

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**UNITED STATES POSTAL SERVICE INTERROGATORIES AND REQUESTS
FOR PRODUCTION OF DOCUMENTS TO VAL-PAK DIRECT MARKETING
SYSTEMS, INC., VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL
WRIGHT PROMOTIONS, INC. WITNESS HALDI
(USPS/VP-CW-T1—1-23)**

Pursuant to rules 25 and 26 of the Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions witness Haldi: USPS/VP-CW-T1—1-23.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 16, 2000

USPS/PCW-T1-1. Please refer to page 16 of your testimony where you allocate tallies in the 3.0 to 3.5 ounce range.

- a) Identify all documents in this docket that led you to quantify 60 percent of tallies in the 3.0 to 3.5 ounce to letters and 40 percent to the 3.3 to 3.5 ounce range. Provide citations for any documents identified in your response.
- b) Confirm that the rate for letter-rated ECR pieces is currently below that for ECR pound-rated pieces at a given density tier.
- c) Confirm that the current rate for an ECR saturation nondropshipped letter is 13.0 cents. If not confirmed, please provide the correct figure.
- d) Confirm that the current rate for a 3.5 ounce ECR saturation nondropshipped piece is 14.8 cents. If not confirmed, please provide the correct figure.
- e) Confirm that there is a 1.8 cent incentive for 3.5 ounce ECR saturation nondropshipped piece to become eligible for the letter-size rate. If not confirmed, please explain.
- f) Since there is a lower rate for ECR pieces in the letter category, is it reasonable to conclude that mailers might choose to manage the weight of their pieces so that they pay the lower letter rate? Please explain your response.
- g) Please confirm that, given the rate incentive in subpart (f), it would be reasonable to expect that a greater proportion of tallies would be categorized within the 3.0 to 3.3 ounce range than the 60 percent figure presented in your testimony. Please fully describe any nonconfirmation.

USPS/PCW-T1—2. You state on page 17 of your testimony that letter shaped-pieces with DALs “clearly exist within ECR.” In support of this proposition, you cite a cross-examination exhibit VP-Moeller-XE-1 at Tr. 10/4137-38.

- a) Confirm that this is the exhibit that was introduced at the April 24, 2000 hearing. If not confirmed, please explain.
- b) State whether you were the recipient of the mailpiece that is marked as Exhibit VP-Moeller-XE-1.
- c) If your answer to subpart (b) is affirmative, state whether the copies cited in your response at 10/4137-38 represent the entirety of the contents of the mailpiece, and state the basis for your response.
- d) At the time you prepared your testimony, did you have first-hand knowledge that the contents of the mailpiece that is marked as Exhibit VP-Moeller-XE-1 were in fact those that were represented to be in the exhibit at the April 24, 2000 hearing when the exhibit was transcribed? If affirmative, state the basis of your response.
- e) Is it your understanding that the cross-examination exhibit included a DAL?
- f) Does page 2 of the cross-examination exhibit contain an address that meets the specifications for DALs? Please explain your response.

USPS/PCW-T1—3. You state on page 17 of your testimony that you have "conservatively assumed that only 1.0 percent of the total ECR flats volume in FY 1998 consisted of mismatched DAL mailings."

- a) Confirm that you are assuming that one percent of all ECR flats are actually letter shaped pieces mailed with DALs. If you cannot confirm, please explain.
- b) Confirm that you are applying this assumption to Basic and High-Density nonletters. If you cannot confirm, please explain.
- c) Is it your understanding that DALs are frequently used for pieces in the Basic tier? Under what conditions would DALs be used for Basic rated letters?
- d) In preparing for your written testimony, did you have discussions regarding volumes of letter-shaped DAL mailings with persons having knowledge about this subject?
 - (i) If so, identify separately each of the person(s) you interviewed or had discussions with by name, title and organization.
 - (ii) Provide copies of any notes of conversations that you had with such persons (exclude any privileged attorney-client communications).
- e) In preparing your written testimony, did you review any studies, analyses, or other data concerning the 1.0 percent assumption?
 - (i) Identify each piece of information that you considered by title, date, and author; and
 - (ii) Provide a copy of each piece of information that you considered.
- f) Was the 1.0 percent figure based on a calculation? If so, please show the derivation of the 1.0 percent figure.
- g) Explain why the 1.0 percent figure has two significant digits.
- h) State whether you conducted any review or analysis of IOCS tallies to arrive at the 1.0 percent assumption.

