

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS CUTTING TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T26-1-7)

The United States Postal Service hereby files the responses of Witness Cutting to the above-listed interrogatories, filed on May 19, 2006.

The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 2, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CUTTTING TO
INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T26-1

Please refer to your testimony at page 5, Table 1. According to Table 1:

- the volume of presorted UAA First-Class Mail that was returned to sender in FY 2004 was 96.4 million pieces, and
- the volume of Automation UAA First-Class Mail that was returned to sender was 819.4 million pieces,
- for a total of 915.8 million pieces of discounted First-Class Mail that was returned to sender in FY 2004.

For FY 2005, are comparable volume data available for the volume of discounted UAA First-Class Mail actually returned to sender? If so, please provide.

RESPONSE:

Comparable volume data have not been calculated for FY 2005. The UAA study described in USPS-LR-L-61 measures costs and volumes for FY 2004. In USPS-LR-L-62, these FY 2004 costs and volumes are projected to TY 2008, taking into account anticipated changes in UAA processing procedures due to PARS. However, no costs and volumes are calculated or projected for the intervening years between FY 2004 and TY 2008.

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VP/USPS-T-26-2

Of the 915.8 million pieces of discounted UAA First-Class Mail that were returned to sender in FY 2004, is it reasonable to infer that all of these were physical returns? If not, please explain.

RESPONSE:

All of the 915.8 million pieces of discounted UAA First-Class Mail in FY 2004 were physically redirected back to the sender. However, keep in mind that, for the purposes of my testimony and library references, I use the term "physical returns" exclusively to mean non-Address Change Service (non-ACS) pieces that are returned to the sender. (These pieces are not eligible for electronic notice processing.) Some ACS pieces are also physically returned to the sender (i.e., ACS pieces containing the "Address Service Requested" endorsement that are UAA due to (1) a move with a change-of-address order that is 13 months of age or older, or (2) reasons other than a move). These ACS pieces are included in the 915.8 million pieces but are not considered to be "physical returns" as this term is used in Section VI of my testimony. Data from Tables 4.6 and 4.9 of USPS-LR-L-61 can be used to distinguish ACS and non-ACS discounted UAA First-Class Mail pieces in the returned-to-sender mail stream. Based on data in those tables, 879.9 million discounted UAA First-Class Mail pieces are non-ACS pieces (i.e., "physical returns") and 35.9 million pieces are ACS pieces.

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VP/USPS-T-26-3

- a. Of the 46.0 million pieces of UAA First-Class Mail shown in your Table 1 as wasted in FY 2004, do all of those pieces represent electronic address correction in lieu of physical return of UAA mail, as discussed in your testimony at page 14, lines 2-6? If not, please explain.
- b. What was the wastage in FY 2005?
- c. What is the projected wastage in TY 2008?
- d. Your testimony at page 14, Table 6, shows the unit costs of physical and electronic returns in Test Year 2008. What were the unit costs of physical and electronic returns in FY 2004?
- e. What were the unit costs of physical and electronic returns in FY 2005?

RESPONSE:

- a. Yes, all of the 46.0 million pieces of wasted UAA First-Class Mail in Table 1 receive electronic notice processing. This can be confirmed by referring to the middle panel of Table 2.2 in USPS-LR-L-61 which shows that only ACS First-Class Mail (move-related and nixie) is wasted. These pieces are referred to as "electronic returns" in Section VI of my testimony.
- b. UAA wasted mail volumes have not been calculated for FY 2005. Please see my response to VP/USPS-T-26-1.
- c. The volume of UAA First-Class Mail that is projected to be wasted in TY 2008 is 42.6 million pieces. This value can be found in several tables in USPS-LR-L-62, including Tables 2.1, 2.2, 2.3, 4.11, and 5.8.
- d. The unit costs of UAA First-Class Mail physical and electronic returns in FY 2004 are reported in the table below. Note that the activities associated with the costs in this table cover all activities from the time a mail piece is identified as UAA until it reaches its final disposition. For physical returns, this includes the costs of carrier preparation, nixie clerk handling, redirection processing, and postage due activities. For electronic returns, this includes the costs of carrier preparation,

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nixie clerk handling, redirection processing, and ACS code identification and recording.

