

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

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In the Matter of: )  
 )  
REQUEST OF THE )  
UNITED STATES POSTAL SERVICE )  
FOR A RECOMMENDED DECISION ) Docket No. R2005-1  
ON CHANGES IN RATES OF )  
POSTAGE AND FEES FOR )  
POSTAL SERVICES )

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INTO THE RECORD

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## HERITAGE REPORTING CORPORATION

*Official Reporters*  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Request of the United States Postal  
Service for a Recommended  
Decision on Changes in Rates of  
Postage and Fees for Postal  
Services

Docket No. R2005-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party

Interrogatories

**United States Postal Service**

**Jeffery W. Lewis (USPS-T-30)**

Advo, Inc.

Response to Questions Posed at Hearing- 7/7/05  
(Tr.6/2413-15)

**Institutional**

Advo, Inc.

ADVO/USPS-1-10

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

**United States Postal Service**

**Jeffery W. Lewis (USPS-T-30)**

Response to Questions Posed at Hearing- 7/7/05  
(Tr.6/2413-15)

Advo

**Institutional**

ADVO/USPS-1

Advo

ADVO/USPS-2

Advo

ADVO/USPS-3

Advo

ADVO/USPS-4

Advo

ADVO/USPS-5

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ADVO/USPS-10

Advo

**United States Postal Service**

**Institutional**

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-1.**

The USPS now requires that most if not all saturation letters be automation-compatible with barcodes. With respect to that requirement, please provide:

- (a) The postal regulations covering this requirement.
- (b) The date on which those regulations were implemented.

**RESPONSE:**

- (a) The applicable DMM regulations are as follows:

Saturation ECR Standards

243. 6.5.1 Basic Eligibility Standards for Saturation Rates

Saturation rates apply to each piece that is automation-compatible according to 201.3.0, Physical Standards for Automation Letters and Cards, has a delivery point barcode under 202.5.0, Barcode Placement, and 708.4.0, Barcoding Standards for Letters and Flats, and is in a full carrier route tray or in a carrier route bundle of 10 or more pieces placed in a 5-digit carrier routes or 3-digit carrier routes tray. Pieces that are not automation-compatible or are not barcoded are mailable at the saturation rate for a flat-size piece. Pieces bearing a simplified address do not need to meet the standards in 201.3.0, Physical Standards for Automation Letters and Cards, and are not required to have a delivery point barcode to qualify for letter rates.

- (b) This regulation was implemented on June 30, 2002.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-2.**

(a) What are the USPS policies or management guidelines on the circumstances when automation-compatible saturation letters destined for city routes are run through DPS automation. If none are available, provide any generalizations possible concerning these conditions and how decisions to DPS saturation letters are made.

(b) If the response to (a) above differs depending upon whether the saturation letters are entered at the DDU or at another facility, please explain fully the differences.

**Response:**

Please see the August 9, 2000 memorandum below.



August 9, 2000

MANAGERS, DELIVERY PROGRAMS SUPPORT (AREA)  
MANAGERS, IN-PLANT SUPPORT (AREA)

SUBJECT: Processing Carrier Route Presort for Delivery Point Sequence (DPS)

The following establishes standard operating procedures for processing carrier route presort mail in a delivery point sequencing (DPS) environment and supersedes prior instructions.

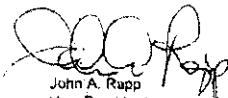
For those zones being processed to DPS, all automation-compatible letter mail is to be processed to the DPS level, including carrier route presort within operating parameters.

Procedures must be implemented to capture all carrier route presort letters that are automation-compatible for delivery point sequenced offices at the processing and distribution plant. Automation-compatible presort letters received at the delivery unit should be returned, service standards permitting, to the office where sequencing is performed. This mail must be conspicuously identified as DPS candidate mail.

Mailings with specific delivery window requests must be identified and processed in time to assure delivery within the requested delivery window. It is imperative that in our efforts to increase delivery point bar-coded mailpieces, we also maintain the consistent timely service that our presort customers expect. Procedures should be developed to ensure that proper color-coding is maintained throughout the preparation, transportation, and distribution process.

Implementation of this SOP will impact the processing plant as well as customer services offices. Both groups should jointly establish a process that captures carrier route presort without negatively impacting service.

Please distribute this information to the offices in your area.

  
John A. Rapp  
Vice President  
Delivery

  
Nicholas F. Barranco  
Vice President  
Operations Planning and Processing

U.S. POSTAL SERVICE  
WASHINGTON, DC 20262

Docket No. R2005-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-3.** With respect to saturation letter mailings entered at the DDU:  
(a) Are some of them still transported back to the SCF for DPS processing? If so, please explain fully the conditions when that is done.

(b) Please provide all information available on the proportion of saturation DDU letters that are transported back to the SCF for DPS processing.

**Response:**

A) As indicated in the response to ADVO/USPS-2, the Postal Service expects managers of delivery units receiving DPS processing to send to the plant all automation compatible letter mailings that arrive at their unit outside of the DPS mailstream. The only exception is when sending the mail to the plant for DPS processing would adversely affect the service expectations of our customer.

B) The Postal Service does not track the volume of mail that delivery units backflow to Plants for DPS processing.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-4.** With respect to the decision to DPS saturation letter mailings:

(a) For saturation letters that are entered by the mailer at the destination SCF or further upstream, is the decision whether to DPS the mailing at the plant made by plant managers at the SCF or by carrier supervisors at the DDU? Please explain.

(b) For saturation letters entered by the mailer at the DDU, is the decision whether to transport those letters back to the DSCF for DPS processing made by the carrier supervisors at the DDU or by the managers at the DSCF? Please explain.

**Response:**

Once Operations initiates DPS letter mail processing for a delivery unit, managers must implement processes to capture all of the unit's automation compatible letter mail for DPS processing.

A) The plant manager is responsible for capturing saturation letters that mailers enter at the destination SCF or further upstream and processing those letters into the DPS mail stream.

B) The delivery unit manager is responsible for capturing automation compatible saturation letters that mailers enter at the delivery unit and backflowing those letters to the plant for DPS processing.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-5.** The following questions relate to decisions by plant managers or supervisors on whether and how to DPS a saturation letter mailing that is received at a destination SCF (i.e., a saturation mailing that is entered by the mailer at the destination SCF or further upstream).

(a) Does the USPS ever break up the mailing so that it only DPSs the pieces that go to certain type of routes (e.g., foot or park-and-loop) and then transfers the remainder of the mailing to the DDU for delivery as either cased or sequenced (extra-bundle) mail? Please explain.

(b) Does the USPS ever break up the mailing so that it only DPSs the pieces that go to certain types of delivery sections on the various routes (e.g., foot or park-and-loop) and then transfers the remainder of the mailing to the DDU for delivery as either cased or sequenced (extra-bundle) mail? Please explain.

(c) Explain whether and how plant personnel would know which portions of addresses in the mailing should be pulled and segregated from a saturation letter mailing for separate DPS processing, and describe the process by which those address portions would be pulled and separately handled for DPS processing (e.g., the process and time spent looking up address schemes by delivery method, physically pulling sections of addresses from the mailing, transferring of the pulled sections to DPS equipment, and any re-traying of the remaining non-DPSed portions of the mailing for transportation to the delivery units).

(d) At the destination SCF, is it more practical for a saturation letter mailing to

- (i) be split into parts for selective DPS processing of specific address sections by route type or delivery method, with the remainder of the mailing bypassing DPS processing, or
- (ii) be processed intact with the entire mailing either being DPSed or cross-docked for transportation directly to the delivery units?

**Response:**

For a number of reasons, plant operations do not break up SCF-entered saturation mailings based upon route type or whether carriers can take certain pieces directly to the street as additional bundles. Given the DBCS equipment's throughput, it is unlikely that such an operation could prove economical.

Additionally, plants do not have the information or operating window to make such a separation. For these reasons, plants delivery point sequence all the

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

pieces from automation compatible letter-shaped mailings for automated zones  
and cross-dock letter-shaped saturation mailings for non-automated zones.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-6.** What are the USPS policies or management guidelines on the circumstances, or any generalizations as to when:

(a) Non-DPS saturation letters are cased by city carriers. If the response depends on the type of city carrier route or type of delivery sections, or on the characteristics of the mailing, please explain.

(b) Non-DPS saturation letters are sequenced (carried out as extra bundles/trays) by city carriers. If the response depends on the type of city carrier route or type of delivery sections, or on the characteristics of the mailing, please explain.

**Response:**

As indicated in the response to ADVO/USPS-2, the Postal Service expects managers of delivery units receiving DPS processing to send to the plant all automation compatible letter mailings that arrive at their unit outside of the DPS mailstream. The only exception is when sending the mail to the plant for DPS processing would adversely affect the service expectations of the customer.

A and B) When a delivery unit manager cannot backflow a sequenced mailing for DPS processing due to the lack of automation compatibility or potential service impacts, the unit supervisors should direct carriers to take pieces from the mailing directly to the street as an additional bundle except where constrained by the three bundle work rule. Carriers can work from more than three bundles when delivering to curblines, cluster boxes, centralized, and dismount deliveries.

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INTERROGATORIES OF ADVO

**ADVO/USPS-7.** Is it correct to say that city carriers try to take out all saturation flat mailings as extra bundles/trays? Please explain.

**Response:**

Yes. When a mailer prepares a mailing in delivery sequence, it is more efficient for a carrier to take that mailing directly to the street for delivery than it is to spend time in the office casing that mailing prior to taking it to the street for delivery.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-8.** Is it correct to say that, if city carriers have too much saturation flat mail to deliver as extra bundles/trays in one day, they will, rather than case it, defer some of that mail to be delivered another day as extra bundles/trays? Please explain fully.

**Response:**

Yes. Because taking a sequenced mailing directly to the street as an additional bundle requires overall less time than casing that same mail prior to delivering it, delivery unit managers endeavor to manage the delivery of sequenced mailings to maximize the amount of mail taken directly to the street without in-office casing. Delivery unit managers will defer delivery when that is an option to minimize casing.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-9.**

(a) Are there certain types of non-DPS saturation letters that are more efficiently cased rather than handled as sequenced (or extra bundle) mail by city carriers? Please explain.

(b) If the response to (a) above depends on the type of route or delivery section, or on the characteristics of the mailing or the mail piece, please explain fully.

**Response:**

With the exception of rural carriers using a one-bundle system, carriers that receive DPS take that DPS letter bundle directly to the street. Handling more than one letter-shaped bundle is more difficult than handling more than one flat-shaped bundle. However, when taking a sequenced mailing directly to the street is an option, taking a sequenced letter-shaped mailing directly to the street is more efficient than casing that sequenced mailing.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF ADVO

**ADVO/USPS-10.** Do city carriers sometimes collate saturation letters with saturation flats in order to produce an "extra bundle" to take to the street? Please explain.

**Response:**

While it is possible to collate saturation letters with saturation flats, the usual practice is to collate flat mailings. When presented with both a letter-shaped and a flat-shaped saturation mailing for delivery on the same day, supervisors are more likely to direct carriers to case the letter-shaped mailing or defer one until the next day so that both can be taken directly to the street.

**United States Postal Service**

**Jeffery W. Lewis  
(USPS-T-30)**

**FURTHER RESPONSE OF POSTAL SERVICE WITNESS LEWIS  
TO ORAL REQUEST FROM VALPAK**

**Q.** Tr. 6/2413-15. Please provide an estimate of the number or percentage of delivery points for all routes or any section of routes where the carrier is restricted in the number of bundles that can be carried.

**RESPONSE:**

Below I have provided two tables of data from the Address Management System and an analysis that illustrates the cross-examination discussion that led to the ValPak information request cited above.

The table titled POSSIBLE DELIVERIES BY TYPE OF DELIVERY shows City deliveries classified by type. Carriers are not constrained to three bundles when delivering to curblines, cluster boxes, centralized, and dismount delivery points. The Address Management System does not provide a count of dismount deliveries. The 'Other' category includes all delivery types that are not curblines, cluster boxes, or centralized. The table shows that only 44.3% of city deliveries are other than curblines, cluster boxes, or centralized. Therefore, the actual number of deliveries affected by the three-bundle restriction is something less than 44.3% because the 'Other' category includes a type of delivery, 'dismount,' that is not constrained.

**Possible Deliveries by Type of Delivery**

|                    | <b>2002</b> | <b>%</b> | <b>2003</b> | <b>%</b> | <b>2004</b> | <b>%</b> | <b>2005</b> | <b>%</b> |
|--------------------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|
| <b>Curblines</b>   | 19,217,974  | 22.8     | 19,448,992  | 23.0     | 19,652,058  | 23.1     | 19,806,178  | 23.1     |
| <b>Cluster Box</b> | 9,133,797   | 10.8     | 9,425,431   | 11.1     | 9,682,836   | 11.4     | 9,917,759   | 11.6     |
| <b>Centralized</b> | 17,425,332  | 20.7     | 17,672,036  | 20.9     | 17,843,557  | 20.9     | 17,995,141  | 21.0     |
| <b>Other</b>       | 38,434,434  | 45.6     | 38,196,763  | 45.1     | 38,028,351  | 44.6     | 37,920,269  | 44.3     |

**FURTHER RESPONSE OF POSTAL SERVICE WITNESS LEWIS  
TO ORAL REQUEST FROM VALPAK**

**Routes by Route  
Category**

|                  | <b>2002</b> | <b>%</b> | <b>2003</b> | <b>%</b> | <b>2004</b> | <b>%</b> | <b>2005</b> | <b>%</b> |
|------------------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|
| <b>Curbline</b>  | 38,982      | 23.5     | 38,677      | 23.4     | 38,696      | 23.5     | 38,804      | 23.6     |
| <b>Dismount</b>  | 25,549      | 15.4     | 25,372      | 15.4     | 25,440      | 15.5     | 25,642      | 15.6     |
| <b>Other</b>     | 799         | 0.5      | 875         | 0.5      | 1,020       | 0.6      | 847         | 0.5      |
| <b>Foot</b>      | 12,148      | 7.3      | 11,786      | 7.1      | 11,470      | 7.0      | 11,158      | 6.8      |
| <b>Park/Loop</b> | 88,421      | 53.3     | 88,265      | 53.5     | 87,825      | 53.4     | 87,917      | 53.5     |

**Bundle Restriction Based upon Routes versus Based upon  
PDs**

|                     | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> |
|---------------------|-------------|-------------|-------------|-------------|
| <b>% Difference</b> | <b>15.0</b> | <b>15.6</b> | <b>15.7</b> | <b>16.0</b> |

I have included the ROUTES BY ROUTE CATEGORY table to illustrate that assuming that 'Foot' and 'Park and Loop' routes are unable to take more than three bundles of mail to the street and then estimating the impact of the three-bundle work rule by relying on categories of routes, rather than types of delivery points, results in an overstatement of the impact of the work rule. (In the table titled BUNDLE RESTRICTION BASED UPON ROUTES VERSUS BASED UPON PDs, the percent difference for each year is the sum of the percentages for Foot and Park/Loop in the second table, minus the percentage for Other in the first table.)

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Request of the United States Postal  
Service for a Recommended  
Decision on Changes in Rates of  
Postage and Fees for Postal  
Services

Docket No. R2005-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party

Interrogatories

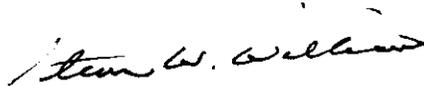
**Advo, Inc.**

**Institutional**

Valpak Direct Marketing Systems,  
Inc. and Valpak Dealers'  
Association Inc.

VP/ADVO-1-6

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

**Advo, Inc.**

**Institutional**

VP/ADVO-1

Valpak

VP/ADVO-2

Valpak

VP/ADVO-3

Valpak

VP/ADVO-4

Valpak

VP/ADVO-5

Valpak

VP/ADVO-6

Valpak

**Advo, Inc.**

**Institutional**

**VP/ADVO-1.**

Please refer to section 602.4 of the Domestic Mail Manual ("DMM") which describes detached address labels ("DALs").

- a. Please identify all products, including its Shopwise(TM) product, that Advo, Inc. ("Advo") mails with a DAL.
- b. For Advo's Shopwise(TM) product, and any other product identified in response to preceding part a, please indicate the annual number of items accompanied by a DAL that Advo entered with the Postal Service for the three years starting January 1, 2002 and ending December 31, 2004.
- c. Please provide the percentage or the number of DALs indicated in response to preceding part b that were barcoded by Advo.
- d. What plans does Advo have to increase the percentage of DALs that it barcodes by September 30, 2006; *i.e.*, the end of the Test Year in this docket?
- e. For the DALs indicated in response to preceding b, please provide the annual number of DALs that were addressed to Post Office boxes.
- f. For the DAL mailings indicated in response to preceding part b, what percentage were mailed to businesses?
- g. For Advo's DALs identified in response to preceding part b, (i) what are their dimensions (*i.e.*, height and length), and (ii) what is the thickness of the paper stock used?
- h. Please indicate whether the specifications of Advo's DALs that were provided in response to preceding part g conform with the automation standards in the DMM.
- i. Unless the response to preceding part h is to the effect that all of Advo's DALs currently conform with the automation standards in the DMM, please indicate each automation requirement that Advo's DALs fail to meet; *e.g.*, size, thickness of paper stock, etc.
- j. Unless the response to preceding part h is to the effect that all of Advo's DALs currently conform with the automation standards in the DMM, for each automation standard with which Advo's DALs fail to conform, please indicate whether, by September 30, 2006, Advo plans to change its DALs in any way so that they will conform.

- a. Shopwise.
- b. The following is the total of all Advo mailings, including weekly and

nonweekly programs, that were mailed using a DAL:

3,135,110,063 in 2002; 3,113,136,402 in 2003; 3,145,472,576 in 2004.

About 15 percent of Advo's total volumes were distributed without DALs via non-saturation mail and private delivery.

- c. None.
- d. None.
- e. The following are the volumes mailed to Post Office Boxes, as well as to Highway Contract Routes and General Delivery.

|                  | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|------------------|-------------|-------------|-------------|
| Post Office Box  | 129,972,258 | 129,061,296 | 130,401,857 |
| Highway Contract | 25,968,117  | 25,786,109  | 26,053,949  |
| General Delivery | 216,323     | 214,806     | 217,038     |

- f. Estimated to be less than 2 percent.
- g. (i) Ranges from 3-1/2 x 7-1/3 to 5 x 9 inches.  
(ii) .007 inches.
- h. No.
- i. Thickness of paper stock.
- j. No.

**VP/ADVO-2.**

Please respond to the following questions for Advo's subsidiary, Mail Marketing Systems, Inc. ("MMSI"), which is identified in Advo's most recent Form 10-K filed with Securities and Exchange Commission.

- a. Please identify all products that MMSI mails with a DAL.
- b. For all MMSI products identified in response to preceding part a, please indicate the annual number of items accompanied by a DAL that MMSI entered with the Postal Service for the three years starting January 1, 2002 and ending December 31, 2004.
- c. Please provide the percentage or the number of DALs indicated in response to preceding part b that were barcoded by MMSI.
- d. What plans does MMSI have to increase the percentage of DALs that it barcodes by September 30, 2006; *i.e.*, the end of the Test Year in this docket?
- e. For the DALs indicated in response to preceding b, please provide the annual number of DALs that were addressed to Post Office boxes.
- f. For MMSI's products that are accompanied by DALs, approximately what percentage was mailed to businesses?
- g. For MMSI's DALs identified in response to preceding part b, (i) what are their dimensions (*i.e.*, height and length), and (ii) what is the thickness of the paper stock used?
- h. Please indicate whether the specifications of MMSI's DALs that were provided in response to preceding part g conform with the automation standards in the DMM.
- i. Unless the response to preceding part h is to the effect that all of MMSI's DALs currently conform with the automation standards in the DMM, please indicate each automation requirement that MMSI's DALs fail to meet; *e.g.*, size, thickness of paper stock, etc.
- j. Unless the response to preceding part h is to the effect that all of MMSI's DALs currently conform with the automation standards in the DMM, for each automation standard with which MMSI's DALs fail to conform, please indicate whether, by September 30, 2006, MMSI plans to change its DALs in any way so that they will conform.

- a. Shared mail.
- b. 38,717,782 in 2002; 41,185,516 in 2003; 53,581,776 in 2004.
- c. None.

- d. None.
- e. The following are the volumes mailed to Post Office Boxes, as well as to Highway Contract Routes and General Delivery (information for 2002 and 2003 is not available, but is assumed to be roughly proportional to 2004).

|                  | <u>2002</u>   | <u>2003</u>   | <u>2004</u> |
|------------------|---------------|---------------|-------------|
| Post Office Box  | not available | not available | 7,603,000   |
| Highway Contract | n/a           | n/a           | 1,779,000   |
| General Delivery | n/a           | n/a           | 27,000      |

- f. None.
- g. (i) 3-1/2 x 7-1/4 inches or 4-3/8 x 8-1/2 inches.  
(ii) .007 inches.
- h. No.
- i. Thickness of paper stock.
- j. No.

**VP/ADVO-3.**

- a. Please identify all subsidiaries of Advo, other than MMSI, that mail products with DALs.
- b. For all each subsidiary identified in response to preceding part a, please indicate the annual number of items accompanied by a DAL that were entered with the Postal Service for the three years starting January 1, 2002 and ending December 31, 2004.
- c. Please provide the percentage or the number of DALs indicated in response to preceding part b that were barcoded before being entered with the Postal Service.
- d. For each subsidiary identified in response to preceding part a, what plans exist to increase the percentage of DALs that will be barcoded by September 30, 2006; *i.e.*, the end of the Test Year in this docket?
- e. For the DALs indicated in response to preceding b, please provide the annual number of DALs that were addressed to Post Office boxes.
- f. For the items with DALs indicated in response to preceding b, approximately what percentage was mailed to businesses?
- g. For DALs identified in response to preceding part b, (i) what are their dimensions (*i.e.*, height and length), and (ii) what is the thickness of the paper stock used?
- h. Please indicate whether the specifications of DALs that were provided in response to preceding part g conform with the automation standards in the DMM.
- i. Unless the response to preceding part h is to the effect that all DALs currently conform with the automation standards in the DMM, please indicate each automation requirement that such DALs fail to meet; *e.g.*, size, thickness of paper stock, etc.
- j. Unless the response to preceding part h is to the effect that all of DALs currently conform with the automation standards in the DMM, for each automation standard with which the DALs fail to conform, please indicate whether, by September 30, 2006, any subsidiary plans to change its DALs in any way so that they will conform.
  - a. None.
  - b-j. Not applicable.

