

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 A. THOMAS BOZZO (VP/USPS-T12-6-9)
(June 10, 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 10, 2005

VP/USPS-T12-6.

Please refer to your response to VP/USPS-T12-4.

- a. What is the variability for manual parcels?
- b. What is the variability for manual flats?
- c. In view of the variabilities for manual flats and manual parcels provided in response to preceding parts a and b, is the 12 percentage point difference between the two statistically significant?
- d. What is the variability for manual letters?
- e. In view of the variability for manual letters (provided in response to preceding part d) and manual parcels (provided in response to preceding part a) is the 9 percentage point difference between the two statistically significant?

VP/USPS-T12-7.

Please refer to your response to VP/USPS-T12-5. In your response to part e of that interrogatory, you state that a more appropriate comparison for manual Priority Mail is with manual parcels, and “the 2 percentage point difference in variabilities is not statistically significant.” At the same time, your response to part d of that interrogatory indicates that 29 percent of the time spent on sorting of Priority Mail is spent on non-parcels. Moreover, since parcels require more time to sort than letters or flats, it would seem reasonable to presume that (i) more than 29 percent of volume going through the manual Priority Mail MODS cost pool is letters and flats, and (ii) the volume variability for manual sorting of Priority Mail should be some kind of weighted average of the variabilities for letters, flats, and parcels. Although the

2 percentage point difference in variabilities for parcels and Priority Mail may not be statistically significant, aside from the fact that the MODS data with which you worked are what they are, can you provide any explanation — in terms of mail characteristics, layout of the manual Priority Mail sorting centers, or other operational factors — that would explain why manual sorting of Priority Mail should be less volume variable than the manual sorting of parcels? If so, please provide such explanation(s).

VP/USPS-T12-8.

Please refer to your response to VP/USPS-T12-5.

- a. In your response to part c of that interrogatory, you note that, according to witness Kay's testimony (USPS-T-18), the non-volume variable costs in the manual Priority Mail cost pool are treated as product-specific costs of Priority Mail. Do you agree with witness Kay's treatment of these non-volume variable product-specific costs as incremental to Priority Mail? If you have any reservations concerning the treatment of these product-specific costs as incremental to Priority Mail, please explain fully.
- b. Would you agree that product-specific costs are causally related to the product to which they are specific? If you do not agree, please indicate any reservations that you may have concerning the treatment of product-specific costs as (i) causally related to the product in question, and (ii) incremental to the individual product in question, such as a class of mail.

- c. In your opinion, are product-specific costs as causally related to a class of mail as are volume variable costs, or are volume variable costs somehow more causally related to a class of mail than product-specific costs? Please explain the basis for your answer.
- d. Aside from the manual Priority Mail MODS cost pool, in what other MODS cost pools does witness Kay treat non-volume variable costs as incremental, and for what reason(s) does she classify such non-volume variable costs as incremental?

VP/USPS-T12-9.

Please refer to your response to VP/USPS-T12-2, part c.

- a. Does your response mean that you agree that the non-volume variable costs of sorting manual flats is incremental to flats? Please explain fully any response that is not an unqualified affirmative.
- b. Please assume that the Postal Service were to de-commission one facility and consolidate it with another, larger facility, and, in the process, consolidate two manual flats processing units into a single manual flats processing unit with a combined, larger volume of flats. Under these circumstances, would the non-volume variable costs of the de-commissioned manual flats processing unit become avoidable costs?
- c. Please assume that a manual flats processing unit sorted only, say, periodicals. Under such a circumstance, would it be appropriate to treat the non-volume

variable costs of that manual flats processing unit as incremental to periodicals?

That is, would it be appropriate to treat the non-volume variable costs of that unit in a manner similar to the treatment of the non-volume variable costs of manual Priority Mail processing by witness Kay? Please explain fully any response that is not an unqualified affirmative.