

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL REGULATORY COMMISSION

In the Matter of:)
)
RATE ADJUSTMENT DUE TO) Docket No.: 42010-4
EXTRAORDINARY OR EXCEPTIONAL)
CIRCUMSTANCES)

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POSTAL REGULATORY COMMISSION

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Main Hearing Room
 Postal Regulatory Commission
 901 New York Avenue, N.W.

Washington, D.C.
 Volume I

Tuesday, August 10, 2010

The above-entitled matter came on for a
 hearing, pursuant to notice, at 9:37 a.m.

BEFORE:

HON. RUTH Y. GOLDWAY, Chairman
 HON. TONY HAMMOND, Vice Chairman
 HON. DAN G. BLAIR, Commissioner
 HON. Nanci E. LANGLEY, Commissioner
 HON MARK ACTON, Commissioner

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C O N T E N T S

VOIR

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>DIRE</u>
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For the Postal Service:

Joseph Corbett

By Mr. Koetting	14	--	--	--	--
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E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Direct Testimony of Joseph Corbett on Behalf of the United States Postal Service, USPS-1	17	17
Financial update Slides by the United States Postal Service, USPS-2	17	17

P R O C E E D I N G S

(9:37 a.m.)

CHAIRMAN GOLDWAY: Good morning, ladies and gentlemen. I am calling this meeting to order.

For the record, I am Ruth Goldway, Chairman of the Postal Regulatory Commission, and I am also the Presiding Officer in this proceeding, Docket No. R2010-4. With me today on the dais on August 10, 2010, are: Vice Chairman Hammond, Commissioners Acton, Blair, and Langley.

Before proceeding further, I request those in attendance this morning to bear with the conditions of our hearing room and to turn off their cell phones, BlackBerries or other personal communications devices. When in operation these devices interfere with the overhead microphones and this hearing room audio system. Muting your communication device appears to be not adequate. It must be turned off to avoid electrical interference. Thank you. This is important for our transcript and for the webcasting.

Today's hearing is being held to -- it involves the Postal Service's request for authority to increase rates for market-dominant products in excess of the otherwise applicable limits of the PAEA. This case has been commonly referred to as an exigent rate

1 case although technically the increase sought by the
2 Postal Service can only be authorized for
3 "extraordinary or exceptional circumstances".

4 The background to today's hearing can be
5 briefly summarized. In anticipation of the Postal
6 Service's filing, the Commission held a technical
7 conference on June 16, 2010, to give interested
8 persons the opportunity to discuss the proceedings for
9 managing this first ever exigent rate case.

10 On July 6, 2010, the Postal Service filed
11 it's rate request, and on July 8, 2010, the Commission
12 issued its Order No. 485 establishing this docket and
13 the procedures to be followed.

14 Since July 8, the Commissioners held three
15 conferences on July 19, 23, and 27, 2010, to discuss
16 and clarify technical aspects of the July 6 filing.
17 Hearings are scheduled for today, August 10th,
18 tomorrow, August 11th, and Thursday, August 12th, in
19 order to receive into the record the prepared written
20 statements of the three Postal Service representatives
21 that support the Postal Service's rate request, and to
22 permit the Commissioners to question those
23 individuals.

24 Today, the Postal Service is presenting
25 Joseph Corbett; tomorrow we will hear from Steven J.

1 Massey; and on Thursday we will receive the statement
2 of James M. Kiefer. Also on Thursday the Postal
3 Service has designated Frank Neary to appear to
4 respond to the Commission questions regarding its
5 flats strategy.

6 While these are the only hearings currently
7 anticipated for this docket, it is at least possible
8 that additional witnesses will be required because of
9 information developed during these three days of
10 hearings or to explain or supplement the Postal
11 Service responses to outstanding or follow up
12 information requests. If so, we shall deal with any
13 such need when it arises. In that connection, Rule 65
14 of the rules applicable to this type of rate increase
15 also authorizes the Commission to require
16 supplementary written responses following the hearing.

17 In this proceeding, unlike rate proceedings
18 conducted prior to the enactment of PAEA, interested
19 persons do not have the opportunity to cross-examine
20 Postal Service representatives. They have
21 nevertheless been afforded the opportunity to suggest
22 questions to the Commission. A number of groups and
23 entities have filed questions. I and my fellow
24 Commissioners appreciate the effort that has gone into
25 the preparation of these questions, and we want to

1 thank those who have filed proposed questions.

2 I know that some of those questions will be
3 asked today and during the next two days of hearings.
4 We have determined, however, that some of those
5 questions are more likely to elicit meaningful
6 responses if presented in the form of written
7 information requests.

8 So, therefore, additional presiding
9 information requests will include some suggested
10 questions as well as follow up from these hearings.

11 At this point I would like to give my
12 colleagues an opportunity to offer some opening
13 remarks, and I will begin with Vice Chairman Hammond.

14 VICE CHAIRMAN HAMMOND: Thank you, Madam
15 Chairman, and I want to thank you for putting together
16 an aggressive but workable schedule for this
17 Commission to consider the unprecedented U.S. Postal
18 Service request for an exigent rate increase.

19 We are certainly in new territory with this
20 case, and although we took appropriate action to
21 prepare for this possibility following the passage of
22 the postal reform legislation in 2006, when
23 Commissioner Blair was Chairman, I know there have
24 been many questions about how the PRC would proceed in
25 an actual case, and I know our staff has been working

1 very hard and very diligently to do the complex
2 background work required in this case, and I believe
3 they have also been responsive to the many inquiries
4 that have arisen from this being a different kind of
5 case before us, and I appreciate the leadership that
6 you have provided to our staff and to the mailing
7 public in helping explain the situation that we have
8 before us.

9 So, as everyone knows, this is a situation
10 which has not come before the PRC before, and I think
11 we have an obligation to weigh all the facts that are
12 presented, so I look forward to hearing the testimony
13 of the Postal Service witnesses as we consider how a
14 federal government agency can continue to be of
15 service to the American people when faced with
16 billions of dollars of budget shortfall. So thank you
17 very much.

18 CHAIRMAN GOLDWAY: Thank you, Vice Chairman.
19 Thank you for your confidence. This is not an easy
20 proceeding, and you know that my inclination is to
21 include as much public participation as possible, but
22 given the timeframe restrictions that we have we
23 really have to move forward quickly, and the hard work
24 of all the Commissioners are to be recognized and
25 commended.

1 Commission Acton, would you like to add
2 something?

3 COMMISSIONER ACTON: Very briefly. I would
4 like to thank the witness, Mr. Corbett, for his
5 appearance today. We look forward to hearing from
6 him. Thank you.

7 CHAIRMAN GOLDWAY: Okay, and Commissioner
8 Blair.

9 COMMISSIONER BLAIR: Good morning, Madam
10 Chair. I want to compliment you on the way you
11 described the procedures for today. I think that is
12 important that our audience and witnesses understand
13 our proceedings and why we are doing them, so I
14 appreciated your opening statement. I also
15 appreciated the comments of both Commissioners Acton
16 and Hammond.

17 Mr. Corbett, welcome. We appreciate you
18 coming today, and I want to thank the members of our
19 audience both here at the Commission and on the web
20 today as we present our proceedings.

21 This hearing today marks new territory for
22 the Commission, and our decision is likely to prove to
23 landmark and precedent setting.

24 Even though the Postal Service remains a
25 monopoly by law, there is hardly a category of mail

1 that does not compete with technology or a private
2 sector alternative. This competition, the economic
3 downturn and ensuing volume declines are the grounds
4 cited by the Postal Service in filing the case.

5 From time to time we hear from members of
6 Congress on our proceedings. When the Commission
7 began its implementation of the PAEA, we heard from
8 Senator Susan Collins and Tom Carper regarding their
9 thoughts on the ratemaking procedures. Yesterday,
10 Senator Collins submitted her comments regarding her
11 views of the circumstances under which an exigent case
12 was contemplated. As one of the primary authors of
13 PAEA, her views should prove helpful as the Commission
14 makes this determination.

15 I look forward to hearing more details about
16 the proposed exigency filing by the Postal Service and
17 its rationale behind the submission of this case.

18 Thank you very much for this opportunity.

19 CHAIRMAN GOLDWAY: Thank you. And
20 Commissioner Langley.

21 COMMISSIONER LANGLEY: Thank you very much,
22 Madam Chairman.

23 This morning we are obviously entering into
24 a new phase of our review of the Postal Service's
25 request for an exigent rate increase, and I do want to

1 associate myself with the Chairman's remarks, and
2 thanking the participants for the thoughtful questions
3 that they have submitted. It will certainly help us
4 as we move through this process.

5 There are significant and complex issues to
6 be discussed which will assist the Commission in
7 weighing the Postal Service's filing which cites an
8 unprecedented high volume and revenue which it
9 attributes to the deep recession as well as continuing
10 diversion by competitive sources, whether they be
11 physical competition or the Internet. We need to
12 weigh this with the intent of the Postal
13 Accountability and Enhancement Act. This law requires
14 that to raise rates above the rate of inflation it
15 must be in response to an extraordinary or exceptional
16 circumstances, and I look forward to fully exploring
17 today, tomorrow, and Thursday with Postal witnesses,
18 whether their evidence meets the standard envisioned
19 by the PAEA.

20 Thank you again, Madam Chairman.

21 CHAIRMAN GOLDWAY: Thank you. Now, to go
22 back to some procedural matters. On the final day of
23 hearings, all of the Postal Service's institutional
24 responses to information requests as well as its
25 written responses to questions posed at the three

1 technical conferences shall be offered for receipt
2 into evidence. Postal Service counsel shall review
3 those answers to ensure that they continue to be
4 accurate. Written responses received from the hearing
5 is concluded will be placed in a separate volume of
6 transcript.

7 Does any participant have a procedural
8 matter to discuss before we begin?

9 (No response.)

10 CHAIRMAN GOLDWAY: If not, then, Mr.
11 Koetting, will you identify your first Postal
12 representative so that I can swear him in?

13 MR. KOETTING: Thank you, Madam Chairman.
14 Eric Koetting for the United States Postal Service.
15 The Postal Service identifies the first official to
16 appear this morning is Joseph Corbett.

17 CHAIRMAN GOLDWAY: Will you stand?

18 Whereupon,

19 JOSEPH CORBETT

20 having been duly sworn, was called as a
21 witness and was examined and testified as follows:

22 CHAIRMAN GOLDWAY: Thank you. You may be
23 seated. Welcome.

24 DIRECT EXAMINATION

25 BY MR. KOETTING:

1 Q Mr. Corbett, can you please state your full
2 name and title for the record?

3 A Joseph Corbett. I'm the chief financial
4 officer and executive vice president for the Postal
5 Service.

6 Q Mr. Corbett, I'm handing you a document
7 entitled Statement of Joseph Corbett on behalf of the
8 United States Postal Service. Are you familiar with
9 this document?

10 A Yes.

11 Q Was it prepared by you or under your
12 supervision?

13 A Yes.

14 Q Was this submitted with the Postal Service's
15 request for exigent rate increase on July 6, 2010?

16 A Yes.

17 Q Next I'm handing you copies of notice of the
18 United States Postal Service filed regarding FY-10
19 quarter three financial results which was filed with
20 the Commission last Friday, August 6th, and attached
21 to that are slides which indicate that they were
22 presented by you in the open sessions of the Board of
23 Governors regarding the quarter three financial
24 results.

25 First, I'd ask you to confirm that those are

1 the slides that you presented to the Board of
2 Governors last Thursday.

3 A Yes, they are.

4 Q Understanding that the Commissioners may
5 wish to follow up with this during their questioning,
6 could you briefly summarize the significance of those
7 quarter three financial results relative to the
8 statement that you filed on July 6th?

9 A Yes, certainly. I don't think there is
10 anything quite remarkable rather about the quarter's
11 results that would impact our request for rate
12 increase or the statement I made in writing on July
13 6th. However, I would point out in the financial
14 statements that our loss continues to be heading
15 towards before orders call. Our fair value
16 adjustments continues to be heading between 6 and 6.5
17 billion dollars this year, so the actual cash
18 consequences of the nine months in the quarter ended
19 June 30th are consistent with the filing.

20 I would also point out there is an
21 adjustment to this quarter as there was for the same
22 quarter late year to mark a liability on our balance
23 sheet which may cause some confusion because it's a
24 technical accounting matter.

25 However, I will point out that that's

1 somewhat irrelevant to our filing in that although
2 it's a large number, 1.7 billion this quarter and 800
3 million last quarter, it is a non-cash adjustment and
4 it fluctuates up and down with interest rates in the
5 market, so it is simply marking a large liability on
6 our balance sheet to fair value, and it should not
7 concern these hearings or in any way impact our cash
8 position now or for the foreseeable future.

9 Other than that I think things are pretty
10 consistent with the overall filing.

11 Q Thank you. Mr. Corbett, I would ask you if
12 you were to present your statement orally this
13 morning, would the substance of that statement be the
14 same with the exception of the effects of the quarter
15 three adjustments that you just described?

16 A Yes, it would.

17 MR. KOETTING: With that, Madam Chairman, I
18 am handing two copies of the statement of Joseph
19 Corbett on behalf of the United States Postal Service
20 to the reporter, and request that they be admitted
21 into the record of this proceeding.

22 For purposes of clarifying the remarks Mr.
23 Corbett made, I would also propose that the Postal
24 Service give the reporter two copies of the slides
25 that were submitted last Friday to the Commission, and

1 ask that they be entered into the record as well.

2 CHAIRMAN GOLDWAY: Thank you. You have
3 taken over a task that I was going to undertake, which
4 was to ask Mr. Corbett to confirm and affirm the
5 slides, and enter them into the record. I think I
6 have already given the court reporter two copies, but
7 you go ahead and do that too. Thank you counsel.

8 The statement and the information will be
9 received into evidence. However, as is our practice
10 it will not be transcribed.

11 (The documents referred to
12 were marked for
13 identification as Exhibit No.
14 USPS-1 and USPS-2, and were
15 received in evidence.)

16 CHAIRMAN GOLDWAY: And we are now ready for
17 questions from the Commission, and I think it's
18 appropriate for us to begin by allowing Mr. Corbett to
19 further explain the third quarter results which have
20 been submitted. I believe that will provide us with a
21 good basis from which to further our discussion.

22 So Mr. Corbett, again, welcome, and if you
23 would go over those results with us, we would
24 appreciate it, recognizing that we all have copies of
25 it here.

1 THE WITNESS: Thank you, Madam Chair.

2 For the quarter ended June 30, 2010, we had
3 revenue of \$16.1 billion, expenses of \$17.9 billion,
4 for a loss of \$1.8 billion before the workers' comp.
5 non-cash fair value adjustment. After the workers'
6 comp non-cash fair value adjustment, we had a loss of
7 3.5 billion, which compares to a loss in 2009 of 2.4
8 billion.

9 Volumes are down slightly, 1.7 percent in
10 the quarter ended June 30, 2010 versus 2009. The mail
11 volumes are showing, when you take them in total, some
12 promise in terms of the continued declines but we
13 ended our fifteenth quarter in a row with overall mail
14 volumes declining, although the rate of decline has
15 decreased in this quarter when you take the mail as a
16 total.

17 Unfortunately, when you -- on slide four of
18 the submission -- when you look at the components that
19 breaks down the total mail into just First-Class Mail
20 and standard mail, you can see that we still have not
21 hit the bottom or done a significant recovery yet in
22 First-Class Mail volume where it was down in quarter
23 three in 2010 quarter by 6.7 percent, which is in line
24 with the quarterly declines in our first two quarters
25 of this fiscal year, which were 6.6 percent each.

1 So, First-Class Mail continued its steady
2 decline. The bright news is that standard mail for
3 the first time in four years has had two quarters of
4 growth. I don't want to applaud too loudly for the
5 first quarter because that was six-tenths of 1 percent
6 growth, but nonetheless any positive growth is worth
7 mentioning. In the most recent quarter standard mail
8 volumes grew 4.2 percent as compared to the same
9 quarter in the prior year. So standard mail has, and
10 as we had forecasted, started to come back. First-
11 Class Mail continues to be an issue.

12 One thing I want to point out, for the nine
13 months ended June 30, 2010, during those nine months
14 overall mail volumes declined 4.9 percent as compared
15 t the same decline last year. I'm happy to report
16 that mail processing and customer service hours
17 declined by over 11 percent on average, and that's
18 important to note because as mail volumes decline we
19 continue to take work hours out of the areas which
20 most vary with mail volumes, and those are the actual
21 processing of mail and customer service areas.

