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POSTAL RATE COMMISSION
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

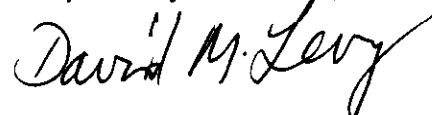
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Docket No. R2000-1
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Postal Rate And Fee Changes, 2000
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**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS HALDI TO INTERROGATORIES OF THE
UNITED STATES POSTAL SERVICE
(USPS/ANM-T1-1-7)**

The Alliance of Nonprofit Mailers hereby provides the responses of witness John Haldi to interrogatories USPS/ANM-T1-1 through -7. Each interrogatory is stated verbatim and followed by a response.

Respectfully submitted,



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June 22, 2000

ANM Witness John Haldi Response to Interrogatory of
United States Postal Service

USPS/ANM-T1-1. At page 5 of ANM-T-1 you state that "Postal Service unit costs — especially for periodicals and non-letter mail — have exceeded the rate of inflation by a wide margin."

- (a) Please confirm that the majority of the Postal Service's volume is letter mail. If you cannot confirm, explain your answer.
- (b) Please confirm that the Postal Service's unit costs for letter mail have risen by less than the rate of inflation. If you cannot confirm, please explain your answer.

Response:

- (a) Confirmed, but the volume of flats is hardly trivial. In 1999 the Postal Service handled about 61 billion flats, estimated as follows (in billions):

First-Class flats, at 12% of F-C volume	12
Periodicals	10
Standard A	<u>39</u>
TOTAL	61

- (b) For the 11-year period 1989-1999, the wage-adjusted data submitted by the Postal Service in response to POIR No. 4, Attachment, page 1, indicate that the unit mail processing plus in-office carrier costs for letters declined from 1989 (10.36 cents) through 1993 (8.86 cents), following which costs increased through 1998 (to 9.55 cents), then declined again through 1999 (to 8.30 cents). Over this entire 11-year period unit costs for letter mail have thus decreased, but neither uniformly nor in every year.

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USPS/ANM-T1-2. With respect to the three decades that you have aggregated to display Total Factor Productivity (TFP) growth (Table 1 of ANM-T-1):

- (a) Please confirm that postal prices increased the least during the third decade (1991 through 2000 year to date). If you cannot confirm, please explain your answer.
- (b) Please confirm that postal prices increased the most during the first decade (1971 through 1980). If you cannot confirm, please explain your answer.
- (c) Please confirm that the Postal Service's service performance has been the highest during the third decade (1991 through 2000 year to date). If you cannot confirm, please explain your answer.

Response:

(a) and (b)

I am not certain what you mean by postal prices, but using the rate for the first ounce of single piece First-Class Mail as a proxy, LR-I-118 shows that the rate in 1971, 1980, 1990 and 1999 was, respectively, 8, 15, 25, and 33 cents. The percentage increases in these nominal prices (i.e., prices not adjusted for inflation) corresponding to those three decades were thus 87.5, 66.7, and 32.0 percent.

Adjusting the figures for inflation using the CPI – All Urban Consumers index, however, produces the following results:

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Year	First-Class Rate for First Oz.	Percent Increase	CPI-U	Inflation-Adjusted Rate	Percent Increase
1971	\$ 0.08		40.5	\$ 0.1975	
1980	0.15	87.5%	82.4	0.1820	-7.84%
1990	0.25	66.7	130.7	0.1913	5.08
1999	0.33	32.0	166.6	0.1981	3.56

On this basis, the lowest inflation-adjusted percentage change was during the first decade – actually, a decrease – which corresponds to the decade with the highest increase in TFP. The inflation-adjusted change in the *third decade is less than during the second decade*. During the third decade, however, the Postal Service opted to keep down prices by incurring massive operating deficits, for which mailers are still paying.

- (c) The question as posed is essentially unanswerable. First, despite repeated promises to do so over the last three decades, the Postal Service has failed to develop any reliable end-to-end performance data for the Periodicals Subclass, the Standard A subclass, or the Standard B subclass (and for second, third, and fourth class mail which preceded the current classifications). Second, the Postal Service refuses to publish or release any Express Mail performance data. Third, the Postal Service has only recently implemented the Priority Mail end-to-end (“PETE”) performance system. The only data (of which I am aware) that could be used to respond to this question are (i) EXFC data, which were not in

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existence for the three decades, and which are representative only of First-Class Mail, and (ii) ODIS data, which are not altogether reliable, especially prior to EXFC, when they were the only performance data being gathered.

