

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
UNITED STATES POSTAL SERVICE (USPS/VP-T2-1-5)
(August 22, 2005)

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

("Valpak") hereby submit responses of witness John Haldi to the following interrogatories of United States Postal Service: USPS/VP-T2-1-5, filed on August 8, 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 Postal Service**

USPS/VP-T2-1.

If you cannot confirm any of the following, please explain fully.

- a. Please confirm that your own testimony (pg. 63) indicates that DALs not delivered by city or rural carriers could be delivered either to P.O. boxes, or by highway contract carriers.
- b. Please confirm that the recommendation on page 17 of your testimony, that the Commission assume that 99 percent of DALs are delivered by city or rural carriers, is based exclusively on the assumption that 1 percent of DALs are delivered to P.O. boxes.
- c. Please confirm that your 99 percent recommendation therefore fails to account for DALs delivered by highway contract carriers.

RESPONSE:

- a. Confirmed. The various ways of delivering DALs described in my testimony are identical to those recognized by witness Kelley, although my distribution differs somewhat from his.
- b. Not confirmed. The 1 percent of all DALs not delivered by city or rural carriers are assumed to be delivered either to P.O. Boxes or by Highway Contract Carriers. Specifically, I assume that 0.2 percent are delivered by Highway Contract Carriers, and 0.8 percent are delivered to P.O. Boxes, as shown in my response to ADVO/VP-T2-2, Attachment 2, cells E15 and E14, respectively. The 0.8 percent assumed to be delivered to P.O. Boxes was based on the 0.77 percent (rounded) that Valpak mailed to P.O. Boxes; see my testimony, page 63, line 17.
- c. Not applicable.

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USPS/VP-T2-2.

Please refer to the statement on page 14 of your testimony that DALs are counted as letters “in both the city and rural carrier cost systems.”

a. Please confirm that the citation provided to support this statement is to witness Lewis’s response to VP/USPS-T30-20(c), (Tr. 6/2377-78).

b. Please confirm that the subject of that question to witness Lewis was the Piece Count Recording System (PCRS).

c. Is it your contention that the PCRS is a part of either the city or rural carrier cost systems? If so, please explain your understanding of the relationship between PCRS and the city and rural carrier cost systems.

RESPONSE:

a. Confirmed that my footnote no. 10 cites the response to VP/USPS-T30-20(c), Tr. 6/2377-78.

b. Confirmed.

c. No. My footnote no. 10 also should have included references to Postal Service responses to VP/USPS-T5-7(b) and VP/USPS-T43-25 in Docket No. R2001-1.

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USPS/VP-T2-3.

Please refer to footnote 17 on page 20 of your testimony, which cites the response of witness Lewis to VP/USPS-T30-15 (Tr. 6/2372), and which alleges that certain costs relating to DALs are likely to be incorrectly attributed to saturation letters.

a. Please confirm that, despite the reference in your footnote to “[s]uch transportation costs,” there is no mention of transportation costs in that interrogatory response of witness Lewis.

b. Please state your understanding of the cost segment in which such “transportation costs” are likely to be incurred.

c. Please state your understanding of how the costs in that cost segment are distributed, and specifically explain how the distribution would change if DALs being backhauled to plants were considered letters or flats.

RESPONSE:

a. Confirmed. It is my impression that witness Lewis is an operations expert, not a cost analyst or cost expert. My footnote did not intend any criticism of witness Lewis.

b. It is my understanding that the labor component of local transportation costs between facilities is in Cost Segment 8, Vehicle Service Drivers, along with other costs (*e.g.*, costs of owning and operating vehicles) associated with local transportation piggybacked on the labor cost.

c. According the USPS-LR-K-1, “[t]he volume variable costs of VSD labor are distributed to classes and subclasses of mail in the same proportions as cubic feet of total (local and non-local) mail, obtained from Revenue, Pieces and Weight (RPW) statistics (adjusted to include cubic feet for Mailgrams).” (USPS-LR-K-1, p. 8-3, para. 8.1.4.) It thus would appear that the distribution of transportation costs in this segment is totally invariant with respect to the

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volume of each subclass that actually receives, or is provided with, local transportation; *i.e.*, ECR saturation mail does not incur any additional transportation cost regardless of how many DALs (or letters) are provided with round-trip transportation between DDU's and facilities where mail is DPS'd.

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USPS/VP-T2-4.

On page 21 of your testimony, you indicate that labor costs for saturation letters are in the BCS and OCR cost pools (in addition to the BCS/DBCS MODS costs pool).

a. Please confirm that the clerk and mailhandler labor costs attributed to Saturation letters for the BCS and OCR cost pools for FY 2004 are \$76,000 and \$153,000, respectively. (See USPS-LR-K-84, spreadsheet FY04 ECR Mail Proc Costs.xls, sheet Summary.) If you cannot confirm, please provide the costs which you reference in the above passage and provide complete citations to such costs.

b. Please confirm that the FY 2004 cost per piece for Saturation letters associated with this labor costs for the BCS and OCR cost pools is less than one-hundredth of a cent. [Total Saturation letter labor costs for BCS and OCR cost pools of \$229,000 (\$76,000 + \$153,000) divided by the FY 2004 volumes for Saturation letters of 3.444 billion = 0.00664 cents per piece.] If you do not confirm, then please provide a corrected figure and explain how your derived it.

RESPONSE:

- a. Confirmed that the direct costs attributed to saturation letters in the BCS and OCR cost pools in the reference cited are \$76,000 and \$153,000, respectively.
- b. Confirmed for FY 2004. If the Postal Service succeeds in getting mailers to use heavier cardstock for their DALs, and the viability of DPSing DALs continues to improve, as discussed by witness Lewis at Tr. 6/2431-33, then these costs also would be growing.

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USPS/VP-T2-5.

Please refer to page 21 of your testimony, where you state: “All saturation letters are required to be barcoded by mailers, whereas no such requirement exists for DALs, which may or may not be barcoded. It therefore is easy to comprehend why DALs with no barcodes would be processed on BCS or OCR equipment, but impossible to comprehend why any pre-barcoded saturation letters would be processed on such equipment.”

a. Is it your contention that all (i.e. 100 percent of) ECR Saturation letters have a perfectly accurate and readable delivery point barcode?

b. If not, might this explain why some saturation letters might be processed on BCS and/or OCR equipment? Please explain fully.

RESPONSE:

a. No.

b. Yes.