

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BOZZO TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC. (VP/USPS-T12-16-18)**
(July 7, 2006)

The United States Postal Service hereby provides the responses of Witness Bozzo (USPS-T-12) to the following interrogatories of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.: VP/USPS-T12-16-18, filed on June 23, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 7, 2006

Response of United States Postal Service Witness A. Thomas Bozzo
(USPS-T-12) To Interrogatories of Valpak Direct Marketing Systems, Inc., and
Valpak Dealers' Association, Inc.

VP/USPS-T12-16.

Please refer to your response to VP/USPS-T12-13, as well as to the testimony of witness Bradley (USPS-T-22) in Docket No. R2000-1 at page 34, lines 10-14, concerning the discussion of Priority Mail sorting operations, and the statement there that such operations “can and do sort other classes of mail, but without Priority Mail, those classes would be sorted in other operations. Consequently, if the Postal Service decided not to provide Priority Mail, the institutional costs for these operations would not exist. These costs thus are part of Priority Mail’s incremental cost.”

- a. Do you agree with the above-cited analysis that the institutional costs in those Priority Mail operations are properly considered part of Priority Mail’s incremental costs, even though small amounts of other classes of mail also are sorted in the Priority Mail cost pool? Please explain fully any disagreement.
- b. In general, do you agree with the view that the institutional costs of a cost pool may properly be considered incremental both to that pool and the principal class of mail processed in that pool, even if small amounts of other mail are processed therein, provided that the cost pool would not exist if the principal class of mail processed in that pool did not exist? If you disagree, and believe that determination of incremental cost as discussed in preceding part A is limited exclusively to Priority Mail, please explain fully why that is necessarily the case.

Response.

- a. Yes, noting that I understand Prof. Bradley to be using “institutional costs” synonymously with “non-volume-variable costs” in the cited passage.
- b. I would not normally characterize a cost pool’s “institutional” costs as “incremental... to [a] pool”—in normal parlance, “incremental costs” are associated with products, e.g., mail classes or subclasses. (All of the costs of a pool would be avoidable, in principle, if the pool did not exist.) I would agree that the non-volume-variable costs in a cost pool may be considered incremental costs of a principal class or subclass provided the cost pool, and the associated costs, would not exist were the principal class or subclass not provided. The practical issue, as I state in the response to VP/USPS-T12-13,

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is whether there exists a class of mail or other product whose absence would
cause a given cost pool to cease operation.

Response of United States Postal Service Witness A. Thomas Bozzo
(USPS-T-12) To Interrogatories of Valpak Direct Marketing Systems, Inc., and
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VP/USPS-T12-17.

Please refer to your responses to VP/USPS-T12-11(b) and VP/USPS-T12-13.

- a. In your response to VP/USPS-T12-11(b), you stated that "If the sort scheme solely processed First-Class Mail, then the setup and takedown time could be considered incremental to the class in the sense that the associated cost could be avoided if the First-Class Mail service were no longer provided." In a situation where the cost of the setup and takedown time could be considered incremental to First-Class Mail, would it be appropriate to consider any such incremental cost an "intrinsic" cost, similar to the treatment of non-volume variable costs in the SPBS Priority and Manual Priority cost pools? If not, please explain why not.
- b. Is it your position that if any mail other than First-Class were to be processed in the scheme discussed in VP/USPS-T12-11(b), then no matter how small the volume of such other mail might be, under no circumstances could the cost of setup and takedown time be considered incremental to First-Class Mail? Please explain your position.

Response.

- a. In the referenced scenario, the setup and takedown costs would be incremental costs of First-Class Mail because they are "intrinsic" costs. That is, my understanding is that "intrinsic cost" is used to classify a source of "incremental cost" for a product.
- b. No. As Prof. Bradley correctly notes in the passage quoted in VP/USPS-T12-16, the issue is whether the cost in question is avoidable if a product or service (in this case, First-Class Mail) were not provided, and not the relative volume of other mail.

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VP/USPS-T12-18.

- a. When a plant has, say, two BCS/DBCS machines, each one fully staffed, would your data base for that plant be recorded as having one or two BCS/DBCS MODS cost pools? That is, for each BCS/DBCS machine in a plant do you have separate MODS data, or are the BCS/DBCS MODS cost pool data aggregated over all BCS/DBCS machines in the plant, regardless of how many machines the plant has? Please explain.
- b. Please refer to your testimony (USPS-T-12) at page 5, lines 11-14, define the term "work center" as you use it there, and explain all differences, if any, between a work center and each of the 11 MODS cost pools shown in your Table 1 (p. 3, l. 13). In conjunction with your response, please assume that some plants have multiple BCS/DBCS machines and explain whether, in such a plant, (i) all BCS/DBCS machines collectively represent one work center, or (ii) each BCS/DBCS machine represents a separate work center.

Response.

- a. The site-level MODS data in my econometric data set are aggregated over all equipment associated with a given cost pool at a facility.
- b. In the referenced passage, I equate the term "handlings at each work center," quoted from the description of the Cost Segment 3 methodology prior to the introduction of MODS-based cost pools in BY 1996, with "distribution [cost pools'] workloads." Implicitly, I take "work center" to be synonymous with "cost pool." Thus, the D/BCS cost pools would represent all barcode sorters at a plant.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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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.

Frank R. Heselton

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