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

POSTAL RATE AND FEE CHANGES, 2005) Docket No. R2005-1

RESPONSES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC. WITNESS JOHN HALDI TO INTERROGATORIES OF ADVO, INC. (ADVO/VP-T2-1-8)

(August 5, 2005)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. ("Valpak") hereby submit responses of witness John Haldi to the following interrogatories of the Advo, Inc.: ADVO/VP-T2-1-8, filed on July 22, 2005. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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Response of Valpak Witness John Haldi
to Interrogatory of Advo, Inc.

ADVO/VP-T2-1.

On page 16, line 16 of your testimony, please provide the source for the figure of 9.515 billion saturation non-letters.

Response:

See the response to VP/USPS-T16-2, Alternative Attachment B, cell G-23.

Response of Valpak Witness John Haldi
to Interrogatory of Advo, Inc.

ADVO/VP-T2-2.

On page 17 of your testimony, you recommend that your estimate of 5.4 billion detached address labels (DALs) be used to develop an adjustment for the handling of DALs. And, you also recommend that the total number of city and rural delivered DALs should be assumed to be 99% of 5.4 billion (i.e., 5.346 billion).

(a) Please confirm that the base year carrier cost systems identify 5.144 billion CCCS saturation "letters plus DALs" (USPS LR K67, Sheet 3) and 1.651 billion RCCS saturation "letters plus DALs" (USPS LR K67, Sheet 8), for a total of 6.795 billion city and rural carrier delivered saturation "letters plus DALs."

(b) Please confirm that 6.795 billion "letters plus DALs" minus your estimate of 5.346 billion DALs would leave only 1.449 billion saturation letters delivered by city and rural carriers.

(c) The RPW identifies 3.826 billion saturation letters. Please confirm that, if your DAL estimate were correct, it would mean than only 37.8% of RPW saturation letters are delivered by carriers on city and rural carrier routes.

If you cannot confirm any of the above, please explain why not, and provide the figures you believe to be correct, including your calculations and sources.

Response:

a. Confirmed that the figures you use are found in cell E-22 of Sheet 3 and cell D-35 of Sheet 8. However, I do not confirm that "the base year carrier cost systems identify" the volumes of DALs shown in sheets 3 and 8, or that they are derived in any way from the mail counts that underlie the surveys of city and rural carriers. They appear to be derived solely from witness Kelley's estimate of the number of DALs, which is based primarily on the number of residential delivery points and The Household Diary Survey, as developed in USPS-LR-K-67, file FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls. For a critique of witness Kelley's estimate, see the Appendix in my testimony. For further discussion of the

specific issue raised which this question intends to preface, see my response to part c of this interrogatory, below.

b. I can confirm that the result of subtracting 5.346 from 6.795 is 1.449. However, the caveats expressed in preceding part a, as well as in part c below, are equally applicable here.

c. Confirmed only that the RPW identifies 3.826 billion saturation letters. In order to provide you with a more informed answer to your question, I have prepared two attachments to this interrogatory. Attachment 1 incorporates the Postal Service assumptions with respect to the volume of DALs, and Attachment 2 incorporates my recommendations with respect to the volume of DALs (VP-T2-2, p 17, ll. 2-8).

In **Attachment 1**, under column F, rows 9, 10 and 12, you will find the totals for letters delivered by city and rural carriers exactly as referenced in part a of this interrogatory. Column D shows the total volume of DALs (3.375 billion) as **estimated by the Postal Service,** and column C shows the total ECR letters delivered by city and rural carriers as shown in the source cited at the bottom of the table. To facilitate reference, the RPW total which you cite, 3.826 billion saturation letters, is shown in cell C21. Four observations about Attachment 1 are worth noting. First, the Postal Service estimate of total saturation letters exceeds the RPW figure by some 56.894 million, or by some 1.5 percent; *i.e.*, it is 101.5 percent of the RPW figure, a curious result. Second, as shown in cell E17, the Postal Service estimates that 13.7 percent of all DALs (463 million) are delivered to P.O. Boxes and highway contract routes, but

that no saturation letters are delivered to P.O. Boxes and highway contract routes, as can be seen from perusing column C. That residents who live on highway contract routes and renters of P.O. Boxes should receive so much DAL mail, while receiving no saturation letter mail, reflects a somewhat anomalous situation, to say the least. Third, since the volume of letters delivered by city and rural carriers in cells C9 and C10 is already 101.5 percent of the RPW total, no "residual" is available which could be said to be delivered to P. O. Boxes or highway contract routes. Fourth, since RPW has no data on the volume of DALs, no RPW statistics are applicable to any of the data shown in column D.

