

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

POSTAL RATE AND FEE CHANGES, 2000 )

RECEIVED  
JUN 27 4 08 PM '00  
Docket No. R2000-1  
OFFICE OF THE SECRETARY

RESPONSE OF ASSOCIATION OF PRIORITY MAIL USERS, INC.  
WITNESS JOHN HALDI TO INTERROGATORIES OF  
UNITED STATES POSTAL SERVICE (USPS/APMU-T1-1-2 and 5-24)  
(June 27, 2000)

Association of Priority Mail Users, Inc. ("APMU") hereby provides responses of witness John Haldi to the following interrogatories of United Parcel Service: USPS/APMU-T1-1-2 and 5-24, filed on June 13, 2000. Each interrogatory is stated verbatim and is followed by the response. Responses to interrogatories USPS/APMU-T1-3-4 are not being filed at this time pursuant to an agreement with the Postal Service.

Respectfully submitted,



William J. Olson

John S. Miles

WILLIAM J. OLSON, P.C.

8180 Greensboro Drive, Suite 1070

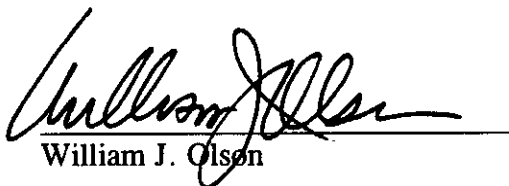
McLean, Virginia 22102-3860

(703) 356-5070

Counsel for Association of Priority Mail Users, Inc.

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.



William J. Olson

June 27, 2000

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-1.**

Refer to your testimony at pages 11-13 where you discuss the PMPC network.

- a. Is it your understanding that ten Priority Mail Processing Centers (PMPCs) were operated by Emery Worldwide Airlines under contract to the Postal Service during all of FY 1999? If not, please explain.
- b. Is it your understanding that some of the existing 10 PMPCs were not fully operational during a portion of FY 1998? If not, please explain.

**Response:**

- a. Yes.
- b. Yes.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-2.**

Refer to APMU-T1-1 at 19, lines 16-18. Provide all supporting documentation, including data on the change in Priority Mail market share over time, to support your statement that: "In the case of Priority Mail, much of the business for heavier weight packages (over 5 pounds) appears to have migrated already to other providers."

Response:

See Docket No. R97-1, *Opinion & Recommended Decision*, paras. 5305-07; Docket No. R97-1, NDMS-T-2, p. 24, Table 2; Docket No. R97-1, USPS-T-33, Exhibit USPS-33K, p. 1; Docket No. R2000-1, USPS-T-34, Attachment A, p. 7; Docket No. R94-1, N-DP/USPS-T11-26 (Tr. 7A/3100); Docket No. R97-1, NDMS/USPS-T33-25 (Tr. 4/1968); Docket No. R2000-1, APMU/USPS-T34-17. *Also see* the analysis in Docket No. R97-1, NDMS-T-2, to see how my conclusion is drawn from these data.

It is noteworthy that, while Priority Mail's market share has dropped from 72 percent in 1993 to 62 percent in 1998, zoned Priority Mail has dropped from 5.1 percent of all Priority Mail to 4.1 percent during this same period. These data further support an evident decrease in Priority Mail's market share that weigh more than 5 pounds.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-5.**

Refer to your testimony at page 35 where you discuss FedEx's federal government contract rates. Please provide all data, studies or other information demonstrating that FedEx's government contract rates are similar to the discounted rates that FedEx or other competitors offer non-governmental customers.

Response:

See response to UPS/APMU-T1-8.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-6.**

Refer to your testimony at page 40 where you discuss the potential reduction in volume due to the implementation of the Postal Service's proposed rates. Do you agree with witness Musgrave's analysis of the impact of the USPS-proposed Priority Mail rates on Priority Mail volume? If not, discuss in detail the reasons for your opinion, and provide empirical evidence to support your forecast.

**Response:**

In my opinion, witness Musgrave has done a credible job with the data and information available to him. At the same time, any econometric model necessarily makes a number of implicit, fundamental assumptions that potentially limit applicability, and the limitations imposed by these assumptions need to be kept in mind.