22 Despite the relatively fixed nature of
23 delivery costs, we also see a decline in delivery
24 hours, averaging about 3.5 percent. Again, delivery
25 is more of a fixed cost, and we have not yet been able

1 to impact it to a point where it can actually decline
2 at or above the rate the volume is declining because
3 of the fixed nature of delivering to 150 million
4 addresses six days a week, 90 plus percent of those
5 costs are fixed until you actually do something with
6 the delivery schedule.

7 And I'm also glad to be able to report that
8 virtually every other category of expense and hours
9 underlying that expense has declined, and other hours,
10 including administrative hours for the Postal Service
11 has declined 5.2 percent in total as compared to the
12 prior year.

13 What that leads us to for the nine month
14 results is that for 2010 we had revenue of \$51.1
15 million, expenses of 55 million, and a loss of 3.9
16 billion dollars before the workers' comp fair value
17 adjustments. After the workers's comp fair value
18 adjustments we had a net loss of \$5.4 billion as
19 compared to \$4.7 billion in 2009.

20 Volumes are off, as I said before when I was
21 talking about the hours, volumes are off by
22 approximately 5 percent, 4.9 percent in this nine
23 months as compared to the same nine months last year.

24 Thank you, Madam Chair. I'll take any
25 questions.

1 CHAIRMAN GOLDWAY: I will begin. When we
2 had these kinds of briefings provided to us informally
3 when we're not in cases and communications have to be
4 limited, you have also presented us with what the plan
5 for the year would be so we could compare results not
6 only against last year but what the plan for this year
7 was. Can you tell us how the quarter shapes up in
8 relationship to the plan you had for the quarter?

9 THE WITNESS: Thank you, Madam Chair. I
10 don't have the results with me, but I do believe I
11 remember them generally speaking, and that is that
12 revenue is approximately -- actually, everything is
13 just about right on plan for this quarter. Expenses
14 are within 100 million, which is a small percentage,
15 and revenue is also just about on plan for the
16 quarter. So we're tracking the plan for the third
17 quarter, and tracking our forecast for the full year,
18 which indicates, again before workers' comp non-tax
19 adjustment indicates a loss of 6 to 6.5 billion
20 dollars.

21 CHAIRMAN GOLDWAY: I might ask about
22 workers' compensation later, but let me get your
23 opinion on the implication of First-Class Mail volumes
24 declining 6.6, 6.6 and 6.7. Is there really a
25 difference between 6.6 and 6.7? Do you see that as a

1 significant trend or is it a flat line really?

2 THE WITNESS: No, I don't consider one-tenth
3 of a percent to be significant in any way.

4 CHAIRMAN GOLDWAY: Okay. All right. I will
5 defer to others of my colleagues. Are there questions
6 for Mr. Corbett on this particular presentation before
7 we begin with other questions?

8 COMMISSIONER LANGLEY: I have just one
9 question if I may. The Chairman just asked about the
10 slight difference between 6.6 and 6.7 on the decline
11 in First-Class Mail. Do you expect First-Class Mail
12 volumes to really go back to a situation where the
13 Postal Service considered it healthy?

14 THE WITNESS: I guess I could ask over what
15 time period, but if we're talking about in the next
16 decade, the answer is no. If you're talking beyond
17 that, I'm not prepared to answer beyond 10 years.

18 COMMISSIONER LANGLEY: Oh, I think 10 years
19 is far enough.

20 THE WITNESS: Our plan and all the work we
21 did with the Boston Consulting Group and also polling
22 our customers, et cetera, indicates that First-Class
23 Mail is going to continue to decline steadily over the
24 next decade at rates that are less than 6.7 percent,
25 so we need to turn these rates around, obviously, so

1 that we can get closer to what our plan is, but our
2 plan is on an annual basis plus or minus 5 percent
3 decline in First-Class Mail, dropping to 4 percent as
4 there is less of it in the portfolio.

5 COMMISSIONER LANGLEY: And is this right now
6 primarily to due Internet diversion?

7 THE WITNESS: It's a combination of things
8 in terms of the First-Class Mail dropping. Internet
9 diversion is a significant portion of the overall
10 decline. The economy still remains soft and so people
11 are mailing less in general, although we see pockets
12 of that coming back; for example, financial
13 institutions have been mailing a little more than they
14 had before in the first-class as well as standard,
15 although most of that mail really is coming back in
16 standard. But the electronic migration is a large
17 percentage of the 6.7 percent.

18 COMMISSIONER LANGLEY: Let me just ask one
19 final question on this area. How does the Postal
20 Service track Internet diversion especially say on
21 First-Class Mail?

22 THE WITNESS: We have a very sophisticated
23 modeling that's been done for at least a decade, maybe
24 a couple of decades, since, I guess, the origin of the
25 fax machine, and it's obviously gotten more detailed

1 and much more complex. But essentially it's through
2 regression analysis we are able to isolate the impacts
3 of various changes within the economy, and in business
4 within a margin of error.

5 For example, in the model we would look at
6 the growth in computer sales, the growth in people who
7 have signed up for Internet access, broadband access,
8 and other indicators that are driving people away from
9 the mail and to use their computers more.

10 As a result of that during the recession we
11 determined that roughly a third of the overall
12 diversion was directly related to electronic
13 migration, whether it be not just Internet and sending
14 e-mails, that's a small portion of it, but rather
15 electronic commerce, and together all these matters
16 were approximately a third of the decline during the
17 last three years.

18 The other two-thirds is generally related to
19 the economy, the employment levels, the least level of
20 money people are spending on retail, advertising, and
21 on investments, in long-term investments, and there is
22 some element also of electronic migration embedded in
23 that, but we're really unable to tease it out in our
24 process, so right now that's essentially our best
25 estimate at this point.

1 COMMISSIONER LANGLEY: So then you're not
2 able really to make a determination whether diversion
3 is attributable to say single customers or large
4 mailers using electronic means?

5 THE WITNESS: Well, in the economic models I
6 was just talking about we don't isolate the customers
7 but we have other data that we look at that will -- by
8 customer -- if they are mailing on the same I.D.
9 Sometimes customers are mailing by I.D.s. We are also
10 attempting to accumulate that, but we also do track by
11 customer, major customers, where the mail volume
12 levels are going.

13 COMMISSIONER LANGLEY: Do you see declines?

14 THE WITNESS: Yes, but major customers.

15 COMMISSIONER LANGLEY: Is there a margin of
16 error that you're looking at when you're doing the
17 modeling?

18 THE WITNESS: There is. I don't know.
19 Clearly there is some error in it but I don't know
20 specifically what that level is.

21 COMMISSIONER LANGLEY: Thank you.

22 CHAIRMAN GOLDWAY: Commissioner Blair.

23 COMMISSIONER BLAIR: Thank you, Madam Chair.

24 Along this topic of discussion that we are
25 having right now, Mr. Corbett, did you say that you

1 had two decades worth of modeling regarding Internet
2 diversion; is that correct?

3 THE WITNESS: Two decades worth of modeling
4 for -- I assume it goes back further than that, but at
5 any rate going back to not just Internet because the
6 Internet has only been around for two decades, but as
7 I said, back to the fax machines. As an industry and
8 as the Postal Service, there has been an attempt, to
9 the best of my knowledge, now it might have been here
10 18 months, but I've heard the war stories about
11 isolating different variables and developing this
12 model and fine tuning this model over a periods of
13 time.

14 COMMISSIONER BLAIR: What contingencies has
15 the Postal Service had in place over that time to
16 prepare for this diversion to electronic medium.

17 THE WITNESS: What contingency?

18 COMMISSIONER BLAIR: If you see it coming,
19 what plans did you make to deal with it if you have
20 two decades worth of studies, and that's my term,
21 studies, if you have two decades worth of information,
22 it shouldn't come as an unforeseen experience, and
23 we're looking at an exigency as an extraordinary or
24 exceptional circumstance, and you have two decades
25 worth of information. What did that information

1 provide and what kind of precautions did the Service
2 take, and what kind of efforts did it make to stem the
3 tides or to ride the tides in order to make sure
4 Postal Service more relevant as the electronic
5 diversion occurred?

6 THE WITNESS: First of all, the model I'm
7 talking about is a way to analyze historical changes,
8 mail volumes went up, they went down, what drove those
9 changes, and so it's a way of looking backwards.

10 Your question, if I understand it correctly,
11 is more of forecasting and looking forward, and in
12 terms of where the overall economy is going and where
13 mail is going, is that correct?

14 COMMISSIONER BLAIR: Not so much on the
15 economy. It is looking forward. But in order to go
16 forward you need to know where you came from, and what
17 I'm saying is if I heard you correctly when you said
18 there were two decades worth of Postal Service
19 studying the topic of Internet diversion, analyzing
20 this, I don't know what kind of information you might
21 have had that would have allowed you to temper the
22 result that we've had over the last three years. And
23 I'm just asking if there was any attempt to learn from
24 past experience in order to make preparations for the
25 future.

1 THE WITNESS: When you say if there is
2 anything we could do to temper the results, in large
3 part, no. The types of traffic we're talking about
4 are going to electronic diversions are such that the
5 economics are in favor of any sort of electronic
6 diversion in terms of mail being 44 cents versus
7 virtually zero, concerns of paying -- bill payments,
8 for example, costing approximately \$3.50 to process
9 one payment to any large company when you consider
10 back office processing, et cetera, versus
11 significantly under a dollar when you have electronic
12 file exchange, et cetera. There is really very little
13 to do that can be done or has been done to temper the
14 migration other than to continue to be as efficient as
15 possible and keeping the cost of postage down.

16 When you're dealing with an alternative
17 where the cost is near zero, and you're 44 cents or 46
18 cents, it becomes somewhat irrelevant. I don't know
19 if that answers your question.

20 COMMISSIONER BLAIR: It does to a degree and
21 it raises another question in my mind. If you know
22 that cost is zero, when did you figure out that cost
23 is near zero? Was it in the last three years, or did
24 you know this 18 years ago? I'm just trying to get a
25 sense of -- in my experience, we always knew there was

1 going to be Internet diversion and it seems to be
2 taking place faster. I'm just saying if there was any
3 preparation for it and how this feeds into the
4 contingencies or the exigencies. I'm trying to get a
5 better sense of how this meets the extraordinary and
6 exceptional circumstances if we've know for two
7 decades that something like this might happen.

8 THE WITNESS: The decline we're seeing now
9 is far in excess of what we predicted even two years
10 ago, and certainly three years ago, et cetera, and the
11 decline is being driven in large part by the
12 unprecedented time that we are in, and in terms of the
13 recession.

14 When we are looking forward, the Postal
15 Service has over the last eight years been taking out,
16 prior to 2008, was taking out a billion dollars a year
17 in work hours to something more efficient to enable to
18 keep pace with the overall changes in the market. In
19 2008, that number was doubled to \$2 billion as
20 migration set up. When the recession came in 2008 and
21 2009, the drop was unprecedented. It was six times
22 what any prior calamity has caused in terms of drop in
23 mail volumes.

24 Actually the drop in the mail volume, which
25 is the extraordinary event, there are a number of

1 things driving that, the recession in large part, and
2 electronic migration are two. Migration, we believe,
3 has been accelerated by the recession given people are
4 looking at their checkbooks a little bit more closely
5 and businesses are looking at their bottom line more
6 closely than they ever have before; in some cases just
7 to stay in business. And one thing they can quickly
8 identify is that the faster they can move customers,
9 they can move themselves to electronic communications
10 the faster they can save money and improve their
11 bottom lines. So it's really the drop in overall
12 volumes which we believe is the exigent driver.

13 COMMISSIONER BLAIR: I think that for later
14 discussions I would like to go into what efforts --
15 the cost saving efforts have been made over the last
16 couple of years as well, but I think my final question
17 at this point. Do you think that the proposed
18 increase will help or hurt volume?

19 THE WITNESS: We expect that the exigent
20 price increase will result, as any price increase
21 will, in a drop in volume, but overall we expect total
22 revenue, after considering any decline in volume, to
23 increase by \$3 billion per year.

24 COMMISSIONER BLAIR: Will this add to the
25 Internet diversion we just talked about?

1 THE WITNESS: We don't believe so. As I
2 said before, again the different between 46 and 44
3 cents and zero is pretty clear. A two-cent change, w
4 don't think is going to have a significant
5 acceleration of any further migration.

6 The same for the businesses. The
7 differences there in terms of electronically dealing
8 with the customers and dealing with them through the
9 mail is so significant that this level of price
10 increase that we're talking about here on business
11 correspondence is, you know, a 5.6 percent we don't
12 believe will. But we have it appropriately modeled in
13 our estimate what we believe the elasticity will be in
14 volumes of decline.

15 COMMISSIONER BLAIR: I would like to
16 continue but I will yield back to the Chair.

17 CHAIRMAN GOLDWAY: Yes, we all have lots of
18 questions. I had wanted to focus on the quarterly
19 report to begin with. So Commission Acton.

20 COMMISSIONER ACTON: Mr. Corbett, in your
21 financial results review, you have a line item for
22 fair market -- fair value adjustments. You account
23 for the effects of those non-cash fair value
24 adjustments for workers' compensation liabilities.

25 THE WITNESS: Yes.

1 COMMISSIONER ACTON: Can you tell us a
2 little bit about what the methodology is for that type
3 of accounting?

4 THE WITNESS: I can but I have to warn you
5 it's a dangerous request. It's a very technical area
6 of the accounting rules that I do understand, but it's
7 not for the weak. So obviously you are not weak. You
8 asked the question. Let me try to put it as easily as
9 I can. It's a financial concept that comes easy to
10 some but if you don't deal in this, let me put it in
11 very basic terms.

12 Today we're required by law to participate
13 in the federal workers' comp program. Under that
14 program we estimate at the end of June that we have
15 got to pay over the next almost 40 years we have to
16 pay approximately \$17 billion that relates to
17 claimants that we know about today, and that's for
18 salary continuation and for medical costs. So that's
19 17 billion we've spent over 40 years.

20 The liability you have on your balance sheet
21 at any point in time has to reflect what you believe
22 is fair value of that 17 billion is today. So another
23 way to say that is how much money would you have to
24 put in the bank today at today's interest rates so
25 that that money would grow to be 17 billion over 40

1 years. That's effectively the calculation you need to
2 do each quarter.

3 So if interest rates are low, you have to
4 put more money in the bank today in order to have it
5 grow to be \$17 billion over time. If interest rates
6 are high, and you can put that money in the bank and
7 it earns that higher interest rate over that 40 years,
8 then you have to put in less money now in order to
9 have it grow to be 17 billion over time.

10 During this quarter ending June 30th, there
11 was a record drop in interest rates, both 10 year and
12 five year, and 20, I'm not sure if it was a record or
13 not, but a record quarterly drop. As a result, the
14 rates were very low at the end of June. The low rate
15 meant that we calculated we would have to put more
16 money in the reserve if we were to do that in order to
17 meet that \$17 billion obligation. So we had to adjust
18 the liability on our balance sheet up to the higher
19 amount, and that's what this fair value adjustment
20 relates to.

21 COMMISSIONER ACTON: You're not putting
22 money in though for that costs, are you?

23 THE WITNESS: Correct. The accounting
24 concept is as if you did, but we are not.

25 COMMISSIONER ACTON: So it does not impact

1 the cash position?

2 COMMISSIONER ACTON: Correct. It's totally
3 non-cash.

4 COMMISSIONER ACTON: What I'm trying to
5 understand if it compromises your ability to make
6 payroll or to fund other sorts of obligations as a
7 service that needs cash to pay.

8 THE WITNESS: The fair value adjustments in
9 and of itself does not. It should not impact the
10 exigent filing. It should not impact our cash flows
11 at all, the adjustment itself. The \$17 billion we owe
12 and the requirement to be on the federal plan is
13 another detriment to us in terms of trying to have the
14 freedom to manage that liability. So the actual cash
15 we are paying out right now is just the bill from the
16 DOL. We have no impact over how those cases are
17 handled, how long they stay on the rolls, et cetera,
18 et cetera, to a large extent. But the adjustment
19 itself, I don't -- just to make sure the water doesn't
20 get muddy -- I want to be perfectly clear that the
21 adjustment itself this quarter or next quarter if it
22 turns around, turns to income, is really irrelevant to
23 our cash position for the near or immediate term.

