

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
(USPS-T-46) TO INTERROGATORIES OF VALPAK DIRECT MARKETING
SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.: (VP/USPS-T11-7-
8), REDIRECTED FROM WITNESS VAN-TY-SMITH (USPS-T-11)
(July 24, 2006)**

The United States Postal Service hereby provides the response of Witness Bozzo (USPS-T-46) to the following interrogatories of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.: VP/USPS-T11-7-8, filed on July 10, 2006, and redirected from witness Van-Ty-Smith, USPS-T-11, to witness Bozzo, USPS-T-46.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 24, 2006

Response of United States Postal Service Witness A. Thomas Bozzo
(USPS-T-46) To Interrogatories of Valpak Direct Marketing Systems, Inc., and
Valpak Dealers' Association, Inc.
Redirected from Witness Van-Ty-Smith (USPS-T-11)

VP/USPS-T11-7.

The USPS Data Quality Study, Technical Report #1, Economic Analysis of Data Quality Issues, page 65, stated that one major conclusion from the mail processing assessment was :

A valid and defensible distribution key based on the appropriate cost driver for each mail processing operational activity pool should also be determined. To accomplish this IOCS needs to be replaced in the long- run. Until a replacement system can be designed and implemented, the IOCS should be modified to obtain sufficient useful tallies to provide a reasonable proxy for the distribution of these operational activity to products.

- a. Please explain what the Postal Service has done to date to develop a valid and defensible distribution key for the DPS cost pool [sic].
- b. Please explain what studies, plans, or other actions the Postal Service intends to undertake to develop a valid and defensible distribution key for the DPS cost pool [sic].
- c. Please explain where the Postal Service stands with regard to development of a replacement for the IOCS in capital intensive operations.

Response.

- a. The Postal Service's cost methodology establishes MODS total pieces fed as the appropriate cost driver for barcode sorting operations, including DPS operations. (Note, there is no separate DPS cost pool.) As I explain in USPS-T-46, Section II.B.1 (pages 6-7), IOCS sampling is a valid method for estimating subclass distribution key shares for piece handlings. As a result, the Postal Service's efforts for such operations focused on ensuring IOCS sampling procedures were correctly applied and improving IOCS direct tally data quality. See USPS-T-46, Section II.D (pages 13-15).
- b. I am not aware of any efforts to develop volume-variable cost distribution methods specifically for DPS operations.

Response of United States Postal Service Witness A. Thomas Bozzo
(USPS-T-46) To Interrogatories of Valpak Direct Marketing Systems, Inc., and
Valpak Dealers' Association, Inc.
Redirected from Witness Van-Ty-Smith (USPS-T-11)

- c. As I explain in USPS-T-46, page 4, the Data Quality Study issued an alternative recommendation of improving IOCS, and the Postal Service chose to improve rather than to replace IOCS.

Response of United States Postal Service Witness A. Thomas Bozzo
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VP/USPS-T11-8.

The USPS Data Quality Study, Technical Report #1, page 32, showed the following breakdown of IOCS tallies.

Category	1969	1986	1996	2005
Specific Mail Product Identified	77%	63%	45%	
Mixture or Group of Mail Identified	17%	8%	6%	
No Mail Identified	6%	29%	49%	

Please complete the above table with IOCS tallies for FY 2005, on a comparable basis to prior years.

Response.

Please see the table below:

Category	1969	1986		1996	2005
Specific Mail Product Identified	77%	63%		45%	48%
Mixture or Group of Mail Identified	17%	8%		6%	7%
No Mail Identified	6%	29%		49%	45%

The source is USPS-T46, Table 4 (page 28), which also provides BY 2004 data.

“No mail identified” includes empty equipment (6.4% of tallies) and not-handling tallies. Note that because of changes to IOCS data collection procedures, the FY 1969 and FY 1986 tally distributions are not comparable to the FY 1996 and FY 2005 distributions. The data also do not control for changes in the prevalence of

Response of United States Postal Service Witness A. Thomas Bozzo
(USPS-T-46) To Interrogatories of Valpak Direct Marketing Systems, Inc., and
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workshared volumes and operational changes that may affect the tally mix. See
also USPS-T-46, page 5, lines 11-22, and footnote 2.

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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