

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-T2-11(b)-16)
(August 18, 2005)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.

("Valpak") hereby submit responses of witness John Haldi to the following interrogatories of Advo, Inc.: ADVO/VP-T2-11(b)-16, filed on July 29, 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-T2-11.

At page 8 of your testimony, you state that 99 percent of ValPak's mail is entered at the destinating SCF, with the remainder "entered at BMCs, or locally, in either St. Petersburg, Florida or Elm City, North Carolina" where Val-Pak's production facilities are located.

(a) Please confirm that this means that well less than 1 percent of Val-Pak's coupon enveloped mail is entered at destination delivery units. If you cannot confirm, please provide the correct percentage of Val-Pak's DDU-entered mail.

(b) Please confirm that in Docket MC95-1, you then similarly testified that 98 percent of Val-Pak's mail was entered at destination SCFs, and that "the remaining 2 percent is entered at BMCs (with a fraction of a percent of the mail being entered locally in the St. Petersburg, Florida area)." VP-T-1, Docket MC95-1, at 6.

(c) Is this very small proportion of volume drop shipped to destination delivery units typical of the other national coupon envelope mailers that produce their mailings at central locations for distribution to multiple markets and postal facilities across the country? If not, explain your understanding of coupon envelope mailer practices and how Val-Pak's practices differ.

RESPONSE:

- a. Redirected to Valpak.
- b. Confirmed.
- c. My response in Docket No. MC95-1 was applicable only to Valpak. I have neither surveyed, nor studied, nor am I familiar with the mailing practices of any national coupon envelope mailer other than Valpak.

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ADVO/VP-T2-12.

On page 33 of your testimony, you assert that it would be reasonable to expect that, when carriers have to select from two or more mailings one that is to be handled as an extra bundle, carriers select only one saturation flat mailing to be handled as an extra bundle on an individual day and case the others. To support your assertion, you cite the USPS institutional response to VP/USPS-T39-60 in R2001-1.

(a) Please confirm that the question asked by Val-Pak in VP/USPS-T30-12 in this Docket R2005-1 proceeding is identical to the question asked in the interrogatory you cite from Docket R2001-1.

(b) Please confirm that USPS witness Lewis, in this proceeding, responded to that interrogatory by stating that the supervisor would most likely direct carriers to collate the two mailings together to make a third bundle.

(c) Please explain how your assertion comports with another USPS response in this rate case to VP/USPS-T30-6 [positing two saturation mailings to be delivered on a certain day]: “. . . normally, where motorized carriers are serving centralized, cluster box, curblines, and dismount deliveries, the supervisor would ensure they take their sequenced mailings directly to the street uncased. If the carriers in your example were carriers on motorized routes that served park and loop deliveries, for those park and loop deliveries, the supervisor would ensure the carriers collated the mailings together into a third bundle.”

(d) Please explain how your assertion comports with USPS witness Lewis's responses in this rate case to VP/USPS-T30-11, 12, and 19 (TR 6/2365, 2368, 2376) that city carriers would most likely collate two or more flat saturation mailings into a third bundle in order to avoid casing those flats.

RESPONSE:

- a. Confirmed.
- b. Your question helps to point out that, when responding to VP/USPS-T30-12(e), witness Lewis did not answer the question that was asked. The question posed to witness Lewis was, regarding foot routes and park and loop routes that in general are restricted to three bundles (*i.e.*, except for certain segments, such as cluster box units, where more than three bundles may be permitted), if a choice had to be made by a carrier, which of the two hypothetical mailings would be

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cased. In his response — “The supervisor would most likely direct carriers to collate the two mailings together to make a third bundle” — I would interpret “most likely” to mean that the two mailings would be collated together somewhat more than 50 percent of the time, but not necessarily always. In this docket, VP/USPS-T30-12 asked what happens when the two bundles are **not collated** and carriers **are limited** to three bundles. Unfortunately, that question remains unanswered. The response of witness Lewis, cited in full above, speaks for itself and confirms that (i) he did say the two bundles “most likely” would be collated, and (ii) he did not say what would happen when they were not collated.

