

DOCKET SECTION

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.,
VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC., TO INTERROGATORIES
OF NEWSPAPERS ASSOCIATION OF AMERICA (NAA/VP/CW-T1-1-7)
(February 3, 1998)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc., hereby provide the responses of witness John Haldi to the following interrogatories of the Newspaper Association of America: NAA/VP/CW-T1-1-7, filed on January 20, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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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

February 3, 1998

NAA/VP/CW-T1-1.

Please refer to page 6, lines 19-21 of your direct testimony where you state that the Postal Service has encouraged VPDMS to delivery point barcode all of its mail.

- (a) Why has the Postal Service encouraged VPDMS to delivery point barcode its mail?
- (b) Is there any advantage to VPDMS in complying with the Postal Service's request to delivery point barcode the mail? If yes, please explain the advantage to VPDMS.

Response:

- (a) It provides the Postal Service with the option of using automation equipment to sort VPDMS letter-shaped mail to carrier route.
- (b) In theory, Val-Pak should get better delivery service by providing the Postal Service with the option to sort its mail on automation equipment. If saturation letters do not have barcodes, the carrier's only options are to take them as a third bundle or else case them manually. If the carrier cannot do either (*e.g.*, the carrier has a heavy load of preferred mail to sort manually and another third bundle which takes precedence), then Standard A may be deferred at the carrier case for a limited period.

In practice, however, events often do not work as they theoretically should. By virtue of having barcoded its mail, Val-Pak has actually experienced extra delay at delivery units which do not have CSBCS equipment. Following is a description of the scenario in which this extra delay occurs. The mail is

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entered at the SCF and, because it is saturation mail, is sent on to the DDU unopened. After arriving at the DDU, the mail is opened and the mail is found to be barcoded (this may occur the same day it arrives at the DDU or after some deferral). It is then decided to send the mail back to the P&DC for DPS on automation equipment. Since it is Standard A mail, the P&DC may also decide to defer it (the P&DC has no way of knowing that it may have spent 2 to 3 days in transit to the DDU and back). The mail thus winds up being deferred longer and receiving worse service than if it had never been barcoded.

NAA/VP/CW-T1-2.

Please refer to page 8, lines 9-12. Please provide the following information on the 300 million pieces that Carol Wright/Cox Direct mailed in 1996. (If precise data are not available, estimates will be sufficient.)

- (a) What percentage of these pieces were dropshipped to the BMC? to the SCF? and to the DDU?
- (b) What percentage of these pieces were entered at the saturation rate within Standard A ECR?
- (c) What percentage of these pieces were entered at the high density rate within Standard A ECR?
- (d) What percentage of these pieces were entered at letter rates?
- (e) What percentage of these pieces weighed in excess of the breakpoint of 3.3 ounces?

Response:

See objection previously filed.

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NAA/VP/CW-T1-3.

Please refer to Table 4 at page 27. Please confirm that automation letters have the highest margins on a "cents per piece" basis. If you cannot confirm this statement, please explain why.

Response:

Confirmed.

NAA/VP/CW-T1-4.

Please refer to page 34, lines 5-8 and lines 13-17 of your direct testimony. In your opinion, does the “relatively high” availability of alternatives for Standard A ECR mail indicate whether a higher or lower cost coverage than that proposed is appropriate? Please explain your response.

Response:

In my opinion, the “relatively high” availability of alternatives for delivery of Standard A ECR, considered by itself, would indicate that a cost coverage lower than that proposed is appropriate.

NAA/VP/CW-T1-5.

Please refer to page 47 lines 6-10. Given the higher implicit markup on letters compared to nonletters shown in Table 3 at page 25, please explain why you designed rates so that “no revenue burden is shifted from letters to nonletters, or vice-versa.”

Response:

My exercise in developing bottom-up costs, margins, and markups had multiple purposes.

