

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

REVISED RESPONSES OF
UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
[VP/USPS-T28-52-55] [ERRATA]

The United States Postal Service hereby files the revised responses of witness Taufique to the above-listed interrogatories of the Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.. The original responses were filed on June 10, 2005 and were entered into evidence at Tr. 3/676-683. The interrogatories are stated verbatim and are followed by the revised responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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August 24, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

VP/USPS-T28-52. Please refer to your testimony (USPS-T-28) at page 11 where you describe the Postal Service's attempt to comply with the nonprofit pricing relationship requirement of Public Law 106-384, and you state:

With the proposed rates, the revenue per piece for Standard Mail Nonprofit Regular is 61 percent of the Standard Mail Regular revenue per piece; the revenue per piece for Standard Mail Nonprofit ECR is 56 percent of the Standard Mail ECR revenue per piece. [USPS-T-28, p. 11, ll. 18-21.]

Public Law 106-384 specifies that for calculating nonprofit rates, the 60 percent figure be applied to TYBR billing determinants. See 39 U.S.C. § 3626(a)(6)(B) and Docket No. R2000-1, Memorandum of the United States Postal Service on Reconsideration and Request for Expedition (December 20, 2000), pp. 32-34.

Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'S-23 TYAR Commercial Revenues.'

- a. In determining the revenue per piece for Standard (Commercial) Regular mail to be used as a basis for comparison with the revenue per piece of Standard Nonprofit Regular mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard (Commercial) Regular mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard (Commercial) Regular mail.
- b. Please provide the revenue per piece that you computed for Standard (Commercial) Regular mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard (Commercial) Regular mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard (Commercial) Regular mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.

RESPONSE

- a-c. No. The total revenue and revenue per piece calculations shown in my worksheet S-23 were calculated using the proposed rates and TYAR volume and weight projections. The total revenue used in the revenue per piece calculation is shown

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

RESPONSE to VP/USPS-T28-52 (continued):

at the bottom of worksheet S-23 as the item labeled Adjusted Commercial Revenue. The revenue per piece is shown on the line below labeled Revenue Per Piece. It was calculated by dividing the Adjusted Commercial Revenue by the total Commercial TYAR volume.

This calculation, while not erroneous in itself, was erroneously used in discussions of the appropriate relationship between the average revenue per piece for Nonprofit subclass and Regular subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for Regular subclass mail in those discussions.

Adjusted Commercial Revenue: \$12,922,618,579

Revenue Per Piece: \$0.2268

It has come to my attention that the adjusted revenue and the revenue per piece figures reported in my responses to VP/USPS-T28-52 through VP/USPS-T28-55, as well as the ratios calculated from them and reported in VP/USPS-T28-53 and VP/USPS-T28-55 do not reflect fee revenue. In the past, the revenue per piece ratios used to determine compliance with P.L. 106-384 were developed with revenues that included fees.

As I investigated this omission, I discovered that the fee revenue shares of the nonprofit subclasses (Nonprofit and Nonprofit ECR) were anomalously high compared to the fee revenue shares of their commercial counterparts (Regular and ECR). Further

RESPONSE OF UNITED STATES POSTAL SERVICE
 WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
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Revised: August 24, 2005

RESPONSE to VP/USPS-T28-52 (continued):

investigation showed that approximately two-thirds of Standard Mail domestic mail fee revenue comes from permit fees and that it appeared that the number of permits estimated for the nonprofit subclasses was overstated and the number of permits estimated for the commercial subclasses was correspondingly understated. See Table 1 for the time series of estimated permit shares.

**Table 1
 Standard Mail Bulk Permits**

	Count (000)		Share	
	Commercial Subclasses	Nonprofit Subclasses	Commercial Subclasses	Nonprofit Subclasses
1980	314	243	56%	44%
1985	454	302	60%	40%
1990	335	377	47%	53%
1995	219	433	34%	66%
2000	68	436	13%	87%
2004	11	398	3%	97%
TYBR	12	427	3%	97%

Source: USPS-LR-K-75 at 19.

