

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

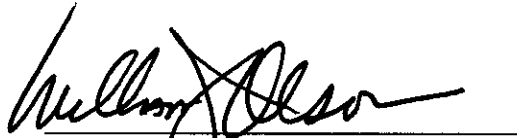
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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY  
Docket No. R2000-1

POSTAL RATE AND FEE CHANGES, 2000 )

RESPONSE OF ASSOCIATION OF PRIORITY MAIL USERS, INC.  
WITNESS JOHN HALDI TO INTERROGATORIES OF  
UNITED STATES POSTAL SERVICE (USPS/APMU-T1-25-28)  
(June 29, 2000)

Association of Priority Mail Users, Inc. ("APMU") hereby provides responses of  
witness John Haldi to the following interrogatories of United States Postal Service:  
USPS/APMU-T1-25-28, filed on June 15, 2000. Each interrogatory is stated verbatim and is  
followed by the response.

Respectfully submitted,

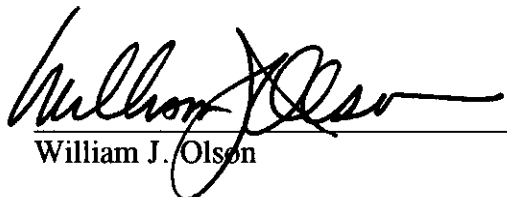


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CERTIFICATE OF SERVICE

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 29, 2000

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

**USPS/APMU-T1-25.**

Refer to your Docket No. R97-1 testimony on behalf of Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc. (NDMS-T-2).

- a. Confirm that you proposed "an alternative procedure to project Test Year After Rates volumes and revenues by applying the estimated own-price elasticity to individual rate cells" [Docket No. R97-1, NDMS-T-2 at 3 lines 5-7]. If not confirmed, please explain fully.
- b. Confirm that you do not propose "to project Test Year After Rates volumes and revenues by applying the estimated own-price elasticity to individual rate cells" in your Docket No. R2000-1, APMU-T-1 testimony. If not confirmed, please explain fully.

**Response:**

- (a) Confirmed. In my testimony on Priority Mail in Docket No. R97-1 (NDMS-T-2, pp. 17-26), I discussed at length my reservations and concerns with the Postal Service's methodology for estimating TYAR volumes and revenues. I continue to believe what I stated in that testimony, that the underlying assumption to this methodology — that the volume projected for each cell, or for a group of cells, does not vary to reflect the rates proposed for the cell or cells in question — is, at best, naive. As I noted in that testimony, under the Postal Service's existing standard procedure, the estimated TYAR volume in each cell does not change, regardless of the rate design, so long as the average rate increase does not change.

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My testimony in the prior docket also discussed the Commission's application of this methodology in Docket No. R94-1. In that docket, the Commission lowered the overall Priority Mail percentage increase, but recommended significantly higher rates (than those proposed by the Postal Service) for the zoned rate cells. Since the overall rate increase had been reduced, the Commission estimated higher projected volumes, which were applied uniformly to each rate cell. Thus, the astonishing net result was that significantly higher rates for the 5- to 70-pound rate cells were expected to result in higher projected volumes, and a corresponding higher revenue projection. Thus, under the Postal Service's standard procedure, **higher rates and higher volumes seemingly go hand-in-hand**. Such a result obviously defies economic logic.

In this docket, the same type of bizarre results from the Postal Service's methodology continue, as is apparent from comparison of the Postal Service's proposed 1-pound and 2-pound rates. The Postal Service's proposed increase to the 1-pound rate would be slightly under 8 percent, while the proposed increase to the 2-pound rate would be slightly over 20 percent — yet the Postal Service estimates each rate category will experience the same percentage decrease in TYAR volume.

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Further, I have heard a number of Priority Mail users explain that they are in almost continual contact with Postal Service competitors, and they regularly split their shipments among various providers (including USPS), depending upon rate, quality of service, and the expectations or requirements of particular customers. Readily-available computer programs now facilitate such comparisons, as discussed in my testimony and illustrated in Appendix C. Consequently, I do not subscribe to the defense of the Postal Service's methodology for projecting TYAR volumes and revenues as expressed in the response to APMU/USPS-T34-16(c).

- (b) In light of the Commission's analysis of my proposal, as expressed in Appendix H of its *Opinion & Recommended Decision* in Docket No. R97-1, I did not resubmitted my proposal in my initial testimony.

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**USPS/APMU-T1-26.**

Refer to your APMU-T-1 testimony at page 72 where you state: "Offsetting this reduction would be revenue from any increase in Priority Mail volume as well as additional revenue from the enclosed pieces..."

