

USPS-RT-1

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

REBUTTAL TESTIMONY
OF
JAMES M. KIEFER
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is James M. Kiefer. I am an Economist in Pricing and Classification, United States Postal Service. Since joining the Postal Service in 1998, I have worked on issues related to Package Services, Special Services, nonletter-size Business Reply Mail, Standard Mail and other pricing issues.

Prior to joining the Postal Service I worked for the Vermont Department of Public Service, first as a Power Cost Analyst, and later as a Planning Econometrician, where I investigated utility costs, rates, load forecasts and long-term plans. I also developed long range electric generation expansion plans for the State, performed economic impact studies, and contributed to a long-term energy use plan for Vermont. I have testified as an expert witness before the Vermont Public Service Board on many occasions on economic issues involving cost of power, generation expansion plans, least cost integrated planning, load forecasts, and electric utility rates.

Before working in Vermont, I was a Principal Analyst with the Congressional Budget Office. My past work experience also includes work with the U.S. Department of Commerce and work in production management in private industry.

I earned a BA in Chemistry from the Johns Hopkins University, an MBA from Rutgers University, and an MA degree in International Relations from the Nitze School of Advanced International Studies. I then returned to Johns Hopkins in Baltimore to study Economics where I earned an MA in 1983 and a PhD in 1986.

I have provided testimony before the Postal Rate Commission previously in Docket No. MC99-1, Docket No. MC99-2, Docket No. R2000-1, Docket No. R2001-1, Docket No. MC2002-1 and Docket No. MC2003-2.

1 **I. PURPOSE**

2 The primary purpose of this testimony is to refute several contentions
3 made in the testimony of Robert W. Mitchell on behalf of Valpak Direct Marketing
4 Systems, Inc. and Valpak Dealers' Association, Inc. (ValPak).

5 Mr. Mitchell's testimony contends that a failure to establish a formal
6 "logical" causal link between the Postal Service's escrow obligation and the test
7 year deficit establishes some kind of legal impediment that prevents the
8 Commission from recommending it. Mr. Mitchell also contends that the Postal
9 Service's policy choices that led to its rate and fee proposal are not a sufficient
10 basis for the proposal and cannot form an appropriate factor for the Commission
11 to consider in recommending rates. My testimony demonstrates that both of
12 these contentions are false: the Postal Reorganization Act (Act) does not require
13 any demonstration of an escrow-deficit linkage before the Board of Governors
14 can propose, and the Commission consider and recommend, a request for
15 changes in rates and fees. I also show that there are no restrictions in the Act to
16 prevent the Commission from considering the Postal Service's policy reasons,
17 which are clearly spelled out in record evidence, as a sufficient basis to
18 recommend its rate and fee proposals.

19 My testimony also rebuts witness Mitchell's contention that the Postal
20 Services' settlement efforts somehow conflict with the Act's ratemaking process
21 by demonstrating that the Postal Service has, while seeking settlement, met all
22 the legal requirements of the Act and followed all procedural rules established by
23 the Commission for managing rate cases. Furthermore, I point out that the

1 Commission's rules and past actions favor, rather than discourage, settlement
2 efforts.

3 Witness Mitchell's testimony contends that the Postal Service cannot
4 legally propose and the Commission cannot legally consider an across-the-board
5 (ATB) rate change proposal. My testimony rebuts this contention, showing that
6 there is no provision in the Act or the Commission's rules that prohibit such a
7 proposal.

8 My testimony finally rebuts witness Mitchell's specific proposal that the
9 ECR subclass be not given any rate increase by pointing out that the proposed
10 rate level for ECR is not out of line with recent Commission decisions and that to
11 reduce ECR's rates in this case would unfairly shift ECR's share of funding the
12 escrow burden to other subclasses. I demonstrate that there is no reason to
13 depart from the Postal Service's proposed rates for ECR in this case.

14 My testimony also addresses Dr. Haldi's concern about the collection of
15 DAL data. It presents information that updates the Commission on the Postal
16 Service's efforts to collect information on DAL's.

17

18 **II. INTRODUCTION**

19

20 Congress has granted the Postal Rate Commission broad discretionary
21 authority to develop ratemaking solutions that meet the needs of the nation.

22 Over the years, with this flexibility, the Commission has been able to
23 accommodate omnibus rate change requests, as well as experimental rate and
24 classification requests, and negotiated service agreements. The Postal

1 Reorganization Act (Act) gives the Commission the discretionary authority to
2 address a broad range of different circumstances.

3 In this docket, the Postal Service has proposed increases in rates and
4 fees to meet a Congressionally-mandated financial obligation to place funds in
5 escrow during Fiscal Year (FY) 2006 and beyond. As explained below, and
6 supported by the Postal Service's policy and pricing witnesses, the Postal
7 Service's proposed across-the-board (ATB) increase is not typical of prior rate
8 requests. This proposed pricing approach, however, is consistent with the
9 ratemaking and other criteria of the Act. Repeatedly, the Commission has
10 recognized that there is no single formulaic, mathematical or mechanical way to
11 design rates, and that the Commission's recommendations must consider a
12 broad range of often conflicting policy goals. Among the ratemaking factors
13 enumerated in the Act, only the third (39 U.S.C. § 3622(b)(3) (attribution and
14 assignment of costs)) is a "requirement." In this case, the Postal Service's
15 proposed rates and fees meet this requirement. See USPS-T-27 at Exhibit
16 USPS-27B.

17 Under the statutory scheme, balancing the remaining eight ratemaking
18 factors in the Act requires that the Commission use its judgment to develop the
19 most appropriate rate recommendations, given the unique circumstances of each
20 case. Approaches used in prior dockets are often applied in subsequent
21 dockets. However, in virtually every docket, the Commission is faced with new
22 issues that require innovative solutions. In this docket, recovering the escrow
23 obligation requires an innovative solution that a narrow focus on more typical

1 costs and cost recovery cannot provide. In my opinion, the Commission has the
2 discretion to craft such a solution, and the Postal Service's proposals in this case
3 represent a reasonable balancing of the interests of all parties and all issues that
4 should be adopted by the Commission. In contrast, as discussed below, the only
5 participant in this docket to present an alternative proposal (ValPak) is based on
6 an extremely narrow focus on costs and cost coverages that is required by the
7 Act and unduly limits the Commission's discretion. This testimony addresses the
8 most salient assertions made by Robert W. Mitchell (VP-T-1), testifying on behalf
9 of Valpak.

