

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

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS A. THOMAS BOZZO (VP/USPS-T12-1-7)
(May 12, 2006)

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,

William J. Olson
John S. Miles
Jeremiah L. Morgan
WILLIAM J. OLSON, P.C.
8180 Greensboro Drive, Suite 1070
McLean, Virginia 22102-3860
(703) 356-5070

Counsel for:
Valpak Direct Marketing Systems, Inc. and
Valpak Dealers' Association, Inc.

VP/USPS-T12-1.

Please refer to your testimony at page 1, lines 3-8, wherein you state that “[t]he purpose of this testimony is to present the econometric estimate of volume-variability factors ... for a group of ‘Function 1’ mail processing labor cost pools representing letter, flat, bundle, and parcel sorting operations at facilities that report data to the Management Operating Data System (MODS).”

- a. For all cost pools included in your database, please identify each cost pool in which bundles of letters only are sorted.
- b. For all cost pools included in your database, please identify each cost pool in which bundles of flats only are sorted.
- c. For all cost pools included in your database, please identify each cost pool in which bundles of both flats and letters are sorted.

VP/USPS-T12-2.

- a. Please refer to your testimony at page 3, Table 1. Do the MODS cost pools shown in Table 1 represent a comprehensive listing of all cost pools used in your study? If not, please provide a complete list of all other cost pools that you analyzed.
- b. Please explain whether the 11 cost pools (including “Composite”) in Table 1 were analyzed at the level of detail shown, or whether the cost pools were analyzed in a finer level of detail and then aggregated to the level of detail

shown in Table 1 (aside from the disaggregation into outgoing and incoming cost pools for D/BCS and AFMSM discussed at pages 6-7 of your testimony).

- c. If the cost pools shown in Table 1 were analyzed at a finer level of detail and then aggregated as shown in Table 1, please indicate all the components within each cost pool that were subjected to separate analysis.

VP/USPS-T12-3.

Please refer to your testimony at page 3, Table 1.

- a. For the OCR cost pool, please: (i) indicate each type of mail by shape (*i.e.*, letters, flats, parcels) that is handled in the OCR cost pool; and (ii) indicate the percentage of each type or shape of mail processed in the OCR cost pool.
- b. For the Cancellation cost pool, please: (i) indicate each type of mail by shape (*i.e.*, letters, flats, parcels) that is handled in the Cancellation cost pool; (ii) indicate the percentage of each type processed in the Cancellation cost pool; and (iii) explain briefly what activities are performed in the Cancellation cost pool.
- c. For the 11 cost pools shown in Table 1, please indicate each one that involves sorting of bundles.
- d. If mail processing cost for sorting bundles is incurred in any cost pool other than the cost pools shown in Table 1, please indicate each any every other cost pool where mail processing costs for such bundle sortation are incurred.

VP/USPS-T12-4.

Table 1 at page 3 of your testimony indicates that the volume variability of all MODS mail processing cost pools except AFSM 100 is somewhat less than one. The fact that you recommend use of these volume variabilities seemingly would indicate your belief that these results are statistically significant.

- a. On the basis of this study, is it your assertion that mail processing is subject to economies of scale? Please explain the basis for your answer.
- b. Do you conclude from your study that the Postal Service's unit cost of sorting letters in large facilities is less than the unit volume variable labor mail processing cost of sorting letters in smaller facilities? If so, please explain the basis for your conclusion.

VP/USPS-T12-5.

- a. Does your model contain any variable (or variables) that indicates facility size, and that might enable analysis of how unit volume variable labor mail processing cost varies with facility size, either by cost pool or in aggregate?
- b. If your answer to preceding part a is affirmative, please indicate each such variable, and then, regardless of whether you actually have done any such analysis, explain what insight could be enabled with respect to how unit volume variable labor cost for mail processing operations varies with facility size.

VP/USPS-T12-6.

- a. During the course of your study, did you make any attempt to develop the volume variability of mail processing costs for facilities of different sizes, either by cost pool or in aggregate?
- b. On the basis of your study of the volume variability of mail processing costs, are you able to make any determination, or derive any inference, as to whether volume variability of mail processing costs, or individual cost pools, differs as between smaller and larger facilities? If so, please state how volume variability differs by facility size, and explain the basis for your statements.

VP/USPS-T12-7.

Please refer to your testimony in Docket No. R2005-1 (USPS-T-12), page 9, lines 12-15, where you state that “the utility of employing the factor demand function approach, as opposed to directly estimating the cost function, is that ... labor cost is not available at the cost pool level.”

- a. Is labor cost available at the facility level?
- b. If your response to preceding part a is affirmative, to what extent is labor cost at the facility level available in sufficient detail to study unit mail processing cost by size of facility?
- c. Could study of such costs be a useful way to develop insights or inferences concerning whether postal facilities do in fact exhibit economies of scale?