

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

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POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

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Docket No. R2005-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC,  
AND VALPAK DEALERS' ASSOCIATION, INC., REDIRECTED FROM  
WITNESS CUTTING (VP/USPS-T26-3)  
(June 10, 2005)

The United States Postal Service hereby files its institutional response to interrogatory VP/USPS-T26-3, submitted on May 27, 2005. This interrogatory was redirected from witness Cutting.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**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.”

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

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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.

**RESPONSE:**

(a)(i) The “N\_Allied” cost pool represents an assortment of clerk and mail handler allied labor activities performed at non-MODS facilities. Some common examples of allied labor activities at non-MODS facilities include moving mail between operations, prepping mail for manual or automation sortation operations, and platform work such as loading and unloading vehicles.

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(a)(ii)-(iii) Although the analysis in USPS-LR-K-107 is based on over 1,400 Standard Mail ECR IOCS tallies, using them to infer cost differences by rate category and shape at the level of an individual cost pool can be misleading. Sampling variation within IOCS is likely to be the primary driver for cost differences observed in many individual cost pools, especially cost pools where mail is being handled in bulk. A more meaningful exercise is to consider the costs for each disaggregated category after grouping cost pools together by facility type, major operation type (e.g., auto, manual) or processing category (e.g., letter operations, flat operations). For an example, see the response to VP/USPS-T-26-2h(i), which segments costs between DBCS/DIOSS processing (a collection of three different cost pools) and all other activities.

(b)(i) The “1OPPREF” cost pool represents opening units of preferred mail within MODS facilities. Opening units are operations within processing facilities where containers of mail are opened and prepared for distribution, or closed and prepared for dispatch.

(b)(ii)-(iii) Please see the response to VP/USPS-T26-3(a)(ii)-(iii).

(c)(i) The “BCS/DBCS” cost pool represents automated sortation operations on DBCS and DIOSS machines in MODS facilities. These machines are used for outgoing processing, incoming primary sortation, and delivery point sequencing (DPS).

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(c)(ii) Assuming that both ECR categories require about the same amount of cost per handling, the similarity of the unit costs does suggest that about the same portion of volume of each category is flowing through the BCS/DBCS cost pool. This does not necessarily mean that the same proportion of these categories is being delivery point sequenced. This is because not all activities within the BCS/DBCS cost pool are devoted exclusively to DPS processing, and DPS processing occurs in other cost pools besides BCS/DBCS.

(c)(iii) Please refer to USPS-LR-K-67.

(c)(iv) Although it is generally understood that the Postal Service has continued to shift additional Standard Mail ECR letters into the DPS mail processing stream, we have no estimates of how this shift affects ECR mail processing costs.

(c)(v) As long as the pieces in both categories are automation compatible, they should have the same unit cost for DPS processing.

(c)(vi) Please see the response to VP/USPS-T26-3(c)(iv).