

file

Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: SPECIAL SERVICES FEES AND
CLASSIFICATIONS

Docket No. MC96-3

VOLUME 2

HEARING

CROSS-EXAMINATION OF THE POSTAL SERVICE

CASE-IN-CHIEF

RECEIVED
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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

DATE: Monday, September 9, 1996

PLACE: Washington, D.C.

PAGES: 34 - 399

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Washington, D.C. 20005
(202) 842-0034

1 BEFORE THE
2 POSTAL RATE COMMISSION

3 - - - - - X

4 In the Matter of: :

5 SPECIAL SERVICES FEES AND : Docket No. MC96-3

6 CLASSIFICATIONS :

7 - - - - - X

8

9 Third Floor Hearing Room
10 Postal Rate Commission
11 1333 H Street, N.W.
12 Washington, D.C. 20268

13

14 Volume 2

15 Monday, September 9, 1996

16

17 The above-entitled matter came on for hearing,
18 pursuant to notice, at 9:32 a.m.

19

20 BEFORE:

21 HON. EDWARD J. GLEIMAN, CHAIRMAN

22 HON. H. EDWARD QUICK, JR., COMMISSIONER, PRESIDING

23 HON, GEORGE W. HALEY, COMMISSIONER

24

25

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C O N T E N T S

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

WITNESS	DIRECT	CROSS	REDIRECT
W. ASHLEY LYONS			
BY MR. RUBIN	45		
BY MR. RUDERMAN		100/208	
BY MR. RUBIN			212
RICHARD PATELUNAS			
BY MS. DUCHEK	228		
BY MR. RUDERMAN		317	
TIMOTHY B. ELLARD			
BY MR. HOLLIES	372		
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BY MR. RUDERMAN			387

DOCUMENTS TRANSCRIBED INTO THE RECORD:	PAGE
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Designated Written Cross-Examination of Richard Patelunas	231
Designated Written Cross-Examination of Timothy D. Ellard	330

1	C O N T E N T S				
2	WITNESS	DIRECT	CROSS	REDIRECT	RE CROSS
3	W. ASHLEY LYONS				
4	BY MR. RUBIN	45			
5	BY MR. RUDERMAN		100/208		
6	BY MR. RUBIN			212	
7	RICHARD PATELUNAS				
8	BY MS. DUCHEK	228			
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10	TIMOTHY B. ELLARD				
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E X H I B I T S

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
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Richard Patelunas		230
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Timothy D. Ellard		329

1 P R O C E E D I N G S

2 [9:32 a.m.]

3 PRESIDING OFFICER QUICK: Good morning.

4 Today, we begin hearings to receive the direct
5 evidence of the Postal Service in support of its Docket
6 Number MC96-3 request for mail classification changes and
7 associated rate adjustments for special services.

8 Presiding Officer's Ruling Number 7 issued August
9 19, 1996, established the schedule for this session of
10 hearings. Extra copies of the schedule are available on the
11 table at the door as you enter the hearing room.

12 Before I go over how we will incorporate written
13 cross-examination into the record, I would like to take note
14 that Commissioner LeBlanc is not with us this morning due to
15 an illness in his family and we all wish his father the best
16 and hope that he will be able to rejoin us soon.

17 As I said, I will now go over how I intend to
18 incorporate written cross-examination into the record.
19 First, as has been a practice, two packets of designated
20 written cross-examination will be available for witnesses'
21 counsel to review before hearings begin each morning.
22 Please have your witness arrive early enough to review this
23 material and make any necessary corrections on these copies
24 before the hearings start. This will help us to proceed
25 quickly through the preliminary steps each morning.

1 On top of each packet will be a cover sheet which
2 lists the designations and the specific discovery questions
3 and answers included in the packet. Extra copies of cover
4 sheets will be available each day on the table as you enter
5 the hearing room. Counsel may review the cover sheets to
6 assure themselves that their designations have been included
7 in the packets.

8 Also, participants may examine one of these
9 packets to confirm that it is complete. However, I will
10 request that the packets not be taken apart, otherwise we
11 may not get all the designated material into the record.

12 If a participant's designation is not listed on
13 the cover sheet, this may indicate that the designation was
14 received too late to be included. However, before
15 submitting copies of discovery responses for the record as
16 supplemental written cross-examination, please review the
17 cover sheet to see if some or all of the answers you want in
18 the record have been designated by some other party and are
19 already included in the packet of written cross-examination.

20 The Postal Service provided a number of discovery
21 responses in this case late Friday afternoon. In the event
22 that a discovery response is filed just before a witness
23 appears for cross-examination and a party wishes to submit
24 that response as written cross-examination, counsel should
25 bring two copies of this additional written cross-

1 examination to the hearing room.

2 I will provide an opportunity for parties to enter
3 supplemental written cross-examination into the record
4 before the beginning of oral cross-examination of each
5 witness. I may also allow for the designation of answers
6 received shortly before a witness's appearance as
7 supplemental written cross-examination after the witness has
8 testified. In most instances, this will be allowed if the
9 designating party simply intends to supplement the record
10 and does not wish to engage in followup, oral cross-
11 examination.

12 Additionally, because on occasion a witness
13 provides a discovery response too late for it to be included
14 when cross-examination takes place or later submits for the
15 record information requested during cross-examination, there
16 will be a final opportunity to designate such answers for
17 incorporation into the evidentiary record. That date will
18 be set at a future time.

19 Next, the Postal Service, as an institution, has
20 provided a substantial number of discovery responses.
21 Participants may designate institutional responses for
22 incorporation into the evidentiary record.

23 The American Postal Workers Union, AFL-CIO,
24 already has designated an institutional response and I
25 expect participants may wish to include other institutional

1 responses in the record. A date for designation of
2 institutional responses also will be established in the
3 coming weeks. Participants designating institutional
4 responses may prepare their direct cases as though
5 designated institutional responses had been received in
6 evidence.

7 One reason why I have not yet established dates
8 for additional designations is that some questions to the
9 Service still have not been answered. In its September 5
10 motion for extension of time to respond to Presiding
11 Officer's Information Request Number 3, the Postal Service
12 stated it would be prepared to provide an oral status report
13 on outstanding questions.

14 Mr. Rubin or Ms. Duchek, whichever is appropriate,
15 are you prepared to give this report now?

16 Mr. Rubin?

17 MR. RUBIN: Yes. This is David Rubin for the
18 Postal Service.

19 As of Friday, the Postal Service filed all but one
20 answer to Presiding Officer's Information Request Number 3.
21 Still outstanding is a response to question 17 and that will
22 be provided later this week, we hope.

23 PRESIDING OFFICER QUICK: No later than Friday; is
24 that what you are saying?

25 MR. RUBIN: Yes.

1 PRESIDING OFFICER QUICK: Thank you.

2 Now, I will briefly review the rules for oral
3 cross-examination.

4 I intend to allow cross-examination in
5 alphabetical order. I am willing to vary the order of
6 cross-examination for the convenience of participants. I
7 encourage counsel to work out any changes that will assist
8 them to get through these hearings with a minimum of wasted
9 time.

10 If any party has only one or two questions and
11 they wish to go out of order so that they can prepare for
12 the next witness, this is fine with me. However, inform me
13 of any such changes in the order of cross-examination as
14 soon as possible.

15 When it comes to cross-examination of participant
16 witnesses, the Postal Service will, as has been the
17 practice, go last. We will begin every day at 9:30 in the
18 morning and run until the completion of the cross-
19 examination. We will take a 10-minute morning break at
20 approximately 10:45 and recess for lunch at around 12:15. I
21 will allow at least an hour for lunch.

22 In the afternoons, we will take breaks
23 approximately every hour-and-a-quarter. Breaks will be 10
24 minutes and I will -- I intend to resume promptly. There is
25 a buzzer to let everyone know when hearings are about to

1 resume. I ask your cooperation to return to the hearing
2 room promptly upon hearing the buzzer.

3 Is that the buzzer? I don't know where the buzzer
4 is. This is the buzzer. We can't hear it in here but you
5 can hear it wherever you'll be, maybe.

6 We will maintain a telephone message to inform
7 everyone of scheduling changes and the status of hearings.
8 The message is reached at 789-6874. It will be updated
9 during hearing breaks so you can learn how cross-
10 examination is progressing.

11 It is important that our transcript be as
12 accurate -- be an accurate record of our proceedings.
13 Parties are urged to review relevant portions of the
14 transcript and submit any necessary transcript corrections
15 promptly.

16 Substantive corrections, those that correct the
17 meaning of a statement, are necessary. I do not believe
18 that it is necessary to correct punctuation or syntax.

19 All transcript corrections are to be submitted
20 within one week of the close of a session of hearings.
21 Thus, transcript corrections stemming from the testimony of
22 Postal Service witnesses will be due seven days after the
23 close of these hearings which are currently scheduled to end
24 on September 11. Therefore, transcript corrections for this
25 session are to be filed on or before September 18.

1 A few other points I would like to bring up.

2 Counsel are to be reminded that the reporter
3 cannot deal with more than one person speaking at the same
4 time. I will rely on you to speak in turn.

5 Cross-examination exhibits which are not offered
6 into evidence can be useful. Each party should number its
7 cross-examination exhibits sequentially for each witness
8 with a designation XE for cross-examination exhibit.

9 Counsel are to provide two copies of the
10 transcript and enough copies so that the Bench can follow
11 the cross-examination. If you wish that the cross-
12 examination exhibit be made a part of the evidentiary
13 record, you will have to make a specific motion to that
14 effect and be prepared to support the request.

15 Are there any questions?

16 [No response.]

17 PRESIDING OFFICER QUICK: Is Mr. Carlson present
18 at today's hearing?

19 MR. CARLSON: Yes, I am.

20 PRESIDING OFFICER QUICK: Mr. Carlson, I have
21 reviewed the three motions to compel and the Postal Service
22 responses filed Friday evening. Because of the nature of
23 these questions, I will not require the Postal Service to
24 file additional written responses. Instead, I request that
25 you pursue these questions further during oral cross-

1 examination tomorrow.

2 Is that acceptable?

3 MR. CARLSON: Yes, it is.

4 PRESIDING OFFICER QUICK: Thank you.

5 Does any participant have a procedural matter to
6 raise before we hear from our first witness?

7 [No response.]

8 ~~CHAIRMAN GLEIMAN:~~ *Presiding Officer Quick:* Mr. Rubin, will you identify
9 your witness so that I can swear him in?

10 MR. RUBIN: The Postal Service calls W. Ashley
11 Lyons to the stand.

12 Whereupon,

13 W. ASHLEY LYONS,
14 a witness, was called for examination by counsel for the
15 Postal Service and, having been first duly sworn, was
16 examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. RUBIN:

19 Q Mr. Lyons, do you have two copies of a document
20 entitled Direct Testimony of W. Ashley Lyons on behalf of
21 United States Postal Service?

22 A Yes, I do.

23 Q Is that testimony designated as USPS-T-1?

24 A Yes, it is.

25 Q Was that testimony prepared by you or under your

1 supervision?

2 A Yes, it was.

3 Q And if you were to testify orally here today,
4 would this be your testimony?

5 A Yes, it would be my testimony.

6 MR. RUBIN: With that, I will bring the two copies
7 of the direct testimony of W. Ashley Lyons on behalf of the
8 United States Postal Service to the reporter and I ask that
9 it be entered in evidence.

10 PRESIDING OFFICER QUICK: Are there any
11 objections?

12 [No response.]

13 PRESIDING OFFICER QUICK: Hearing none, his
14 testimony and exhibits are received into evidence. As is
15 our practice, they will not be transcribed.

16 [Exhibit No. USPS-T-1 was marked
17 for identification and received
18 into evidence.]

19 PRESIDING OFFICER QUICK: Is your witness now
20 available for cross-examination?

21 MR. RUBIN: Yes. He has the packages of
22 designated written cross in front of him.

23 PRESIDING OFFICER QUICK: Mr. Lyons, have you had
24 an opportunity to examine the packet of designated written
25 cross-examination that was made available to you earlier

1 this morning?

2 THE WITNESS: Yes, I have.

3 PRESIDING OFFICER QUICK: If these questions were
4 asked of you today, would your answers be the same as those
5 you previously provided in writing?

6 THE WITNESS: Yes, they would.

7 PRESIDING OFFICER QUICK: Two copies of the
8 corrected designated written cross-examination of Witness
9 Lyons will be given to the reporter and I direct that it be
10 accepted into evidence and transcribed into the record at
11 this point.

12 [The Designated Written Cross-
13 Examination of W. Ashley Lyons was
14 received into evidence and was
15 transcribed into the record.]

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POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications

Docket No. MC96-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE WITNESS
W. ASHLEY LYONS
(USPS-T-1)

The parties listed below have designated answers to interrogatories directed to witness Lyons as written cross-examination.

<u>Party</u>	<u>Answers To Interrogatories</u>
American Bankers Association	ABA: T1-2-3
American Postal Workers Union	APWU: Interrogatory T1-1 OCA: Interrogatories T8-7(c) redirected from witness Needham
Office of the Consumer Advocate	OCA: Interrogatories T1-1-10, 12- 22, 25, 27-29, 34-35. 10-12 redirected to Lyons from USPS. T8-2(d) & 7(c) redirected form Needham. ABA: Interrogatories T1-2-3 APWU: Interrogatory T1-1 NAA: Interrogatories T1-1-2 NAPUS: Interrogatories T1-1-2 UPS: Interrogatory T1-2

Respectfully submitted,



Margaret P. Crenshaw

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION

ABA/USPS-T1-2.

At pages 8 and 9 of your testimony, you state that the additional revenues the Postal Service would expect to receive if the requested changes occur total \$339.9 million. How much of these additional revenues will be paid by persons sending First-Class Mail?

RESPONSE:

Please refer to my Workpaper E. That workpaper shows the revenue changes for the classes and subclasses of mail, and special services. In particular, the decrease in revenue for First-Class Mail is about \$1.4 million, and the increase in revenue for Priority Mail is also about \$1.4 million. Workpaper E shows a total revenue increase of \$331.2 million, which does not include a projected increase in interest income of \$8.7 million. See my Exhibit A.

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION

ABA/USPS-T1-3.

On page 8 of your testimony at lines 13 through 15, you state "Post office box revenues are estimated to increase by \$134.5 million, while attributable cost will decline by \$12.8 million." Do these figures include the changes requested in caller service fees? If so, how much of the increased revenue and decreased costs are associated with caller service? If not, by how much are the requested changes expected to increase revenue from caller service fees?

RESPONSE:

Please see my Workpaper D, page 3, which shows increased caller service revenues of \$6.6 million (41.713 minus 35.149), and decreased costs of \$5.2 million (29.041 minus 23.865).

RESPONSE OF WITNESS LYONS TO
INTERROGATORIES OF THE AMERICAN POSTAL WORKERS' UNION

APWU/USPS-T1-1. According to Exhibit A to your testimony, elimination of Special Delivery Service will result in a net loss of \$333,000. Why is this action fiscally appropriate?

RESPONSE:

The net income (loss) impacts by special service shown in Exhibit A of my testimony reflect the direct change in attributable cost and revenue for each special service only.

The impacts on other categories of mail are included under the Mail & Other category in Exhibit A. For a breakdown of these impacts for special delivery service please see my response to OCA/USPS-T8-7c, which was redirected from witness Needham. As explained in my response to that interrogatory, the impact of volume shifts more than offsets the loss of direct special delivery contribution.

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-1. Please refer to Library Reference SSR-112 ("A Report On The Need For Equity Restoration And The Recovery Of Prior Years' Losses" and Resolution of the Board of Governors of the United States Postal Service No. 95-9)

a. Please confirm that on the first page of the Executive Summary, the report states:

The Postal Service's current negative equity position must be analyzed in light of the benefits associated with equity restoration, as well as the costs associated with continued equity erosion. A positive equity position is of critical importance to any business, but it is particularly important to the Postal Service.

b. Please confirm that in Resolution No. 95-9 the Board of Governors state:

The Board of Governors hereby adopts the following Policy Statement affirming the Postal Service's commitment to the goals of breaking even over time and taking action to improve its equity position.

c. Please enumerate and describe in detail each benefit associated with equity restoration.

d. Please describe in detail why a positive equity position is important to the Postal Service.

e. Please enumerate and describe each of the postal Service's other medium- to long-range goals.

f. Please describe how the Postal Service's goal of equity restoration compares with the importance of the goals identified in part e above.

g. Does the Postal Service perceive any tension between its goals of (1) restoration of its net equity and (2) its goal of rate stabilization?

RESPONSE:

a. Confirmed.

b. Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-2, Page 2 of 2

- c. The benefits of equity and its restoration are enumerated and described in Chapter II of "A Report On The Need For Equity And Restoration And The Recovery Of Prior Years' Losses", in Library Reference SSR-112.
- d. Please see my response to part c. above.
- e. The Postal Service's primary goal, which can be found inside the front cover of the 1995 Annual Report of the Postmaster General, is "to evolve into a premier provider of 21st century postal communications by providing postal products and services of such quality that they will be recognized as the best value in America". There are numerous sub-goals, objectives, and strategies which support this primary goal. Sub-goals, objectives, and strategies are detailed in various places such as speeches and testimony given by Postal officials, the Annual Report of the Postmaster General, the Comprehensive Statement on Postal Operations.
- f. All of the Postal Service's goals are important and contribute to the accomplishment of our primary goal. However, I am not aware of any ranking of Postal Service goals, objectives, and strategies according to their relative importance.
- g. Since both goals are important but not mutually exclusive, it is the Board Of Governors' prerogative to strike a reasonable balance.

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-2. Please refer to Library Reference SSR-112.

- a. Please confirm that, on page 7, the Report states that the Postal Service's cumulative net losses were \$9 billion as of September 30, 1994.
- b. Is that the most current figure for cumulative net losses available? If not please provide the most recent figure.
- c. Please provide the projected cumulative net losses for the current and next fiscal year, assuming approval and implementation of this Request in this case, and no omnibus case next year.

RESPONSE:

- a. Confirmed.
- b. No. For the latest figures available please refer to Exhibit B in my testimony.
- c. Based on the before rates FY 96 net income of \$934 million reflected in Exhibit A in my testimony, the cumulative net loss through the end of FY 96 would be \$6.291 billion. Based on the FY 97 net loss of \$652 million reflected in the FY 97 President's Budget, the cumulative net loss through the end of FY 97 would be \$6.943 billion. Assuming approval of the changes requested in this filing and depending on the date of implementation, the cumulative net loss of \$6.943 billion would be reduced by some portion of the \$339.438 million annual impact of the proposed changes reflected in Exhibit A in my testimony.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO INTERROGATORIES OF
THE NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES**

NAPUS/USPS-T1-1. Your testimony states that, in offices where there is no carrier delivery option, boxholders will not be charged anything. How much annual revenue will the Postal Service lose as a result of this policy change?

RESPONSE:

According to USPS-T-1, WP D, page 8, the revenue loss is estimated at \$5,415,928.

This does not include any after-rates revenue from Group E nonresident boxholders or Group E boxholders eligible for delivery, which cannot be accurately estimated.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO INTERROGATORIES OF
THE NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES**

NAPUS/USPS-T1-2. In offices with rural carrier routes, has the Postal Service done any studies regarding the number of boxholders who may drop their boxes and opt, instead for carrier service? If so, what were the results? If not why not?

RESPONSE:

Yes. The Postal Service used witness Ellard's customer survey findings (USPS-T-6) to estimate acceptance rates for the proposed fees at the Group and Box Size levels, and used these acceptance rates to estimate changes in box usage. See USPS-T-1, Appendix. USPS-T-1, WP C, shows this analysis. USPS-T-1, WP D, page 8 gives the box count for "before rates" and "after rates" for Group D in the test year. The difference between the two, 905,584, is the number of boxes that are expected to be dropped out of use due to the proposed fee increase. This result would be offset to the extent boxes are filled later by new customers.

RESPONSE OF WITNESS LYONS TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-1. Refer to page 2, lines 1 - 3, of your testimony where it states the "proposals are designed to place the services and products on a more economically rational, businesslike basis." Please explain how the exclusion of collect on delivery (COD) and money orders from the Request supports this goal, given that the rates for COD and money orders are below attributable costs in the test year (see Exhibit USPS-T-5J at pages 23 and 24.)

RESPONSE:

The decisions not to propose changes for money orders or COD service at this time are unrelated to the economic and business merits of the proposals that have been made for other special services. The Postal Service selected a limited number of special services for review in this proceeding. Resource constraints and timing considerations contributed to this determination.

Although pricing for money orders and COD service was not considered at this time, the Postal Service would likely review pricing of money orders and COD service, as well as all other products, in advance of the next omnibus rate proceeding. For money orders, this review would include addition of revenues resulting from money order float, and money orders taken into revenue, which would be expected to push the cost coverage for money orders above 100 percent. For the FY 1995 money order cost coverage, with revenues including float and money orders taken into revenue, see Exhibit USPS-T-5C at 16.

RESPONSE OF WITNESS LYONS TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-2. Refer to page 2, lines 5-8, of your testimony where it states "pricing reform objectives include...more equitable contributions from the services to institutional costs." Please explain how the exclusion of COD and money orders from the Request is consistent with obtaining more equitable contributions to institutional costs for special services.

RESPONSE:

See response to OCA/USPS-T1-1.

RESPONSE OF WITNESS LYONS TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-3. Refer to page 2, lines 5 - 8, of your testimony. What pricing criteria of the Postal Reorganization Act justify the test year cost coverage of 95 percent and 86.6 percent for COD and money orders, respectively?

RESPONSE:

See response to OCA/USPS-T1-1.

RESPONSE OF WITNESS LYONS TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-4. Refer to page 3, lines 6 - 9, of your testimony. Please explain how the exclusion of COD and money orders from the Request will help moderate future rate increases for these special services.

RESPONSE:

See response to OCA/USPS-T1-1.

RESPONSE OF WITNESS LYONS TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-5. Refer to pages 5-7 of your testimony concerning “financial foundations.” What criteria and standards were used to determine whether a rate or fee is suitable for an interim increase? Please provide all documents describing the criteria or standards used to choose which rates and fees are suitable for an interim rate increase.

RESPONSE:

As explained in my response to OCA/USPS-T1-1, the Postal Service selected a limited number of special services for review in this proceeding due to resource constraints and timing considerations. Classification reforms, some of which included fee increases, were determined to be suitable if they supported the filing goals discussed on pages 2 and 3 of my testimony.

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OCA/USPS-T1-6. Refer to page 6, lines 9-11, of your testimony.

- a. Please explain to what extent increases in attributable costs were a factor in the determination of whether to propose an increase in each special service fee.
- b. Please explain to what extent the Commission's recommended cost coverages and/or mark-up indices in Docket No. R94-1 were a consideration in the determination of whether to propose an increase in each special service fee.

RESPONSE:

- a. Attributable cost increases were not a major factor in the determination of the proposed reforms for the special services included in this filing. The factors used to determine whether to propose reforms, which include some changes in special service fees, are outlined on pages 2 and 3 of my testimony. Please refer to my response to OCA interrogatory T1-5.
- b. The Commission's recommended cost coverages and/or mark-up indices in Docket No. R94-1 were not a major factor in the determination of the proposed reforms for the special services included in this filing. The factors used to determine whether to propose reforms, which include some changes in special service fees, are outlined on pages 2 and 3 of my testimony. Please refer to my response to OCA interrogatory T1-5.

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OCA/USPS-T1-7. Refer to page 6, lines 9-11, of your testimony. Please explain what consideration was given to increasing rates for any of the classes and subclasses of mail, other than special services , "[i]n the interest of mitigating the impact of general increases."

RESPONSE:

Increased rates for any of the classes and subclasses of mail were not considered in preparing this filing.

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OCA/USPS-T1-8. Refer to page 6, lines 9-11, of your testimony. For each class or subclass of mail where rates in the test year are projected to be below attributable cost, please explain why a rate increase was not proposed.

RESPONSE:

The purpose of this filing is to propose pricing and classification reforms to selected special services. Rate increases to classes and subclasses of mail do not serve this purpose.

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OCA/USPS-T1-9. Refer to page 6, lines 14-17, of your testimony. Please confirm that the primary consideration in proposing the demand-oriented price adjustment for selected special services was to significantly increase net revenues to the Postal Service. If you do not confirm, please explain the primary consideration motivating the Postal Service to select these special services for increases.

RESPONSE:

Not confirmed. As explained starting at line 2 on page 2 and line 18 on page 3 of my testimony, the primary considerations in proposing those reforms which involve fee increases was "to place the services and products on a more economically rational, businesslike basis" and move towards "more demand-oriented pricing generally".

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OCA/USPS-T1-10. Refer to page 20 of your testimony concerning cost coverages. Please identify all classes and subclasses that are projected to have a mark-up index for FY 96, before rates, below that recommended by the Commission in Docket R94-1 (Appendix G, Schedule 3, at 2). For each class or subclass whose mark-up index for FY 96 is below the index in Appendix G, please explain why a rate increase is not being proposed for that class or subclass.

RESPONSE:

The purpose of this filing is to propose pricing and classification reforms to selected special services. As a result, rate increases for classes and subclasses have not been proposed, nor have mark-up indexes been developed in order to identify any such classes and subclasses.

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OCA/USPS-T1-12. Refer to page 6, lines 14-16, of your testimony where it is stated that the Postal Service "is seeking certain demand-oriented price adjustments that had been previously deferred".

- a. Please identify each demand-oriented price adjustment that has been deferred other than those the subject of this proceeding.
- b. Please summarize and explain the meaning of the phrase "demand-oriented price adjustments".
- c. Are there any other rates or fees that are suitable for demand-oriented price adjustments?"
- d. What are the criteria employed to determine whether a rate or fee is suitable for a demand-oriented price adjustment?

RESPONSE:

- a. I have not determined the appropriateness of demand oriented pricing for other than those special services it was applied to in this proceeding. In stating that demand oriented price adjustments had been previously deferred, I was not referring to any adjustments other than those that are the subject of this proceeding.
- b. I would define demand oriented price adjustments as those that place more emphasis on how sensitive customers are to a change in price. Price sensitivity may be affected by the value of the service to customers, the prices charged by competitors, and the alternative services available.
- c. That determination has not been made. Please refer to part a., above.
- d. Please refer to part b., above.

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OCA/USPS-T1-13. Refer to pages 7 and 8, lines 22 and 1, respectively, of your testimony where it is stated that a FY 1996 test year is "likely to be representative of the period during which the fee changes proposed for the affected special services will be in effect." Please confirm that the proposed fee increases are not likely to be in effect during FY 1996.

RESPONSE:

Confirmed.

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OCA/USPS-T1-14. Refer to the response to OCA/USPS-T-3 concerning COD and money orders. Please confirm that the response to this interrogatory did not make reference to any pricing criteria of the Postal Reorganization Act. If you confirm, to the extent OCA/USPS-T1-3 addresses COD, please provide a responsive answer.

RESPONSE:

Confirmed. The statement you have cited in OCA/USPS-T-1 refers to the special services addressed in this filing only. Since COD was not addressed in this filing, the costs and fees associated with COD have not been evaluated and no changes have been proposed. Since no changes have been proposed, the pricing criteria are not relevant.

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OCA/USPS-T1-15. Please refer to your response to the redirected interrogatory OCA/USPS-T8-7. Taking into account the elimination of special delivery service, the test year after rate (TYAR) volumes are as follows:

<u>Class</u>	<u>TYAR</u> Pieces (000)
Letters Non-Presort	90
Priority	7
Third Class Single Piece	3
Parcel Post	4
Express Mail	103
Special Delivery Feature	<u>0</u>
Total	207

- a. Footnote one of the response refers to Special Delivery Transactions developed in USPS-T-1, WP B. USPS-T-1, WP B, Special Delivery Transactions contains a footnote that refers to USPS-LR-SSR-40. USPS-LR-SSR-40 consists of five computer files. The first line of the computer file "CATMAST" states "TOTAL ALL DATA - THIS REPORT IS ESSENTIALLY OBSOLETE." Please explain why an obsolete file was used to allocate special delivery transactions. In your response, include the rationale for assuming that an obsolete file provides valid data for use in Docket No. MC96-3.
- b. At present, the five files provided in USPS-LR-SSR-40 can only be viewed as a text file. Therefore, it is impossible to determine what data were used to develop the distribution ratios referred to and how those proportions were calculated. Please provide the derivation of the proportions used to calculate the shift of the 207,000 pieces identified in your response to OCA/USPS-T8-7. Your response should include cites to all sources used and copies of all source documents not previously provided.
- c. Please provide and identify the cross elasticities used on those pieces migrating from special delivery to each of the classes identified in your response to OCA/USPS-T8-7.

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RESPONSE:

a. Library Reference SSR-40 was not used in developing my Workpaper B. Footnote 1 of Workpaper B was in error and should state "USPS-LR-SSR-43, Section VII; Other classes - Not over 2 lbs. includes Mail Categories 8760 and 8730." Footnote 5 also is being revised to "USPS-LR-SSR-43, Section VII". Please note that a revised WP B, and a new section VII of Library Reference SSR-43 are being filed today.

For your information, it is my understanding that the file "CATMAST" in SSR-40 is not obsolete. The file was used in processing the Domestic RPW system in GFY 1995. I am told that the first line of the computer file is erroneous.

b. Library Reference SSR-40 is not relevant to the derivation of the volume shifts which would result from the elimination of special delivery service. For estimating the impact of the elimination of special delivery service, we have assumed that about one-half of the special delivery customers would switch from their current mail class to Express Mail, and that the other half would simply stay with the same mail class but without special delivery service. Of the 207,000 special delivery transactions projected for FY 1996, therefore, 104,000 pieces would migrate from their current class to Express Mail. Workpaper B derives the breakdown of the source classes

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for these 104,000 pieces, based on RPW subclass volume split factors.

c. As described in the response to (b), there is no migration from special delivery service. Rather, certain First-Class, Priority, Third-Class Single Piece, and Parcel Post mail is migrating to Express Mail. Cross-elasticities were not used.

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OCA/USPS-T1-16. In your testimony at 1, you indicate that the overall objectives of Docket No. MC95-1 "were classifications that better reflect(ed) both cost and demand considerations." Your testimony at 2 states,

Specific pricing reform objectives include more market based prices, more equitable contributions from the service to institutional costs.....

Your testimony at 11 states,

The proposed changes in this filing that would significantly increase net income are supported by the Board's policy objectives with regard to equity restoration.

The Postal Service's Docket No. MC96-2 Request for a Recommended Decision on the Further Classification Reform of Preferred Rate Standard Mail and periodicals states at 4-5,

The statutory target cost coverage goal and the contribution neutrality goal were established because this Request is not intended to be a revenue case, nor an opportunity to challenge, change or improve on the Commission's conclusions drawn from the record in Docket R94-1..... The Postal Service is also hopeful that, by using a contribution neutral approach, the Postal Service, the Commission, and the parties to this case can avoid the inter-class cost coverage disputes that generally occur in omnibus revenue cases.

Since the Docket No. MC96-3 is not revenue neutral and contributions from services to institutional costs have been changed by the Postal Service, to the best of your knowledge and information, does the Postal Service view this filing as:

- (1) A revenue case.
- (2) Solely a classification case.
- (3) A revenue and classification case, and/or
- (4) An opportunity to challenge, change or improve on the Commission's conclusions drawn from the record in Docket No. R94-1.

In your response, please address each listed item.

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RESPONSE:

MC96-3 does not fit neatly into any of the four categories you have listed. The Postal Service views MC96-3 primarily as a classification reform case. However, the filing also includes some pricing changes which are an integral part of the classification reforms being proposed. The reforms result in an improved basis for pricing these services, consistent with Postal Reorganization Act pricing criteria and Postal Service goals such as product usefulness and simplification, equity restoration, and overall rate stability.

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OCA/USPS-T1-17. Your testimony at 1 states,

Reforms of expedited and parcel classifications are under development, and in the future proposals for other reforms will follow.

- a. Will the expedited and parcel classifications reform proposals be net revenue neutral or will they be designed to increase net revenues?
- b. To your knowledge, what base and test year will be used in the expedited and parcel classification reform proposals?
- c. When will the Postal Service file the expedited classification proposal?
- d. When will the Postal Service file the parcel classification proposal?
- e. To the best of your ability, please identify other reform proposal that are anticipated to follow? In addition to indicating whether future filings are expected to be revenue neutral, provide added net revenue, and/or improved contributions resulting from the reforms proposed, identify the base and test year for each contemplated filing.

RESPONSE:

- a. & b. These decisions have not been finalized. As in this docket the emphasis will be on classification reform. However, the reforms could result in some additional net revenue.
- c. This decision has not yet been made.
- d. This decision has not yet been made.
- e. These decisions have not yet been made.

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OCA/USPS-T1-18. Your testimony at 5 states,

In the past, the Postal Service has typically made rate and classification changes as part of a set of general rate change proposals. In part, this practice was influenced by financial policy determinations, by the convenience of adjusting many rates and fees simultaneously, and by the interrelationships among costs, revenues, and volumes of all mail and special services.

- a. Based on your testimony, does the Postal Service believe that more targeted rate and classification changes are more convenient? If your response is negative, please explain in light of the testimony cited in this interrogatory.
- b. If your response to part a. of this interrogatory is affirmative, please identify for whom they are more convenient.
- c. To the best of knowledge your knowledge and in information, does the Postal Service expect to file future omnibus rate cases that encompass all classifications?
- d. If your response to part c. of this interrogatory is affirmative, please explain when and why it is ever appropriate to file a limited rate and classification case. Include in your response rationale for how a limited rate and classification case allows the inter-class cost coverage dispute to be resolved to the benefit of all.
- e. If the Commission approves the Postal Service's Docket No. MC96-3 filing in its entirety, will the inter-class cost coverages established in R94-1 change? If your answer is other than an unqualified yes, please explain.
- f. To the best of your knowledge and information, does the Postal Service anticipate future rate and classification filings to be more narrow in scope than previous omnibus rate cases?
- g. To the best of your knowledge and information, does the Postal Service anticipate future rate and classification filings to be targeted to mail classes that are not meeting the "statutory targeted cost coverage goal?" Please identify in your response your understanding of who establishes the statutory targeted cost coverages.
- h. To the best of your knowledge and information and given the testimony cited in this interrogatory, does the Postal Service believe that more targeted rate and classification changes are possible due to changes in the interrelationships among costs, revenue, and volumes of all mail and special services? If your response is affirmative, please identify those changes and fully explain your response.

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RESPONSE:

- a. No. As stated in the testimony you have cited, rate and classification changes tend to be more convenient when done simultaneously in an omnibus rate case. Interim classification filings require additional time, resources, and effort, which tends to make them less convenient.
- b. Please refer to my response to a., above.
- c. Yes.
- d. It is appropriate to file rate and classification cases, limited or otherwise, when the Board of Governors makes a determination to request changes pursuant to 39 U.S.C. §§ 3622 and 3623. My testimony does not state that Docket No. MC96-3 or any other hypothetical limited rate and classification case "allows the inter-class cost coverage dispute to be resolved to the benefit of all."
- e. I am not sure what you mean by "inter-class cost coverages". The cost coverages for the special services that are the subject of the Postal Service's Request would change as a result of this filing. I do not believe relationships among the other cost coverages are pertinent because no other changes in rates or fees have been proposed.
- f. The Postal Service expects that there will be future cases more narrow in scope than previous omnibus cases. Also, please see my response to c., above.

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- g. The quotation refers to non-profit mail for which Congress has established a targeted cost coverage relationship. No comparable cost coverage goal exists for any other category of mail or postal service.
- h. More targeted classification reforms are possible in the future.

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OCA/USPS-T1-19. Your testimony at 2 states,

[T]he Postal Service has clarified customers' choices for postal cards by creating a special fee that separates the cost of the mailpiece from the postage. This also has the advantage of establishing a sounder cost basis for these products.

- a. Please explain how the creation of a special fee that separates the cost of the mailpiece from the postage clarifies customers choices.
- b. Please specifically identify the types of customers whose choice will be clarified by the special fee separating the cost of the mailpiece from the postage.
- c. Please explain why changing the name from postal card to stamped card is not sufficient to help clarify a customer's choice.
- d. Please confirm that in raising the rate for a postal card from \$0.21 to \$0.23, the Postal Service is clarifying a customer's choice through the use of a pricing mechanism. If you are unable to confirm, please explain your response.

RESPONSE:

- a. Currently the Postal Service charges 20 cents for a postal card. The portion of that charge which relates to the card is not identified separately from the amount of postage. Moreover the current product name, "postal card", implies that the product is a postcard. As a result, a customer may be confused about what the product is and what the 20-cent charge covers. Separating the cost of the card from the cost of the postage makes the charge for each component clearer. Moreover, changing the name of the product to stamped cards makes it clearer that the product involves both a card and postage, as in the case of stamped envelopes.

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b. Those customers who may be confused by the current pricing and product name.

c. Changing the name from postal card to stamped card should help clarify the customer's choice. However, I suspect that the new fee may send a clearer signal to the customer than the official name of the product. Moreover, clarification of the customer's choice is not the only goal of the proposed changes. As stated at page 2, line 19 of my testimony, the separate fee for the card "also has the advantage of establishing a sounder cost basis for these products."

d. Not confirmed. First, we are not proposing to raise the rate for postal cards, which would remain the same as the rate for postcards (20 cents, not 21 cents as in your question). Rather, we are proposing a new 2-cent fee for postal cards. Second, as explained in parts a. and c., above, the separate fee for the card and the change in the product name, rather than a "pricing mechanism", clarify the customer's choice. In addition to helping clarify the customer's choice the separate fee for the card also "separates the recovery of the costs of producing the physical mailpiece from the rate of postage." (See page 14, line 16 of my testimony.)

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OCA/USPS-T1-20. Your testimony at 2 states,

We have reviewed the service offerings themselves to see what improvements could be made to make them more useful to the customer, and both easier to administer and understand. For example, the Postal Service has clarified the customers' choices for postal cards by creating a special fee that separates the cost of the mailpiece from the postage.

- a. Please explain how the special fee for postal cards makes the service offering more useful to the customer.
- b. Please explain for whom the special service fee for a postal card makes the service offering easier to administer.
- c. Please explain how the special service fee for a postal card makes the service offering easier to administer.

RESPONSE:

The statement to which you have referred was not intended to apply solely or totally to the special fee for postal cards. Rather, it was intended to describe generally all of the changes proposed in this filing that fall into the categories of "more useful to the customer, and easier to administer and understand". As explained in my response to OCA/USPS-T1-19, the separate card fee together with the change in the product name make the product easier to understand. The remaining portions of this statement apply primarily to the other reforms proposed in this filing.

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OCA/USPS-T1-21. Your testimony at 6 states,

In the interest of mitigating the impact of general increases on its customers, the Postal Service would like to moderate the pace toward the eventual need to increase overall revenues as a result of rising cost levels.

Your testimony at 7 states,

The Postal has chosen to base its proposals on estimates for an FY 1996 test period projected by rolling forward a FY 1995 base year. In electing FY 1996 as its test period, the Postal Service has, as in Docket No. R94-1, chosen a moderate basis that conforms to the Commission's rules requiring a fiscal test year beginning no more than 24 months after the filing.

Your testimony at 20 states,

In my opinion, given the new information we are providing in this docket, including the analysis of the rate and classification criteria by witness Needham, the new cost coverages are reasonable, and consistent with the systemwide Docket No. R94-1 cost coverage of 157 percent.

- a. Do you believe that the R94-1 systemwide cost coverage of 157 percent is something that all future rate and classification cases should meet?
- b. Given that the Postal Service chose to update the Docket No. R94-1, FY 1996 test year data, please explain why you believe it is still appropriate to assume that the R94-1 systemwide cost coverage of 157 percent remains appropriate.

RESPONSE:

- a. No. The appropriateness of cost coverages must be evaluated at the time each rate and classification case is prepared. I would note, however, that the 157 percent systemwide cost coverage is relatively close to the systemwide cost coverages established in the last few omnibus rate cases.

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b. Please note that the Docket No. R94-1 test year was Fiscal Year 1995, not FY 1996 as your question implies. Also note that the Postal Service chose to use FY 1996 as the test year for the Docket No. MC96-3 filing and did not, as your question suggests, use updated Docket No. R94-1 FY 1995 test year data for the Docket No. MC96-3 test year. A systemwide cost coverage of 157 percent remains appropriate as a basis of comparison because it is the most recent systemwide cost coverage arrived at as a result of an omnibus rate case.

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OCA/USPS-T1-22. The following interrogatory refers to exhibit A, of your testimony. Each special service initiative except stamped cards has had "Total Operating Revenues" and "Total Expenses" identified.

- a. Please identify the "Total Expenses" associated with the \$8.426 million stamped card revenue shown. If no before rate expenses are identified, please explain.
- b. If the stamped card expenses referenced in part a of this interrogatory are included elsewhere, please separately identify those costs. Include in your response cites for all numbers referenced, the derivation of each number, and copies of all source documents not previously provided.

RESPONSE:

a. & b. The "Total Expenses" associated with the \$8.426 million stamped card revenue shown in Exhibit A are a decline of \$65,000 in the printing costs of postal cards in the test year after rates (see the postal card lines under First Class Mail in Exhibits USPS-T-5E, page 49 and USPS-T-5H, page 49). This amount is included in my Workpaper F as part of the change in First Class attributable cost and in my Exhibit A as part of the change reflected under Mail & Other.

Response of Witness Lyons to Interrogatory of the Office of the Consumer Advocate, MC96-3

OCA/USPS-T1-25. Refer to your response to Presiding Officer's Information Request No. 1, question 10. Please provide the "number of box customers at both postal and contract non-delivery post offices . . . [who] will be paying \$0 under the Postal Service's proposal.

RESPONSE:

This information is not available. Postal information systems do not reflect customer eligibility for carrier delivery, so there is no way to project the number of customers who will be paying \$0. *See also*, the responses to Presiding Officer's Information Request 2, questions 4,5 and 7.

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OCA/USPS-T1-27. In Docket No. MC95-1, during oral cross-examination, Postal Service witness Schmalensee stated,

In a world where information is difficult and expensive, one might want to know the region where Ramsey prices lie or the direction of differences between Ramsey prices and alternative prices, and that might be a sufficient and rational ground for decision-making.

Tr. 33/15083.

- a. In developing rates for Docket No. MC96-3, did the Postal Service determine "the region where Ramsey prices lie or the direction of differences between Ramsey prices and alternative prices . . ." ?
- b. If your response to part (a) of this interrogatory is affirmative, provide copies of all Ramsey pricing data and alternative prices used in developing pricing proposals for Docket No. MC96-3. Include in your response cites to all sources used and a copy of all source documents referenced but not previously filed.
- c. If your response to part (a) of this interrogatory is negative, please explain how the Postal Service determined that it had "sufficient and rational ground[s]" for the pricing decisions made in this filing.

RESPONSE:

- a. No, in the sense that the Postal Service did not construct any formal Ramsay models.
- b. Not applicable
- c. It is not always necessary to have a formal Ramsay model in order to conclude from the available information concerning market conditions that proposed pricing changes are rational. As an example, please see witness Baumol's comments in Docket No. R87-1, Tr. 2/219-220.

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OCA/USPS-T1-28. Witness Needham's response to OCA/USPS-T7-23 states, "[T]he Postal Service believes that it is more practical and economically efficient to increase the fees to cover costs (except for proposed Group E)." Are the proposed post office box rates allocatively efficient? Please fully explain why the rates are or are not allocatively efficient.

RESPONSE:

The proposed rates were not specifically analyzed relative to allocative or productive efficiency. Increasing fees to move closer to covering costs in proposed Group D, however, is certainly consistent with more general notions of economic efficiency.

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OCA/USPS-T1-29. In his Docket No. R94-1 testimony, Postal Service witness Foster stated,

There are generally two ways of examining value of service -- the intrinsic value and the economic value. Intrinsic value considers actual levels and features of services which are indicated by factors such as service standards Economic value involves customer perception of the worth of the service and depends not on intrinsic value of the service in question in isolation, but also on the range of alternatives available.

Docket No. R94-1, USPS-T-11 at 17-18.

Economic value of service, as measured by relative elasticities of demand, can be used in a quantitative way through the application of Ramsey pricing models. Though Ramsey pricing is not used in a formal sense to determine the rates proposed here, the cost coverages for First-Class Mail letters and third-class bulk regular rate mail which result from across-the-board rate increases are more in accord with Ramsey pricing principles than were the cost coverages in recent Commission recommended decisions. The need to move in this direction was a central theme in a 1992 GAO report, entitled "U.S. Postal Service: Pricing Postal Services in a Competitive Environment." [Footnote omitted.] Moving price relationships in a direction which focuses on economic value of service places greater emphasis on customer perceptions than had previously been the case.

Id. at 19.

At page 1 of your testimony, you state,

This filing is one of several recent cases initiated by the Postal Service that represent a move toward more demand-oriented ratemaking within the context of the Postal Service's operational, financial, and other policy goals.

- a. In MC96-3, is the Postal Service moving toward Ramsey pricing?
- b. If your response to part (a) of this interrogatory is affirmative, and given that Ramsey pricing models use relative elasticities of demand to determine the economic value of service, please explain how the Postal Service developed

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the current pricing proposals when elasticities of demand were not prepared for MC96-3.

- c. If you respond negatively to part (a) of this interrogatory, is the Postal Service changing its position on efficient pricing? If so, please explain why the Postal Service changed its previously articulated position on efficient pricing.

RESPONSE:

- a. No, in the sense that the Postal Service did not construct any formal Ramsay models. It is quite possible, however, that the proposed rate changes are in the same direction as rate changes that might be based on a formal Ramsay model, were one to be constructed.
- b. Not applicable.
- c. No.

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OCA/USPS-T1-34. Please refer to your answer to interrogatory OCA/USPS-T1-19.

- a. You state that "[t]he portion of that charge [the 20 cent postal card rate] which relates to the card is not identified separately from the amount of the postage." Please confirm that the costs which relate to the card, i.e., the manufacturing costs are in the attributable costs assigned to postal cards and are covered by the rate paid by postal cards. See, witness Patelunas' answer to OCA/USPS-T5-10.
- b. Please define "postcard" as you use it in your response: "Moreover the current product name, 'postal card', implies that the product is a postcard.
- c. Please define "card" as used in DMM E110.3.1 - E110.3.3.
- d. "Customers who buy postcards at a post office know that the postcard already has postage on it." Do you agree or disagree with this statement? Please explain your statement.
- e. Please explain what the phrase "clarify the customer's choice" means as you use it in your testimony and response.
- f. Please explain how a separate fee for postal cards "also has the advantage of establishing a sounder basis for these products" when all of the costs of the product are currently contained in the attributable cost.
- g. Please refer to section (d) and your answer thereto. Do you believe that Postal Service customers who have bought postal cards for 20 cents and now have to pay 22 cents would not say, if asked, that the rate had increased? Please explain any affirmative answer.
- h. Please assume that the stamped card fee proposal is adopted. Will the customer's choice be either to buy a stamped card for 22 cents or not to buy a card whereas the previous choice was to buy a postal card for 20 cents? Please explain.

