

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001
SPECIAL SERVICES FEES AND CLASSIFICATIONS, 1996)

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Docket No. MC96-3
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

RESPONSE OF
NASHUA PHOTO INC., MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
WITNESS JOHN HALDI TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/NMS-T1-1-18, 22-39)
(November 7, 1996)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc., hereby provide the responses of witness John Haldi to the following interrogatories of the United States Postal Service: USPS/NMS-T1-1-18, 22-39. Each interrogatory is stated verbatim and is followed by the response.

Nashua Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc., have previously objected to interrogatories USPS/NMS-T1-19-21. Responses to these interrogatories will be provided to the Postal Service pursuant to a nondisclosure agreement.

Respectfully submitted,

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USPS/NMS-T1-1.

Please refer to the statement in your testimony at page 12, lines 10-11, that, under the manifest system employed by Nashua, "Postal Service revenues are **fully** protected." (Emphasis added.)

- (a) Completely explain the basis for your statement.
- (b) Is it your testimony that the Postal Service is satisfied that the manifest system fully protects postal revenues?
 - (i) If so, please provide copies of all documents generated by the Postal Service which support your assertion.
 - (ii) If so, please identify all postal officials who have made representations which support your assertion, and indicate the date on which such representations were made, and identify the persons to whom they were made.

Response:

- (a) Nashua's incoming manifest system operates *in conjunction with and is augmented by Postal Service sampling*. Independent sampling by the Postal Service *should thus be viewed as an integral part of the system*, and this is the component *that fully protects revenues*. Pursuant to the instructions contained in LR-SSR-148, Part 2, Exhibit 3, p. 103, the Postal Service each day samples 50 Business Reply Envelopes at Nashua.¹ This represents a sample of about 18,000 pieces over the *course of the year*. The postage due on the manifest is adjusted daily, based on the sample. Because a new sample is taken each day,

¹ See my response to USPS/NMS-T1-5.

seasonality is not even a consideration.¹ For reasons explained in more detail in my response to USPS-T1-32, from time to time (and through no fault of the Postal Service) pieces in the sample cannot be identified in the BRM manifest, even though they in fact have been included in the manifest. Whenever this occurs, adjustments made due to the discrepancy have the effect of increasing postage and BRM fees paid for the day, thereby giving the Postal Service the benefit of all doubt and fully protecting Postal Service revenues.

- (b) As indicated in my testimony at pp. 9-11, the Postal Service has relied on Nashua's incoming ["reverse"] manifest system, augmented by its own daily sampling, to compute revenues due the Postal Service for BRM starting in October 1994. The size of the daily sample was determined initially by the Postal Service. From that time onward, nothing has prevented the Postal Service from expanding the size of the daily sample which it takes at Nashua, or from revising the instructions contained in LR-SSR-148. As noted in my response to USPS/NMS-T1-5, however, the Postal Service has not done so. The Postal Service is well aware that larger samples increase reliability. It would thus appear that the Postal Service does not consider the increased reliability that would

¹ See my response to USPS/NMS-T1-18.

result from a larger sample to be worth the additional effort. Moreover, for two years the Postal Service has accepted the results of this system to calculate postage due. To this extent, the facts speak for themselves. Beyond that, it would be presumptuous for me to speculate on the extent to which the Postal Service, or its management, is subjectively "satisfied" that Nashua's incoming manifest system fully protects revenues. It should be pointed out that my testimony was not "the Postal Service is *satisfied*," as the question states, but rather that "Postal Service revenues are fully protected."

So long as the Postal Service receives a BRM fee of 10 cents per piece for doing very little work, it has been completely willing ("satisfied"?) to rely on the "incoming manifest/daily sampling" method of computing BRM postage due. On the other hand, when asked to reduce the BRM fee to reflect the very low unit cost which it incurs, the Postal Service seems to question a system that it helped develop and has approved, participated in and relied on for two years.

Finally, I would note that various postal representatives have visited Nashua's plant and had the system explained and demonstrated to them. Only complimentary remarks have been received by Nashua concerning its system. If a problem existed or if revenues were not fully protected, certainly some concerns or reservations would seemingly have been raised over the past two years. Following is a list of Postal Service

employees who have visited the plant and observed first-hand the
Nashua manifest system:

1. John H. Ward, V-P, Marketing Systems
2. Scott Hamel, Manager, Rates and Classification Service Center,
Eastern Center
3. Joe DeMay, Classification Support Specialist, Rates
and Classification Service Center
4. Gary M. Infante, Manager, Product Development
5. Diarmuid Dunne, District Manager, Customer
Services, Appalachian District
6. Dianne J. Clifford, Product Finance-Cost Studies,
Operations Research Analyst
7. W. Wayne Wilson, Postmaster, Parkersburg, WV
8. Dean R. Cameron, Product Development, Marketing
Systems
9. Dean Daglieri, National Account Manager
10. Susan E. Simon, National Account Representative, NE
Area

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USPS/NMS-T1-2.

Please refer to your testimony at page 13, lines 8-10, and fully explain the basis for your assertion that the Nashua incoming manifest system constitutes a "reliable means by which the Postal Service is able to collect all First-Class Mail [sic, word added] postage and fees." Provide copies of all documents which support your assertion or identify any documents already filed in this proceeding on which that assertion is based.

Response:

See my responses to your related questions USPS/NMS-T1-1, 8, 12 and 15.

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USPS/NMS-T1-3.

Please refer to page 16, lines 15-16 of your testimony and fully explain the basis for your assertion that the Seattle FilmWorks weight averaging system "has worked successfully and without problems" Please provide copies of all documents which support your assertion or identify any documents already filed in this proceeding on which that assertion is based.

Response:

For a copy of sampling instructions for BRM used by the Seattle Post Office, see my response to USPS/NMS-T1-4, item no. 5.

Two USPS memoranda, dated August 16 and 17, 1993, from Richard E. Kunz, Manager, Business Reply Mail Entry, Seattle WA (containing confidential information concerning Seattle FilmWorks and offered to the Postal Service pursuant to a nondisclosure agreement) are the only other documents I have been able to locate that reviews the situation at Seattle. At no point do these memoranda state that the weight averaging system is not working. To the contrary, in fact, Postal Service's Kunz August 17 memorandum accurately states that physically weighing each mailpiece and manual counting are **"impractical and extremely costly to USPS**. Sampling procedures can be used appropriately where a representative sample of mail is physically verified for exact weight and count." (Emphasis added.) Continuation of the weight averaging practice is thus viewed as the only practical alternative.

As further detailed in the August 17 Kunz memorandum, the Postal Service took a new sample. For the three BRM accounts under which Seattle

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FilmWorks receives non-automatable bulk BRM, on average rates were adjusted downward by slightly less than 1.1 percent, which would indicate that Seattle FilmWorks was not undercharged by rates based on the prior sample and/or the previous "methodology."

The system has worked successfully for more than 15 years. Seattle FilmWorks has been able to pick up the first batch of its incoming mail each morning around 5:00 a.m., and the Postal Service receives payment in full by deducting all postage and fees from Seattle FilmWorks' advance deposit BRM account.

The 5:00 a.m. pickup, along with a later pickup around 9:00 a.m., enables the Postal Service to avoid incurring any cost for delivery while allowing Seattle FilmWorks to start work on its incoming orders early in the morning, which is another aspect indicating that the system works successfully for both parties.

The lack of correspondence or other internal documents pertaining to (non-existent) problems is perhaps the best testament to the successful working of the weight averaging system.

USPS/NMS-T1-4.

Please refer to page 57 of your testimony, lines 2-3, and state the complete basis for your conclusion that "the Postal Service already has in place fully adequate procedures for sampling and revenue protection." Please provide copies of all documents which support your assertion or identify any documents already filed in this proceeding on which that assertion is based.

Response:

Mystic Color Lab. Certain documents (containing confidential information concerning Mystic and offered to the Postal Service pursuant to a nondisclosure agreement) from files of Mystic Color Lab help document the procedures that have been followed over the last five years. As they plainly demonstrate, the Postal Service has had in place for many years sampling procedures that are fully adequate for revenue protection.

1. USPS letter dated 2/23/90 to Colleen Garringer of Mystic (1 page).
2. USPS letter dated 9/12/90 to Colleen Garringer of Mystic (1 page).
3. USPS letter dated 3/07/91 to Colleen Garringer of Mystic (1 page).
4. USPS letter dated 9/12/95 to Dave MacDonald of Mystic (2 pages), with instructions for "BRM Averaging" at Mystic Color Lab (1 page).

Seattle FilmWorks. Seattle FilmWorks has been able to locate the following document from its files: Sampling instructions for BRM (undated, 3 pages) (copy attached).

The sampling instructions for Seattle FilmWorks reflect the "Western Region instructions for piece count and postage computation" referred to in the

Kunz memorandum discussed in my response to USPS/NMS-T1-3. As stated quite clearly in that memorandum:

There is no alternative to a sampling procedure but to physically weigh each mailpiece coming to the customer and to count the pieces manually. This is impractical and extremely costly to USPS. Sampling procedures can be used appropriately where a representative sample of mail is physically verified for exact weight and count. . . . [at 2.]