- c. The sentence cited from my testimony in your question appears at page 33, lines 12-16, and begins by stating, “[w]ithin the universe of saturation flats, when carriers have to select from two or more mailings” (Emphasis added.) VP/USPS-T30-6 concerned one saturation mailing of **letters** and one saturation mailing of **flats**, both for delivery on the same day. The interrogatory is inapplicable to the cited sentence in my testimony. However, I should elaborate on the issue which you raise.

The immediately preceding sentence in my testimony (p. 33, ll. 7-11) cites the large discrepancy in the percent of saturation letters and flats taken directly to the street: 36.2 vs. 74.3 percent, respectively. The response by witness Lewis indicated that (i) where carriers have no restriction on the number of extra

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bundles, both would be taken directly to the street, and (ii) where carriers are restricted on the number of bundles, “the supervisor would ensure the carriers collated the [letter and flat] mailings together into a third bundle.” In other words, the response of witness Lewis to VP/USPS-T30-6, if taken literally, could be said to indicate that saturation letters would be collated and taken to the street as often as saturation flats, but such a reading does not comport with the statistical evidence cited from the Postal Service in my testimony.

- d. My “assertion,” as you describe the cited sentence in my testimony, discusses what happens “when carriers have to select.” The responses of witness Lewis to VP/USPS-T30-11, 12 and 19 are to the effect that when (i) carriers are limited in the number of extra bundles that they can take, and (ii) they have two saturation flat mailings for delivery on the same day, they will collate the two bundles of flats into a single saturation bundle, so that a choice like that posited in my testimony will have to be made only rarely. My testimony at page 33, line 8, notes that the Postal Service’s estimating procedure concludes that 74.3 percent of all saturation flats bypass casing and are taken to the street in the form of extra bundles. Moreover, in my response to ADVO/VP-T2-4, I concurred with your deduction that the Postal Service’s estimating procedure probably overestimates, perhaps by a wide margin, the volume of saturation flats actually cased before being taken to the street. Correspondingly, the volume of flats taken directly to the street would be underestimated. Thus, to

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the extent that witness Lewis is correct about the frequency with which saturation flats are collated and then taken to the street as a third bundle, and the volume of saturation flats actually cased (with other non-saturation flats) before being taken to the street is substantially less than 25.7 percent, the extra-bundle treatment given to flats, and the discrimination against letters in that respect, is even greater than discussed in my testimony.

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ADVO/VP-T2-13.

On page 30 of your testimony (lines 7-12) you state that “Private vehicles are more constrained, and the interior layout typically gives the [city] carrier less flexibility.” Please provide your estimate of the number of city letter carriers that use private vehicles. If you cannot provide a specific number, please indicate whether you believe the use of private vehicles on city delivery routes is common or rare, and explain the basis for your belief.

RESPONSE:

Witness Lewis says that city carriers sometimes use private vehicles. Tr. 6/2419, ll. 14-20. He did not provide, and I do not have, an estimate of either the number or percentage of city carriers that use a private vehicle. In comparison to rural carriers, many of whom use a private vehicle on a percentage basis, I would expect that the figure for city carriers is much lower.

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ADVO/VP-T2-14.

Referring to Table 2, page 41 of your testimony, please confirm the following or explain fully why you cannot:

(a) You intend to measure the direct casing costs per actually-cased saturation letter and saturation flat.

(b) The flats casing cost includes not only the cost to case the flats actually cased but also any DALs that were also cased.

(c) If your estimate of the number of DALs is correct, then there is a correspondingly lower number of non-DAL letters cased and a correspondingly higher unit letter casing cost.