24 COMMISSIONER ACTON: Okay, that's good to
25 know. You are likely to get a number of questions

1 from the panel today about that type of clarification
2 because we know that you're close in terms of being
3 able to meet your obligations, and in some instances
4 we are not sure what requires cash and what doesn't,
5 so it helps to have that distinction.

6 Thank you, Madam Chairman.

7 CHAIRMAN GOLDWAY: I will just follow up if
8 I can. Are there any other large categories of fair
9 market adjustments that have to be put in?

10 I guess what we're saying in addition to the
11 cash flow there is an assets and liability statement
12 that the Postal Service has, so it has assets and
13 liabilities, and the liability for workmen's comp has
14 gone up based on the calculation. But if you look at
15 your assets and liabilities, has there been a
16 significant change?

17 THE WITNESS: No, and there are no other
18 significant balances of assets or liabilities that are
19 required to be fair valued at the end of each quarter.
20 There are disclosures in our long-term debt that goes
21 in a footnote that requires you to disclose what the
22 fair value of that debt is each quarter. However,
23 that adjustment does not flow through our income
24 statement.

25 CHAIRMAN GOLDWAY: Because it seems to me

1 that interest rates have gone down, and that creates a
2 problem in terms of how you account for your having
3 enough cash theoretically to pay for 17 billion over
4 40 years. You need more cash now with lower interest
5 rates to be able to pay that over 40 years. I guess
6 that's how this system works.

7 But in terms of the debt you're carrying,
8 doesn't the low interest rate mean you have a lower
9 amount of money you have to pay in the future for
10 those debts?

11 THE WITNESS: Absolutely. That's a great
12 point. I mean, yes it does, and so as interest rates,
13 we do benefit from low interest rates also.

14 CHAIRMAN GOLDWAY: So if we took the
15 workmen's comp out and just put in the assets and
16 liabilities, things kind of balance out there.

17 THE WITNESS: Yes. As I said, I would
18 almost, you know, isolate it and put it on the side
19 because it does not impact our cash flows any time
20 during the medium term.

21 CHAIRMAN GOLDWAY: Okay, thank you.

22 Vice Chairman Hammond.

23 VICE CHAIRMAN HAMMOND: No question right
24 now. Thanks.

25 CHAIRMAN GOLDWAY: Okay, so I guess I want

1 to go back if I could begin to a question I asked you
2 when you were here on July 16th which was a hearing on
3 the case regarding delivery from six to five days, and
4 I asked you to itemize the various actions that the --
5 seven actions that the Postal Service hoped to
6 implement to deal with its financial situation which
7 one was the most important: restructure retiree
8 health plan, adjust delivery days, modernize retail
9 access, establish a more flexible workforce, evaluate
10 the role of demand factors and pricing, and the scope
11 of products offered, or to keep streamline oversight,
12 and I wondered what your answer would be today. I
13 guess we have to add exigency rate case to this list.

14 THE WITNESS: I guess it would be a little
15 disingenuous if I said exigent rate case if I hadn't
16 said that before, huh?

17 I mean, they are all important, and all are
18 proposed as part of the sort of balanced approach to
19 trying to tackle the problem we have. When you look
20 at the near-term impact, however, they differ
21 significantly. The exigent price increase in terms of
22 liquidity is the second most important item that we
23 have some control over. The first would be, to the
24 extent that we are successful in getting a deferment
25 of our retiree health benefits payments, that would

1 result in cash relief at the end of this year, and
2 would be the one item. First of all, it's larger in
3 terms of dollars if we could actually get the same
4 amount that we got last year, and second, it's
5 immediate, immediate as it can be. We would hope that
6 it would happen by the end of this year.

7 When you look at everything else, everything
8 else is really adjusts the business structure over
9 time so that we can meet our obligations going forward
10 except for the exigent price increase. That, again,
11 falls in the category -- really two categories because
12 the RHB is simply most likely a deferment of a
13 liability as opposed to an annuity, an ongoing
14 increase in the overall profits.

15 The exigent price increase would serve two
16 purposes. First, it would give us the cash over a
17 short period of time beginning in January of next year
18 and provide approximately \$2 billion of relief in the
19 first fiscal year it was implemented and \$3 billion
20 per year afterwards, so essentially over a decade you
21 would have \$30 plus billion of relief for improvement
22 in the business plan, and so it is clearly
23 strategically one of the top items. In terms of
24 liquidity, it's the second most important to us.

25 CHAIRMAN GOLDWAY: In your statement on page

1 8, lines 3 and 4 you say, "For the second year in a
2 row the Postal Service is now confronting a threat of
3 a liquidity crisis."

4 Is the threat nearly identical to those of
5 2009 without a rate increase? When does the Postal
6 Service expect to reach its borrowing limit of \$15
7 billion?

8 THE WITNESS: Without a rate increase, we
9 would reach that in December 30, 2011.

10 CHAIRMAN GOLDWAY: And in what month does
11 the Postal Service expect to run out of cash without a
12 rate increase?

13 THE WITNESS: I'm sorry. Could you please
14 rephrase your previous question?

15 CHAIRMAN GOLDWAY: Without a rate increase
16 in what month does the Postal Service expect to run
17 out of cash?

18 THE WITNESS: And that would be September
19 30, 2011.

20 CHAIRMAN GOLDWAY: With a rate increase in
21 what month does the Postal Service expect to reach its
22 borrowing limit of \$15 billion?

23 THE WITNESS: Most likely that date would
24 still be September 30, 2011.

25 CHAIRMAN GOLDWAY: And what month with a

1 rate increase does the Postal Service expect it would
2 run out of cash?

3 THE WITNESS: I'm sorry, I'm having a hard
4 time.

5 CHAIRMAN GOLDWAY: With a rate increase in
6 what month does the Postal Service expect to run out
7 of cash?

8 THE WITNESS: With a rate increase and no
9 other changes, no other fundamental changes, we would
10 run out of cash September 30, 2011.

11 CHAIRMAN GOLDWAY: Okay. So the rate
12 increase, at least in a short term, doesn't help your
13 liquidity.

14 THE WITNESS: Oh, it helps tremendously.
15 When I say "run out of cash", in one instance we would
16 be \$4 billion negative cash, and not knowing where any
17 of that money would come. In the other instance
18 without the rate increase it will be 4 billion. With
19 the rate increase it would be \$2 billion in the hole.
20 So it's a \$2 billion benefit to our liquidity.

21 Where we will plug the rest of that is
22 certainly still a question. However, we continue to
23 work on each of the seven items you mentioned.

24 CHAIRMAN GOLDWAY: Okay. I will defer to
25 other Commissioners. Anyone else have something?

1 COMMISSIONER ACTON: I will follow up, Mr.
2 Corbett. The answer to the Chairman's question about
3 your previous testimony was in that review was that
4 the most important by far is the restructuring of the
5 retiree health benefit refunding, and I think your
6 response is consistent with that, but I'm wondering
7 when you say restructuring are you talking about a re-
8 amortization or a new methodology?

9 THE WITNESS: The numbers are so large in
10 this area that any of the above. If we were to --
11 what we would like to happen would be to have the
12 overfunding of the CSRS program credited to the RHB
13 account and to have access to that cash or to have
14 that cash moved for us to make any of the \$5.5 billion
15 payments going forward. That would be utopia, if you
16 will, in terms of that line item.

17 Perhaps unlikely, but that would be where we
18 would want to go. However, anything from that which
19 would, first of all, take the burden off future years
20 because we would have the actual account funded, and
21 second, take the annual burden of 5.5 billion to
22 refund off of our income statement.

23 However, we need to take the extreme end --
24 well, the extreme end is zero and that may come to be,
25 I don't know, but if we were able to receive the same

1 deferment we received last year, that was \$4 billion
2 on the last day of the year, it's still a huge number,
3 so either way if we get any relief on this item
4 between 4 billion and the 55 billion that the CSRS has
5 ever funded, the reason it sticks out so much is the
6 numbers are so huge that we could really improve our
7 financial situation significantly. It still would not
8 be enough even with the 55 billion to get us through
9 the next decade, I should point out, because we are
10 about 115 billion short we believe given where mail is
11 going, but it would go a long way, the 55 billion plus
12 the interest on that amount to plug the hole.

13 COMMISSIONER ACTON: Would it impact the
14 exigency rate?

15 THE WITNESS: It is a matter of timing, I
16 guess. If it were to occur, we would have to
17 reevaluate the various items that we are asking for.
18 At this point I really can't respond to your question.

19 COMMISSIONER ACTON: Your preferred outcome
20 for those funds seems to indicate that you believe the
21 obligation has been met by the Postal Service.

22 THE WITNESS: Excuse me?

23 COMMISSIONER ACTON: Your preference on how
24 that outcome should be resolved in terms of the fate
25 of those funds seems to me to indicate that you

1 believe the Postal Service has made that obligation,
2 has paid it.

3 CHAIRMAN GOLDWAY: Through the --

4 THE WITNESS: Yes, we do believe. We
5 believe we have overfunded, if that's what you are
6 saying, CSRS, by as much as the original 75 billion at
7 the LIG report, the subsequent report done by Seigle
8 on behalf of the PRC was 50 to 55 billion. So we
9 believe, it's a judgment between those two numbers,
10 but we believe we have significantly overpaid it, and
11 from an equitable basis we believe we should receive
12 the credit back.

13 Having said that, we also believe that the
14 OPM and the payments we made were in accordance with
15 existing laws at the time we made them, so there is
16 nothing illegal would happen. It was just a matter of
17 whether that was fair to do for us.

18 COMMISSIONER ACTON: Okay. Well, your view
19 seems to be in keeping with ours in terms of what we
20 had to say in the Seigle report. But I suppose my
21 bottom line on this is that it seems that the Postal
22 Service has collected revenue from the mailers for
23 obligations that OPM has calculated, and that there
24 are different thoughts about whether or not that money
25 has already been used to meet a large obligation. OPM

1 has one view, Seigle and the Commission has another,
2 the Postal Service has its own.

3 THE WITNESS: I'm sorry, Commissioner. Is
4 that a question?

5 COMMISSIONER ACTON: I'm not being clear.
6 I'm just trying to be sure that I appreciate what
7 you're trying to tell me. For me a big concern here
8 is that revenue has been collected from the mailers
9 and then obligated toward a bill that is disputed in
10 terms of how it's accounted for. It's not necessarily
11 that the bill has been paid, it's a matter of
12 methodology.

13 THE WITNESS: I agree. I mean, clearly our
14 revenues, our prior revenues have all come from
15 mailers, business mailers as well as consumers, and
16 those funds were use to CSRS.

17 COMMISSIONER ACTON: Okay, I appreciate
18 that. I guess I am focusing on a different aspect of
19 the statute, that it calls for us to review
20 exceptional and extraordinary, necessity, fair and
21 equitable.

22 Thank you, Madam Chairman.

23 CHAIRMAN GOLDWAY: Can I follow up? If the
24 Postal Service hadn't gotten it's Retiree Health
25 Benefit Fund payment in 2009, the deferment, how would

1 you have coped with the liquidity crisis in fiscal
2 year 2010?

3 THE WITNESS: Most likely we would have been
4 forced into a position where we would have had to
5 default on making that payment because we literally
6 had -- we anticipated we would have no cash at the end
7 of the year. It turned out we had \$100 million which
8 in postal terms is about 3.5 hours of operating
9 expenses. So we clearly had to do something, and most
10 likely we would have to have defaulted on a payment to
11 the Treasury.

12 CHAIRMAN GOLDWAY: So if the magnitude of
13 the current liquidity crisis is similar to the one
14 that was experienced in fiscal year 2009, and the
15 Postal Service didn't see the necessity of filing an
16 exigency rate at that time, why does the Postal
17 Service see that it's necessary now?

18 THE WITNESS: Sorry I'm taking a little bit
19 of time. I was going to say because I had only been
20 here for six months at that point, and now I
21 understand better the landmark. But it wasn't all me,
22 obviously.

23 I think it's just a matter of timing, in my
24 opinion. I don't know if somebody strategically made
25 a decision at some point in time, but in terms of the

1 matter of timing things happen so quickly. In 2009.
2 the drop in volume was unbelievable. There were a lot
3 of -- there was some optimism that they would come
4 back, and they didn't. In fact, didn't come back
5 until and we now know, we believe they won't come
6 back.

7 The second item which I think is very
8 important is that in 2009 there were also some people
9 who believed that this was an isolated occurrence and
10 that everything would return to normal, and I think
11 that those people are not a very short list. We have
12 since that point in time had the ability to put out
13 our March 2nd plan where we spent months talking with
14 our customers through Boston Consulting Group, and
15 asking them, over 2,000 customers were questioned,
16 some in person, some via the Internet, some via phone.
17 Ironically, I don't think any via mail. But I
18 shouldn't have said that. But anyway they were
19 questioned, and the results we got from having
20 surveyed 20 percent of our revenue stream was that
21 they are not coming back.

22 BCG put those numbers together in the
23 overall forecast for the next decade, and I think we
24 have since been able, since we were in the same
25 position last year, we now have a fairly high comfort

1 level that the erosion is going to continue; that
2 First-Class Mail erosion will continue. It's
3 buttressed by studies which the basis for those were
4 our customer input, and as a result we now realize
5 that we have got to take every action available to us
6 and the exigent price increase is one that is
7 available to us, and is the only one that has a
8 significant price tag on it, and also dollar revenue
9 on it for us that we can do without changing
10 legislation.

11 CHAIRMAN GOLDWAY: So to clarify, if the
12 Postal Service's retiree health benefit payment is
13 deferred again in fiscal 2010, the Postal Service will
14 avoid a liquidity crisis through 2011 even without a
15 rate increase?

16 THE WITNESS: That is correct. If we
17 receive \$4 billion of relief, and it was deferred
18 obviously beyond 2011, we are talking about deferring
19 it to 2017, like the original one, then we would still
20 have a liquidity crisis, we would not run out of cash.

21 We have a minimum acceptable level of
22 liquidity that we've been trying to maintain, which is
23 \$7 billion. That equals approximately one month
24 operating expenses for the Postal Service. And we had
25 JPMorgan come in and study this with us, and their --

1 based on a peer group, they advised that we should
2 have approximately \$10 billion in cash and access to
3 cash at any point in time.

4 At any rate, we backed into, quite frankly,
5 based on the amount of relief we were able to get last
6 year, the \$7 billion figure, if things decline, if
7 revenue declines 5 percent further, which is simply
8 not out of the question and what's in our plan, we
9 would run out of cash. Based on the latest economic
10 indicators, we would end the year with a positive cash
11 balance, if we got 4 billion relief at the end of this
12 year, and we would have an exigent price increase, we
13 would be right around zero, and I'm looking for
14 confirmation if somebody can tell me what I said.
15 Yes, just about at zero. So if anything goes south,
16 we would run out of cash, but we would have like \$100
17 million.

18 CHAIRMAN GOLDWAY: At the end of fiscal year
19 2011?

20 THE WITNESS: Correct.

21 CHAIRMAN GOLDWAY: Okay. Great. Now I
22 think I understand it, and I think that's what our
23 analysts have indicated as well.

24 Vice Chairman Hammond?

25 VICE CHAIRMAN HAMMOND: Thank you, Madam

1 Chairman. I want to follow up a little bit with what
2 the Chairman and Commissioner Acton were talking about
3 with the retiree health benefits and the Seigle report
4 and all of this. It takes a second to get back to it
5 but that's what I am concerned with overall.

6 But could you just say what you mean by
7 extraordinary or exceptional?

8 THE WITNESS: What I think is extraordinary
9 or exceptional is the fact that our mail volume
10 plummeted at a level and a rate which is unprecedented
11 since the Great Depression.

12 VICE CHAIRMAN HAMMOND: Okay, that's
13 basically it, right?

14 THE WITNESS: Correct.

15 VICE CHAIRMAN HAMMOND: So if something
16 unusual, something that doesn't happen regularly, is
17 that fair?

18 THE WITNESS: It hasn't happened over a
19 three-year period ever to the extent we have had it
20 happen here. Ever as far back we can go, and
21 institutional memories will allow us to go, it surely
22 has not happened since the Great Depression in terms
23 of the one year drop.

24 VICE CHAIRMAN HAMMOND: Now, the Internet
25 has been around for awhile and the volume of single

1 piece First-Class has been in a general decline pretty
2 much for several years, that's right, isn't it,
3 overall?

