

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

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POSTAL RATE AND FEE CHANGES, 2000)

Docket No. R2000-1
OFFICE OF THE SECRETARY

RESPONSE OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC.
WITNESS JOHN HALDI TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/VP-CW-T1-1-23)
(June 30, 2000)

Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc. hereby submit responses of witness John Haldi to the following interrogatories of the United States Postal Service: USPS/VP-CW-T1-1-23, filed on June 16, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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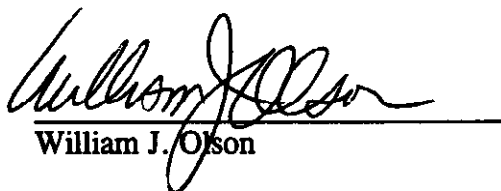
Val-Pak Direct Marketing Systems, Inc.,

Val-Pak Dealers' Association, Inc., and

Carol Wright Promotions, Inc.

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

June 30, 2000

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

- (a) I understand that this question, directed to page 16 of my testimony, intends to refer to my assumption that 60 percent of the tallies in the 3.0 to 3.5 ounce range identify mail items with weights that fall into the 3.0 to 3.3 ounce subrange, *i.e.*, letters, and 40 percent with weights that fall into the 3.3 to 3.5 ounce subrange, *i.e.*, flats. My assumption was not based on any

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Postal Service documents because I was unable to find any documents that provided detail on the number of tallies within the above subranges.

- (b) Cannot confirm. The statement is false for Basic.
- (c) Confirmed.
- (d) Confirmed.
- (e) Confirmed.
- (f) Yes, if they decided to substitute mailing something different from what they are currently mailing. They would have to find a way to reduce the weight, which might be accomplished by using lighter weight paper, or reducing the size and/or contents of the mailpiece. The cross elasticity of substitution between the volume of this "something different" and current mailings may vary quite substantially. Since there is no clear definition of what this "something different" might be under varying conditions, much less statistical estimates of the magnitude of the cross-elasticity under such varying conditions, the simplest assumption seemed reasonable under the circumstances; namely, that within the 3.0 to 3.5 ounce weight range, the number of tallies varies linearly, the assumption I used in my testimony.

Any other "non-linear" assumption would have been at least as arbitrary, if not more so, given the lack of information on the distribution within the 3.0 to 3.5 ounce weight range.
- (g) See my response to part (f).

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VPCW-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.

Response:

- (a) Confirmed.
- (b) I was not the addressee.
- (c) n.a.
- (d) I had personally seen the mailpiece, and it is my understanding that the mailpiece in Exhibit VP-Moeller-XE-1 was delivered, in conjunction with a DAL, to the addressee on the DAL. I do not know what the rest of the question means.
- (e) When delivered, it is my understanding that it included a DAL.

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- (f) No. Page 2 of the cross-examination exhibit is not the DAL; it is the envelope that was inside of the newspaper-type wrap shown in the first page of the exhibit.

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

- (a) Confirmed.
- (b) Confirmed; I am applying this assumption to all ECR nonletters.
- (c) No. My understanding is neither that DAL's are frequently used nor that they are infrequently used. With respect to the second question posed, I am

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unaware of any standards in the DMM. Also see my response to USPS/VP-CW-T1-5.

- (d) No. I was unable to find anyone knowledgeable about the volumes of letter-shaped DAL mailings. I am unaware of any data or statistics available from the Postal Service concerning the volume of DAL mailings of any shape.
- (e) No. I have not been able to locate such studies, analyses, or other data. To the best of my knowledge the Postal Service has not produced any such studies, analyses, or other data concerning the volume or cost of handling DAL mailings.
- (f) No. It was based on the confirmed existence of letter-shaped pieces mailed with DAL's. Given the fact that such mail pieces do exist, together with the absence of any effort by the Postal Service to quantify the frequency of occurrence of such mail pieces, I regard one percent as a conservative minimal estimate of the relevant volume. The Commission's use of this minimal estimate when formulating its recommendations might serve to motivate the Service either to eliminate this irregularity in its operations, or else, to undertake credible statistical estimation of the volumes involved. In my judgment, ignoring the existence of such mailpieces is unfair and inequitable.
- (g) I attach no statistical significance to the presentation format of two significant figures in the text, and wish to state that when utilizing the

**Response of VP-CW witness John Haldi to Interrogatory of
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numerical designation for "one percent," I find a single significant figure entirely acceptable.