RESPONSE:

- a. Confirmed. Note, however, that the rate paid by postal cards was set for all cards combined, so that characteristics distinguishing postal cards

**RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-34
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from private cards, such as postal card manufacturing costs, were not directly considered.

- b. My meaning is the same as that in The American Heritage Dictionary, i.e., an unofficial card, usually bearing a picture on one side, with space for an address, postage stamp, and short message. The point I was trying to make is that the name "postal card" sounds like postcard, even though only postal cards include postage.
- c. The word "card" as used in DMM E110.3.1-110.3.3 can be defined as a small flat piece of stiff paper or thin pasteboard used to send messages.
- d. I agree that a customer who has purchased a postal card at a post office generally knows that it has postage on it. However, those who have not purchased a postal card may assume because of its name that the current postal card costs more than 20 cents or does not have postage affixed. Changing the name to stamped card would help to alleviate confusion.
- e. Please see my response to part d., above.
- f. Please see my response to part a. For pricing purposes, the costs attributable to both post cards and postal cards are included together under one product despite the fact that manufacturing costs are attributable solely to postal cards themselves, and not to post cards.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
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OCA/USPS-T1-34
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Currently, 20 cents is charged to mail either a post card (purchased elsewhere without postage) or a postal card purchased at a post office with postage already affixed. As stated on page 14, line 16, of my testimony, a fee for the cost of the card "separates the recovery of the costs of producing the physical mailpiece from the rate of postage". This is the same logic behind the existing fee structure for stamped envelopes.

- g. Because the reason for the change is not obvious, customers could incorrectly view the change as a rate increase. However, after considering that the rate of postage needed to mail a postal card remains the same as the current 20 cent rate to mail a post card, and that the 2-cent fee recovers the cost of manufacturing the postal card, customers would understand the rationale for the change.
- h. The customer's choice will be to buy a stamped card from the Postal Service which includes a 2 cent fee for the card and 20 cents for postage or to buy a post card and affix 20 cents postage.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-35. Please refer to your testimony at page 8. Please explain why expenses for certified mail and return receipt will decline.

RESPONSE:

As reflected in Exhibit A of my testimony, before rates attributable costs for certified mail and return receipt decline on an after-rates basis because the number of transactions declines. Please refer to my workpaper E, Page 2 for a comparison of before and after rates certified and return receipt volumes.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM THE POSTAL SERVICE)**

OCA/USPS-10. The Request in Docket No. MC96-3, at 1, refers to "changes to the rates for the classes and subclasses of mail" and to "the fees for other special services not specifically addressed by the proposals" that are "planned to be addressed in later Requests."

- a. List separately each contemplated change in the rates for classes and subclasses that is "planned to be addressed in later Requests." Describe the nature and extent of the contemplated change and a range of likely dates for the filing of each such Request.
- b. List separately each contemplated change in the fees for special services not yet "addressed" that is "planned to be addressed in later Requests." Describe the nature and extent of the contemplated change and a range of likely dates for the filing of each such Request.
- c. List separately each special service not requiring "significant reform" and state the basis for the conclusion that reform is not needed.

RESPONSE:

- a. & b. Please see my responses to OCA/USPS-T1-17 and 18.
- c. There has been no determination that any particular special service does not need significant reform.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM THE POSTAL SERVICE)**

OCA/USPS-11. Page 3 of the Request contains the statement: "This filing is unusual in that it would have the effect of increasing net revenue for the Postal Service, outside of an omnibus proceeding." Please state all policy reasons to support the conclusion that it is desirable to increase net revenue outside of an omnibus proceeding.

RESPONSE:

Please see my testimony, USPS-T-1, at page 3, lines 3-11; page 6, line 9 to page 7, line 8; and pages 9-11.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM THE POSTAL SERVICE)**

OCA/USPS-12. Please refer to the statement contained in the Request at 3: "The Postal Service does not wish to maintain products which can currently be improved, while it waits until an omnibus proceeding"

- a. As this conclusion does not reasonably seem subject to dispute, what is the point to be made by the statement? Please explain in full.
- b. Who would be likely to insist that product improvement be restricted to omnibus proceedings? Please explain in full.
- c. Is the point of this statement that the Postal Service should be permitted to increase net revenues without waiting for an omnibus rate case? Please explain in full.

RESPONSE:

- a. The Postal Service is always pleased when statements in its Request are not disputed. The purpose of the statement was to help explain the timing of Docket No. MC96-3. See parts b and c.
- b. I do not know.
- c. The statement speaks for itself. I believe that the Postal Service should be able to request reforms that include an increase in net revenues outside of an omnibus rate case.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS LYONS
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
REDIRECTED FROM WITNESS NEEDHAM**

OCA/USPS-T8-2. The June edition of the Postal Service publication "Memo to Mailers" at p.1 contains the following quotation from John Ward:

Our goal is to realign these services to better reflect customer demand and Postal Service costs while helping to keep postage rates stable longer.

* * * * *

d. Please explain how raising fees helps keep postage rates stable for certified mail.

* * * * *

OCA/USPS-T8-2(d) RESPONSE:

First, a point of clarification: fees apply to special services, such as certified mail. The question's apparent suggestion that the proposal to raise the certified mail fee is inconsistent with the objectives of the Postal Service's Request reflects a misunderstanding of the Postal Service's purpose. The quoted statement above is consistent with the financial policy objectives of the Request discussed at page 3 of my testimony. There, I explained that the added revenues and improved contributions from the proposed changes, which include the proposal to increase the certified mail fee, are consistent with overall financial policy objectives, including (1) restoration of equity, (2) the maintenance of most of the current rates and remaining fees (other than those that are under review in this docket) for longer periods of time, and (3) more moderate future rate increases.

**RESPONSE OF WITNESS LYONS TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS NEEDHAM**

OCA/USPS-TB-7 Refer to page 116 of your testimony concerning the proposal for special delivery.

- c. To what extent would the proposal to eliminate special delivery cause the Postal Service to lose this contribution to institutional cost for the FY 96 test year, taking into account workpaper USPS-T-1, WP B. Please provide calculations.

RESPONSE:

The proposal to eliminate special delivery would increase contribution by \$6,000, as calculated below, because the volume shifts presented in my workpaper B offset the loss of direct special delivery contribution.

Impact Of Elimination of Special Delivery on Contribution

<u>Class</u>	<u>Test Year Before Rates</u>					
	<u>Pieces 1/</u>	<u>Revenue per Piece 2/</u>	<u>Revenue 3/</u>	<u>Cost per Piece 4/</u>	<u>Cost 5/</u>	<u>Contribution 6/</u>
	(000)	Cents	(\$ 000)	Cents	(\$ 000)	(\$ 000)
	(1)	(2)	(3)	(4)	(5)	(6)
Letters Non-Presort	179	38.8	69	26.0	47	23
Priority	14	352.5	49	166.1	23	26
Third Class Single Piece	6	102.1	6	200.9	12	-6
Parcel Post	8	331.9	27	318.5	25	1
<u>Special Delivery Feature</u>	<u>207</u>	<u>1,007.7</u>	<u>2,086</u>	<u>846.9</u>	<u>1,753</u>	<u>333</u>
Total			2,237		1,860	377

<u>Class</u>	<u>Test Year After Rates</u>					
	<u>Pieces</u>	<u>Revenue per Piece 7/</u>	<u>Revenue</u>	<u>Cost per Piece 8/</u>	<u>Cost</u>	<u>Contribution</u>
	(000)	Cents	(\$ 000)	Cents	(\$ 000)	(\$ 000)
Letters Non-Presort	90	38.8	35	26.1	23	11
Priority	7	352.5	25	166.1	12	13
Third Class Single Piece	3	102.1	3	200.9	6	-3
Parcel Post	4	331.9	13	318.5	13	1
Express Mail	103	1,286.9	1,326	936.8	965	361
<u>Special Delivery Feature</u>	<u>0</u>		<u>0</u>		<u>0</u>	<u>0</u>
Total	207		1,401		1,019	383

Contribution Gain (in thousands) from Elimination of Special Delivery \longrightarrow \$ 6

1/ Special Delivery Transactions before rates distributed to rate category in proportion, as developed in USPS-T-1, WP B.

2/ Exhibit USPS-T-5G, as revised July 1, 1996

3/ Column (1) times Column (2)

4/ Exhibit USPS-T-5G, as revised July 1, 1996

5/ Column (1) times Column (4)

6/ Column (3) - Column(5)

7/ Exhibit USPS-T-5J

8/ Exhibit USPS-T-5J

RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T1-2. Please refer to page 18 of your testimony at lines 10-13. Confirm that no carrier delivery for any class, subclass or category of mail is provided in the "relatively few offices" without carrier delivery or for the "boxholder[s] who [are] not eligible for carrier service." If you cannot confirm, list each and every class, subclass or category of mail for which carrier delivery is provided for such offices and boxholders.

RESPONSE:

Confirmed, assuming your question refers to regular carrier delivery. It is my understanding that Postal Service employees may occasionally make special efforts to deliver specific pieces of Express Mail or Priority Mail, or mail that the addressee is known to be eager to receive; such efforts are not uniform or regular attributes of postal delivery.

1 PRESIDING OFFICER QUICK: Does any participant
2 have additional written cross-examination for Witness Lyons?

3 [No response.]

4 PRESIDING OFFICER QUICK: Only one participant,
5 the Office of Consumer Advocate, requested oral cross-
6 examination of Witness Lyons. Does any other participant
7 have oral cross-examination for Witness Lyons?

8 [No response.]

9 PRESIDING OFFICER QUICK: Mr. Ruderman, would you
10 begin, please.

11 CROSS EXAMINATION

12 BY MR. RUDERMAN:

13 Q Good morning, Mr. Lyons.

14 A Good morning.

15 Q My name is David Ruderman. I am here on behalf of
16 the Office of Consumer Advocate and beside me is Rand
17 Costich, also representing the Office of Consumer Advocate.

18 Could you please turn to page 22, line 15, of your
19 testimony?

20 A I'm sorry, what's that page number again?

21 Q Page 22, line 15.

22 A Page 22? My version of the testimony only goes up
23 to page 20.

24 Q I'm sorry. I mistyped it; page 11.

25 A Okay.

1 For a while, I thought I couldn't count there.

2 Q No, 1 is beside the 2 on keyboard.

3 A Okay.

4 And what is that line number again, please?

5 Q Line 15.

6 A Okay.

7 I've got it here.

8 Q There you indicate that the Post Office would like
9 to increase volumes; is that correct?

10 A Okay. We indicate that in terms of -- this is in
11 the context of the recovery or prior-year loss recovery. We
12 feel a way of doing it is to reduce costs and increase
13 revenues, and one of the ways of increasing revenues is
14 through increasing volumes.

15 Q May I ask you which of these classification
16 proposals will increase Postal Service volumes?

17 A In terms of these classification proposals, in
18 --the insurance proposal will increase volumes. We think
19 with the added expansion of the insurance maximums, that
20 that could increase Postal Service volumes for the affected
21 classifications. I believe in terms of that, that's the
22 only one I can think of off hand.

23 Q Thank you.

24 Could you please turn to your response to
25 Interrogatory OCA T1-25.

1 A I have got that here, yes.

2 Q You state that there is no information on the
3 number of box customers who will be paying zero under the
4 Postal Service's proposal. Is that still correct?

5 A There is no precise way of estimating that, and
6 that's what I've stated. We've used the 2.7 million figure
7 as a reasonable estimate, but there's no -- of -- there's no
8 precise answer for that.

9 Q And for these customers who are paying zero, they
10 will be causing the Postal Service to incur attributable
11 costs; is that correct?

12 A That's correct. As I would point out now, the
13 same goes for the current customers paying \$2. They cause
14 us to incur attributable costs at probably a much higher
15 rate than the revenue we receive for those.

16 Q And the Group E customers' attributable costs will
17 be picked up by the Group A through D customers under the
18 Postal Service proposal; is that correct?

19 A Well, the Group 2 customers would for the most
20 part become Group D, and their attributable costs would
21 arguably be picked up by the Group 1 customers. But I would
22 point out -- I'm sorry -- to Group A through C under our
23 proposal, however, that the rate of loss from that category
24 of customers would be a substantially reduced financial loss
25 under our proposal. There would still be a loss, but we've

1 chosen to mitigate the impact by not trying to recover all
2 that loss at once.

3 Q The Group E customers, their attributable costs
4 will be picked up by the Group A through D customers; is
5 that correct?

6 A That's correct. I'd say primarily by the Group A
7 through C and the fact that Group ^D~~B~~ will not be fully
8 picking up their costs.

9 Q Please refer to your response to NAPUS T-1-1.

10 A Okay. I found that.

11 Q I believe I sent you this question in advance so
12 you would be prepared for it.

13 You indicated that the revenue loss resulting from
14 providing free boxes will be about \$5.4 million?

15 A That's correct, yes.

16 Q And in the last sentence, you state that this does
17 not include any after rates revenue from Group E
18 nonresidents and Group ^D~~B~~ box-holders eligible for delivery
19 which cannot be estimated. Is that correct?

20 A That's correct, yes.

21 Q If this revenue was estimated, would this amount
22 reduce the revenue loss?

23 A It would certainly reduce the revenue loss, yes.

24 Q And in your opinion, is that amount likely to be
25 de minimis?

1 A If you would, if you could define de minimis for
2 me, please.

3 Q Well, why don't you provide an estimate of how
4 much this would reduce the revenue loss.

5 A Well, as I have indicated here, I don't know how
6 much it would provide that. We're aware of instances where
7 that would happen, but I'm not prepared to indicate to the
8 degree that would be. I can't say if it's -- you know, I
9 can't put a number on that, and I'm wary of providing even a
10 range for that.

11 Q You're not even willing to provide an estimate
12 within let's say the 5 to 10 percent range or something like
13 that?

14 A No, I'm not.

15 Q Thank you.

16 Are you aware that in response to OCA
17 Interrogatory TA-34E, Witness Needham changed her cost
18 estimate for stamp cards from 1.2 to 0.9 cents?

19 A No, I'm not aware of that. I thought the estimate
20 was still running around 1.2 cents or in that neighborhood.

21 Q Are you aware that she did provide a figure of 0.9
22 cents in response to some OCA interrogatories?

23 A I'm not sure in the context, I don't doubt that
24 there could be a number like that floating out there. But
25 every indication that I have is that the stamp cost is still

1 over 1 cent, in the neighborhood of 1.2 cents.

2 Q Could you assume for a moment that the stamp cost
3 was .9 cents rather than 1.2 cents?

4 A Well, I can certainly assume that. I don't
5 believe that to be the case, but I'll certainly assume it if
6 it moves us along in this question and answer.

7 Q Okay. If it was 0.9 cents, would you still
8 recommend a 2 cent fee?

9 A It's difficult to say off the top of my head, if
10 you've reduced the cost estimate substantially by 25 percent
11 and I'm here on the stand if I would immediately make a
12 price change. Arguably, you could move it down to 1 cent
13 and still recover costs. At the same time, you would only
14 be barely recovering costs and not doing anything to -- and
15 barely making a contribution to any of the overhead. So I'm
16 a bit wary of saying off-hand if I would be doing that. You
17 wouldn't be reflecting the value of the card.

18 So it's something to be taken into account, but I
19 can't say right here and now that I would be -- that I would
20 reduce that proposal.

21 Q Please refer to your response to OCA Interrogatory
22 USPS-T-1-12.

23 A Okay, I have got that.

24 Q You state there that demand-oriented price
25 adjustments are those that place more emphasis on how

1 sensitive customers are to a change in price -- excuse me --
2 is that correct?

3 A That's correct, yes.

4 Q And are the price increases for return receipts
5 demand-oriented price adjustments?

6 A The price changes for return receipt reflect
7 several things. They reflect a desire of the Postal Service
8 to streamline the product and they also move the return
9 receipt cost coverage a little bit more in line with that,
10 with what other things that have relative -- that kind of
11 value are.

12 In that sense they are more demand-oriented, I
13 would say.

14 Q Does the Postal Service expect the users of return
15 receipts to absorb the proposed rate increase?

16 A Well, the users of the volume changes for the most
17 part I would say the answer is yes, that the return receipt
18 volumes reflect the special services to which they are
19 attached.

20 In that sense we show those services, the volumes
21 for those services declining slightly but not nearly to the
22 degree that they offset any revenue gains. We show those to
23 be significant increases for those services after the
24 change.

25 Q So for the most part you expect the users of the

1 service to absorb the price increases?

2 A For most of the customers, yes, the users would be
3 absorbing the price change.

4 Q Is the price increase for certified mail also a
5 demand-oriented price increase?

6 A The price increase for certified mail reflects
7 several things.

8 First of all, it reflects readjusting and re-
9 examining how the costs for certified mail are developed and
10 in that sense it shows that certified mail to make any
11 substantial contribution on it, that we did in fact need to
12 adjust those prices, but in that sense it returns it to a
13 markup that more reflects the relatively high value of
14 service such as certified mail.

15 Q Are you finished?

16 A Yes, I am.

17 Q Okay. Do you expect users of certified mail for
18 the most part to absorb the proposed rate increases?

19 A For the most part, yes, they will.

20 Q Are the price increases for post office boxes
21 demand-oriented price adjustments also?

22 A They reflect several things. They reflect our
23 view of post office boxes -- their costing. They also do
24 reflect the demand for post office boxes and they are more
25 of a demand or market-based pricing, yes.

1 Q So the answer is yes to my question?

2 A The answer is yes, they reflect several things
3 including that, to be demand-oriented or market-oriented,
4 yes.

5 Q Does the Postal Service expect those who rent post
6 office boxes to absorb the proposed rate increases?

7 A The Postal Service expects most of those people
8 who rent post office boxes to absorb the rate increases. At
9 the same time, it needs to be pointed out that they are not
10 compelled to, that they will have the opportunity to get a
11 free home delivery or free delivery at their business if
12 they choose not to absorb that rate increase.

13 Q But the answer is it expects most of the people to
14 absorb it?

15 A We expect most of them to, yes.

16 Q Please refer to your response to OCA Interrogatory
17 1-12D.

18 A Yes.

19 Q I-12D -- that is the same interrogatory you are on
20 now.

21 A Yes.

22 Q That interrogatory asked what are the criteria
23 employed to determine whether a rate or fee is suitable for
24 a demand-oriented price adjustment, is that correct?

25 A Yes.

1 Q In response, you referred to sub-part (b) where
2 you indicated that demand-oriented price adjustments are
3 those that are premised on the sensitivity of customers to a
4 price change. Is that correct?

5 A That is correct, yes.

6 Q Is a major factor that led to the proposed rate
7 increases for certified mail the fact that the affected
8 customers are relatively insensitive to price change?

9 A No, that wasn't. I wouldn't say that is a major
10 factor. We were restructuring several of the special
11 services and we were including the costing changes or
12 adjustments and to try to better reflect costs and also with
13 certified mail we were looking at that and in terms of even
14 the context of historically how things were evaluated, if
15 you decided that it necessarily wasn't a demand-oriented
16 pricing scheme we'd indicated in earlier cases that we
17 thought that certified mail should be -- the cost coverage
18 was too low, that in terms of even the traditional value of
19 service discussion that the Postal Rate Commission has had
20 before that it is demand-oriented, but I don't think it
21 necessarily refers to a mechanistic demand-oriented scheme.

22 Q I'm sorry, I really didn't follow the answer.

23 Let me repeat my question a little bit.

24 Are the certified mail customers relatively
25 insensitive to price change in your opinion?

1 A They are -- yes, they are relatively price
2 inelastic, yes -- price inelastic, yes.

3 Q But you did not consider this an important factor
4 when you recommended the proposed rate increases for
5 certified mail?

6 A We did consider that, yes.

7 Q Oh, you did consider that?

8 A It was certainly a factor in terms of being
9 demand-oriented, demand or marketplace oriented.

10 Yes, it was a factor in considering it.

11 At the same time, in terms of the price
12 sensitivity in terms of the traditional measures, and
13 Witness Needham goes through that in her testimony,
14 regarding value of service and the like, it certainly
15 indicated, it indicated in this proceeding and it indicated
16 to us in the R-94 proceeding that without -- that in terms
17 of the traditional evaluation of the nine criteria that it
18 certainly merited consideration for a rate increase.

19 Q So it would be fair to say that this was a major,
20 if not the most important factor with regard to certified
21 mail in terms of rate increase?

22 A I don't know if I would classify it as the most
23 important factor.

24 I think we are trying to realign things, if you
25 mean demand-oriented in terms of a specific mechanistic way

1 of looking at it or just a way of looking at the price
2 changes needed to move things along to where they reflect
3 the value of the service.

4 I don't know. What I am trying to say is under
5 the traditional views of how you look at pricing postal
6 services, the certified mail cost coverages before rates of
7 107 was quite a relatively low cost coverage for something
8 that has a relatively high value by traditional measures of
9 value and Susan Needham discusses that in her testimony in
10 terms of certified mail.

11 It is consistent with being demand-oriented but I
12 don't want to say that it was us supplying a specific kind
13 of rationale to it if in that regard it is ^{consistent} ~~consisting~~ with
14 making our prices more demand-oriented.

15 How is that for a long response to what you
16 thought was a simple question?

17 Q Well, I am going to try to paraphrase your answer
18 a little bit here, to get back to my question.

19 Would it be fair to say that you consider it a
20 major factor?

21 A It's a substantial factor, but certainly not the
22 only factor. I mean it is consistent with our goal of being
23 demand -- of having the prices demand-oriented. At the same
24 time, I am trying to point out, as we re-examined the cost
25 and we had a cost coverage of 107 percent, very few services

1 that are even less price-sensitive would end up or say more
2 price-sensitive would end up with such a cost coverage.

3 Q I don't mean to interrupt but if you try -- I
4 don't want to keep you from expressing your viewpoints on
5 these areas and I want a full elaboration on the record, but
6 to the extent possible if you could answer yes without
7 repeating yourself or saying no without repeating yourself,
8 I would appreciate it.

9 As to the certified mail, the fact that the
10 customers were relatively insensitive to price change, you
11 did not consider that the most important factor, is that
12 correct?

13 A It -- okay. I'll fall back to six or seven years
14 ago when I used to do the price testimonies and people would
15 ask what is the most significant, and it is real difficult
16 to say that. You consider everything.

17 You consider the available cost information. You
18 consider we're wanting to make prices more demand-oriented.
19 It was very important and it is hard for me to provide it a
20 ranking and say it was number one of one-two-three.

21 I realized I am not being as precise as you would
22 like. I can say it is very important. It is hard for me to
23 categorize things quite in the manner that you might like.

24 Q Turning to return receipts, instead of going
25 through the whole explanation again, would your answer be

1 the same with regard to return receipts as you gave for
2 certified mail if I asked you the questions if you would
3 consider the price sensitivity of customers to be the most
4 important factor?

5 A It would be -- it's an important factor in terms
6 of the changes, but not so much for return receipts.

7 For return receipts it's one of the areas where we
8 are trying to simplify the product line there and enhance it
9 in a sense, and that was one of the reasons for why
10 essentially where we had two kind of products, if you will,
11 and then we changed it into another single product, and out
12 of that rolled the price.

13 Also return receipt is a bit more difficult. It
14 crosses across several different products and is tied into
15 those but, yes, it does reflect, better reflect a demand for
16 the services, but return receipt's price changes are tied
17 very much into the structural changes we felt were
18 appropriate to make.

19 Q There were two different elements to this return
20 receipt proposal.

21 One is that the structural changed into the level
22 of the price increase.

23 A Yes.

24 Q Now the level of the price increase could be
25 separated from the structural changes. Would you say that

1 the level of the price increase^{of} return receipt was
2 determined in part or in major part because the affected
3 customers are relatively insensitive to the price increases?

4 A Okay. First of all, I don't think we have
5 categorized what we have done to return receipt as a price
6 increase per se. It is effectively we had two prices, if
7 you will, for two different services and we reconstituted
8 two different services is strong -- may be too strong of a
9 term -- not two different special services but two different
10 features within that special service.

11 We redesigned that service to come back with
12 probably a service that is somewhat different that maintains
13 arguably more close to the features of the higher level of
14 service for those -- essentially what we had, we had a
15 return receipt that would provide you would get no address
16 information, another you would get address information if
17 you requested it, and you would automatically get the
18 address to where he delivered it.

19 It meant that with one piece if you had return
20 receipt you would not know where we eventually delivered it
21 and the piece could have been forwarded twice or what have
22 you.

23 The second service you got address automatically,
24 which could still be the same service. We reconstituted it
25 so that you would get an address if the address had in fact

1 been changed from the one you used, so in that sense it is
2 somewhat a similar service as to the higher level of
3 service.

4 I realize I am talking on, but it is effectively I
5 don't know if that is a price increase. We restructured it
6 and we have come back with the final service reflects more
7 the higher level of service that we had.

8 Q Let's assume it is a price increase, and let me
9 state the reasons why we will assume it is a price increase.
10 Before rates return receipt had a 127 percent cost
11 coverage, is that correct?

12 A That's correct.

13 Q And after rates, your Exhibit C shows that it will
14 have a cost coverage of 171 percent, is that correct?

15 A Let me turn to my exhibit here.

16 That's correct, yes.

17 Q So when you increase the cost coverage to 170
18 percent from 127 percent, that normally signifies a rate
19 increase for the user of the service, is that correct?

20 A It normally does. At the same time, I'll back up
21 off the microphone here, we restructured the service so that
22 we ended up reducing the cost of it or the proposal would by
23 not providing addresses except when they are needed, and we
24 felt we could provide the same value in that sense.

25 We have changed the nature and the cost level of

1 the service and I would point out here part of what is
2 happening with return receipt are that the costs do in fact
3 go down from before rates to after rates.

4 Q This question may be more appropriate for Witness
5 Needham, but is there any correlation between the size of
6 the average price increase or the average new rate and the
7 additional cost caused by return receipts?

8 A Is there -- in terms of additional costs caused by
9 return receipts?

10 Q At least in the new structure --

11 A -- in the new structure, I mean in that sense,
12 yes, to the degree that people will be moving up to a higher
13 level of service and that that requires more cost, that is
14 part of the reason arguably for that, the difference in the
15 average revenue per piece.

16 They are moving up in terms of the level of
17 service. We think that is appropriate if not -- while the
18 positives of that and our desire to enhance the
19 deliverability of mail and get the right addresses, we think
20 it's appropriate for people sending -- wanting return
21 receipt information to find out the right addresses.

22 Q Do you know what the average increase in cost will
23 be for return receipts under the new proposals?

24 A I am not sure I have it in my exhibits offhand.

25 Q I don't think it is necessary. Will you accept

1 that is close to one cent and definitely no more than a
2 nickel?

3 A In terms of the average unit cost?

4 Q Yes, please.

5 A Subject to check, yes.

6 Q And what is the average unit rate increase for
7 return receipts?

8 A I'm not sure if I have that figure with me, but I
9 presume you will provide me with one, subject to check?

10 Q No, I unfortunately don't have it but I think it's
11 approximately 40 cents. Subject to check, would you accept
12 that?

13 A That's fine; I will accept that, yes.

14 Q And the question was, does this increase in cost
15 suggest a correlation between the level of rate increase and
16 the level of cost increase?

17 A If you are saying the level of the unit revenue
18 increase much greater than the cost increase, it reflects
19 the fact though, at the same time, people are getting an
20 enhanced level of service.

21 Q Okay, I won't pursue this any further.

22 Continuing along the same theme, is a major factor
23 that led to the proposed rate increases for Post Office
24 boxes the fact that the affected customers are relatively
25 insensitive to price increases?

1 A In terms of the -- we took into account the market
2 conditions for Post Office boxes and our view of relative
3 price insensitivity, yes, that was one of the reasons for
4 the changes. We also had some structural changes we felt
5 were very important to make.

6 And one final thing, in terms of one of the goals
7 was to move the former Group 2 boxes, which would be Group ~~B~~ D
8 under our proposal, to make them more reflective of the cost
9 levels associated with them.

10 Q Do you, by any chance, have Witness Lion's
11 testimony with you?

12 A I presume that is Witness L-i-o-n's?

13 Q Apostrophe "s".

14 A No, I don't.

15 MR. RUDERMAN: If it is okay, I would like to hand
16 him a copy of the table in Witness Lion's testimony for him
17 to look at for the purpose of these questions.

18 THE WITNESS: Actually, come to think of it, I
19 think I do. I did bring a copy of this testimony.

20 Let me see if I can --

21 [Pause.]

22 BY MR. RUDERMAN:

23 Q If you do have the testimony, please refer to page
24 24 in that testimony.

25 A I've got it. Okay. Yes, I've got that.

1 Q And that's Table 13 on page 24?

2 A That's Table 13 on page 24.

3 Q There is a list of various services offered by
4 CMRAs; is that correct?

5 A That's correct.

6 Q Could you please identify those services offered
7 by commercial mail receiving agents, which are CMRAs, that
8 give a competitive advantage over the Postal Service with
9 regard to Post Office boxes?

10 A In terms that give CMRAs a competitive advantage?
11 Well, it -- arguably, part of it depends on the Post Office
12 in terms of 24-hour access. Some of the -- many of the
13 offices do and I think Mike Lion elsewhere in his testimony
14 indicates the -- the amount of Postal Service offices with
15 24-hour personal access key, which is the key to their own
16 lock box. I think we have a key to our lock box.

17 Call-in checking is what we don't typically have
18 in the Postal Service. Mail forwarding, we have.

19 We indicated that we do have some offices that
20 provide copier service but not to that degree. I don't
21 think notary or fax; packaging or supplies, with pack-and-
22 send going on, I'm a little leery of commenting too much on
23 that.

24 I think, primarily, the competitor services have
25 an advantage on that.

1 In terms of the six-month price incentive, I would
2 say we don't -- our prices are structured so the incentive
3 is much more high to the Postal Service or a 12-month price
4 incentive. I would say the same thing with regard to that,
5 that the Postal Service prices in most instances are
6 substantially lower than the CMRAs and would continue to be
7 so under our proposal.

8 Q I know you covered it to some extent but, outside
9 of pricing, what other competitive advantages does the
10 Postal Service have over CMRAs?

11 A Okay. Actually, I am not sure if I am the one
12 that covered it to a great extent. It was probably more
13 Witness Needham.

14 I mean, one is the sense of being the Postal
15 Service, the access to the mail as soon as it is delivered
16 to the mailbox itself. There is certainly some advantage
17 there. In terms of dealing, I realize the CMRAs do offer
18 some other mail services, but you are there in the Postal
19 facility and you can take care of a variety of postal
20 business at one time.

21 In terms of other advantages of the Postal
22 Service, I mean, you do have the security associated with
23 the Post Office. You do have also to the degree where I
24 used to pick up, for example, in terms of security and
25 knowing the that Postal Service will be there. This

1 certainly doesn't mean to knock all of the CMRAs or what
2 have you but I do see a fair amount of them going in and out
3 of business, including some places where I see CMRAs next to
4 where I transact some business and both of those have gone
5 out of business in the last four or five months and I am not
6 sure what position that leaves their customers in.

7 At the same time, my local Post Office has
8 certainly been there. So I think there is -- the
9 substantial nature of the Postal Service is an advantage.
10 So I think in terms of that is an advantage as is the
11 security if you have problems with what's going on with the
12 Inspection Service and the ability of them to deal with
13 that.

14 So I think those are some advantages the Postal
15 Service does have.

16 Q Do you know what proportion of the total number of
17 Post Office -- of boxes that are rented are rented from the
18 Postal Service vis-a-vis CMRAs?

19 A No, I do not.

20 Q Do you think any of the other Postal Service
21 witnesses would know that, could give an answer to that
22 question?

23 A Not off hand. I am not sure, frankly, that we
24 collect that kind of information in any of our databases. I
25 think we have indicated all along in answers to other

1 questions our data are not customer-oriented. By that, we
2 don't have a centralized mailing list that says here's 15
3 million customers and here's what their business is or what
4 have you. So I tend to doubt that we have that information.

5 MR. RUDERMAN: Postal Service Counsel, if someone
6 has that information, could you contact me and we will ask
7 the appropriate witness?

8 MR. RUBIN: Yes.

9 Could you repeat the information you are looking
10 for?

11 MR. RUDERMAN: Sure. What proportion of the total
12 number of boxes rented are rented from the Postal Service?

13 MR. RUBIN: Thank you.

14 BY MR. RUDERMAN:

15 Q Turning to a different subject, at page 72 of her
16 testimony, Witness Needham indicates that alternatives to
17 certified mail include courier service and expedited mail.

18 A Okay. That's page 72.

19 Q I believe so, of Witness T-8.

20 A It looks like around lines 4 through 12, I guess.
21 Is that -- wait. I've got it, I'm sorry. It's more down,
22 the lower part of the page 13 through 18. Okay.

23 Sorry. What's your question, please?

24 Q I haven't asked the question yet.

25 A Okay.

1 Q If you aggregate the volume of Postal Service
2 certified mail and non-Postal Service alternatives to
3 certified mail, what proportion of this type of service is
4 Postal Service certified mail?

5 A It's difficult for me to answer, and the reason is
6 -- I mean, arguably you could look at and agree that there
7 is data available on the alternative carriers' products in
8 that they do provide a form of delivery confirmation; but
9 the real question is in terms of say either overnight or
10 two-day pieces, that -- I mean, you would have to assume
11 that all of those pieces are -- that entire market is there
12 because people are using the delivery confirmation piece of
13 it.

14 All I'm saying is that conceivably, we could do
15 the math, and I'm not sure that -- I wasn't able to get that
16 kind of information. You would have to get the volume of
17 competitors' products available, two pounds or less, and
18 that would tell you what percentage it is of that. But to
19 the degree that people are using their services because they
20 want the delivery confirmation piece of it, I don't know. I
21 just don't know. I'm saying I'm not sure. A) I didn't have
22 time enough to do the mathematics, and if I did, I couldn't
23 say that that's really the market, is the Postal Service and
24 the competitors' equivalent products. People may be
25 purchasing them for other reasons other than just strictly

1 the delivery confirmation piece of it.

2 Q Are you stating that you do not really have a feel
3 of how much competition there is to the Postal Service with
4 regard to certified mail?

5 A I know that there are other services available in
6 the form of, as Witness Needham indicated, couriers or
7 expedited offerings, but I don't know, in terms of the
8 marketplace, how the Postal Service fares as a competitor in
9 that.

10 Q It would be fair to say -- it would be a fair
11 statement to say that the Postal Service is by and large --
12 has a massive portion of the certified mail delivery
13 service?

14 A It has a substantial portion of it, but then
15 again, it's difficult for me to say in terms of massive,
16 which implies the vast majority. I'm just leery in terms of
17 the -- I don't know in terms of what the competitors offer
18 under one and two pounds and the delivery confirmations that
19 are being provided on that. It's a substantial piece. I
20 mean, the volume for certified mail is -- if you'll hold on
21 a second. Let me -- I don't remember any of these numbers
22 anymore.

23 The volume of certified mail was, in 1995,
24 according to billing determinants for the basic fee
25 certified piece, 266 million pieces. That's a substantial

1 volume, but I don't know exactly what I'm comparing it to.
2 I don't know if I'm -- so it's difficult for me -- I would
3 say 266 million pieces are substantial. To say it's massive
4 or imply that it's the lion's share, so to speak -- between
5 Witness Lion, Lyons and lion's share, I don't mean it to be
6 a pun. But it's difficult for me to categorize it as being
7 massive.

8 Q Do you think courier service and expedited mail
9 are really substantially equivalent to certified mail?

10 A I think they are similar in respects that -- in
11 terms of especially if you compare -- I mean, courier
12 services, yes. If the question is, is courier service
13 providing, you know, arguably delivery that day, there are
14 some similarities in it. I mean, you are getting a piece of
15 it as return receipt. If you're saying the level of service
16 is different, that's one thing; but if you look, for
17 instance, in terms of comparing competitors' two-day
18 products to first-class mail or priority mail, and I'm not
19 going to get into a debate over service standards, but most
20 first-class mail or priority mail is delivered within two
21 days. I think those are somewhat similar products.

22 Q And you don't want to hazard a guess as to what
23 proportion of this market the Postal Service has?

24 A I don't. I really wouldn't. Again, 266 million
25 pieces ^{is} ~~of~~ significant volume, I certainly don't want to

1 downplay that but to indicate that it implies that it is by
2 far the vast majority of the market, I am not willing to
3 make that claim yet. I am not disagreeing with it; I don't
4 have that information.

5 Q To your knowledge, does anyone within the Postal
6 Service have that information?

7 A Not that I am aware of.

8 Q Are you suggesting no one did this sort of market
9 research with regard to Certified Mail?

10 A In terms of the direct one-on-one competitors,
11 again, my concern is you could look at for instance
12 competitors, say, two-day alternatives and if you are
13 looking at certified mail, you can maybe try to estimate
14 what's two pounds or less, I don't know if we have that kind
15 of volume available to us, and then you have to make some
16 assumptions if they are delivering it for the two-day
17 service or if you want to just assume that it all competes
18 with the Postal Service.

19 I am saying, I think you are having to make some
20 assumptions about the motivations unless you want to assume
21 that all competitor mail for the two-day service is a direct
22 one-on-one competition. The point here wasn't to say
23 that -- was to say that there are alternatives out there and
24 that is a point that if you want delivery confirmation, you
25 can get it through other means.

1 Q Yes, but the issue is really how meaningful or how
2 significant these alternatives are. If they are really not
3 significant and not realistic alternatives, then there are
4 no real alternatives.

5 A I think there are alternatives in the sense that
6 our competitors, particularly for two-day products, offer
7 delivery confirmation as part of -- as part of the base
8 product. I won't say it's free because when I do that then
9 Mr. Kendall or Mr. McKeever would always tell me it's not
10 free; it's built into the price. But it is part of -- they
11 do offer a service that offers delivery confirmation.

12 I understand Mr. Kendall may be retired but,
13 nevertheless, it is an issue I know that UPS has wanted us
14 to be very precise on.

15 Q One last question on this area. The alternatives
16 that you are referring to, offering a certificate of
17 service, is basically incidental to the primary service
18 these competitors are providing; is that correct?

19 A Well, that's my point that I was trying to make
20 earlier and I think you've highlighted. I can't tell in
21 what cases it is incidental or in which cases it may be the
22 primary purpose. It is difficult for me to speculate on why
23 people are using our competitors in that regard.

24 Q In preparation for this filing, did you analyze
25 other special services to determine whether they are

1 suitable for a price increase because of the fact that
2 customers are relatively insensitive to price increases?

3 A Well, the answer is no for a couple of reasons.
4 One is that we weren't looking at where we could increase
5 prices, per se, as we indicated. We were looking at those
6 services where we had specific reforms in mind. In every
7 instance where we changed a price here, and arguably a
8 lot -- some of the prices have gone up, there were specific
9 structural reforms in mind. We were not looking at where
10 could we raise rates, we were looking to see -- examining
11 special services where we felt there was a need to make
12 structural changes.

13 So the answer to that is, no, we weren't, for a
14 real base reason. We were looking to see where we could
15 make structural changes and where structural changes were
16 needed.

17 Q But there are no structural changes with regard to
18 Certified Mail; is that correct?

19 A That is incorrect. As I indicated earlier, the
20 Certified Mail, we changed the underlying costing and
21 refined that to better reflect the cost for Certified Mail
22 and I consider that to be a structural change when the basic
23 costs or underlying costs for that have been changed.

24 Q But no classification proposal is associated with
25 Certified Mail?

1 A There are no classifications for Certified Mail,
2 per se. But there was, again, a major structural changing
3 in the costing.

4 Q Did you examine elasticity of other special
5 services to determine whether they are suitable for a rate
6 or classification change?

7 A Again, a couple of things, when I said there were
8 structural changes to certified costing, I want to be a
9 little bit more precise on it. It was the costing for
10 pricing purposes.

11 We had made a couple of --

12 Q I'm sorry, maybe you misunderstood my question.

13 A No, I didn't misunderstand your question; I wasn't
14 precise in a former answer and I am trying to be a little
15 bit more precise on that.

16 We had made some pricing assumptions with regard
17 to certified mail that we -- that needed to be refined. I'm
18 sorry. Repeat your question again.

19 In terms of did we look at any -- actually, you
20 don't have to. That question was regarding did we look at
21 other services in terms of being demand oriented for price
22 changes and the answer is, no, because we were focusing only
23 on those services that we had specific changes in mind and
24 we weren't looking what kind of services should be -- their
25 prices be increased for -- in terms to better reflect demand

1 or the market.

2 The real focus was the opposite; where are there
3 structural changes that needed to be made.

4 Q This is kind of circuitous. You know, you say you
5 are focusing on these special services but there had to be
6 some reasons or some logic that led you to choose these
7 special services as opposed to other special services. In
8 other words, you can't just throw darts at a dart board and
9 say, these are the four we came up with. There had to have
10 been some that have been rejected and you haven't provided
11 any explanation of why other special services may have been
12 considered or why they were rejected.

13 A Because the explanation is we did not have
14 structural changes in mind. We have, again, as we indicated
15 in one of my interrogatory responses, that there is
16 obviously always the concern in this case or any case you
17 can only focus on so many services. We had those. We
18 focused on where we had some structural changes in mind.

19 I mean, if the question is, I mean, why didn't we
20 raise the price for a certain service and we've gotten
21 interrogatories on COD, we had no structural changes in COD
22 in mind. So these things are being done as part of a
23 structural change which means where we are trying to --
24 there was nothing with regard to that for the other special
25 services.

1 Q So in other words, for instance, with COD, where
2 their rates are selling -- the rate is now below cost, you
3 do not consider that to have a structural change, therefore
4 you didn't -- didn't propose it in this case?

5 A In terms of COD, there is -- there was no
6 structural change in mind in terms of revamping the service
7 itself. There was not a change to -- a proposal in mind to
8 change the underlying costs, to change the nature of COD.

9 There is a concern in terms of our -- the
10 estimated -- our estimates for FY '96 regarding COD covering
11 its costs but that is just a plain, straight out price
12 increase; that is not a structural change that met the
13 criteria that I indicated earlier in my testimony.

14 Q So, in other words, in your -- the criteria did
15 not allow you to raise a rate that was below cost?

16 A Well, the -- it said we were focusing on those
17 things where we had specific changes in mind, where we could
18 make the service better, enhance it in one way or the other.
19 We had enhanced -- in other words, we enhanced return
20 receipt, we believe, by refocusing the service and
21 simplifying it; the same for registered mail. Or, in terms
22 of simplifying the product line in terms of special
23 delivery, where there is a specific change in mind. COD was
24 nothing like that; it would just be a flat-out price
25 increase. There was no change or classification change

1 associated with that.

2 Q Would it have been a problem to raise COD rates to
3 cover their costs in this proceeding?

4 A Is it a problem? Well, if you're a COD customer
5 it is, and you could make the same statement about the
6 places where we are changing the rates.

7 Would it be a problem? Is it consistent with
8 reform or restructuring? No, it isn't.

9 Q You were aware at the time that you prepared this
10 case that COD was -- that COD rates were below costs, were
11 you not?

12 A Well, in terms of the time when we started
13 thinking about the case, we did not have the data. As the
14 case progressed, we were aware that COD -- the estimates
15 indicated that COD was not going to cover its costs in the
16 test year.

17 Q I have just a few more questions on this little
18 area. Then, maybe if you want to take a break after that,
19 it would be fine. Let me just go on with these couple
20 questions in this area, please.

21 In response to OCA Interrogatory T-1-5, you stated
22 that --

23 A It's T-1-5?

24 Q That's correct.

25 A Okay, I've got it here.

1 Q Okay.

2 You stated the that Postal Service selected a
3 limited number of special services for review in this
4 proceeding due to resource constraints and timing
5 considerations; is that correct?

6 A Yes.

7 Q What were the timing considerations?

8 A Well, the timing considerations are always in the
9 sense that if you try to expand it to include everything
10 then you never get the case filed.

11 If you want to get a case filed, you focus on what
12 can be done in a particular time frame. I mean, arguably,
13 if we had three other years, three more years, we could find
14 something else in this.

15 It is not like if you are saying did the case have
16 to be out by a certain time and if nothing made it quite in,
17 it is a matter of the fact that with anything that you do in
18 a rate filing, arguably, if you had more time you would
19 have, be it a special service case, be it a general rate
20 case, you could do more things. You would just, at a
21 certain point in time, go with what you think is appropriate
22 and not let the perfect be the enemy of the good.

23 Q Well, these time considerations were just a
24 fallout of when you had the case prepared?

25 A Well, it is a sense that, arguably, if you had X

1 number of people working on a case and you gave them twice
2 as much time, you would think you could focus on twice as
3 many services. The issue is that if you let this linger out
4 through 10 years, you can probably hit every service or
5 whatever else and come back and refine more things. It's a
6 matter that there were certain things that we knew -- that
7 we knew that we believed strongly should be changed and we
8 decided to focus on those rather than investigate over a
9 long period of time things that were much more -- much
10 weaker possibilities.

11 Q What were the resource constraints?

12 A Well, the resource constraints are the Postal
13 Service has only X amount of dollars and people that have
14 the experience to focus on cases. In other words, most of
15 the 800,000 people's job in the Postal Service is to move
16 the mail, not to file rate proceedings. And I don't mean to
17 sound caustic about it but it is that we have a limited size
18 staff, much the same as the Commission or the OCA and there
19 are a variety of activities going on and we can't use all of
20 those activities to apply to special services.

21 It was an important process to us but, at the same
22 time, we just can't have as many people as we would like
23 focus on special services. That is the point we were trying
24 to make.

25 In a perfect world, with all the time and all the

1 resources, maybe this case can be more all-encompassing but
2 that could be said for a variety of other cases.

3 Q It is still not clear to me. If you could have
4 done a more complete job and taking a little bit additional
5 time, what was the rush to file this case?

6 A I didn't say there was a rush to file this case.
7 I -- the point of the matter is that we had certain things
8 that obviously needed to be done, that we felt obviously
9 needed to be done and we focused our resources on those so
10 we could get -- prepare a case, put it together and send it
11 over here. In the sense of a rush to file, it is not so
12 much a rush to file. The point is that you always want
13 to -- in terms of a limited term of resources in time, if
14 you let things linger out and say, gee, if I gave you
15 another year, could you come up with another service to
16 change, I don't think that's an appropriate way of working
17 it. I think if you have a clear, concise list of things
18 that you think are appropriate to change, then you focus on
19 those and effect those changes or at least the proposals for
20 those changes.

21 Q Interrogatory 5 asked you to provide all documents
22 that were utilized to determine which rates and fees were
23 suitable for an interim rate increase. You have not
24 provided any documents in response to this interrogatory.

25 Changing that question to -- changing the wording

1 of that interrogatory to, "Please provide all documents that
2 allowed you to determine which fees are suitable for
3 structural change proposals," are there any such documents?

4 A No, there are not. It is not like there are
5 documents that we had a list of 10 and we voted four or five
6 down on, per se. There is nothing like that.

