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

EVOLUTIONARY NETWORK DEVELOPMENT   )   Docket No. N2006-1
SERVICE CHANGES   )

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
THIRD INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS PRANAB M. SHAH (VP/USPS-T1-16-19)
(June 9, 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-T1-16.

Please refer to your response to VP/USPS-T1-5(a).

a.   Does the "existing product cost methodology used by Finance for production of the Cost & Revenue Analysis report" contain data which can be used to compare costs for facilities of different sizes. That is, could the data be used to ascertain how unit costs change as plant size increases? If so, please describe such data, and state whether you or the Postal Service has used the data for any such comparison.

b.   Does the Postal Service have data that show productivity trends for plants of different sizes? If so, please indicate what the productivity trends were for small, medium and large facilities "on the basis of a 7-year history at different facilities."

VP/USPS-T1-17.

Please refer to your response to VP/USPS-T1-5(b), where you state that "[t]he cost functions are designed to represent the fixed and variable cost of specific mail processing operations in three size categories small, medium and large." Also, please refer to USPS Library Reference N2006-1/7 (GAO Report), "Highlights" page (unnumbered), the chart "Total Pieces Handled per Person per Hour in Processing Plants for Fiscal Year 2004," which shows that the average hourly pieces handled per person in "small" plants was 1,970 pieces, in "medium" plants it was 1,700 pieces, and in "large" plants it was only 1,495 pieces. In other words, the GAO found that, on average, total pieces handled per person per hour in medium

plants is about 14 percent less than in small plants, and in large plants the total pieces handled

per person per hour is about 12 percent less than in medium plants and 24 percent less than in

small plants.

a. Do you have any reason to disagree with or otherwise dispute the productivity

   data shown in the GAO report? If so, please explain fully.

b. Are the small, medium and large size plant categories in the GAO report

   comparable with the small, medium and large size plant categories in the cost

   functions in your model? If not, please explain.

c. Does your optimization model contain productivity data for plants in the small,

   medium and large size categories referred to in your response to VP/USPS-T1-

   5(b)? If so, are the differences in productivity for each size category similar to

   those in the GAO Report?   If not, please explain: (i) how they differ; and

   (ii) why not.

d. In terms of pieces handled per hour, higher productivity is generally correlated

   with lower unit cost. Do the unit cost data in your optimization model reflect

   productivity data that are similar to the productivity data in the GAO Report,

   i.e., unit cost increasing with size of facility? If not, please explain the source

   of such productivity data that underlie the unit costs in your model, and how the

   differences in unit cost differ from what might be expected from the productivity

   data in the GAO Report.

VP/USPS-T1-18.

Please refer to your response to VP/USPS-T1-5(b).

a.   Please define the term "economies of scale" as you use it in your response.

b.   Does the Postal Service have any study or studies that show how unit costs or productivity of mail processing operations varies as plant size increases, either for the plant as a whole, or for shape-specific or product-specific mail processing operations? If so, please provide copies of each such study.

c.   Please assume that mail at a P&DF is processed on equipment that has run rates and throughput rates similar to equipment at a nearby P&DC. Please assume further that consolidating mail from the P&DF to the nearby P&DC idles as much capacity at the P&DF as it utilizes at the P&DC. Under these circumstances, please explain how consolidation: (i) maximizes utilization of available capacity; and (ii) achieves economies of scale.

d.   Please define the term "incremental cost" as you use it in your response to VP/USPS-T1-5(b).

e.   Please provide all studies, analyses, or other evidence on which you rely to support your statement that "the incremental cost of adding volume to a large operation is less than a small and medium operation."

f.   Please define the terms "small operation," "medium operation," and "large operation" as you use those them in your response to VP/USPS-T1-5(b).

VP/USPS-T1-19.

    a.   Please refer to the response to POIR No. 1, Question 3b. With respect to the excess mail processing capacity that the END initiative seeks to eliminate, please define the term "excess mail processing ... capacity":

          (i)   As used in that response, making explicit whether it refers to excess labor capacity, or excess equipment capacity, or excess space capacity; and

          (ii)   As used in the optimization and simulation models.

    b.   Is the definition of "excess mail processing ... capacity" based on the amount of labor, equipment, or space capacity that is not used during a day, a week, a month, or a year? Please explain the rationale for your response.

    c.   In light of fluctuations in mail volume that occur at certain times of the year, including various peak periods (*e.g.*, Christmas, April 15, end of each month), are there periods when excess capacity does not exist at either the losing facility or the gaining facility?

    d.   How does the END optimization model handle the peak load problem?

    e.   If the gaining facility does not have sufficient capacity to process all mail in a manner so as to meet service standards, does the model allow service to slip for some percentage of the mail? If that is the case, what percentage of mail is allowed by the model to fail to meet service standards?