

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

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: Docket No. R2005-1
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INTERROGATORIES OF ADVO INC. TO VALPAK
WITNESS JOHN HALDI (ADVO/VP-T2-17-26)

(August 9, 2005)

Pursuant to sections 25 and 26 of the Rules of Practice, ADVO, Inc. (Advo) directs the following interrogatories to Valpak witness John Haldi (VP-T-2). If the witness is unable to respond to any interrogatory, we request that a response be provided by appropriate witness capable of providing an answer.

Respectfully submitted,

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ADVO, INC. INTERROGATORIES TO VALPAK WITNESS JOHN HALDI

ADVO/VP-T2-17. The 2004 billing determinants for commercial ECR saturation letter mail (LR-K-77, "Standard Mail BD2004.xls," pages G 2-2) show that 66.0 percent of saturation letters were drop shipped to the destination SCF, 21.6 percent to the destination delivery office, and the remaining 12.4 percent at either the destination BMC or no destination entry.

- a. Please confirm that in 2004, 99 percent of Valpak's saturation coupon envelope mail was drop shipped to the destination SCF, and that only a fraction of a percent was entered at a destination delivery office. If not, please provide the correct figures.
- b. Please confirm that Valpak's destination-SCF-entered volume of approximately 500 million pieces constitutes more than one-fourth of the total 1.836 billion commercial saturation letters shown in the 2004 billing determinants as being entered at destination SCFs. If not, please provide the figures you believe to be correct and explain your basis.
- c. Please confirm that, at an average weight of 2.5 ounces per piece as indicated at page 5 of your testimony, Valpak's destination-SCF-entered volume in 2004 weighed approximately 78 million pounds. If not, please provide the average piece weight and total weight of Valpak's saturation letter volume entered at destination SCFs in 2004.
- d. Please confirm that Valpak's destination SCF letters constitute more than two-thirds of the total 114 million pounds of saturation letters shown in the 2004 billing determinants (page G 2-2) as being entered at destination SCFs. If not, please provide the figures you believe to be correct and explain your basis.

- e. Please explain your understanding of the nature of the 21.6 percent of commercial saturation letter volume that is entered at destination delivery units.

ADVO/VP-T2-18. The 2004 billing determinants for nonprofit ECR saturation letter mail ("Standard Mail BD2004.xls," page G 4-2) show that (1) 45 percent of nonprofit letters were dropped shipped to the destination delivery office; (2) such nonprofit letters comprise one-third of all saturation DDU letters; and (3) commercial plus nonprofit DDU letters constitute 26.1 percent of total saturation letters. Please explain your understanding of the nature of the nonprofit saturation letter volume that is entered at destination delivery units.

ADVO/VP-T2-19. Please assume that on a given day there are no saturation mailings available for delivery on a particular city delivery route. Also, assume for the purpose of this question that all saturation mailings being discussed are lower cost to handle as extra bundles rather than as cased/DPS'd delivery volume. In that circumstance, please confirm that the "marginal" cost to deliver a saturation mailing on that route-day is the extra bundle cost. If you cannot confirm, explain why not.

ADVO/VP-T2-20. Please assume that on a given day there is one saturation mailing available for delivery on a particular city delivery route. Also, assume for the purpose of this question that all saturation mailings being discussed are lower cost to handle as extra bundles rather than as cased/DPS'd delivery volume. If a second saturation mailing were added that could be collated with the first or carried out as a second tray, then please confirm that the marginal cost to deliver on that route-day is the extra bundle/tray cost. If you cannot confirm, explain why not.

ADVO/VP-T2-21. Please assume that on a given day there is more than one saturation mailing available for delivery on a particular city delivery route. Also, assume for the purpose of this question that all saturation mailings being discussed are lower cost to handle as extra bundles rather than as cased/DPS'd delivery volume. If another saturation mailing were added that day, but which could be deferred for delivery as an extra bundle on the next day when there are otherwise no saturation mailings available for delivery, then please confirm that the marginal cost to deliver that additional saturation mailing is the extra bundle cost. If you cannot confirm, explain why not.

ADVO/VP-T2-22. On page 35, footnote 44 of your testimony, you state that scarcity rent that can be extracted from a constrained low-cost production option. Please confirm that, in a competitive market system assuming little product differentiation, that scarcity rent can increase the low-cost producer's product price no more than the price its competitors are charging for the same product. If you cannot, please explain why not.

ADVO/VP-T2-23. On pages 37-38 of your testimony, you state: "Every saturation mailing is presorted by line of travel or walk sequence, and therefore qualifies for extra bundle delivery, regardless of whether the mailing consists of letters, addressed flats, flats/covers with DALs, or parcels with DALs." On page 39, you use the term "qualified candidates for the extra-bundle option. . . ." Please explain what you mean by the terms "qualifies" and "qualified."

ADVO/VP-T2-24. On Table 4 of your testimony you calculate a marginal city carrier direct costs for saturation letters and flats.

- (a) Please confirm that your estimated “marginal” costs for letters and flats are the costs for mail that is manually cased by the carrier and taken out as cased mail. If you cannot, please explain why not.
- (b) Since these are the costs for manually cased mail, does that mean you believe that, during BY2004, if an additional (i.e., “marginal”) saturation letter or flat mailing had been added to any city route on any delivery day of the year, the carrier would have been required to case the mailing due to lack of capacity to handle another bundle or tray on any portion of the route either on that day or by deferral to the next day? Please explain.

ADVO/VP-T2-25. Please refer to your response to ADVO/VP-T2-1, part (c), where you discuss your Attachment 2.

- a. You state that “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.” Please explain how the 3.375 billion USPS estimate of DALs (cited at page 15 of your testimony), and your 5.4 billion estimate of DALs at page 76 of your testimony, relates to the 6.795 billion DALs cited in your response.
- b. You also state that “. . . the totals in column F are not any kind of control totals derived from RPW (or any other reliable independent source). . . .” Please explain what your criteria are for a “control total” or “other reliable independent source” for determining the sum of saturation letter-shapes that are delivered on city and rural routes.

ADVO/VP-T2-26. Please refer to your discussion at pages 75-76 and Table A-8 of your testimony.

- a. Your Table A-8 shows separate entries and volumes for “Mail South” and “Others, allied with Advo.” Is it your belief that MailSouth is not a part of the A.N.N.E. network of regional shared mail companies discussed at page 74 of your testimony, whose volumes you estimated under the caption “Others, allied with Advo.”

- b. If MailSouth is and has been, in fact, a part of the A.N.N.E. network, please confirm that your inclusion of a separate estimate of MailSouth’s volumes in your Table A-8 would double-count its volumes with those you estimated under “Others, allied with Advo.” If you cannot confirm, explain why not.