

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

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
FIFTH INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS JAMES M. KIEFER (VP/USPS-T36-12-20)
(July 7, 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-T36-12.

Please refer to the discussion in your testimony concerning flats that will use the proposed NFM rate in Regular Standard, including page 5, beginning on line 13, page 15, beginning on line 17, and the section beginning on page 21, line 17.

- a. Is it possible to trace the origins of the pieces paying the proposed NFM rates and state what proportion of them came from one or another current rate category, such as one portion coming from automation flats and another portion coming from non-automation flats? If so, please provide the proportions.
- b. In view of your statement on page 5, line 13, that the “definitions of flats will be changed,” please outline the requirements for a flat to use the proposed rates for the new non-automation flats category.
- c. Please explain the extent to which the proposed non-automation flats category will be, in effect, a category of machinable flats.
- d. In line with the new definition of flats, which may be a category of machinable flats (*see* part c), please identify the costs in your testimony or in library references providing costs that apply to the new non-automation flats category, including a discussion of how well the costs apply.

VP/USPS-T36-13.

Please refer to your workbook WP-STDECR.xls in USPS-LR-L-36, tab ‘Inputs,’ cell D55.

- a. Please confirm that the source of the volume in the formula in subject cell is, essentially, ADVO-LR-1, Docket No. R2005-1, and that its entire basis for it is commercial volume. If you do not confirm, please describe the basis for the figure you use.
- b. Please provide the justification for applying the ratio in cell D55 to Nonprofit ECR volumes.

VP/USPS-T36-14.

Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LR-L-148, part of the Postal Service's response to Question 3 of POIR No. 5, and to cell D115 of tab 'Inputs.'

- a. Please confirm that the source of the cost in cell D115 is cell G44 on tab 'CRA ADJ UNIT COSTS' in workbook STD REG FLATS.xls in USPS-LR-L-43. If you do not confirm, please provide the correct source and describe the characteristics of the cost, *e.g.*, whether it is a workshare-related cost.
- b. Please explain whether the cost in cell D115 is a workshare-related cost of the kind usually used to help set automation discounts.
- c. Please explain whether the cost in cell G20 of tab 'PRESORT LEVELS HELD CONSTANT' in the same USPS-LR-L-43 workbook is a workshare-related unit cost that would be appropriate for calculating passthroughs for automation flats.

VP/USPS-T36-15.

Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LR-L-148, part of the Postal Service response to Question 3 of POIR No. 5, and to cell D125 of tab 'Inputs.'

- a. Please confirm that the source of the cost in cell D125 is cell G36 on tab 'CRA ADJ UNIT COSTS' in workbook STD REG FLATS.xls in USPS-LR-L-43, and that this cost (1) is a total cost and not a workshare-related cost, and (2) is a weighted average of costs for machinable and non-machinable pieces. If you do not confirm, please state a different source and describe the characteristics of the cost, *e.g.*, whether it is a workshare-related cost and whether it is a weighted average of machinable and non-machinable pieces.
- b. If you confirm part a, please explain (1) the applicability of a total cost instead of a workshare-related cost to calculating the passthrough between non-automation flats and automation flats, and (2) whether a corresponding workshare-related cost is available.
- c. If you agree that the cost in cell D125 is a weighted average of costs for machinable and non-machinable flats, please explain whether a similar cost is available for machinable flats, which would correspond to the machinable flats category in the Regular rates you propose.

VP/USPS-T36-16.

Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LR-L-148, part of the Postal Service response to Question 3 of POIR No. 5, and to cell D108 of tab 'Inputs.'

- a. Please confirm that the cost figure in cell D108 is a weighted average of the cost of machinable and non-machinable letters, at the mixed AADC level. If you do not confirm, please provide a specific source for this cost and outline its characteristics.
- b. Acknowledging your response to part a, please explain, one part at a time, with particularity, the applicability of the cost in cell D108 to:
 - (i) the cost used in cell X7 of tab 'Presort Tree' for machinable letters;
 - (ii) the cost used in cell V9 of tab 'Presort Tree' for machinable letters at the mixed AADC level;
 - (iii) the cost used in cell R9 of tab 'Presort Tree' for non-machinable letters at the mixed AADC level;
 - (iv) the cost used in cell P7 of tab 'Presort Tree' for non-machinable letters;
 - (v) the cost in cell D34 of tab 'Proposed Rates' for machinable letters at the mixed AADC level; and
 - (vi) the cost in cell D39 of tab 'Proposed Rates' for non-machinable letters at the mixed AADC level.

VP/USPS-T36-17.

Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LR-L-148, part of the Postal Service's response to Question 3 of POIR No. 5, and to cell D115 of tab 'Inputs.'

- a. Please confirm that the cost figure in cell D115 is not a workshare-related cost. If you do not confirm, please provide a specific source for this cost and outline its characteristics.
- b. Acknowledging your answer to part a, please explain, one part at a time, with particularity, the applicability of the cost in cell D115 to:
 - (i) the cost used in cell P28 of tab 'Presort Tree' for automation flats at the mixed ADC level; and
 - (ii) the cost in cell D54 of tab 'Proposed Rates' for automation flats at the mixed ADC level.
- c. Would you agree that any concerns about the use of the cost in cell D115 would also apply to the costs in cells D116 through D118 of tab 'Inputs'? Please explain if you do not agree.

VP/USPS-T36-18.

Please refer to your response to Question 3 of POIR No. 5, and the included workbook WP-STDREG-R0621-POIR-Q3-Resp.xls in USPS-LR-L-148. All cell references in this question beginning with D will be to tab 'Inputs' and all other cell references will be to tab 'Presort Tree,' unless otherwise specified.

- a. In the presort tree you provided, you did not show a comparison between machinable letters and machinable flats (which seems to be an appropriate name for your category of “Nonautomation Flats”). Please explain whether you believe the relationship between machinable letters and machinable flats to be a key relationship, each allowing corresponding automation categories to be a step further removed, as such removal would be suggested by notions of worksharing.
- b. Drawing on the costs you show in cell P7 for machinable flats, do you agree that the cost of machinable flats is 32.934 cents (calculated by adding the costs in cell D125 and in cell D153)? If you do not agree, please present an improved cost estimate for machinable flats.
- c. Do you agree that the cost of machinable letters equals cell D151 (3.596 cents) plus cell D109 (5.546 cents), which sums to 9.142 cents? If you do not agree, please present an improved cost estimate for machinable letters.
- d. Using the figures in parts b and c, or others you supply, do you agree that the cost of machinable flats is 23.792 cents more than the cost of machinable letters, but that the rate you propose for machinable flats is only 13.9 cents more than the rate for machinable letters, indicating a passthrough of 58.4 percent? If you do not agree, please present improved costs and a corrected passthrough.
- e. Do you agree that rates set in this way imply a substantially higher per-piece contribution from letters than from flats, calculated in the same way as the contributions in the testimony of Postal Service witness Michelle K. Yorgey

(USPS-T-2) as developed on pages 2 through 6 of Appendix A, in Docket No. MC2005-3? If you do not agree, please present your own quantitative analysis of the relative contributions of machinable letters and flats as they would exist under the rates you propose.

- f. In terms of economics and fairness and any other ratesetting principles you wish to suggest, please discuss the advocacy of requiring substantially larger per-piece contributions from letters than from flats.

VP/USPS-T36-19.

Please refer to your response to VP/USPS-T36-10(c), in which you provide AR fees at TYBR volumes for Commercial Regular of \$63,654, Nonprofit Regular of \$29,866, Commercial ECR of \$33,971, and Nonprofit ECR of \$6,479, all in thousands.

In your original workpapers, you provided TYBR fees of, in the same order, \$70,173, \$33,547, \$36,363, and \$6,135. The AR fees referenced above, then, are 7.6 percent, 5.6 percent, 10.8 percent, and 5.6 percent higher than your original TYBR fees, respectively.

Please explain whether this means that each category of Standard mail is realizing a different percentage increase in fee levels. If they are, please explain what accounts for these differences.

VP/USPS-T36-20.

This question seeks to clarify aspects of your response to VP/USPS-T36-10(b), in which you discuss how you handled heavy letters in ECR.

- a. Please confirm whether the following statements properly summarize the path you took. If you do not confirm, please explain.
- (i) Heavy letters must be automation compatible, so basic (non-automation) letters cannot be heavy letters.
 - (ii) Automation basic letters, which are restricted to certain destinations, can be heavy letters, because of their automation compatibility.
 - (iii) Most automation basic letters weigh from 0 to 3.3 ounces, but a few weigh from 3.3 to 3.5 ounces.
 - (iv) You assumed that the automation basic letters weighing from 0 to 3.3 ounces would migrate to 5-digit Regular but that the automation basic letters weighing from 3.3 to 3.5 ounces would stay in ECR.
 - (v) For the automation basic heavy letters that stay in ECR, you show them in your spreadsheets on the same line with basic (non-automation) letters.
- b. Are the cost adjustments for the shift of automation basic letters to 5-digit Regular consistent with the path you took? If not, please explain why not.