First, an econometric model is composed of a number of independent variables and the estimated parameters are derived from historical data for those variables. An econometric model attempts, usually on an *a priori* basis, to identify and include all of the most important independent variables. Obviously, the model is only as good as, and can be no better than, the variables which it includes. In this regard, I would note that witness Musgraves' model has no variables for the prices actually charged by any of the competitors for Priority Mail. I do not fault witness Musgrave for this omission, because no data are available (see my response to UPS/APMU-T1-8). At the same time, my economic training, as well as discussions with members of APMU, tells me that the price of close competing substitutes is an important predictive variable.

The aim of an econometric model is to capture the underlying statistical relationship that has existed between the independent variables and the dependent variable. The model

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

makes the implicit assumption that prior structural relationships captured by the parameters will continue in the future relatively unchanged; *i.e.*, an accurate forecast of the independent variables will result in a good forecast for the dependent variable. The forecast of the dependent variable thus depends both on (i) the extent to which the underlying structure has been captured by the independent variables in the model and (ii) the accuracy of the forecasts of these variables.

I would characterize my position not so much as one of disagreeing with witness Musgrave's analysis, but as one consisting of strong reservations about it. My strongest reservations are based on the failure of the model to include the price of close competing substitutes. The field of complexity analysis discusses a phenomenon sometimes described as "tipping" effect. Succinctly, what appears to be a small shift in the measured variables causes a major structural change which may be irreversible (see my response to UPS/APMU-T1-15 for additional discussion).<sup>1</sup> Unfortunately, aside from the FedEx Government rates contained in Appendix B of my testimony, I do not have any other empirical evidence to offer on the negotiated contract prices of closes substitutes. However, the existence of the FedEx Government rates until September, 2001, should be interpreted as "a warning shot across the bow" (to use a naval analogy).

As noted in Appendix C of my testimony, for any given weight and distance, computer programs readily enable comparisons among various providers, and from

---

<sup>1</sup> An example of a tipping effect would be, figuratively speaking, the "straw that breaks the camel's back."

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

discussions with various Priority Mailers, I am aware of several who, in an effort to keep down their shipping cost, regularly split their shipments among alternative providers.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-7.**

Other than the FedEx federal government rates provided in Appendix B to your testimony, provide all rate tables or other data for USPS competitors that demonstrate that "[t]he negotiated rates offered by competitors... may already be dangerously close to undercutting existing Priority Mail rates" [APMU-T1 at 42, lines 3-5].

**Response:**

See response to UPS/APMU-T1-8.



**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-8.**

Confirm that  $168\% * \$1.90 = \$3.19$ . If not confirmed, please explain fully.

Response:

Confirmed that 168 percent of \$1.90 is \$3.192.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-9.**

Refer to page 8, lines 5-6 of your testimony.

- a. Confirm that you state that "[Priority Mail] coverage should be restricted to about the same level established by the Commission in Docket No. R97-1." If not confirmed, please explain fully.
- b. Confirm that the PRC Docket No. R97-1 recommended Priority Mail cost coverage and Priority Mail rates are based on estimated Priority Mail costs developed using the Postal Rate Commission's Docket No. R97-1 costing methodology. If not confirmed, please explain fully.
- c. Confirm that the allocated unit costs you use in rate design are based on Attachment H of USPS witness Robinson's testimony which incorporate the costing methodology proposed by the Postal Docket No. R2000-1. If not confirmed, please explain fully.
- d. Refer to USPS-LR-1-131, PRC Version/Rollforward Model and USPS witness Kashani's testimony (USPS-T14). Confirm that the Postal Rate Commission's Docket No. R97-1 costing methodology and the Postal Service's Docket No. R2000-1 costing methodology result in different estimates of Test Year Priority Mail costs. If not confirmed, please explain fully.