10
11 **III. WITNESS MITCHELL HAS ESTABLISHED NO RATEMAKING**
12 **PRINCIPLES OR POLICIES THAT WARRANT REJECTION OF THE**
13 **POSTAL SERVICE'S PRICING PROPOSALS**
14

15 Mr. Mitchell has taken broad aim at the Postal Service's ATB pricing
16 proposals. He challenges them on several legal and policy grounds.
17 Fundamentally, he contends that they are inconsistent with the statutory scheme
18 for postal ratemaking. As discussed below, I demonstrate why he is wrong.

19
20 **A. The Postal Service's Request and Proposals Represent Sound**
21 **Policy Choices For Meeting the Escrow Obligation Under**
22 **Public Law 108-18**
23

24 This case was filed as the result of a policy choice by the Board of
25 Governors. For the first time ever in an omnibus postal rate case, the
26 Postmaster General testified to explain the Board's policy decision. Mr. Potter
27 stated:

28 The Postal Service's decision to seek changes in postal
29 rates and fees at this time represents a policy judgment about the

1 most reasonable, practical, and effective way to meet a currently
2 unavoidable financial obligation in Fiscal Year 2006. Otherwise,
3 the Postal Service would not have filed this request now.
4
5 USPS-T-1, p. 2. He explained that the financial obligation to be met was the
6 requirement to place approximately \$3.1 billion annually in escrow in beginning
7 Fiscal Year (FY) 2006, as the result of Public Law (PL) 108-18. He also
8 summarized the thinking that led to the Postal Service's proposed ATB pricing
9 approach. He stated:

10 We have determined, however, that acting now to secure the funds
11 needed through moderate rate and fee increases would be
12 responsible stewardship. In particular, while appropriately
13 spreading the burden to all postal customers, this approach creates
14 the prospect of encouraging settlement of issues among usually
15 very contentious rate case participants. It is my hope that efforts to
16 settle this case will lead to an early Recommended Decision and
17 permit implementation early enough in 2006 to meet the lion's
18 share of the escrow obligation.

19
20 *Id.* p. 2-3.

21 **1. Formalistic Concepts Of Causation Do Not Restrict The**
22 **Postal Service Or The Commission In Postal**
23 **Ratemaking**
24

25 Testifying for Valpak, witness Mitchell attempts to sever the relationship
26 between the Board's policy and the Postal Service's proposal by erecting an
27 imaginary restriction in the Postal Reorganization Act (Act). Essentially, Mr.
28 Mitchell seems to contend that the Postal Service is not *entitled* to adopt a policy
29 and a pricing approach regarding the appropriate funding of a particular financial
30 obligation created by statute, because, under the Act and the Commission's rules
31 and practice, there is no basis for treating the escrow differently from any other

1 expense to be covered by rate and fee increases.¹ He, further, claims that “as a
2 matter of logic,” the nature of the escrow cannot be used as a justification for
3 pricing proposals, because a deficit cannot be “caused” by any particular
4 expense. Consequently, the escrow cannot “cause” the projected deficit in the
5 test year. *Id.* p. 10-11, Tr. 9/5276-77. He strongly suggests that these
6 conclusions stand as legal obstacles, not only to the Postal Service’s assertion of
7 the policy basis for its proposals, but also to the Commission’s consideration of
8 that policy basis as a justification for recommending particular rates and fees.

9 There is, however, no such legal restriction.² Quite simply, narrow
10 mathematical or “logical” issues of causation such as witness Mitchell raises do
11 not modify or restrict the statutory authority of the Board of Governors and the
12 Commission to consider the nature of particular expenses as an element of a
13 policy justification for particular rate and fee changes.³ I know of nothing in the
14 Act or the Commission’s rules and practice, furthermore, that requires the Board
15 to prove causality (either formally or informally) as a justification for its proposals
16 or its policy decision to request a rate recommendation from the Commission. If
17 the Board believes that there are good policy reasons to request a rate increase

¹ Mr. Mitchell takes great pains attempting to establish that the Act and rules do not permit treating the escrow differently from any other expense, and, particularly, any other expense imposed by statute. VP-T-1, pp. 6-9, Tr. 9/5272-75.

² Mr. Mitchell’s argument is couched in terms of logic, although he seems to imply that it has roots in some accounting rule that restricts how deficits can be characterized. He does not cite such a rule, however; and I am not aware of one.

³ Counsel for DMA and Mr. Mitchell sparred at length during hearings over the meaning of “causation,” as it applies to postal ratemaking. Tr. 9/5426-51. See *also*, responses to DMA/VP-T1-2, Tr. 9/5394-98, DMA/VP-T1-3, Tr. 9/5399-5400.

1 to fund the escrow (as opposed to borrowing, for example), it is empowered by
2 the Act to do so. Nor is the Commission restricted from considering that
3 justification in evaluating the Postal Service's Request.

4 In my opinion, there is nothing "illogical" about the relationship between
5 the escrow and the Postal Service's proposals. The connection is clearly
6 expressed in the Postmaster General's testimony. The Board chose to propose
7 a rate increase as a means to fund the escrow requirement in FY 2006. In
8 practice the Commission has limited proof of economic causation (most
9 commonly, volume variability) to consideration of issues involving attribution and
10 distribution of costs to particular subclasses of mail and services. Nevertheless,
11 when assessing the sufficiency of specific prices or a pricing approach under its
12 judgmental authority to recommend rates pursuant to 39 U.S.C. § 3622, as far as
13 I know, the Commission has not interpreted the Act as establishing a barrier to
14 considering a policy choice as the foundation for the Postal Service's proposals.

15 Mr. Mitchell strongly implies that his pronouncements are supported by the
16 Act and the Commission's rules. Simple review of the statutory language,
17 however, belies that claim. The Act authorizes the Postal Service to request rate
18 recommendations as follows:

19 From time to time the Postal Service shall request the Postal Rate
20 Commission to submit a recommended decision on changes in a
21 rate or rates of postage or in a fee or fees for postal services, *if the*
22 *Postal Service determines that such changes would be in the public*
23 *interest and in accordance with the policies of this title. The Postal*
24 *Service may submit such suggestions for rate adjustments as it*
25 *deems suitable.*
26

1 39 U.S.C. § 3622(a) (emphasis added). Nothing in the Act or Commission
2 practice, however, limits the Board’s consideration of financial or other policy in
3 making any determination under that provision.

4 Perhaps more importantly, nothing in the Act restricts the Commission
5 from considering a Postal Service policy choice in evaluating its pricing
6 proposals. The Act provides that “the Commission shall make a recommended
7 decision on the request for changes in rates or fees in each class of mail or type
8 of service in accordance with the policies of this title and...[nine enumerated
9 factors, including] (9) *such other factors as the Commission deems appropriate.*”
10 39 U.S.C. § 3622(b)(emphasis added).

