

DOCKET SECTION

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

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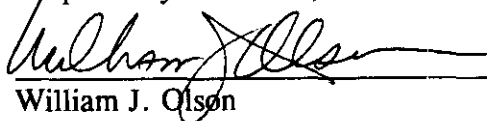
POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1

RESPONSE OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC. TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE (USPS/VP/CW-T1-1-25)
(February 13, 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., d/b/a "Cox Direct," hereby provide the responses of witness John Haldi to the following interrogatories of the United States Postal Service, USPS/VP/CW-T1-1-25, filed on January 28, 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 13, 1998

Response of Dr. John Haldi to USPS/VP-CW-T1-1
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USPS/VP-CW-T1-1.

Please refer to page 12 of your testimony. You state, "In the present docket, the cost models for Standard A mail have further refined through, for example, explicit attention to certain costs which were not modeled previously in Docket No. MC95-1. As a result of the more detailed cost information provided by the Postal Service in Docket No. MC95-1 and in this docket, it is now possible for the first time to develop bottom up estimates of volume-variable unit costs for each rate cell within the Standard A ECR subclass."

- a. Is the first sentence of your statement intended to refer to models for Standard Regular or Standard ECR, or both subclasses?
- b. If the first sentence is intended to refer to Standard ECR, what costs in Standard ECR are presented through models? Please provide citations.
- c. To what refinements does your statement refer? Please provide citations to testimony or analyses.
- d. What information was lacking that made it impossible, prior to this docket, to develop bottom up cost estimates? Please explain.
- e. Please confirm that, prior to this docket, the Postal Service presented separate unit delivery costs for Standard (A) ECR subclass categories, including ECR Basic, High Density, and Saturation.
- f. Please confirm that delivery costs make up the largest share of total volume variable ECR estimated costs. If not confirmed, please explain.

Response:

a., b. and c.

The further refinements refer to certain mail processing costs that were referred to in Docket No. MC95-1 as "non-model costs." These refinements were applicable to both Standard Regular and Standard ECR, hence my statement could apply to both, although my testimony only deals with Standard A ECR mail.

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- d. Bottom-up unit cost estimates were presented in Docket No. MC95-1, but the bottom-up estimates of mail processing costs contained a significant portion of non-model costs, which have now been the subject of testimony by Postal Service cost witnesses.
- e. Confirmed.
- f. Confirmed.

Response of Dr. John Haldi to USPS/VP-CW-T1-2
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USPS/VP-CW-T1-2.

Please refer to page 12 of your testimony at lines 11-13. You state that “[b]ottom up costs for Standard A Mail have therefore been developed separately for letters and nonletters.”

- a. Does your statement apply only to Standard (A) ECR subclass mail?
Please explain your Response.
- b. Is your statement intended to convey that the Postal Service has developed bottom up costs for Standard A Mail, or that you have developed them for Standard A Mail, or both? Please explain your Response.

Response:

- a. Yes. See my testimony, VP/CW-T-1.
- b. The statement is intended to apply only to my testimony, and only to Standard A ECR Mail.

Response of Dr. John Haldi to USPS/VP-CW-T1-3
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USPS/VP-CW-T1-3.

Please refer to your testimony at page 13, lines 5-6. You state, “[e]ach rate cell is thought of, appropriately, as a separate product.” Are you aware of other contexts in which the Commission has endorsed the idea within any Standard (A) subclass that rate cells within the subclass are separate products? If so, please provide citations.

Response:

I am aware of prior occasions when the Commission has directed its attention to specific *rate categories within a subclass and reduced the size of rate increases for those selected rate categories so as to avoid “rate shock.”* See, e.g., the Commission’s actions to avoid “unacceptably large” (*see e.g., Docket No. MC95-1, para. 5648*) and “unreasonably large” (*Id., para. 5654*) rate increases regarding Standard Mail A flats.

USPS/VP-CW-T1-4.

Please refer to your testimony at page 17, footnote 14. Please reconcile the statement that the final adjustment for nonletters was treated as weight related, as was done with letters, with the statement on page 14, lines 13-14, that the costs for letters were adjusted on a per-piece basis.