**Response:**

- (a) Confirmed. Specifically, my recommendation (as I state at p. 54, ll. 3-5) is that the Commission should restrain the cost coverage, to help ameliorate the damage to Priority Mail from rapidly increasing costs, and give Priority Mail an opportunity to recover from the extraordinary costs of a contract that will expire after the test year in this case, but well before any new rate case is filed.
- (b) Confirmed.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

- (c) Confirmed that the allocated unit costs used in my rate design are based on Attachment H of USPS witness Robinson's testimony. I cannot attest as to the methodology used by witness Robinson, but it would be logical to anticipate that the costs which she presented in this docket reflect the costing methodology proposed by the Postal Service in this docket.
- (d) Confirmed.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-10.**

Refer to your testimony at page 62, lines 8-10 where you state: "Some mailers use Priority Mail to dropship (and expedite) smaller items of different mail classes to destinating SCFs (and, perhaps on occasion, to DDU's)."

- a. Please provide all data, analyses, or other documentation available to you that quantify the total number of Priority Mail pieces that are used to "dropship (and expedite) smaller items of different mail classes."
- b. Please provide all data, analyses, or other documentation available to you that quantify by type of destination facility (DSCF, DDU or other facilities) the number of Priority Mail pieces that are used to "dropship (and expedite) smaller items of different mail classes."
- c. Please provide all data, analyses, or other documentation available to you that quantify by mail piece type or container (sack, tray, or other container) the number of Priority Mail pieces that are used to "dropship (and expedite) smaller items of different mail classes."
- d. Please provide all data, analyses, or other documentation available to you that quantify by mail class or subclass, the number of "smaller items" enclosed within these Priority Mail pieces.
- e. Please provide all data, analyses, or other documentation available to you that quantify by mail class or subclass, the average number of "smaller items" enclosed within one of these Priority Mail pieces.

**Response:**

- (a)-(e) Neither I nor APMU have any data responsive to your request.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-11.**

Refer to your testimony at page 62, lines 10-12 where you state: "At the DSCF, Priority Mail sacks are opened and the items within are then entered as Standard A Mail, or another class."

- a. Is it your understanding that Priority Mail pieces and pieces mailed under other mail classes may be processed in different areas of a plant?
- b. What is the cost of opening a Priority Mail piece within the destination DSCF? Please provide all supporting analysis.
- c. What is the cost of identifying, by class of mail, the required processing operation for the mail enclosed within the Priority Mail piece? That is, what is the cost of determining, for example, that the enclosed pieces must be processed in the appropriate operations with the plant's other Standard Mail (A)? Please provide all supporting analysis.
- d. Do the costs referred to in part c vary depending on the class of mail that is enclosed within the Priority Mail piece? Please explain fully.
- e. What is the cost of moving the enclosed mail pieces to the appropriate operation within the plant? Please provide all supporting analysis.
- f. Are there any circumstances where the enclosed mail may need to be transported to another postal facility in order to be processed? Please explain fully.
- g. What is the cost of transporting the enclosed mail pieces to another facility in order to be processed? Please provide all supporting analysis.

**Response:**

- (a) It is my understanding that individual mailpieces, whether Priority Mail or other classes and subclasses, may be processed in different areas of a plant.
- (b) I assume this question refers to "Priority Mail sacks" rather than "Priority Mail pieces." I assume that the cost of opening and shaking out a sack of

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

Priority Mail is similar to the cost of opening and shaking out sacks of other classes of mail. No paperwork is associated with such dropshipped mail; *i.e.*, no form 8125 is required for pieces that are dropshipped by Priority or Express Mail.

- (c)-(d) To identify the class of mail contained within the Priority Mail sack, the clerk or mailhandler has to read the tag on the enclosed (white) sacks. I do not know how much it costs to read the tag on sacks of mail received at a DSCF, but I doubt whether the cost varies by class of mail within the sack.
- (e) I do not know the costs of transporting mail within the postal facility following receipt at the DSCF, but I would expect such costs to vary depending upon whether the plant has an annex to which the pieces must be transported for processing.
- (f)-(g) It is my understanding that Priority Mail sacks dropshipped to certain SCFs may contain sacks of mail to other nearby 3-digit locations served by one designated plant. It is my further understanding that the reason for putting smaller sacks within a larger sack is that this procedure is prescribed by the Postal Service (see the DMM, Section L005).