**ADVO-4.**

For all mail products distributed through the network identified as "A.N.N.E." in Advo's most recent Form 10-K filed with Securities and Exchange Commission, please respond to the following:

- a. Please identify all products that were mailed through the Postal Service with DALs.
- b. For all products identified in response to preceding part a, please indicate the annual number of items accompanied by a DAL that were entered with the Postal Service for the three years starting January 1, 2002 and ending December 31, 2004.
- c. Please provide the percentage or the number of DALs indicated in response to preceding part b that were barcoded before being entered with the Postal Service.
- d. For each product identified in response to preceding part a, what plans exist to increase the percentage of DALs that will be barcoded by September 30, 2006; *i.e.*, the end of the Test Year in this docket?
- e. For the DALs indicated in response to preceding b, please provide the annual number of DALs that were addressed to Post Office boxes.
- f. For the items with DALs indicated in response to preceding b, approximately what percentage was mailed to businesses?
- g. For DALs identified in response to preceding part b, (i) what are their dimensions (*i.e.*, height and length), and (ii) what is the thickness of the paper stock used?
- h. Please indicate whether the specifications of DALs that were provided in response to preceding part g conform with the automation standards in the DMM.
- i. Unless the response to preceding part h is to the effect that all DALs currently conform with the automation standards in the DMM, please indicate each automation requirement that such DALs fail to meet; *e.g.*, size, thickness of paper stock, etc.
- j. Unless the response to preceding part h is to the effect that all of DALs currently conform with the automation standards in the DMM, for each automation standard with which the DALs fail to conform, please indicate whether, by September 30, 2006, Advo and its A.N.N.E. affiliates have any plans to change those DALs in any way so that they will conform.
  - a. Each of the 14 current A.N.N.E. participants is an independent company that mails some form of shared mail program, some under a company-specific trade name and others as a generic shared mail product. Note that MailSouth is an A.N.N.E. participant, and its volumes are included in the totals shown in

part b.

- b. Three of the fourteen A.N.N.E. participants do not use DALs. For the remaining eleven, the volumes are as follows:

340,886,000 in 2002; 368,618,000 in 2003; 383,785,000 in 2004.

The above volumes for 2002 and 2003 are understated by an unknown amount due to missing information from companies that are no longer members of the A.N.N.E. network. The 2004 volumes are complete.

- c. 20,440,000 in 2002; 22,940,000 in 2003; 20,440,000 in 2004.
- d. None.
- e. The following are the volumes mailed to Post Office Boxes, as well as to Highway Contract Routes and General Delivery.

|                  | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|------------------|-------------|-------------|-------------|
| Post Office Box  | 43,073,000  | 45,204,000  | 45,650,000  |
| Highway Contract | 7,055,000   | 7,983,000   | 8,104,000   |
| General Delivery | 104,000     | 117,000     | 125,000     |

- f. Unknown, but estimated to be less than 2 percent.
- g. Various sizes ranging from 3-1/2 x 5 to 5 x 8-1/2 inches.
- h. No.
- i. Thickness of paper stock.
- j. No.

**VP/ADVO-5.**

Does Advo mail any flat-shaped products in envelopes? If so, please indicate the annual volume of such enveloped flat-shaped mailings in calendar years 2002, 2003 and 2004.

No.

**VP/ADVO-6.**

Are any of Advo's products distributed by private (non-mail) delivery? If so, please provide the following information:

- a. The total volume of such privately-delivered pieces in calendar years 2002, 2003 and 2004.
- b. The percentage of Advo's products that is delivered privately.
- c. The markets where private delivery is used, and, for each market, the name of the private delivery company used.
- d. Whether privately-delivered items include a card that is similar in size and shape to DALs used for mailings with the Postal Service and, if so, whether any such cards contain a name or address.

Yes.

- a. 147,350,000 in 2002; 171,317,000 in 2003; 224,160,000 in 2004.
- b. About 4.5 percent in 2002; about 5 percent in 2003; about 6 percent in 2004.
- c.

|                          |  |
|--------------------------|--|
| Cincinnati               | Various independent distributors.  |
| Detroit                  | Fast Flyers, Stanley's Distributing, various independents.   |
| Las Vegas                | Advo.  |
| Philadelphia             | Donnelley Distribution, Quality Mailing Services, various independents.  |
| MediaNews                | Pasadena Star, Inland Valley Daily Bulletin, San Bernadino Sun, Long Beach Press Telegram, Whittier Daily News, LA Daily News, San Gabriel Valley Tribune, Redlands Daily Facts. |
| Knight Ridder, MediaNews | San Jose Mercury News, Contra Costa Times, Monterey Herald, Oakland Trib, Alameda Times Star, Daily Review, Argus, Tri Valley Herald, San Mateo County Times, Marin, Vallejo.    |

|                           |                                    |
|---------------------------|------------------------------------|
| Gannett,<br>Knight Ridder | Detroit News, Detroit Free Press.  |
| New York Times            | Boston Globe.                      |
| MediaNews                 | Denver Post, Rocky Mountain News.  |
| Freedom                   | Orange County Register.            |
| MediaNews                 | Connecticut Post.                  |
| Tribune                   | The Advocate, The Greenwich Times. |
| Poynter                   | St. Petersburg Times.              |

- d. Advo does not use DALs in private delivery. In a very few markets, Advo inserts its "Missing Child" card inside the piece. None of these cards is addressed.

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Request of the United States Postal  
Service for a Recommended  
Decision on Changes in Rates of  
Postage and Fees for Postal  
Services

Docket No. R2005-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party

Interrogatories

**Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.**

**John Haldi (VP-T-2)**

Advo, Inc.

ADVO/VP-T2-1-8, 11b-c, 12-16

**Robert Mitchell (VP-T-1)**

Advo, Inc.

ADVO/VP-T1-1-5, 6a, 7-14

Direct Marketing Association, Inc.

DMA/VP-T1-1-9

United States Postal Service

USPS/VP-T1-1-12

**Institutional**

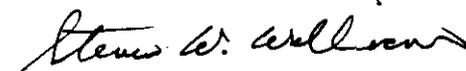
Advo, Inc.

ADVO/VP-1-2

ADVO/VP-T1-6b redirected to VP

ADVO/VP-T2-9-10, 11a redirected to VP

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

**Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.**

**John Haldi (VP-T-2)**

|                |      |
|----------------|------|
| ADVO/VP-T2-1   | Advo |
| ADVO/VP-T2-2   | Advo |
| ADVO/VP-T2-3   | Advo |
| ADVO/VP-T2-4   | Advo |
| ADVO/VP-T2-5   | Advo |
| ADVO/VP-T2-6   | Advo |
| ADVO/VP-T2-7   | Advo |
| ADVO/VP-T2-8   | Advo |
| ADVO/VP-T2-11b | Advo |
| ADVO/VP-T2-11c | Advo |
| ADVO/VP-T2-12  | Advo |
| ADVO/VP-T2-13  | Advo |
| ADVO/VP-T2-14  | Advo |
| ADVO/VP-T2-15  | Advo |
| ADVO/VP-T2-16  | Advo |

**Robert Mitchell (VP-T-1)**

|               |      |
|---------------|------|
| ADVO/VP-T1-1  | Advo |
| ADVO/VP-T1-2  | Advo |
| ADVO/VP-T1-3  | Advo |
| ADVO/VP-T1-4  | Advo |
| ADVO/VP-T1-5  | Advo |
| ADVO/VP-T1-6a | Advo |
| ADVO/VP-T1-7  | Advo |
| ADVO/VP-T1-8  | Advo |
| ADVO/VP-T1-9  | Advo |
| ADVO/VP-T1-10 | Advo |
| ADVO/VP-T1-11 | Advo |
| ADVO/VP-T1-12 | Advo |
| ADVO/VP-T1-13 | Advo |
| ADVO/VP-T1-14 | Advo |

InterrogatoryDesignating Parties

DMA/VP-T1-1

DMA

DMA/VP-T1-2

DMA

DMA/VP-T1-3

DMA

DMA/VP-T1-4

DMA

DMA/VP-T1-5

DMA

DMA/VP-T1-6

DMA

DMA/VP-T1-7

DMA

DMA/VP-T1-8

DMA

DMA/VP-T1-9

DMA

USPS/VP-T1-1

USPS

USPS/VP-T1-2

USPS

USPS/VP-T1-3

USPS

USPS/VP-T1-4

USPS

USPS/VP-T1-5

USPS

USPS/VP-T1-6

USPS

USPS/VP-T1-7

USPS

USPS/VP-T1-8

USPS

USPS/VP-T1-9

USPS

USPS/VP-T1-10

USPS

USPS/VP-T1-11

USPS

USPS/VP-T1-12

USPS

**Institutional**

ADVO/VP-1

Advo

ADVO/VP-2

Advo

ADVO/VP-T1-6b redirected to VP

Advo

ADVO/VP-T2-9 redirected to VP

Advo

ADVO/VP-T2-10 redirected to VP

Advo

ADVO/VP-T2-11a redirected to VP

Advo

**Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.**

**John Haldi  
(VP-T-2)**

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

**ADVO/VP-T2-1.**

On page 16, line 16 of your testimony, please provide the source for the figure of 9.515 billion saturation non-letters.

**Response:**

See the response to VP/USPS-T16-2, Alternative Attachment B, cell G-23.

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

**ADVO/VP-T2-2.**

On page 17 of your testimony, you recommend that your estimate of 5.4 billion detached address labels (DALs) be used to develop an adjustment for the handling of DALs. And, you also recommend that the total number of city and rural delivered DALs should be assumed to be 99% of 5.4 billion (i.e., 5.346 billion).

- (a) Please confirm that the base year carrier cost systems identify 5.144 billion CCCS saturation “letters plus DALs” (USPS LR K67, Sheet 3) and 1.651 billion RCCS saturation “letters plus DALs” (USPS LR K67, Sheet 8), for a total of 6.795 billion city and rural carrier delivered saturation “letters plus DALs.”
- (b) Please confirm that 6.795 billion “letters plus DALs” minus your estimate of 5.346 billion DALs would leave only 1.449 billion saturation letters delivered by city and rural carriers.
- (c) The RPW identifies 3.826 billion saturation letters. Please confirm that, if your DAL estimate were correct, it would mean that only 37.8% of RPW saturation letters are delivered by carriers on city and rural carrier routes.

If you cannot confirm any of the above, please explain why not, and provide the figures you believe to be correct, including your calculations and sources.

**Response:**

- a. Confirmed that the figures you use are found in cell E-22 of Sheet 3 and cell D-35 of Sheet 8. However, I do not confirm that “the base year carrier cost systems identify” the volumes of DALs shown in sheets 3 and 8, or that they are derived in any way from the mail counts that underlie the surveys of city and rural carriers. They appear to be derived solely from witness Kelley’s estimate of the number of DALs, which is based primarily on the number of residential delivery points and The Household Diary Survey, as developed in USPS-LR-K-67, file FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls. For a critique of witness Kelley’s estimate, see the Appendix in my testimony. For further discussion of the

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

specific issue raised which this question intends to preface, see my response to part c of this interrogatory, below.

- b. I can confirm that the result of subtracting 5.346 from 6.795 is 1.449. However, the caveats expressed in preceding part a, as well as in part c below, are equally applicable here.
- c. Confirmed only that the RPW identifies 3.826 billion saturation letters. In order to provide you with a more informed answer to your question, I have prepared two attachments to this interrogatory. Attachment 1 incorporates the Postal Service assumptions with respect to the volume of DALs, and Attachment 2 incorporates my recommendations with respect to the volume of DALs (VP-T2-2, p 17, ll. 2-8).

In **Attachment 1**, under column F, rows 9, 10 and 12, you will find the totals for letters delivered by city and rural carriers exactly as referenced in part a of this interrogatory. Column D shows the total volume of DALs (3.375 billion) as **estimated by the Postal Service**, and column C shows the total ECR letters delivered by city and rural carriers as shown in the source cited at the bottom of the table. To facilitate reference, the RPW total which you cite, 3.826 billion saturation letters, is shown in cell C21. Four observations about Attachment 1 are worth noting. First, the Postal Service estimate of total saturation letters exceeds the RPW figure by some 56.894 million, or by some 1.5 percent; *i.e.*, it is 101.5 percent of the RPW figure, a curious result. Second, as shown in cell E17, the Postal Service estimates that 13.7 percent of all DALs (463 million) are delivered to P.O. Boxes and highway contract routes, but

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

that no saturation letters are delivered to P.O. Boxes and highway contract routes, as can be seen from perusing column C. That residents who live on highway contract routes and renters of P.O. Boxes should receive so much DAL mail, while receiving no saturation letter mail, reflects a somewhat anomalous situation, to say the least. Third, since the volume of letters delivered by city and rural carriers in cells C9 and C10 is already 101.5 percent of the RPW total, no “residual” is available which could be said to be delivered to P. O. Boxes or highway contract routes. Fourth, since RPW has no data on the volume of DALs, no RPW statistics are applicable to any of the data shown in column D.

**Attachment 2**, column D, shows the volume and distribution of DALs **recommended in my testimony** (VP-T2-2, p. 17, ll 2-8, and the Appendix), with the DALs delivered by city and rural carriers distributed in the same proportion vis-a-vis each other as in Attachment 1.

The hypothesis in part c of your question is fundamentally wrong for the following reason. As Attachment 1 clearly shows, the total combined volume of letters and DALs delivered by city and rural carriers, 6.795 billion in cell F12, reflects exactly the volume of DALs as estimated by the Postal Service in USPS-LR-K-67 — nothing more, and nothing less. That is, the totals in column F are not any kind of control totals derived from RPW (or any other reliable independent source), and using them in this manner, as your question does, is therefore totally inappropriate. As noted above, RPW has no data on the volume of DALs. As Advo/VP-T2-1 points out,

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

however, the RPW shows a total of 9.515 billion flats in FY 2004, which greatly exceeds my estimated volume of 5.4 billion DALs. If the Postal Service were to increase its estimate of the volume of DALs, then the volumes in column D of Attachment 1 would change, and the totals in column F would increase, just as they do in Attachment 2, which I consider to be a superior estimate based on more reliable data sources than The Household Diary Survey used by witness Kelley in USPS-LR-K-67. In Attachment 2, note that 100 percent of saturation letters continue to be delivered by city and rural carriers, exactly as assumed by the Postal Service in Attachment 1 as my focus was limited to revising the number of DALs. Accordingly, the question about 37.8 percent of RPW saturation letters being delivered by carriers on city and rural routes is without meaning, as it is based on a flawed assumption.

## Attachment 1 to Advo/VP-T2-2

|    | A | B   | C              | D                    | E                    | F            |
|----|---|---|----------------|----------------------|----------------------|--------------|
| 1  |   |   |                |                      |                      |              |
| 2  |   | <b>Saturation Letters and Postal Service Estimated Volume of DALs</b> |                |                      |                      |              |
| 3  |   | <b>FY 2004</b>  |                |                      |                      |              |
| 4  |   | <b>(000)</b>  |                |                      |                      |              |
| 5  |   |   |                |                      |                      |              |
| 6  |   |   | <b>Letters</b> | <b>USPS<br/>DALs</b> | <b>Dist.<br/>(%)</b> | <b>Total</b> |
| 7  |   |   |                |                      |                      |              |
| 8  |   |   |                |                      |                      |              |
| 9  |   | City Carriers   | 3,048,834      | 2,095,359            | 62.1%                | 5,144,193    |
| 10 |   | Rural Carriers  | 834,304        | 817,139              | 24.2%                | 1,651,443    |
| 11 |   |   | -----          | -----                | -----                | -----        |
| 12 |   | Subtotal, city and rural carriers                                     | 3,883,138      | 2,912,498            | 86.3%                | 6,795,636    |
| 13 |   |   |                |                      |                      |              |
| 14 |   | P.O. Box  |                | 406,500              | 12.0%                | 406,500      |
| 15 |   | Highway Contract Routes   |                | 56,383               | 1.7%                 | 56,383       |
| 16 |   |   | -----          | -----                | -----                | -----        |
| 17 |   | Subtotal, P.O. Box & HCR  |                | 462,883              | 13.7%                | 462,883      |
| 18 |   |   | -----          | -----                | -----                | -----        |
| 19 |   | GRAND TOTAL   | 3,883,138      | 3,375,381            | 100.0%               | 7,258,519    |
| 20 |   |   |                |                      |                      |              |
| 21 |   | Control Total: RPW  | 3,826,244      | n.a.                 |                      | n.a.         |
| 22 |   |   |                |                      |                      |              |
| 23 |   | <b>Sources:</b>   |                |                      |                      |              |
| 24 |   | Cell C9, LR-K-67, Sheet 10, column 4                                  |                |                      |                      |              |
| 25 |   | D9, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls,            |                |                      |                      |              |
| 26 |   | also, LR-K-67, Sheet 10, col 1.                                       |                |                      |                      |              |
| 27 |   | C10, LR-K-67, Sheet 10, column 4                                      |                |                      |                      |              |
| 28 |   | D10, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls,           |                |                      |                      |              |
| 29 |   | also, LR-K-67, Sheet 10, col 1.                                       |                |                      |                      |              |
| 30 |   | D14, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls.           |                |                      |                      |              |
| 31 |   | D15, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls.           |                |                      |                      |              |

## Attachment 2 to Advo/VP-T2-2

|    | A | B   | C              | D                      | E                    | F            |
|----|---|---|----------------|------------------------|----------------------|--------------|
| 1  |   |   |                |                        |                      |              |
| 2  |   |   |                |                        |                      |              |
| 3  |   | <b>Saturation Letters and Valpak Estimated Volume of DALs</b> |                |                        |                      |              |
| 4  |   | <b>FY 2004</b>  |                |                        |                      |              |
| 5  |   | <b>(000)</b>  |                |                        |                      |              |
| 6  |   |   |                |                        |                      |              |
| 7  |   |   | <b>Letters</b> | <b>Valpak<br/>DALs</b> | <b>Dist.<br/>(%)</b> | <b>Total</b> |
| 8  |   |   |                |                        |                      |              |
| 9  |   | City Carriers   | 3,048,834      | 3,846,111              | 71.2%                | 6,894,945    |
| 10 |   | Rural Carriers  | 834,304        | 1,499,889              | 27.8%                | 2,334,193    |
| 11 |   |   | -----          | -----                  | -----                | -----        |
| 12 |   | Subtotal, city and rural carriers                             | 3,883,138      | 5,346,000              | 99.0%                | 9,229,138    |
| 13 |   |   |                |                        |                      |              |
| 14 |   | P.O. Box  |                | 43,200                 | 0.8%                 | 43,200       |
| 15 |   | Highway Contract Routes                                       |                | 10,800                 | 0.2%                 | 10,800       |
| 16 |   |   | -----          | -----                  | -----                | -----        |
| 17 |   | Subtotal, P.O. Box & HCR                                      |                | 54,000                 | 1.0%                 | 54,000       |
| 18 |   |   | -----          | -----                  | -----                | -----        |
| 19 |   | GRAND TOTAL   | 3,883,138      | 5,400,000              | 100.0%               | 9,283,138    |
| 20 |   |   |                |                        |                      |              |
| 21 |   | Control Total: RPW  | 3,826,244      | n.a.                   |                      | n.a.         |
| 22 |   |   |                |                        |                      |              |
| 23 |   | <b>Sources:</b>   |                |                        |                      |              |
| 24 |   | Cell C9, LR-K-67, Sheet 10, column 4.                         |                |                        |                      |              |
| 25 |   | C10, LR-K-67, Sheet 10, column 4.                             |                |                        |                      |              |
| 26 |   | D12, 0.99*D19.  |                |                        |                      |              |
| 27 |   | D14, 0.7*D17.   |                |                        |                      |              |
| 28 |   | D15, 0.3*D17.   |                |                        |                      |              |
| 29 |   | D17, 0.01*D19; VP-T2-2, p. 62, l. 16 to p. 63, l. 2.          |                |                        |                      |              |
| 30 |   | D19, VP-T-2, p. 17, ll. 2-8.                                  |                |                        |                      |              |

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

**ADVO/VP-T2-3.**

On pages 17 and 18 (lines 15 through 6), you suggest that there may be IOCS errors with respect to accounting for DAL handlings. And, you state that “Two Postal Service witnesses have mentioned recording error as a distinct possibility for anomalous cost results (see fn. 23, *infra*).” With respect to those USPS responses, please confirm the following:

- (a) The POIR No. 1a response refers to the way in which certain IOCS tallies were used and does not mention or suggest any errors in the tallies themselves.
- (b) The responses to VP/USPS-T16-16 and -17 do not confirm any anomalous cost results and do not relate to any IOCS errors.
- (c) None of the responses identified in footnote 23 have anything to do with the number or cost of DALs.

If you cannot confirm any of the above, please explain why not, with specific reference to the statements made in the sources you have cited.

**Response:**

- a. The response to POIR No. 1a speaks for itself. However, I would note the following statement contained in that response:

Based solely on the physical examination of mail piece characteristics (e.g., barcodes), it is **not always possible for data collectors to determine** whether the revenue of a given mail piece, and the piece itself, was recorded at the nonautomation rates or automation rates. [Emphasis added.]

If data collectors cannot determine and therefore cannot record accurately the classification of the mailpiece, the tallies themselves contain errors, and those errors result in erroneous costs for the affected rate categories.

- b. The responses to VP/USPS-T16-16 and 17 speak for themselves. However, I would note the following statement contained in the response to VP/USPS/T16-16:

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

The pieces may have been entered as flats for a number of reasons including, but not limited to, ... 3) **data entry error**. It is not possible to determine if the processing category was checked as flats because the piece was flat shaped or **because of an error**. [Emphasis added.]

