

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 PIFER  
TO INTERROGATORIES OF VALPAK (VP/USPS-T18-9 - 12)  
(June 22, 2006)

The United States Postal Service hereby provides the response of witness Pifer to the following interrogatories of ValPak, Inc., filed on June 8, 2006: VP/USPS-T18-9 – 12.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 22, 2006

**RESPONSE OF POSTAL SERVICE WITNESS PIFER  
TO INTERROGATORIES OF VALPAK**

**VP/USPS-T18-9.**

Please refer to your testimony at page 10, lines 3-5, where you state that:  
“[p]roduct specific costs are non-volume variable costs caused by the provision of a product. Product specific costs for a mail product are incremental to that mail product.”

- a. Please define the terms “product” and “mail product” as you use them here.
- b. As you define the term “mail product,” to what extent is it synonymous with a class of mail?
- c. As you define the term “mail product,” to what extent is it synonymous with a subclass of mail?
- d. As you define the term “mail product,” to what extent is it synonymous with a rate category within a subclass of mail?
- e. As you define the term “mail product,” to what extent is it synonymous with a rate cell within a subclass of mail?

**RESPONSE:**

- a. The term “product”, as it is referenced here, is a generic term which is used in the definition of product specific costs. The term “mail product”, as it is used here, refers to any mail class, subclass, group of subclasses, rate category, or special service which is a line item in the Cost & Revenue Analysis report (USPS-LR-L-2). They therefore correspond to the items listed in rows 1-39 of Table 1A to my testimony.
- b. See answer to part (a).
- c. See answer to part (a).
- d. See answer to part (a).
- e. The term “rate cell” is undefined, thus “mail product” is not a synonym.

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**VP/USPS-T18-10.**

Please refer to your responses to VP/USPS-T18-4, 5 and 6, and suppose that within one or more independent MODS mail processing cost pools some non-volume variable costs exist solely for one Postal Service product. That is, if the product ceased to exist, those non-volume variable costs would no longer exist.

a. Would you agree that any non-volume variable costs such as those described here are incremental to the product in question? If you disagree, please explain fully.

b. Would it be appropriate to classify any non-volume variable costs such as those described here as intrinsic?

**RESPONSE:**

a. In this proposed scenario, assuming the activity is caused by the provision of a single mail product, any non-volume variable costs in a cost pool would be product specific to the product in question.

b. The non-volume variable costs are appropriately classified as product specific. Intrinsic costs are caused by the provision of the entire volume of an individual product. The previous testimony of Prof. Bradley (Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, USPS-T-22, Docket No. R2000-1 at 20) further defines intrinsic costs:

An intrinsic cost is a variable cost, in the sense that it varies with the level of output, but it does not vary at the margin. By that I mean that these costs are not increased by additional volume of the product. Nevertheless, the[y] are caused by the provision of the entire volume of the product and are thus incremental to that product.

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**VP/USPS-T18-11.**

Please refer to your testimony at page 10, line 8, where you state that “[a] variety of sources are used to identify product specific costs ....” Of the various sources that you used for identifying product specific costs, which ones contained a detailed cost breakdown or an analysis of the non-volume variable costs within individual cost pools?

**RESPONSE:**

The one that comes to mind regarding detailed cost breakdowns is the information on Advertising expenses, obtained from Advertising personnel. In general, the nature of information obtained from other sources is useful for identifying the reasons for the establishment and use of the activity/operations. This exercise addressed the cost pool as a whole (independent of any variability analysis), so I do not believe that it can properly be characterized as an analysis merely of “the non-volume variable costs” within the cost pool. Also, please see my response to VP/USPS-T18-12.

Detailed cost information can be found in USPS-LR-L-72, pages 7 and 8.

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**VP/USPS-T18-12.**

Please refer to the testimony of witness Bozzo (USPS-T-12) at page 3, Table 1.

- a. Excluding the "Composite" cost pool, do you consider the other 10 cost pools in that table to be "independent," as you use that term at page 7, line 6 of your testimony? If not, please indicate each cost pool that you consider to be dependent.
- b. For each of the 10 cost pools that you define as independent, please indicate for each the "type" (*i.e.*, type 1 to 8 as described in your testimony at pages 7-8).
- c. Excluding the "Composite" cost pool, with respect to each other cost pool in that table with non-variability factor greater than zero, please indicate which non-volume variable costs, if any, you have classified as incremental, and explain the basis or reason for determining that they were incremental.
- d. Please indicate all sources that you used to identify incremental costs within the "pool," or aggregate level, of non-volume variable costs in those 10 cost pools with non-variability factor greater than zero.

**RESPONSE:**

- a. Yes, all 10 cost pools are independent as defined by the incremental cost model.
- b. Types for all cost pools are found in USPS-T-18 Workpapers in Support of the Testimony of Dion Pifer (Volume 1 and 2), Table 1.
- c. In the SPBS Priority and Manual Priority cost pools, there are non-volume variable costs which are product specific to Priority Mail. In all of the cost pools, incremental costs, by their general nature, capture some non-volume variable costs for all products.
- d. I am not certain that I fully understand the question, however, variability factors gathered from Witness Bozzo (USPS-T-12), cost pool distributions from Witness Van-Ty-Smith (USPS-T-11), classification type from the incremental cost model filed by witness Kay in Docket No. R2005-1, and my workpapers (USPS-T-18 Workpapers in Support of the Testimony of Dion Pifer (Volume 1 and 2) are used in calculating incremental costs for the cost pools.

## 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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