

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

POSTAL RATE AND FEE CHANGES, 2005 )

Docket No. R2005-1

REVISED RESPONSES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
WITNESS JOHN HALDI TO INTERROGATORIES OF  
ADVO (ADVO/VP-T2-2) (Errata)  
(August 23, 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: ADVO/VP-T2-2, filed on August 5, 2005, as revised August 8, 2005. Each

interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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**Revised Response of Valpak Witness John Haldi  
to Interrogatory of Advo, Inc. (8/23/05)**

**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 that 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

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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 three ~~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), and Attachment 3 incorporates my revised recommendation with respect to the volume of DALs, which reflects new information obtained from responses to VP/ADVO-1-3, filed August 22, 2005, and also from publicly available information contained on the web site of Echo-Media.

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

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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 as recommended originally in my testimony (VP-T2-2, p. 17, ll 2-8, and the

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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.

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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.

Attachment 3, column D, shows my new estimate of the volume of DALs, revised to incorporate information supplied in responses to VP/ADVO-1-3 (received 8/22/05), and explained in the errata to my testimony filed August 23, 2005. Advo's DALs, 3.583 billion, represent 79.6 percent of the 4.5 billion total DALs shown in cell D21, and Advo's DALs alone exceed witness Kelley's estimated number of DALs by 6 percent. In Attachment 3, the DALs delivered via P.O. Boxes, highway contract routes, and General Delivery are 6.14 percent of the total, and the percentages shown in column E correspond exactly to the percentages supplied by Advo, and are applied to the 4.5 billion total DALs. The balance, 93.86 percent, or 4.224 billion DALs, are assumed to be delivered by city and rural carriers, and are distributed to rural and city carriers using the same proportions as witness Kelley (as shown in my Attachment 1). In column C, the data for saturation letters differ from the data shown in Attachments 1 and 2. Attachment 3 uses the total volume of saturation letters, 3.826 billion, as shown in the RPW file in USPS-LR-K-67, and distributes the total to the various modes. The percent of saturation letters delivered to P.O. Boxes is estimated at 2.0 percent. This reflects the fact that Valpak sends less than 1.0 percent (0.77

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percent) to P.O. Boxes, whereas Advo sends 5.13 percent of its flats to P.O. Boxes. Highway contract routes are assumed to receive about one-fifth the volume that is delivered to P.O. Boxes, in line with Advo's data. The 3.734 billion saturation letters assumed to be delivered by city and rural carriers is distributed to each mode in the same proportions used by witness Kelley, and as shown in my Attachment 1. The figures in each row of column F reflect the sum of the corresponding entries in columns C and D. The totals in column F do not correspond to the corresponding USPS totals in Attachment 1, as there is no way that the RPW data for saturation letters and the more reliable DAL data supplied by Advo can be shoe-horned into the respective CCS and RCS estimates. Since the CCS and RCS sample-based estimates cannot be checked against any kind of control total that includes the aggregate volume of DALs, I reject them as flawed. For more discussion on independent checks using reliable independent sources and control totals, see my response to ADVO/VP-T2-25.

	A	B	C	D	E	F
1		<b>Saturation Letters and Postal Service Estimated Volume of DALs</b>				
2		<b>FY 2004</b>				
3		<b>(000)</b>				
4						
5						
6			<b>Letters</b>	<b>USPS DALs</b>	<b>Dist. (%)</b>	<b>Total</b>
7						
8						
9		City Carriers	3,048,834	2,095,359	62.1%	5,144,193
10		Rural Carriers	834,304	817,139	24.2%	1,651,443
11			-----	-----	-----	-----
12		Subtotal, city and rural carriers	3,883,138	2,912,498	86.3%	6,795,636
13						
14		P.O. Box		406,500	12.0%	406,500
15		Highway Contract Routes		56,383	1.7%	56,383
16			-----	-----	-----	-----
17		Subtotal, P.O. Box & HCR		462,883	13.7%	462,883
18			-----	-----	-----	-----
19		GRAND TOTAL	3,883,138	3,375,381	100.0%	7,258,519
20						
21		Control Total: RPW	3,826,244	n.a.		n.a.
22						
23		<b>Sources:</b>				
24		Cell C9, LR-K-67, Sheet 10, column 4				
25		D9, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls,				
26		also, LR-K-67, Sheet 10, col 1.				
27		C10, LR-K-67, Sheet 10, column 4				
28		D10, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls,				
29		also, LR-K-67, Sheet 10, col 1.				
30		D14, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls.				
31		D15, USPS-LR-K-67, FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls.				

	A	B	C	D	E	F
1		<b>Saturation Letters and Valpak Estimated Volume of DALs</b>				
2		<b>FY 2004</b>				
3		<b>(000)</b>				
4						
5						
6						
7			<b>Letters</b>	<b>Valpak DALs</b>	<b>Dist. (%)</b>	<b>Total</b>
8						
9		City Carriers	3,048,834	3,846,111	71.2%	6,894,945
10		Rural Carriers	834,304	1,499,889	27.8%	2,334,193
11			-----	-----	-----	-----
12		Subtotal, city and rural carriers	3,883,138	5,346,000	99.0%	9,229,138
13						
14		P.O. Box		43,200	0.8%	43,200
15		Highway Contract Routes		10,800	0.2%	10,800
16			-----	-----	-----	-----
17		Subtotal, P.O. Box & HCR		54,000	1.0%	54,000
18			-----	-----	-----	-----
19		GRAND TOTAL	3,883,138	5,400,000	100.0%	9,283,138
20						
21		Control Total: RPW	3,826,244	n.a.		n.a.
22						
23		<b>Sources:</b>				
24		Cell C9, LR-K-67, Sheet 10, column 4.				
25		C10, LR-K-67, Sheet 10, column 4.				
26		D12, 0.99*D19.				
27		D14, 0.7*D17.				
28		D15, 0.3*D17.				
29		D17, 0.01*D19; VP-T2-2, p. 62, l. 16 to p. 63, l. 2.				
30		D19, VP-T-2, p. 17, ll. 2-8.				

	A	B	C	D	E	F	G	
1		<b>Saturation Letters and Valpak Estimated Volume of DALs</b>						
2		<b>FY 2004</b>						
3		<b>(000)</b>						
4								
5								
6								
7								
8			<b>Saturation</b>	<b>Valpak</b>	<b>DAL</b>			
9			<b>Letters</b>	<b>Estimated</b>	<b>Dist.</b>			
10				<b>DALs</b>	<b>(%)</b>	<b>Total</b>		
11		City Carriers	2,931,764	3,038,709	0.6753	5,970,473		
12		Rural Carriers	802,268	1,185,023	0.2633	1,987,291		
13			-----	-----	-----	-----		
14		Subtotal, city and rural carriers	3,734,032	4,223,732	0.9386	7,957,764		
15								
16		P.O. Box	76,525	230,668	0.0513	307,193		
17		Highway Contract Routes	15,305	45,136	0.0100	60,441		
18		General Delivery	383	464	0.0001	846		
19			-----	-----	-----	-----		
20		Subtotal, P.O. Box & HCR	92,212	276,268	0.0614	368,480		
21			-----	-----	-----	-----		
22		GRAND TOTAL	3,826,244	4,500,000	1.0000	8,326,244		
23								
24								
25		<b>Sources:</b>						
26		Cell E11-12 and E16-18, responses to VP/ADVO-1-3.						
27		D22, VP-T-2, Table A-8, p. 76 (revised 8/22/05).						
28		C22, USPS-LR-K-67, file LR-K-67_2ndrevised.xls, sheet '5.RPW.'						
29								
30								
31								