Similarly, the response to VP/USPS-T16-17, states:

The 0.33 percent of ECR NONLTR BASIC PIECE RATE pieces ... **may reflect a data entry error** or clerk oversight. [Emphasis added.]

Both of the above statements refer to possible data entry errors at the point of acceptance, not data entry errors with respect to IOCS tallies. Any possible errors, such as those alluded to in the above-quoted statements, however, would affect the computation of unit cost for the affected rate categories. Of course, whether they have created **anomalous** cost results would depend on the frequency and magnitude of the errors. Further, to the extent that possibilities of data entry errors at the point of acceptance are a consideration, so also is the possibility of data entry errors in IOCS tallies.

- c. The subject addressed by the references in my footnote 23 is possible data entry error for ECR mail. Accordingly, although the responses identified in footnote 23 do not directly deal with the number of DALs, they nevertheless are pertinent. Indeed, since that the Postal Service makes no effort at the point of acceptance to record or enter (i) data concerning the volume of DALs, or (ii) data which distinguish the volume of non-letter mail that is accompanied by DALs from other (addressed) non-letter mail, no data entry errors for DALs could occur at the point of acceptance. State more briefly, if

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

nothing is required to be entered, it is difficult for one to err when recording nothing (in this respect, the procedure is almost foolproof). After DALs have been accepted, the Postal Service does not record or develop any kind of systematic data concerning the way DALs are handled (*i.e.*, DPS'd, cased, or taken to the street as separate bypass bundles, the three possible ways of handling DALs discussed by witness Lewis, USPS-T-30). This is the reason for the estimating procedures being used in this docket, rather than any kind of specific mail count.

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

**ADVO/VP-T2-4.**

On page 19 of your testimony, you note that IOCS casing costs for flats also include casing costs for DALs. You state “. . . since DALs are probably cased at a faster rate than ordinary flats, using the casing rate for flats alone underestimates the actual volume of pieces cased.” If the saturation flat in-office casing cost is comprised of a mix of high-productivity DAL casing cost and low-productivity flat casing cost, please confirm that dividing that total cost by the flat low-productivity figure will provide an overestimate of the actual number of flats cased and therefore an underestimate of the actual number of flats taken to the street. If you cannot confirm, please explain fully why you cannot.

**Response:**

As noted in my response to ADVO/VP-T2-3(c), the Postal Service apparently collects no systematic data on the billions of DALs entered by mailers, or on the number of DALs cased, DPS'd, or taken directly to the street as an extra bundle. Moreover, the Postal Service's procedure for estimating the number of flats cased by carriers does not even consider the possibility that carriers may case some, perhaps many, of those billions of DALs, which is what my testimony endeavored to point out.

Witness Bradley, USPS-T-14, at page 59, lines 5-17, develops the “theory” that underlies the Postal Service's procedure for estimating the number of cased flats. That “theory” is implemented in USPS-LR-K-67, file CASING04\_revised.xls, sheet ‘EstimatesOfCased.Sat.Ltrs.Flts.’ Unfortunately, witness Bradley's theory fails in a number of important ways to account for certain ways that DALs and saturation flats are handled by city carriers, as pointed out not only by this question, but also by ADVO/VP-T2-12.

In order to arrive at the conclusion postulated in your question, it is not necessary to speculate about the rate at which carriers case DALs. If carriers case ANY DALs, rather than (i) taking all DALs directly to the street as extra bundles, or (ii) sorting them on automation

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to Interrogatory of Advo, Inc.**

equipment (the other two possible ways to handle DALs that are discussed by witness Lewis, USPS-T-30), then the Postal Service's procedure for estimating the number of cased saturation flats will, as your question correctly points out, (i) overestimate the actual number of flats cased, and (ii) underestimate the actual number of flats taken to the street as bypass mail. Other than a study by witness Shipe in Docket No. R90-1, which studied city carriers' casing rate for letters and flats (but not for cards), the Postal Service has cited no study, or offered any other data, concerning the rate at which carriers actually case DALs in vertical flats cases.

The greater the number of DALs that city carriers actually case, the more the Postal Service's estimate will differ from the actual number of flats taken directly to the street. In other words, the Postal Service's procedure for estimating the number of flats taken directly to the street might be considered correct only if (i) **NO** DALs were cased by city carriers, **AND** (ii) city carriers are actually engaged in casing flats throughout the entire time that the IOCS records as casing of flats. Because the last two points are important to a fuller understanding, let me elaborate briefly on each.

With respect to the number of DALs not cased by city carriers, but instead sorted on automation equipment, it would appear that the intent of interrogatories ADVO/VP-T2-6, 7, and 8 is to emphasize a conjecture by witness Lewis that "it's got to be a pretty small number at this point" (Tr. 6/2433). As my response to ADVO/VP-T2-6 points out, no credible data are available to support or refute this conjecture by witness Lewis. As an aside, I would note that the issue turns not on data quality, but purely on conjecture, speculation, and anecdotal information — *e.g.*, "I know there is field interest in DPSing the letter-shaped component of a

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DAL mailing and that in some places delivery and plant managers have implemented local procedures to do this.” (Response of witness Lewis to VP/USPS-T30-14(c), Tr. 6/2370.)

Issues concerning data quality typically begin by assessing the quality of one or more existing bodies of data. However, in the case of DALs, which by any estimating procedure number in the billions, the Postal Service has no body of data that can be assessed, and that makes any discussion about quality of DAL data somewhat academic, to say the least.

Assuming *arguendo*, though, that the volume of DALs sorted on automation equipment is *de minimus*, then most DALs either are (i) cased, or (ii) taken directly to the street as an extra bypass bundle. Since city carriers on many route segments are restricted to no more than three bundles, the only possible inference under this assumption is that a great many DALs must be cased. This in turn means that the procedure for estimating the number of flats which are cased and taken to the street as cased flats may be grossly overstated. The one datum that the IOCS collects with respect to DALs is the response to question 22, where employees handling a flat, IPP or parcel are asked whether they are handling a DAL (*see* the IOCS handbook, F-45, pp. 12-8 to 12-11, which was provided in Docket No. R2000-1, in USPS-LR-I-14). Apparently neither witness Bradley (USPS-T-14) nor witness Kelley (USPS-T-16) were supplied with a compilation showing, for city carriers, the proportion of ECR non-letter tallies where the presence of a DAL was indicated. Inasmuch as witness Bradley’s estimating procedure depends critically on the assumption that city carrier casing cost for saturation flats represents time spend casing flats, and not DALs, it is unclear to me why such information was not made available to witness Kelley.

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With respect to the issue of whether all casing time charged to flats is actually spent casing flats that subsequently are taken to the street as cased flats (as the “theory” developed by witness Bradley assumes), yet another possibility exists that is not considered anywhere in the “theory” developed by witness Bradley. Namely, some city carrier time charged to casing flats instead may be spent **collating** two bundles of saturation flats, which then are taken to the street **not as cased flats** (as witness Bradley’s procedure assumes), **but as an extra bundle**. Collating is described by witness Lewis as (i) a well-understood procedure among delivery personnel, and (ii) more advantageous to the Postal Service than casing. Tr. 6/2431, l. 12 to 2432, l. 2. To the extent that collating occurs very often (again, no data are available on the volume of saturation flats that are collated and then taken to the street as an extra bundle), the estimated number of flats cased and taken to the street as cased flats would be even more erroneous. The combined omission of casing DALs and collating flats could make the Postal Service’s estimated volume of bypass mail so erroneous as to be unacceptable.

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**ADVO/VP-T2-5.**

Please confirm the following or explain fully why you cannot:

- (a) The distribution key for city letter route delivery costs is the City Carrier Cost System (CCCS).
- (b) If the percentage of CCCS ECR saturation flats that are sequenced increases, then ECR saturation flats should be allocated a correspondingly larger portion of city letter route sequenced delivery cost.
- (c) If the percentage of CCCS ECR saturation flats that are sequenced increases, then the percentage of ECR saturation flats that are cased and delivered as non-sequenced mail decreases.
- (d) If the percentage of CCCS ECR saturation flats that are cased and delivered as non-sequenced mail decreases, then ECR saturation flats should be allocated a correspondingly smaller portion of city letter route non-sequenced flat delivery costs.
- (e) USPS LR K67 [sic] uses CCCS volumes to distribute city letter route delivery costs among the various categories of ECR volumes.

**Response:**

Let me preface my response to these questions by noting that **all** saturation mail, both letters and flats, must be sequenced by the mailer. Because of this requirement, I consider the term "sequenced mail" in the sense used by witness Bradley to be a somewhat unfortunate choice of words. When referring to saturation mail taken directly to the street, my own preference would be to refer to it as "bypass mail."

- a. Confirmed.
- b. Confirmed, assuming that your reference is to saturation flats that bypass casing.
- c. Confirmed, again assuming that your reference is to saturation flats that bypass casing.

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- d. Confirmed.
- e. Confirmed that this accords with my understanding of the distribution key for volume variable city delivery costs.

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**ADVO/VP-T2-6.**

On page 20 (lines 1 and 2) of your testimony, you state that . . . “it seems that some unknown volume of DALs are sorted on automation equipment.” And, you state (lines 12-13) that . . . “despite knowledge that interest in DPSing of DALs is increasing and the practice is growing. . . .” Separately, on page 21 (lines 14-15), you state that there is an . . . “unknown, but possibly large and growing, volume of DALs [being automated]. . . .” A review of the cites provided in footnote 18 show no support for the assertion that “the practice [of DPSing DALs] is growing.” Please provide any evidence you have, including sources, for the assertions that the number of DALs being automated is large and growing.

**Response:**

In Docket No. R2001-1, VP/USPS-T39-1(c) asked Postal Service witness Kingsley:

“Would having barcodes on DALs facilitate processing?” Her response was as follows:

No. Running DALs into DPS is inconsistent with keeping DALs matched up with the matching host piece. If DALs were put into DPS, then the carriers would have to check through the DPS volumes to see what DALs were run that day by the plant to see what host pieces were to go out that day. This is inconsistent with the DPS process of carriers taking DPS volumes right to their route/vehicle as well as providing an opportunity for curtailing the mail if it is a heavy volume day. [Tr. 9/2444.]

Also in Docket No. R2001-1, VP/USPS-T39-2(c) asked Postal Service witness

Kingsley: “to what extent is automation equipment likely to be used to sort the DALs into delivery point sequence?” Her response was as follows:

Highly unlikely, if ever. The requirements for DALs state that pallets of items must be palletized with the DALs, specifically to ensure that for mailings entered upstream from a delivery office, the DALs will remain with the host pieces all the way through to the delivery office, bypassing mail processing operations. [Tr. 9/2446.]

And also in Docket No. R2001-1, VP/USPS-T39-2(d) asked Postal Service witness

Kingsley to “provide your best estimate of the percentage of DALs that are pre-barcoded and

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the percentage of DALs that the Postal Service must first barcode before sorting on automation equipment.” Again, her response was as follows:

As stated above, DALs are highly unlikely, if ever, sorted on automation equipment. [Tr. 9/2446.]

In this docket, however, VP/USPS-T30-14(c) asked Postal Service witness Lewis “to what extent is automation equipment likely to be used to sort the DALs into delivery point sequence?” His response was:

I know there is field interest in DPSing the letter-shaped component of a DAL mailing and that **in some places delivery and plant managers have implemented local procedures to do this.** [Tr. 6/2370, emphasis added.]

Also in this docket, VP/USPS-T30-15(a) asked Postal Service witness Lewis, “When Standard ECR flats with DALs are entered at DDU, are the DALs sometimes returned to the P&DC to be DPS on automation equipment?” His answer was: “Yes.”

Comparing the answers of witness Kingsley in Docket No. R2001-1 with those of witness Lewis in this docket — *i.e.*, nearly four years later — the Postal Service now states that “in some places delivery and plant managers have implemented local procedures to” DPS DALs, including transporting DALs back from a DDU to a P&DC. I consider the Postal Service responses in this docket to be different from its position in Docket No. R2001-1, and conclude that interest in the practice of DPSing DALs is increasing and the practice is growing.

The question of whether the volume of DALs sorted on automation equipment is in fact large can only be speculated upon based on this record, exactly as I have done. In response to VP/USPS-T30-16, witness Lewis states:

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The Postal Service does not maintain statistics that track the number or composition of bundles City carriers take directly to the street. Therefore, **it is not possible to know what percentage of DAL mailings the Postal Service sorts either manually or on automation** with either letter-shaped or flat-shaped mail. [Tr. 6/2373, emphasis added.]

Based on all of these responses, I stated that the volume of DALs processed on automation equipment is unknown, but “possibly large.” Until the Postal Service produces credible data pertaining to DALs that prove otherwise, I stand by my statement.

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**ADVO/VP-T2-7.**

On page 21 (lines 14-16), you state that “. . . certain costs incurred to process some unknown, but possibly large and growing, volume of DALs are being attributed to letters.” You provide no cites for the assertions that a large volume of DALs is being automated. At TR 7/2717, in response to a Val-Pak question, the USPS responded that a review of the FY04 IOCS data indicate that there were no Standard Mail “DAL” tallies in the MODS cost pool BCS/DBCS. Further, in response to a Val-Pak question about the extent of automation processing of DALs, USPS witness Lewis stated that “it’s got to be a pretty small number at this point” (TR 6/2433). Please provide any evidence you have, including sources, to support your speculation that there is a large volume of DALs being automated.

**Response:**

Your question warrants several observations. First, the transcript reference 7/2717 does not contain the information you cite. However, a lack of DAL tallies in one MODS cost pool — BCS/DBCS — would not confirm the lack of DAL tallies in other automated MODS costs pools with costs attributed to saturation letters in the Base Year, including BCS and OCR. It is not clear why saturation letters, all of which were required to be barcoded in the Base Year, ever would incur any costs in these two cost pools. If any costs in these two pools are attributed to saturation letters, it would appear that they are caused by DALs, which are not required to be barcoded.

Further, the above-cited Postal Service response notes that “[t]he recording of DALs for the In-Office Cost System (IOCS) is described in the IOCS handbook, F-45, pages 12-8 to 12-11 (which was provided in Docket No. R2000-1, in USPS-LR-I-14).” The instructions pertinent to recording of a DAL are applicable only when question 22 records that a single-shape piece of mail is being handled. It is not in the nature of operations at automated cost pools such as BCS, OCR, or BCS/DBCS to handle individual pieces of mail (except, perhaps,

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in the event of a jam). After all, the whole purpose of automation is to avoid the handling of individual pieces. Therefore, it would not surprise me if (i) few of the “handling mail” tallies in these cost pools reflect that a single piece of mail was being handled (as in response to IOCS question 22), and (ii) a large proportion of the “handling mail” tallies reflect either mixed mail or handling of an “item” or “container” within a single subclass (*see* USPS-T-11, p. 13, fn. 14 for IOCS definitions of “item” and “container”). When an item or container (within a single subclass), or mixed mail, is being handled, and DALs are included with other letter-shaped pieces, costs of such tallies would be distributed to subclasses on the basis of **shape**. That is, if DALs have been merged with other letter-shaped pieces (First-Class, Periodicals, Standard and ECR) they would be counted as ECR saturation **letters** and — erroneously — would **not** appear as DALs or flats. The direct costs of “ECR saturation letters” arising from these tallies then would be charged with all the “not handling” and other piggyback costs of the automated MODS cost pools, thereby compounding the error. It does seem to me that the Postal Service procedures for tracking the processing of DALs on automated equipment are inadequate and in need of rethinking, both now and in anticipation of the day when the practice becomes more widespread.

Finally, it is possible that witness Lewis’s conjecture, referred to in your question, may be correct — *i.e.*, the vast majority of DALs either are cased or taken in bundles directly to the street as bypass mail. See my response to ADVO/VP-T2-4 for discussion of the implications of this possibility. With respect to my statement that the volume of DALs

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processed on automation equipment is unknown, but “possibly large,” see my response to  
ADVO/VP-T2-6.

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**ADVO/VP-T2-8.**

In lines 11-16 and footnote 20 on page 21 of your testimony, you suggest that costs to automate DALs may be wrongly attributed to saturation letters. In footnote 19, you imply that IOCS mail processing tallies of DALs may not be correctly attributed to flats because the host flats may not be available for review. At TR 7/2717, in response to a Val-Pak question, the USPS responded that in the case were the host piece cannot be identified, the IOCS editing process classifies the DAL tallies as flat shape (see USPS LR-K-9, Appendix B, page 137). Please provide any other evidence you have, including sources, to support your speculation.

**Response:**

See my response to ADVO/VP-T2-7.

**Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc.**

**ADVO/VP-T2-11.**

At page 8 of your testimony, you state that 99 percent of ValPak's mail is entered at the destinating SCF, with the remainder "entered at BMCs, or locally, in either St. Petersburg, Florida or Elm City, North Carolina" where Val-Pak's production facilities are located.

(a) Please confirm that this means that well less than 1 percent of Val-Pak's coupon enveloped mail is entered at destination delivery units. If you cannot confirm, please provide the correct percentage of Val-Pak's DDU-entered mail.

(b) Please confirm that in Docket MC95-1, you then similarly testified that 98 percent of Val-Pak's mail was entered at destination SCFs, and that "the remaining 2 percent is entered at BMCs (with a fraction of a percent of the mail being entered locally in the St. Petersburg, Florida area)." VP-T-1, Docket MC95-1, at 6.

(c) Is this very small proportion of volume drop shipped to destination delivery units typical of the other national coupon envelope mailers that produce their mailings at central locations for distribution to multiple markets and postal facilities across the country? If not, explain your understanding of coupon envelope mailer practices and how Val-Pak's practices differ.

**RESPONSE:**

- a. Redirected to Valpak.
- b. Confirmed.
- c. My response in Docket No. MC95-1 was applicable only to Valpak. I have neither surveyed, nor studied, nor am I familiar with the mailing practices of any national coupon envelope mailer other than Valpak.

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**ADVO/VP-T2-12.**

On page 33 of your testimony, you assert that it would be reasonable to expect that, when carriers have to select from two or more mailings one that is to be handled as an extra bundle, carriers select only one saturation flat mailing to be handled as an extra bundle on an individual day and case the others. To support your assertion, you cite the USPS institutional response to VP/USPS-T39-60 in R2001-1.

(a) Please confirm that the question asked by Val-Pak in VP/USPS-T30-12 in this Docket R2005-1 proceeding is identical to the question asked in the interrogatory you cite from Docket R2001-1.

(b) Please confirm that USPS witness Lewis, in this proceeding, responded to that interrogatory by stating that the supervisor would most likely direct carriers to collate the two mailings together to make a third bundle.

(c) Please explain how your assertion comports with another USPS response in this rate case to VP/USPS-T30-6 [positing two saturation mailings to be delivered on a certain day]: “. . . normally, where motorized carriers are serving centralized, cluster box, curblines, and dismount deliveries, the supervisor would ensure they take their sequenced mailings directly to the street uncased. If the carriers in your example were carriers on motorized routes that served park and loop deliveries, for those park and loop deliveries, the supervisor would ensure the carriers collated the mailings together into a third bundle.”

(d) Please explain how your assertion comports with USPS witness Lewis’s responses in this rate case to VP/USPS-T30-11, 12, and 19 (TR 6/2365, 2368, 2376) that city carriers would most likely collate two or more flat saturation mailings into a third bundle in order to avoid casing those flats.

**RESPONSE:**

- a. Confirmed.
- b. Your question helps to point out that, when responding to VP/USPS-T30-12(e), witness Lewis did not answer the question that was asked. The question posed to witness Lewis was, regarding foot routes and park and loop routes that in general are restricted to three bundles (*i.e.*, except for certain segments, such as cluster box units, where more than three bundles may be permitted), if a choice had to be made by a carrier, which of the two hypothetical mailings would be

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cased. In his response — “The supervisor would most likely direct carriers to collate the two mailings together to make a third bundle” — I would interpret “most likely” to mean that the two mailings would be collated together somewhat more than 50 percent of the time, but not necessarily always. In this docket, VP/USPS-T30-12 asked what happens when the two bundles are **not collated** and carriers **are limited** to three bundles. Unfortunately, that question remains unanswered. The response of witness Lewis, cited in full above, speaks for itself and confirms that (i) he did say the two bundles “most likely” would be collated, and (ii) he did not say what would happen when they were not collated.

- c. The sentence cited from my testimony in your question appears at page 33, lines 12-16, and begins by stating, “[w]ithin the universe of saturation flats, when carriers have to select from two or more mailings ....” (Emphasis added.) VP/USPS-T30-6 concerned one saturation mailing of **letters** and one saturation mailing of **flats**, both for delivery on the same day. The interrogatory is inapplicable to the cited sentence in my testimony. However, I should elaborate on the issue which you raise.

The immediately preceding sentence in my testimony (p. 33, ll. 7-11) cites the large discrepancy in the percent of saturation letters and flats taken directly to the street: 36.2 vs. 74.3 percent, respectively. The response by witness Lewis indicated that (i) where carriers have no restriction on the number of extra

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bundles, both would be taken directly to the street, and (ii) where carriers are restricted on the number of bundles, “the supervisor would ensure the carriers collated the [letter and flat] mailings together into a third bundle.” In other words, the response of witness Lewis to VP/USPS-T30-6, if taken literally, could be said to indicate that saturation letters would be collated and taken to the street as often as saturation flats, but such a reading does not comport with the statistical evidence cited from the Postal Service in my testimony.

