

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 MARC A. SMITH (VP/USPS-T13-1)
(June 13, 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,

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.

VP/USPS-T13-1.

Please refer to the attachment to this interrogatory. Column 1 contains Base Year volume variable costs, as shown in USPS-LR-L-3. Columns 2 and 3 distinguish those volume variable costs that are considered to be indirect from those that are considered to be direct. The separation between direct and indirect costs was obtained from USPS-LR-L-93, PRCBY05.xls, pages 4-6. Column 4 shows the USPS piggyback factors applied to direct costs, and Column 5 shows the total piggybacked costs.

- a. Please review the costs in columns 2 and 3 and either (i) confirm that they are correct and in the correct columns, as shown, or (ii) for each cost segment, provide the correct distribution of volume variable costs as between direct and indirect costs.
- b. The piggyback factors shown in column 4 are from USPS-T-13, Attachment 8, row 41, and are for TY2008BR – USPS Version. Please confirm that these are the correct piggyback factors to apply to the Base Year volume variable direct costs, or supply the correct piggyback factor for each Base Year volume variable direct cost shown in the attachment.
- c. Please confirm that the total piggybacked costs, \$10,002,532,000, shown at the bottom of column 5 on page 2 of the attachment is correct, or supply the correct figure for the total indirect costs that are piggybacked onto the volume variable direct costs in column 3 (*i.e.*, \$27,597,332,000 in the attachment).
- d. Please explain why the procedures that you use to develop piggyback factors result in total piggybacked indirect costs (*i.e.*, \$10,002,532,000) that fail to

account for a portion (*i.e.*, 19.3 percent) of total indirect volume variable costs (*i.e.*, \$12,393,563,000).

- e. Please explain whether the piggyback factors used to compute cost differentials between rate categories should be increased by an amount sufficient to account for all, or nearly all, of the Postal Service's indirect volume variable costs.

Seg. No.		(1) Volume Variable Costs	(2) Indirect	(3) Direct	(4) USPS Piggy- back	(5) USPS Piggy'd Costs
1	Postmasters	379,979	379,979	0	1.223	0
2	Supervisors and Technicians	2,122,210	2,122,210	0	1.000	0
2.1.1	Mail processing	813,076	813,076	0		
2.1.2	Central mail markup	37,508	37,508	0		
2.2	Window service	99,795	99,795	0		
2.3	Admin & support	40,031	40,031	0		
2.4.1	City delivery	556,482	556,482	0		
2.4.2	Rural delivery	44,358	44,358	0		
2.4.3	Vehicle svc drivers	23,239	23,239	0		
2.5.2	Higher level	68,492	68,492	0		
2.5.5	Training	24,071	24,071	0		
2.5.6	Qual control/Rev prot	40,344	40,344	0		
2.5.7	Joint supervision	374,813	374,813	0		
3	Clerks and mailhandlers, CAG A-J Offices	14,424,203	663,556	13,760,648		7,655,464
3.1	Mail processing	12,703,875	0	12,703,875	1.570	7,241,208
3.2	Window service	1,056,773	0	1,056,773	1.392	414,255
3.3.1	Administrative clerks	629,633	629,633	0		
3.3.2	Time and attendance	33,922	33,922	0		
4	Clerks, CAG K Offices	3,335	0	3,335	1.000	0
6	City Delivery Carriers, Office Activity	4,201,813	1,003,740	3,198,073	1.264	844,291
6.1	In-office direct	3,198,073	0	3,198,073		
6.2.2	In-office support overhead	734,063	734,063	0		
6.2.3	In-office support other	269,676	269,676	0		
7	City Delivery Carriers, Street Activity	3,909,622	455,695	3,453,927	1.264	911,837
7.2	Delivery activities	3,453,927	0	3,453,927		
7.3	Delivery support	455,695	455,695	0		
8	Vehicle Service Drivers	367,029	0	367,029	1.482	176,908
10	Rural Carriers	2,214,077	0	2,214,077	1.187	414,032
	Evaluated routes	2,035,578	0	2,035,578		
	Other routes	178,499	0	178,499		
11	Custodial & Maint. Services	2,027,950	2,027,950	0	1.000	0
11.1.1	Custodial personnel	654,669	654,669	0		
11.1.2	Contract cleaners	54,515	54,515	0		
11.2	Op. equipment maintenance	1,005,109	1,005,109	0		
11.3	Custodial & maint. Services	313,657	313,657	0		
12	Motor Vehicle Service	268,037	268,037	0	1.000	0
12.1	Personnel	104,190	104,190	0		
12.2	Supplies & materials	157,245	157,245	0		
12.3	Vehicle hire	6,602	6,602	0		

Seg. No.	(1) Volume Variable Costs	(2) Indirect	(3) Direct	(4) USPS Piggy- back	(5) USPS Piggy'd Costs
13 Miscellaneous Local Operations	4,148	4,148	0	1,000	0
13.1 Carfare	1,694	1,694	0		
13.2 Driveout -- city carriers	2,455	2,455	0		
14 Transportation	4,564,206	0	4,564,206	1,000	0
14.1.1 Domestic air	1,598,314	0	1,598,314		
14.1.1 Domestic air -- Alaska	8,005	0	8,005		
14.1.2 Highway	2,122,924	0	2,122,924		
14.1.3 Railroad	118,014	0	118,014		
14.1.4 Domestic water	25,038	0	25,038		
14.2 International	691,911	0	691,911		
15 Building Occupancy	1,217,936	1,217,936	0	1,000	0
15.1 Rents	863,364	863,364	0		
15.2 Fuel & utilities	354,572	354,572	0		
16 Supplies and Services	1,278,496	1,272,629	5,867	1,000	0
16.1.1 Stamps	87,098	87,098	0		
16.1.2 Money orders	5,867	0	5,867		
16.1.3 Stamped cards & envelopes	7,306	7,306	0		
16.3.1 Custodial & building	101,250	101,250	0		
16.3.2 Equipment	309,630	309,630	0		
16.3.3 Track & trace	423	423	0		
16.3.4 Other miscellaneous	766,923	766,923	0		
17 Research & Development	0	0	0	1,000	0
18 Administration & Area Operations	1,441,253	1,441,172	81	1,000	0
18.1 Postal Inspection Service	43,325	43,325	0		
18.2.7 Commissions, non-U.S. Mos	81	0	81		
18.3.1 Repriced annual leave	49,056	49,056	0		
18.3.2 Holiday leave	533	533	0		
18.3.4 Workers compensation	454,940	454,940	0		
18.3.5 Unemployment compensation	23,930	23,930	0		
18.3.6 Annuitant health insurance	863,186	863,186	0		
18.3.7 Annuitant life insurance	6,202	6,202	0		
19 General Management Systems	0	0	0	1,000	0
20 Other Accrued Expenses	1,566,601	1,536,512	30,090	1,000	0
20.1 Equipment depreciation	738,572	738,572			
20.2 Vehicle depreciation	35,989	35,989			
20.3 Bldg & leasehold depreciation	760,767	760,767			
20.4 Indemnities	30,090		30,090		
20.5 Interest expense	1,183	1,183			
TOTAL	39,990,895	12,393,563	27,597,332		10,002,532