

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 TAUFIQUE
TO INTERROGATORIES OF
VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
[VP/USPS-T28-20, 21(a-b,d-f), 28(a), 29-37, and 52-58]

The United States Postal Service hereby files the responses of witness Taufique to the above-listed interrogatories of the Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc., filed on May 27, 2005. The interrogatories are stated verbatim and are followed by the responses. Objections were filed to VP/USPS-T28-23 through 27 and T28-48 and 51 on June 6, 2005. Interrogatories VP/USPS-T28-21(c) and 28(b-c) have been redirected to witness Robinson. Otherwise, responses to the remaining interrogatories (within the range from T28-38 to T28-50) are forthcoming.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Michael T. Tidwell
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998; Fax -5142
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RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-20 (continued):

- a. The rate design reflects the concern that 5-digit automation letter preparation is preferable (from a mail processing point of view) to Basic ECR preparation (5-digit automation letter mail can much more readily be sequenced with other letter, thereby enhancing overall automated sorting.) If a mailer of 5-digit automation letters has the density to qualify for ECR, which is likely, then the mailer could qualify for ECR prices.
- b. The automation rate category in ECR is of limited availability, so it is not a logical place to which 5-digit letters would move.
- c. See the response to subpart (b). To the extent that pieces move to the Automation Basic category, this is not necessarily a negative for the automation program. Again, these items can be readily sequenced with other automation letters. In most instances, basic ECR letters have to be merged manually with other letters.
- d. See the response to subpart (b). Basic Automation in ECR is only for those locations where carrier route preparation is advantageous over 5-digit preparation, so it is not the logical category.
- e. Not applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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. No. The question appears to suggest that the Postal Service uses an "additional layer" of rate design guidance after all the cost and non-cost factors of the Postal Reorganization Act have been applied. This is not the case. The Postal Service's view is that both cost and all of the other pricing factors in the Act give guidance to the rate design below the subclass level. The rates for ECR Basic letters, including the relationships of these rates to

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-21 (continued):

- b. other rate categories, appropriately recognize both the category's costs as well as non-cost factors.
- c. Please see my response to subpart (a).
- d. Redirected to witness Robinson.
- e. While I do not accept that the rate setting methodology outlined in the question accurately or adequately describes the Postal Service's rate setting approach, I can attempt to respond to the question as an abstract hypothetical. All else equal, a higher price for the Basic tier could lead to lower prices for at least some of the other rate categories in High-Density or Saturation. It does not necessarily mean that nonletters in those categories would have lower prices.
- f. Please see my response to VP/USPS-T28-20. The Regular Automation 5-digit letter rate is not the sole (or even a major) reference point in the rate design for ECR Basic letters. Rate relationships, including the relationships between ECR Basic letters and Regular Automation 5-digit letters, are taken into account in the rate design for both rate categories, and may merely involve a check to see if the appropriate relationship is present at the end of the rate design process.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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 6 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.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAH H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-22:

- a. Please see my response to VP/USPS-T28-20. I would observe that ECR rates are much lower than Standard Mail Regular rates on the whole. It would be inaccurate to interpret the Postal Service's arguments in Docket No. MC95-1 to mean that every ECR rate element would always fall below every Regular subclass rate element. Specific ECR rate categories (as well as specific non-ECR rate categories) are developed taking into account the factors cited in the preamble to this question together with all the other cost and non-cost pricing factors cited in the Postal Reorganization Act.
- b. (i) Yes.
- (ii) I am not in a position to know, nor do I have any information to inform me, whether the Postal Service, in 1995, anticipated the future rate relationship between 5-digit automation and Basic ECR. I would note that for me, it is difficult to predict with certainty that particular rate relationships are sacrosanct given a dynamic environment.
- (iii) When the Postal Service proposed creating a separate ECR subclass, the idea was to develop a mechanism that would more easily allow the specific cost and market characteristics to be accounted for in rates. When the Postal Service described the subclass creation as a "first step," it had building this capability in mind, rather than a particular succession of subsequent "steps" with an accompanying timetable for implementation.
- Regarding ECR rates, I would note that the price of a DSCF saturation letter has increased only 3.3 percent in nominal terms in the ten years since January of 1995. For comparison purposes a commercial Regular subclass presorted rate DSCF 3/5 letter increased 32.1 percent and a Regular automation DSCF 3-digit letter increased 14.2 percent. Over the same period the CPI increased 26.9 percent. This means that the real price for ECR saturation letters decreased by 18.6 percent. Similar results hold for non-drop shipped letters: ECR