- d. My “assertion,” as you describe the cited sentence in my testimony, discusses what happens “when carriers have to select.” The responses of witness Lewis to VP/USPS-T30-11, 12 and 19 are to the effect that when (i) carriers are limited in the number of extra bundles that they can take, and (ii) they have two saturation flat mailings for delivery on the same day, they will collate the two bundles of flats into a single saturation bundle, so that a choice like that posited in my testimony will have to be made only rarely. My testimony at page 33, line 8, notes that the Postal Service’s estimating procedure concludes that 74.3 percent of all saturation flats bypass casing and are taken to the street in the form of extra bundles. Moreover, in my response to ADVO/VP-T2-4, I concurred with your deduction that the Postal Service’s estimating procedure probably overestimates, perhaps by a wide margin, the volume of saturation flats actually cased before being taken to the street. Correspondingly, the volume of flats taken directly to the street would be underestimated. Thus, to

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the extent that witness Lewis is correct about the frequency with which saturation flats are collated and then taken to the street as a third bundle, and the volume of saturation flats actually cased (with other non-saturation flats) before being taken to the street is substantially less than 25.7 percent, the extra-bundle treatment given to flats, and the discrimination against letters in that respect, is even greater than discussed in my testimony.

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**ADVO/VP-T2-13.**

On page 30 of your testimony (lines 7-12) you state that “Private vehicles are more constrained, and the interior layout typically gives the [city] carrier less flexibility.” Please provide your estimate of the number of city letter carriers that use private vehicles. If you cannot provide a specific number, please indicate whether you believe the use of private vehicles on city delivery routes is common or rare, and explain the basis for your belief.

**RESPONSE:**

Witness Lewis says that city carriers sometimes use private vehicles. Tr. 6/2419, ll. 14-20. He did not provide, and I do not have, an estimate of either the number or percentage of city carriers that use a private vehicle. In comparison to rural carriers, many of whom use a private vehicle on a percentage basis, I would expect that the figure for city carriers is much lower.

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**ADVO/VP-T2-14.**

Referring to Table 2, page 41 of your testimony, please confirm the following or explain fully why you cannot:

(a) You intend to measure the direct casing costs per actually-cased saturation letter and saturation flat.

(b) The flats casing cost includes not only the cost to case the flats actually cased but also any DALs that were also cased.

(c) If your estimate of the number of DALs is correct, then there is a correspondingly lower number of non-DAL letters cased and a correspondingly higher unit letter casing cost.

**RESPONSE:**

- a. My testimony on page 41, at lines 15-17, cites the average in-office costs for saturation letters and flats presented by witness Kelley in USPS-LR-K-67. It is these average costs that caused me to prepare my Table 2. Using saturation flats for purposes of illustration, witness Kelley's average cost is computed as (i) total in-office costs for all saturation flats divided by (ii) the sum of pieces cased plus pieces not cased. In essence, this is a weighted average of (i) the unit cost of flats not cased (which is very low) and (ii) the unit cost of flats that are cased (which is very high in comparison to the unit cost of flats not cased). In other words, the unit cost of flats cased and flats not cased is not unlike a bi-polar distribution. I find averages over bi-polar distributions to be somewhat uninformative as to the underlying reality. Thus, the purpose of my Table 2 is to show the direct unit casing cost per actually-cased saturation letter and saturation flat using Postal Service estimates of (i) casing cost, and (ii) the number of pieces cased, as a means of providing a sort of benchmark for

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comparison with witness Kelley's averages. In this particular instance, the unit cost of casing flats (\$0.0209, as shown in my Table 2) is 3.94 times witness Kelley's average cost for all saturation flats, and this ratio would be much greater still if the comparison were with the unit in-office cost of flats taken directly to the street, which is not computed.

- b. Confirmed that the saturation flats casing cost, as estimated by IOCS, includes whatever pieces that carriers were handling at the time of the IOCS tally, which could have been either DALs or flats, and which pieces were in the process of being cased (with other flats). Presumably, flats casing cost, as estimated by IOCS, also could include collation of two bundles of saturation flats into a single extra bundle to be taken directly to the street, but I do not know how the IOCS records a carrier's activity when the carrier is collating, as opposed to casing.
- c. I cannot confirm the assertion contained in this part of your interrogatory. I am assuming that a "non-DAL letter" is, simply, a normal addressed letter. So long as the IOCS records as a flat any DAL handled by a carrier when working in the office, the estimated in-office cost of saturation letters, and the resulting estimate of the volume of saturation letters cased, would be independent of the volume of DALs.

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to Interrogatory of Advo, Inc.**

**ADVO/VP-T2-15.**

Have you (or witness Mitchell) made any estimates of the impact on ECR rates of the use of your Table 4 marginal cost estimates for saturation mail by shape in combination with the USPS's estimates of marginal costs for High-Density, Basic, and Automation categories by shape? If so, please provide them, all assumptions you used to develop them (e.g., period that costs and volumes represent, coverage levels, cost differential passthroughs, etc.), and the workpapers you used to develop them.

**RESPONSE:**

No.

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to Interrogatory of Advo, Inc.**

**ADVO/VP-T2-16.**

On page 38 (lines 4-7), you state: “When carriers take saturation mailings directly to their vehicles as an extra bundle, the likelihood that carriers will be sampled by the IOCS while handling such mailings is greatly reduced, to the point of being minimal. . . . for those mailings that carriers handle as extra bundles, the Postal Service will attribute little or no in-office cost, because the mailing is handled only briefly, and in bulk, not as individual pieces.”

(a) Will the IOCS also attribute little or no in-office cost (on a per piece basis) to DPS letters that have avoided in-office casing and been taken directly to carrier vehicles? Please explain.

(b) Do you have any reason to believe that the unit attributable in-office costs of saturation letters taken out as extra bundles is any greater than for DPS saturation letters? Please explain.

**RESPONSE:**

- a. Yes, DPS letters taken directly to the street should incur only trivial in-office costs in cost segment 6, **but**, in order to avoid such in-office costs, they must incur non-trivial DPS costs in cost segment 3. The option of taking presorted saturation mailings directly to carriers’ vehicles — *i.e.*, without casing and without DPS — as described in the testimony of witness Lewis (USPS-T-30, p. 3), is the lowest overall cost option, as my testimony acknowledges. My statement, which you cite, refers to “saturation mailings,” and applies to letter-shaped mail as much as it does to flat-shaped mail. That is why, under the IOCS cost measurement system used by the Postal Service, saturation letter mailers would strongly prefer to have their mail receive equal extra-bundle treatment.
- b. As indicated in my response to preceding part a, DPS letters and presorted saturation letters that bypass sortation altogether and that are taken directly to

**Response of Valpak Witness John Haldi  
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the street should each incur similar, almost trivial, in-office unit costs.

However, the cost of DPSing letters is not trivial, hence I would expect the total unit cost of saturation letters taken directly to the street to be less than the unit cost of letters that are DPS'd.

**Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.**

**Robert Mitchell  
(VP-T-1)**

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-1.**

Please provide the workpapers used to develop the results presented in Figure 3 on page 51 of your testimony.

**RESPONSE:**

The workpapers are provided as an attachment to this response, and are identified as VP-T1-Workpapers.xls. Decision inputs are on the 'Inputs' sheet. Figure 3 is on the 'Schedule' sheet, beginning at line 67.



Attachment to Response to ADVO/VP-T1-1

|    | A   | B                        | C | D | E        | F     | G              | H               | I                  | J               | K        | L |
|----|---|--------------------------|---|---|----------|-------|----------------|-----------------|--------------------|-----------------|----------|---|
| 1  | <b>These volume ratios are developed from BY2000 and Tolley volumes and are used to inflate the BY BD sheet to obtain TYBR and TYAR</b> |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 2  |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 3  |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 4  |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 5  |   | Volume factors           |   |   |          | BY/BY | Volume         | Volume          | tybr/by            | Volume          | tyar/by  |   |
| 6  |   |                          |   |   |          |       | BY2000         | TYBR            | Factor             | TYAR            | Factor   |   |
| 7  |   | Non-ECR-Profit           |   |   |          |       |                |                 |                    |                 |          |   |
| 8  |   | Letters-Non-Barcoded     |   |   |          |       |                |                 |                    |                 |          |   |
| 9  |   | Basic                    |   |   | 1.000000 |       | 793,501,993    | 817,754,459     | 1.030564           | 809,733,939     | 1.020456 |   |
| 10 |   | 3/5                      |   |   | 1.000000 |       | 1,065,186,190  | 757,568,118     | 0.711207           | 697,778,977     | 0.655077 |   |
| 11 |   | Flats-Non-Barcoded       |   |   |          |       |                |                 |                    |                 |          |   |
| 12 |   | Basic                    |   |   | 1.000000 |       | 479,656,633    | 448,826,802     | 0.935725           | 443,471,958     | 0.924561 |   |
| 13 |   | 3/5                      |   |   | 1.000000 |       | 1,052,913,950  | 953,252,266     | 0.905347           | 925,540,123     | 0.879027 |   |
| 14 |   | Barcoded Letters         |   |   |          |       |                |                 |                    |                 |          |   |
| 15 |   | MxAADC                   |   |   | 1.000000 |       | 1,950,273,409  | 2,236,058,034   | 1.146536           | 2,217,147,820   | 1.136839 |   |
| 16 |   | AADC                     |   |   | 1.000000 |       | 2,201,484,140  | 2,517,616,648   | 1.143600           | 2,496,325,308   | 1.133928 |   |
| 17 |   | 3-digit                  |   |   | 1.000000 |       | 15,819,321,120 | 18,153,833,425  | 1.147573           | 17,989,964,663  | 1.137215 |   |
| 18 |   | 5-digit                  |   |   | 1.000000 |       | 16,402,050,918 | 19,382,990,228  | 1.181742           | 19,265,167,056  | 1.174558 |   |
| 19 |   | Barcoded Flats           |   |   |          |       |                |                 |                    |                 |          |   |
| 20 |   | Basic                    |   |   | 1.000000 |       | 354,820,302    | 416,977,922     | 1.175181           | 414,714,247     | 1.168801 |   |
| 21 |   | 3/5                      |   |   | 1.000000 |       | 10,657,027,136 | 11,300,895,211  | 1.060417           | 11,218,794,042  | 1.052713 |   |
| 22 |   | Non-ECR-Nonprofit        |   |   |          |       |                |                 |                    |                 |          |   |
| 23 |   | Letters-Non-Barcoded     |   |   |          |       |                |                 |                    |                 |          |   |
| 24 |   | Basic                    |   |   | 1.000000 |       | 548,859,122    | 501,801,091     | 0.914262           | 498,835,390     | 0.908859 |   |
| 25 |   | 3/5                      |   |   | 1.000000 |       | 1,086,840,563  | 878,426,094     | 0.808238           | 841,502,420     | 0.774265 |   |
| 26 |   | Flats-Non-Barcoded       |   |   |          |       |                |                 |                    |                 |          |   |
| 27 |   | Basic                    |   |   | 1.000000 |       | 107,099,998    | 104,807,102     | 0.978591           | 104,231,688     | 0.973218 |   |
| 28 |   | 3/5                      |   |   | 1.000000 |       | 225,485,758    | 218,999,256     | 0.971233           | 217,372,336     | 0.964018 |   |
| 29 |   | Barcoded Letters         |   |   |          |       |                |                 |                    |                 |          |   |
| 30 |   | MxAADC                   |   |   | 1.000000 |       | 807,738,620    | 865,098,392     | 1.071013           | 860,675,813     | 1.065538 |   |
| 31 |   | AADC                     |   |   | 1.000000 |       | 789,437,381    | 836,145,931     | 1.059167           | 831,871,364     | 1.053752 |   |
| 32 |   | 3-digit                  |   |   | 1.000000 |       | 3,916,956,217  | 4,065,787,333   | 1.037997           | 4,058,439,104   | 1.036121 |   |
| 33 |   | 5-digit                  |   |   | 1.000000 |       | 2,644,008,338  | 3,083,280,956   | 1.166139           | 3,084,411,839   | 1.166567 |   |
| 34 |   | Barcoded Flats           |   |   |          |       |                |                 |                    |                 |          |   |
| 35 |   | Basic                    |   |   | 1.000000 |       | 86,736,469     | 95,806,496      | 1.104570           | 95,321,155      | 1.098974 |   |
| 36 |   | 3/5                      |   |   | 1.000000 |       | 1,578,421,702  | 1,705,401,731   | 1.080447           | 1,696,807,639   | 1.075003 |   |
| 37 |   | ECR-Profit               |   |   |          |       |                |                 |                    |                 |          |   |
| 38 |   | Letters-Non-Barcoded     |   |   |          |       |                |                 |                    |                 |          |   |
| 39 |   | Carrier Route            |   |   | 1.000000 |       | 2,144,903,041  | 2,279,214,850   | 1.062619           | 2,204,590,228   | 1.027827 |   |
| 40 |   | High-density             |   |   | 1.000000 |       | 481,876,440    | 505,000,459     | 1.047987           | 487,031,862     | 1.010699 |   |
| 41 |   | Saturation               |   |   | 1.000000 |       | 2,783,103,074  | 3,131,007,735   | 1.125006           | 3,023,502,885   | 1.086378 |   |
| 42 |   | Letters-Barcoded         |   |   |          |       |                |                 |                    |                 |          |   |
| 43 |   | Carrier Route            |   |   | 1.000000 |       | 1,914,433,081  | 2,077,658,300   | 1.085260           | 2,008,138,417   | 1.048947 |   |
| 44 |   | Non-Letters Non-Barcoded |   |   |          |       |                |                 |                    |                 |          |   |
| 45 |   | Carrier Route            |   |   | 1.000000 |       | 11,396,910,120 | 12,648,693,997  | 1.109835           | 12,224,335,151  | 1.072601 |   |
| 46 |   | High-density             |   |   | 1.000000 |       | 1,744,328,033  | 1,875,030,801   | 1.074930           | 1,812,943,000   | 1.039336 |   |
| 47 |   | Saturation               |   |   | 1.000000 |       | 9,879,894,649  | 10,812,299,961  | 1.094374           | 10,426,558,187  | 1.055331 |   |
| 48 |   | ECR-Nonprofit            |   |   |          |       |                |                 |                    |                 |          |   |
| 49 |   | Letters-Non-Barcoded     |   |   |          |       |                |                 |                    |                 |          |   |
| 50 |   | Carrier Route            |   |   | 1.000000 |       | 265,916,432    | 350,739,545     | 1.318984           | 348,711,796     | 1.311359 |   |
| 51 |   | High-density             |   |   | 1.000000 |       | 67,510,392     | 73,226,700      | 1.084673           | 72,743,668      | 1.077518 |   |
| 52 |   | Saturation               |   |   | 1.000000 |       | 661,059,108    | 667,651,626     | 1.009973           | 663,796,603     | 1.004141 |   |
| 53 |   | Letters-Barcoded         |   |   |          |       |                |                 |                    |                 |          |   |
| 54 |   | Carrier Route            |   |   | 1.000000 |       | 202,104,310    | 210,036,111     | 1.039246           | 208,868,516     | 1.033469 |   |
| 55 |   | Non-Letters Non-Barcoded |   |   |          |       |                |                 |                    |                 |          |   |
| 56 |   | Carrier Route            |   |   | 1.000000 |       | 964,685,063    | 1,301,548,575   | 1.349195           | 1,294,109,919   | 1.341484 |   |
| 57 |   | High-density             |   |   | 1.000000 |       | 32,813,668     | 57,252,160      | 1.744766           | 56,923,016      | 1.734735 |   |
| 58 |   | Saturation               |   |   | 1.000000 |       | 456,163,561    | 486,719,822     | 1.066985           | 483,703,911     | 1.060374 |   |
| 59 |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 60 |   | Check line               |   |   |          |       | 95,563,520,931 | 105,817,408,138 |                    | 104,084,064,039 |          |   |
| 61 |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 62 |   | More Check Lines         |   |   |          |       |                |                 |                    |                 |          |   |
| 63 |   | Non-ECR Profit           |   |   |          |       | 50,776,235,791 | 56,985,773,113  |                    | 56,478,638,134  |          |   |
| 64 |   | Non-ECR Nonprofit        |   |   |          |       | 11,791,584,168 | 12,355,554,381  |                    | 12,289,468,746  |          |   |
| 65 |   | ECR Profit               |   |   |          |       | 30,345,448,438 | 33,328,906,103  |                    | 32,187,099,731  |          |   |
| 66 |   | ECR Nonprofit            |   |   |          |       | 2,650,252,534  | 3,147,174,541   |                    | 3,128,857,428   |          |   |
| 67 |   | Total                    |   |   |          |       | 95,563,520,931 | 105,817,408,138 |                    | 104,084,064,039 |          |   |
| 68 |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 69 |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 70 |   |                          |   |   |          |       |                |                 | TYAR/TYBR Regular= | 0.991733        |          |   |
| 71 |   |                          |   |   |          |       |                |                 |                    |                 |          |   |
| 72 |   |                          |   |   |          |       | Same ECR       |                 |                    | 0.968195        |          |   |

Attachment to Response to ADVO/VP-T1-1

| Case No.             | Case Name | Case Type    | Case Status    | Case Date    | Case Amount    | Case Fee    | Case Cost    | Case Total    |
|----------------------|-----------|--------------|----------------|--------------|----------------|-------------|--------------|---------------|
| 10000000000000000000 | Case 1    | Case Type 1  | Case Status 1  | Case Date 1  | Case Amount 1  | Case Fee 1  | Case Cost 1  | Case Total 1  |
| 10000000000000000000 | Case 2    | Case Type 2  | Case Status 2  | Case Date 2  | Case Amount 2  | Case Fee 2  | Case Cost 2  | Case Total 2  |
| 10000000000000000000 | Case 3    | Case Type 3  | Case Status 3  | Case Date 3  | Case Amount 3  | Case Fee 3  | Case Cost 3  | Case Total 3  |
| 10000000000000000000 | Case 4    | Case Type 4  | Case Status 4  | Case Date 4  | Case Amount 4  | Case Fee 4  | Case Cost 4  | Case Total 4  |
| 10000000000000000000 | Case 5    | Case Type 5  | Case Status 5  | Case Date 5  | Case Amount 5  | Case Fee 5  | Case Cost 5  | Case Total 5  |
| 10000000000000000000 | Case 6    | Case Type 6  | Case Status 6  | Case Date 6  | Case Amount 6  | Case Fee 6  | Case Cost 6  | Case Total 6  |
| 10000000000000000000 | Case 7    | Case Type 7  | Case Status 7  | Case Date 7  | Case Amount 7  | Case Fee 7  | Case Cost 7  | Case Total 7  |
| 10000000000000000000 | Case 8    | Case Type 8  | Case Status 8  | Case Date 8  | Case Amount 8  | Case Fee 8  | Case Cost 8  | Case Total 8  |
| 10000000000000000000 | Case 9    | Case Type 9  | Case Status 9  | Case Date 9  | Case Amount 9  | Case Fee 9  | Case Cost 9  | Case Total 9  |
| 10000000000000000000 | Case 10   | Case Type 10 | Case Status 10 | Case Date 10 | Case Amount 10 | Case Fee 10 | Case Cost 10 | Case Total 10 |
| 10000000000000000000 | Case 11   | Case Type 11 | Case Status 11 | Case Date 11 | Case Amount 11 | Case Fee 11 | Case Cost 11 | Case Total 11 |
| 10000000000000000000 | Case 12   | Case Type 12 | Case Status 12 | Case Date 12 | Case Amount 12 | Case Fee 12 | Case Cost 12 | Case Total 12 |
| 10000000000000000000 | Case 13   | Case Type 13 | Case Status 13 | Case Date 13 | Case Amount 13 | Case Fee 13 | Case Cost 13 | Case Total 13 |
| 10000000000000000000 | Case 14   | Case Type 14 | Case Status 14 | Case Date 14 | Case Amount 14 | Case Fee 14 | Case Cost 14 | Case Total 14 |
| 10000000000000000000 | Case 15   | Case Type 15 | Case Status 15 | Case Date 15 | Case Amount 15 | Case Fee 15 | Case Cost 15 | Case Total 15 |
| 10000000000000000000 | Case 16   | Case Type 16 | Case Status 16 | Case Date 16 | Case Amount 16 | Case Fee 16 | Case Cost 16 | Case Total 16 |
| 10000000000000000000 | Case 17   | Case Type 17 | Case Status 17 | Case Date 17 | Case Amount 17 | Case Fee 17 | Case Cost 17 | Case Total 17 |
| 10000000000000000000 | Case 18   | Case Type 18 | Case Status 18 | Case Date 18 | Case Amount 18 | Case Fee 18 | Case Cost 18 | Case Total 18 |
| 10000000000000000000 | Case 19   | Case Type 19 | Case Status 19 | Case Date 19 | Case Amount 19 | Case Fee 19 | Case Cost 19 | Case Total 19 |
| 10000000000000000000 | Case 20   | Case Type 20 | Case Status 20 | Case Date 20 | Case Amount 20 | Case Fee 20 | Case Cost 20 | Case Total 20 |

| A  | B  | C      | D              | E              | F              | G          | H           | I           | J | K | L |
|----|--|--------|----------------|----------------|----------------|------------|-------------|-------------|---|---|---|
| 32 | Dropship Discounts                         | R2001  | \$/Lb          | Passthrough    | \$/lb Rounded  | \$/pc @ bp | Passthrough | \$/pc Round |   |   |   |
| 31 | Avoidance DBMC                             | 12.88% | 0.1332         | 59.00%         | 0.113          | 0.0275     | 39.00%      | 0.023       |   |   |   |
| 30 | Avoidance DSCF                             | 17.35% | 0.1738         | 84.50%         | 0.147          | 0.0358     | 84.00%      | 0.030       |   |   |   |
| 29 | Avoidance DBU                              | 13.13% | 0.2111         | 84.00%         | 0.177          | 0.0435     | 84.00%      | 0.037       |   |   |   |
| 28 | Nonprofit as % of For Profit               | Pct.   | 60.00%         | 60.00%         | 60.00%         |            |             |             |   |   |   |
| 27 | Round rate, Nonprofit                      |        | 0.246          | 0.216          | 0.246          |            |             |             |   |   |   |
| 26 | Barcode discount for qualifying RSS pieces |        | 0.030          | none           | 0.030          |            |             |             |   |   |   |
| 25 | Residual shape surcharge, Nonprofit        |        | 0.242          | 0.211          | 0.242          |            |             |             |   |   |   |
| 24 | Residual shape surcharge, Commercial       |        | 0.242          | 0.211          | 0.242          |            |             |             |   |   |   |
| 23 | Non-mach Ltr Surcharge, Nonprofit          |        | 0.021          | none           | 0.021          |            |             |             |   |   |   |
| 22 | Non-mach Ltr Surcharge, Commercial         |        | 0.042          | none           | 0.042          |            |             |             |   |   |   |
| 21 | Average weighted by TYBR revenue           |        | 1.000226       | 1.000144       | 1.000226       |            |             |             |   |   |   |
| 20 | Revenue Adj Factor, NP                     |        | 1.000146       | 1.000128       | 1.000146       |            |             |             |   |   |   |
| 19 | Revenue Adj Factor, Commercial             |        | 1.000237       | 1.000145       | 1.000237       |            |             |             |   |   |   |
| 18 | Coverage                                   |        | 182.79%        | 229.37%        | 182.79%        |            |             |             |   |   |   |
| 17 | Fees Year                                  |        | 61,981,241     | 25,368,127     | 61,981,241     |            |             |             |   |   |   |
| 16 | Fees ltr                                   |        | 71,762,320     | 23,968,131     | 71,762,320     |            |             |             |   |   |   |
| 15 | TYAR Cost w/ Cont.                         |        | 9,516,099,654  | 2,671,194,778  | 9,516,099,654  |            |             |             |   |   |   |
| 14 | TYBR Cost w/ Cont.                         |        | 12,339,248,730 | 12,187,294,432 | 12,339,248,730 |            |             |             |   |   |   |
| 13 | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 12 | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 11 | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 10 | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 9  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 8  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 7  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 6  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 5  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 4  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 3  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 2  | Contingency                                |        |                |                |                |            |             |             |   |   |   |
| 1  | Contingency                                |        |                |                |                |            |             |             |   |   |   |

All figures which must be selected by the operator are in red type. The breakpoint of 3.3 ounces is assumed and hard wired. This sheet contains all cost coverages and passthroughs, and selected rates. The breakpoint of 3.3 ounces is assumed and hard wired.

