

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2005 )

Docket No. R2005-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
MOTION TO COMPEL ANSWERS TO INTERROGATORIES TO  
WITNESS ALTAF H. TAUFIQUE (VP/USPS-T28-23-27, 48, AND 51)  
(June 17, 2005)

On May 27, 2005, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (hereinafter "Valpak") filed four sets of interrogatories to witness Taufique (VP/USPS-T28-20-58). On June 6, 2005, the Postal Service filed objections to seven interrogatories in two of those four sets (VP/USPS-T28-23-27, 48, and 51). Copies of these seven interrogatories are attached hereto as Attachment A.

The Postal Service's main objection is that the interrogatories seek information regarding costs put forth by the Postal Service in support of its request in Docket No. R2001-1 and, the Postal Service asserts, such costs are not relevant to the rates requested by the Postal Service in the present docket.<sup>1</sup>

The rates the Postal Service has requested in the present docket are derived by a simple, straightforward mathematical computation from the current rates which were partially litigated and then settled in Docket No. R2001-1.<sup>2</sup> Thus, the rates requested in the present docket have

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<sup>1</sup> The Postal Service also objected to two interrogatories (VP/USPS-T28-48 and 51) based on the lack of citation to sources. However, Valpak has submitted revisions to those interrogatories that provide the relevant source citations and cure the objection.

<sup>2</sup> The Postal Service argues that there is no more reason to examine the evidence in Docket No. R2001-1 than that in Docket Nos. R2000-1, R97-1, or MC95-1. *See* Objections of the United States Postal Service to Valpak Interrogatories Directed to Witness Taufique,

greater correlation and relevance to the cost evidence and testimony in Docket No. R2001-1 than to the cost evidence and testimony in any other docket, including the present docket. Indeed, the Postal Service, in its objections, stated plainly that the testimony of costing witnesses in the present docket “do not serve as rate and fee design inputs.” Objections of the United States Postal Service to Valpak Interrogatories Directed to Witness Taufique, June 6, 2005, p. 1.

Accordingly, the Postal Service position now appears to be that no costs in any docket are relevant to the rates requested in the present docket. Although that position candidly exhibits an element of truth, the rate proposal in the present docket would perpetuate the relative rates established in Docket No. R2001-1. Clearly, therefore, the Postal Service should not be heard to complain about Valpak’s limited discovery into the basis for the only costs upon which the requested rates in the present docket might possibly be based.

Valpak submits that the specific cost data in Docket No. R2001-1, upon which the proposed rates in the present docket are directly based, are relevant to issues concerning the requested rates, and that the Postal Service should be compelled to answer the interrogatories in question.

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June 6, 2005, p. 3. However, the rates requested in the present docket were not derived by applying a certain percentage increase across-the-board to rates which were established in Docket Nos. R2000-1, R97-1, or MC95-1, but they **were** derived by applying a certain percentage increase, across-the-board, to rates established in Docket No. R2001-1.

Respectfully submitted,

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June 17, 2005

**ATTACHMENT A****VP/USPS-T28-23.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket.

- a. Please describe the mail processing received by Saturation flats leading to the cost of 1.152 cents, including a general outline of the steps through which the cost is developed and what proportion of Saturation flats receive each processing step.
- b. Please describe the mail processing received by High Density flats leading to the cost of 1.152 cents, including a general outline of the steps through which the cost is developed and what proportion of High Density flats receive each processing step.
- c. Please describe the mail processing received by Basic flats leading to the cost of 3.331 cents, including a general outline of the steps through which the cost is developed and what proportion of Basic flats receive each processing step.
- d. Drawing on the descriptions you provided in response to parts a through c of this question, and supplementing them as needed, please explain why Basic flats receive 2.891 ( $3.331/1.152$ ) times as much mail processing cost as either High Density or Saturation flats, including why it is that High Density and Saturation

flats receive exactly the same amount of mail processing. Where appropriate, please include references to the effect of pieces-per-bundle, any effects of dropshipment by mailers, and third-bundle treatment discussed in the testimony of Postal Service witness Jeffery W. Lewis (USPS-T-30, Section 2.2, pp. 2-3).

- e. Please describe of how the mail processing cost for Saturation flats of 1.152 cents picks up and accounts for the mail processing costs of any Detached Address Labels (“DALs”) accompanying the flats, including the proportion of the flats that have such labels. If any of the cost of 1.152 cents is for bundle sorts of flats, please include a discussion of the nature of the equivalent sorts received by any associated DALs.

