

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

POSTAL RATE AND FEE CHANGES, 2005 )

Docket No. R2005-1

RESPONSE OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

WITNESS JOHN HALDI TO FOLLOW-UP INTERROGATORY OF  
UNITED STATES POSTAL SERVICE (USPS/VP-T2-6)

(August 25, 2005)

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

("Valpak") hereby submit the response of witness John Haldi to the following follow-up interrogatory of United States Postal Service: USPS/VP-T2-6, filed on August 11, 2005. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

---

William J. Olson  
John S. Miles  
Jeremiah L. Morgan  
WILLIAM J. OLSON, P.C.  
8180 Greensboro Drive, Suite 1070  
McLean, Virginia 22102-3860  
(703) 356-5070

Counsel for:  
Valpak Direct Marketing Systems, Inc. and  
Valpak Dealers' Association, Inc.

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

**USPS/VP-T2-6.**

Please refer to your response to Advo/VP-T2-2, and the attachments to that response filed on August 8. Specifically, please refer to the portion of your response to subpart c, in which you state:

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 total derived from RPW (or any other reliable independent source), and using them in this manner, as your question does, is therefore totally inappropriate.

a. Using the cell references within your Attachment 1 for simplicity, please confirm that the above statements in your response to Advo/VP-T2-2 were premised on your belief that, in developing its analysis, the Postal Service derived cell F9 by starting with cells C9 and D9 and summing them, as opposed to starting with cells F9 and D9 and deriving cell C9 by subtracting cell D9 from cell F9. If not confirmed, please explain in detail your understanding of the relationship and data flows between the values in cells C9, D9, and F9 in the Postal Service's analysis.

b. Using the cell references within your Attachment 1 for simplicity, please confirm that the above statements in your response to Advo/VP-T2-2 were also premised on your belief that, in developing its analysis, the Postal Service derived cell F10 by starting with cells C10 and D10 and summing them, as opposed to starting with cells F10 and D10 and deriving cell C10 by subtracting cell D10 from cell F10. If not confirmed, please explain in detail your understanding of the relationship and data flows between the values in cells C10, D10, and F10 in the Postal Service's analysis.

c. Please confirm that your replication of the values in Attachment 1 cells C9 and C10 in the same cells in Attachment 2 was premised on the same beliefs as posed in parts a and b above. If not confirmed, please explain why you believed it would be appropriate in Attachment 2 to assume that the estimated number of non-DAL letters in column C would be unaffected by your change (relative to Attachment 1) in the estimated number of DALs in column D.

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

**RESPONSE:**

- a. Not confirmed. Attachment 1 of my response to ADVO/VP-T2-2 did not cite a reference for the source of the entry in cell F9, which contains the datum 5,144,193. The entry in cell F9 can be found in USPS-LR-K-67, file LR-K-67\_2nd.revised.xls, sheet 10.DALsVsECR%-EstOfRurlCovrs, cell E8. In turn, that figure is derived from the sum of cells D21 and D22 in worksheet '3.CITYECRVOL.' Those two cells are Saturation DPS letters (1,447,283) and Saturation Non-DPS letters (3,696,910), which adds to the 5,144,193 in cell F9 of my Attachment 1. In turn, the 3,696,910 Non-DPS letters consists of (i) 1,863,243 Non-DPS saturation letters that bypass casing (in Cell D23), and (ii) 1,833,667 cased non-DPS saturation letters (in Cell D24).

The 1,863,243 volume of Non-DPS saturation letters that bypass casing comes from cell D8 in sheet '21.ECR Unit Costs FY04,' and that in turn comes from file (city04\_revised.xls), sheet 'fy04j-UseFY04CasingPercRev,' cell J175, which represents the sum of cells E15 (1,102,038), E72 (726,214) and E129 (34,991). Those three cells are the percentage of cased saturation letters derived by subtracting 1 less cells C12/I12 in file CASING04\_revised.xls, sheet 'EstimatesOfCased.Sat.Ltrs.Flts'.

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

The 1,833,667 of cased non-DPS saturation letters is derived from cell M12 in file CASING04\_revised.xls, sheet 'EstimatesOfCased.Sat.Ltrs.Flts', which is the estimated percentage of non-DPS saturation letters that are cased.