7 There is -- in talking to the people involved,
8 we -- in terms of preparing for this, we knew there were
9 some indications even in terms of the last rate case of
10 things that we might have done. We looked to see if those
11 things that we knew the kind of changes we felt should be
12 made for special services, so there is not a list of where
13 we had these six up, these four down. There is not just
14 such a document.

15 Q No one went through everything to determine what
16 as to suitable structural changes?

17 A Yes, we looked at those things that were involved
18 and determined that we had -- you mean, do we have a list to
19 say, here are the things suitable for structural changes and
20 we crossed it off daily? That's not how the process works.
21 We went in, examined, talked to the people involved with
22 special services to determine which things were suitable for
23 structural changes.

24 It is not like there is a precise list that we
25 line up all COD, let's take a vote, does anyone want to make

1 a structural change to that. It is not quite done that way.

2 You talk to the people who, as time has passed on,
3 as you got ideas about what should be changed and that is
4 how the process worked, we knew there were things in terms
5 of pricing and the like from the last rate case that we
6 would have liked to have affected and we canvassed the
7 affected parties to see what was appropriate.

8 Q Did you discuss the suitability of Business Reply
9 Mail for a structural change with anybody?

10 A In terms of suitability, Business Reply, I figured
11 that was going to come up here -- grab a sip of water here.

12 Again, the suitability of Business Reply, Business
13 Reply has been a main concern, frankly, from the last rate
14 case to us and to a variety of parties, including our
15 customers. It is the suitability. But then there is also
16 the issue of timing constraints in terms of business reply
17 when something can be done for that and effectively study
18 the situation and make the changes if business reply is one
19 of those things that, in terms of time constraints and the
20 like, it wasn't suitable in terms of getting it at this
21 time.

22 Q Were you told which special services to propose
23 classification changes for by your upper management?

24 A No, we were not told. I mean, the process is they
25 approve it, but we recommended the changes to them.

1 Q And these special services that you propose to use
2 this for are the only ones that you recommend that there be
3 structural changes for?

4 A At this time, yes.

5 Q And there was no guidance from above as to which
6 ones to choose?

7 A Well, the guidance from above in terms of which
8 ones to choose, I mean there are ongoing discussions. We're
9 laying out in terms of what we think are appropriate and
10 explaining the rationale for it, and if the question -- I
11 mean, did someone say, "Well, gee, you don't have, I don't
12 know, this service in there, why not?" -- you know, it's not
13 a matter of them having a laundry list of services and
14 saying, "We want you to change this." We're trying -- this
15 comes from the bottom up in terms of those things that
16 specifically need changes that can be effected at the time.

17 Q So the special services that were chosen were ones
18 that you recommended be included in this case?

19 A Yes, they were.

20 Q And you did not consider business reply mail in
21 your contemplations of what to recommend?

22 A We did not feel that business reply was far enough
23 along. We had not worked -- business reply is something
24 that we have identified that needs some work on, but we did
25 not have specific structural changes in mind that we could

1 put in place at this time. Business reply is the -- a
2 variety of parties have been concerned about it and it was
3 something that we didn't think we could make the appropriate
4 changes to improve it at this point in time that would
5 reflect a variety of concerns.

6 Q But you had no criteria to ascertain what is
7 suitable for structural change?

8 A Suitable for a structural change was changes that
9 we knew that could be made and could be made to improve the
10 product; but business reply -- I think there has been some
11 concern expressed from the Commission in the last rate
12 proceeding and concern -- I mean, we were concerned also at
13 that time. There's a matter of having concern and deciding
14 that something that needs to be examined as opposed to being
15 able to effect that change at a given point in time.

16 MR. RUDERMAN: Presiding Officer, I'm going to go
17 on to another area of cross examination. Maybe this would
18 be a suitable time to take a break, or if you want me to, I
19 will proceed.

20 PRESIDING OFFICER QUICK: How long do you think
21 you will be going, Mr. Ruderman?

22 I think we'll break now.

23 MR. RUDERMAN: Thirty, 45 minutes.

24 PRESIDING OFFICER QUICK: Come back at five till
25 eleven.

1 MR. RUDERMAN: Thank you.

2 [Recess.]

3 PRESIDING OFFICER QUICK: Let's go back on the
4 record and continue, please.

5 BY MR. RUDERMAN:

6 Q Did the Postal Service develop any cross-
7 elasticity estimates for stamp cards with any other service?

8 A No. They don't have cross price -- I presume
9 cross-price elasticities. No, they don't have that. Though
10 if you take that and assume that there is a cross-price
11 sensitivity, then that would imply that probably the lost
12 stamp cards -- to the degree that we've estimated a decline
13 in postcards going to stamp cards, that would indicate that
14 you would be getting back some of that volume in the form of
15 postcards which would mitigate the financial impact of our
16 -- or would actually improve the financial impact of our
17 proposal. So by not using it, we're probably being
18 conservative in our estimates.

19 Q At page 10 of your testimony, you refer to
20 Resolution 95-9, which was filed as Library Reference SSR
21 112.

22 A Okay. Yes.

23 Q Are the proposed rate increases requested in this
24 proceeding designed to comply with this resolution?

25 A They are consistent with the resolution to the

1 degree that they help us. The additional contribution from
2 this proposal helps generate net income. It helps the
3 Postal Service toward its goal of prior year loss recovery
4 and -- or recovery of prior year losses and restoration of
5 the net equity deficit.

6 Q Do you have the resolution with you? If you do,
7 could you pull it out now.

8 A I have it here toward the back. I managed to
9 misplace my other copy of it. It's part of an interrogatory
10 response.

11 I'm sorry, I thought I had it here, but I don't.

12 Q I'll let you have my copy to look at.

13 MR. RUDERMAN: Sir, is it okay if I approach the
14 witness?

15 PRESIDING OFFICER QUICK: Yes, sir.

16 THE WITNESS: I've got that.

17 BY MR. RUDERMAN:

18 Q In FY '95 the Postal Service earned about \$1.8
19 billion, is that correct?

20 You could just assume it and accept it on its
21 face.

22 A Well, I have it I think as a primary exhibit. I
23 would like to go ahead and look at that.

24 That's correct -- \$1.77, yes.

25 Q In FY '96 it is projected the Postal Service will

1 earn \$900 million, is that correct?

2 A That's the estimated test year surplus in our
3 filing.

4 Q Is that still correct?

5 A In terms of end-of-year estimate, which I guess
6 the fiscal year ends this week, I mean I think we have had,
7 in my interrogatory responses we have indicated that we
8 could earn a billion dollars or more but I think that is
9 essentially correct, yes.

10 Q All right, and would you accept that the annual
11 provision in Docket Number R94 for prior year loss recovery
12 is approximately \$936 million?

13 A That's correct, yes.

14 Q The second paragraph of the resolution states that
15 a goal of the Postal Service is for cumulative net income
16 between omnibus rate cases to equal or exceed the cumulative
17 prior year loss recovery target for the same period, is that
18 correct?

19 A That is correct, yes.

20 Q Assuming the Postal Service's proposal to increase
21 net revenues in this proceeding are not approved by the
22 Commission, it appears that the Postal Service will meet
23 this goal through the test year in any event, is that
24 correct?

25 A Through -- you mean through FY '95 and FY '96?

1 That is correct, yes.

2 Q I'll take my resolution back.

3 At page 3, lines 7-8 of your testimony, could you
4 please look at that?

5 A Yes?

6 Q Hopefully I didn't misrecord the numbers on this
7 page. You state there that the proposals in this docket
8 will help maintain most of the current rates and fees for
9 longer periods of time.

10 A That's okay.

11 Q If adopted the proposals will provide an
12 additional \$339 million, is that correct?

13 A Okay -- where is the "if adopted" -- I think we
14 are --

15 Q No, this is a second question.

16 A Yes, and I think that the sentence that you
17 referred to said the Postal Service expects that coupled
18 with efforts to control costs and generate sales. I mean it
19 is not just a one piece of it that here is a little piece of
20 special services designed to carry the entire Postal Service
21 finances on it. It's part of an integrated program which
22 includes generating sales and controlling costs.

23 I wanted that to be clear.

24 Q Yes. The proposal to gain an additional \$339
25 million is designed to help maintain the current rates and

1 fees for a longer period, is that correct?

2 A Yes, and to help -- yes.

3 Q In Docket Number R94-1, the Postal Service's
4 proposals or the Commission's recommendations produced an
5 additional \$4.7 billion. Would you accept that as a fact?

6 A I'll accept it and harkening back to my days when
7 I worked on the revenue requirement, that number sounds
8 familiar but subject to check, yes.

9 Q In light of this \$5.4 billion -- I'm sorry, \$4.7
10 billion figure, how much time do you think the Postal
11 Service will buy by increasing revenues by \$339 million from
12 this proceeding?

13 A In terms of that, I don't know. In the sense -- I
14 mean there are a couple things again. It's coupled with --
15 it's coupled with, for one, and again they are generating
16 the sales and reducing costs, and it depends on the
17 circumstance.

18 For instance, if the goal is to make \$936 or make
19 a cumulative amount of \$936 times three, if you are less
20 \$300 million of meeting that then it can be very critical
21 toward that.

22 If you are saying \$300 million in ~~and~~ of itself and
23 you divide \$300 million by \$4.7, no, it is not designed to
24 be a specific rate increase, but if it is designed to help
25 achieve net incomes, the Postal Service normally doesn't

1 make \$4.7 billion or never has made \$4.7 billion in net
2 income a year.

3 \$300 million as a percentage is a pretty
4 substantial amount in addition to a typical net income for
5 the Postal Service and it can make a difference in terms of
6 them meeting a prior loss recovery.

7 Q But it's pretty trivial in relationship to the
8 amount of monies that are new ^{that} ~~on~~ this rate is designed to
9 secure.

10 A It's based on traditional omnibus rate case
11 amounts. It's relatively small compared to that, yes.

12 Q Please turn to page 9, line 2, of your testimony.

13 A Okay, I've got it.

14 Q You state that the adoption of the Service's
15 proposals in this case would increase annual income by \$339
16 million.

17 Would this be an additional contribution to
18 institutional costs?

19 A That is the additional contribution to
20 institutional costs, yes.

21 Q Is this \$339 million needed so the Postal Service
22 can break even in the test year?

23 A It's not needed so the Postal Service can break
24 even in the test year, but this isn't an omnibus rate case
25 designed to do that.

1 This is a different kind of case.

2 We have made no attempts or requirements to try to
3 make it a break-even case in the FY '96 year. As you
4 indicated earlier, we are already showing a net income. At
5 the same time though we're showing the net income, I mean we
6 haven't used the traditional prior year loss recovery
7 mechanism or the recovery -- or the contingency associated
8 with the general rate case.

9 It wasn't designed to accomplish those exact same
10 objectives.

11 Q Well, does the \$339 million serve the purpose of
12 reducing the negative equity position of the Postal Service?

13 A Yes. It does.

14 Q And do you know what the negative equity was at
15 the end of FY '95?

16 A No, I don't.

17 Q You assume \$4.1 billion.

18 A Okay, I'll assume \$4.1, yes.

19 Q And the \$339 million you are seeking from special
20 services in this case is a portion of the Postal Service's
21 negative equity position, is that correct?

22 A Is you are asking is it a portion, I mean it
23 would -- I am not sure if I understand what you mean by a
24 portion.

25 Q Well, of the \$4.1 billion in negative equity, was

1 some portion of it caused by special services deficiencies?

2 A It's hard to say in terms of that. I mean you get
3 all this -- it's difficult to pinpoint which percentage of
4 the negative equity is caused by a specific class of mail.

5 Someone might argue that if First Class rates
6 would have been higher, this wouldn't have happened, or
7 Third Class rates, and competitors might argue that if
8 Fourth Class rates would have been higher then that wouldn't
9 happen. I can't put it on the back of special services per
10 se, and I think that issue has come up before.

11 You can't say that it's specifically caused by a
12 particular classification.

13 Q Well, everything being equal, special services did
14 make a contribution to the negative equity?

15 A This is difficult to answer in the sense that as
16 an economist, if the first thing you look for in terms of
17 pricing, if things are recovering their cost, and for the
18 most part with some exceptions special services have been,
19 the issue is on negative equity -- you know, who is to blame
20 and which classification -- I do recall seeing a proposal in
21 the last rate case trying to sort of ascribe that, but I
22 think the Postal Service disagreed with that, that you could
23 particularly lay that negative equity at the feet of a
24 particular classification.

25 Q We have no reason to believe that special services

1 contribute any more or less to the negative equity than
2 other classes and subclasses of mail?

3 A In the sense that, I mean it is hard again -- it
4 is hard to ascribe that per se in terms of who created that
5 negative equity which goes back into the early '70s.

6 Q You can't distinguish special services from any
7 other service or class of mail?

8 A I think that we have made that point earlier that
9 we don't think you can lay it at the footsteps of any
10 particular classification per se.

11 Q Well, how was it determined that the Postal
12 Service would need to obtain \$339 million in special
13 services to reduce this negative equity position?

14 A I don't think it was done that way at all.

15 Again, we have indicated in the three goals of the
16 pricing of the classification, the structural changes here,
17 one was to again we say to put the products on a more
18 economic, rational basis, and this is consistent with that
19 in terms of what we are doing for these classifications.

20 The other is to see what improvements we could
21 make to the services, but it is consistent with prior year
22 loss recovery.

23 It was the goal in the sense that it had to be
24 \$339 million and that was magical about reducing the \$4.1.

25 The answer is no. I mean it's hard to -- again we

1 are not ascribing that special services caused or created or
2 should have that burden.

3 What we are saying is the appropriate pricing for
4 special services results in this kind of contribution game
5 and it is consistent with the recovery of prior year losses
6 for the Postal Service and the continued recovery of that
7 beyond the test year.

8 We can't just look at FY -- I mean for test year
9 purposes we are displaying an FY '96 but obviously these
10 rates are going to be in effect the rates we have right now,
11 at least, you know, they are going to be in effect the
12 Postmaster General said at least through 1998. We are
13 looking beyond that in terms of the financial -- at least
14 through 1998 in terms of the financial position of the
15 Postal Service.

16 These help maintain that.

17 Q Well then, all the rhetoric you provided with
18 regard to the \$399 million improving the Postal Service's
19 financial condition, the same rhetoric would apply if it was
20 a \$10 million contribution to institutional costs instead of
21 \$339 except to a lower -- a lesser degree?

22 A Well, to a much lower or lesser degree.

23 At the same time, then, if we made it \$10 million,
24 again you can't pull these things apart and look at one of
25 the three goals. We think the appropriate pricing for these

1 special services, we do that and it generates \$339 million.

2 If the answer would have been \$310 million, that would not
3 be inconsistent with recovery, with recovery of prior year
4 loss recovery.

5 Q Were you given any guidelines as to how much money
6 should be obtained from Special Delivery in this case?

7 A You mean special services?

8 Q Special services. I'm sorry.

9 A No.

10 Q So if you came up with \$10 million, that would
11 have been suitable for management, just as well as \$339
12 million?

13 A Well, if it had been \$10 million, it may well have
14 been suitable if it met all of these goals. It wouldn't
15 have met the third and final goal. It wouldn't have had
16 anything to do with recovery of prior years' losses but,
17 arguably, it might have been consistent with it.

18 One of the pieces of this is we want -- in terms
19 of filings and it is consistent with the library reference,
20 the Price Waterhouse report in terms of specialized filings
21 to try to help restore the equity.

22 But if you are saying that, gee, if you did
23 everything precisely right and it didn't restore equity,
24 would that be the right thing to do. And arguably, it would
25 be. But nevertheless it is an important part of the Postal

1 Service financial policy is to restore equity and this is
2 consistent with that.

3 Q And \$10 million would be consistent with it too?

4 A \$10 million, to a much, much less degree and,
5 arguably, I don't know. To the degree that \$10 million is
6 consistent with it, it makes hardly -- if you want in terms
7 of 4.1 versus a billion versus 10 million, that doesn't make
8 much of a dent on it and it would not be consistent with --
9 I mean, it would be consistent with the first two goals but
10 would it be consistent with a third goal? That's debatable
11 to say the least in terms of making a contribution toward
12 restoring prior year loss recovery.

13 Q Please refer to your response to OCA-TA-7. I
14 believe we provided the following question to you in
15 advance, so this concerns Special Delivery.

16 A For what it's worth, I finally found my copy of
17 the prior year loss recovery and I found the second copy.

18 Be that as it may, this is OCA-TA- -- and this was
19 directed from Witness Needham to me; is that correct?

20 Q Yes, I think this is a question I sent you in
21 advance, I think. This concerns the Special Delivery
22 diversion to private carriers.

23 A Yes.

24 Q There you assume there will be no diversion of
25 Special Delivery pieces to private carriers. Why is this?

1 A Okay. The reason for that assumption is that
2 you've got Postal Service customers who are already in a
3 Postal Service retail unit willing, at the very least, to
4 pay almost as much as they do for Express Mail. They are
5 already buying a basic classification.

6 What we assumed in our analysis is that they would
7 be willing in two instances to migrate up to and pay for a
8 nickel or a dime more since they are already in the retail
9 facility to get much more enhanced service or, at the very
10 least, since they are already in the facility, that they
11 would continue to use the same mail classification that they
12 are using now. It makes -- they have already indicated a
13 preference for the Postal Service for whatever reason, be it
14 place or price or what have you to be in a postal facility.
15 We saw very little reason to assume that people who have
16 made that choice and elected to pay close to \$2 in a Postal
17 facility to go to customers elsewhere.

18 If you are paying 9.90 and for a dime more you can
19 stay at the same window and buy Express Mail, it makes
20 sense. And for close to \$7 less you can just keep the piece
21 Priority Mail at the same window. It makes sense to stay
22 where you are.

23 I don't see that person engaging in the effort to
24 go to other places and make -- and compare that to the
25 services involved. They seem to have already made a choice

1 to use the Postal Service and that was the reason for that
2 assumption.

3 Q This assumes that in the minds of the mailers,
4 that Special Delivery is the equivalent of Express Mail or
5 has very little difference?

6 A Well, I wouldn't say that. Hopefully we have
7 educated them to understand that Express Mail has much more
8 value. It does assume that the customer says that for a
9 dime more, I am already at the Postal facility, I engage in
10 no more transaction costs and I can get much greater value
11 for roughly the same price I'm paying.

12 Q Earlier this morning, we were talking about
13 Certified Mail proposed rate increases and you indicated
14 there has been a change in the nature of Certified Mail and
15 this involved a costing change; is that correct?

16 A It is a costing change, not in a sense of how the
17 attributable costs are handled but how the costs were
18 handled for pricing purposes.

19 In other words, attributable costs for Certified
20 Mail, there hasn't been a change in the system for that.
21 However, erroneously in the past, we assumed from a pricing
22 perspective that that Certified Mail had included with it
23 the appropriate return receipt and restricted delivery
24 costs. That was an erroneous assumption on our part in
25 pricing and it dates back to when I did special services in

1 1984.

2 We determined that we had been doing it a while
3 back and decided to make that correction. It is not a
4 problem in the CRA costing of Certified Mail. They have
5 been pulling out the return receipt costs and restricted
6 delivery costs as they can determine them and putting them
7 aside.

8 That is why I am drawing a distinction there. It
9 is, we were erroneously, in a sense, double counting or
10 double deducting those costs.

11 Q So you are trying to, with your Certified Mail
12 proposals, correct the mistake of the Postal Service?

13 A Correct the mistake the Postal Service and, I
14 don't want to place it in the lap of the Commission. The
15 Commission had recommended rates based on that kind of
16 pricing work and it is to correct that mistake.

17 Q So there have been no changes in costing with
18 regard to Certified Mail?

19 A There have been no --

20 Q Attributable costing.

21 A In the attributable costing system, that I am
22 aware of, with regard to Certified Mail.

23 Q Okay. And there has been no change in the type of
24 service that is being offered for Certified Mail?

25 A There has been no significant change, no.

1 MR. RUDERMAN: Thank you, Mr. Lyons. That
2 concludes our cross-examination and we appreciate your
3 assistance.

4 THE WITNESS: Thank you.

5 PRESIDING OFFICER QUICK: Is there any followup
6 cross-examination?

7 [No response.]

8 PRESIDING OFFICER QUICK: Perhaps questions from
9 the Bench, I suspect.

10 Mr. Chairman, would you like to lead off?

11 CHAIRMAN GLEIMAN: If I can follow up on the last
12 question and response, with respect to Certified Mail, I
13 believe you just told Mr. Ruderman that there was no
14 significant change in the nature of Certified Mail in this
15 case. Is there an insignificant change in the nature of
16 Certified Mail? Is there any change in the nature of
17 Certified Mail?

18 THE WITNESS: I say that to hedge myself.
19 Inevitably when I say there is no change, someone brings up
20 and says, gee, Form 1091 was changed and added a block three
21 months ago and you failed to consider that.

22 It is sort of typical witness hedging. There is
23 no change that I am aware of.

24 CHAIRMAN GLEIMAN: So, unlike, for example, Return
25 Receipt, where there is a change, an enhancement in service,

1 as you characterize it --

2 THE WITNESS: Yes.

3 CHAIRMAN GLEIMAN: There is no structural change,
4 no enhancement in service with respect to Certified Mail?

5 THE WITNESS: There is no structural change in the
6 Certified itself.

7 CHAIRMAN GLEIMAN: With respect to box rental
8 fees, can you tell me what the enhancements are in the
9 services that are going to be made available to people? I
10 know that there is a price change proposed.

11 Am I getting a new box, am I getting a bigger box,
12 size is changing, more access, less access to the Postal
13 facilities?

14 THE WITNESS: Okay, as part of this proposal, no,
15 there is no specific change in the nature of product
16 service, of product definition in that regard.

17 CHAIRMAN GLEIMAN: Now, earlier on you said that
18 one of the key considerations in whether a special service
19 made it into this case was that there was a service
20 enhancement, a simplification, a structural change. But
21 yet, in two of the major areas that generate revenue in this
22 case, box rental fees and Certified Mail, there are no
23 structural changes, according to what you just told me.

24 So would you like to tell me what the criteria
25 were for putting these in, other than making more money?

1 THE WITNESS: Okay, the criteria for putting these
2 in, again, the structural changes, as defined in your
3 question, the structural changes are those that affected the
4 customer. In a sense, you are right for Certified Mail, if
5 you have a Certified Mail piece with nothing on it, there is
6 no change.

7 At the same time, there is a costing change in
8 terms of the structure that relates to the pricing.

9 CHAIRMAN GLEIMAN: So there is a costing
10 methodological change which would be something that under
11 ordinary circumstances would appear in a rate case and not a
12 reclassification case.

13 I am trying to understand why we have this
14 polyglot of proposals before us and, you know, I understand
15 that there was a costing methodological change here as you
16 described it and we appreciate you bringing this
17 longstanding error to our attention in this case. But there
18 may be -- is it possible that there are other costing
19 changes lying around at Postal headquarters that one might
20 want to file with respect to one type of service or product
21 or another?

22 THE WITNESS: It is certainly possible that there
23 are costing changes or cost difference changes that we
24 haven't recognized that need to be made.

25 CHAIRMAN GLEIMAN: But these found their way into

1 this so-called reclassification case and those others that
2 might be lurking around in dark corners did not?

3 THE WITNESS: Well, there are none that I am aware
4 of that are lurking around in dark corners. There are some
5 that I am aware that, you know, as we examine different
6 things that could be brought to light and that we would
7 propose.

8 CHAIRMAN GLEIMAN: Now, on a Return Receipt
9 Requested, Mr. Ruderman asked you a question about the
10 change in the markup which goes from 127 percent under the
11 current situation to 171 percent under the proposal. I
12 think those numbers come out of Exhibit C as I recall from
13 the question.

14 THE WITNESS: Yes.

15 CHAIRMAN GLEIMAN: In Reclassification Case Number
16 One, where there were significant enhancements offered to
17 mailers in the way of, if they would improve their
18 addressing and provide mail that was more suitable for
19 automated processing, that they would likely get quicker
20 delivery. They would help the Postal Service drive, I think
21 the phrase that was the prevailing term during those
22 hearings, was drive costs out of the system. Which, you
23 indicate, by the way, is part of this.

24 There is a cost change here that results in the
25 increased markup; is that not correct?

1 THE WITNESS: Well, there is a cost change that
2 does in fact reduce the costs because we are only providing
3 corrections on those pieces that need it and there is also
4 in a similar matter to reclassification, in terms of -- and
5 I realize to the degree that you are providing address
6 corrections whenever someone is -- has an incorrect address
7 on a return receipt, we think there are some incidental
8 address hygiene benefits.

9 CHAIRMAN GLEIMAN: So part of the reason, at
10 least, that the mark up is higher with the proposed fees is
11 that there are less costs than are currently being incurred.
12 There would be.

13 THE WITNESS: There are less costs for the higher-
14 end service -- by the higher end, the one that provides the
15 address.

16 CHAIRMAN GLEIMAN: Okay.

17 THE WITNESS: We're only having to fill out the
18 correction when it's not necessary. So that's a part of it.
19 The other part is there's a volume reduction which reduces
20 the costs associated with any fee increase.

21 CHAIRMAN GLEIMAN: There is a volume reduction
22 that reduces the cost?

23 THE WITNESS: Yes. In other words, the volume
24 reduction --

25 CHAIRMAN GLEIMAN: You're going to shed volume

1 variable costs?

2 THE WITNESS: Exactly. And when you raise the
3 price, even if it's a relatively price inelastic service,
4 that you will shed some volume. There were two components
5 of that.

6 CHAIRMAN GLEIMAN: Okay.

7 THE WITNESS: There was the correction --

8 CHAIRMAN GLEIMAN: Well, let's take component 1
9 first, which was the part that deals with the lower cost
10 because of the change in the high-end part of the service.

11 THE WITNESS: Yes.

12 CHAIRMAN GLEIMAN: Now, in reclass 1 and reclass
13 2, when the Postal Service made changes that were driving
14 costs out of the system by virtue of improving the level of
15 automated mail, the amount of automated mail, the Postal
16 Service gave the benefit to the mailers. And those cases
17 were filed as both revenue neutral and contribution neutral.

18 THE WITNESS: Yes.

19 CHAIRMAN GLEIMAN: Is there a change in philosophy
20 now in the Postal Service such that when costs are going to
21 be driven out because of structural changes in the high end
22 of return receipt, that the users of those services are not
23 going to benefit the way large volume business mailers were
24 allowed to benefit under reclass 1 and 2? Now you're just
25 going to keep the money and run as opposed to lowering the

1 rates and giving benefits to those people who use return
2 receipt requested?

3 THE WITNESS: I don't say that there has been a
4 change in philosophy there. For instance, if you have
5 another segment of reclassification that comes about, you
6 could end up with lower rates going to people for more work-
7 sharing in some instances. If you're saying -- but I think
8 the real difference here is the one you pointed to. This is
9 not a contribution neutral classification case, and in this
10 case, for return receipt, for the higher end users, they did
11 not get any price reduction. You're correct there.

12 CHAIRMAN GLEIMAN: Okay. And with respect to the
13 second aspect of the reason that the mark-up has gone up,
14 which is that volume drops are anticipated and volume
15 variable costs will be shed and, therefore, there will be
16 more money with the higher prices going towards the indirect
17 or overhead costs, institutional costs of the Postal
18 Service, this also is a change from the situation, then,
19 that we saw in reclassification 1 and 2.

20 THE WITNESS: Yes, it is.

21 CHAIRMAN GLEIMAN: So we've got a case where we've
22 got at least a couple of services and as it turns out, the
23 ones that generate the most money, where there are no real
24 structural ~~enhances~~ ^{enhancements}, and then in another one of the
25 services, we see a change where there appears to be some

1 underlying modification in how the Postal Service is
2 approaching reclassification. Okay. I just want to make
3 sure I understand these things.

4 Now, with respect to box rentals, do I understand
5 correctly that you looked at Post Office boxes and you found
6 them to lack price sensitivity, relatively speaking?

7 THE WITNESS: What we're saying is that we looked
8 at Post Office boxes from a couple of aspects. One, we did
9 the -- a market research of how customers are to respond to
10 price changes, and we looked at the results of those, which
11 suggested that they were relatively price insensitive,
12 particularly at the price ranges we were looking at. Then
13 we also looked at that, and as Witness Ellard indicated, was
14 that they reflect sort of a worst-case estimate. When
15 you're looking at those kinds of things and featuring
16 people, what would you do in the face of a price change,
17 that reflected how they would respond to it. We took that
18 into account and I used, as I indicated in one of my
19 exhibits, my own judgment, having dealt with Post Office box
20 fee increases in the past and noted that we had raised these
21 by 25 or 30 percent and determined that we did not have any
22 drop off in volume, and over time volume continued to
23 increase. I considered that to be too optimistic, and I
24 sort of tried to say between no price change and the one
25 indicated in the market research and came to what I felt to

1 be an appropriate middle ground, and that's relatively price
2 inelastic.

3 CHAIRMAN GLEIMAN: I appreciate that, and I'll
4 probably have a couple of questions for you about that in a
5 little bit, and perhaps for Mr. Ellard, too.

6 THE WITNESS: Okay. I'm sorry if I jumped the
7 gun.

8 CHAIRMAN GLEIMAN: That's okay. Maybe you'll give
9 the same answer the next time this way.

10 THE WITNESS: I certainly hope so.

11 CHAIRMAN GLEIMAN: Do I understand correctly that
12 from a percentage standpoint, the biggest increase in box
13 fees is going to be in the areas where there is the least
14 competition for the Postal Service?

15 THE WITNESS: In the sense that, well, arguably
16 the areas where there is absolutely the least competition
17 would be the -- would be the new Group E where they will go
18 to zero. But there is relatively -- in most cases, as
19 indicated in Witness Lion's research, there is very little
20 competition in many of -- or no competition in many of the
21 current Group 2 offices in the terms of CMRAs.

22 CHAIRMAN GLEIMAN: Well, I was going to -- now
23 you've got me a little interested.

24 You didn't answer my question directly.

25 THE WITNESS: I'm sorry.

1 CHAIRMAN GLEIMAN: But I think I know the answer
2 to it from what you've said.

3 Just what percentage of the people who are paying
4 X are going to go down to zero and what percentage of the
5 people who are paying X are going to go up to 8 or 16?

6 THE WITNESS: Okay, for what we assume -- I mean,
7 again, we have had several Presiding Officer requests on
8 this. We presumed the current 2.7 million customers that
9 are paying 2 will go down to zero in the assumption.
10 Arguably, some of those people who are out of some form of
11 contract office or whatever, in fact, are eligible for some
12 form of carrier delivery from another Post Office.

13 From the current Group 2 customers, we assume that
14 those are the, in fact, if they are paying \$8 now that they
15 will go up to \$16.

16 CHAIRMAN GLEIMAN: How many of them are there?

17 THE WITNESS: Let me flip to my workpapers here.
18 There, currently, in Group 2, 7.8 million customers.

19 CHAIRMAN GLEIMAN: But you don't know how many of
20 the people who are currently paying 2 are in offices that
21 are under the -- operating under the auspices of another
22 facility which does provide some delivery service and
23 therefore would go up to 16 rather than down to zero?

24 THE WITNESS: Our assumption is that almost all of
25 those offices -- I mean, there are some exceptions but most

1 of those offices in group two, by definition, most of them
2 are being provided ~~to~~ some form of delivery in the sense
3 that -- so that relatively few of them would move down. But
4 we can't say that there are arguably some there in some
5 office that could move down.

6 CHAIRMAN GLEIMAN: Let's take the other side of
7 that.

8 THE WITNESS: Okay.

9 CHAIRMAN GLEIMAN: Of the 2.7 million who are
10 currently paying 2, how many of them are operating under the
11 auspices, in some way or another, of a Group 2 office that
12 is providing delivery service and therefore wouldn't go down
13 to zero but would go up to 16?

14 THE WITNESS: I don't know.

15 CHAIRMAN GLEIMAN: Does anybody know?

16 THE WITNESS: No, we don't have an estimate of
17 that.

18 CHAIRMAN GLEIMAN: You have put out a case that
19 says 2.7 million people are going to save \$2 a year.

20 THE WITNESS: Yes.

21 CHAIRMAN GLEIMAN: And we don't know that that is
22 the case, do we?

23 THE WITNESS: Okay, what we said, I think it was
24 in response to Presiding Officer Information Request 2-5, is
25 that the evolution of how things happened is essentially

1 that these kind of contract offices were developed to
2 provide service that was so remote over time and that we
3 think that is the best proxy. In fact, we have always
4 incorrectly stated that it reflected the people who got no
5 necessary -- I shouldn't say "incorrectly" -- imprecisely
6 stated that it was the number of people who did not get
7 carrier delivery.

8 Now we are being more precise in how we define
9 that and it reflects these kinds of contract offices which,
10 by their definition, are the kinds that don't have the
11 density or whatever that we think will generate a real
12 independent Post Office.

13 CHAIRMAN GLEIMAN: You've got a situation out
14 there that kind of grew up helter skelter. I mean, I don't
15 mean that in a pejorative sense.

16 THE WITNESS: No, I understand. It has evolved
17 over time through the unique circumstances of --

18 CHAIRMAN GLEIMAN: And now you don't know really
19 what's going on out there. I mean, you have these general
20 outlines that tell you you've got 2.7 here and 7.8 here and,
21 you know, another 7 million or so somewhere else. But you
22 don't know actually what's below the bottom line on that
23 that has evolved over time.

24 THE WITNESS: We can't say -- specify on a
25 customer basis, what kind of delivery those people get yet.

1 CHAIRMAN GLEIMAN: So you could have a lot of
2 people out there who are currently paying \$2 inappropriately
3 who are going to wind up being charged \$16 under the new
4 rules, in the very least \$16 under the new rules and your
5 assumption is from your market study that how many of these
6 people are going to leave? Somewhere between what the
7 answer was and 100 percent divided by 2 or somewhere between
8 what the research said and zero percent divided by 2, which
9 is it?

10 THE WITNESS: Okay, well, when we assume, for
11 instance, in the Group 2 that it would drop off from 7.8 to
12 about 7.3, which is that you would lose half a million
13 customers from people going from 8 to 16.

14 CHAIRMAN GLEIMAN: Okay, and then what happens on
15 the other side where you've got a bunch of people -- well, I
16 guess I shouldn't say -- what's going to happen in the 2.7
17 who are paying 2 now, some of whom, by your own admission,
18 are likely to go up to 16?

19 THE WITNESS: Some of which may well be. In that
20 case, that is a more substantial rate increase.

21 If you are saying their sensitivity to that rate
22 increase is greater, yes, we -- again, we think they are
23 already in the community Post Offices which evolved to take
24 care of those areas where density was so sparse that we
25 think most of those people reside there, but I can't say

1 that all of them do.

2 And if you are saying that some of those 2.7 may
3 likely move up, by definition the Group 2, the answer is,
4 some of them, an undetermined amount, is yes. And will some
5 of them, given they are going from 2 to 16, will that --
6 that's a much more substantial price increase. The answer
7 is, yes, any indication of sensitivity would suggest the
8 percentage drop-off would be higher.

9 At the same time, I mean, this is a difficult
10 thing to say but if someone is being provided \$2 delivery,
11 they've got a free alternative already, I mean, they do
12 have -- the reason they would be moving up there is that
13 they do have an alternative of free delivery at their home.
14 So the hardship is not like someone being forced not to get
15 mail delivery. And at the same time they are not recovering
16 their cost and, in terms of the equity of that, it is
17 something to be considered also. But it is a substantial
18 increase and there is no way around that.

19 CHAIRMAN GLEIMAN: In the Group 2 area, you told
20 me you are looking at a loss of a half a million people who
21 currently pay \$8, so you are going to lose \$4 million and
22 you have got 7 million people who are going to double, so
23 you are going to get, you know, about \$56 million in new
24 revenue from them?

25 THE WITNESS: Yes, assuming my math is correct,

1 and it may not be.

2 We have got -- our estimate is \$64 million but
3 that is close enough, yes, \$65 million.

4 CHAIRMAN GLEIMAN: What does it cost to deliver to
5 a house that is currently getting mail box service -- let's
6 say it's going to be a motorized route, curbside delivery?

7 THE WITNESS: I don't have the figures on that. I
8 don't know offhand what the precise cost is.

9 CHAIRMAN GLEIMAN: But you have netted out?

10 THE WITNESS: We have netted that out. I would
11 note -- I mean particularly given we address -- we deliver
12 the mail where it is addressed to and arguable, you know,
13 someone may say that doesn't always happen in rural areas,
14 but there are a lot of what we call dual delivery addresses.

15 If I rent a post office box and my standard mail
16 still goes to Resident 605 West Windsor, it will still go
17 there. The fact that I have got a post office box isn't
18 eliminating the delivery to my house.

19 CHAIRMAN GLEIMAN: Well, I just want to ask a
20 couple more questions now, because I know my colleagues have
21 some too.

22 Mr. Ruderman asked you about the \$339 million --
23 let's talk \$340 in round numbers -- that this case generates
24 in additional revenue.

25 You talked with him about this \$340 million

1 additional revenue dollars being part of a larger plan that
2 involves cost containment. It's part of an overall plan
3 that is going to enable the Postal Service to perhaps hold
4 the line on rates until 1998 and maybe beyond.

5 I know I have heard the Postmaster General and
6 some other officials say from time to time that they want to
7 generate a billion dollars in new revenue each year and cut
8 a billion dollars in costs each year, and this is going to
9 enable them to go to the year 2000 with stable rates.

10 Is this \$340 million part of the billion a year
11 that is in the Postal Service's marketing plan for new
12 revenues or is this above and beyond that billion dollars?

13 THE WITNESS: I have seen it included with numbers
14 and I have seen other sales numbers -- I mean you can state
15 it both ways.

16 It is -- I have seen it included with a number, I
17 think in terms of rounding you could include it or exclude
18 it, but I think essentially -- let me step back.

19 I think effectively it is not really part of the
20 billion dollars in new sales. No, it isn't. That is
21 genuine new sales as opposed to the rate changes here.

22 CHAIRMAN GLEIMAN: But you do say that it is part
23 of the overall plan which is going to help stabilize rates,
24 allow rates to -- other rates to remain stable for a longer
25 period of time, but you also at the same time say it is

1 consistent with the recovery of prior year losses, and I am
2 confused.

3 Unless I misunderstand, you can't have it both
4 ways. If you at the end of the next year have -- you know,
5 assuming we were doing these changes on a fiscal year
6 basis -- you had \$340 million in your hand, you have a
7 choice.

8 You can leave it in the cash box and use it to pay
9 expenses to extend the rate cycle, or you can write a check
10 to retire some debt, but you can't have it in two places at
11 once. You know, what is the purpose of this? Is it for the
12 recovery of prior year losses or is it to extend the rate
13 cycle?

14 THE WITNESS: I hear what you are saying and I am
15 glad I have the chance to elaborate on that and effectively
16 it's both and I'll say it in this regard.

17 I mean to the degree that you have got this policy
18 of having prior year loss recovery and adhering to it, I'll
19 give an example. Suppose in year -- and to make it real
20 simple that we are trying to recover -- I mean it says on an
21 average over a three-year period but say in Year Three we
22 have made \$700 million in net income. If you add an
23 additional \$340 million to that, that means that you will
24 have met that prior year loss recovery.

25 Otherwise, in order to meet that without any other

1 changes in cost of revenue, you would have had to raise the
2 rates earlier and that's what we mean.

3 CHAIRMAN GLEIMAN: So really the underlying
4 purpose here is to extend the rate cycle?

5 THE WITNESS: Well, but it's at the same time to
6 recover prior year losses. I mean arguably you can --

7 CHAIRMAN GLEIMAN: If the Governors had not passed
8 the resolution and didn't care about putting surpluses back
9 into retiring prior year losses, then the money would be
10 there to extend the rate cycle?

11 THE WITNESS: But I mean if that weren't the case
12 and there wasn't a policy of doing it, then you could use
13 that money for a variety of reasons including extending the
14 rate cycle, but what we are saying here is that the way to
15 extend the rate cycle given this requirement is to make sure
16 you make the prior year loss recovery, and I don't see them
17 as being mutually exclusive.

18 I understand what you are saying --

19 CHAIRMAN GLEIMAN: So if we were to flat out
20 reject this case, it would have no impact on extending the
21 rate cycle, it would only have a bearing on prior year loss
22 recovery?

23 The Postal Service, for example, might come in
24 with a mini-case that asked us for an increase across the
25 board for prior year loss recovery?

1 THE WITNESS: If you were to reject that case, I
2 think it would -- I mean it changes how much when we recover
3 our prior year losses and how long we are able to continue,
4 so I think it does conceivably reflect the timing. I
5 wouldn't presume what the Governors would do.

6 CHAIRMAN GLEIMAN: Is anybody going to pay a
7 higher fee or rate for something that they get from the
8 Postal Service after this case is over if we approve it the
9 way it was filed?

10 THE WITNESS: Is anyone going to pay a higher fee?
11 Yes, they are.

12 CHAIRMAN GLEIMAN: Okay. So when we talk about
13 rate stability until 1998 or 2000, we are not talking about
14 these rates or fees?

15 THE WITNESS: By definition these rates are
16 changing, yes.

17 CHAIRMAN GLEIMAN: What rates and fees are we
18 talking about?

19 THE WITNESS: The rates and fees are, you know,
20 most of the remaining rates and fees for the other
21 classifications of mail.

22 CHAIRMAN GLEIMAN: But we just had a whole bunch
23 of changes in --

24 THE WITNESS: Yes.

25 CHAIRMAN GLEIMAN: -- standard, nonprofit, some of

1 what used to be Fourth Class -- no, I guess we didn't make
2 any changes there.

3 We just rolled that into standard.

4 THE WITNESS: I was being a little careful because
5 we have alluded to the possibility of future changes in
6 Fourth Class mail, but yes.

7 Yes, there are changes I mean in the sense that
8 rate stability means overall the basic level of rates would
9 stay the same.

10 We have indicated or I have indicated in my
11 testimony that this may not be the last reform or change. I
12 can't say that every rate after this will be exactly the
13 same, but all in all, the basic level of rates for most
14 customers would stay the same.

15 CHAIRMAN GLEIMAN: Rates for most customers would
16 stay the same. Do most of your customers deal in one ounce,
17 First Class stamps?

18 THE WITNESS: Most of our customers deal in that.
19 They deal in a variety of other classifications also.

20 CHAIRMAN GLEIMAN: There are 275 million or so
21 people in this country now. What percentage of them would
22 you say deal only in First Class stamps? Would you hazard a
23 guess?

24 THE WITNESS: No, I wouldn't hazard a guess.

25 CHAIRMAN GLEIMAN: Think it is 75 percent?

1 THE WITNESS: I really don't know.

2 You know, people are using Priority Mail or Parcel
3 Post as individual customers, Express Mail in some
4 instances.

5 I guess there are 50 million pieces, so that
6 doesn't indicate the average person uses it on an annual
7 basis, so it is really difficult for me to say which
8 percentage of them uses the basic First Class rate.

9 CHAIRMAN GLEIMAN: Is it possible that when people
10 talk about stabilizing rates, that that is the rate they are
11 talking about?

12 THE WITNESS: That is a fair assumption, yes.

13 CHAIRMAN GLEIMAN: And that is the only rate they
14 are talking about?

15 THE WITNESS: In terms of stabilizing rates, I
16 don't know if it is the only rate they are talking about but
17 it has traditionally been the guideline of what the Postal
18 Service rate changes are.

19 CHAIRMAN GLEIMAN: I have about a zillion-and-a-
20 half questions but my colleagues have some to, so I will
21 wait for my next go-round.

22 PRESIDING OFFICER QUICK: Commissioner Haley.

23 COMMISSIONER HALEY: Thank you.

24 Good morning, Mr. Lyons.

25 THE WITNESS: Good morning.

1 COMMISSIONER HALEY: I would like to discuss with
2 you what happens in rural Post Offices. I am sure that you
3 are aware that rural Post Offices have a long tradition as
4 meeting places in many instances and provide a sense of
5 community for many small towns. Certainly that is true of
6 the little town in which I was born and many others that I
7 know, and still is that, as a matter of fact.

8 What kind of impact do you think that the 100
9 percent increase on these Post Office boxes is going to have
10 on little towns?

11 THE WITNESS: Okay, in terms of the impact, I
12 mean, you can talk about -- I mean, the quantitative, which
13 I just did a little bit with mister -- Chairman Gleiman.
14 But I realize what you are asking is more than that. I
15 mean, it is a substantial increase and there is some concern
16 about what the impact is.

17 It is, there is -- I mean, we expect that most of
18 the box customers will be there. We expect there could be
19 some -- I mean, some -- at least in the temporary distress
20 over the -- I'm not going to sugar coat it and say you can
21 say it's \$8 from \$16. It's -- that's a 100 percent
22 increase. It is only 67 cents a month. It is a relatively
23 small part of what people -- even incomes for most
24 individuals.

25 But, nevertheless, it is an emotional issue. I

1 don't think that it will necessarily change the fabric of
2 what the rural Post Office means. Our view in doing this
3 was not to change the fabric. I mean, we recognize and I
4 indicated in my testimony the public policy aspects of what
5 we do. At the same time, it is a fine line. These are
6 difficult situations or decisions for us ^{and} ~~in~~ the Postal Rate
7 Commission. We don't want to undermine the fabric of Postal
8 Services here but, at the same time, we need to place these
9 services on a more sound cost footing, in this case on Post
10 Office boxes, to better reflect the cost of providing the
11 service and we need to better reflect in terms of -- which
12 was the case here.

13 I don't think -- after that, though, I think it
14 will affect -- there will be some immediate concern on the
15 part of the customers. They will talk to our postmasters
16 about it and there will be some concern there.

17 Do I think that it will change the basic nature of
18 rural Post Offices? No, I don't. I think it will cause
19 maybe a little distress at least on a temporary basis among
20 some of the discussion between the Postal officials there
21 and the customers. We think we provide a real value.

22 But, nevertheless, those kind of increases aren't
23 something that will be taken lightly.

24 COMMISSIONER HALEY: I am curious about that. You
25 said that they will start talking to the postmasters about

1 it, of course.

2 THE WITNESS: Yes.

3 COMMISSIONER HALEY: Has there been any discussion
4 with some of the people, I am just curious now about the
5 little towns, in your proposal here?

6 THE WITNESS: Okay, we have had some discussions
7 and I realize that NAPUS has intervened who certainly
8 represents many of the small town postmasters. There have
9 been discussions. I talked to several small town postmaster
10 groups. They have indicated, you know, some of them have
11 indicated their concern regarding this. So we had
12 discussions with some postmasters ahead of time and they
13 have indicated their concern about the customers. At the
14 same time, as part of market research, we have gone out and
15 talked to the customers through the market research process
16 and, not to say that our postmasters aren't the people,
17 particularly in the rural areas, that are closest to the
18 employees -- I mean, not the employees -- well, they are
19 closest to the employees, obviously -- but closest to the
20 customers, but we have done some market research to talk to
21 the customers and part of the market research process is to
22 wade through the sort of distress levels.

