

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

POSTAL RATE AND FEE CHANGES, 2005)

Docket No. R2005-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
THIRD INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS SAMUEL T. CUTTING (VP/USPS-T26-3)
(May 27, 2005)

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,

William J. Olson
John S. Miles
Jeremiah L. Morgan
WILLIAM J. OLSON, P.C.
8180 Greensboro Drive, Suite 1070
McLean, Virginia 22102-3860
(703) 356-5070

Counsel for:
Valpak Direct Marketing Systems, Inc. and
Valpak Dealers' Association, Inc.

May 27, 2005

VP/USPS-T26-3.

Please refer to USPS-LR-K-107, file LR-K-107.xls, which develops mail processing costs for Standard ECR mail at Commission costing, and for each of ECR Automation letters, ECR Basic (LOT) letters, and ECR High Density/Saturation letters on spreadsheet ‘Summary TY Data’ performs the following operations: (i) divide the dollar figures for each cost pool on the appropriate lines (meaning the auto line 16, the Basic line 6, and the WSS/H line 11) by the total cost at the end of the same line, thereby obtaining the proportions of the mail processing cost for each of the three letter categories that come from the cost pool in each column; and (ii) divide the dollar figures for each cost pool on the same lines by the corresponding TY Volume in column D of spreadsheet ‘Results,’ thereby obtaining the amount of cost (expressed below in cents per piece) that each of the three letter categories picks up from the cost pool in each column.

- a. Please consider the following results selected from the results described in the introduction to this question, for the cost pool “N Allied.”

Category	Proportion of cost of category	Cost in cents
Auto Letter	2.34%	0.03
Basic Letter	8.51%	0.28
HD/Saturation Letter	15.55%	0.13

- (i) Please explain the nature of the N Allied cost pool.
- (ii) Please explain why it is reasonable and to be expected that High Density/Saturation letters should get 0.13 cents of costs from this pool (15.55 percent of their total mail processing cost) and that Automation

letters should get only 0.03 cents of costs from this pool (2.34 percent of their total mail processing cost).

(iii) If you do not believe this is reasonable and to be expected, please explain what outcome would be more reasonable.

b. Please consider the following results selected from the display outlined in the introduction in this question, for the cost pool “1OPPREF.”

Cost Pool: 1OPPREF		
Category	Proportion of cost of category	Cost in cents
Auto Letter	3.05%	0.04
Basic Letter	2.76%	0.09
HD/Saturation Letter	8.16%	0.07

(i) Please explain the nature of the 1OPPREF cost pool.

(ii) Please explain why it is reasonable and to be expected that High Density/Saturation letters should get 0.07 cents of costs from this pool (8.16 percent of their total mail processing cost) and that Automation letters should get only 0.04 cents of costs from this pool (3.05 percent of their total mail processing cost).

(iii) If you do not believe this is reasonable and to be expected, please explain what outcome would be more reasonable.

c. Please consider the following results selected from the display outlined in the introduction in this question for the cost pool “BCS/DBCS.”

Cost Pool: BCS/DBCS		
Category	Proportion of cost of category	Cost in cents
Auto Letter	20.92%	0.29
Basic Letter	19.99%	0.66
HD/Saturation Letter	32.83%	0.27

- (i) Please explain the nature of the BCS/DBCS cost pool.
- (ii) Please explain whether the fact that Automation letters and High Density/Saturation letters pick up 0.29 cents and 0.27 cents of cost respectively from the BCS/DBCS cost pool indicate that approximately the same proportion of each of these two letter categories is delivery point sequenced. If this is not a correct or reasonable inference, please explain what conclusion can be drawn.
- (iii) For Automation letters and High Density/Saturation letters, what proportion of each were delivery point sequenced in the base year?
- (iv) How much cost would you expect a piece to incur if it were delivery point sequenced? If you do not know, please provide your best estimate and explain the basis for it.
- (v) For Automation and High Density/Saturation letters that are delivery point sequenced, can you identify any reason why their delivery costs should be different? Please explain.
- (vi) For Automation and High Density/Saturation letters, please quantify the reduction in delivery costs that you would expect as a function of the

proportion of the respective volume of each that is delivery point sequenced.