The overstatement evidently occurred as follows:

1. The number of total Standard Mail bulk permits was developed based on revenue reported in the Revenue, Pieces and Weight data system.
2. The number of valid nonprofit mailer authorizations was obtained from Postal Service records.
3. The assumption was made that each nonprofit mailer authorization equaled one nonprofit permit.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
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VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

RESPONSE to VP/USPS-T28-52 (continued):

4. The number of commercial permits was developed by subtracting the number of nonprofit permits obtained in steps 2 and 3 from the total number of permits obtained in step 1.
5. The nonprofit permits and corresponding revenues were allocated to Nonprofit and Nonprofit ECR subclasses based on the relative volume shares of the two subclasses. A similar allocation was made for the commercial subclasses.

This process resulted in the permit counts for FY 2004 (the Base Year for this rate case) shown in Table 1. These are incorrect. Additional investigation revealed that it is now common for an agent to enter mail for many authorized nonprofit entities using a single permit. Therefore, the assumption made in step 3 above is incorrect meaning that the results shown for FY 2004 in Table 1 are also incorrect.

To further test the step 3 assumption, the Postal Service requested Christensen Associates to review FY 2004 mailing statement data and to count the number of permits used by commercial and nonprofit mailers to enter Standard Mail. The results of this research are shown in Table 2.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
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Revised: August 24, 2005

RESPONSE to VP/USPS-T28-52 (continued):

Table 2
Standard Mail Permits
FY 2004

	Permits (000)	Volume (billions)	Permits	Volume
Commercial Only	257	48.4	63.8%	52.0%
Nonprofit Only	94	6.7	23.3%	7.2%
Both Commercial & Nonprofit*	52	38	12.9%	40.8%
Total	403	93.1	100.0%	100.0%

*7.0 billion pieces (18.4 percent) paid nonprofit rates
Source: Mailing statement data. Not adjusted to RPW totals.

As Table 2 shows, some permits are used to mail both commercial and nonprofit Standard Mail. Lacking more detailed data, I apportioned these permits (for the purposes of calculating revenue shares) between commercial and nonprofit mail based on the volumes of commercial and nonprofit mail using these "shared" permits. The restated shares of commercial and nonprofit permits are shown in Table 3. In Table 3, the total number of permits was also adjusted slightly to correspond to the RPW-derived total for FY 2004.

Table 3
Restated Standard Mail Permits
FY 2004

	Permit Share	Permit Count
Commercial	74.3%	303
Nonprofit	25.7%	105
Total	100.0%	408

Note: Permits with both commercial and nonprofit volume allocated based on volume. Adjusted to RPW totals.

The nonprofit and commercial permit totals were then distributed to the appropriate subclasses based on volume using the procedure outlined in step 5 above.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

RESPONSE to VP/USPS-T28-52 (continued):

These changes affect my workpaper USPST28C, sheet SS-36 Std Bulk Permit. I am filing a revised version of this workpaper as an attachment to this response. To calculate revenue per piece for the purposes of determining compliance with the provisions of P.L. 106-384, fees are calculated using TYBR volumes at the proposed rates. Therefore, because these changes also affect this calculation, I am filing a revision to my workpaper USPST28C, sheet SS-39 Fee Summary TYBR-Proposed as an attachment. As indicated in the revised worksheet SS-36, the projected number of TYBR and TYAR Standard Mail Bulk permits is greater than those originally projected. The number of permits increases from the Base Year to the Test Year in proportion to the growth of the underlying mail subclasses. Because the commercial subclasses are projected to grow faster than the nonprofit subclasses, the number of Standard Mail Bulk Permits and the associated fee revenue is slightly greater as a result of this revision.

