

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

RATE AND SERVICE CHANGES TO IMPLEMENT)
BASELINE NEGOTIATED SERVICE AGREEMENT)
WITH BOOKSPAN)

Docket No. MC2005-3

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
SECOND INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS MICHELLE K. YORGEY (VP/USPS-T2-2-9)
(September 7, 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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Valpak Direct Marketing Systems, Inc. and
Valpak Dealers' Association, Inc.

VP/USPS-T2-2.

- a. Please refer to your Appendix A, page 6, and confirm that if Bookspan were to mail the same volume of Standard Mail Regular non-letters in FY 2006 as it did in FY 2004, and if that volume were to be distributed over the same rate categories in FY 2006 as it was in FY 2004, using USPS Test Year costs from Docket No. R2005-1, the total cost before rates for such Standard Mail non-letters would amount to \$25,668,813, computed as follows:

	TY 2006 Total Unit Costs (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Nonauto Basic	0.351	29,186	\$ 10,244
Nonauto 3/5 Digit	0.260	1,367,428	355,531
Auto Basic	0.347	167,112	57,988
Auto 3/5 Digit	0.260	<u>97,096,345</u>	<u>25,245,050</u>
TOTAL		98,660,071	\$25,668,813

If you do not confirm, please provide the correct total cost and show how it was derived.

- b. Please refer to your Appendix A, page 5, and confirm that the same volume of Standard Mail non-letters as shown above, when mailed at current rates, generated revenue of \$23,648,640 for the Postal Service in FY 2004. If you do not confirm, please provide the correct figure.
- c. Please confirm that if Bookspan were to mail the same volume of Standard Mail non-letters as shown above in FY 2006, with no rate increase the Postal Service could expect to suffer a total out-of-pocket loss of \$2,020,173 from such mail,

representing the difference between the revenues in preceding part b and the costs in preceding part a, and a unit loss of \$0.0205. Please explain fully any non-confirmation.

VP/USPS-T2-3.

- a. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 6 (revised), and confirm that if Bookspan were to mail the same volume of Standard Mail Regular non-letters in FY 2006 as it did in FY 2004, and if that volume were to be distributed over the same rate categories in FY 2006 as it was in FY 2004, using USPS Test Year costs from Docket No. R2005-1, the total cost before rates for such Standard Mail non-letters would amount to \$25,772,746 computed as follows:

	TY 2006 Total Unit Costs (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Nonauto Basic	0.351	29,186	\$ 10,244
Nonauto 3/5 Digit	0.265	1,367,428	362,368
Auto Basic	0.347	167,112	57,988
Auto 3/5 Digit	0.261	<u>97,096,345</u>	<u>25,342,146</u>
TOTAL		98,660,071	\$25,772,746

If you do not confirm, please provide the correct total cost and show how it was derived.

- b. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 5 (revised), and confirm that the same volume of Standard Mail non-letters as shown above, when mailed at projected rates, would generate total revenue of \$24,925,667 for the Postal Service in FY2006. If you do not confirm, please provide the correct figure.
- c. Please confirm that if Bookspan were to mail the same volume of Standard Mail non-letters as shown above in FY 2006, then even after a projected rate increase of 5.4 percent, the Postal Service could expect to suffer a total out-of-pocket loss of \$847,079 on such mail, representing the difference between the revenues in preceding part b and the costs in preceding part a, and a unit loss or \$0.0086. Please explain fully any non-confirmation.

USPS-T2-4.

- a. Please refer to your Appendix A, page 6, and confirm that if Bookspan were to mail the same volume of Standard Mail ECR Basic non-letters in FY 2006 as it did in FY 2004, and if all of that volume were to be at the Basic non-letter rate category in FY 2006, the same as it was in FY 2004, then using USPS Test Year costs from Docket No. R2005-1, the total cost for such ECR non-letters would amount to \$6,440,399 computed as follows:

	TY 2006 Total Unit Cost (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Basic Non-letter	0.098	65,718,356	\$6,440,399

If you do not confirm, please provide the correct total and show how it was derived.