**VP/USPS-T28-24.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket.

- a. Footnote 2 on the referenced spreadsheet indicates that the costs of delivery (column G) come from USPS-LR-J-59. Please provide details concerning the files and the specific locations in USPS-LR-J-59 of each delivery-cost figure.
- b. Please provide a breakout of each of the seven delivery-cost figures into a city-delivery component and a rural-delivery component, indicating the weights

given to each. Then, for the city-carrier component, to the extent applicable, please break out the figures into an in-office portion and a street portion.

- c. The following questions concern the delivery cost of 6.070 cents for Basic flats and 4.862 cents for High Density flats.
- (i) Please identify and discuss all reasons for the two costs being different.
  - (ii) To the extent that differences in the two costs reflect the amount of carrier time incurred, please indicate the wage rates on which the figures are based.
  - (iii) Please discuss the extent to which these costs are properly viewed as marginal costs. In the case of the High Density figure of 4.862 cents, for example, if the High Density discount were to be increased and the volume of High Density flats were to increase according to the appropriate elasticity, would you expect the unit additional cost associated with these additional pieces to be 4.862 cents? Please explain your answer.
  - (iv) If you indicate that each cost figure is a marginal cost, please outline all of the assumptions which must be made in order to justify the marginal conclusion. If you do not so indicate, please present and discuss the costing theory underlying the nature of these costs.

**VP/USPS-T28-25.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket.

- a. Please refer to the delivery cost for Basic (presorted to carrier route) **letters** of 6.384 cents and for Basic (presorted to carrier route) **flats** of 6.070 cents.
  - (i) What portions of these two costs, if any, are **not** associated with carrier activities?
  - (ii) At this carrier route presort level, please identify and discuss the reasons why the delivery cost of letters is higher than the delivery cost of equivalently-prepared flats.
- b. Please consider that (i) the delivery cost shown for Basic flats is 0.314 (6.384 minus 6.070) cents **lower** than the corresponding cost shown for letters and (ii) the delivery cost shown for High Density flats is 0.178 (4.862 minus 4.684) cents **higher** than the corresponding cost shown for letters.
  - (i) Please explain the extent to which your general expectation would be that carrier costs decline as the level of preparation and the density of the mail increase, measuring density as the proportion of possible stops on a route that receive mail.

- (ii) Please suppose that 1,000 Basic letters were replaced by 1,000 Basic flats, for the same addresses on the same routes, and that the addresses and routes are typical and representative. Would you expect a **decline** in postal costs in the amount of \$3.14 (1,000 times 0.314 cents)? If you would not, please explain what cost change you would expect, stating all assumptions made and drawing on the characteristics of the mail involved and the work to be performed.
- (iii) Please suppose that 1,000 High Density letters were replaced by 1,000 High Density flats, for the same addresses on the same routes, and that the addresses and routes are typical and representative. Would you expect an increase in postal costs in the amount of \$1.78 (1,000 times 0.178 cents)? If you would not, please explain what cost change you would expect, stating all assumptions made and drawing on the characteristics of the mail involved and the work to be performed.
- (iv) Please explain any extent to which you do not agree that for typical and representative routes, the fundamental difference between a mailing (letters or flats) qualifying for the Basic (presorted to carrier route) rates and a mailing qualifying for the High Density rates is that the mailing qualifying for the High Density rates has more pieces per route. If you do not agree, please explain all reasons for disagreeing.
- (v) Drawing on the characteristics of the mail involved and the work to be performed, please provide a narrative explanation of all of the reasons

why, compared to High Density letters, High Density flats cost **more** for carriers to process and deliver while, compared to Basic letters, Basic flats cost **less** for carriers to process and deliver.

**VP/USPS-T28-26.**

Please refer to the “COST” spreadsheet of workbook USPS-LR-J-131-WP1.xls, Docket No. R2001-1, containing mail processing and delivery costs (in cents per piece) for various rate categories of Standard ECR mail, on which the current rates are based, the relative levels of which are being perpetuated by the Postal Service’s across-the-board proposal in the instant docket, and specifically to the delivery cost of Saturation flats, shown to be 4.031 cents.

- a. Please discuss the extent to which this cost is properly viewed as a marginal cost.
- b. Please suppose the Saturation discount were to be increased and the volume of Saturation flats were to increase according to the appropriate elasticity. Would you expect the unit additional cost associated with these additional pieces to be 4.031 cents? If not, please explain what you would expect the unit additional cost to be.
- c. If you indicate that the cost figure of 4.031 cents is a marginal cost, please outline all of the assumptions which must be made in order to justify the marginal conclusion. If you do not so indicate, please present and discuss the costing theory underlying the nature of this cost.

