

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.
FIFTH INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS JOHN KELLEY (VP/USPS-T16-30-38)
(June 6, 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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June 6, 2005

VP/USPS-T16-30.

Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet

EstimatesOfCased.Sat.Ltrs.Flts.

- a. Please confirm that, in Base Year 2004, the total Standard ECR Saturation Mail Letter Route Casing Costs for Saturation letters was \$24,349,000. If you do not confirm, please provide the correct amount.
- b. Please explain whether the amount that you either confirmed or provided in response to preceding part a excludes all piggybacks and is direct cost only, or whether the amount includes any piggybacks. If the \$24,349,000, or the amount you provided, includes any piggybacked indirect costs, please provide only the amount of the direct cost for casing Saturation letters.
- c. In BY 2004, what was the total in-office direct carrier cost (*i.e.*, excluding all piggybacked indirect costs) attributed to Saturation letters?
- d. If the total direct costs provided in response to preceding part c exceed the direct cost for casing letters indicated in response to part b, please describe:
(i) the nature of each activity that accounts for any difference between the two responses as regards direct costs for Saturation letters; and (ii) the type of activities recorded on the In-Office Cost System (“IOCS”) tallies that account for any “other” direct costs.

VP/USPS-T16-31.

Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet

EstimatesOfCased.Sat.Ltrs.Flts.

- a. Please confirm that, in BY 2004, the total Standard ECR Saturation Mail Letter Route Casing Costs for Saturation flats was \$27,239,000. If you do not confirm, please provide the correct amount.
- b. Please explain whether the amount that you either confirmed or provided in response to preceding part a excludes all piggybacks and is direct cost only, or whether the amount includes any piggybacks. If the \$27,239,000, or the amount you provided, includes any piggybacked indirect costs, please provide only the amount of the direct cost for casing Saturation flats.
- c. In BY 2004, what was the total in-office direct carrier cost (*i.e.*, excluding all piggybacked indirect costs) attributed to Saturation flats?
- d. If the total direct costs provided in response to preceding part c exceed the direct cost for casing flats indicated in response to part b, please describe:
 - (i) the nature of each activity or that accounts for any difference between the two responses as regards direct costs for Saturation flats; and
 - (ii) the type of activities recorded on the IOCS tallies that account for these “other” direct costs.

VP/USPS-T16-32.

Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet

EstimatesOfCased.Sat.Ltrs.Flts.

- a. Please confirm that the following volumes (in thousands) and the distribution of Saturation letters handled by city carriers that were either delivery point sequenced (“DPS’d”), or cased, or taken directly to the route as sequenced mail are correct. If you do not confirm, please provide the correct volumes and distribution.

| | Volume (000) | <u>Dist.</u> |
|---|------------------|--------------|
| 1. Total FY 04 DPS CCS Saturation letters | 1,447,283 | 28.2% |
| 2. Cased Saturation letters | 1,755,605 | 34.1 |
| 3. Non-DPS Saturation letters that bypass casing (sequenced mail) | <u>1,940,878</u> | <u>37.7</u> |
| 4. Total Saturation letter volume | 5,143,766 | 100.0% |

- b. Regardless of whether you confirm the volume data shown in preceding part a or provide alternative data, please reconcile the total volume of Saturation letter mail in that response with the total volume of Saturation letter mail in the billing determinants — namely:

| | |
|--------------------------------------|--------------------|
| 1. Commercial ECR Saturation letters | 2,783,103,074 |
| 2. Nonprofit ECR Saturation letters | <u>661,059,108</u> |
| 3. Total | 3,444,162,182 |

- c. Please confirm that the following volumes (in thousands) and the distribution of Saturation flats handled by city carriers that were either cased or taken directly

to the route as sequenced mail are correct. If you do not confirm, please provide the correct volumes and distribution.

| | Volume (000) | <u>Dist.</u> |
|--|------------------|--------------|
| 1. Cased Saturation flats | 1,305,760 | 24.56 |
| 2. Non-DPS Saturation flats that bypass casing (sequenced mail) | <u>4,009,789</u> | <u>75.44</u> |
| 3. Total ECR Saturation flat volume | 5,315,549 | 100.00% |

VP/USPS-T16-33.

Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet EstimatesOfCased.Sat.Ltrs.Flts. Cell D12 shows a volume of 1,447,283,000 as FY04 Total DPS CCS Saturation Mail Volume. Please explain how this estimate of DPS'd Saturation letter volume was derived — *e.g.*, using IOCS data, Revenue, Pieces and Weight (“RPW”) data, data from some other sampling system, etc.

VP/USPS-T16-34.

Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet EstimatesOfCased.Sat.Ltrs.Flts. Cells E12 and E13 show, respectively, pieces cased per minute of 41.2 for Saturation letters and 27.4 for Saturation flats, with the source given as testimony from Docket No. R90-1, USPS-T-10 (witness Shipe).

- a. Were these rates for casing Saturation letters and flats based on sampled observations of carriers using vertical flat cases? If not, please explain why you consider it appropriate to apply these data to the current casing environment.