Table 4, below, shows corrected Standard Mail revenues (postage, fees, and total revenue), per piece revenues (with and without fees) and revenue per piece ratios (with and without fees). I have also adjusted the Nonprofit subclass revenue downward to reflect the \$1.36 million adjustment I submitted in response to POIR No. 12, Question 5 on August 18, 2005.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

RESPONSE to VP/USPS-T28-52 (continued):

Table 4
Corrected Nonprofit Ratios for Proposed Standard Mail Rates
(based on TYBR billing determinants)

<u>Subclass</u>	<u>Volume</u>	<u>Total</u>		
		<u>Postage (\$)</u>	<u>Fees (\$)</u>	<u>Revenue (\$)</u>
Regular				
Commercial	56,909,968,113	12,922,618,579	51,019,892	12,973,638,471
Nonprofit	12,355,554,381	1,698,434,819	18,033,827	1,716,468,646
ECR				
Commercial	33,328,906,103	5,924,197,494	29,839,680	5,954,037,174
Nonprofit	3,147,174,541	312,412,288	4,593,532	317,005,820
Nonprofit Regular postage reduced \$1,355,042 (POIR No. 12 Question 5)				

<u>Subclass</u>	<u>Per Piece Revenue</u>		<u>Nonprofit Ratio</u>	
	<u>Without Fees</u>	<u>With Fees</u>	<u>Without Fees</u>	<u>With Fees</u>
Regular				
Commercial	\$0.2271	\$0.2280		
Nonprofit	\$0.1375	\$0.1389	0.605	0.609
ECR				
Commercial	\$0.1777	\$0.1786		
Nonprofit	\$0.0993	\$0.1007	0.558	0.564

As can be seen from Table 4, including fees (and the revenue adjustment reported in POIR No. 12, Question 5) slightly changes the revenue per piece ratios I reported earlier in response to VP/USPS-T28-53 and VP/USPS-T28-55. My conclusion that these ratios meet the requirements of P.L. 106-384, given the unique circumstances of this case, remains unchanged.

SPECIAL SERVICES
STANDARD MAIL BULK MAILING PERMITS
TEST YEAR 2006

REVISED: August 24, 2005

	TRANSACTIONS			FEES (\$)		REVENUES		PERCENT CHANGE 2/
	FY 2004 1/	TEST YEAR BEFORE RATES	TEST YEAR AFTER RATES	CURRENT	PROPOSED	BEFORE RATES CURRENT FEE	AFTER RATES PROPOSED FEE	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
REGULAR	303,400	337,783	331,615	\$150.00	\$160.00	50,667,385	53,058,468	6.67%
NONPROFIT	104,945	112,654	112,040	\$150.00	\$160.00	16,898,072	17,926,478	6.67%
TOTAL	408,345	450,436	443,656			67,565,457	70,984,946	

1/ Calculated by dividing the Revenue and Expense Summary revenue by the fee.

2/ Denotes the percentage change from the current fee to the proposed fee, or (Column 5 - Column 4)/Column 4.

REVISED: August 24, 2005

TYBR DOMESTIC MAIL (PROPOSED) FEES DISTRIBUTION TO SUBCLASS
FISCAL YEAR 2006
(\$ IN 000)