USPS/PCW-T1-4. Please see your testimony at Appendix A, page 1, where you refer to IOCS instructions regarding the tallying of pieces with a detached address label (DAL). In preparing your testimony, did you attempt to determine, for any time period, the number of tallies that involve a piece that is both letter-shaped and associated with a DAL?

USPS/PCW-T1-5. Please see your testimony at page A-9, lines 9-10 where you state that letter-shaped mail can be sent with a DAL if it is loose, but not if it is enveloped. Please provide citations to the Domestic Mail Manual that support this statement.

USPS/PCW-T1-6. Please refer to your testimony at page 17, lines 12-13 where you describe your adjustment to the unit costs of letters and flats as "relatively minimal". Please confirm that your "relatively minimal" adjustment leads to a 97% increase in the letter/flat differential at the saturation tier. If not confirmed, please explain.

USPS/VPCW-T1—7. You state on page 19 note 13 that your proposed \$0.661 pound rate for ECR "will avoid having the anomalous situation of n ECR pound rate which exceeds that of the Regular subclass."

- a) Please explain how it would be anomalous for the ECR pound rate to exceed the Regular pound rate.
- b) Do you agree that it is desirable to keep the pound rate for ECR at or below that for Regular? Please explain your response.

USPS/VPCW-T1-8. Please see your testimony at page 21, lines 10-12. You state: "[i]n Docket No. R97-1, the Commission used an 85 percent passthrough to establish destination entry discounts for Standard A Mail. Witness Moeller provides no justification for his systematic reduction in the 85 percent passthrough."

- a) Please confirm that the Commission deviated from 100% to 85% passthrough for destination entry discounts in Docket No. R97-1. If not confirmed, please explain.
- b) Please provide what you believe to be the Commission's justification in Docket No. R97-1 for departing from the Docket No. MC95-1 100% passthroughs for destination entry discounts that formed the basis of the then-current discounts. Provide citations for your response.

USPS/VPCW-T1-9. Please refer to your testimony at page 24 line 14, where you propose a ECR pound rate of 66.1 cents.

- a) Please confirm that the current ECR pound rate is 66.3 cents.
- b) Please provide your understanding of the underlying quantitative support for the current level of the ECR pound rate.
- c) Using your analysis from subpart (b), please show why your proposed rate of 66.1 cents is superior to either the current 66.3 cents or the Postal Service proposed pound rate of 58.4 cents.

USPS/VPCW-T1-10. Please refer to page 22 of your testimony where you present the proportion of Standard Mail (A) that received destination entry discounts. You state: "[i]n 1998, the amount of all Standard A Mail that received destination entry discounts was 62 percent by volume, and 71 percent by weight."

- a) Please confirm that one possible explanation for the large participation in these discounts is that the discounts are overstated. Please fully describe any negative answer.
- b) Please describe how the proportion of mail claiming destination entry rates gives you guidance into the appropriateness of the level of the discounts.

USPS/VPCW-T1-11. Please refer to your testimony at page 18, lines 14-15, where you refer to "drastic reduction" in the pound rate proposed by the Postal Service.

- a. Please confirm that the reduction to which you refer is the proposed 7.9 cent reduction in the ECR pound rate. If you cannot confirm, please describe the reduction you are referring to, and the level of that reduction in terms of cents per pound.
- b. Please confirm that in Docket No. R97-1, the Postal Service proposed a reduction the in ECR pound rate of 13.3 cents in the ECR pound rate. If you cannot confirm, please provide what you believe to have been the proposed reduction.
- c. Please confirm that in Docket No. R97-1, your testimony on behalf of Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc. recommended that the Commission adopt a conservative approach and accept the Postal Service's proposed pound rates for Standard Mail A. If you cannot confirm, please explain.
- d. Specifically, confirm that at page D-11 of your testimony (Tr. 27/15162) in Docket No. R97-1, you stated:
it is recommended that the Commission adopt a conservative approach and accept witness Moeller's proposed pound rates for Standard Mail A.