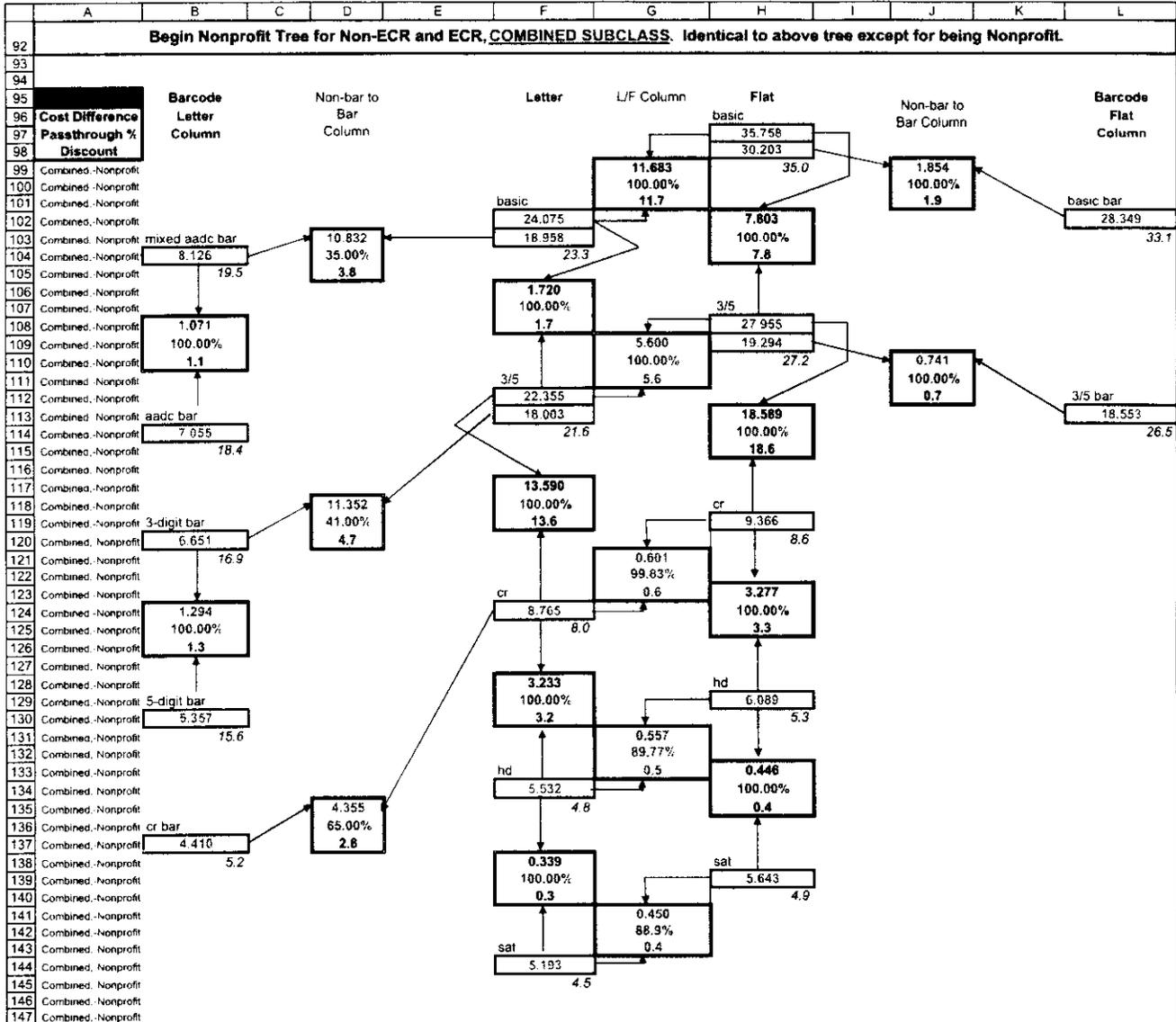
This sheet contains inputs to run the programs, fees, costs, avoidances. Enter fees here

TYAR fees @ BR volume levels  
 reg np 581083544 10594910.21  
 reg comm 18115181  
 TYAR fees @ AR volume levels  
 reg np 57797552.7 10231941.93  
 reg comm 17953968  
 Same fees @ AR volume levels  
 reg np 14801216.61  
 reg comm 14715070.91

Weighted average of select as an input  
 169.21%  
 1.000205509 All calculated

Calculated  
 \$/pc @ bp 0.0275  
 Passthrough 39.00%  
 \$/pc Round 0.023  
 \$/lb Rounded 0.113  
 Passthrough 59.00%  
 \$/lb 0.1332  
 \$/pc @ bp 0.0435  
 Passthrough 84.00%  
 \$/pc Round 0.037

|    | A  | B       | C          | D | E      | F          | G       | H | I          | J | K       | L |
|----|--|---------|------------|---|--------|------------|---------|---|------------|---|---------|---|
| 33 | Begin presort trees with avoidances, passthroughs, and discounts for the Profit and Nonprofit categories of Non-ECR and ECR, all cost figures in cents.                  |         |            |   |        |            |         |   |            |   |         |   |
| 34 |  |         |            |   |        |            |         |   |            |   |         |   |
| 35 |  |         |            |   |        |            |         |   |            |   |         |   |
| 36 | The 2 trees are for Non-ECR and ECR, <b>COMBINED SUBCLASS</b> . Profit is shown first and then Nonprofit immediately below. Same formats used.                           |         |            |   |        |            |         |   |            |   |         |   |
| 37 | Note: For reference, the cells shaded in light green, below the costs for each rate cell, in italics, are rates based on the adoption of a 35-cent rate for basic flats. |         |            |   |        |            |         |   |            |   |         |   |
| 38 |  |         |            |   |        |            |         |   |            |   |         |   |
| 39 |  | Barcode | Non-bar to |   | Letter | L/F Column | Flat    |   | Non-bar to |   | Barcode |   |
| 40 | <b>Cost Difference</b>   | Letter  | Bar        |   |        |            | basic   |   | Bar        |   | Flat    |   |
| 41 | <b>Passthrough %</b>   | Column  | Column     |   |        |            |         |   | Column     |   | Column  |   |
| 42 | <b>Discount</b>  |         |            |   |        |            |         |   |            |   |         |   |
| 43 | Combined-Profit  |         |            |   |        |            | 35.758  |   |            |   |         |   |
| 44 | Combined-Profit  |         |            |   |        |            | 30.203  |   |            |   |         |   |
| 45 | Combined-Profit  |         |            |   |        |            | 35.0    |   |            |   |         |   |
| 46 | Combined-Profit  |         |            |   |        |            | 11.683  |   |            |   |         |   |
| 47 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 48 | Combined-Profit  |         |            |   |        |            | 11.7    |   |            |   |         |   |
| 49 | Combined-Profit  |         |            |   |        |            | 24.075  |   |            |   |         |   |
| 50 | Combined-Profit  |         |            |   |        |            | 18.958  |   |            |   |         |   |
| 51 | Combined-Profit  |         |            |   |        |            | 7.803   |   |            |   |         |   |
| 52 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 53 | Combined-Profit  |         |            |   |        |            | 7.8     |   |            |   |         |   |
| 54 | Combined-Profit  |         |            |   |        |            | 28.349  |   |            |   |         |   |
| 55 | Combined-Profit  |         |            |   |        |            | 33.7    |   |            |   |         |   |
| 56 | Combined-Profit  |         |            |   |        |            | 1.854   |   |            |   |         |   |
| 57 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 58 | Combined-Profit  |         |            |   |        |            | 1.9     |   |            |   |         |   |
| 59 | Combined-Profit  |         |            |   |        |            | 24.075  |   |            |   |         |   |
| 60 | Combined-Profit  |         |            |   |        |            | 18.958  |   |            |   |         |   |
| 61 | Combined-Profit  |         |            |   |        |            | 7.803   |   |            |   |         |   |
| 62 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 63 | Combined-Profit  |         |            |   |        |            | 7.8     |   |            |   |         |   |
| 64 | Combined-Profit  |         |            |   |        |            | 28.349  |   |            |   |         |   |
| 65 | Combined-Profit  |         |            |   |        |            | 33.7    |   |            |   |         |   |
| 66 | Combined-Profit  |         |            |   |        |            | 1.854   |   |            |   |         |   |
| 67 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 68 | Combined-Profit  |         |            |   |        |            | 1.9     |   |            |   |         |   |
| 69 | Combined-Profit  |         |            |   |        |            | 24.075  |   |            |   |         |   |
| 70 | Combined-Profit  |         |            |   |        |            | 18.958  |   |            |   |         |   |
| 71 | Combined-Profit  |         |            |   |        |            | 7.803   |   |            |   |         |   |
| 72 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 73 | Combined-Profit  |         |            |   |        |            | 7.8     |   |            |   |         |   |
| 74 | Combined-Profit  |         |            |   |        |            | 28.349  |   |            |   |         |   |
| 75 | Combined-Profit  |         |            |   |        |            | 33.7    |   |            |   |         |   |
| 76 | Combined-Profit  |         |            |   |        |            | 1.854   |   |            |   |         |   |
| 77 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 78 | Combined-Profit  |         |            |   |        |            | 1.9     |   |            |   |         |   |
| 79 | Combined-Profit  |         |            |   |        |            | 24.075  |   |            |   |         |   |
| 80 | Combined-Profit  |         |            |   |        |            | 18.958  |   |            |   |         |   |
| 81 | Combined-Profit  |         |            |   |        |            | 7.803   |   |            |   |         |   |
| 82 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 83 | Combined-Profit  |         |            |   |        |            | 7.8     |   |            |   |         |   |
| 84 | Combined-Profit  |         |            |   |        |            | 28.349  |   |            |   |         |   |
| 85 | Combined-Profit  |         |            |   |        |            | 33.7    |   |            |   |         |   |
| 86 | Combined-Profit  |         |            |   |        |            | 1.854   |   |            |   |         |   |
| 87 | Combined-Profit  |         |            |   |        |            | 100.00% |   |            |   |         |   |
| 88 | Combined-Profit  |         |            |   |        |            | 1.9     |   |            |   |         |   |
| 89 | Combined-Profit  |         |            |   |        |            | 24.075  |   |            |   |         |   |
| 90 | Combined-Profit  |         |            |   |        |            | 18.958  |   |            |   |         |   |
| 91 | Combined-Profit  |         |            |   |        |            | 7.803   |   |            |   |         |   |





**Sheet Calculates Rates using data from other sheets, for combined subclasse, tybr basis.**

| Variables and special subtotals used  | Regular        |                | ECR            |                | Combined       |     | Combined |     |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|-----|----------|-----|
|                                       | Regular        | ECR            | Regular        | ECR            | Reg            | ECR | Reg      | ECR |
| Total piece volume, Commercial        | 56,985,773,113 | 33,328,906,103 | 56,985,773,113 | 33,328,906,103 |                |     |          |     |
| Total piece volume, Nonprofit         | 12,355,554,381 | 3,147,174,541  | 12,355,554,381 | 3,147,174,541  |                |     |          |     |
| Pieces paying min/pc rate, Commercial | 50,205,510,054 | 21,992,810,397 | 50,205,510,054 | 21,992,810,397 |                |     |          |     |
| Pieces paying min/pc rate, Nonprofit  | 11,721,328,922 | 2,860,871,713  | 11,721,328,922 | 2,860,871,713  |                |     |          |     |
| Pieces paying pound rate, Commercial  | 6,780,263,059  | 11,336,095,706 | 6,780,263,059  | 11,336,095,706 |                |     |          |     |
| Pieces paying pound rate, Nonprofit   | 634,225,459    | 286,302,828    | 634,225,459    | 286,302,828    |                |     |          |     |
| Pounds paying pound rate, Commercial  | 2,524,474,543  | 3,624,232,795  | 2,524,474,543  | 3,624,232,795  |                |     |          |     |
| Pounds paying pound rate, Nonprofit   | 212,394,350    | 87,117,656     | 212,394,350    | 87,117,656     |                |     |          |     |
| Leakages, Commercial                  |                |                | 11,757,985,239 | 10,687,419,097 |                |     |          |     |
| Leakages, Nonprofit                   |                |                | 2,097,981,662  | 145,429,354    |                |     |          |     |
| Cost, tybr                            | 9,586,215,578  | 2,753,033,152  |                |                | 12,339,248,730 |     |          |     |
| Coverage                              | 152.79%        | 226.37%        |                |                | 169.21%        |     |          |     |
| Total Revenue less fees & other adj   | 14,581,801,390 | 6,205,877,499  | 20,778,552,407 |                |                |     |          |     |

| Rounded Key Rates |     |       |       |
|-------------------|-----|-------|-------|
| Reg               | ECR | Reg   | ECR   |
|                   |     | 0.437 | 0.437 |
|                   |     | 0.283 | 0.304 |
|                   |     | 0.313 | 0.127 |
|                   |     | 0.186 | 0.047 |

| Rounded Key Rates |     |       |       |
|-------------------|-----|-------|-------|
| Reg               | ECR | Reg   | ECR   |
|                   |     | 0.437 | 0.437 |
|                   |     | 0.283 | 0.304 |
|                   |     | 0.313 | 0.127 |
|                   |     | 0.186 | 0.047 |

| Rounded Key Rates |     |       |       |
|-------------------|-----|-------|-------|
| Reg               | ECR | Reg   | ECR   |
|                   |     | 0.437 | 0.437 |
|                   |     | 0.283 | 0.304 |
|                   |     | 0.313 | 0.127 |
|                   |     | 0.186 | 0.047 |

| Rounded Key Rates |     |       |       |
|-------------------|-----|-------|-------|
| Reg               | ECR | Reg   | ECR   |
|                   |     | 0.437 | 0.437 |
|                   |     | 0.283 | 0.304 |
|                   |     | 0.313 | 0.127 |
|                   |     | 0.186 | 0.047 |

| Rounded Key Rates |     |       |       |
|-------------------|-----|-------|-------|
| Reg               | ECR | Reg   | ECR   |
|                   |     | 0.437 | 0.437 |
|                   |     | 0.283 | 0.304 |
|                   |     | 0.313 | 0.127 |
|                   |     | 0.186 | 0.047 |

| Sub values for solving combined  |  |              |               |
|----------------------------------|--|--------------|---------------|
| Phi 1                            |  | 0.1538625    |               |
| Phi 2                            |  | 0.13261875   |               |
| Phi 3                            |  | 0.12705      |               |
| Phi 4                            |  | 0.0804375    |               |
| Phi 5                            |  | 0.130090937  |               |
| Phi 6                            |  | 0.056656667  |               |
| Phi 7                            |  | -9874727230  |               |
| Phi 8                            |  | -1967146742  |               |
| Phi 9                            |  | -8357037410  |               |
| Phi 10                           |  | -111453468.3 |               |
| k                                |  | 0.20625      |               |
| Theta                            |  | 0.6          |               |
| R1                               |  | 0.437035929  |               |
| R1 Nonprofit Alpha               |  | 0.31300018   |               |
| R1 Nonprofit Beta                |  | 0.127441818  |               |
| Differential for Nonprofit Alpha |  | 0.124035749  | Rounded 0.124 |
| Differential for Nonprofit Beta  |  | 0.309594111  | Rounded 0.310 |

| Intercepts      |  |             |  |
|-----------------|--|-------------|--|
| Profit Alpha    |  | 0.283173429 |  |
| Profit Beta     |  | 0.304417179 |  |
| Nonprofit Alpha |  | 0.18595018  |  |
| Nonprofit Beta  |  | 0.047004318 |  |

|    | A  | B | C            | D | E | F                   | G                              | H                                  | I | J            | K  | L            | M               | N     | O |
|----|--|---|--------------|---|---|---------------------|--------------------------------|------------------------------------|---|--------------|--|--------------|-----------------|-------|---|
| 3  | <b>COMBINED SUBCLASS</b>                   |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 4  |  |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 5  |  |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 6  | <b>Commercial</b>                          |   |              |   |   | Proposed            | <b>Nonprofit</b>               |                                    |   |              |  | Proposed     |                 |       |   |
| 7  |  |   |              |   |   | Taufique            |                                |                                    |   |              |  | Taufique     |                 |       |   |
| 8  | <b>Letter Size Piece Rates</b>             |   |              |   |   | <b>Rates</b>        | <b>Letter Size Piece Rates</b> |                                    |   |              |  | <b>Rates</b> |                 |       |   |
| 9  | Basic                                      |   |              |   |   | 0.320               | 0.282                          | Basic                              |   |              |  |              | 0.196           | 0.174 |   |
| 10 |  |   | Mix aadc Bar |   |   | 0.231               | 0.231                          |                                    |   | Mix aadc Bar |  |              | 0.158           | 0.152 |   |
| 11 |  |   | aadc Bar     |   |   | 0.220               | 0.223                          |                                    |   | aadc Bar     |  |              | 0.147           | 0.143 |   |
| 12 | 3/5  |   |              |   |   | 0.303               | 0.261                          | 3/5                                |   |              |  |              | 0.179           | 0.161 |   |
| 13 |  |   | 3-d Bar      |   |   | 0.216               | 0.214                          |                                    |   | 3-d Bar      |  |              | 0.132           | 0.136 |   |
| 14 |  |   | 5-d Bar      |   |   | 0.203               | 0.200                          |                                    |   | 5-d Bar      |  |              | 0.119           | 0.120 |   |
| 15 |  |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 16 | Destination Entry Discounts, per-piece     |   |              |   |   |                     |                                |                                    |   |              | Destination Entry Discounts, per-piece     |              |                 |       |   |
| 17 |  |   | DBMC         |   |   | 0.023               | 0.022                          |                                    |   | DBMC         |  |              | 0.023           | 0.022 |   |
| 18 |  |   | DSCF         |   |   | 0.030               | 0.027                          |                                    |   | DSCF         |  |              | 0.030           | 0.027 |   |
| 19 |  |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 20 | <b>Non-Letter Size Piece rates</b>         |   |              |   |   |                     |                                |                                    |   |              | <b>Non-Letter Size Piece rates</b>         |              |                 |       |   |
| 21 | Basic                                      |   |              |   |   | 0.437               | 0.363                          | Basic                              |   |              |  |              | 0.313           | 0.242 |   |
| 22 |  |   | Basic Bar    |   |   | 0.418               | 0.316                          |                                    |   | Basic Bar    |  |              | 0.294           | 0.199 |   |
| 23 | 3/5  |   |              |   |   | 0.359               | 0.304                          | 3/5                                |   |              |  |              | 0.235           | 0.193 |   |
| 24 |  |   | 3/5 Bar      |   |   | 0.352               | 0.275                          |                                    |   | 3/5 Bar      |  |              | 0.228           | 0.175 |   |
| 25 |  |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 26 | Destination Entry Discounts, same as above |   |              |   |   |                     |                                |                                    |   |              | Destination Entry Discounts, same as above |              |                 |       |   |
| 27 | <b>Begin Pound Rates</b>                   |   |              |   |   |                     |                                |                                    |   |              | <b>Begin Pound Rates</b>                   |              |                 |       |   |
| 28 | Non-Letter Basic Pound Rate < cr           |   |              |   |   | 0.746               | 0.746                          | Non-Letter Basic Pound Rate < cr   |   |              |  |              | 0.616           | 0.616 |   |
| 29 | Per-piece add ons:                         |   |              |   |   |                     |                                |                                    |   |              | Per-piece add ons:                         |              |                 |       |   |
| 30 | Basic                                      |   |              |   |   | 0.283               | 0.209                          | Basic                              |   |              |  |              | 0.186           | 0.116 |   |
| 31 |  |   | Basic Bar    |   |   | 0.264               | 0.162                          |                                    |   | Basic Bar    |  |              | 0.167           | 0.073 |   |
| 32 | 3/5  |   |              |   |   | 0.205               | 0.150                          | 3/5                                |   |              |  |              | 0.108           | 0.066 |   |
| 33 |  |   | 3/5 Bar      |   |   | 0.198               | 0.121                          |                                    |   | 3/5 Bar      |  |              | 0.101           | 0.048 |   |
| 34 |  |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 35 | Destination Entry Discounts, per-pound     |   |              |   |   |                     |                                |                                    |   |              | Destination Entry Discounts, per-pound     |              |                 |       |   |
| 36 |  |   | DBMC         |   |   | 0.113               | 0.105                          |                                    |   | DBMC         |  |              | 0.113           | 0.105 |   |
| 37 |  |   | DSCF         |   |   | 0.147               | 0.132                          |                                    |   | DSCF         |  |              | 0.147           | 0.132 |   |
| 38 |  |   |              |   |   |                     |                                |                                    |   |              |  |              |                 |       |   |
| 39 | <b>Begin Categories now in ECR</b>         |   |              |   |   | <b>Hypothetical</b> | <b>USPS</b>                    | <b>Begin Categories now in ECR</b> |   |              |  |              | <b>Proposed</b> |       |   |
| 40 | <b>Rates in Dollars</b>                    |   |              |   |   | <b>Combined</b>     | <b>Rates</b>                   |                                    |   |              |  |              | <b>Rates</b>    |       |   |
| 41 | <b>Letter Piece Rates</b>                  |   |              |   |   | <b>Subclass</b>     | <b>Letter Piece Rates</b>      |                                    |   |              |  | <b>Rates</b> |                 |       |   |
| 42 | Basic CR                                   |   |              |   |   | 0.167               | 0.204                          | Basic CR                           |   |              |  |              | 0.121           | 0.133 |   |
| 43 |  |   | CR Bar       |   |   | 0.133               | 0.180                          |                                    |   | CR Bar       |  |              | 0.093           | 0.117 |   |
| 44 | High density                               |   |              |   |   | 0.135               | 0.173                          | High density                       |   |              |  |              | 0.089           | 0.108 |   |
| 45 |  |   | Saturation   |   |   | 0.132               | 0.160                          |                                    |   | Saturation   |  |              | 0.086           | 0.100 |   |
| 46 | <b>Non-Letter piece rates</b>              |   |              |   |   |                     |                                |                                    |   |              | <b>Non-Letter piece rates</b>              |              |                 |       |   |
| 47 | Basic CR                                   |   |              |   |   | 0.173               | 0.204                          | Basic CR                           |   |              |  |              | 0.127           | 0.133 |   |
| 48 |  |   | High density |   |   | 0.140               | 0.178                          |                                    |   | High density |  |              | 0.094           | 0.116 |   |
| 49 |  |   | Saturation   |   |   | 0.136               | 0.169                          |                                    |   | Saturation   |  |              | 0.090           | 0.110 |   |
| 50 | Destination Entry Discounts, per piece     |   |              |   |   |                     |                                |                                    |   |              | Destination Entry Discounts, per piece     |              |                 |       |   |
| 51 |  |   | DBMC         |   |   | 0.023               | 0.022                          |                                    |   | DBMC         |  |              | 0.023           | 0.022 |   |
| 52 |  |   | DSCF         |   |   | 0.030               | 0.027                          |                                    |   | DSCF         |  |              | 0.030           | 0.027 |   |
| 53 |  |   | DDU          |   |   | 0.037               | 0.033                          |                                    |   | DDU          |  |              | 0.037           | 0.033 |   |
| 54 | <b>Begin Pound Rates</b>                   |   |              |   |   |                     |                                |                                    |   |              | <b>Begin Pound Rates</b>                   |              |                 |       |   |
| 55 | Pound Rate, cr & finer                     |   |              |   |   | 0.643               | 0.643                          | Pound Rate, cr & finer             |   |              |  |              | 0.390           | 0.390 |   |
| 56 | Per-piece Add Ons                          |   |              |   |   |                     |                                |                                    |   |              | Per-piece Add Ons                          |              |                 |       |   |
| 57 | Basic CR                                   |   |              |   |   | 0.040               | 0.072                          | Basic CR                           |   |              |  |              | 0.047           | 0.053 |   |
| 58 |  |   | High Density |   |   | 0.007               | 0.045                          |                                    |   | High Density |  |              | 0.014           | 0.036 |   |
| 59 |  |   | Saturation   |   |   | 0.003               | 0.036                          |                                    |   | Saturation   |  |              | 0.010           | 0.030 |   |
| 60 | Destination Entry Discounts, per-pound     |   |              |   |   |                     |                                |                                    |   |              | Destination Entry Discounts, per-pound     |              |                 |       |   |
| 61 |  |   | DBMC         |   |   | 0.113               | 0.105                          |                                    |   | DBMC         |  |              | 0.113           | 0.105 |   |
| 62 |  |   | DSCF         |   |   | 0.147               | 0.132                          |                                    |   | DSCF         |  |              | 0.147           | 0.132 |   |
| 63 |  |   | DDU          |   |   | 0.177               | 0.166                          |                                    |   | DDU          |  |              | 0.177           | 0.166 |   |