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-12.**

Please provide all data, analysis or other documentation supporting your assertion that Priority Mail pieces destinating at an SCF "travel longer distances" [APMU-T1 at 62, line 13] than a typical Priority Mail piece.

Response:

Over 45 percent of the FY 1998 Priority Mail volume was to Local/Zones 1,2,3. However, logically a dropship mailer will use surface transportation for such zones (many dropship mailers use surface transportation for even longer distances — *see* FGFS-A-T-1, VP-CW-T-1, as well as the testimony of parcel consolidators from prior dockets). On this basis alone, it is reasonable to conclude that Priority Mail pieces destinating at an SCF travel longer distances than the typical Priority Mail piece.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-13.**

On page 62, line[s] 12-13 you state that "dropship packages of this type tend to fall in the heavier, zoned weight range."

- a. Please provide all data, analysis, or other documentation on the average weight of Priority Mail pieces destinating at an SCF.
- b. Please provide all data, analysis, or other documentation on the weight distribution of Priority Mail pieces destinating at an SCF.
- c. Please provide all data, analysis, or other documentation on the zone distribution of Priority Mail pieces destinating at an SCF.

**Response:**

- (a)-(c) I understand from one mailer that uses Priority Mail for drop shipment that the average weight of their sacks is 25 pounds. A second mailer informs me that the average weight of their sacks is 35 pounds. Other than that, neither I nor APMU have any data responsive to your request.



**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-14.**

Currently, Priority Mail may be used to dropship (or expedite) smaller items of different mail classes "from the origin post office to the destination post office of the shipment" [(DMM D071.2.1)].

- a. Do you restrict your proposed discount to Priority Mail pieces destinating at a SCF?
- b. If not, why is it appropriate for the same discount to be applied to pieces dropshipped to differing types of facilities (i.e., DSCF, DDU)?

**Response:**

- (a) Yes. On page 63, lines 3-4, the phrase "or the DDU" is in error and should be deleted.
- (b) Not applicable. I am not personally aware of any Priority Mail users who drop ship to DDUs, and it is my impression that there is very little (if any) Priority Mail dropshipped to DDUs. To comport with the simplicity criterion, § 3622(b)(7), an SCF-only dropship discount is recommended at this time.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-15.**

Refer to DMM E652.1.3

- a. Confirm that to qualify for DSCF Parcel Post rates, the pieces in the mailing must be part of a single mailing of 50 or more pieces. If not confirmed, please explain fully.
- b. Do you propose that this requirement apply to Priority Mail destinating at an SCF that is eligible for your proposed discount? If not, why not?
- c. Confirm that to qualify for DSCF Parcel Post rates, the pieces deposited at the DSCF must be addressed for delivery within the ZIP Code ranges that the applicable entry facility serves. If not confirmed, please explain fully.
- d. Do you propose that this requirement apply to Priority Mail destinating at an SCF that is eligible for your proposed discount? Please explain fully.
- e. Confirm that to qualify for DSCF Parcel Post rates, the pieces deposited at the DSCF must be presorted to the 5-digit level.
- f. Do you propose that this requirement apply to Priority Mail destinating at an SCF that is eligible for your proposed discount? Please explain fully.

**Response:**

- (a) Confirmed.
- (b) Sacks of drop shipped Priority Mail originate at a plant. While there may be a separate manifest for each sack, all pieces in all sacks going out at one time constitute "the mailing." From this perspective, typically there are thousands of pieces in each mailing, considerably above the 50 pieces mentioned in the question to part a, and also considerably above the minimum required for a Standard A mailing. The requirement should be that the contents of the dropshipped Priority Mail sack(s) meet the

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

requirements for the appropriate subclass; e.g., if the contents are Standard A, the requirements for a Standard A should be met.