While the procedures were stated for use with only a narrowly-defined piece weight spectrum, there is no reason why, given a valid sample, it cannot also be used with a broader weight range; . . . Over the three-month period for use of sample data, the postage charged should come very close to the actual postage which would be charged if each piece were counted and weighed. [at 3.]

The method in the Western Region instructions for piece count and postage computation are [sic] effective and should be followed when billing the customer. . . [at 5, misnumbered as 4 on memo.] [Emphasis added.]

Nashua Photo. See response to USPS/NMS-T1-1.

SAMPLING INSTRUCTIONS FOR BRM

These instructions are to be used in sampling large volumes of Business Reply Mail that fall within three weight increments. This sampling procedure is to be conducted over a five day period to develop an average daily percentage of pieces by weight category and an average number of pieces per pound.

Once this sampling is complete, the averages can be used a basis for determining Business Reply Mail charges for a period of 90 days.

FIVE DAY SURVEY SAMPLING PROCEDURE*

1. Select a sample of 200 pieces each day.
2. Weigh and record the total sample weight less tare.
Example: 17.8lbs.
3. Determine the average piece weight. Divide the net sample weight by 200 to determine the average piece weight. The average piece weight will be used to determine the total number of pieces in a BRM mailing.
Example: 17.8lbs. divided by 200 = .089 lbs. (avg pc wt)
4. Separate the sample pieces into weight increments,
Example: 1 oz, 2 ozs, & 3 ozs.
5. Count the number of pieces in each rate category (Total count should equal sample size).
Example: 1 oz = 125 pcs, 2 ozs = 65 pcs, 3 ozs = 10 pcs.
6. Determine the percentage of pieces in each category.
Example:

1 oz = 125 pcs	125 divided by 200 = .625 or 62.5%
2 ozs = 65 pcs	65 divided by 200 = .325 or 32.5%
3 ozs = 10 pcs	10 divided by 200 = .050 or 5.0%

The percentage of pieces will be used to determine the average number of pieces in each weight category for the charge period (90 days).

- * During the survey days, the cumulative average will be used until the fifth day of the survey.

PROCEDURE FOR CALCULATING DAILY BRM POSTAGE

1. Determine total weight of all Business Reply Mail pieces less tare (sacks).

Example: 950 lbs

2. Divide total net weight by the average piece weight determined in the survey to arrive at the total number of BRM pieces.

Example: 950 lbs. divided by .089 = 10,675 pcs.

3. Multiply the percentage of pieces of each surveyed weight category against the total net weight of the mailing. This will give the number of pieces for postage charging.

Example:

.625 x 10,675 = 6,672 one oz pieces
.325 x 10,675 = 3,469 two oz pieces
.050 x 10,675 = 534 three oz pieces

4. Calculate the amount of BRM charges.

Example:

10,675 pcs x \$0.08 ea = \$ 854.00
6,672 pcs x 0.35 ea = 2,335.20
3,469 pcs x 0.45 ea = 1,547.55
534 pcs x 0.65 ea = 347.10

Total BRM & Postage charges \$5,083.85

PROCEDURE - 5 DAY SURVEY

1. SAMPLE (SAM) SIZE: 200 PIECES

2. GROSS WT OF SAM: _____ MINUS TARE: _____ = NET WT: _____

3. NET WT OF SAM: _____ DIVIDED BY #PCS IN SAM _____ = AVG PC WT _____

4A # SAM PCS </= 1 OZ _____ DIVIDED BY #PCS IN SAM _____ = _____

20 m

4B # SAM PCS </= 2 OZS _____ DIVIDED BY #PCS IN SAM _____ = _____

4C # SAM PCS </= 3 OZS _____ DIVIDED BY #PCS IN SAM _____ = _____

4D # SAM PCS </= 4 OZS _____ DIVIDED BY #PCS IN SAM _____ = _____

4E # SAM PCS <= _____ OZS _____ DIVIDED BY #PCS IN SAM _____ = _____

5. # PCS IN SAM x \$0.08 (BRM CHARGE) = _____

6A # PCS IN LINE "4A" * \$0.35 (.25 PLUS SURCHARGE .10) _____

6B # PCS IN LINE "4B" * \$0.45 _____

PCS IN LINE "4C" * \$0.65 _____

PCS IN LINE "4D" * \$0.85 _____

6E # PCS IN LINE "4E" * \$ _____

TOTAL: _____

7. TOTAL WT OF SAM: _____ DIVIDED BY WT OF AV PC: _____ = #PCS _____

PCS: _____ * \$0.08 (BRM CHG) = _____

PCS: _____ * % LN 4A: _____ = _____ * .35 = _____

PCS: _____ * % LN 4B: _____ = _____ * .45 = _____

PCS: _____ * % LN 4C: _____ = _____ * .65 = _____

PCS: _____ * % LN 4D: _____ = _____ * .85 = _____

PCS: _____ * % LN 4E: _____ = _____ * . = _____

POSTAGE TOTAL: _____ DIVIDED BY TOTAL WT IN OZS = RATE PER OZ

RATE PER OZ: _____ * 16 (OZ/LB) = RATE PER POUND

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USPS/NMS-T1-5.

Please refer to page 11, lines 1-2, of your testimony and confirm that the 50-piece incoming manifest sample size has not been adjusted since the reverse manifest system was implemented.

Response:

Confirmed; this is based on what Nashua has been told by the Postal Service and what it has observed for two years. To the best of my knowledge this practice conforms with the instructions in LR-SSR-148, Part 2, Exhibit 3, p.103.

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USPS/NMS-T1-6.

Please refer to page 57, lines 3-4, of your testimony, and

- (a) describe in full and specific detail each existing procedure which has been in place for 15 years;
- (b) fully describe each other procedure and specify the length of time each has been employed.
- (c) Please explain the basis for each change in procedure which has occurred during this time period.

Response:

- (a) At Seattle FilmWorks, the weight averaging system has been in effect for over 15 years. There, the daily procedure has been to weigh each sack, then deduct the tare weight of the sack to arrive at the net weight of the mail, which then becomes the basis for computing postage due. See my testimony at pp. 16-18. Also see my responses to USPS/NMS-T1-3 and 4 for additional information concerning procedures at Seattle FilmWorks. With respect to prior procedures, I am unable to add to the August 17, 1993 memorandum from Richard E. Kunz (discussed in my response to USPS/NMS-T1-3), which refers to previous practices as follows:

The customer has been being [sic] billed under a sampling procedure which was apparently developed by the former manager of Terminal Station, ***operating instructions for which are not available***. Noone [sic] can provide information about this methodology
(Page 1, Emphasis added.)

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(b-c) At Mystic, the weight averaging system has been in effect for over 10 years (since 1985); see my testimony at pp. 14-16 for a description of these procedures. At Mystic, a large sampling formerly was done semi-annually; see item nos. 1-3 listed in USPS/NMS-T1-4. In 1995 the instructions were changed to call for quarterly sampling; see item no. 4 listed in USPS/NMS-T1-4. Under the new procedure, the Postal Service samples 1,000 pieces per day for five days.

As indicated in my testimony (p. 10), the incoming manifest system at Nashua has been in continuous use for only two years, since October, 1994. For further information concerning the incoming system used at Nashua, see my responses to USPS/NMS-T1-1, 5, 8, 32 and 38.

USPS/NMS-T1-7.

Please refer to page 57, lines 7-8, of your testimony. As specifically as possible, please describe and explain all changes to the Domestic Mail Manual that the Postal Service would need to promulgate in order to conform it to each of your proposed Domestic Mail Classification Schedule amendments and to existing practice.

Response:

The precise language of the proposed DMM changes hopefully would be the product of input from the Postal Service and affected BRM users. The new or altered DMM provisions that would be necessitated by the NMS proposal for Non-Automatable Bulk Business Reply Mail presumably would be patterned after certain DMM provisions describing the BRMAS system (DMM section S922.1.5) and the conditions for participation in BRMAS (DMM section S922.2.2). Such provisions describing the system and the requirements for participation in the system would appear to be the critical DMM provisions, although there could be other relevant DMM provisions of which I am not presently aware. The changes would include the following:

- A description of the Non-Automatable Bulk BRM Accounting System (NABBRMAS), indicating that mailers may obtain a lesser fee for the return of their business reply mail under NABBRMAS.
- NABBRMAS would be described, presumably as a system devised and agreed to by the USPS and the mailer, whereby business reply mail would be received (by the mailer from customers) in bulk, and where an incoming manifest system or a weight averaging system is employed by the Postal Service to calculate postage and fees.

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- All BRM standards would have to be met, mailers would be required to pay for BRM by a business reply advance deposit account, and mailers would have to obtain a BRM authorization/permit.
- Each BRM piece would have to be properly prepared to meet all appropriate BRM standards.
- Each mailer's non-automatable bulk BRM would have to meet a minimum threshold, such as 2000 pounds per month.
- There would be a description of the procedural requirements for participation in NABBRMAS, including submission of an appropriate request to open a NABBRMAS account, describing the mailer's non-automatable bulk BRM and whether its estimated monthly BRM met the monthly minimum weight requirement for NABBRMAS participation. Presumably, the request would be submitted to the postmaster or business mail acceptance manager at the post office to which the BRM pieces would be returned, and, if the mailer's request were approved, the USPS would issue the mailer an authorization letter and instructions on the approved system for counting, weighing, rating, and billing the BRM mail returnable to the mailer.

