

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

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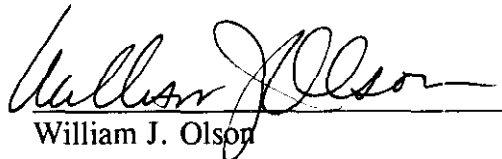
POSTAL RATE AND FEE CHANGES, 1997 )

Docket No. R97-1

RESPONSE OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,  
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. AND MERCK-MEDCO  
MANAGED CARE, LLC, TO INTERROGATORIES  
OF UNITED STATES POSTAL SERVICE (USPS/NDMS-T3-1-35)  
(January 30, 1998)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., District Photo Inc., Mystic Color Lab, Seattle FilmWorks, Inc., and Merck-Medco Managed Care, LLC, hereby provide the responses of witness John Haldi to the following interrogatories of the United States Postal Service: USPS/NDMS-T3-1-35, filed on January 16, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

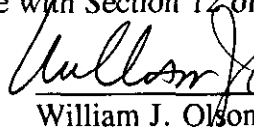


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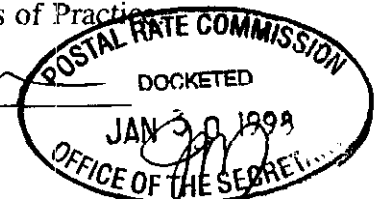
Counsel for Nashua Photo Inc., District Photo Inc.,  
Mystic Color Lab, and Seattle FilmWorks, Inc.,  
and Merck-Medco Managed Care, LLC

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson



January 30, 1998

**USPS/NDMS-T3-1.**

Please see your testimony at page 3, line 5-8, where you state that the residual shape surcharge will likely lead to extensive repackaging of mailpieces.

- (a) Please quantify "extensive" in terms of the percentage of pieces which would otherwise be subject to the surcharge without repackaging. Provide any documentation supporting your contention.
- (b) Please explain how such expenditures would lead to a reduction of revenues.
- (c) Are there any other rate implications for some of those mailers who repackage their mailpieces? If so, please list those implications.
- (d) If the answer to part (c) is yes, please confirm that these rate implications would lessen the likelihood of the mailer repackaging.
- (e) Are there any preparation implications for those mailers who repackage their mailpieces? If so, please list those implications.
- (f) If the answer to part (e) is yes, please confirm that these preparation implications could lessen the likelihood of mailer repackaging.
- (g) If the answer to part (e) is yes, please confirm that these preparation implications could lower the cost to the Postal Service of processing these pieces.

**Response:**

- (a) The attachment to the response to RIAA/USPS-T7-4 (Docket No. MC97-2) indicates that a sample of 68,895,941 Standard A parcels included the different types of items shown in the table below, which I have classified here as (i) clear candidates for repackaging (*e.g.*, the typical plastic container for a CD disk is

less than 0.5" thick), (ii) possible candidate, because the description does not provide sufficient information (e.g., an "other box" or "other" could be a box of greeting cards, which could readily be repackaged), and (iii) non-candidates, based on the description provided and the likelihood that the contents could not easily be repackaged into a container that meets the flat-sized dimensions of the DMM.

	<u>Volume</u>		<u>Share of Total</u>
<b>Clear Candidates:</b>			
CD Box	20,925,143		
Check Box	10,290,773		
Film Envelopes	<u>3,295,638</u>		
Subtotal		34,511,554	50.1%
<b>Possible Candidates:</b>			
Other Box	8,991,132		
Other	<u>17,364,062</u>		
Subtotal		26,355,194	38.3%
<b>Non-Candidates:</b>			
Video Box	3,277,929		
Roll/Tube	86,093		
Clothing Bag	1,381,531		
Prescription Drug	682,354		
Sample	<u>2,601,286</u>	<u>8,029,193</u>	11.7%
Total		68,895,941	100.1%
Total adds up to more than 100 percent due to rounding.			

You will note that approximately 50 percent of the sample falls into the category of clear candidates for repackaging, while another 38 percent are classified here as possible candidates. I consider such potential for repackaging to be extensive.

(b) Parcels that are transformed to pieces with a flat-sized dimension via repackaging will not have to pay the surcharge, thereby reducing Postal Service revenues from those requested by the Postal Service in this docket.

(c) and (e)

Pieces with flat-sized dimensions must be presorted to 3-digits in order to qualify for the 3-digit presort discount. Any mailer who converts machinable parcels to flats but does not have sufficient density to qualify for the 3-digit presort discount would have to pay a higher rate, thereby offsetting some of the savings from avoiding the surcharge.

(d) and (f)

Confirmed that it could reduce the incentive for those mailers of machinable parcels that do not have sufficient density to presort to 3 digits.

(g) Finer presortation should reduce Postal Service handling costs.

**USPS/NDMS-T3-2.**

Please see your testimony at page 6, lines 4-5, where you state the percentage of Standard Mail (A) envelopes mailed by NDMS that are parcel-shaped. Please provide the number of pieces represented by this percentage.