- (c) Confirmed.
- (d) A Priority Mail piece destinating at an SCF should follow the requirements in DMM L005, which prescribes the 3-digit sortation and requires that mail addressed to some 3-digit locations be segregated in separate white sacks that are to be included in an orange Priority Mail sack to the 3-digit location that serves certain others.
- (e) Confirmed.
- (f) No; see my response to preceding part (d).

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-16.**

Refer to your testimony at page 62, lines 19-20, where you state: "heavier weight pieces in excess of 5 pounds, shipped to zone 5 or farther, result in relatively high unit profits."

- a. Confirm that, under your proposed rate design, the contribution to institutional costs for heavy-weight, Priority Mail pieces is 170%. If not confirmed, please explain fully.
- b. Confirm that under your proposed rate design, the average contribution to institutional costs for Priority Mail is 168%. If not confirmed, please explain fully.
- c. Please explain fully how, under your proposed rate design, Priority Mail pieces used to drop ship or expedite other classes of mail "will result in relatively high unit profits."

**Response:**

- (a) Confirmed.
- (b) Confirmed.
- (c) See the attachment to my response to this question, which shows the result of subtracting from my proposed Priority Mail rates (i) the allocated unit costs (using USPS methodology), and (ii) my proposed destination entry discounts. It can be readily observed that the unit profit increases for pieces that weigh above seven pounds, or travel farther than zone 4. For many rate cells, the unit profit exceeds the gross revenue for a one- or two-pound piece (\$3.45 and \$3.85 respectively, at Postal Service proposed rates, and \$3.00 and \$3.75 at my proposed rates). Although Priority Mail rates are examined here in isolation, it is worth mentioning that the contents of a Priority Mail

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

dropshipped sack also pay the SCF rate for each individual piece. Mailers who use Priority Mail dropship pay a significant premium over Standard A rates to avoid the BMC, expedite their mail, and (hopefully) obtain more consistent delivery.

**Priority Mail**  
**Unit Profits from Destination Entry**

APMU Proposed Rates (unrounded) - Allocated Unit Costs, including  
contingency - Proposed Destination Entry Discount

Weight (Pounds)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
6	2.41	1.97	1.96	1.81	1.50	1.02
7	2.29	2.06	2.10	2.04	1.96	1.83
8	2.16	2.15	2.23	2.27	2.41	2.64
9	2.03	2.25	2.36	2.50	2.87	3.45
10	1.91	2.18	2.25	2.73	3.35	4.26
11	1.38	2.03	2.10	2.50	3.31	4.67
12	1.36	2.28	2.36	2.79	3.68	5.08
13	1.33	2.53	2.62	3.09	4.05	5.57
14	1.49	2.78	2.88	3.38	4.41	6.05
15	1.65	3.03	3.13	3.67	4.78	6.53
16	1.81	3.29	3.39	3.96	5.15	7.02
17	1.96	3.54	3.65	4.26	5.51	7.50
18	2.12	3.79	3.90	4.55	5.88	7.98
19	2.28	4.04	4.16	4.84	6.25	8.47
20	2.44	4.29	4.42	5.13	6.61	8.95
21	2.20	4.14	4.27	5.03	6.58	9.03
22	2.35	4.39	4.53	5.32	6.95	9.52
23	2.51	4.64	4.79	5.61	7.31	10.00
24	2.67	4.89	5.04	5.90	7.68	10.48
25	2.83	5.14	5.30	6.20	8.05	10.97
26	2.99	5.39	5.56	6.49	8.41	11.45
27	3.14	5.64	5.81	6.78	8.78	11.93
28	3.30	5.89	6.07	7.08	9.15	12.42
29	3.46	6.14	6.33	7.37	9.51	12.90
30	3.62	6.39	6.58	7.66	9.88	13.39
31	3.47	6.34	6.54	7.65	9.95	13.57
32	3.63	6.59	6.80	7.95	10.31	14.05
33	3.79	6.84	7.05	8.24	10.68	14.54
34	3.95	7.09	7.31	8.53	11.05	15.02
35	4.11	7.34	7.57	8.82	11.41	15.50
36	4.26	7.59	7.83	9.12	11.78	15.99
37	4.42	7.84	8.08	9.41	12.15	16.47
38	4.58	8.09	8.34	9.70	12.51	16.95
39	4.74	8.34	8.60	10.00	12.88	17.44
40	4.90	8.59	8.85	10.29	13.25	17.92
41	4.80	8.59	8.86	10.33	13.36	18.15
42	4.96	8.84	9.12	10.62	13.73	18.64
43	5.12	9.09	9.37	10.92	14.10	19.12
44	5.28	9.34	9.63	11.21	14.46	19.61
45	5.44	9.59	9.89	11.50	14.83	20.09
46	5.59	9.85	10.14	11.79	15.20	20.57
47	5.75	10.10	10.40	12.09	15.56	21.06
48	5.91	10.35	10.66	12.38	15.93	21.54
49	6.07	10.60	10.91	12.67	16.30	22.02