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USPS/NMS-T1-8.

Please refer to page 57, lines 4-5, of your testimony. State the complete basis for your assertion that "[n]o new procedures need be drawn up and promulgated, nor is any employee training or re-training required."

Response:

The reference at p. 57, lines 4-5, of my testimony is to the situation at Nashua. There, on-site Postal Service employees, following instructions contained in LR-SSR-148, take a daily sample of 50 pieces,¹ compute the postage due on the sample, compare that with the postage computed per the manifest, and adjust the total postage due accordingly. Since the procedures which they follow are adequately spelled out in the aforementioned official Postal Service publication, and since those procedures work effectively for outgoing manifests and have worked effectively for two years with respect to Nashua's incoming manifest, I perceive no need to draw up and promulgate any new procedures. In other words, with respect to existing procedures at Nashua, "If it ain't broke, don't fix it."

With respect to employees assigned to the Nashua facility, I have made the implicit assumption that the Postal Service is satisfied that they know what they are supposed to do. I am not aware of any evidence which would indicate that they have not been executing their duties satisfactorily on a daily basis for the last two years. Consequently, since Postal Service employees performing

¹ See my response to USPS/NMS-T1-5.

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this duty at the Nashua plant are already performing all duties that would be required under my proposal, at this point I can conceive of no need for any employee training or re-training.

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USPS/NMS-T1-9.

Please provide your best estimate, on an annual basis, of the number of BRM recipients to which the Postal Service currently tenders mail which would qualify as "non-automation bulk BRM."

Response:

To the best of my knowledge, neither the DMCS nor the DMM contains any reference to "non-automation bulk BRM." Accordingly, the answer to your question is that no mail currently would *qualify* as "non-automation bulk BRM," and the number of recipients of such mail is therefore zero. For further discussion of your related question, see USPS/NMS-T1-10.

USPS/NMS-T1-10.

Please provide your best estimate, on an annual basis, of the number of BRM recipients to which the Postal Service would tender "non-automation bulk BRM" in the test year if either of your alternative classification and fee proposals were recommended by the Commission and implemented by the Postal Service.

Response:

As discussed in my testimony at pp. 47-48, implementation of either of my two classification proposals would require that an eligibility threshold be established by the Postal Service (in the DMM) for "non-automation bulk BRM." It is my expectation that the way the threshold is defined, and the volume of BRM required to meet the threshold, could have a profound effect on the number of qualifying BRM recipients. Your hypothetical fails to specify any definition or threshold for "non-automation bulk BRM," which necessitates a somewhat general answer. Moreover, I have not conducted any formal or comprehensive survey of the universe of BRM recipients who receive non-automation compatible mail.¹

¹ Although no formal survey was undertaken, significant yet unsuccessful attempts were made to identify recipients of bulk non-automatable mail, including the following: (i) calls were made by a former Postal Service employee to dozens of persons within the Postal Service to identify types of businesses using this product; (ii) during the National Postal Forum meeting in August, 1996 and the MailCom meeting in September, 1996 I personally raised this issue with many attendees; (iii) Nashua, Mystic and Seattle all asked their contacts to help locate such mailers; (iv) the heads of some postal mailer associations with whom I spoke knew of no such mailers; and (v) members of the postal trade media were unaware of other mailers. Lastly, I note that although the Postal Rate Commission published a notice of the expansion of this docket in the *Federal Register*, only Seattle FilmWorks, another through-the-mail photofinisher, sought to intervene in the docket. Lastly, during

To elaborate, according to Postal Service data, during 1995 some 525 million pieces of BRM tendered to recipients with advance deposit accounts did not qualify for the BRMAS rate of 2 cents per piece (see NMS-WP1, Table WP1-1, row 8). I do not know how many of these pieces had characteristics (*e.g.*, thickness, shape, etc.) which physically precluded them from being automatable. It is at least conceivable that some BRM recipients may on occasion receive significant volumes of non-automatable BRM, but only over a relatively short period, such as one to three weeks, and not on a consistent basis. Under circumstances such as this, the Postal Service might deem it not worthwhile to establish any special cost-reducing procedure (*e.g.*, weight-averaging, incoming manifest or any other "short-cut" procedure) for dealing with such BRM. If this were found to be the case, then in order for arriving volume to qualify as "non-automation bulk BRM" it might be appropriate to establish a *monthly* minimum, which is one of three alternatives discussed in my testimony.¹

I can also make the following industry-specific comments. With respect to the through-the-mail film processing industry, Nashua, Mystic and Seattle would be expected to qualify. To the best of my knowledge, District Photo

meetings of the Postal Service working group to study this very issue with representatives of Nashua, Mystic and Seattle, no such mailers were ever identified by name, by line of business, or in any other way.

¹ For further discussion of the thresholds suggested in my testimony, see my response to USPS/NMS-T1-33.

Response of Dr. John Haldi to USPS/NMS-T1-10
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does not currently supply its customers with Business Reply Envelopes to any significant extent. Should District Photo elect to do so, however, it is assumed that it would also generate volumes sufficient to qualify easily. In addition, at least three other, smaller through-the-mail film processors are known to exist,¹ and they might also qualify, depending on the level at which the threshold for "non-automation bulk BRM" is established.

In a different industry, it is my understanding that some medical testing laboratories receive non-automatable BRM on a regular basis. I have no knowledge, however, concerning the volume of such mail tendered by the Postal Service to medical testing laboratories that use BRM. Any answer on my part would be entirely speculative

To sum up, it is my expectation that the number of recipients to which the Postal Service would tender "non-automation bulk BRM" during test year if either of my alternative classification and fee proposals were recommended by the Commission and implemented by the Postal Service would be rather small, probably not more than a dozen..

¹ The three other through-the-mail film processors alluded to here are: Vermont Color Lab (Bennington, VT), Dale (Hollywood, FL), and Skrudland (Austin, TX). I do not have any information concerning the volume of incoming BRM which they receive.

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USPS/NMS-T1-11.

Please provide your best estimate of the number of postal facilities at which the Postal Service could be expected to tender "non-automation bulk BRM" to BRM recipients in the test year, if either of your alternative classification and fee proposals were recommended by the Commission and implemented by the Postal Service.

Response:

Please see my response to USPS/NMS-T1-10. Based on that response, and the expectation that each recipient of "non-automation bulk BRM" during test year would be served by a different post office, it is my expectation that if either of my alternative classification and fee proposals were recommended by the Commission, approved by the Governors, and implemented by the Postal Service, the number of affected postal facilities would be rather small, probably not more than a dozen.

USPS/NMS-T1-12.

Please refer to your testimony at page 10, lines 11-13 and fn. 8, and list all months during which the incoming manifest system utilized by Nashua has experienced postage/fee errors of 1.5 percent or less, the level of accuracy required by the USPS publication referenced at fn. 8.

Response:

From inception (October, 1994) through October, 1996, there have been no entire months when the incoming manifest system utilized by Nashua has experienced postage/fee errors of 1.5 percent or less.¹ In this connection it is worth observing that for the past three months the incoming manifest has evidenced increasing accuracy, as follows (estimated postage due on manifest as a percent of the postage due for pieces in the sample):

August, 1996	98.0%
September, 1996	98.1%
October, 1996	98.3%

The October, 1996 accuracy rating is only 0.2 percent below the "postage/fee errors" standard selected by the Postal Service. See my response to USPS/NMS-T1-32 for discussion of the steps taken by Nashua to increase the accuracy of its incoming manifest system. It is worth observing that *Nashua incurs all the costs associated with investigating and improving the accuracy of its incoming manifest system.* When Nashua's BRM manifest

¹ See my response to USPS/NMS-T1-1 for an explanation as to how an adjustment is made each day for Postal Service fees and postage due pursuant to a daily sample.

Response of Dr. John Haldi to USPS/NMS-T-12
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consistently achieves an accuracy level of 98.5 percent or better, the Postal Service will then have the option of shifting to an even less costly, less frequent sampling system. At that time, *all* the benefit of further cost reduction (in terms of less time devoted to sampling) will accrue to the Postal Service, and *none* of the cost savings will accrue to Nashua.¹

¹ My estimate of Postal Service costs in NMS-WP2 is predicated on the more expensive daily sampling now in effect.

USPS/NMS-T1-13.

Please confirm that to the extent that alternative BRM accounting procedures expedite the processing of film and the ultimate return of the finished product to the customers of Nashua, Mystic, and Seattle FilmWorks, these procedures increase the value of the photo processing service to NMS customers.

Response:

By way of preface, it should be patently obvious that in the delivery business, value is added – *for the both sender and the addressee* – by any procedure that expedites movement and decreases the time required to put the piece in the hands of the addressee. This is as true when BRMAS automation speeds processing of BRM (which pays a BRM fee of only 2 cents per piece) as it is for alternative BRM accounting procedures.