FIRST CLASS	LETTERS/PARCELS		CARDS			Total
	Single	Workshare	Postal	Private		
				Single	Workshare	
Pieces (millions)	42,988	48,336	90	2,426	3,028	96,869
Percent of total FCM pieces	44.38%	49.90%	0.09%	2.50%	3.13%	100.00%
Address Correction	28,042	31,532	59	1,583	1,975	63,191
Business Reply	216,576			12,222		228,798
Certificate of Mailing	2,588	118	5	146	7	2,865
Presort Permit Fee		6,544			410	6,954
Merch. Return Fees		183				183
Special Handling	6,141					6,141
Total	253,347	38,377	64	13,951	2,393	308,132
PRIORITY MAIL						
Address Correction						96
Business Reply						1,143
Certificate of Mailing						45
Merch. Return Fees						104
Special Handling						390
Total						1,778
PERIODICALS						
	In-County	Nonprofit	Classroom	Regular Rate		Total
Pieces (millions)	743	1,832	65	6,438		9,079
Percent of Pieces	8.19%	20.18%	0.72%	70.92%		100.00%
Address Correction	1,661	4,093	146	14,385		20,284
Application Fees	36	89	3	313		442
Total	1,697	4,182	149	14,698		20,726
STANDARD MAIL						
	Commercial-Reg	Commercial-ECR	Nonprofit-Reg	Nonprofit-ECR		Total
Pieces (millions)	56,986	33,329	12,356	3,147		105,817
Percent of Pieces	53.85%	31.50%	11.68%	2.97%		100.00%
Address Correction	16,887	9,877	3,661	933		31,358
Bulk Permit Fee	34,101	19,944	14,365	3,659		72,070
Certificate of Mailing	6	3	1	0		11
Bulk Parcel Return Service	26	15	6	1		48
Total	51,020	29,840	18,034	4,594		103,487
PACKAGE SERVICES						
	Parcel Post	BPM	Media	Library		Total
Pieces (millions)	354	598	193	17		1,162
Percent of Pieces	30.47%	51.49%	16.58%	1.47%		100.00%
Address Correction	386	1,087	214	86		1,774
Certificate of Mailing	15	25	8	1		48
Presort Permit			175			175
Special Handling	308	0	136			444
Parcel Airlift	18					18
Parcel Select Permit Fee	89					89
Merch. Return Fees	96	162	52	5		314
Total	911	1,274	585	91		2,861
GRAND TOTAL FEES						436,984

RESPONSE OF UNITED STATES POSTAL SERVICE
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OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
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Revised: August 24, 2005

VP/USPS-T28-53. Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'S-24 TYAR Nonprofit Revenues.'

- a. In determining the revenue per piece for Standard Nonprofit Regular mail to be used as a basis for comparison with the revenue per piece of Standard (Commercial) Regular mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard Nonprofit Regular mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard Nonprofit Regular mail.
- b. Please provide the revenue per piece that you computed for Standard Nonprofit Regular mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard Nonprofit Regular mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard Nonprofit Regular mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.
- d. In calculating the ratio of (i) the average revenue per piece of Standard Nonprofit Regular mail and (ii) the average revenue per piece of Standard (Commercial) Regular mail, did you use the average revenue per piece that in each instance was based on TYBR billing determinants and volumes? If not, please explain why not.

RESPONSE

- a-d. No. The total revenue, revenue per piece and revenue per piece ratio calculations shown in my worksheet S-24 were done using TYAR volumes and weights. Please also see my response to VP/USPS-T28-52. The total revenue and revenue per piece used in the ratio calculation are shown at the bottom of worksheet S-24 as the items labeled Adjusted Nonprofit Revenue and Revenue Per Piece. While the line items labeled Adjusted Nonprofit Revenue, Revenue Per Piece, and Revenue Per Piece Ratio are not in themselves erroneous, they were erroneously used in discussing the appropriate relationship between the average revenue per piece for Nonprofit subclass and Regular subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for Nonprofit subclass mail in those discussions.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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RESPONSE to VP/USPS-T28-53 (continued):

Adjusted Nonprofit Revenue: \$1,699,789,861

Revenue Per Piece: \$0.1376

Revenue Per Piece Ratio: 0.607.

As can be seen from the above figures, the ratio calculated using TYBR volume and weight data is not significantly different from the ratio in my workpaper S-24. The ratio calculated using TYBR data also rounds to the same whole number percentage, 61 percent, cited in my testimony.

Please see also my revision to VP/USPS-T28-52.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
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VALPAK DEALERS' ASSOCIATION, INC.

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VP/USPS-T28-54. Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'ECR-22 TYAR Comm. Revenues.'