Attachment 2, column D, shows the volume and distribution of DALs **recommended in my testimony** (VP-T2-2, p. 17, ll 2-8, and the Appendix), with the DALs delivered by city and rural carriers distributed in the same proportion vis-a-vis each other as in Attachment 1.

The hypothesis in part c of your question is fundamentally wrong for the following reason. As Attachment 1 clearly shows, the total combined volume of letters and DALs delivered by city and rural carriers, 6.795 billion in cell F12, reflects exactly the volume of DALs as estimated by the Postal Service in USPS-LR-K-67 — nothing more, and nothing less. That is, the totals in column F are not any kind of control totals derived from RPW (or any other reliable independent source), and using them in this manner, as your question does, is therefore totally inappropriate. As noted above, RPW has no data on the volume of DALs. As Advo/VP-T2-1 points out,

however, the RPW shows a total of 9.515 billion flats in FY 2004, which greatly exceeds my estimated volume of 5.4 billion DALs. If the Postal Service were to increase its estimate of the volume of DALs, then the volumes in column D of Attachment 1 would change, and the totals in column F would increase, just as they do in Attachment 2, which I consider to be a superior estimate based on more reliable data sources than The Household Diary Survey used by witness Kelley in USPS-LR-K-67. In Attachment 2, note that 100 percent of saturation letters continue to be delivered by city and rural carriers, exactly as assumed by the Postal Service in Attachment 1 as my focus was limited to revising the number of DALs. Accordingly, the question about 37.8 percent of RPW saturation letters being delivered by carriers on city and rural routes is without meaning, as it is based on a flawed assumption.

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to Interrogatory of Advo, Inc.

ADVO/VP-T2-3.

On pages 17 and 18 (lines 15 through 6), you suggest that there may be IOCS errors with respect to accounting for DAL handlings. And, you state that "Two Postal Service witnesses have mentioned recording error as a distinct possibility for anomalous cost results (see fn. 23, infra)." With respect to those USPS responses, please confirm the following:

(a) The POIR No. 1a response refers to the way in which certain IOCS tallies were used and does not mention or suggest any errors in the tallies themselves.

(b) The responses to VP/USPS-T16-16 and –17 do not confirm any anomalous cost results and do not relate to any IOCS errors.

(c) None of the responses identified in footnote 23 have anything to do with the number or cost of DALs.

If you cannot confirm any of the above, please explain why not, with specific reference to the statements made in the sources you have cited.

Response:

a. The response to POIR No. 1a speaks for itself. However, I would note the following statement contained in that response:

> Based solely on the physical examination of mail piece characteristics (e.g., barcodes), it is **not always possible for data collectors to determine** whether the revenue of a given mail piece, and the piece itself, was recorded at the nonautomation rates or automation rates. [Emphasis added.]

If data collectors cannot determine and therefore cannot record accurately the classification of the mailpiece, the tallies themselves contain errors, and those errors result in erroneous costs for the affected rate categories.

b. The responses to VP/USPS-T16-16 and 17 speak for themselves. However, I would note the following statement contained in the response to VP/USPS/T16-16:

> The pieces may have been entered as flats for a number of reasons including, but not limited to, … 3) **data entry error**. It is not possible to determine if the processing category was checked as flats because the piece was flat shaped or **because of an error**. [Emphasis added.]

Similarly, the response to VP/USPS-T16-17, states:

> The 0.33 percent of ECR NONLTR BASIC PIECE RATE pieces … **may reflect a data entry error** or clerk oversight. [Emphasis added.]