**Response:**

The range provided was an estimate only, and the number is estimated to be in excess of 5 million.

**USPS/NDMS-T3-3.**

Please see your testimony at page 6, line 12.

- (a) Please confirm that prescription drugs are being mailed at Standard Mail (A) rates.
- (b) Please estimate the monetary value of the contents of a typical mailing by Merck-Medco Managed Care.

**Response:**

- (a) Confirmed
- (b) I am advised that the mailings vary from a few dollars to in excess of \$100. No mailing is typical, as they vary widely.

**USPS/NDMS-T3-4.**

Please see your testimony at page 7, lines 14 through page 8, line 7, where you cite Commissioner LeBlanc's dissenting opinion in Docket No. MC95-1 regarding a Standard Mail (A) parcel surcharge.

- (a) Please confirm that Commissioner LeBlanc's opinion also proposed a 5-cent surcharge for Regular and ECR parcels.
- (b) Please confirm that Commission LeBlanc also stated that "the Commission need not know that each and every parcel is being cross-subsidized in order to justify a surcharge."

**Response:**

- (a) Confirmed
- (b) Confirmed; you have quoted correctly from Commissioner Le Blanc's dissenting opinion, which speaks for itself.

**USPS/NDMS-T3-5.**

Please see your testimony at page 9, footnote 6. Please confirm that the quotation attributed to witness Moeller is actually the characterization of the Commission in its Recommended Decision (PRC Op., MC95-1, at page V-230, ¶5569).

**Response:**

Confirmed that the term used by witness Moeller at USPS-T-36, p. 12, l. 9. is almost identical to that used by the Commission in its *Op. & Rec. Dec.*, Docket No. MC95-1, page V-230, ¶ 5569.



**USPS/NDMS-T3-6.**

Please see your testimony at page 10, lines 10-12, where you discuss rate increases of up to 7 percent for Regular nonletters.

- (a) Please identify the specific rate which is proposed to increase by this amount.
- (b) Please confirm that the proposed increase for Regular automation 3/5-digit flats (e.g. nonletters) is 9.5 percent.

**Response:**

- (a) The testimony looked to the Postal Service's proposed increase to piece-rated Standard A Regular nonautomation 3/5 digit DSCF-entry nonletter rates, which would actually be an increase of 7.25 percent, to be precise. The true size of the rate increases faced by some Standard A Regular nonletter mailers (excepting the residual shape surcharge) under the Postal Service's proposal are even greater than stated in my testimony.
- (b) Confirmed.

**USPS/NDMS-T3-7.**

Please see your testimony at page 11, footnote 9.

- (a) Please confirm that in the response to PSA/USPS-T36-8 cited in the footnote, witness Moeller provides a projection of Test Year volume subject to the residual shape surcharge. If you cannot confirm, please explain.
- (b) Please confirm that in response to PSA/USPS-T26-1, witness Moeller provides a citation to the Test Year volume subject to the residual shape surcharge in the Regular subclass (which was the subclass requested in the interrogatory).
- (c) Please clarify how the two responses cited in the footnote are "somewhat at variance"?

**Response:**

- (a) Confirmed.
- (b) Confirmed.
- (c) A review of witness Moeller's response to PSA/USPS-T26-1 indicates that the Postal Service does not have separate Test Year cost or per-piece revenue data for residual shaped pieces, but it does report volume estimates. Accordingly, the footnote should end after the first sentence, with the remainder of the footnote withdrawn.

**USPS/NDMS-T3-8.**

Please see your testimony at page 11, line 23, through page 12, line 2.

- (a) Assuming a 10 cent residual shape surcharge, do you have a projection of the number of pieces which will be subject to the surcharge in the test year? If so, please provide the projection.
- (b) Do you have an own-price elasticity estimate for pieces subject to the residual shape surcharge? If so, please provide the estimate.
- (c) Please confirm that price changes are not the only factor affecting volumes from year to year. If you cannot confirm, please explain.

Response:

- (a) See my testimony at p. 13, lines 3-6. I do not have any Test Year projection for residual shaped pieces other than that provided by the Postal Service.
- (b) I do not have any estimate of own-price elasticity for residual shaped pieces other than that provided by the Postal Service.
- (c) I believe that the statement in this part of your question is generally true for every class, subclass and rate category of mail.

**USPS/NDMS-T3-9.**

Please see your testimony at page 13.

- (a) Would the alternative packaging which would allegedly occur increase the cost to the mailer?
- (b) If the answer to part (a) is no, please explain why mailers aren't packaging their mailpieces as flats today.

**Response:**

- (a) Yes, all parcel mailers would necessarily incur a one-time non-recurring cost to change over to a package that has flat-shaped dimensions. Whether the recurring cost of new packaging (with flat-shaped dimensions) would exceed the cost of existing packaging would depend upon each mailer's circumstances (*e.g.*, cost of current packaging, volume, the particular design selected for any new packaging, etc.).
- (b) Not applicable

**USPS/NDMS-T3-10.**

Please see your testimony at page 14.