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-22 (continued):

- saturation letters increased 7.0 percent compared to 31.9 percent for presorted 3/5 letters and 16.0 percent for automation 3-digit letters. I believe that the creation of the ECR subclass has been successful in holding down the real price of ECR letter mail since its creation.
- (iv) Please see my response to subpart (iii). I have seen no evidence suggesting that rates for pieces in today's ECR would have been lower today had the ECR subclass not been created, so I see no reason for the Postal Service to conclude that the ECR subclass has been unsuccessful in achieving its objectives.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

- a. Confirmed.
- b. Redirected to witness Robinson.
- c. Redirected to witness Robinson.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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. 15

RESPONSE:

- (i) No. The per-piece rate elements in question were developed by applying the proposed 5.4 percent increase factor to current rate elements and then rounding the result to tenths of a cent, rather than by applying the formula. Had the formula been applied, each of the per-piece rate elements in question would have been equal to \$0.069, rather than \$0.070. The Postal Service believes that either approach yields reasonable and fair rates and that the two sets of rates are not significantly different in terms of their impact on mailers or on Postal Service revenues.
- (ii) No. The per-piece rate elements in question were developed by applying the proposed 5.4 percent increase factor to current rate elements and then rounding the result to tenths of a cent, rather than by applying the formula. Had the formula been applied, each of the per-piece rate elements cited in row 10 of the workpapers would have been equal to \$0.026, rather than \$0.025, and each of the per-piece rate elements cited in row 13 of the workpapers would have been equal to (\$0.007), rather than (\$0.006). The Postal Service believes that either approach yields reasonable and fair rates and that the two

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-29 (continued):

- (iii) sets of rates are not significantly different in terms of their impact on mailers or on Postal Service revenues.
- (iv) No. The per-piece rate elements in question were developed by applying the proposed 5.4 percent increase factor to current rate elements and then rounding the result to tenths of a cent, rather than by applying the formula. Had the formula been applied, each of the per-piece rate elements in question would have been equal to \$0.048, rather than \$0.047. The Postal Service believes that either approach yields reasonable and fair rates and that the two sets of rates are not significantly different in terms of their impact on mailers or on Postal Service revenues.
- (v) No. The per-piece rate elements in question were developed by applying the proposed 5.4 percent increase factor to current rate elements and then rounding the result to tenths of a cent, rather than by applying the formula. Had the formula been applied, each of the per-piece rate elements in question would have been equal to \$0.028, rather than \$0.027. The Postal Service believes that either approach yields reasonable and fair rates and that the two sets of rates are not significantly different in terms of their impact on mailers or on Postal Service revenues.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

I have examined both my own copy of my workpapers and the copy of my workpapers shown on the Commission's website. Both versions have the cell in question rounded to only three decimal places.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

- a. Yes. Appropriate RPN notes should have been included in Standard Mail schedules 322, 323A, 323B, and 324.
- b. Yes.
- c. Repositionable Notes revenue is not projected in this docket since RPN service has only been recently introduced and is currently undergoing testing in the form of a one-year market test. There was no projection of revenue in the RPN case, and it is not expected to have a significant impact in the Test Year.
- d. See Docket No. MC2004-5, USPS-T-1, page 6, "Data Collection Plan."