All BRM pays full First-Class postage and, as such, should be entitled to First-Class service. The Postal Service has for many years published its service standards for First-Class Mail but, as the Postal Service well knows, these standards do not represent any kind of service guarantee or commitment. Moreover, the Postal Service often fails to meet its published standards, especially for First-Class Mail that is supposed to receive two-day and three-day delivery. If the Postal Service were to attempt to weigh and rate each BRM piece individually, much of the incoming BRM at Nashua, Mystic and Seattle FilmWorks would probably fail to meet the service standard for First-Class Mail, perhaps by as much as several days (as happened at Mystic prior to

institution of the weight averaging system).¹ Therefore, to the extent that the alternative BRM accounting procedures enable the Postal Service to come closer to meeting its service standards for First-Class Mail, which much of the incoming BRM would otherwise probably miss, my answer to your question is: Confirmed.

¹ The highly inconsistent service received by First-Class Mail during recent years may have contributed materially to the declining market share of through-the-mail film processors; see my response to USPS/NMS-T1-37.

Response of Dr. John Haldi to USPS/NMS-T-14
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USPS/NMS-T1-14.

Please confirm that, to the extent that alternative BRM accounting procedures expedite the processing of film and the return of the finished product to Nashua, Mystic, and Seattle FilmWorks customers, these procedures also increase the value of BRM service to Nashua, Mystic, and Seattle FilmWorks.

Response:

By way of preface, it should be patently obvious that in the delivery business, value is added – *for both the sender and the addressee* – by any procedure that expedites movement and decreases the time required to put the piece in the hands of the addressee. This is as true when BRMAS automation speeds processing of BRM (which pays a BRM fee of only 2 cents per piece) as it is for alternative BRM accounting procedures.

All BRM pays full First-Class postage and, as such, should be entitled to First-Class service. The Postal Service has for many years published its service standards for First-Class Mail but, as the Postal Service well knows, these standards do not represent any kind of service guarantee or commitment. Moreover, the Postal Service often fails to meet its published standards, especially for First-Class Mail that is supposed to receive two-day and three-day delivery. If the Postal Service were to attempt to weigh and rate each BRM piece individually, much of the incoming BRM at Nashua, Mystic and Seattle FilmWorks would probably fail to meet the service standard for First-Class Mail, perhaps by as much as several days (as happened at Mystic prior to

Response of Dr. John Haldi to USPS/NMS-T-14
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institution of the weight averaging system).¹ Therefore, to the extent that the alternative BRM accounting procedures enable the Postal Service to come closer to meeting its service standards for First-Class Mail, which much of the incoming BRM would otherwise probably miss, my answer to your question is: **Confirmed.**

¹ The highly inconsistent service received by First-Class Mail during recent years may have contributed materially to the declining market share of through-the-mail film processors; see my response to USPS/NMS-T1-37.

Response of Dr. John Haldi to USPS/NMS-T1-15
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USPS/NMS-T1-15.

Please refer to your testimony at page 11, line 17 through page 12, line 2. Is the only basis for your statement that "the system . . . has no consistent bias one way or the other . . ." the response of the Postal Service to interrogatory NM/USPS-34? Explain fully any negative response.

Response:

No. My response was also based on examination of the results from each day's sample at Nashua during the months of August and September, 1996.

Response of Dr. John Haldi to USPS/NMS-T1-16
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USPS/NMS-T1-16.

Please identify each rate category or special service for which the Domestic Mail Classification Schedule requires prebarcoding of each piece as a condition of rate or fee qualification, but for which the DMCS also permits pieces which are not prebarcoded to qualify for that same rate or fee.

Response:

I am not aware of any rate category or special service for which the DMCS requires prebarcoding of each piece as a condition of rate or fee qualification, but for which the DMCS also expressly permits pieces which are not prebarcoded to qualify for that same rate or fee. I would also note that the textual portion of the DMCS that deals with the Business Reply Mail Accounting System ("BRMAS") neither requires nor implies that the mail must be pre-barcoded in order to qualify for the BRMAS rate. The single DMCS reference to pre-barcoding in association with BRMAS is contained in Rate Schedule SS-2, where the term is not defined; see my testimony at pp. 40-41. As I have stated before, the mail of Mystic and Seattle is pre-barcoded, while the only reason Nashua's mail is not barcoded is to offer customers multiple possible return addresses.

Any possible requirement that BRMAS be barcoded related to facilitating the manner in which those pieces would be processed, counted, and billed by the Postal Service. Since the Postal Service cannot and does not use a barcode to count non-automatable bulk BRM received by Nashua, Seattle, and Mystic, no reason exists to apply by rote such an irrelevant requirement. This

Response of Dr. John Haldi to USPS/NMS-T1-16
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is a perfect situation to apply the legal maxim "where the reason for the rule does not apply, so also should not the rule."

USPS/NMS-T1-17.

Please identify each rate category or special service for which the Domestic Mail Classification Schedule requires prebarcoding of each piece as a condition of rate or fee qualification, but for which the DMCS requires the Postal Service to charge a different rate or fee on those qualified prebarcoded pieces because of (i) the unavailability of barcode readers where these latter pieces are being processed, or (ii) a failure on the part of the Postal Service to use available barcode readers, or (iii) the failure of USPS barcode readers to successfully read the barcodes on those pieces.

Response:

As a preliminary matter, I note that, for BRMAS mail, nowhere does the text of the DMCS language require prebarcoding; only in Rate Schedule SS-2 is prebarcoding mentioned, but it is neither defined nor explained.

I have not undertaken a comprehensive search of the DMCS, but in Docket No. MC95-1, the Postal Service proposed creation of an Automation Subclass where letters could be entered in basic, 3-digit, 5-digit or Carrier Route condition. The Carrier Route presort rate was "only available to letters destinating at sites where the CSBCS is used to sequence the mail, or at sites where letters are sequenced manually." USPS-T-18, p. 11, ll. 13-15. Although the Automation Subclass was not created as such, I believe the limitation above is carried forward in the DMM.

It is also worth observing that the DMCS (and the DMM) have many subclasses and rate categories which require a minimum volume in order to qualify for lower rates, where the minimum volumes are presumably predicated

Response of Dr. John Haldi to USPS/NMS-T1-17
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on operating efficiency and handling cost. Nevertheless, there is no minimum quantity to qualify for the lower BRMAS rates, as discussed in my testimony.

Note that in my testimony I do not oppose allowing mailers to qualify for BRMAS rates even where the pieces are handled manually. Nevertheless, such a policy stands in stark contrast to the handling of mail for Nashua, Mystic, and Seattle, where their BRM mail is handled even more efficiently than most BRMAS mail, and yet the Postal Service charges Nashua, Mystic, and Seattle a rate five times higher than that for BRMAS mail.

USPS/NMS-T1-18.

Please refer to your testimony at page 19, lines 5-12.

- (a) Explain how seasonality could affect the accuracy of BRM postage due calculations when sampling is used.
- (b) Fully describe how the current sampling of 50 pieces of mail each day at Nashua takes into account the seasonal volume fluctuations that you describe at page 19.
- (c) Is the 50-piece sample drawn from all of Nashua's incoming non-automatable BRM, or are certain types of mail pieces culled out before the sample is taken? If the latter, please describe the culling process and describe the basis for it.

Response:

- (a) At Mystic and Seattle, sampling occurs periodically, not daily. At current rates, postage on individual pieces of non-automatable BRM varies by weight, illustrated as follows:

<u>Ounces</u>	<u>First-Class Postage</u>	<u>Non-Std Surcharge</u>	<u>BRM Fee</u>	<u>Total</u>	<u>Rate Per Ounce</u>
1	\$0.32	\$0.11	\$0.10	\$0.53	\$0.5300
2	0.55	--	0.10	0.65	0.3250
3	0.78	--	0.10	0.88	0.2933
4	1.01	--	0.10	1.11	0.2775

As shown in the last column above, the rate per ounce varies with weight of the business reply envelope. From a purely theoretical perspective, seasonality conceivably could affect accuracy of BRM postage due calculations if the "mix" of arriving BRM pieces, by weight,

Response of Dr. John Haldi to USPS/NMS-T1-18
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were to vary systematically from one season to the next. Whether the mix actually changes in any systematic way throughout the year is a factual issue. Mystic's experience, which is based on repeated sampling conducted over more than 10 years, indicates that the mix does not change throughout the year. That is, the rate per pound has been remarkably stable regardless of when the sample was taken. Moreover, if the periodic sampling occurs quarterly (or more often), the effect of any seasonal changes should be reduced or eliminated; see my response to USPS/NMS-T1-27.

With respect to Nashua's incoming manifest system, the Postal Service samples mail on each and every day of the year that Nashua operates. Consequently, no possibility exists that a sample taken in one season could be or will be used in some other season. Under the circumstances at Nashua, I cannot even begin to imagine how "seasonality could affect the accuracy of BRM postage due calculations when sampling is used."

- (b) See response to a.
- (c) The incoming sample is drawn from all of Nashua's incoming BRM, and no pieces are culled out before the sample is taken.

USPS/NMS-T1-22.

Please refer to your testimony at page 60, lines 1-6, and provide your best estimate of the annual impact on postal revenues if either of your alternative classification and fee proposals were implemented by the Postal Service and the new classification and fee were utilized by all "bulk non-automation BRM" recipients, not just your three clients.