Response:

Footnote 14 on page 17 was in error. It should have read as follows:

The small final adjustment to conform to total CRA costs for nonletters is treated as weight-related.

This change was made in the errata filed 2/11/98.

Response of Dr. John Haldi to USPS/VP-CW-T1-5
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USPS/VP-CW-T1-5.

Please refer to your testimony at page 18, line 7. Please show the derivation of the 220 percent figure.

Response:

See Table 3, page 25, column indicated as "Nonletters." (Coverage = markup + 100 percent).

Response of Dr. John Haldi to USPS/VP-CW-T1-6
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USPS/VP-CW-T1-6.

Please refer to your testimony at page 18, lines 7-12. You state, “[u]sing witness Daniel’s per-piece data for mail processing, delivery, transportation, and other costs, the unit cost for a Saturation letter would be 3.8527 cents per piece. Shifting 2.33 cents of this amount to weight-related cost leaves a piece-related cost of 1.5227 cents which, when multiplied by a slightly-reduced coverage of 210 percent, results in 3.2 cents, which is the same as witness Moeller’s proposed rate.”

- a. Why do you use the cost of saturation letters rather than nonletters when determining the shift to weight related costs?
- b. Why did you limit the shift such that the resulting cost coverage was 210 percent rather than 220 percent?

Response:

- a. The purpose of the exercise is to determine the unit cost of nonletters after making an arbitrary assumption about weight. That is, the unit cost of saturation nonletters was not known, and could not be known, until an assumption was made concerning how much cost to shift from pieces to weight. The unit cost for letters was available, and was therefore used as a benchmark.
- b. Mathematically, 210 percent times 1.5227 cents equals 3.2 cents (rounded). Perhaps I should have added that 210 percent is close to the coverage of 220 percent for nonletters that is implicit in witness Moeller’s rate design. Alternatively, I might have said that 220 percent, witness Moeller’s implicit coverage for nonletters, times 1.5227 cents equals 3.35 cents, which is just slightly more than witness Moeller’s proposed rate of 3.2 cents per piece for nonletters

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above the breakpoint.

The point that I was endeavoring to make was that shifting 2.33 cents per piece to the pound rate gave results that were very much in the ballpark of witness Moeller's rate design, assuming that witness Moeller would apply the same markup to weight-related costs, if those costs were known with any certainty. Note that witness Moeller's testimony did not address the issue of the extent to which weight-related costs were, or ought to be, marked up.

Response of Dr. John Haldi to USPS/VP-CW-T1-7
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USPS/VP-CW-T1-7.

Please show the derivation of the 11.91 cent figure in line 14 of page 18 of your testimony.

Response:

See Appendix A, Table A-15, page A-22.

USPS/VP-CW-T1-8.

Please refer to page 18 lines 14-17. You state, “[t]reating ‘other’ costs as pound-related further increases the weight-related cost for mail entered at DDUs by another 0.54 cents per pound, to 12.45 cents per pound.”

- a. What reasons support treating “other” costs as pound-related?
- b. What reasons support treating “other” costs as piece-related?

Response:

- a. and b.

The computation of “other” costs is shown in Table A-17, page A-24. The “other” costs are essentially a residual that arises from rounding. These residual costs, which arise from the pound-rated adjustment, are pro-rated among piece-rated and pound-rated non-letters on the basis of the total weight of each respective group. For piece-rated pieces, the aggregate amount of this adjustment is translated into a per-piece adjustment, as shown in Table A-17. For pound-rated pieces (*i.e.*, pieces whose weight exceeds the breakpoint), the adjustment was made to the pound rate, as discussed in the text cited in your question.

As discussed in my testimony, since the Postal Service has again failed to produce a reliable study that shows that effect of weight on cost, any decision to treat the small residual as pound-related or piece-related is somewhat arbitrary. Since Case I was designated as assuming “moderately high” weight-related costs, it was decided to allocate the residual on the basis of weight instead of pieces.

USPS/VP-CW-T1-9.

