

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 JOHN P. KELLEY (VP/USPS-T30-1-4)
(May 19, 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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VP/USPS-T30-1.

Please refer to your workbook UDCModel.USPS.xls, in USPS-LR-L-67, sheet '21.ECRUnitCosts.' In order to simplify the discussion, this interrogatory assumes carrier times of one second per cent, and talks in terms of marginal seconds (per piece) instead of marginal cost (per piece). One second per cent, or one cent per second, for FY 2005 is implied approximately by the carrier wage of \$35.471 per hour shown in cell C12 of the 'Inputs' sheet of your workbook UDCInputs.xls, also in USPS-LR-L-67 ($35.471 \text{ \$/hr} * 100 \text{ c/\$} * (1/3,600) \text{ hr/sec} = 0.9853 \text{ c/sec} \doteq 1 \text{ c/sec}$).

- a. Are the CCS volumes shown in column D estimates of the volumes carried by city carriers? If not, how should these volumes be viewed and are other volume estimates available? If so, please provide references.
- b. The figure in cell E9 suggests that from a typical base position, which would mean that one or more letters are already in place, an additional letter takes the carrier an additional 1.81 seconds of street time to handle and deliver. Do you agree with this interpretation of the cost of \$0.0181 as shown and with the marginal nature of the cost? If you do not, please provide your own interpretation of the cost.
- c. Do you agree that most of the time an additional letter for the carrier takes the form of the carrier having one more letter in the carrier's group of delivery point sequenced ("DPS'd") letters for the route? If you do not agree, please explain how you would conceptualize the marginal situation leading to the marginal cost of \$0.0181.

- d. Please assume that all letters being delivered on the street by a carrier have been DPS'd and that in the base position, a particular stop receives four letters.
- Would it be your expectation that if the carrier had an additional five letters for the stop, it would take the carrier an additional 9.05 seconds at the stop to accomplish delivery ($9.05 \text{ sec} = 5 * 1.81 \text{ sec}$)? If this is your expectation, or approximately your expectation, please explain, in terms of operations, why you believe it is a reasonable expectation. Specifically, what steps and motions and other activities would the carrier go through to use an additional 9.05 seconds? If you do not believe this is a reasonable expectation, what steps do you believe could be taken to improve the analysis?
- e. The figure in cell I13 suggests that from a typical base situation, which could mean that zero or maybe one sequenced letter or flat is already in place, an additional sequenced letter takes the carrier an additional 1.22 seconds of street time to handle and deliver. Do you agree with this interpretation of the cost of \$0.0122 as shown and with the marginal nature of the cost? If you do not, please provide your own interpretation of the cost.
- f. Do you agree that, in the predominant situation, an additional sequenced letter for a carrier takes the form of the carrier having to reach into a separate pile or bundle and procure a letter, and merge it with other mail for delivery, but, without the additional sequenced letter, the carrier would not have to reach into the separate pile at all? If you do not agree, please explain how you would conceptualize the marginal situation leading to the marginal cost of \$0.0122.

- g. Please compare the additional time of 1.81 seconds to handle an additional non-sequenced letter (most likely in a DPS'd bundle) to the additional time of 1.22 seconds to reach into a separate pile and procure a sequenced letter and merge it with other mail, and explain whether you view these results as reasonably well aligned with the activities that would be expected of the carrier, given the nature of the operations involved. If you do not believe these results are reasonable, what steps do you believe could be taken to improve the analysis?
- h. Please compare the additional time of 1.98 seconds to handle an additional flat in a group of flats cased by the carrier (a group that could also have a non-DPS'd letter) to the additional time of 1.33 seconds to reach into a separate pile and procure a sequenced flat and merge it with other mail, and explain whether you view these results as reasonably well aligned with the activities that would be expected of the carrier, given the nature of the operations involved. If you do not believe these results are reasonable, what steps do you believe could be taken to improve the analysis?
- i. These results show that the additional street time for delivering an additional sequenced flat is 1.33 seconds, but that the additional street time for delivering an additional DPS'd letter is 36 percent higher at 1.81 seconds. In terms of the motions and other operations required of carriers, please explain why it takes 36 percent longer to handle an additional DPS'd letter than to handle an additional sequenced flat, when delivering the sequenced flat requires reaching into a

separate pile, procuring the additional flat, and merging it with the other mail for delivery.

- j. In developing street costs, did you consider supplementing your primary analysis with a separate inquiry, using either MTM methods or a controlled experiment, or some other approach, into the relative times taken by some of the basic operations at issue in this question? If you did, please provide the results of that consideration. If you did not, please comment on whether you think such an approach might be a reasonable way to introduce into the analysis reviewable relationships that are focused in a clear way on the details of actual operations.

VP/USPS-T30-2.

Please refer to pages 8 and 9 of your testimony, USPS-T-30, where you discuss a process for estimating the proportion of Saturation letters that is delivery point sequenced or cased. To the extent to which you have developed estimates, please state: (i) the proportion of Saturation letters that are DPS'd; (ii) the proportion of Saturation letters that are cased; (iii) the proportion of Saturation letters that are handled as "sequenced" mail; and (iv) how you expect these proportions to change between the base year and the test year.

VP/USPS-T30-3.

Footnote 8 of your testimony (USPS-T-30, p. 11) states: "The Postal Service permit system started compiling data on the volume of DAL mailings in February 2006." In his

rebuttal testimony in Docket No. R2005-1, Postal Service witness Kiefer (USPS-RT-1, p. 32, ll. 7-10) said: “As indicated on page 11 of the Postal Bulletin, the new postage statements became available effective April 3, 2005, and mailers using DALs were among the few not allowed to continue to use the previous postage statements.” On page 13 of your testimony, you explain that you did not use any actual data regarding the number of DALs.

- a. Please explain why you were unable to use any actual data on the volume of DALs. Please include in your explanation why a proportion from some relevant period could not be applied to a base year.
- b. In the form of a proportion of an established and relevant category, for whatever periods of time are available, please provide the number of DALs as compiled thus far by the permit system.
- c. Please explain the coverage of the permit system and whether information on the number of DALs is being compiled, or otherwise developed, in any other system.
- d. If no information on the actual number of DALs is currently available, or even if a limited amount is currently available, please explain the schedule over the remainder of CY 2006 for additional information becoming available, giving both the dates and the nature of the information. Also, please explain what is expected to be the normal frequency for compiling DAL data and making results available.

VP/USPS-T30-4.

Please refer to page 12, lines 17-19, of your testimony (USPS-T-30), where you say: “Secondly, an assumption is made that DALs are cased at the same casing productivity rate (41.2 per minute), and with the same probability, as other non-DPS ECR Saturation letters.”

- a. On days that a sequenced mailing of flats is delivered, is it not generally correct that any associated DAL is also delivered? Explain any failure to agree.
- b. On days that a sequenced mailing of letters is delivered, is it not correct that there are no associated DALs to be delivered? Please explain any failure to agree.
- c. Would you agree that there are instances, perhaps a good many instances, where a sequenced mailing of flats is to be delivered but the carrier, for one reason or another, decides to case an associated DAL? Please explain any failure to agree.
- d. Would you agree that there are never instances where a sequenced mailing of letters is to be delivered but the carrier decides to case an associated DAL? Please explain any failure to agree.
- e. If the question of whether to case non-DPS'd letters occurs on days when a sequenced mailing might or might not exist and the question of whether to case DALs always occurs on days when there is already at least one sequenced mailing, please explain why the probability of casing the DAL would not be higher than the probability of casing the letter.