

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

RATE AND SERVICE CHANGES TO IMPLEMENT)
BASELINE NEGOTIATED SERVICE AGREEMENT)
WITH BOOKSPAN)

Docket No. MC2005-3

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS MICHELLE K. YORGEY (VP/USPS-T2-1)
(September 7, 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,

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VP/USPS-T2-1.

In Docket No. R2005-1, please refer to the Postal Service response filed on June 30, 2005 to VP/USPS-T28-49 (showing FY-06 PRC costs) and to VP/USPS-T28-50 (showing FY-06 USPS costs), both redirected from witness Taufique, and their Excel attachment named Cost_Interrogatory-USPS2_checked.xls. The USPS costs in the response to VP/USPS-T28-50 appear to be a subset, including additional detail, of the costs shown by witness Yorgey in her response to POIR No. 1, Question 2, Attachment 2, in the instant docket.

This interrogatory has six attachments. Each is based on either 'Sheet 3' or 'Sheet 5' of the above-referenced Excel attachment, with some modifications. The modifications are:

- (1) Below each single-layer or double-layer (cost) box, right justified, in small font, the rate associated with that box has been inserted in cents per piece. According to the heading on the attachment, it is either the Docket No. R2001-1 rate or the proposed Docket No. R2005-1 rate.
- (2) In the bottom layer of each triple-layer box, the actual rate difference (often referred to as a discount) appears. These are calculated directly from the associated small-font rates.
- (3) In the middle layer of each triple-layer box, the percentage passthrough implied by the rate difference (bottom layer, same box) and the cost difference (top layer, same box) is calculated. It is expressed as a percent.
- (4) In the single-layer and double-layer cost boxes: Attachments No. 1 and No. 3 contain USPS costs as provided in response to above-referenced VP/USPS-T28-50; Attachments No. 2 and No. 4 contain PRC costs as provided in response to above-referenced VP/USPS-T28-49; and Attachments No. 5 and No. 6 contain what are hereinafter called Yorgey costs, as explained further below.
- (5) Three-layer boxes have been added to show each implicit passthrough of the letter/flat cost differences.

In Attachments No. 5 and No. 6, containing Yorgey costs, the workshare-related costs in the bottom layer of all two-layer boxes are set equal to the total costs in the top layer of the same boxes, because witness Yorgey appears to use only total costs. Also, beyond the USPS costs (for mail processing and delivery) provided in response to above-referenced VP/USPS-T28-50, the Yorgey costs contain an additional component. That component is equal, using applicable lines, to the total costs in column 13 of Attachment 2 to Question 2 of POIR No. 1 minus delivery costs (column 9) minus rural carrier costs (column 8) minus city carrier costs (columns 3, 4, 5, and 6) (which are zero in rows where these costs appear in column 9 instead) minus mail processing costs (column 1).

- a. Please confirm that the Yorgey costs (in Attachments No. 5 and No. 6) have been developed correctly. If you do not believe they are correct and are suitable for use in estimating the changes in Postal Service costs when pieces change from being flats to being letters, please provide a set of Yorgey costs that you support, explaining their meaning and indicating their source.
- b. Please compare the Yorgey costs in Attachments No. 5 and No. 6, after any modifications you make in response to part a of this question, with the USPS costs in Attachments No. 1 and No. 3. Please explain in detail any extent to which you believe the Yorgey costs are not suitable for rate design purposes but are suitable for estimating the cost effects on the Postal Service when pieces (including Bookspan pieces) change from being flats to being letters.
- c. Please refer to the PRC costs shown in Attachments No. 2 and No. 4.

- (i) Please explain the extent to which you agree that (1) these are USPS estimates of FY-06 PRC costs, based on methods and spreadsheets from Docket No. R2001-1, and (2) by the end of Docket No. R2005-1, the Commission may make available a new set of PRC costs.
 - (ii) In view of any extent to which you know anything about any cost principles behind the currently available PRC costs, please explain any reasons you have for believing that the USPS costs are better suited to estimating the cost effects on the Postal Service of any flats that convert to letters as a result of the Bookspan NSA.
- d. Please explain the logic, fairness and consistency of using Docket No. R2005-1 Yorgey costs to estimate the effects of the Bookspan NSA on the Postal Service but not using either the Yorgey costs or the USPS costs or the PRC costs, of Docket No. R2005-1, to design the proposed rates in Docket No. R2005-1, but rather leaving the rates based costs of Docket No. R2001-1, with an across-the-board increase applied.
- e. If the Commission in Docket No. R2005-1, using its own version of the costs shown in Attachments No. 2 and No. 4 were to develop and recommend new rates for Regular Standard and ECR Standard, would it be your position that the Postal Service should file updates to all its revenue and cost estimates in the instant docket? Please explain.
- f. Please refer to the three-layer box between 3/5-digit flats and 3/5-digit letters in Attachment No. 5, or a corresponding new version of it that you develop and

support. It shows a cost difference of 4.486 cents and a rate difference of 4.0 cents. Please explain whether you agree that for a piece moving through this box from being a flat to being a letter, the contribution to institutional costs of the Postal Service would increase in the amount of 0.486 cents. If you disagree, please explain why.

- g. If you agree with the procedure outlined in part f of this question, please apply the product mix of Bookspan before and after the NSA to the Yorgey costs in Attachment No. 5, or to a similar attachment with costs and rates that you support, and calculate an average increase in contribution for the pieces estimated to switch from letters to flats in the Postal Service proposal.







