

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

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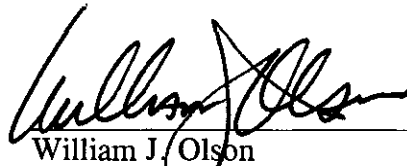
POSTAL RATE AND FEE CHANGES, 2000)

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
MAIL ORDER ASSOCIATION OF AMERICA (MOAA/VP-CW-T1-1-5)
(July 3, 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 Mail Order Association of America: MOAA/VP-CW-T1-1-5, filed on June 19, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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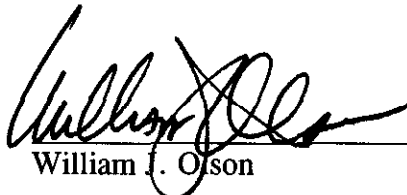
Val-Pak Direct Marketing Systems, Inc.,

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

July 3, 2000

**Response of VP-CW Witness John Haldi to Interrogatory
of Mail Order Association of America**

MOAA/VP-CW-T1-1.

Please confirm the following Standard A Enhanced Carrier Route Pound Rates:

- a). The USPS proposed pound rate for no destination entry of \$0.584 in R2000-1;
- b). Your proposed pound rate for no destination entry of \$0.661 in R2000-1;
- c). The USPS proposed pound rate for no destination entry of \$0.53 in R97-1;
- d). Your proposed pound rate for no destination entry of \$0.53 in R97-1.

Response:

- (a) Confirmed.
- (b) Confirmed. See my response to MOAA/VP-CW-T1-2.
- (c) Confirmed.
- (d) Confirmed. See my response to MOAA/VP-CW-T1-2.

**Response of VP-CW Witness John Haldi to Interrogatory
of Mail Order Association of America**

MOAA/VP-CW-T1-2.

Please explain all reasons for not adopting the USPS' proposal in R2000-1 for the pound rate for Standard A ECR, a rate that is higher than the pound rate you proposed in R97-1.

Response:

My testimony in Docket No. R97-1, VP/CW-T-1, used a "bottom-up" approach to estimate costs for each rate cell (for mail entered at piece-rates). Rates were then developed from the bottom-up unit costs in my testimony. It was my conviction then, and it remains so, that the Postal Service and the Commission would be better served by developing and using bottom-up costs as the basis for setting rates, especially as the Postal Service faces increasing competition both from delivery of hard copy as well as electronic media. For its own reasons, however, the Commission opted not to rely on my approach; see Docket No. R97-1, *Opinion and Recommended Decision*, ¶5374.

A substantial amount of work was involved in developing bottom-up costs in Docket No. R97-1, and it was my desire there to focus on the methodology of developing those costs, and establishing rates based on those costs, without "muddying the waters" with respect to other issues such as the appropriate pound rate. It was for this reason that I elected to recommend the same pound rate as the Postal Service, and this is exactly what my testimony stated. Specifically, at page 52, lines 2-4, I said:

Since the weight-cost relationship is not known with any degree of certainty, it was decided to adopt the Postal Service's proposed rate of \$0.53 per pound for pieces that weigh in excess of the breakpoint.

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In other words, I had absolutely no conviction whatsoever that \$0.53 represented a cost-based pound rate, or in any other way was the “right” rate. In Appendix D to my Docket No. R97-1 testimony I made a considerable effort to explain why the weight-cost study in USPS-LR-H-182 lacked credibility and should not be relied on for ratemaking purposes. In this docket, I find the weight-cost studies of witness Daniel equally lacking in credibility, and I reject using such studies as the basis for making any fundamental change in the pound rate; see Appendix B to my testimony in this docket for further discussion.

**Response of VP-CW Witness John Haldi to Interrogatory
of Mail Order Association of America**

MOAA/VP-CW-T1-3.

In your "Appendix B. The Relationship between Cost and Weight within Standard A Mail" at B-3 (lines 10-13) you critique USPS witness Daniel's weight-cost study for not using USPS witness Crum's results [for] destination entry cost savings.

- a). Did you make any effort to use witness Crum's results to modify and/or restate witness Daniel's weight-cost relationship?
- b). If the answer to a) is yes, please provide your analysis and results.
- c). If the answer to a) is no, please explain how you believe witness Crum's results should be integrated into witness Daniel's costs study.

Response:

- (a) No.
- (b) n. a.
- (c) In Appendix B to my testimony in this docket, I have endeavored to provide a detailed explanation why, in my opinion, the use of IOCS tallies to estimate the effect of weight on cost is **fundamentally flawed**. Before addressing your query about "integrating the results," let me clarify my position.