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

- a. No.
- b. The revenues and costs for Customized MarketMail (CMM) pieces are included with other Standard Mail nonletter revenues and costs.
- c. See the revenue and volume data for CMM below. The Priority Mail revenues are revenues for drop shipping the CMM pieces to delivery units.

CMM REVENUES AND VOLUMES

Period	Pieces	Standard Mail Postage
FY 2004	3,162,367	\$1,798,354
FY 2005 Q1&Q2	1,134,289	\$ 646,423

- d. CMM revenue and pieces data will be available on a quarterly basis, generally about six weeks after the close of the quarter.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-33. Please refer to the Rate Schedule shown in Postal Service's Request, Attachment A, page 18, and explain whether it should be identified as "Schedule 323A."

RESPONSE:

Yes, it should be identified as "Schedule 323A."

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

The Postal Service has not calculated this "leakage" for BY 2004. However, if one wanted to perform these calculations, they could be done using rate design formulas contained in the Postal Service's Standard Mail Regular workpapers filed in Docket No. R2001-1, in particular, the formulas in the Tabs "DROP DIS," "PRE DIS," and "RES SHAPE LEAK."

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

The Postal Service has not calculated this "leakage" for BY 2004. However, if one wanted to perform these calculations, they could be done using rate design formulas contained in the Postal Service's Standard Mail Regular workpapers filed in Docket No. R2001-1, in particular, the formulas in the Tabs "DROP DIS," "PRE DIS," and "RES SHAPE LEAK."

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

The Postal Service has not calculated this "leakage" for BY 2004. However, if one wanted to perform these calculations, they could be done using rate design formulas contained in the Postal Service's Standard Mail Regular workpapers filed in Docket No. R2001-1, in particular, the formulas in the Tabs "DROP DIS," "PRE DIS," and "RES SHAPE LEAK."

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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.

RESPONSE:

The Postal Service has not calculated this "leakage" for BY 2004. However, if one wanted to perform these calculations, they could be done using rate design formulas contained in the Postal Service's Standard Mail Regular workpapers filed in Docket No. R2001-1, in particular, the formulas in the Tabs "DROP DIS," "PRE DIS," and "RES SHAPE LEAK."

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-52. Please refer to your testimony (USPS-T-28) at page 11 where you describe the Postal Service's attempt to comply with the nonprofit pricing relationship requirement of Public Law 106-384, and you state:

With the proposed rates, the revenue per piece for Standard Mail Nonprofit Regular is 61 percent of the Standard Mail Regular revenue per piece; the revenue per piece for Standard Mail Nonprofit ECR is 56 percent of the Standard Mail ECR revenue per piece. [USPS-T-28, p. 11, ll. 18-21.]

Public Law 106-384 specifies that for calculating nonprofit rates, the 60 percent figure be applied to TYBR billing determinants. See 39 U.S.C. § 3626(a)(6)(B) and Docket No. R2000-1, Memorandum of the United States Postal Service on Reconsideration and Request for Expedition (December 20, 2000), pp. 32-34.

Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'S-23 TYAR Commercial Revenues.'

- a. In determining the revenue per piece for Standard (Commercial) Regular mail to be used as a basis for comparison with the revenue per piece of Standard Nonprofit Regular mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard (Commercial) Regular mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard (Commercial) Regular mail.
- b. Please provide the revenue per piece that you computed for Standard (Commercial) Regular mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard (Commercial) Regular mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard (Commercial) Regular mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.

RESPONSE

- a-c. No. The total revenue and revenue per piece calculations shown in my worksheet S-23 were calculated using the proposed rates and TYAR volume and weight projections. The total revenue used in the revenue per piece calculation is shown

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-52 (continued):

at the bottom of worksheet S-23 as the item labeled Adjusted Commercial Revenue. The revenue per piece is shown on the line below labeled Revenue Per Piece. It was calculated by dividing the Adjusted Commercial Revenue by the total Commercial TYAR volume.

This calculation, while not erroneous in itself, was erroneously used in discussions of the appropriate relationship between the average revenue per piece for Nonprofit subclass and Regular subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for Regular subclass mail in those discussions.