- (a) Please confirm that you are predicting that virtually all parcel mailers who can repackage their mailpieces will indeed repackage the pieces as a flat.
- (b) What percentage of current non-flat nonletters in Standard Mail (A) can be repackaged?
- (c) Provide any quantitative information supporting your contention that "virtually all" mailers who can repackage will indeed do so.

**Response:**

- (a) My testimony at p. 14 states that "virtually all parcel mailers whose product gives them a repackaging option will in fact seek to repackage their products into flat-shaped mailpieces if confronted with a significant surcharge for parcels." (Emphasis added.) It was not my intention to say that those parcel mailers who have an option will in fact repackage, because I have neither surveyed nor discussed the matter with any parcel mailers other than the sponsors of my testimony. The word "seek" was intended to mean that imposition of a significant surcharge will cause virtually all parcel mailers to reexamine all of their options to avoid the surcharge, including repackaging in those circumstances where that is an option.
- (b) See my response to USPS/NDMS-T3-1a.
- (c) See my response to preceding part a.

**USPS/NDMS-T3-11.**

Please see your testimony at page 14, lines 1-3, where you state that, other than economy, parcel-shaped pieces do not provide mailers with any added value over a flat-shaped mailpiece.

- (a) Please quantify the economy offered to mailers by parcel-shaped pieces versus flat-shaped pieces.
- (b) Can you say that there is no added value to the recipient of a parcel-shaped piece versus a flat-shaped piece, all else equal?

**Response:**

- (a) Since the rate for flats and parcels is currently identical, the economy relates to the cost of packaging. For example, photographic prints returned by mail are inserted into a gusseted envelope. An envelope with some kind of an internal divider to keep the contents under 3/4" in thickness might cost more than the envelope currently used by photo finishers. Similarly, a box of checkbooks is inserted into a simple paperboard outer box. A redesigned, flat-shaped outer box might cost more.
- (b) For items that can be packaged as a parcel or a flat (*e.g.*, photographs, books of checks, or greeting cards), it is the outer packaging that determines the dimensions, which in turn determines whether the mailpiece can qualify as a flat. In all instances of which I am aware, after being opened the outer packaging is discarded. Assuming that the outer packaging has been designed to protect the contents so that they arrive in the same condition as occurs with the existing parcel-shaped package, I am not aware of any added value to the recipient of a parcel-shaped piece versus a flat-shaped piece.

**USPS/NDMS-T3-12.**

Please see your testimony at page 14, line 14, regarding unintended consequences.

- (a) If widespread repackaging occurred, and indeed the repackaged pieces were significantly more costly than other flats, might one of the consequences be a change in the definition of a flat?
- (b) Would the possibility of a change in the definition of a flat temper a mailer's enthusiasm to pursue a repackaging effort to produce, as you describe them, "perversely created cumbersome flats?"

Response:

- (a) Inasmuch as the Postal Service determines the definition of a flat, I would suppose that "anything is possible" along the line which your question suggests. I would note, however, that although some flats assertedly cost much less to process than other flats (*e.g.*, polywrapped tabloids that are, or have been, non-machinable), the Postal Service has not attempted to change the definition of a flat, or impose a surcharge on such pieces. A review of available old DMMs reveals that there has been no change in the definition of a flat for at least 11 years (back through DMM 24, issued in 1987).
- (b) Mailers typically deal with rules as they are, not how they might be.

**USPS/NDMS-T3-13.**

Please see your testimony at page 15, lines 6–7.

- (a) Might one of the new problems presented to a carrier as a result of the repackaging be the inability to fit the piece into the mailbox, requiring the recipient to retrieve the piece at the post office?
- (b) Would such an outcome be desirable from the perspectives of (i) the recipient and (ii) the mailer?
- (c) Would the mailer consider this effect on the recipient when deciding whether to engage in repackaging "mischief," as you describe it at page 19 of your testimony?

**Response:**

- (a) This definitely is one distinct possibility that could arise from such repackaging, most especially for rigid boxes that are within the dimensions of a flat as specified in the DMM.
- (b) For the recipient, it would probably be less convenient than having the piece delivered in the mailbox. The attitude of mailers is more difficult to project. Some may not consider it at all, while others might consider it undesirable. It would also be less desirable from the perspective of the Postal Service.
- (c) As discussed in my response to part b, some mailers might consider this effect, while others might not.



**USPS/NDMS-T3-14.**

Please see your testimony at page 15, lines 7-9, where you state that the proposed surcharge neither recognizes nor gives any incentive for machinability, citing witness Moeller's response to NDMS/USPS-T36-4.

- (a) Please reconcile your statement that "machinability is not recognized" with witness Moeller's statement in the cited response that "machinability is factored into the calculation of the cost differences."
- (b) Is it your testimony that machinability of parcels is not encouraged at all by rates or preparation requirements?