Response:

Regarding the number of BRM recipients to which the Postal Service would tender "non-automation bulk BRM" in test year, see my response to USPS/NMS-T1-10. It is my firm expectation that during test year, Nashua, Mystic, and Seattle FilmWorks would be by far the largest recipients of "bulk non-automation BRM." On this basis, I estimate that the total impact on Postal Service revenues would probably range from two to not more than three times the impact shown in NMS-WP2. In other words, the total impact would not be more than 1 percent of the additional revenues requested by the Postal Service.

USPS/NMS-T1-23.

Please refer to page 60, lines 13-14, of your testimony and indicate:

- (a) (i) the share of incoming orders for which Nashua currently uses BRM; and
- (ii) the share of incoming orders for which Nashua was using BRM immediately before it began using the incoming manifest system;
- (b) (i) the share of incoming orders for which Mystic currently uses BRM; and
- (ii) the share of incoming orders for which Mystic was using BRM immediately before it began using the weight averaging system;
- (c) (i) the share of incoming orders for which Seattle FilmWorks currently uses BRM; and
- (ii) the share of orders for which Seattle FilmWorks was using BRM immediately before it began using the weight averaging system.

Response:

- (a) As indicated in my testimony, p. 8, Nashua began using its incoming manifest system in October, 1994. Nashua does not know the share of incoming orders using BRM before that date, but it is believed to be a small percentage. Subsequently, from October 1994 onward, Business Reply Envelopes have constituted an ever-increasing percentage of all customer reply envelopes distributed and received by Nashua. As a result, for the 12 months ending September 1996, Business Reply Envelopes represented about 70 percent of Nashua's incoming mail (see my testimony, p. 9; also see my response to USPS/NMS-T1-21).

(b) Please see my testimony, p. 13. As stated there, Mystic is providing its customers with Business Reply Envelopes exclusively, and has done so since its founding. Nevertheless, Mystic has always received some prepaid envelopes from a very small percentage of its customers, for reasons that are better known to those customers than to Mystic.¹ Aside from that small percentage of prepaid envelopes, all of Mystic's incoming orders are currently BRM. Likewise, virtually all incoming orders were BRM immediately before the Postal Service began using the weight averaging system for Mystic's BRM.

(c) Please see my testimony, p. 16. As stated there, Seattle FilmWorks is providing its customers with Business Reply Envelopes exclusively, and has done so since its founding. Nevertheless, Seattle FilmWorks also has always received some prepaid envelopes from a small percentage of its customers, for reasons that are better known to those customers than to Seattle FilmWorks. Aside from that small percentage of prepaid envelopes, all of Seattle FilmWorks' incoming orders are currently BRM. Likewise, virtually all incoming orders were

¹ These occasional customer prepaid envelopes are included in Mystic's sacks of BRM. Consequently, they are included in the net weight of mail received and Mystic pays postage on the envelopes even though the customer has unnecessarily put stamps on the piece. For this small percentage of envelopes, the Postal Service is thus paid twice.

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BRM immediately before the Postal Service began using the weight averaging system for Seattle FilmWorks' BRM.

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USPS/NMS-T1-24.

Please refer to page 60, line 19, and to page 61, line 14, of your testimony and specifically indicate what volume of BRM received by day, week, month, or some other period should be used to distinguish a "high volume mailer" from other BRM recipients.

Response:

Based on this question, it would perhaps have been more accurate for my testimony to have referred to a "high volume BRM recipient" rather than to "high volume mailer."

My testimony, at p. 48, lines 1-4, has three suggestions for a specific threshold for "non-automation bulk BRM." These thresholds provide the basis for my response to this interrogatory. For additional discussion concerning these thresholds, see my responses to USPS/NMS-T1-10 and 35.

In my opinion, it would be appropriate to describe any BRM recipient whose incoming volume was at or above my suggested minimum thresholds to be described appropriately as a "high volume BRM recipient." That is, it would be my expectation that the Postal Service, acting in its own self-interest, would want to establish a weight averaging system for any recipient of non-automatable BRM whose volume exceeded my suggested minimum threshold. Recipients with such volume of non-automatable BRM might or might not want to establish an incoming manifest system.

Response of Dr. John Haldi to USPS/NMS-T1-25
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USPS/NMS-T1-25.

Please refer to your testimony at page 20, line 13, and explain the basis for your assertion that BRM sampling should take a postal clerk no more than one hour per day.

Response:

Nashua is required (by LR-SSR-148, Part 1, p. 37) to maintain its own quality control program. Nashua has elected to use the Postal Service verification methods (described in Part 2 of LR-SSR-148) and take its own daily sample of 50 pieces. The average time required by Nashua employees to complete that task is 50 to 60 minutes. I have been unable to perceive of any reason why Postal Service employees should require more time to complete the same task. For additional discussion, see my response to USPS/NMS-T1-33, footnote 1.

Response of Dr. John Haldi to USPS/NMS-T1-26
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USPS/NMS-T1-26.

Please refer to your testimony at page 12, lines 12-20, where you describe Nashua's cost to develop and operate its incoming manifest system.

- (a) Is it your testimony that the incoming manifest system was initially developed for the purpose of calculating postage due? If not, please explain.
- (b) Provide an estimate of all developmental and operational costs uniquely attributable to the postage due calculation function and explain the basis for that estimate.

Response:

- (a) With respect to the incoming manifest system at Nashua, the answer to the question is, unequivocally, yes.
- (b) The incoming manifest system built on and drew on the computer system that Nashua already had in place for entering and tracking incoming orders through the plant and out the door (as well as building an in-house database of customers for marketing purposes). As explained in my testimony, p. 12, lines 15-17, "Nashua incurs annual operating costs of about \$45,000 for the daily verification requirement and the additional keying that operators must do when they process each incoming [Business Reply Mail] order." These operating costs relate to the time that Nashua employees must spend on efforts uniquely attributable to computing postage due; *i.e.*, to efforts not required by Nashua's own order entry system. To elaborate, (i) costs are incurred when Nashua's operators must make additional keystrokes on each order

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because creation of the incoming manifest requires a datum not needed for Nashua's own use (that particular datum indicates whether a roll of film was returned in the plastic canister customarily supplied with new rolls of film), and (ii) costs are incurred on account of Nashua's own daily sampling and verification, which is required by the manifest procedures contained in LR-SSR-148, Part 1, p. 37.¹

The one-time developmental cost of \$10,000 represents an estimate by Nashua's MIS manager of the time and cost for in-house development of computer programming required to produce the incoming manifest. This cost, which is incurred solely by Nashua, is analogous to the programming costs that the Postal Service incurs with respect to its BRMAS software, and which were described in Docket No. R94-1 by USPS witness Donald Mallonee (USPS-RT-8, not admitted into evidence).

¹ For additional discussion, see my response to USPS/NMS-T1-25.

USPS/NMS-T1-27.

Please refer to page 15, lines 3-4, of your testimony, where you indicate that the price-per-pound for Mystic sacks is calculated through "periodic sampling."

- (a) Define "periodic." How often is the sample drawn?
- (b) On page 19, lines 5-7, of your testimony, you state, "It is no secret that the film-developing business is somewhat seasonal" In your opinion, does the frequency of sampling used for Mystic adequately account for this seasonality?

Response:

- (a) Please see my response to USPS/NMS-T1-4, (item no. 4, USPS letter dated 9/12/95 to Dave MacDonald containing confidential information). "Periodic," as defined by the Postal Service in that letter, is quarterly or more often as either party feels warranted:

As we agreed upon today, the sampling will be done once an A/P (quarter) and a new postage factor will be developed at that time. If, at any time, the Postal Service or Mystic Color Lab determines that sampling once an A/P is not providing a wide enough variety of mail, the sampling will be increased.

Prior to 9/12/95, sampling was apparently done semi-annually; see documents nos. 1, 2 and 3 listed in USPS/NMS-T1-4 (containing confidential information).

- (b) As indicated in my response to USPS/NMS-T1-18, Mystic's experience, which is based on repeated sampling conducted over more than 10 years, indicates that throughout the year the mix of incoming BRM does

Response of Dr. John Haldi to USPS/NMS-T1-27
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not change in any predictable way or to any noticeable extent. That is, the rate per pound has been generally stable, subject to normal statistical deviation, regardless of when the sample was taken, and has not been affected by any seasonal change in volume.

USPS/NMS-T1-28.

Explain the basis for your estimates on page 21 of your testimony that it takes a postal clerk 1.4 to 2.0 hours per day to weigh and rate Mystic's BRM, and 1.5 to 2.25 hours a day to weigh and rate Seattle FilmWorks BRM.

Response:

As indicated in my response to USPS/NMS-T1-29, Mystic and Seattle FilmWorks each weighs every sack of incoming mail daily, for purposes of planning their respective daily workloads. My estimate is based on the time which their employees require to weigh and record each sack, as well as the annual volume of BRM which each firm receives. I have been unable to perceive of any reason why Postal Service employees should require more time to complete the same task. My estimate is also based on personal visits to the Postal Service facilities that process the mail for Mystic (in New London) and Seattle FilmWorks (in Seattle).