Both of the above statements refer to possible data entry errors at the point of acceptance, not data entry errors with respect to IOCS tallies. Any possible errors, such as those alluded to in the above-quoted statements, however, would affect the computation of unit cost for the affected rate categories. Of course, whether they have created **anomalous** cost results would depend on the frequency and magnitude of the errors. Further, to the extent that possibilities of data entry errors at the point of acceptance are a consideration, so also is the possibility of data entry errors in IOCS tallies.

c. The subject addressed by the references in my footnote 23 is possible data entry error for ECR mail. Accordingly, although the responses identified in footnote 23 do not directly deal with the number of DALs, they nevertheless are pertinent. Indeed, since that the Postal Service makes no effort at the point of acceptance to record or enter (i) data concerning the volume of DALs, or (ii) data which distinguish the volume of non-letter mail that is accompanied by DALs from other (addressed) non-letter mail, no data entry errors for DALs could occur at the point of acceptance. State more briefly, if

nothing is required to be entered, it is difficult for one to err when recording nothing (in this respect, the procedure is almost foolproof). After DALs have been accepted, the Postal Service does not record or develop any kind of systematic data concerning the way DALs are handled (*i.e.*, DPS'd, cased, or taken to the street as separate bypass bundles, the three possible ways of handling DALs discussed by witness Lewis, USPS-T-30). This is the reason for the estimating procedures being used in this docket, rather than any kind of specific mail count.

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ADVO/VP-T2-4.

On page 19 of your testimony, you note that IOCS casing costs for flats also include casing costs for DALs. You state ". . . since DALs are probably cased at a faster rate than ordinary flats, using the casing rate for flats alone underestimates the actual volume of pieces cased." If the saturation flat in-office casing cost is comprised of a mix of high-productivity DAL casing cost and low-productivity flat casing cost, please confirm that dividing that total cost by the flat low-productivity figure will provide an overestimate of the actual number of flats cased and therefore an underestimate of the actual number of flats taken to the street. If you cannot confirm, please explain fully why you cannot.

Response:

As noted in my response to ADVO/VP-T2-3(c), the Postal Service apparently collects no systematic data on the billions of DALs entered by mailers, or on the number of DALs cased, DPS'd, or taken directly to the street as an extra bundle. Moreover, the Postal Service's procedure for estimating the number of flats cased by carriers does not even consider the possibility that carriers may case some, perhaps many, of those billions of DALs, which is what my testimony endeavored to point out.

Witness Bradley, USPS-T-14, at page 59, lines 5-17, develops the "theory" that underlies the Postal Service's procedure for estimating the number of cased flats. That "theory" is implemented in USPS-LR-K-67, file CASING04_revised.xls, sheet 'EstimatesOfCased.Sat.Ltrs.Flts.' Unfortunately, witness Bradley's theory fails in a number of important ways to account for certain ways that DALs and saturation flats are handled by city carriers, as pointed out not only by this question, but also by ADVO/VP-T2-12.

In order to arrive at the conclusion postulated in your question, it is not necessary to speculate about the rate at which carriers case DALs. If carriers case **ANY** DALs, rather than (i) taking all DALs directly to the street as extra bundles, or (ii) sorting them on automation

equipment (the other two possible ways to handle DALs that are discussed by witness Lewis, USPS-T-30), then the Postal Service's procedure for estimating the number of cased saturation flats will, as your question correctly points out, (i) overestimate the actual number of flats cased, and (ii) underestimate the actual number of flats taken to the street as bypass mail. Other than a study by witness Shipe in Docket No. R90-1, which studied city carriers' casing rate for letters and flats (but not for cards), the Postal Service has cited no study, or offered any other data, concerning the rate at which carriers actually case DALs in vertical flats cases.

The greater the number of DALs that city carriers actually case, the more the Postal Service's estimate will differ from the actual number of flats taken directly to the street. In other words, the Postal Service's procedure for estimating the number of flats taken directly to the street might be considered correct only if (i) **NO** DALs were cased by city carriers, **AND** (ii) city carriers are actually engaged in casing flats throughout the entire time that the IOCS records as casing of flats. Because the last two points are important to a fuller understanding, let me elaborate briefly on each.

