

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.
SECOND INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS SAMUEL T. CUTTING (VP/USPS-T26-2)
(May 20, 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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May 20, 2005

VP/USPS-T26-2.

Please refer to file LR-K-107.xls of library reference USPS-LR-K-107, sheet “CompTab,” Table 9, showing dropship-adjusted mail processing costs for the various categories of Standard ECR mail, and showing results at USPS and PRC costing (located in columns C and D, respectively, of the spreadsheet file).

- a. Are these costs for (i) commercial ECR, (ii) Nonprofit ECR, (iii) a weighted average of the two, or (iv) something else (if so, please explain)? If separate costs for commercial ECR and Nonprofit ECR are available, please provide them.
- b. At PRC costing, please consider the 3.431-cent cost of “Basic Letters” and the 3.115-cent cost of “Basic Flats.” Please explain (i) the mail processing represented by these costs in step-by-step fashion, identifying the differences in the physical and preparation characteristics of the two mailstreams involved, and (ii) why the cost of ECR Basic letters is higher than the cost of apparently corresponding ECR Basic flats.
- c. For the same costs referenced in preceding part b, please explain the costing procedures in step-by-step fashion through which they are developed, highlighting any ways in which the development for ECR Basic letters is different from the development for ECR Basic flats.
- d. At PRC costing, the cost of ECR Basic letters is 1.101 times the cost of ECR Basic flats, as referenced in preceding part b (3.431/3.115). This counter-intuitive outcome is even more pronounced at USPS costing, with the cost of

ECR Basic letters becoming 1.307 times the cost of ECR Basic flats (3.776/2.889). Please explain what it is about USPS costing that makes this seemingly adverse outcome so much more pronounced.

- e. At USPS costing and separately at PRC costing, please discuss the extent to which the cost estimates presented are estimates of marginal costs, including clear statements of any assumptions that are required to reach the conclusion that the estimates are estimates of marginal costs.
- f. If the USPS cost estimates are not estimates of marginal costs, please (i) discuss the costing theory that guides them, and (ii) provide any estimates of marginal costs that are available.
- g. Please explain the extent to which you would describe either the PRC costs or the USPS costs as bottom-up mail processing costs of the categories. If they are not in any sense inherent, as-is, or bottom-up costs, and instead are constrained in any way to have a constant mix or a constant profile, please explain the nature of the constraints.
- h. One might expect pieces being delivery point sequenced (“DPS’d”) to have higher mail processing costs and lower carrier in-office costs than if they were not DPS’d, and that the sum of these two costs would be lower, yielding the benefits of technology to the mailers using the DPS’d categories. Consistent with this expectation, it seems noteworthy that the mail processing costs shown for “Auto Basic Letters” (the category seemingly most likely to be DPS’d) are

in all cases lower than the costs of “Basic Letters.” With these thoughts in mind:

- (i) Please explain the role and influence of delivery point sequence procedures on the costs for all of the categories shown in Table 9, providing any available proportions of the categories that are DPS'd.
- (ii) Please explain whether any of these proportions would be expected to change in the test year.