

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 THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
[VP/USPS-T28-46(b-f)]

The United States Postal Service hereby files its responses 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 the Postal Service for response. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE TO VALPAK INTERROGATORY

VP/USPS-T28-46.

Table 1, set out below, is taken from the first spreadsheet of file LR-K-48STDLETRS.xls of library reference USPS-LR-K-48, showing workshare-related costs for various categories of letter-size Standard Regular mail at USPS costing. A corresponding table in Docket No. R2001-1 is in USPS-LR-J-60, revised November 15, 2001. Table 2, set out below, shows the proportionate changes in costs from the corresponding table in Docket No. R2001-1 to those shown in Table 1.

For ease of reference, certain costs are shaded in each table. Please note that not all rows in the tables, including the indented rows, are for categories recognized in rates.

a. Please confirm that if the Postal Service were designing rates for Regular letters, based on current costs, and were following the procedures of Docket No.

R2001-1, it is the costs in the shaded rows in Table 1 that would be used. If

you do not confirm, please present alternative costs, provide their source, and respond to the following parts of this question based on your alternative costs.

b. Please refer to Table 2, column 3, and identify and discuss all factors accounting for the 97.586 percent increase in the worksharing-related delivery costs of nonautomation, nonmachinable letters at the mixed ADC, ADC, 3-digit, and 5-digit levels, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how it improves the estimation of marginal cost and volume variable costs.

c. Please refer to Table 2, column 3, and identify and discuss all factors accounting for the increase of only 0.649 percent in the worksharing-related delivery costs of nonautomation, machinable letters at the mixed AADC and AADC levels, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how it improves the estimation of marginal cost and volume variable costs.

d. In Docket No. R2001-1, the worksharing-related delivery costs were the same for nonautomation, machinable AADC letters and corresponding 3- and 5-digit letters. In Docket No. R2005-1, they are different, as shown in Table 1, column 3 — 3.879 cents for the first two and 3.682 cents for the last two.

(i) Please explain why these costs were the same before and now are different.

(ii) Are these Docket No. R2005-1 estimates considered to be marginal costs? If yes, please explain the assumptions necessary for them to be marginal costs. If no, please explain the costing theory behind the costs.

(iii) If these costs are marginal costs, are they based on different mixes? Is an assumption being made that any extra pieces on which a marginal cost is based have the same mix (possibly involving processing proportions) as the existing pieces in the category? Please explain the basis for any such assumption.

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VP/USPS-T28-46 (continued):

e. Please refer to Table 2, column 2. The increase of 31.029 percent in the worksharing-related mail processing cost of nonautomation Basic presort letters is a weighted average of its components, shown immediately below to be 38.702 percent, 35.312 percent, 22.109 percent, and 22.109 percent. Please identify and discuss all factors accounting for the increases of these four components, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how well aligned it is with the concepts of marginal cost and volume variable costs. Please also discuss the role of delivery point sequencing as regards the extent of the increase in cost.

f. Please refer to Table 2, column 2, last four rows. Despite inflation and increased delivery point sequencing, the worksharing-related mail processing costs of the four categories of automation letters (mixed AADC, AADC, 3-digit, and 5-digit) all decreased by, in the same order, 12.981 percent, 15.835 percent, 16.461 percent, and 20.623 percent. Please identify and discuss all factors accounting for these decreases, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how well aligned it is with the concepts of marginal cost and volume variable costs. Please also discuss role of increased delivery point sequencing.

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VP/USPS-T28-46 (continued):

