

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 (VP/USPS-1-6)
(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-1.

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPS-LR-K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7. Paragraph two of your response states: “The reason the ... 9.694-cent delivery unit cost for ECR Basic **Letters** is so much higher [than the corresponding cost of **flats**] is the way that the ‘Rural Crosswalk’ worksheet in LR-K-101 allocates total BY 2004 Rural Carrier Cost System (RCCS) volumes across shapes” (emphasis added).

- a. Please confirm that, in Docket No. R2001-1, the delivery unit cost for letters was only 0.086 cents higher than the corresponding cost for flats, and that now it is 3.756 cents higher. If you do not confirm, please provide corrected figures.
- b. Please refer to file LR-K-101.xls and confirm that all of the volumes and the volume split factors contained on sheet ‘RCCS EVAL’ are identical to those on the corresponding file in Docket No. R2001-1, PRC-LR-7. If you do not confirm, please explain.
- c. Sentence two of paragraph two of your response states: “Cell C25 in ‘Rural Crosswalk’ reallocates 1,395,586,000 RCCS ECR flats to ECR letters, based on the ‘RCCS EVAL’ analysis. Please confirm that the corresponding file in Docket No. R2001-1, PRC-LR-7, reallocates 1,218,016,000 pieces, only 12.7 percent fewer. If you do not confirm, please explain.”

- d. Sentence three of paragraph two of your response states: “These 1,395,568,000 reallocated flats account for over 29% of the original RCCS ECR total.” Please state which “total” volume figure is the “original RCCS ECR total.” (Note that candidate volumes would seem to be the flat volume in cell D11, the total volume in cell K11, or some volume less boxholder volume, but that none of these are consistent with the “29%” figure.) After specifying which volume reference is intended, please state whether the 29-percent proportion held also in Docket No. R2001-1. If it did not hold, please explain fully.
- e. Sentence four of paragraph two of your response states: “Moreover, all 1,395,586,000 flats are reallocated to ECR Basic Auto letters and ECR Basic letters.” Please confirm that this was true also in Docket No. R2001-1 and that the proportionate distributions of the 1,395,586,000-figure to each of ECR Basic Auto letters and ECR Basic letters in the instant docket are identical to the corresponding proportionate distributions in Docket No. R2001-1. If you do not confirm, please explain.
- f. Sentence five of paragraph two of your response states: “Cell C39 in ‘Rural Crosswalk’ shows that this reallocation causes a corresponding reallocation of \$72,417,000 in rural ECR Basic flats delivery costs to ECR letters.” Please confirm that the corresponding reallocation was \$70,134,000 in Docket No. R2001-1, only 3.15 percent lower. If you do not confirm, please explain.
- g. Sentence six of paragraph two of your response states: “Furthermore, of this \$72,417,000, \$19,193,000 is allocated to ECR Basic Auto, and \$53,224,000 to

ECR Basic.” Please confirm that, in Docket No. R2001-1, the figure of \$70,134,000 was allocated \$18,588,000 to ECR Basic Auto and \$51,546,000 to ECR Basic, with the proportions of the distribution being exactly the same as in the current docket. If you do not confirm, please explain.

- h. Please confirm that from Docket No. R2001-1 to the instant docket, the delivery cost of ECR Basic **letters increased** 45.69 percent while the corresponding cost of ECR Basic **flats decreased** 3.06 percent. If you not confirm, please explain and state a figure that you believe to be correct.
- i. In view of the similarities between the application of the rural crosswalk in the instant docket and in Docket No. R2001-1, many aspects of which are referenced in earlier parts of this question, please state whether you believe that the reason for the 45.69 percent increase in the delivery cost of ECR Basic letters, which is clearly associated with the fact that ECR Basic letters now appear to cost 40.09 percent (3.756 cents) more than corresponding flats, is due to the way that the rural crosswalk allocates base-year rural costs across shapes. If you so believe, please explain how this comes about, pointing out all similarities and differences between the two cases in the way the crosswalk is applied. If you do not so believe, please explain why the cost of letters increased 45.69 percent while the cost of flats decreased 3.06 percent.

VP/USPS-2.

Please refer to your response to POIR No. 3, Question 3(d), which discusses the role and the effects of the rural crosswalk.