The first purpose was to show that the available data enable the computation of costs, margins and markups for each rate cell. In my opinion, this is a much more straightforward and useful way to evaluate proposed changes in rates. It enables the Commission and participants to see clearly the relationships between costs and proposed rates. Regardless of whether the Commission adopts my proposed rates for Standard A ECR mail, it is my strong desire and hope that the Commission will urge the Postal Service to prepare and present bottom-up costs in future dockets. Toward that end, I did not want to embroil my proposed bottom-up cost methodology in a dispute over the appropriate markup (implicit) on letters and nonletters (sometimes referred to as the “passthrough” of the letter-flat cost differential).

Second, I wanted to focus attention on criteria for determining (implicit) markups on the different presort and destination entry categories within the context of bottom-up rate design; *see* my testimony, Section V, pp. 37-46. It was felt that simultaneously proposing a change in the implicit markup on letters and nonletters would unduly complicate this important issue.

NAA/VP/CW-T1-6.

Please confirm that if rates are set on a "bottom up" basis with an equal contribution per piece, these rates will equal rates set on a "top down" basis, assuming 100 percent passthrough of all cost savings in the presort and dropship discounts. If you cannot confirm this statement, please provide a numeric example illustrating the difference in "bottom up" rates and "top down" rates.

Response:

Confirmed, for the assumptions stated above.

NAA/VP/CW-T1-7.

Please refer to Column [1] of Table A-1 at page A-6.

- (a) Please confirm that the figures in this column are derived by Postal Service Witness Daniel (USPS-T-29) based on the total costs for walk-sequenced and non-walk sequenced mail computed in Library Reference H-109 (also submitted by the Postal Service as Exhibit USPS-44A).
- (b) Did you examine the data in Library Reference H-109 to determine whether these cost data are reliable? If so, please describe your examination and provide the results of any such examination.
- (c) Did you examine the data in Library Reference H-109 to determine whether the cost data are applicable to the test year in this rate proceeding? If so, please describe your examination and provide the results of any such examination.
- (d) Is it your understanding that the cost data in Library Reference H-109 are based on an analysis of the IOCS data for the base year? If no, please describe your understanding of the basis for the cost data in Library Reference H-109.
- (e) In Appendix D of your testimony you discuss the difficulties encountered in using IOCS data to measure the effect of weight upon costs. For example, you note the fact that IOCS data do not control for other cost causing characteristics (page D-8) and you state that the data "suffer" from significant variability due to small sample sizes (page D-9). Have you examined the cost data in Library Reference H-109 to determine whether these same or similar difficulties exist. If yes, please describe your examination and provide the results of any such examination.
- (f) If the unit mail processing cost data in Column [1] of Table A-1 prove to be inaccurate, unreliable or not relevant for the test year, would you recommend that the Commission revise your recommended rate schedule? If no, please explain why not. If yes, please explain how the Commission should revise your recommended rate schedule for Standard A ECR mail.

Response:

- (a) The data are from witness Daniel's Exhibit USPS-29D, as shown in the notes to my Table A-1 at page A-6 of my testimony. Library Reference H-109 is among the references cited by witness Daniel in Exhibit USPS-29D. Witness Daniel does not provide any reference to specific pages, tables, columns or rows from which the data in Exhibit USPS-29D were derived, and I am not in a position to confirm either her specific sources or what she did to derive the data shown in her exhibit. In that respect, it would be better to direct your question to witness Daniel.
- (b) No.
- (c) No.
- (d) In order to develop a response to this question, I have reviewed LR-H-109. It explicitly states that the analysis is based on IOCS tallies. It does not, however, state whether the analysis is based on the complete set of IOCS tallies covering all of Base Year 1996, or for tallies from some subperiod of Base Year 1996, or for some other period.
- (e) No.
- (f) Should the unit mail processing cost data in Column [1] of Table A-1 prove to be inaccurate, unreliable or not relevant for the test year, as your question posits, I would recommend that the Commission follow the methodology developed in my testimony, using the Base Year unit cost data on which it finally decides to rely.

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.



John Haldi

Dated: February 3, 1998