23 I think, effectively, they asked the question what
24 would you do and everyone, the first reaction is always, and
25 this is a gross oversimplification, and I think Witness

1 Ellard can elaborate on it, is a very negative one. But
2 once you start laying out the options of what would you do,
3 would you go back to residential delivery, would you try to
4 find an alternative if it is available. The more they think
5 about that, their response changes.

6 They may not welcome a price increase, ^{Even} ~~even~~ if I
7 feel it is justified, I am not too gung ho, even with my
8 First Class postage rate increases. I mean, on a personal
9 basis, it means I have to buy new stamps and everything
10 else.

11 But all that is to say that we think most
12 customers will still be able to use the Group 2 boxes but
13 there will be some loss.

14 COMMISSIONER HALEY: Very well.

15 One other question I would like to ask. You
16 responded somewhat to this question but I would like to ask
17 it again.

18 Did any of the Service's survey work that you have
19 talked about specifically ask current nonresidents about
20 their reaction to the proposed nonresident fee? If not, how
21 does the service reliably determine the expected volume
22 changes from the introduction of the nonresident fee?

23 THE WITNESS: Okay, what we did in effect is that
24 we asked such a broad range of price increases, we did ask
25 to delineate the residents from the nonresidents. In the

1 ^{range}~~rage~~ of price -- we didn't say would you pay for a \$36
2 surcharge as a nonresident, but we did -- we were able to
3 pull off the response rates of nonresidents to higher price
4 increases so, effectively, we do have their response. We
5 didn't call it a nonresident surcharge but, in essence, we
6 asked the nonresidents, we asked everyone, here is a range
7 of prices. Would you be willing to accept. And the
8 nonresidents were picked up in the higher ranges of prices,
9 the surcharge amount. We didn't call it a surcharge but we
10 did ask for higher prices and gauged their response to that.

11 COMMISSIONER HALEY: Okay. Thank you.

12 THE WITNESS: I'm sorry. It's just I think a
13 percentage drop-off of nonresidents reflects that, that more
14 of them on a percentage basis will not be -- will respond to
15 the price changes.

16 COMMISSIONER HALEY: Very well. Thank you.

17 PRESIDING OFFICER QUICK: Mr. Lyons, as I
18 understand it, when the Postal Service provides delivery to
19 a residence, it incurs significant annual cost. Many
20 customers who have Post Office boxes receive no delivery at
21 their residence from carriers and, thus, they save the
22 Postal Service more money than it costs to provide them box
23 service.

24 Presuming it is cheaper to serve a customer
25 through a box rather than a carrier, should this have any

1 bearing on the markup for box rents?

2 THE WITNESS: Conceivably it could. Our markup
3 for box rents is still a smaller -- is smaller than the
4 system average. There is implicitly some savings when that
5 occurs. The issue is, how often does that occur that people
6 do not have dual delivery. In particular, our instructions
7 say that, you know, we deliver to the address on the mail
8 piece. So if -- I am not going to say that in rural areas a
9 local postmaster says, well, gee, this is going to Route 2,
10 Customer 301. Rather than give it to the rural route -- the
11 rural carrier, I am going to put it in their box. I am not
12 going to say that doesn't happen but, normally, the normal
13 circumstances say that should be delivered to the -- as
14 addressed, which are our requirements.

15 So I am saying, yes, there is a savings when all
16 of that mail does go to the box customer and none goes to
17 the carrier customer. I'm sorry, not to the box, to the
18 customer at his or her box as opposed to their residential
19 delivery or business delivery address.

20 PRESIDING OFFICER QUICK: Should that have a
21 bearing on the markup?

22 THE WITNESS: Conceivably it should but to the
23 degree that you can gauge how much savings does occur. At
24 the same time, you've got to be careful with those kind of
25 arguments. If it is cheaper to deliver it in that fashion,

1 that implies that, you know, maybe there are inducements,
2 maybe we should encourage our customers to go to CMRAs if
3 we're much -- you know, if it really results in a savings in
4 delivery.

5 And just saying it is -- it does result in a
6 savings and it can be taken into account to the degree it
7 fully occurs but I am leery of extending that logic too far.
8 It implies, you know, various price changes in terms of
9 maybe do we price Post Office boxes below cost, do we
10 encourage people to go to CMRAs to reduce -- to reduce our
11 total delivery cost?

12 I am saying I understand the argument and it could
13 serve to mitigate the cost coverage slightly but I would be
14 wary of going too far with that logic.

15 PRESIDING OFFICER QUICK: Thank you.

16 In the response to the POIR Number 3, question 3,
17 it is stated, "The Postal Service's proposed box fee
18 structure retains the historical starting point, the type of
19 carrier delivery an office provides."

20 Does the type of carrier delivery an office
21 provides mean the type of carrier delivery originating from
22 the office or the type of carrier deliveries some customers
23 domiciled within a specific office's zip code receive?

24 THE WITNESS: Okay, that will be more the
25 implementation issue. For purposes of our analysis and

1 stuff, we have been using the type of carrier, you know,
2 type of mail where the carrier is domiciled. But, for
3 instance, as I indicated in response to a Presiding Officer
4 request, we have a Group 3 office so -- the new proposal
5 under Group E which says you have no delivery, that office
6 is still Group E but if that customer gets delivery from
7 another office, then in that case, while that office may be
8 technically in Group E, those customers are group customers,
9 may be charged the rate appropriate for a Group 2
10 customer -- I'm sorry, Group 2 -- a Group D Post Office.

11 The basic starting point is where the carrier
12 comes from but if you are really doing it on the basis of
13 what carrier service they get and the more we get into it
14 you will do it on -- you know, for the most part, it is -- I
15 will step back.

16 For the most part, if you've got a Group 2 office
17 with rural carrier delivery, obviously those customers are
18 getting that. I think the real issue comes in these Group 3
19 situations, the Group 2 versus Group 3 where you've got a
20 carrier, a customer whose office doesn't have a carrier
21 emanating out of it but, nevertheless they can get rural
22 delivery from another office.

23 PRESIDING OFFICER QUICK: You mentioned this was
24 an implementation issue so should I ask this again to one of
25 the other witnesses in particular or persist -- your

1 response is fine. But is there somebody else who is going
2 to be dealing with these implementation issues?

3 THE WITNESS: Well, there are implementation -- I
4 think I responded to that and said, in one of my responses
5 that said, okay, the office technically is a Group E but, in
6 that case, if they are provided carrier delivery from
7 another office, we would presume they would be charged with
8 the box associated with that form of carrier delivery in
9 terms of a Group D office.

10 PRESIDING OFFICER QUICK: OKay. Let me turn to
11 postcards. The Postal Service has provided costs for the
12 postcards it purchases, and they amount to something in
13 excess of 1 cent per piece.

14 My observation over the years, except for recent
15 years, is that all Postal cards are the same and that they
16 are extremely simple and plain. In fact, one could argue
17 that they might have been designed to minimize production
18 costs, given some processing requirements.

19 Recently, however, I've noticed that some
20 variations are available and that some of the cards are
21 printed in color. This makes me wonder if all the cards
22 cost the same. It seems possible that making the cards in
23 color without special -- or with a special indicia on them
24 would cost more.

25 My question is if the basic cards are still

1 available and if you could de-average the card cost
2 presented in this case and provide a cost for the simplest
3 card possible and illustrate how much extra it costs to do
4 some fancy things like print them in color. Would this be
5 possible? This is an example of one with the color.

6 THE WITNESS: Yes.

7 PRESIDING OFFICER QUICK: I mean, you've seen
8 them. But they used to be very pedestrian looking. I mean,
9 they all looked the same. Is it possible to de-average them
10 and would that have any useful effect?

11 THE WITNESS: Okay. The answer is, I don't know
12 off-hand if we can de-average it. I understand your
13 assumption and the more elaborate cards intuitively to me
14 seem like they would cost more, and I think that's
15 reasonable. If the cards that have more color, that are
16 more attractive, easier to use, apply more value to it, then
17 I think that's a reasonable thing to consider --

18 PRESIDING OFFICER QUICK: And if somebody wants
19 the plain old pedestrian kind, should they be able to get
20 them for less than these ones with nice color on them?

21 THE WITNESS: I think that's something very
22 reasonable to investigate. In terms of we're talking about
23 in the context here of being more demand value oriented, I
24 fully agree that's a reasonable thing to look at.

25 PRESIDING OFFICER QUICK: Okay. Let me ask a

1 question of Mr. Ruderman, if I could. And I don't want to
2 pin you down completely, but so far in what you have heard,
3 do you anticipate extensive follow-up cross examination?

4 MR. RUDERMAN: I have about three questions I
5 would like to --

6 PRESIDING OFFICER QUICK: Okay. That's all I
7 needed to know.

8 MR. RUDERMAN: Three or four.

9 PRESIDING OFFICER QUICK: I think we'll proceed --
10 I'm going to break my rule the first day, and I think we're
11 going to proceed with Mr. Lyons here and take the Chairman's
12 questions and then see if we have others here and proceed,
13 because I'm sure he would just as soon not have to come back
14 this afternoon, if possible.

15 MR. RUDERMAN: Okay. Give me about ten seconds to
16 consult with my colleague here.

17 PRESIDING OFFICER QUICK: Okay.

18 [Counsel conferring off the record.]

19 MR. RUDERMAN: No.

20 PRESIDING OFFICER QUICK: Okay. Thank you.
21 Because I think we'll proceed and see if we can wind up.
22 Maybe we can. If Mr. Lyons -- maybe he has had some
23 interesting, provocative thoughts here this morning that
24 he'd like to go back and think about this afternoon, or
25 maybe he'd like to go watch the water in the river or

1 something, whatever. If you're comfortable, can we.

2 THE WITNESS: I'd prefer, yes. While I certainly
3 enjoy the pleasure of the company here, I'd just as soon to
4 finish up when I could.

5 PRESIDING OFFICER QUICK: All right. Chairman
6 Gleiman, continue, please.

7 CHAIRMAN GLEIMAN: Thank you. I'll try not to
8 keep people here too long.

9 In your testimony, when you were talking about the
10 increased rate for certified mail and the increased rate for
11 the enhanced return receipt service, you indicated at one
12 point something to the effect that this doesn't violate the
13 basic principles of fairness and equity and it's certainly
14 reasonable because it's only going to cost the average
15 household \$2.40 a year for using certified mail and return
16 receipt jointly.

17 You don't mean to say by offering up that 2.40,
18 \$2.40 figure, that that's what households spend? Isn't this
19 stuff really very heavily weighted in certain users? I
20 mean, this is not a service that's used widely by the
21 masses, is it?

22 THE WITNESS: I mean, it's used to a certain
23 degree. I wouldn't say the masses don't use it. I use it
24 some, for instance, and I learned, when someone stole my
25 license plate and accumulated parking tickets, never to send

1 my rebuttal to my parking tickets to the District Traffic
2 Adjudication without a return receipt. I kept getting
3 notices indicating that they were going to further -- and I
4 kept calling them up and they said it was no problem, I
5 think, in terms of the level of prosecution that's going to
6 be brought upon me.

7 So all that, after that digression, is to say
8 people -- I use them. I know other individuals that do.
9 But I think if the question is, do certain industries that
10 need them for certain legal or proof requirements use them
11 more than others, the answer is yes to that.

12 CHAIRMAN GLEIMAN: By the way, I had a similar
13 experience, but with a car I donated.

14 THE WITNESS: Yes.

15 CHAIRMAN GLEIMAN: And the police kept taking the
16 VIN number off since it didn't have tags on it.

17 THE WITNESS: Someone stole my front license
18 plate, and you normally don't check your car for the front
19 license plate, you presume it's still there. And that
20 person was accumulating parking tickets on my behalf.

21 CHAIRMAN GLEIMAN: The joys of modern society.

22 THE WITNESS: Yes.

23 CHAIRMAN GLEIMAN: The reason I asked about the
24 \$2.40 was not only because I was kind of curious as to
25 whether that really was a reflection of who's going to get

1 hit with the increased fees here, but also because in
2 response to Commissioner Haley, you mentioned that, you
3 know, going from \$8 to \$16 on a mailbox rental fee is not so
4 onerous, and I think you threw out 67 cents a month --

5 THE WITNESS: Yes.

6 CHAIRMAN GLEIMAN: -- as the cost of that?

7 And you're right. I mean, 67 cents a month
8 doesn't seem like much.

9 Have you all done any calculations to figure out
10 how much this costs a particular community somewhere, a
11 congressional district, a state, one of the Postal Service
12 operating districts or region?

13 THE WITNESS: No, we haven't. We don't have that
14 kind of industry or geographic thing on an industry basis to
15 determine --

16 CHAIRMAN GLEIMAN: But you have a Zip Code
17 directory at Postal headquarters --

18 THE WITNESS: Yes.

19 CHAIRMAN GLEIMAN: -- and my recollection is, in
20 the back, it lists post offices and lists them by
21 classification and tells about the number of post office
22 boxes and all that?

23 THE WITNESS: Okay. In terms of number of post
24 office boxes, could we determine on a -- okay. I'm sorry, I
25 was focusing on certified in terms of trying to pull it out

1 by industry.

2 CHAIRMAN GLEIMAN: No, I'm sorry, I was talking
3 about -- I apologize. I was switching gears on you. I was
4 back to your response to Commissioner Haley about the
5 increase in post office box fees.

6 THE WITNESS: No, we haven't done that; but if
7 you're saying do we have the data broken out so that we can,
8 I think such analyses are possible to do.

9 CHAIRMAN GLEIMAN: Because I -- you're absolutely
10 right, 67 cents a month probably won't even be missed by
11 most people.

12 THE WITNESS: I did want to recognize I indicated
13 that it is a 100 percent increase and that it does feel
14 substantial. I don't want to sit there and dismiss it in
15 that regard, either.

16 CHAIRMAN GLEIMAN: No, I -- well, the reason I'm
17 bringing this up is because, you know, \$8 a year, you know,
18 is not going to break most people, although it could burden
19 some, I would suspect. On the other hand, you know, if
20 you've got a community, a rural community where you've got
21 lots of boxes that are going to go from \$8 to \$16, you could
22 be talking about taking out upwards of half a million,
23 three-quarters of a million dollars a year out of a rural
24 community's economy into the Postal Service coffers, and
25 that, you know, that could be significant when you come

1 right down to it.

2 A lot of people talk about the size of government
3 and government taxation and all without having a chance to
4 respond to it. If you're taking three-quarters of a million
5 dollars out of some Congressman's district or something like
6 that, that's a lot of money; or some state or whatever. I
7 just thought I'd put a different perspective on it.

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: On Presiding Officer's
10 Information Request Number 3, you were asked a question
11 about why you chose to do a special study on the return
12 receipt rather than use the costing that was available in
13 the CRA. We are still waiting for a response on that one, I
14 take it?

15 THE WITNESS: Was that -- I think that was
16 responded to on Friday; is that correct?

17 CHAIRMAN GLEIMAN: That will teach me to leave the
18 office early.

19 MR. RUBIN: I believe Witness Patelunas -- no, was
20 it Witness Lyons provided a response on Friday.

21 CHAIRMAN GLEIMAN: I'm sorry? Whom?

22 MR. RUBIN: Witness Lyons.

23 CHAIRMAN GLEIMAN: Okay, thank you.

24 The finger point didn't register with the court
25 reporter.

1 THE WITNESS: I was impressed once by a court
2 reporter who got my quotes around something when I did my
3 fingers like this --

4 [Indicating.]

5 THE WITNESS: -- and I thought to myself a minute
6 later how stupid could I be, which people probably think all
7 the time here. But, nevertheless, the reporter managed to
8 get the quotes the next day in the transcript.

9 CHAIRMAN GLEIMAN: Quite in contrary, quite the
10 contrary. There have been occasions when we might have
11 thought that about a witness but the times are few and far
12 between. Very few and far between. We have a great deal of
13 respect for the knowledge and understanding and the purpose
14 of most of the witnesses who are here.

15 I am not sure you are the one to ask but I am
16 going to ask it anyway, when you were doing the elasticities
17 on Registered and Certified Mail, did you use different
18 regression analyses than were used in R-94 and is there some
19 type of methodological change that has taken place, do you
20 know? Or shall I ask someone else?

21 THE WITNESS: I probably need to research that.
22 It is not something that I know directly of. I don't think
23 that there were substantial methodological changes. There
24 was a problem brought up in, I believe the Commission did in
25 one of the Presiding Officer Requests, was a technical error

1 that we made on I believe Registered that the change wasn't
2 substantial but nevertheless it was an error and we made the
3 change to it.

4 Other than that, I don't think that there were
5 major methodological changes but I would like to -- one of
6 the things I should check back and get to you with.

7 CHAIRMAN GLEIMAN: Well, it seems to some of us
8 that there may have been some changes in the regression
9 equations used and this relates to Library Reference 135,
10 which doesn't have a sponsor, which occasionally causes some
11 problems for us.

12 THE WITNESS: Let me -- I will go back and as part
13 of one of my homework assignments and look to see what's
14 changed on that.

15 CHAIRMAN GLEIMAN: I appreciate it.

16 Some of these are going to be mildly repetitive
17 but the slant on them is slightly different so I apologize
18 for keeping everybody a little longer but I think there is a
19 purpose in asking them a slightly different way.

20 Postal Service's proposal for box rentals appears
21 to treat similarly situated mailers differently. People who
22 are not eligible for any form of delivery in Category A, B,
23 C and D Post Offices have to pay a fee for their boxes while
24 people who are served by some contract offices pay no fees.

25 In fact, if you receive no delivery and are served

1 by a contract office that is administered by a Group 1
2 office, you have to pay a fee for your box even though you
3 get no delivery and if you are served by a contract office
4 that is administered by a Group 2 office, as we discussed
5 before, you are going to pay no fee, perhaps.

6 I was wondering if you were going to discuss the
7 fairness and equity of how these similarly situated people,
8 of these similarly situated people being treated
9 differently.

10 THE WITNESS: Okay. What I will discuss, this is
11 an issue -- I mean, in the sense that we are trying to more
12 and more treat similarly situated people the same, we have
13 indicated that if you don't have, you know, permanently do
14 not have delivery particularly in the old Group 2, Group 3
15 offices, that you will be provided free delivery.

16 For instance, I had always presumed and I was a
17 special service witness a while back, that those Group 3
18 offices were nondelivery offices, when in fact they were
19 really like contract facilities and those people were not
20 being provided -- were being provided delivery at a nominal
21 charge of \$2 whereas people in rural areas who at least --
22 that was at a noncity delivery office, an office that did
23 not provide city delivery, it may not have provided any
24 delivery and they had no delivery, were in fact being
25 charged \$8 a year.

1 We are looking to rectify that situation so that
2 people out of those offices, that even though they don't
3 have -- effectively what we have got here, arguably, is we
4 have got a few customers in the current Group 2 offices that
5 while they are nonrural offices, they may not get any form
6 of delivery to them and they have arguably been
7 misclassified and we are going to try to rectify that
8 situation.

9 If you are saying can we fix everything at once,
10 the answer is probably not. We can begin to move toward
11 what we think is a more fair and equitable thing where we
12 can provide people in the very rural offices that we can
13 recognize as not having delivery free delivery. Can we
14 change it overnight? No.

15 The issue is regarding people living within a
16 quarter of a mile of an office right now, depending on the
17 implementation of how the local Post Office has that in
18 certain rural offices, they may not be provided delivery
19 and, in fact, they have to go to a Post Office and pay for a
20 Post Office box. We will see if we can deal with that issue
21 and make that more equitable.

22 As we have indicated, we have done a lot to gather
23 information on Post Office boxes that we didn't have before.
24 I think, you know, we have updated surveys and the like but
25 we don't have quite the information that you would like in

1 terms of when everyone is going to migrate.

2 So I guess what I am saying is, yeah, we are
3 trying to move it toward an equitable situation but there
4 are still arguably some things that we can't fix at this
5 time. A more equitable situation.

6 CHAIRMAN GLEIMAN: Why didn't you just try and
7 move -- correct the problems in the system first before
8 making the fee changes, proposing fee changes?

9 THE WITNESS: Because, arguably, you could have
10 done that. At the same time, you would still have this
11 imbalance where the Group 2 customers were paying well below
12 their cost and I am not sure when a good time is to make
13 that change. If not now, you know, when?

14 You can make these corrections or whatever. We
15 knew there were some issues in terms of getting who should
16 be paying the nominal or the free rates but we thought this
17 was as good a time as any to make what we felt was a needed
18 change.

19 CHAIRMAN GLEIMAN: There are other people paying
20 below their costs now for other services and products. They
21 are not in this case.

22 THE WITNESS: They are not in this case and at the
23 same time, though, the information was available, we
24 developed the information in respect to this.

25 It is -- I mean, there is never a good answer in

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1 terms of why did you change this thing and not change
2 something else. We knew there was a structural problem here
3 in terms of the fees, in terms of the administration of it
4 and also in terms of the cost basis for the Group 2 and this
5 seemed the best time to take care of that.

6 CHAIRMAN GLEIMAN: I quite frankly thought we were
7 going to see a parcel reclass case before we saw a special
8 services case and I am kind of surprised since there is
9 probably a lot more money involved in parcel reclass than
10 there is in special services. And it may not be any closer
11 to the bone, so to speak in terms of cost coverage than
12 these services are, Post Office boxes are. But I guess the
13 difference is that there are people who speak up for folks
14 who mail parcels and there perhaps aren't as many people who
15 speak up for folks who rent mailboxes around the country.

16 THE WITNESS: Having been involved in both, I'm
17 not sure that is quite the case. I think on the parcel
18 filing there's some, I mean in terms of one is when the
19 cases started off being developed and the other is the
20 issues involved and whatever else. It's not quite a matter
21 of that, I don't believe.

22 It's a matter of in terms of how to prepare a
23 parcel case to when the parcel case, the preparation started
24 for it and when we're able to do things in a manner we think
25 is appropriate to send to our Governors and presumably to

1 the Postal Rate Commission.

2 CHAIRMAN GLEIMAN: Your use of Mr. Ellard's data
3 on the acceptance rate for box rent increases is
4 interesting.

5 You take the midpoint between the survey accept
6 rate and 100 percent accept rate or, conversely, you seem to
7 half, as I mentioned before, the reject rate. In effect,
8 you judgmentally cut the reject rate in half to estimate the
9 volume impact of your proposal, and as a consequence you
10 double the increase in revenue by doing that.

11 Can you explain to me why you didn't cut it by a
12 third or 25 percent or, you know, is there something unique
13 with taking the midpoint between the survey and 100 percent?

14 THE WITNESS: There is in terms of unique I don't
15 think it's unique.

16 I think one of the things that happens in terms of
17 using market research is it's not a practice -- if you have
18 got market research where you think the data indicates an
19 overall trend but you are afraid it may be too much of a
20 worst case, you use that as a base point for the worst case
21 scenario, and the best case scenario would be there would be
22 no price change in terms of I have no reason to weigh the
23 best case or the worst case more than the other, the most
24 neutral assumption I can make is a 50 percent.

25 In other words, I can't if I have got a best case

1 scenario which says in the past two relatively substantial
2 increases, not necessarily the magnitude of the 100 percent
3 for Group 2, that there wasn't a drop off in post office box
4 volume.

5 I am just weighing that in my information, my
6 knowledge of the historical responses which Mr. Ellard's
7 research showed in terms of why one was weighted more than
8 the other. There was just the one is a best case versus a
9 worst case scenario.

10 I mean arguably you are saying if someone
11 judgmentally felt the worst case was twice as likely to
12 happen, you could weight that by twice as much. It's not a
13 quantifiable way to get back to weighing them equally.

14 CHAIRMAN GLEIMAN: Well, I guess I'm learning a
15 new lesson here and I'll apply it in future rate and
16 classification cases.

17 It is one that in the two and a half years that I
18 have been here that I have not seen. I mean I know that
19 different folks apply judgmental factors, I know that I had
20 a lengthy discussion about Dr. Tolley with respect to that,
21 but maybe this is as good as any if you don't like the
22 results or you think they are too optimistic or pessimistic
23 you just divide them by something that you decide to divide
24 them by.

25 Right? Why not a third? I mean, you know, the

1 100 percent from before was overly optimistic, wasn't it?
2 You know, you are talking about you thought the survey
3 results were a bit too pessimistic, as I understand you?

4 THE WITNESS: Yes, I think --

5 CHAIRMAN GLEIMAN: Isn't 100 percent too
6 optimistic?

7 THE WITNESS: Exactly, and that is why we chose
8 not to use 100 percent. I very much agree with that.

9 CHAIRMAN GLEIMAN: So halfway between whatever the
10 results are, if you think they might be too pessimistic and
11 nirvana is the number that you pick, that's how we do it?

12 THE WITNESS: Well, nirvana is an interesting way
13 of categorizing it, but it was a judgmental assumption, and
14 you can question it, which certainly you are.

15 CHAIRMAN GLEIMAN: Everybody is happy.

16 THE WITNESS: And nevertheless, I mean as you
17 indicated, even if you assume the most pessimistic, there's
18 still a positive change out of it, and I mean I laid out the
19 rationale for my assumption, but it's my judgment and my
20 assumption, and someone could offer other reasons why it
21 should be weighted equally and I would be interested to see.

22 CHAIRMAN GLEIMAN: Again, something that we talked
23 about a little bit before, but with a slightly different
24 bent, the \$340 million.

25 The Postal Service is supposed to be a break-even

1 enterprise and it is running a surplus and I guess the
2 question is why is it appropriate to raise this revenue very
3 selectively at this point in time?

4 THE WITNESS: Okay. The why is I mean in terms of
5 selectively, it is a real basic one in the sense that we
6 felt that appropriate changes to be made were still -- as
7 you say, we are running a surplus, but we are still at a
8 fairly substantial equity deficit and it is consistent with
9 that we felt there were appropriate price changes to be made
10 that were consistent.

11 CHAIRMAN GLEIMAN: But you told us that you can't
12 tag anybody special, anybody who's been around using the
13 Postal Service and its various and sundry services for the
14 past 25 years, that you can't tag any of them with being at
15 fault for the negative equity, and I guess my question is
16 why is it fair and equitable to now pick out a group of
17 people and tag them to pay for part of that equity, negative
18 equity, which you said, you know, can't really be tracked
19 and traced, as it were?

20 THE WITNESS: Okay. We said it was consistent
21 with that, and you're right. I wouldn't say they are being
22 tagged with recovering it explicitly, but yes, that will
23 provide that we are not laying the fault of the \$4.1 right
24 at their footsteps.

25 Nevertheless, there are appropriate price changes

1 to be made, and we felt that this was the time for it, and
2 the fact that we felt post office boxes are given the markup
3 for that and Certified Mail with the cost change that this
4 was the time to make those changes.

5 You are saying, well, why couldn't you do -- were
6 they targeted as opposed to anyone else? I wouldn't say
7 that, but we knew there were changes to be made and those
8 changes result in a positive net income which reduced the
9 equity loss.

10 I mean if it is a sense of like why did they go
11 first versus someone else, you know, in terms of data
12 selective, if the issue is more should it be selective or
13 always at once.

14 CHAIRMAN GLEIMAN: No, I know the law allows you
15 to be selective, or at least that is the way I read it, but
16 I just wonder why you have decided to be selective all of a
17 sudden.

18 THE WITNESS: I think in terms of why we have been
19 selective all of a sudden, there's one of the library
20 references is the Price Waterhouse report on net, you know,
21 deficit on the recovery of prior year losses, and one of the
22 recommendations they had targeted rate cases as a way of
23 dealing with that issue.

24 In fact, I mean in terms of does everything have
25 to be done, can we only raise equity through a general rate

1 case when we see there are specific things that can be done
2 or that require to be fixed, I think the issue is real
3 basic.

4 There was something that could be fixed and we
5 felt made better, and it was consistent with the recovery of
6 prior year losses.

7 CHAIRMAN GLEIMAN: Well, I don't want to beat a
8 dead horse. We have already established that at least two
9 of the biggest money makers in this package, there is no
10 real service change associated with them.

11 If we presume that the rates that were recently
12 accepted by the governors in ^{R94-1}~~our 1994~~ were fair and
13 equitable -- and I would assume that because I know the
14 governors would not accept something that wasn't fair and
15 equitable. We certainly wouldn't recommend anything that
16 was not fair and equitable. If each markup was evaluated in
17 that case against another markup and that is how we came up
18 with the concept of it being fair and equitable, why is it
19 now fair and equitable to change only some of them?

20 THE WITNESS: Why is it now when we have indicated
21 -- I mean, that ties back to the discussion in terms of the
22 appropriate baseline we had in one of our interrogatories in
23 terms of the appropriate baseline for what is the net
24 target.

25 Let me get back to this. I think I am digressing.

1 For several, I think, cases we have indicated some
2 concern regarding post office boxes and certified mail and
3 the pricing level of those. Are those fair and equitable
4 under the circumstances of our '94 rate case. It met the
5 governors' -- I mean, it did adopt the rates with regard to
6 that. Does it mean that those prices are set in stone or
7 concrete and can't be change and you can't go back and
8 reevaluate that at some given time. I do not think that is
9 the case.

10 I think given the context and what we are trying
11 to accomplish in the R-94 rate case, what was determined at
12 that point was not unfair and unreasonable. Going back and
13 looking at relationships which we have indicated for a
14 period of time we have concern about in this case, post
15 office box, certified, too, you mentioned, it is not that we
16 have changed all of a sudden and said, gee, we have a
17 totally different view toward certified or post office
18 boxes. I think it is not inconsistent.

19 A certain set of rates are presumptively fair and
20 equitable at that time, but that does not mean you can go
21 back and reevaluate them with a slightly different context
22 or with new data.

23 CHAIRMAN GLEIMAN: Well, it is the markups that
24 are the problems, I guess. Is it reasonable to assume that
25 the Postal Service is now moving in the direction of having

1 markups that have the system-wide average for all services
2 and fields?

3 THE WITNESS: No, when we use that as a benchmark,
4 it is reasonable to assume that, in these cases, what we
5 were doing is, those services of post office boxes and
6 certified which we believe to be relatively valuable had
7 markups much less than the system average. We did not say
8 anything, that all services should be moved up to the
9 system-wide average. we were focusing on these and their
10 relative value to customers. We felt consistent with the
11 value-service criteria that indicated at the very least,
12 they should be moving more towards the system-wide average.

13 That is not to say -- I mean, if everything is the
14 system-wide average, then everything is. I do not think
15 that is our proposal at all. We think there should be some
16 variations. We think absent other circumstances, things at
17 relative high value should, at the very least, have very,
18 very low markups. I realize there are circumstances where
19 my former -- where I was a pricing witness where I even
20 elucidated where those circumstances are and where you have
21 major rate increase that sort of lead back here.

22 Typically, those services with higher value have
23 tended to have markups that approach or exceed the system-
24 wide average. That is not always the case for a variety of
25 reasons. If the costs were increased for a classification

1 by 50 percent and the only way we could provide the markup,
2 which is a traditional, historical markup was a cost
3 increase of 50 percent. We determined the impact would be
4 too severe on the customers using it. Then we may mitigate
5 that and hold it below the system-wide average.

6 As a whole, things of relative high value, it is
7 an indication that their markup should not be one of the
8 lowest.

9 CHAIRMAN GLEIMAN: Could you define high value for
10 me the way you are using it?

11 THE WITNESS: High value is traditionally the
12 value of -- to go back, it is the value to the sender or the
13 recipient in terms of the level of -- value is what does it
14 provide in this case, sort of intrinsic value as opposed to
15 other mail services as opposed to competitive offerings.
16 You know, where to provide it by having that kind of
17 service. The fact that it is a special service, it is
18 providing you something over and above the traditional
19 Postal Service products. The fact that with these services,
20 you are getting something enhanced, be it proof of delivery,
21 be it delivery at a certain time and location to your
22 choosing, is of value.

23 CHAIRMAN GLEIMAN: I take it, you think it is fair,
24 / a reasonable and equitable to increase rates on several
25 categories now in the interest of holding off rate increase

1 for everybody else or by reducing prior year losses, that
2 everybody else will have to pay as a result of whatever
3 provision is put into the next omnibus rate case?

4 THE WITNESS: Well, I would not quite state it
5 that way. We looked at those price changes for the various
6 services and they were fair and equitable. One of the
7 benefits of them is that they, in fact, do provide a
8 recovery of prior year losses. I would not want to
9 categorize it in the sense that we want to put on the
10 shoulders of the special service customers the job of
11 holding off rate increase. I think providing what we
12 proposed here, a reasonable price, is fair in equitable in
13 that sense.

14 One of the manifestations of it is that it does
15 restore -- recover prior year loss recovery. That is
16 certainly a benefit consistent with Postal Service policy,
17 the Board of Governors' policy statement.

18 CHAIRMAN GLEIMAN: Well, I don't have any more
19 questions. I do have an observation.

20 I suspect if we approve this case and it could be
21 put into effect immediately, next year at Postal Service
22 headquarters would be patting themselves on the back for
23 having a surplus of X plus \$340 million. Be that as it may,
24 that is the nature of the beast.

25 Thank you. I apologize for keeping you all so

1 long.

2 PRESIDING OFFICER QUICK: Any further questions
3 from the bench? Are you sure? We have had enough?

4 Okay, then the participant have follow up cross.

5 FURTHER CROSS EXAMINATION

6 BY MR. RUDERMAN:

7 Q In response to a question from Mr. Quick, you
8 indicated there would be an addition to a list of
9 implementation items with the cards to non-resident
10 surcharge and who it would apply to. Are you keeping a list
11 of implementation items?

12 A Implementation items?

13 I recall the response with Commissioner Quick was
14 related to the issue with the cards in terms of if you were
15 able to separate the different value of -- in terms of the
16 different kinds of cards. He was giving an example of
17 those that were more colorful and more attractive. If you
18 are able to separate the costs and that would be worthy of
19 different pricing and I indicated that I thought it was --

20 Q Maybe I misspoke.

21 MR CARLSON: You indicated what?

22 THE WITNESS: I indicated that would certainly be
23 worthy of additional consideration. I agreed with
24 Commissioner Quick on that.

25 BY MR. RUDERMAN:

1 Q Are you keeping a list of implementation items
2 with regard to a non-resident surcharge and determined
3 residencies.

4 A Yes, we are working toward -- we will have a part
5 group working on implementation that will be working with
6 these kinds of issues and a variety of others that will come
7 up.

8 Q Do you have a list as of this moment?

9 A Do I have a list? I don't have a formal list. I
10 have -- through various discovery and comments we have
11 received, we know a variety of items here. Also, we will
12 have a group of people knowledgeable in the area, including
13 postmasters from a variety of size offices, including postal
14 people from headquarters knowledgeable in the area sit down
15 and go through these precise implementation issues.

16 Q If you have such a list at this time of issues
17 that have to be resolved to with regard implementing the
18 non-resident surcharge, could you please furnish it at a
19 later date?

20 A If we have such a list, we will be glad to. I
21 have not seen a formal list, but I will be glad to look.

22 Q In response to a question from Chairman Gleiman,
23 you indicated that you saw the \$339 million in some sort of
24 schedule or projection with regard to \$1 billion. Do you
25 remember your statement?

1 A I remember the discussion with Chairman Gleiman,
2 yes.

3 Q Did you indicate that you saw the \$339 million in
4 some sort of a list of projections or something along that
5 line?

6 A I know I have seen it, you know, the different
7 ways of benefiting the Postal Service and Chairman Gleiman
8 alluded to discussions and speeches that he said could
9 generate a billion more in revenue and a billion in cost
10 savings. I have seen it in that context, discussed along
11 with other kinds of pricing proposals that we have. I have
12 seen it in that context.

13 Do you mean, do I see in a list of where we are
14 going to sell this amount or reduce costs by this amount? I
15 don't recall that kind of specific list.

16 Q Do you have any projections on where you are going
17 to raise this billion dollars that includes the \$339
18 million?

19 A I don't think I said -- I think it was exclusive
20 of that, the general overall sales goal. I think I finally
21 concluded it was exclusive of that. I don't have a list of
22 where the billion specifically comes from in additional
23 sales.

24 Q Last couple questions.

25 On stamped cards, you have proposed a separate

1 markup on the manufacturing cost; is that correct?

2 A I think that is how we are handling it, yes, in
3 terms of that, is to separate out the manufacturing cost and
4 treat that separate.

5 Q For return receipts, you have merged the cost of
6 the new address with the basic service and came up with a
7 combined cost coverage; is that correct?

8 A We have merged -- well, we've got -- we have, in
9 essence, we used to have two products and now we have one
10 product and so that one product has a single cost coverage,
11 if you will. I wouldn't say it is a combined cost coverage.

12 Q All right. If you separate these two different
13 features, one, the new address feature, what would the
14 markup be for the new address feature by itself?

15 A I don't think you can. I don't know off hand what
16 it would be and I am not sure. I mean, maybe you can but I
17 don't know what that would be, off hand.

18 Q If you could do it, could you provide that at a
19 later time?

20 Is the answer yes?

21 A Well, if we can do it, we will -- we will provide
22 it, yes.

23 Q All right, you will let us know.

24 A Um-hum.

25 MR. RUDERMAN: That completes the followup.

1 PRESIDING OFFICER QUICK: Unless there is any
2 further followup cross-examination, that takes us to
3 redirect.

4 Mr. Rubin, would you like an opportunity to
5 consult with your witness before stating whether redirect
6 testimony would be necessary?

7 MR. RUBIN: Yes, I would. I think I would like 10
8 minutes to prepare.

9 PRESIDING OFFICER QUICK: We will do 10 minutes
10 and come back and let Mr. Lyons go home or go wherever he
11 goes.

12 THE WITNESS: It won't be home.

13 [Laughter.]

14 PRESIDING OFFICER QUICK: All right, we will
15 reconvene in 10 minutes, hopefully for a short time.

16 THE WITNESS: Thank you.

17 [Recess.]

18 PRESIDING OFFICER QUICK: Mr. Rubin, are you
19 prepared to continue now?

20 MR. RUBIN: Yes.

21 PRESIDING OFFICER QUICK: Okay. Go right ahead.

22 REDIRECT EXAMINATION

23 BY MR. RUBIN:

24 Q Both Chairman Gleiman and Commissioner Haley
25 raised concerns about increased fees for customers that

1 could be \$8 to \$16 or even \$2 to \$16.

2 Did these increases only apply to customers who
3 are eligible for carrier delivery?

4 A That's correct. It would only apply to those
5 customers that are eligible for carrier delivery and have a
6 free alternative otherwise, so in that sense they are not
7 being required to take the burden of an increase
8 necessarily.

9 They do have an alternative that is free and in
10 those instances where there is no free alternative we
11 propose to start to the degree that we can identify it, that
12 we will make, for instance, the \$2 fee would become zero,
13 and we think, so that those customers would have a free
14 alternative also.

15 Q And for the customers who are eligible for carrier
16 delivery and are moving to \$16, wouldn't these increases
17 leave them well below other customers who are eligible for
18 delivery, such as in Groups A, B and C?

19 A Yes. They would still be, they would be paying,
20 you know, very much below, less than half of the other
21 customers eligible for carrier delivery.

22 Q Now you have stated that the Postal Service is
23 moving in the direction of equity with respect to customers
24 who are not eligible for delivery, is that right?

25 A That's correct.

1 Q Would you agree that the Postal Service is also
2 moving in the direction of equity for customers who are
3 eligible for delivery?

4 A That is very much so. The customers being --
5 customers who would be paying closer to the same fee for the
6 same kind of, roughly the same kind of service. I think
7 that is much more equitable, as opposed to where you have
8 these huge disparate differences in the price being provided
9 for a similar service.

10 Q The impression may have been left during
11 discussions with Chairman Gleiman that you agree that our
12 proposal for post office boxes is simply a fee increase.

13 Do you agree with that?

14 A Well, I don't agree that it is simply a fee
15 increase. We have done some major structural changes in
16 terms of how we have the prices better reflect the costs,
17 and that is essentially -- we have done a lot of structural
18 changes in terms of the costing of that within the category
19 of post office boxes and we have done the price changes to
20 reflect that, and I think that is more than merely a fee
21 increase. That is a major structural change in the pricing
22 of the service.

23 Q Chairman Gleiman also asked you about service
24 enhancements for certified mail and return receipts.

25 Is there another witness in this case that has

1 addressed that area?

2 A Okay, there is. I was talking in the context of
3 and I understood the question to be in terms of what has
4 been in a specific, explicit classification change in this
5 case, and Witness Needham in her testimony addresses the
6 changes we have made to Certified and post office box
7 service, to enhance those services over the recent past.

8 Q Chairman Gleiman also asked you about the
9 distinction between the Postal Service's philosophy in
10 Docket Number MC95-1 and its philosophy in this case.

11 Would you care to elaborate on what is going on in
12 this area?

13 A Okay. For one, I mean in one sense the earlier
14 classification cases came pretty much on the heels of the
15 regular omnibus case and he was talking about and we were
16 focusing on the price changes or pricing -- those kind of
17 changes involved to reflect the cost within service.

18 We have done the same thing here but it is on a
19 much more focused basis whereas the others cut across First,
20 Second, and Third Class mail, we focused here on these
21 classifications and in that focus we have examined not only
22 the rates themselves but the rate level and changes that
23 needed to be made or recognized changes for awhile, and in
24 that sense where you are focusing on a specific, relatively
25 narrow area, it is earlier to make those kinds of

1 determinations and make those changes.

2 Q Chairman Gleiman also raised questions about your
3 approach in cutting back the price sensitivity estimates
4 that Witness Ellard provided.

5 What reasons did you have for using the midpoint
6 analysis for that?

7 A Okay. For the midpoint analysis, in the past when
8 we had raised fees and as I indicated but I wanted to
9 reiterate, when we had raised fees for post office boxes and
10 we had substantial fee increases of 25 and 30 percent where
11 one might expect the volume to decline, there is no such
12 decline in volume and if you track over the different rate
13 cases, volume for post office boxes themselves, the number
14 of rented boxes, have in fact increased significantly
15 between every case, so that was my basis of saying at the
16 optimistic scenario is that you would have no decline in
17 volume based on the past history -- our past history with
18 fee increases.

19 So essentially that was the optimistic scenario,
20 and I weighted that with the more conservative, pessimistic
21 scenario, which was the market research, and I weighted
22 those equally and arrived at the conclusion that I did.

23 Q When you pointed out that Group 2 fees are not
24 covering their costs, Chairman Gleiman raised the point that
25 there are other services that are not covering their costs.

1 Do you know about what percentage of costs Group
2 2, box-holders, are covering?

3 A I think roughly now they are covering one-third of
4 their costs, and that, if you want to compare that to some
5 of the others that are in question here, I mean the
6 magnitude of the cost coverage difference is much, much
7 different. I am not aware of any service that has anything
8 like that where they are only covering a third of the cost,
9 which is the case for Group 2.

10 Even our proposal does not totally rectify that.
11 It just moves it more in the direction, more toward two-
12 thirds of the cost.

13 And we do that based on the mitigation of the
14 impact. To try to do that at one fell swoop is a pretty
15 substantial increase and that ties into the discussion I had
16 with Commissioner Haley in terms of the balancing of the
17 effect of that, the effect on the rural communities there.

18 Q Chairman Gleiman raised equity concerns about
19 hitting the special services that are at issue in this case
20 to provide some general benefits for the Postal Service.
21 Could that concern be taken account of in future cases when
22 we are evaluating these special services?

23 A Definitely so, in terms of the catch-up needed for
24 these services to the degree that it's placed -- you know,
25 that they've incurred these kind of increases and to the

1 catch-up that's involved, it means there is that much less
2 of an adjustment that would be needed in the future. So I
3 think, to the degree that it implies that all the burden is
4 placed on them, it places them in a better position for
5 mitigation of future increases by doing a good -- by
6 catching up with a lot of what is needed here.

7 Q Commissioner Quick asked you whether the Post
8 Office box markup should reflect the carrier cost savings
9 that box holders provide. Is this an issue that the
10 Commission has considered in the past?

11 A No, it isn't. I am not aware of that issue coming
12 up -- coming up before.

13 Q Do you remember in Docket Number R84-1, American
14 Bankers Association --

15 A Okay, now I remember in terms of the argument,
16 that issue has come up in the -- I'm getting tired, as you
17 can see -- the issue has come up and people have made those
18 arguments before. I mean, they have been dealt with and
19 felt that the real focus should be on the measured cost of
20 the service and that is the basis for considering the markup
21 as the measured cost of that service.

22 MR. RUBIN: Thank you, that is all I will ask.

23 PRESIDING OFFICER QUICK: Did the redirect
24 generate any further cross-exam -- re-examination, recross-
25 examination?

1 Chairman Gleiman?

2 THE WITNESS: I was afraid of that.

3 CHAIRMAN GLEIMAN: Well, I will try to make it as
4 quick as I can.

5 In our earlier exchanges you indicated that it was
6 really a fee change or a rate change in Post Office boxes
7 and now you have said, in response to a question on redirect
8 that, no, in fact there have been structural changes.

9 Do I understand you correctly that you say that
10 the structural change that has been made here is to have
11 fees that better reflect costs?

12 THE WITNESS: I think the structural change is one
13 to measure the cost between the different levels of service
14 and to have a better fix for the cost. And then once you
15 had a better idea of what the costs were, to have fees that
16 better reflect those costs.

17 CHAIRMAN GLEIMAN: Is that a rate consideration or
18 a reclassification consideration?

19 THE WITNESS: It is a rate consideration. Well, I
20 mean, the structures, we have in essence reorganized the fee
21 schedule itself but it is hard to draw a fine line between
22 what's a structural and what's a change.

23 I am saying it wasn't just us going in and saying,
24 let's raise the fees. We went to look and see what the cost
25 basis is for the fees.

1 CHAIRMAN GLEIMAN: Isn't that what you do in rate
2 cases? You look at the costs, you say the costs have
3 changed, sometimes you change the costing methodologies and
4 you file a rate case.

5 What is the difference between this --

6 THE WITNESS: You can do that in rate cases. You
7 do have things that are arguably rate changes and I mean
8 they just plain old will raise the rates X percent as
9 opposed to us going in and restructuring the -- redoing the
10 pricing structure to some degree.

11 CHAIRMAN GLEIMAN: If there was a rate case, an
12 omnibus rate case that came in and it didn't propose
13 anything, it was omnibus except with respect to Post Office
14 boxes, and one of the parties proposed to substitute the fee
15 schedule that you have proposed for what is in place now,
16 and I am prepared for your objection, Mr. Rubin, and I will
17 understand if you want to object, would you conclude and
18 argue against that party's proposal on the grounds that it
19 was a classification change which hadn't been proposed by
20 the Postal Service or would you argue it on rate grounds?

21 I realize it is asking for a legal conclusion and
22 I know that you are not in a position to draw those
23 conclusions and I'll just let the question stand without an
24 answer at this point because I think I have made my point.

25 You said, in response to another question on

1 redirect concerning my question about the change in
2 philosophy about passing on cost savings or savings that
3 were supposedly being driven out of the system that it was a
4 matter of timing in these cases, that other reclassification
5 cases came on the heels of an omnibus rate case.