Please refer to your testimony at page 21, lines 12-14. You state, “[m]ailers who enter mail in only one or two rate cells are more concerned with the coverage assigned to the rates which they use, than with the average coverage for the subclass as a whole.” In previous rate dockets, have cost coverages been explicitly “assigned” to rate categories in Standard (A), as opposed to subclasses in Standard (A), either through Postal Service proposed rates or through Commission recommended decisions? Please explain your Response:.

Response:

No. Neither the Postal Service nor the Commission explicitly has assigned cost coverages to rate categories in Standard A, nor has either even stated the implicit cost coverages for most rate categories. Moreover, the top-down procedure has often made it extremely difficult to estimate the unit cost, margin and markup or cost coverage that is implicit for each rate category.

In further response to your question, it is worth noting that, while the Postal Service does not explicitly address cost coverage for individual rate categories in Standard A, it nevertheless invokes the cost coverage criteria in 39 U.S.C. Section 3622(b) to support rate proposals that affect only rate categories, not entire subclasses in Standard A. For further discussion on this point, see pages 22-23 of my testimony, VP/CW-T-1.

USPS/VP-CW-T1-10.

Please refer to your testimony at page 25, Table 3. Please provide the margins and markups for flats and non-flats separately in the Nonletter grouping.

Response:

My testimony concerning bottom-up costs for Standard A ECR Mail does not develop costs for flats and non-flats separately. Consequently, it does not provide the necessary basis for computing separate margins and markups for ECR flats and non-flats.

USPS/VP-CW-T1-11.

Please refer to your testimony at page 28, lines 8-9. You state, “[s]aturation mail is also the ECR mail which is most susceptible to diversion to alternative methods of delivery.”

- a. Please describe or provide the facts or other information that you considered in drawing this conclusion.
- b. To what types of alternative methods of delivery does your statement refer?
- c. How should the Commission evaluate this information in terms of criterion 3622(b)(4)? Please explain.
- d. How should the Commission evaluate this information in terms of criterion 3622(b)(5)? Please explain.

Response:

- a. Alternate delivery companies need sufficient density in order to cover a route economically. As stated by witness Bradstreet (AAPS-T-1, page 5): “By far the majority of items delivered by AAPS members would qualify as saturation or near saturation Standard A flats.” Also see the testimony of witness Buckel on behalf of the Saturation Mail Coalition (SMC-T-1), who states (page 4) that “a number [of its members] also distribute a portion of their circulations via private delivery.”
- b. The statement refers to all alternative methods of delivering hard copy advertising material, especially to residences. This includes newspaper inserts as well as alternate delivery companies and firms that distribute their own advertising material.

- c. Criterion 3622 (b)(4) provides for consideration of the effect of rate increases on both mailers and private sector competitors of the Postal Service. The Commission needs to examine the effect of proposed rate increases on competitors and consider whether proposed rates would constitute unfair competition. Within the context of a bottom-up approach to developing costs and rates, unfair competition would include imposing a disproportionately high markup and margin on sortation and transportation services while charging a comparatively low markup and margin on delivery service. The bottom-up approach makes markups and margins explicit, as shown in my testimony. By comparing the markup and margin on mail that essentially receives only delivery service (*e.g.*, saturation mail entered at DDU) with the markup and margin when the mailer buys additional sortation and transportation from the Postal Service, one can compare margins and markups objectively to determine whether delivery is being priced artificially low.

- d. Criterion 3622 (b)(5) considers the availability, at reasonable cost of alternate means of sending and receiving letters and other mail matter. In prior cases, this criterion has led the Commission to temper rate increases for subclasses of mail subject to either a statutory or *de facto* monopoly. The fact that more alternatives are available for ECR mail than other subclasses would indicate that this criterion may be of less weight when applied to the ECR subclass than when considered with respect to other subclasses.

USPS/VP-CW-T1-12.

Please refer to page 35, lines 12-14. You state, “[i]f the Commission finds itself unable to reduce the ECR coverage factor in this docket, a decision with which I would disagree, this makes it all the more important to ensure that the high coverage level is shared reasonably by mail within the Subclass.”

- a. What reasons would you offer in favor of a lower ECR cost coverage?
- b. Does your reference to sharing the “high coverage level” “reasonably” intended to be an endorsement of any particular pricing strategy, such as equal markups or Ramsey pricing? Please explain your response.