First, it seems highly likely, to the point of almost virtual certainty, that there exist a multiplicity of weight-cost relationships, depending upon how presorted the mail is, and where in the network it is entered. Witness Daniel's IOCS-based study makes no effort to define which weight-cost relationship she is attempting to measure. The failure to define at the outset

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which weight-cost relationship she is endeavoring to estimate stems directly from the fact that the IOCS does not – and cannot – make any distinction between (i) mail which is entered deep into the network versus mail which is entered at originating facilities and must be moved through the entire network, or (ii) between mail which is lightly presorted versus that which is highly presorted. If, for example, one were to undertake a study by stating initially that the purpose is to estimate the weight-cost relationship for the most lightly presorted mail that receives no destination-entry discount (which would be a reasonable place to start for ratemaking purposes), then I cannot conceive of how IOCS tallies could be the exclusive, or even partial, basis for such a study.

Second, a substantial amount of work in Postal Service plant and distribution centers, and the tallies recorded when such work is being performed, are causally and directly related to weight, but all such tallies are recorded variously as “not handling mail,” “moving empty equipment,” or “moving mixed mail about the facility in large containers,” or some other activity (*e.g.*, “removing waste material used to shrink-wrap pallets”). Distributing the costs associated with all of these weight-related tallies (where no mail was handled) by use of tallies from individual piece handling operations,

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where there is probably little or no relationship between weight and cost, distorts and biases the result and understates the effect of weight on cost.

To address directly your query about “integrating” witness Crum’s results into witness Daniel’s weight-costs study, I think that would be like mixing good apples with bad apples. The purpose of witness Crum’s study, which uses the model developed in a prior rate case by witness Atcheson (and used in all subsequent dockets), is to differentiate among distinct weight-cost relationships, depending upon where in the network the mail is entered. Any complementary study would need to make the same kind of distinctions, but the IOCS tallies cannot be separated in this way.

**Response of VP-CW Witness John Haldi to Interrogatory
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MOAA/VP-CW-T1-4.

In your "Appendix B. The Relationship between Cost and Weight within Standard A Mail" at B-4 (lines 14-19):

- a). Does your "observation" imply that witness Daniel has double counted dock handling costs in her weight-cost study?
- b). If your answer to part a) is yes, please confirm that this alleged double count will result in estimated unit costs that are biased higher than the actual unit costs? (If you cannot confirm, please explain the logic for your answer.)
- c). If your answer to part a) is no, please explain what you mean and identify "the study" (at line 17) to which you refer.

Response:

- (a) No.
- (b) n.a.
- (c) The term "the study" as it appears at the above-cited place in my testimony is intended to refer to any study of the weight-cost relationship that is designed to complement the destination entry model. See page B-26, lines 7-16, for further discussion concerning such possible study (you will note there an absence of any reference to an IOCS-based study).

**Response of VP-CW Witness John Haldi to Interrogatory
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MOAA/VP-CW-T1-5.

In your "Appendix B. The Relationship between Cost and Weight within Standard A Mail," you state that "For Standard A ECR Mail, 71.5 percent of all mail processing tallies were for mixed mail" at B-14. Please provide the calculation of this result from the data provided in response to VP-CW/USPS-T28-24, referenced in your footnote (52).

Response:

The attachment to the response to VP-CW/USPS-T28-24, part b, provides the following data concerning BY98 IOCS Direct Tally Counts — Clerks and Mailhandlers

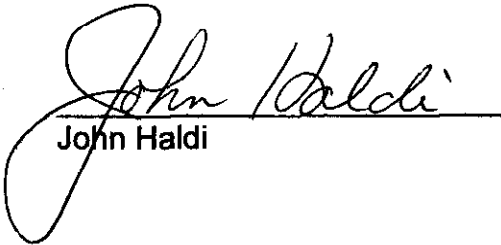
Standard Mail (A) ECR:

	<u>Total Tallies</u>	<u>Distribution</u>
Employee Handling Single Piece of Mail:		
All Mail Processing (3.1)	848	28.5%
Employee Handling Multiple Pieces of Mail, Item or Container:		
All Mail Processing (3.1)	<u>2,131</u>	<u>71.5</u>
TOTAL	2,979	100.0%

Perhaps it would have been more accurate to describe the 2,131 tallies shown in the second row above as "non-single piece" tallies, rather than "mixed" tallies.

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: July 3, 2000