Response to VP/USPS-T-26-3d UAA First-Class Mail Electronic and Physical Returns Costs and Volumes by Shape FY 2004			
Letters			
	Cost	Volume	Unit
Return Type	(\$000)	(000)	Cost (Cents)
Physical	\$499,207	1,362,652	36.6 ¢
Electronic	\$11,898	44,552	26.7 ¢
	Unit Cost Difference --->		9.9 ¢
Flats			
	Cost	Volume	Unit
Return Type	(\$000)	(000)	Cost (Cents)
Physical	\$59,489	64,075	92.8 ¢
Electronic	\$785	1,428	55.0 ¢
	Unit Cost Difference --->		37.9 ¢
Source: USPS-LR-L-61, Tables 6.8 and 6.12			

- e. Unit costs of physical and electronic returns have not been calculated for FY 2005. Please see my response to VP/USPS-T-26-1.

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VP/USPS-T-26-4

- a. Please assume that a piece of First-Class Mail is UAA and also is nonforwardable for any of the reasons (or conditions) described in your testimony at page 4, lines 9-12. Under what conditions, if any, will the Postal Automation Redirection System ("PARS") be able to intercept such pieces and return them to sender prior to the piece arriving at the DDU?
- b. If PARS can intercept non-forwardable UAA First-Class Mail prior to reaching the DDU, where in the postal network will such intercepts likely occur?
- c. If PARS can intercept non-forwardable UAA First-Class Mail prior to reaching the DDU, then, in TY 2008, how much will such early intercept reduce the unit cost of non-forwardable UAA First-Class Mail below the unit cost figures shown in Table 6 at page 14 of your testimony?

RESPONSE:

- a. It is my understanding that PARS can only intercept move-related UAA letters (i.e., letters that are UAA because the name and address match an active change-of-address order). Letters that are UAA due to reasons other than a move, such as those you reference in my testimony, are not eligible for interception. See Section 3 in USPS-LR-L-62 for a description of PARS.
- b. Not applicable. Please see my response to VP/USPS-T-26-4a.
- c. Not applicable. Please see my response to VP/USPS-T-26-4a.

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VP/USPS-T-26-5

- a. In FY 2004, what was the total cost of physical returns of UAA First-Class Mail?
- b. In FY 2004, what was the total cost of electronic returns of UAA First-Class Mail, including wastage?
- c. In FY 2005, what was the total cost of physical returns of UAA First-Class Mail?
- d. In FY 2005, what was the total cost of electronic returns of UAA First-Class Mail, including wastage?

RESPONSE:

- a. The total cost of physical returns of UAA First-Class Mail in FY 2004 can be derived from the table provided above in response to VP/USPS-T-26-3d (excluding parcels). Additional details can be found in Tables 6.9 through 6.12 of USPS-LR-L-61.
- b. The total cost of electronic returns of UAA First-Class Mail in FY 2004 can be derived from the table provided above in response to VP/USPS-T-26-3d (excluding parcels). Additional details can be found in Tables 6.5 through 6.8 of USPS-LR-L-61.
- c. The total cost of physical returns has not been calculated for FY 2005. Please see my response to VP/USPS-T-26-1.
- d. The total cost of electronic returns has not been calculated for FY 2005. Please see my response to VP/USPS-T-26-1.

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VP/USPS-T-26-6

- a. What is the projected volume of non-forwardable UAA First-Class Mail in TY 2008?
- b. Of the projected volume of non-forwardable UAA First-Class Mail in TY 2008, how much (or what percentage) is assumed to be returned physically, and how much (or what percentage) is assumed to be wasted, with address corrections returned electronically?

RESPONSE:

- a. The projected volume of non-forwarded UAA First-Class Mail in TY 2008 is 1,330.1 million pieces.
- b. Of the projected 1,330.1 million pieces of non-forwarded UAA First-Class Mail in TY 2008, 1,287.5 million pieces are projected to be returned to sender (97%) and 42.6 million pieces are projected to be wasted (3%). These and other relevant details are available in several tables in USPS-LR-L-62, including Tables 2.1, 2.2, 2.3, and 4.11.

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VP/USPS-T-26-7

Please provide the volumes of UAA First-Class Mail and wastage, for both:

- a. FY 2002 and
- b. FY 2003.

RESPONSE:

- a-b. UAA First-Class Mail volumes for FY 2002 and FY 2003 have not been calculated. Prior to the study of UAA mail in FY 2004 that is described in USPS-LR-L-61, the previous analysis of UAA mail measured FY 1998 volumes (Docket R2000-1, USPS-LR-I-82).

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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June 2, 2006