Attachment to VP/USPS-T28-46
Table 1

RATE CATEGORY	Mail Processing		Delivery	Total
	Total	Worksharing	Worksharing	Worksharing
	Related	Related	Related	Related
	Unit Cost	Unit Cost	Unit Cost	Unit Cost
	(1)	(2)	(3)	(4)
Nonauto Basic Presort Flats	23.148	n/a	9.290	32.438
Nonauto 3-Digit/5-Digit Presort Flats	14.528		9.290	23.818
Nonautomation Presort Letters	16.263	11.007	6.062	17.068
Nonautomation Basic Presort Letters	17.409	12.153	5.410	17.563
Nonautomation Nonmachinable Mixed ADC	37.485	32.229	11.049	43.278
Nonautomation Nonmachinable ADC	29.347	24.091	11.049	35.140
Nonautomation Machinable Mixed AADC	13.157	7.901	3.879	11.780
Nonautomation Machinable AADC	13.157	7.901	3.879	11.780
Nonautomation 3-Digit/5-Digit Presort Letters	15.022	10.614	6.284	16.899
Nonautomation Nonmachinable 3-Digit	26.409	21.153	11.049	32.202
Nonautomation Nonmachinable 5-Digit	17.812	12.556	11.049	23.605
Nonautomation Machinable 3-Digit	12.683	7.427	3.682	11.109
Nonautomation Machinable 5-Digit	12.683	7.427	3.682	11.109
Automation Mixed AADC Presort Letters	4.662	3.491	4.104	7.595
Automation AADC Presort Letters	3.943	2.772	3.890	6.662
Automation 3-Digit Presort Letters	3.691	2.519	3.794	6.313
Automation 5-Digit Presort Letters	2.817	1.646	3.538	5.184

RATE CATEGORY	Mail Processing		Delivery	Total
	Total	Worksharing	Worksharing	Worksharing
	Related	Related	Related	Related
	Unit Cost	Unit Cost	Unit Cost	Unit Cost
	(1)	(2)	(3)	(4)
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Nonautomation Machinable 5-Digit	12.683	7.427	3.682	11.109
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Automation 5-Digit Presort Letters	2.817	1.646	3.538	5.184

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VP/USPS-T28-46 (continued):

Attachment to VP/USPS-T28-46
Table 2

Table 2. Percentage Changes from Docket No. R2001-1				
	Mail Processing		Delivery	Total
	Worksharing		Worksharing	Worksharing
	Total	Related	Related	Related
	Unit Cost	Unit Cost	Unit Cost	Unit Cost
	(1)	(2)	(3)	(4)
RATE CATEGORY				
Nonauto Basic Presort Flats				
Nonauto 3-Digit/5-Digit Presort Flats				
Nonautomation Presort Letters				
Nonautomation Basic Presort Letters	33.531%	31.029%	28.615%	30.275%
Nonautomation Nonmachinable Mixed ADC	38.841%	38.702%	97.586%	50.124%
Nonautomation Nonmachinable ADC	36.077%	35.312%	97.586%	50.196%
Nonautomation Machinable Mixed AADC	28.577%	22.109%	0.649%	14.098%
Nonautomation Machinable AADC	28.577%	22.109%	0.649%	14.098%
Nonautomation 3-Digit/5-Digit Presort Letters	23.658%	26.571%	42.291%	31.994%
Nonautomation Nonmachinable 3-Digit	35.507%	34.504%	97.586%	51.050%
Nonautomation Nonmachinable 5-Digit	26.368%	21.513%	97.586%	48.226%
Nonautomation Machinable 3-Digit	28.447%	21.519%	-2.926%	12.157%
Nonautomation Machinable 5-Digit	28.447%	21.519%	-2.926%	12.157%
Automation Mixed AADC Presort Letters	-7.575%	-12.981%	5.583%	-3.846%
Automation AADC Presort Letters	-8.850%	-15.835%	1.646%	-6.440%
Automation 3-Digit Presort Letters	-8.837%	-16.461%	-0.472%	-7.534%
Automation 5-Digit Presort Letters	-9.303%	-20.623%	-5.350%	-10.800%

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RESPONSE to VP/USPS-T28-46:

- a. See the June 14, 2005, response of witness Taufique.
- b. The revised Table 2 percentages in the Table below reflect the revised USPS-LR-K-48. Using USPS-LR-K-67 and USPS-LR-J-117 as sources, the percentage increase in unit delivery costs is 31.42 percent (11.050 cents in R2005-1 and 8.408 in R2001-1), rather than 97.59 percent proposed in the question
Measured delivery cost can change for three reasons: changes in volume (including changes in mail mix), changes in operations that affect the way mail is delivered or changes in the method of calculation. Changes in the first two will affect the accrued cost for delivery. Changes in the latter affect how much of the accrued delivery cost is attributed to each product. The Postal Service has not done an analysis of the change in accrued delivery cost and it is therefore not possible to break down the change in accrued cost to the many different reasons it occurred. Changes in delivery costing methodology are explained in the testimonies of Witnesses Stevens, Kelley and Bradley, which discuss why the proposed new methods are an improvement over the established methodology. For a detailed analysis of the change in carrier methodology on cost for classes and subclasses please compare the USPS base year delivery cost with the base year costs calculated under the PRC methodology. For a detailed comparison of the effect of new carrier methodology on rate categories please compare the unit costs in LR-K-67 with LR-K-101.