- a. In all prior cases in which the Postal Service has presented the rural crosswalk, has the Commission ever rejected or altered any part of it? If yes, please explain.
- b. In all prior cases in which the Postal Service has presented the rural crosswalk, has the Commission ever made suggestions for improvement? If yes, please explain.
- c. In all prior cases in which the Postal Service has presented the rural crosswalk, has the Commission ever indicated that it was committed to a certain way of handling the crosswalk and/or that it would be resistant, or require a high standard of evidence, to make changes or improvements in it? Please explain any affirmative answer.
- d. File LR-K-67.doc of USPS-LR-K-67 states at page 8: “In Docket No. R2001-1, an adjustment was made to the RCS volumes to account for the discrepancy between the shape dimensions for pieces delivered on rural routes and those in the DMM. Since that incongruity has been eliminated, no adjustment is made to the FY04 RCS volumes.” Please explain how the “discrepancy” and the “incongruity” were eliminated. Include in your explanation a discussion of whether pieces higher than 5 inches but less than 6 1/8 inches still exist, how rural carriers are paid for them, and how they are treated in the costing process.

VP/USPS-3.

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPS-LR-K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7. Please confirm that (i) the piggyback factor for rural carrier costs in the instant docket is 1.193 and, in Docket No. R2000-1, it was 1.259, and (ii) *ceteris paribus*, this would tend to lower rural carrier costs in this case and to reduce any effects attributable to the rural crosswalk. If you do not confirm, please explain.

VP/USPS-4.

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPS-LR-K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7.

- a. Please confirm that, according to the sheets referenced, the unit delivery cost of ECR Basic Letters increased 45.68 percent from Docket No. R2001-1 to the instant docket. *See* cell O88 on ‘summary TY’ in LR-K-101 and cell O86 in PRC-LR-7. If you do not confirm, please explain and present the correct figures.
- b. PRC-LR-7 shows a volume of ECR Basic Letters in cell L86 of ‘summary TY’ of 4,892,022. It also shows a rural volume of ECR Basic Letters of 1,762,679, cell C68 of sheet ‘Rural Crosswalk’. Please explain whether this implies a city-carrier volume of ECR Basic Letters in Docket No. R2001-1 of 3,129,343

(where all volumes are in thousands). If it does not, please explain the flaws and inaccuracies in the procedure used to arrive at these estimates.

- c. USPS-LR-K-101 shows a volume of ECR Basic Letters in cell L88 of ‘summary TY’ of 2,165,011. It also shows a rural volume of ECR Basic Letters of 2,019,640 in cell B60 of ‘Rural Crosswalk.’ Please explain whether this implies a city-carrier volume of ECR Basic Letters in the instant docket of 145,371 (where all volumes are in thousands), a 95.4 percent decrease from Docket No. R2001-1. If it does not, please explain the flaws in the procedure used to arrive at these estimates.
- d. Cells J87 through J109 of sheet ‘summary TY’ of file LR-K-101 show that the rural delivery cost is allocated to the letter categories of ECR on the basis of splits obtained, essentially, from the sheet ‘RCCS EVAL.’
- (i) Is the above statement correct? If not, please provide a correct statement.
 - (ii) If it is the case that rural costs are allocated on crosswalk split factors, and if these split factors do not accurately reflect current mail volume (possibly because the proportionate number of prebarcoded pieces has increased substantially), please explain whether it follows that the rural costs allocated to the ECR letter categories, which are used to provide discounts to mailers, are in error.
 - (iii) Please state the observation period to which the volumes and split factors in the sheet ‘RCCS EVAL’ apply.

- e. Cells J87 through J90 of sheet 'summary TY' of file LR-K-101 appear to show that the rural delivery cost for ECR letters is allocated to the letter categories of ECR on the basis of the number of pieces.
- (i) Is the above statement correct? If not, please provide a correct statement.
 - (ii) If the purpose of the analysis is to find the differences in the unit costs of Basic, Basic auto, High Density, and Saturation letters, and the costs are allocated on the basis of the number of pieces, please explain whether this predetermines that, as far as rural carriers are concerned, the costs of all of the categories are the same and no contribution will be made to any discounts for mailers of the various categories of letters.
- f. (i) Is the payment system for rural carriers such that, on rural routes, the Postal Service pays the same for High Density and Saturation mailings as it does for Basic ECR mailings? Please explain.
- (ii) If the answer to the preceding part (i) is negative, please explain all differences in the way the Postal Service pays rural carriers for handling each of the above three rate categories.

