

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

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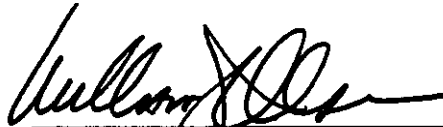
POSTAL RATE AND FEE CHANGES, 2000)

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
ADVO, INC. (ADVO/VP-CW-T1-1-9)
(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 Advo, Inc.: ADVO/VP-CW-T1-1-9, filed on June 19, 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 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 Advo, Inc.**

ADVO/VP-CW-T1-1.

In Table A-2, you shift only your estimate of "heavy-weight letter" costs from ECR letters to ECR flats. In support of this shift, you indicate your belief (on page A-3) that the difference between witnesses Daniel's and Moeller's estimates of TYBR letter volume "ostensibly corresponds to the volume of heavy-weight ECR letters in the Test Year Before Rates..." Although USPS LR's I-92 and I-102 show that there are also ECR "heavy-weight letter" volumes, you do not shift any of those volumes from ECR letters to ECR flats.

- (a) Please confirm that you believe the difference in witness Daniel's and Moeller's volume estimates is due to heavy-weight ECR letters. If this is incorrect, please explain your statement cited above.
- (b) Please explain fully why it is appropriate to shift the "heavy-weight letter" costs to ECR flats but not the corresponding "heavy-weight" letter volumes.
- (c) Please explain fully why it is appropriate to use the "heavy-weight letter" volumes with volumes and costs for letters below the 3.3 breakpoint in order to develop average cost or [of] letters below the 3.3 breakpoint.

Response:

- (a) Confirmed. Witness Daniel's volumes include all the letter-shaped pieces, where witness Moeller's volumes are confined to letter-shaped pieces that weigh less than the breakpoint and qualify for letter rates.
- (b) See my response to USPS/VP-CW-T1-29.
- (c) I do not understand the question as stated. As I endeavored to explain in my testimony, the appropriate unit cost for "Letters" (meaning letter-shaped pieces that weigh less than the breakpoint and qualify for the letter rate) should be determined by the cost of those letters only (not all letter-shaped pieces, including heavy weight letters); *i.e.*, the cost and volume of such

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heavy weight letters should be excluded, not included, as the question
implies.

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ADVO/VP-CW-T1-2.

Please refer to Table A-1 of Appendix A. There, you use Standard A IOCS mail processing tallies to estimate the proportion of total ECR letter costs which you claim belongs to ECR flats. In that Table, you use the LR I-92 letter and flat volumes and costs. Since you admit that the tally data are less than ideal, why did you use these data rather than the explicit ECR letter and flat costs and volumes in LR I-92 to determine the proportion of total ECR letter costs that the IOCS allocates to "heavy-weight letters?"

Response:

See my testimony, VP-CW-T1-1, Appendix B, and my response to USPS/VP-CW-T1-18 concerning my reservations about the unit cost data in USPS-LR-I-92. Among my reservations is the way "mixed mail," "not handling," and other tallies are allocated on the basis of inappropriate proxies. I felt more comfortable using tallies that directly identified the piece being handled.

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ADVO/VP-CW-T1-3.

On page A-3, you state:

Witness Daniel (USPS-T-28) estimates that Standard A ECR Mail will contain 13,127.962 million letters of all weights in Test Year Before Rates, while witness Moeller estimates the volume of letters below the 3.3 ounce breakpoint to be 10,799.400 million. The difference between witnesses Daniel and Moeller, 2,328.562 million letters, ostensibly corresponds to the volume of heavy-weight ECR letters in the Test Year Before Rates, and represents 17.7 percent of all ECR letters, which is almost 7 times greater than the estimate developed here, based on IOCS tallies for all Standard A Mail. (Footnote deleted)

You then estimate an amount of ECR letter cost which you state belongs to ECR flats.

- (a) Since witness Daniel's TYBR volumes and costs assume the BY98 mail mix while witness Moeller's volumes and costs have been adjusted for expected changes in mail mix, please explain why you believe that the full difference between witnesses Daniel's and Moeller's TYBR letter volumes is due strictly to ECR flats that have been mis-characterized as ECR "heavy-weight letters."
- (b) Please explain why you believe none of the difference between witnesses Daniel's and Moeller's TYBR letter volumes may be assumed to be due to DMM-defined parcel shapes.

Response:

- (a)-(b) My testimony was based on a misunderstanding of the differences between witnesses Daniel and Moeller. See Postal Service responses to VP-CW/USPS-1 (May 4, 2000) and VP-CW/USPS-2 (June 6, 2000).

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ADVO/VP-CW-T1-4.

A comparison of Witness Daniel's and Moeller's base year 1998 volumes (in thousands) is as follows:

	LR I-92 <u>(Daniel)</u>	LR I-66 <u>(Moeller)</u>
ECR Letters	13,295,273	12,943,927
ECR Non-Letters	20,763,854	21,115,200
ECR Parcels (from LR I-102)	48,083	48,083
Total ECR Volume	34,059,127	34,059,127
ECR Flats (Non-Letters less Parcels)	20,715,771	21,067,117

- (a) Please confirm that, if witness Moeller's BY RPW volumes are correct, then witness Daniel's ECR flat volumes are understated. If you cannot, please explain why not.
- (b) Please confirm that, if witness Moeller's BY RPW volumes are correct, then witness Daniel's ECR letter volumes are overstated. If you cannot, please explain why not.

