

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

Postal Rate and Fee Changes, 2005)
) Docket No. R2005-1
)

FIRST INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION
TO VALPAK WITNESS ROBERT MITCHELL (DMA/VP-T1-1-9)

(JULY 26, 2005)

Pursuant to sections 25 and 26 of the Rules of Practice, The Direct Marketing Association (“the DMA”) directs the following interrogatories to Valpak witness Robert Mitchell (VP-T-1). If the witness is unable to respond to any interrogatory, we request that a response be provided by an appropriate witness capable of providing an answer.

Respectfully submitted,

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THE DIRECT MARKETING ASSOCIATION INTERROGATORIES
TO VALPAK WITNESS ROBERT MITCHELL

DMA/VP-T1-1. Please refer to page 10, lines 2 - 9, of your testimony.

- a) Would you agree that the Commission (with the approval of the courts) has implemented the requirements of 39 U.S.C. 3622(b)(3) (i.e., that each class or subclass of mail service bear its “direct and indirect attributable” costs) by determining causal relationships between each class or subclass and various amounts of USPS costs, including operating costs? Please explain in as much detail as possible any negative answer.
- b) Would you agree, further, that, in determining these causal relationships, the Commission (with the approval of the courts) has used a form of logical analysis known as “but for causation,” i.e., if certain costs would not have been incurred but for the need to provide service to a certain volume of mail (a single additional piece in the case of marginal cost analysis, or a small incremental volume in the case of incremental cost analysis) with certain characteristics, it can be concluded that these costs were caused by the provision of service to such mail (and are therefore “attributable” to such mail under section 3622(b)(3))? Please explain in as much detail as possible any negative answer.

DMA/VP-T1-2. Please refer to page 10, lines 11 - 12 of your testimony, where you state, “But one cannot say that the responsibility for the deficit lies in a certain place.” Please refer also to page 11, lines 8 - 11 of your testimony, where you state, “No logical basis supports a conclusion that the deficit projected for FY 2006 is caused more by the escrow payment than by any other expense component, and any relation between their sizes is purely coincidental.”

- a) Please confirm that, according to the Postal Service’s chief policy witness, PMG John Potter, the additional revenues being sought by the Postal Service in this case would not have been needed, and this case would not have been filed, but for the escrow requirements established by Congress in P.L. 108-18?
- b) Do you have any reason to question the Postal Service’s identification of the moneys required to be paid by the Postal Service into the escrow as “institutional costs?” See USPS-T-10, Exhibit USPS-10H, page C-24. Please explain in as much detail as possible any affirmative answer.
- c) Assuming that you answered the preceding question in the negative, would you agree that the estimated \$3.1 billion (of

operating costs) required by P.L. 108-18 to be paid into the escrow are not attributable to any class or subclass of mail, but rather are caused by a specific act of Congress. Please explain in as much detail as possible any negative answer.

- d) Are you aware of any other omnibus rate case under the Postal Reorganization Act where the entire amount of the additional revenues being sought by the Postal Service was caused by a single factor?
- e) Are you aware of any other omnibus rate case under the Postal Reorganization Act where the entire amount of the additional revenues being sought by the Postal Service was caused by an act of Congress?

DMA/VP-T1-3. Please refer, further, to page 11, lines 8 - 11 of your testimony, where you state, "No logical basis supports a conclusion that the deficit projected for FY 2006 is caused more by the escrow payment than by any other expense component, and any relation between their sizes is purely coincidental."

- a) Would you agree that a deficit (any deficit) is by definition the result of aggregate calculations, i.e., total expenses being larger than total revenues? Please explain in as much detail as possible any negative answer.
- b) Is it your assertion that, in the context of a business with multiple sources of revenues and expenses, it is logically impossible to identify a causal relationship between a subset of these sources and an overall financial deficit (or an overall financial profit, for that matter)? Please explain in as much detail as possible any affirmative answer.
- c) Would you agree that conclusions concerning the causes of, or the responsibility for, any specific deficit (or profit) depend on an analysis of the circumstances of that particular situation? Please explain in as much detail as possible any negative answer.

DMA/VP-T1-4. With further reference to your testimony at pages 10 - 11, please assume, hypothetically, that an airline has experienced only modest variations in revenues (including passenger miles) and costs for the past three years, and that this airline has had a modest profit in each of those years. Assume, further, that in the most recent year it experienced a substantial increase in fuel costs and that it also experienced a significant deficit in that year.

- a) Is it your position that management of the airline would be illogical in identifying the increase in fuel costs as the "cause" of

the current deficit, as opposed, e.g., to a failure to attract more passengers? Please explain fully.