Adjusted Commercial Revenue: \$12,922,618,579

Revenue Per Piece: \$0.2268

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-53. Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'S-24 TYAR Nonprofit Revenues.'

- a. In determining the revenue per piece for Standard Nonprofit Regular mail to be used as a basis for comparison with the revenue per piece of Standard (Commercial) Regular mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard Nonprofit Regular mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard Nonprofit Regular mail.
- b. Please provide the revenue per piece that you computed for Standard Nonprofit Regular mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard Nonprofit Regular mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard Nonprofit Regular mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.
- d. In calculating the ratio of (i) the average revenue per piece of Standard Nonprofit Regular mail and (ii) the average revenue per piece of Standard (Commercial) Regular mail, did you use the average revenue per piece that in each instance was based on TYBR billing determinants and volumes? If not, please explain why not.

RESPONSE

a-d. No. The total revenue, revenue per piece and revenue per piece ratio calculations shown in my worksheet S-24 were done using TYAR volumes and weights. Please also see my response to VP/USPS-T28-52. The total revenue and revenue per piece used in the ratio calculation are shown at the bottom of worksheet S-24 as the items labeled Adjusted Nonprofit Revenue and Revenue Per Piece. While the line items labeled Adjusted Nonprofit Revenue, Revenue Per Piece, and Revenue Per Piece Ratio are not in themselves erroneous, they were erroneously used in discussing the appropriate relationship between the average revenue per piece for Nonprofit subclass and Regular subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for Nonprofit subclass mail in those discussions.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-53 (continued):

Adjusted Nonprofit Revenue: \$1,699,789,861

Revenue Per Piece: \$0.1376

Revenue Per Piece Ratio: 0.607.

As can be seen from the above figures, the ratio calculated using TYBR volume and weight data is not significantly different from the ratio in my workpaper S-24. The ratio calculated using TYBR data also rounds to the same whole number percentage, 61 percent, cited in my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-54. Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'ECR-22 TYAR Comm. Revenues.'

- a. In determining the revenue per piece for Standard (Commercial) ECR mail to be used as a basis for comparison with the revenue per piece of Standard Nonprofit ECR mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard (Commercial) ECR mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard (Commercial) ECR mail.
- b. Please provide the revenue per piece that you computed for Standard (Commercial) ECR mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard (Commercial) ECR mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard (Commercial) ECR mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.

RESPONSE

a-c. No. The total revenue and revenue per piece calculations shown in my worksheet ECR-22 were calculated using the proposed rates and TYAR volume and weight projections. The total revenue used in the revenue per piece calculation is shown at the bottom of worksheet ECR-22 as the item labeled Adjusted Commercial Revenue. The revenue per piece is shown on the line below labeled Revenue Per Piece. It was calculated by dividing the Adjusted Commercial Revenue by the total Commercial TYAR volume.

This calculation, while not erroneous in itself, was erroneously used in discussions of the appropriate relationship between the average revenue per piece for Nonprofit ECR subclass and commercial ECR subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for commercial ECR subclass mail in those discussions.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-54 (continued):

Adjusted Commercial Revenue: \$5,924,197,494

Revenue Per Piece: \$0.1777

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-55. Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'ECR-23 TYAR NP Revenues.'

- a. In determining the revenue per piece for Standard Nonprofit ECR mail to be used as a basis for comparison with the revenue per piece of Standard (Commercial) ECR mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard Nonprofit ECR mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard Nonprofit ECR mail.
- b. Please provide the revenue per piece that you computed for Standard Nonprofit ECR mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard Nonprofit ECR mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard Nonprofit ECR mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.
- d. In calculating the ratio of (i) the average revenue per piece of Standard Nonprofit ECR mail and (ii) the average revenue per piece of Standard (Commercial) ECR mail, did you use the average revenue per piece that in each instance was based on TYBR billing determinants and volumes? If not, please explain why not.