**Response:**

- (a) I do not see anything to "reconcile." Witness Moeller's statement pertains to the calculation of cost differences, whereas the statement in my testimony pertains to incentives provided to mailers by the "rate design" of the proposed surcharge. Witness Moeller's response to the above-referenced interrogatory also states:
  - "Pieces not meeting the definition of a letter or flat...are subject to the residual shape surcharge. Machinability, per se, is not a determinant." (Emphasis added.)
  - "The surcharge itself is not designed to encourage machinability."
- (b) This is a compound question. With respect to rates, yes, that is my testimony. To elaborate, one reason that the rate structure provides no incentives to encourage machinability may be the fact that the Postal Service has done so little to mechanize the processing of small parcels. For further discussion on this point, see my response to USPS/NDMS-T3-17.

Response of Dr. John Haldi to USPS/NDMS-T3-14

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With respect to preparation requirements, the answer is no. For further discussion, see my response to USPS/NDMS-T3-1, USPS/NDMS-T3-21, and USPS/NDMS-T3-22.

**USPS/NDMS-T3-15.**

Please see your testimony at page 20, line 12, where you quote parts of an interrogatory response of witness Moeller, and the accompanying footnote 18, which states that the emphasis in your testimony on the words "not relevant" was *in the original of the quoted passage*. Is it your testimony that the response by witness Moeller contained the emphasis? If this is not your testimony, please provide a revised page 20.

**Response:**

This correction will be noted in an errata.

**USPS/NDMS-T3-16.**

Please see your testimony at page 20, line 11, through page 21, line 4.

- (a) Please confirm that a rate difference between letters and nonletters was implemented for third-class mail in 1991.
- (b) Is it your understanding that the rate differential was instituted so that nonletters would cover their costs?
- (c) Were carrier route nonletters not covering their costs prior to the institution of a letter/nonletter rate differential?
- (d) Do you advocate elimination of the rate distinction between letters and nonletters in ECR?
- (e) If the rate difference were eliminated in ECR, would nonletters cover their costs?

**Response:**

- (a) Confirmed
- (b) No.
- (c) Carrier route nonletters were covering their costs, to the best of my knowledge.
- (d) No.
- (e) Yes.

**USPS/NDMS-T3-17.**

Please see your testimony at page 22, lines 6-9. You state that it is a reasonable proposition that parcels, on average, cost more to handle than flats.

- (a) Please confirm that the first factor you cite to explain why the average parcel costs more to handle than the average flat is the heavier weight of parcels on average.
- (b) What other factors can you offer to explain why parcels cost more than flats?
- (c) Is it your testimony that weight is the only reason parcels are more costly than flats, and that shape plays no role?

**Response:**

- (a) Confirmed.
- (b) The Postal Service has invested far more to mechanize the handling of flats than it has to mechanize the handling of parcels. For example, widespread deployment of the second-generation flat-sorter (the FSM 1000) is well underway, and barcode readers are reported to have been ordered for all FSM 1000s. Ordering and deployment of a third-generation flat sorter is said to be in the advanced planning stage. Parcels, by contrast, are still sorted on the SPBS, and the Postal Service has equipped a very few of these with bar code readers on an experimental basis only. Thus, at the present time it would be an exercise in futility for parcel mailers to put barcodes in the address box.

Further, when flats are sorted and put into flat trays, facing of the address is preserved. Development of a high speed flat feeder (HSFF) which requires facing, is said to be in an advanced stage, nearing deployment. With

respect to small parcels, however, to the best of my knowledge the Postal Service has not developed any form of containerization that preserves facing for any subset of parcels. Thus, even those small parcels that are fully machinable on the SPBS must be faced individually (which often requires turning the parcel over each time they are sorted on the SPBS). Mechanization of parcel handling is thus seen to be somewhat primitive in comparison to mechanization of flat processing.

Finally, some parcels, such as rolls and tubes, may be totally unamenable to processing on an SPBS, and have to be processed manually at each stage, from acceptance to delivery.

- (c) No. See response to preceding part b.

**USPS/NDMS-T3-18.**

Please see your testimony at page 27, line 8. Provide the citation to the quote "it is no secret" attributed to witness Moeller.

**Response:**

Tr. 7/3162, ll. 7-14:

As a matter of fact, and this isn't a secret, really, I think when parcel classification was filed, the DMA issued an announcement on their web page that said some parcel mailers may, however, be able to avoid the surcharge by mailing their smaller parcels as flats, so it seemed like it was obvious there that these pieces that are in this grey area can be prepared as flats and avoid the surcharge.

Addition of the quotation marks was inadvertent, and this correction will be noted in an errata.

**USPS/NDMS-T3-19.**

Please see your testimony at page 27, footnote 29.