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USPS/ANM-T1-3. Do you agree that, from 1975 on, the Postal Service limited its ability to capture productivity gains through expanding the level and array of price incentives for worksharing? If not, please explain your answer.

Response:

No, I do not accept that worksharing has limited the Postal Service's ability to capture productivity gains in any material way. Worksharing has relieved the Postal Service of the need to hire tens, perhaps hundreds, of thousands of workers, and it has likewise relieved the Postal Service of the need for substantial investment in facilities and equipment that would be needed if it had to process mail that is currently workshared. This should have enabled the Postal Service even more to focus both its investment and its research and development efforts (before that group was abolished). The Postal Service can do many things to increase productivity, but it must realize that achieving such productivity gains is likely to require both skillful management and additional capital investment.

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USPS/ANM-T1-4. During the three decades covered by Table 1 of ANM-T-1, how would you characterize combined Postal Service/Mailer(s) productivity? Would you say this combined productivity has increased more or less than Postal Service TFP? Please explain your answer fully.

Response:

I cannot accept a premise of the question: that the productivity of the Postal Service and its customers can meaningfully be "combined." Although the outputs of the Postal Service are inputs to its customers, the Postal Service and its customers are completely separate economic agents. Mailers have no ownership in or managerial control over the Service, and the Service has no ownership in or managerial control over its customers.

Moreover, the productivity performance of the Postal Service and its customers have been very different. Printing and preparation of mail in the private sector have been characterized by substantial capital expenditures for printing presses, computers, mail inserting and preparation equipment, and other productivity enhancing equipment as well. Following is the full quote from Harry Quadracci, in *Finding Common Ground*, referenced at page 16 of my testimony.

Q? What are the attributes necessary to insure a successful Postal Service?

Quadracci: Innovative. And in order to be innovative in today's world you've got to spend money. Automation is a key to cost control. Over the last 25 years, since I started Quad/Graphics, the CPI has moved at a compounded rate of 5.3 percent per year. Paper prices actually have gone up 5.2 percent per year. First-class postage went up 5.5 percent per year, second- and third-class somewhat higher. But print prices actually went down 1.1

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percent per year over those 25 years, resulting each year in a 6.3 percent productivity increase by the printers, which, passed on, is reflected in the prices of all you are paying for it today.

If we hadn't made those investments in automation your print prices today would be more than five times more than what you're paying. How did we do that? We did it by spending a lot of money – 20 percent of our throughput per year.

I believe that Mr. Quadracci knows what he is talking about, and that productivity in the private sector has increased far more than the Postal Service TFP. Obviously, this means that the “combined” (i.e., averaged) productivity is up, but that is not because of any substantial productivity-enhancing investments made by the Postal Service during the last three decades. If the price of mailpieces had compounded at 5.5 percent for 25 years, those mailpieces would cost 3.8 times what they do today, and mail volume would be far lower than it is. The major “innovation” by the Postal Service has been worksharing, which provides incentive for *others* to make the necessary investments and do the work. As far as it goes, that is fine for large mailers who can take advantage of worksharing, but the Postal Service's continued failure to make economic investment results in shortchanging all those smaller mailers (which includes most nonprofits) who are more dependent on the Postal Service, and who must suffer the higher unit costs that results from the Service's continuing under-investment. Rather than making invidious comparisons with the productivity performance of its downstream customers, the Postal Service needs to focus on getting its own house in order by increasing the productivity of its own services.

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USPS/ANM-T1-5. On page 13 of ANM-T-1 you state that the "Postal Service's reported depreciation expense has averaged 2.4 percent of revenues, far below the national average for nonfinancial corporate business of about 11 percent."