4 THE WITNESS: That's correct.

5 VICE CHAIRMAN HAMMOND: Okay. So gradual
6 decline in first-class volume is not an
7 extraordinarily or exceptional circumstance as I read
8 your testimony. The extraordinary and exceptional
9 thing was the major volume decline at the end of 2008,
10 and it's gone through 2009. That's correct, isn't it?

11 THE WITNESS: That's correct.

12 VICE CHAIRMAN HAMMOND: Right. Okay. So
13 it's because of this historic decline the Postal
14 Service revenue has been falling faster than
15 management could reduce cost, even though you cut
16 costs by about \$6 billion plus last year, something
17 like that as I recall. So you're asking for this
18 exigent increase because you need to get the money to
19 pay the bills. Is that right?

20 THE WITNESS: That's correct.

21 VICE CHAIRMAN HAMMOND: Okay. So if the
22 economic downturn hadn't happened, and the only volume
23 declines that you were experiencing were what we were
24 talking about earlier, these anticipated one, the
25 Postal Service would keep on exercising its good

1 management and operating within the CPI cap envisioned
2 by Congress when it passed the reform legislation, and
3 you wouldn't be here today.

4 THE WITNESS: That would be the ideal
5 situation, yes.

6 VICE CHAIRMAN HAMMOND: Okay. All right.
7 You don't want to raise rates during a recession, do
8 you? I mean, you're only asking to raise the rates
9 because all of the efforts that you have put forth to
10 cut cost and be efficient you still need to pay your
11 bills, right?

12 THE WITNESS: Correct.

13 VICE CHAIRMAN HAMMOND: So this is where I
14 get a little bit confused. I understand that Congress
15 wanted the Postal Service to operate within the CIP
16 cap, but to be safe they wanted to make sure that if
17 there was some truly exceptional event that made it
18 impossible for you to pay your bills, then you could
19 raise rates to meet your obligations and continue to
20 provide service. I understand that and I think that's
21 the situation that we are all talking about today.

22 But can you confirm that? If the Postal
23 Service could pay its bills and could continue to
24 provide service to the nation, it wouldn't be
25 burdening its customers right now by implementing an

1 exigent rate increase, is that right?

2 THE WITNESS: That's correct, I believe. It
3 hypothetical. If we didn't have a liquidity problem
4 and didn't envision a decade of growing losses, there
5 would be no need to raise rates.

6 VICE CHAIRMAN HAMMOND: Okay. And if you
7 will bear with me here just a couple more questions
8 because I have been thinking about this whole
9 situation of the Postal Service responsibilities are,
10 what the responsibilities that this Commission has,
11 and I would like to tell you what I have been thinking
12 and ask you to comment because, as you basically said,
13 in my mind an exigent rate increase isn't appropriate
14 unless there is an exigent circumstance and the Postal
15 Service needs additional revenue to keep on providing
16 your service, and you all have said that (a) there was
17 an extraordinary volume decline, and that (b) you may
18 not be able to meet your financial obligations in, as
19 you said, the Chairman said fiscal year 2011 -- well,
20 through fiscal year 2011 is the --

21 CHAIRMAN GOLDWAY: The end of the year 2011.

22 VICE CHAIRMAN HAMMOND: Yes, okay. So
23 that's why you've been requesting rate increases to
24 take place on January 2nd of 2011 in this case, is
25 that right?

1 THE WITNESS: That's correct.

2 CHAIRMAN GOLDWAY: Okay. So, the Commission
3 has been on record, as evidenced by the Chairman going
4 to Congress and testify and statements that we have
5 made, saying the Postal Service's annual payments to
6 the Retiree Health Benefit Fund are unnecessarily
7 large, and we also recently issued the report
8 concluding that the formula for determining the Postal
9 Service payments to fund its share of the CSRS payment
10 to the former Post Office employees was unfair, the
11 Seigle that we, of course, put out. Congress is aware
12 of these issues, and considering what will be done.

13 But I'm not going to ask you a legal
14 question of what might happen if the Commission
15 approved a rate increase, and then the Congress acted
16 so that you no longer needed the money. I haven't
17 even asked our Commission lawyers to give me a legal
18 opinion on this, although I think we would be on
19 pretty solid ground.

20 What I am going to ask you to comment on is
21 if the Commission did approve a rate increase and if
22 the Congress then acted and the Postal Service didn't
23 need that rate increase, then it would be unfair to
24 the mailers to allow no longer needed increase to take
25 effect. What do you think about that?

1 THE WITNESS: I don't think that there's
2 anything that Congress can do that is going to, on the
3 RHB, or even with the CRS overfunding, that will right
4 the ship in terms of how we view the next decade of
5 mail and in our near term profits. We're looking at a
6 \$7 billion loss next year without any price increase.
7 If we would receive \$4 billion of relief, for example,
8 like we did last year, we still have a \$3 billion
9 loss. We can't continue to run the Postal Service at
10 a deficit, given we're running out of debt funding.
11 So we still do need more than just the RHB. Even if
12 we got the entire \$55 billion credited to the account,
13 we would still need other changes in order to remain
14 liquid in the medium to long term, so I don't know
15 about unfair.

16 I think, you know, we're trying to take a
17 balanced approach here. What we're trying to do,
18 actually, and we spent a lot of time talking about
19 this, is to be fair, not just for fairness sake, but
20 it clearly is, you know, as a governmental
21 organization, that clearly is something we want to do.
22 We don't want to over tax any stakeholder group even
23 if we had the ability to do so, so that's why we've
24 come up with the balanced approach. By the way, I
25 find it unlikely, but it's possible that we could have

1 the \$55 billion jackpot hit sometime in the next year
2 or so, two years maybe, but nonetheless, dealing with
3 history, if that's any indicator of the future, a \$4
4 billion relief would not be enough and it would likely
5 come with a one year provision, so we still would be
6 facing \$7 billion of losses next year and potentially
7 \$7 billion in losses the following year, where the
8 uncertainty about whether or not the \$4 billion will
9 be relieved every year lies out there. So gave more
10 than you asked for, but that's my view on it.

11 VICE CHAIRMAN HAMMOND: Well, so you
12 realize, and I know you do, you're talking about
13 potentially, as you say, receiving billions and
14 billions of dollars of potential relief in dealing
15 with the retiree health benefit plan and you talked
16 about \$55 billion of relief potentially if people
17 agree that there is an overpayment into the fund.
18 When you're talking about those many billions and
19 billions of dollars, you're still saying that you have
20 to have a rate increase to survive?

21 THE WITNESS: Yes, that is what I'm saying.
22 If you go back to our March 2 plan, we estimated that
23 we would have, after we do everything we can possibly
24 do and save over \$100 million internally to continuing
25 efficiencies, continuing staff reductions, Lean 6

1 Sigma, and closing what we can in terms of facilities,
2 et cetera, we will still have \$115 billion of losses
3 over the next decade that we cannot cover under the
4 existing operating environment and existing price
5 caps. As a result, if you have \$115 billion over 10
6 years and you receive \$55 billion -- by the way, I
7 think it's highly unlikely we will receive \$55 billion
8 -- it would be used as some sort of future credit
9 toward our prefunding.

10 So if you receive a \$55 billion credit from
11 \$115 billion of total deficit we'll run over the next
12 decade, you can see we still do not have enough money
13 to close the gap. We need to make some of the other
14 changes. We need next price increase, we need to have
15 a firm change to our agreements with labor, we need to
16 be able to more actively improve our access and close
17 down some of the traditional access points and we need
18 the RHB funding. We need each of these items in order
19 to get \$115 billion.

20 VICE CHAIRMAN HAMMOND: So that was the, I
21 think the word you used was utopia in answer to the
22 Chairman's question that you seek. You said utopia
23 when getting everything that you need or want.

24 THE WITNESS: I remember saying the word, I
25 don't remember the context of the question, I'm

1 afraid.

2 VICE CHAIRMAN HAMMOND: Okay.

3 CHAIRMAN GOLDWAY: I'll trust Commissioner
4 Hammond.

5 THE WITNESS: But if I could walk out of
6 here with it, I'd certainly take it. That's utopia.
7 Or just one-fifth or one-seventh of utopia would be
8 nice.

9 VICE CHAIRMAN HAMMOND: Okay. Thank you,
10 Madam Chairman, and thank you, Mr. Corbett.

11 CHAIRMAN GOLDWAY: I'll take the opportunity
12 to follow-up because Commissioner Hammond pointed out
13 the obligation of the Postal Service to stay within
14 the limits that were developed under the POVA. The
15 idea was limit price increases and put pressure on the
16 Postal Service to become more efficient and reduce
17 costs. Certainly, the volume declines in 2008 and
18 early 2009 put additional pressure on you. In your
19 testimony, on page 7 you say that the Postal Service
20 plans to reduce costs by \$3.5 billion, I believe, for
21 this year. Is the Postal Service on target with its
22 cost cutting?

23 THE WITNESS: We are. We're somewhere
24 between \$3 billion to \$3.5 billion we'll save this
25 year.

1 CHAIRMAN GOLDWAY: And do you feel that you
2 have plans in place so that quarter four will continue
3 with that cost savings?

4 THE WITNESS: We do. I mean, this is an
5 annual figure so we expect to come out in that range
6 for the full year, and we continue to reduce the
7 number of employees in the fourth quarter, and we also
8 are starting to see some savings from our NDC projects
9 which are starting to pay dividends. So we're
10 comfortable with that as annual total and with the
11 quarter's contribution to that.

12 CHAIRMAN GOLDWAY: In your cost cutting
13 strategies, to what extent have you focused simply on
14 trying to reduce labor costs that are directly related
15 to expenses? I'm losing my words here. You have
16 costs that are 100 percent volume variable, and then
17 you have costs that are 20, 30, 40, 50 percent volume
18 variable. In your plan for cutting costs, is your
19 effort directed entirely at trying to eliminate those
20 costs that are tied to volume drops or are you seeking
21 some sort of structural changes or business model
22 changes that would allow the Postal Service to operate
23 more efficiently in the long run in a way that may be
24 different from what it does now?

25 I may not be expressing myself that clearly,

1 but it seems to me that when Vice Chairman Hammond
2 brought up the concept of the POVA, the concept was
3 really to get the Postal Service to rethink its whole
4 operating cost structure and to develop an efficiency
5 that it could build on year after year. In fact, the
6 discussion was not to give you a CPI, but to give you
7 a CPI minus one to encourage efficiency. So I wanted
8 to ask whether in your plans for cost reductions your
9 thinking has gone beyond just the simple adjustments
10 related to volume decline. I hope that makes sense.

11 THE WITNESS: I think it does, yes. We're
12 constantly innovating. I have to tell you, I've been
13 in the private sector prior to joining the Postal
14 Service, and so for over 25 years, and I've seen a lot
15 of organizations, transportation organizations,
16 manufacturing organizations and others, and being
17 efficient is either in an organization's DNA or it's
18 not, and at the Postal Service, it is. Every week
19 we're talking about how we're going to be more
20 efficient and reduce costs in different areas and that
21 continues. There's no way you could do without 115
22 million work hours in 2009 without changing the things
23 you do, without reallocating people.

24 That's the equivalent of 65,000 people.
25 It's unbelievable. Probably unprecedented. I haven't

1 done the study to do that, but my guess is that no
2 organization in North America has ever taken out that
3 many people that fast and continued the quality of
4 service that we've continued. Put it in perspective,
5 the 65,000 people, that decline in 2009, was a greater
6 number of people than most of the Fortune 500 has in
7 total employees. So you have to put this in
8 perspective and realize you have to keep the ship
9 moving while you're doing this. In terms of specific
10 initiatives, they're endless. You've heard about NDC.

11 We'll save \$100 million to \$150 million a
12 year with that if you put that in place. That would
13 consist of the long haul movement of mail across the
14 country. We have endless Six Sigma projects to
15 improve efficiency both in administrative areas, as
16 well as in operational areas plant to plant changing
17 the way we handle things, how we staff things, et
18 cetera. We have the consolidations. Yes, there is
19 much political influence sometimes and obstructions
20 put up when we try to do things, but we have been
21 successful. We've consolidated 22 area mail
22 processing plants just in the last year and saved \$68
23 billion. We have had a virtual hiring freeze, but
24 with some exceptions.

25 CHAIRMAN GOLDWAY: Sixty-eight million?

1 THE WITNESS: Sixty-eight million. Did I
2 say billion?

3 CHAIRMAN GOLDWAY: I wasn't sure.

4 THE WITNESS: Okay. Sixty-eight million.
5 If it was \$68 billion, I would be very happy. And the
6 list goes on. I mean, there's a number of things we
7 do on a day-to-day basis where we -- just the
8 reallocation of employees. When people leave, many
9 people have brought up the fact, well, you know, we
10 get attrition. Well, it's not just attrition. If a
11 carrier leaves, you need another carrier. We're down
12 to the skin on the carriers. We need to have people
13 in that position. It's not just a click of a finger
14 in terms of finding somebody to continue delivering
15 the mail and hitting all the stops every day so that
16 we have 98 plus percent quality of service. There's a
17 lot of day-to-day management that goes into the
18 trenches as people are leaving to reallocate employees
19 and to make sure that we can do things in the most
20 economical way. So this continues, it's part of our
21 daily life, and it will continue.

22 CHAIRMAN GOLDWAY: Why is it that the Postal
23 Service announced only within the last month that it
24 was going to freeze hiring in administrative
25 management? You've had this crisis and adjusting to

1 work out for a year and a half.

2 THE WITNESS: We're looking at the
3 organization very hard. We're actually formally
4 studying the organization and just take that project
5 off. We saw it was appropriate at the time we were
6 doing that to make sure that the hiring freeze was
7 more formal. We have had de facto hiring freeze in
8 most pockets of the company and this was to make sure
9 that the exceptions are truly very limited. We have
10 not been replacing. For example, we certainly haven't
11 hired a clerk or a mail handler, to my knowledge since
12 I've been here. I mean, maybe there's been a couple,
13 but you know what I mean? We basically had a virtual
14 lock down in terms of certain groups of employees.

15 CHAIRMAN GOLDWAY: Other questions?
16 Commissioner Blair?

17 COMMISSIONER BLAIR: Thank you. Mr.
18 Corbett, I was kind of taken by the discussion of
19 billions of dollars in relief, billions of dollars
20 appropriated. We're in a period of deflation right
21 now and the price cap regime was implemented for
22 predictable and stable rate increases. I'm wondering,
23 is the price cap regime dead? Is tying postal rate
24 increases to inflation no longer viable?

25 THE WITNESS: Were we to rewrite the law

1 today, I think that the law could continue to have a
2 price cap, but there ought to be relief mechanisms.
3 For example, a price cap does not cover and does not
4 provide significant funding to the Postal Service when
5 you lose 26 billion pieces of mail in one year. You
6 couldn't foresee that. When that law was written, no
7 one ever would have said that that could possibly
8 happen, but it did, so there will be extraordinary
9 items. Luckily, there is an exigent case that can be
10 made here, but there could be something more
11 mechanical in a new law if we had the benefit of
12 constructing that, but I don't think a price cap is
13 something that has to go away.

14 COMMISSIONER BLAIR: Well, don't you think,
15 though, if we're in a deflationary period and we
16 continue to see the cap under water or even at one
17 percent, is that going to be viable in the next few
18 years to increase rates at only a minimal rate of one
19 percent or less? Because you talked about future
20 liquidity problems, and I'm hearing that you think
21 it's an exigent case now, but I'm hearing that you're
22 -- to me, maybe you're laying the foundation for
23 another exigent case as soon as next year. I just
24 wanted to get a sense from you as to what we could
25 anticipate and what the service's thoughts are on how

1 this pricing mechanism is going to work into the
2 future.

3 THE WITNESS: I can't pretend to know what
4 would happen in a true deflationary environment.
5 Right now we have, there is some inflation, but it's
6 very, very small. We would be at less than half a
7 percent in terms of the overall inflation. This
8 country hasn't been through it in the modern era.
9 When you read about it, no one really knows what will
10 happen in a deflationary environment, so it's
11 difficult for me to put in the context of the Postal
12 Service if we truly do have deflation. You'd have to
13 look to Japan, which is probably the only major
14 country in the world who has actually lived through an
15 extended period of deflation, and it's not pretty.

16 At any rate, again, to start back to what I
17 think your point is, I think that if one anticipates
18 deflation, you could throw that into a price cap. If
19 prices are deflating, then people ultimately are paid
20 less, transportation companies are paid less.
21 Everyone's prices and the cost of doing business will
22 go down over an extended period of time with
23 deflation. So I think there is a way to construct the
24 price cap that would work both for inflationary times,
25 as well as deflationary. My point was that no price

1 gap is perfect if you don't also anticipate other
2 things that can happen in the overall economy or at
3 the Postal Service in particular.