With respect to the number of DALs not cased by city carriers, but instead sorted on automation equipment, it would appear that the intent of interrogatories ADVO/VP-T2-6, 7, and 8 is to emphasize a conjecture by witness Lewis that "it's got to be a pretty small number at this point" (Tr. 6/2433). As my response to ADVO/VP-T2-6 points out, no credible data are available to support or refute this conjecture by witness Lewis. As an aside, I would note that the issue turns not on data quality, but purely on conjecture, speculation, and anecdotal information — *e.g.*, "I know there is field interest in DPSing the letter-shaped component of a

DAL mailing and that in some places delivery and plant managers have implemented local procedures to do this." (Response of witness Lewis to VP/USPS-T30-14(c), Tr. 6/2370.) Issues concerning data quality typically begin by assessing the quality of one or more existing bodies of data. However, in the case of DALs, which by any estimating procedure number in the billions, the Postal Service has no body of data that can be assessed, and that makes any discussion about quality of DAL data somewhat academic, to say the least.

Assuming *arguendo*, though, that the volume of DALs sorted on automation equipment is *de minimus*, then most DALs either are (i) cased, or (ii) taken directly to the street as an extra bypass bundle. Since city carriers on many route segments are restricted to no more than three bundles, the only possible inference under this assumption is that a great many DALs must be cased. This in turn means that the procedure for estimating the number of flats which are cased and taken to the street as cased flats may be grossly overstated. The one datum that the IOCS collects with respect to DALs is the response to question 22, where employees handling a flat, IPP or parcel are asked whether they are handling a DAL (*see* the IOCS handbook, F-45, pp. 12-8 to 12-11, which was provided in Docket No. R2000-1, in USPS-LR-I-14). Apparently neither witness Bradley (USPS-T-14) nor witness Kelley (USPS-T-16) were supplied with a compilation showing, for city carriers, the proportion of ECR non-letter tallies where the presence of a DAL was indicated. Inasmuch as witness Bradley's estimating procedure depends critically on the assumption that city carrier casing cost for saturation flats represents time spend casing flats, and not DALs, it is unclear to me why such information was not made available to witness Kelley.

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With respect to the issue of whether all casing time charged to flats is actually spent casing flats that subsequently are taken to the street as cased flats (as the "theory" developed by witness Bradley assumes), yet another possibility exists that is not considered anywhere in the "theory" developed by witness Bradley. Namely, some city carrier time charged to casing flats instead may be spent **collating** two bundles of saturation flats, which then are taken to the street **not as cased flats** (as witness Bradley's procedure assumes), **but as an extra bundle**. Collating is described by witness Lewis as (i) a well-understood procedure among delivery personnel, and (ii) more advantageous to the Postal Service than casing. Tr. 6/2431, l. 12 to 2432, l. 2. To the extent that collating occurs very often (again, no data are available on the volume of saturation flats that are collated and then taken to the street as an extra bundle), the estimated number of flats cased and taken to the street as cased flats would be even more erroneous. The combined omission of casing DALs and collating flats could make the Postal Service's estimated volume of bypass mail so erroneous as to be unacceptable.

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ADVO/VP-T2-5.

Please confirm the following or explain fully why you cannot:

(a) The distribution key for city letter route delivery costs is the City Carrier Cost System (CCCS).

(b) If the percentage of CCCS ECR saturation flats that are sequenced increases, then ECR saturation flats should be allocated a correspondingly larger portion of city letter route sequenced delivery cost.

(c) If the percentage of CCCS ECR saturation flats that are sequenced increases, then the percentage of ECR saturation flats that are cased and delivered as non-sequenced mail decreases.

(d) If the percentage of CCCS ECR saturation flats that are cased and delivered as non-sequenced mail decreases, then ECR saturation flats should be allocated a correspondingly smaller portion of city letter route non-sequenced flat delivery costs.

(e) USPS LR K67 [sic] uses CCCS volumes to distribute city letter route delivery costs among the various categories of ECR volumes.