- (a) Please confirm, based on Table 2 of ANM-T-1, that the Postal Service's depreciation expense averages 2.8 percent of revenues for the time period 1997 through 1999. If you cannot confirm, please supply the corrected percentage.
- (b) Please confirm, based on United Parcel Service's 1999 Annual Report, that UPS' depreciation expense averaged 4.5 percent of revenues for the time period 1997 through 1999. If you cannot confirm, please supply the corrected percentage.
- (c) Also based on United Parcel Service's 1999 Annual Report, please confirm that about 25 percent of UPS' undepreciated assets are Aircraft (including aircraft under capitalized leases). If you cannot confirm, please supply the corrected percentage.
- (d) Please confirm that the Postal Service that [sic] none or essentially none of the Postal Service's assets are aircraft. If you cannot confirm, please identify the portion of the Postal Service's assets that you believe are aircraft.
- (e) Please confirm that the Postal Service contracts out virtually all of its inter-city surface transportation. If you cannot confirm, please identify what portion of the Postal Service's inter-city surface transportation you believe to be performed with Postal Service owned vehicles.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Annual reports of the Postal Service do not provide a breakdown of assets by type, but it is my understanding that virtually none of the Postal

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Service's capitalized assets consist of aircraft. It strikes me that the absence of any need to invest in a fleet of aircraft (and manage and operate such a fleet) should have facilitated, rather than retarded, the Postal Service's investment in modernizing the facilities and equipment for its core mission of processing the mail.

- (e) It is my understanding that the Postal Service contracts for a substantial portion of inter-city transportation, but I do not possess authoritative data that would enable me to confirm. It strikes me that the fact that the absence of any need to invest in a fleet of trucks for inter-city transportation (and manage and operate such a fleet) should have facilitated, rather than retarded, the Postal Service's investment in modernizing the facilities and equipment that are at the heart of its core mission, which is processing the mail.

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USPS-ANM-T1-6. At page 16 of ANM-T-1 you state that Quad/Graphics "has spent approximately 20 percent of its revenue on investment in automation over the past 25 years. Do you agree that Quad/Graphics is a printer? If not, explain fully.

Response:

It is my understanding that over the past 25 years the primary business of Quad/Graphics has been printing.

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USPS/ANM-T1-7. At page 17 of ANM-T-1, Table 3, you compare actual vs. planned Postal Service Capital Commitments for the period 1988 through 1999 (the reference to "1968" in the title is apparently a typographical error).

- (a) Do you agree that the Postal Service's actual capital commitments have trended upwards during this twelve-year period? If not, please explain.
- (b) Assume that commitment of funds for a major mail process [sic] facility was twice delayed, first to allow continued negotiations with local zoning officials concerning location and sites [sic] plans, and secondly to address the environmental issues. How would the shortfalls for this capital commitment be accounted for in your Table 3 and Appendix A?

Response:

- (a) As shown in my Appendix A, Table A-1, column 3, actual capital commitments have trended upward from the extremely low level of commitments over the 1988-1994 period. For those mailers who are faced with higher unit costs in this rate case because of past underinvestment (and the disruptive internal reorganization which is also blamed for the higher unit cost), it is little consolation to say that the underinvestment was even more severe in the past.
- (b) An occasional delay of the type described in the question, which extends beyond the end of the fiscal year,¹ is perhaps inevitable in a major construction and building purchase program, but such delays do not

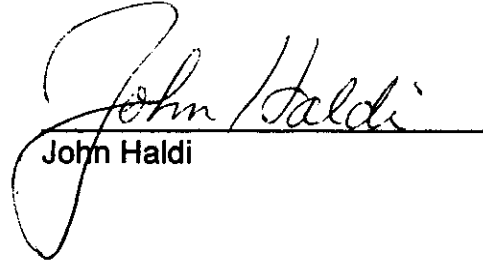
¹ If the reasons for the delay were resolved within the fiscal year, the commitment presumably would be made, and there would be no difference between "plan" and "commitment."

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begin to account for a total shortfall in the magnitude of \$11.6 billion (see my Appendix A, Table A-1, column 3). Nor do such delays account for any of the \$5.7 billion shortfall in mail processing equipment (41.7 percent of all planned commitments (see my Appendix A, Table A-2, column 5), or the \$1.5 billion shortfall in mail processing equipment (31.2 percent of all planned commitments (see my Appendix A, Table A-7, column 5).

DECLARATION

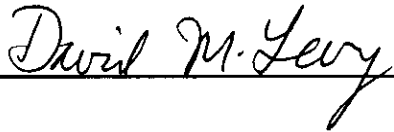
I, John Haldi, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


John Haldi

Dated: 6.22.2000

CERTIFICATE OF SERVICE

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



June 22, 2000