4 COMMISSIONER BLAIR: Where I'm having a
5 problem is, to me, as you just said, everyone else's
6 prices are going down, but yours is going up. There
7 seems to be a divorce from reality here, and that's
8 what I'm trying to bridge right now. In your
9 testimony, well, first, if it is such an exigency, you
10 described this 5.2 percent increase as modest. Why
11 didn't you go for more?

12 THE WITNESS: It's really trying to be
13 balanced. That's all. We have enough history with
14 increases in that range that we believe we have a
15 pretty good understanding of what it will do also to
16 volumes in terms of elasticity of demand. Also, we've
17 got to keep people into mail. You know, we're not
18 doing this to drive people out of the mail. Will some
19 people leave the mail? Yes. Is that billed into our
20 calculations? Yes. We want to minimize that loss and
21 overall find the rest of the monies we need from other
22 initiatives.

23 COMMISSIONER BLAIR: Well, on page 11 in
24 your testimony, on line three you state that it may be
25 possible for the Postal Service to pay back some, or

1 all, of the exigent increase by basing subsequent
2 price increases on pay caps set below the level
3 indicated by the TCIU caps calculated at that future
4 date. Should this case be approved, does the language
5 bind future boards of governors or the Postmaster
6 General to pay back some, or all, of that increase?
7 How would you do that? Are you saying that you would
8 forego future cap increases even though we might be in
9 a deflationary period because of their exigent
10 increase now?

1 THE WITNESS: Let me address a couple
2 things. You, it sounded almost like a question, you
3 said was this buying the board, I don't think --

4 COMMISSIONER BLAIR: Right --

5 THE WITNESS: I don't think there's any way
6 that my testimony was buying the board. They haven't
7 been, made a decision on any future structure or
8 pricing, so.

9 COMMISSIONER BLAIR: So how should we take
10 that statement then that, as one of many options for
11 the board to consider with future price increases is
12 that, it may have gotten an exigent rate increase in
13 year X and so in year Y it's going to ask for a lower
14 cap increase? I mean are those just the options
15 you're throwing out there?

1 THE WITNESS: No, I think what it is is
2 we're, you know, we have to be competitive with what
3 we're doing. And to the extent that our balance plan
4 plays out and we are able to get the stakeholders
5 we're, we have communicated with and are talking about
6 right now in line with ways to get the exigent price
7 increase, to get from six to five days, to get
8 appropriate flexibility and concessions from labor,
9 improve our access, and also receive some reduction in
10 RHB, all those things combined would put us in a
11 position where we would be liquid and we would be in a
12 position where we would need to make sure that we only
13 pass through price increases to the extent that we
14 need them to run the organization.

15 COMMISSIONER BLAIR: So do you think that
16 again this price increase then is good for the
17 organization if you want to stay competitive?

18 THE WITNESS: I think it's mandatory for the
19 organization given where we are today.

20 COMMISSIONER BLAIR: So the competitiveness
21 is a secondary consideration, you're saying that this
22 is needed, that it's -- I don't want to put words in
23 your mouth.

24 THE WITNESS: Yeah, well the patient needs
25 oxygen right now. We need to revive him and we need

1 to get him back to health, and then we can worry about
2 other things once we're off life support essentially.
3 That's the way I would categorize, or characterize it
4 rather.

5 COMMISSIONER BLAIR: Okay, thank you.

6 CHAIRMAN GOLDWAY: Commissioner Langley?

7 COMMISSIONER LANGLEY: Thank you. I very
8 much appreciate that the Postal Service has extensive
9 history in forecasting volume decline due to price
10 increases, but going along with the idea of a
11 potential deflationary period, how is the Postal
12 Service looking at future declines in volume due to
13 price increases if we enter into what at least the
14 Federal Reserve is focusing on right now, you know,
15 the real possibility of a deflationary period which
16 would certainly drive down demand, prices, wages
17 nationwide. How do you think the Postal Service
18 customers would respond to a rate increase at this
19 time? In other words do you really, does the Postal
20 Service believe that its forecasting is the same now
21 as it was say in our 2006 rate increase?

22 THE WITNESS: I think that there's more
23 uncertainty since the recession in our forecasting and
24 frankly everybody's forecasting as to what's going to
25 happen, including for that matter the Federal Reserve

1 whether we'll be in a period of inflation or
2 deflation. If you look back for the last three months
3 on the front page of the Wall Street Journal you can
4 see at least a dozen articles probably six of which
5 say we will go into deflation and six which say that
6 that's nonsense.

7 So I don't really know where it's going in
8 terms of deflation, but our major, I don't think the
9 customers right now given, whether there's deflation
10 or not right now we're effectively at zero, right, for
11 the price cap. We're about a half a percent increase
12 would be what we would receive under the normal, just
13 in excess of a half percent increase what we would
14 receive under the normal price cap, so clearly we've
15 been very close to, not deflation but no inflation at
16 all.

17 And in light of that we still believe the
18 appropriate thing to do is to have this exigent price
19 increase. So whether that was, you know, slightly
20 negative as opposed to slightly positive it wouldn't
21 really change our thinking or the analysis we've done.
22 We still think it's something that we have to do, it's
23 one of the two levers that are available to us --
24 well, it's the only lever that's available to us
25 without a change in legislation that will provide near

1 term liquidity.

2 COMMISSIONER LANGLEY: And I think you've
3 answered my question on where you think the economy is
4 heading right now, it's hard to say. One thing that I
5 am interested in, on page 3 of your statement you
6 discuss the Postal Service's business model, and you
7 bring considerable experience to the Postal Service
8 with your over 25 years of private sector business and
9 probably have arrived at an excellent time for them.
10 You went into a little bit with the Chairman about the
11 Postal Service's business model, but do you believe
12 that increase in volume is a viable business model now
13 for the Postal Service?

14 THE WITNESS: I'm sorry, could you ask the
15 question again, do you mean is it possible that
16 volumes will increase?

17 COMMISSIONER LANGLEY: Right, I mean volumes
18 are not going to increase say on the higher margin
19 items such as first class mail, and the Postal Service
20 has presented its seven pronged plan I guess in March
21 for going into the future, so I'm just curious where
22 the Postal Service is going to get this new money. If
23 you're not going to have, if you can't increase volume
24 on higher priced items and the mail mix is changing so
25 that standard mail is the predominant mail product,

1 where do you go from here?

2 THE WITNESS: We don't, when you look at
3 just the core business, which for the, you know, short
4 to medium term is really all we can look at, we
5 actually that's part of our plan, our March 2nd plan,
6 we expect actually continuing declines. And in the
7 plans the way we meet that change or that decrease in
8 revenue that we'll see is through the five major
9 points we talk about in the plan, which exigent
10 pricing being one of them. Exigent pricing is a this
11 year thing but it carries through to the future.

12 Six to five day is something else that
13 eventually we'll deal with. We hope it's soon, but
14 nonetheless I think it's inevitable given that volumes
15 will continue to decline especially in the highest
16 margin products, that we'll get there. We continue
17 to, we need to be extraordinarily successful in our
18 labor contracts coming up both this year and next year
19 in terms of the flexibility of the workforce and the
20 cost of the workforce going forward. And we need the
21 ability to continue improving our access for the
22 public. That, all those together with the RHB are the
23 ways that we are going to adjust primarily the cost
24 structures in order to size the organization to the
25 declining revenue stream going forward.

1 COMMISSIONER LANGLEY: So much of it depends
2 on Congress's action as well.

3 THE WITNESS: Correct. Everything I
4 mentioned other than the exigent price increase
5 depends on Congress.

6 COMMISSIONER LANGLEY: And if the economy
7 continues to be weak and if Congress does not act, is
8 the Postal Service faced with having to file
9 additional exigent rate increases in order to raise
10 prices to meet its operating demands?

11 THE WITNESS: I really can't comment on
12 that. We, I don't even know if the option is
13 available under law whether we can or can't. But the
14 answer is I don't know. I think there will be enough,
15 what's the word I'm looking for, momentum toward other
16 items that something is going to happen. I think
17 you're going to see it around the world, not just
18 here.

19 I'm sure you're aware that for example being
20 able to vary the delivery frequency is being studied
21 in pretty much every major country in the world right
22 now, with a number of them already have five-day, and
23 certain European countries talking about going to
24 three-day delivery. That's their way of dealing with
25 it because they have worked their way around some of

1 these issues before we have and they determined that a
2 price increase is not the right way to go. So I don't
3 really know what we would do if we continue to find
4 those barriers.

5 COMMISSIONER LANGLEY: I think that's
6 appropriate, and as far as the other countries, they
7 have very different policy and legislative mandates on
8 their post, and many of them have privatized the bulk
9 of their postal operations, so while it's interesting
10 to compare the U.S. Postal Service to foreign post
11 it's not always apples to apples, it's more apples to
12 oranges. Thank you.

13 CHAIRMAN GOLDWAY: I'd like to follow up on
14 this discussion by pursuing a line of questions that
15 were submitted by Valpak. And I'll just go through
16 them more or less the way they are and perhaps you can
17 answer them. Valpak submitted questions to the
18 Commission that related to your statement on page 9
19 that the Postal Service will elevate the role of
20 demand factors in pricing. Could you elaborate a
21 little more on what this statement means?

22 THE WITNESS: Yes. Basically what we're
23 saying is that cost based pricing is not the only way
24 to price, and right now that is the entire regime
25 where we're, for 80 percent of our revenue we're

1 obligated to do. So basically demand pricing is, we
2 need to be able to raise the price cap to a higher
3 level from the class perhaps to the overall portfolio
4 and use the demand factor in terms of determining
5 where we'll set prices, as opposed to the cost
6 coverage.

7 CHAIRMAN GOLDWAY: Do you believe that price
8 elasticity plays a role in pricing?

9 THE WITNESS: Absolutely it does, we look at
10 it constantly.

11 CHAIRMAN GOLDWAY: So to what extent should
12 a product's elasticity be relied on to setting rates?

13 THE WITNESS: Well it depends on the product
14 and how far you're moving the price. But generally
15 speaking we rely on it in terms of determining how
16 much additional revenue we'll get from a pricing move.

17 CHAIRMAN GOLDWAY: So what are the other
18 factors in demand pricing that would be used other
19 than elasticity?

20 THE WITNESS: It's all inherent in
21 elasticity essentially, where will the demand go if
22 you raise prices.

23 CHAIRMAN GOLDWAY: Okay, so could you
24 explain how this exigency proposal, the exigency rate
25 proposal that you've submitted, which is close to an

1 across the board rate increase for most products, how
2 that elevates the role of demand factors in pricing?

3 THE WITNESS: The exigent price increase in
4 and of itself does not go to where we'd like to be in
5 terms of being able to use demand. As you said it's
6 more uniform and less focused except for those
7 products which were under the cost coverages which we
8 attempted to bring up to or above cost coverage in
9 every case where we could. But other than that in
10 terms of a demand based pricing it's not apparent in
11 the exigent price increase.

12 CHAIRMAN GOLDWAY: It doesn't do anything
13 towards. Okay, here's another question, on page 17
14 the Postal Service was concerned about the volume loss
15 that occurs with price increases. In the end though,
16 this is a quote from page 17, "In the end though, a
17 modest price increase despite the accompanying volume
18 loss will improve the financial situation," you've
19 more or less testified to that as well to Commissioner
20 Blair. Do you see a distinction between loss in
21 volume and a reduction in profitability?

22 THE WITNESS: Well in isolation yes, if we
23 lose volume in isolation then our profits will be
24 negatively impacted or our loss will grow. But to the
25 extent that it's in the context of the exigent price

1 increase where you're raising the price for each piece
2 of mail in that class and seeing some decline in
3 volume, no, it actually will grow our revenue and our
4 profitability.

5 CHAIRMAN GOLDWAY: So is the Postal Service
6 concerned more with mitigating its loss of volume than
7 it is with maintaining profitability?

8 THE WITNESS: We're very concerned with
9 both, which is why we've been moderate in this
10 increase as opposed to trying to solve the entire \$115
11 billion through a pricing measure.

12 CHAIRMAN GOLDWAY: Well but I think that the
13 issue is there are some classes of mail that make more
14 profit than others, and if you're focusing on
15 profitability rather than volume loss, you might not
16 be unhappy to lose some volume if it's the volume
17 that's costing you money.

18 THE WITNESS: That's correct, and in total
19 that's exactly what's happening.

20 CHAIRMAN GOLDWAY: But the exigency rate
21 proposal doesn't address that issue?

22 THE WITNESS: It doesn't attempt to raise
23 prices -- I'm not sure I understand. It doesn't
24 attempt to raise prices on for example single piece
25 first class mail beyond the 5.6 percent, in fact it

1 would raise less than even though the elasticity of
2 that product is lower.

3 CHAIRMAN GOLDWAY: So is the Postal Service
4 as concerned about the loss of unprofitable volume as
5 it is with the loss of high profitable volume, highly
6 profitable volume?

7 THE WITNESS: No, not in general.

8 CHAIRMAN GOLDWAY: So you would consider
9 concerns about the loss of unprofitable volume to be
10 misplaced?

11 THE WITNESS: No, I mean you said "as
12 concerned".

13 CHAIRMAN GOLDWAY: Yes.

14 THE WITNESS: We're concerned about any loss
15 of volume.

16 CHAIRMAN GOLDWAY: You are concerned with
17 any loss of volume.

18 THE WITNESS: Any loss of volume.

19 CHAIRMAN GOLDWAY: Regardless of whether
20 it's profitable or unprofitable?

21 THE WITNESS: We have a fixed cost,
22 primarily a fixed cost network when you really get
23 down to it. The majority of our costs are in
24 delivery, we're going to the house, to the mailbox
25 every day anyway, for six days a week currently, so

1 incremental, any volume loss actually will cause, all
2 other things equal, will cause a decrease in our
3 profits. I thought the question you asked was, which
4 once concerns you more? And given the situation we're
5 in today, from a financial perspective loss of
6 profitable volume concerns us more than loss of
7 nonprofitable volume.

8 CHAIRMAN GOLDWAY: But the pricing you
9 submitted doesn't really address that.

10 THE WITNESS: Right.

11 CHAIRMAN GOLDWAY: Can you discuss how the
12 Postal Service has in the past few years under PAEA
13 used its pricing flexibility that's available to it,
14 especially with regard to underwater products?

15 THE WITNESS: We're talking about market
16 dominant or competitive or both?

17 CHAIRMAN GOLDWAY: Market dominant. It has
18 certain flexibility within the PAEA to address some of
19 these issues. Has it done so in the past under PAEA?

20 THE WITNESS: I'm afraid I'd have to submit
21 that to you later. This is the first pricing action
22 I've been familiar with.

23 MR. KOETTING: Madam Chairman, Mr. Kiefer
24 when he's here on Thursday might perhaps be better to
25 answer those questions.

1 CHAIRMAN GOLDWAY: Could answer that
2 question, okay. And this is the last question from
3 Valpak. On page 16 the Postal Service took many steps
4 consistent with "best practices of honest, efficient,
5 and economic management" to improve its position. Do
6 you consider pricing of individual products to achieve
7 profitability to be consistent or inconsistent with
8 best practices of economical management?

9 THE WITNESS: Could you please repeat the
10 question? I'm sorry, I was reading my testimony while
11 you were reading.

12 CHAIRMAN GOLDWAY: Sure. The Postal Service
13 says that it took many steps over the last year with
14 best practices of honest, efficient, and economical
15 management to improve its position. Do you consider
16 pricing of individual products to achieve
17 profitability to be consistent or inconsistent with
18 best practices of economical management?

19 THE WITNESS: In total I would say that
20 you'd have to consider, yes, I do consider that as a
21 factor.

22 CHAIRMAN GOLDWAY: So the final question, is
23 pricing that results in continued losses on market
24 dominant product consistent or inconsistent with best
25 practices of economical management?

1 THE WITNESS: I think it's consistent in the
2 context of what we're doing here, and that's why I was
3 trying to be clear to say that you have to indicate or
4 determine what impact on your overall profitability a
5 drop in volume of a particular type of mail will bring
6 about. For example periodicals, why do people go to
7 their mailbox? Because there are magazines there. Is
8 that make it more attractive for advertisers to also
9 advertise in the mail because they know people are
10 picking up their mail et cetera. What is the indirect
11 impact of a particular piece of mail on other pieces
12 of mail, will it generate additional mail either
13 through back end delivery of products that are sold in
14 that piece of mail, of reply cards or other types of
15 things? So you have to consider a whole lot of things
16 when you're pricing an individual product.