USPS/NMS-T1-29.

In your opinion, will the weight averaging approach to calculating BRM postage due, as used by Mystic and Seattle Filmworks, yield as accurate an estimate as the incoming manifest approach used by Nashua? Please explain your answer.

Response:

The situation with respect to BRM at Mystic and Seattle FilmWorks is quite different from that at Nashua, as I endeavored to explain in my testimony. The methods used to calculate postage due for BRM have evolved in response to the different circumstances and, as explained below, each in its own way is appropriate and accurate.

At Mystic and Seattle FilmWorks, virtually all incoming orders are received in Business Reply Envelopes, because those are the only type of reply envelopes that either firm has ever distributed. Nashua, on the other hand, has for many years distributed reply envelopes that require prepayment by the customer. One consequence of the Priority Mail Reship Program that the Postal Service originally developed in conjunction with Nashua (and which may now be used by other mailers as well) is that Business Reply Envelopes and customer prepaid envelopes arrive in Parkersburg, WV, completely commingled. This commingling, along with the gradually changing mix of the two types of envelopes, precluded use of a weight averaging system to calculate BRM postage. At Nashua, necessity was indeed the mother of invention, and the result has been the incoming manifest system.

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The weight averaging approach to calculating BRM postage due, as used by the New London Post Office for Mystic and by the Seattle Post Office for Seattle FilmWorks – and as also used in the Postal Service’s Prepaid Courtesy Reply Mail test with Brooklyn Union Gas – is capable of yielding, and in my opinion does yield, a highly reliable and accurate estimate of postage due.¹ This results from (i) the large samples (a thousand or more pieces) taken by the Postal Service, (ii) the fact that virtually all incoming mail at Mystic and Seattle FilmWorks consists of BRM, (iii) the comparatively stable mix of products received (rolls of 35mm film predominate), and (iv) the fact that the products themselves undergo little or no change over long periods of time (e.g., both the container for a roll of 35mm film and the plastic canister in which new rolls of film are supplied weigh essentially the same today as they did 10, 15 and 20 years ago). ***It may be that accuracy of the weight averaging system is sufficient to allow the Postal Service to eliminate incoming fees altogether, as it has done for Brooklyn Union Gas in the Prepaid Courtesy Reply Mail test.***

At Mystic and Seattle FilmWorks, the Postal Service could take a larger sample, and/or it could take samples more often, but any further increase in reliability and accuracy would likely be *de minimis*. I say this based on the fact

¹ As stated in the memorandum from Richard E. Kunz (discussed in my response to USPS/NMS-T1-3):

Over the three-month period for use of sample data, *the postage charged should come very close to the actual postage which would be charged if each piece were counted and weighed.* [at 3.] [Emphasis added.]

that for years Mystic and Seattle FilmWorks each has weighed all its incoming mail daily, for purposes of planning its respective daily workloads, and each company has found a very high and consistent correlation between the gross weight of incoming mail and the number of rolls of film to be processed. Were the Postal Service to segregate Nashua's BRM, or if some day essentially all of Nashua's incoming orders were to consist of Business Reply Envelopes, it might be appropriate for the Parkersburg Post office to implement a weight averaging system at Nashua. This would relieve Nashua of the recurring costs discussed in my response to USPS/NMS-T1-26.

Weight averaging is a very low-cost system for the Postal Service, and for recipients of non-automatable bulk BRM there is no cost whatsoever.¹ From the viewpoint of *lowest combined cost* (which principle the Postal Service has previously endorsed), the weight averaging system is undoubtedly better than the incoming manifest system.² It may even be "optimal."

Comparing accuracy of the weight averaging system with Nashua's incoming manifest system is difficult because, as discussed in my testimony and my response to USPS/NMS-T1-32, accuracy of Nashua's incoming

¹ Weight averaging is thus similar to BRMAS, which is also low-cost to the Postal Service and involves no cost to the recipient.

² All recipients of non-automatable bulk BRM have an exact count of orders received, since each order is entered into the computer system. The weight averaging system would be extremely accurate and reliable if the Postal Service were to adopt a piece-pound rate design for First-Class *bulk* mail, rather than base rates for First-Class bulk mail on a structure designed for single-piece rates.

manifest system has undergone a "learning curve" effect and has improved over time. With additional investment and effort, it can be expected to become even more accurate. Nashua is presently contemplating additional refinements that would increase the accuracy further. Those refinements, however, would cost somewhat more to implement than the ones already implemented, as described in my response to USPS/NMS-T1-32.

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USPS/NMS-T1-30.

Assume that the weight averaging systems used by Nashua [sic] and Seattle Filmworks cost at least twice as much per piece (to calculate the postage due) as the Nashua incoming manifest system costs. How would your proposal, as set forth in your Appendix II, change?

Response:

I assume that you intended to refer to the weight averaging systems used by the Post Offices that serve *Mystic* (not Nashua) and Seattle Filmworks.

The Postal Service's unit cost that results from Nashua's incoming manifest system is quite low (see NMS-WP2). Based on the assumption which you posit, my proposal set forth in Appendix II need not and would not change. On the assumption postulated here – namely, that the cost resulting from the weight averaging system which the Postal Service uses for *Mystic's* and Seattle FilmWorks' incoming BRM were twice as much per piece as at Nashua – the unit cost would still be quite comfortably below 2 cents. No reason exists why BRM recipients using these two different approaches to calculating postage due cannot co-exist within the proposed fee sub-category.

Response of Dr. John Haldi to USPS/NMS-T1-31
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USPS/NMS-T1-31.

In your testimony at page 41, lines 3-4, you state that the requirement of pre-barcoding is actually met by both Mystic and Seattle FilmWorks. What information is contained in these barcodes? Is it your contention that these barcodes meet the BRMAS ZIP + 4 requirements?

Response:

The barcodes on the Mystic and Seattle FilmWorks BRM envelopes used by their customers to mail rolls of film contain a PO Box number, a ZIP + 4 address, and a corresponding barcode. In all respects concerning outward appearance – *e.g.*, the ZIP + 4 address and barcode – they resemble BRMAS mail. Obviously, however, neither the box number nor the barcode has been assigned under the BRMAS program because there has been no application for BRMAS Authorization. Based on this technicality, they do not meet the BRMAS ZIP + 4 requirements, nor is it my contention that they do.

USPS/NMS-T1-32.

Please refer to your testimony at page 11, lines 15-16, and describe the refinements implemented by Nashua to make its incoming manifest system more accurate.

Response:

To date, three important refinements have been made. The first two are easy to explain. First, Nashua instituted a training program for all of its operators, with particular emphasis on the necessity to enter accurate information pertaining to whether the film was returned with or without the plastic canister that is customarily supplied with each new roll of film. Second, Nashua refined the pre-determined weights of individual items contained in the customer envelopes.

The third refinement is more complex. Nashua ceased its former practice of eliminating from its database customer account numbers that went unused for more than two years. The previous practice of automatically eliminating old, unused customer account numbers creates the following problem. From time to time (i) a customer with an old (eliminated) account number sends in an order, (ii) the customer also includes his/her (now defunct) account number on the outside of the envelope, and (iii) that order also happens to be selected in the Postal Service's sample. The Postal Service employee records the tracking number and the old account number.¹ However, the Nashua employee, upon

¹ The Postal Service employee does not bother to record the customer's name and address when an account number is available on the outside of the

opening the envelope and attempting to enter the order cannot find the old (eliminated) account number in the computer. Nashua's standard practice is to assign the customer a new account number, and process the order under that new account number. The problem which this creates is that the Postal Service employee cannot use the old account number to locate the envelope with the new account number in the incoming manifest, and the postage due as measured by the sample fails to coincide with the postage due as recorded in the manifest.¹

When "sample" postage due is compared with "manifest" postage due, the manifest column shows "zero," because the available information does not enable the piece to be located in the manifest. Thus, even though the piece is actually included in the manifest (under a different account number), this particular discrepancy is thus handled in a way that is most favorable to the Postal Service, and leaves its revenues fully protected.

envelope (see my response to USPS/NMS-T1-38 for additional discussion on this point). This is an important reason why the sampling can be completed in no more than 60 minutes (see my response to USPS/NMS-T1-25).

¹ Although Nashua has ceased eliminating old account numbers, this problem continues to recur. Over time, however, it will gradually disappear.

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USPS/NM-T1-33.

Please explain the basis for your proposal to define bulk BRM as "100 pounds per day, or 500 pounds per week, or 2000 pounds per month," as described at page 48, lines 1-4, of your testimony.

Response:

Please see my testimony, p. 47, lines 14-21. If the Postal Service were to weigh and rate individual BRM pieces manually I would expect the cost to average at least 10 cents per piece, the estimated average cost of processing BRM manually in Docket No. R94-1 (see my testimony, Appendix I, p. I-2, line 13). As indicated in my response to USPS/NM-T1-35, at my suggested qualifying threshold the weight-averaging system should reduce the cost per piece to a small fraction of that amount and, for volumes above the minimum threshold, unit costs would be expected to be lower yet. The minimum qualifying threshold is thus high enough to assure (i) homogeneity of qualifying mail with respect to cost characteristics, and (ii) a low unit cost. At the same time, my minimum suggested threshold is intentionally set far below the volumes received by Nashua, Mystic or Seattle FilmWorks, so as to enable recipients of relatively smaller (nevertheless, still large) volumes of BRM (including some, perhaps all, of the smaller through-the-mail film processors mentioned in my response to USPS/NM-T1-10) to qualify for the lower rate that reflects lower unit cost.