- (h) No. My understanding of the instructions in USPS-LR-I-14, Handbook F-45, is that when IOCS tally clerks sample someone handling DALs, they are to record the dimensions of the mailpiece that accompanies the DAL, but they do not indicate that the piece sampled was part of a DAL mailing. Based on this understanding, I do not know how anyone could review IOCS tallies to analyzed any aspect of DAL mailings.

**Response of VP-CW witness John Haldi to Interrogatory of
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USPS/VP-CW-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?

Response:

No. As explained in my response to USPS/VP-CW-T1-3(h), I do not understand how anyone even could begin to analyze either the cost or other characteristics of DAL mailings from the information recorded in IOCS tallies.

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

For the above-referenced statement in my testimony, I relied upon (i) the fact that the Postal Service accepts pieces such as the one in Moeller-XE-1, and (ii) witness Kingsley's response to VP-CW/USPS-T10-7, which states that "Letters cannot be mailed with DALs, so pieces must qualify as and pay the flat rate to be eligible."

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United States Postal Service**

USPS/VP-CW-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.

Response:

Confirmed. The point of my testimony is precisely that a small error in classification can lead to a substantial error in the letter/flat differential. This sensitivity is to be mathematically expected regarding any variable of relatively modest size that is the difference of two substantially larger numbers, and which is doubled when the error involves mistakenly shifting a fraction of one of the larger numbers to the other larger number.

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USPS/VP-CW-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 an 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.

Response:

- (a) See my response to NAA/VP-CW-T1-1(b).
- (b) In this docket, I agree with the desirability of keeping the pound rate for ECR at that for Regular because, having rejected witness Daniel's weight-cost studies, no evidentiary basis exists to support a reduction in the pound rate. Concerning the latter point, see my response to MOAA/VP-CW-T1-2.

**Response of VP-CW witness John Haldi to Interrogatory of
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USPS/VP-CW-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.

Response:

- (a) Confirmed.
- (b) See Docket No. R97-1, *Opinion and Recommended Decision*, ¶5501, where the Commission states that "a higher passthrough would increase basic rates."

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

- (a) Confirmed.
- (b) My understanding of the quantitative support underlying the current pound rate, or any other pound rate that might be proposed by the Postal Service, is that it lacks credibility because the Postal Service has failed repeatedly to produce a credible study of the weight-cost relationship. Given the Service's failure to produce a credible weight-cost study, going back over several rate cases, no substantial deviation from the current rate can be justified, especially not a major reduction in the pound rate while there is an average increase of 4.9 percent for the ECR subclass. Also see my response to MOAA/VP-CW-T1-2.
- (c) See my response to NAA/VP-CW-T1-1. As explained there, I consider the pound rate for Standard A Regular to be an upper bound on the ECR pound rate. I do not maintain that my proposed rate of 66.1 cents is superior to the current rate of 66.3 cents. Should the Commission reject witness Moeller's

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proposed reduction in the pound rate for Standard A Regular, 66.3 cents
would be an appropriate pound rate for ECR in this docket.

**Response of VP-CW witness John Haldi to Interrogatory of
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USPS/VP-CW-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.

Response:

- (a) I am uncertain how to interpret the term "overstated," but I will endeavor to answer the question as best I can. The discounts are based on the Postal Service's avoided transportation and dock handling costs. Based on the large participation in these discounts, it would appear that the Postal Service's avoided costs for transportation and dock handling are high in relation to costs for comparable services available from competitive private sector firms. Those lower costs, in turn, could reflect the fact that private carriers achieve greater utilization of their vehicles than does the Postal Service. Such utilization would likely make private sector transportation more economical than Postal Service transportation (I am informed that vehicle utilization is the key to achieving lower unit costs in ground transportation). Basing the destination entry discounts on Postal Service costs avoided thus promotes lowest combined cost and social efficiency, and

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

under these circumstances I would not describe the discounts as
“overstated.”

- (b) Widespread usage indicates that (i) demand for the discount is elastic, and (ii) the discount is doing what it is intended to do; *i.e.*, promote worksharing, lowest combined cost, and social efficiency. Although elasticity of demand for the discount alone does not determine the appropriate amount of the discount, it is a consideration when establishing the appropriate level of the passthrough. For example, if utilization of the discount were highly inelastic with respect to the level of the passthrough, one might use that fact to argue for a lower passthrough. At the time of Docket No. R97-1, the presorted Priority Mail discount had low utilization. One solution might have been to increase the level of the presort discount in an effort to promote greater utilization, but the other solution, which was used instead, was to eliminate the discount and discontinue presorted Priority Mail.

