

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

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS JAMES M. KIEFER (VP/USPS-T36-1-2)
(May 16, 2006)

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-T36-1.

Please refer to the following portions of your testimony USPS-T-36 :

- Page 12, beginning on line 26, where you say: “I have developed a rate design methodology that differs from the ‘formula’ approach in use (with modifications) since Docket No. R90-1.” (USPS-T-36, p. 12, l. 26 to p. 13, l. 1.)
- Page 14, beginning on line 3, in your discussion of the development of commercial Regular rates, where you state: “I developed rates for each grouping of letters by selecting rate elements for the least workshared piece and developed other prices to reflect worksharing, point of entry and other relevant factors.⁵ In the case of the machinable letters group (which includes automation letters) the base piece was a Mixed AADC nonautomation letter entered at an origin facility. The piece rate for such a Mixed AADC letter is \$0.140 and the pound rate is \$0.739. For a piece-rated letter (weighing from 0 to 3.3 ounces) these rate elements produce a minimum per-piece rate of \$0.292.” (USPS-T-36, p. 14, ll. 3-10.)

Footnote 5 states: “The starting piece and pound rates for letters ... were originally selected based upon the approximate rate increase required to achieve the cost coverage targets provided to me by witness O’Hara (USPS-T-31). The base piece rate elements were then adjusted iteratively to achieve revenue targets while keeping other rate design goals such as appropriate rate relationships in mind.” (USPS-T-36, p. 14, fn. 5.)

- Your workbook file WP-STDREG.xls in USPS-LR-L-36, sheet ‘Proposed Rates,’ cell H33, containing the following formula: “= +ROUND(\$D\$8+ROUND((\$D\$9-R\$20)*\$D\$6/16,3)-\$F33,3)”.
- Page 32, beginning on line 14, on setting commercial ECR rates, which says: “As with letters, I selected piece and pound rates for the base piece (an origin-entered Basic flat) based on current rates and cost information from witnesses Talmo ... and Kelley...”
(USPS-T-36, p. 32, ll. 14-16.)
 - a. Please confirm that cell D8, referenced in the above formula, contains the “base piece rate” of \$0.140 to which you refer on page 14. Please explain any failure to confirm.
 - b. Please confirm that cell D9, also referenced in the above formula, contains the pound rate of \$0.739, to which you refer on page 14. Please explain any failure to confirm.
 - c. Please confirm that the above formula is a key step in your “rate design methodology that differs from the ‘formula’ approach in use (with modifications) since Docket No. R90-1.” Please explain any failure to confirm.
 - d. Please confirm that the final minimum per-piece rate that results from your formula is \$0.292. Please explain any failure to confirm.
 - e. As a conceptual matter, please explain how thinking about the “base piece rate” of \$0.140 is helpful to you in leading to the final minimum per-piece rate of \$0.292.

- f. Borrowing from your statement on page 32 for ECR rates, which suggests that the “base piece rate” of \$0.140 might be based “on current rates and cost information” (p. 32, ll. 14-15), please provide and explain the cost information on which you relied to help you select the “base piece rate” of \$0.140, specifying precisely what that cost information is and explaining how it relates to the piece rate of \$0.140.
- g. Please explain any relationship you see between the cost of the pieces that pay \$0.292 and the “base piece rate” of \$0.140.
- h. Please explain any relationship you see between the cost of the pieces that pay \$0.292 and the rate of \$0.292 paid by those pieces.
- i. Beginning with your “starting” point of “the approximate rate increase required to achieve the cost coverage targets,” discussed in footnote 5, please explain the reasoning by which you arrived at your “base piece rate” of \$0.140.
- j. Do you agree that none of the pieces paying the minimum-per-piece rate of \$0.292 pay the pound rate of \$0.739 or the “base piece rate” of \$0.140? Please explain any failure to agree.
- k. At those times when you saw a need to adjust rates “iteratively to achieve revenue targets,” please explain how you decided which “base piece rate elements” to change, explaining in detail any role that the cost of these base pieces played in the decision to change the rate.

VP/USPS-T36-2.

