

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.  
SECOND INTERROGATORIES AND REQUESTS FOR  
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE (VP/USPS-T28-20-37)  
(May 27, 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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Valpak Dealers' Association, Inc.

May 27, 2005

**VP/USPS-T28-20.**

Please consider the current rate relationships for non-dropshipped (nationwide) **letters**, focusing specifically on the prebarcoded 5-digit rate in the Standard Regular subclass, and in the ECR subclass on the Basic carrier route rate and the prebarcoded Basic carrier route rate, relationships which would be perpetuated through the across-the-board approach behind the proposed rates. The specific rates involved are shown in the following table, in cents per piece:

	Standard Regular <u>Barcoded 5-digit</u>	Standard ECR <u>CR Basic</u>	Standard ECR <u>Barcoded CR Basic</u>
Current	19.0	19.4	17.1
Proposed	20.0	20.4	18.0

Please refer to the testimony of Postal Service witness Laraine B. Hope, Docket No. R2001-1, USPS-T-31 at pages 2-3, where she states: “An example of an appropriate rate relationship is that the proposed ECR basic letter rate is slightly higher than the 5-digit automation letter rate in the Regular subclass. This maintains the current rate relationship and encourages the use of automation by mailers.” Witness Hope’s statement suggests that the ECR Basic rate (19.4 cents) should be slightly higher than the barcoded 5-digit rate (19.0 cents), in order to encourage the use of automation.

- a. Please explain whether the Postal Service is concerned that if the rate relation between these two were in the opposite direction, some barcoded 5-digit letters might leave the automation program and convert to ECR Basic letters. If this is a matter of concern, please explain the ways in which a mailer of barcoded 5-digit letters might succeed in qualifying for the ECR Basic rate.

- b. If there is concern that Standard barcoded 5-digit letters might leave the Standard barcoded 5-digit category and move to the ECR subclass, please explain why the logical place to move would not be the barcoded ECR Basic category instead of the ECR Basic category.
- c. If there is concern that Standard barcoded 5-digit letters might move to the barcoded ECR Basic category, please explain how this would have a negative effect on the Postal Service's automation program.
- d. If there is a desire to encourage ECR Basic letters to move to the Standard barcoded 5-digit category, please explain why the logical automation category for these pieces would not instead be the barcoded ECR Basic category.
- e. If there is concern over some other movement among the rate categories discussed above, a movement not mentioned herein, please explain what that movement is and the basis for the concern.

**VP/USPS-T28-21.**

Please suppose the rates for (i) ECR Basic letters and (ii) Regular prebarcoded 5-digit letters (rates also referenced in VP/USPS-T28-20) were based on their costs and a markup rooted in an independent application of the non-cost factors in the Postal Reorganization Act, with an outcome that the ECR Basic rate were lower than the Regular prebarcoded 5-digit rate.

- a. Please explain whether it is the Postal Service's position that an additional layer of rate design guidance should be applied in order to push the ECR Basic rate for letters higher so that any mail using the rate is precluded from receiving

recognition of its costs and the independent application of the non-cost factors in the Postal Reorganization Act. If this is the Postal Service's position, please explain all reasons and bases for this position.

- b. If the layering described in part a is the Postal Service's position, please explain how it is fair to mailers using the ECR Basic rate, who must accordingly pay higher rates.
- c. Please explain whether the Postal Service sees elevating the cost coverage of the ECR subclass as one way to help achieve a rate for ECR Basic letters that is higher than the rate for Regular prebarcoded 5-digit letters. If so, please explain the basis for this higher coverage and how it is fair to mailers of other letters using the ECR subclass, to ECR mailers of non-letters, and to mailers of all Nonprofit ECR materials.
- d. Within the confines of a specific cost coverage for the ECR subclass, please explain whether the Postal Service agrees that any process of elevating the ECR Basic letter rate at the same time necessarily has the effect of providing lower rates for the non-letters in ECR. If it does agree, please discuss and explain the basic economic fairness of elevating letter rates in a way that provides lower rates to non-letters. If it does not agree, please explain the steps that are taken, and the steps that should be taken, to make it otherwise.
- e. If the Postal Service has an interest in achieving a rate for ECR Basic letters that is higher than the rate for Regular prebarcoded 5-digit letters, please explain why it is not just as logical and just as fair to artificially **lower** the rate for

Regular prebarcoded 5-digit letters as it is to artificially **increase** the rate for ECR Basic letters.

