

ADVO, INC. INTERROGATORIES TO NAA WITNESS INGRAHAM (NAA-T-2)

ADVO/NAA-T2-1. Please confirm that, in your rate design:

- (a) The ECR revenue requirement in your DAL_Conversion_to_On-Piece (75% Conversion) worksheet does not reflect any DAL cost savings from the conversion to on-piece addressing. If this is incorrect, please explain.
- (b) The saturation flat costs you used to develop the non-surcharged saturation flat rate is an average of the costs for all saturation flats plus all associated saturation flat DALs assumed to be in the system. If this is incorrect, please explain.
- (c) You did not adjust your second set of rates to achieve the USPS original goal of 213% cost coverage (or \$3,142,857,985 in contribution to institutional cost – per the original LR L-36). If this is incorrect, please explain.
- (d) The NECR rates in both of your rate design spreadsheets are simply derived from your ECR rate changes. You have made no specific adjustments directly purely at the NECR rates. If this is incorrect, please identify and explain the rationale for the specific adjustments you deliberately made to NECR rates.

ADVO/NAA-T2-2. On page 16 (lines 11-12), you cite the principle of Efficient Component Pricing (ECP) as your basis for applying 100% passthroughs of density-related cost differentials to the comparable rate differentials (with the exception of basic to high-density letters and the parcel rates).

- (a) Do you agree with the principle of ECP as described by witness Sidak? Please explain.
- (b) Do you believe that the cost differences between ECR basic, high-density, and saturation (by shape), used in your rate development, are due to entirely to differences in worksharing activities? Please explain.
- (c) Is it your understanding that ECP ensures that each service being priced (under the ECP concept) generates an equal per unit contribution? Please explain.

ADVO/NAA-T2-3. In several portions of your testimony, you refer to the use of DALs as an option or optional mail feature (page 3, line 8; page 6, line 13; page 12, line 14; page 16, line 2).

- (a) In the USPS rate design, do you believe the saturation flat rate is to be applied only to on-piece addressed flats? If not please explain.
- (b) In the USPS rate design, do you believe that saturation flats with DALs are supposed to pay both the saturation flat rate plus the DAL surcharge? Please explain.
- (c) In your rate design, is the saturation flat rate to be applied only to on-piece addressed flats? Please explain.
- (d) In your rate design, are saturation flats with DALs to pay both the saturation flat rate plus the DAL surcharge? Please explain.
- (e) Under ECP, when there is a separate rate for an optional feature, is it appropriate for the ratepayers not taking that option to cover the costs of that option in their rates? Please explain.

ADVO/NAA-T2-4. On page 18 (lines 8-11), you state that you “. . .used [in your rate design] the current pound charge of 64.3 cents instead of the Postal Services proposed 64.1 cents, because to my knowledge witness Kiefer nowhere specifically explained why he proposed to change this charge.”

- (a) Did NAA ask witness Kiefer anything about his proposed pound charge? Please explain.
- (b) In this case, did NAA obtain any data on weight-related ECR costs?
- (c) Did you, in any way, attempt to determine the extent of weight-related ECR flat costs? Please explain.

ADVO/NAA-T2-5. On pages 8 ff, you take issue with the fact that the USPS did not de-average the basic/high density flat delivery cost for use in its rate design. You state (page 10, lines 9-12): “. . . an appropriate rate design for ECR mail should use the data estimating the cost differences between the high-density and saturation flats worksharing tiers. . . .”

- (a) Please confirm that neither the USPS nor you used a de-averaged high-density/saturation flat mail processing cost in rate design. If this is incorrect, please explain.

- (b) Please confirm that NAA did not request de-averaging of the high-density/saturation flat mail processing cost for rate design purposes. If this is incorrect, please explain.
- (c) Under ECP, when there are separate rates for separate services, is it appropriate to base the rate differential on a cost differential that, in part, ignores service cost differences associated with a major cost category?

ADVO/NAA-T2-6. On page 21, you state that: “. . . I have calculated the incremental cost of a DAL to be 0.751 cents per DAL. Therefore my proposed DAL surcharge recovers that incremental cost and also would include an optional or value component . . . “

- (a) Please explain your concept of DAL incremental cost that led to this figure.
- (b) Please explain whether the 0.751-cent incremental cost applies to each of your two alternative rate designs.
- (c) Please explain why only that amount of “incremental cost” must be recovered in your second alternative set of ECR rates and the remainder of the 1.4-cent surcharge is an optional or value component.

ADVO/NAA-T2-7. In response to VP/USPS-2, the USPS states that for the four-month period of March-June 2006, the following were accompanied by DALs: 7.7% of ECR high-density non-letter DDU pieces, 2.2% of ECR high-density non-letter DSCF pieces, and 2.6% of ECR high-density non-letter pieces. This means roughly 4.85% of all ECR high-density non-letters are accompanied by DALs.

- (a) Do the high-density flat costs you use in your rate design include the costs of DALs associated with high-density flats? Please explain.
- (b) Do the DAL conversions in your worksheet DAL_Conversion_to_On-Piece also reflect any high-density DAL conversions? Please explain.
- (b) In your first set of rates you propose the USPS proposed DAL surcharge of 1.5 cents. In the second set of rates you propose a surcharge of 1.4 cents. The USPS surcharge is intended for

saturation DALs. Do your alternative proposed surcharges also apply only to saturation DALs? Please explain.

ADVO/NAA-T2-8. Witness Sidak states (pages 9-10, lines 19 ff): “To promote such [economic] efficiency, the Commission has applied ECP in setting discounts for worksharing such as presortation and destination entry at, ideally, 100 percent of the estimated avoided cost of the activity whose performance the Postal Service avoids. This correct application of ECP advances economic efficiency by providing accurate pricing signals to mailers and the Postal Service . . . A deviation of pass-through rates from 100 percent would result in postal rates that are inconsistent with the general principles of ECP.”

- (a) If you agree with the principle of ECP, please explain why you did not pass through 100% of the dropship-related cost avoidances to the dropship discounts.
- (b) Please confirm that by not passing through 100% of the dropship cost avoidances to the discounts, the more discounted mail pieces are paying a greater per piece contribution than the less discounted mail pieces. If you cannot, please explain why not.

ADVO/VP-T2-9. On page 21, lines 1-2, you state of your second alternative rate design: “. . . under this proposal, the most common saturation flat (entered at the DDU) would pay no more than under Kiefer’s design . . . “ Please confirm that on page 6, the DDU saturation flat rate proposed by the USPS is listed as 14.0 cents while your second alternative DDU saturation flat rate is 14.1 cents. If this is incorrect, please explain why.