11 Nor do the Commission’s rules dictate the restriction that Mr. Mitchell has
12 fabricated. Rather, the Commission’s Rules of Practice and Procedure only
13 specify the information and explanations that the Postal Service must provide to
14 support its request for changes in rates and fees. See 39 C.F.R. §§ 3001.54(a) –
15 (q).

16 **2. There Is Clear Logical And Legal Support For The Postal**
17 **Service’s Request And Pricing Approach.**
18

19 While Mr. Mitchell would limit the Commission’s consideration of the
20 Board’s policy decision in its evaluation of the Postal Service’s proposals by
21 inserting his own rules into the statute, even as a logical matter, the policy and
22 the proposals are closely tied.⁴ Mr. Mitchell does not dispute that the amount of

⁴ Mr. Mitchell did agree that it is logically possible to link one class of expenses to deficits in a business context, but he qualified that concession to exclude the escrow.

1 revenue sought is limited to the approximate size of the escrow requirement.

2 See response to USPS/VP-T1-1. Surprisingly, however, he attempts to dismiss

3 this relationship as mere “coincidence.” He states:

4 Except for the Postal Service’s unusual decision to propose a
5 contingency level of zero, it seems purely coincidental that the
6 deficit of \$3 billion in the Test Year is approximately equal to the
7 escrow payment of \$3.1 billion.

8
9 VP-T-1, p. 9, Tr. 9/5275. He even tries to ignore the Postmaster General’s clear

10 affirmation that the proposals represent a policy choice to fund the escrow. He

11 can only do this, however, by reinterpreting what the Postmaster General said,

12 rather than by taking him at his word. In elaborating his argument about deficits,

13 Mr. Mitchell states:

14 My *interpretation* of what he said is (i) absent the projection of a
15 deficit for FY 2006, this case would not have been filed, and (ii) a
16 reduction of approximately \$3.1 billion in any cost component or
17 any cost category or any group of costs, including the escrow
18 payment (as it just happens to be the right size), would bring about
19 a no-deficit projection.

20
21 See response to DMA/VP-T1-2(a)(emphasis added), Tr. 9/5394-95.

“I agree that situations exist where the man on the street would view it as a logical to say that a deficit was caused by some event. For example, suppose at a time of a balanced budget and smooth economic sailing, an earthquake destroyed the 12 bridges that were central to the city’s economic functioning, and damaged some buildings as well. A deficit in the city’s budget would occur. If it did, I am sure everyone would agree that it was caused by the earthquake. However, since the escrow payment is not something that occurred suddenly and unexpectedly, it is not clear that this example applies. All Congress did was say that payments made in the past would continue to be made, but would be put into a different pot, for a purpose to be designated.”

See response to DMA/VP-T1-3(b), Tr. 9/5399

1 Furthermore, Witness Mitchell admits to the appropriate classification of
2 the escrow costs as institutional, but he raises objections to identifying the
3 escrow expenses as unqualified institutional costs. In this regard, he admits that
4 the escrow expenses are not volume variable, but he argues that institutional
5 cost is a residual classification, which is calculated by subtracting attributable
6 costs from total costs, and that particular costs cannot be identified as
7 institutional. See response to DMA/VP-T1-2(b), Tr. 9/5395-97.

8 Witness Mitchell's objections, however, are irrelevant and off-target. For
9 purposes of ratemaking, his formalistic counter-examples and argumentation fail
10 to address the implications of the fact that the escrow expenses are not volume
11 variable. Under the Act, costs are either attributable or they are not. Whatever
12 hesitancy Mr. Mitchell may have with labels -- whether the escrow is part of a
13 "residual" or not, or whether it is defined legislatively as an operating expense or
14 not -- the clear fact of the matter is that the escrow expenses are *not* attributable
15 costs. Furthermore, to the extent they are regarded as part of the pool of
16 institutional costs to be assigned, rather than attributed, the escrow expenses
17 would fall under the Commission's authority to allocate institutional costs as a
18 judgmental exercise, in accordance with section 3622(b). As Mr. Mitchell
19 admitted to counsel for DMA,

20 [T]he institutional costs as a whole are distributed to
21 the categories of mail according to the factors in the
22 Act and the Commission's judgment.

23 I think the end of your question was whether or not the
24 process requires some judgment. I would say yes, it does require
25 some judgment. We have a Commission that exercises that
26 judgment and explains the result when they issue an opinion.
27

1 Tr. 9/5430-31.

2 It follows that there would be nothing inconsistent with the policies of the
3 Act, if the Commission were to evaluate the Postal Service's ATB proposals,
4 including the cost allocations that the proposed rates and fees imply, as part of
5 its judgmental assessment in the second stage of pricing under Section 3622(b)
6 of the Act. The first stage would be addressed by affirming that the attributable
7 costs established through the Postal Service's cost estimates for the test year
8 were covered by the proposed rates and fees. The Commission could then
9 evaluate the cost allocation implications of the proposed rates and fees by
10 considering the Postal Service's policy justification for ATB under subsection
11 3622(b)(9), along with consideration of the other factors enumerated in section
12 3622(b).

13 **3. The Commission May Consider The Practical**
14 **Circumstances Underlying The Board's Policy Choice In**
15 **Evaluating The Postal Service's ATB Proposals.**
16

17 In discussing the Board's policy decision to seek funding of the escrow
18 requirement through ATB increases in rates and fees, the Postmaster General
19 explained that the ATB approach was taken, in part, because it was judged to be
20 the fairest, most practical means to adjust rates in a way that would facilitate
21 widespread acceptance through settlement. The Postmaster General stated:

22 One compelling justification for this approach is the
23 likelihood that it will enhance the prospect for settlement of issues
24 in this proceeding, permit a more expeditious conclusion, and allow
25 the Postal Service to begin early in the calendar year 2006 to
26 generate the additional revenues necessary to meet the [escrow]
27 obligation. Moreover, early settlement will allow the Postal Service
28 and postal stakeholders to concentrate on prospective legislative
29 reform and return the pricing focus to issues such as appropriate

1 changes in the rate structure and alignment of institutional cost
2 burden in the interim. In order to simplify this proceeding and to
3 advance the prospect of settlement among as many parties as
4 possible, the Board did not authorize the proposal of any
5 classification changes in this docket.

6
7 Witness Mitchell criticizes those elements of the Board's policy decision.

