

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 A. THOMAS BOZZO (VP/USPS-T12-8-15)  
(June 2, 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-T12-8.**

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

- a. With respect to the economies of “density” in mail processing operations that you analyzed, what effort did you make to ascertain whether such economies vary with respect to plant size?
- b. Allowing for the existence of significant facility-specific cost-causing factors that are unrelated to economies of scale, economies of scope, or economies of density (as you discuss in your response to VP/USPS-T12-4(b)), do the economies of density in the mail processing operations which you analyzed increase uniformly with plant size? Please explain why you would or would not expect that to be the case.

**VP/USPS-T12-9.**

- a. For the facilities and cost pools included in your study of volume variability, did you collect any data similar to those presented in Docket No. R2001-1, USPS-T-39, by witness Kingsley at page 31, lines 1-2? That is, for some or all of the individual facilities included in your study, do you have data on (i) the number of AFSM 100s and BCS/DBCSs in each facility, (ii) the average run time per machine, (iii) the average number of sort plan changes per machine, and (iv) the average time to change sort plans? If so, please provide or indicate where those data can be found, or how they can be extracted from the data contained in USPS-LR-L-56.

- b. With respect to a comparison of automated mail processing in smaller facilities with only a few sorting machines versus larger facilities with greater volume and more sorting machines, please cite all evidence of which you are aware showing that larger facilities with more volume and more machines have either (i) fewer scheme changes, or (ii) longer average run times between scheme changes, or (iii) both fewer scheme changes and longer run times.

**VP/USPS-T12-10.**

In Docket No. R2001-1, witness Kingsley (USPS-T-39) testified that “subject to practical requirements such as transportation costs and the need to make the best use of our existing space, **we prefer larger plants.**” USPS-T-39, p. 29, ll. 10-12 (emphasis added). In your response to VP/USPS-T12-4, you discuss economies of “density” in the mail processing cost pools that you analyzed.

- a. Do the economies of “density” implied by your results support a preference for larger plants as expressed by witness Kingsley? If so, please discuss, and explain the logical connection for such support.
- b. Aside from economies of “density,” does your study in any other way support the conclusion that larger plants are more economical, or more desirable, than smaller plants? If so, please explain.

**VP/USPS-T12-11.**

For your response to the following questions, please assume that a DBCS is processing First-Class letters on a particular sort scheme.

- a. If, during the same shift, the volume of First-Class letters to be processed on that sort scheme were to increase, would you expect any increase in either the set up and takedown time on account of that change in volume? Please explain.
- b. Would you consider the setup and takedown time for that particular sortation on the DBCS to be incremental to the cost of sorting First-Class Mail. Please explain the basis for your answer.

**VP/USPS-T12-12.**

Please refer to Docket No. R2005-1 and your response to ABA&NAPM/USPS-T21-1 (redirected from witness Abdirahman).

- a. Please provide an updated table corresponding to that which you produced in response to the above-cited interrogatory.
- b. Please indicate whether the cost data shown in the table correspond to total accrued cost or volume variable cost.
- c. Please provide a cross-walk showing the correspondence between the activities in the table provided in response to preceding part a and the cost pools shown in Table 1 of your testimony (USPS-T-12, p. 3).

- d. For the activities that comprise your cost pools, do the volume variable costs (or the accrued costs) of the activities sum to the volume variable costs of the entire cost pool? If not, please explain why not.
- e. Does the Postal Service have data that would enable the cost for the various activities shown in the table provided in response to part a to be distributed to the classes and subclasses of mail?

**VP/USPS-T12-13.**

Please refer to USPS-LR-L-1, Appendix I, page I-5. The table on that page classifies the relationship between volume variable costs and incremental costs into eight different types. The defining characteristics in two of those cost pools (type 6 and type 8) are that they have (i) a volume variability less than 1, and (ii) more than one product. As between type 6 and type 8, the differentiating factor is whether any of the non-volume variable costs can be classified as “intrinsic.”

- a. For each of the mail processing cost pools which you studied and found to have volume variability less than 1 (as shown in your Table 1 at page 3 of your testimony (USPS-T-12)), please indicate whether you would consider any of the non-volume variable costs to be “intrinsic,” as defined in the above-cited reference.
- b. With respect to your response to preceding part a, for each cost pool for which you assert that none of the non-volume variable costs are intrinsic, please

explain why you consider none of those non-volume variable costs to be intrinsic.

- c. With respect to your response to preceding part a, for each cost pool for which you assert that at least some of the non-volume variable costs are intrinsic, please estimate the proportion of the non-volume variable costs that you would consider to be intrinsic.

**VP/USPS-T12-14.**

Please refer to the responses of witness McCrery to VP/USPS-T42-8e and VP/USPS-T42-9d. Please suppose that, on those limited occasions where Standard Regular letter mail is merged with First-Class Mail, the volume of Standard Regular letter mail were to increase to the point where the volume would be sufficient to justify setting up a separate sortation scheme.

- a. Under a circumstance such as that described here, would you consider the setup and takedown time (and cost) of the additional sortation scheme for Standard Regular letter mail to be (i) fixed, or (ii) volume variable? Please explain the basis for your answer.
- b. Under a circumstance such as that described here, would you consider the setup and takedown time (and cost) of the additional sortation scheme for Standard Regular letter mail to be incremental to the cost of sorting Standard Regular letter mail? Please explain the basis for your answer.

**VP/USPS-T12-15.**

Please assume that the originating volume at one the Postal Service's smaller distribution facilities declines to the point where, as a direct result of the reduced volume, all originating sortation (of letters, flats and parcel-shaped mail) at that smaller facility is discontinued, after which the originating mail is consolidated and sorted with other originating mail at a nearby larger facility. (*See* Docket No. N2006-1, USPS-LR-N2006-1/6, for examples of such consolidation.) Please assume further that the larger facility is able to use existing sort schemes to process the originating letters, flats and parcels gained from the smaller facility. As a result of this consolidation, the daily setup and takedown time (and costs) for sorting letters, flats and parcels at the smaller facility are eliminated, but no new sort schemes are required at the gaining facility.

- a. Under a circumstance such as that described here, and focusing solely on the setup and takedown time (and cost) of the discontinued sortation schemes for letters, flats and parcels at the smaller facility, would you consider those costs to have been (i) fixed costs, or (ii) volume variable costs? Please explain the basis for your answer.
- b. Under a circumstance such as that described here, and focusing solely on the setup and takedown time (and cost) of the discontinued sortation schemes for letters, flats and parcels at the smaller facility, would you consider those costs to have been incremental to the cost of sorting letters, flats and parcels at that facility? Please explain the basis for your answer.