- b. Please refer to your Appendix A, page 5, and confirm that the same volume of ECR non-letters as shown above, when mailed at current rates, generated revenue of \$11,116,946 for the Postal Service in FY 2004. If you do not confirm, please provide the correct figure.
- c. Please confirm that if Bookspan were to mail the same volume of ECR non-letters as shown above in FY 2006, even with no rate increase the Postal Service could expect to realize a net gain in contribution of \$4,676,547, representing the difference between the revenues in preceding part b and the costs in preceding part a, and a unit contribution of \$0.0712. Please explain fully any non-confirmation.

VP/USPS-T2-5.

- a. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 6 (revised), and confirm that if Bookspan were to mail the same volume of Standard Mail ECR Basic non-letters in FY 2006 as it did in FY 2004, and if all of that volume were to be at the Basic non-letter rate

category in FY 2006, the same as it was in FY 2004, using USPS Test Year costs from Docket No. R2005-1, the total cost for such ECR non-letters would amount to \$6,440,399 computed as follows:

	TY 2006 Total Unit Costs (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Basic Non-letter	0.098	65,718,356	\$6,440,399

If you do not confirm, please provide the correct total and show how it was derived.

- b. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 5 (revised), and confirm that the same volume of ECR non-letters as shown above, when mailed at projected rates, would generate total revenue of \$11,717,261 for the Postal Service in FY 2006, and a unit revenue of \$0.178. If you do not confirm, please provide the correct figures.
- c. Please confirm that if Bookspan were to mail the same volume of ECR non-letters as shown above in FY 2006, even with no rate increase the Postal Service could expect to realize a gain of \$5,276,862 representing the difference between the revenues in preceding part b and the costs in preceding part a. Please explain fully any non-confirmation.
- d. Please confirm that the unit contribution from a Bookspan ECR non-letter at rates proposed in Docket No. R2005-1 is equal to \$0.080, derived by

subtracting a unit cost of \$0.098 from a unit revenue of \$0.178. If you do not confirm, please provide the correct figures.

VP/USPS-T2-6.

- a. Please compare your response to VP/USPS-T2-2(c) with your response to VP/USPS-T2-4(c) and explain why the Postal Service has been incurring a loss of \$0.0205 per piece and a total annual loss of \$2,020,173 on Bookspan's Standard Mail Regular non-letters, while making \$0.0712 per piece and a total annual contribution to overhead of \$4,676,547 on Bookspan's ECR non-letters, both at current rates. If you do not confirm the figures shown here and in the referenced interrogatories, please base your comparison and explanation here on the figures that you provided in your response to the above-referenced interrogatories.
- b. Please compare your response to VP/USPS-T2-3(c) with your response to VP/USPS-T2-5(c) and explain why — after a rate increase of 5.4 percent — the Postal Service would incur a loss of \$0.0086 per piece and a total loss of \$847,080 on Bookspan's Standard Mail Regular non-letters, while making a \$0.080 contribution per piece and a total contribution of \$5,276,862 on ECR non-letters, both computed at rates proposed in Docket No. R2005-1. If you do not confirm the figures shown here and in the referenced interrogatories, please base your comparison and explanation here on the figures that you provided in your response to the above-referenced interrogatories.

VP/USPS-T2-7.

- a. Please refer to your Appendix A, page 2, and confirm that the forecasted change in total volume from before rates to after rates is as shown here.

	FY 2006	FY 2007	FY 2008
After Rates	225,000,000	215,000,000	217,000,000
Before Rates	<u>215,000,000</u>	<u>204,000,000</u>	<u>205,000,000</u>
Change in volume	10,000,000	11,000,000	12,000,000

If you do not confirm, please provide the correct figure for the annual change in volume.

- b. Please refer to your Appendix A, page 2, and confirm that the forecasted increase in letter volume from before rates to after rates is as shown here.