The various components that add to the 5,144,973 entry in cell F9 presumably are derived from City Carrier Cost System ("CCCS") sample data that have been inflated to estimate annual volumes. To the best of my knowledge, USPS-LR-K-67 neither contains nor gives references to the size of the CCCS sample, the expansion factor used to go from sample volumes to annual volumes, or any kind of statistical measures of dispersion (*e.g.*, standard deviation, coefficient of variation), that justify giving much weight to interpreting the datum 5,144,973 as the annual volume of letter-shaped saturation pieces of mail (*i.e.*, letters and DALs) delivered by city carriers. In other words, in my view the Postal Service has not established any basis for interpreting this datum as a "control total" for the volume of saturation letter-shaped pieces delivered by city carriers. To elaborate further on the subject of control totals, the entry in cell F9 is but one component of the larger entry in cell F19 of my Attachment 1, 7.259 billion total (letters and DALs). The Postal Service has not — and cannot — show that this is the correct total of saturation letters and DALs delivered by all modes, because it has no reliable data on the aggregate number of DALs entered with the Postal Service. For more discussion about "control totals," see

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

my response to ADVO/VP-T2-25(b). For more accurate data on the annual volume of DALs, see the revisions to my testimony submitted on August 23, 2005.

The number of DALs in cell D9 of my Attachment 1 (2,095,359) can be found in USPS-LR-K-67, file LR-K-67\_2nd.revised.xls, sheet 10.DALsVsECR%-EstOfRurICovrs, cell C8. In turn, that figure clearly is derived from cell L7 in file FY2004.DAL.MAILING.VOLUME.ESTIMATES.WithFootnotes.xls, worksheet 'FY2004DALMailingVolumeEstimates'.

The entry in cell C9 of my Attachment 1, as derived by the Postal Service in USPS-LR-K-67, file LR-K-67\_2nd.revised.xls, sheet 10.DALsVsECR%-EstOfRurICovrs, cell 8, is obtained by deducting the entry in cell D9 from the entry in cell F9. See my response to part c, *infra*, for more discussion about this datum, and the procedure used to derive it.

- b. Not confirmed. Attachment 1 of my response to ADVO/VP-T2-2 did not cite a reference for the source of the entry in cell F10, which contains the datum 1,651,443. The entry in cell F9 also can be found in USPS-LR-K-67, file LR-K-67\_2nd.revised.xls, sheet 10.DALsVsECR%-EstOfRurICovrs, cell E8. In turn, that figure is derived from the sum of cells B32 through F32 in worksheet

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

‘8.RrICwIk-RevSatBxds.Rev.Prcls.’ Only four of those five cells have positive entries; dLet/rLet (938,010), dLet/rSS (13,400), dLet/rDPS (313,875) and dLet/rBox (386,158). The first three are derived from ‘4.RCCS ECR PIECES’ and the last entry is derived from ‘7.Est.Sat.Boxdrs.ByShape’.

The number of DALs in cell D10 of my Attachment 1 (817,139) can be found in USPS-LR-K-67, file LR-K-67\_2nd.revised.xls, sheet 10.DALsVsECR%-EstOfRurICovrs, cell C9. In turn, that figure is derived from FY2004.DAL.MAILING.VOLUME.ESTIMATES.WithFootnotes.xls, worksheet ‘FY2004DALMailingVolumeEstimates’, cell L8.

The various components that add to the 1,651,443 entry in cell F10 presumably are derived from Rural Carrier Cost System (“RCCS”) sample data that have been inflated to estimate annual volumes. To the best of my knowledge, USPS-LR-K-67 neither contains nor gives references to the size of the RCCS sample, the expansion factor used to go from sample volumes to annual volumes, or any kind of statistical measures of dispersion (*e.g.*, standard deviation, coefficient of variation), that justify giving much weight to interpreting the datum 1,651,443 as the annual volume of letter-shaped saturation pieces of mail (*i.e.*, letters and DALs) delivered by rural carriers. In other words, in my view the Postal Service has not established any basis for interpreting this datum as a “control

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

total” for the volume of saturation letter-shaped pieces delivered by rural carriers.

The entry in cell C10 of my Attachment 2, as derived by the Postal Service in USPS-LR-K-67, file LR-K-67\_2nd.revised.xls, sheet 10.DALsVsECR%-EstOfRurlCovrs, is obtained by deducting the entry in cell D10 from the entry in cell F10. See my response to part c, *infra*, for more discussion about this datum, and the procedure used to derive it.

- c. Not confirmed. As discussed in my response to preceding parts a and b, USPS-LR-K-67, file LR-K-67\_2nd.revised.xls, sheet 10.DALsVsECR%-EstOfRurlCovrs, does indeed derive the volume of letters delivered by city and rural carriers by subtracting the estimated volume of DALs from the total shown in cells F9 and F10 of Attachment 1 of my response to ADVO/VP-T2-2. As shown in cell C12 of Attachment 1, that procedure results in a total of 3.883 billion saturation letters delivered by city and rural carriers, and that total exceeds by 1.5 percent the RPW total of 3.826 billion saturation letters (as shown in file LR-K-67\_2nd.revised.xls, sheet ‘5.RPW,’ cell C17), which my response described as “a curious result.” Inasmuch as Valpak estimates that about only 1.0 percent of their saturation letter mail is delivered to P.O. Boxes and highway contract routes, and witness Kelley did not consider it necessary to

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

reconcile this small excess over the RPW volume, at the time I prepared Attachment 2, I opted to ignore that “curious result,” and accepted witness Kelley’s estimate in order to concentrate on the issue of the volume of DALs, which I considered to be seriously underestimated by the Postal Service.