8 He states:

9 [A]dopting a particular rate approach in hopes of facilitating a
10 settlement, rather than according to the requirements of the Act,
11 simply is not appropriate ratemaking. Put another way, increasing
12 the likelihood of achieving a settlement is not one of the non-cost
13 factors of the Act. And arguments that the Postal Service has a
14 financial interest in implementing rates a month or so sooner lack
15 merit. The Postal Service has had full control over the timing of this
16 case and it has known of the escrow requirement since P.L. 108-
17 18 was enacted on April 23, 2003. Borrowing options are available
18 to allow flexibility and to smooth things out over time. Neither a
19 desire for settlement nor a hurry to realize increased revenue is a
20 credible justification for an ATB approach.

21
22 VP-T-1, p. 16, Tr. 9/5282

23 Thus, Mr. Mitchell challenges the appropriateness of considering the
24 practical context giving rise to the Board's decision to propose ATB rate and fee
25 increases as justification for that approach. Just as there is nothing in the Act
26 that would prohibit consideration of the Board's financial policy objective to fund
27 the escrow requirement, however, there is no basis for excluding consideration of
28 timing and need for procedural expedition as integral elements of the Board's
29 policy choice. Mr. Mitchell has pointed to no statutory language, rule, or
30 Commission precedent that would invalidate the Postmaster General's testimony
31 as justification of the Postal Service's pricing approach. In fact, there is no basis
32 in law or logic to exclude the full reasoning underlying the Board's decision from
33 consideration of the policy justification for ATB.

1 In this regard, Mr. Mitchell appears to go farther than objecting that
2 consideration of such reasons would be inappropriate. As shown in the above
3 quotation, he apparently also objects to the Postal Service's timing of its rate
4 request, and suggests that, if it needed money sooner rather than later, the
5 Postal Service should have borrowed the funds. In fact, although he denied that
6 Valpak's position challenged the timing of the case, or the decision to seek rate
7 and fee increases to fund the escrow, rather than through borrowing, that is the
8 clear implication of his testimony. He states:

9 My view is (i) if a rate case had to be filed, it should
10 have been a full, normal case, (ii) there is no basis
11 for, and no real way to fund, one category of
12 expenses one way and another category of expenses
13 another way, and (iii) the Postal Service should have
14 had no real difficulty in working out any associated
15 problems of timing and financing.

16
17 See response to USPS/VP-T1-8.

18 Mr. Mitchell is entitled to his opinion, but his criticisms have no merit, nor
19 are his suggestions of an alternative policy and approach supported by informed
20 reasoning. It is fully within the prerogatives of the Board, in the exercise of its
21 statutory authority, to manage the Postal Service and to determine when, how
22 and for what purposes to request recommendations on changes in rates and
23 fees. Postmaster General Potter's testimony and the testimony of the Postal
24 Service's revenue requirement witness, Mr. Tayman, USPS-t-6, fully explain the
25 Board's financial policy choices, including the reasons supporting the Board's
26 decision to request rate and fee increases to cover the escrow cost. Among
27 those reasons was the desire to shorten the usual time between the filing of a

1 rate request and the implementation of rates and fees. An important
2 consideration, furthermore, was to enhance the chances for settlement by
3 formulating proposals that would avoid many of the issues that usually lead to
4 protracted litigation.

5 Mr. Mitchell has produced no evidence that, from a postal policy
6 perspective, the Board's decisions in these matters were flawed. The
7 responsibility for these decisions and the policies that motivate them are
8 inherently judgmental, and authority to make them is vested exclusively in the
9 Board under the Act. Mr. Mitchell cannot substitute his personal preference or his
10 judgment for the Board's on these policy matters.

11

12 **B. The Parties' Settlement Efforts Do Not Conflict with the**
13 **Ratemaking Process Under the Postal Reorganization Act.**
14

15 Mr. Mitchell has decried the procedural course this case has taken, as a
16 result of the Postal Service's ATB proposals, and particularly the efforts by the
17 parties to seek resolution through settlement. He states:

18 Focusing on settlement as a goal in such a situation
19 introduces a dynamic that may be out of line with appropriate
20 ratemaking. It is altogether possible that the Postal Service, in
21 negotiating with intervening parties, who may represent the
22 interests of some mailers to the neglect of others, will find that it
23 can achieve settlement by proposing rates that it cannot justify as
24 most appropriate, in hopes that the Commission will do little more
25 than certify that the rates in the settlement are within a range
26 allowed by law, instead of being the best for the nation. The
27 incentives of such a dynamic are unacceptable and should not be
28 allowed to dictate the nation's postal rates and fees.
29

1 VP-T-1, p. 17, Tr. 9/5283. When asked to define rates that would be “best
2 for the nation,” he responded:

3 The Act establishes a set of guidelines for setting rates and
4 provides for review and decision-making by five commissioners.
5 The process is guided as well by Commission rules and by
6 principles the Commission has adopted. The usual procedure is for
7 the Commission to be presented with proposals and testimony from
8 the Postal Service and interested parties. When the Commission is
9 presented with a complete record and makes an unencumbered
10 recommendation (*meaning, for present purposes, that it is not*
11 *presented with a settlement agreement, unanimous or not*), I view a
12 recommended decision coming from such circumstances as the
13 best for the nation.
14

15 Response to USPS/VP-T1-9(b)(emphasis added). When asked to explain
16 what criteria would be applied to develop “best for the nation” rates, he
17 clarified as follows:

18 I do not contend that one can focus on the items you identify, or on
19 any other list, and specify how certain treatment of them would lead
20 to the best rates. Rather, I define rates that are best for the nation
21 in terms of *the result of a deliberative process*.
22

23 Response to USPS/VP-T1-10 (emphasis added).

24 Witness Mitchell thus claims that the Postal Service’s filing is, in effect,
25 procedurally deficient, not only because the proposed rates are inappropriate, but
26 because it has circumvented the normal “process” intended by the Act. He
27 states:

28 I have not argued that the Postal Service’s filing violates any
29 principle of law, nor have I argued that the Commission’s review
30 cannot recognize any financial situation that exists. But as a
31 practical matter, the ratemaking scheme as implemented by the
32 Commission requires that cases be examined thoroughly, relative
33 to the Act, and that current costs be fully recognized. I do not think
34 the Postal Service’s filing in the instant docket meets this test,
35 which is to say that this case as filed does not adequately
36 recognize current costs and the guidance in the Act.

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Response to USPS/VP-T1-6(a). He states further:

Nothing in the section of my testimony you cite argues that any specific principle of law has been violated. However, it is my view that the case does not appropriately honor the regulatory scheme that has evolved under the Act and that I believe to be encompassed by the Act. For example, I believe it is better to use current costs than historic costs to set rates, a view the Commission has expressed in the past. See Docket No. R94-1, *Op. & Rec. Dec.*, p. 1-5, ¶ 1017.

