

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

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

RESPONSES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

WITNESS ROBERT W. MITCHELL TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE (USPS/VP-T1-32-33)

(October 17, 2006)

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

("Valpak") hereby submit responses of witness Robert W. Mitchell to the following interrogatories of the United States Postal Service: USPS/VP-T1-32-33, filed on October 3, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

William J. Olson
John S. Miles
Jeremiah L. Morgan
WILLIAM J. OLSON, P.C.
8180 Greensboro Drive, Suite 1070
McLean, Virginia 22102-3860
(703) 356-5070

Counsel for:
Valpak Direct Marketing Systems, Inc. and
Valpak Dealers' Association, Inc.

**Response of Valpak Witness Mitchell
to Interrogatory of the United States Postal Service**

USPS/VP-T1-32.

Please consider the following pricing hypothetical. The Postal Service proposes to de-average a mail category with two rate tiers (Basic and 3/5) into one with four tiers (Mixed ADC, ADC, 3-digit and 5-digit). Suppose that, based on available cost information, the Commission finds that, with 100 percent passthrough of worksharing costs, the rate change (i.e. push-up) for the 3-digit mail is unacceptably high and warrants rate mitigation consideration. All of the other rates resulting from the application of 100 percent passthroughs are deemed acceptable.

- (a) Please confirm that, if the Commission decided not to decrease or increase the other rates (Mixed ADC, ADC and 5-digit), mitigating the 3-digit rate increase would lead to passing through more than 100 percent of the ADC to 3-digit worksharing cost savings and less than 100 percent of the 3-digit to 5-digit worksharing cost savings.
- (b) Please state whether it is your view that, if the Commission deemed that rate change mitigation was appropriate in the above case, deviating from 100 percent passthroughs of some worksharing cost savings is an acceptable approach. If this is not your view, please explain fully why this approach is not acceptable. If you accept this view conditionally, please clarify all conditions you would impose to accept this view.
- (c) Please state whether it is your view that it is better for the Commission to lower all the other rates in the category (Mixed ADC, ADC and 5-digit) to achieve rate change mitigation for 3-digit mail while preserving 100 percent passthroughs of all worksharing cost savings. If this is your view, please explain fully why this approach is preferable to allowing some worksharing passthroughs to deviate from 100 percent. If you accept this view conditionally, please clarify all conditions you would impose to accept this view.
- (d) Please state whether it is your view that the most desirable approach for the Commission to take in the above hypothetical situation would be not to change any of the rates that result from applying 100 percent passthroughs to worksharing cost savings, allowing the rates for 3-digit mail to rise to whatever levels the cost information dictate. If this is your view, please explain fully why this approach is preferable to either of the two approaches described in parts (b) and (c), respectively. If you accept this view conditionally, please clarify all conditions you would impose to accept this view.

**Response of Valpak Witness Mitchell
to Interrogatory of the United States Postal Service**

Response:

- (a) Confirmed. However, keep in mind that (1) few mailers would be expected to have all of their mail in the 3-digit category, (2) if the 3-digit category in question has a workshare variant, such as an automation category, the (horizontal) discount for automation compatibility might be affected also and need adjustment, and (3) the rate increase experienced by 3-digit mailers is affected by more than just the passthrough associated with the 3-digit discount in question; *i.e.*, it is also affected by the letter-flat differential and the costs found for various associated categories.
- (b) See my response to part a of this question. I agree that mitigation could be found appropriate and that it would probably involve deviating from passthroughs of 100 percent. However, please note that my testimony discusses at great length the setting of this case and the reasons why a significant step toward recognizing costs should be made.
- (c) Generally, I agree with the view you state. Taking this view, however, should not preclude full review of the situation surrounding the rates in question. Sometimes the particulars surrounding a resulting rate suggest factors that may not align with a rule or a principle.
- (d) It is difficult to apply judgment to a hypothetical situation where some aspects are known and some are not. The situation you posit focuses

**Response of Valpak Witness Mitchell
to Interrogatory of the United States Postal Service**

narrowly on four categories and specifies the Commission's view.

Under these conditions, the approach you outline in part a could be warranted.

**Response of Valpak Witness Mitchell
to Interrogatory of the United States Postal Service**

USPS/VP-T1-33.

Please refer to page 174 of your testimony where you describe how you “transferred to the saturation discount” 1.4 cents of the estimated 4.43 cent cost difference between Standard Mail ECR Basic and High Density flats. Please state whether this transferal represents your attempt to disaggregate or de-average the combined mail processing cost data for ECR High Density and Saturation flats. If this was not the case, please explain fully why these costs should move between High Density and Saturation flats.

Response:

Nothing has been disaggregated or deaveraged, and no costs have been moved.

Based on the costs shown in the presort tree on page 169 of my testimony, as well as on the ‘Inputs’ sheet of my workpapers, it can be viewed quite simply as a process of selecting a lower passthrough for high-density and then setting the saturation rate relative to the basic rate. See also my response to NAA/VP-T1-37 and 38.