- a. In determining the revenue per piece for Standard (Commercial) ECR mail to be used as a basis for comparison with the revenue per piece of Standard Nonprofit ECR mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard (Commercial) ECR mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard (Commercial) ECR mail.
- b. Please provide the revenue per piece that you computed for Standard (Commercial) ECR mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard (Commercial) ECR mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard (Commercial) ECR mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.

RESPONSE

a-c. No. The total revenue and revenue per piece calculations shown in my worksheet ECR-22 were calculated using the proposed rates and TYAR volume and weight projections. The total revenue used in the revenue per piece calculation is shown at the bottom of worksheet ECR-22 as the item labeled Adjusted Commercial Revenue. The revenue per piece is shown on the line below labeled Revenue Per Piece. It was calculated by dividing the Adjusted Commercial Revenue by the total Commercial TYAR volume.

This calculation, while not erroneous in itself, was erroneously used in discussions of the appropriate relationship between the average revenue per piece for Nonprofit ECR subclass and commercial ECR subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for commercial ECR subclass mail in those discussions.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

RESPONSE to VP/USPS-T28-54 (continued):

Adjusted Commercial Revenue: \$5,924,197,494

Revenue Per Piece: \$0.1777

Please see also my revision to VP/USPS-T28-52.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
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VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

VP/USPS-T28-55. Please refer to USPS-LR-K-115, file USPST28Aspreadsheets.xls, worksheet 'ECR-23 TYAR NP Revenues.'

- a. In determining the revenue per piece for Standard Nonprofit ECR mail to be used as a basis for comparison with the revenue per piece of Standard (Commercial) ECR mail, when computing total revenues in the numerator, did you multiply the proposed rates for Standard Nonprofit ECR mail by TYBR billing determinants? If not, please state the billing determinants that you used, and explain the rationale for not using TYBR billing determinants. Also, for whatever billing determinants you used, please provide the total revenues that you used in the numerator of the revenue per piece computation for Standard Nonprofit ECR mail.
- b. Please provide the revenue per piece that you computed for Standard Nonprofit ECR mail, and state whether you divided the total revenues referred to in preceding part a by the TYBR volume of Standard Nonprofit ECR mail? If not, please state what volume figure you used in the denominator.
- c. If you did not calculate the revenue per piece of Standard Nonprofit ECR mail using TYBR billing determinants in both the numerator and denominator, please explain how you calculated it, and explain the rationale for the methodology which you used.
- d. In calculating the ratio of (i) the average revenue per piece of Standard Nonprofit ECR mail and (ii) the average revenue per piece of Standard (Commercial) ECR mail, did you use the average revenue per piece that in each instance was based on TYBR billing determinants and volumes? If not, please explain why not.

RESPONSE

- a-d. No. The total revenue, revenue per piece and revenue per piece ratio calculations shown in my worksheet ECR-23 were done using TYAR volumes and weights. Please also see my response to VP/USPS-T28-54. The total revenue and revenue per piece used in the ratio calculation are shown at the bottom of worksheet ECR-23 as the items labeled Adjusted Nonprofit Revenue and Revenue Per Piece. While the line items labeled Adjusted Nonprofit Revenue, Revenue Per Piece, and Revenue Per Piece Ratio are not in themselves erroneous, they were erroneously used in discussing the appropriate relationship between the average revenue per piece for Nonprofit ECR subclass and commercial ECR subclass mail. The following figures, calculated based on TYBR volumes and weights, should have been used for Nonprofit ECR subclass mail in those discussions.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES
OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

Revised: August 24, 2005

RESPONSE to VP/USPS-T28-55 (continued):

Adjusted Nonprofit Revenue: \$312,412,288

Revenue Per Piece: \$0.0993

Revenue Per Piece Ratio: 0.558.

As can be seen from the above figures, the ratio calculated using TYBR volume and weight data is the same as the ratio in my workpaper ECR-23, and rounds to the same whole number percentage, 56 percent, cited in my testimony.

Please see also my revision to VP/USPS-T28-52.