- (a) Please explain how witness Moeller's response to DMA/USPS-T36-3 is related to the sentence to which this footnote refers.
- (b) Please explain how witness Moeller's response to DMA/USPS-T36-9 is related to the sentence to which this footnote refers.
- (c) Please explain how witness Moeller's response to NAA/USPS-T36-5 is related to the sentence to which this footnote refers.
- (d) Please define "characterized" in line 11 of page 27.

**Response:**

- (a) As noted in the sentence of my testimony which immediately precedes the sentence to which the footnote is appended, under oral cross examination witness Moeller states (Tr. 7/3162, ll. 7-14) that it isn't a secret, and is "obvious" that there exists a "grey area" where flat and residual shapes overlap. (See also my response to USPS/NDMS-T3-18.) DMA's interrogatory asked witness Moeller to assume that a residual-shaped piece "has cost-causing characteristics similar to a flat" and is subject to the proposed surcharge. Witness Moeller states "a piece with cost-causing characteristics similar to a flat likely meet the definition of a flat, so I am not sure the assumption here is particularly realistic." Witness Moeller's answer implies that there are no residual shape pieces with cost-causing characteristics of a flat; *i.e.*, flats are flats, parcels are parcels, and each has its own distinct cost-causing characteristics, which he presumes do not overlap.



- (b) DMA's interrogatory cited witness Moeller's response to NAA/USPS-T36-5(d), and asked him whether his answer implies that the Postal Service has performed studies which show that shape is the factor that differentiates the costs of flats from those of nonflats. Witness Moeller states that his answer to NAA "implies that a piece which meets the definition of a flat, and is not prepared as a parcel, is going to be processed as a flat." Again witness Moeller's answer implies that flats have their own distinct cost-causing characteristics and associated unit costs, which he presumes have little or no overlap with the unit costs of residual shaped pieces. His answer to DMA/USPS-T36-9 cites the cost differences between flats and nonletters described in the testimony of witness Crum (USPS-T-28). However, he fails to note that witness Crum's study contains no information concerning the standard deviation (or any other measure of dispersion about the mean) of the unit costs developed there.
- (c) NAA's interrogatory asked whether it would be possible to define "parcel" in such a manner as to exempt parcels with flat-like cost characteristics from the surcharge. Witness Moeller answered that a piece with "flat-like" costs will likely meet the definition of a flat, in which case it would be exempt from the surcharge, as long as it is prepared in accordance with flat preparation requirements. Moeller's answer thus implies that no residual shape pieces share cost-causing characteristics with flats, while his answer under cross-examination

(Tr. 7/3162, 11. 7-14) states that it is not a secret, and is "obvious," that there is a "grey area" where flat and residual shapes overlap.

- (d) The term "characterized" is defined in this context as "being regarded for purpose of being recorded [in RPW statistics and IOCS cost data]."

**USPS/NDMS-T3-20.**

Please see your testimony at page 29 where you say there may be "chaos" if all pieces subject to the surcharge are not identifiable by IOCS as pieces which are subject to the surcharge.

- (a) Please explain what you mean by "chaos" in this context.
- (b) Would a requirement that pieces be marked to indicate that they paid the surcharge prevent this "chaos"?

**Response:**

- (a) In the context of deriving statistical samples for the purposes of estimating the costs of pieces subject to the surcharge, I take "chaos" to mean data collection procedures subject to such massive confusion as to have any impartial professional observer characterize them as unreliable or unacceptable.
- (b) Yes, provided (i) a one-to-one correspondence exists between the pieces so marked and the pieces actually subject to the surcharge, and (ii) the markings are readily identifiable by IOCS tally clerks.

**USPS/NDMS-T3-21.**

Please see your testimony at page 29, lines 6 through 9.

- (a) Please confirm that, under the current rates and classifications, there are some pieces which are eligible for more than one rate.
- (b) Please confirm that if a piece is prepared as a flat, its costs will be different from its costs if it were prepared as a parcel. If you cannot confirm, please explain why the costs would not be dependent on how the piece was prepared.

**Response:**

- (a) Confirmed. For example, anyone with sufficient funds and insufficient sense could send a postcard by Express Mail. Priority Mail contains a substantial number of pieces that weigh less than 12 ounces, and therefore would qualify for First-Class rates.
- (b) There is a presumption that the costs ought to be different, because of the 3-digit presort requirement for flats, which is designed to enable the Postal Service to avoid a separation for pieces prepared as a parcel. However, I do not possess any data to confirm that the costs are in fact different.

**USPS/NDMS-T3-22.**

Please see your testimony at page 33, line 15.