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RESPONSE to VP/USPS-T28-46 (continued):

- c. Measured delivery cost can change for three reasons: changes in volume (including changes in mail mix), changes in operations that affect the way mail is delivered or changes in the method of calculation. Changes in the first two will affect the accrued cost for delivery. Changes in the latter affect how much of the accrued delivery cost is attributed to each product. The Postal Service has not done an analysis of the change in accrued delivery cost and it is therefore not possible to break down the change in accrued cost to the many different reasons it occurred. Changes in delivery costing methodology are explained in the testimonies of Witnesses Stevens, Kelly and Bradley, which discuss why the proposed new methods are an improvement over the established methodology. For a detailed analysis of the change in carrier methodology on cost for classes and subclasses please compare the USPS base year delivery cost with the base year costs calculated under the PRC methodology. For a detailed comparison of the effect of new carrier methodology on rate categories please compare the unit costs in LR-K-67 with LR-K-101.
- d. (i) In Docket No. R2001-1, the workshare related delivery costs were not the same for nonautomation machinable Mixed AADC, AADC mail and nonautomation machinable 3-digit and 5-digit. Please refer to USPS-LR-J-60, page 56, column 3, where the costs shown for the first two categories are 3.854 cents, and for the last two, 3.793 cents. The reason that the current USPS unit delivery costs are different is that the DPS

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RESPONSE to VP/USPS-T28-46 (continued):

percentage is higher for Standard presort nonautomation machinable 3/5 digit letters (84.40%) as compared to Standard Basic nonautomation, machinable AADC letters (82.02%).

(ii). Yes. Please see USPS-LR-K-1 (Summary Description) for a discussion of the methodology and assumptions underlying the calculation of volume variable and marginal cost.

(iii). The Postal Service measures the marginal costs of products in the base year, which reflect the actual mix of products provided at that time.

e. Please see the Postal Service's response to VP/USPS-T28-45.a.

f. Please see witness Smith's response to VP/USPS-T28-44.b

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RESPONSE to VP/USPS-T28-46 (continued):

Attachment to response to VP/USPS-T28-46b

Table 2. Percentage Changes from Docket No. R2001-1

RATE CATEGORY	Mail Processing		Delivery	Total
	Total	Worksharing	Worksharing	Worksharing
	Unit	Related	Related	Related
	Cost	Unit Cost	Unit Cost	Unit Cost
	(1)	(2)	(3)	(4)
Nonauto Basic Presort Flats				
Nonauto 3-Digit/5-Digit Presort Flats				
Nonautomation Presort Letters				
Nonautomation Basic Presort Letters	33.518%	32.823%	28.615%	31.510%
Nonautomation Nonmachinable Mixed ADC	38.957%	39.560%	97.586%	50.816%
Nonautomation Nonmachinable ADC	36.196%	36.400%	97.586%	51.024%
Nonautomation Machinable Mixed AADC	28.481%	24.556%	0.649%	15.631%
Nonautomation Machinable AADC	28.481%	24.556%	0.649%	15.631%
Nonautomation 3-Digit/5-Digit Presort Letters	23.718%	28.583%	42.291%	33.312%
Nonautomation Nonmachinable 3-Digit	35.628%	35.723%	97.586%	51.950%
Nonautomation Nonmachinable 5-Digit	26.493%	23.312%	97.586%	49.393%
Nonautomation Machinable 3-Digit	28.343%	24.104%	-2.926%	13.752%
Nonautomation Machinable 5-Digit	28.343%	24.104%	-2.926%	13.752%
Automation Mixed AADC Presort Letters	-7.625%	-12.624%	5.583%	-3.665%
Automation AADC Presort Letters	-8.876%	-15.357%	1.646%	-6.219%
Automation 3-Digit Presort Letters	-8.852%	-15.922%	-0.472%	-7.296%
Automation 5-Digit Presort Letters	-9.266%	-19.754%	-5.350%	-10.490%