

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

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
SECOND INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS JAMES M. KIEFER (VP/USPS-T36-3-5)
(May 26, 2006)

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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VP/USPS-T36-3.

Please refer to page 6 of your testimony, USPS-T-36, lines 23-25, where you say:

“The Automation Basic rate category [of Standard Mail ECR and Nonprofit ECR letters] will be eliminated. I am assuming that these pieces will migrate to the Regular subclasses and pay the Automation 5-digit letter rates.”

Please refer also to your Library Reference, USPS-LR-L-36, workbook WP-STDECR.xls, tab ‘TYAR Commercial Pieces & Pounds,’ cell I8, which contains the following formula for the TYAR volume of origin-entered basic letters weighing from 3.3 to 3.5 ounces (*i.e.*, heavy letters): “= + 'Comm. Piece-Pound Dist.-- BY '!I8/SUM('Comm. Piece-Pound Dist.-- BY '!\$I8:\$L8)*Inputs!\$D42*'ECR Commercial BDs'!\$H\$135/('ECR Commercial BDs'!\$H\$23)”.

- a. Please confirm that this formula means that (the TYAR volume of basic origin-entered heavy letters) is equal to (the BY volume of basic heavy letters at all entry points) * (the BY proportion of basic heavy letters that are entered at an origin office) * (the TYAR to BY ratio of basic non-letters, piece rated and pound rates, all entry offices). If you do not confirm, please explain as a function of simple concepts and ratios what this formula means.
- b. Please explain why the growth in basic heavy letters between BY and TYAR should be equal to the corresponding growth in basic non-letters, piece rated and pound rated, all entry points.

- c. Please explain any definitional requirements that will be placed on basic letters in the Test Year, such as a requirement that they be machinable or automation compatible, or any other.
- d. Please reconcile the projection in cell I8 with your statement on page 6, both referenced above, that “these [automation Basic letters] will migrate to the Regular subclasses and pay the Automation 5-digit letter rates.”
- e. Please explain how the projection in cell I8, referenced above, relates to the projection for automation Basic letters found in cell D39, tab ‘Inputs,’ of the same workbook.

VP/USPS-T36-4.

Please refer to your Library Reference, USPS-LR-L-36, workbook WP-STDECR.xls, tab ‘TYAR Commercial Pieces & Pounds,’ cell D10, which contains the following formula for the TYAR volume of piece-rated saturation letters entered at an origin office: “= +'Comm. Piece-Pound Dist.-- BY '!D10/SUM('Comm. Piece-Pound Dist.-- BY '!D10:\$G10)*Inputs!\$D41”.

- a. Please confirm that this formula means that (the TYAR volume of piece-rated saturation letters entered at an origin office) is equal to (the TYAR volume of both piece-rated and pound-rated saturation letters entered at all entry points) * (the ratio for the BY of piece-rated saturation letters entered at an origin office to piece-rated saturation letters entered at all offices). If you do not confirm,

please explain as a function of simple concepts and ratios what this formula means.

- b. Please explain why the TYAR volume of origin-entered **piece-rated** letters should be equal to an origin-entry proportion for piece-rated letters applied to a volume projection for **piece-rated and pound-rated** letters combined.

VP/USPS-T36-5.

In Commercial ECR Standard, please refer to the rates proposed at the minimum per-piece level for saturation **letters** of 17.2 cents (per piece) and for saturation **flats** of 18.2 cents, the former being required to be machinable and automation compatible. (*See, e.g.*, Request, Attachment A, p. 19, Rate Schedule 322.)

- a. Please confirm that the mail processing cost for these saturation letters, shown in workbook LR-L-84.xls in USPS-LR-L-84, is 1.095 cents. If you do not confirm, please correct this cost and substitute your revised estimate in the remaining parts of this interrogatory, as appropriate.
- b. Please confirm that the carrier cost for these saturation letters, shown in workbook UDCModel.USPS.xls in USPS-LR-L-67, is 3.205 cents. If you do not confirm, please correct this cost and substitute your revised estimate in the remaining parts of this interrogatory, as appropriate.
- c. Please confirm that workbook LR-K-119.xls, tab 'Unit Costs,' in USPS-LR-K-119, Docket No. R2005-1, showed the FY 2006 cost for all ECR letters, exclusive of mail processing and carrier costs, to be 0.2341 cents, and the

corresponding cost for flats to be 0.8012 cents, and that Postal Service witness Yorgey, in Docket No. MC2005-3, USPS-T-2 (*see, e.g.*, p. 4 of Appendix A, footnote 9), used the figures of 0.2341 cents and 0.8012 cents as the cost of letters and flats beyond mail processing and carrier costs. If you do not confirm, please provide alternative add-on costs, identifying their source. Also, please update the costs of 0.2341 cents and 0.8012 cents to FY 2008.

- d. Please confirm that the revenues on sheet 'Revenues @ TYBR Vols.' and the volumes on sheet 'TYBR Commercial Pieces & Pounds' of your workbook file WP-STDECR.xls in USPS-LR-L-36 can be used to calculate a per-piece revenue for saturation letters, origin entered, of 17.23 cents and for saturation flats, origin entered, of 19.66 cents. If you do not confirm, please provide a figure that you believe to be correct, and substitute it in the remaining parts of this interrogatory, as appropriate.
- e. Please confirm that the mail processing cost for saturation flats, shown in workbook LR-L-84.xls, tab 'Table 1,' in USPS-LR-L-84, is 1.599 cents. If you do not confirm, please correct this cost, or supply an alternative cost, and substitute your estimate in the following parts of this interrogatory, as appropriate, explaining its derivation.
- f. Please confirm that the carrier cost for saturation flats, shown in USPS-LR-L-67, is 5.213 cents. If you do not confirm, please correct this cost, or supply an alternative cost, and substitute your estimate in the following parts of this interrogatory, as appropriate, explaining its derivation.

- g. Referring to the figures in parts a through f, as well as any corrected figures you may provide, please provide an explanation of the appropriateness of a per-piece contribution for letters of 12.696 cents and a somewhat smaller per-piece contribution for flats of 12.047 cents. Please include in your explanation all reasons why you believe it is appropriate for the per-piece contribution of saturation letters to be higher than the corresponding contribution of flats, including reasons of policy. For ease of reference, these figures are:

Saturation	Per-piece Revenue (cents)	Per-piece Cost (cents)	Per-piece Contribution (cents)	Implied Cost Coverage
Letters	17.23	4.534	12.696	380.01%
Flats	19.66	7.613	12.047	258.24%

- h. Please refer to the cost figures and the per-piece contribution figures in part g, or to any corrected figures you provide.
- (i) Please explain the appropriateness of products with substantially different costs having approximately the same per-piece contributions.
 - (ii) Please provide any examples you know of in the competitive private economy where a firm's higher-cost product, in this case 67.9 percent higher, makes the same or lower contribution as the lower-cost product.
 - (iii) Please explain the nature of any competitive conditions that would lead to equilibria with these kinds of cost/contribution relationships.