**Priority Mail**  
**Unit Profits from Destination Entry**

APMU Proposed Rates (unrounded) - Allocated Unit Costs, including  
contingency - Proposed Destination Entry Discount

Weight (Pounds)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
50	6.22	10.85	11.17	12.97	16.66	22.51
51	6.13	10.85	11.18	13.01	16.78	22.74
52	6.29	11.10	11.43	13.30	17.15	23.22
53	6.45	11.35	11.69	13.59	17.51	23.71
54	6.61	11.60	11.95	13.89	17.88	24.19
55	6.76	11.85	12.20	14.18	18.25	24.67
56	6.92	12.10	12.46	14.47	18.61	25.16
57	7.08	12.35	12.72	14.76	18.98	25.64
58	7.24	12.60	12.98	15.06	19.35	26.12
59	7.40	12.85	13.23	15.35	19.71	26.61
60	7.55	13.10	13.49	15.64	20.08	27.09
61	7.46	13.10	13.50	15.69	20.20	27.33
62	7.62	13.35	13.75	15.98	20.56	27.81
63	7.78	13.60	14.01	16.27	20.93	28.29
64	7.94	13.85	14.27	16.56	21.30	28.78
65	8.09	14.10	14.52	16.86	21.66	29.26
66	8.25	14.35	14.78	17.15	22.03	29.74
67	8.41	14.60	15.04	17.44	22.40	30.23
68	8.57	14.85	15.29	17.73	22.76	30.71
69	8.73	15.10	15.55	18.03	23.13	31.19
70	8.88	15.35	15.81	18.32	23.50	31.68

Sources: APMU Proposed Rates, APMU\_W\_S\_1, Tab 1-70 lbs, Table 9.  
Allocated Unit Costs, APMU\_W\_S\_1, Tab 1-70 lbs, Table 1.  
Proposed Destination Entry Discounts, APMU-T-1, Table 11.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-17.**

Confirm that a mailer entering one piece of Priority Mail destinating at an SCF will be eligible for your proposed discount. If not confirmed, explain fully.

Response:

Confirmed. I did not include any minimum volume of Priority Mail to an individual SCF for two reasons. First, all mailers who to my knowledge currently use Priority Mail for dropshipment to DSCFs enter large numbers of sacks that would be well above any minimum that I would consider, and I cannot see the likelihood of mailers shifting to Priority Mail dropshipment if there were not significant daily volume. Second, I believe that Priority Mail dropship has considerable potential and is a product that the Postal Service should actively promote. Erecting a barrier in the form of a minimum number of sacks to an individual SCF would be counter-productive to the introduction and promotion of such a new product.



**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-18.**

Under your proposal, will a mailer who enters Priority Mail that (i) destinate at an identified facility, and (ii) does not include other classes of mail, be eligible for your proposed Priority Mail drop ship discount? Please explain fully.

**Response:**

No. The discount is limited to the use of Priority Mail for dropshipment; that is, to transport (expedite) the delivery of a sack containing mail of a different class to a DSCF. Mailpieces that destinate at an identified facility and do not include any other class of mail (*e.g.*, are delivered to the addressee via a post office box or firm holdout) would not qualify for the discount.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-19.**

Do Priority Mail sacks used for drop shipment of other classes of mail have the same cost characteristics as other Priority Mail pieces of a similar weight? Please explain fully.

