

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE TO
VALPAK DIRECT MARKETING ASSOCIATION, INC. AND VALPAK DEALERS'
ASSOCIATION, INC. WITNESS MITCHELL
(USPS/VP-T1-1-15)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the above-referenced interrogatories to Valpak Direct Marketing Association, Inc. and Valpak Dealer's Association, Inc. witness Mitchell.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/VP-T1-1

- (a) Please confirm that, under your proposed pricing a Standard Mail Regular automation 5-digit piece-rated letter entered at the DSCF would pay 18.2 cents per piece. If not confirmed, please supply the correct proposed rate.
- (b) Please confirm that, under your proposed pricing a Standard Mail ECR Basic piece-rated letter entered at the DSCF would pay 14.9 cents per piece. If not confirmed, please supply the correct proposed rate.
- (c) Please confirm that the rate difference between the above two letters is 3.3 cents per letter. If not confirmed, please supply the correct difference.
- (d) Is it your view that the rate difference confirmed or supplied in part (c) would be sufficient to cause some letters to migrate from Standard Mail automation to ECR basic if the mail preparation rules are the same as they are today? If you do not agree, please explain fully why you think that no letters would migrate.
- (e) If your response to part (d) is other than an unqualified negative, please explain what the revenue, cost and contribution impacts of this migration would be and describe how you took these impacts into account in preparing your alternative rate proposals.

USPS/VP-T1-2

- (a) Please confirm that, under your proposed pricing a Standard Mail Regular automation 5-digit piece-rated flat entered at the DSCF would pay 34.5 cents per piece. If not confirmed, please supply the correct proposed rate.

- (b) Please confirm that, under your proposed pricing a Standard Mail ECR Basic piece-rated flat entered at the DSCF would pay 17.2 cents per piece. If not confirmed, please supply the correct proposed rate.
- (c) Please confirm that the rate difference between the above two flats is 17.3 cents per flat. If not confirmed, please supply the correct difference.
- (d) Is it your view that the rate difference confirmed or supplied in part (c) might induce some mailers to migrate the flats from Standard Mail automation to ECR Basic by sending duplicate mail pieces or otherwise padding their mailing lists to qualify for the ECR rates? If you do not agree, please explain fully why you think that no pieces would migrate.
- (e) If your response to part (d) is other than an unqualified negative, please state whether you believe that all migrating flats possess the demand and market characteristics that the Commission had in mind when it recommended ECR as a separate subclass. Please explain your answer.
- (f) If your response to part (d) is other than an unqualified negative, please state whether you believe that expanding the number of small carrier route bundles will increase or reduce Postal Service costs if the Postal Service transitions to automated flat sequencing? Please explain your answer.
- (g) If your response to part (d) is other than an unqualified negative, please explain what the revenue, cost and contribution impacts of this migration would be and describe how you took these impacts into account in preparing your alternative rate proposals.

USPS/VP-T1-3

- (a) Please confirm that, under your proposed pricing a Standard Mail Regular automation 5-digit piece-rated letter entered at the DSCF

would pay 18.2 cents per piece. If not confirmed, please supply the correct proposed rate.

- (b) Please confirm that, under your proposed pricing a Standard Mail ECR Automation Basic piece-rated letter entered at the DSCF would pay 12.9 cents per piece. If not confirmed, please supply the correct proposed rate.
- (c) Please confirm that the rate difference between the above two letters is 5.3 cents per letter. If not confirmed, please supply the correct difference.
- (d) Please confirm that you propose that the Commission recommend that Standard Mail ECR Automation Basic rates be available to otherwise qualified letters addressed to all ZIP Codes and not be restricted to specific destinations as is currently the case.
- (e) Is it your view that the rate difference confirmed or supplied in part (c) would be sufficient to cause some letters to migrate from Standard Mail automation to ECR basic if the mail preparation rules are the same as they are today? If you do not agree, please explain fully why you think that no letters would migrate.
- (f) If your response to part (e) is other than an unqualified negative, please state whether you believe that the volume of migrating letters would be large relative to the current volume of ECR Automation Basic letters? If you did not estimate the volume of letters that would migrate as the result of your alternative rate proposals, explain why not.
- (g) If your response to part (e) is other than an unqualified negative, please explain what the revenue, cost and contribution impacts of this migration would be and describe how you took these impacts into account in preparing your alternative rate proposals.