- (a) Please confirm that a machinable parcel presorted to BMC receives the 3/5 digit nonletter presort discount. If you cannot confirm, what presort discount are these pieces eligible for?
- (b) Please confirm that if these machinable parcels were instead flats, they would need to be presorted to 3-digit, at a minimum, to receive the 3/5-digit nonletter presort discount. If you cannot confirm, please explain.
- (c) Please confirm that 3-digit is a finer presortation than BMC. If you cannot confirm, explain.
- (d) Please confirm that it is possible that the parcels presorted to BMC would not have the density required to presort to 3-digit, and therefore, would not qualify for the 3/5-digit presort discount if they were prepared as flats. If you cannot confirm, please explain how, in every instance, a machinable parcel mailing would qualify for the 3/5-digit presort discount if it were instead prepared as a flat mailing.
- (e) Assume that a machinable parcel mailing qualifies for the 3/5-digit presort discount, and would not qualify if that same mailing were prepared as non-machinable flats. Would you characterize the presorted parcels as being "short-changed" when it comes to presort discounts?

**Response:**

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) In the situation and circumstances posed by this question, the preparation requirements are used as the basis to charge a non-machinable parcel more than

a machinable parcel in similar presort condition, without denominating the difference in rates as a "surcharge" for being non-machinable. Under the presumption that non-machinable parcels do in fact cost somewhat more to handle than machinable parcels, I would not characterize the presorted non-machinable parcels as being short-changed by virtue of using the preparation requirements as a proxy for a cost-related surcharge. Whether it is good policy to allow rates to be set through the DMM in this manner is another question.

**USPS/NDMS-T3-23.**

Please see your testimony at page 40, line 13, where you refer to a 1.8 cent "margin."

- (a) What percent cost coverage is implied for these pieces, assuming they are in the Regular subclass, with a 1.8 cent "margin?"
- (b) Does your calculation of the "margin" reflect any rate reduction the piece would receive by virtue of the proposed lowering of the pound rate? If not, how would the "margin" be affected? What would the resulting "margin" be?

Response:

- (a) For reasons explained below, your question strikes me as ambiguous, but I will try to answer it as I understand it. The basic cost-revenue data in column 1 below are from my Table 2, page 11, and are for the entire Regular subclass, nonprofit and commercial rate combined.

	Regular Subclass Unadjusted	Regular Subclass w/ 10-cent Surcharge	Regular Subclass w/ 8.3-cent Surcharge
Revenue	0.455	0.555	0.538
Cost	<u>0.520</u>	<u>0.520</u>	<u>0.520</u>
Difference	(0.065)	0.035	0.018
Coverage		107%	103%

The second column has a 10-cent surcharge which, when applied only to mail in the Regular subclass, results in a 3.5 cent margin. The third column has an 8.3 cent surcharge which, when applied only to mail in the Regular subclass, results in a 1.8 cent margin.

- (b) The average margin of 1.8 cents discussed in my testimony at page 40 is based on the data provided by witness Crum and shown in my Table 2 at p. 11. Those data are based on billing determinants and do not reflect the proposed lowering of the pound rate (from 67.7 cents to 65.0 cents for the Regular subclass), nor do they reflect the proposed increase in the piece rate for pieces that qualify for the 3/5 digit rate (from 8.5 to 10.6 cents per piece for the Regular subclass). For the average commercial rate Regular subclass parcel which weighs 8.9 ounces, without any surcharge, the current rate is 46.2 cents and the proposed rate is 46.8 cents. Based on this example, which uses the mean weight for 95 percent of all commercial pieces, I doubt that use of proposed rates would change the picture very much.



**USPS/NDMS-T3-24.**

Please confirm that you have done no analysis to calculate the own-price elasticity for Standard Mail (A) parcels. If you have, please provide your analysis.

**Response:**

Confirmed; see my response to USPS/NDMS-T3-8b.

**USPS/NDMS-T3-25.**

Please refer to your comments on page 13 regarding "highly competitive industries." Also, please refer to the Commission's Opinion and Recommended Decision in Docket No. MC95-1, dated January 26, 1996. The Opinion says that "the parcel pricing problem needs action through a near-term rate filing." PRC Op., MC95-1, at V-230. In his dissent from the Commission's declining to recommend a solution in that case, Commissioner LeBlanc stated that "[w]hat is necessary for the Commission is...to alert the third-class parcel mailers that in the future there may be adjustments in their rates. Thus, they would be wise to adjust their mailing practices to protect themselves against these increased costs". Dissenting Opinion of Vice Chairman W.H. "Trey" LeBlanc at 2. Is it your testimony that the business decision makers in these "highly competitive industries" have taken no steps thus far despite such clear statements as to the likely future changes affecting their businesses? Please state your rationale for describing a foreshadowed 10-cent surcharge as "staggering."

