

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 DION E. PIFER (VP/USPS-T18-1-8)  
(May 16, 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,

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Valpak Dealers' Association, Inc.

**VP/USPS-T18-1.**

Please refer to your testimony at page 7, lines 25-27, where you discuss a Type 5 cost pool and first state that “in this cost pool [the costs are variable] ... and the variability equals one hundred percent.” You then go on to say that “[t]here are non-volume variable costs intrinsic to a product.”

- a. Please explain how, if all costs in the pool are variable, the pool also can contain non-volume variable costs, regardless of whether they are intrinsic or non-intrinsic.
- b. Please give one or two examples of a non-volume variable intrinsic cost in a cost pool where all costs are volume variable.

**VP/USPS-T18-2.**

Please refer to your testimony at page 10, lines 5-7, where it says “[t]hree of the cost pools types identified in section I.C include product specific costs ... and intrinsic costs in type 6 and 7 cost pools.”

Also, please refer to your testimony at page 8, lines 14-17, in which your description of Type 7 cost pools states that “there are no intrinsic costs.”

Please reconcile these two seemingly contradictory statements as regards Type 7 cost pools.

**VP/USPS-T18-3.**

With respect to any cost pool in which only Priority Mail is handled, would you agree that all non-volume variable costs in any such cost pool would be incremental to the mail processing cost of Priority Mail? If you disagree, please explain fully.

**VP/USPS-T18-4.**

With respect to those cost pools in which only letters are handled (*e.g.*, DBCS), would you agree that all non-volume variable costs in those cost pools are incremental to the mail processing cost of letters? If you disagree, please explain fully.

**VP/USPS-T18-5.**

With respect to those cost pools in which only flats are handled (*e.g.*, AFSM 100), would you agree that all non-volume variable costs in each of those cost pools are incremental to the mail processing cost of flats? If you disagree, please explain fully.

**VP/USPS-T18-6.**

With respect to any cost pool in which only parcels are handled, would you agree that all non-volume variable costs in any such cost pool would be incremental to the mail processing cost of parcels? If you disagree, please explain fully.

**VP/USPS-T18-7.**

- a. Is all mail processing within the collection cost pool restricted to collection mail, or is any other subset of mail also processed within the collection cost pool?
- b. If the collection cost pool handles only collection mail, would you agree that all non-volume variable costs in any such cost pool would be incremental to the mail processing cost of collection mail? If you disagree, please explain fully.

**VP/USPS-T18-8.**

Please refer to your testimony at page 18, lines 13-23. At lines 13-14, you state that “[i]ncremental costs for ... Standard ECR mail are ... 2.9% higher than volume variable costs.” At lines 18-20, you state that “mail subclasses with a larger share of the driver will have a larger difference between volume variable cost and incremental cost.”

- a. What is the driver for Standard ECR mail that results in incremental costs being 2.9 percent higher than volume variable cost?
- b. Please explain why this driver is not equally applicable to Standard Regular mail.