- a. Please quantify the "increase in Priority Mail volume" that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.
- b. Please quantify the additional revenue resulting from the "increase in Priority Mail volume" that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.
- c. Please quantify any expected increase in the volume of mail pieces enclosed in Priority Mail drop shipments that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.
- d. Please quantify any expected increase in the revenue from mail pieces enclosed in Priority Mail drop shipments that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.

**Response:**

- (a)-(d) Neither I nor APMU have any data responsive to your request. I would note, however, that Priority Mail dropship has become a profitable niche product for the Postal Service without any promotion or incentive (other than the somewhat slow and inconsistent service given to Standard A Mail). With an incentive and proper promotion, it ought to be able to do even better.

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I would note further that some mailers who use Priority Mail dropship on a daily basis would be included among the Postal Service's larger and more profitable customers. It strikes me as somewhat contradictory for the Postal Service, on the one hand, to argue before Congress that it needs increased rate flexibility for dealing with such large, profitable mailers while, on the other hand, resisting efforts to recognize obvious cost avoidances with appropriate cost-based discounts.

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**USPS/APMU-T1-27.**

Confirm that your proposal for Priority Mail drop shipment does not require any minimum volume of "enclosed pieces" in a Priority Mail drop shipped sack. If not confirmed, please explain fully.

Response:

Confirmed.<sup>1</sup> As indicated in my response to USPS/APMU-T1-16, each piece of dropshipped Priority Mail would be highly profitable to the Postal Service, even after deducting my proposed discount for destination entry. Once the mail is opened, the contents are entered at the SCF as Standard A or some other class or subclass. The Postal Service already has in place procedures for Priority Mail dropship, including presortation and sacking requirements; see my response to USPS/APMU-T1-15.

Those mailers who use Priority Mail for dropshipment to DSCFs typically enter many dozens, sometimes hundreds, of sacks per day; hence, they are entering thousands of pieces of Standard A each day (on some days tens of thousands of pieces), well above the minimum for a mailing of Standard A. Since they pay a premium rate to expedite the mail to the SCF, instead of using USPS surface transportation, I see no need for a minimum number per sack. Also, see my response to USPS/APMU-T1-15.

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<sup>1</sup> There is an implicit minimum of 6 pieces per sack. Since each Standard A piece must weigh no more than 16 ounces (1 lb.), and the minimum for Priority Mail dropshipment must exceed 5 pounds.

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**USPS/APMU-T1-28.**

Refer to your workpapers, APMU-LR-1, worksheet "DSCF", Table II.

- a. Confirm that the source for the column titled "Projected Volumes at APMU Proposed Rates" is APMU-LR-1, worksheet "1-70 Lbs" Table 12. If not confirmed, please explain fully.
- b. Confirm that in APMU-LR-1, worksheet "1-70 Lbs" Table 12, the total number of Priority Mail pieces for weight increments from six to seventy pounds is 60,864,636 pieces. If not confirmed, please explain fully.
- c. Confirm that in APMU-LR-1, worksheet "DSCF" Table II, the total number of Priority Mail pieces for weight increments from six to seventy pounds is 60,346,644 pieces. If not confirmed, please explain fully.
- d. Please explain why the number of Priority Mail pieces for weight increments from six to seventy pounds differs in APMU-LR-1, worksheet "DSCF" Table II and APMU-LR-1, worksheet "1-70 Lbs" Table 12.

**Response:**

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) These tables should reflect identical volumes for Priority Mail weight cells from 6 to 70 pounds. An error was made in the creation of APMU-LR-1, worksheet "DSCF", Table II, which incorrectly imported volumes from a previous working model of worksheet 1-70 Lbs., Table 12. The appropriate adjustments have been made and the hard copy and electronic copy versions of APMU\_W\_S-1.xls will be re-submitted. In worksheet DSCF, the total



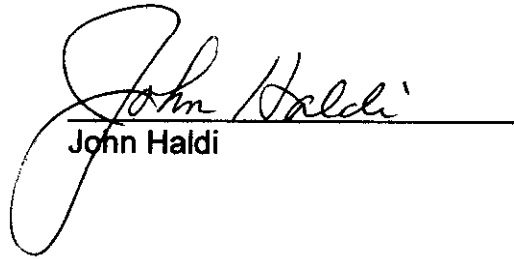
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volume increases to the amount cited in part b, and the reduction in revenue increases by \$84,689, or from \$9,866,429 to \$9,951,118.

This inadvertent error also causes two minor revisions to APMU-T-1 on pages 72 and 74. An errata will be filed.

**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 29, 2000