Response to DMA/VP-T1-8(b), Tr. 9/5409-10)

Mr. Mitchell’s claim that the Postal Service’s proposals should be rejected because the Act intends or “encompasses” a particular “ratemaking scheme” or “regulatory scheme,” as he defines it, is wrong and misleading. While the Act prescribes a legal process, as guaranteed under statutory guidelines implemented by Commission rules of procedure, it does not dictate any particular course for any proceeding initiated by the Postal Service; nor does it dictate the form or contents of the record developed to review any particular proposal. The Commission’s rules, furthermore, do not specify or limit the Postal Service’s proposed pricing approach in any case, or require participants to disagree with the Postal Service, if an acceptable settlement can be reached. Rather, as noted above, the Commission’s rules specifically governing omnibus rate cases, for the most part, merely set out the type of information and explanations that the Postal Service must provide when it requests rate and fee changes. 39 C.F.R. § 3001.54. Far from proscribing settlement efforts the rules are constructed to facilitate them. 39 C.F.R. § 3001.29.

1 In this case, the Postal Service has followed all applicable Commission
2 rules. No part of the ratemaking process, or scheme, as set forth in the Act and
3 the Commission’s rules, has been circumvented by the Postal Service or the
4 other parties in their attempt to fashion a settlement to this case.

5 By contrast, Mr. Mitchell’s “appropriate ratemaking process”—one that
6 views settlement as an “encumbrance”—is described nowhere in the Act or in the
7 Commission’s rules. In fact, the Commission’s rules, its practice, and its public
8 statements all would support the conclusion that appropriate ratemaking favors,
9 rather than discourages, settlement, as long as the proceeding has been fairly
10 conducted and the Commission has taken into account all relevant
11 considerations in making its recommendations.

12 Furthermore, Mr. Mitchell has provided no evidence that the parties to the
13 settlement have failed to comply with any of the Commission’s rules. The only
14 “failures” that he might point to are that the parties have failed to meet his own
15 personal standards for adhering to the “appropriate ratemaking process.” Chief
16 among these failures, apparently, is that the Postal Service has proposed a
17 settlement that a number of parties appear to be willing to accept.

18 Aside from failing his “no settlements” test, however, it would appear that
19 the process followed in the current case would satisfy even Mr. Mitchell’s strict
20 requirements. He states:

21 This process requires the Postal Service to present and discuss all
22 bases for the rates proposed. It must be transparent with all of its
23 policy positions. Following the filing, the Commission and
24 interested parties examine the case, explore alternatives, and have
25 the opportunity to supplement the record with information and
26 analyses that might be helpful to the Commission. In the end, the

1 Commission makes a recommendation based on the Act, its
2 judgment, and the record developed.

3
4 VP-T-1 at 19, Tr. 9/ 5285.

5
6 All of these steps have been, or will be taken. Mr. Mitchell has not shown
7 that the Postal Service has failed to “present and discuss all bases for the rates
8 proposed.” The testimonies of witnesses Potter, Robinson and Taufique present
9 clear and thorough demonstrations of the bases for the rates proposed, and
10 show how the Postal Service’s specific proposals meet the requirements of the
11 Act. Furthermore, the Commission and all interested parties have had ample
12 opportunities to “examine the case, explore alternatives, and...supplement the
13 record with information and analyses.” Few parties have chosen to attack the
14 Postal Service’s proposals, and, if only judged by their failure to conduct
15 discovery, engage in cross-examination, and submit rebuttal, most participants
16 have found the proposals acceptable given the current circumstances.

17 Finally, the Commission will, as it always has, base its recommendation
18 “on the Act, its judgment, and the record developed.”

19 Therefore, if we discard Mr. Mitchell’s unreasonable rejection of all
20 settlements, this case fulfills even his own process requirements, which are much
21 more stringent than the specific requirements of the Act or the Commission’s
22 rules.

1 **C. The Across-the Board Pricing Approach Conforms to Statutory**
2 **Requirements, Is Supported on the Record, and Produces**
3 **Reasonable Rate Increases for Standard ECR and Other Mailers**
4

5 **1. An Across-The-Board Rate Increase Proposal Is**
6 **Permitted Under The Act.**
7

8 Witness Mitchell claims that the Postal Service's ATB rate increase
9 proposal is inconsistent with the ratemaking scheme and requirements outlined
10 in the Act. Most succinctly, he states:

11 It would be a coincidence of monumental unlikelihood for the full
12 scheme outlined in the Act to collapse to a simple ATB proposal.
13

14 VP-T-1 p. 21, Tr. 9/5487. He further cites the Commission's critique of the
15 Postal Service's ATB proposal in Docket No. R94-1. *Id.*, pp. 21-22,
16 footnote 12, Tr. 9/5487-88. In Docket No. R94-1, the Commission
17 observed:

18 The Postal Service's across-the-board filing is inconsistent with
19 cost-based ratemaking. The request ignores changing differences
20 in costs between the classes of mail, includes no analysis of
21 changing cost patterns within subclasses; and would result in
22 substantial changes in the allocation of institutional costs among
23 the subclasses of mail. The Service's rate proposal ignores
24 changes in attributable costs.
25

26 PRC Op. R94-1, ¶ 1017. Mr. Mitchell reinforces the Commission's
27 statement in that case, and concludes that only pricing proposals that track
28 changes in costs since the last rate proceeding can pass muster under the Act.

29 Mr. Mitchell, however, does not deny that, in this proceeding, the Postal
30 Service, pursuant to the Commission's rules and extensive discovery, has
31 presented sound evidence of individual levels of costs in the test year, including

1 detailed special cost studies, based on recent data collection and cost analyses.
2 This record evidence supports the Postal Service's position that the only
3 *requirement* in Section 3622 of the Act has been met: that proposed rates must
4 cover attributable costs and contribute to all other costs (Section 3622(b)(3)).

5 As noted above, furthermore, the Act does not restrict the pricing
6 proposals that the Postal Service may submit with its Request (subject to the
7 requirement of Section 3622(b)(3)), nor does it limit the factors that the
8 Commission may consider in evaluating those proposals. In fact, under the Act,
9 the Commission is given broad latitude to consider "such other factors as the
10 Commission deems appropriate." 39 U.S.C. § 3622(b)(9). In this regard, even
11 witness Mitchell has admitted that the Commission's authority to consider other
12 factors is not limited by the statute. He stated:

13 aside from the record developed in the case at issue, its own
14 judgment, and the other policies of the Act, I know of no limits on
15 what other factors this section might allow the Commission to
16 consider.