17 CHAIRMAN GOLDWAY: Has the Postal Service
18 done any studies to measure or determine what the
19 secondary volume growth is with regard to some of
20 these loss making products?

21 THE WITNESS: It's largely judgment. I'm
22 not aware of any detailed studies.

23 CHAIRMAN GOLDWAY: Okay, I think that
24 answers Valpak's concerns regarding what they see as
25 some of the flaws in the exigency proposal. Other

1 questions from Commissioners?

2 VICE CHAIRMAN HAMMOND: While you're, if I
3 could follow up right now with a couple of things that
4 you said basically to the Chairman, I think you did
5 just say, did you not, when you were discussing that
6 people may go to their mailbox to get their magazines,
7 that's roughly, was that an expression or an
8 understanding that part of the reason people really
9 like the U.S. Postal Service is because of periodicals
10 that they get to receive because they consider it very
11 important, where you might not be making money on
12 everything, that periodicals has going on at the time,
13 but you understand that the people have an
14 understanding that they might support the Postal
15 Service because of the value that they get off of
16 things like periodicals, communications, et cetera.
17 Is that what you're saying?

18 THE WITNESS: Yes, I personally believe that
19 things like periodicals increase the value of the
20 overall mail.

21 VICE CHAIRMAN HAMMOND: Okay, all right.
22 So, well as Chief Financial Officer, CFO, which you
23 are of the Postal Service, do you think that you have
24 an obligation to include in your business model or in
25 your plans the elimination of everything that doesn't

1 make a profit for the Postal Service? I mean as CFO,
2 just, you know, that's what your very difficult job
3 is, would that be one of the goals that you think that
4 you're responsible for?

5 THE WITNESS: No I don't actually. I think
6 our primary, my primary objective in the organization
7 is to be, obviously to serve the American public and
8 to do it in a profitable way. We have largely a fixed
9 cost network, before as I said, so that the
10 incremental, whereas the allocated cost of product is
11 determinable if you lose a million pieces of that
12 particular product quickly you will not make more
13 money, you'll lose money, even if that product was
14 underwater in most cases. So it's a balancing act
15 between the fixed cost nature of the overall business
16 and the profitability of each individual product.

17 VICE CHAIRMAN HAMMOND: Okay. Do you take
18 that on to, because I know in part of your statement
19 where you talked about, well, it was on page 5 of your
20 statement I'll read it to you. "The critical fiscal
21 condition of the Postal Service can largely be
22 attributed to a lack of operating flexibility." Can
23 you talk about what exactly you're talking about here,
24 of where those restrictions are roughly?

25 THE WITNESS: I'm sorry, Commissioner

1 Hammond, can you point the line out on page 5?

2 VICE CHAIRMAN HAMMOND: Well, let's see, I
3 only rewrote it down here and said on page 5, I am
4 sorry, I don't know what line it's on.

5 MR. KOETTING: Line 16.

6 THE WITNESS: Line 16, thank you very much.
7 In another part of my testimony I do talk about some
8 of the aspects of that, but off the top of my head,
9 clearly delivery frequency is one. If FedEx or UPS
10 don't have enough package to make a profit in going to
11 a particular neighborhood they will not go there that
12 day. They have guaranteed minimums in their contracts
13 with shippers and others, but they are able to
14 determine flexibly and dynamically when they go and
15 where they go. We have no flexibility in our overall
16 delivery schedule in terms of how often we deliver and
17 to where we deliver.

18 The other things are, we cannot close post
19 offices for economic reasons. So we have over 30,000
20 post offices, the majority of those lose money. They
21 do provide some level of service, and we're happy they
22 do, but they lose money. A commercial enterprise
23 would not operate those postal services, post offices,
24 they would close them.

25 CHAIRMAN GOLDWAY: Wouldn't you say the same

1 thing about periodicals though?

2 THE WITNESS: Excuse me?

3 CHAIRMAN GOLDWAY: If your private company
4 is losing money on periodicals would it continue to
5 deliver them?

6 THE WITNESS: Over time I think you have to
7 have a goal of becoming profitable in every product
8 you have. You have to have a goal of doing that. I
9 could tell you a little story. When I was in the
10 consulting business back when I first got out of
11 school, I was riding up the elevator with the managing
12 partner of this firm and I was obviously this new guy,
13 I think I still had the tags on my shoe from where I
14 bought it, and he looked over at me and he said two
15 things, he didn't have any idea who I was, he said,
16 always be nice to everyone because that's the right
17 thing to do and you never know when you'll see that
18 person again.

19 And the second thing he said, which was
20 equally interesting probably about two or three years
21 later as I got a little experience and I was writing a
22 proposal for a customer, he said, why do you have the
23 price so high? He said, you can't raise the price on
24 a client you don't have. So we need to keep people in
25 the mail for now, we need to raise the prices and get

1 them to a point where we're profitable. To the extent
2 there are other intangibles that add to the value of
3 mail or other things, it makes a little more palatable
4 in order to get to your end final state. But
5 ultimately you have to be profitable on everything you
6 do either directly or indirectly.

7 CHAIRMAN GOLDWAY: So there might be
8 intangible values to post offices as well.

9 THE WITNESS: There are some, there
10 certainly are some intangible values to post offices,
11 yes.

12 CHAIRMAN GOLDWAY: Sorry to interrupt. Go
13 ahead.

14 VICE CHAIRMAN HAMMOND: No that's all right.
15 Well along now you were talking about, well you
16 mentioned private companies like UPS and FedEx which
17 are I believe very well run profitable private
18 enterprises, but we've always I think tried to
19 understand that the U.S. Postal Service has unique
20 burdens that they do not have in our considerations
21 too, so I mean I do think we understand that but
22 certainly I think it's great that you look at what
23 those two companies are trying to do.

24 But anyway, there was one other mention of
25 things that you brought out in your statement, and I

1 don't want to get weighed down in technicalities on
2 everything, but there was discussion of as far as an
3 increase in cost for FERS, F-E-R-S, Federal
4 Employment, that could amount to \$150 million and the
5 effects of the Healthcare Reform Act. Can you tell us
6 about the changes that that would cost the Postal
7 Service, \$150 million in Fiscal Year 2011? I mean
8 maybe that's a better question for Mr. Massy tomorrow,
9 but have you determined those cost increases that
10 you're referring to that you might have to bear
11 because of the Healthcare Reform Act?

12 THE WITNESS: Yes, the \$150 million is a
13 preliminary estimate but it's a straightforward
14 mandate that came down from OPM where our contribution
15 rate for FERS has been increased by something on the
16 order of four or five tenths of a percent, times our
17 huge salary base gets you up to somewhere around \$150
18 million of additional cost. Even though we believe,
19 not we believe, we know our FERS per OPM is overfunded
20 right now, we have more funds than our actual
21 obligation is worth, we receive that information from
22 them, nonetheless this across the board increase
23 applies to AGCs and the Postal Service alike.

24 VICE CHAIRMAN HAMMOND: So you will have an
25 additional financial burden because of the passage of

1 the Healthcare Reform Act that you have to bear?

2 THE WITNESS: In addition to the FERS. The
3 FERS is not in and the Healthcare Reform Act will have
4 the other ones that people have, covering family
5 members up to 26 years old is an additional cost
6 obviously. And also some of the attributes of the
7 healthcare law which require you to have a plan in
8 place that covers people who work more than 30 hours a
9 week, currently with pockets of our casual employees
10 we don't have to provide healthcare.

11 VICE CHAIRMAN HAMMOND: Okay, thank you,
12 thank you again.

13 THE WITNESS: Sure.

14 CHAIRMAN GOLDWAY: If I can go back to
15 Commissioner Hammond's reference to FedEx and UPS,
16 that leads me to some questions the Greeting Cards
17 Association submitted. So I wanted to ask you on
18 their behalf, the Greeting Card Association was
19 interested in exploring how the Postal Service
20 compared with private industry as far as increasing
21 productivity. Can you tell us or provide for the
22 Commission's record in this case the average annual
23 labor productivity changes from 2000 to 2009 for U.S.
24 manufacturing, for the communications sector overall,
25 and for the transportation sector overall? Can you

1 provide that for us?

2 THE WITNESS: I don't know if we actually
3 have the data you're referring to in terms of the
4 other industries or whether it's publicly available
5 information. We can certainly provide our own
6 productivity measures.

7 CHAIRMAN GOLDWAY: Well they're interested
8 in knowing where these productivity measures are
9 comparable to the Postal Service's total factor
10 productivity. They wanted to be able to compare them
11 from 2000 to 2009.

12 THE WITNESS: I respectfully say that that
13 data is as available to them as it is to us, we don't
14 have it, I don't know if it's available.

15 CHAIRMAN GOLDWAY: Thank you.

16 THE WITNESS: So if you require us to
17 produce it we'll try to produce it, but I don't think
18 it's something that we normally do.

19 CHAIRMAN GOLDWAY: Well if you would just
20 submit separate information on the Postal Service's
21 total factor productivity from 2000 to 2009 as it's --

22 THE WITNESS: Gladly, yes.

23 MR. KOETTING: Madam Chairman, I believe the
24 Postal Service files that annually. I think this
25 year's submission was dated March 2nd as I recall, it

1 would be available on the Commission's website.

2 CHAIRMAN GOLDWAY: Thank you.

3 MR. KOETTING: Well it includes historical
4 information going back as well.

5 CHAIRMAN GOLDWAY: Yes, okay. And then the
6 other, another question they had was, could you
7 provide the percentage increase in rates if any that
8 the Postal Service implemented during the recession in
9 September 1902, January 1910, January 1913, August
10 1929, November 1973, and July 1981? I don't think
11 they have those records and you probably would be able
12 to indicate what the price increases were in
13 relationship to those recessions/suppressions.

14 THE WITNESS: I don't, we can provide what
15 we have, yeah.

16 CHAIRMAN GOLDWAY: Okay.

17 THE WITNESS: I mean I'm sure, well not
18 sure, but I would think we might have 1981.

19 CHAIRMAN GOLDWAY: Well if you have the
20 records back to 1902, the Greeting Cards Association
21 would like to look at that. And do you view that the
22 impact of the housing bubble and/or the credit crisis
23 are separable and quantifiable causes of the drop in
24 mail volume that can be distinguished from the drop in
25 mail volume caused by the general recession?

1 THE WITNESS: The two industries were credit
2 card and excuse me?

3 CHAIRMAN GOLDWAY: And the housing bubble.
4 Credit card crisis and the housing bubble.

5 THE WITNESS: They clearly contributed
6 heavily to the overall volume drop and decline in
7 revenues. So I'm not sure I understand the question,
8 but they definitely are a component of that.

9 CHAIRMAN GOLDWAY: Well I guess what they're
10 trying to determine is that, there have been other
11 housing bubbles in the past, there was the savings and
12 loan crisis sometime in the '80s and there have been
13 some other credit crises in the past, and they wanted
14 to know what the differences were in these that
15 related to volume change. I suppose their point is, I
16 don't have the answer for you, their concern that your
17 argument this is an extraordinary and exceptional
18 circumstance because of volume drop and their
19 concerned that perhaps there were other times when
20 volume did drop and the Postal Service didn't have to
21 resort to an exigency rate increase. So if there is
22 any discussion you have about comparing the impact of
23 previous housing bubbles or credit crisis effects with
24 this year's to put it in context to see why you think
25 this volume drop is more extraordinary that would

1 answer some of their concerns.

2 THE WITNESS: I think I better understand
3 the question. The housing market shattered any
4 previous record for delinquencies and defaults on home
5 mortgages that exist. I don't know how many times the
6 number they've had in the past, but the housing market
7 clearly is significant, I would quite frankly call it
8 extraordinary. But it drove part of the other changes
9 that drove our drop in volume. Credit card I believe
10 also set a record in terms of the delinquencies in
11 terms of number of days, unpaid bills et cetera, so
12 they're both records in terms of modern history I
13 believe in terms of housing, I don't know about the
14 credit cards. But they clearly contributed to the
15 overall decline in our volumes.

16 COMMISSIONER BLAIR: Madam Chair?

17 CHAIRMAN GOLDWAY: Follow up, by all means.

18 COMMISSIONER BLAIR: Just as a follow up to
19 that, I think part of the question, and maybe I'm
20 inferring something incorrectly from the statement,
21 but I got the question to read that if you rode the
22 bubble and benefitted by going up like this, were
23 there plans or preparations or any kind of business
24 considerations given that this isn't back to bubble
25 and that we should be prepared for when that bubble is

1 popped. And that's the way that I understood that
2 question, is that if you're going to ride that
3 economic wave, and did you understand that it was --

4 CHAIRMAN GOLDWAY: Knowing that there had
5 been other waves before.

6 COMMISSIONER BLAIR: Exactly, thank you for
7 --

8 CHAIRMAN GOLDWAY: Yes, well we're both
9 trying to help make sense of it.

10 COMMISSIONER BLAIR: Thank you.

11 CHAIRMAN GOLDWAY: Yes.

12 THE WITNESS: I wasn't here for the ride up,
13 unfortunately I joined on the ride down. Yeah, it's a
14 little bumpier, but certainly interesting I'll tell
15 you that. But in terms of the, I mean I don't know
16 how to respond other than, even the Federal Reserve of
17 the United States and all of Europe didn't understand
18 what was going on in the economy, people expected it
19 to continue. Would it moderate? Maybe. Would there
20 be a bubble bursting? Anyone who predicted that and
21 when it would happen would be a very very rich person
22 right now.

23 So I just think that it was an extraordinary
24 event that happened that basically the economy,
25 everything happened at once, you had a credit crisis,

1 you had the stock markets drop, and you had
2 unemployment shoot up, and all these three things
3 coming together just created a situation which if it
4 wasn't for the multi-trillion dollar bailout of the
5 Federal government it probably would have been another
6 Great Depression or the greatest depression. So I
7 just think that no one, I personally could not have
8 foreseen it, I don't think the average person or even
9 the Federal Reserve foresaw the bubble or even the
10 fact that we were necessarily on a bubble.

11 CHAIRMAN GOLDWAY: My staff assistant pulled
12 up for me some testimony from a 1994 rate case hearing
13 where then Chairman -- I wasn't on the Commission --
14 Chairman Glyman was asking about the plans for the AFS
15 100 and then future plans for expanding the capacity
16 of the Postal Service to handle flats, and he pointed
17 to a study that said by the mid 2000s that a lot of
18 volume would decline as a result of Internet and all
19 these things, and he predicted that the Postal Service
20 would be left with a surplus capacity.

21 So there were people who were making some
22 pretty good predictions over time, and I think that's
23 one of the things that drive some of the people in the
24 mailing community, they remember some of these
25 forecasts and plans and feel that the Postal Service

1 perhaps didn't plan accordingly. There is one other
2 question that was submitted by the Public
3 Representative that he'd like you to answer.

4 The Public Representative was interested in
5 the Postal Service's plan for the revenue generated
6 from the exigency rate increase request of 5.6
7 percent, on how that figure was developed. Did you
8 provide witness Kiefer with a specific dollar amount
9 of revenue or revenue target or with an overall
10 percentage increase that you wanted in your proposal?

11 THE WITNESS: I'm just pausing because I
12 personally did not, but we had many discussions about
13 what rate was appropriate as part of the balanced
14 plan. And ultimately we had zeroed in over a number
15 of discussions on 4 to 6 percent as what we believed
16 was appropriate given the overall balanced plan.

17 CHAIRMAN GOLDWAY: So was that 4 to 6
18 percent looked at in terms of the revenue it would
19 generate or was it looked at in terms of what you
20 thought the community would accept?

21 THE WITNESS: That was looked at, well both.
22 I mean it was not difficult, you have to factor in
23 elasticities which you can do at a very high level,
24 but when coming up at 4 to 6 percent you can pretty
25 much know back of the envelope what the revenue impact

1 will be plus or minus a couple hundred million
2 dollars, and you also can guess and only guess the
3 customer's reaction to that. You can more than guess
4 from an elasticity standpoint what it will be based on
5 history, but you can't guess, you know,
6 psychologically.

7 CHAIRMAN GOLDWAY: And then their last
8 question was, does the Postal Service have plans to
9 use this additional revenue should you get it to
10 support any particular programs, such as increasing
11 automation or improving service, or is it simply to be
12 applied to the general operating budget of the Postal
13 Service?