RESPONSE:

- a. My testimony on page 41, at lines 15-17, cites the average in-office costs for saturation letters and flats presented by witness Kelley in USPS-LR-K-67. It is these average costs that caused me to prepare my Table 2. Using saturation flats for purposes of illustration, witness Kelley's average cost is computed as (i) total in-office costs for all saturation flats divided by (ii) the sum of pieces cased plus pieces not cased. In essence, this is a weighted average of (i) the unit cost of flats not cased (which is very low) and (ii) the unit cost of flats that are cased (which is very high in comparison to the unit cost of flats not cased). In other words, the unit cost of flats cased and flats not cased is not unlike a bi-polar distribution. I find averages over bi-polar distributions to be somewhat uninformative as to the underlying reality. Thus, the purpose of my Table 2 is to show the direct unit casing cost per actually-cased saturation letter and saturation flat using Postal Service estimates of (i) casing cost, and (ii) the number of pieces cased, as a means of providing a sort of benchmark for

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comparison with witness Kelley's averages. In this particular instance, the unit cost of casing flats (\$0.0209, as shown in my Table 2) is 3.94 times witness Kelley's average cost for all saturation flats, and this ratio would be much greater still if the comparison were with the unit in-office cost of flats taken directly to the street, which is not computed.

- b. Confirmed that the saturation flats casing cost, as estimated by IOCS, includes whatever pieces that carriers were handling at the time of the IOCS tally, which could have been either DALs or flats, and which pieces were in the process of being cased (with other flats). Presumably, flats casing cost, as estimated by IOCS, also could include collation of two bundles of saturation flats into a single extra bundle to be taken directly to the street, but I do not know how the IOCS records a carrier's activity when the carrier is collating, as opposed to casing.
- c. I cannot confirm the assertion contained in this part of your interrogatory. I am assuming that a "non-DAL letter" is, simply, a normal addressed letter. So long as the IOCS records as a flat any DAL handled by a carrier when working in the office, the estimated in-office cost of saturation letters, and the resulting estimate of the volume of saturation letters cased, would be independent of the volume of DALs.

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ADVO/VP-T2-15.

Have you (or witness Mitchell) made any estimates of the impact on ECR rates of the use of your Table 4 marginal cost estimates for saturation mail by shape in combination with the USPS's estimates of marginal costs for High-Density, Basic, and Automation categories by shape? If so, please provide them, all assumptions you used to develop them (e.g., period that costs and volumes represent, coverage levels, cost differential passthroughs, etc.), and the workpapers you used to develop them.

RESPONSE:

No.

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ADVO/VP-T2-16.

On page 38 (lines 4-7), you state: “When carriers take saturation mailings directly to their vehicles as an extra bundle, the likelihood that carriers will be sampled by the IOCS while handling such mailings is greatly reduced, to the point of being minimal. . . . for those mailings that carriers handle as extra bundles, the Postal Service will attribute little or no in-office cost, because the mailing is handled only briefly, and in bulk, not as individual pieces.”

(a) Will the IOCS also attribute little or no in-office cost (on a per piece basis) to DPS letters that have avoided in-office casing and been taken directly to carrier vehicles? Please explain.

(b) Do you have any reason to believe that the unit attributable in-office costs of saturation letters taken out as extra bundles is any greater than for DPS saturation letters? Please explain.

RESPONSE:

- a. Yes, DPS letters taken directly to the street should incur only trivial in-office costs in cost segment 6, **but**, in order to avoid such in-office costs, they must incur non-trivial DPS costs in cost segment 3. The option of taking presorted saturation mailings directly to carriers’ vehicles — *i.e.*, without casing and without DPS — as described in the testimony of witness Lewis (USPS-T-30, p. 3), is the lowest overall cost option, as my testimony acknowledges. My statement, which you cite, refers to “saturation mailings,” and applies to letter-shaped mail as much as it does to flat-shaped mail. That is why, under the IOCS cost measurement system used by the Postal Service, saturation letter mailers would strongly prefer to have their mail receive equal extra-bundle treatment.
- b. As indicated in my response to preceding part a, DPS letters and presorted saturation letters that bypass sortation altogether and that are taken directly to

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the street should each incur similar, almost trivial, in-office unit costs.

However, the cost of DPSing letters is not trivial, hence I would expect the total unit cost of saturation letters taken directly to the street to be less than the unit cost of letters that are DPS'd.