Response:

I assume that your question intends to refer to Moeller's source as USPS-LR-I-166, not as incorrectly stated, LR-I-66. On that assumption:

- (a) If witness Moeller's BY RPW ECR flat volumes are correct, then clearly witness Daniel's ECR flat volumes are understated, as the question posits.

Note, however, that each witness uses different definitions; see responses to ADVO/USPS-T28-1 and VP-CW/USPS-1 and 2. Thus, on their own terms, each witness is correct.
- (b) On the assumption that witness Moeller's BY RPW ECR letter volumes are correct, then clearly witness Daniel's ECR letter volumes are understated, as

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the question posits. Note, however, that each witness uses different definitions; see responses to ADVO/USPS-T28-1 and VP-CW/USPS-1 and

2. Thus, on their own terms, each witness is correct.

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ADVO/VP-CW-T1-5.

On page A-9, you estimate that 1.0 percent of the total volume of ECR flats consists of letter-shaped pieces with DALs that are classified by the IOCS as ECR letters. In addition to the shift in "heavy-weight letter" cost, you also estimate the cost of that DAL-related letter volume and also shift it to ECR flats.

- (a) Please confirm that, because it is in addition to your "heavy-weight letter" cost adjustment, your DAL-related letter cost shift assumes that the DAL-related letter costs are for pieces weighting less than 3.3 ounces. If this is not correct, please explain fully.
- (b) Please provide all support for your estimate that 1.0 percent of total ECR flat volume consists of DAL-related letters weighing less than 3.3 ounces.
- (c) Given that the volumes in USPS LR I-92 reflect shape volume that corresponds to operational costs (processing category) rather than billing determinants, please explain fully why you believe that all the DAL-related letter volume is already included within the ECR flat volume used in LR I-92 and has been specifically excluded from the LR I-92 letter volumes.

Response:

- (a) Confirmed.
- (b) Please see my responses to USPS/VP-CW-T1-3, 4, and 5.
- (c) Please see my responses to USPS/VP-CW-T1-3, 4, and 5. My DAL estimate is a minimal estimate, designed to acknowledge the existence of letter-shaped mailpieces accepted by the Postal Service with DAL's, and is not intended as a numerically firm quantity with more than one significant figure. While there exists a possibility of overlap between the two mismatch corrections, I still posit that such a minimum is to be taken as ranging from

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0.5 to 1.499 percent, rounding to 1 percent with one significant figure. This should take care of any possible overlap.

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ADVO/VP-CW-T1-6.

On page 16 of your testimony, you state:

As no information is available concerning the presort condition of overweight letters, the adjustment to the letter-flat cost difference is distributed uniformly over Standard A ECR Basic, High-Density and Saturation presort categories.

If there were information available concerning the presort condition of overweight letters, how would you use it?

Response:

If the distribution of ECR overweight letters by presort condition were available, and if that distribution differed from the presort distribution of "non-overweight" ECR letters, it would be used to make adjustments to the letter-flat cost differences.

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ADVO/VP-CW-T1-7.

On page 27, Table 2, of your testimony, you propose a letter-flat differential of 0.9 cents at the ECR saturation level, which is a 95 % passthrough of the letter-flat differential you show on page 18 and which you develop, in part, in Appendix A.

- (a) Since your Appendix A addition of .466 cents to the letter-flat differential is not de-averaged by density level or dropship status, why do you believe it is appropriate to pass through so much of it?
- (b) Do you believe that your proposed letter-flat cost differential is entirely or at least 95 % shape-related (as opposed to weight-related)? If so, please explain fully your basis for this belief. If not, please explain fully why you propose a passthrough that is greater than the shape-related portion of the cost differential.
- (c) Please confirm that, with your Appendix A adjustments, you believe the ECR costs by shape are sufficiently reliable to develop a proposed ECR rate schedule. If this is incorrect, please explain fully.

Response:

- (a) I am not certain that I fully understand the question; *i.e.*, I do not see the linkage which you suggest should exist between the level of a passthrough and homogeneity of that mail to which the passthrough is applied. If my letter-flat differential were de-averaged by density level and/or dropship status, the very nature of de-averaging is such that some rate cells would receive a larger impact while others would receive a smaller impact. I would propose a 95 percent passthrough in either case.
- (b) The presort tree does not allow for a weight-related component to the letter-flat cost differential (nor do the presort differentials allow for a weight-related component; see my response to NAA/VP-CW-T1-3). Until the

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Postal Service develops a more reliable methodology for tracing the effect of weight on costs, reflecting the entire difference in the shape-related discount on a per piece basis seems appropriate.

(c) Confirmed.

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of Advo, Inc.**

ADVO/VP-CW-T1-8.

On page 46, you address contributions between subclasses and state that:

When the efficient component pricing principle for monopoly bottleneck pricing is applied, comparable products should have unit contributions that are roughly equal.

In previous testimony before this Commission, you have addressed contributions of products within a subclass.

- (a) Do you believe that comparable products within a subclass should have unit contributions that are roughly equal? Please explain fully.
- (b) Do you believe that the more competitive products within a subclass should have lower unit or percentage contribution than the less competitive products within a subclass? Please explain fully.

Response:

- (a)-(b) See my response to USPS/VP-CW-T1-23.

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of Advo, Inc.**

ADVO/VP-CW-T1-9.

If you have performed analyses of the costs and contributions by products within ECR, either for the USPS proposed or for your own proposed ECR rate schedule, please provide them.

Response:

In this docket, I did not perform a bottom-up cost analysis for the costs in individual rate categories or rate cells, as I did for my testimony in Docket No. R97-1, VP/CW-T-1.

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