

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

UNITED STATES POSTAL SERVICE  
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO  
VALPAK DIRECT MARKETING SYSTEMS, INC., AND VALPAK DEALERS'  
ASSOCIATION, INC. WITNESS HALDI: USPS/VP-T2-1 THROUGH 12  
September 13, 2006

Pursuant to rules 25 and 26 of the Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc. witness John Haldi: USPS/VP-T2-1 through 12.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

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September 13, 2006

### **USPS/VP-T2-1.**

Please refer to your testimony at page 17, line 17, to page 18, line 5.

- a. Please confirm that the full sentence from which you quote is, "Labor cost (as opposed to workhour) data are not available at appropriate levels of operational detail." (Tr. 10/2661). If you do not confirm, please explain fully.
- b. Consider the labor cost function  $c(w,y) = w l(w,y)$ , where  $w$  is the price of labor,  $y$  is output, and  $l(w,y)$  is the derived labor demand. Please confirm that the cost elasticity with respect to output,  $\ln c(w,y) / \ln y$ , equals the labor demand elasticity with respect to output,  $\ln l(w,y) / \ln y$ . That is:

$$\ln c(w,y) / \ln y = (\ln w + \ln l(w,y)) / \ln y = \ln l(w,y) / \ln y.$$

If you do not confirm, please provide a mathematical derivation of the result you believe to be correct.

### **USPS/VP-T2-2.**

Please refer to Dr. Bozzo's response to VP/USPS-T12-4a, Tr. 10/2656. Are you familiar with the referenced paper: L. Christensen, D. Caves, and M. Tretheway, "Economies of Density Versus Economies of Scale: Why Trunk and Local Service Airlines Differ" (*Rand Journal of Economics*, Winter 1984, at 471)?

### **USPS/VP-T2-3.**

Please refer to your testimony at page 21, lines 4-5. Please confirm that the cost elasticity with respect to output,  $\ln c(w,y) / \ln y$ , is defined if  $c(w,y)$  is a differentiable short-run cost function. If you do not confirm, provide a mathematical derivation of the result you believe to be correct.

### **USPS/VP-T2-4.**

Please refer to your testimony at page 21, lines 10-15.

- a. Please confirm that you are describing a "U-shaped" short-run average cost curve. If you do not confirm, please explain.
- b. Please confirm that the long-run average cost curve may also be U-shaped. (See, e.g., Hal R. Varian, *Microeconomic Analysis, Second Edition* [New York: W. W. Norton] at pages 38-39 and page 43.) If you do not confirm, please explain.
- c. Please also refer to your testimony at page 25, lines 2-3. Please confirm that, in microeconomic theory, the long-run average cost curve specifically is the lower envelope of the short-run average cost curve. (See, e.g., Varian, op. cit., at page 43.) If you do not confirm, please explain.

### **USPS/VP-T2-5.**

Please refer to your testimony at pages 22-23.

- a. Please confirm that in the economic "long run," the Postal Service would not be bound by capacity constraints that might force it to employ less efficient processing technology in the "short run." If you do not confirm, please explain.

- b. Your statements regarding the possibility of the Postal Service employing less efficient technologies such as manual sorting in the short run do not reference to any quantitative data on the prevalence with which the Postal Service actually does so. If your statements are based on any quantitative data, please provide detailed citations to the data. If not, please so indicate.

**USPS/VP-T2-6.**

Please refer to your testimony at page 26, line 12, to page 27, line 1. You state:

Any increases or decreases in unit cost on account of such other **exogenous** factors [described by witness McCrery] should **not** be interpreted as evidence tending to prove or disprove the existence of economies of scale. [Emphasis in original.]

Please also refer to GAO report GAO-05-261, provided as Docket No. N2006-1, USPS-LR-N2006-1/7, at page 30, where a graph shows facility productivities for “small,” “medium” and “large” facility categories.

- a. Do you agree that the GAO’s graph referenced above shows a lower average productivity for “large” sites than for sites in the smaller size categories? If not, please explain.
- b. Please assume that exogenous factors such as you describe in your testimony account for the observed average productivity differences by facility size. Under such circumstances, please confirm that your testimony, quoted above, implies that it would be incorrect to conclude that there are diseconomies associated with large facilities from productivity data such as that presented by GAO. If you do not confirm, please explain fully.

**USPS/VP-T2-7.**

Please refer to your testimony at page 29, lines 3-9. Assume a facility is merging outgoing processing of its First-Class Mail and Standard Mail. Would you expect a single-unit increase in the Standard Mail volume to be sufficient to cause such a facility to cease merging the processing, or would a larger increment of volume normally be required?

**USPS/VP-T2-8.**

Please refer to Prof. Baumol’s testimony in Docket No. R87-1, USPS-T-3 at page 10, lines 5-11. Prof. Baumol defines the incremental cost of a service as:

Those costs -- fixed and volume variable --which would be eliminated if the particular service... were (hypothetically) discontinued are called the “incremental cost” of that service.

Do you agree with Prof. Baumol's definition? If not, please explain the basis for any disagreement.

**USPS/VP-T2-9.**

Please refer to Prof. Baumol's testimony in Docket No. R87-1, USPS-T-3 at page 12, lines 15-19. Prof. Baumol states:

The term "long run marginal cost" does not refer to a particular length of time but instead refers to the marginal costs that would be incurred if all plant, equipment and labor were used in optimal configurations so that costs, for whatever volume of service is supplied, are minimized.

Do you agree with Prof. Baumol's characterization? If not, please explain the basis for any disagreement.

**USPS/VP-T2-10.**

Please refer to your testimony at page 42, lines 14-20.

- a. Please confirm that there is no single class or subclass whose hypothetical discontinuation would lead to the discontinuation of all letter-shape products. If you do not confirm, please explain fully.
- b. Please confirm that there is no single class or subclass whose hypothetical discontinuation would lead to the discontinuation of all flat-shape products. If you do not confirm, please explain fully.
- c. Please confirm that there is no single class or subclass whose hypothetical discontinuation would lead to the discontinuation of all parcel-shape products. If you do not confirm, please explain fully.

**USPS/VP-T2-11.**

Please refer to your testimony at page 51, lines 16-18. Please provide a citation to the record indicating where Dr. Bozzo "concur" with the statement.

**USPS/VP-T2-12.**

Please refer to your testimony at page 51, line 23 to page 52, line 6. Please confirm that in the scenario you describe, the Standard letters require processing whether or not the First-Class Mail service is provided. If you do not confirm, please explain.

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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