

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
MICO MILANOVIC (USPS-T-9) TO INTERROGATORY OF  
VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS'  
ASSOCIATION, INC. (VP/USPS-T9-1)  
(June 8, 2006)

The United States Postal Service hereby provides the responses of witness Mico Milanovic (USPS-T-9) to the following interrogatory of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc., filed on May 25, 2006:

VP/USPS-T9-1

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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RESPONSE OF USPS WITNESS MILANOVIC (USPS-T-9) TO  
INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK  
DEALERS' ASSOCIATION

**VP/USPS-T9-1** Please refer to the attachment to this interrogatory. Column 1 contains Base Year volume variable costs, as shown in USPS-LR-L-3. Columns 2 and 3 endeavor to distinguish those volume variable costs that are considered to be indirect from those that are considered to be direct. Please review the costs in columns 2 and 3 and either (i) confirm that they are in the correct columns, as shown, or (ii) provide correct figures for direct and indirect volume variable costs for each cost segment.

Seg. No.		(1) Volume Variable Costs	(2) Indirect	(3) Direct
<b>1</b>	<b>Postmasters</b>	<b>379,979</b>	<b>0</b>	<b>379,979</b>
<b>2</b>	<b>Supervisors and Technicians</b>	<b>2,122,210</b>	<b>2,084,702</b>	<b>37,508</b>
2.1.1	Mail processing	813,076	813,076	0
2.1.2	Central mail markup	37,508	0	37,508
2.2	Window service	99,795	99,795	0
2.3	Admin & support	40,031	40,031	0
2.4.1	City delivery	556,482	556,482	0
2.4.2	Rural delivery	44,358	44,358	0
2.4.3	Vehicle svc drivers	23,239	23,239	0
2.5.2	Higher level	68,492	68,492	0
2.5.5	Training	24,071	24,071	0
2.5.6	Qual control/Rev prot	40,344	40,344	0
2.5.7	Joint supervision	374,813	374,813	0
<b>3</b>	<b>Mail processing</b>	<b>14,424,203</b>	<b>663,556</b>	<b>13,760,648</b>
3.1	Mail processing	12,703,875	0	12,703,875
3.2	Window service	1,056,773	0	1,056,773
3.3.1	Administrative clerks	629,633	629,633	0
3.3.2	Time and attendance	33,922	33,922	0
<b>4</b>	<b>Clerks, CAG K Offices</b>	<b>3,335</b>	<b>0</b>	<b>3,335</b>
<b>6</b>	<b>City Delivery Carriers, Office Activity</b>	<b>4,201,813</b>	<b>0</b>	<b>4,201,813</b>
6.1	In-office direct	3,198,073	0	3,198,073
6.2.2	In-office support overhead	734,063	0	734,063
6.2.3	In-office support other	269,676	0	269,676
<b>7</b>	<b>City Delivery Carriers, Street Activity</b>	<b>3,909,622</b>	<b>0</b>	<b>3,909,622</b>
7.2	Delivery activities	3,453,927	0	3,453,927
7.3	Delivery support	455,695	0	455,695
<b>8</b>	<b>Vehicle Service Drivers</b>	<b>367,029</b>	<b>0</b>	<b>367,029</b>
<b>10</b>	<b>Rural Carriers</b>	<b>2,214,077</b>	<b>0</b>	<b>2,214,077</b>
	Evaluated routes	2,035,578	0	2,035,578
	Other routes	178,499	0	178,499
<b>11</b>	<b>Custodial &amp; Maint. Services</b>	<b>2,027,950</b>	<b>2,027,950</b>	<b>0</b>
11.1.1	Custodial personnel	654,669	654,669	0
11.1.2	Contract cleaners	54,515	54,515	0
11.2	Op. equipment maintenance	1,005,109	1,005,109	0
11.3	Custodial & maint. Services	313,657	313,657	0
<b>12</b>	<b>Motor Vehicle Service</b>	<b>268,037</b>	<b>268,037</b>	<b>0</b>
12.1	Personnel	104,190	104,190	0
12.2	Supplies & materials	157,245	157,245	0
12.3	Vehicle hire	6,602	6,602	0

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**RESPONSE:**

I am unable to confirm (i) or provide (ii) as I am unsure of how you define direct and indirect volume variable costs. Furthermore, my testimony, as well as USPS-LR-L-1, Summary Description of Costs by Segments and Components, Fiscal Year 2005, does not contain definitions of direct and indirect costs. The Postal Service's base year cost presentation divides costs into volume variable and nonvolume variable costs. It appears the presentation of costs has been this way in several previous dockets as well, including Docket Nos. R2000-1, R2001-1 and R2005-1.

However, there is a division of costs into the categories of direct and indirect in USPS-LR-L-93, PRCBY05.xls, tab Page 4. If this method were to be followed, all of Cost Segments 1 and 2 would be indirect. Cost Segment 3 would be direct, except for Cost Segment 3.3. Cost Segment 4 would be entirely direct. Cost Segment 6 would be split between direct and indirect. Cost Segment 7 would be split based on the categories that are no longer in use. Cost Segments 8 and 10 are entirely direct. Cost Segments 11, 12 and 13 would be entirely indirect. Cost Segment 14 would be entirely direct. Cost Segment 15 would be entirely indirect. Cost Segment 16 would be split between direct and indirect. Cost Segment s 17 and 19 would have no direct or indirect costs as they are entirely nonvolume variable. Cost Segment 18 would be entirely indirect. Cost Segment 20 would be indirect except for what is defined as "Other" (which appears to be Cost Segment 20.4). Your attachment does not appear to conform with the division between direct and indirect suggested by USPS-LR-L-93.

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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