Since preparing my original response to ADVO/VP-T2-2, Advo has submitted actual data on the number of DALs which it entered with the Postal Service in 2002-2004; *see* responses to VP/ADVO-1-3. Those data show that in 2004 Advo, its subsidiary MMSI, and its A.N.N.E. network collectively entered 3.583 billion DALs, of which 93.9 percent, or 3.363 billion were delivered by city and rural carriers, with the balance, 6.1 percent delivered to P.O. Boxes, by highway contract carriers, or through general delivery. Advo’s combined volume of DALs delivered by city and rural carriers exceeds witness Kelley’s estimated volume of DALs delivered by city and rural carriers by over 15 percent. When all other mailers of DALs, such as Harte-Hanks and many other shopper publications around the country, are taken into account, the volume of DALs delivered by city and rural carriers is seen to be significantly higher than estimated by witness Kelley. In light of this new information, I have prepared and submitted an Attachment 3 (revised August 23, 2005) in response to ADVO/VP-T2-2. Attachment 3 updates and revises my previous Attachment 2

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

(in an effort to help avoid confusion, I have given it a new number). Your question asks me to explain why I believe:

it would be appropriate in Attachment 2 to assume that the estimated number of non-DAL letters in column C would be unaffected by [my] change (relative to Attachment 1) in the estimated number of DALs in Column D.

This question makes the implicit assumption that the entries in cells F9 and F10 in Attachment 1 are valid control totals for the number of letters and DALs delivered by city carriers and rural carriers, respectively, in FY 2004. For reasons discussed in my responses to preceding parts a and b, I do not believe that the Postal Service has established an adequate basis for considering them as control totals. It is my understanding that the purpose of CCCS and RCCS is to develop distribution keys. Such keys could be created simply by summing the sample data for each rate category and then dividing the entry for each rate category by the total. I frankly do not understand why the Postal Service has expanded the sample CCCS and RCCS data to purported "annual volumes." Having made the effort, however, it then seems to me that these estimated annual volumes should be checked to see how they comport with RPW totals. Toward this end, Valpak has pending VP/USPS-18, which requests the Postal Service to do just that for ECR saturation letters and non-letters.

Keeping the total volume of letter-shaped pieces and DALs delivered by city carriers and rural carriers fixed at 5.144 billion pieces and 1.651 billion pieces,

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

respectively, along with witness Kelley's estimate of 0.463 billion DALs delivered to P.O. Boxes and by highway contract carriers, results in the total of 7.259 billion shown in Attachment 1, cell F19. The actual number of saturation letters recorded by RPW (3.826 billion), coupled with the number of DALs reported by Advo (3.583 billion), totals 7.409 billion. Adding 0.572 billion DALs mailed by Harte-Hanks and an estimated 0.345 billion DALs for all other saturation mailers that use DALs gives a grand total of 8.326 billion saturation letters and DALs, as shown in my Attachment 3. Since this volume of saturation letters and DALs greatly exceeds the volume estimates derived from CCCS and RCCS, I see no way to reconcile the two. Nor do I see how to apply in a meaningful way the Postal Service methodology of subtracting the volume of DALs from those totals. Subtracting only Advo's volume of DALs delivered by city and rural carriers (3.363 billion) from witness Kelley's combined total of 6.796 billion pieces (Attachment 1, cell F12) would imply that only 3.433 billion saturation letters are delivered by city and rural carriers. Further subtracting the DALs entered by Harte-Hanks and other saturation mailers would seriously underestimate the volume of saturation letters delivered by city and rural carriers. Stated alternately, the large balance of saturation letters known to exist after such subtraction would have to be delivered by the other modes — namely, to P.O. Boxes, highway contract routes, or general delivery — in numbers completely out of proportion to anything else. The

**Response of Valpak Witness John Haldi  
to Follow-Up Interrogatory of Postal Service**

alternative, as I see it, is for the Postal Service to adjust its data and distribution keys to conform with the actual data (or the best estimates thereof), as shown in my Attachment 3. Adjusting to conform with the actual data would change the distribution of the costs attributed to city and rural as shown below.

USPS Distribution of  
Saturation Letters and DALs Delivered By  
City and Rural Carriers (from Attachment 1)

	Letters	DALs	Total
City Carriers	59.3%	40.7%	100.0%
Rural Carriers	50.5%	49.5%	100.0%

Valpak Distribution of  
Saturation Letters and DALs Delivered By  
City and Rural Carriers (from Attachment 2)

	Letters	DALs	Total
City Carriers	49.1%	50.9%	100.0%
Rural Carriers	40.4%	59.6%	100.0%