If not confirmed, please explain.

USPS/VPCW-T1-12. Please see your testimony at page 22, lines 7-10. You state, "[a]lthough it is not possible in this docket to recognize any weight-related cost avoidance from presortation, maintaining the destination entry passthrough at least equal to 85 percent of avoided cost gives recognition to cost avoidance that is documented to be weight-related."

- a. Please confirm that it is your belief that there are weight-related cost savings due to presort. If you cannot confirm, please explain.
- b. Please confirm that presort discounts are on a per-piece basis.
- c. Is it your contention that, all else equal, the presort discounts therefore under-reward presortation of heavier pieces relative to lighter pieces? If this is not your contention, please explain.
- d. Is it your contention that, all else equal, the presort discounts "over-reward" presortation of lighter pieces, relative to heavier pieces? If this is not your contention, please explain.
- e. Is it your belief that the destination entry discounts, which are based on weight, compensate for situations described in subparts (c) and (d)?
- f. Please confirm that the destination entry discount for a one-ounce piece is based on a weight of 3.3 ounces. If you cannot confirm, please explain how the destination entry discount for a one-ounce piece is established.
- g. Do destination entry discounts also "over-reward" lighter weight pieces relative to heavier weight pieces? Please explain your response.

USPS/PCW-T1-13. Please see your testimony at page 22, line 11, where you state that a reason to maintain the destination entry passthroughs at 85 percent is because "mailers respond to such discounts."

- a. How does whether mailers "respond" to discounts provide guidance on the passthrough level?
- b. Is the only basis for moving away from 85 percent passthrough a situation where mailers do not respond to such discounts?

USPS/PCW-T1-14. Please see your testimony at page 23, lines 1-5. You state that:

[m]aintaining the passthrough at a level at least equal to 85 percent will retain the incentive for Standard A mailers to continue taking advantage of destination entry discounts, and also will retain the incentive for transportation companies, including those that specialize in consolidating shipments.

Is it your testimony that anything less than 85 percent passthrough will not retain the incentive for mailers to continue to take advantage of destination entry discounts? Please explain your response.

USPS/PCW-T1-15. Please see Table A-2 of your Appendix A. Confirm that your estimates of flat costs used in your letter/flat differentials are for pieces weighing from 0-16 ounces. If you cannot confirm, please define the weight range of the flats, or nonletters, represented by the cost estimates.

USPS/PCW-T1-16. Please see your testimony at page B-5, lines 17-19, where you state:

the weight-cost relationship for saturation ECR mail likely differs from that for Basic ECR mail, which in turn, may be quite different from Basic Presort or Basic Automation.

In your opinion, would the weight-cost relationship be stronger (that is, costs increase more rapidly with weight) for ECR Saturation, or Regular Basic Presort? Please explain your response.

USPS/PCW-T1-17. On page B-24, lines 20-21, of Appendix B to your testimony you state, "Tallies from non-weight driven functions should not be used to distribute the costs of weight-driven functions."

- a) Please specify which of the mail processing cost pools listed in Table 1 of witness Van-Ty-Smith's testimony, USPS-T-17, represent "weight-driven functions" according to your definition and which do not. Please also provide a brief discussion of the rationale for each classification.
- b) For each cost pool you classify as representing "weight-driven functions," please indicate your understanding as to how tallies from cost pools

representing "non-weight driven functions" are used to develop the distribution keys for its volume-variable costs.

USPS/VPCW-T1-18. On page B-6, lines 11-14, of Appendix B to your testimony you state, "[a] second implication is that any study which randomly mixes tallies from the least presorted mail to the most presorted mail is likely to yield a result that, at best, is useless and, at worst, is hopelessly confused and even misleading.