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

- (a) Confirmed that the absolute amount of the reduction is 7.9 cents, which amounts to a reduction of 11.5 percent. Since piece rates are proposed to go up by an average of over 4.9 percent, in comparison with piece rates, the pound rate is proposed to decline by over 16 percent.
- (b) Confirmed.
- (c)-(d) Confirmed; see my response to MOAA/VP-CW-T1-2 to understand this issue better.

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c)-(d) As explained in my Appendix B, this appear to be the case. Also see my response to NAA/VP-CW-T1-3. To the extent that weight-related costs are included in the existing per piece discounts, this would be the case. To the extent that weight-related costs are not reflected in the existing per piece discounts, the failure to estimate weight-related costs that are avoided by

**Response of VP-CW witness John Haldi to Interrogatory of
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presortation and destination entry would disadvantage heavier weight pieces more than lighter weight pieces.

- (e) No. It is my belief that the destination entry discounts are appropriately based on weight, hence I do not view those discounts as "compensating" for the situations described in subparts (c) and (d).
- (f) Confirmed.
- (g) With respect to piece-rated mail pieces that weigh between less than 3.3 ounces, the Postal Service and the Commission have long followed this practice to prevent anomalies. However, basing the destination entry discounts on a weight of 3.3 ounces can be seen giving a higher passthrough to lighter weight pieces relative to heavier weight pieces. Above the 3.3 ounce breakpoint, the destination entry discounts increase proportionately with weight.

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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?

Response:

- (a) Please refer to my response to USPS/VP-CW-T1-10 and NAA/VP-CW-T1-4.
- (b) No. My testimony, page 23, lines 9-16, gives current fuel price increases as a possible "reason which supports maintaining the passthrough at 85 percent or higher." On page 24, lines 10-13, I state: "Maintaining the passthrough at least equal to 85 percent ... will provide benefits to every category of Standard A ECR Mail...." (Emphasis added.) A passthrough of 100 percent comports with the efficient component pricing paradigm, and is generally considered desirable from the viewpoint of social efficiency. Also see my response to USPS/VP-CW-T1-14.

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

No. A passthrough less than 85 percent will reduce the incentive, and a passthrough of more than 85 percent will increase the incentive. The incentive to dropship varies with the unit cost of sending mail to those destinations to which each mailer wishes to direct mail (for truckload lots, the unit cost of transportation from the private sector will vary with distance and density of the mail; for less-than-truckload lots, the size of the mailing can also be an important consideration). Mailers will be motivated to undertake some destination entry even at low discount levels; *e.g.*, mailers located in the vicinity of an SCF or DDU will dropship such portions of their mail as may be destined for areas served by the respective SCF or DDU. Mailers will arrange to transport their mail to more distant SCF or DDU locations to the extent that the discount exceeds their marginal transport costs. Each mailer can readily compute the distance within which it pays to dropship, and beyond which it pays to enter the mail locally and let the Postal Service transport it.

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Bypassing of BMCs is said to result in more reliable service for Standard A Mail.

Also, many postal facilities are rumored to be overcrowded (especially during busy mailing seasons) and undersized (many facilities have had to open separate annexes). Dropshipped mail that bypasses such facilities relieves the overcrowding and helps the Postal Service improve the service which it provides to all of its customers, including those who cannot take advantage of destination entry. I would further note that the Postal Service is not known to be engaged in any massive construction program designed to increase capacity and relieve congestion. Continued growth in volume could even be more of a bane than a boon for the Postal Service. In my judgment, reduction of the passthrough below 85 percent will adversely impinge on the incentives for a sufficiently broad class of current mailings to make such a reduction ill-advised.

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USPS/VP-CW-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.

Response:

Confirmed.

**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

First, a matter of terminology. If two (or more) weight-cost relationships are thought of as being established by means of a statistical study with a number of observations underpinning each such relationship, I would characterize the relationship with the best statistical fit as the "stronger" relationship, regardless of whether it showed costs increasing more rapidly with weight than the other relationship(s).