Response:

- a. See my testimony, page 34. The reasons cited by witness O’Hara, USPS-T-30, strike me as compelling. With specific reference to value of service, witness O’Hara does not take account of actual delivery performance. Unfortunately, no reliable performance data are available for ECR mail. In view of the fact that ECR mail enjoys a high degree of mailer preparation (*e.g.*, is presorted to the carrier’s walk sequence or line of travel), and the vast majority of it is dropshipped to destinating facilities, one might *a fortiori* think that such mail receives fairly consistent delivery service. It is my impression, however, that delivery can be and has been unpredictably inconsistent; thereby reducing the value of service.
- b. Postal rates are now set through a two-step process. First, the criteria contained in Section 3622(b) of the Postal Reorganization Act are applied to each subclass to determine, for the subclass as a whole, a coverage level and target contribution to

institutional cost. Second, within each subclass specific rates are designed to meet the coverage level and target contribution established in step one. The sentence referred to in your question alludes to both steps of the rate-setting process. Let me address each, seriatim.

First, with respect to establishing the coverage and target contribution level for each subclass, no, I do not endorse rote application of either equal markup or Ramsey pricing. It is my lay opinion that the Commission has no alternative but to apply all the criteria contained in Section 3622(b) of the Act to each subclass, as it has in each prior rate case.

With respect to rate design within subclasses, my direct answer to your question again is an unequivocal no, I do not endorse any particular pricing strategy such as equal markups or Ramsey pricing. The preliminary issue that needs to be addressed, in my opinion, is whether the criteria of Section 3622(b) have any meaningful application to assessing rates charged to rate categories within subclasses. The Commission has repeatedly held that they do not so apply, yet the Postal Service and the Commission both have applied the criteria to rate categories on an ad hoc basis (see pages 22-23 of my testimony, for examples). At page 46 of my testimony I advocate that the Commission reconsider its position and apply all the criteria in section 3622(b) to the rate design within each subclass.

Should the Commission nevertheless determine that the criteria in section 3622(b) are wholly inapplicable to rate design within categories, then the Commission (and

the Postal Service) need some other criteria and methodology for determining individual rates within subclasses. In this event, I advocate that the Commission apply both the target markup and target margin approaches (discussed in my testimony at pages 40-43), but remain eclectic and not commit itself to either. In each case the Commission should weigh factors that favor each approach, and determine an appropriate balance. The underlying factors, such as competitiveness of alternate delivery, will evolve and change over time, and they need to be reevaluated periodically. In this docket I have proposed what I consider to be an appropriate mix for conditions as they exist at this time.

USPS/VP-CW-T1-13.

Please refer to pages 35-36. You state, “[s]hould the Commission decide to adopt the ECR coverage at the 228 percent level proposed by the Postal Service, that makes it all the more necessary for the Commission to utilize a bottom up costing method which deliberately and thoughtfully sets mark-ups that do not excessively burden saturation mail.” If the Commission does not adopt a “bottom up” costing approach, can it still set rates within the ECR subclass which “deliberately and thoughtfully” avoid imposing an excessive burden on saturation mail? If so, how?

Response:

Theoretically, the Commission can recommend whatever rates it considers appropriate.

However, within the methodological framework employed by the Commission, which is based on the efficient component pricing theory (and its implicit assumption of complete monopoly over delivery service), it may find itself constrained by its own methodology.

The bottom-up approach does not incorporate any assumption about the degree of monopoly enjoyed by the Postal Service in the delivery function, but leaves that issue as an open, empirical issue to be analyzed in each rate case as events unfold. Should the Postal Service find itself faced with increasing competition for delivery service, it also may find that the efficient component pricing methodology is unduly constraining. The efficient component pricing methodology rationalizes allowing incumbent monopolists to extract *maximum economic rent from their monopoly*. Should conditions change, however, and the efficient component pricing methodology become frozen by precedent, it could turn out to be an albatross.

USPS/VP-CW-T1-14.

Please refer to page 39 lines 10-12. You state, “[a]t a minimum, the Commission should strive for rates that do not produce grossly inconsistent results between different rate categories and cells within subclasses.”