14 THE WITNESS: It's going to be added to our
15 survival program, is where it will be at. I mean
16 it'll be to pay general operating expenses. We have a
17 deficit of as I said \$7 billion next year, so we would
18 use it to pay normal operating expenses. I hope a
19 good portion of those go toward improving customer
20 service and other things that you mentioned.

21 CHAIRMAN GOLDWAY: I think I've covered the
22 questions that were submitted. Are there other
23 questions from the bench?

24 COMMISSIONER ACTON: Thank you, Madam
25 Chairman. I believe that you Postal Service and your

1 reputable consultants, Mr. Corbett, have estimated
2 that at the end of the next decade in spite of your
3 best efforts to increase efficiencies and cut costs
4 and improve the productivities you still will have
5 about a \$115 billion deficit, is that right?

6 THE WITNESS: That's correct.

7 COMMISSIONER ACTON: And if you presume that
8 you enjoy a relief from Congress in the amount of \$55
9 billion on these obligations for the retirees, how
10 much of the remaining \$60 billion do you believe might
11 be interest to service the debt?

12 THE WITNESS: I don't know, certainly don't
13 know off the top of my head, and it would depend on
14 how that \$55 billion was used. For example if they
15 used it to decrease your prefunding over a time -- if
16 they gave it all to us, it would be a huge portion.
17 Like if they gave us \$55 billion in unrestricted
18 funds, let's go with the extreme because I can't
19 answer your question without knowing how it will work
20 out.

21 COMMISSIONER ACTON: Let's go for the
22 extremes, yes.

23 THE WITNESS: \$55 billion, here it is, a
24 postal fund, it's for general operating expenses, that
25 number would probably be, you know, I don't know, \$80

1 billion, \$70, \$90 billion, I don't know, I'm guessing.
2 But anyway it would be much larger than \$55 billion in
3 terms of its coverage of the \$115 billion. On the
4 other hand if the \$55 billion was credited to a
5 government account and as a result they decreased our
6 annual contribution over a time, then it would be much
7 less impactful.

8 COMMISSIONER ACTON: Okay, so the devil is
9 in the details on that arrangement, and the outcome
10 could swing widely.

11 THE WITNESS: Yes.

12 CHAIRMAN GOLDWAY: Do you know what the
13 interest rate was that your consultants estimated for
14 that amount of money you weren't going to be making
15 this year that somehow got it up to \$115 billion?

16 THE WITNESS: Yeah, I believe it's between
17 3.5 and 4 percent, which was based on the Treasury
18 rate in those periods, for the next decade, the
19 projections of what it would be. I can confirm that,
20 but I believe it's between 3.5 and 4 percent. And it
21 may vary by year --

22 CHAIRMAN GOLDWAY: So that's speculative.
23 Okay, I and if you did an estimate now where the
24 Treasury rates are, what, a half percent?

25 THE WITNESS: Yeah, they've dropped quite a

1 bit since March 2nd so the rate should be lower, I
2 don't know how much lower.

3 CHAIRMAN GOLDWAY: Okay.

4 COMMISSIONER ACTON: It would be helpful,
5 staff is asking, if you could provide us a response
6 that assumed that it eliminates the \$5.5 billion
7 prefunding requirement and the \$2.2 billion current
8 premium. Thanks.

9 THE WITNESS: Sure.

10 COMMISSIONER ACTON: Earlier you referenced
11 workforce negotiations regarding cost and flexibility
12 concerns. And aside from your negotiations last year
13 of the collective bargaining agreement to enable more
14 route adjustments, have you asked the other workforce
15 representation leadership what sort of labor
16 constraints or restraints might be negotiated? What
17 sort of steps has the Postal Service been active on on
18 this front?

19 THE WITNESS: There are, and I have to be
20 obviously very careful here in an area given our, we
21 actually are kicking off this month our negotiations
22 of two of the contracts which expire in November. But
23 there are two things we've been very very clear about.
24 One is that we absolutely need more flexibility, and
25 flexibility will equal cost savings and efficiency

1 going forward. Today we have a cap on the number of
2 non-career employees that we can use, per union to
3 union, but it's for the APWU which is coming up is 6
4 percent of the total workforce can be in that
5 category. We need to increase that.

6 We need the flexibility to be able to bring
7 people in for shifts that are less than a full eight
8 hours. You can imagine how inefficient that is when
9 you have four hours of work and you need 20 bodies to
10 do that four hours of work and you can only bring
11 those 20 bodies in if you guarantee them eight hours
12 of work, which is the way the current contract works.
13 And so workforce flexibility is one of the items that
14 will save billions of dollars in the future if we're
15 able to come to an agreement with the unions on that.

16 The other is in the cost of benefits and
17 healthcare, where there are a number of issues we're
18 look at there that I can't go into that would also be
19 multibillion-dollar adjustments to our overall
20 operating costs going forward. And those are the two
21 areas we're most focused on. There are obviously a
22 number of other things we'll be putting on the table,
23 but in terms of the chew dollars and the discussions
24 that have taken place so far before the formal
25 negotiation begins those are two I think are worth

1 remarking on.

2 COMMISSIONER ACTON: Have you, has the
3 Service contemplated opening current contracts prior
4 to the next scheduled opportunity?

5 THE WITNESS: Not to my knowledge. I don't
6 know what vehicle we could use to do that. I think
7 the vehicle that Chrysler and GM used to do that was
8 bankruptcy. I think I find it unlikely that the
9 unions will say -- but I haven't asked them -- but I
10 find it unlikely they will say, yes we will open them
11 up. And those conversations, I don't want to say they
12 haven't occurred. Tony Begalante is in charge of HR,
13 sorry, well HR and labor relations, and he is having
14 conversations with the union leadership every day.
15 And if you know Tony, he's probably had those
16 discussions but I have not been privy to those.

17 COMMISSIONER ACTON: Okay. My last question
18 is, there was an earlier advisory opinion by the
19 Commission regarding nature of service case that
20 involved 162 facilities that we advised that if you
21 followed the notification process the Service could
22 close a number of those, and I'm wondering what sort
23 of progress you've made on that front.

24 THE WITNESS: I'm sorry, is this a report
25 from?

1 COMMISSIONER ACTON: This was a nature of
2 service case that came before the agency for a
3 proposal that the Postal Service was interested in,
4 you may recall there was a lot of public relations
5 coverage about the number of facilities at issue, it
6 ended up being about 162 at my last count --

7 THE WITNESS: Stations and branches is what
8 you're talking about?

9 COMMISSIONER ACTON: Yes, sir. So, okay.

10 THE WITNESS: I don't know.

11 COMMISSIONER ACTON: Maybe you could look at
12 it --

13 THE WITNESS: I could get back to you on it,
14 but I don't --

15 COMMISSIONER ACTON: You can let us know,
16 that would be good. Thank you, Madam.

17 CHAIRMAN GOLDWAY: I think what would be
18 useful to know is, how much money do you think the
19 Postal Service could save if it proceeded with those
20 162 post offices, how much money the Postal Service
21 thinks it could save by other reductions in post
22 offices and how much money the Postal Service thinks
23 it will save by closing processing facilities,
24 assuming that you had more flexibility to do it, or
25 what would the dollars add up to in those different

1 programs that you're asking about.

2 THE WITNESS: In terms of the 100 and some
3 odd post offices that closure, the dollars associated
4 with them were pretty minor, and that's why it's kind
5 of fallen off my radar screen. In the relative scheme
6 of things, you know, when you're talking hundreds of
7 millions and billions, they're not in that category.
8 But they're still important to make every efficiency
9 we can, and so we'll follow up on that.

10 In terms of overall initiatives on access,
11 in our plan for the next decade we believe we could
12 save about \$10 billion in operating costs, not per
13 year but over the plan in terms of moving access to
14 higher foot traffic in places with additional store
15 hours and closing brick and mortar post offices. On
16 the processing I'd have to get back to you, we don't,
17 I don't have a firm number. Actually as part of our
18 planning process this year it's challenged the
19 districts in the areas in terms of the closures that
20 they are working from a bottoms up perspective going
21 to bring to us, so it's premature to say what that is.

22 CHAIRMAN GOLDWAY: We'd appreciate the
23 number that you think would be possible to save with
24 that so that could be in comparison to some of these
25 other initiatives you've presented. Are there other

1 questions?

2 COMMISSIONER LANGLEY: Yes, thank you. I
3 would like to add to that question about post offices
4 the percentage of post offices that are losing money,
5 because you stated that the majority of post offices
6 lose money, and I think it would be helpful for us
7 just in this same vein to have the percentage of post
8 offices that are losing money, particularly the
9 different ES level, you know, breakdown according to
10 the different ES level facilities. And in that I
11 would ask that you include stations, branches, and
12 post offices.

13 But I have a couple other questions. You
14 had mentioned the response to the Chairman, who was
15 asking on behalf of the Public Rep about how the
16 Postal Service ended up with a 5.6 average increase
17 and that you were looking at a 4 to 6 percent range,
18 you know, looking for something that the community,
19 the mailing community, wouldn't be overburdened by.

20 And this is a question that Ebay submitted
21 to the Commission which states, does the Postal
22 Service consider the impact of its rates and services
23 on the overall economy, specific business sectors, and
24 private sector job creation when it formulates changes
25 in rates and services? Let me take it a little

1 further. How does the Postal Service know that the
2 community wouldn't be overburdened by a rate increase
3 in the 4 to 6 percent range?

4 THE WITNESS: Well there's a significant
5 amount of judgment obviously involved in coming up
6 with that, but we do use history, and we can go back
7 over time and look at other rate increases and what
8 the estimated loss of volume was as a result of those
9 increases for a benchmark. And the rest of it is
10 primarily judgment around that and around finding a
11 number that was big enough to be meaningful as part of
12 the balanced plan but did not drive too much volume
13 away, is all I could really say.

14 And in terms of the other question, private
15 sector employment, we don't look directly at the
16 impact of price increases in private sector
17 employment, but by looking at elasticities and how
18 much people are going to mail we try to limit the
19 reduction in volume with our price increase or at
20 least understand what it might be, and as a result I
21 think the underlying economic activity associated with
22 these volume reductions translates into potentially
23 loss of jobs in the private sector. But we do try to
24 limit obviously loss of volume.

25 COMMISSIONER LANGLEY: If you're using

1 history and this is extraordinary times as the Postal
2 Service is citing, do these elasticity forecasts and
3 historical data really have a place in the assumption?
4 Because obviously businesses are responding
5 differently due to the deep recession.

6 THE WITNESS: Yes, they are responding
7 differently, and I think that it's less perfect --
8 first of all it's an estimate to begin with, and it's
9 less perfect now given the economic circumstances
10 we're in. But it's still very relevant. The economy,
11 you know, right now is flat, but it's neither heading
12 up nor down. And as a result we've, you know, given
13 the expectations for the overall economy going forward
14 that's kind of what it looks like over the next couple
15 years, at least if you look at the consensus views of
16 what's going to happen. So as a result we have a
17 pretty good idea based on the information that's
18 available to us what the volume drop will be.

19 COMMISSIONER LANGLEY: Given that the Postal
20 Service is not going to cover its costs, or at least
21 it's estimated that the Postal Service won't cover its
22 costs or there will be a liquidity crisis even at the
23 end of FY '11, was there a consideration of smaller
24 increase, rate increases?

25 THE WITNESS: I'm sorry, could you say that

1 again, Commissioner Langley?

2 COMMISSIONER LANGLEY: You have stated both
3 at the Board of Governors meeting and here today that
4 the Postal Service would still be out of cash on
5 September 30th, 2011, with or without the exigent rate
6 increase. The average is 5.6 now, was there a
7 consideration of going lower for an exigency rate
8 increase or even staying within, and I know it's
9 small, the PCI cap and using the bank's authority?

10 THE WITNESS: There was consideration of a
11 limitless number of ranges that we, you know, we
12 started with. And as I said before, based on the need
13 to plug a hole in terms of the balanced plan and the
14 reception of the community we arrived at 4 to 6
15 percent. So the fact that you mention didn't overly
16 sort of shadow that process.

17 COMMISSIONER LANGLEY: So the 5.6 was the
18 best option that the Postal Service sought?

19 THE WITNESS: It was, because it serves both
20 purposes of, at least in our mind in terms of lost
21 volume and in terms of having something meaningful
22 toward the overall financial deficit we're in.

23 COMMISSIONER LANGLEY: Okay. Let me ask a
24 question, you said that the Postal Service has not
25 sought to reopen labor contracts. Did the Postal

1 Service reopen the 2006 NALC contract in order to do
2 route reevaluation, which certainly has lead I think
3 to the elimination of about 1,200 routes?

4 THE WITNESS: Let me clarify a couple
5 things. One, I wasn't aware of us having said to the
6 unions, we want to reopen the contract and change this
7 provision. Those conversations, I'm not privy to
8 those conversations. Having said that, there are
9 other ways other than contractual changes to, and in
10 the case of the route reevaluations after considerable
11 discussions some of which may have been, hey we're
12 going to seek to reopen the contract, we were able to
13 reach an MOU with the carriers to have them
14 participate in an expedited process for reducing the
15 number of routes we have on a nationwide basis, and in
16 total we reduced routes in 2009 by almost 17,000
17 routes. That couldn't have been possible without
18 negotiations with the unions and the signing of a
19 memorandum of understanding which didn't change the
20 underlying contract but it gave us the capability to
21 do that. So there are other ways to manage the labor
22 force.

23 COMMISSIONER LANGLEY: And are you aware,
24 and this is certainly before the time that you came to
25 the Postal Service, that during the 2006 bargaining

1 between NALC and the Postal Service, NALC -- and this
2 was brought up at the testimony during our five-day
3 consideration and it has now been a matter of direct
4 testimony by the Letter Carriers -- the NALC made an
5 offer to the Postal Service to include a package of
6 proposed savings, one of which was a separate
7 workforce of letter carriers to deliver mail on
8 Saturday and that all other letter carriers would be
9 working on weekdays. And this was something that the
10 Postal Service decided not to go with. I'm not really
11 privy to further information on that and it's
12 something that the commission can pursue during it's
13 consideration of the six to five-day proposal by the
14 Postal Service, but I think that that is certainly an
15 example of the unions coming together to save money
16 for the Postal Service.

17 CHAIRMAN GOLDWAY: Perhaps we could get
18 something in writing back from the Postal Service as
19 to why they didn't pursue that option?

20 THE WITNESS: Yeah I would prefer in
21 writing. I've actually have, as you've said before,
22 it was years before I joined, but, I do know that
23 there was something that would make that offer more
24 attractive in the current environment post PAEA than
25 it was prior to it, but I don't recall the technical

1 details as to why it didn't make sense.

2 COMMISSIONER LANGLEY: It would be nice to -
3 - if we could --

4 MR. KOETTING: Madam Chairman, as
5 Commissioner Langley pointed out, this is a subject of
6 direct testimony by the unions in the ongoing service
7 change proceeding. Postal Service would appreciate
8 the opportunity to explore that testimony through the
9 normal discovery process in that proceeding and then
10 respond to that when the time is set for rebuttal
11 testimony in that proceeding. We would think that
12 would be the appropriate timeframe in which that would
13 be conducted, because that's the context in which that
14 testimony was introduced.

15 COMMISSIONER LANGLEY: It was raised during
16 a public hearing, Mr. DeChiara, I believe he raised it
17 initially.

18 CHAIRMAN GOLDWAY: I do think that as your
19 witness testified in the other hearing as well, the
20 issues that are facing us are similar and the
21 background facts that the commission needs to decide
22 both this case and that case are similar, that we
23 would appreciate information on that option and why
24 the Postal Service didn't pursue it as quickly as
25 possible. We have to make this decision much faster

1 than we do the other one, and we would appreciate as
2 much information about that so that we know what
3 options the Postal Service has taken up or has chosen
4 not to take up, so within seven days we would expect a
5 response.

1 VICE CHAIRMAN HAMMOND: Madam Chairman.

2 CHAIRMAN GOLDWAY: Yes.

3 VICE CHAIRMAN HAMMOND: Before we move on to
4 a different subject --

5 CHAIRMAN GOLDWAY: Okay, but just a sense of
6 the Commissioners as to how much longer you think you
7 want to?

8 VICE CHAIRMAN HAMMOND: This will be my last
9 question.

10 CHAIRMAN GOLDWAY: Last question, okay. I
11 was thinking that we would be able to proceed and then
12 just break without having to have a lunch break and
13 leave our witness for a free afternoon.

