

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2005-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER (T-36)
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC., REDIRECTED FROM WITNESS PAGE
(VP/USPS-T23-2)

The United States Postal Service hereby files the responses of witness Kiefer to
above-listed interrogatories, filed on May 23, 2006, and redirected from witness Page.

The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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June 6, 2006

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VP/USPS-T23-2.

Please refer to the final adjustments you show for the ECR subclass in USPS-LR-L-59, workbook Final Adjustments2008-USPS.xls, sheet 'Total' at cells E104 through G104, and to the statement of witness Kiefer, USPS-T-36, page 32, footnote 15, that: "For revenue calculation purposes, I have assumed that 50% of current DAL mail will be addressed on the piece in the future."

- a. Did you or any other Postal Service witness make an adjustment to ECR costs for a shift in the Test Year to addressed pieces instead of DAL pieces?
- b. If you, or some other witness, made such an adjustment, please provide the details of the adjustment, including: (i) a specific reference to where the adjustment is made; (ii) the cost (and its source) used to make the adjustment; and (iii) the volume used to make the adjustment.
- c. If such an adjustment was not made, please explain why the adjustment was not made, including the rationale for not making it.
- d. If such an adjustment was not made, but is needed, in the opinion of you or the Postal Service, please indicate how and where the adjustment should be made, including cost and volume information.

RESPONSE:

- a. No.
- b. Not applicable.
- c-d. For Standard Mail revenue estimation purposes I assumed that some mailers would change their behavior to avoid the DAL surcharge. To be consistent with my assumption, a corresponding cost adjustment would have been an appropriate tool to better develop appropriate net revenue projections. I understand that the Postal Service has not done any studies of the net costs of DALs that would produce a reliable estimate of the total cost impact of assuming a 50% reduction in DAL usage. For this reason, and to ensure consistency between revenue and cost assumptions for net revenue estimation purposes, I am changing my assumption on DAL usage. To be consistent with the Postal Service's estimate of test year costs, I will assume no change in mailer behavior. All mail currently addressed using DALs will continue to use DALs and will pay the surcharge. With this change in my assumptions, no cost adjustment is necessary. I will revise my testimony and

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workpapers to show approximately \$33 million in additional revenue for Standard Mail resulting from this updated assumption.

While it is reasonable to assume that some mailers will, in fact, change their behavior, I do not have any studies to support any specific nonzero reduction in DAL usage. Nor does the Postal Service have any estimates of cost impacts for any nonzero reduction. By assuming no change in mailer behavior with respect to DALs between the TYBR and TYAR, consistency between cost and revenue projections can be ensured. If, as might be expected, some mailers do change their behavior and switch from using DALs, it is reasonable to expect there will be both revenue and cost changes that will offset each other to some unknown extent. The impact on net revenue might therefore be either higher or lower than the net-revenue-neutral result that is implicit in the assumption of unchanged mailer behavior.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Nan K. McKenzie

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