USPS/VP-T1-4

Please confirm that your proposed rates produce the percentage rate increases for the sample Standard Mail pieces shown in the table below;

	3	5	8	14
	ounce	ounce	ounce	ounce
Standard Mail Regular				
Automation 5-digit, DSCF Letter	5.2%			
Automation 5-digit, DSCF Flat	39.1%	29.8%	19.7%	10.2%
Nonmachinable 3-digit DSCF Parcel	55.9%	49.9%	41.9%	31.9%
Machinable DBMC Parcel—Barcoded			73.4%	62.2%
NFM--3-digit DSCF	169.0%	141.7%	113.0%	85.7%
Standard Mail ECR				
Basic DSCF Letter	-15.8%			
Saturation DSCF Letter	-24.8%			
Basic DSCF Flat	-2.8%	-3.5%	-4.9%	-6.1%
Saturation DSCF Flat (On-piece Addressed)	-14.2%	-12.3%	-11.0%	-9.9%

USPS/VP-T1-5 Please refer to page 105 of your testimony.

- (f) Please explain if your use of the term “Stigler’s second definition” of price discrimination is intended to assert that Professor Stigler adopted this definition in his work, or endorsed this definition’s use in preference to “Stigler’s first definition” of price discrimination in some or all applications.
- (g) If you do assert that Professor Stigler adopted or endorsed the second definition in preference to the first for some purposes, please give examples and citations of this preferred use.

USPS/VP-T1-6 Please refer to pages 105 and 106 of your testimony.

Please confirm that your use of the two definitions of price discrimination described in Professor Stigler's book to apply differentially to shape-based cost differences and worksharing cost differences represents your own opinion and is not based on any explicit or analogous usage of the two definitions by Professor Stigler in published work. If you do not confirm, please supply examples and citations to published work where Professor Stigler used these two definitions to apply as you suggest in your testimony.

USPS/VP-T1-7 Please refer to pages 109, lines 16-17 of your testimony.

Do you consider parcels to be a "variant" of flats (or vice-versa) in the same or similar way that automation letters might be considered a variant of machinable letters?

- (a) If your answer to the above question is in the affirmative, please explain why these two shapes should be considered variants of each other.
- (b) If your answer to the above question is in the affirmative, please explain why letters and flats should not be similarly considered variants of each other.

USPS/VP-T1-8 Please refer to page 115, line 3 of your testimony.

Please supply the data or studies you relied on to determine that the differences in average weight between commercial Standard Mail Regular Basic nonautomation letters and Basic nonautomation flats will translate easily into "two or more truck-loads of flats for each truckload of letters."

USPS/VP-T1-9 Please refer to page 126, lines 12-16 of your testimony.

- (a) If the Commission were to follow your recommendation and establish an unrestricted Automation Basic Letters category in ECR (with the same minimums that now exist for Automation Basic Letters), is it your view that no mail that is currently being entered and processed as Standard Mail Regular 5-digit Automation Letters would migrate to the new ECR category?

- (b) If your answer to the above question is not an unqualified no, please state whether you believe that carrier route sorting, sequencing and bundling of the newly migrated mail will have significant operational value to the Postal Service if the Postal Service continues to delivery point sequence these letters at plants.

USPS/VP-T1-10 Please refer to page 148, line 8 of your testimony.

Please explain the basis for describing the proposed NFM rate category as “temporary” as opposed to a permanent rate category to which certain parcels will have temporary rate access.

USPS/VP-T1-11 Please refer to page 156, lines 4-10 of your testimony.

Is it your view that limiting the passthrough of cost differences in order to partially offset the rate change impacts of rate deaveraging is not a legitimate tool in ratemaking?

USPS/VP-T1-12 Please refer to page 156, lines 11-13 of your testimony where you say, in part, “whenever deaveraging occurs...significant impacts on mailers should be expected, and accepted.”

- (a) Is it your view that the Postal Service and mailers whose rates are pushed up by rate deaveraging should “accept” those impacts, regardless of the size of the impact?
- (b) If your answer to part (a) is not an unqualified yes, please state at what level would deaveraging rate impacts become unacceptable and warrant rate change mitigation.

USPS/VP-T1-13 Please refer to pages 156-57, subsection 9 of your testimony.

If the Commission were to agree with your assertion that the letter-flat cost differential should be more fully reflected in rates, would it be your view that mailers whose rates were pushed up “accept” those impacts, regardless of the size of the impact? Please explain your answer fully.

USPS/VP-T1-14 Please refer to page 171, lines 8-18 of your testimony.

- (a) If the Commission were to follow your proposal and recommend rates for the ECR Basic Letters category that were below the rate for Standard Mail Regular 5-digit Automation Letters, is it your view that no mail that is currently being entered and processed as Standard Mail Regular 5-digit Automation Letters would migrate to the ECR Basic Letters category?
- (b) If your answer to the above question is not an unqualified no, please state whether you believe that carrier route sorting, sequencing and bundling of the newly migrated mail will have significant operational value to the Postal Service if the Postal Service continues to delivery point sequence these letters at plants.

USPS/VP-T1-15 Please refer to page 182, lines 16-18 of your testimony.

Please state the basis for your opinion that the studies that show the effect of weight on cost of Standard Mail are not reliable. If you relied on your own or other analyses of these studies, please provide those analyses and state which studies were evaluated in each analysis.