14 VICE CHAIRMAN HAMMOND: I was just wanting
15 to see if I could get a clarification on, Mr.
16 Corbett's going to provide some information either in
17 response to you or Commissioner Langley's question
18 about money losing post offices.

19 CHAIRMAN GOLDWAY: Yes.

20 VICE CHAIRMAN HAMMOND: And I was just

1 hoping that maybe you wish to comment now or maybe you
2 all wish to put it in writing, I'd like to know what
3 you all consider to be a money losing post office.
4 You know, not everyone agrees that just because the
5 post office doesn't sell enough stamps to cover the
6 land on the building and the clerk or the postmaster's
7 salary that it's a money loser. So I don't know what
8 the definition of money losing post office might be,
9 but I would like to see what the Postal Service thinks
10 the definition of a money losing post office is, or if
11 you wish to comment now on what it is?

12 THE WITNESS: I think it would be better to
13 provide the analysis. We look at it different ways.
14 In some cases it's the retail revenues the post office
15 actually takes in, and in some cases you allocate the
16 area of business mail et cetera. So there are
17 multiple ways we look at it, and we have a plethora of
18 money losing post offices regardless of which way you
19 look at it, but we'll be clear in what we submit.

20 VICE CHAIRMAN HAMMOND: Okay, I'd appreciate
21 that, thank you.

22 COMMISSIONER LANGLEY: So you include the
23 business mail that's submitted to facility as well? I
24 mean it's, could you say that again please?

25 THE WITNESS: Yeah, in looking, I said

1 there's a number of ways we look at it. And we would
2 look at a post office, the easiest way is to say what
3 are the postage sales and what are the costs to
4 operate the physical facility, the salary labor and
5 other things. In other cases we will look at, there
6 are summary of post office in a particular area that
7 receives business mail and then you allocate the
8 business mail to post offices et cetera.

9 So there are different ways to look at it as
10 to, and on a cost side too, because the post office is
11 really, as you know but many people don't, the post
12 office is not just the post office, what's happening
13 in the front is not the same as what's happening in
14 the back, and so there are different ways of looking
15 at the cost of moving the mail that's coming in the
16 back and the actual counter up front. So anyway, to
17 make a long story short, we can show you the couple
18 ways we looked at. They're actually in, if you're in
19 a hurry, there are a couple slides in the March 2nd
20 presentation that is available on our website, and
21 we'll get those and send them over.

22 COMMISSIONER LANGLEY: It would be
23 interesting to know the different positions that the
24 Postal Service is taking on how it's looking at --

25 CHAIRMAN GOLDWAY: And Commissioner Langley

1 wanted it if at all possible broken down by ES levels
2 so that we can see which post office categories are
3 the losing post office categories.

4 THE WITNESS: We'll give you whatever ES
5 detail we have, I'm not positive whether there is --
6 one thing I will also say because I notice there's a
7 very, what's the word I'm looking for, important issue
8 on the post offices is, the whole access is not just
9 about closing post offices, it's actually about being
10 in places where people see the Postal Service where
11 they don't have to make a special trip to go outside
12 of their neighborhood post office and so therefore
13 will use us more than they currently do. If you have
14 a cost of operating in a downtown main street a post
15 office when the real activity is out in the suburban
16 mall three miles down the road next to the Home Depot,
17 you know, and the Target and whatever else is there,
18 you want to be out there, you don't want the duplicate
19 cost of operating the post office and that.

20 It's not just about saving the cost on that
21 brick and mortar, it's about revenue generation and
22 being where people shop. I think you'll remember that
23 in the study we did on March 2nd the average post
24 office, and they vary greatly, receives about 600
25 revenue producing visits per week. The average large

1 grocery store receives 20,000 people per week.

2 CHAIRMAN GOLDWAY: Well but those are
3 averages, you know, and you're comparing large grocery
4 stores with 15,000 post offices which are in very
5 small rural communities, that's going to water down
6 your average. You know, if you had taken your 20,000
7 larger post offices in major metropolitan areas the
8 differences might not be that great. I mean I think
9 you had, you used a number to highlight a particular
10 point. What we're looking at is the actual numbers
11 you might save with post office closings.

12 THE WITNESS: That's fine, thanks.

13 CHAIRMAN GOLDWAY: Any other questions
14 before we close up?

15 VICE CHAIRMAN HAMMOND: I don't have a
16 question --

17 COMMISSIONER BLAIR: I have --

18 VICE CHAIRMAN HAMMOND: I'm sorry, please.

19 COMMISSIONER BLAIR: I did have a couple
20 questions before we proceed. First, Mr. Corbett, I
21 had referenced a letter that Senator Collins had filed
22 with us yesterday as part of the docket in this case,
23 and I just wanted to give you an opportunity to
24 comment on some of what were rather her blunt feelings
25 that she expressed in this letter. She said in the

1 letter that the Postal Service's current financial
2 condition is largely the result of its own failure to
3 sufficiently update its business model to adapt to
4 predictable and natural cyclical changes in the
5 economy and mail usage.

6 She goes on further and cites testimony
7 before the Homeland Security and Governmental Affairs
8 Committee, which she chaired, by my predecessor up
9 here, Chairman George Almos, and in testifying before
10 the Committee Chairman Almost at the time said the
11 availability of an exigent rate authority represents
12 an enormous exception to the general thrust of postal
13 rate making reform, and so the mechanism for regularly
14 exceeding the rate levels around which postal
15 management is expected to make its operational plans
16 could completely undermine this central object of rate
17 making reform.

18 She again quotes from Chairman Almos during
19 a 2004 committee hearing on reform where he stated
20 exigent rate requests are appropriate to accommodate
21 only those unanticipated cost increases that are truly
22 extraordinary. It seems to be her views and shared by
23 many in the community that it's not so much volume as
24 it is new costs that were imposed on the Postal
25 Service. Do you have any comments that you'd wish to

1 make to Senator Collins's letter, or moreover would
2 you like to identify any extraordinary costs that have
3 been imposed upon the Postal Service during the period
4 of time in which you claim the exigency has existed?

5 THE WITNESS: I won't comment on the failure
6 of the Postal Service. I think I would be too
7 defensive in even bothering to comment on that. So
8 unless you are asking me to I won't. I think it's --

9 COMMISSIONER BLAIR: Well, it's filed with
10 us, and I wanted to give you an opportunity to --

11 THE WITNESS: Yeah, I don't think it's worth
12 going down. I have talked to you about my own
13 perceptions having been here 18 months and having
14 spent 25 years in the commercial sector and my view of
15 how the organization is run, and I think it's run very
16 well, better than most commercial companies that I've
17 been associated with, and with as I said before, not
18 to be beating a dead horse, with the DNA of constant
19 improvement.

20 How someone outside the organization who
21 spends a couple hours a month on this would have any
22 clue I have no idea. But nonetheless, that's just
23 difference of opinion on that. On the, as the George
24 Almos, if I heard you right, his comment was on
25 exigent authority which allowed regular exceptions, I

1 believe that's what you read from his?

2 COMMISSIONER BLAIR: I read two quotes, and
3 you don't have the benefit of having it in front of
4 you and I understand that, I'm not asking you for a
5 word for word rebuttal, but he did say that it
6 represents an enormous exception to the general thrust
7 of postal rate making reform and further exigent rate
8 requests are appropriate to accommodate only those
9 unanticipated cost increases that are truly
10 extraordinary. And I know that was in 2004,
11 circumstances change, but I wanted to give you an
12 opportunity to give your views as to why you think
13 volume drop rather than extraordinary cost increases
14 should be the crux of a exigency case, and if there
15 were any extraordinary costs imposed on the Postal
16 Service during this time of exigencies?

17 THE WITNESS: George Almos of all people
18 would understand our cost structure. I mean I've only
19 had the opportunity to meet him a couple times but
20 he's a wealth of knowledge. And I can tell you the
21 drop of volume, our unit costs went through the roof.
22 So when you're talking about costs, I think it's
23 viewed narrowly. Did your expenses go up is only one
24 element of cost. Our cost to deliver each piece of
25 mail went through the roof when the volumes dropped,

1 and so we in fact do have a new environment that we're
2 operating in and a cost structure which doesn't work.
3 So I would certainly argue that what he said is okay
4 and that we actually fit right in there. In terms of
5 any new charges, other than the PAEA which of course
6 created the RHB funding and other large items, you're
7 referring to as of the passage of that law?

8 COMMISSIONER BLAIR: Well, do you consider
9 the RHB liability to be an extraordinary expense that
10 triggered the exigency?

11 THE WITNESS: No, it's not what we're
12 proposing here. It is certainly an unusual expense,
13 you know, and unique only to the post office as we've
14 all discussed before. But our main thrust is that the
15 volumes dropped significantly, more than ever before,
16 and that was as a result of many things, and that we
17 believe is extraordinary and exceptional.

18 COMMISSIONER BLAIR: Well one thing, I was
19 looking at the cost based on the volume and financial
20 and productivity results on information that the
21 Postal Service has provided to the Commission over the
22 past few years. And one thing that caught my eye was
23 the average compensation per hour, that from FY 2008
24 we have, it was \$41.42, and it increased to \$44.87 in
25 FY 2009. FY 2008 to 2009 was the period of the

1 exigency, and I was wondering if you could identify
2 why there was \$4.5 billion, or a \$3.50 increase in the
3 average compensation per hour and it translated to
4 \$4.5 billion?

5 THE WITNESS: There's a large, largest
6 driver of the increase in the costs related to COLAs
7 that the unions received, and it was quite frankly
8 freak timing of when the COLA was set, when we had the
9 oil spike and the indices were extremely high at the
10 time that calculation was done in accordance with the
11 union contracts. And as a result there was a, I
12 believe somewhere in the neighborhood of a 4 percent
13 COLA payable over two six-month periods that increased
14 the overall wages for the majority of our employees.
15 Other than that I'm not aware, and again I wasn't here
16 in '08 and started in '09, but I wasn't aware of any
17 other major increases, but that along would explain a
18 significant amount of that.

19 COMMISSIONER BLAIR: Are those COLAs
20 inflation based or how are they set?

21 THE WITNESS: They're based on indices,
22 they're CPI based and they are obviously negotiated so
23 we'll be looking at them again this November.

24 COMMISSIONER BLAIR: And they're paid once
25 or twice a year?

1 THE WITNESS: Twice.

2 COMMISSIONER BLAIR: Okay. I mean some
3 stakeholders would say -- how would you rebut the
4 allegation by some stakeholders that it seems to be
5 some CPI based industries are off the table for
6 consideration and others are on the table, that some
7 are arguing that it's inconsistent to ask users of the
8 mail for permission to break the cap because inflation
9 based, however when it comes to these contracts which
10 have an inflation component those seem to be off the
11 table and not subject to any cost cutting. What would
12 you say to stakeholders that would say that?

13 THE WITNESS: There are, I mean the union
14 contract is multifaceted, a price you charge a
15 customer is binary. So whether it's 42 cents or 44
16 cents that is the entire pricing for the contract.
17 With unions there are, if we are successful in
18 negotiating flexibility in the workforce and changes
19 to healthcare, we will do far better good for the
20 Postal Service than if we were to go to try, from a
21 monetary standpoint, than a actual labor rate
22 reduction for example. So and work rules and other
23 things, there are probably about a dozen key things in
24 a labor contract that you have to look at, not just
25 the COLA, in order to determine whether or not you

1 have a fair and a flexible arrangement going forward.
2 So I don't think the two are apples and apples.

3 COMMISSIONER BLAIR: So cost cutting on
4 wages and benefits seem to be not subject -- what I'm
5 trying to understand is that some have been arguing in
6 their filings before us that they think that when the
7 Service needs money that they can only go to the
8 mailers for that and the users of the mail, and I'm
9 trying to get a sense if this cost cutting is
10 equitable and across the board or if it's only focused
11 on raising rates.

12 THE WITNESS: The raising rates we've talked
13 about here today is what it is, and again like I said
14 that's sort of one for one. When you're looking at
15 the contracts, take the old contracts for example the
16 COLA, okay, the COLA was there and it was fixed. It
17 was unfortunate then in 2009 they hit the high point,
18 but you know what in 2010 the COLA was actually
19 somewhere in the 1 percent range, so it was closer to,
20 you pay me now or pay me later type of thing. But
21 healthcare, health they've been paying a percent more
22 of healthcare each year, and if we can renegotiate
23 that to continue that going down that's a true dollar
24 savings and reduction in our cost.

25 COMMISSIONER BLAIR: What does the Postal

1 Service pay right now for employee healthcare in terms
2 of the contributions?

3 THE WITNESS: Today I believe we pay 81
4 percent of the cost of coverage.

5 COMMISSIONER BLAIR: And --

6 THE WITNESS: Or of the premium, and the
7 unions pay --

8 COMMISSIONER BLAIR: What's your goal?

9 THE WITNESS: Our goal is to get down with
10 the rest of the Federal workforce.

11 COMMISSIONER BLAIR: Which is at what?

12 THE WITNESS: I believe it's 72 percent.

13 COMMISSIONER BLAIR: And how much do you
14 think that will save you?

15 THE WITNESS: That, if it happened all at
16 once with our entire workforce would save us I believe
17 about \$750 million a year.

18 COMMISSIONER BLAIR: Okay. I appreciate, I
19 know that I quoted some very difficult passages and I
20 appreciate your candor and willingness to answer it, I
21 think it's important to have that on the record.

22 THE WITNESS: You're welcome.

23 CHAIRMAN GOLDWAY: Any other questions?

24 VICE CHAIRMAN HAMMOND: I don't have a
25 question, Madam Chairman, but I would like to add

1 something here in closing on my part. We always value
2 and respect your contribution to any discourse, Mr.
3 Corbett, because we've had the impression from our
4 first encounter with you that you do not hide the
5 ball, and we value hearing your views.

6 Since you're sharing some professional
7 anecdotes and since Commissioner Blair raised the
8 specter of Senator Collins's letter, she was kind
9 enough to write to all of us yesterday and tell us how
10 she feels about it, it brings to mind a story when I
11 was being confirmed for this role the Senator told me,
12 in fact Senator Carpenter joined in, that I had three
13 important responsibilities. One was to ensure that
14 there is no cross subsidy of the competitive products
15 with the market dominant products. The second was to
16 make sure that the discounts afforded to work share
17 discounts were equal to voided costs. And finally and
18 perhaps most importantly that I work carefully to be a
19 responsible steward of the integrity of the rate cap.

20 So I think when you hear these sorts of
21 difficult questions you are facing today, you just
22 need to understand that we're wrestling with making an
23 informed and important decision and probably one of
24 the most important decisions the Commission has ever
25 been asked to make, certainly since it formed. So

1 thanks for your appearance today.

2 THE WITNESS: You're welcome. It's
3 important to you and to the community and it's really
4 important to us. I mean we don't have any other
5 options that don't require legislation that's going to
6 start to get us out of this mess, and we're trying to
7 avoid unpleasant things.

8 CHAIRMAN GOLDWAY: Well if there are no
9 further questions, I would like to take this
10 opportunity myself to thank the witness, Mr. Corbett,
11 as the other Commissioners have said you're always
12 thoughtful and informative and frank in what you
13 present to us we're confident in the information that
14 you give us. I am also greatly impressed with my
15 fellow Commissioners and their careful questions, the
16 preparation that they've demonstrated here in the
17 hearing. And these are difficult times for all of us
18 and we have many conflicting directions in the law,
19 and you have directions in the marketplace that you
20 have to deal with.

21 But we I'm sure are all trying to do our
22 best, and we will try to come up with a decision at
23 the end that is reasoned and includes the point of
24 view of all the people we are expected to represent
25 here, and to do it in a timely fashion. So we will

1 again continue with this hearing tomorrow morning.
2 And I'm pleased to say, however, that, Mr. Corbett,
3 you are excused and your testimony is completed. And
4 thank you again.

5 THE WITNESS: Thank you.

6 CHAIRMAN GOLDWAY: See you all tomorrow.

7 (Whereupon, at 12:31 p.m., the hearing in
8 the above-entitled matter was concluded.)

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REPORTER'S CERTIFICATE

DOCKET NO.: R2010-4
CASE TITLE: Rate Adjustment Due to Extraordinary
or Exceptional Circumstances
HEARING DATE: August 10, 2010
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Regulatory Commission.

Date: 8/10/10

/s _____

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