

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

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

Docket No. R2005-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MARC A. SMITH TO INTERROGATORY
OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.,
REDIRECTED FROM WITNESS TAUFIQUE
(VP/USPS-T28-44 b)
(June 10, 2005)

The United States Postal Service hereby files the response of witness Smith to
above listed interrogatory, filed on May 27, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Eric P. Koetting
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
June 10, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO
INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK
DEALERS' ASSOCIATION, INC.,
REDIRECTED FROM WITNESS TAUFIQUE

VP/USPS-T28-44.

Using USPS costing, from Docket No. R2001-1 to Docket No. R2005-1, the mail processing costs of the following categories of Standard Regular commercial automation letters **declined** by the percentages indicated: mixed AADC by 12.99 percent; AADC by 15.85 percent; 3-digit by 16.48 percent; and 5-digit by 20.64 percent (USPS/2001 from USPS-LR-J-60; USPS/2005 from USPS-LR-K-48).

At PRC costing, the corresponding declines are 14.15 percent, 15.58 percent, 16.49 percent, and 21.96 percent.

In the face of underlying inflation creep, all declines must be viewed as large (PRC/2001 from USPS-LR-J-84; and PRC/2005 from USPS-LR-K-110).

- a. Please provide the percentages of these categories that were delivery point sequenced by mail processing personnel during the periods reflected by the costs cited. If you do not know, please provide estimates.
- b. Please identify and discuss all factors accounting for the above-noted declines in mail processing costs, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how it improves the estimation of marginal cost and volume variable costs.

RESPONSE:

- a. See the response of witness Abdirahman, filed on June 10, 2005.
- b. Differences in methodology are not that important since as the question points out the declines are similar for both the PRC and USPS costs. While there may have been methodology changes for both the PRC and USPS versions, between R2001-1 and R2005-1, the closeness of the declines by rate category suggest methodology was not a big factor.

It is clear from the work hour declines in mail processing that productivity has risen, and it is also clear that factor prices have for the most part gone up.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO
INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK
DEALERS' ASSOCIATION, INC.,
REDIRECTED FROM WITNESS TAUFIQUE

We are not able to say on net which was larger, but it is possible that the decline could be due to productivity increases larger than the factor price increases.

Another possible reason for this decline may be related to the concerns described in witness Abdirahman's response to POIR No. 1, part a. As he indicated at pages 4 and 5: "[B]ased solely on the physical examination of mail piece characteristics (e.g., barcodes), it is not always possible for data collectors to determine whether the revenue of a given mail piece, and the piece itself, was recorded at the nonautomation rates or automation rates."

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
June 10, 2005