- a) What, precisely, is the "study" to which the statement refers?
- b) Does your statement that the study "randomly mixed tallies" from various presort categories imply that you believe that IOCS tally data do not distinguish presort level for non-ECR Standard Mail (A)? If not, please explain in detail the mechanism by which you believe the "study" to which you refer "randomly mixes tallies from the least presorted mail to the most presorted mail."
- c) Please explain whether or not you disagree with the testimony of witness Ramage at page 3, lines 16-19, of USPS-T-2, where witness Ramage states that, "[t]he In-Office Cost System uses a probability sample of employee activity to develop estimates of employee work time spent on various office functions, and for certain functions, *the proportion of time spent handling and/or processing specific mail categories.*" (emphasis added). If you disagree, please specify in detail the basis for your disagreement.
- d) Please explain in detail how the CRA mail processing cost methodology, as you state at page B-11, line 15, "may reasonably trace cost causation to the subclasses," but not, at the same time, be able to "trace cost causation" to other observable categories of mail recorded in IOCS.

USPS/VPCW-T1-19. On page B-10, line 18, to page B-11, line 1, you state that, "[d]irect tallies tend to reflect that when pieces are being handled individually, a heavy-weight piece can be handled at approximately the same rate (and cost) as a lighter-weight piece."

- a) Please describe in detail and provide all analysis of "direct tallies" you have performed, or provide detailed citations to any other analysis that provides quantitative support for your statement.
- b) In footnote 49, you cite witness Daniel's response to ABA&NAPM/USPS-T28-28, Tr. 4/1188, where she indicates that heavy pieces are more likely to "result in jams." Please confirm that witness Daniel's response at Tr. 4/1188 enumerates several other ways in which "throughput of OCRs and BCSs is affected by weight." If you do not confirm, please explain.

USPS/VPCW-T1-20. On page B-5, lines 3-5, you state, "for a given presort condition, the weight-cost relationship would, in general, appear to be continuous and monotonic."

- a) If letter-shape pieces above a given weight are incompatible with automated sorting equipment and must instead be sorted manually, would you expect the weight-cost relationship for letters (and for a given "presort condition") to necessarily be continuous? If your response is affirmative, please explain.
- b) If flat-shape pieces below a given weight are incompatible with automated sorting equipment and must instead be sorted manually, would you expect the weight-cost relationship for flats (and for a given "presort condition") to necessarily be monotonic? If your response is affirmative, please explain.

USPS/VPCW-T1-21. On page B-13, lines 16-17, you indicate that an employee sampled in IOCS while handling a hamper of non-identical mail would "be recorded as handling mixed mail." You state that "no real basis exists for distributing such mixed mail tallies on the basis of weight increment."

- a) Please confirm that the tally for the container handling you describe would, normally, indicate the portion of the container occupied by loose letters, loose flats, bundles, trays, etc. If you do not confirm, please explain.
- b) If the mixed-mail hamper to which you refer were recorded as containing letter-shape mail, would it be reasonable to assume that the pieces therein have a different weight distribution than would obtain if the hamper were recorded as containing flat-shape mail? If not, why not?

USPS/VPCW-T1-22. Please see your testimony at page B-28, lines 9-19, where you discuss the relationship between presort and destination entry discounts.

- a) Please confirm that it is your position that the presort discounts are deficient in that they do not recognize weight-related presort savings. If you cannot confirm, please state any criticisms you have of a piece-based presortation discount.
- b) Please confirm that it is your position that since certain rate elements (in this instance, the presort discount) are somewhat deficient in that they do not specifically reflect perfectly the pattern of cost savings, you advocate using another rate element (in this instance, the destination entry discounts) as a means to offset the alleged deficiency.

USPS/VPCW-T1-23. Please refer to Section IV.B of your testimony where you discuss unit contribution. Is it your belief that unit contribution within a subclass should be uniform across rate categories or rate cells, if possible? Please explain any negative response.

CERTIFICATE OF SERVICE

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

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