**VP/USPS-T28-22.**

One could argue that Standard ECR rates (including those for ECR Basic letters) might be lower than Standard Regular rates (including those for Prebarcoded 5-digit letters) due to factors such as lower costs, higher elasticity, lower value of service, the recognition of competition, the recognition of market characteristics, and an interest in making the rates more market-based, much as the Postal Service argued in support of the creation of the ECR subclass in Docket No. MC95-1.

- a. If the ECR rates are elevated on some other basis to make them higher than certain non-ECR rates, please explain whether it would be the Postal Service's position that mailers using the elevated rates, including Nonprofit ECR mailers, would be deprived of having these various factors recognized in their rates.
- b. In Docket No. MC95-1, in support of creating a separate ECR subclass, the Postal Service argued that the "Current Subclasses Are Heterogeneous," that "Efficient Mail Pays [a] Disproportionate Contribution," that "Efficient Mail Is Most Susceptible to Non-USPS Delivery," that "Efficient Mail Must Be Retained to Maintain Reasonable Rates for All," that "the most likely incursions into the existing customer and volume base will occur in those areas where the unit cost for delivery is less than the average but is not adequately reflected in price, giving competitors an opportunity to price their services to attract the

lower cost Postal Service products out of the mailstream,” that “The Enhanced Carrier Route subclass is a **first step** to counter that competitive strategy,” and that “The most vulnerable volume in the mailstream today is that which exhibits a higher degree of delivery density than average, because high delivery density will produce a lower than average unit delivery cost for a competitive hard copy delivery service.” (Docket No. MC95-1, Direct Testimony of Postal Service witness Charles McBride, USPS-T-1, pp. i and 29-30, emphasis added.)

- (i) Do you believe that, when the Postal Service made these arguments, it believed the rates for ECR mail generally would be lower than they would be without the creation of the new subclass?
- (ii) Do you believe that, in Docket No. MC95-1, the Postal Service anticipated that the rates for ECR mail would be elevated so that certain rate elements could be higher than related portions of non-ECR mail?
- (iii) When the Postal Service said that creating ECR is a “first step,” please explain what you believe that the additional steps would be, and, over what time frame these steps might occur, and whether these steps would involve a lowering of the ECR markup and the ECR rates.
- (iv) Please explain the extent to which the Postal Service does or would at some point regard creation of the ECR subclass as unsuccessful in achieving its objectives as stated above if ECR rates are not lower than they would have been without the creation of the ECR subclass.

**VP/USPS-T28-23.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket.

- a. Please describe the mail processing received by Saturation flats leading to the cost of 1.152 cents, including a general outline of the steps through which the cost is developed and what proportion of Saturation flats receive each processing step.
- b. Please describe the mail processing received by High Density flats leading to the cost of 1.152 cents, including a general outline of the steps through which the cost is developed and what proportion of High Density flats receive each processing step.
- c. Please describe the mail processing received by Basic flats leading to the cost of 3.331 cents, including a general outline of the steps through which the cost is developed and what proportion of Basic flats receive each processing step.
- d. Drawing on the descriptions you provided in response to parts a through c of this question, and supplementing them as needed, please explain why Basic flats receive 2.891 ( $3.331/1.152$ ) times as much mail processing cost as either High Density or Saturation flats, including why it is that High Density and Saturation flats receive exactly the same amount of mail processing. Where appropriate,

please include references to the effect of pieces-per-bundle, any effects of dropshipment by mailers, and third-bundle treatment discussed in the testimony of Postal Service witness Jeffery W. Lewis (USPS-T-30, Section 2.2, pp. 2-3).

- e. Please describe of how the mail processing cost for Saturation flats of 1.152 cents picks up and accounts for the mail processing costs of any Detached Address Labels (“DALs”) accompanying the flats, including the proportion of the flats that have such labels. If any of the cost of 1.152 cents is for bundle sorts of flats, please include a discussion of the nature of the equivalent sorts received by any associated DALs.

**VP/USPS-T28-24.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket.

- a. Footnote 2 on the referenced spreadsheet indicates that the costs of delivery (column G) come from USPS-LR-J-59. Please provide details concerning the files and the specific locations in USPS-LR-J-59 of each delivery-cost figure.
- b. Please provide a breakout of each of the seven delivery-cost figures into a city-delivery component and a rural-delivery component, indicating the weights

given to each. Then, for the city-carrier component, to the extent applicable, please break out the figures into an in-office portion and a street portion.