- b. Please identify and provide a copy of any Postal Service study of the rate at which letters and flats are cased in vertical flat cases.

VP/USPS-T16-35.

Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet Casing. Please provide the source of the data in cells K43, K44, L43, and L44.

VP/USPS-T16-36.

Please refer to USPS-LR-K-67, File CASING04.xls, Worksheet ECR Breakout, with spreadsheet title (cells A1 and D1): “Fiscal Year 2004 – Distribution of Standard Mail – Enhanced Carrier Route.”

- a. Please (i) reconcile the ECR Saturation letters cost of \$25,600,000 shown in cell K31 for “City Carrier – In-Office (All Routes) Casing Only” with the \$24,349,000 cost for casing Saturation letters referred to VP/USPS-T16-30, and (ii) describe the activities and provide the mail volume responsible for the difference in the two cost figures.
- b. Do either of the two cost figures cited in preceding part a for casing of Saturation letters include any costs for casing detached address labels (“DALs”)? Please explain.
- c. Please (i) reconcile the ECR Saturation flats cost of \$28,573,000 shown in cell K32 for “City Carrier – In-Office (All Routes) Casing Only” with the \$27,239,000 cost for Saturation flats referred to VP/USPS-T16-31, and

(ii) describe the activities and provide the mail volume responsible for the difference in the two cost figures.

VP/USPS-T16-37.

Please refer to USPS-LR-K-67, File LR-K-67_Revised.xls, Worksheet '2.summary TY,' and specifically to lines 77 and 80 showing costs for ECR Basic Auto Letters and ECR Saturation Letters, respectively, with costs before the DAL adjustment in column P and after the adjustment in column S. The spreadsheets cited below may be referred to by their number instead of their full name.

- a. Cell B71 of spreadsheet 8 shows the volume of **rural** auto letters to be 890,089, which, when subtracted from cell M77 on spreadsheet 2, suggests a **city** volume of 1,448,110. If the **city** and **rural** costs behind cells N77 and O77, respectively, are expressed relative to their own volume instead of total volume, they become, 2.18 cents (city) and 3.39 cents (rural) (*i.e.*, $2.18 = 1.35 \times 2,338,199/1,448,110$, and $3.39 = 1.55 \times 2,338,199/890,089$). This suggests that **rural** delivery costs for these letters, are 1.56 times as much as **city** delivery.
 - (i) Do you agree with these figures? If you do not, please provide your own analysis of the **rural** vs. **city** cost implications of the figures cited in spreadsheet 2.
 - (ii) If you find that the figures referenced on spreadsheet 2 need correcting, please do so and provide revised figures.

- (iii) Please explain, given the relative volumes involved, what you would expect the relative sizes of the city and rural per-piece cost contributions in cells N77 and O77 on spreadsheet 2 to be.
- b. What percentage of ECR Basic automation letter volume and ECR Saturation letter volume, separately for both city and rural carriers, are delivery point sequenced?

VP/USPS-T16-38.

Please refer to the Attachment to this interrogatory, derived from USPS-LR-K-67, File LR-K-67_Revised.xls, Worksheet '2.summary TY.'

- a. Please confirm that the numbers shown on page 1, columns 3, 4, and 5 have been transcribed correctly.
- b. Columns 1 and 2 on page 1 of the attachment have been computed from the ratios shown in the bottom portion of page 2 of the attachment. These ratios are derived from other cost data in the above cited spreadsheet, and shown in the upper portion of page 2 of the attachment. Please confirm that the unit costs for in-office and street work are correct. If you do not confirm, please provide the correct unit costs.
- c. After the DAL adjustment, the unit delivery cost of **Saturation letters** is shown to be 3.88 cents (cell S80 in the above-referenced spreadsheet) and of **Basic automation letters** to be 2.90 cents (cell P77). Since all **Saturation letters** now must be prebarcoded by the mailer, and therefore present to the Postal Service

all processing options provided by **Basic automation letters** plus some others (*e.g.*, taking Saturation letters to the route as sequenced mail), would it be reasonable to expect the unit delivery costs of Saturation letters to be lower than the unit delivery costs of Basis automation letters? Please explain.

- d. If all **ECR Saturation letter** mail were to convert to **ECR Basic automation**, do you believe that the Postal Service would save approximately 1.0 cents per piece in delivery costs? Please explain any answer other than an unqualified affirmative.
- e. Please refer to column 3 of Attachment to VP/USPS-T16-38, page 1, and, in column 3, to rows 1 and 4, and explain why the total city carrier unit cost for **Saturation letters** (after the DAL adjustment) is \$0.0169 greater than the total city carrier unit cost for **Basic automation letters**.
- f. Please refer to column 2 of Attachment to VP/USPS-T16-38, page 1, and, in column 3, to rows 4 and 7, and explain why the city carrier street cost for **Saturation letters** (after the DAL adjustment) is \$0.048 greater than the city carrier street cost for Saturation **flats**.