17
18 Response to DMA/VP-T1-5, Tr. 9/5403.

19 **2. Sound Policy Reasons Support The Postal Service's ATB**
20 **Request.**
21

22 As discussed above, Mr. Mitchell attempts to restrict the Postal Service's
23 justification for its proposals in this case by fabricating invalid rules of logic and
24 non-existent accounting and ratemaking principles. Notwithstanding the
25 Commission's views in Docket No. R94-1, however, I believe that, in this case,
26 the Postal Service's pricing approach and proposals are fully justified by the
27 Board's legitimate policy objective. Furthermore, I believe that the ATB approach

1 has been adequately explained and supported on the record, and reconciled with
2 all applicable ratemaking policies and principles. In particular, the testimonies of
3 witnesses Potter, Tayman, and Robinson provide ample justification for the
4 Postal Service's approach.

5 **3. The Act Does Not Require Rate Change Proposals To**
6 **Track Cost Changes.**
7

8 As noted above, Witness Mitchell objects that the Postal Service's ATB
9 rate change proposal is inappropriate because it does not track the cost changes
10 that have occurred since the last rate case. For example, during cross-
11 examination, he stated:

12 In fact, I think I said in my testimony that one could hypothesize
13 certain situations and say if these situations were met then the
14 natural outcome of a normal rate process might be an across-the-
15 board increase, but I don't think those conditions have been met.
16

17 Q. That's the crux of the of the problem that you have with this
18 case, isn't it, that the current rates are not appropriate? They are
19 out of line with costs and that this is the case where the
20 Commission ought to take at least a first step in fixing that
21 disparity?
22

23 A. Well, I certainly talked about the case in terms of cost. The
24 first part of your question was about costs. I don't think one can
25 make the case that Postal Service costs haven't changed in the last
26 three or four years.

27 I think we have every reason to believe that all kinds of
28 changes have occurred. All kinds of adjustments have been made.
29 Technology has been put in place. Equipment has been put in
30 place. Mail practices have changed.

31 There's been a lot going on, and if you look at the Postal
32 Service's cost presentation in this case, you know, you see some
33 costs that went up 30 percent and some when down 10 percent
34 and some went up six percent and so it paints a picture of massive
35 change, massive adjustment, massive differences from what we've
36 seen in the past.

1 None of these were recognized in rate design. There wasn't
2 one rate design spreadsheet in the whole case that gave us a
3 presort tree or anything like that and said, you know, here's what
4 this cost is now and here's what it was in the past and here's how
5 we should recognize it in a pass-through. These things weren't
6 even calculated after-the-fact.

7 Yes, I think one could say gee, if nothing has changed, nor
8 relative costs are different, no market conditions are different, it's
9 altogether possible that a perfectly reasonable rate process if
10 nothing was brought into the record before this, one could say gee,
11 the outcome of that would probably be approximately the same
12 percentage increase for everybody. That hasn't been examined,
13 and I don't think that situation applies.

14
15 Tr. 9/5450-51. Elsewhere, he states:

16 It is true that I believe the Postal Service strayed from a process or
17 recognizing current costs and giving full recognition to the policies
18 and factors in the Act, as developed further and implemented by
19 the Commission, and that I believe it not to be in the best interests
20 of the Postal Service or the nation for the Postal Service to have
21 done this. The Commission should be aware that such things (as
22 straying) are possible, which makes it all the more important for the
23 Commission to judge the case on its merits and not be swayed by
24 arguments that the Postal Service and participants adhering to a
25 settlement agreement want the rates in the agreement.

26
27 Response to USPS/VP-T1-7(b).

28 The requirement that Mr. Mitchell enunciates, however, that rate change
29 proposals must always track costs changes for individual mail categories, is not
30 found in either the Act or in the Commission's rules. Notwithstanding the
31 Commission's Opinion in Docket No. R94-1, furthermore, while in most
32 circumstances it may be desirable to reflect cost changes in rates, neither the
33 Postal Service's policy, nor Commission rules or practice would automatically
34 exclude an ATB approach to pricing, when it is justified by sound policy and
35 circumstances supported on the record. In particular, no ratemaking principle
36 with which I am familiar would restrict Commission consideration of ATB on the

1 record established so far in this proceeding.⁵ In light of the that record, I
2 conclude that Mr. Mitchell's objections that the Commission cannot recommend
3 the Postal Service's ATB proposal because its rate changes do not specifically
4 track cost changes since the last rate case do not warrant rejection of the Postal
5 Service's proposals.

6 **4. The Postal Service's ATB Rate Change Proposal Does**
7 **Not Unreasonably Affect The Development Of Rates**
8 **Over Time.**
9

10 Mr. Mitchell claims that an ATB rate increase will disrupt the normal and
11 appropriate progression of rates over time. He states:

12 Progress in rates over time requires changes. Given this, any
13 procedure that slows the development and implementation of
14 optimal rates or makes them more difficult to attain is suspect on its
15 face.

16
17 VP-T-1, p. 30, Tr. 9/5296.

18
19 He observes further:

20
21 The key to the dynamic impact of a particular omnibus rate docket
22 lies in the importance of considering the *effects* of the increases on
23 mailers and other parties. Indeed, the Act specifically requires that
24 consideration be given to "the effect of rate increases upon the

⁵ Even Mr. Mitchell admits that he can conceive of situations in which an ATB approach to pricing might be justified, although he insists this is not one of them. He states:

No suggestion is being made that rates recommended in a normal rate case would never turn out to involve proportionate increases in some collections of rates, possibly including entire subclasses. One can make the case, in fact, that if a set of markup indexes is approximately maintained and neither relative costs nor a range of relevant exogenous factors change, the natural outcome of a normal rate process would be expected to have an ATB character.

VP-T-1, p. 23, Tr. 9/5289

1 general public, business mail users, and enterprises in the private
2 sector of the economy engaged in the delivery of mail matter other
3 than letters.” 39 U.S.C. section 3622(b)(4).