RESPONSE

a-d. No. The total revenue, revenue per piece and revenue per piece ratio calculations shown in my worksheet ECR-23 were done using TYAR volumes and weights. Please also see my response to VP/USPS-T28-54. The total revenue and revenue per piece used in the ratio calculation are shown at the bottom of worksheet ECR-23 as the items labeled Adjusted Nonprofit Revenue and Revenue Per Piece. While the line items labeled Adjusted Nonprofit Revenue, Revenue Per Piece, and Revenue Per Piece Ratio are not in themselves erroneous, they were erroneously used in discussing the appropriate relationship between the average revenue per piece for Nonprofit ECR subclass and commercial ECR subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for Nonprofit ECR subclass mail in those discussions.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE to VP/USPS-T28-55 (continued):

Adjusted Nonprofit Revenue: \$312,412,288

Revenue Per Piece: \$0.0993

Revenue Per Piece Ratio: 0.558.

As can be seen from the above figures, the ratio calculated using TYBR volume and weight data is the same as the ratio in my workpaper ECR-23, and rounds to the same whole number percentage, 56 percent, cited in my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-56.

- a. If rates for Standard (Commercial) ECR mail increase by 5.6 percent, what must be the percentage increase in rates for Standard Nonprofit ECR mail in order to satisfy precisely a 60 percent relationship between the two?
- b. If rates for Standard (Commercial) ECR mail were to increase by 5.4 percent, what must be the percentage increase in rates for Standard Nonprofit ECR mail in order to satisfy precisely a 60 percent relationship between the two?
- c. If rates for Standard Nonprofit ECR mail increase by 5.9 percent, what must be the percentage increase in rates for Standard (Commercial) ECR mail in order to satisfy precisely a 60 percent relationship between the two?

RESPONSE

In responding to this question I am interpreting "rates for Standard (Commercial) ECR mail" to mean the average postage revenue per piece for this mail in the test year, and "rates for Standard Nonprofit ECR mail" to also mean the corresponding average postage revenue per piece.

- a. Since the TYBR ratio of the NECR revenue per piece to ECR revenue per piece is 56 percent, if ECR revenue per piece were to increase by 5.6 percent, NECR revenue per piece would have to increase by 13.9 percent to satisfy a precise 60 percent relationship between the two.
- b. If ECR revenue per piece were to increase by 5.4 percent, NECR revenue per piece would have to increase by 13.6 percent to satisfy a precise 60 percent relationship between the two.
- c. If NECR revenue per piece were to increase by 5.9 percent, ECR revenue per piece would have to decrease by 1.8 percent to satisfy a precise 60 percent relationship between the two.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-57. Please assume, for the purposes of this question, that the “as nearly as practicable” qualification to the 60 percent requirement of 39 U.S.C. § 3626(a)(6)(A) means as close as possible within the constraints of the following two factors only: (i) rounding; and (ii) charging rates at a mil level. Based on a 5.6 percent increase in Standard (Commercial) ECR mail, what percentage increase in the Standard Nonprofit ECR mail would be required?

RESPONSE

I have not performed this calculation, although it is my belief that the required increase would be similar to the more approximate estimate provided in response to VP/USPS-T28-56, subpart a.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T28-58. Is it possible to structure the Standard (Commercial) ECR and Standard Nonprofit ECR subclass rates so that the entire Standard ECR subclass receives a 5.4 percent increase, and so that Standard Nonprofit ECR mail rates would be exactly 60 percent of commercial ECR rates? If so, what would be the percentage rate increases for Standard (Commercial) ECR and Standard Nonprofit ECR?

RESPONSE

I have not performed this calculation, although I believe that it would be mathematically possible to develop a set of rates that would meet the qualifications stated in the question if the tolerance were changed to "close to 60 percent," so that some deviation (less than one percentage point) was allowed. I do not believe that a practical set of rates could be achieved that would meet the 60 percent standard "exactly."