**VP/USPS-T28-27.**

Please refer to spreadsheets “COST” and “NCOST” in files USPS-LR-J-131-WP1.xls and USPS-LR-J-131-WP2.xls, respectively, Docket No. R2001-1, which provide cost information behind the current Standard (Commercial) ECR and Standard Nonprofit ECR rates, which are being elevated in this case by application of an across-the-board percentage, 5.6 percent and 5.9 percent, respectively. *See* columns G in both spreadsheets, which contain delivery costs. Please provide a specific source for each delivery-cost cell in both spreadsheets, one being for commercial ECR and the other for Nonprofit ECR. Note that the source shown on the sheet may not be the correct one. Note also that USPS-J-LR-117 is a candidate source, but does not appear to show separate costs for Standard (Commercial) ECR and Standard Nonprofit ECR.

**VP/USPS-T28-48.**

In presort-tree form, Chart Nos. 1 and 2 attached show costs (cents per piece), workshare-related and not, as appropriate, for Standard Regular (above the uneven line) and Standard ECR (below the uneven line) mail. Chart No. 1 is for the commercial category, and Chart No. 2 is for the nonprofit category. Both charts show USPS costs from Docket No. R2001-1, upon which the current rates are based, which in turn would be elevated by the Postal Service's across-the-board proposal in the instant docket, thus perpetuating relative rate levels.

The columns on each chart are labeled. Boxes with **one** layer set out either total or workshare-related costs, as appropriate. Boxes with **two** layers set out total costs on the top layer and workshare-related costs on the bottom layer. Boxes with **three** layers set out a cost difference in the top layer, a percentage passthrough in the middle layer, and a rounded discount in the bottom layer. The arrows show the sources of the cost differences.

- a. With respect to the columns labeled (i) barcode letter, (ii) letter, (iii) flat, and (iv) barcode flat, please confirm that the cost shown in each single-layer box is correct. If any are incorrect, please provide the correct cost and a reference to its source.
- b. With respect to the columns labeled (i) letter and (ii) flat, please confirm that the unit cost in each of the double-layer boxes is correct. If any are incorrect, please provide the correct cost and a reference to its source.





## Attachment to VP/USPS-T28-48, Chart No. 3

Sources for figures in Chart 1 of Attachment to VP/USPS-T28-48				
Figure	Component		Component	
Column 1	Mail Processing	Source	Delivery	Source
7.899	4.012	USPS-LR-J-132-WP1.xls sheet 'COST'	3.887	USPS-LR-J-132-WP1.xls sheet 'COST'
7.121	3.294		3.827	
6.828	3.016		3.812	
5.812	2.074		3.738	
6.211	1.615	USPS-LR-J-131-WP1.xls sheet 'COST'	4.596	USPS-LR-J-131-WP1.xls sheet 'COST'
<b>Column 5</b>				
17.243	13.037	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'SAVINGS'	4.206	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'SAVINGS'
13.481	9.275	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'LETTERS SUMMARY'	4.206	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'LETTERS SUMMARY'
16.565	12.148	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'SAVINGS'	4.417	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'SAVINGS'
12.803	8.386	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'LETTERS SUMMARY'	4.417	USPS-LR-J-60, revised 11/15/01, file STDREV.xls sheet 'LETTERS SUMMARY'
9.150	2.766	USPS-LR-J-131-WP1.xls sheet 'COST'	6.384	USPS-LR-J-131-WP1.xls sheet 'COST'
5.353	0.669		4.684	
4.043	0.669		3.374	
<b>Column 7</b>				
28.041	19.729	USPS-LR-J-132-WP1.xls sheet 'COST'	8.312	USPS-LR-J-132-WP1.xls sheet 'COST'
24.038	15.726		8.312	
21.178	12.866		8.312	
17.175	8.863		8.312	
9.401	3.331	USPS-LR-J-131-WP1.xls sheet 'COST'	6.070	USPS-LR-J-131-WP1.xls sheet 'COST'
6.014	1.152		4.862	
5.183	1.152		4.031	
<b>Column 11</b>				
21.319	13.007	USPS-LR-J-131-WP1.xls sheet 'COST'	8.312	USPS-LR-J-131-WP1.xls sheet 'COST'
15.971	7.659		8.312	