4 It is perfectly obvious that if an ATB increase is implemented
5 instead of any increase that varies in size among rate categories,
6 the increases required in the *next* case to reach a meritorious rate
7 position will be for some categories larger than otherwise would be
8 the case, and thus that an ATB case will lead in all likelihood to
9 arguments of rate shock in the next case, which might keep the
10 meritorious position from being reached.¹³ Therefore, the nation
11 would be expected to be worse off. Such a result cannot be
12 considered a consistent application of the Act.
13

14 ¹³ Mailers receiving lower-than-appropriate rate increases in an
15 ATB case could receive tempered rates in the next case, at a cost
16 to other mailers, but they would not likely be asked to make catch-
17 up payments. In a related situation in Docket No. R90-1, the
18 Commission said: ‘We must recommend test year rates which are
19 fair and equitable for test year mailers; they should not, and are not,
20 designed to provide a “catch-up” for past decisions.’ *Op. & Rec.*
21 *Dec.*, Docket No. R90-1, p. IV-35, ¶ 4112.”
22

23 VP-T-1, p. 23 & n. 13, Tr. 9/5289.

24 Witness Mitchell’s contentions lack merit in this case for three reasons.

25 First, his references to “optimal rates” and “meritorious position” suggest that
26 there is some “right” set of rates sanctioned by the Act that should be
27 recommended, and that would be recommended were there no ATB proposal.

28 Yet, Mr. Mitchell himself testifies:

29 My conception is that the Act provides both guidance and strictures,
30 that neither of these are precise, and that more than one set of
31 rates is consistent with them.”
32

33 Response to USPS/VP-T1-9(a). The Commission, furthermore, has

34 stated:

35 “There is no single set of rates which is so ‘right’ that any deviation
36 from it would produce rates which would be unlawfully unfair or
37 inequitable.”
38

1 PRC Op. R87-1, ¶ 4001.

2

3 Secondly, Mr. Mitchell's contentions fail because they are predicated on
4 the assumption that the Commission, if it approves an ATB rate increase, has not
5 met its responsibility to consider the future consequences of its
6 recommendations and find that the benefits of its recommendations outweigh any
7 likely negative outcomes.

8 Thirdly, Mr. Mitchell's contentions lack merit because they are largely
9 speculative constructs. While he develops a mathematical model to illustrate his
10 point, and concludes that considerations of "rate shock" would preclude
11 "meritorious" rates from being set in the next case, his results actually flow from
12 the speculative assumptions used to populate his model. See VP-T-1 at 27-30,
13 Tr. 9/5293-96. Mr. Mitchell provides no credible forecasts showing in any way or
14 with any specificity that his negative scenarios are probable. His claims should
15 be rejected.

16 The Postal Service's witnesses have provided substantial evidence
17 supporting its view that there are good, sound policy reasons to support its ATB
18 request. With any rate request, there is some risk that conditions may turn out
19 different than forecast when the case was litigated. It is normal for the
20 Commission to take this into account when it recommends rates. In this case,
21 witness Potter has testified that the Postal Service intends to file the next rate
22 case soon. His assurance of an opportunity in the near future to investigate rate
23 relationships and consider appropriate changes blunts whatever residual merit

1 Mr. Mitchell's claims may have. The Commission should give no weight to Mr.
2 Mitchell's speculative hypothetical scenarios.

3 **IV. THE PROPOSED ECR RATES ARE REASONABLE AND CONSISTENT**
4 **WITH STATUTORY REQUIREMENTS**

5
6 **A. THE POSTAL SERVICE'S RATE PROPOSALS FOR ECR**
7 **RATES YIELD A PERMISSIBLE COST COVERAGE AND**
8 **ARE SUPPORTED BY THE RECORD**
9

10 Witness Mitchell's testimony claims that ECR has a cost coverage that is
11 "too high and should be reduced" in this case (VP-T-1 at 37 Tr. 9/5303)
12 Specifically, Mr. Mitchell contends that the proposed rates for ECR are
13 impermissibly high because one of the goals of creating the ECR subclass was
14 to recognize market and demand differences for saturation mail and thereby
15 lower its cost coverage and that goal has not been achieved despite several
16 intervening rate cases: "The cost coverage has not been reduced, and I find no
17 basis for the argument that market or demand differences have been
18 recognized." (VP-T-1 at 45, Tr. 9/5311). Mr. Mitchell then advocates that the
19 appropriate cost coverage should be at the level of the former Third Class, 146.2
20 percent from R90-1. VP-T-1 at 58, Tr. 9/5324. See also, VP-T-1 at 52, Tr.
21 9/5318.

22 Mr. Mitchell further contends that, not only have rates not been lowered
23 sufficiently by the creation of the ECR subclass, but that they are now higher
24 than they would have been had the subclass not been created (VP-T-1 at 48).
25 Mr. Mitchell concludes that since the cost coverage is too high, the rates are not
26 supported by the Act. I disagree. The proposed ECR rates are reasonable; they

1 are in line with recent Commission decisions; and they represent part of a
2 balanced proposal that is well within the Commission's authority to recommend.

3 Mr. Mitchell's arguments inappropriately treat the ECR rates as if they
4 could be considered in isolation, without also considering the possible effects of
5 changing them on other subclasses and special services. When proposing and
6 recommending rates, however, the Postal Service and the Commission must
7 balance the needs of the entire postal system. Because of the Postal Service's
8 breakeven requirement in this case, if ECR rates are to be reduced, other
9 mailers' rates must increase. Mr. Mitchell, however, has not presented any
10 usable evidence that demonstrates which other subclasses' rates are unfairly,
11 inequitably, or even undeservedly low, and which could be painlessly tapped to
12 reduce the ECR cost coverage. In this regard, in the unique circumstances of
13 this case, the Postal Service's need to fund the escrow obligation affects all
14 customers, and it would be unreasonable and inequitable for any single subclass
15 to be excused from bearing its share of the burden.

16 Mr. Mitchell is inviting the Commission to open a Pandora's box by
17 adjusting cost coverages and rate relationships when the only party to challenge
18 the pricing and rate design in this case has been Valpak. Mr. Mitchell himself
19 has failed to provide an adequate record to make such adjustments. That is not
20 to say that Mr. Mitchell has not raised important issues. I readily acknowledge
21 that his concerns, as well as those of other mailers, should be given due
22 consideration in the future. In light of the unique circumstances of this case,
23 however, including the prospects for settlement, I would strongly recommend that

1 such concerns be assessed in a future proceeding, and that they not deter the
2 Commission from recommending the rates proposed by the Postal Service.