6 When was this case filed?

7 THE WITNESS: This case here?

8 CHAIRMAN GLEIMAN: This case here.

9 THE WITNESS: This case was filed in early June, I
10 forget the precise date.

11 CHAIRMAN GLEIMAN: And when was MC96-2 filed?

12 THE WITNESS: MC96-2 was filed, I believe, in
13 early April.

14 CHAIRMAN GLEIMAN: And when was MC95-1 filed,
15 ballpark?

16 THE WITNESS: Let's see, if we got the decision
17 back in March -- I don't know, when was it? I'm thinking
18 back. It must have been in the spring --

19 CHAIRMAN GLEIMAN: In the spring of '95. Okay.

20 So, MC95-1 was probably on the heels but MC96-2
21 was on the heels of the last omnibus rate case or was it
22 pretty close to the filing of this --

23 THE WITNESS: It was close to the filing but MC96-
24 2 was, I mean, by the very nature of the price levels of the
25 overall price level of nonprofit mail by -- as specified in

1 law as tied into the price levels for the equivalent, the
2 closet equivalent commercial subclasses.

3 CHAIRMAN GLEIMAN: So the change in philosophy
4 took place, really MC96-2, MC96-2 was an extension of 95-1
5 and this is separate and distinct?

6 THE WITNESS: It is, in terms of it being separate
7 and distinct, I realize it is generating a net contribution
8 which the other cases didn't in terms of was there a
9 philosophy in the earlier case that that was the only way to
10 go was to be contribution neutral. It was appropriate under
11 those circumstances. It was believed to be maintain the
12 same contribution and do the changes that you're speaking
13 of.

14 I am not sure I can answer your question when we
15 did have this precise change in philosophy.

16 CHAIRMAN GLEIMAN: Well, it is enough to know that
17 there has been a change in philosophy, I think, actually.
18 And that now we don't care as much about driving costs out
19 of the system and giving a benefit to the folks who were
20 participating in the driving out but, rather, the benefits
21 will accrue to the community as a whole.

22 THE WITNESS: Well, I sort of -- I beg to disagree
23 with you on that in the sense that I think the nature of
24 special services and stuff as opposed to some of the other
25 classifications where, in those cases, you could -- where

1 the customers, given the ability, in terms of bar coding or
2 drop shipping or presorting, have the ability to drive out
3 more costs.

4 I am not totally sure in terms of mailing
5 Certified Mail or the like where the customer has the same
6 amount of ability to drive out costs and I think in the
7 future, when we have filings that more traditionally in the
8 like of proposals where there is additional work sharing
9 involved, I would hope the customers would be recognized
10 through the appropriate pricing mechanism for that.

11 CHAIRMAN GLEIMAN: The closest part of this case,
12 not to be argumentative, but the closest part of this case
13 to what was done in prior reclassification cases has to be
14 in the area of Return Receipt Requested, where you have gone
15 and modified the product and you, yourself, said that you
16 have lowered the high-end cost on this one and the benefit
17 is not accruing to the people who are going to be using that
18 service.

19 You can respond if you want. That is my
20 assessment of the situation.

21 With respect to the modification of Mr. Ellard's
22 survey results, you indicated that you chose the mid point
23 analysis because in the past, 25 to 30 percent indicated,
24 you know, that there would be a change and the change has
25 never materialized so you weighted the optimistic and the

1 pessimistic, the optimistic being 100 percent and the
2 pessimistic being Mr. Ellard's results that he achieved in
3 his surveys.

4 Is there any kind of statistical rule, is there
5 any kind of rule of thumb, is there any kind of mathematical
6 premise that says that when you have had one survey that
7 proves to be somewhat in error, that you take the mid point
8 between 100 percent and the new survey? Is there any rule
9 or is that just something you picked subjectively?

10 THE WITNESS: Apparently, I misstated. What I was
11 trying to say was when we had 25 and 30 percent rate
12 increases in the past.

13 CHAIRMAN GLEIMAN: I'm sorry, I misspoke and I
14 apologize. You did say that. You said 25 to 30 percent
15 rate increases and no changes, although the surveys
16 indicated there would be.

17 THE WITNESS: Well, we didn't have surveys. And I
18 think what I stated, again I might have misstated, is that
19 one might surmise based on a 25 to 30 percent increase that
20 you would have had a drop in volume.

21 We didn't do surveys at the time. We assumed --
22 we didn't have such surveys. I am saying that you could
23 have -- a reasonable person could certainly assume that 25,
24 30 percent increase you would have a reduced usage. That
25 kind of reduced usage never did materialize. That was the

1 point I was trying to make.

2 CHAIRMAN GLEIMAN: Did any kind of reduced usage
3 materialize?

4 THE WITNESS: No usage materialized. In fact,
5 Post Office box volume has increased subsequently between
6 every rate case.

7 CHAIRMAN GLEIMAN: So why didn't you just use 100
8 percent? Why didn't you just throw out the surveys with big
9 increases and got no negatives?

10 THE WITNESS: I recognize that, given the nature
11 of these increases, which were substantial, including the
12 Group 2 increases, that this is different than past history
13 and wanted to recognize there is some validity in looking at
14 past history. But these increases, the magnitude of them,
15 were certainly something worth looking at. And also to the
16 degree it is the first time we have surveyed it and it
17 provided important information out there that people had
18 indicated that they might not be willing to go along in
19 total with these increases in the future.

20 I certainly didn't want to throw out that kind of
21 information, given (a) the magnitude of the increases and
22 (b) that it was, I think, very useful data and legitimate
23 market research, good market research. I don't want to
24 ignore the results from that. I think it is important
25 information. I just don't have to consider it in its

1 totality as the only information I use.

2 CHAIRMAN GLEIMAN: You only want to ignore about a
3 quarter of it, I guess, is what it amounts to, since you did
4 a mid point between the results and 100 percent.

5 THE WITNESS: Yeah.

6 PRESIDING OFFICER QUICK: Any other further
7 comments, questions?

8 MR. RUBIN: I think I should take another minute
9 to consult with my witness on the need for any further
10 recross. I am hoping their won't be any, but --

11 PRESIDING OFFICER QUICK: A minute? You've got a
12 minute.

13 [Counsel conferring off the record.]

14 PRESIDING OFFICER QUICK: Mr. Rubin?

15 MR. RUBIN: We need no more redirect, thank you.

16 PRESIDING OFFICER QUICK: All right. Mr. Lyons,
17 thank you very much for bringing your experience and
18 knowledge to these proceedings and helping us, all parties
19 and us, understand the Postal Service's case.

20 If there is nothing further, you may be excused.

21 THE WITNESS: Thank you very much.

22 [Witness excused.]

23 PRESIDING OFFICER QUICK: And we will recess and
24 resume at -- I can't see that clock very well -- at 2:20, to
25 hear Mr. Patelunas. Thank you.

1 [Whereupon, at 1:20 p.m., the hearing was recessed
2 for lunch, to reconvene at 2:20 p.m., this same day.]
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AFTERNOON SESSION

[2:23 p.m.]

PRESIDING OFFICER QUICK: We will resume our hearing.

Ms. Duchek?

MS. DUCHEK: Thank you.

The Postal Service calls Richard Patelunas.

Presiding Officer Quick:

~~CHAIRMAN GLEIMAN:~~ Mr. Patelunas, would you rise and hold up your right hand.

Whereupon,

RICHARD PATELUNAS,
a witness, was called for examination by counsel for the Postal Service and, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MS. DUCHEK:

Q Mr. Patelunas, I have provided you with two copies of a document entitled Direct Testimony of Richard Patelunas on Behalf of United States Postal Service, designated as USPS T-5. Are you familiar with that document?

A Yes.

Q Was it prepared by you or under your supervision?

A Yes.

Q Does it contain the revised pages filed on July 1, August 7 and August 26, 1996?

1 A Yes.

2 Q If you were to testify orally today, would this
3 still be your testimony?

4 A Yes.

5 MS. DUCHEK: I am going to hand the reporter two
6 copies of the document entitled Direct Testimony of Richard
7 Patelunas on Behalf of the United States Postal Service,
8 designated as USPS T-5 and I ask that they be admitted into
9 evidence.

10 PRESIDING OFFICER QUICK: Are there any
11 objections.

12 [No response.]

13 PRESIDING OFFICER QUICK: Hearing none, his
14 testimony and exhibits are received into evidence. As is
15 our practice, they will not be transcribed.

16 [Exhibit No. USPS-T-5 was marked
17 for identification and received
18 into evidence.]

19 PRESIDING OFFICER QUICK: Is your witness
20 available for cross examination?

21 MS. DUCHEK: Yes, Commissioner Quick. I believe
22 you need to enter the designated written cross into the
23 record.

24 PRESIDING OFFICER QUICK: I know I do. I'm coming
25 to that.

1 Have you had an opportunity to examine the packet
2 of designated written cross examination that was made
3 available to you earlier this morning?

4 THE WITNESS: Yes, I did.

5 PRESIDING OFFICER QUICK: If these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: I have one edit to OCA USPS-T5-2.
9 It is a minor change. The interrogatory response is MC96-1
10 and it should be changed to 96-3. I have made the changes
11 in the packets.

12 PRESIDING OFFICER QUICK: All right and two copies
13 of the corrected, designated written cross examination of
14 Witness Patelunas will be given to the reporter. I direct
15 that it be accepted into evidence and transcribed into the
16 record at this point.

17 [The Corrected Designated Written
18 Cross-Examination of Richard
19 Patelunas was received into
20 evidence and transcribed into the
21 record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications


Docket No. MC96-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE WITNESS
RICHARD PATELUNAS
(USPS-T5)

The parties listed below have designated answers to interrogatories directed to witness Patelunas as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
American Bankers Association	ABA: Interrogatories T5-1-3
American Postal Workers Union, AFL-CIO	APWU: Interrogatories T5-1-2 T8-44(a) and 45 redirected from witness Needham
Office of the Consumer Advocate	OCA: Interrogatories T5-1-4, 10-12, 16-18 -23-24, 26-28, T4-2 redirected from witness Lion. T8-10 redirected from witness Needham, T1-30 redirected from witness Lyons and OCA/USPS-13 redirected to witness Patelunas ABA: Interrogatories T5-1-3 APWU: Interrogatories T5-1-2 UPS: Interrogatories T5-1-14

Respectfully submitted,


Margaret P. Crenshaw
Secretary

Answer of Richard Patelunas to the Interrogatories of
American Bankers Association
to United States Postal Service

ABA/USPS-T5-1.

Please refer to Appendix B of your testimony at Page 1 of 7 labeled "Cost Adjustments at Proposed PO Box Rates."

a) Please confirm that the first entry on the referenced page, labelled "FC Single Piece" reflects that 12.04% of the total First-Class single piece volume is delivered through a post office box.

b) Please confirm that the second entry on the referenced page labelled "FC Presort" reflects that 8.17% of the total First-Class presort volume is delivered through a post office box.

c) What percentage of the total volume of mail delivered through post office boxes is First-Class Mail?

d) What percentage of the total volume of mail delivered through caller service is First-Class Mail?

ABA/USPS-T5-1 Response (a) and (b):

a and b) The 12.04% figure is the portion of total Origin-Destination Information System (ODIS) FC Single Piece volume delivered through post office boxes. The 8.17% figure is the portion of total Origin-Destination Information System (ODIS) FC Presort volume delivered through post office boxes. For Appendix B purposes, for each class of mail and service for which data are available, the ratio of ODIS volume delivered through post office boxes to ODIS volume in total, is applied to the appropriate mail class and service total Revenue, Pieces and Weight (RPW) volume to approximate total mail volume delivered through post office boxes.

Answer of Richard Patelunas to the Interrogatories of
American Bankers Association
to United States Postal Service

ABA/USPS-T5-1 Response continued:

c) Using the ODIS Box Section volume shown in column (1) on page 1 of 7 of Appendix B, the sum of FC Single Piece (6,439,584,780) and FC Presort (2,830,189,019), divided by the Grand Total (13,571,711,832), yields a First-Class mail proportion of 68.3%.

d) Volume, total or otherwise, for mail delivered through caller service is not available.

Answer of Richard Patelunas to the Interrogatories of
American Bankers Association
to United States Postal Service

ABA/USPS-T5-2.

a) What delivery costs are avoided when mail is delivered through post office boxes?

b) What is the total amount of delivery costs avoided by mail delivered through post office boxes?

c) Please compare the per-piece delivery costs of mail delivered through post office boxes with the per-piece delivery costs of mail delivered by other methods.

ABA/USPS-T5-2 Response:

a) Appendix B approximates the delivery costs avoided when mail is delivered through post office boxes by assuming that all direct city carrier and rural carrier delivery costs are avoided. The total Fiscal Year 1994 delivery costs are shown at column (8), page 3 of 7, Appendix B; it is the sum of City Delivery In-Office costs (column 5), City Delivery Street costs (column 6) and Rural costs (column 7).

Another underlying assumption in Appendix B is that no piggyback costs are included. In a more complete development, there would be space, rental, capital, motor vehicle, etc. costs associated with both post office box costs and delivery costs. The piggyback costs are only a small portion of the total costs involved, so they were not included in the cost reduction amounts calculated in Appendix B.

Answer of Richard Patelunas to the Interrogatories of
American Bankers Association
to United States Postal Service

ABA/USPS-T5-2 Response continued:

b) Using the Appendix B methodology and assumptions, the total amount of delivery costs avoided by mail delivered through post office boxes would be the total volume of mail by class and service multiplied by the appropriate delivery unit cost of the class or service. See Attachment I to this response.

c) Page 4 of 7 of Appendix B, column (4) compares the Fiscal Year 1994 unit cost of post office box delivery with column (5), the Fiscal Year 1994 total delivery cost. Likewise, column (6) compares the projected Fiscal Year 1996 unit cost of post office box delivery with column (7), the projected Fiscal Year 1996 total delivery cost.

Line #	CRA Line Number & Title	Total PO Box Volumes 1/ (1)	Units FY 1994 Delivery Costs 2/ (2)	Avoided FY 1994 Delivery Costs 3/ (3)
1	101. LETTER NP	6,630,110	0.04673	309,824
2	LETTER 5-DIGIT			
3	LETTER C-RTE			
4	102. TOTAL PRESORT	2,901,813	0.042134	122,266
5	103. POSTAL CARD	52,734	0.009868	520
6	104. P-CARD NONPRST	308,474	0.043649	13,465
7	P-CARD 5-DIGIT			
8	P-CARD C-RTE			
9	105. TOTAL PRST CDS	114,536	0.024936	2,856
10	107. TOTAL FIRST	10,037,667	0.04431	444,772
11	110. PRIORITY	60,853	0.084294	5,130
12	111. EXPRESS	5,484	0.823364	4,515
13	112. MAILGRAM	520	0.034519	18
14	113. WITHIN COUNTY	98,218	0.037505	3,684
15	118. 2ND NONPROFIT	221,408	0.04041	8,947
16	119. CLASSROOM	7,811	0.043667	341
17	117. 2ND REGULAR	670,694	0.046375	31,103
18	123. TOTAL SECOND	998,131	0.044158	44,075
19	125. 3RD SINGLE PC.	19,314	0.316777	6,118
20	REG NONPRST			
21	126. REG C-RTE	747,825		
22	REG 5-DIGIT			
23	127. TOT REG OTHER	2,853,868		
24	128. TOTAL REGULAR	3,601,693	0.036225	130,471
25	NONPROF. NPRST.			
26	131. NONPROF. C-RTE	65,011		
27	NONPROF 5-DIGIT			
28	132. TOT NP. BASIC	713,099		
29	133. TOT NONPROFIT	778,110	0.02792	21,725
30	135. TOTAL THIRD	4,399,117	0.035495	156,147
31	136. TOT ZONE RATE	12,567	0.19516	2,453
32	137. BND PRNT MATTER	22,761	0.089033	2,026
33	139. SPECIAL 4TH	10,360	0.137442	1,424
34	140. LIBRARY RATE	1,942	0.124233	241
35	141. TOTAL FOURTH	47,630	0.128386	6,115
36	142. USPS PENALTY	43,809	0.04752	2,082
37	147. FREE BLIND	4,847	0.094071	456
38	161. TOT INTERNAT'L	84,127	0.034189	2,876
39	162. TOT ALL MAIL	15,682,185	0.041589	652,207
40	163. REGISTRY	2,205	0.420165	926
41	165. INSURANCE	3,138	0.161817	508
42	164. CERTIFIED	23,441	0.577133	13,529
43	166. COD	540	1.736368	938
44	168. MONEY ORDERS	19,195	0.013747	264
45	167. SPEC DELIVERY	63	0.186417	12
46	169. STMPD ENVEL.	0		
47	170. SPEC HNDLG	0		
48	171. P.O. BOX	0		
49	172. OTHER	0		
50	173. TOT SPECIAL SVS	48,582	0.35599	17,295
51	198. TOTAL	15,730,767		2,009,328

1/ USPS-T-5, Appendix B, page 2 of 7, col (6)

2/ USPS-T-5, Appendix B, page 4 of 7, col (5)

3/ Col (1) * col (2)

Answer of Richard Patelunas to the Interrogatories of
American Bankers Association
to United States Postal Service

ABA/USPS-T5-3.

a) What delivery costs are avoided when mail is delivered through caller service?

b) What is the total amount of delivery costs avoided by mail delivered through caller service?

c) Please compare the per-piece delivery costs of mail delivered through caller service with the per-piece delivery costs of mail delivered by other methods.

ABA/USPS-T5-3 Response:

a) The same delivery costs described in response USPS-T5-2(a) are avoided when mail is delivered through caller service.

b) The total amount of delivery costs avoided by mail delivered through caller service cannot be calculated because the volume of mail delivered through caller service is not available. See response to ABA/USPS-T5-1(d).

c) The per-piece delivery costs of mail delivered through caller service are not available. See response to ABA/USPS-T5-1(d).

Answer of Richard Patelunas to the Interrogatories of
American Postal Workers Union
to United States Postal Service

APWU/USPS-T5-1 On page 10 and 11 of your testimony you indicate that

The final set of changes involves Special Delivery in Segment 9, Remote Barcode Center Sorting (RBCS) mail processing costs in Segment 3, and the factors used to develop space-related costs. The assignment of costs to Special Delivery Messengers was modified in the Fiscal Year 1995 CRA such that clerks and carriers working in MODS operations 614 and 744 were assigned to Segment 9 from Segments 3, 6, and 7. Also, tallies for Special Delivery Messengers in MODS offices not working in those operations were assigned to Segments 6 and 7. . .

a. Please explain your rationale for the assignment of costs of clerks and carriers working in MODS operations 614 and 744 from segments 3, 6, and 7 to segment 9.

b. Please explain your rationale for the assignment of costs of Special Delivery Messengers working in offices not working MODS operations 614 and 744 to Segments 6 and 7.

c. Please explain what impact these two changes each had on attributable cost.

d. When would a clerk or carrier be placed in MODS 614 or 744?

APWU/USPS-T5-1 Response:

a. See my errata to line 21 on page 10. Tallies associated with clerks and carriers working in MODS operations 614 and 744 were assigned to Segment 9 from Segments 3, 6, and 7 because these MODS operations are dedicated to Special Delivery operations. As such, tallies in these

Answer of Richard Patelunas to the Interrogatories of
American Postal Workers Union
to United States Postal Service

APWU/USPS-T5-1 Response continued:

operations were used in the key for the Segment 9 distribution of costs. No costs were reassigned between segments.

b. As in the situation described in part a to this response, no costs were reassigned between segments, rather, tallies were reassigned. Special Delivery Messengers not working in the MODS Special Delivery operations are understood to be working in city carrier related activities. As such, it is proper to treat these tallies as part of the distribution key to distribute city carrier costs.

c. Attachment 1 to this interrogatory shows the direct tally adjustments that were made for the situations described in parts a and b of this interrogatory.

d. A clerk or carrier would be placed in MODS 614 or 744 if they were engaged in specific Special Delivery operations.

10:20 Friday, August 23, 1996 1

FISCAL YEAR 1995 - UNWEIGHTED TALLIES

TABLE OF FROMSEG BY TOSEG

FROMSEG	TOSEG			
Frequency	C/S 06	C/S 07	C/S 09	Total
C/S 03	0	0	80	80
C/S 06	0	0	199	199
C/S 07	0	0	316	316
C/S 09	61	148	0	209
Total	61	148	595	804

240
APWU/USPS-T5-1c
Attachment

Answer of Richard Patelunas to the Interrogatories of
American Postal Workers Union
to United States Postal Service

APWU/USPS-T5-2 In your exhibit 5A in Cost Segment 13, you indicate that miscellaneous operating costs include Segment 13.2, Carfare and Driveout in connection with Express Mail. How are these costs incurred and how are they attributed to Express Mail?

APWU/USPS-T5-2 Response

Carfare (account 52451) is used to record the cost of carrier drive out agreements involving carrier-owned vehicles. Driveout (account 52453) is used to record carfare for vehicles other than carrier-owned. The account includes the cost of local transportation of city delivery carriers and other post office employees, including bus fare, streetcar fare, and other local transportation by employees who are not in authorized travel status away from their permanent duty station.

The attribution of these costs can be understood by following through my workpapers as described on the following page:

Answer of Richard Patelunas to the Interrogatories of
American Postal Workers Union
to United States Postal Service

APWU/USPS-T5-2 Response continued:

Account: 52451

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V

WP B-13 W/S 13.2.3

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V

WP B-13 W/S 13.2.2

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V

WP B-13 W/S 13.2.1 C6L7-11

WP B-13 W/S 13.2.1 C5L3

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V

WP A-1 page 58 col 1-5

WP A-1 page 60 col 1-2

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V

WP A-2 pages 91-92 col 3

WP A-2 pages 79-80 col 4

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V

Exhibit USPS-5A page 39

52453

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V

WP B-13 W/S 13.2.3

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V

WP B-13 W/S 13.2.2

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V

WP B-13 W/S 13.2.1 C6L1-5

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V

WP A-1 page 62 col 1-7

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V

WP A-2 pages 93-94 col 6

WP A-2 pages 79-80 col 5

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V

Exhibit USPS-5A page 39

Answer of Richard Patelunas to the Interrogatories of
American Postal Workers Union
to United States Postal Service
(Redirected from witness Needham USPS-T-8)

APWU/USPS-T8-44

With respect to International "Expres" Mail

a. Explain the process by which the Postal Service attributes costs for Special Delivery Service supplied to International "Expres" mail.

APWU/USPS-T8-44a Response:

a. If the phrase "Special Delivery Service" refers to Cost Segment 9, Special Delivery Messengers, the attribution process is defined in my workpaper USPS-T5, WP B-13. International "Expres" is included in the International Mail row of W/S 9.0.1, page 2. Likewise, it is included in the Foreign Special Delivery row of W/S's 9.0.4 and 9.0.5.

If the phrase "Special Delivery Service" refers to any other segments besides Segment 9, the attributable costs for International "Expres" are included in the total International line.

If the phrase "Special Delivery Service" means the Special Delivery line under Special Services in the Cost and Revenue Analysis report, there are no international costs included.

Answer of Richard Patelunas to the Interrogatories of
 American Postal Workers Union
 to United States Postal Service
 (Redirected from witness Needham USPS-T-8)

APWU/USPS-T8-45

Please provide comparative annual advertising expenditures for 1970 through 1995 for Express Mail, Priority Mail and Special Delivery Service.

APWU/USPS-T8-45 Response:

Listed below are the advertising expenditures for Express Mail, Priority Mail and Special Delivery Service as they appear in the Cost Segments and Components report for the last ten years. I have no reason to suspect that the years prior to FY 1986 would be comparatively different.

	(amounts in thousands)		
	Express Mail	Priority Mail	Special Delivery
1995	12,421	16,179	0
1994	20,200	19,200	0
1993	31,025	23,226	0
1992	23,077	6,421	0
1991	23,964	2,837	0
1990	27,900	0	0
1989	22,500	127	0
1988	24,300	0	0
1987	32,067	0	0
1986	23,416	0	0

**Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service**

OCA/USPS-T5-1.

Refer to pages 8-11 of your testimony concerning changes to the Postal Service's costing methodology for 1995.

a) For each change in costing methodology, please explain and describe the significance of such changes in costing methodology on the attributable costs of each of the special services that are the subject of this proceeding. Do any of these costing changes affect attributable costs for a special service in this proceeding by 2 percent or more? Please explain.

b) For each change in costing methodology having more than a 2 percent effect, please estimate the percentage effect of such costing change on the attributable costs of each of the special services that are the subject of this proceeding.

OCA/USPS-T5-1 (a) and (b) Response:

The discussion of changes on pages 8-11 of my testimony is arranged into three sections: 1) changes to the Revenue and Expense Report format, 2) changes to In-Office Cost System (IOCS) analysis, and 3) a miscellaneous set of changes. The response begins with the changes that have no effect on the special services that are the subject of this proceeding.¹

No change in the second group, IOCS, has any affect on the special services under consideration. The first change is a refinement to CAG B weighting that was instituted for Fiscal Year 1995. The second change involved parcels bearing the Bulk Small Parcel Service marking.

¹ I do not address postal cards because the Postal Service's proposal does not deal with the rate or the attributable costs of postal cards. Rather, the proposal seeks to establish a fee based on manufacturing costs. The manufacturing costs are not affected by the changes.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-1 (a) and (b) continued.

The third change clarified third-class bulk rate piece assignments. The fourth change was a modification for First-Class ZIP+4 barcoded flat presort and nonpresort identification. Neither of the last two changes in the second group, OCR/BCS data collection and the "top-piece" rule involves any special services.

In the third group of changes, the Segment 3 Remote Barcode System distribution and separate treatment in mail processing involves no special services. The last change mentioned is the update to facility related costs for Fiscal Year 1995. The same methodology was used as in R94-1 (see LR-G-137) and this is described in SSR-91 at page I-1. There was a decline in the proportion of facility related costs for facility space categories associated with special services between Fiscal Years 1993 and 1995. This occurred because of the growth in space usage for mail processing equipment, but the impact is minimal.

The two remaining changes discussed on pages 8-11 of my testimony, the changes to the Revenue and Expense Report format and the Special Delivery Messenger treatment (Cost Segment 9) in group 3 do involve special services. The format changes to the Revenue and Expense Report result in some additional special services attribution mainly due to the changes of accounts from component 210 to component 177. The attributable costs of only

**Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service**

OCA/USPS-T5-1 (a) and (b) continued.

one of the special services that are the subject of this proceeding change by more than two 2 percent. Post office box attributable costs increase by approximately 2.7 percent. For registry, certified, and special delivery, the Segment 9 changes have only a very minor impact on attributable costs.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-2.

Certified mail pieces are being marked with fluorescent taggants. See Business Mailers Review, July 1, 1996.

a) If fluorescent taggants are being used to reduce costs for other special services, please identify the special service and explain how these fluorescent taggants will reduce costs for each special service identified.

b) For each special service that is the subject of Docket No. MC96-3, please provide estimated per transaction or per piece cost savings from fluorescent taggants for the test year and FY 97. Please provide supporting workpapers.

c) What are the cost savings from fluorescent taggants by relevant special service that are incorporated into the roll forward of costs from FY 95 to FY 96?

d) If cost savings from fluorescent taggants are not factored into the roll forward of costs from FY 95 to FY 96, please explain why not.

OCA/USPS-T5-2 Response (a) - (d):

(a)-(d) The use of fluorescent taggants is not expected to reduce costs for any special service that is the subject of Docket No. ^{MC96-3.} ~~MC96-4~~. Fluorescent taggants were introduced in response to customer complaints concerning the lack of delivery records for certified letter mail processed on automated equipment. The new CBCS and DBCS are equipped with Certified Mail Detectors that recognize the fluorescent taggant. The certified piece can then be removed from the automated processing stream to insure that a signature is recorded at the time of delivery.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-3

Refer to Exhibit USPS-T-5C concerning the costs and revenues for certified mail. Please confirm that attributable costs for certified mail decrease 20.8 cents per transaction, representing a 17.6 percent decline, from FY 1994 to FY 1995. Specifically, the attributable costs per piece decreased from 118.2 cents to 97.4 cents per piece. If you do not confirm, please explain.

OCA/USPS-T5-3 Response:

The amounts are confirmed.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-4.

Refer to Exhibit USPS-T-5C, Cost and Revenue Analysis at 16, concerning the costs for certified mail. Please identify and explain any changes in mail processing and delivery that would account for the 17.6 percent decline in attributable costs per transaction for certified mail from FY 1994 to FY 1995.

OCA/USPS-T5-4 Response:

I am not aware of any processing or delivery changes that would account for the 17.6 percent decline in attributable costs per transaction for certified mail from FY 1994 to FY 1995. The decline in attributable costs per transaction is the result of a relatively large increase in volume accompanied by a small increase in total attributable costs.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-10.

Exhibit USPS-T-5A at 7 shows that the attributable costs for postal cards for FY 95 are \$33,182 thousand.

a) USPS-T-8 at 106 shows that the GPO office manufacturing costs for government postal cards for FY 95 are \$4,352,568. Is the \$4,352,568 included in the \$33,182 thousand? If not, what are the attributable costs for manufacturing postal cards in FY 95? Please provide citations or supporting documents.

b) If for FY 95 all costs incurred to manufacture government postal cards were not treated as attributable costs, please provide the amount that was treated as institutional costs.

OCA/USPS-T5-10 Response:

a) The \$33,182 thousand includes the \$4,352,568 manufacturing costs.

This is shown in my workpaper WP-B, W/S 16.1.1, page 1, col (3) line (4); W/S 16.1.2, page 1, col (3) line (21); and W/S 3.2.7.

b) No manufacturing costs were treated as institutional.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-11

Exhibit USPS-T-5C at 10 shows a per-piece cost for postal cards of 7.5 cents. The per-piece cost for private cards is 16.2 cents. Please explain in detail why the unit costs for private cards are more than twice as high as the unit costs for postal cards.

OCA/USPS-T5-11 Response:

There are no certain reasons for the difference in unit costs, although there are some speculative reasons. Part of the explanation may be that postal cards are less costly to process because they are more compatible with mechanization and automation. For example, postal cards are designed to a uniform size and shape for equipment compatibility, and private cards are various sizes, shapes and flexibility. Also, address hygiene may be better considering the uses of postal cards and private cards. Postal cards might be used by businesses and organizations to notify addressees of sales or upcoming events, and to the extent the addressing is done by mailing lists and computer generated labels, the addresses would be clean. Private cards though, might be used to send greetings from a vacation spot and as such, would probably be handwritten and less clean. Another result of the different uses may be that the organizational use is of a more local nature; whereas, the vacation greeting may be from a remote vacation site.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-11 continued:

It is also possible that postal cards are misidentified as private cards during data collection. The relatively small volume of postal cards compared to the total volume of cards processed could cause data collection errors biased towards categorizing cards as private even if they aren't. This is not a new development nor has it gone unnoticed. Since Fiscal Year 1990, the unit cost of postal cards has been less than one-half of the unit cost of private cards. A remedy to the misidentification problem is proposed in this case: simply treat cards as cards without the postal-private distinction. As this question seems to postulate, there should be no distinction in costs other than the manufacturing costs. Providing a special service line item for stamped cards similar to stamped envelopes accomplishes this.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-12.

Exhibit USPS-T-5C at 10 shows a per-piece cost for postal cards of 7.5 cents. The per-piece cost for presorted private cards is 7.0 cents. If the unit cost of manufacturing government postal cards of 1.1 cents as shown in Table XXIX of USPS-T-8 is deducted from the 7.5 cents unit cost of postal cards, the unit cost of postal cards would be less than the unit costs of private presort cards. Please explain why the processing and delivery costs of government postal cards are less than the processing and delivery costs of private presort cards.

OCA/USPS-T5-12 Response:

The response provided to OCA/USPS-T5-11 also applies to this response. Additionally, since Fiscal Year 1990, with the exception of Fiscal Year 1995, the unit cost of postal cards including the manufacturing cost, has been less than the unit cost of presort private cards.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-16.

Refer to Exhibit USPS-T-5C, at page 16, concerning post office boxes.

a) Please confirm that the amount \$531.8 million is the revenue for post office boxes without the revenue of caller service. If you do not confirm, please explain.

b) Please provide the "Revenue" for post office boxes and caller service for FY 1995.

c) Please confirm that the amount \$509 .7 million is the total attributable cost of post office boxes without the attributable cost of caller service. If you do not confirm, please explain.

d) Please provide the "Total attributable cost" of post office boxes and caller service for FY 1995.

e) Please provide the "Revenue as a percent of attributable cost" for post office boxes and caller service for FY 1995.

OCA/USPS-T5-16 Response:

a) It is not confirmed that the \$531.8 million "is the revenue for post office boxes without the revenue of caller service." The revenue collected for both post office boxes and caller service is in account 43320, "Revenue-Retail Services-Box Rent and Caller Service", of the Revenue and Expense report. As such, the entire \$532.8 million amount shown in Exhibit USPS-T-5C is for the total of post office boxes and caller service. This is also the amount shown for post office box revenue, including caller service, in the Fiscal Year 1995 Revenue, Pieces and Weight report, see USPS-T-5, WP-B, W/S 1.1.2, page 2.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-16 continued.

As such, there is no distinction between post office box revenue and caller service revenue in either the CRA or RPW.

b) See response to part a).

c) It is not confirmed that the amount \$509.7 million is the total attributable cost of post office boxes without the attributable cost of caller service. Except for some unidentified portion of activity code 6210, Platform Acceptance, which ultimately is part of component 22, mail processing fixed, the attributable cost of caller service is included in the total attributable cost of post office boxes. This treatment parallels the revenue treatment described in the response to part "a" of this question.

d) This is not available, see response to part c).

e) The amount shown in Exhibit USPS-T-5C, 104.3%, is the best calculation of "Revenue as a percent of attributable cost" for post office boxes and caller service for FY 1995. The only difference is explained in part "c".

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-17

Refer to Exhibit USPS-T-5C, at page 16, concerning post office boxes.

- a) Please provide the "Revenue" for caller service for FY 1995.
- b) Please provide the "Total attributable cost" of caller service for FY 1995.
- c) Please provide the "Revenue as a percent of attributable cost" for caller service for FY 1995.

OCA/USPS-T5-17 Response:

- a) This is not available, see response to OCA/USPS-T5-16a.
- b) This is not available, see response to OCA/USPS-T5-16c.
- c) This is not available, see responses to OCA/USPS-T5-16a and b.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-18.

The following interrogatory refers to exhibit USPS-T-5H, FY96AR Cost Segment Summary for Special Services.

a) Please explain why Special Delivery continues to appear as a Special Service.

b) Please explain why Stamped Cards are not listed as a Special Service.

c) The following refers to cost segment 16 at 49. Please explain what is included in the \$3,760,000 stamp and dispenser postal card costs.

OCA/USPS-T5-18 Response:

a) The cosmetic change of deleting Special Delivery will be done if the change is implemented. The programming changes to institute the deletion do not provide any additional information for this filing.

b) The cosmetic change of inserting Stamped Cards as a Special Service will be done if the change is implemented. The programming changes to institute the insertion do not provide any additional information for this filing.

c) The \$3,760,000 is the projected manufacturing cost of postal cards for Test Year 1996 at proposed rates.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-23

Refer to your response to Presiding Officer's Information Request No. 1, question 1, and USPS-T-4, page 35, line 13, concerning All Other costs. Your response states that the labor costs of sorting mail to boxes is \$451,581,000. According to witness Lion, "All Other costs are primarily labor costs for sorting mail to boxes..." which amounts to \$109,159,000. Please explain why the costs you identify as labor costs of sorting mail to boxes are greater than the labor costs belonging in the All Other cost category in witness Lion's testimony.

OCA/USPS-T5-23 Response:

As stated in my response to Presiding Officer's Information Request No. 1, the labor costs of sorting mail to boxes are \$451,581,000. The "All Other costs" of \$109,159,000 that witness Lion refers to are primarily labor costs for window service, and related supervisory and personnel costs.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-24.

In response to interrogatory OCA-USPS-T5-1, you indicate that there was "some additional special services attribution mainly due to the changes of accounts from component 210 to component 177." Please provide further explanation. Please detail the accounts that were changed, why they were changed, and why the change resulted in increased attributions.

OCA/USPS-T5-24 Response:

Please see Attachment 1 to my response to UPS/USPS-T5-3 for a detailed crosswalk of the account changes between cost segments and between cost components. Lines 7 - 16 on page eight of my testimony provide the reasons why these changes were made. In general, the changes were to more closely align the CRA report and the accounting systems used in Budget. The change in attribution was the result of applying the account amounts to cost components having different variabilities. The composite change in attribution is provided in Attachment 2 to my response to UPS/USPS-T5-3.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-26.

Refer to LR-SSR-9 and the Excel spreadsheet, "BSEXP_SS.XLS."

a. Please provide a list of the names of the revenue subaccounts found in the sheet entitled "Rev."

b. Please provide a list of the names of non-personnel expense subaccounts found in the sheets entitled "Seg1" through "Seg20."

OCA/USPS-T5-26 Response:

a. The names of the revenue subaccounts can be found in Library Reference SSR-9 at pages 1 - 4. Additionally, the information is available in Library Reference SSR-10 at pages 11 - 14 or pages 85 - 89.

b. The names of the non-personnel expense subaccounts can be found in Library Reference SSR-9 at pages 5 - 7. Additionally, the information is available in Library Reference SSR-10 at pages 15 - 80 or pages 90 - 177.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-27.

Refer to Appendix B of your testimony at page 2 of 7 entitled "Cost Adjustments at Proposed PO Box Rates." Please provide the total post office box volume by proposed Delivery Groups A, B, C, D and E.

OCA/USPS-T5-27 Response:

The requested information is not available.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-28.

Refer to your response to ABA/USPS-T5-2(b), Attachment 1. Please provide the total avoided delivery costs for post office boxes by proposed Delivery Groups A, B, C, D and E.

OCA/USPS-T5-28 Response:

The requested calculations cannot be made because volumes by Delivery Groups are not available.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
(Redirected from Witness Lion USPS-T4)

OCA/USPS-T4-2.

Please refer to page 35, lines 7-14, of your testimony concerning the attribution of costs to post office boxes. To the best of your knowledge, does the methodology of attributing Space Support, Space Provision, and All Other costs conform to the Commission's methodology of attributing these costs in Docket Nos. R90-1 and R94-1. If you cannot confirm, please explain all known differences from the Commission's methodology and the effect of those differences on attributable costs.

OCA/USPS-T4-2. Response:

No, the attribution of costs to post office boxes described on page 35, lines 7-14, of Witness Lion's testimony does not conform to the Commission's methodology in Docket Nos. R90-1 and R94-1. As Witness Lion points out on page 34, lines 5-6, the costs are taken from the Fiscal Year 1994 Cost Segments and Components Report, which is the Postal Service's methodology used in its FY 1994 Cost and Revenue Analysis (CRA) report. Lines 9-21 and footnote 9 on page 34, and lines 1-5 on page 35 explain the sources of the post office box costs. A summary description of the Postal Service's FY 1994 costing methodology is provided in USPS LR-SSR-1, Summary Description of USPS Development of Costs By Segments and Components, Fiscal Year 1994.

The question refers to the Commission's methodology in Docket Nos. R90-1 and R94-1. This response assumes that the question intends a response based on the R90-1 Recommended Decision on Remand and the R94-1 Further Recommended Decision. This assumption points out the difficulty in defining

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
(Redirected from Witness Lion USPS-T4)

OCA/USPS-T4-2 continued:

what costing methodology is under discussion; there are actually four methodologies resulting from those two dockets. Also, as footnote 15 of Motion of the United States Postal Service for Reconsideration of Order No. 1120, and Partial Response explains, the timing of cases and recommended decisions further complicates a definition of the "approved Commission methodology". Insofar as the R94-1 Further Recommended Decision incorporates references to R90-1 on Remand, it is reasonable that the "approved Commission methodology" is that reflected in the R94-1 Further Recommended Decision. A valid comparison between the Commission's and the Service's methodologies can be made for Fiscal Year 1993, the base year used in the Commission's R94-1 Further Recommended Decision.

The differences for post office box cost attribution are minor among any of the methodologies. As a matter of fact, the only difference between the original R94-1 Recommended Decision and the R94-1 Further Recommended Decision was a rounding difference of \$1,000. Library Reference SSR-122 compares the Commission's R94-1 Further Recommended Decision methodology for Base Year 1993 with the Postal Service's Cost Segments and Components report that accompanies the Fiscal Year 1993 Cost and Revenue Analysis (CRA) report.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
(Redirected from Witness Lion USPS-T4)

OCA/USPS-T4-2 continued:

The explanation below discusses the LR-SSR-122 differences and then provides a further explanation of what caused the differences.

Page 12 of LR-SSR-122 shows that the absolute difference is less than \$4 million out of total attributable costs, using the Commission's methodology, of \$443.7 million. Thus, the Service's methodology attributes less than 1% more than the Commission's methodology.

The first segment difference of note is Segment 7 and it is the result of different treatments of Route Time, component 54.¹ The Commission attributes this component; the Postal Service treats it as purely institutional. The difference is about \$13,000 out of the \$593,000 that is attributed in the Commission model.

The second difference appears in a number of segments and it is the result of different Commission factors used to develop the space distribution key (component 1099) and the rental distribution key (component 1199). Each key is the summation of numerous factors, most of which are the same in the two models. However, the following factors are different: Carrier BCS (component 639), Office Space (component 944) and Employee Facilities (component 947).

¹The Postal Service's CRA/Rollforward cost model component numbering format is used throughout.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
(Redirected from Witness Lion USPS-T4)

OCA/USPS-T4-2 continued:

Segment 11 is comprised of components 74, 79 and 81 and these are distributed on component 1099. As such, the Commission has about \$11,000 more attributed to post offices boxes than the Postal Service model. Likewise, components 176 and 177 in Segment 16 are distributed on component 1099, resulting in an additional \$5,000 attributed using the Commission methodology.

Components 165 and 166 in Segment 15 are distributed on component 1199, and this is the largest single difference between the models in terms of post office box costing. The Segment 15 difference is \$1.838 million more attributed in the Postal Service version. The attribution of an additional \$881,000 in the Commission's model for Segment 18 is the result of distributing component 215 on 1199 and distributing component 255 on component 447 (the summation of motor vehicle depreciation). The second largest total difference of \$1.309 million is in Segment 20 in which the Commission attributes less than the Postal Service. This results from different treatments of the depreciation costs. Component 231 is distributed on the underlying components (for instance, city carrier vehicle depreciation uses city carrier ratios), and components 236 and 237 are distributed on component 1199.

1/ CS		2/ CRA C Report		3/ Difference	4/ % Diff	5/
PRC C Report						
1	2,588	2,588	0	0.00%		
2	6,459	6,458	-1	-0.02%	Rounding	
3	70,231	70,230	-1	0.00%	Rounding	
4	0	0	0	0.00%		
6&7	593	580	-13	-2.19%	Route Time Attribution (component 54)	
8	0	0	0	0.00%		
9	0	0	0	0.00%		
10	0	0	0	0.00%		
11	92,504	92,493	-11	-0.01%	Components 74, 79 & 81 DK on Comp 1099	
12	2	3	1	50.00%	Rounding	
13	1	0	-1	-100.00%	Rounding	
14	0	0	0	0.00%		
15	110,925	112,763	1,838	1.66%	Components 165&166 DK on Comp 1199	
16	43,183	43,178	-5	-0.01%	Components 176&177 DK on Comp 1099	
17	0	0	0	0.00%		
18	61,448	62,329	881	1.43%	Comp 215 DK on Comp 1199, Comp 455 DK on Comp 1229, Comp 255 DK on Comp 447	
19	0	0	0	0.00%		
20	55,750	57,059	1,309	2.35%	Comp 232 DK on Comp 1229, Comps 236&237 sum to Comp 296 DK on Comp 1199	
Total		447,681	3,997	0.90%	Comp 231 on individual functional components	

- 1/ USPS LR-SSR-122 pp 9 - 10
2/ USPS Cost Segment and Components Fiscal Year 1993
3/ Col 2 minus col 1
4/ Col 3 divided by col 1
5/ Explanation of the differences

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service
(Redirected from witness Needham)

OCA/USPS-T8-10.

Please provide a citation to witness Patelunas' testimony or exhibits for the after rates cost figure of \$214,021 shown in USPS-T-1 (Lyons), Exh. C.

OCA/USPS-T8-10:

The \$214,021 amount does not appear in my testimony or exhibits. To understand how this amount is calculated, see Library Reference SSR-104, pages 7-11. Return Receipt costs in the Cost and Revenue Analysis report and the rollforward as described in my testimony and workpapers are not captured separately. Rather, return receipt costs are a portion of the total US Postal Service attributable costs and the Special Services Other costs. See USPS-T-5H, page 8, column marked "Total".

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service
(Redirected from Witness Lyons USPS-T-1)

OCA/USPS-T1-30.

The following refers to your response to OCA/USPS-T1-22. Please explain what postal card printing costs declined such that you were able to recognize a \$65,000 cost reduction. Show the derivation of all calculated numbers, cite all sources, and provide copies of all source documents not previously filed.

OCA/USPS-T1-30. Response:

The postal card printing costs are those shown in Cost Segment 16 for component 180, "Stamps & Dispensers." The reason for the cost reduction is the decreased volume resulting from this proposal; fewer postal cards have less printing costs. The difference in volume can be seen in my Exhibit 5D that shows the before rates volume on page five and the after rates volume on page six. Additionally, the affects of applying the different volume factors can be seen by comparing my workpaper WP-D, part 2, pages 691 - 699 for the before rates changes with workpaper WP-F, part 2, pages 689 - 697 for the after rates changes.

Answer of Richard Patelunas to the Interrogatories of
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to United States Postal Service

OCA/USPS-13.

Please refer to witness Patelunas' response to OCA/USPS-T5-4. Witness Patelunas states that there have been no processing or delivery changes what would account for the large decline in unit attributable costs.

- a) What else could have caused the decrease in unit attributable costs?
- b) Please explain why a large increase in the volume of certified mail would only cause a small decrease in attributable costs.
- c) Please provide a table, with dollar amounts, detailing the cost components or activity codes that show the decline in unit attributable costs.
- d) With regard to the unit cost items that have exhibited a significant change, please provide an explanation for the change.

OCA/USPS-13 Response:

a. Nearly forty percent of the 17.6% decline in Certified unit cost discussed in OCA/USPS-T5-4 results from a Revenue, Pieces and Weight report (RPW) reporting change. The Cost and Revenue Analysis report (CRA) showed a FY 1994 certified unit cost of 118.2 cents and the FY 1995 CRA showed a certified unit cost of 97.4 cents. Thus, the total unit cost change was 20.8 cents or 17.6%.

