

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 PAGE TO VALPAK INTERROGATORY, VP/USPS-T23-3
(June 22, 2006)

The United States Postal Service hereby provides the responses of witness Page (USPS-T-23) to the following interrogatory of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.: VP/USPS-T23-3, filed on June 8, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
JAMES W. PAGE TO VALPAK INTERROGATORY

VP/USPS-T23-3. Please refer to your response to VP/USPS-T23-1(a), indicating that \$164,842,000 was removed from ECR costs due to the assumption that all Basic ECR Automation letters move to Regular Standard. This figure is shown in cell G104 on tab 'Total' of your workbook Final Adjustments2008-USPS.xls in USPS-LR-L-59.

- a. Please confirm that the volume associated with this shift is 2,278,026,000 pieces, shown, for example, in cell M40 of tab 'MP' of the workbook cited above. If you do not confirm, please provide the appropriate figure.
- b. Please confirm that this adjustment amounts to 7.236 cents per piece and includes all cost segments, as detailed in column G of tab 'Total' of the workbook cited above. If you do not confirm, please provide an appropriate figure for the total unit cost.
- c. Please confirm that 2.544 cents of this adjustment is mail processing costs, shown on line 12 of the above-cited column G. If you do not confirm, please provide an appropriate figure. Regardless of whether you confirm, please compare your figure with the mail processing cost of 4.748 cents shown in cell D9 of tab 'Table 1' of workbook LR-L-84.xls in USPS-LR-L-84, and reconcile any differences.
- d. Please confirm that 4.188 cents of this adjustment is carrier costs, city and rural. If you do not confirm, please provide an appropriate figure. Regardless of whether you confirm, please explain the consistency of the figure you use with the mail processing cost of 2.887 cents shown in cell C60 of tab '1. Table 1' in workbook LR-K-67_2nd.revised.xls in USPS-LR-K-107, revised June 9, 2005, Docket No. R2005-1.

RESPONSE:

There has been some misunderstanding regarding the development of the final adjustment that removes costs from ECR due to the movement of Standard Basic ECR Automation Letters to the Regular subclass. The \$164,842,000 figure cited in VP/USPS-T23-1(a) and in the question above is actually the resulting change from two adjustments to ECR costs, in this order: (1) ECR costs are adjusted to reflect the impact of mail mix changes independent of the shift of Basic Auto Letters to Standard Mail, then (2) the Basic ECR Auto Letters costs that remain after the mail mix adjustment are then removed from ECR.

- a. Not confirmed. After making the adjustment for the changes in mail mix, only 1,959,007,013 Basic Auto ECR Letters remain in ECR, as shown in cell N45 of the spreadsheet "Forecast Volume". When this volume is dropped to zero in ECR, the costs of these pieces are removed from ECR.
- b. Not confirmed. The number, \$164,842,000, used in your calculation of 7.236 cents, is correct for the adjustment to ECR for the two reasons discussed in the preamble above, but not for the removal of automated letters alone. The spreadsheet "Total" combines the results of the two causes of changes, and thus

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can't be used to separate out the effect of just the letter movement to Standard Regular. The cost adjustment to ECR associated with mix changes is \$13,542,000 and the cost adjustment to ECR associated with the removal of Basic Auto ECR Letters is \$151,300,000.

- c. Not confirmed. See my response to part b. I used the 4.748 cents from LR-L-84, cell D9 of tab "Table 1" in LR-L-84.xls in cell B41 of my tab "Inputs" as the mail processing cost for ECR Automated Letters.
- d. Not confirmed. See my response to part b. I do not use the 2.887 cents from C60 of tab '1.Table 1' in workbook LR-K-67. In fact, I do not use any numbers from USPS-LR-K-67. In particular I use no mail processing numbers from either USPS-LR-K-67 or from USPS-LR-L-67. I did, however, use USPS-LR-L-67 as the source for my city and rural carrier costs. See cells C41 and D41 of my tab "Inputs".