

2. To help put change number 1 in context, please specify when the Postal Service began charging flats rates for letter-size pieces that do not meet the machinability and barcode requirements for the High-Density and Saturation Letters product.
3. Are volume data in USPS-FY08-14 as statistically reliable as volume data in the RPW? Is the system providing volume data in USPS-FY08-14 designed to give **relative** values, or **absolute** values, or both (*e.g.*, a system designed to give a reliable estimate of the **proportion** of total pieces that are presorted to a certain level may not give a reliable estimate of the **total number** of such pieces)?
4. USPS-FY08-1.doc explains that the “FY08 RPW includes these 537 million **letters** paid at **flats rates** in Standard High Density and Saturation Flats and Parcels.” *See id.*, p. 2 (emphasis added). Could the problem be described as follows:
 - a. in the billing determinants, RPW, and CRA, **revenue, weight, and volume** of “non-requirement” letter-size high-density and saturation pieces are correctly allocated to flats/parcels products;
 - b. the **costs** of these “non-requirement” letter-size pieces are currently allocated (incorrectly) to High-Density and Saturation Letters; and
 - c. the purpose of the adjustment is to move the costs to where the revenues, weight, and volumes are reported?
5. USPS-FY08-1.doc explains that the **proportion** of the high-density and saturation letter **costs** shifted to flats is the same as the **volume** proportion associated with the “non-requirement” letter-size pieces. *See id.*, p. 2.
 - a. Does this method of shifting costs assume that the **average marginal cost** of the “non-requirement” letter-size pieces is the same as the average marginal cost of requirement-meeting letter-size pieces? If so, what is the basis for this assumption? That is, why would letter-size pieces that **do not** meet machinability and barcode requirements be assumed to have the same marginal cost as those that **do**?
 - b. The attachment to the Postal Service’s January 16 Request shows, for the High-Density and Saturation Letter product,
 - an “As submitted on December 29” cost coverage of **229.08 percent**, and
 - a “With the adjustment removed” cost coverage of **209.03 percent**.
 - (i) Is the increase in cost coverage explained fully by the fact that the revenues remain the same and the costs decrease by the amount of costs shifted?
 - (ii) Please reconcile the “As submitted” coverage of **229.08 percent** with the coverage of **208.9 percent** shown in the last column of Table 2 (p. 22) of the December 29 ACR.

6. In Order No. 169, the Commission indicates that “letter-shaped mail generally incurs lower per-piece costs than [] flat-shaped mail.” *See* p. 3. If high-density and saturation letter-size pieces do not meet machinability and barcoding requirements:
 - a. how would they be processed, and
 - b. would the processing costs of these “non-requirement letters” be expected to be lower than processing costs for saturation flats?

7. USPS-FY08-18, file FY08 ECR Unit Costs.xls, tab Summary Data, cell BE11 shows that a small number of saturation letters (and no high-density letters, see cell BE16) receive processing in a manual flats operation.
 - a. Please explain why **saturation letters** would be processed in a **manual flats operation**, and whether this cost has a relation to the cost shifting at issue.
 - b. A companion cell at the same location, cell BF11, shows that some **saturation letters** receive processing in a **manual letter operation**, to the end that 9.14 percent of the costs of saturation letters are due to manual processing. Since saturation letters would be sorted to carrier route, walk-sequenced, automation compatible, and trayed, please explain what causes this kind of manual operation at the plant. Does this cost have a relation to the cost shifting at issue?
 - c. Would saturation letter-size pieces paying flats rates be more likely to receive manual processing than requirement-meeting saturation letters?

8. How does the Postal Service plan to handle the issue in question in the future? For example, will “non-requirement letters” continue to be accepted as flats? How will the revenue, volume, and cost systems recognize these letters? Will adjustments to final results, based on some assumption, continue to be required?

Change No. 4.

9. In Commission-cited workbook CS6&7, tab 7.0.10 (Order No. 169, p. 4) the data cells contain hard-wired numbers. Please provide a version with formulas or links.

10. The Commission says that “[t]he new DAL adjustment ... shifts **both** ECR High Density and Saturation Letter costs to **both** ECR High Density and Saturation Flats” (Order, p. 4, emphasis added). Are any of the DAL costs at issue being shifted from high-density letters?

11. Column E of tab 7.0.10 contains street costs per CCS piece for several categories of saturation and high-density pieces, some including DALs. The costs at issue cannot be understood and traced unless the Postal Service provides separately both in-office and street costs, with corresponding total city-carrier volume estimates, for the following categories (so that the cost divided by the volume equals an estimate of the average additional cost of moving one more piece of the subject kind through the operation):

- a. DPS'd DALs,
- b. cased DALs,
- c. DALs taken to the street as an extra bundle,
- d. DPS'd saturation letters,
- e. cased saturation letters,
- f. saturation letters taken to the street as an extra bundle,
- g. cased saturation flats, and
- h. saturation flats taken to the street as an extra bundle.

Change No. 9.

Change No. 9 notes that the Postal Service's Compliance Report does not display workshare-type passthroughs for high-density ("HD") relative to carrier-route ("CR") (sometimes heretofore called "basic") or for saturation relative to HD, for pieces formerly falling in the ECR subclass. Order No. 169, p. 5. Although these cost differences do not relate to worksharing, cost data allowing the passthroughs to be calculated are provided. Based on the sum of carrier costs and dropship-adjusted mail processing costs, Valpak has calculated them for letters and flats as follows:

- for letters, CR-HD, 24 percent (versus 61 percent in the FY 2007 ACD) and HD-saturation, **negative** 146 percent (versus **negative** 416 percent in the FY 2007 ACD); and
- for flats, CR-HD, 92 percent (versus 96 percent in the FY 2007 ACD) and HD-saturation, 74 percent (versus 64 percent in the FY 2007 ACD).

The following questions assume the accuracy of these calculations.

12. To help put change number 9 in context, please specify when the automation requirement for CR letters was implemented.
13. From FY 2007 to FY 2008, the cost of **CR letters** increased from 11.487 cents to 21.664 cents, an increase of **88.6 percent**, with the **mail processing** component of this cost increasing **113.2 percent**. Are the current cost estimates considered reliable, and, if so, why did this rather substantial increase occur?
14. From FY 2007 to FY 2008, the mail processing cost of **saturation letters** increased from 1.435 cents to 1.844 cents, an increase of **28.5 percent**. Over the same period, the UDCInputs workbooks (USPS-FY07-19 and USPS-FY08-19, tabs CCSDALs and RCSDALs) show that the proportion of non-DAL saturation letters DPS'd changed from 49.3 percent to 49.5 percent on city routes and from 40.9 percent to 49.3 percent on rural routes, thus constituting a relatively small increase in the proportion DPS'd. Are the current cost estimates considered reliable, and, if so, why did this rather substantial increase in mail processing cost occur?

Respectfully submitted,

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