Response:

Insofar as the Postal Service has not isolated and identified the cost characteristics of various shapes of parcels, I have no basis upon which to contrast the cost characteristics of sacks to those of other parcel shapes of the same weight.

I would note, though, that transportation cost constitutes a large portion of the cost of zoned parcels that move by air, and air transport cost is dependent solely upon the weight and distance traveled, not shape (see USPS response to APMU/USPS-T-34-1, redirected from witness Robinson). To my knowledge, the Postal Service has not presented in any proceeding before the Commission any detailed cost models for Priority Mail corresponding to, for example, the detailed cost models for Standard A, or any data that show differential cost by shape. There are definitely costs associated with moving Priority Mail from the DSCF to the DDU and thence to the addressee, but I have no data or model by which to compare the cost of moving sacks beyond the DSCF to the cost of moving other shapes beyond the DSCF. However, I can think of no reason why sacks should be less expensive than other shapes. Hence, costs avoided by sacks should be at least on par with costs avoided by other shapes of equal weight.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-20.**

Refer to your testimony on page 71, lines 17-18 where you state: "... witness Plunkett states that the implicit coverage on his proposed Parcel Select SCF rates is 113 percent. fn. 66 Response to AMZ/USPS-T36-7 (Tr. 11/4985)."

- a. Confirm that the correct reference is AMZ/USPS-T36-14 (Tr. 13/4985). If not confirmed, please explain fully.
- b. Confirm that witness Plunkett's full response to AMZ/USPS-T36-14 is: "As cost coverage is typically calculated at the subclass level, I did not incorporate analysis of implied cost coverages within rate categories into parcel post rate design. My estimate of the Implied cost coverage of DDU parcel post TYAR is approximately 113 percent. [emphasis added]" If not confirmed, please explain fully.
- c. Please explain your basis for using the DDU Parcel Post cost coverage of 113% to estimate the cost of delivering parcels of various weights entered at the SCF.

**Response:**

- (a) Confirmed.
- (b) Confirmed. With respect to the coverage on parcels entered at DSCFs, if Witness Plunkett's answer is interpreted literally, he did not answer the question. I interpreted his answer to be applicable to both DSCFs and DDUs. I do not believe that he deliberately intended to give a responsive answer to part of the question while evading the other part of the question asked.
- (c) See my response to preceding part b. In addition, since (i) witness Plunkett's "estimate of the Implied cost coverage of DDU parcel post TYAR [was] approximately 113 percent," and (ii) witness Maye's cost coverage for

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

Parcel Post is 114.1 percent,<sup>2</sup> I perceived of no reason to think that DSCF parcel post had been signaled out for a significantly higher cost coverage (if the cost coverage is somewhat less than 113 percent, then dividing by 113 percent becomes even more conservative).

---

<sup>2</sup> Exhibit USPS-32B, page 1.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T-21.**

Refer to your testimony on page 72, lines 1-2.

- a. Please explain the basis for your choice of a 75% pass through for the estimated cost savings associated with Priority Mail drop shipment.
- b. Please list all other pass through percentages you considered and explain why these alternative pass throughs were rejected.

**Response:**

- (a) A 75 percent passthrough of the estimated cost avoidance was selected to ensure further that the dropship discounts reflect a conservative estimate of costs avoided.
- (b) I considered all passthroughs from 75 percent to 100 percent (at 5 percent gradients). I selected 75 percent, which I had previously identified as the lowest acceptable passthrough, in the desire to see the discount established. After the discount is implemented, future rate cases can consider the desirability of higher passthroughs based on more accurate cost avoidances based on Priority Mail cost data. A passthrough of less than 75 percent was not considered, in light of the already quite conservative estimate of costs avoided.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-22.**

In constructing your Priority Mail drop shipment discount you assert that "[f]or simplicity (criterion 7), the proposed discounts are in 10-lb increments." Please explain the basis for your selection of 10-lb Increments as opposed to any other increment.