In Regular Standard, please refer to the rates proposed at the minimum per-piece level for mixed ADC flats of 43.1 cents (per piece) and for mixed ADC letters of 29.2 cents, both machinable. (*See, e.g.*, Request, Attachment A, pp.11-12, Rate Schedule 321A.)

- a. Please confirm that the mail processing cost for **these** mixed ADC letters, shown in USPS-LR-L-48, is 5.546 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate.
- b. Please confirm that the carrier cost for **these** mixed ADC letters, shown in USPS-LR-L-67, is 3.596 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate.
- c. Please confirm that the attributable mail processing plus carrier costs of **these** letters is 9.142 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate.
- d. Please confirm that USPS-LR-K-119, Docket No. R2005-1, showed the cost for all Regular Standard letters, exclusive of mail processing and carrier costs, to be 0.6417 cents, and that Postal Service witness Yorgey, in Docket No. MC2005-3, USPS-T-2 (*see, e.g.*, p. 4 of Appendix A), used the figure of 0.6417 cents as the cost of letters beyond mail processing and carrier costs. If you do not

confirm, please provide alternative add-on costs, identifying their source. Also, please update the cost of 0.6417 cents to the instant docket and FY 2008.

- e. Please confirm that, based on these costs, the per-piece contribution of these letters is 19.42 cents, implying a cost coverage of 298.46 percent. If you believe these figures are wrong, please provide alternative figures, explaining their derivation.
- f. Please confirm that the mail processing costs for mixed ADC flats, shown in USPS-LR-L-43, is 23.522 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate, explaining its derivation.
- g. Please confirm that the carrier costs for these mixed ADC flats, shown in USPS-LR-L-67, is 9.413 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate, explaining its derivation.
- h. Please confirm that the attributable mail processing plus carrier costs for mixed ADC flats is 32.935 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate, explaining its derivation.
- i. Please confirm that USPS-LR-K-119, Docket No. R2005-1, showed the costs for flats, exclusive of mail processing and carrier costs, to be 2.6155 cents, and that Postal Service witness Yorgey, in Docket No. MC2005-3, USPS-T-2 (*see, e.g.,* p. 6 of Appendix A), used the figure of 2.6155 cents as the cost of flats

beyond mail processing and carrier costs. If you do not confirm, please provide alternative add-on costs, identifying their source. Also, please update the cost of 2.6155 cents to the instant docket and FY 2008.

- j. Please confirm that based on these costs referred to above in part f through part i, the per-piece contribution of these flats is 7.55 cents, implying a cost coverage of 121.24 percent. If you believe these figures are wrong, please provide alternative figures.
- k. Please confirm that the revenues on sheet 'Revenues @ TYBR Vols.' and the volumes on sheet 'Reclassified Comm. Pcs. & Lbs.' of your workbook file WP-STDREG.xls in USPS-LR-L-36 can be used to calculate a per-piece revenue for mixed ADC (machinable) flats of 49.98 cents. If you do not confirm, please provide a figure that you believe to be correct, and substitute it in the remaining parts of this interrogatory.
- l. Referring to the figures in parts a through k, as well as any corrected figures you may provide, please provide an explanation of the appropriateness of the high per-piece contribution for letters (19.42 cents) and the relatively lower per-piece contribution for flats (14.43 cents). Please include in your explanation all reasons why you believe it is appropriate to favor flats to this extent, at the expense of letters, including reasons of policy. For ease of reference, these figures are:

Mixed ADC (machinable)	Rate (cents) Postage/pc.	Cost (cents)	Per-piece Contribution	Implied Cost Coverage
Letters	29.2	9.784	19.42	298.45%
Flats	49.98	35.551	14.43	140.59%

- m. (i) Are these the costs on which you focused when, as suggested in your testimony at page 32, beginning on line 14, you “selected piece and pound rates for the base piece”? (USPS-T-36, p. 32, l. 14.) If they are not, please provide the costs on which you focused.
- (ii) Based on these costs summarized in part k as well as on any costs you may provide, please explain how consideration of these costs led you to a “base piece rate” for mixed ADC letters of 14.0 cents.