	FY 2006	FY 2007	FY 2008
Net increase in volume (all ltrs)	10,000,000	11,000,000	12,000,000
Flats converted to letters	<u>17,000,000</u>	<u>19,000,000</u>	<u>20,000,000</u>
Total increase in letter volume	27,000,000	30,000,000	32,000,000

If you do not confirm, please provide the correct figure for the annual change in forecasted volume for each of the years shown.

- c. Please refer to your response to VP/USPS-T2-5(d) and confirm that if all Bookspan flats that converted to letters, as shown in the second row of preceding part b, were ECR Basic flats, then the Postal Service would forego a unit contribution of \$0.080 per piece and suffer the following total reduction in

contribution, before taking into account either the increase in contribution from letters or any discount that might be earned.

	FY 2006	FY 2007	FY 2008
Reduction in contribution from ECR flats converting to letters	\$1,360,000	\$1,520,000	\$1,600,000

If you do not confirm, then for each year shown please provide the correct figure for the reduction in contribution on the assumption that all converting flats are ECR flats.

- d. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 9 (revised), row 2, and for the years shown in that attachment provide the contribution on the assumption that all conversion is from ECR non-letter mail to ECR letter mail.
- e. Since Bookspan's volume of FY 2004 high contribution ECR non-letters was slightly over 65 million, and the projected volume of flats converting to letters is only 17 million to 20 million, what assurance, if any, does the Postal Service have that the flats which Bookspan converts to letters will be mostly Standard Mail Regular flats with a low or negative unit contribution, and not a disproportionate share of ECR flats, which have a high unit contribution?

VP/USPS-T2-8.

Please refer to your responses to VP/USPS-T2-2(c) and VP/USPS-T2-5(d), and consider the unit contribution that the Postal Service would derive from the entire volume of Bookspan's non-letter mail after a 5.4 percent rate increase; *i.e.*, the unit contribution on Bookspan's 98.7 million Standard Mail Regular non-letters, and Bookspan's 65.7 million Standard Mail ECR non-letters.

- a. From a statistical perspective, would you agree that the unit contribution from these 164.4 million non-letters is a bi-modal distribution, with a large volume showing little or no unit contribution, and a large volume showing a substantial positive unit contribution? If you do not agree, please explain how you would describe the distribution of the unit contribution from all of Bookspan's non-letter mail.
- b. Would you agree that averages based on a bi-modal distribution may not be representative of the underlying data? If you disagree, please explain how you view averages that are taken over a bi-modal distribution.

VP/USPS-T2-9.

Please review your response to VP/USPS-T2-3 and respond to the following.

- a. Please, confirm that the projected negative difference between revenues and cost — *i.e.*, the out-of-pocket loss — for Bookspan's Standard Mail Regular non-letters is calculated using Postal Service volume variable costs. If you do not confirm, how would you characterize the costs which are used?

- b. Would not the Postal Service be financially better off if Bookspan did not mail any Standard Mail Regular non-letters? Please explain any negative response, and if you claim that considerations of the “multiplier effect” would offset the loss, please explain how high the multiplier effect would have to be in order to offset the out-of-pocket loss.
- c. In your view, are the unit costs shown in your Appendix A, page 6, for Standard Mail Regular non-letters representative of — or reasonable proxy for — the Postal Service’s cost of handling Bookspan’s Standard Mail Regular non-letters?
- d. If your response to preceding part c is anything other than an unqualified affirmative, please explain what you consider to be shortcomings in the estimated unit cost of Bookspan’s Standard Mail Regular non-letters, and discuss what you would consider to be a better methodology, or proxy, for the estimated unit cost of Bookspan’s Standard Mail Regular non-letters.
- e. In your opinion, to what extent is the projected after-rates loss on Bookspan’s Standard Mail Regular non-letters a result of inadequate or non-mailer-specific cost data, and to what extent is it a result of improper pricing? If you believe the projected loss is due to other factors, please specify them.