The RPW reporting change was for transaction revenues, and hence volumes, associated with return receipts for merchandise. Beginning in

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-13 Response continued:

FY 1995, the volumes for return receipts for merchandise were included in with Certified Mail. For FY 1995, return receipts for merchandise volume was 22,395,409 and total Certified volume including these return receipts was 288,826,806. Had the return receipts for merchandise not been included, which would be comparable to FY 1994, the Certified volume would have been 266,431,397. Using Certified volume without the merchandise return receipt volume as the denominator yields a unit cost of 105.6 cents. The difference between the FY 1995 Certified unit cost in the CRA of 97.4 cents and the 105.6 cents is 8.2 cents. Thus, of the 20.8 cents per piece change between the FY 1994 CRA and the FY 1995 CRA, 8.2 cents per piece, or 39.4%, is the result of the RPW reporting change.

b. The large increase in the volume of certified mail did not cause a small decrease in attributable costs. Attributable costs in FY 1994 were \$277.4 million and in FY 1995 they were \$281.4 million.

c. See Attachment I that accompanies this response for a complete detail of all cost component changes for Certified Mail between FY 1994 and FY 1995.

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-13 Response continued:

d. If significant change is defined as a change greater than 10%,

Attachment I shows changes for the following components:

(3.1) Mail Processing Direct Labor	-10.6% of total
(3.2) Window Service	-12.3% of total
(7.3) Elemental Load	-21.0% of total
(10.1) Evaluated Routes	-11.6% of total
(18.3.2) Civil Service Retirement	-17.2% of total
(20.5) Interest Expense	+14.5% of total

The Civil Service Retirement and the Interest Expense, and to a lesser extent the changes in Segment 16 (see Attachment I), are the result of account and component changes instituted for the FY 1995 CRA. I discussed these changes and provided an overall attribution change in my response to UPS/USPS-T5-3. As for the other changes involving mail processing, window service and delivery operations, there is no simple, obvious explanation. Inquiries to operations personnel resulted in no additional information to help understand the change in Certified unit cost. I also checked with data systems personnel who conducted detailed examinations of the costing systems and nothing was discovered to account for the change in Certified unit cost.

SUMMARY			FY 1994 1/	FY 1995 2/	Difference 3/	FY 1994 4/	FY 1995 5/	Difference 6/	% change 7/	% Total
			(1)	(2)	(3)	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost
			(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
C/S-1	POSTMASTERS		251	2,415	3,051	636	0.0101	0.0106	0.0005	5.1%
C/S-2	SUPERVISORS & TECHNICIANS		284	13,501	14,488	987	0.0562	0.0502	-0.0060 *	-10.8%
C/S-3	CLERKS AND MAILHANDLER		478	85,608	87,565	1,957	0.3564	0.3032	-0.0532 *	-14.9%
C/S-4	CLERKS CAG-K OFFICES		254	81	28	-53 *	0.0003	0.0001	-0.0002 *	-71.3%
C/S-6&7	CITY DEL CARRIERS		281	79,016	76,127	-2,889 *	0.3290	0.2636	-0.0654 *	-19.9%
C/S-8	VEHICLE SER DRIVERS		258	0	0	0	0.0000	0.0000	0.0000	0.0%
C/S-9	SPECIAL DEL MESSENGERS		259	140	233	93	0.0006	0.0008	0.0002	38.4%
C/S-10	RURAL CARRIERS		260	46,081	49,006	2,925	0.1918	0.1697	-0.0222 *	-11.6%
C/S-11	CUSTODIAL & MAINT SERV		482	6,302	6,465	163	0.0262	0.0224	-0.0039 *	-14.7%
C/S-12	MOTOR VEH SERVICE		262	680	742	62	0.0028	0.0026	-0.0003 *	-9.3%
C/S-13	MISC OPER COSTS		263	102	104	2	0.0004	0.0004	-0.0001 *	-15.2%
C/S-14	PURCHASED TRANSPORT		264	0	0	0	0.0000	0.0000	0.0000	0.0%
C/S-15	BUILDING OCCUPANCY		289	7,106	6,900	-206 *	0.0296	0.0239	-0.0057 *	-19.2%
C/S-16	SUPPLIES AND SERVICES		490	5,616	5,135	-481 *	0.0234	0.0178	-0.0056 *	-24.0%
C/S-17	RESEARCH & DEVELOPMENT		267	0	0	0	0.0000	0.0000	0.0000	0.0%
C/S-18	ADMIN & REG OPERATIONS		459	26,119	16,477	-9,642 *	0.1087	0.0570	-0.0517 *	-47.5%
C/S-19	GEN MGMT SYSTEMS		269	0	0	0	0.0000	0.0000	0.0000	0.0%
C/S-20	OTHER ACCR'D EXPENSES		475	4,670	15,108	10,438	0.0194	0.0523	0.0329	169.0%
TOTAL			460	277,437	281,429	3,992	1.1550	0.9744	-0.1807 *	-15.6%
1 POSTMASTERS										
	(1.1 T	HRU 1.3)								
POSTMASTERS	EAS 23 & BELOW	(1.1)	1	2,415	3,051	636	0.0101	0.0106	0.0005	5.1%
POSTMASTERS	EAS 24 & ABOVE	(1.2)	2	0	0	0	0.0000	0.0000	0.0000	0.0%
GENERAL	MGRS AT BMCS	(1.3)	3	0	0	0	0.0000	0.0000	0.0000	0.0%
TOTAL	C/S 01		251	2,415	3,051	636	0.0101	0.0106	0.0005	5.1%
2 SUPERVISORS A	TECHNICIANS									
	(2.1 T	HRU 2.3)								
MAIL	PROCESSING	(2.1)	272	3,479	3,583	104	0.0145	0.0124	-0.0021 *	-14.4%
CENTRAL MAIL	MARKUP	(2.1)	677	0	0	0	0.0000	0.0000	0.0000	0.0%
SUBTOTAL		(2.1)	820	3,479	3,583	104	0.0145	0.0124	-0.0021 *	-14.4%
WINDOW	SERVICE	(2.2)	7	2,912	3,286	374	0.0121	0.0114	-0.0007 *	-6.2%
ADMIN & SUPPORT	ACTIVITIES	(2.3)	483	357	373	16	0.0015	0.0013	-0.0002 *	-13.1%
SUPERVISION OF C	LECTION & DELIV	RY (2.4)								
CITY DELIVERY	CARRIERS	(2.4)	20	4,465	4,531	66	0.0186	0.0157	-0.0029 *	-15.6%
SPECIAL DELIVERY	MESSENGERS	(2.4)	28	10	17	7	0.0000	0.0001	0.0000	41.4%
RURAL DELIVERY	CARRIERS	(2.4)	674	197	374	177	0.0008	0.0013	0.0005	57.9%
VEHICLE	SERVICE	(2.4)	675	0	0	0	0.0000	0.0000	0.0000	0.0%
SUBTOTAL		(2.4)	821	4,672	4,922	250	0.0195	0.0170	-0.0024 *	-12.4%
TECH PERSONNEL	OTHER SUPV	(2.5)								
EMPLOYEE &	LABOR RELATIONS	(2.5)	528	3	3	0	0.0000	0.0000	0.0000	-16.8%
HIGHER LEVEL	SUPERVISORS	(2.5)	836	665	795	130	0.0028	0.0028	0.0000	-0.6%
GENERAL SUPV OF	MAIL PROCESSING	(2.5)	31	3	5	2	0.0000	0.0000	0.0000	38.6%
GENERAL SUPV OF	COLLECT/DELIVER	(2.5)	32	1	7	6	0.0000	0.0000	0.0000	482.1%
SUPERVISOR	TRAINING	(2.5)	601	148	192	44	0.0006	0.0007	0.0000	7.9%
QUALITY CONTROL	REVENUE PROTEC	(2.5)	676	115	122	7	0.0005	0.0004	-0.0001 *	-11.8%
JOINT SUPV	CLERKS/CARRIER	(2.5)	678	1,146	1,200	54	0.0048	0.0042	-0.0006 *	-12.9%
OTHER		(2.5)	33	0	0	0	0.0000	0.0000	0.0000	0.0%
SUBTOTAL		(2.5)	822	2,081	2,324	243	0.0087	0.0080	-0.0006 *	-7.1%
TOTAL	C/S 02		284	13,501	14,488	987	0.0562	0.0502	-0.0060 *	-10.8%
3 CLERKS AND MAIL	HANDLERS--CAGS	J								
	(3.1 T	HRU 3.2)								
MAIL PROCESS	DIRECT LABOR	(3.1)	35	32,970	34,104	1,134	0.1373	0.1181	-0.0192 *	-14.0%
MAIL PROCESS	OVERHEAD	(3.1)	36	9,436	9,953	517	0.0393	0.0345	-0.0048 *	-12.3%
MAIL PROCESS	FIXED	(3.1)	22	0	0	0	0.0000	0.0000	0.0000	0.0%
SUBTOTAL		(3.1)	823	42,406	44,057	1,651	0.1765	0.1525	-0.0240 *	-13.6%
WINDOW SERVICE		(3.2)	40	34,121	34,636	515	0.1421	0.1199	-0.0221 *	-15.6%
ADMINISTRATIVE &	SUPPORT ACTIVITI	S (3.3)								
ADMINISTRATIVE	CLERKS	(3.3)	476	7,197	-	-142 *	0.0300	0.0244	-0.0055 *	-18.5%
TIME AND	ATTENDANCE	(3.3)	477	1,884	-67	-0.0078	0.0063	-0.0016 *	-19.8%	-0.9%

SUMMARY			FY 1994 1/	FY 1995 2/	Difference 3/	FY 1994 4/ Unit Cost	FY 1995 5/ Unit Cost	Difference 6/ Unit Cost	% change 7/ Unit Cost	% Total Unit Cost
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SPECIFIC	FIXED	(3 3)	279	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUBTOTAL		(3 3)	824	9,081	8,872	0 0378	0 0307	-0 0071 *	-18 8%	-3 9%
TOTAL	C/S 03		478	85,608	87,565	0 3564	0 3032	-0 0532 *	-14 9%	-29 5%
4 CLERKS, CAG-K	POST OFFICES									
		(4 1)								
TOTAL		(4 1)	254	81	28	0 0003	0 0001	-0 0002 *	-71 3%	-0 1%
6 CITY DELIVERY	CARRIERS, OFFIC	ACTIVITY	9999							
	(6 1 T	HRU 6 2)								
IN-OFFICE	DIRECT LABOR	(6 1)	43	21,573	20,839	0 0898	0 0722	-0 0177 *	-19 7%	-9 8%
TRAINING, VEH	PREP & KEY HANDL	(6 2)	604	1,457	1,476	0 0061	0 0051	-0 0010 *	-15 8%	-0 5%
CAG K		(6 2)	45	2	2	0 0000	0 0000	0 0000	-16 8%	0 0%
IN-OFFICE	SUPPORT	(6 2)	44	3,518	3,617	0 0146	0 0125	-0 0021 *	-14 5%	-1 2%
SUBTOTAL		(6 2)	837	26,550	25,934	0 1105	0 0898	-0 0207 *	-18 8%	-11 5%
TOTAL	C/S 06		256		0	0 0000	0 0000	0 0000	0 0%	0 0%
7. CITY DELIVERY	CARRIERS, STREE	ACTIVTY								
	(7.1 T	HRU 7.5)								
ROUTE		(7 1)	390	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
ACCESS		(7 2)	48	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
ELEMENTAL	LOAD	(7 3)	46	43,279	41,058	0 1802	0 1422	-0 0380 *	-21 1%	-21 0%
OTHER	LOAD	(7 4)	47	612	698	0 0025	0 0024	-0 0001 *	-5 2%	-0 1%
STREET	SUPPORT	(7 5)	280	8,575	8,437	0 0357	0 0292	-0 0065 *	-18 2%	-3 6%
TOTAL	C/S 07		838	52,466	50,193	0 2184	0 1738	-0 0446 *	-20 4%	-24 7%
8. VEHICLE SERVICE DRIVERS										
		(8 1)								
TOTAL	C/S 08		258	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
9. SPECIAL DELIVERY MESSENGERS										
	(9.1 T	HRU 9 4)								
OFFICE		(9 1)	474	26	114	0 0001	0 0004	0 0003	264 6%	0 2%
STREET		(9 2)	59	114	119	0 0005	0 0004	-0 0001 *	-13 2%	0 0%
EQUIP MAINT	ALLOWANCE	(9 3)	62	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SPECIAL	DELIVERY FEES	(9 4)	63	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
TOTAL	C/S 09		259	140	233	0 0006	0 0008	0 0002	38 4%	0 1%
10. RURAL CARRIERS										
	(10 1 TH	RU 10 3)								
EVALUATED	ROUTES	(10 1)	69	41,817	44,228	0 1741	0 1531	-0 0210 *	-12 0%	-11 6%
OTHER	ROUTES	(10 2)	70	4,264	4,778	0 0178	0 0165	-0 0012 *	-6 8%	-0 7%
EQUIP MAINT	ALLOWANCE	(10 3)	73	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
TOTAL	C/S 10		260	46,081	49,006	0 1918	0 1697	-0 0222 *	-11 6%	-12 3%
11. CUSTODIAL AND MAINTENANCE SERVICES										
	(11 1 TH	RU 11 3)								
CUSTODIAL	PERSONNEL	(11 1 1)	359	3,893	3,995	0 0162	0 0138	-0 0024 *	-14 7%	-1 3%
CONTRACT	CLEANERS	(11 1 2)	344	253	256	0 0011	0 0009	-0 0002 *	-15 9%	-0 1%
OPER EQUIP	MAINTENANCE	(11 2)	75	271	296	0 0011	0 0010	-0 0001 *	-9 2%	-0 1%
PLANT & BUILDING	EQUIP MAINT	(11 3)	79	1,885	1,918	0 0078	0 0066	-0 0012 *	-15 4%	-0 7%
TOTAL	C/S 11		482	6,302	6,465	0 0262	0 0224	-0 0039 *	-14 7%	-2 1%
12. MOTOR VEHICLE SERVICE										
	(12 1 THR	U 12 3)								
PERSONNEL		(12 1)	90	301	325	0 0013	0 0011	-0 0001 *	-10 2%	-0 1%
SUPPLIES &	MATERIALS	(12 2)	99	279	316	0 0012	0 0011	-0 0001 *	-5 8%	0 0%
VEHICLE	HIRE	(12 3)	108	100	101	0 0004	0 0003	-0 0001 *	-16 0%	0 0%
TOTAL	C/S 12		262	680	742	0 0028	0 0026	-0 0003 *	-9 3%	-0 1%
13. MISCELLANEOUS OPERATING COSTS										
	(13 1 TH	RU 13 3)								
CONTRACT	STATIONS	(13 1)	111	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
CARFARE		(13 2)	135	40	48	0 0002	0 0002	0 0000	-0 2%	0 0%
DRIVEOUT		(13 2)	141	62	56	0 0003	0 0002	-0 0001 *	-24 9%	0 0%
TOLLS &	FERRIAGE	(13 2)	113	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUBTOTAL		(13 2)	825	102	2	0 0004	0 0004	-0 0001 *	-15 2%	0 0%
FED RESERVE &	COMMERCIAL BKS	(13 3)	125	0	0	0 0000	0 0000	0 0000	0 0%	0 0%

SUMMARY			FY 1994 1/	FY 1995 2/	Difference 3/	FY 1994 4/	FY 1995 5/	Difference 6/	% change 7/	% Total
			(1)	(2)	(3)	Unit Cost (4)	Unit Cost (5)	Unit Cost (6)	Unit Cost (7)	Unit Cost (8)
EMPLOYEE AWARDS	(13 4 TH AWARDS (13 4)	RU 13 7)	115	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
EQUIPMENT SHOPS	(13 5)		826	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
CAG L RENTAL ALLOWANCE	(13 6)		112	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
OTHER LOCAL OPERATIONS	(13 7)		827	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
TOTAL C/S 13			263	102	104	0 0004	0 0004	-0 0001 *	-15 2%	0 0%
14 TRANSPORTATION										
(14 1)										
DOMESTIC AIR	(14 1)		142	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
HIGHWAY	(14 1)		143	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
RAILROAD	(14 1)		144	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
DOMESTIC WATER	(14 1)		145	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUBTOTAL	(14 1)		542	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
(14 2)										
INTERNATIONAL TRANSPORTATION	(14 2)		828	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
TOTAL C/S 14			264	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
15 BUILDING OCCUPANCY										
(15 1 TH)										
RENTS	(15 1)	RU 15 3)	329	5,055	4,763	-292 *	0 0210	0 0165	-0 0046 *	-21 6%
FUEL & UTILITIES	(15 2)		314	2,051	2,137	86	0 0085	0 0074	-0 0011 *	-13 3%
COMMUNICATIONS & OTHER	(15 3)		393	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
TOTAL C/S 15			289	7,106	6,900	-206 *	0 0296	0 0239	-0 0057 *	-19 2%
16 SUPPLIES AND SERVICES										
(16 1 TH)										
STAMPS & DISPENSERS	(16 1)	U 16 2)	180	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
MONEY ORDERS	(16 1)		181	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
EMBOSSED STAMP ENVELOPES	(16 1)		248	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUBTOTAL	(16 1)		839	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUPPLY PERSONNEL	(16 2)		173	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
(16 3)										
CUSTODIAL & BUILDING	(16 3 1)		389	3,300	4,406	1,106	0 0137	0 0153	0 0015	11 0%
EQUIPMENT	(16 3 2)		184	2,316	729	-1,587 *	0 0096	0 0025	-0 0071 *	-73 8%
COMPUTERIZED TRACKING/TRACIN	(16 3 3)		196	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
OTHER MISCELLANEOUS	(16 3 4)		830	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
ADVERTISING	(16 3 5)		246	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
REMOTE ENCODING S&S	(16 3 6)		1426	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUBTOTAL	(16 3)		831	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
TOTAL C/S 16			490	5,616	5,135	-481 *	0 0234	0 0178	-0 0056 *	-24 0%
18 ADMINISTRATIVE AND REGIONAL										
--ADMINISTRATION PERSONNEL										
(18 1)										
HEADQUARTERS	(18 1 1)		191	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
MONEY ORDER DIVISION	(18 1 1)		192	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
AREA ADMINISTRATION	(18 1 1)		193	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUBTOTAL	(18 1 1)		834	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
POSTAL INSPECTION SERV	(18 1 2)		832	409	407	-2	0 0017	0 0014	-0 0003 *	-17 2%
SUBTOTAL	(18 1)		833	409	407	-2	0 0017	0 0014	-0 0003 *	-17 2%
--ADMINISTRATION SUPPORT										
(18 2)										
SUPPLIES & SERVICES	(18 2 1)		210	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
MISCELLANEOUS SUPPORT	(18 2 2)		211	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
INSP EXPENSES & EMPLOYEE LOSSE	(18 2 3)		212	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
REIMBURSEMENTS	(18 2 4)		213	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
INDIVIDUAL AWARDS	(18 2 5)		1429	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
MISC. PERSONAL COMPENSATION	(18 2 6)		1430	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
MONEY ORDERS	(18 2 7)		244	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
SUBTOTAL	(18 2)		840	0	0	0 0000	0 0000	0 0000	0 0%	0 0%
--PERSONNEL BENEFITS										
(18 3)										
REPRICED ANNUAL LEAVE	(18 3 1)		292	368	200	-168 *	0 0015	0 0007	-0 0008 *	-54 8%
HOLIDAY LEAVE	(18 3 1)		487	3		51	0 0000	0 0002	0 0002	1396 9%
CIVIL SERVICE RETIREMENT	(18 3 2)		488	12,479		-6,457 *	0 0520	0 0208	-0 0311 *	-59 9%

SUMMARY

			FY 1994 1/	FY 1995 2/	Difference 3/	FY 1994 4/ Unit Cost	FY 1995 5/ Unit Cost	Difference 6/ Unit Cost	% change 7/ Unit Cost	% Total Unit Cost
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FERS	RETIREMENT	(18 3 3)	19	0	0	0.0000	0.0000	0.0000	0.0%	0.0%
WORKERS'	COMPENSATION	(18 3 4)	486	3,298	3,213	-85 *	0.0137	0.0111	-0.0026 *	-19.0%
UNEMPLOYMENT	COMPENSATION	(18 3 5)	453	611	549	-62 *	0.0025	0.0019	-0.0006 *	-25.3%
--PERSONNEL BEN	ITS	(18 3)								
RETIREE HEALTH	BENEFITS	(18 3 6)	208	3,278	3,128	-150 *	0.0136	0.0108	-0.0028 *	-20.6%
ANNUITANT	LIFE INSURANCE	(18 3 7)	71	3,877	37	-3,840 *	0.0161	0.0001	-0.0160 *	-99.2%
ANNUITANT COLA/	PRINCIPAL	(18 3 8)	1435	0	2,867	2,867	0.0000	0.0099	0.0099	0.0%
ANNUITY	PROTECT PROGRA	(18 3 9)	207	0	0	0.0000	0.0000	0.0000	0.0%	0.0%
SUBTOTAL		(18 3)	835	7,155	6,032	-1,123 *	0.0298	0.0209	-0.0089 *	-29.9%
TOTAL			459	24,323	16,477	-7,846 *	0.1013	0.0570	-0.0442 *	-43.7%
20. OTHER ACCRU	EXPENSES (SERVI	E-WIDE)								
	(20.1 THR	U 20 6)								
EQUIPMENT	DEPRECIATION	(20 1)	448	471	382	-89 *	0.0020	0.0013	-0.0006 *	-32.6%
VEHICLE	DEPRECIATION	(20 2)	447	84	91	7	0.0003	0.0003	0.0000	-9.9%
BLDG & LEASEHLD	DEPRECIATION	(20 3)	420	3,504	4,183	679	0.0146	0.0145	-0.0001 *	-0.7%
INDEMNITIES		(20 4)	397	0	0	0.0000	0.0000	0.0000	0.0%	0.0%
INTEREST	EXPENSE	(20 5)	283	2,407	10,452	8,045	0.0100	0.0362	0.0262	261.1%
OTHER EXPENSES	& CREDITS	(20 6)	399	0	0	0.0000	0.0000	0.0000	0.0%	0.0%
TOTAL			475	6,466	15,108	8,642	0.0269	0.0523	0.0254	94.3%
TOTAL			485	277,437	281,429	3,992	1.1550	0.9744	-0.1807 *	-15.6%
						240,197 9/	288,827 9/			-100.0%

Sources

1/	FY 1994 Segments and Components	4/	Col(1)/Volume @ fnote 9	7/	Col(6) / Col(4)
2/	FY 1995 Segments and Components	5/	Col(2)/Volume @ fnote 9	8/	Col(6) component changes/ total % change
3/	Col(2) - col(1)	6/	Col(5) - Col(4)	9/	Worksheet B-1, W/S 1.1.2

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-1
Page 1 of 2

UPS/USPS-T5-1. Please refer to page 6 of your testimony at lines 11-12. Identify and describe all "changes between Fiscal Year 1993 and Fiscal Year 1994" (a) in the Postal Service's costing systems (including but not limited to the In-Office Cost System), (b) in Postal Service data collection forms, and (c) in the procedures or methods used in compiling the data, making calculations therefrom, or otherwise arriving at costs allocated or distributed to the various classes, subclasses, rate categories, or other groupings of mail.

UPS/USPS-T5-1(a) - (c) Response:

For IOCS changes between FY93 and FY 94, please reference LR-SSR-12 In-Office Cost System (IOCS), Handbook F-25 page 50. For carrier assigned to "OTHER ROUTE TYPE" the following sub-categories were added:

- a. Express Mail Delivery or Run
- b. Inter-City/Station Run
- c. VIM
- d. Other

All tallies for carriers on-street with "a. Express Mail Delivery or Run" marked were assigned to Express Mail activity code (2111).

Also, please reference LR-SSR-12 In-Office Cost System (IOCS), Handbook-F45, page 103 and 112. Class of Mail (F.) Bulk Small Parcel Service and Marking (L.) BSPS were added . Tallies marked as Class = (F.) Bulk Small Parcel Service were treated the same as tallies marked Class = (G.) 4th Class Zone Rate.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-1
Page 2 of 2

For TRACS, the following additions were made to the data entry software:

BSPS

DBMC Parcel Post

International Priority

Walk Sequence Bulk Rate Regular

Walk Sequence Bulk Rate Nonprofit.

City and Rural Carrier Cost data collection programs, and all related processing programs, were changed to collect and process BSPS.

The above were data collection and software changes only. There were no changes in the methodologies for calculating costs.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-2

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UPS/USPS-T5-2. In the case of each such change identified in response to interrogatory UPS/USPS-T5-1, indicate why each change was made and provide the effect of the change, in dollars, on the costs allocated or distributed to each of the various classes, subclasses, rate categories, or other groupings of mail.

UPS/USPS-T5-2 Response:

In the IOCS, Express Mail Delivery or Run was added in order to accurately capture the costs associated with carriers on the street performing express mail related activities. Attachment 1 reflects the costs distributed to express mail as a result of this data collection change. Bulk Small Parcel Service was added to the IOCS data collection system in the event that a new mail subclass resulted from the Bulk Small Parcel Service case. Attachment 2 reflects the costs allocated to various groupings of mail and special service by cost component when class was marked BPS.

With regard to the TRACS and carrier cost systems, the changes provided an additional level of detail that had no cost impact on the classes of mail and special services. No costs were shifted in or out of the classes mail. For example, all BPS costs remained in parcel post.

FISCAL YEAR 1994 - DOLLAR ED TALLIES (THOUSANDS)
 CARRIER ON STREET
 OTHER ROUTE TYPE = EXPRESS MAIL DELIVERY OR RUN

07:50 Thursday, August 8.

1

TABLE OF CRACCLASS BY CRACOMP

CRACCLASS	CRACOMP	
Frequency	C/S 6.1 DIR.LBR.	Total
11	EXPRESS	16938
Total	16937.8	16937.8

ANALYSIS OF F137 (Q23B - CLASS) MARKED BSPS
FISCAL YEAR 1994 - DOLLAR WEIGHTED TALLIES (THOUSANDS)
DIRECT AND MIXED MAIL BY COST COMPONENT

07:45 Thursday, August 8, 1996 1

TABLE OF CRACCLASS BY CRACOMP

CRACCLASS		CRACOMP					Total
Frequency		C/S 3.1 DIR.LBR.	C/S 3.2 WINDOW	C/S 3.3 CLM/INQ	C/S 6.1 DIR.LBR.	C/S 9.1 SPECDELV	
36 4TH	ZONE	20784	1074.8	62.982	4082.4	42.844	26047
42	USPS	429.47	0	0	0	0	429.47
72	OTHER SP SERV	281.58	0	0	0	0	281.58
96	MIXED LTRS	4176.3	0	0	2635.9	0	6812.2
97	MIXED FLATS	58.677	0	0	0	0	58.677
98	MIXED IPP/PCL	63.373	0	0	0	0	63.373
99	MIX ALL SHAPE	730.36	0	0	47.177	0	777.54
Total		26523.4	1074.82	62.9823	6765.54	42.8442	34469.5

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-3

Page 1 of 1

UPS/USPS-T5-3. Please refer to page 8 of your testimony at lines 7-20.

(a) Identify every cost that formerly was in one segment and that now is in another segment, and, in the case of each such cost, indicate the segments from which and the segments to which the costs were transferred.

(b) Do any of these changes affect the costs allocated or distributed to each of the various classes, subclasses, rate categories, or other groupings of mail? If so, describe how each of the various classes, subclasses, rate categories, or other groupings are affected.

UPS/USPS-T5-3 Response:

(a) See Attachment 1.

(b) See Attachment 2, which shows the impact of the changes reflected in Attachment 1 by classes and subclasses of mail and special services. See also USPS LR-SSR-134 for spreadsheets underlying Attachment 2.

Source: USPS LR-SSR-10, FY 1995 Expenses by Segment & Component																			
Account	Sub-Acc.	Description	Segment		Component		DK		1	2	3	4	6&7	8	9	10	11	12	13
			Old	New	Old	New	Old	New											
51337	101	Arbitration Settlements-Grievances & EEO Complaints	1	13	182	115	1-2	115	-259										259
51321	103	Special Achievement Awards	2	13	252	115		284	115		0								0
51321	130	Special Achievement Awards	2	13	252	115		284	115		0								0
51337	103	Arbitration Settlements-Grievances & EEO Complaints	2	13	252	115		284	115		-587								587
51337	130	Arbitration Settlements-Grievances & EEO Complaints	2	13	252	115		284	115		-15								15
51337	104	Arbitration Settlements-Grievances & EEO Complaints	3	13	253	115		478	115			-7,513							7,513
51337	107	Arbitration Settlements-Grievances & EEO Complaints	3	13	253	115		478	115			-2,410							2,410
51337	113	Arbitration Settlements-Grievances & EEO Complaints	6	13	256/7	115	256/838	115					-4,965						4,965
51337	114	Arbitration Settlements-Grievances & EEO Complaints	8	13	57	115		258	115					-207					207
51337	111	Arbitration Settlements-Grievances & EEO Complaints	9	13	58/59	115	474/59	115							-59				59
51336	190	Arbitration Settlements-Hempstead Route Adjustments	10	13	69/70	115	69/70	115								-3			3
51337	112	Arbitration Settlements-Grievances & EEO Complaints	10	13	69/70	115	69/70	115								-354			354
51337	121	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115		359	115								-1,902		1,902
51337	123	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115		75	115								-477		477
51337	127	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115		359	115								-156		156
51337	125	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115		79	115								-154		154
51337	141	Arbitration Settlements-Grievances & EEO Complaints	12	13	90	115		90	115									-174	174
51313	156	Employee Awards	13	18	115	1429		115	1429										0
51313	159	Employee Awards	13	18	115	191		115	191										0
51314	145	Individual Performance Awards	13	18	115	191		115	191										-40
52322		Travel-Consultants	13	18	124	211		827	211										-1,046
52969		Sale of Scrap-MES	13	16	121	189		827	830										5
54166		Data Communication Between Installations	15	16	168	174		393	830										
51321	147	Special Achievement Awards	16	18	173	1429		173	1429										
51337	147	Arbitration Settlements-Grievances & EEO Complaints	16	18	173	115		173	115										
52153		Natural Gas for Vehicles	16	12	177	99		389	99									130	
52411		IS Chargeback	16	18	184	211		184	211										
52412		Vehicle Sales Expense	16	20	175	245		184	399										
52415		Building Projects-Energy	16	15	184	169		184	393										
52417		Building Projects-Safety	16	15	184	169		184	393										
52438		Internal Mail Chargeback	16	18	184	211		184	211										
52439		Express Mail Chargeback	16	18	184	211		184	211										
54404		Voice Communication-Commercial	16	15	174	168		184	393										
54244		Opportunity Fund Research Projects	17	-	190	-													
54245		Opportunity Fund Research Projects-Contra Offset	17	-	190	-													
54246		Affirmative Action Development	17	18	190	211		190	211										
54249		Affirmative Action Development-Contra Offset	17	18	190	211		190	211										
52341		Health Services-Govt Agencies	18	16	210	177		210	389										
52418		Misc. Services Paid Locally	18	16	210	177		210	389										
52419		Misc. Services Paid by ISCs	18	16	210	177		210	389										
52427		Medical Expenses-On the Job Injury/Illness	18	16	210	177		210	389										
52428		Medical Expenses-Routine Examinations	18	16	210	177		210	389										
52429		Medical Expenses-Drug Testing	18	16	210	177		210	389										
52963		Proceeds from Sale of Excess Supply Inventories	18	16	213	189		213	830										
56607		Cost of Waste Disposal & Recycling	18	15	210	167		210	393										
56615		Interest-Settlement of Contract Disputes	18	20	210	1437		210	1437										
7		Interest-Late Payments to Contractors	18	20	210	1437		210	1437										

Source: USPS LR-SSR-10, FY 1995 Expenses by Segment & Component																		
Account	Sub-Acc.	Description	Segment		Component		DK		1	2	3	4	6&7	8	9	10	11	12
			Old	New	Old	New	Old	New										
56619		Interest on U.S. Court-Ordered Judgements	18	20	210	1437	210	1437										
56655		Employee Losses	18	20	212	242	212	397										
56870		Capitalized Interest	18	20	217	217	217	217										
58102		Interest-Notes	18	20	217	217	217	217										
58103		Interest-Mortgages	18	20	217	217	217	217										
58111		CSRS Unfunded Liability-Interest	18	20	201/2	1436	433	1436										
58113		Interest-Back Pay Awards	18	20	201/2	1437	433	1437										
58114		CSRS Annuitant COLA-Interest	18	20	201/2	1436	433	1436										
58115		Interest-Untimely Payments to TSP	18	20	201/2	1437	433	1437										
58116		Imputed Interest on Special Assessments	18	20	201/2	1436	433	1436										
51261		Unemployment compensation	20	18	241	241	241	241										
52220		Obsolete Inventories Written Off	20	16	245	182	399	830										
52325		Advertising & Sales Promotion	20	16	246	246	246	246										
52423		Misc. Services-Govt Agencies	20	16	245	177	399	389										
52425		Service Contracts-Equipment Operator Qualification	20	16	245	177	399	389										
52443		Cost of Embossed Stamped Envelopes	20	16	248	180	248	180										
52445		Olympic Retail Products	20	16	245	177	399	389										
52446		Mail-Related Retail Products	20	16	245	177	399	389										
52448		Non-Mail-Related Retail Products	20	16	245	177	399	389										
52913		Reimbursements-Services for Govt Agencies	20	16	249	189	399	830										
52914		Reimbursements-Misc	20	18	249	213	399	213										
52941		Uniform Allowance Procurement	20	18	249	213	399	213										
52951		Reimbursements-Manufacturer's Warranties	20	12	249	99	399	99										-898
52953		Reimb. for Vehicle Supplies & Services-Govt Agencies	20	12	249	99	399	99										-52
52955		Vehicle-Related Reimbursements-Other	20	12	249	99	399	99										-1,008
52967		Proceeds from Sale of Recyclables	20	16	249	189	399	830										
53593		Domestic Air Mail-Misc. Contract Fines/Penalties	20	14	249	142	399	142										
53903		Penalties & Adjustments Forestic Air Carriers	20	14	249	142	399	142										
53905		Penalties & Fines-Highway Carriers	20	14	249	142	399	142										
53909		Penalties & Fines-Rail Carriers	20	14	249	144	399	144										
53911		Penalties & Fines-Water Carriers	20	14	249	143	399	143										
53913		Penalties & Fines-Misc. Carriers	20	14	249	144	399	144										
54911		Reimbursement for Damage to USPS Property	20	16	249	189	399	830										
54913		Reimbursement for Damage to USPS Vehicles	20	12	249	99	399	99										-3,896
56671		Commissions on Money Orders-Other Countries	20	18	244	244	244	244										
56810		MES Items Shipped	20	16	245	184	399	184										
56820		MES Items Recieved	20	16	245	184	399	184										
56920		Rent Transferred to Capital Lease Accounts	20	15	231	165	236	329										
58301		Settlements Transactions SDRs)	20	14	245	1438	399	1438										

Source: USPS LR-SSR-10, FY 1995 Expenses by Segment & Component																
Account	Sub-Acc.	Description	Segment		Component		DK		14	15	16	17	18	19	20	
			Old	New	Old	New	Old	New								
51337	101	Arbitration Settlements-Grievances & EEO Complaints	1	13	1&2	115	1-2	115								
51321	103	Special Achievement Awards	2	13	252	115	284	115								
51321	130	Special Achievement Awards	2	13	252	115	284	115								
51337	103	Arbitration Settlements-Grievances & EEO Complaints	2	13	252	115	284	115								
51337	130	Arbitration Settlements-Grievances & EEO Complaints	2	13	252	115	284	115								
51337	104	Arbitration Settlements-Grievances & EEO Complaints	3	13	253	115	478	115								
51337	107	Arbitration Settlements-Grievances & EEO Complaints	3	13	253	115	478	115								
51337	113	Arbitration Settlements-Grievances & EEO Complaints	6	13	256/7	115	256/838	115								
51337	114	Arbitration Settlements-Grievances & EEO Complaints	8	13	57	115	258	115								
51337	111	Arbitration Settlements-Grievances & EEO Complaints	9	13	58/59	115	474/59	115								
51336	190	Arbitration Settlements-Hempstead Route Adjustments	10	13	69/70	115	69/70	115								
51337	112	Arbitration Settlements-Grievances & EEO Complaints	10	13	69/70	115	69/70	115								
51337	121	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115	359	115								
51337	123	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115	75	115								
51337	127	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115	359	115								
51337	125	Arbitration Settlements-Grievances & EEO Complaints	11	13	74/5/9	115	79	115								
51337	141	Arbitration Settlements-Grievances & EEO Complaints	12	13	90	115	90	115								
51313	156	Employee Awards	13	18	115	1429	115	1429						0		
51313	159	Employee Awards	13	18	115	191	115	191						0		
51314	145	Individual Performance Awards	13	18	115	191	115	191						40		
52322		Travel-Consultants	13	18	124	211	827	211						1,046		
52965		Sale of Scrap-MES	13	16	121	189	827	830			-5					
54166		Data Communication Between Installations	15	16	168	174	393	830		-1,447	1,447					
51321	147	Special Achievement Awards	16	18	173	1429	173	1429			0		0			
51337	147	Arbitration Settlements-Grievances & EEO Complaints	16	18	173	115	173	115			-150		150			
52153		Natural Gas for Vehicles	16	12	177	99	389	99			-130					
52411		IS Chargeback	16	18	184	211	184	211			-1,816		1,816			
52412		Vehicle Sales Expense	16	20	175	245	184	399			-15				15	
52415		Building Projects-Energy	16	15	184	169	184	393		4,549	-4,549					
52417		Building Projects-Safety	16	15	184	169	184	393		12,975	-12,975					
52438		Internal Mail Chargeback	16	18	184	211	184	211			20		-20			
52439		Express Mail Chargeback	16	18	184	211	184	211			-1		1			
54404		Voice Communication-Commercial	16	15	174	168	184	393		13,686	-13,686					
54244		Opportunity Fund Research Projects	17	-	190	-										
54245		Opportunity Fund Research Projects-Contra Offset	17	-	190	-										
54248		Affirmative Action Development	17	18	190	211	190	211				-4	4			
54249		Affirmative Action Development-Contra Offset	17	18	190	211	190	211				2	-2			
52341		Health Services-Govt Agencies	18	16	210	177	210	389			81		-81			
52418		Misc. Services Paid Locally	18	16	210	177	210	389			62		-62			
52419		Misc. Services Paid by ISCs	18	16	210	177	210	389			10		-10			
52427		Medical Expenses-On the Job Injury/Illness	18	16	210	177	210	389			9,405		-9,405			
52428		Medical Expenses-Routine Examinations	18	16	210	177	210	389			17,418		-17,418			
52429		Medical Expenses-Drug Testing	18	16	210	177	210	389			2,010		-2,010			
52963		Proceeds from Sale of Excess Supply Inventories	18	16	213	189	213	830			-171		171			
56607		Cost of Waste Disposal & Recycling	18	15	210	167	210	393		181			-181			
56615		Interest-Settlement of Contract Disputes	18	20	210	1437	210	1437					-3		3	
56617		Interest-Late Payments to Contractors	18		210	1437	210	1437					-1,796		1,796	

Source: USPS LR-SSR-10, FY 1995 Expenses by Segment & Component																
Account	Sub-Acc.	Description	Segment		Component		DK		14	15	16	17	18	19	20	
			Old	New	Old	New	Old	New								
56619		Interest on U.S. Court-Ordered Judgements	18	20	210	1437	210	1437					11		-11	
56665		Employee Losses	18	20	212	242	212	397					-101		101	
56870		Capitalized Interest	18	20	217	217	217	217					23,502		-23,502	
58102		Interest-Notes	18	20	217	217	217	217					-588,989		588,989	
58103		Interest-Mortgages	18	20	217	217	217	217					-954		954	
58111		CSRS Unfunded Liability-Interest	18	20	201/2	1436	433	1436					-1,145,417		1,145,417	
58113		Interest-Back Pay Awards	18	20	201/2	1437	433	1437					-778		778	
58114		CSRS Annuitant COLA-Interest	18	20	201/2	1436	433	1436					-218,903		218,903	
58115		Interest-Untimely Payments to TSP	18	20	201/2	1437	433	1437					-3		3	
58116		Imputed Interest on Special Assessments	18	20	201/2	1436	433	1436					-79,000		79,000	
51261		Unemployment compensation	20	18	241	241	241	241					90,022		-90,022	
52220		Obsolete Inventories Written Off	20	16	245	182	399	830			9,749				-9,749	
52325		Advertising & Sales Promotion	20	16	246	246	246	246			93,508				-93,508	
52423		Misc. Services-Govt Agencies	20	16	245	177	399	389			3,091				-3,091	
52425		Service Contracts-Equipment Operator Qualification	20	16	245	177	399	389			111				-111	
52443		Cost of Embossed Stamped Envelopes	20	16	248	180	248	180			8,953				-8,953	
52445		Olympic Retail Products	20	16	245	177	399	389			0				0	
52446		Mail-Related Retail Products	20	16	245	177	399	389			5,644				-5,644	
52448		Non-Mail-Related Retail Products	20	16	245	177	399	389			1,182				-1,182	
52913		Reimbursements-Services for Govt Agencies	20	16	249	189	399	830			-813				813	
52914		Reimbursements-Misc	20	18	249	213	399	213					-2,179		2,179	
52941		Uniform Allowance Procurement	20	18	249	213	399	213					-2,933		2,933	
52951		Reimbursements-Manufacturer's Warranties	20	12	249	99	399	99							898	
52953		Reimb. for Vehicle Supplies & Services-Govt Agencies	20	12	249	99	399	99							52	
52955		Vehicle-Related Reimbursements-Other	20	12	249	99	399	99							1,008	
52967		Proceeds from Sale of Recyclables	20	16	249	189	399	830			-2,235				2,235	
53593		Domestic Air Mail-Misc. Contract Fines/Penalties	20	14	249	142	399	142	-619						619	
53903		Penalties & Adjustments Domestic Air Carriers	20	14	249	142	399	142	-409						409	
53905		Penalties & Fines-Highway Carriers	20	14	249	142	399	142	-191						191	
53909		Penalties & Fines-Rail Carriers	20	14	249	144	399	144	-8,927						8,927	
53911		Penalties & Fines-Water Carriers	20	14	249	143	399	143	0						0	
53913		Penalties & Fines-Misc. Carriers	20	14	249	144	399	144	-487						487	
54911		Reimbursement for Damage to USPS Property	20	16	249	189	399	830			-1,060				1,060	
54913		Reimbursement for Damage to USPS Vehicles	20	12	249	99	399	99							3,896	
56671		Commissions on Money Orders-Other Countries	20	18	244	244	244	244					155		-155	
56810		MES Items Shipped	20	16	245	184	399	184			-6,733				6,733	
56820		MES Items Received	20	16	245	184	399	184			12,541				-12,541	
56920		Rent Transferred to Capital Lease Accounts	20	15	231	165	236	329		-19,367					19,367	
58301		Settlements Transactions (SDRs)	20	14	245	1438	399	1438	33,603						-33,603	

UPS/USPS-T5-3
Attachment 2

	\$ changes by New Distib. (1)	\$ changes by Old Distib. (2)	Difference col(1)-col(2) (3)
FIRST-CLASS MAIL:			
LETTERS & PARCELS	828,876	830,472	-1,596
PRESORT LTR & PCL	239,051	240,466	-1,414
POSTAL CARDS	1,867	1,651	216
PRIVATE POSTCARDS	25,797	25,762	34
PRESORT PRVT P CS	8,290	8,337	-47
TOTAL FIRST	1,103,881	1,106,689	-2,808
PRIORITY MAIL	66,795	66,503	293
EXPRESS MAIL	35,305	34,914	390
MAILGRAMS	60	61	-1
SECOND-CLASS MAIL			
WITHIN COUNTY	4,507	4,506	1
OUTSIDE COUNTY:			
REG RATE PUB	67,851	71,004	-3,153
NONPROFIT PUB	15,729	16,478	-749
CLASSROOM PUB	635	659	-24
TOTAL SECOND	88,721	92,647	-3,925
THIRD-CLASS MAIL:			
SINGLE PIECE RATE	14,123	14,318	-195
BULK RATE-REG			
CAR PRESORT	114,355	114,710	-354
OTHER	246,760	250,147	-3,387
TOTAL REGULAR	361,115	364,856	-3,741
BULK RATE-NONPROF			
CAR PRESORT	7,849	7,929	-80
OTHER	56,872	57,400	-528
TOTAL NONPROF	64,721	65,329	-607
TOTAL THIRD	439,959	444,503	-4,544
FOURTH-CLASS MAIL:			
PARCELS ZONE RATE	26,146	27,450	-1,304
BOUND PRNT MATTER	12,393	12,682	-289
SPC 4TH-CL RATE	0	2	-2
LIBRARY RATE	2,475	2,581	-106
TOTAL FOURTH	41,014	42,716	-1,701
US POSTAL SERVICE	12,996	13,096	-100
FREE MAIL-BIND & HNDC & SERVICEMEN	1,440	1,460	-20
INTERNATIONAL MAIL	74,271	41,041	33,230
TOTAL ALL MAIL	1,864,443	1,843,629	20,814
SPECIAL SERVICES:			
REGISTRY	4,031	3,869	162
CERTIFIED	17,465	17,426	39
INSURANCE	1,371	1,350	21
COD	1,271	1,265	6
SPECIAL DELIVERY	148	148	0
MONEY ORDERS	11,756	11,678	78
STAMPED ENVELOPES	294	9,245	-8,951
SPECIAL HANDLING	272	270	2
POST OFFICE BOX	23,495	20,261	3,234
OTHER	13,509	13,651	-143
TOTAL SPC SVCS	73,611	79,163	-5,551
ATTRIBUTABLE	1,938,054	1,922,791	15,263
OTHER	365,190	380,455	-15,264
TOTAL COSTS	2,303,245	2,303,246	-2

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-4
Page 1 of 2

UPS/USPS-T5-4. Please provide the "tally analysis" and all related workpapers or other documents referred to on line 21 of page 8 of your testimony.

UPS/USPS Response:

On August 7, 1996, I filed errata to line 21 of page 8 of my testimony, changing my reference to "tally analysis" for the IOCS to "reviewing" the IOCS, as a result of this interrogatory. Because the IOCS is a tally-based system, I consider any review or analysis a "tally" analysis. However, as a result of this interrogatory, I realized that my choice of words might have caused some confusion. There was no tally-by-tally count or moving of tallies with regard to the weighting of CAG B tallies discussed. Rather, there was a review of the relative proportion of accrued costs between mail processing and customer services offices within the IOCS CAG B sample and the same relative proportion of accrued costs within the universe of offices represented by the IOCS CAG B sample, as described in more detail in my response to UPS/USPS-T5-5. As such, there are no workpapers or other documents reflecting any tally analysis.

With regard to changes relating to Bulk Small Parcel Service (BSPS), Attachment 1 is a reconstruction of the BSPS tally analyses which indicated the need to refine the rules used to assign activity codes to BSPS tallies. Note the high incidence of letter and card shape in the BSPS tallies as well as the low

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
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weights recorded for many of the flat, ipp and parcel shape tallies.