**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-2.**

Please provide the workpapers used to develop the estimate on page 80 of your testimony that a reduction of 10 percentage points (of cost coverage) would give ECR mailers little if any rate increase.

**RESPONSE:**

No workpapers are required to reach the conclusion you cite, and I relied on none. The reasoning is straightforward. USPS-LR-K-115, file USPST28Aspreadsheets.xls, sheet '2006 BR' shows the TYBR revenue of ECR to be \$5,931,918,263, including fees. USPS-LR-K-95, folder R2005\_RollFwd\_Model2\_ForFiling, folder R2005OutputRpt, folder PRC\_R2005\_Filing\_Output, file R2005,FY2006BRC\_DRpt.PRC.AMX.xls, sheet 'DReport' shows the cost of Standard ECR mail to be \$2,753,033,152, including a contingency of zero. This implies a cost coverage of 215.47 percent. To keep things easy, it is convenient to think in terms of a cost of \$100 and a revenue of \$215.47. With a 5.4 percent increase, this revenue becomes \$227.10 (*i.e.*,  $1.054 * \$215.47$ ), which is a coverage of 227.10 percent. The volume effect can be neglected since in going from TYBR to TYAR the volumes and costs move together, or very nearly so. If 10 percentage points of cost coverage were removed, which means removing 10 percent of \$100, or \$10, the revenue would be \$217.10, which is a coverage of 217.10 percent. Since 217.10 percent is not far above 215.47 percent, I said little if any rate increase (p. 80, l. 13).

Part of my reasoning for the phrase "little if any rate increase" is that, in the end, the Commission will be working with actual numbers. It will therefore have to deal with rounding effects, mix effects in the volume forecast (which depend on the mix of rates selected), any extent to which the percentage change in cost in going to TYAR is not exactly equal to the

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percentage change in volume, with the fees recommended, and with whether any rate increase is to be measured by the change in average per-piece revenue or with a fixed-weight index. I was not able to deal with some of these matters. But since all of the associated effects are small, I felt comfortable with the phrase I used.

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**ADVO/VP-T1-3.**

Referring to the letter-flat cost differential discussed on page 81 of your testimony, please confirm that you mean the differential between ECR Basic letters and Basic flats. If not, please explain.

**RESPONSE:**

Confirmed. Rate differences, cost differences, and, therefore, passthroughs exist at the high density and saturation levels as well, of course, and the passthroughs at those levels might be called implicit. Calling them implicit, however, does not make them any less real. When all of the passthroughs in the presort tree are 100 percent, it makes no difference which levels are specified and which are implicit. If the letter-flat passthrough at the basic level is not 100 percent, but the passthroughs between the adjacent letter categories and between the adjacent flat categories are 100 percent, the implicit letter-flat passthroughs will be different from the passthrough at the basic level, although it is not possible to say in general whether they will be above or below it.

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**ADVO/VP-T1-4.**

At page 82 of your testimony in footnote 36, you refer to the Commission's Docket R90-1 decision concerning implementation of a saturation letter-flat rate differential and state:

[The Commission] also said "We . . . note that the letter discounts we are recommending are not worksharing discounts in the sense this term is used on the record; however, our recognition of shape at the saturation level introduces the possibility that some mailers may decide to convert their mailings." *Ibid.*, p. V-305, ¶ 6076. Mailers should not be restricted from choosing the products that suit them best, given appropriate rate differences.

- (a) Are you aware of any ECR saturation flat mailers that, since the Commission's decision in Docket R90-1, have converted their mailings to letter size? If so, please identify them.
- (b) Do you have any knowledge or information on the percentage of total ECR saturation flat volume (if any) that, since the Commission's R90-1 decision, has converted to letter size? If so, please provide it, including all sources.
- (c) Please confirm that the last sentence in your footnote 36, quoted above, is your statement and not the Commission's.
- (d) Is it your contention that, absent a 100 percent or greater passthrough of the ECR saturation letter-flat cost differential, saturation mailers are "restricted from choosing the products that suit them best"? If so, please identify the saturation mailers, or types of saturation mail programs, that are so "restricted" from choosing the products that suit them best, and explain how they are restricted.
- (e) Based on your knowledge of the ECR saturation mail industry, is it your belief that the choice of saturation shopper publications and shared mailers to utilize a flat-size format is influenced in any respect by the magnitude of the letter-flat cost passthrough (i.e., that a change in the passthrough might cause them to switch from a flat-size to a letter-size format)? If so, please explain the basis for your belief.
- (f) Based on your knowledge of the ECR saturation mail industry, please list the factors, in order of importance, that you believe influence the choice of ECR saturation shopper publications and shared mailers to utilize a flat-size format, rather than a letter-size format.

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**RESPONSE:**

(a) No.

(b) Using the workpapers presented by the Postal Service in Docket No. R90-1 and the current billing determinants, certain aggregate comparisons could be made, but it would not be possible to infer how much of the growth (or decline) in a category (such as saturation letters or saturation flats) has been due to the inherent growth (or decline) in that category and how much has been due to mailers shifting from one category to another. We do know, of course, that prior to Docket No. R90-1, the rates were the same for letters and flats, so mailers had no reason to consider postage in their decisions on shape. It also should be noted that even if the relative sizes of two categories remained the same, it would be possible that some mailers moved one way and some the other.

(c) Confirmed, since the sentence to which you refer is not enclosed in quotation marks and comes after the citation for the quote. I do not see any ambiguity. However, I would note that the formatting of your question could lead some readers to suspect that my introduction to the quotes from the Commission, the actual quotes themselves, and the "last sentence" at issue are together in my text as a single-spaced, double-indented quotation, which is not the case. Footnote 36 in its entirety is ordinary text. (Also, the question omits a colon after the word "said.")

(d) No. I know of no restrictions on mailers' freedom to choose, except obvious ones such as that flats must pay the rates for flats and that letters must be the size of letters. The sentence you cite might be clearer if it said that mailers, when choosing the products that suit them best, should be presented with appropriate rate differences. Alternatively, one could say

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that mailers should not be put into the position of having to, or being allowed to, select from among products that have inappropriate rate differences.

(e) It would be a strong statement to say that mailers of the kind you reference are not influenced “in any respect” by the rate alternatives they face, and I would not make such a statement, not even for rate differences in the neighborhood of the current ones. To say this would imply a cross elasticity of absolutely zero. I have learned to expect some sensitivity at the margin between such related product categories. Letter-size pieces can be as large as 6 1/8 inches high and 11 1/2 inches wide, and one way to achieve such pieces is to fold a flat. I do not view such pieces as being small or uninteresting. But the importance of setting appropriate rates for these categories depends only partially on the possibility of some mailers switching. For example, consider how it would sound for the Postal Service to make the following statement to letter mailers: “We know you believe it would be fair for your costs to be recognized in your rates and that you would like a not-unreasonable markup over those costs, but we have found that holding your rate down does not cause flats to convert to letters, so we are going to elevate your rate and use the revenue to help hold down the rate for flats, thereby giving them a smaller percentage markup than you.”

(f) Actually, my guess is that different mailers would identify different influential factors, that the descriptions of these factors would differ, and that there would be differences in their order of importance. I doubt if anyone can present such a list “in order of importance,” not even if it were agreed that the levels of any relevant variables were not to stray far from their current levels. That is, paper prices might not be influential now but might

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be very influential at twice their current level. I have no analysis (information?) available that would allow me to answer this question.

As a practical matter, I believe “shopper publications and shared mailers” pursue a product concept that they believe makes business sense, and that they have an understanding of the information (and its form) that they wish to provide, the associated production and handling costs, the postage, the markets in which they will sell their services, and, importantly, recipient response rates. This does not preclude the possibility that lower costs and a slightly lower response rate could lead to higher profits. Considering a run-of-press product would be different from considering one that accepts inserts provided by the advertiser. The preferences and interests of customers (including potential customers) are always important. Early on, providers of advertising services might have more than one product concept in mind. Once a concept is selected and found to work, they would need to have a pretty good reason to alter it.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-5.**

- (a) Do you have any knowledge or understanding of any differences in the typical frequency of mailing (e.g., weekly, monthly, less-than-monthly) between ECR saturation letter mailings and ECR saturation flat mailings? If so, please state your understanding and provide sources.
- (b) Are you aware of any ECR saturation letter mail programs that are mailed in a market on a regular weekly basis? If so, please identify the mailers and the markets, and quantify the volumes of such weekly-frequency saturation letter mail.
- (c) Are you aware of any ECR saturation letter mail programs that are mailed in a market on a more-frequently-than-monthly basis, i.e., more than 12 times per year? If so,
  - (i) please identify the mailers and the markets, and quantify the volumes of such saturation letter mail;
  - (ii) please state whether distribution more frequently than monthly is either commonplace, the exception, or nonexistent for saturation letter mail.
- (d) To the extent you believe there are differences in the typical frequency of mailing between ECR saturation letter mailings and saturation flat mailings, please describe the factors that you believe may account for the differences.

**RESPONSE:**

(a) Other than that many frequencies exist, and that mailers sometimes change their frequency, I have no basis for saying what is typical, including the proportion of users of particular rate categories that have one frequency or another. I am aware that a number of saturation flat mailings are weekly, but I receive some at my house that are less frequent. I also am aware that a number of saturation letter mailings are less frequent than weekly, but I have not studied the distribution of their frequencies.

(b) No.

(c) No.

(i) Not applicable.

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(ii) Not applicable.

(d) I would be surprised if a study did not show differences in typical frequency. It seems likely that many saturation flat mailers have a basic business model that is different from that of many saturation letter mailers. Most classifications of mail seem to have many different kinds of users. At the same time, it is not uncommon for one or two types of users to account for a large portion of the volume of a subclass or category.

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**ADVO/VP-T1-6.**

At page 67 of your testimony, you state that “most materials in ECR cannot be sent privately.”

- (a) Please confirm that saturation letters could be sent privately if unaddressed.
- (b) Are any of Val-Pak’s letter-size enveloped coupons distributed by private delivery, not mail? If so, please provide the following:
  - (i) the total volume of such privately-delivered pieces in 2004 and an estimate for 2005;
  - (ii) the percentage of Val-Pak’s total enveloped coupon volume that is delivered privately; and
  - (iii) identify the markets where private delivery is used, and for each market identify the private delivery company used.

**RESPONSE:**

(a) Confirmed. However, note that my understanding of this issue is rather general and does not rise to the level of a legal opinion.

(b) Redirected to Valpak.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-7.**

At pages 83-84 of your testimony, you advocate that the passthrough of the letter-flat cost differential “should be over 100 percent, but certainly at least 100 percent.” Do you believe that the passthroughs of the Automation-Basic Letters, Basic-High Density, and High Density-Saturation total cost differences (for both letters and non-letters) should also be a minimum of 100 percent? If not, explain why not.

**RESPONSE:**

It may be that the passthrough of the cost difference for automation-basic letters in ECR, which are viewed as workshared mail, should be well under 100 percent, because the cost difference of record goes far beyond that appropriate for any concept of worksharing. Passthroughs for the other categories referenced in your question are usually based on a review of a range of considerations. My preference for 100 percent is stated on page 87 of my testimony, lines 3 through 5.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-8.**

At page 83 of your testimony, you take the position that the passthrough of the letter/flat cost difference "should be over 100 percent ..." Please explain why, and under what circumstances, a passthrough greater than 100 percent would be appropriate.

**RESPONSE:**

Section IV-2 of my testimony, pages 81-84, discusses the passthrough of the letter/flat cost difference with some care. The answer to your question is that a passthrough greater than 100 percent would always be appropriate. Factors that could argue for the over-100-percent (default) passthrough to move downward toward 100 percent would be: (a) a high cross elasticity between letters and flats; (b) the difference between letters and flats being considered a matter of worksharing, coupled with an interest in getting the lowest cost entity to do the work; (c) evidence of a considerably higher own-price elasticity for flats than for letters; (d) significant differences in the applicability of the monopoly statutes to letters and flats; and (e) a national policy position to give preferred treatment to flats relative to letters, in which case a position might be taken that the additional charge for flats relative to letters should reflect only the additional cost of flats, and no additional contribution. None of these apply in the situation at hand.

Taken together, the following interrogatories (ADVO/VP-T1-9 through ADVO/VP-T1-14) imply erroneously that I believe that (i) the cross elasticity between letters and flats is high, and that (ii) many mailers of flats could easily shift to a letter format. I do not argue that mailers of flats do not have reasons for using the flat format, nor do I argue that they are on the edge of converting to letters. Also, I do not argue that mailers of flats **should** convert to

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

letters, and it is certainly not the case that the Postal Service should have a preference for one versus the other. When I say that mailers should be presented with appropriate rates and allowed to choose which product they wish to purchase, I mean just that, but I do not mean that any particular mailer, or group of mailers, is on the edge.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-9.**

At page 83 of your testimony, discussing the letter-flat rate differential, you state: "The mailer may look at rates to help decide which product to purchase, but this is exactly the kind of market decision made regularly among all products."

- (a) Is it your belief that saturation shopper publications and shared mailers that compete with newspapers for distribution of preprinted advertising circulars "look at the letter-flat differential" to decide whether to mail their product as a letter or a flat? If so, explain the basis for your belief.
- (b) Is it your belief that such mailers could switch to a letter-size format and still remain competitive for distribution of preprinted advertising circulars? If so, explain the basis for your belief.

**RESPONSE:**

- a. I am not an authority on what "saturation shopper publications and shared mailers" look at to formulate their business plans. Presumably, all of them are to some degree aware that postal rates must be paid and that there are many rate alternatives in Standard mail. This does not mean that they are on the edge of switching from one rate alternative to another. I have learned, however, that there is usually some cross elasticity between products, especially related products, even if small. See also my response to ADVO/VP-T1-4(f).
- b. Other than as discussed in my response to part a of this question, I hold no such belief.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.****ADVO/VP-T1-10.**

The following relate to your statement at page 83 that mailers may look at rates to help decide which postal products to purchase.

- (a) Please confirm that the maximum allowable dimensions of a "letter" are 11-1/2 inches length, 6-1/8 inches height, and 1/4 inch thickness.
- (b) Do you agree that most multi-page preprinted advertising circulars that are distributed as inserts inside newspapers exceed the maximum dimensions of a "letter?" If not, please explain your understanding of the typical dimensions of most such circulars, and the basis for your understanding. If you do not know, please so state.
- (c) Please confirm that the maximum allowable dimensions of an ECR "flat" are 14 inches length, 11-3/4 inches height, and 3/4 inch thickness.
- (d) Please confirm that these maximum allowable dimensions were increased to their current size in 1987 (Docket MC87-1) in order to allow newspapers to mail their total market coverage advertising programs at Third Class carrier route presort rates without having to fold their customers' preprint advertising inserts. If you cannot confirm, please state your understanding of the purpose of the size changes in Docket MC87-1.

**RESPONSE:**

- a. That is my understanding. Interestingly, I have not found a definition for letters in section 300 (applicable to Standard mail) of the Domestic Mail Classification Schedule ("DMCS"), so I would assume section 230 applies.
- b. For most of the ones I have seen, I agree.
- c. Confirmed. The dimensions that are cited are found in section 331 of the DMCS.
- d. I recollect very generally the matter described, but have not researched the matter.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.****ADVO/VP-T1-11.**

The following relate to your discussion at pages 82-83 about the influence of the letter-flat rate differential on mailer decisions concerning the format of their mailings.

- (a) Please confirm that the typical multi-page preprint advertising circular of the format currently carried as inserts inside newspapers, saturation shopper publications, and saturation shared mail programs would have to be folded at least once to fit within the dimensions of a "letter." If you cannot confirm, please explain why not and state your understanding of the dimensions of such preprint advertising circulars. If your answer is that you do not know, please so state, and assume for purposes of the following parts that such circulars would have to be folded to fit within letter-size dimensions.
- (b) If a preprint advertising circular had to be folded in order to fit within the length and height restrictions on letter-size pieces, please confirm that the folding would double the thickness of the circular.
- (c) For a saturation shopper publication or shared mail program mailing that is nearly 1/4 inch thick, please confirm that the folding of the preprint inserts to fit within the letter-size length and height restrictions would likely cause the mailing to exceed the 1/4 inch thickness restriction on letters, so that it could not in any event qualify as a "letter."
- (d) For a saturation shopper publication or shared mail program mailing with preprint inserts that currently exceeds 1/4 inch thickness, please explain how the mailer could modify its mailing to qualify as a "letter."

**RESPONSE:**

- a. I have no reason to believe that what is stated is not the case, but I should not be considered an authority on whatever folding alternatives mailers may have.
- b. I have no reason to believe that what is stated is not the case, if it were folded once.
- c. It could.
- d. I know of no way the mailer could make the transformation that is stated.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-12.**

In addition on the dimensional restrictions on a letter-size mail piece, please confirm that to qualify for the saturation letter rate, the mail piece cannot exceed 3.5 ounces.

- (a) For a saturation shopper publication or shared mail program mailing that currently exceeds 3.5 ounces, please explain how, or whether, you believe the mailer could reformat its mailing in some manner to qualify for the saturation letter rate.
- (b) If you believe that such a mailing could be reformatted in some manner to qualify for the letter rate, please explain whether you believe the reformatting would have an adverse impact on the preprint advertiser's choice to use the mail rather than newspapers for its preprint distribution.

**RESPONSE:**

Standard pieces weighing 3.3 to 3.5 ounces can qualify as letters if they are automation letters. Since all saturation letters are required to be automation qualified, I believe what is stated to be the case.