UNIT COSTS FOR DELIVERY OF ECR MAIL

| | (1) City Carrier In-office Costs | (2) City Carrier Street Costs | (3) Total City Carrier | (4) Total Rural Carrier | (5) TOTAL |
|---------------------------|---|--|---------------------------------|----------------------------------|--------------|
| LETTERS | | | | | |
| 1. Basic Automation | 0.0022 | 0.0113 | 0.0135 | 0.0155 | 0.0290 |
| 2. Basic | 0.0210 | 0.0187 | 0.0397 | 0.0139 | 0.0536 |
| 3. High Density | 0.0127 | 0.0241 | 0.0368 | 0.0083 | 0.0451 |
| 4. Saturation (w/DAL adj) | 0.0079 | 0.0225 | 0.0304 | 0.0084 | 0.0388 |
| FLATS | | | | | |
| 5. ECR Basic Flats | 0.0199 | 0.0192 | 0.0391 | 0.0224 | 0.0615 |
| 6. ECR High Density Flats | 0.0103 | 0.0200 | 0.0304 | 0.0158 | 0.0462 |
| 7. ECR Saturation Flats | 0.0071 | 0.0177 | 0.0249 | 0.0175 | 0.0424 |

Source: All data from LR-K-67.xls, Tab '2.Summary'.
Data in Cols. 3-5 for rows 1-3 and 5-6 from cols. N-P, rows 77-79 and 84-85, respectively.
Data in Cols. 3-5 for rows 4 and 7 from cols. Q-S, rows 80 and 86, respectively.
Cols. 1 and 2 computed as ratio, respectively, of Segments 6 and 7 costs (including burden) to sum of Segment 6 & 7 costs; see Attachment, p. 2.

COSTS FOR CITY DELIVERY OF ECR MAIL

| | (1) (000s) | (2) (000s) | (3) (000s) | (4) (000s) | (5) (000s) | (6) (000s) |
|--------------------------|------------------------------------|--|--|-------------------------|---------------------------------|---|
| | | | 6.2 IN-OFFICE O/H, PLUS PORTION OF IN-OFFICE DELIVERY PREP | | 7.2 DELIVERY ACTIVITIES SUPPORT | 6.2 IN-OFFICE DELIVERY PREP BURDENED ON STREET DIRECT |
| | 6.1 IN-OFFICE DIRECT LABOR, CASING | 6.1 IN-OFFICE DIRECT LABOR, NON-CASING | BURDENED ON OFFICE DIRECT | 7.1 DELIVERY ACTIVITIES | | |
| LETTERS | | | | | | |
| ECR Basic Auto Letters | 3,046.61 | 114.57 | 864.71 | 17,882.34 | 2,176.17 | 773.13 |
| ECR Basic Letters | 26,060.97 | 2,076.85 | 7,696.80 | 27,394.47 | 3,333.74 | 1,184.39 |
| ECR High Density Letters | 4,753.36 | 481.60 | 1,431.97 | 10,850.10 | 1,320.39 | 469.10 |
| ECR Saturation Letters | 29,358.35 | 2,207.27 | 8,634.44 | 98,962.29 | 12,043.12 | 4,278.58 |
| FLATS | | | | | | |
| ECR Basic Flats | 161,362.83 | 13,378.22 | 47,746.45 | 184,113.62 | 22,391.56 | 7,960.60 |
| ECR High Density Flats | 11,227.17 | 995.10 | 3,339.63 | 25,878.30 | 3,147.27 | 1,118.91 |
| ECR Saturation Flats | 32,767.11 | 3,691.80 | 9,962.08 | 99,046.47 | 12,045.85 | 4,282.52 |
| | | | Total In-office | Total Street | TOTAL | |
| LETTERS | | | | | | |
| ECR Basic Auto Letters | | | 4,025.89 | 20,831.65 | 24,857.54 | |
| ECR Basic Letters | | | 35,834.61 | 31,912.60 | 67,747.21 | |
| ECR High Density Letters | | | 6,666.92 | 12,639.59 | 19,306.51 | |
| ECR Saturation Letters | | | 40,200.06 | 115,283.99 | 155,484.05 | |
| FLATS | | | | | | |
| ECR Basic Flats | | | 222,487.51 | 214,465.78 | 436,953.29 | |
| ECR High Density Flats | | | 15,561.90 | 30,144.49 | 45,706.38 | |
| ECR Saturation Flats | | | 46,420.99 | 115,374.83 | 161,795.82 | |
| | | | In-office | Street | | |
| LETTERS | | | | | | |
| ECR Basic Auto Letters | | | 16.20% | 83.80% | | |
| ECR Basic Letters | | | 52.89% | 47.11% | | |
| ECR High Density Letters | | | 34.53% | 65.47% | | |
| ECR Saturation Letters | | | 25.85% | 74.15% | | |
| FLATS | | | | | | |
| ECR Basic Flats | | | 50.92% | 49.08% | | |
| ECR High Density Flats | | | 34.05% | 65.95% | | |
| ECR Saturation Flats | | | 28.69% | 71.31% | | |