With regard to changes relating to third-class, Attachment 2 is a reconstruction of the third-class bulk tally analyses which indicated the need to refine the rules used to assign activity codes to third-class bulk tallies. Bulk tallies being returned to sender or forwarded should be recorded as third-class single piece. Attachment 3 is a reconstruction of the third-class single piece SAS analyses which also indicated the need for refinement of rules for third-class single piece tallies. Mail pieces with bulk rate markings (ie. bulk and nonprofit), which are not being forwarded or returned to sender, should be recorded as third-class bulk rate.

Review of the domestic mail manual resulted in recognizing the need to identify First-Class ZIP+4 Barcoded flats in both the presort and nonpresort subclasses of First-Class .

TABLE OF WGT BY SHAPEX

WGT	SHAPEX	Frequency	CARD	CD	DADR	CD	OVSZ	CD	PSTL	LETTER	FLAT	IPP	PARCEL	Total
01 OZ	0	1	1	1	1	1	1	1	1	90	22	12	8	135
02 OZ	0	0	0	0	0	0	0	0	0	11	27	9	9	56
03 OZ	0	0	0	0	0	0	0	0	0	6	19	7	8	40
04 OZ	1	0	0	0	0	0	0	0	0	0	20	12	15	48
05 OZ	0	0	0	0	0	0	0	0	0	1	5	8	4	18
06 OZ	0	0	0	0	0	0	0	0	0	1	3	3	3	10
07 OZ	0	0	0	0	0	0	0	0	0	0	2	1	0	3
08 OZ	0	0	0	0	0	0	0	0	0	0	2	4	8	14
09 OZ	0	0	0	0	0	0	0	0	0	0	1	4	5	10
10 OZ	0	0	0	0	0	0	0	0	0	0	0	5	6	11
11 OZ	0	0	0	0	0	0	0	0	0	0	2	1	3	6
12 OZ	0	0	0	0	0	0	0	0	0	0	0	6	5	11
13 OZ	0	0	0	0	0	0	0	0	0	0	0	3	5	8
14 OZ	0	0	0	0	0	0	0	0	0	0	0	3	15	18
15 OZ	0	0	0	0	0	0	0	0	0	0	1	7	5	13
1 LB	0	0	0	0	0	0	0	0	0	0	3	1	11	15
OVER 1LB	0	0	0	0	0	0	0	0	0	0	11	26	69	106
Total	1	1	1	1	1	1	1	1	1	109	118	112	179	522

ANALYSIS OF F137 (Q .SS) MARKED BSPS
 FISCAL YEAR 1994 .. .GHTED TALLIES

MARKS DEFINITIONS:

A = ZIP + 4	F = NONPROFIT
B = ZIP + 4 BARCODED	G = PRINTED MATTER
C = PRESORTED	K = DBMC
D = CAR-RT SORT	L = BSPS
E = BULK RATE	

07:44 Thursday, August 8

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TABLE OF MARKS BY SHAPEX

MARKS(COMBINATIONS OF MARKINGS)	SHAPEX									Total
Frequency	CARD	CD DADR	CD OVSZ	CD PSTL	LETTER	FLAT	IPP	PARCEL		
-----	0	0	0	0	16	20	25	32		93
-----L	0	0	0	0	0	0	1	0		1
-----K-	0	0	0	0	0	0	3	5		8
-----G-----	0	0	0	0	0	5	1	1		7
-----F-----	0	0	0	0	13	5	0	3		21
-----E-----	1	1	1	1	42	45	68	96		255
-----E-----K-	0	0	0	0	0	0	0	1		1
-----E-G-----	0	0	0	0	0	0	1	1		2
-----EF-----	0	0	0	0	3	4	0	1		8
-----D-----	0	0	0	0	5	1	0	1		7
-----D-F-----	0	0	0	0	1	0	0	0		1
-----DE-----	0	0	0	0	5	5	0	1		11
-----C-----	0	0	0	0	1	0	0	0		1
Total (Continued)	1	1	1	1	109	118	112	179		522

ANALYSIS OF F137 (Q: ASS) MARKED BSPS
 FISCAL YEAR 1994 - UNLIGHTED TALLIES

MARKS DEFINITIONS:

A = ZIP + 4	F = NONPROFIT
B = ZIP + 4 BARCODED	G = PRINTED MATTER
C = PRESORTED	K = DBMC
D = CAR-RT SORT	L = BSPS
E = BULK RATE	

07:44 Thursday, August 8,

3

TABLE OF MARKS BY SHAPEX

MARKS(COMBINATIONS OF MARKINGS)	SHAPEX									Total
Frequency	CARD	CD DADR	CD OVSZ	CD PSTL	LETTER	FLAT	IPP	PARCEL		
--C---G-----	0	0	0	0	0	0	0	0	1	1
--C-E-----	0	0	0	0	2	1	0	0	1	4
-B-----	0	0	0	0	3	1	0	0	5	9
-B-E-----	0	0	0	0	2	5	2	2	4	13
-B-D-----	0	0	0	0	0	1	0	0	0	1
-B-DE-----	0	0	0	0	1	0	0	0	1	2
A-----	0	0	0	0	8	9	5	12		34
A-E-----	0	0	0	0	7	13	4	13		37
A-E-----L	0	0	0	0	0	0	1	0		1
A-EF-----	0	0	0	0	0	1	0	0		1
A-D-----	0	0	0	0	0	1	0	0		1
A-DE-----	0	0	0	0	0	1	0	0		1
A-C-E-----	0	0	0	0	0	0	1	0		1
Total	1	1	1	1	109	118	112	179		522

ANALYSIS OF F137 (Q23B), MARKED THIRD BULK
 FISCAL YEAR 1994 - UNWEIGHTED TALLIES
 MARKINGS DEFINITIONS: SUPPLEMENTAL SERVICE DEFINITIONS:
 CRTE = CAR-RT SORT FRWD = FORWARDED
 BULK = BULK RATE RTN = RETURN TO SENDER
 NPROF = NONPROFIT

10:18 Thursday, August 8,

1

TABLE OF MARKINGS BY SUPPL

MARKINGS	SUPPL					
Frequency	-----	-----RTN	FRWD ---	FRWD RTN	Total	
	70	1	3	0	74	
-----NPROF	3116	27	38	1	3182	
-----BULK	19557	100	164	10	19831	
-----BULK NPROF	1298	31	15	0	1344	
CRTE -----NPROF	195	1	1	0	197	
CRTE BULK	4889	10	7	1	4907	
CRTE BULK NPROF	103	1	0	0	104	
Total	29228	171	228	12	29639	

ANALYSIS OF F137 (Q23B) MARKED THIRD OZ RTE
 FISCAL YEAR 1994 LIGHTED TALLIES
 MARKINGS DEFINITIONS: SUPPLEMENTAL SERVICE DEFINITIONS:
 CRTE = CAR-RT SORT FRWD = FORWARDED
 BULK = BULK RATE RTN = RETURN TO SENDER
 NPROF = NONPROFIT

10:19 Thursday, August 1

TABLE OF MARKINGS BY SUPPL

MARKINGS	SUPPL	Frequency	RTN	FRWD	FRWD RTN	Total
		664	9	29	3	705
NPROF		269	1	4	2	276
BULK		406	13	7	0	426
BULK NPROF		25	3	2	0	30
CRTE		51	2	0	0	53
CRTE NPROF		8	0	0	0	8
CRTE BULK		73	0	0	0	73
Total		1496	28	42	5	1571

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-5
Page 1 of 1

UPS/USPS-T5-5. (a) Provide (1) every adjustment factor "for weighting CAG B tallies" referred to in your testimony at the bottom of page 8 and the top of page 9, (2) the unadjusted figures to which each adjustment factor was applied, and (3) the figures resulting from the application of each adjustment factor.

(b) Describe how each adjustment factor was determined.

UPS/USPS-T5-5 Response:

(a)

(1) The IOCS CAG B referred to in my testimony consists of designated CAG A and B offices grouped in the same pool for cost distribution. Two adjustment factors were applied to customer service offices sampled in the IOCS CAG B: 0.8721 for clerk and mailhandler tallies and 0.8705 for supervisor and professional, administrative and technical employee tallies.

(2) and (3) See Attachment. The column entitled "Sampled Offices in IOCS CAG B" contains the unadjusted ratios.

(b) See Attachment.

UPS/USPS-T5-5
Attachment
Page 1 of 2

Tables 1 and 2 below provide a comparison of the relative proportion of accrued costs between mail processing and customer service offices within the IOCS CAG B sample as compared with that same relative proportion of accrued costs within the universe of offices (sampled and not sampled) represented by the IOCS CAG B sample.

TABLE 1 . Comparison of Clerk and Mailhandler Accrued Costs between Sampled Offices in IOCS CAG B and All Offices Eligible for Sampling in IOCS CAG B.

<u>Type of Office</u>	<u>Sampled Offices in IOCS CAG B</u>	<u>All Offices Eligible for Sampling in IOCS CAG B</u>
Mail Processing	75.53%	77.97%
Customer Service	24.47%	22.03%
Total	100.00%	100.00%

TABLE 2 . Comparison of Supervisor and Professional, Administrative and Technical Accrued Costs between Sampled Offices in IOCS CAG B and All Offices Eligible for Sampling in IOCS CAG B.

<u>Type of Office</u>	<u>Sampled Offices in IOCS CAG B</u>	<u>All Offices Eligible for Sampling in IOCS CAG B</u>
Mail Processing	58.56%	61.88%
Customer Service	41.44%	38.12%
Total	100.00%	100.00%

No comparison was made for City Carrier costs as these costs were accrued exclusively within customer service offices.

UPS/USPS-T5-5
Attachment
Page 2 of 2

Adjustment factors to be applied to IOCS CAG B tallies to obtain the dollar weight for each tally were developed as follows:

1. For Clerks and Mailhandlers tallies in IOCS CAG B:

Factor for mail processing office tallies: $.7797 / .7553 = 1.0323$ (see Table 1)

Factor for customer service office tallies: $.2203 / .2447 = .9003$ (see Table 1)

By dividing both factors by 1.0323, only one factor needs to be applied to the customer service tallies:

$$.9003 / 1.0323 = .8721$$

2. For Supervisor and Professional, Administrative and Technical employee tallies:

Factor for mail processing office tallies: $.6188 / .5856 = 1.0567$ (see Table 2)

Factor for customer service office tallies: $.3812 / .4144 = .9199$ (see Table 2)

By dividing both factors by 1.0567, only one factor needs to be applied to the customer service tallies:

$$.9199 / 1.0567 = .8705$$

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
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UPS/USPS-T5-6
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UPS/USPS-T5-6. Provide every basis for your conclusion, stated on page 9 of your testimony at lines 1-3, that prior to the application of the adjustment factors, there was "an understatement of mail processing functions in CAG B offices" (emphasis added).

UPS/USPS-T5-6 Response:

See response to UPS/USPS-T5-5. The adjustments more closely aligned the IOCS mail processing and customer service ratios with the accrued cost mail processing and customer service ratios.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
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UPS/USPS-T5-7
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UPS/USPS-T5-7. Provide every basis for the conclusion stated on page 9 of your testimony at lines 5-6 that the way in which finance numbers were assigned "resulted in a potential bias."

UPS/USPS-T5-7 Response:

Without sample or cost weighting, there would have been a bias since the IOCS CAG B includes mail processing offices sampled at different rates but grouped in the same pool for cost distribution. See responses to OCA/USPS-T5-13.c, OCA/USPS-T5-14, and UPS/USPS-T5-5.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-8
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UPS/USPS-T5-8. Provide every basis for the conclusion stated on page 9 of your testimony at lines 5-7 that the "potential bias" referred to by you "undersampled mail processing functions and oversampled customer service functions" (emphasis added).

UPS/USPS-T5-8 Response:

Without sample or cost weighting, mail processing functions would have been underrepresented and customer service functions overrepresented. See responses to OCA/USPS-T5-13.c, OCA/USPS-T5-14, and UPS/USPS-T5-5.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-9

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UPS/USPS-T5-9. (a) Identify every adjustment factor referred to on line 8 of page 9 of your testimony, provide the figures to which each adjustment factor was applied, and provide the figures resulting from the application of each adjustment factor.

(b) Describe how each adjustment factor was determined.

UPS/USPS-T5-9 Response:

See response to UPS/USPS-T5-5.

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ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-10
Page 1 of 3

UPS/USPS-T5-10. Refer to page 9 of your testimony at lines 12-15.

(a) Identify and describe every "refinement[] in the rules used to assign activity codes for Bulk Small Parcel Service (BSPS), third-class single piece, and First-Class ZIP+4 barcoded flats" and, in the case of each refinement, state why it was made and the effect of the refinement on the costs allocated or distributed to Parcel Post, third-class single piece, First-Class ZIP+4 barcoded flats, and any other grouping or groupings of mail affected by the refinement.

(b) In the case of each such refinement, provide references to the computer code reflecting each refinement as well as references to the corresponding computer code as it existed prior to making the refinement.

(c) What training did the IOCS tally takers receive in connection with the implementation of these refinements?

UPS/USPS-T5-10 Response:

(a) Attachment 1 describes the refinement in the rules used to assign activity codes to BSPS tallies. The SAS analyses of BSPS tallies indicated that data collectors were incorrectly identifying tallies as BSPS. Refer to Attachment 2 for the effect of this refinement on cost allocation. Prior to the BSPS refinement, card and letter shape costs totaling \$2,952 would have been assigned to mixed mail. Flat, ipp, and parcel costs (\$13,588K) assigned to First-Class, third-class and fourth-class bound printed matter would have been assigned to fourth-class zone rate.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
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UPS/USPS-T5-10
Page 2 of 3

Attachment 3 describes the refinement in the rules used to assign activity codes for third-class tallies. The SAS analyses of third-class tallies indicated that data collectors were having difficulty distinguishing between the subclasses of third-class. Refer to Attachment 4 for the effect of this refinement in cost allocation. For mail processing direct labor, shown on page 1, \$22,486K was allocated to third-class single piece from third-class bulk class marked by the data collectors; \$39,281K was allocated to various third-class bulk subclasses from the third-class single piece indicated by the data collectors. The cost allocations resulting from the refinement for window service and carriers in-office are provided on pages 2-3 of the attachment.

First-Class Zip+4 barcoded flats without presort marking were being included in the First-Class presort category. This was corrected by placing these tallies in the nonpresort category. Refer to Attachment 5 for the effect of this refinement. The costs (\$9,869K) shown for First-Class Letters and Parcels would have been included in First-Class Presort Letters and Parcels prior to the refinement.

(b) New computer code reflecting the activity code assignment relating to the BSPS refinement is in Library Reference SSR-19, program ALB040C8, page 571, lines 23630 through 23860. New computer code reflecting BSPS refinement

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-10
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process is in Library Reference SSR-13, pages 16 through 18. For computer code as it existed prior to making the refinement, refer to Library Reference SSR-19, page 585 through 586, lines 31690 through 32200. Lines 31740 and 31900 checked for mail class 'F' (BSPS) and 'G' (4th Class Zone Rate), treating both class markings in the same manor when assigning activity codes.

New computer code reflecting new edit and consistency processing for the third-class refinement is in Library References SSR-19, program ALB060C6, page 676, lines 37230 through 37550. New computer code reflecting the refinement process is in SSR-13, pages 18. The computer code used to assign the unedited third-class activity codes is unchanged and may be found in Library Reference SSR-19, program ALB040C8, pages 573-574, lines 24740 through 25320 for card shape, and pages 583-584, lines 30430 through 30970 for all other shapes.

Computer code reflecting the refinement to First-Class ZIP+4 barcoded flats is in Library Reference SSR-19, page 582, lines 29770 through 30000. For computer code as it existed prior to making the refinement simply remove lines 29850 through 29950.

(c) None.

BSPTS (CLASS OR MARKING)

TESTS ARE PERFORMED IN THE FOLLOWING SEQUENCE, ONCE A CONDITION IS MET, NO FURTHER TESTS ARE MADE

HIGH ORDER (SHAPE) POSITION OF ACTIVITY CODE RETAINED EXCEPT WHERE NOTED

WEIGHT > 1 LB

- IF INDICIA = H (USPS) ASSIGN ACTIVITY CODE -510 (USPS)
- IF MARKINGS/ENDORSEMENT = DBMC OR BSPTS ASSIGN ACTIVITY CODE 4491/4492 (based on org/dest ZIP) [ZONE RATE PARCEL]
- IF MARKINGS/ENDORSEMENT = PRINTED MATTER AND CAR-RT ASSIGN ACTIVITY CODE 4495/4496 (based on org/dest ZIP) [BOUND PRINTED MATTER]
- IF MARKINGS/ENDORSEMENT = PRINTED MATTER AND BULK RATE ASSIGN ACTIVITY CODE 4480/4490 (based on org/dest ZIP) [BOUND PRINTED MATTER]
- IF MARKINGS/ENDORSEMENT = PRINTED MATTER ASSIGN ACTIVITY CODE 4460/4470 (based on org/dest ZIP) [BOUND PRINTED MATTER]
- IF MARKINGS/ENDORSEMENT = BULK RATE ASSIGN ACTIVITY CODE 4491/4492 (based on org/dest ZIP) [ZONE RATE PARCELS]
- IF NONE OF THE ABOVE ASSIGN TO 4400/4410 (based on org/dest ZIP) [ZONE RATED PARCELS]

WEIGHT < OR = 1 LB

- IF INDICIA = H (USPS) ASSIGN ACTIVITY CODE -510 (USPS)
- IF MARKINGS/ENDORSEMENT = WALK SEQUENCE AND NON PROFIT ASSIGN ACTIVITY CODE -330 [BULK NON-PROFIT CAR-RT]
- IF MARKINGS/ENDORSEMENT = CAR-RT AND NON PROFIT ASSIGN ACTIVITY CODE -330 [BULK NONPROFIT CAR-RT]
- IF MARKINGS/ENDORSEMENT = NON PROFIT ASSIGN ACTIVITY CODE -350 [BULK NON-PROFIT OTHER]
- IF MARKINGS/ENDORSEMENT = WALK SEQUENCE AND BULK RATE ASSIGN ACTIVITY CODE -310 [BULK REGULAR CAR-RT]
- IF MARKINGS/ENDORSEMENT = CAR-RT AND BULK RATE ASSIGN ACTIVITY CODE -310 [BULK REGULAR CAR-RT]
- IF MARKINGS/ENDORSEMENT = BULK RATE ASSIGN ACTIVITY CODE -340 [BULK REGULAR OTHER]
- IF SHAPE = DETACHED ADDRESS PARENT UNKNOWN OR PIECE IS ACCOMPANIED BY DETACHED ADDRESS CARD ASSIGN ACTIVITY CODE -340 [BULK REGULAR OTHER]
- IF WEIGHT > 11 OZ ASSIGN ACTIVITY CODE -360 [THIRD OUNCE RATE]
- IF SHAPE = POSTAL CARD/PRIVATE MAILING CARD/OTHER AGENCY CARD AND MARKING = CAR-RT ASSIGN TO -045 [PRIVATE CARD - PRESORT]
- IF SHAPE = POSTAL CARD/PRIVATE MAILING CARD/OTHER AGENCY CARD AND MARKING = ZIP+4 AND PRESORTED ASSIGN TO -051 [PRIVATE CARD PRESORT]
- IF SHAPE = POSTAL CARD/PRIVATE MAILING CARD/OTHER AGENCY CARD AND MARKING = ZIP+4 ASSIGN TO -052 [PRIVATE CARD]
- IF SHAPE = POSTAL CARD/PRIVATE MAILING CARD/OTHER AGENCY CARD AND MARKING = PRESORTED ASSIGN TO -040 [PRIVATE CARD PRESORT]
- IF SHAPE = POSTAL CARD/PRIVATE MAILING CARD/OTHER AGENCY CARD AND MARKING = ZIP+4 BARCODED ASSIGN TO -056 [PRIVATE CARD]
- IF SHAPE = POSTAL CARD/PRIVATE MAILING CARD/OTHER AGENCY CARD ASSIGN TO -020 [PRIVATE CARD]
- IF MARKING = ZIP+4 AND PRESORTED ASSIGN TO -091 [PRIVATE CARD PRESORT]
- IF MARKING = ZIP+4 ASSIGN TO -092 [PRIVATE CARD]
- IF MARKING = PRESORTED ASSIGN TO -080 [FIRST-CLASS LETTERS PRESORTED]
- IF MARKING = CAR-RT ASSIGN TO -085 [FIRST-CLASS LETTERS PRESORT]

ANALYSIS OF F137 (Q23B - CLASS) MARKED BSPS
FISCAL YEAR 1995 - DOLLAR WEIGHTED TALLIES (THOUSANDS)
DIRECT, SPECIAL SERVICE AND MIXED MAIL BY COST COMPONENT

08:10 Thursday, August 8, 1996 1

CRACOMP=C/S 3.1 DIR.LBR.

TABLE OF CRACCLASS BY SHAPEX

CRACCLASS	SHAPEX										
Frequency	CARD	CD OVSZ	CD PSTL	LETTER	USPS FM	FLAT	IPP	PARCEL	Total		
01 1ST LTR/PCL	0	0	0	1085.5	0	677.78	1151.1	1150.8	4065.2		
02 1ST PS LTR	0	0	0	104.36	0	131.83	67.961	0	304.15		
25 3RD SINGLE PC	0	0	0	56.805	0	198.81	375.53	1292.3	1923.5		
27 3RD REG OTHR	123.88	48.803	116.09	1066.1	0	1687.1	3142.2	3374.1	9558.2		
31 3RD NP C-RTE	0	0	0	0	0	0	0	53.822	53.822		
32 3RD NP OTHER	61.867	0	0	224.5	0	64.823	0	0	351.19		
36 4TH ZONE	0	0	0	63.871	0	737.18	1178.1	2880.5	4859.7		
37 4TH BPM	0	0	0	0	0	3.8894	101.73	113.89	219.5		
42 USPS	0	0	0	0	73.422	0	58.663	212.67	344.76		
72 OTHER SP SERV	0	0	0	55.107	0	57.678	0	134.07	246.85		
Total	185.749	48.8034	116.095	2656.19	73.4221	3559.06	6075.38	9212.12	21926.8		

ANALYSIS OF F137 (Q23B - CLASS) MARKED BSPS
FISCAL YEAR 1995 - DOLLAR WEIGHTED TALLIES (THOUSANDS)
DIRECT, SPECIAL SERVICE AND MIXED MAIL BY COST COMPONENT

08:10 Thursday, August 8, 1996 2

----- CRACOMP=C/S 3.2 WINDOW -----

TABLE OF CRACCLASS BY SHAPEX

CRACCLASS		SHAPEX			Total
Frequency		LETTER	IPP	PARCEL	
01 1ST	LTR/PCL	0	0	213.63	213.63
27 3RD	REG OTHR	0	0	179.18	179.18
32 3RD	NP OTHER	75.573	0	0	75.573
36 4TH	ZONE	0	237.52	396.57	634.1
37 4TH	BPM	0	0	59.262	59.262
Total		75.5732	237.523	848.647	1161.74

ANALYSIS OF F137 (Q23B - CLASS) MARKED BSPS
FISCAL YEAR 1995 - DOLLAR WEIGHTED TALLIES (THOUSANDS)
DIRECT, SPECIAL SERVICE AND MIXED MAIL BY COST COMPONENT

08:10 Thursday, August 8, 1996 3

----- CRACOMP=C/S 6.1 DIR.LBR. -----

TABLE OF CRACCLASS BY SHAPEX

CRACCLASS	SHAPEX									
Frequency		CD DADR	CD OVSZ	CD PSTL	LETTER	FLAT	IPP	PARCEL	Total	
01 1ST LTR/PCL		0	0	0	474.18	325	156.92	183.4	1139.5	
02 1ST PS LTR		0	0	0	291.24	63.986	0	0	355.23	
04 1ST POST CD		0	0	24.71	0	0	0	0	24.71	
25 3RD SINGLE PC		0	0	0	0	49.835	106.75	0	156.59	
26 3RD REG C-RT		0	0	0	112.03	0	0	0	112.03	
27 3RD REG OTHR		135.08	56.196	0	948.78	497.34	341.87	266.32	2245.6	
31 3RD NP C-RTE		0	0	0	49.42	0	0	0	49.42	
32 3RD NP OTHER		0	0	0	180.56	152.76	0	0	333.31	
36 4TH ZONE		0	0	0	0	163.56	112.03	0	275.59	
37 4TH BPM		0	0	0	0	0	18.164	67.26	85.423	
66 COD		0	0	0	0	0	0	49.42	49.42	
Total		135.079	56.1956	24.71	2056.2	1252.48	735.732	566.407	4826.8	

FY 1995 RULES USED ASSIGN ACTIVITY CODES TO IOCS VALUES MARKED THIRD CLASS OZ RATE OR THIRD CLASS BULK

CLASS = BULK RATE (REGULAR OR NON PROFIT WITH OR WITHOUT CAR-RT)

IF ANCILLARY/SUPPLEMENTAL MAIL SERVICE = FORWARDED OR RETURN TO SENDER REASSIGN - 360 (3RD SINGLE PIECE)

CLASS = 3RD OZ RATE

IF ANY OF THE FOLLOWING AREAS ARE MARKED, THE TALLY REMAINS - 360 (3RD OZ RATE):

CARRIER ACTIVITY = HANDLING UNDELIVERED AS ADDRESS MAIL
WRITING MARKUPS

CHANGE OF ADDRESS LABELS

MISSENT MAIL (WRITING UP)

MISCELLANEOUS ACTIVITIES (CLERK/MAIL HANDLER) = POSTAGE DUE
CENTRAL MAIL MARKUP

IF ANCILLARY/SUPPLEMENTAL MAIL SERVICE FORWARDED OR RETURN TO SENDER THE TALLY REMAINS - 360 (3RD SINGLE PIECE)

IF MARKINGS = NON-PROFIT AND CAR-RT REASSIGN ACTIVITY CODE - 330 (BULK NON-PROFIT CAR-RT)

IF MARKINGS = NON-PROFIT REASSIGN ACTIVITY CODE - 350 (BULK NON-PROFIT OTHER)

IF MARKINGS = BULK AND CAR-RT REASSIGN ACTIVITY CODE - 310 (BULK REGULAR CAR-RT)

IF MARKINGS = BULK REASSIGN ACTIVITY CODE - 340 (BULK REGULAR OTHER)

NOTE: TALLIES ASSIGNED TO THIRD CLASS FROM BSPTS ALSO GO THRU THE THIRD CLASS RULES

ANALYSIS OF THIRD CLASS TALLIES WITH
 QUESTION 238 (CLASS) MARKED THIRD BULK OR OZ RATE
 FISCAL YEAR 1995 - DOLLAR WEIGHTED TALLIES (THOUSANDS)

15:48 Thursday, August 8, 1996 1

----- CRACOMP=C/S 3.1 DIR.LBR. -----

TABLE OF CRACCLASS BY CLASS137

CRACCLASS		CLASS137(CLASS MARKED BY DATA COLLECTOR)		
Frequency		3RD BULK	3RD OZ	Total
25 3RD	SNGLE PC	22486	27582	50068
26 3RD	REG C-RT	131456	1532.5	132989
27 3RD	REG OTHR	795551	21938	817489
31 3RD	NP C-RTE	11822	62.058	11884
32 3RD	NP OTHER	167826	15748	183574
Total		1129140	66863.1	1196003

ANALYSIS OF FIRST CLASS ZIP + 4 BARCODED FLATS
FISCAL YEAR 1995 - DOLLAR WEIGHTED TALLIES (THOUSANDS)

09:46 Friday, August 9, 1996 1

TABLE OF CRACCLASS BY CRACOMP

CRACCLASS		CRACOMP			Total
Frequency		C/S 3.1 DIR.LBR.	C/S 3.2 WINDOW	C/S 6.1 DIR.LBR.	
01 1ST	LTR/PCL	8936	73.422	859.57	9868.9
02 1ST	PS LTR	860.74	0	341.18	1201.9
42	USPS	231.08	0	0	231.08
Total		10027.8	73.4221	1200.75	11301.9

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-11
Page 1 of 1

UPS/USPS-T5-11. Identify and describe all of the "BSPS changes. . .in the assignment of tallies for bulk small parcels" referred to on lines 15-16 of page 9 of your testimony. In the case of each such change, provide the dollar amount of costs shifted away from parcel post and identify the class, subclass, or rate category to which the costs were shifted.

UPS/USPS-T5-11 Response:

See my response to UPS/USPS-T5-10.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-12
Page 1 of 1

UPS/USPS-T5-12. Provide every basis for your conclusion, stated on lines 15-16 of page 9 of your testimony, that there was an "overstatement" to parcel post in the assignment of tallies for bulk small parcels.

UPS/USPS-T5-12 Response:

See my response to UPS/USPS-T5-10.

**ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

**UPS/USPS-T5-13
Page 1 of 1**

UPS/USPS-T5-13. Refer to lines 19-21 on page 9 of your testimony. Identify every way in which "the rules used to assign tallies for some third-class mail pieces were refined."

UPS/USPS-T5-13 Response:

See my response to UPS/USPS-T5-10.

ANSWER OF RICHARD PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE

UPS/USPS-T5-14
Page 1 of 1

UPS/USPS-T5-14. Identify and describe every other change in data collection forms, procedures, or methods not identified in the answers to interrogatories UPS/USPS-T5-1 through UPS/USPS-T5-16 that affects or affected in any way the amount of costs allocated or distributed to parcel post from Fiscal Year 1994 to Fiscal Year 1995, and, in the case of each such change, (a) state the dollar amount of costs shifted away from parcel post and (b) the dollar amount of costs shifted to parcel post.

UPS/USPS-T5-14 Response:

I know of no other changes that affect costs allocated or distributed to parcel post from Fiscal Year 1994 to 1995.

1 PRESIDING OFFICER QUICK: Does any participant
2 have written cross examination for witness Patelunas?

3 [No response.]

4 CHAIRMAN GLEIMAN: Only one participant, Office of
5 Consumer Advocate requested oral cross examination of
6 Witness Patelunas. Does any other participant have oral
7 cross examination for this witness?

8 [No response.]

9 PRESIDING OFFICER QUICK: Mr. Ruderman, you can
10 please begin.

11 CROSS EXAMINATION

12 BY MR RUDERMAN:

13 Q Good afternoon, Mr. Patelunas. I have three, very
14 brief questions for you.

15 Witness Landwehr indicates at page 9 of his
16 testimony that, non-residents cause additional costs because
17 they fail to pick up their mail regularly. Are these costs
18 attributed to box holder service?

19 A You got to read that one back to me.

20 Q Sure, I'll read it again to you.

21 Witness Landwehr testifies or will testify
22 that non-residents cause additional costs to the Postal
23 Service because they fail to pick up their mail regularly.
24 Are these costs attributed to post office box service?

25 A If it is in segment three, it would be picked up

1 as attributed to post office boxes. If it were window
2 service or an admin cost associated with that, as far as
3 being a non-resident distinction, that is not in the CRA.

4 MS. DUCHEK: If I could just interject here for a
5 moment.

6 Actually, what Witness Landwehr said on page 9,
7 line 25 of his testimony is that, non-resident post office
8 box customers tend to create greater administrative
9 requirements. I do not believe he used the word cause.

10 BY MR. RUDERMAN:

11 Q Well, the administrative requirements do cause
12 costs, do they not, normally?

13 A They would and, as I said, if it was in segment
14 three and it was window services or admin, it may go to post
15 office box attribution.

16 Q Do you know whether these type of additional
17 administrative burdens which create costs are part of admin
18 costs?

19 A All of the, all of the costs associated with the
20 post office box function are going to be attributed, whether
21 they are additional or for any other reasons. That is not a
22 distinction that I would make.

23 Q Also, Witness Landwehr, at page 9, indicates that
24 non-residents create clutter in the lobby of the facilities.
25 When the non-residents create clutter, does this result in

1 additional costs to the Postal Service?

2 A It may. If you are asking me where it is going to
3 show up in the CRA, it would not show up as an additional
4 cost. It would show up as a cost. If they are cleaning up
5 clutter in the lobby, it is a maintenance-type costs.

6 Q Would that be attributed to post office boxes or
7 not?

8 A It may be.

9 Q In what circumstances would it be attributed to
10 post office boxes service?

11 A For instance, the maintenance cost, it is a space-
12 related cost and the space maintenance associated with post
13 office boxes is attributed.

14 Q And is the space in the lobby associated with Post
15 Office boxes or to some other functional --

16 A Some of it is Post Office boxes.

17 Q If the Postal Service's proposal to implement a
18 nonresident surcharge is approved by the governors and the
19 Commission, is it the Postal Service's intent to identify
20 separately the cost of servicing nonresident box holders in
21 the future?

22 A I don't know of any plans to do that.

23 Q So at this point, there is no intent to separately
24 identify these costs?

25 A Not as far as I know in the CRA, no.

1 Q That concludes my questioning.

2 PRESIDING OFFICER QUICK: I assume there is -- is
3 there any followup cross-examination? I guess not,
4 probably, at this point.

5 Questions from the Bench?

6 CHAIRMAN GLEIMAN: No.

7 COMMISSIONER HALEY: Nor do I.

8 PRESIDING OFFICER QUICK: Well, I have two.

9 Mr. Patelunas, we have noticed a lot of window
10 service charges to lock boxes for fiscal year 1995,
11 approximately \$71 million in clerk and mail handler charges
12 alone. And POIRs 1 and 2, requests were made to provide
13 examples of the type of window services provided.

14 In your answers, you referred readers to manuals
15 which divided the activities into serving a customer,
16 window-related office activity at a window, and window-
17 related office activity away from the window.

18 Could you please expand on these definitions by
19 providing some examples of these service activities that
20 relate to lock boxes and caller service?

21 The activity codes in question are 5041, 6020 and
22 6030. If you cannot recall examples at this time, could you
23 follow up in writing with some specific examples?

24 THE WITNESS: Examples would be if the -- there is
25 a parcel that is too large for a box, the customer has to go

1 to the window and the window service clerk has to go get the
2 parcel. If there is mail overflow, the same situation
3 holds.

4 The usual administrative tasks of administering a
5 box which might be window service away from the window, for
6 instance changing the locks when the ownership of the box or
7 the rentership changes, paying the annual fees, getting
8 additional keys, situations where the customer might forget
9 their key and the window service clerk has to go get their
10 mail. Those are the window service type activities that
11 would be associated with a Post Office box.

12 PRESIDING OFFICER QUICK: Thank you.

13 Your Exhibit T-5-D provides the volume of mail for
14 fiscal year '95, the base year in this docket. The cited
15 source for these volumes is USPS Library Reference SSR-102.

16 In this library reference, the volumes are
17 purported to be the forecasts underlying the President's
18 fiscal year 1997 budget for the U.S. government, however
19 there also exists an RPW report dated December 5, 1995,
20 which provides actual fiscal year 1995 volumes that are
21 significantly different from the T-5-D volumes.

22 Could you discuss why you used the forecasted
23 volumes for fiscal year '95 when the actual volumes for
24 fiscal year '95 were available in early December of 1995?

25 THE WITNESS: In early stages of case preparation,

1 that preliminary forecast was available. Granted, it gave
2 preliminary '95, but it also forecasted to '96.

3 It wasn't until after RPW came out that there
4 would have been a forecast of '96 and, '96 being a test
5 year, I needed '96 volumes to operate and that was the --
6 what went into the President's budget forecast was at that
7 point, it was the latest one and it is also what the -- the
8 financials, the financial projections for '96, the Postal
9 Service's financial projections for '96 were predicated on
10 that rather than the actual RPW numbers because the
11 budget -- this -- my -- what I used in the forecast more
12 paralleled more the -- the outlook for the Postal Service at
13 that point.

14 PRESIDING OFFICER QUICK: Did that --
15 Commissioner, any further questions?

16 COMMISSIONER HALEY: No questions.

17 PRESIDING OFFICER QUICK: Does any participant
18 have followup cross-examination as a result of the questions
19 from the Bench?

20 CHAIRMAN GLEIMAN: Can I? I have a question I
21 would like to ask.

22 PRESIDING OFFICER QUICK: Chairman Gleiman.

23 CHAIRMAN GLEIMAN: I think I understand what you
24 just said about why you use one set of numbers and not
25 another and when they were available. What's the

1 difference? You know, what would the impact have been using
2 the RPW numbers as opposed to the projected numbers that you
3 had included in the President's budget?

4 THE WITNESS: I don't know and I would really
5 hazard to guess at that one because that would -- that would
6 change the base volumes, that would change the '96 forecast
7 and that would change the underlying labor that would need
8 to move that mail. There is -- it is more than just
9 changing a column of numbers.

10 CHAIRMAN GLEIMAN: I realize that. That's --

11 THE WITNESS: And I don't know the impact and,
12 after dealing with the roll forward process for this amount
13 of time, I would really hesitate to give a guess on that
14 one. I don't know what the impact would be.

15 CHAIRMAN GLEIMAN: Is it conceivable that they
16 could be on the order of one percent difference in volumes?

17 THE WITNESS: It is conceivable. I really don't
18 know.

19 CHAIRMAN GLEIMAN: A shot in the dark.

20 So the numbers that we have on the table, which
21 were properly based, given the timing on -- according to
22 your response, on the earlier projections as opposed to the
23 real numbers, that there could be a significant difference
24 had the real numbers been used?

25 THE WITNESS: If one percent is significant. I

1 don't know whether it is or not.

2 CHAIRMAN GLEIMAN: Okay.

3 PRESIDING OFFICER QUICK: Any further cross
4 examination as a result of questions from the bench?

5 [No response.]

6 PRESIDING OFFICER QUICK: That brings us to
7 redirect.

8 Ms. Duchek would you like an opportunity to
9 consult with your witness before starting redirect.

10 MS. DUCHEK: No, I do not believe that is
11 necessary. There will be no redirect.

12 CHAIRMAN GLEIMAN: Mr. Presiding Officer, may I
13 ask your indulgence? One other questions crosses my mind

14 PRESIDING OFFICER QUICK: We will back up your
15 response.

16 CHAIRMAN GLEIMAN: If you will roll the tape back.

17 MS. DUCHEK: Then I retract my reference to no
18 redirect.

19 CHAIRMAN GLEIMAN: Oh, you won't have any problem
20 with this question.

21 Earlier on, you talked about, in response to a
22 question Mr. Ruderman asked you about the attribution and
23 costs of cleaning up lobbies. I noticed in looking at the
24 financial summaries for accounting period 11, that the
25 Postal Service had spent \$100 million less year to date on

1 contract cleaning services than they had last year, the same
2 period last year.

3 Are contract cleaning services, services that are
4 used to clean lobbies of discarded advertising mail that may
5 have come out of post office boxes?

6 THE WITNESS: Sometimes. In general, what we
7 have, what these contract services are for is the smaller
8 offices. The bigger offices have their own maintenance
9 staff.

10 CHAIRMAN GLEIMAN: That is what I thought.

11 So, where you have a lot of post office boxes out
12 in the boonies and there is a lot of third class mail --
13 excuse me -- standard advertising mail in there that might
14 be discarded in the offices by people who are non-residents
15 who come in there and they make a big mess, that cost is
16 probably contract cleaning costs?

17 THE WITNESS: I don't know whose costs and why the
18 mess. I don't know whether it is in large or small offices.

19 CHAIRMAN GLEIMAN: I was just wondering because it
20 appears to me that there may be an attributable cost element
21 that is grossly overstated if you use projections from last
22 year versus the real numbers we are now ^{experiencing} ~~experiences~~. I am
23 not sure how we divide that \$40 million that was spent this
24 year which, as I said, is a \$100 million less than was spent
25 last year.

1 Okay, just kind of curious about it. Thank you.

2 That really was the last one.

3 PRESIDING OFFICER QUICK: Ms. Duchek, do you
4 require any redirect?

5 MS. DUCHEK: No, I do not.

6 PRESIDING OFFICER QUICK: Since there is no
7 redirect, then there cannot be any followup to redirect.

8 So, thank you, Mr. Patelunas. We appreciate your
9 contribution to the record as always. If there is nothing
10 further, you may be excused.

11 THE WITNESS: Thank you.

12 [Witness excused.]

13 MR. HOLLIES: At this time, the Postal Service
14 calls --

15 PRESIDING OFFICER QUICK: I'm sorry. Would you
16 identify yourself just for the record?

17 MR. HOLLIES: Certainly.

18 PRESIDING OFFICER QUICK: I neglected to do that
19 before and I should be doing that.

20 MR. HOLLIES: My name is Ken Hollies, Kenneth
21 Hollies. I am here on behalf of the Postal Service.

22 PRESIDING OFFICER QUICK: Thank you.

23 MR. HOLLIES: At this time, the Postal Service
24 calls Timothy B. Ellard to the stand.

25 PRESIDING OFFICER QUICK: Mr. Ellard will you

1 raise your right hand?

2 Whereupon,

3 TIMOTHY B. ELLARD,

4 a witness, was called for examination by counsel for the
5 Postal Service and, having been first duly sworn, was
6 examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. HOLLIES:

9 Q Mr. Ellard, I am handing you two copies of a
10 document that are marked as Direct Testimony of Timothy B.
11 Ellard on Behalf of United States Postal Service, in Docket
12 No. MC96-3. I will ask if you can identify those?

13 A Yes, I can.

14 Q What are they?

15 A They are --

16 PRESIDING OFFICER QUICK: Would you turn your
17 microphone on please.

18 BY MR. HOLLIES:

19 Q What are they?

20 A They are copies of my direct testimony.

21 Q Were they prepared by you or under your direction?

22 A Yes, they were?

23 Q If you were to testify today, would your testimony
24 be what is in that document?

25 A Yes, it would

1 MR. HOLLIES: With that, the Postal Service would
2 like to move copies of this testimony into the record.

3 PRESIDING OFFICER QUICK: Are there any
4 objections?

5 [No response.]

6 PRESIDING OFFICER QUICK: Hearing none, the
7 testimony and exhibits are received into evidence. As is
8 our practice, they will not be transcribed.

9 [Exhibit No. USPS-T-6 was marked
10 for identification and received
11 into evidence.]

12 PRESIDING OFFICER QUICK: Mr. Hollies, is your
13 witness available for cross examination?

14 MR. HOLLIES: Yes, although I wonder if I
15 shouldn't cover a point that I should have covered just a
16 second ago.

17 PRESIDING OFFICER QUICK: All right.

18 MR. HOLLIES: There is one change to that
19 testimony from the way it was originally filed. I would
20 like to ask the witness to describe what that change was.

21 THE WITNESS: In response to one of the
22 interrogatories, specifically OCA 16, we modified one of
23 the tables, Table No. 4, to include one more line so that
24 everything balanced out nicely.

25 MR. HOLLIES: A copy of that was provided in

1 connection with the response to OCA 16. It also appears,
2 therefore, in the designated written cross as well.

3 PRESIDING OFFICER QUICK: All right, okay.

4 Mr. Ellard, have you had an opportunity to examine
5 the packet of designated written cross examination that was
6 made available to you earlier this morning.

7 THE WITNESS: Yes, I have.

8 PRESIDING OFFICER QUICK: If these questions were
9 asked of you today, would your answers be the same as you
10 previously provided in writing?

11 THE WITNESS: They would be.

12 PRESIDING OFFICER QUICK: Two copies of the
13 corrected, designated written cross examination of Witness
14 Ellard will be given to the reporter and I direct that they
15 be accepted into evidence and transcribed into the record at
16 this point.

17 [The Designated Written Cross-
18 Examination of Timothy D. Ellard
19 was received into evidence and
20 transcribed into the record.]

21
22
23
24
25

POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications

Docket No. MC96-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE WITNESS
TIMOTHY D. ELLARD
(USPS-T-6)

The parties listed below have designated answers to interrogatories directed to witness Ellard as written cross-examination.

Party

Answers To Interrogatories

Office of the Consumer Advocate

OCA/USPS: Interrogatories T6-1-29

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a large, stylized initial 'M'.

Margaret P. Crenshaw
Secretary

- OCA/USPS-T6-1. Please refer to page 9 of SSR-111. This section describes how the first sample box is determined when all boxes are at one location.
- a. Please confirm that the first sampled box is determined by the placement interval. For example if the placement interval is 2, then the first sampled box would be the second rented box. If you do not confirm, please explain.
 - b. Please confirm that if the placement interval is 2 or larger, then it is impossible for the first rented box to be included in sample. If you do not confirm, please explain.
 - c. Please confirm that if the placement interval is 3 or larger, then it is impossible for the first two rented boxes to be included in sample. If you do not confirm, please explain.
 - d. Please confirm that if the placement interval is $k \geq 2$ then it is impossible for the first $k-1$ boxes to be included in the sample. If you do not confirm, please explain.
 - e. The instructions on page 9 state, "Please do not place all 25 cards in the first 25 boxes, as these could be long-time box holders." Please confirm that there is a propensity for the first boxes to be associated with long-time box holders and for the last rented boxes to be associated with more recently rented boxes. If you do not confirm, please explain and reconcile with the page 9 instructions.
 - f. Please provide a distribution of placement intervals used in this survey by box size. For example, how many placement intervals of 1, 2, 3, ... , n were used for each box size, where n represents the largest computed placement interval.
 - g. Other than possibly the long-term box holders, are there any other identifiable groups of box holders that were systematically excluded or over represented in the sample? Please explain.

RESPONSE to OCA/USPS-T6-1.

- a-d. Confirmed.
- e. I cannot confirm this statement. I have no information on which to base the assumption that the first boxes in the sequence are more likely to be associated with long term box holders than are later boxes in the sequence. The statement cited in the instructions to

postmasters simply stated one possible reason that the cards² should not be placed in a cluster, but spread out.

- f. These data are not available to me because the postmasters were not asked to return their calculations to Opinion Research Corporation.
- g. I have no information that would lead me to believe any subset of box holders is over or under represented in the sample.

OCA/USPS-T6-2. Please refer to page 9 of SSR-111. This section explains how the placement interval is used to select sample boxes when all boxes are at one location.

- a. In the example, based on a total of 106 boxes, the first box sampled is the 4th rented box. Then every 4th box after that is sampled.
 - i. Please confirm that the 25th sampled box is box number 100. If you do not confirm, please explain.
 - ii. The instructions say to continue with every 4th box "until you have covered all boxes." Please explain whether you would include the 104th box in the sample (placing 26 cards) or whether you would exclude the 104th box from the sample.
- b. Suppose that there were 73 rented size 1 boxes, and your procedure is used to select a sample of size 25. Then the placement interval would be $\text{int}(73/25) = 2$.¹
 - i. Please confirm that the first sampled box is the second rented box. If you do not confirm, please explain.
 - ii. Please confirm that the 25th sampled box is the 50th rented box. If you do not confirm, please explain.
 - iii. Please confirm that boxes 51, 52, ..., 73 are excluded from the sample. If you do not confirm, please explain.
 - iv. If boxes 51-73 would not be excluded from the sample, please confirm that boxes 52, 54, ..., 72 would be included in sample, so that 36 cards would be placed (instead of 25). If you do not confirm, please explain.
- c. If there are $n > 25$ rented, boxes, then please confirm:
 - i. The first sampled box is box $\text{int}(n/25)$. If you do not confirm, then please explain.
 - ii. The last sampled box is box $25 \cdot \text{int}(n/25)$. If you do not confirm, please explain.
 - iii. Boxes 1, 2, ..., $\text{int}(n/25)-1$ are excluded from sample whenever $n \geq 50$. If you do not confirm, please explain.
 - iv. Boxes $j, j+1, j+2, \dots, n$, where $j-25 \cdot \text{int}(n/25)+1$, are excluded from sample whenever $n > 25 \cdot \text{int}(n/25)$. If you do not confirm, please explain.

