cited cells is recorded in the Billing Determinants as being derived from letters. If you do not confirm, please indicate where the revenues from this particular volume of “flats” is recorded in the Billing Determinants.
- e. If one (or more) of these “flats” that was entered at an ECR Letter Piece Rate were to be the subject of an In-Office Cost System (“IOCS”) sample, would it be recorded as (i) a letter or (ii) a flat? Please indicate the specific IOCS instructions that direct the tally-taker to record these “flats” (and the associated cost thereof) in the same manner as the revenue is recorded.

**VP/USPS-T16-17.**

Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B. The entry in cells D13, D18 and D21 show, respectively, 18,485,218 Basic, 42,873,368 High Density and 283,860,163 Saturation “letters” entered at the Nonletter ECR Piece Rate.

- a. Please give a general description of “letters” that elected to pay higher Nonletter ECR Basic Piece Rates in effect during GFY 2004.
- b. Please provide the source of data that distinguishes and identifies these “letters” paying the Nonletter ECR Piece Rates from “letters” paying the Letter ECR Piece Rates. Are the data taken or derived from the forms used to enter the mail with the Postal Service, or are the data derived from one (or more) of the Postal Service’s sampling systems? If the latter, please specify which.
- c. Please confirm that the revenue from the “letters” recorded in the above-referenced cells is recorded in the Billing Determinants as derived from flats. If you do not confirm, please indicate where the revenues from this particular volume is recorded in the Billing Determinants.
- d. If one (or more) of these “letters” that was entered at the Nonletter ECR Basic Piece Rate were to be the subject of an IOCS sample, would it be recorded as (i) a letter, or (ii) a flat? Please indicate the specific IOCS instructions that direct the tally-taker record these “letters” (and the associated cost thereof) in the same manner as the revenue is recorded.

**VP/USPS-T16-18.**

Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B.

- a. In the “Letters” column, cells D14, D17 and D22 show, respectively, a volume of 4,288,233 pieces at the Ltr/Nonltr ECR Basic Pound Rate, 10,372,672 pieces at the High Density Ltr/Nonltr Pound Rate, and 100,384,637 pieces at the Saturation Ltr/Nonltr Pound Rate.
  - (i) Do these data represent the volume of “heavyweight” ECR Basic letters that weighed between 3.3 and 3.5 ounces, and paid additional postage in excess of the piece rate for weight over 3.3 ounces? Alternatively, do they represent all letter-shaped pieces that weight in excess of 3.5 ounces, and therefore paid the full pound rate?
  - (ii) Do they represent all letter-shaped pieces that weighed in excess of 3.3 ounces? Or, do they represent yet a possibility other than those just described? In your answer, please explain exactly what these volume data represent, and in which of the recognized rate categories they belong.
- b. If one (or more) of these “letters” that was entered at the Nonletter ECR Basic Piece Rate were to be the subject of an IOCS sample, would it be recorded as (i) a letter, or (ii) a flat? Please indicate the specific IOCS instructions that direct the tally-taker to record these “letters” (and the associated cost thereof) in the same manner as the revenue is recorded.

- c. Please provide the source of data that distinguishes these “letters” that paid the Nonletter ECR Pound Rates from other “letters” that paid the piece rates in their respective rate category. Are the data taken or derived from the forms used to enter the mail with the Postal Service, or are the data derived from one (or more) of the Postal Service’s sampling systems? If the latter, please specify which.