- b) Is it your position that management of the airline would be misleading the public if it asserted that its recent deficit was “caused” by the recent increase in fuel costs? Please explain fully.
- c) Assuming that the airline has limited financial reserves and that it would take at least six months to conduct a detailed market study in order to determine the relative demand and other competitive factors affecting each of its routes, is it your opinion that management would be acting irrationally to impose an across-the-board “fuel surcharge” to all its fares in order to avoid a deficit? Please explain fully.
- d) In your opinion, would it be more economically rational for management to impose surcharges in identical dollar amounts to each ticket sold, or to impose surcharges of an identical percentage on the cost of each ticket sold? Could you identify a third alternative that would be more economically rational than either of these two possible surcharges? Please explain fully.

DMA/VP-T1-5. Please refer to page 16, lines 1 - 2 of your testimony, where you state, in reference to PMG Potter’s second justification for the ATB proposal, “. . . increasing the likelihood of achieving a settlement is not one of the non-cost factors in the Act.”

- a) Would you agree that expediting receipt by the Postal Service of needed additional revenues is a valid goal of the Postal Service and of the Act, and that the Commission has the authority to recognize this goal as an “other factor” under section 3622(b)(9)? Please explain fully.
- b) Would you agree that a streamlined request, designed to avoid as much as possible controversies concerning complex costing, classification and rate design issues, such as the Postal Service has filed in this case, is a valid means toward the end of expediting receipt by the Postal Service of needed additional revenues? Please explain fully.

DMA/VP-T1-6. Please refer to pages 17 - 18 of your testimony, where you refer to witness Robinson comparing the escrow burden to a “tax.”

- a) On page 18, lines 6 - 8, you allege that the Postal Service “has not presented any plan to remove the ATB increase . . . [and] it is clear without question that no such plan is feasible and that if the ATB increase is implemented, the next rate increase will be built on top of the ATB rates.” Is it not the case that the Postal Service has

stated that it plans to file another omnibus postal rate case (referred to hereinafter as “R2006-1”) soon after the conclusion of this case and that R2006-1 will involve a complete consideration of the full panoply of postal costing, pricing and rate design issues? Please explain fully.

- b) Further, you state on page 18, line 13 through page 19, line 1, that “. . . future rates built on an ATB platform would be different from future rates built on a more traditional platform.” Beyond the differences in test-year-before-rates revenues (which clearly will be higher if the ATB rates are implemented in the interim), on what grounds do you believe that rates implemented following the R2006-1 case will be different depending on whether ATB rates are in place during the base year of such a case. Please explain fully.
- c) Do you believe that, if the rates for Standard ECR mail implemented following this case reflect an increase of less than 5.4%, there will be a substantial chance that the rates for Standard ECR mail implemented following R2006-1 will be lower than if the rates for Standard ECR mail implemented following this case reflect an increase of 5.4%, as proposed by the Postal Service? In what ways would the arguments made by representatives of Standard ECR mail in the former situation be stronger than the arguments that they would be able to make in the latter situation? Please explain fully.

DMA/VP-T1-7. Please refer to your testimony at page 23, lines 2 - 6 and at page 30, lines 3 - 5.

- a) Please explain what you mean by a “meritorious” rate position.
- b) Is it a correct interpretation of these portions of your testimony that, unless some rate relief is granted to Standard ECR mailers in this case, it will be more difficult for the Commission in the next case to give Standard ECR mailers the rate relief they would like to have, because such rate relief would involve a shift of revenues from Standard ECR mail to other mail so substantial that it would cause “rate shock” to the mailers of other mail to such an extent that the Commission would be reluctant to recommend such a shift? Please explain fully.
- c) Is this what you mean when you state, on page 30, lines 3 - 4, “. . . an ATB case . . . can result in disruptive rate patterns and excess effects on mailers in future cases.”? Please explain fully.

DMA/VP-T1-8. Please refer to your testimony beginning on page 24 at line 4 and continuing to page 30, line 5.

- a) Is the essence of your testimony that the Postal Service should have presented a full-blown case in this proceeding?
- b) Is it your position that the Postal Service violated some applicable principle or principles of law by filing the case that it did? Please explain fully, specifically identifying each principle of law that, in your opinion, was violated by the USPS filing.
- c) Is it your position that the Postal Service violated some applicable economic principle or principles by filing the case that it did? Please explain fully, specifically identifying each economic principle that, in your opinion, was violated by the USPS filing.
- d) Please explain as completely as possible the ways in which the violations, if any, identified in your responses to the preceding questions should impact the Commission's consideration of this case.

DMA/VP-T1-9. Please refer to your testimony beginning on page 35, line 21, where you state, "The ATB approach fails also as a special assessment, because no procedure exists for withdrawing it when the need has been met."

- a) Would you agree that the ATB approach would qualify as a special assessment if a plan did exist for withdrawing it when the need for it has been met? Please explain fully.
- b) Other than the absence of such an "exit strategy", are there any other reasons why, in your opinion, the ATB approach would not qualify as a valid special assessment? Please explain fully, describing each such reason, if any, in as much detail as possible.