As discussed in my Appendix B, the farther that mail has to be transported, and the more that it has to be loaded, unloaded and cross-docked, the more will such mail incur weight-related costs. Thus, for just one of the categories mentioned in your question, several weight-cost relationships will exist. For ECR Saturation Mail, this is illustrated in Figure A, which shows cost on the vertical axis and weight on the horizontal axis. The lowest line, designated "DDU," reflects the (unknown) cost of handling weight within and beyond the DDU. At a weight of 16 ounces (1 lb.), the vertical difference between the lines indicated by "Origin" and "DDU" is the full unit cost difference computed by witness Crum (USPS-T-27) in Attachment B, Table 9 and Attachment C, Table 1 (*i.e.*, \$0.1329 +

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\$0.0399 = \$0.1728). At 16 ounces, the differences between the lines indicated by "DSCF" and "DMBC" are the differences in destination entry costs computed by witness Crum.

A similar chart for Regular Basic Presort would also have multiple weight-cost relationships, depending upon where the mail is entered. Comparisons between any two rate categories, such as those mentioned, without stipulating where the mail is entered within the postal network, is therefore at best, highly complex.

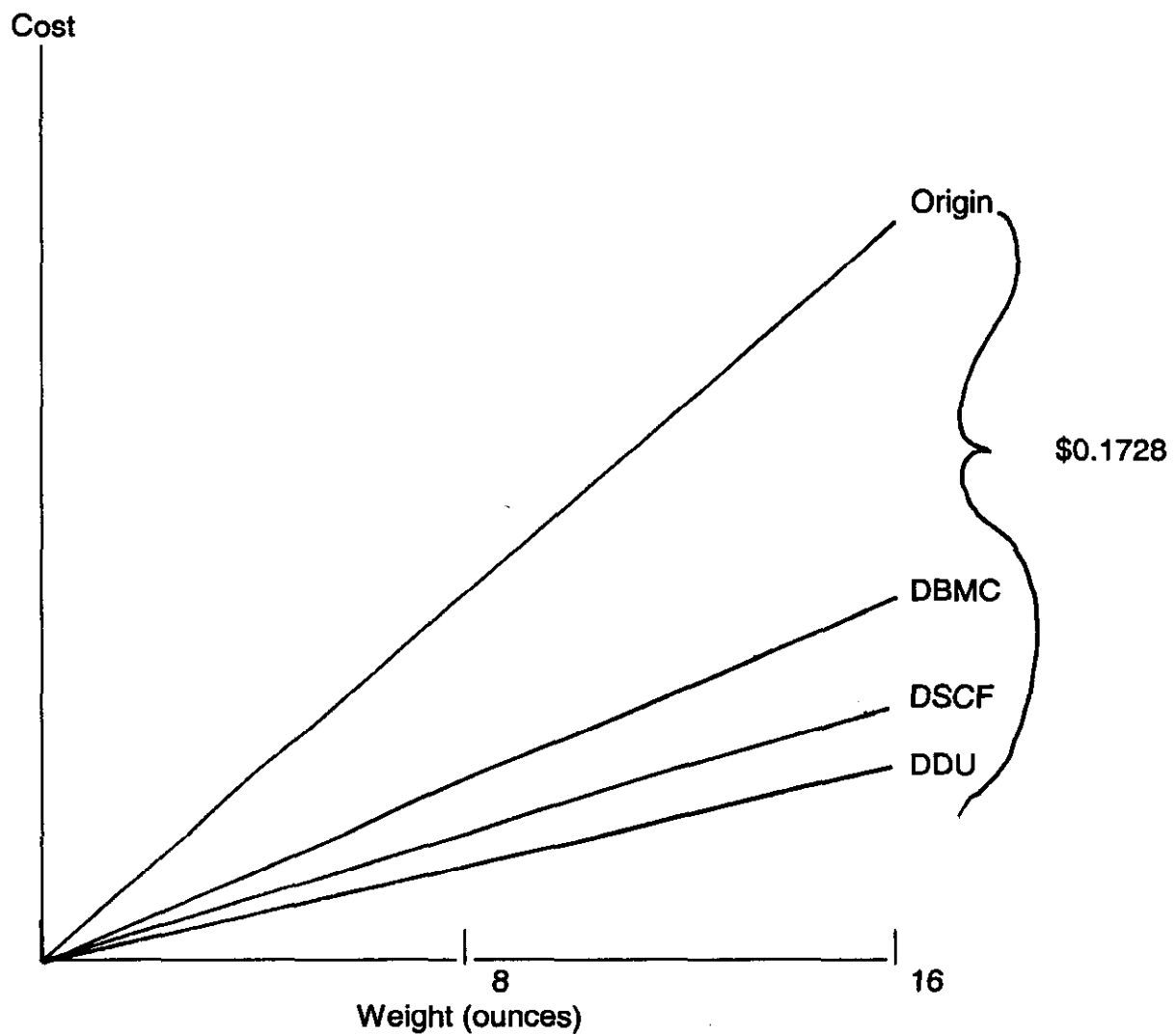
On the assumption that the question posed was intended to ask me to compare two mailings, ECR Saturation with Regular Basic Presort, where both are entered at the same point (*e.g.*, "Origin," the top line in Figure A), then my response is as follows. On a unit cost basis, both mailings would be expected to incur the same transportation and cross-docking costs from Origin to DDU. Further, as explained in my Appendix B, as the Regular Basic Presort mail is processed and moved through facilities intermediate to the DDU, I would expect it to incur some unknown amount of additional weight-related mail processing costs, which is avoided by the ECR Saturation mail by virtue of bypassing all handling within those intermediate facilities. That is, the Regular Basic Presort mail would incur weight-related mail processing costs that are in addition to those incurred by the ECR Saturation mail. Graphically, the line for Regular Basic Presort "Origin" would be above that for ECR Saturation "Origin," and for Regular Basic Presort, I suppose one could say that costs increase "more rapidly" with weight.