Response:

Let me preface my response to these questions by noting that **all** saturation mail, both letters and flats, must be sequenced by the mailer. Because of this requirement, I consider the term "sequenced mail" in the sense used by witness Bradley to be a somewhat unfortunate choice of words. When referring to saturation mail taken directly to the street, my own preference would be to refer to it as "bypass mail."

a. Confirmed.

b. Confirmed, assuming that your reference is to saturation flats that bypass casing.

c. Confirmed, again assuming that your reference is to saturation flats that bypass casing.

d. Confirmed.

e. Confirmed that this accords with my understanding of the distribution key for volume variable city delivery costs.

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to Interrogatory of Advo, Inc.

ADVO/VP-T2-6.

On page 20 (lines 1 and 2) of your testimony, you state that . . . "it seems that some unknown volume of DALs are sorted on automation equipment." And, you state (lines 12-13) that . . . "despite knowledge that interest in DPSing of DALs is increasing and the practice is growing. . . ." Separately, on page 21 (lines 14-15), you state that there is an . . . "unknown, but possibly large and growing, volume of DALs [being automated]. . . ." A review of the cites provided in footnote 18 show no support for the assertion that "the practice [of DPSing DALs] is growing." Please provide any evidence you have, including sources, for the assertions that the number of DALs being automated is large and growing.

Response:

In Docket No. R2001-1, VP/USPS-T39-1(c) asked Postal Service witness Kingsley: "Would having barcodes on DALs facilitate processing?" Her response was as follows:

> No. Running DALs into DPS is inconsistent with keeping DALs matched up with the matching host piece. If DALs were put into DPS, then the carriers would have to check through the DPS volumes to see what DALs were run that day by the plant to see what host pieces were to go out that day. This is inconsistent with the DPS process of carriers taking DPS volumes right to their route/vehicle as well as providing an opportunity for curtailing the mail if it is a heavy volume day. [Tr. 9/2444.]

Also in Docket No. R2001-1, VP/USPS-T39-2(c) asked Postal Service witness Kingsley: "to what extent is automation equipment likely to be used to sort the DALs into delivery point sequence?" Her response was as follows:

> Highly unlikely, if ever. The requirements for DALs state that pallets of items must be palletized with the DALs, specifically to ensure that for mailings entered upstream from a delivery office, the DALs will remain with the host pieces all the way through to the delivery office, bypassing mail processing operations. [Tr. 9/2446.]

And also in Docket No. R2001-1, VP/USPS-T39-2(d) asked Postal Service witness Kingsley to "provide your best estimate of the percentage of DALs that are pre-barcoded and

the percentage of DALs that the Postal Service must first barcode before sorting on automation equipment." Again, her response was as follows:

> As stated above, DALs are highly unlikely, if ever, sorted on automation equipment. [Tr. 9/2446.]

In this docket, however, VP/USPS-T30-14(c) asked Postal Service witness Lewis "to what extent is automation equipment likely to be used to sort the DALs into delivery point sequence?" His response was:

> I know there is field interest in DPSing the letter-shaped component of a DAL mailing and that **in some places delivery and plant managers have implemented local procedures to do this.** [Tr. 6/2370, emphasis added.]

Also in this docket, VP/USPS-T30-15(a) asked Postal Service witness Lewis, "When Standard ECR flats with DALs are entered at DDUs, are the DALs sometimes returned to the P&DC to be DPS on automation equipment?" His answer was: "Yes."

Comparing the answers of witness Kingsley in Docket No. R2001-1 with those of witness Lewis in this docket — *i.e.*, nearly four years later — the Postal Service now states that "in some places delivery and plant managers have implemented local procedures to" DPS DALs, including transporting DALs back from a DDU to a P&DC. I consider the Postal Service responses in this docket to be different from its position in Docket No. R2001-1, and conclude that interest in the practice of DPSing DALs is increasing and the practice is growing.

The question of whether the volume of DALs sorted on automation equipment is in fact large can only be speculated upon based on this record, exactly as I have done. In response to VP/USPS-T30-16, witness Lewis states:

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> The Postal Service does not maintain statistics that track the number or composition of bundles City carriers take directly to the street. Therefore, **it is not possible to know what percentage of DAL mailings the Postal Service sorts either manually or on automation** with either letter-shaped or flat-shaped mail. [Tr. 6/2373, emphasis added.]