- a. To what does your reference to “inconsistent results” refer? What results are inconsistent?
- b. Is your statement intended to imply that you have adopted a particular pricing approach, such as equal markups or Ramsey pricing, in the context of comparing rates within a subclass?
- c. To what extent are your proposed rates inconsistent as the term is defined in subpart (a)?
- d. To what extent are your proposed rates inconsistent with the concept of an equal markup pricing theory?

Response:

- a. My dictionary defines “inconsistent” as, *inter alia*, lacking in harmony between the different parts or elements; at variance; not consistent in principles; acting at variance with professed principles.

Within the context of the discussion where the above-quoted phrase occurs, an example of inconsistent results would involve (i) espousing principles of cost-based rates, while (ii) pricing recognized rate categories below cost, and cross-subsidizing those rate categories by imposing additional markups on other recognized rate categories within the subclass. When cost and rate design is viewed from the bottom up, another example of an inconsistent result would be (i) a rate design that implicitly charges some recognized rate categories less than

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volume variable cost for sortation and transportation services provided by the Postal Service, which form the very basis for establishment of the rate categories, while (ii) expressing concern that some mailpieces not even recognized as a rate category are priced below cost. For further discussion, see my testimony, VP/CW-T-1, page 53.

- b. No.
- c. None of my rates reflect below-cost pricing of any services offered by the Postal Service.
- d. I assume that you are using the term “markup” as defined in my testimony; at page 24; namely, as the *percentage* increment over cost. As indicated at page 49 of my testimony, my proposed rates embody a *percentage* markup over cost of only 10 percent, thus they are somewhat removed from an equal markup. Please note that my proposed rates are fully consistent with my analysis that (i) the Postal Service has some competition for delivery of advertising material, and (ii) it is not faced with “perfect competition” for sortation and transportation services, hence it enjoys some latitude with respect to the pricing of these services.

USPS/VP-CW-T1-15.

Please refer to page 52 of your testimony. You state, “[t]he presort rate differences in Table 6 reflect 60 percent of the presort cost difference; *i.e.*, only 60 percent of the cost of sortation is passed through in the rates.” Did you intend to pass through 60 percent of *the cost of sortation*, or did you intend to pass through 60 percent of *presort cost differential*? Please explain.

Response:

The intent was to set rate differentials equal to 60 percent of the presort cost differential.

Also see my response to MOAA/VP/CW-T1-13.

Response of Dr. John Haldi to USPS/VP-CW-T1-16
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USPS/VP-CW-T1-16.

Please refer to your testimony at page A-8 Table A-1. Please confirm that footnote [1] should refer to Exhibit USPS-29C instead of Exhibit USPS-29D.

Response:

Confirmed.

Response of Dr. John Haldi to USPS/VP-CW-T1-17
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USPS/VP-CW-T1-17.

Please refer to your testimony at page A-8, Table A-1.

- a. Please provide your calculations of “Other” costs in column [4].
- b. Please provide citations for each of the inputs used in the calculation of the figures in column [4].
- c. Please explain why you chose to use CRA After Rates costs.
- d. Please explain if you used Before Rates or After Rates piggyback factors. If you used Before Rates piggyback factors, please explain why you believe it is appropriate to mix these piggyback factors with CRA After Rates costs.

Response:

- a. The unit cost shown under “Other,” 0.4519 cents, is the result of dividing \$129,647 (000) by TYAR volume of 28,686,182 (000).
- b. The TYAR volume is contained in Table A-6, page A-13. We are unable to locate the work which developed the figure of \$129,647 (000) at this time, and will supplement this response after we locate it.
- c. First, the intent was to develop after rates unit costs that could be used for rate design. Second, to the maximum extent feasible, I wanted the testimony to be self-contained. The after rates volume appear in Table A-6, but the before rates volume was not needed or used in the preparation of my testimony.

- d. We used the same piggy back factors as those used by witness Daniels Exhibit USPS-29C, p. 6. Questions relating to those piggyback factors are better directed to witness Daniels. Note that witness Daniels' footnotes simply refer to LR-H-77, without any further specification as to where her piggyback factors can be found within that rather lengthy document. In LR-H-77, the piggyback factor for ECR mail processing cost at p. 41, line 17 is simply referred to at the head of the page as "Test Year," with no designation as to whether the piggyback factors shown are before or after rates. A similar comment pertains to the city delivery carrier piggyback at p. 87, line 17, and the rural carrier piggyback at p. 138, line 17.