For reasons explained in my testimony at p. 47, it is suggested that the minimum threshold be stated in terms of pounds. In terms of the expected

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number of pieces, on average it is perhaps a little larger than the 500-piece minimum required for originating First-Class bulk mail (assuming that the average weight of non-automatable bulk BRM exceeds one ounce). The reason for suggesting a higher minimum is in recognition of the fact that instituting a weight averaging system for an individual recipient of non-automatable bulk BRM may cost more than accepting an originating bulk mailing.

In my response to interrogatory USPS/NMS-T1-10, I discuss the possible desirability of setting monthly, as opposed to daily or weekly, minimums under certain circumstances.

USPS/NM-T1-34.

On page 12, lines 5-8 of your testimony, the estimated postage on the Nashua manifest is shown as a percentage of the postage for the pieces in the sample for four different months. Please confirm that for all four months shown, the Nashua manifest underestimates the actual postage due.

Response:

Confirmed; in October, 1996 that number has now climbed to 98.3 percent. Of course, as stated elsewhere, the Postal Service is fully compensated for postage due based on its daily 50-piece sampling; see my responses to USPS/NMS-T1-1 and 12 for more detailed information.

USPS/NM-T1-35.

Please refer to your testimony at page 21, lines 5-10. What would the per-piece costs be for a mailer whose volume is exactly the minimum definition of bulk (100 pounds per day) you propose at page 48, lines 1-2, assuming all pieces average exactly two ounces (page 48, fn. 67).

Response:

Your question obviously presents a hypothetical with important facts left unspecified. Let me preface the answer by stating that "it depends." For example, it would depend on (i) whether the Postal Service used a weight-averaging system and, if so, the number of sacks that would have to be weighed, or (ii) whether the BRM recipient (the "mailer") used an incoming manifest system

IF the Postal Service used a weight-averaging system (which would seem most likely for minimum quantities), and IF an average of four sacks (averaging 25 pounds/sack) had to be weighed, and IF the Postal Service required an average of 3 minutes to ascertain and record the weight of each sack (which is generous), and IF the Postal Service required an additional 15 minutes daily to complete the billing operation, and IF the average cost per effective productive hour for a mail clerk is \$23.952, and IF the appropriate piggyback factor for a manual weighing operation is 1.53322 (the figure used for Mystic and Seattle), then the daily Postal Service cost would amount to \$16.53, and for 800 pieces the unit cost would amount to \$0.021. Please note that this unit cost is for my suggested *minimum* volume, and it is far less

than the 10.19 cents per piece for BRMAS that the Postal Service handles manually (see my testimony, Appendix I, p. I-2, line 13). Note that under the assumptions and hypothetical conditions here, the Postal Service spends 12 minutes weighing the 4 sacks, and 15 minutes for the billing operation. With higher volumes, the number of sacks and the time spent weighing sacks would increase, but the time for the billing operation should not change, hence unit cost would be expected to decline.

Alternatively, IF the recipient used an incoming manifest system (which seems highly unlikely for minimum volumes), and IF the Postal Service sampled 30 pieces each time it took a sample,¹ and IF the sample were taken daily (a "worst case" assumption),² and IF the daily sampling required approximately 36 minutes by the Postal Service employee (at \$23.952 per productive hour),³ and IF the appropriate piggyback factor is 1.717276 (the figure used for Nashua), then for 800 pieces the daily Postal Service cost would amount to \$24.68, and

¹ See LR-SSR-148, p. 103; this is the indicated sample size for volumes in the range of your hypothetical.

² Continued daily sampling is required only when the discrepancy between the postage due on the sample and the manifest is not less than 1.5 percent for five consecutive days; *i.e.*, if the discrepancy is less than 1.5 percent for five consecutive days, the frequency of the sampling can be reduced.

³ This time is three-fifths of the maximum one hour assumed for Nashua, where the sample size is 50 pieces per day. At three-fifths of 50 minutes per day (the lower bound assumed for Nashua), or 30 minutes per day, the unit cost would be \$0.026.

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the unit cost would amount to \$0.031, based on stated conservative assumptions.

As the largest and therefore lowest cost recipients of non-automatable bulk BRM, Nashua, Mystic and Seattle FilmWorks have no problem with rates based on average costs where their costs are below average, benefitting these other lower-volume – but nevertheless low-cost – BRM recipients.

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USPS/NM-T1-36.

Please refer to page 14, fn. 12, of your testimony. Is it your assertion that the automation equipment used to process BRMAS has been purchased and deployed solely or primarily for the processing of BRMAS mail? Please provide your best estimate of the total "high capital outlay" attributable to automated equipment and the percentage of this outlay which should be attributed to BRMAS.

Response:

Nowhere do I assert that the Postal Service has purchased automation equipment solely or primarily for the processing of BRMAS mail. Your question appears to totally miss the point I was endeavoring to make. Let me therefore elaborate on my original point. Suppose, hypothetically, that the Postal Service decided to procure and deploy to each of its major mail processing plants an electronic multi-purpose scale (i) that could weigh up to 500 pounds virtually instantly and accurately to 1/1000 of an ounce, and (ii) that cost \$2.5 million per scale. Having invested many millions of dollars in this new, more efficient equipment, the Postal Service might then feel motivated to provide rate discounts that would encourage greater usage, as it has done with its automation equipment. In other words, it would appear that the Postal Service wants to pass along lower unit costs only when they have been achieved through the investment of large sums of money, but not when a simple, straightforward, cost-effective approach is used (excepting, of course, in the Prepaid Courtesy Reply Mail test).

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The Postal Service estimated that it will have spent over \$5 billion on the purchase of automation equipment in the years 1982-1997. See GAO Briefing Report to Congressional Committees, "Postal Service Automation is Taking Longer and Producing Less than Expected," GAO/GGD-95-89BR (Feb. 22, 1995). Taking account of the volume of BRMAS mail (see NMS-WP1) and the volume of non-BRMAS mail processed on automation equipment (see USPS/NMS-T1-48), certainly some small percentage of this capital outlay should be attributed to BRMAS. This estimate is for capital equipment only, and excludes (i) all time and effort that went into the nationwide BRMAS program described by USPS witness Pham in Docket No. R90-1 and by USPS witness Mallonee in Docket No. R94-1, and (ii) all of the recurring programming costs incurred by all facilities to keep the BRMAS programs current over the last 10 years or so since the BRMAS program was initiated.

To sum up, when everything is taken into account, the Postal Service has spent a substantial sum of money to get the unit cost of BRMAS down to the level that long has been achieved by the weight averaging system at the New London and Seattle Post Offices and, more recently, by the incoming manifest system at Nashua.

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USPS/NM-T1-37.

Please refer to your testimony at page 5, lines 10-11, where you state that "through-the-mail film processors account for approximately 6 percent of the domestic film processing market. Please identify the source(s) for the 6 percent figure and provide the underlying calculation for this number.

Response:

The 6 percent figure comes from two sources: (1) the *1995 International Photo Processing Industry Report*, and (2) the Eighth Annual Robinson Report. Copies of the pertinent page from each report are attached.

The *International Photo Processing Industry Report* is based on production shares, by value. You might note that the 1986–1994 data indicate that the share of market held by "Mail Order Macrolabs" has declined steadily from 14 percent in 1986 to 6 percent in 1994. Inconsistent mail service and increased postage rates may have contributed to this decline.

The market shares shown in the Robinson Report are based on the number of rolls processed.

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The 1995 International Photo Processing Industry Report

covering worldwide
amateur/professional
photo processing
and
sensitized photographic
materials markets

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Apparently, interest in photography is reviving, since the number of households having at least one photographer jumped 2.8% in 1994.