VP/USPS-5.

Please refer to your response to POIR No. 3, Question 3(d), to library reference USPS-LR-K-101 (as revised in response to Question 1 of POIR No. 2), and to the corresponding library reference in Docket No. R2001-1, PRC-LR-7. Line 12 of the third paragraph of your

response refers to “[t]he piggyback-inflated rural ECR Basic letters unit cost,” as shown on sheet ‘summary BY’ of file LR-K-101 and, in rolled-forward form on sheet ‘summary TY’ of the same file, cells N87-N90. Corresponding costs for Docket No. R2001-1 may be found in cells N85-N88 of sheet ‘summary TY’ in PRC-LR-7.

Drawing on the cells referenced, note that the “piggyback-inflated ECR Basic letters unit cost,” to which you refer in your response, increases from 2.31 cents in Docket No. R2001-1 to 5.81 cents in the instant docket, an increase of 151.5 percent.

- a. Given that the costs of 2.31 cents and 5.81 cents are derived by dividing an estimate of rural cost by a volume figure that includes both city volume and rural volume, please confirm that these cost figures really have little or nothing to do with the cost of rural delivery in question. Please explain any disagreement, describing what those cost figures actually represent.
- b. Suppose the piggyback-inflated estimates of rural costs (such as those that would be obtained by multiplying cell K88 times cell J120 on sheet ‘summary TY’ of file LR-K-101) were divided by the volumes shown in cells B59 through B61 of sheet ‘Rural Crosswalk’ of the same file, with appropriate adjustment for the fact that separate volumes are not shown for High Density and Saturation.
 - (i) Please explain whether the result of this division would provide a meaningful estimate of unit rural delivery costs. If you explain that this procedure has limitations, please provide an improved estimate.

- (ii) Please confirm that use of this procedure generates a unit rural cost in Docket No. R2001-1 of 6.40 cents, and, in the instant docket, of 6.22 cents, a decrease of 2.81 percent.
- (iii) To the extent to which there are strong similarities with respect to the application of the rural crosswalk in Docket No. R2000-1 and the instant docket, as suggested in VP/USPS-1, please explain whether this implies that, with respect to an increase in the cost of Basic ECR letters in the instant docket (which might contribute to a higher cost for Basic ECR letters than for Basic ECR flats, which was the subject POIR question), the problem is in the costing on city routes and not in either the costing of rural routes or in any procedure associated with the rural crosswalk.

VP/USPS-6.

Please refer to your response to Question 3(c) of POIR No. 3. In the first paragraph you state: “There are several reasons why the mail processing unit cost of Basic ECR letters (non-automation rate) is greater than that of Basic ECR nonletters.” You go on to state that many of these letters are now delivery point sequenced on automated equipment and that “[t]his additional distribution step at the plant, along with accompanying allied labor activities, increases mail processing costs of ECR letters relative to nonletters, all other things being equal.” The costs at issue are PRC-version costs and are developed in library reference USPS-LR-K-107.

- a. When letters are shifted from manual carrier operations to automated delivery point sequence (“DPS”) operations in plants, should not the decrease in the cost of carrier operations be larger than the increase in cost of the automated plant operations, including the effect of the piggyback factors you discuss in the second paragraph of your answer? Please explain in detail any negative answer.
- b. Would you agree that, if the result outlined in part a does not occur, the DPS equipment and associated program could not show a positive return on investment? Please explain any disagreement.
- c. Please quantify the decrease in carrier cost associated with the increase in plant operations costs attendant to a shift to delivery point sequencing the letters in question, including the effects of the piggyback factors.
- d. Please discuss the relative sensitivities of the analytical methods and procedures in library references USPS-LR-K-107 and USPS-LR-K-84 to any reduction in carrier costs associated with recent shifts toward DPS operations in plants for ECR letters.