**Response:**

Without any doubt, the clear statement contained in the dissenting opinion of Vice-Chairman W.H. "Trey" LeBlanc, which you quote, contained considerate, well-intentioned advice. With all due respect, however, Commissioner LeBlanc has no responsibility for formulating Postal Service proposals for parcels nor, has he ever represented that he could foretell the future. At the time Commissioner LeBlanc wrote his dissenting opinion, he had no foreknowledge of how the Postal Service would define a parcel, or whether the Postal Service would not apply the surcharge to parcels that are machinable, or bar-coded, or more finely presorted, or drop shipped. Thus, while advising mailers "to adjust their mailing practices to protect themselves," the direction in which they perhaps should have adjusted their mailing practices was, to say the least, somewhat ambiguous. As it turns out, under the Postal Service proposal which has finally emerged in this docket, about the only change in mailing practice that will avoid the surcharge will be to convert parcel-shaped pieces to flat-shaped pieces

wherever that is a feasible option. The surcharge will apply to all pieces that do not so convert. The one possible exception pertains to mailers of flat-shaped pieces that are currently prepared as parcels. Those mailers may be able to avoid the surcharge either (i) by paying the somewhat higher unsorted flat rate, or (ii) by holding on to their flat-shaped mail until they amass sufficient volume to qualify for the 3-digit discount.

**USPS/NDMS-T3-26.**

Please refer to page 14 of your testimony where you state "one can predict with a high degree of confidence that virtually all parcel mailers whose product gives them a repackaging option will in fact seek to repackage their products into flat-shaped mailpieces if confronted with a significant surcharge for parcels... Thus, one immediate and highly predictable result of the Standard A parcel surcharge would be a massive repackaging of mailpieces now classified as parcels."

- (a) Is it your testimony that the business decision makers in these "highly competitive industries" have taken no steps thus far despite such clear statements as to the likely future changes affecting their businesses? Please state your rationale for describing a foreshadowed 10-cent surcharge as "staggering."
- (b) Is it your testimony that the business decision makers in these "highly competitive industries" have taken no steps thus far despite such clear statements as to the likely future changes affecting their businesses? Please state your rationale for describing a foreshadowed 10-cent surcharge as "staggering."

Response:

- (a) See my answer to USPS/NDMS-T3-25. In a highly competitive industry, such as photo finishing, a "staggering" added expense is one that, on the one hand, wipes out a substantial portion of each firm's profit margin, and yet, on the other hand, is not an expense to the vast majority of competitors (who do not use or rely on the Postal Service). The increase in Standard A Regular rates for 3/5 digit DSCF parcels, for pieces under the breakpoint, would be 55.56 percent. This increase is "staggering."
- (b) See response to part a.

**USPS/NDMS-T3-27.**

Please provide any analysis you have done within any industry, or any nationally representative study you have completed, showing the costs of repackaging and retooling production systems versus the costs of a 10 cent surcharge?

**Response:**

I have not undertaken any analysis or studies of the type described by this interrogatory. See, however, my response to USPS/NDMS-T3-10a, in which I state that I have discussed the matter of repackaging with the mailers who are the sponsors of my testimony. I also received relevant information from professional representatives of other intervenors in this docket.

**USPS-NDMS-T3-28.**

In light of your comments regarding the proposed 10 cent surcharge, please compare the rate for shipping a 15.9-ounce parcel and the rate for shipping a 16.1-ounce parcel, both including and excluding the 10-cent surcharge in Standard Mail (A)? You may make any assumptions regarding dropship or presort that you find reasonable, but please exclude any content restricted subclasses.

**Response:**

A 15.9 ounce piece entered in Standard A Regular Subclass, Presort Category, by definition is entered as unzoned bulk mail. Under the proposed rates, Standard B Parcel Post has single-piece (*i.e.*, non-bulk) zoned rates, and bulk rates for entry at DBMC (zoned) and DSCF (unzoned). All Standard B Parcel Post rate tables have a 2-pound minimum, as the Postal Service does not offer hundred-weight pricing to its customers.

The following table compares (i) a 15.9 ounce piece of Standard A mail, SCF entry, at proposed rates with and without a surcharge, with (ii) the proposed 2-pound minimum rate (which would be applicable to a 16.1 ounce parcel) for Parcel Post DSCF entry (cents per piece).

**Standard A**

Per Piece Rate:	
3/5-Digit	10.6
Less: SCF entry	<u>-8.8</u>
Subtotal	1.8
Plus Per Pound:	
15.9 oz. @ 65.0	<u>64.6</u>
Subtotal	66.4
Plus Surcharge	<u>10.0</u>

Total 76.4

Parcel Post

Per Piece (implicit) 136.0

Plus Per Pound, at 12.0  
per pound, 2 pounds  
minimum 24.0

Total 160.0

**USPS/NDMS-T3-29.**

Please refer to page 15 of your testimony. Please confirm that you have done no analysis regarding the incentives, either intended or otherwise, related to the proposed 10-cent surcharge. If you have, please provide the results of any such analysis used to support your claims.

**Response:**

Confirmed.



**USPS/NDMS-T3-30.**

Please refer to page 17 of your testimony. Please confirm that you have done no nationally representative study to analyze the size and types of delivery receptacles and how packaging changes could raise or lower costs Postal Service delivery costs. If you have, please provide those results.

