

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

UNITED STATES POSTAL SERVICE INTERROGATORIES AND  
REQUESTS FOR PRODUCTION OF DOCUMENTS TO VALPAK DIRECT  
MARKETING SYSTEMS, INC., AND VALPAK DEALERS' ASSOCIATION, INC.  
WITNESS HALDI: USPS/VP-T2-13 THROUGH 23  
October 4, 2006

Pursuant to rules 25 and 26 of the Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc. witness John Haldi: USPS/VP-T2-13 through 23.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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October 4, 2006

USPS-VP-T2-13.

Please refer to your testimony, VP-T-2 at 24, lines 8-10, where you claim that “[e]conomies of scale... refers to how cost changes after the organization has had full opportunity to make all requisite adjustments to a change in volume.”

a. Please confirm that the elasticity of scale measures how output varies as the “input bundle is multiplied by a scalar.” See, e.g., Robert G. Chambers, *Applied Production Analysis* (Cambridge University Press, 1989) at 22. If you do not confirm, please explain.

b. Please confirm that your definition is of long-run cost adjustments, i.e., “long run” costs reflect firms carrying out “all requisite adjustments,” and not a definition of economies of scale. If you do not confirm, please reconcile your definition of “economies of scale” with the definition of the elasticity of scale in the economic literature.

USPS/VP-T2-14.

Please refer to your response to USPS/VP-T2-1b.

a. Please confirm that a result of the “dual” economic theory of production and cost is that the cost elasticity in UPSS/VP-T2-1b (sometimes called the “elasticity of size”) and the elasticity of scale are “closely related,” specifically, the former is the inverse of the latter. See, e.g., *Robert G. Chambers, Applied Production Analysis* (Cambridge University Press, 1989) at 71. If you do not confirm, please explain fully.

b. Given your answer to part (a), please explain the theoretical basis for your statement that “Consequently, any empirical study of labor demand based on this model is not likely to develop any insight as to whether larger plants are subject to economies or diseconomies of scale.” In particular, please explain why inferences on cost elasticities are “not likely to develop any insight” on quantities such as scale elasticities to which they are theoretically related.

USPS/VP-T2-15.

Please refer to your response to USPS/VP-T2-2.

a. You indicate that you are not familiar with the paper Dr. Bozzo cites in relationship to the distinction between economies of “density” and economies of “scale.” Please describe your familiarity with any economic literature related to the Caves, Christensen, and Tretheway paper pertaining to measurement of “density” and “scale” elasticities.

b. If your response to part (a) indicates that you are not familiar with the related economic literature, what is the basis for your discussion of “density” and “scale” economies in VP-T-2 at pages 17-31?

USPS/VP-T2-16.

Please refer to your response to USPS/VP-T2-4(c), where you confirm that the long-run average cost curve is the “lower envelope” of the short-run average cost curves. Please confirm that this implies that long-run average cost does not exceed short-run cost. If you do not confirm, please explain.

USPS/VP-T2-17.

Please refer to your response to USPS/VP-T2-5(b).

- a. Is it your understanding that the Postal Service accepts substantial volumes of non-machinable letters, flats, and parcels? Please explain any negative response.
- b. Please confirm that the data you provide cannot distinguish the use of manual operations to handle non-machinable pieces and automation rejects from other possible uses of manual operations. If you do not confirm, please explain fully.

USPS/VP-T2-18.

Please refer to your response to USPS/VP-T2-7. Since your response redefines the “unit” to a larger quantity of mail, is your response appropriately summarized as confirming that “a larger increment of volume [would] normally be required.”

USPS/VP-T2-19.

Please refer to your response to USPS/VP-T2-8. What is your understanding of the treatment of inframarginal costs in the Postal Service’s incremental cost model?

USPS/VP-T2-20.

Please refer to your response to USPS/VP-T2-12, where you draw an analogy between the treatment of the Priority Mail cost pool and your scenario in which First-Class Mail and Standard Mail are processed together at a facility whose volume is insufficient to justify running a separate Standard Mail scheme.

- a. Please confirm that, in the treatment of Priority Mail operations, it is assumed that parallel non-Priority Mail operations pre-exist to handle non-Priority Mail pieces in the Priority Mail operations. If you do not confirm, please explain.
- b. Do you agree that if the parallel non-Priority Mail operations did not already exist and would need to be set up in the absence of the Priority Mail product, then the setup costs would be, at least in part, non-avoidable? If not, please explain.
- c. Please confirm that in your scenario referenced in USPS/VP-T12-12, there is by assumption no pre-existing Standard Mail scheme. If you do not confirm, please explain.
- d. If, in this scenario, a Standard Mail scheme would need to be added in the absence of First-Class Mail, how are the setup costs avoidable?

USPS/VP-T2-21.

Please refer to your testimony, VP-T-2, at 54, lines 15-18, where you state that there is “no need to study how to treat non-volume variable mail processing costs” as long as the Commission treats mail processing costs as 100 percent volume-variable. Does this statement imply that the cost attribution issues you raise are moot, at least for the most

part, if 100 percent volume-variability factors are applied? If not, please explain.

USPS/VP-T2-22.

Please refer to your response to USPS/VP-T2-10. Consider a mail processing operation where the schemes are not normally specific to a single class or subclass of mail, e.g., letter DPS operations. Assume the operation has some non-variable cost. Please confirm that:

- a. There is no individual mail class or subclass whose elimination will lead to the elimination of such an operation.
- b. The non-variable cost of the operation is not causally “attributable” to any individual class or subclass of mail as either volume-variable or incremental cost.

If you do not confirm either statement, please explain fully.

USPS/VP-T2-23.

Please refer to your testimony at page 44. Consider a sort scheme in which First-Class Mail is processed separate from Standard Mail.

- a. Please confirm that the First-Class Mail will, in general, include both single piece First-Class Mail and presorted First-Class Mail. That is, please confirm that rate categories within First-Class Mail are routinely merged. If you do not confirm, please explain.
- b. Please confirm that hypothetically eliminating all single piece First-Class Mail volume will not eliminate the First-Class Mail service.
- c. Please confirm that hypothetically eliminating all presorted First-Class Mail volume will not eliminate the First-Class Mail service.
- d. Please confirm that hypothetically eliminating single piece (or presorted) First-Class Mail will not eliminate the First-Class Mail scheme, assuming the Postal Service still seeks to separate First-Class and Standard Mail processing. If you do not confirm, please explain.
- e. In general, where subclasses and/or rate categories within a class of mail are merged for processing, explain whether hypothetically eliminating a rate category will lead to the elimination of the class-specific processing.

## **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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