

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-T1-34-36)

(October 18, 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-T1-34-36, filed on October 4, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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

**USPS/VP-T1-34.**

Please refer to your response to USPS/VP-T1-2, part (d), where you say “[w]hether the Postal Service would assume the migrating pieces have the average cost of their categories, as it has done in some NSAs, is open to question, but the costs available for ECR flats are much lower than the costs for 5-digit automation flats.”

Do you believe that the cost per piece for the Postal Service to handle ECR flats in 10-piece bundles is likely to be higher on average than the cost per piece of handling the same pieces in 20-piece, or larger, bundles, all other things being equal? If your answer is anything other than an unqualified yes, please explain fully.

Response:

Interrogatory USPS/VP-T1-2(d) asked about a matter that my response called *gaming* the system. Your question here is somewhat more general, but not entirely clear. Assume that by “handling” costs you mean bundle handling and sorting, bundle opening, and piece sorting. Assume also that the ECR bundles are formed by reconstituting a series of 5-digit bundles with at least 20 pieces in them. I agree that the cost of getting the ECR bundles to the carriers might be a little higher than the cost of getting the output of an incoming secondary sort to the carriers. I agree also that more bundles would have to be opened when ECR bundles are used. On the other hand, the justification for carrier-route presortation has always been primarily that the incoming secondary is avoided entirely, with attendant savings. My assumption would be that when expressed on a per-piece basis, these savings are larger than any additional costs of handling the bundles.

With regard to ratemaking, however, your question is not aligned well with the classification scheme and how rates are set. Mailpieces pay rates that are developed in

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defensible ways within the classifications of which they are members. The rates for the categories in the classifications are set on *average* costs for the categories, not on costs at a margin like the 10-piece limit. Averaging always occurs within categories, but does not provide a basis for excluding mail from a category or a rate for which it qualifies.

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**USPS/VP-T1-35.**

Please refer to your response to USPS/VP-T1-2, part (e). In your view, is it appropriate ratemaking for the Postal Service and the Commission to develop rates designed to have, among other goals, the goal of keeping mail with similar cost characteristics together within a particular mail category? If your answer is other than an unqualified yes, please explain fully why taking this factor into consideration when ratemaking is not appropriate.

Response:

The steps inherent in your question are not altogether clear, and may be troublesome. I agree that it is reasonable to establish classifications, such as subclasses, and that similarity in cost and other factors should be considered when this is done. I also agree that it is reasonable to establish categories and rate elements within subclasses to recognize costs and other factors. Much of my testimony is about how rates for such categories and elements should be set. But once established, the rates for these subclasses and categories should be set on defensible bases that recognize costs and ratesetting principles, pursuant to the Act. It is not reasonable, when all is said and done, to return and argue that the rates thus established should be moved in one direction or another because some pieces have been identified that are arguably similar to some pieces in another subclass. Your question challenges existing classifications, not my proposed rate design.

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**USPS/VP-T1-36.**

Please refer to your response to USPS/VP-T1-8. Please confirm that, when you say that “trucks loaded with printed matter such as Standard mail generally weigh out before they cube out” you are basing your assertion on your general knowledge and not on any study of how the Postal Service, in particular, containerizes, moves, loads and trucks mail, that may include Standard Mail, between its plants.

Response:

Confirmed. However, interrogatory USPS/VP-T1-8 cites a section of my testimony dealing with whether the cost of 1.9-ounce flats might be higher than the cost of 0.8-ounce letters, transportation being one cost component, and suggests that the flats might fill two trucks and the letters might fill one truck. I did not mean to suggest that mailers are constrained to submit mail in truck-load lots or that the Postal Service dedicates specific trucks to specific mailers, although the latter can occur under plant loading. To make it easy, assume one mailer submits 80,000 pounds of flats and another mailer submits 40,000 pounds of letters. The Postal Service’s own analysis of its transportation systems, as presented in proceedings before the Commission, finds that a high proportion of long-haul transportation costs are variable and distributes these costs on pound-miles. Thus, if the mail is going the same distance, carrying 80,000 pounds costs twice as much as carrying 40,000 pounds.