Based on all of these responses, I stated that the volume of DALs processed on automation equipment is unknown, but "possibly large." Until the Postal Service produces credible data pertaining to DALs that prove otherwise, I stand by my statement.

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to Interrogatory of Advo, Inc.

ADVO/VP-T2-7.

On page 21 (lines 14-16), you state that ". . . certain costs incurred to process some unknown, but possibly large and growing, volume of DALs are being attributed to letters." You provide no cites for the assertions that a large volume of DALs is being automated. At TR 7/2717, in response to a Val-Pak question, the USPS responded that a review of the FY04 IOCS data indicate that there were no Standard Mail "DAL" tallies in the MODS cost pool BCS/DBCS. Further, in response to a Val-Pak question about the extent of automation processing of DALs, USPS witness Lewis stated that "it's got to be a pretty small number at this point" (TR 6/2433). Please provide any evidence you have, including sources, to support your speculation that there is a large volume of DALs being automated.

Response:

Your question warrants several observations. First, the transcript reference 7/2717 does not contain the information you cite. However, a lack of DAL tallies in one MODS cost pool — BCS/DBCS — would not confirm the lack of DAL tallies in other automated MODS costs pools with costs attributed to saturation letters in the Base Year, including BCS and OCR. It is not clear why saturation letters, all of which were required to be barcoded in the Base Year, ever would incur any costs in these two cost pools. If any costs in these two pools are attributed to saturation letters, it would appear that they are caused by DALs, which are not required to be barcoded.

Further, the above-cited Postal Service response notes that "[t]he recording of DALS for the In-Office Cost System (IOCS) is described in the IOCS handbook, F-45, pages 12-8 to 12-11 (which was provided in Docket No. R2000-1, in USPS-LR-I-14)." The instructions pertinent to recording of a DAL are applicable only when question 22 records that a single-shape piece of mail is being handled. It is not in the nature of operations at automated cost pools such as BCS, OCR, or BCS/DBCS to handle individual pieces of mail (except, perhaps,

in the event of a jam). After all, the whole purpose of automation is to avoid the handling of individual pieces. Therefore, it would not surprise me if (i) few of the "handling mail" tallies in these cost pools reflect that a single piece of mail was being handled (as in response to IOCS question 22), and (ii) a large proportion of the "handling mail" tallies reflect either mixed mail or handling of an "item" or "container" within a single subclass (*see* USPS-T-11, p. 13, fn. 14 for IOCS definitions of "item" and "container"). When an item or container (within a single subclass), or mixed mail, is being handled, and DALs are included with other letter-shaped pieces, costs of such tallies would be distributed to subclasses on the basis of **shape**. That is, if DALs have been merged with other letter-shaped pieces (First-Class, Periodicals, Standard and ECR) they would be counted as ECR saturation **letters** and — erroneously — would **not** appear as DALs or flats. The direct costs of "ECR saturation letters" arising from these tallies then would be charged with all the "not handling" and other piggyback costs of the automated MODS cost pools, thereby compounding the error. It does seem to me that the Postal Service procedures for tracking the processing of DALs on automated equipment are inadequate and in need of rethinking, both now and in anticipation of the day when the practice becomes more widespread.

Finally, it is possible that witness Lewis's conjecture, referred to in your question, may be correct — *i.e.*, the vast majority of DALs either are cased or taken in bundles directly to the street as bypass mail. See my response to ADVO/VP-T2-4 for discussion of the implications of this possibility. With respect to my statement that the volume of DALs

processed on automation equipment is unknown, but "possibly large," see my response to ADVO/VP-T2-6.

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ADVO/VP-T2-8.

In lines 11-16 and footnote 20 on page 21 of your testimony, you suggest that costs to automate DALs may be wrongly attributed to saturation letters. In footnote 19, you imply that IOCS mail processing tallies of DALs may not be correctly attributed to flats because the host flats may not be available for review. At TR 7/2717, in response to a Val-Pak question, the USPS responded that in the case were the host piece cannot be identified, the IOCS editing process classifies the DAL tallies as flat shape (see USPS LR-K-9, Appendix B, page 137). Please provide any other evidence you have, including sources, to support your speculation.

Response:

See my response to ADVO/VP-T2-7.