Response of Dr. John Haldi to USPS/VP-CW-T1-18
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USPS/VP-CW-T1-18.

Please refer page A-10, Table A-3 in your testimony.

- a. Please confirm that the source of the data is USPS LR-H-145.
- b. Please confirm the number of pieces reported for ECR Basic Automation letters (336,502,422) in USPS LR-H-145 is already included in the figure reported for Basic letters (2,262,380,553).
- c. Please confirm that including the 336,502,422 ECR Basic Automation letters in the 2,979,232,871 figure results in double counting. If you cannot confirm, please explain why the total number of pieces for Standard A Enhanced Carrier Route reported on page A-10 of your testimony is 336,502,422 pieces greater than the same total found on page G-2 of USPS LR-H-145.

Response:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed. This change does not affect any subsequent computation of costs, rates, volumes, or revenues, however.

Response of Dr. John Haldi to USPS/VP-CW-T1-19
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USPS/VP-CW-T1-19.

Please refer to your testimony page A-11, Table A-4.

- a. Please confirm that the source of the data is USPS LR-H-145.
- b. Please confirm the number of pounds reported for ECR Basic Automation letters (17,119,401) in USPS LR-H-145 is already included in the figure reported for Basic letters (104,880,958).
- c. Please confirm that including the 17,119,401 pounds assigned to Basic Automation letters in the 104,880,958 total results in double counting. If you cannot confirm, please explain why the total number of pounds for Standard A Enhanced Carrier Route reported on page A-10 of your testimony is 17,119,401 pounds greater than the same total found on page G-2 of USPS LR-H-145.

Response:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed. This change does not affect any subsequent computations of costs, rates, volumes, or revenues, however.

USPS/VP-CW-T1-20.

Please refer to page A-14, Table A-7 of your testimony. Please explain how you calculated costs for automated letters dropshipped to BMC, SCF, and DDU. Please give exact citations for each figure used in your calculations, including page and column number.

Response:

Table A-7 at page A-14 pertains to weight, not costs. The following answer presumes that you intended to inquire how weights shown for automation letters were computed. The volumes for automated letters, shown in Table A-6 (page A-13), were multiplied by the respective unit weight for Basic letters, shown in Table A-5 (page A-12). For example, the weight for BMC letters is equal to

$$\begin{array}{rcl} 856,221,000 & \text{pieces} & \text{(Table A-6)} \\ \times .0815171811 & \text{lbs/piece} & \text{(Table A-5, rounded)} \\ \hline 69,796,722 & \text{pounds} & \text{(Table A-7)} \end{array}$$

USPS/VP-CW-T1-21.

Please refer to page 11 of your testimony. You state that “theoretically it should be possible to estimate that the average unit cost either from top down or from the bottom up.”

- a. Please confirm that although it may be theoretically possible to estimate the average unit cost from either a top down or a bottom up analysis, it may not be realistically possible if every element of costs was not known.
- b. Please confirm CRA does not track the cost of ECR pieces by entry point because there are no unique dropship endorsements for IOCS to tally.

Response:

- a. Not confirmed, since the reference is to **ESTIMATED** average unit cost, as opposed to **ACTUAL** unit cost. In Docket No. MC95-1, the Commission estimated average unit costs for Standard A Mail even though the mail processing costs contained a significant portion of non-model costs about which very little was known. In each rate case, the Postal Service estimates average unit cost for Standard A Mail using such data as are available, plus various estimating techniques. I would also note, however, that the results of any estimation are no better than the data used. If the data are thin, shaky and unreliable, the resulting estimates of unit cost will be no better. Nor does aggregating a number of unreliable components to arrive at an estimate for total unit cost necessarily make the aggregate more reliable. That said, it is my opinion that bottom-up costing would improve cost estimation for ECR Mail.

