

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.
FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS A. THOMAS BOZZO (VP/USPS-T12-1-5)
(May 24, 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 24, 2005

VP/USPS-T12-1.

Please assume that a certain postal cost is a function of the volume of two identifiable types of mail, A and B. This can be expressed in mathematical terms as follows:

$$C = F(V_A, V_B, \lambda)$$

where C is the cost, V_A is the volume of mail type A, V_B is the volume of mail type B, and λ is all other factors affecting costs, such as factor prices.

- a. Would you agree that the marginal cost of A is defined by the partial derivative of C with respect to V_A ? That is,

$$\text{Marginal cost of a change in volume A} = \partial C / \partial V_A?$$

If you do not agree, please define the marginal cost of A in the above equation.

- b. Would you agree that the marginal cost of B is defined by the partial derivative of C with respect to V_B ? That is,

$$\text{Marginal cost of a change in volume B} = \partial C / \partial V_B?$$

If you do not agree, please define the marginal cost of B in the above equation.

VP/USPS-T12-2.

Please refer to your testimony (USPS-T-12) at page 3, Table 1. There you indicate that the volume variability for the mail processing cost of manual flats is 0.90.

- a. For the 10 percent of the mail processing cost that is not volume variable under your treatment, please explain the nature of the activities engaged in by those persons manually sorting flat-shaped mail that accounts for this non-volume variable cost. That is, please describe the characteristics that result in this

variability of less than 1.00, focusing on reasons why the cost of manually sorting flats does not increase proportionately with volume. If certain activities in the Management Operating Data System (“MODS”) cost pool for manual flat sortation (with associated costs) tend not to grow when volume increases, or tend to grow more slowly than volume, please identify these activities and explain why they (and their costs) do not change proportionately with volume.

- b. Please explain how economic theory would classify this non-volume variable cost in the MODS cost pool for manual flat sortation; *e.g.*, as fixed, semi-fixed, avoidable, non-avoidable, common, joint, etc. Please use as many descriptive terms as you believe are appropriate.
- c. Would you agree that it would be appropriate to classify the non-volume variable costs in the MODS cost pool for manual flat sortation as costs that are incremental to the sorting of flats? If you do not agree, please explain fully, and if you consider these costs incremental to some function other than flats sortation, please indicate what that function is.
- d. Instead of a small change in volume, please suppose the system experienced a large increase in the volume of flats, so that, say, the volume to be sorted doubled, and additional capacity (*e.g.*, buildings, equipment, and people) were needed to handle it. Do you agree that the unit additional cost would be larger than the unit volume variable cost you find in your analysis, and that it might well be as large as the unit volume variable cost associated with a finding of 100

percent volume variability in your analysis? If you do not agree, please explain all reasons why you do not agree.

VP/USPS-T12-3.

Please refer to your testimony at page 3, Table 1. There you indicate that the volume variability for the mail processing cost of manual letters is 0.87.

- a. For the 13 percent of the mail processing cost that is not volume variable under your treatment, please explain the nature of the activities engaged in by those persons manually sorting letter-shaped mail that accounts for this non-volume variable cost. That is, please describe the characteristics that result in this variability of less than 1.00, focusing on reasons why the cost of manually sorting letters does not increase proportionately with volume. If certain activities in the MODS cost pool for manual letter sortation (with associated costs) tend not to grow when volume increases, or tend to grow more slowly than volume, please identify these activities and explain why they (and their costs) do not change proportionately with volume.
- b. Please explain how economic theory would classify this non-volume variable cost in the MODS cost pool for manual letter sortation; *e.g.*, fixed, semi-fixed, avoidable, non-avoidable, common, joint, etc. Please use as many descriptive terms as you believe are appropriate.
- c. Would you agree that it would be appropriate to classify the non-volume variable costs in the MODS cost pool for manual letter sortation as costs that are

incremental to the sorting of letters? If you do not agree, please explain fully, and if you consider these costs incremental to some function other than letter sortation, please indicate what that function is.

- d. Please explain what functions, activities, or other factors cause the non-volume variable cost in the MODS cost pool for manual letters to be 30 percent higher than the non-volume variable cost in the MODS cost pool for manual flats.

VP/USPS-T12-4.

Please refer to your testimony at page 3, Table 1. There you indicate that the volume variability for the mail processing cost of manual parcels is 0.78.

- a. For the 22 percent of the mail processing cost that is not volume variable under your treatment, please explain the nature of the activities engaged in by those persons manually sorting parcels that accounts for this non-volume variable cost.
- b. Please explain how economic theory would classify this non-volume variable cost in the MODS cost pool for manual parcels; *e.g.*, fixed, semi-fixed, avoidable, non-avoidable, common, joint, etc. Please use as many descriptive terms as you believe are appropriate.
- c. Would you agree that it would be appropriate to classify the non-volume variable costs in the MODS cost pool for manual parcels as costs that are incremental to the sorting of parcels? If you do not agree, please explain fully,

and if you consider these costs incremental to some function other than parcel sortation, please indicate what that function is.

- d. Please explain what functions, activities, or other factors cause the non-volume variable cost in the MODS cost pool for manual parcels to be 120 percent higher than the non-volume variable cost in the MODS cost pool for manual flats.

VP/USPS-T12-5.

Please refer to your testimony at page 3, Table 1. There you indicate that the volume variability for the mail processing cost of manual Priority Mail is 0.76.

- a. For the 24 percent of the mail processing cost that is not volume variable under your treatment, please explain the nature of the activities engaged in by those persons manually sorting Priority Mail that accounts for this non-volume variable cost. That is, please describe the characteristics that result in this variability of less than 1.00, focusing on reasons why the cost of manually sorting Priority Mail does not increase proportionately with volume. If certain activities in the MODS cost pool for manual Priority Mail sortation (with associated costs) tend not to grow when volume increases, or tend to grow more slowly than volume, please identify these activities and explain why they (and their costs) do not change proportionately with volume.
- b. Please explain how economic theory would classify this non-volume variable cost in the MODS cost pool for manual Priority Mail; *e.g.*, fixed, semi-fixed,

avoidable, non-avoidable, common, joint, etc. Please use as many descriptive terms as you believe are appropriate.

- c. Would you agree that it would be appropriate to classify the non-volume variable costs in the MODS cost pool for manual Priority Mail as costs that are incremental to the sorting of Priority Mail? If you do not agree, please explain fully, and if you consider these costs incremental to some function other than sortation of Priority Mail, please indicate what that function is.
- d. What percentage of the pieces sorted in the MODS cost pool for manual Priority Mail are flat-shaped, and what percentage are parcel-shaped?
- e. Please explain what functions, activities, or other factors cause the non-volume variable cost in the MODS cost pool for manual Priority Mail to be 140 percent higher than the non-volume variable cost in the MODS cost pool for manual flats.