- a. Apart from removing pieces from the package, I see no easy way to make such a conversion.
- b. Not applicable.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

**ADVO/VP-T1-13.**

Do you agree that the great majority of multi-page preprinted advertising circulars currently can be distributed either as inserts in newspapers, or as inserts in shopper publications or shared mail programs, without any change to the format of the preprint. If you disagree, please explain your understanding of the format and characteristics of such circulars, and how they differ between newspapers and mail.

**RESPONSE:**

I have no reason to disagree with what is stated, although I should add that not every address receives a newspaper. However, I am not an authority on processes and programs involving the shifting of advertising circulars between newspapers and shopper publications or shared mail programs.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.****ADVO/VP-T1-14.**

Please confirm that newspapers do not require their preprint advertising circular customers to fold their preprints to “letter” size in order to be inserted in the newspaper. If you cannot confirm, please explain your understanding of typical newspaper practices and requirements concerning the maximum size of preprinted inserts. If you do not know, please so state, and assume for purposes of the following that newspapers do not require preprints to be folded to “letter” size.

- (a) Are you aware that “quarterfolding” of preprint advertising circulars involves an additional operation and cost that must be borne either by the advertiser or the distributor?
- (b) Would you agree that an additional folding operation, whether done by the advertiser’s printer or by the mailer, would lengthen the “lead time” between the printing operation and the mailing date (i.e., the preprint would have to be printed further in advance of the mailing date to allow for the additional folding operation than if no folding were done).
- (c) If a saturation shopper publication or shared mailer were to require its preprint customers to fold their preprints to “letter” size, whereas newspapers did not, do you agree this would have a negative impact on the advertiser’s choice to use mail distribution rather than newspapers? If you disagree, please explain why, including your understanding of the factors that affect preprint advertisers’ choice of distribution medium.

**RESPONSE:**

I am not an authority on “typical newspaper practices and requirements concerning the maximum size of preprinted inserts.” I have no reason to believe that what is stated is not the case.

- a. I would be surprised if that were not the case.
- b. I have discussed lead time issues with mailers and understand that they are sometimes important factors to be considered in making decisions. I am not an authority on the speed or timing of folding operations or on the conditions under

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Advo, Inc.**

which an additional fold might be integrated into an existing production processes.

- c. I do not have a specific “understanding of the factors that affect preprint advertisers’ choice of distribution medium,” and neither do I know the cost of a folding operation, or who could do it most efficiently. Under some conditions, your conclusion seems plausible, but decisions on distribution medium would be expected to involve considerations that go beyond whether or not a sheet must be folded, and that also include such things as cost and reach and response rates.

**Response of Valpak Witness Robert W. Mitchell  
to Interrogatory of Direct Marketing Association**

**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.

**RESPONSE:**

(a) In substantial part, yes, as explained further below. I do not understand any *distinction you may intend between “various amounts of USPS costs” and “operating costs.”* It may be that your reference in its entirety is simply to what section 3621 calls “total estimated expenses,” which it explains further include “operating expenses, depreciation on capital facilities and equipment, debt service (including interest, amortization of debt discount and expense, and provision for sinking funds or other retirements of obligations to the extent that such provision exceeds applicable depreciation charges), and a reasonable provision for contingencies.” These costs are discussed on pages 6 through 9 of my testimony.

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I would agree that the Commission's implementation of section 3622(b)(3) has been causal, inasmuch as it has been pursuant to principles of marginal cost, volume variability, or specific fixed costs. However, I do not agree that appropriate costs automatically flow from just any principle of causation. Using mere causation as a guide can lead to cost estimates that have really bad economic characteristics or that are meaningless. For example, one could argue that transportation costs are caused by our cities being so far apart, rather than by the volume of mail, and therefore that they should not be attributed. This would not make economic sense, but it is arguably causal. Similarly, fully distributed costing ("FDC") techniques are generally presented as being causal, yet their bad economic characteristics and harmful consequences have been explained by economists and business consultants for over 50 years, and were so recognized by the Kappel Commission. In fact, the need for improved product costing was one reason for passage of the Postal Reorganization Act of 1970.

Also, a distinction must be made between costs that are used for pricing and costs that are incremental to a subclass. Marginal costs and volume variable costs focus on the behavior of costs in response to small volume changes and thus relate directly to the resource implications of one rate alternative instead of another. On the other hand, incremental costs, which are certainly causal, are usually defined as the change in total cost when the entire volume of a subclass is withdrawn, and thus relate to the largest possible volume reduction. They are not developed to have a relation to the cost effects of rate alternatives. Accordingly, they do not relate to decisions about pricing. A fundamental reason for engaging in costing exercises is to facilitate attention to the effects of rate alternatives.

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(b) I believe the choice of terms in your question poses difficulties that could lead to confusion. As discussed in my response to part a of this question, economists often refer to the incremental cost of a subclass, defining it as the amount by which costs would decline if the entire volume of the subclass were withdrawn. This is a very large volume change — indeed, as large a volume change in the downward direction as possible. Your question describes incremental cost analysis as involving instead a small volume increment. Nothing is wrong with talking about the cost effects of small increments to volume, so long as the result is identified clearly and used appropriately.

As a practical matter, I do not see any difference between marginal cost analysis and the small-increment cost analysis you reference. In fact, an increment of non-negligible size is suggested by the economic prescription that rate alternatives should be evaluated by looking, possibly among other things, at the effects of one rate instead of another. Changing a rate by a small amount does cause a non-negligible change in volume in almost all cases.

As explained further in my response to part a of this question, I believe the Commission's cost attribution has been causal but that more guidance is needed to do good costing than principles of causation. Said in a different way, just passing some causal test is not enough. I believe it would be more accurate and more helpful to say that, predominantly, the Commission has used a form of volume variability analysis, and has found it to meet high standards of causation.

**Response of Valpak Witness Robert W. Mitchell  
to Interrogatory of Direct Marketing Association**

**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?

**RESPONSE:**

(a) The Postmaster General's statements are a matter of record, and speak for themselves. My interpretation of what he said is: (i) absent the projection of a deficit for FY 2006, this case would not have been filed, and (ii) a reduction of approximately \$3.1 billion in any cost component or any cost category or any group of costs, including the escrow payment

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(as it just happens to be the right size), would bring about a no-deficit projection. The “but for” test to which you refer is passed equally well by all of these possible reductions.

Therefore, if the test is used as an indicator of causation, the deficit must be viewed as having a very large number of causes, as many as the number of ways the costs can be assembled into \$3.1-billion pools. Note that I do not interpret his statements to mean that factors other than cost reductions (such as an increase in volume that is accommodated without much cost increase) could not also have brought about, or helped to bring about, a no-deficit projection.

This case is based on a contention that the escrow requirement stands out as a kind of Congressional influence that is different from any other Congressional influence, and that therefore the financial burden of it should be borne in a way that is different from other financial burdens, even though Congress declared that the escrow requirement should be considered an operating expense of the Postal Service (as discussed on pages 6 through 8 of my testimony). But even if Congress had not so declared, it would still be clear that the normal ratesetting scheme in the Act is the appropriate way to fund the escrow and that the escrow requirement falls within a continuum of Congressional influence, both positive and negative.

(b) I agree that the escrow costs are not volume variable and should not be attributed. Institutional costs, however, are a residual. Therefore, one “identifies” the level of attributable costs, and finds the institutional costs as the difference between total estimated costs and those attributed. One does not identify and then add up costs that appear to be institutional (although that can sometimes be done). This is a critical difference. To see how the reasoning works, consider a simple firm with two cost pools and three products. The first

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cost pool involves a fixed payment of \$20 million and the second is an operating pool of \$80 million. The total costs of the firm are \$100 million. Suppose the cost elasticity of the \$20-million pool is zero for all three products, much like the escrow. That is, for a 10 percent increase in the volume of Product A, a 10 percent increase in the volume of Product B, or a 10 percent increase in the volume of Product C, taken individually, one at a time, *ceteris paribus*, the percent change in the number of dollars in the \$20-million pool is zero. Now suppose the cost elasticity of the \$80-million pool is 0.3 for Product A, 0.5 for Product B, and 0.4 for Product C. This means that the attributable cost of Product A is \$24 million ( $0.3 * \$80$  million), of Product B is \$40 million ( $0.5 * \$80$  million), and of Product C is \$32 million ( $0.4 * \$80$  million).<sup>1</sup> Total attributable cost is \$96 million. Institutional cost can now be calculated as \$4 million ( $\$100$  million - \$96 million). It is true that if the \$20-million pool were to be removed as a cost burden, institutional cost would be \$20 million lower, going in this case to a level of negative \$16 million, but it is not true that the \$20-million expense resides as an identifiable element in the institutional cost of the firm. Furthermore, although seeking to understand why costs have the variabilities that they do is a laudable undertaking, exercises that focus on the causes of institutional costs are the stock-in-trade of advocates of fully distributed costing. Accordingly, extreme care must be taken in discussing the causes of institutional costs. You may object that the sum of a set of cost elasticities ( $0.3 + 0.5 + 0.4 = 1.2$ , in this case) would not normally be expected to exceed 1.0, at least if the firm is

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<sup>1</sup> Note that upon analyzing Product A and finding that \$24 million of the \$80-million cost pool is attributable to it, one cannot jump to a conclusion that \$56 million ( $\$80$  million - \$24 million) of the pool is institutional.

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experiencing scale economies, and I would agree. A theory of costing, however, must be general enough to accommodate all possible outcomes, and the situation posited in this example is both possible and understandable.

(c) As indicated in my response to part b of this question, I agree that the escrow costs are an operating expense (so classified by Congress), do not vary with volume, and should not be attributed. But I take issue with the phrase “but rather are caused by.” The fact that costs may be viewed as caused by something other than volume, such as Congressional concern over the funding of health care costs for retirees, or anything else, does not imply that they are unusual or that they are not volume variable. The sum of the costs caused by a set of perfectly sensible causes can easily be greater than the cost itself. As an example, consider carrier costs. We know that all carrier costs are caused by the need to deliver the mail. But one could argue as well that they are caused, at least in substantial part, by a universal service obligation (“USO”) and by a decision on how many days a week to deliver and by the weather and by decisions Congress made on the guidelines for collective bargaining. The sum of the costs caused by all of these causes is probably much larger than the total of all carrier costs. In other words, costs cannot necessarily be distributed to their causes, and they can have more than one cause.

(d) Assuming but not agreeing that there is a logical basis for saying that the need for additional revenue (*i.e.*, the deficit) is caused more by one factor than another, I am not aware of any other such rate cases, possibly because I have not examined previous omnibus cases and searched for coincidences between factor sizes and projected deficits. A situation like the

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present one, even though brought about in substantial part by the unusual decision to propose a contingency of zero, is probably rare. An alignment of the stars is required for an obvious cost pool to be just the right size. If the Postal Service's recent cost reduction efforts were less successful than they actually were, and the deficit projected for FY 2006 were \$5 billion instead of \$3 billion, the temptation to assert a link between the escrow and the deficit would be weaker.

(e) Coincidences aside, I don't view the amount of additional revenue being sought in this case as caused any more by an act of Congress than by any other expense that must be paid. All Congress did was to say that payments made in the past would be continued as before, but would now be put into a separate fund, the purpose of which will be designated at some future date. This does not qualify as an overt act that changed financial trends. But let's assume that Congress suddenly and unexpectedly said that all addresses would begin immediately to receive three deliveries per day. Assuming breakeven otherwise, if a rate case were to be filed because of this new requirement, it would be an ordinary rate case. The fact that Congress, in some sense, caused it would be irrelevant. See also my response to other parts of this question.

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**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.

**RESPONSE:**

(a) Yes. I discuss the residual nature of deficits on pages 10 and 11 of my testimony.

(b) As a practical matter, I would not in all cases so assert, but the logic may not be as unambiguous as you suggest. That is to say, as I discuss in my response to DMA/VP-T1-2(a) and 2(c), a deficit can be said to have multiple causes, at least according to the "but for" reasoning of that interrogatory, and there may not be a way to narrow it down to one cause. The sentence beginning on page 10, line 2 of my testimony says only: "Generally, one would not expect any logical basis for assigning responsibility for a deficit."

I agree that situations exist where the man on the street would view it as logical to say that a deficit was caused by some event. For example, suppose at a time of a balanced budget

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and smooth economic sailing, an earthquake destroyed the 12 bridges that were central to a city's economic functioning, and damaged some buildings as well. A deficit in the city's budget could occur. If it did, I am sure everyone would argue 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. And even if the earthquake example were taken to apply, the question of the most appropriate way to cover the deficit would still have to be asked.

Things can be placed into better perspective by recognizing, as your question seems to, that deficits are nothing more than negative profits. It might be found that a certain event (possibly a complex development or maybe just a cost that is extraordinary) led to a decrease in profits. For example, suppose an event reduced profits by \$400 million, meaning that profits are \$400 million lower than they would have been otherwise. The event could have lowered profits from, say, \$700 million to \$300 million, or from \$200 million to negative \$200 million, or from negative \$100 million to negative \$500 million. If the event were sudden and unexpected, and if it just happened to lower profits from zero to negative \$400 million, one might be tempted to argue that the event caused the \$400 million deficit. But even here, the "but for" form of logic would suggest that the deficit had other causes as well.

(c) Yes, but the analysis required is fraught with difficulties and it should not be presumed that well-defined causes will be identifiable.

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to Interrogatory of Direct Marketing Association**

**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.

**RESPONSE:**

(a) Not inherently, but note should be made that your example involves horizontal trends consistent with a modest profit, and then the occurrence of a sudden and unexpected event.

(b) No, but public relations statements are generally not as carefully scrutinized as representations which have rate consequences.

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(c) Not necessarily, in part because you have ruled out alternatives. But your airline could face consequences for not being able to achieve a solution that is better aligned with its costs and the competition it faces. A critical difference between the Postal Service and the airline, however, is that when the airline does decide to move to a well-thought-out position, it can go directly there, even if it involves something as draconian as withdrawing altogether from certain unprofitable routes (an option unavailable to the Postal Service), and it does not need to consider the proximity of the new position to the surcharged-rate position you created for it. When it comes to watching out for the welfare of its customers and the effects on them, the Postal Service is held to a higher standard than are private firms.

(d) Unless I had concerns about whether some of the existing rates were out of line with important guidelines, such as current costs, I believe most notions of economic rationality would be taken to suggest the percentage approach. I have read in recent years, however, about fixed per-ticket charges to cover certain costs. These may have been to cover costs that did not vary with distance. I have not explored alternatives to the approach you suggest and do not consider myself enough a student of airline pricing for sensible alternatives to come easily to mind. One obvious one could include honoring some kind of markup index.

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**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.

**RESPONSE:**

(a) My review of previous cases found that the Commission has relied rarely on section 3622(b)(9). See pages 72-73 of my testimony. Nevertheless, aside from the record developed in the case at issue, its own judgment, and the other policies of the Act, I know of no limits on what other factors this section might allow the Commission to consider. However, there may be a reason why expedition is not one of the non-cost factors of the Act, at least not one expressly identified. If needing additional revenue soon trumped other considerations, there would be no ratesetting process at all. That is to say, *expedition conflicts with and weakens the review contemplated by the Act.* Whether expedition is a valid goal for the Postal Service must be viewed in the context of shortchanging the ratesetting process and the role of the Commission. Viewed in this way, Postal Service steps to expedite may not be a good thing. As explained on lines 6 and 7 of page 16 of my testimony: "Borrowing options are available

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to allow flexibility and to smooth things out over time.” In the scheme of things, I do not view the financial consequences of one rate case schedule or another to be troublesome or unmanageable.

(b) Certain observations on the question of validity were made in my response to part a above. I agree that the Postal Service has the option of handling things in such a way that the processing time needed at the Commission is likely to be shorter. Whether doing so is a good thing is another question. The nation and its mailers could be the losers if rates are based perpetually on costs that are out of date and if improvements in the efficiency of rates are not made. But whatever decisions the Postal Service makes, I have a hard time imagining Congress putting in a non-cost factor that says: “If, at the time of filing, the Postal Service indicates that it is in a hurry to begin receiving additional revenues, it is OK to jettison all rate improvements, neglect all current costs, and give reduced weight to all of the other ratesetting policies contained herein.” A provision like this would not be consistent with good ratesetting by an expert commission, nor would it be fair to mailers.

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**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.

**RESPONSE:**

(a) Yes, it is true that the Postal Service has stated plans to file a case you refer to as R2006-1. But whether that case is actually filed, and when it is filed, may not be so certain. For example, no one expected the settlement rates of Docket No. R2001-1 to stay in effect for 3 1/2 years. Also, postal reform legislation may affect the next case.

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(b) This issue is discussed in Sections II-6 and II-7 of my testimony, beginning on pages 22 and 24, respectively. For the case you call R2006-1, in the unlikely event that neither the Commission nor the Postal Service, nor any parties presenting evidence or writing briefs, give any attention or weight to rate shock or other effects of the rate increases on mailers, then the rates recommended in R2006-1 would not depend on the rates recommended in the current docket. It bears noting in this regard, however, that the option to neglect the effects of rate increases on mailers is of questionable legality; section 3622(b)(4) of the Act requires attention to effects. Incidentally, FY 2006 is not likely to be the base year for R2006-1.

(c) My response to the first part of your question is yes. In regard to the second part, it is not that the arguments would be stronger *per se*, but rather that they may be less effective. As discussed in my response to part b of this question and extensively in my testimony, section 3622(b)(4) of the Act requires that the Commission consider the effects on mailers of any rate increases recommended, and my experience has been that the Commission does this. When this is done, it is quite often the case that new rate positions are reached in several steps instead of one step. I believe this case should be the first step. It has been 10 years since ECR was created as a subclass. Further delay in responding to what you call "the arguments made by representatives of Standard ECR mail" is not an attractive alternative. It is time to begin making some changes.

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**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.

**RESPONSE:**

(a) In context, the reference to a meritorious rate position means a preferred set of rates, selected by the Commission, based on the Act, the record, and its judgment, without giving any weight to non-cost factor No. 4 (that being the factor relating to the effects of rate increases on mailers).

(b) The sections of my testimony to which you refer are general and relate to patterns of rate adjustments over time. Focusing only on this case and the next one, your question is whether “rate relief” for ECR mailers can be provided more easily in two small steps (as in a relatively small increase in both this case and the next one) than in one large step (as in an average increase in this case and no increase in the next one). My answer is yes.

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(c) Yes, in part, as explained further in my response to parts a and b of this question and in the section you quote. Note that problems can occur not only between subclasses but also within subclasses.

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**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.

**RESPONSE:**

(a) Of the section you cite, yes.

(b) 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. I-5, ¶ 1017.

(c) Yes. This is explained in considerable detail in my testimony (*see especially* Sections II-2 through II-8, pp. 10-33), and a summary might not do it justice. I believe one of

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the most fundamental principles of fairness is that costs should be current and should be recognized in appropriate and defensible ways. This case virtually neglects costs and proposes rates based on the costs of Docket No. R2001-1. I also believe that efficient rates are desirable and that this case, instead of improving efficiency, makes it worse. In addition, this case makes no improvements in rates or in the signals sent to mailers, and improvements are needed. And it is not just a matter of the nation having to endure a year or two of rates that are out of kilter, it is a matter as well that the effects of this case will be around for a much longer period.

(d) The Commission should recognize current costs and other current conditions, in a detailed way, and recommend rates in accordance with the policies in the Act, its rules, and its judgment, consistent with the regulatory scheme it has helped develop.

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**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.

**RESPONSE:**

(a) Basically, yes, but a special assessment still might not be the best way to cover the deficit. Aside from the concern that it might be possible during the next year or two to have a better set of rates, the problem is that I don’t think there is a way to withdraw it. At the time the next omnibus rate case is filed, there appears to be no choice but for mailers to be paying the rates that come out of this case. Therefore, the effects of the rate increases of that case will be *considered relative to those rates*. We can’t really change the fact that section 3622(b)(4) of the Act says to consider the effects of rate increases (from the current rates) on mailers.

(b) In context, I suppose it would qualify as a special assessment, but there would still be the question of whether a special assessment is the best approach, and if so, whether this one is the best special assessment that could be designed. The Act outlines a range of factors that are important to consider when additional revenue is needed and, except in a perfunctory way, the Postal Service proposal considers none of them.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Postal Service****USPS/VP-T1-1.**

Please confirm that, all other things held equal, the Postal Service's Fiscal Year (FY) 2006 financial results would improve by approximately \$3.1 billion if there were no escrow expense pursuant to Public Law 108-18. If you do not confirm please explain fully.

**RESPONSE:**

I am not in a position to provide confirmation concerning the behavior of the Postal Service's financial reporting system. However, it would be my expectation — in fact I think it is virtually axiomatic — that a reduction of approximately \$3.1 billion in any cost component, any cost category, or any collection of costs, including the escrow expense, since it is approximately \$3.1 billion, would, *ceteris paribus*, improve the Postal Service's financial results by approximately \$3.1 billion, for any year selected, including projected FY 2006. This assumes a situation of "no escrow expense" means the expense is removed from its status in the income statement as an operating expense and nothing is put in its place, *pari passu*. I am also assuming that holding "all other things ... equal" means no changes are allowed in any other factors affecting costs or revenues, and not that all other things are equal to each other.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Postal Service****USPS/VP-T1-2.**

Witnesses Potter and Tayman have testified that the new rates proposed in this case will not be implemented before January 2006, resulting in an actual net loss in FY 2006. Please confirm that, all other things held equal, under the Postal Service's proposals in this case, delay in implementation of the proposed rate increases beyond January 2006 will increase the actual net loss for that fiscal year. Please explain any negative response.

**RESPONSE:**

I am not in a position to provide quantification in any detail of the financial effects on the Postal Service of one rate implementation date versus another. It would be my expectation, however, consistent with own-price elasticities of demand in the neighborhood of those estimated by Postal Service witness Thress (USPS-T-7), that an implementation after January 2006 instead of January 2006 would result, *ceteris paribus*, in a lower net income for FY 2006, with the understanding that net income can be positive or negative.