- c. The following questions concern the delivery cost of 6.070 cents for Basic flats and 4.862 cents for High Density flats.
- (i) Please identify and discuss all reasons for the two costs being different.
  - (ii) To the extent that differences in the two costs reflect the amount of carrier time incurred, please indicate the wage rates on which the figures are based.
  - (iii) Please discuss the extent to which these costs are properly viewed as marginal costs. In the case of the High Density figure of 4.862 cents, for example, if the High Density discount were to be increased and the volume of High Density flats were to increase according to the appropriate elasticity, would you expect the unit additional cost associated with these additional pieces to be 4.862 cents? Please explain your answer.
  - (iv) If you indicate that each cost figure is a marginal cost, please outline all of the assumptions which must be made in order to justify the marginal conclusion. If you do not so indicate, please present and discuss the costing theory underlying the nature of these costs.

**VP/USPS-T28-25.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket.

- a. Please refer to the delivery cost for Basic (presorted to carrier route) **letters** of 6.384 cents and for Basic (presorted to carrier route) **flats** of 6.070 cents.
  - (i) What portions of these two costs, if any, are **not** associated with carrier activities?
  - (ii) At this carrier route presort level, please identify and discuss the reasons why the delivery cost of letters is higher than the delivery cost of equivalently-prepared flats.
- b. Please consider that (i) the delivery cost shown for Basic flats is 0.314 (6.384 minus 6.070) cents **lower** than the corresponding cost shown for letters and (ii) the delivery cost shown for High Density flats is 0.178 (4.862 minus 4.684) cents **higher** than the corresponding cost shown for letters.
  - (i) Please explain the extent to which your general expectation would be that carrier costs decline as the level of preparation and the density of the mail increase, measuring density as the proportion of possible stops on a route that receive mail.

- (ii) Please suppose that 1,000 Basic letters were replaced by 1,000 Basic flats, for the same addresses on the same routes, and that the addresses and routes are typical and representative. Would you expect a **decline** in postal costs in the amount of \$3.14 (1,000 times 0.314 cents)? If you would not, please explain what cost change you would expect, stating all assumptions made and drawing on the characteristics of the mail involved and the work to be performed.
- (iii) Please suppose that 1,000 High Density letters were replaced by 1,000 High Density flats, for the same addresses on the same routes, and that the addresses and routes are typical and representative. Would you expect an increase in postal costs in the amount of \$1.78 (1,000 times 0.178 cents)? If you would not, please explain what cost change you would expect, stating all assumptions made and drawing on the characteristics of the mail involved and the work to be performed.
- (iv) Please explain any extent to which you do not agree that for typical and representative routes, the fundamental difference between a mailing (letters or flats) qualifying for the Basic (presorted to carrier route) rates and a mailing qualifying for the High Density rates is that the mailing qualifying for the High Density rates has more pieces per route. If you do not agree, please explain all reasons for disagreeing.
- (v) Drawing on the characteristics of the mail involved and the work to be performed, please provide a narrative explanation of all of the reasons

why, compared to High Density letters, High Density flats cost **more** for carriers to process and deliver while, compared to Basic letters, Basic flats cost **less** for carriers to process and deliver.

**VP/USPS-T28-26.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket, and specifically to the delivery cost of Saturation flats, shown to be 4.031 cents.

- a. Please discuss the extent to which this cost is properly viewed as a marginal cost.
- b. Please suppose the Saturation discount were to be increased and the volume of Saturation flats were to increase according to the appropriate elasticity. Would you expect the unit additional cost associated with these additional pieces to be 4.031 cents? If not, please explain what you would expect the unit additional cost to be.
- c. If you indicate that the cost figure of 4.031 cents is a marginal cost, please outline all of the assumptions which must be made in order to justify the marginal conclusion. If you do not so indicate, please present and discuss the costing theory underlying the nature of this cost.

**VP/USPS-T28-27**

Please refer to spreadsheets “COST” and “NCOST” in files USPS-LR-J-131-WP1.xls and USPS-LR-J-131-WP2.xls, respectively, Docket No. R2001-1, which provide cost information behind the current Standard (Commercial) ECR and Standard Nonprofit ECR rates, which are being elevated in this case by application of an across-the-board percentage, 5.6 percent and 5.9 percent, respectively. *See* columns G in both spreadsheets, which contain delivery costs. Please provide a specific source for each delivery-cost cell in both spreadsheets, one being for commercial ECR and the other for Nonprofit ECR. Note that the source shown on the sheet may not be the correct one. Note also that USPS-J-LR-117 is a candidate source, but does not appear to show separate costs for Standard (Commercial) ECR and Standard Nonprofit ECR.

**VP/USPS-T28-28.**

Please refer to USPS-LR-K-115, workbook USPST28Aspreadsheets.xls, and to USPS-LR-K-114, the latter showing final “Markups” and “Markup Indices.”