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Attachment to Response to USPS/VP-CW-T10-16

Figure A

Weight-Cost Relationships for ECR Saturation Mail



**Response of VP-CW witness John Haldi to Interrogatory of
United States Postal Service**

USPS/VP-CW-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.

Response:

- (a)-(b) I did not need to perform such an analysis when preparing my testimony, and I am not sufficiently familiar with all the activities performed within each MODS cost pool to conduct such an analysis. I do not know whether personnel from one MODS pool or another are responsible for transporting the mail from one operation to the next. The answer to this question would help form the foundation for a study of the type which I propose in my Appendix B, page B-26.

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USPS/VP-CW-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.

Response:

- (a) The phrase “any study,” as it appears at page B-6, line 11, of my testimony is intended to refer to studies of the weight-cost relationship that are based on IOCS tallies and are of the type submitted by the Postal Service in prior dockets, as well as the studies submitted by witness Daniel in this docket.
- (b) My phrase, “randomly mixed tallies,” which you cite, is perhaps too brief. A better (and longer) way to express what I intended would have been the following: “Any study which fails to isolate and analyze separately tallies

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from the least presorted mail to the most presorted mail **randomly mixes different weight-cost relationships** and is likely to yield a result that, at best, is useless and, at worst, is hopelessly confused and even misleading.”

- (c) Agree.
- (d) When workers are observed removing the shrink wrap material from pallets of Standard A Mail, for example, it is only necessary that the subclass (and rate category) of mail be identified in order to trace cost causation reasonably to the subclass (and rate category). An accurate identification can be made from the label(s) on the palletized mail.

I am not entirely certain what you intend by the phrase “other observable categories of mail recorded in IOCS.” On the assumption that you mean other observable characteristics, such as weight, I will endeavor to provide a responsive answer. To use the above example of removing shrink wrap material from pallets of Standard A Mail, it would be necessary for the tally to record the weight of the mailpiece(s). That information, however, is often not readily available. When that occurs, the cost of these tallies is distributed on the basis of other tallies where weight was recorded; *i.e.*, use of a “proxy” is required. Whenever a proxy is used to distribute costs in this manner, an implicit assumption being made is that the weight-cost relationship in the activity where weight was recorded is the same as, or at

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least very similar to, the weight-cost relationship in the function where weight was not recorded. To the best of my knowledge, there has been no study to establish the foundation for such an assumption, and under the circumstances I consider it to be "heroic." It is my opinion that (i) some activities, such as transportation and cross-docking, can properly be considered as almost entirely weight-related, whereas (ii) other activities are properly classified as almost entirely piece-related. Using the latter as proxies to distribute the cost for the former (over the relevant range of different weights for the subclass being studied; *e.g.*, 11 to 13 ounces for First-Class Mail, 16 ounces for Standard A Mail) does not, in my opinion, reasonably trace cost causation to effect of weight.

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USPS/VP-CW-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.