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**USPS/VP-T1-3.**

In either FY 2004 or FY 2005, did the Postal Service incur an expense in the form of an obligation to put funds into escrow, similar to the obligation for FY 2006 imposed by PL 108-18?

**RESPONSE:**

My general understanding is that there was a kind of tradeoff, involving approximately the same level of funds, under which an obligation to reduce previously outstanding debt existed for FY 2004 and FY 2005, and an obligation to pay into an escrow exists for FY 2006. Whether these are "similar" depends on one's point of view. At the least, I would view them as related. Also, it bears noting that (a) the previously outstanding debt has, for all practical purposes, been paid off, so continuation of the arrangement for FY 2004 and FY 2005 would seem to be pointless, and (b) the debt payments and the escrow payments are made from the same revenue stream.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Postal Service****USPS/VP-T1-4.**

Based on your experience, and your knowledge and understanding of the development of proposals for the Postal Service in rate cases, please confirm that developing proposals and support for an across-the-board approach to pricing would require less time than developing proposals and support for a conventional approach to pricing.

**RESPONSE:**

Whether you mean elapsed calendar time or the total of dedicated work hours, I believe what you suggest is basically correct, but it is not the whole story. Several factors make either dimension of time a less-than-critical issue. (1) Moving the Postal Service in one direction or another has been described as a process of redirecting something much larger than an aircraft carrier. Under such conditions, *reasonably accurate financial projections can be made and* deficit situations do not generally arise unexpectedly. It is the case, therefore, that the need for rate filings can usually be identified early enough to allow the requisite work to be done. (2) Much of the work needed for a rate case either is or should be on-going. (3) In fact, even for this case, a full financial analysis was presented, all of the customary special cost studies were prepared, a full volume projection was done, and a full roll forward was done. (4) The missing link seemingly is a process of a few knowledgeable rate people using all of this information to develop specific rates, and discuss them with higher levels of management. The Postal Service has such people. Also, my experience has been that some of the rate work is based on drafts of the cost work, and that other parts of the rate work can be done at the same time that the final touches are being put on the cost studies and the library references. In terms of my own experience at the Postal Service in designing rates for the subclasses now called

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Standard and Periodicals, I can say that I have accommodated late adjustments in cost results with no more than an additional day's worth of work on testimony and workpapers.

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**USPS/VP-T1-5.**

On page 16 of your testimony, you state:

“[A]rguments that the Postal Service has a financial interest in implementing rates a month or so sooner lack merit. The Postal Service has had full control over the timing of this case and it has known of the escrow requirement since P.L. 108-18 was enacted on April 23, 2003. Borrowing options are available to allow flexibility and to smooth things out over time. Neither a desire for a settlement nor a hurry to realize increased revenue is a credible justification for an ATB approach.” (footnote omitted).

- (a) Is it Valpak’s position that the Postal Service should have filed a request for recommendations on rate increases earlier than April 8, 2005?
- (b) Is it Valpak’s position that the Postal Service should have filed a request for recommendations on rate increases later than April 8, 2005?
- (c) Is it Valpak’s position that the Postal Service should have exercised its “borrowing options” to delay the filing of a request for recommendations on rate increases? Please explain any negative responses.

**RESPONSE:**

a.-c. None of these represent specific Valpak positions. My view is (i) if a rate case had to be filed, it should have been a full, normal case, (ii) there is no basis for funding, and no real way to fund, one category of expenses one way and another category of expenses another way, and (iii) the Postal Service should have had no real difficulty in working out any associated problems of timing and financing.

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**USPS/VP-T1-6.**

On pages 15 and 16 of your testimony, you state:

“But adopting a particular rate approach in hopes of facilitating a settlement, rather than according to the requirements of the Act, simply is not appropriate ratemaking. Put another way, increasing the likelihood of achieving a settlement is not one of the non-cost factors in the Act.”

- (a) If the “requirements of the Act,” as you describe them, were hypothetically otherwise met, is it your position that the Act’s ratemaking scheme would not permit the Postal Service or the Commission to consider the prospects of settlement in relation to the Postal Service’s financial condition in evaluating the Postal Service’s proposals and in recommending and approving increases in postal rates and fees? Please explain any affirmative response.
- (b) Assuming “the requirements of the Act” were met, list and explain every reason for concluding that consideration of settlement in relation to the Postal Service’s financial condition would not be “appropriate ratemaking.”

**RESPONSE:**

- a. I find the logic flow of your question to be difficult, but I think you are trying to get to this question: If the “requirements of the Act,” as you describe them, were hypothetically otherwise met, is it your position that in evaluating the Postal Service’s proposals and in recommending any rate or fee increases, including attention to any settlement efforts or to any resulting settlement, the Act’s ratemaking scheme would not permit the Postal Service or mailers or the Commission to consider the Postal Service’s financial condition?

There is a difference between the “requirements of the Act” and my view of the “Act’s ratemaking scheme.” I have not argued that the Postal Service’s filing

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violates any principle of law, nor have I argued that the Commission's review cannot recognize any financial situation that exists. But as a practical matter, the ratemaking scheme as implemented by the Commission requires that cases be examined thoroughly, relative to the Act, and that current costs be fully recognized. I do not think the Postal Service's filing in the instant docket meets this test, which is to say that this case as filed does not adequately recognize current costs and the guidance in the Act. Also, particularly in regard to the issue of the Postal Service's financial position, I believe: (1) the Postal Service should be able to time its filings so that the financial situation is not serious; and (2) the financial situation presented in this case is not serious enough to require that it be given considerable weight relative to other factors.

In addition, there is a difference between (i) selecting an across-the-board approach because it is believed most likely to lead to a settlement and a rapid response from the Commission, instead of because it is believed to be aligned in the best possible way with the scheme in the Act, and (ii) once an approach has been selected and a case has been filed, allowing the Postal Service's financial condition to be considered as the case is handled by all parties and the Commission. The former seems more problematic than the latter. See also my responses to DMA/VP-T1-5(a) and USPS/VP-T1-4.

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- b. See my response to part a of this question for a discussion of the difference between the “requirements of the Act” and the “ratemaking scheme” under the Act. I have not taken the position that the financial condition should not be considered, but rather that it should not exist and that it should not be given much weight. As I explain in my response to DMA/VP-T1-5(a):

there may be a reason why expedition is not one of the non-cost factors of the Act, at least not one expressly identified. If needing additional revenue soon trumped other considerations, there would be no ratesetting process at all. That is to say, expedition conflicts with and weakens the review contemplated by the Act. Whether expedition is a valid goal for the Postal Service must be viewed in the context of shortchanging the ratesetting process and the role of the Commission. Viewed in this way, Postal Service steps to expedite may not be a good thing. As explained on lines 6 and 7 of page 16 of my testimony: “Borrowing options are available to allow flexibility and to smooth things out over time.” In the scheme of things, I do not view the financial consequences of one rate case schedule or another to be troublesome or unmanageable.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Postal Service****USPS/VP-T1-7.**

On page 17 of your testimony, you state:

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

- (a) Does your reference to “appropriate ratemaking” refer to anything other than the requirements and policies of the Postal Reorganization Act (title 39, United States Code)? Please identify and explain all factors influencing appropriate ratemaking that are not encompassed by the Act.
- (b) Please identify specifically each and every provision of the Act that permits consideration in ratemaking of the “dynamic” that you describe.
- (c) Is it your understanding that the Postal Service's rate and fee proposals in Docket No. R2005-1 were developed through negotiations?

**RESPONSE:**

- a. Please see my response to USPS/VP-T1-6(a) for a discussion of the difference between the requirements of the Act and my view of the Act’s ratemaking scheme. The Postal Reorganization Act is the reference point I have in mind, along with the associated rules and conventions of the Commission. In my view, the Act created the Commission as an expert agency, gave it certain guidance and certain latitude, and contemplated that it would, under that guidance and within that latitude, develop and apply defensible, state-of-the-art principles, in full view of all that regulatory theory and practice have to offer.

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The Commission has done just that, which provided the basis for the Commission saying in its opinion in Docket No. R94-1: “The Postal Service’s request for a general, across-the-board rate increase in this docket departs from the pricing principles established in Docket No. R90-1 on which current rates are based.” (*Op. & Rec. Dec.*, Docket No. R94-1, ¶ 1063.) In the same case, the Commission also said: “The Postal Service’s across-the-board filing is inconsistent with cost-based ratemaking. The request ignores changing differences in costs between the classes of mail, includes no analysis of changing cost patterns within subclasses; and would result in substantial changes in the allocation of institutional costs among the subclasses of mail. The Service’s rate proposal ignores changes in attributable costs.” (*Ibid.*, ¶ 1017.) It is these kinds of principles to which I refer. I do not contend, however, that these principles are “not encompassed by the Act.”

- b. It is true that I believe the Postal Service strayed from a process of recognizing current costs and giving full recognition to the policies and factors in the Act, as developed further and implemented by the Commission, and that I believe it not to be in the best interests of the Postal Service or the nation for the Postal Service to have done this. The Commission should be aware that such things (as straying) are possible, which makes it all the more important for the Commission to judge the case on its merits and not be swayed by arguments that

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the Postal Service and participants adhering to a settlement agreement want the rates in the agreement. But I have not contended that the Commission should base its recommendation on anything other than the record and its judgment as developed and implemented over time in this and other cases, under the authority of the Act.

- c. I do not know the extent to which the Postal Service did or did not negotiate with mailers prior to filing this case. I recall considerable before-the-filing discussion at various mailer meetings and in the postal press about the case's across-the-board character and about the Postal Service's interest in settlement, and early on some discussion to the effect that the average increase proposed could be larger than 5.4 percent. I also know that witness Potter observed that one of the justifications for the across-the-board "approach is the likelihood that it will enhance the prospect for settlement." (USPS-T-1 at 5, ll. 15-16.) It seems clear, then, that even if the Postal Service did not negotiate directly with mailers, it did communicate its interest in achieving settlement and it did have an understanding of how the process of seeking a settlement might play itself out.

Note that my response to part b of this question explains that the Commission should consider this case on its merits and that I do not see any reason for the

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Commission to focus on its perception of the process of the Postal Service that generated the filing. Communicating with customers is, on the whole, a good thing and I do not mean to suggest that it should not occur.

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**USPS/VP-T1-8.**

Is willingness to enter into a settlement agreement adopting a particular set of rates an indication of the impact of those rates on mailers and other participants adhering to the agreement?

**RESPONSE:**

Most observers would probably agree, as I do, that “willingness to enter into a settlement agreement adopting a particular set of rates” is “an indication” of the acceptability of the rates involved, and I would presume that “participants adhering to the agreement” have considered the effects of the rates. But concern over effects might be a key factor leading to an unwillingness to sign an agreement only when the effects seem larger than average on their face, which cannot happen in an across-the-board proposal. On the other hand, such a willingness may not be enough to satisfy the Act’s requirements.

Several observations are important. (1) The obligation of the Commission is to consider the interests of all mailers, regardless of whether they are represented in a particular case. (2) It is possible for participants to be organizations representing rather broad collections of mailers. If such organizations believe updating costs and examining the bases for the proposed rates will do little more than make some members worse off and some better off, they may decide not to raise questions. (3) Mailers seeing no proposals for classification or other structural changes, and feeling that it would be difficult to introduce such proposals, might have reduced interest in a full examination of the issues. In other words, improvements in rates normally have differential effects on mailers, so a case without improvements is less likely to cause concern over effects. (4) In any settlement arrangement, it seems likely that at

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least half of the participants would believe they might be made worse off by what is sometimes referred to as a “full blown” case. These parties would provide the Postal Service with a base for a settlement. (5) Under these conditions, it seems possible that only a limited number of parties would see potential benefit from a full proceeding.

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**USPS/VP-T1-9.**

On page 17 of your testimony, you state:

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

- (a) Please explain fully your words "a range allowed by law."
- (b) Please explain fully your words "best for the nation."
- (c) Please identify and explain every consideration, factor, or criterion encompassed by your use of the words "incentives of such a dynamic."

**RESPONSE:**

- a. My conception is that the Act provides both guidance and strictures, that neither of these are precise, and that more than one set of rates is consistent with them. Also, as I explain further in my response to part b of this question, I define a best set of rates as the result of the Commission's deliberative process, when that process is supplied with a full record and no settlement agreement. I take it as obvious that the best set of rates should be one of the sets that is not inconsistent with the Act.

Although I do not want to be accused of practicing law, the courts have been presented with cases relating to whether specific sets of rates are inconsistent

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The heading of Section I of the Postal Service's Reply Brief (p. I-1) in Docket No. R94-1 was: "THE PROPOSED SETTLEMENT SHOULD BE ACCORDED GREAT WEIGHT BY THE COMMISSION." On the next page it said: "No one is attempting to bind anyone's hands here. The settlement parties always have recognized that the Commission cannot – even in the face of a unanimous settlement proposal – dispense with an independent assessment that the settlement rates and fees are in full compliance with the criteria of the Act." (*Ibid.* at I-2.) I take "full compliance" to mean that it is reasoned and nonarbitrary, and that it does not involve too much juggling. When the Commission is asked to give "great weight" to a settlement proposal, whether unanimous or not, I believe it is being asked to find that the rates, fees, and DMCS language in the settlement are in full compliance.

- b. The Act establishes a set of guidelines for setting rates and provides for review and decision-making by five commissioners. The process is guided as well by Commission rules and by principles the Commission has adopted. The usual procedure is for the Commission to be presented with proposals and testimony from the Postal Service and interested parties. When the Commission is presented with a complete record and makes an unincumbered recommendation (meaning, for present purposes, that it is not presented with a settlement agreement, unanimous or not), I view a recommended decision coming from

**Response of Valpak Witness Mitchell  
to Interrogatory of Postal Service**

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such circumstances as the best for the nation. I understand that a different record or different commissioners could lead to a different recommendation. But the process I have described is the process that Congress put in place, and it must be defined as the reference point and the collective judgment on what is best.

- c. I take it as evident that it is possible for the Postal Service to have a strong preference for working out a settlement agreement. It seems clear on its face that the proposal viewed by the Postal Service as most likely to achieve settlement might differ from the proposal that it would view as best for the nation, under the guidance in the Act, developed objectively and independently. Viewed in terms of the Act's ratesetting scheme, I don't see anything good about having this difference occur. And if the Postal Service were to negotiate in any way with mailers to improve the chances for settlement, and in the process were to make adjustments to any rate package it is considering for submission to the Commission, then I think the difference between what is proposed and what the Postal Service really views as best under the Act could become greater.

If the Postal Service were to believe that when it can obtain a settlement, the record need not be fully developed, and the Commission's review will be less

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thorough, the Postal Service's freedom to deviate from what it might view as most appropriate under the Act will be greater. This is the incentive I have in mind. The possibility of any of this happening makes it all the more important for the Commission to seek a complete record and undertake a thorough review.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Postal Service****USPS/VP-T1-10.**

Please identify specifically all criteria you would use to determine whether a particular set of rates would be, in your words, "best for the nation," or whether the nation would be "worse off" with an alternative set of rates. In your answer, please explain specifically the roles of the following factors in reaching a determination:

- (1) Cost coverages;
- (2) Markup indices;
- (3) Relative rate levels;
- (4) Evaluation of specific factors identified in 39 U.S.C. § 3622(b);
- (5) Other policies in specific provisions of title 39, United States Code;
- (6) Other policies or considerations.

**RESPONSE:**

(1) - (6) Your question is not aligned with my notion of what is best for the nation. I do not contend that one can focus on the items you identify, or on any other list, and specify how certain treatment of them would lead to the best rates. Rather, I define rates that are best for the nation in terms of the result of a deliberative process. Please see my response to USPS/VP-T1-9.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Postal Service**

**USPS/VP-T1-11.**

In evaluating whether proposed rates would be “best” or “worse” for the nation, to what extent is the determination objective and quantifiable, and to what extent is it subjective and influenced by judgment and perspective?

**RESPONSE:**

Please see my response to USPS/VP-T1-9. I believe ratemaking involves both aspects. Typically, cost and demand analysis are more objective and quantitative than decisions on which rate categories should exist and what the relative markups should be. Generally, I believe the Commission should rely on objective analysis to the extent that it can, and rely on judgment where final decisions call for it.

**Response of Valpak Witness Robert W. Mitchell to Interrogatory of Postal Service**

**USPS/VP-T1-12.**

On page 34 of your testimony, you state

from Docket No. R90-1 to date, a period of approximately 15 years, there have been only two normal rate cases....”

Please list and explain specifically every characteristic of a rate case that would lead you to conclude that it was or would be “normal.”

**RESPONSE:**

The first paragraph of Section II-9 of my testimony lays the foundation for the second paragraph, which contains, at its end, the phrase you quote. The first part of the second paragraph explains that there were four omnibus rate cases (Dockets No. R94-1, R97-1, R2000-1, and R2001-1) and one important mail classification case (Docket No. MC95-1) between Docket No. R90-1 and the instant case. It further explains that (i) Docket No. MC95-1 was contribution neutral, (ii) Docket No. R94-1 was filed as an across-the-board case, (iii) Docket No. R2001-1 was settled, and (iv) Dockets No. R97-1 and R2000-1 were normal, with it being noteworthy that an important cost update occurred during the latter docket.

I refer to Dockets No. R97-1 and R2000-1 as normal because complete cases were presented to the Commission (with all required cost studies), the cases were examined thoroughly by a number of intervening parties, cases-in-chief and rebuttal testimony were presented by the parties, briefs were filed, and, importantly, the cases were left with the Commission to decide, without the incumbrance of any settlement agreement. This means that the Commission, based on the Act, the record, and its principles, was completely free to develop and recommend a set of rates and fees.

**Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.**

**Institutional**

**Response of Valpak Direct Marketing Systems, Inc. and  
Valpak Dealers' Association, Inc. to Advo, Inc. Interrogatory**

**ADVO/VP-1.**

Please provide Valpak's annual ECR saturation coupon envelope mail volumes (including both owned and franchisee programs) for the period from 1995 through 2004.

**RESPONSE:**

| <u>Year</u> | <u>Volume<br/>(millions)</u> |
|-------------|------------------------------|
| 1995        | 335.7                        |
| 1996        | 330.1                        |
| 1997        | 348.3                        |
| 1998        | 380.4                        |
| 1999        | 414.9                        |
| 2000        | 463.2                        |
| 2001        | 458.9                        |
| 2002        | 483.0                        |
| 2003        | 496.7                        |
| 2004        | 490.9                        |

**Response of Valpak Direct Marketing Systems, Inc. and  
Valpak Dealers' Association, Inc. to Advo, Inc. Interrogatory**

**ADVO-VP-2.**

For the year 2004, please provide a breakout of the following volume information for Valpak's coupon envelope program (including both owned and franchisee operations):

- a. The volume of letter mail pieces and percentage of total volume that weighed 3.3 ounces or less and paid the ECR saturation letter rate.
- b. The volume of letter mail pieces and percentage of total volume that weighed between 3.3 and 3.5 ounces and paid the "heavyweight" saturation letter rate.
- c. The volume of letter mail pieces and percentage of total volume that weighed more than 3.5 ounces and paid the ECR saturation non-letter rate.
- d. If the percentages in a-c above do not total to 100 percent, please explain why (e.g., pieces under 3.3 ounces but flat-shaped; pieces that were not saturation density). If information for 2004 is not available, please provide the information for the most recent 12-month period (specifying the period).

**RESPONSE:**

- a. 452.7 million (92.2%)
- b. 14.2 million (2.9%)
- c. 23.9 million (4.9%)
- d. Not applicable.

**RESPONSE OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC. TO ADVO INTERROGATORY, REDIRECTED FROM WITNESS ROBERT W. MITCHELL (ADVO/VP-T1-6(b))**

**ADVO/VP-T1-6(b).**

At page 67 of your testimony, you state that "most materials in ECR cannot be sent privately."

- (b) Are any of Val-Pak's letter-size enveloped coupons distributed by private delivery, not mail? If so, please provide the following:
- (i) the total volume of such privately-delivered pieces in 2004 and an estimate for 2005;
  - (ii) the percentage of Val-Pak's total enveloped coupon volume that is delivered privately; and
  - (iii) identify the markets where private delivery is used, and for each market identify the private delivery company used.

**RESPONSE:**

- (b) No, but Valpak is evaluating private delivery options.

**Response of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.  
to Advo, Inc. Interrogatory, Redirected from Witness Haldi**

**ADVO/VP-T2-9.**

At page 5 of your testimony, you state that Valpak Direct Marketing Systems, Inc. is a wholly owned-subsiary of Cox Enterprises, Inc. of Atlanta, Georgia. Please confirm that Valpak is a wholly-owned subsidiary of Cox Target Media, Inc., which is a wholly-owned subsidiary of Cox Newspapers, Inc.

**RESPONSE:**

Not confirmed. Valpak Direct Marketing Systems, Inc. is a subsidiary of VP Holdings, Inc., which in turn is a wholly-owned subsidiary of Cox Target Media, Inc. Cox Target Media, Inc. is a wholly-owned subsidiary of Cox Enterprises, Inc.

**Response of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.  
to Advo, Inc. Interrogatory, Redirected from Witness Haldi**

**ADVO/VP-T2-10.**

Please confirm that Cox Newspapers, Inc. is the publisher of 17 daily newspapers, including the Atlanta Constitution Journal.

**RESPONSE:**

Confirmed, but the name of the Atlanta newspaper is The Atlanta Journal-Constitution.

**Response of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.  
to Advo, Inc. Interrogatory, Redirected from Witness Haldi**

**ADVO/VP-T2-11(a).**

At page 8 of your testimony, you state that 99 percent of ValPak's mail is entered at the destinating SCF, with the remainder "entered at BMCs, or locally, in either St. Petersburg, Florida or Elm City, North Carolina" where Val-Pak's production facilities are located.

(a) Please confirm that this means that well less than 1 percent of Val-Pak's coupon enveloped mail is entered at destination delivery units. If you cannot confirm, please provide the correct percentage of Val-Pak's DDU-entered mail.

**RESPONSE:**

- a. Confirmed.