Response:

Beyond considerations of simplicity, as mentioned in my testimony, there was no other reason why 10 pound increments were selected, as opposed to any other increment. Increments of 5 pounds were considered, but 10 pound increments seemed to work just as well, and are simpler. A discount schedule based on 1-pound increments seemed unnecessarily complex.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-23.**

Refer to your testimony at page 72, lines 8-10 where you state "it is reckoned that as much as 10 percent of all zoned Priority Mail pieces over 5 pounds already may be used for this purpose." Please provide all bases for this "reckoning."

**Response:**

This "reckoning" is based upon conversations with APMU members and other Priority Mail shippers who use Priority Mail to dropship other classes of mail.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

**USPS/APMU-T1-24.**

Refer to your testimony at page 72, lines 15-19 where you state "a [Priority Mail drop ship] rate discount would help prevent loss of such SCF destinating Priority Mail volume to alternative carriers which have been better able to compete with Priority Mail entry due to the availability of consolidated national postage payment options which did not previously exist."

- a. Please list all "alternative carriers" that compete with Priority Mail drop shipment.
- b. For fiscal year 1998 (and any other year you may choose), please quantify the number of SCF destinating pieces entered by alternative carriers at the DSCF that otherwise would have been Priority Mail drop shipments. Please provide all supporting data, analyses or other documentation.
- c. For fiscal year 1998 (and any other year you may choose), please quantify the amount of postage revenue lost from SCF destinating pieces entered by alternative carriers at the DSCF that otherwise would have been Priority Mail drop shipments. Please provide all supporting data, analyses or other documentation.
- d. Please provide rate tables (both published and discounted) that show a Priority Mail drop ship discount would allow the Postal Service to compete with these "alternative carriers" on the basis of price.
- e. Please define "consolidated national postage payment options" and explain how the Postal Service differs from these alternative carriers on the basis of these payment options.

**Response:**

- (a) A partial list of such carriers would include Airborne, DHL, FedEx, Emery, UPS and ground transportation by the mailers themselves.
- (b)-(d) I have no data responsive to your request.
- (e) Most other national shipping and delivery organizations, such as FedEx and UPS, offer a national account number service where shipment of articles are



**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

made based on the national account number and all payment for articles shipped under this account number are billed after shipment, at the end of that account's billing cycle. Such organizations also use this option to enclose return shipping bills of lading for merchandise to be returned, thus avoiding the need for a customer to pre-pay returned item shipping in certain situations. For these national accounts, no prepayment of funds must be made, thus avoiding tying up the customer's funds in advance and anticipation of shipping activity.

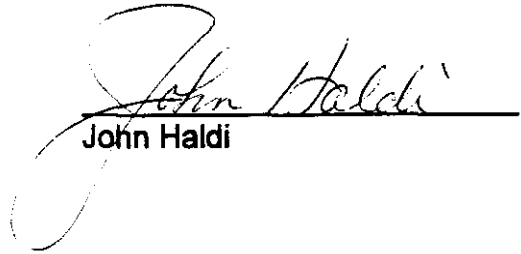
The Postal Service's Centralized Automated Payment System ("CAPS") requires advance deposit prepayment of its mailing permit account based services, such as presort First-Class, or Non-Profit discounted mailings. There have been numerous instances over the years of customer mailings having been held until sufficient funds were made available to pre-pay the mailing, thus causing delay in delivery of such mailings. For such permit based mailings, USPS prepaid accounts must be arranged at **each office where mailings will be tendered**, rather than as single national account number. Although CAPS is a step in the right direction, and an improvement over payment arrangements previously offered by the Postal Service, I would not classify it as state-of-the art when measured against the standard that has been established by the competitive private sector.

**Response of APMU Witness John Haldi to Interrogatory of  
United States Postal Service**

Express Mail does have a national corporate account number system that identifies the Express Mail Account number and provides a statement of mailings during the period. Funds for such accounts, however, still require a level of prepayment. USPS **does not offer** such national account arrangements for Priority Mail service.

**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: June 27, 2000