

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF VALPAK
REDIRECTED FROM WITNESS TAUFIQUE
[VP/USPS-T28-21(c) and T28-28(b-c)]

The United States Postal Service hereby provides the response of witness Robinson to the above-listed interrogatories of ValPak Direct Marketing Systems, Inc. and ValPak Dealers' Association, Inc., filed on May 27, 2005. The interrogatories have been redirected from witness Taufique to witness Robinson for response. The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON TO VAL-PAK INTERROGATORY REDIRECTED FROM WITNESS TAUFIQUE

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

RESPONSE

- a. Response provided by witness Taufique.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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RESPONSE to VP/USPS-T28-21(c) continued:

- b. Response provided by witness Taufique.
- c. No. The selection of cost coverages for the Standard Mail ECR subclass is based on the application of the nine pricing criteria of Title 39, section 3622(b). While the relative coverages of the subclasses has some effect on the prices within the subclasses, this particular rate relationship has not driven the selection of either the cost coverages for Standard Mail ECR or for Standard Mail Regular in this docket or in previous dockets. As described in my testimony, in this docket, with few exceptions, the Postal Service is proposing a 5.4 percent across-the-board rate increase for the sole purpose of recovering the Congressionally-mandated escrow obligation. See also, the response of witness Taufique to VP/USPS-T27-21a.
- d. Response provided by witness Taufique.
- e. Response provided by witness Taufique.

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VP/USPS-T28-28.

Please refer to USPS-LR-K-115, workbook USPST28Aspreadsheets.xls, and to USPSLR-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 nonconfirmation.
- b. Please explain whether the "Markups" and "Markup Indices" shown in USPSLR-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.

RESPONSE:

- a. Response provided by witness Taufique.
- b. The markups and the markup indices are based on the revenue in Exhibit USPS-27B which includes both postage and domestic mail fees.
- c. Column D: Markup: USPS Proposal R2005-1.

Markup = CostCoverage - 1

Test-year-after-rates cost coverage: Exhibit USPS-28B, column 3

Column E: Markup: PRC Version R2005-1.

Markup = {[Revenue / Attributable Costs] - 1}.

Revenues: Exhibit USPS-28B, column 2;

Attributable Costs: USPS-LR-K-96, workpaper

R2005.FY2006ARC_DRpt.PRC.AMX, worksheet DReport.