

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 THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF VALPAK DIRECT MARKETING
SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.,
REDIRECTED FROM WITNESS TAUFIQUE (VP/USPS-T28-43)
(July 11, 2005)

The United States Postal Service hereby files its institutional response to
interrogatory VP/USPS-T28-43, redirected from witness Taufique.

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

Keith E. Weidner

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-6252; Fax -3084

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO VALPAK INTERROGATORY

VP/USPS-T28-43. In the costs presented and discussed in interrogatories VP/USPS-T28-38 and 39, the cost of processing and delivering (i) ECR Basic letters is 13.125 cents and (ii) ECR Basic automation letters is 6.341 cents. The difference is 6.784 cents.

- (a) Please discuss the extent to which you view the difference between these two categories as involving worksharing.
- (b) Do you believe that the cost difference of 6.784 cents is an estimate of how much the Postal Service saves when a Basic letter becomes barcoded and shifts to the automation category? Please explain.
- (c) Do you believe that, if a letter in the automation category were to have the barcode removed and shift back to the Basic letter category, the Postal Service would experience an increase in cost of 6.784 cents? Please explain.
- (d) Please consider (i) an automation letter, and (ii) a Basic letter that is candidate for applying a barcode and thereby becoming machinable like an automation letter. Please discuss the differences in the way the two pieces would be handled and provide an estimate of the costs associated with these differences.

RESPONSE:

(a) Since the regulations for automation ECR letters require a mailer-applied delivery point barcode while the regulations for basic ECR letters do not, it is likely that the additional work done by mailers to apply delivery addresses and barcodes contributes to part of the cost difference between these two categories.

(b) If all basic ECR letters were automation compatible with a comparable level of addressing and not pre-barcoded, then the cost difference between basic ECR letters and automation ECR letters would solely be the result of automation ECR letters having a barcode. However, as explained in the response to POIR No. 3, Question 3(c), it is probable that a substantial portion of basic ECR letters are non-machinable or non-automation compatible. This is due to the Standard Mail Regular rate and ECR rate structures which encourage customers to prepare letter mail to qualify for automation rates rather than the basic ECR rates when possible. Hence, the cost difference likely reflects more than just the presence of a barcode on automation ECR letters. It reflects

the additional activities associated with the higher cost characteristics of basic ECR letters.

(c) No. As explained in part (b) above, the cost difference is almost certainly driven by more than just the presence of a barcode on automation ECR letters. As such, if an automation ECR letter were to have its barcode removed and its rate category reclassified as basic ECR, the resulting unit cost increase for this piece would likely be much less than 6.784 cents.

(d) Automation ECR letters are only eligible at CSBCS and manual zones. For the CSBCS zones, most of this mail will undergo DPS processing. For the manual zones, the pieces will be manually cased into route order by carriers.

For basic ECR letters (non-automation), pieces for DPS zones that are determined to be automation compatible may be captured in the plant for processing into delivery point sequence but could otherwise be dispatched directly to the delivery unit. At the delivery unit, basic ECR letters, including those deposited directly into the delivery unit by customers, would be evaluated for automation compatibility and may be sent back to the plant for delivery point sequencing. Those retained at the delivery unit would be distributed to carriers for manual casing into route order. Pieces for non-DPS zones would be dispatched directly to the delivery unit and would be manually cased by carriers into route order (note: basic ECR letters require a minimum of only ten pieces per route and are not intended to be taken directly to the street by carriers).

All delivery services cost differences (C/S 6, 7, and 10) between automation ECR and basic ECR letters are provided in USPS-LR-K-67 (Postal Service version) and USPS-LR-K-101 (PRC version). For pieces that are manually cased, because automation ECR pieces are claiming auto rates, there is a valid assumption that the address would more likely be complete, compared to basic ECR letters, which would result in lower carrier casing costs.

All mail processing cost differences (C/S 3.1) between automation ECR and basic ECR letters are provided in USPS-LR-K-84 (Postal Service version) and USPS-LR-K-107 (PRC version). Basic ECR letters that are not pre-barcoded that are selected for DPS processing must first be processed for the application of a Postal Service barcode. Automation ECR letters are pre-barcoded and can forgo this step. However, the mail processing cost pools are not set up in a way to measure the cost difference specifically associated with this additional step. Because each major type of letter automation equipment has a function in the barcoding process (image lift, address recognition and/or barcode application), barcoding work can occur in any of the letter automation cost pools in MODS facilities (OCR, BCS, and BCS/DBCS).