## Attachment to VP/USPS-T28-48, Chart No. 4

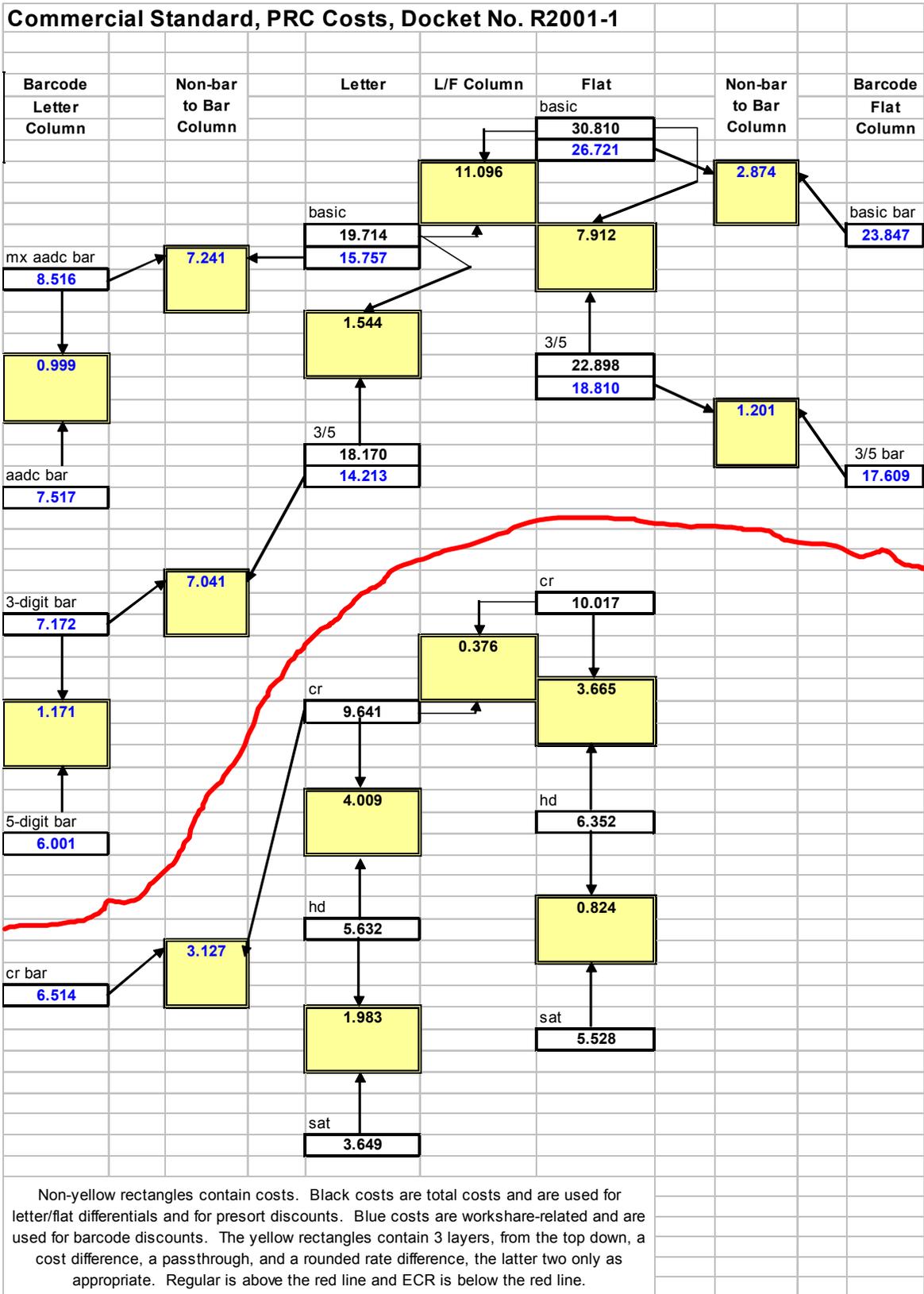
Sources for figures in Chart 2 of Attachment to VP/USPS-T28-48				
Figure	Component		Component	
Column 1	Mail Processing	Source	Delivery	Source
7.899	4.012	USPS-LR-J-132-WP2.xls sheet 'NCOST'	3.887	USPS-LR-J-132-WP2.xls sheet 'NCOST'
7.121	3.294		3.827	
6.828	3.016		3.812	
5.812	2.074		3.738	
4.762	1.615	USPS-LR-J-131-WP2 sheet 'NCOST'	3.147	USPS-LR-J-131-WP2 sheet 'NCOST'
<b>Column 5</b>				
17.635	13.434	USPS-LR-J-132-WP2.xls sheet 'NCOST'	4.201	USPS-LR-J-132-WP2.xls sheet 'NCOST'
13.913	9.712		4.201	
16.437	12.019		4.418	
12.675	8.257		4.418	
7.146	2.766	USPS-LR-J-131-WP2 sheet 'NCOST'	4.380	USPS-LR-J-131-WP2 sheet 'NCOST'
3.781	0.669		3.112	
2.990	0.669		2.321	
<b>Column 7</b>				
28.041	19.729	USPS-LR-J-132-WP2.xls sheet 'NCOST'	8.312	USPS-LR-J-132-WP2.xls sheet 'NCOST'
26.496	15.726		8.312	
21.178	12.866		8.312	
17.876	8.863		8.312	
7.403	3.331	USPS-LR-J-131-WP2 sheet 'NCOST'	4.072	USPS-LR-J-131-WP2 sheet 'NCOST'
4.514	1.152		3.362	
3.883	1.152		2.731	
<b>Column 11</b>				
21.319	13.007	USPS-LR-J-132-WP2.xls sheet 'NCOST'	8.312	USPS-LR-J-132-WP2.xls sheet 'NCOST'
15.971	7.659		8.312	