Table 2-10

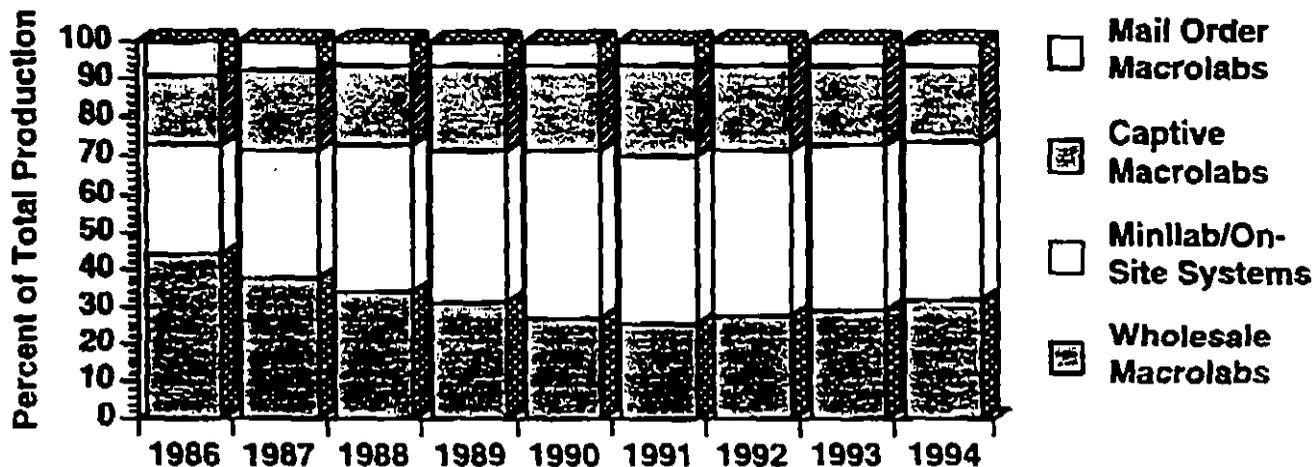
U.S. Households With At Least One Adult Photographer

<u>Year</u>	<u>Millions of Households</u>
1988	21.0
1989	20.4
1990	19.2
1991	18.6
1992	18.2
1993	17.6
1994	18.1

Source: National Demographics & Lifestyles (NDL)

Figure 2-2

U.S. Photofinishing Production Shares (By Value)



Source: Photofinishing News, Inc.

Table 2-11

U.S. Photofinishing Production Shares (by Volume)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Mail Order Macrolabs	14%	12%	9%	8%	8%	7%	7%	6%	6%
Captive Macrolabs	17%	18%	19%	20%	21%	22%	21%	20%	19%
Minilab/On-Site Systems	25%	27%	30%	32%	34%	36%	36%	37%	35%
Wholesale Central Labs	45%	43%	42%	40%	37%	35%	36%	37%	40%

Source: Photofinishing News, Inc.

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**The Eighth Annual Robinson Report:
The U.S. Consumer Imaging Business in 1995
with Forecasts for 2000**

Ian & Doug Robinson
Photographic Consultants Ltd.
6 Walden Street
Concord, MA U.S.A. 01742
fax: 508-287-5135
phone: 508-287-5130

Table 4-1. Consumer Color Negative Rolls Processed, 1992 to 1995, by Business Segment: Wholesale, Vertically Integrated, Mail Order and On-Site (Millions of Rolls, including Single-use)

	1992	1993	1994	1995
Wholesale			260	275
Fraction			0.460	0.464
Vertical			100	107
Fraction			0.177	0.180
Mail Order			42	38
Fraction			0.074	0.064
Central Lab				
Subtotal...			402	420
Fraction			0.712	0.708
On-site			163	173
Fraction			0.288	0.292
Total Consumer CN Rolls Processed	527	550	565	593
Total Consumer CN Rolls Sold	557	602	601	637

Source: Photographic Consultants Ltd.

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USPS/NM-T1-38.

In your testimony, at page 9 (lines 9-15) and page 10 (lines 1-7), you describe Nashua's current incoming manifest system.

- (a) As a general principle, would you agree that the if the Postal Service is drawing a sample of incoming BRM pieces to verify whether the mailer later calculates the correct postage due, that the identity of the pieces in the sample should be unknown to the mailer?
- (b) If the Postal Service is unable to draw a sample that is unknown or unidentifiable to the mailer, how can the Postal Service be sure that the mailer will not focus on the sample and be less careful about the accuracy of the postage due calculation on the large remainder of the mail?
- (c) Under Nashua's current incoming manifest system, does the Postal Service draw a sample that is unknown or unidentifiable to Nashua?

Response:

- (a) I agree that the identity of the pieces in the sample should be unknown to *employees of the BRM recipient (Nashua)* who are responsible for data entries that create the incoming manifest.
- (b) As preface to responding to this part of the interrogatory, I would like to state first that the hypothetical conditions which you posit in this interrogatory are not applicable to the situation at Nashua; please see part c, *supra*. Second, Nashua employees have been trained to enter accurately all information and data which they record for each order because those data are critical to Nashua's internal processing and data

collection system, with the exception of only one entry, which is whether the film was mailed in plastic canister in which new rolls of film are customarily supplied. Even under the hypothetical conditions which you posit, I believe that the Postal Service can be reasonably sure that the BRM recipient will not focus on the sample and be less careful about accuracy of the postage due calculation on the large remainder of the mail.

- (c) When the daily sample is taken at Nashua, the Postal Service employee records the tracking number and the account number (or the name and address of the customer if an account number is not available) on the outside of the envelope, and then reinserts the envelope into the arriving mail. Unless the Postal Service employee explicitly marks the envelope, which should not be done and for which no need exists (and which he/she presumably does not do), the Nashua employee who subsequently opens the envelope and records the data for the incoming manifest will have no way of knowing that a particular envelope has been included in the sample that day.

The inescapable innuendo accompanying this interrogatory here is that the sampling at Nashua may somehow be "rigged" – or be subject to "rigging." At the same time, a number of other interrogatories were designed to stress that Nashua's incoming manifest system may have a

Response of Dr. John Haldi to USPS/NMS-T1-38
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tendency (or "bias") to underestimate postage due (see USPS/NMS-T1-1, 2, 12 and 34). It should be noted for the record that any tendency for Nashua's manifest system to underestimate postage due (which requires extra payments to the Postal Service) inescapably constitutes strong evidence that the sampling procedure is not "rigged" in any way. Recurrence of the third problem discussed in my response to USPS/NMS-T1-32 offers yet further evidence that samples taken at Nashua are random, and not "rigged."

Response of Dr. John Haldi to USPS/NMS-T1-39
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USPS/NM-T1-39.

- (a) Please confirm that the Postal Service has recently experienced a problem with Seattle FilmWorks applying the wrong ZIP + 4 Code and/or barcode in the return address of some of its BRM pieces.
- (b) Please describe in full when and how the problem developed and all steps that have been taken to correct it.
- (c) Please indicate how many outgoing envelopes with the wrong ZIP + 4 Code and/or barcode were printed and distributed to the mailing public and how many have been mailed in to Seattle FilmWorks.
- (d) Please provide sample copies of the Seattle FilmWorks BRM pieces involved.
- (e) Please provide copies of (i) all correspondence between the Postal Service and Seattle FilmWorks which addresses this problem and (ii) copies of all Seattle FilmWorks internal correspondence and other documents which pertain to this problem.

Response:

- (a) Seattle FilmWorks did apply a wrong ZIP + 4 Code and barcode in the return address of a promotional mailing that contained an attached BRM post card. Please note that the post card obviously could not be and was not used to send in rolls of film for development. The problem to which this interrogatory refers had nothing to do with Seattle Filmworks' reply envelopes which, when returned in large numbers, constitute the non-automatable bulk BRM discussed in my testimony. The post cards were processed separately (perhaps on automation equipment) and were not included in any sack where postage due is computed by means of weight averaging.

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- (b) Seattle FilmWorks receives orders in BRM envelopes pre-addressed to three PO Boxes. In addition, Seattle FilmWorks also has four BRMAS authorizations which it uses for promotional mailings. Two BRMAS authorizations are for cards only, and the other two are for one-ounce letters only. The problem which arose was that someone in the marketing department inadvertently printed BRM cards with the PO Box Number and corresponding ZIP + 4 Code that was authorized for letters only. The problem occurred sometime in late July/early August of this year, when the promotional mailing was sent out. Subsequent promotional mailings have been double-checked and cleared with the Postal Service prior to dissemination to the public, and the error has been corrected and not repeated.
- (c) Seattle FilmWorks has not printed or distributed to the public any *envelopes* with the wrong ZIP + 4 Code and/or barcode; see my response to preceding part a. It did print and distribute *cards* with the wrong PO Box Number and ZIP + 4 Code. Responses are still being received, and the response rate to promotional mailings is considered proprietary and confidential information. Based on general industry-wide experience with that type of mailing, the response rate can range from less than 1 percent to as high as 4 or 5 percent.

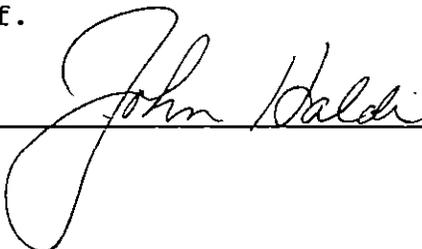
Response of Dr. John Haldi to USPS/NMS-T1-39
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- (d) Submitted as Library Reference LR-NMS-2.

- (e) The problem to which this interrogatory refers was brought to the attention of Seattle FilmWorks verbally by a Postal Service representative. Subsequently, on August 19th John Metselaar wrote to Postmaster Lee Salazar, Seattle Postmaster, concerning the problem. Then, on September 6th, in what was more or less a reply to Mr. Metselaar's letter, Mr. Richard E. Kunz of the USPS wrote to Ms. Mich Earl (copies of these two letters containing confidential information are already in the possession of the Postal Service, and would be offered, if desired, pursuant to a non-disclosure agreement).

DECLARATION

I, John Haldi, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.



Dated: November 7, 1996

CERTIFICATE OF SERVICE

I hereby certify that I have this day served this document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

November 7, 1996