- a. On spreadsheets such as “S-7 Comm. Piece-Pound Dist.-BY,” please confirm that the volumes shown for “Nonmachinable” letters are shown for purposes of applying the surcharge only and that the same volumes also are included in the corresponding categories of “Presorted” letters. Please explain fully any non-confirmation.
- b. Please explain whether the “Markups” and “Markup Indices” shown in USPS-LR-K-114 include the fees in the revenues used to calculate them. If they do

not, please provide a revised reference showing the markups and indices with the fees included.

- c. Please provide a source for each of the percentage figures in columns D and E of the second sheet of USPS-LR-K-114.

**VP/USPS-T28-29.**

Note 2 of Rate Schedule 321B says: “Letters that weigh more than 3.3 ounces but not more than 3.5 ounces pay the nonletter piece and pound rate but receive a discount off the piece rate equal to the applicable nonletter minimum piece rate minus the applicable letter minimum piece rate corresponding to the correct presort tier.” Similar notes appear in Rate Schedules 322, 323B, and 324.

In view of the above statement found in notes to Rate Schedules 321B, 322, 323B, and 324, please refer to USPS-LR-K-115, workbook USPST28Aspreadsheets.xls, and explain whether the rate entries indicated below conform with that statement:

- (i) Sheet ‘S-17 Adjusted Comm. Rates,’ cells I11 through K11;
- (ii) Sheet ‘S-20 Adjusted Nonprofit Rates,’ cells I10 through J10 and I13 through K13;
- (iii) Sheet ‘ECR-16 Adjusted ECR Rates,’ cells I10 through L10; and
- (iv) Sheet ‘ECR-19 Adjusted NECR Rates,’ cells I11 through L11.

**VP/USPS-T28-30.**

Please refer to USPS-LR-K-115, workbook USPST28Aspreadsheets.xls, sheet 'ECR-14 Uniform Inc. ECR Rates' and explain why cell G13 is rounded to five decimal places while similar cells in its vicinity are rounded to only three decimal places.

**VP/USPS-T28-31.**

Rate Schedule 321A, note 6, and Rate Schedule 321B, note 4, state: "Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 321.8."

- a. Please explain whether this "note" also should appear in any other Rate Schedules of Standard mail.
- b. Will the revenue from Repositionable Notes accrue to the category of Standard mail in which they are used? Please explain any answer that is not an unqualified affirmative.
- c. Please explain how and where the revenue from Repositionable Notes is recognized in the Postal Service's proposal.
- d. Please explain when and in what form information relating to the volume and revenue of Repositionable Notes will become available.

**VP/USPS-T28-32.**

Rate Schedule 321A, note 5 says: "Pieces entered as Customized Market Mail, as defined in DMCS section 321.22, are subject to the nondestination entry, nonletter minimum per-piece basic rate and the residual shape surcharge."

- a. Aside from Rate Schedules 321A and 323A, should this note appear in any other rate schedules?
- b. Please explain how and where the Postal Service's proposal recognizes the revenues and costs of Customized Market Mail.
- c. By subclass and time period, please provide any summary information available on the revenues and costs of Customized Market Mail since it was approved for implementation.
- d. Please explain when additional information on the use of Customized Market Mail in calendar 2005 will become available.

**VP/USPS-T28-33.**

Please refer to the Rate Schedule shown in the Postal Service's Request, Attachment A, page 18, and explain whether it should be identified as "Schedule 323A."

**VP/USPS-T28-34.**

For Standard (Commercial) Regular mail, has the Postal Service computed the aggregate "leakage" (*i.e.*, discounts earned by mailers) during Base Year 2004? If so, please provide the aggregate amount of such discounts from (i) presort and automation, and (ii) destination entry.

**VP/USPS-T28-35.**

For Standard Nonprofit Regular mail, has the Postal Service computed the aggregate “leakage” (*i.e.*, discounts earned by mailers) during Base Year 2004? If so, please provide the aggregate amount of such discounts from (i) presort and automation, and (ii) destination entry.

**VP/USPS-T28-36.**

For Standard (Commercial) ECR mail, has the Postal Service computed the aggregate “leakage” (*i.e.*, discounts earned by mailers) during Base Year 2004? If so, please provide the aggregate amount of such discounts from (i) presort and automation, and (ii) destination entry.

**VP/USPS-T28-37.**

For Standard Nonprofit ECR mail, has the Postal Service computed the aggregate “leakage” (*i.e.*, discounts earned by mailers) during Base Year 2004? If so, please provide the aggregate amount of such discounts from (i) presort and automation, and (ii) destination entry.