Response:

- (a) I have not performed any analysis of direct tallies.
- (b) Partially confirmed. Where witness Daniel’s response indicates that heavy pieces are more likely to “result in jams,” her reference to “heavy pieces” is in the context of throughput of OCRs and BCSs, which are generally identified with the processing of letters. Elsewhere in that same response, her references are exclusively to letters. Thus, although she mentions “heavy pieces,” she does not appear to be talking about flats. I have also seen it said by Postal Service witnesses that (i) lightweight non-standard shaped letters (*e.g.*, square letters) tend to tumble and cause jams, and (ii) light weight (under 1 ounce) flats, or “flimsies,” cause jams of flat sorting equipment, both of which would tend to equalize the average cost of sorting lightweight pieces in relation to the cost of sorting heavier pieces.

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USPS/VP-CW-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.

Response:

- (a) No, not necessarily. I would note that the question in USPS/VP-CW-T1-19 refers to witness Daniel's response to ABA&NAPM/USPS-T28-28, Tr. 4/1188, citing her many reasons why unit processing may increase, perhaps sharply, as the weight of letters increases and approaches the maximum weight for the Postal Service's automated letter sorting equipment. If witness Daniel is correct, any discontinuity between machine processing and manual sortation may be small, especially for highly presorted letters, and relatively inconsequential.

I would further note that the question asks about "letter-shape" pieces, presumably referring to pieces with letter dimensions that weigh up to 16 ounces, as opposed to "letters," which have had a maximum weight of about

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3.3 ounces (proposed to go to 3.5 ounces for some letters). When studying the weight-cost relationship, it strikes me that relevant data for any pieces that pay the non-letter rate should be included in cost of non-letters; *i.e.*, I am not sure what purpose is achieved by costing separately letter-shaped pieces above the breakpoint.

- (b) No, not necessarily. I assume that the question is referring to light-weight flats that weigh less than one ounce ("flimsies") and pay the nonstandard surcharge. In the hypothetical posed in the question, the cost of processing flats in the 1 to 16 ounce range likely would appear to be monotonic, but not over the 0 to 16 ounce range.

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USPS/VP-CW-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?

Response:

- (a) Confirmed.
- (b) Yes, it would be reasonable to assume that the distribution of letter-shaped mail by 1-ounce increments differs from the distribution of flat-shaped mail by 1-ounce increments.

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USPS/VP-CW-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.

Response:

- (a) Confirmed. See my response to NAA/VP-CW-T1-3. To the extent that weight-related presort cost avoidances are captured through the MODS cost pool analysis, they are distributed on a per piece basis. And to the extent that weight-related cost avoidances exist but are not captured, they are not recognized in the per piece discounts.
- (b) Cannot confirm or disconfirm, because I have not considered the problem in general terms. Moreover, I do not have a clear understanding of what you mean by "offset." In the context of presort discounts versus destination entry discounts, I did not recommend a passthrough in excess of 100 percent, which might be interpreted as some kind of "offset." I did recommend a higher passthrough than witness Moeller as a way of giving

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fuller recognition to weight-related cost avoidance that has been well-
documented and accepted over several rate cases.

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USPS/VP-CW-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.

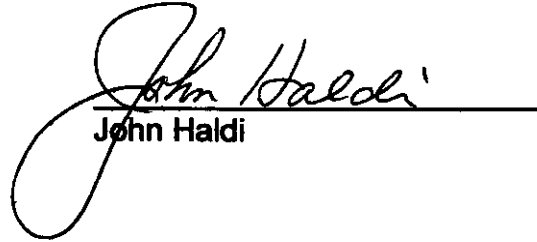
Response:

The issue raised in your question was discussed at some length in my testimony in Docket No. R97-1, VP/CW-T-1, where I developed bottom-up unit costs for each rate cell. In designing rates based on such unit costs, I proposed that a uniform unit contribution sufficient to achieve the revenue target be added to my bottom-up unit costs. This puts all mailers within a subclass on an equal footing as regards unit contribution. At that time I could not think of any rate design principle that would justify deliberately charging mailers who predominantly use one rate cell within ECR a higher (or lower) unit contribution than those mailers who predominantly use some other rate cell.

Let me hasten to add the following qualification. Unless and until the Postal Service faces more competition for delivery, I see no good reason for departing from an equal unit contribution within a subclass. Assuming active competition, however, I could readily imagine circumstances where an equal unit contribution would no longer be appropriate; *i.e.*, the Postal Service would need to adjust rates to protect and preserve those volumes that are most contested. This qualification was also discussed in my prior testimony, but more in the context of comparisons between subclasses.

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 30, 2000