3 In arguing that the cost coverage is too high, Mr. Mitchell's testimony
4 appears to endorse the concept of keeping ECR's cost coverage constant at the
5 values recommended by the Commission in Docket No. R90-1, 146.2 percent.⁶
6 The Commission's recommendations of coverages and appropriate markups
7 change over time, however, based on its consideration of the record evidence
8 before it in each docket. Consequently, it should reject Mr. Mitchell's notion that
9 an R90-1 markup is appropriate for ECR in 2006.⁷

10 Finally, a significant portion of Mr. Mitchell's testimony is occupied by his
11 attempts to develop an "alternative history" for ECR that apparently attempts to
12 make at least the following points:

- 13 • If the ECR subclass had not been created, passthroughs would have
14 moved to 100%. Tr. 9/5311
- 15 • If the ECR subclass had not been created, saturation mail rates would
16 have been lower than they are today. Tr. 9/5314

17 I cannot prove that these assertions are false since I have no way to know
18 with any reasonable certainty how saturation mail's history would have evolved
19 had certain events not taken place. But, I assert, Mr. Mitchell does not know
20 either. Despite an extensive attempt at "scientific" modeling, what drives his

⁶ See, for example, VP-T-1 at 58, Tr. 9/5324, lines 7-9.

⁷ I would also note that reliance on R90-1 cost coverages has substantial financial implications. Given the growth in the delivery network and the implications for institutional costs versus the relative reduction in attributable costs due to worksharing and automation along with other efforts, R90-1 cost coverages would fail to allow the Postal Service to achieve financial breakeven.

1 results is fundamentally his own assumptions about what would have happened.
2 And here witness Mitchell can offer nothing more than speculation.

3 Witness Mitchell assumes that without a separate subclass for saturation
4 mail, passthroughs of estimated cost differentials between carrier route and
5 regular rate mail would have moved to 100%. Yet he offers no evidence—only
6 his opinion—to bolster this claim.

7 Mr. Mitchell has also provided no evidence that the Postal Service or the
8 Commission would have viewed the trajectory of saturation mail rates (beyond
9 the rate relief obtained in Docket No. MC95-1 and subsequent rate cases) any
10 differently if the ECR subclass had not been created and saturation mail rates
11 could only be lowered by making certain passthroughs closer to 100%.

12 Witness Mitchell’s testimony on this subject, resting only on his
13 assumptions about how the Postal Service and Commission would have acted
14 had there been no ECR subclass, lacks any merit and should be disregarded.

15 In short, the Postal Service has evaluated its proposal against the
16 requirements of the Act and, as testified by witnesses Potter and Robinson, the
17 proposed prices represent a reasonable policy response to a unique financial
18 challenge, a response that is fair and equitable and meets all the Act’s
19 requirements.

20
21 **B. WITNESS MITCHELL’S RATE DESIGN CONCEPTS LACK**
22 **SUFFICIENT MERIT TO BE THE BASIS FOR SUPPLANTING**
23 **THE PROPOSED SETTLEMENT RATES**

24 Witness Mitchell’s discussion of alternative rate design sets forth
25
26 three principal concepts: (i) that ECR cost coverage should be reduced 10

1 percentage points and, as a result, that rates should remain unchanged at
2 their current values; (ii) the letter-flat cost differential passthrough for ECR
3 should be at least 100%; and (iii) that the rates for ECR Basic letters be
4 “decoupled” from the rates for 5-digit Standard Mail Regular Automation
5 letters. (VP-T-1 pp. 80, 82, 83).

6 Mr. Mitchell’s concepts, while not frivolous, do not provide the
7 record with the foundation that would be necessary to form the basis of a
8 redesign of rates. The Postal Service has provided the Commission with
9 the necessary record support for its specific rate proposals, which
10 represent a careful balance among ratepayers that meets the criteria of
11 the Act.

12 By comparison, Mr. Mitchell fails even to propose any rates. Rather
13 he has put forth rate design ideals whose end result would be that Valpak
14 would pay less postage than under the rates recommended by the Postal
15 Service. In doing so, he has failed to discuss the impact that his rate
16 design concepts would have on other ratepayers.

17 For example, Mr. Mitchell’s proposed freezing of current ECR rates
18 could not be achieved, given the Postal Service’s breakeven requirement,
19 without raising the rates paid by other mailers. This would upset the
20 delicate balance presented in the Postal Service’s rate proposals.

21 Mr. Mitchell also suggests, as an aside and without discussion, the
22 following additional rate design concepts: (i) generally set all other cost
23 differential passthroughs to 100%; (ii) set the increases for the residual

1 shape surcharge, the parcel barcode and the pound rates to conform with
2 the subclass average rate increase; (iii) set the drop-ship discounts using
3 the Docket No. R2001-1 passthroughs; and (iv) set the rates for Standard
4 Mail Nonprofit and NECR such that the average revenue ratio of Public
5 Law 106-384 is 60% with only deviations for rounding conventions
6 permitted. These concepts are presented as an afterthought and Mr.
7 Mitchell has failed to provide the support that would be needed if they
8 were to be used by the Commission as the basis for redesigning the
9 rates. They lack merit and should be disregarded.

10 To summarize, Mr. Mitchell's specific rate design proposals are
11 largely, unspecified unsupported and unhelpful. Their common themes are
12 that they are self-serving, and they do not provide the Commission with
13 either the specificity or the information it would need to implement them on
14 a fair and defensible basis. They should be rejected.

15

16 **V. THE POSTAL SERVICE IS ALREADY IN THE PROCESS OF**
17 **EXPANDING ITS DATA COLLECTION EFFORTS WITH RESPECT**
18 **TO DALs**

19
20 On pages 25 and 80 of his (revised) testimony, Dr. Haldi makes the point
21 that the sheer number of DALs in the postal system warrants enhanced attention
22 in the data collection process. Although I am not a data system witness, I have
23 been asked to update the Commission on relevant developments regarding this
24 subject.

1 In the March 17, 2005 Postal Bulletin (No. 22150, which can be found on
2 the Postal Service's webpage), starting on page 11, notice was provided
3 of redesigned postage statements. On pages 12 and 13 of the Postal Bulletin,
4 the text of the notice mentions a new data collection box for DALs on the
5 Standard and Nonprofit Standard postage statements. The new DAL reporting
6 box can be seen on the actual revised postage statements on pages 27 and 36
7 of the Postal Bulletin. As indicated on page 11 of the Postal Bulletin, the new
8 postage statements became available effective April 3, 2005, and mailers using
9 DALs were among the few not allowed to continue to use the previous postage
10 statements.

11 I am informed that the Postal Service's data systems personnel are
12 proceeding through the steps necessary to capture the new DAL information
13 from the postage statements for data system reporting purposes. It is my
14 understanding that completion of that process is anticipated sometime after the
15 start of FY 2006. It appears, therefore, that the Postal Service shares Dr. Haldi's
16 views regarding the need for improved data collection with respect to DALs, and
17 had actually initiated efforts to achieve that objective even before this case was
18 filed in April.