**Response:**

Confirmed that I have not undertaken any such study. Moreover, no such study appeared necessary. It strikes me as common sense that when items do not fit into a mail receptacle, the cost of delivery increases. Anyone familiar with (i) mail receptacles in apartment houses, (ii) the "rural" mailbox that is so common in most suburbs, and (iii) the small box that individuals rent in post offices, knows that the DMM dimensions of a flat exceed the dimensions of these receptacles. Most flat-shaped mail pieces fit into such receptacles only because they can be and are folded. If the flat-shaped piece is rigid, however, it cannot be folded, and if its dimensions exceed the size of the receptacle, it will not fit.

**USPS/NDMS-T3-31.**

Is it your testimony that Standard A parcel mailers might spend more than 10 cents to reconfigure their packages as flats? If not, up to how much do you believe such mailers would spend?

**Response:**

No. Mailers can be expected to weigh both current and future savings that would accrue through avoidance of the surcharge against costs incurred to avoid the surcharge. Costs incurred to avoid the surcharge would likely be looked upon as an "investment," with estimates for future savings regarded or calibrated as return on the investment. When the return exceeds the "hurdle rate," investment could be reasonably expected to follow. It should be obvious that a mailer's volume will be a critical input to this exercise.

**USPS/NDMS-T3-32.**

Please refer to page 18 of your testimony. Do you have any nationally representative evidence to show that mailers will indeed repackage their product and that this repackaging will either raise or lower Postal Service mail processing costs?

**Response:**

No. Nor, apparently, does the Postal Service.

**USPS/NDMS-T3-33.**

Please refer to page 21 of your testimony and witness Crum's response to NDMS/USPS-T28-19. Please explain exactly how modeling mail processing costs would alter the results shown in Table 3, Exhibit K of witness Crum's testimony.

**Response:**

Because witness Crum's objective was to lay the foundation for development of a "simple, conservative" surcharge, and since his study was designed to match the objective (and no more), the surcharge is presented to mailers and the Commission as a take-it-or-leave-it proposition. No indication is given of the cost difference between mechanized and manual handling, nor of costs avoided through finer presortation. Yet, the very high cost of handling parcels raises the important question of whether separate presort discounts should be established for parcels, as I discuss on page 33 of my testimony. In other words, if parcels cost so much more to handle, then (i) what costs are avoided through finer presortation and dropshipment? and (ii) what incentives should be established to encourage mailers to adopt practices that will avoid more costs? Without such information, which witness Crum fails to provide, it is extremely difficult to develop any realistic alternatives to the Postal Service proposal, just as it is difficult to accept that there is a reasonable foundation for the proposal itself.

**USPS/NDMS-T3-34.**

Please refer to page 22, lines 3 and 4 of your testimony. Is it your understanding that the information related to Cost Segments 7, 8, 10, and 14 in Table 3, Exhibit K in witness Crum's testimony is produced by the In-Office Cost System?

**Response:**

No. A more precise statement would be: Instead, the Postal Service's entire case *with respect to mail processing cost* rests solely on an IOCS-based cost study. In the context of the preceding paragraphs in that portion of my testimony, that meaning seemed to be implied.

**USPS/NDMS-T3-35.**

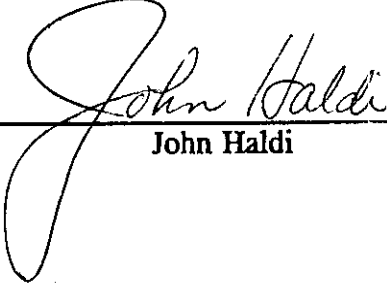
Please refer to page 24 of your testimony. Please identify exactly how describing each cost driver to whatever level of detail you desire would alter either the results of the analysis in witness Crum's testimony or the actual surcharge proposed by witness Moeller?

**Response:**

See my response to USPS/NDMS-T3-33. Also see the discussion in part VI of my testimony, pp. 31-36. By way of example, as pointed out there in Table 3, the unit delivery cost for Nonprofit ECR parcels is 99 cents, and for commercial rate parcels it is 28 cents. The unit delivery cost for each of these ECR subclasses is somewhat higher than the unit delivery cost for "other" parcels (22 and 13 cents, respectively). At the same time, ECR parcels are significantly lighter in weight than "other" parcels. The first question is: Are these cost differences just the result of some anomalous quirk in the data, or are they real? If they result from anomalous, unreliable data, then shouldn't the data be disregarded? (That would change the results of witness Crum's analysis.) Alternatively, if the cost differences are real, then what drives them? Do ECR parcels use detached labels extensively, and if so, are detached labels the source of sharply higher costs? Should detached labels for parcels be banned or subject to a special surcharge? (That proposition would represent a change in witness Moeller's proposal.) Without knowing what cost really is, and the factors that drive that cost to be what it is, the development of sensible cost-based rates ranges between difficult and impossible.

**DECLARATION**

I, John Haldi, declare under penalty of perjury that the foregoing answer is true and correct to the best of my knowledge, information and belief.

  
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John Haldi

Dated: January 30, 1998