**VP/USPS-T28-51.**

In presort-tree form, Chart Nos. 1 and 2 attached show costs (cents per piece), workshare-related and not, as appropriate, for Standard Regular (above the uneven line) and Standard ECR (below the uneven line) mail. Chart No. 1 is for the commercial category, and Chart No. 2 is for the nonprofit category. Both charts show PRC costs from Docket No. R2001-1, taken from library references filed by the Postal Service, plus PRC-LR-7.

The columns on each chart are labeled. Boxes with **one** layer set out either total or workshare-related costs, as appropriate. Boxes with **two** layers set out total costs on the top layer and workshare-related costs on the bottom layer. The largest boxes with **three** possible layers set out a cost difference in the top layer, with the second two layers empty. The arrows show the sources of the cost differences.

- a. With respect to the columns labeled (i) barcode letter, (ii) letter, (iii) flat, and (iv) barcode flat, please confirm that the cost shown in each single-layer box is correct. If any are incorrect, please provide the correct cost and a reference to its source.
- b. With respect to the columns labeled (i) letter and (ii) flat, please confirm that the unit cost in each of the double-layer boxes is correct. If any are incorrect, please provide the correct cost and a reference to its source.





## Attachment to VP/USPS-T28-51, Chart No. 3

Sources for figures in Charts 1 and 2 of Attachment to VP/USPS-T28-51				
Figure	Component		Component	
Column 1	Mail Processing	Source	Delivery	Source
8.516	4.629	LR-J-84, STANDARD.xls, sheet 'LETTERS SUMMARY'	3.887	LR-J-84, STANDARD.xls, sheet 'LETTERS SUMMARY'
7.517	3.690		3.827	
7.172	3.360		3.812	
6.001	2.263		3.738	
6.514	1.625	USPS-LR-J-83, LR83ECR PRC.xls sheet 'Table 1'	4.889	Docket No. R2001-1, PRC-LR-7, sheet 'Table1'
<b>Column 5</b>				
19.714	15.513	LR-J-84, STANDARD.xls, sheet 'SAVINGS'	4.201	LR-J-84, STANDARD.xls, sheet 'SAVINGS'
15.757	11.556	LR-J-84, STANDARD.xls, sheet 'LETTERS SUMMARY'	4.201	LR-J-84, STANDARD.xls, sheet 'LETTERS SUMMARY'
18.170	13.752	LR-J-84, STANDARD.xls, sheet 'SAVINGS'	4.418	LR-J-84, STANDARD.xls, sheet 'SAVINGS'
14.213	9.795	LR-J-84, STANDARD.xls, sheet 'LETTERS SUMMARY'	4.418	LR-J-84, STANDARD.xls, sheet 'LETTERS SUMMARY'
9.641	2.987	USPS-LR-J-83, LR83ECR PRC.xls sheet 'Table 1'	6.654	Docket No. R2001-1, PRC-LR-7, sheet 'Table1'
5.632	0.684		4.948	
4.333	0.684		3.649	
<b>Column 7</b>				
30.810	22.370	USPS-LR-J-85, STANDARD.xls, sheet 'CRA ADJ UNIT COSTS'	8.440	Docket No. R2001-1, PRC-LR-7, sheet 'Table 1'
26.721	18.281		8.440	
22.898	14.458		8.440	
18.810	10.370		8.440	
10.017	3.649	USPS-LR-J-83, LR83ECR PRC.xls sheet 'Table 1'	6.368	Docket No. R2001-1, PRC-LR-7, sheet 'summary TY' cells F131-F133
6.352	1.189		5.163	
5.528	1.189		4.339	
<b>Column 11</b>				
23.847	15.407	USPS-LR-J-85, STANDARD.xls, sheet 'PRESORT LEVELS HELD CONSTANT'	8.440	Docket No. R2001-1, PRC-LR-7, sheet 'Table1'
17.609	9.169		8.440	