- b. Confirmed. The Postal Service uses a model, described in LR-H-111, to estimate the costs avoided by virtue of destination entry. This is one of the various estimating techniques referred to in response a. above.

Response of Dr. John Haldi to USPS/VP-CW-T1-22
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USPS/VP-CW-T1-22.

Please refer to page A-19 Table A-12, and page A-24 Table A-17, of your testimony.

- a. Please confirm that, despite the identification of the \$491,006 figure on page A-19 as a “CRA After Rates Total Cost for Letters,” this figure is not reported in the CRA or USPS-T-15I.
- b. Please confirm that, despite the identification of the 1,375,766 figure as “TYAR CRA Total for Nonletters,” this figure is not reported in the CRA or the USPS-T-15I.
- c. Please confirm that the sum of the figures in subparts (a) and (b) do not equal the total adjusted volume variable costs of ECR Standard A mail reported in USPS-T-15I.

Response:

- a. Confirmed. This number is computed in Table A-2, page A-9, and reconciled to the total volume variable cost for Standard A ECR Mail shown in USPS-T-15I.
- b. Confirmed. This number is computed in Table A-2, page A-9, and reconciled to the total volume variable cost for Standard A ECR Mail shown in USPS-T-15I.
- c. Confirmed. The sum of the figures in subparts (a) and (b), which are shown in my Table A-2, exceed the total reported in USPS-T-15I by \$57,000, or 0.003 percent, which difference was presumed to be due to rounding of unit costs to four decimals (in cents). The reference to “CRA” may inadvertently be used as a shorthand reference to witness Patelunas Exhibit USPS-T-15I.

USPS/VP-CW-T1-23.

If one were to employ a “bottom-up” rate design in the Regular Subclass, would the resulting rate for residual shape pieces (that is, pieces which are subject to the residual shape surcharge under the Postal Service’s proposal) be higher or lower than the USPS-proposed rates? Do you advocate bottom-up costing and rate design in the Regular subclass?

Response:

I have not testified concerning bottom-up costing and rate design in the regular subclass. I did not develop bottom-up costs and rates for the Regular Subclass, hence my data do not enable or support analysis of any rate cell or rate category, within the regular subclass. I would only add that the bottom-up approach to rate design does not dictate or require any specific result with respect to rates. As one example, any specific rate may be “capped” or set to a specific amount, if desired. The bottom-up approach does, however, make explicit the relationship between rates and unit costs.

USPS/VP-CW-T1-24.

Please see your testimony at page 7, lines 11-14, where you discuss the characteristics of VPDMS' mail.

- a. Is this mail generally lighter than 3.3 ounces? If not, what is the average weight per piece?
- b. Is the current rate paid by the 98 percent of VPDMS' mail described in this passage of your testimony 11.5 cents? If not, what rate does this mail pay?
- c. Is the proposed rate for this mail 11.6 cents, an increase of less than 1 percent? If not, what is the proposed rate and the proposed percentage increase?

Response:

- a. Yes.
- b. Yes.
- c. Yes.

Response of Dr. John Haldi to USPS/VP-CW-T1-25
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USPS/VP-CW-T1-25.

On page D-5 of your testimony you state “After use, the empty containers will have to be moved”.

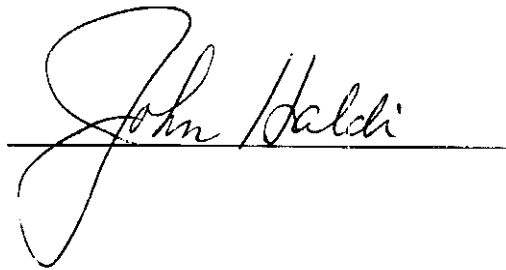
- a. Does this statement imply that you believe the costs of removing empty equipment should be borne by the classes of mail that cause those containers to arrive in the place from which they are being removed?
- b. Do you believe that IOCS observations of equipment when full in a particular operation provides a good indication of the classes of mail that cause empty equipment to need to be removed from a particular operation?

Response:

- a. Yes, to the extent possible.
- b. No.

DECLARATION

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

A handwritten signature in cursive script, reading "John Haldi", is written over a horizontal line.

Dated: February 13, 1998