¹ The greatest integer less than or equal to x is referred to by $\text{int}(x)$. Thus $\text{int}(2.92) = 2$.

- d. Please confirm that as a rule the long-time box holders (lowest box numbers) and those with the highest box numbers have a greatly reduced (or zero) chance of selection as compared to the rest of the box holders at this location. If you do not confirm, please explain.
- e. Page 32 of SSR-111 describes the second stage of sample selection as "a random sample of box holders." Please confirm that this box selection can not be considered random, considering that the first sample box is not randomly selected (it is completely determined by the number of rented boxes in the PSU), thus causing the first rented boxes to be systematically excluded from sample selection whenever the number of rented boxes is not an exact multiple of 25. If you do not confirm, please explain.

RESPONSE to OCA/USPS-T6-2.

- 2a.i. Confirmed.
- 2a.ii. The 104th box would not be included in the sample.
- 2b.i-iv. Confirmed
- 2c.i-iv. Confirmed
- 2d. I cannot confirm the statement. Please see my Response to OCA/USPS-T6-1g.
- 2e. I confirm that this sample cannot be considered random. I used a systematic sample to keep the task uncomplicated while, at the same time, ensuring the cards were widely distributed.

OCA/USPS-T6-3. Please refer to pages 9-10 and 51-52 of SSR-111 for the correspondence between sample selection procedures and the computation of design or base weights. Suppose that the value of B_{12} was 73 and that there were more than 25 boxes of types 2 and 3 so that 25 boxes would be selected of each type.

- a. Please confirm that 25 cards would be distributed to the box type 1 boxes of this PSU. If you do not confirm, please explain.
- b. Please confirm that 25 out of 73 (or 34.25 percent) rented boxes would have been selected. If you do not confirm, please explain.
- c. Please confirm that $P_{12}=0.3425$ for this example. If you do not confirm, please explain.
- d. For this example, please confirm that the probability of selection for the first rented box and the last 23 rented boxes was equal to zero. If you do not confirm, please explain how these could be included in the sample.
- e. If 24 of the 73 rented boxes have a zero probability of selection, then please confirm that the 25 selected boxes are selected from the 49 remaining boxes that are allowed a positive chance of selection. If you do not confirm, please explain.
- f. Please confirm that the probability of selection for those boxes allowed a chance of selection, would be $25/49$, or approximately 0.5102. If you do not confirm, please explain.
- g. Please confirm that the P_{bz} probability you compute is not valid for the 49 boxes allowed a chance for selection and it is not valid for the 24 boxes that are not given a chance for selection. If you do not confirm, please explain.

RESPONSE to OCA/USPS-T6-3.

3.a-c. Confirmed.

3.d. This is confirmed. However, note that the process of placing cards was intentionally simplified at the possible expense of introducing bias. There was, however, no reason to expect any bias. The simplification was introduced to reduce more likely sources of bias from lack of cooperation by selected post offices, or misplacement of cards due to complexity of the allocation scheme.

- 3.e. This is confirmed. However the post-stratification is intended to provide compensation for potential bias.
- 3.f. This is confirmed.
- 3.g. These are confirmed. However, I have no reason to believe that the presence of this bias would have an important impact on the Findings of my Study.

OCA/USPS-T6-4. Please refer to the formula for P_{rbz} at the 4th line of page 52, SSR-111.

- a. Please confirm that P_{rbz} refers to the probability of selection for an arbitrary box holder of box type b in PSU z . If you do not confirm, please explain.
- b. Please confirm that the probability of selection for the r -th selected renter of the b -th box size in the z -th PSU is just 1. If you do not confirm, please explain how a selected renter would not be selected.

RESPONSE to OCA/USPS-T6-4.

- 4.a. This is confirmed. P_{rbz} does reflect the probability of selection for the r -th selected renter (an arbitrary box holder) of the b -th box size in the z -th PSU.
- 4.b. This is not confirmed. The probability of selection for the r -th renter of the b -th box size in the z -th PSU is given by:

$$P_{rbz} \equiv P_z \times P_{bz}, \forall r = 1, \dots, n_{bz}$$

The only time this probability is equal to unity is when P_z and P_{bz} are both equal to one; a highly unlikely event.

OCA/USPS-T6-5.

At page 51 of SSR-111, four steps of weighting are presented. These are described as: (1) computation of design or base weights, (2) adjustment for differential nonresponse, (3) adjustment for frame inadequacies, and (4) "cross-examination of final weights."

- a. Please confirm that step 1 refers to the formula for D_{rbz} on page 52 of SSR-111. If you do not confirm, please explain.
- b. Please confirm that the D_{rbt} on page 53 are the trimmed values of D_{rbz} . In other words, the D_{rbz} are trimmed, depend on z , but do not depend on t . If you do not confirm, please explain and provide a precise definition of D_{rbz} .
- c. Please provide the formula or algorithm used to trim the design weights.
- d. Please confirm that steps 3 and 4 are accomplished by the formula at the top of page 53 of SSR-111. If you do not confirm, please explain.
- e. According to the formula at the top of page 53, the final weighting factor, F_{rbt} , does not depend on the value of z . Please confirm that probability of box selection does depend on z , and explain why your final weights do not. If you do not confirm, please explain.
- f. Please confirm that the survey estimate of B_{bt} would be given by $\sum_r \sum_z D_{rbz}^* I_{zt}$, where D_{rbz}^* refers to the trimmed design weights, and I_{zt} is 1 if the z -th PSU is tier t , zero otherwise. If you do not confirm, please explain and provide a formula for D_{rbt} as used in the formula at the top of page 53 of SSR-111.
- g. If you confirm part e, above, please explain why it would be inappropriate to compute the final weighting factor using a formula such as $F_{rbtz} = D_{rbz}^* B_{bt} / \sum_r \sum_z D_{rbz}^* I_{zt}$.
- h. Step 2 refers to an adjustment for differential nonresponse. Please provide a citation for the portion of the weighting documentation which describes how this is accomplished for your survey.

RESPONSE to OCA/USPS-T6-5.

- 5.a. This is confirmed. The design weight for the r -th selected renter of the b -th box size in the z -th PSU, D_{rbz} , was calculated by:

$$D_{rbz} = \frac{1}{F_{rbz}}$$

- 5.b. This is confirmed. The trimmed design weight for the r -th selected center of the b -th box size in the z -th PSU, is given by D_{rbt} . This factor does depend on z and not on t . A better notation would have been D_{rbz}^* .
- 5.c. The trimming algorithm consisted of a simple method where excessively large weights (larger than three times the average weights) were trimmed and the excess weights were distributed among other weights. This weight trimming was compensated for implicitly by post-stratification.
- 5.d. This is not confirmed. Adjustment for frame inadequacies was accomplished by post-stratification as described by the formula at top of page 53 of SRS-111. Cross-examination of weights was done after computation of weights. This manual process has nothing to do with the referenced formula.
- 5.e. This confirms that the probability of box selection, P_{bz} , does depend on z . However, final weights do not. Final weights were calculated within post-strata defined by tier and box size.
- 5.f. This statement is not confirmed. The survey estimate of the number of box holders of size b in the t -th tier, B_{bt} , is given by:
- $$B_{bt} = \sum_r \sum_z F_{rbz} \times I_{bt}$$
- where I_{bt} is 1 when the corresponding respondent is a box holder of size b in the t -th tier. As a matter of fact, this is a parameter and not an estimate and therefore subject to zero variance. It is inappropriate to use the design weights for this purpose, since the design weights have been calculated using proxy MOS (household counts) instead of the number of box holders. Moreover, in order to reduce variances, design weights have been trimmed. Please refer to page 32 of SSR-111 for more details.
- 5.g. We do not confirm the statement in OCA/USPS-T6-5e that refers to weighting.

5.h. Considering that the survey data were to be post-stratified to the target population counts, a separate nonresponse adjustment procedure was omitted for this study.

OCA/USPS-T6-6. Please refer to the sample disposition for ID number 11 at page 42 of SSR-111.

- a. Please confirm that this line refers to a unique sampled PSU.
- b. Please explain what this number represents. For example, of the 75 sampled boxes holders, does this mean that an attempt was made at calling 33 of them? or, does it mean that a total of 33 calls were made, some of them repeat calls, to a smaller number of sample box holders?
- c. This line has an entry for 7 "renters completes." Does this mean that the response rate for this PSU was 7/75, 7/33, or something else. Please explain.
- d. Please explain how the response rate (or nonresponse rate) computed from this sample disposition table is used in step 2 of the weighting process described on page 51 of SSR-111.
- e. This line contains an entry for 63 "waiting call attempts." Does this mean that 63 call attempts were made to the 18 persons waiting for a box (ID no. 11, page 34 of SSR-111)? Please explain.
- f. This line contains an entry for 6 "waiting completes." Does this mean that a total of 6 respondents of the 18 persons waiting for boxes actually provided a complete response to the questionnaire? Please explain.

RESPONSE to OCA/USPS-T6-6.

- 6.a. This is confirmed. This is a continuation of the line that starts on page 34 and refers to a unique PSU. Going back to page 34, we can see that 16 renter cards were received from this location. Seven interviews with renters were completed.
- 6.b. Call attempts, in this case, refer to dialings. We made thirty-three calls to 16 locations, to complete seven interviews.
- 6.c. A response rate might consider three levels of response, first by the postmasters, then to the card placement (16 responses to 75 placements), and finally to the phone calls (seven of fifteen).

6.d. As noted in the Response to OCA/USPS-T6-5.h, a separate ~~non~~^{response} calculation was not conducted.

6.e. The waiting study has not been included in my Testimony.

6.f. See my Response to OCA/USPS-T6-6.e.

OCA/USPS-T6-7. Please refer to the file POBOX.DAT of SSR-111.

- a. Please confirm that either the weights supplied on file POBOX.DAT of SSR-111 are 100 times too large or that the tabulations provided in Tables 2-7 are approximately 100 times too small. If you do not confirm, please explain how the weights provided on POBOX.DAT should be used to tabulate survey data. If you do confirm, please explain the reasons for the disparity.
- b. Please explain why the sum of weights for the first four observations of POBOX.DAT is about 99762, approximately three times as large as the total Group 1 weighted base of 32988 as shown in Table 2 of your testimony.

RESPONSE to OCA/USPS-T6-7.

- a. It is a common practice in the production of research tables to divide by 100 or 1,000 or even by one million when representing weighted values. This permits us to fit the tables more easily into available space. The actual computations use the full base. Since all of the data reported in my testimony are in terms of percentages, not absolute numbers, this has no effect on that testimony.
- b. Following my answer to Question 7a, divide 99,762 by 100 to see its true relationship to the reported Group 1 weighted base of 32,988 as shown in Table 2 of my testimony.

OCA/USPS-T6-8. Please refer to Table 2 at page 53 of SSR-111.

- a. Please confirm that the source of these figures was the PO Box Study described in USPS-T-4. If you do not confirm, please provide the source of this data. If you do confirm, please provide a citation to the where these figures are presented in witness Lion's testimony or library references.
- b. Please explain the large discrepancy between the total weighted base of all respondents (149,930¹) in your testimony and the total number of post office boxes installed (14,290,298) as reported by witness Lion in Table 3 of USPS-T-4.

RESPONSE to OCA/USPS-T6-8.

- a. This confirms that the source of the post office box population figures cited on page 53 of SSR-111 was the P.O. Box Study described in USPS-T-4. The figures are presented in USPS-T-4 in Table 14 on page 37.
- b. As noted in my response to Questions 7a and 7b, the apparent discrepancy comes from dividing the actual numbers by 100 for ease of presentation.

¹ This is the sum of the weighted base for group 1 and the weighted base for group 2 as shown in Table 2 of USPS-T-6.

OCA/USPS-T6-9. Please refer to page 17 of SSR-111. Question 1a asks "(Do you reside / Is your primary place of business) in the same ZIP Code as the town where you obtain box service?"

Suppose a respondent's residence ZIP Code is 20016 and they live on New Mexico Ave, NW, Washington DC. This person does not rent a PO box at the closest location (Friendship, 20016), but instead rents a PO box at L'Enfant Plaza, SW, Washington DC 20026. Suppose that this box is used only for personal use.

- a. Please confirm that the residence ZIP Code is not the same as the ZIP Code where the box was obtained. If you do not confirm, please explain.
- b. Please confirm that both the residence and the town where the box was obtained are Washington, DC. If you do not confirm, please explain.
- c. Please explain what the correct response to question 1a would be for this respondent.

RESPONSE to OCA/USPS-T6-9.

- a. Assuming that your data are correct, this is confirmed.
- b. Assuming that your data are correct, this is confirmed.
- c. I'd say the correct answer is no. However, it is important to note that the respondents' impression of the correct answer is far more important than mine. The purpose of the question was to gain an understanding of the proportion of box holders who believed their boxes were in a ZIP Code other than that of their home address. To pin this down specifically would require a more detailed question sequence.

OCA/USPS-T6-10. Please refer to page 18 of SSR-111. Question 3 asks, "If the fee were to be changed to \$(MID-PRICE) for 6 months, would you accept it as something that cannot be avoided or would you try to find an alternative?"

- a. Please confirm that the classification changes proposed for post office box fees in MC96-3 are not restricted to a 6 month period.
- b. Were respondents informed that any box rent increases would not revert to current prices after 6 months elapsed? Please explain.
- c. Would you anticipate a different reaction from respondents to this question if the question did not restrict the increases to a 6 month period of time? For example, suppose the question limited the increases to a 6 week period. Suppose the question stated that rates would not be increased again for at least 6 months. How could subtle questionnaire wording changes such as these effect responses? Please explain.
- d. When you designed the questionnaire, did you understand that tested rates were to be temporary (for 6 months) and then revert to current rates? Or was it your understanding that box rates would be raised and not increased again for at least 6 months? Please explain.
- e. Did any respondents inquire about what would happen after the 6 month period? If so, what responses were they given.
- f. You state in your testimony that respondents tend to overreact to price increases. USPS-T-6, page 7, lines 8-9. Was this questionnaire designed to minimize or reduce overreaction to price increases? If so, how could this be accomplished? Please explain.

RESPONSE to OCA/USPS-T6-10.

- 10.a. The fee quoted was that for a six month period, a normal billing period for post office boxes. I did not believe, and I cannot believe, that the respondents believed that a fee increase would be effective for only six months.
- 10.b. The respondents were not informed that any fee increase would not revert to current prices after 6 months elapsed. No further explanation is necessary.
- 10.c. It goes without saying that a fee should be for a specific period of time. Therefore, a period of time should be specified in the question. Fees for post office boxes are

generally for six months or for a year. We decided to use six months in all the questions both because it was a familiar period for many of the box holders and because it did not offer special computational challenges for those who are billed annually.

If I were to use an odd period such as the specified six weeks, I'd be asking people to use a fraction of 6/26 weeks to compare to the normal six months billing.

If we try to make a questionnaire into a test rather than a reasonable conversation, we lose the interest of the respondent and, probably, his or her cooperation.

Generally, subtle differences in question wordings lead to only subtle differences in results.

My intent was to make the questions as unambiguous as possible and to avoid even the appearance of trying to affect responses.

10.d. At no time did I ever think that the increase would be temporary.

10.e. I have no information on which to base an answer to this question. Interviewers are instructed to repeat the question wording if it is unclear to the respondent. We do not record unsolicited comments.

10.f. The questions were worded to present the price increase in a clear, factual manner.

OCA/USPS-T6-11. Please refer to the Statement of Work at pages 2-3 and the questionnaire at pages 24-30 of SSR-111. These pages indicate that the post office box rate research included a study of potential box renters currently on waiting lists for boxes.

- a. Please confirm that data were collected from respondents on waiting lists in this study. If you do not confirm, please explain why there are figures in the column marked "Waiting Completes" in the sample disposition printout of pages 42-49 of SSR-111.
- b. Please confirm that data and tabulations from the waiting list respondents were not included in SSR-111 or in your testimony. If you do not confirm, please provide page references to the tabulations.
- c. Are the respondents on the waiting lists more likely to seek alternatives to post office boxes when faced with box rent increases? Please provide any tabulations used to support your response.

RESPONSE to OCA/USPS-T6-11.

- 11.a. This confirms that data were collected from respondents on waiting lists.
- 11.b. This confirms that data tabulations for the waiting list customers were not included in SSR-111. This also confirms that the results of the study were not discussed in my testimony.
- 11.c. The data from waiting list respondents were sparse (87 completed interviews) and I do not believe they are a suitable basis for any inferences. Accordingly, they were not subject to final processing. Moreover, since the Postal Service determined to include no fee proposal for waiting list customers in its Request, there are no plans to process the data further.

OCA/USPS-T6-12. Please refer to page 17 of SSR-111. Questions 1a and 1b appear to attempt to differentiate between resident and nonresident box holders under the tested rates.

- a. Please provide tabulations and graphs for Tables 3-8 of your testimony separately for resident and nonresident box holders.
- b. Do your data show differences in price sensitivity between the resident and nonresident box holders?
- c. Does your study indicate that the nonresident rate is the same for box holders renting the box for personal use compared to those renting for business use? Please explain and support with survey data results.

RESPONSE to OCA/USPS-T6-12.

12.a-c. The requested tabulations are being filed as Library Reference SSR-128.

I do not wish to draw inferences or interpretations from these data since the study was not designed to produce reliable results regarding differences between resident and non-resident box holders. However, by presenting the requested tabulations, participants may assert and defend any inference they wish.

OCA/USPS-T6-13. Please refer to the formula for the Design Effect on page 73 of SSR-111:

$$\delta_d = 1 + [RV(F_{di})]^2 = 1 + \frac{\sum_i \frac{(F_{di} - \bar{F}_d)^2}{n-1}}{\bar{F}_d^2}.$$

a. Please confirm that RV in your formula refers to relative variance. If you do not confirm, please define the function RV.

b. Please confirm that an estimate of the variance of the variance of F_{di} is given by

$$\sum_i \frac{(F_{di} - \bar{F}_d)^2}{n-1}.$$

If you do not confirm, then please explain what the numerator of the last term on the right side of your equation for Design Effect represents.

c. Please confirm that relative variance is defined as the variance of an estimate divided by the square of the estimate, so that the relative variance of F_{di} would be given by

$$RV(F_{di}) = \frac{\sum_i \frac{(F_{di} - \bar{F}_d)^2}{n-1}}{\bar{F}_d^2}.$$

If you confirm, then please explain why the relative

variance is not squared in the right hand side of your equation, since your formula states that $\delta_d = 1 + [RV(F_{di})]^2$. If you do not confirm, please provide a formula for the RV function.

d. Please state whether or not you square the $RV(F_{di})$ figure in computing your Design Effect figures.

e. Please confirm that your formula for the Design Effect, $\delta_d = 1 + [RV(F_{di})]^2$, always produces a value greater or equal to 1. If you do not confirm, please explain considering that $RV(F_{di})$ is nonnegative. If you do confirm, then

i. Please confirm that it is possible for some sample designs to produce smaller variances than a simple random sample design of the same size. If you do not confirm, please explain. If you do confirm, then please explain how to interpret and use δ_d when the sample is more efficient than simple random sampling.

ii. Suppose we have a simple random sample, and that using sample weights for F_{di} , we have $\delta_d=1$ because $F_{di}=F_{ej}$. If we decide to refine the weights by making a ratio estimation adjustment to the factors so that $F_{di} \neq F_{ej}$, then $\delta_d > 1$. Please explain how this can make sense when the motivation for ratio estimation is to decrease sampling error.

- f. Please provide an illustration of how to apply the δ_d values and the confidence interval formula given on page 74 of SSR-111 to form confidence intervals for the Group 1 estimates of Table 5, page 13 of your testimony. Please indicate what values are used for each variable in the confidence interval formula.

RESPONSE to OCA/USPS-T6-13.

- a. In the equation of the Design Effect, $RV(F_{di})$ refers to the square root of the relative variance of F_{di} .

- b. Confirmed.

- c. Confirmed. Again, as stated in (13a) above, $RV(F_{di})$ refers to

$$\frac{\sqrt{\sum_i \frac{(F_{di} - \bar{F}_d)^2}{n-1}}}{\bar{F}_d}$$

- d. Confirmed.

- e. This is confirmed.

- e.i. Confirmed, but with the following reservation. For complex surveys involving nonresponse and undercoverage (hence weights) the Design Effect, which reflects the loss in precision due to weighting, is always greater than unity. In an ideal situation with a perfect sampling frame and fully cooperating respondents, it is possible to design surveys to produce smaller variances than a simple random sample design. Nonetheless, such situations are rarely encountered in practice.

- e.ii. This question makes an assumption that I cannot accept. With simple random samples there are no weights. Survey weights are calculated to reflect the probabilities of selection and to reduce the bias due to differential nonresponse and undercoverage. These weight factors should not be confused with factors obtained from a ratio estimation procedure.

- f. As stated on page 73 of SSR-111, lower- and upper-confidence endpoints, L and U , for a point estimate, \bar{p} , are given by:

$$L \cong \bar{p} - 1.96 \sqrt{\frac{\bar{p} \times (1 - \bar{p})}{n-1} \left(\frac{N-n}{N} \right) \times d}$$

and

$$U \cong \bar{p} + 1.96 \sqrt{\frac{\bar{p} \times (1 - \bar{p})}{n-1} \left(\frac{N-n}{N} \right) \times d}$$

where d represents estimate of design effect for the corresponding sub-domain. Specifically, for point estimates on Table 5, the 95% confidence endpoints are as follow:

95% Confidence endpoints for point estimates on Table 5

Question	Group	\bar{p}	n	d	L	U
Accept the fee	1	41%	366	2.109	33.67%	48.33%
Try to find alternative	1	56%	366	2.109	48.60%	63.40%
Don't know	1	3%	366	2.109	0.46%	5.54%
Accept the fee	2	23%	226	2.047	15.13%	30.87%
Try to find alternative	2	71%	226	2.047	62.52%	79.48%
Don't know	2	5%	226	2.047	0.93%	9.07%

OCA/USPS-T6-14. Please refer to the formula for the Design Effect on page 73 of SSR-111. In this formula, the F_{di} represent the "final weight of the i-th respondent in the d-th sub-domain of interest."

- a. Please confirm that the F_{di} used in the Design Effect formula has been trimmed and include a ratio estimation adjustment. If you do not confirm, please provide a formula for F_{di} in terms of the variables defined on pages 52-53 of SSR-111.
- b. Please describe other types of weighting adjustment factors that could be incorporated into the F_{di} factors to compute valid Design Effect estimates.
- c. Suppose that a particular respondent could have one of several different ratio estimation adjustment factors applied, depending on the specific characteristic being tabulated.¹ Then a different weighting factor would be used for each question given to a respondent. In such a situation, which ratio estimation factor should be incorporated into the F_{di} to compute the Design Effect?
- d. Please explain whether the Design Effect can be interpreted as a property of the survey design for a particular sub-domain of interest. For example, a simple random sample would have a δ of 1.0, a sample design that is more efficient could have a δ less than 1.0, and a less efficient sample design could have a δ considerably larger than 1.0.

RESPONSE to OCA/USPS-T6-14.

- a. Confirmed.
- b. The estimates of Design Effect are valid. Further fine tuning, albeit minimal, could be achieved through replication.
- c. Design Effect is a function of ultimate weights applied to each respondent. If for different tabulations different weights are applied to respondents, then for each tabulation different Design Effects must be estimated
- d. Confirmed.

¹ For example, in MC95-1 the market research survey used a different ratio estimation factor for each rate tabulation cell, for each scenario tested.

OCA/USPS-T6-15. Please refer to the survey questionnaire at pages 16-23 of SSR-111.

- a. Please confirm that each respondent is only questioned on two of the proposed three tested rates for his tier and box size. If you do not confirm, please explain.
- b. Please explain why it would have been inappropriate to ask each of the respondents whether they would have accepted each of the three rate alternatives.

RESPONSE to OCA/USPS-T6-15.

- a. Confirmed.
- b. It is not inappropriate to ask each of the respondents whether they would have accepted each of the three rate alternatives. However, as reflected in the questionnaire design, I do not believe it is the best way to approach the subject at hand.

In my questionnaire, every respondent is asked about two levels of rates. This held down respondent burden while collecting appropriate information.

OCA/USPS-T6-16. Please refer to tables 2 to 7 of your testimony.

- a. Please confirm that the figures in Table 7 are summaries of the figures in Tables 2 to 6 of your testimony. If you do not confirm, please provide the source for each figure in Table 7.
- b. Please confirm that Table 7 states that the Group 1 total that would accept no increase is 16653. If you do not confirm, please explain.
- c. Please confirm that Table 4 shows that 8129 out of 27642 would accept the lowest new price, so that $19513 = 27642 - 8129$ would not accept the lowest price. If you do not confirm, please explain.
- d. Please explain any discrepancy between the number that would not accept the lowest price for Group 1 in Table 7 and the equivalent figure derived from Table 4.
- e. Please confirm that the row labeled "Would accept lowest price" in Table 7 should be labeled "Would accept lowest price and nothing higher." If you do not confirm, please explain.
- f. Please confirm that the row labeled "Would accept mid price" should be labeled "Would accept mid price and nothing higher." If you do not confirm, please explain.

RESPONSE to OCA/USPS-T6-16.

- a. Confirmed. This is stated on page 7, lines 23-25 of my Testimony.
- b. This is not confirmed. The weighted frequency of those in Group 1 who would accept no increase is 16,653. The actual number is one hundred times that or 1,665,300.

Please see my Response to OCA/USPS T6-7 and Library Reference SSR-111 at 91.

- c. This is not confirmed. See Library Reference SSR-111 at 91.

I calculated the proportion not accepting the lowest price as the total (27,642) minus those who would accept the lowest price (8,129) minus those saying "don't know" (2,860).

$$27,642 - 8,129 - 2,860 = 16,653$$

The don't know percentage is reported separately on Table 7, which is a summary table.

Those who say don't know to the mid-price question do not accept the mid-price and therefore are asked the lower price question.

Those who say don't know to the high price question are not considered to accept the high price. By the questionnaire logic, they did accept the mid-price.

In the summary table, those accepting the high price plus those accepting the mid-price plus those accepting the low price, plus those accepting no price, plus those saying don't know to the low price equal the total sample.

In the interest of clarity, I have included a revised Table 4 which includes the don't know response.

Similar revisions to Tables 1-3 (pg. 78) and 2-3 (pg. 85) in Library Reference SSR-111 have been made and are attached.

- d. Please see my Response to OCA/USPS-T-6-16.c.
- e-f. Not confirmed. While your suggestions are not incorrect, I do not believe they are necessary.

TABLE 4

4. Suppose the rental fee for your box was changed to \$ (lowest price) for six months? In that case, what would you do?

	Base = Asked of those who would not accept the mid price in Q3 or would not continue renting at the mid price in Q3a.	
	Total Tier 1	Total Tier 2
Unweighted Base	234	380
Weighted Base	27642	47854
Rely on regular carrier delivery	11165 40%	9404 20%
Continue renting at new price	8129 29%	31882 67%
Apply for smaller box	1037 4%	841 2%
Don't Know	2860 4%	3167 4%
Rent from a mail receiving firm	2374 9%	1476 3%

(principal mentions)

REVISED
July 25, 1996

**SUPPLEMENTARY TABLE 1-3
GROUP 1 BY BOX SIZE**

4. Suppose the rental fee for your box was changed to \$ (lowest price) for six months? In that case, what would you do?

	Base = Asked of those who would not accept the mid price in Q3 or would not continue renting at the mid price in Q3a.		
	GROUP 1		
	SIZE 1	SIZE 2	SIZE 3
Unweighted Base	70	91	73
Weighted Base	15973	9208	2461
Rely on regular carrier delivery	7357 46%	3098 34%	710 29%
Continue renting at new price	3819 24%	3524 38%	786 32%
Apply for smaller box	0 -	770 8%	266 11%
Don't Know	1758 4%	747 4%	355 5%
Rent from a mail receiving firm	1797 11%	424 5%	154 6%

(principal mentions)

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**SUPPLEMENTARY TABLE 2-3
GROUP 2 BY BOX SIZE**

4. Suppose the rental fee for your box was changed to \$ (lowest price) for six months? In that case, what would you do?

	Base = Asked of those who would not accept the mid price in Q3 or would not continue renting at the mid price in Q3a.		
	GROUP 2		
	SIZE1	SIZE 2	SIZE 3
Unweighted Base	125	123	132
Weighted Base	31388	12881	3586
Rely on regular carrier delivery	5625 18%	2975 23%	804 22%
Continue renting at new price	22653 72%	7271 56%	1958 55%
Apply for smaller box	0 -	622 5%	220 6%
Don't Know	2052 4%	875 4%	240 4%
Rent from a mail receiving firm	794 3%	472 4%	210 6%

(principal mentions)

REVISED
July 25, 1996

OCA/USPS-T6-17. Please refer to the file POBOX.DAT of SSR-111. The responses to questions 3a, 4, and 5a of the survey questionnaire contain an "OTHER (SPECIFY)" option. It is not clear what some of the coded responses refer to.

- a. File POBOX.DAT contains values of 1, 10, 11, 12, 2, 3, 4, 45, 49, 5, 7, 8, and 9 for responses to question 3a. Please explain what each of these codes refers to.
- b. File POBOX.DAT contains values of 1, 10, 12, 2, 3, 4, 49, 5, 7, 8, and 9 for responses to question 4. Please explain what each of these codes refers to.
- c. File POBOX.DAT contains values of 1, 10, 11, 12, 2, and 3 for responses to question 5a. Please explain what each of these codes refers to.

RESPONSE to OCA/USPS-T6-17.

- a-c. The codes reflect the coding scheme used for questions 3a, 4 and 5a.

Codes printed on the questionnaire are:

- 1 RELY ON REGULAR CARRIER DELIVERY
- 2 RENT FROM MAIL RECEIVING FIRM
- 3 APPLY FOR SMALLER BOX FROM USPS
- 4 CONTINUE RENTING AT THE NEW PRICE
- 5 OTHER SPECIFY
- 6 DON'T KNOW/REFUSED

Given the presence of "other" answers we developed additional codes, resulting in this final list:

- 1 RELY ON REGULAR CARRIER DELIVERY
- 2 RENT FROM MAIL RECEIVING FIRM
- 3 APPLY FOR SMALLER BOX FROM USPS
- 4 CONTINUE RENTING AT THE NEW PRICE
- 5 OTHER SPECIFY
- 6 DON'T KNOW/REFUSED
- 7 WILL CHECK OUT ALL OPTIONS BEFORE MAKING DECISION
- 8 NO HOME DELIVERY AVAILABLE
- 9 BUSINESS ADMINISTRATORS/OTHERS WILL MAKE DECISION
- 10 WILL USE ELECTRONIC MAIL
- 11 NOT USED SEPARATELY, COMBINED WITH 45
- 12 NOT USED SEPARATELY, COMBINED WITH 45
- 45 MISCELLANEOUS OTHER -- INCLUDES CODES 11, 12
- 49 DON'T KNOW/REFUSED

The output from these codes appears in the tabulations included in Library Reference SSR-111 at 65-67 and 70-71.

OCA/USPS-T6-18. Please refer to the Statement of Work at pages 2-3 and the questionnaire at pages 24-30 of SSR-111. These pages indicate that the post office box rate research included a study of potential box renters currently on waiting lists for boxes. Please provide a data file analogous to POBOX.DAT of SSR-111 for the waiting list respondents.

RESPONSE to OCA/USPS-T6-18.

A diskette with the requested data file will be provided in Library Reference SSR-132, Post Office Box Price Sensitivity Study Materials Provided in Response to OCA/USPS-T6-18 and 19.

As noted in my Response to OCA/USPS-T6-11, these data have not been through final processing. They have not been weighted. Therefore, while the file is analogous to POBOX.DAT it is not directly comparable.

As mentioned in my Response to OCA/USPS-T6-11, I do not believe that these data provide a suitable basis for inference.

OCA/USPS-T6-19. Please provide pages 33 to 49 of SSR-111 in electronic format. This is the sample disposition tabulations for the post office box study.

RESPONSE to OCA/USPS-T6-19.

The data are being provided in an Excel file on a diskette.

To enhance the utility of these data I have provided disaggregated box size data for some categories. All the original data remain.

The diskette and a corresponding printout will be included in Library Reference SSR-132.

OCA/USPS-T6-20. Can the waiting list data set be used in conjunction with the POBOX.DAT file to produce any estimates of correlation between the percentage of nonresident box holders and the existence (or length) of waiting lists? Please explain. If such correlation estimates can be produced, how reliable are they?

RESPONSE to OCA/USPS-T6-20

I noted the lack of precision in the residency question in my response to OCA/USPS-T6-9c.

In my Responses to OCA/USPS-T6-11c and 18 I said that data on waiting lists do not provide a suitable basis for inference. Since I'm not comfortable with either information source, I cannot support any analysis of the relationship between them.

I am making the data available for whatever uses participants may have in mind.

OCA/USPS-T6-21. Please refer to your response to OCA/USPS-T6-1.

- a. In your response to part "e", you referred to the postmaster's instructions as "one possible reason that the cards should not be placed in a cluster." Please explain other possible reasons that cards should not be placed in a cluster.
- b. In your response to part "f", you stated that postmasters were not asked to return calculations of placement intervals to Opinion Research Corporation. Please explain how you could check that this aspect of sampling was performed correctly in the absence of this data.

RESPONSE to OCA/USPS-T6-21.

- a. The principal reason that cards should not be placed in a cluster is that a cluster might share non-random characteristics, with emphasis on the words might and non-random. We generally try to avoid clustering when practical although economic considerations may lead us to employ some clustering.

Two hypothetical situations that reflect problems attributable to cluster effects would be:

- A business with multiple boxes might have a number of boxes within a cluster.
 - If boxes were assigned by a non-random scheme (e.g., alphabetically) we could encounter non-random clustering.
- b. We did not make provision to check this aspect of sampling. Our first objective was not to perfect our sample, but to make the process a simple and reasonable one. See my response to OCA/USPS-T6- 3d.

OCA/USPS-T6-22. Please refer to your response to OCA/USPS-T6-2.

- a. Would your response to part "d" change if the reference to box holders was removed from the question? Can you confirm that post office boxes with the lowest and highest box numbers have a greatly reduced (or zero) chance of selection as compared to the rest of the boxes at this location? If you do not confirm, please explain.
- b. Please refer to your response to part "e." Could non-integral sampling intervals and a random starting box selection have avoided the problem of excluding the first and last group of boxes from sample? Please explain.

RESPONSE to OCA/USPS-T6-22.

- a. Yes, I would confirm the revised statement.
- b. Non-integral sampling intervals and a random starting box selection could have avoided the problem of excluding the first and last group of boxes from the sample. However, that much more complex approach could easily have introduced more detrimental bias such as the lack of cooperation of selected post offices.

OCA/USPS-T6-23. Please refer to your response to OCA/USPS-T6-3.

- a. In reference to part "e" of your response, please provide a citation to the portion of your testimony that describes how post-stratification compensates for potential bias. If this is accomplished in your estimation programs, please provide a reference to the section of the computer code that makes this adjustment.
- b. Please refer to your response to part "g." Suppose that the 73 box holders were randomly distributed to 73 post office boxes. If this were the case, then would the first 25 boxes provide a random sample of box holders? Please explain.

RESPONSE to OCA/USPS-T6-23.

- a. The second stage weighting discussed in lines 17-24 of page 6 of my Testimony is a brief description of post stratification.

Generally, post stratification is used as a means of reducing the effects of non-response and of frame inadequacies. The exclusion of some low and high box numbers from this sample is a frame inadequacy.

While the weighting process has been discussed at length in the USPS Library Reference SSR-111 at and in a number of Interrogatories and Responses, we have not provided computer code for the process. The computer code for post stratification will be submitted in USPS Library Reference SSR-133, Box Price Sensitivity Study, Post Stratification Documentation, Provided in Response to OCA/USPS-T6-23.

- b. Yes. If the sample is truly random, then any subset is random.

OCA/USPS-T6-24. Please refer to your response to OCA/USPS-T6-5.

- a. In your response to part "b," please confirm that the formula at the top of page 53 of SSR-111 should have D_{rhz}^* in place of D_{rht} and that "z" should appear as a subscript for F, on the left-hand side of the formula. If you do not confirm, please explain.
- b. In response to part "d," you state, "Cross-examination of weights was done after computation of weights. This manual process has nothing to do with the referenced formula." Please describe this "cross-examination" process and any specific changes to weighting factors that were made as a result of this process.
- c. Please refer to your response to part "e." The formula at the top of page 53 of SR-111 (when modified as suggested in your response to OCA/USPS-T6-5.b.) appears to depend on the trimmed design weight for the z-th PSU. Please explain why the final weights do not depend on the selection probabilities, P_{rz} . Please explain how post-stratification eliminates the need to use PSU sample selection probabilities to produce valid estimates.

RESPONSE to OCA/USPS-T6-24.

- a. This is not confirmed. While the probability of box selection, P_{rz} , directly depends on z, the final weights do not directly depend on z. Final weights were calculated within post-strata defined by tier and box size. That is, the final weight for the r-f responding renter of the b-th box size in the t-th tier, F_{rht} , was calculated by:

$$F_{rht} = D_{rht} \times \frac{B_{ht}}{\sum_r D_{rht}^*}$$

- b. Cross-examination of weights is merely a quality control step, aiming to identify erroneous outliers. No specific changes were made to final weights as a result of this examination.
- c. This question seems to be much the same as that asked in OCA/USPS-T6-5.a. Please see that Interrogatory and my Response. Final weights do depend on the selection probabilities through design weights. I have never said that post-stratification eliminates the need to use PSU sample selection probabilities to produce valid estimates. But there seems to be some confusion as to when and how they are used.

In an attempt to put this subject to rest, I'll use an analogy. First, please refer to the brief discussion of weighting in my Testimony (USPS-T-6) at 6 and the more technical discussion in USPS Library Reference SSR-111 at 50.

In my Testimony I described two stages of weighting. The balance of the discussion in the Testimony is less detailed than that in the Library Reference. The probability of selecting a PSU is a key part of the first stage as are the probabilities of selecting a box and the response rate for each sample cell. When we have completed these steps, we apply the second stage weights. The first stage might be compared to a first stage in mixing paint. Let's start with brown, black and white to make tan. Brown, black and white are analogous to the various selection probabilities and tan is the result of the first stage weighting.

Now, let's assume we wish to add some pink to produce a shade of beige. We add the pink to the tan, not to separate elements of brown, black and white. This is parallel to the process of post stratification which is done after the first weighting stage is completed. While there might be algebraic justification in a notation that shows this all taking place in one step, that notation would not be true representation of the process.

OCA/USPS-T6-25. Please refer to Table 1 of your testimony and to the actual post box office fees proposed by witness Needham in USPS-T-7.

- a. Please confirm that for a given group and box size the same set of proposed fees was tested—regardless whether the non-resident fee would apply.
- b. Please confirm that the proposed non-resident fee is \$36 a year higher than the resident fee for each group I and II box size.
- c. Please confirm that for Groups I and II, the non-resident fee proposals are close to your survey's highest tested price and that the resident fee proposals are close to your survey's lowest tested price. If you do not confirm, please explain.
- d. Please confirm that the non-resident respondents were not informed that their fees would generally run \$36 a year more than the resident post office box fees.

RESPONSE:

- a. Confirmed.
- b. Please see USPS-T-7 at 25.
- c. The rates used in my study are cited in my Testimony (USPS-T-6) at Table 1. The proposed rates for non-residents are given in USPS-T-7 at Tables I and II.
- d. Confirmed.

OCA/USPS-T6-26. Refer to Table 7, page 15, of your testimony concerning the acceptance of three price levels.

- a. Please confirm that Table 7 does not differentiate between the acceptance rates for non-residents and residents at the rates that each would be subject to under the proposal (*see*, OCA/USPS-T6-25(c)). If you do not confirm, please explain.
- b. If you confirm the response to "a", provide the acceptance rates relevant to the proposed rate separately for non-residents and residents.
- c. Please explain how the problems caused by non-residents will be alleviated in light of your response to "a" and "b" above.

RESPONSE:

- a. Confirmed. My study included no non-resident rates.
- b. The data to support those calculations were provided in USPS Library Reference SSR-128. If other parties wish to calculate acceptance rates, they might follow the procedure described in USPS Library Reference SSR-111 at 91.
- c. I have no information that permits me to answer this question.

OCA/USPS-T6-27. Please refer to page 7 of your testimony where you explain that objections to rate increases are likely to be overstated.

- a. Please provide citations to survey literature that support this conjecture.
- b. Please explain how the true acceptance rate should be determined from your survey results. Please provide citations to support any specific recommendations for adjusting the survey estimates of price acceptance.
- c. Please refer to page A2 of USPS-T-1. Witness Lyons chooses the midpoint between 100 percent and the survey result as the estimate of acceptance for the proposed rates. Did you recommend this procedure? If so, please explain why the midpoint is superior to any other point between 100 percent and the survey estimate.

RESPONSE:

- a. The statement in my testimony is not conjecture, but is based upon my experience in conducting and analyzing survey research.
- b. Please see my Testimony USPS-T-6 at 7 . There, I point out that there is no way to determine the "true" acceptance rates from my survey results. Any effort to do so would involve an extensive additional effort, ideally involving rate experiments.
- c. I was not consulted on this procedure.

OCA/USPS-T6-28. Please refer to your responses to OCA/USPS-T6-11c and to OCA/USPS-T6-18. In both of these responses you stated that you do not believe that these data are suitable for inference. Please elaborate on the reasons for this conclusion.

- a. Is your belief solely due to the sparse response by waiting list customers leading to relatively large sampling errors? Please explain.
- b. Are you aware of weaknesses (other than small sample size) that render these data unsuitable for inference? Please describe any such weaknesses.
- c. Can any estimates or comparisons be made using these data? Please explain fully.

As noted in my Testimony at 2, the survey design was complicated by the fact that we did not know the parameters of the population under study. We therefore used household population data as a preliminary estimate of the true distribution of post office boxes and of waiting lists.

Clearly, waiting lists for post office boxes are distributed in a manner that did not match well with our first assumption. We contacted 293 post offices and got results from 220. All of those post offices reported having post office boxes. Of the 220, only 32 reported having waiting lists. So, we had a sparse sample although we still might have something representative of the true population.

But this brings us to the next question. What is a waiting list? How many people make a list? Our working definition was one. We heard from 32 post offices with waiting lists. If we changed the definition of a list to be as few as 10, our number of qualifying lists would drop to 13.

It would appear that a sample of post offices with substantial waiting lists would require either a highly disproportionate sample or a very large random sample. We used neither.

I suppose that some estimates or comparisons might be made using these data. Current statistical software permits all sorts of things to be done at the touch of a key on a computer. Whether such things should be done is another matter altogether. I would not wish to stand behind estimates or comparisons made using these data.

OCA/USPS-T6-29. Please refer to your response to OCA/USPS-T6-23 and the supporting library reference SSR-133.

- a. Library reference SSR-133 contains three SAS programs and five data sets that you relied on to produce estimates for your post office box study. Are there any other programs or data sets you relied upon to produce study estimates that have not yet been provided to the Commission? If so, please provide the additional documentation.
- b. Please provide algebraic formulas similar to those provided on pages 50-53 of SSR-111 to document the post stratification programs of SSR-133.
- c. Please confirm that the zwgt variable of file WGT_IN.DAT contains the basic design weights from page 52 of SSR-111. If you do not confirm, please explain the source of zwgt and explain how the design weights are used in your post stratification programs.

- a. There is no additional documentation.
- b. The programs included in SSR-133 parallel the discussion on pages 50-53 of SSR-111. The formula at the top of page 53 describes the post stratification.
- c. Confirmed.

1 PRESIDING OFFICER QUICK: Does any participant
2 have additional cross examination for Witness Ellard?

3 [No response.]

4 PRESIDING OFFICER QUICK: The Officer of Consumer
5 Advocate filed a timely request for cross examination of
6 Witness Ellard. Additionally, this morning, we received a
7 request for oral cross examination of Witness Ellard from
8 Mr. Carlson. Apparently that request was mailed some time
9 last week.

10 Does any other participant have oral cross
11 examination for Witness Ellard?

12 [No response.]

13 PRESIDING OFFICER QUICK: If not, Mr. Carlson, you
14 may begin.

15 Would you please identify yourself for the record?

16 MR. CARLSON: My name is Douglas F. Carlson.

17 CROSS EXAMINATION

18 BY MR. CARLSON:

19 Q Mr. Ellard, I am hoping you could describe your
20 training in statistics and statistical research in college?

21 A In college I took my first course in statistics.
22 It happened to be a very interesting introduction under
23 Frederick Mostetler, who was later a rather big name in the
24 business but I had started out as a sociologist, had a
25 required course and discovered I loved it.

1 Q Okay, so you had just one course in college?

2 A One course in college, yes.

3 Q Okay.

4 A But I also have a Master's in Business
5 Administration with a Major in Statistics and since that
6 time I have worked briefly for the Bureau of the Census and
7 also I have spent a great deal of time in statistical design
8 associated with surveys.

9 Q And do you consider yourself an expert in the
10 studies such as the one you performed for the Postal
11 Service?

12 A In the performing of the studies, yes.

13 Q In your testimony on page 2, lines 1 through 5,
14 you wrote that no attempt was made to collect samples of
15 Group 1A, 1B, and 1C, box-holders large enough for
16 statistically reliable projections.

17 Could you explain in brief what you mean by "a
18 sample large enough for statistically reliable projections"?

19 A You are getting into statistical jargon in a large
20 way here, but reliability is the ability to reproduce
21 results on a regular and predictable basis.

22 A statistically valid sample is generally reliable
23 within certain ranges, but as it gets smaller and smaller
24 the reliability gets bigger or less and less and the range
25 of precision is lost.

1 What happens is that there were very, very few
2 Group 1A post offices and not many more Group 1B, and when
3 we look at Group 1 as a whole, they represent a very small
4 proportion of the total number.

5 If we wish to look at them independently, we would
6 have had to get fairly large samples of each. We had a
7 projection of each box size for 200 cases for each cell so
8 we would have needed another 200 for A and another 200 for
9 B. It did not seem appropriate.

10 We are looking for one as a group -- in other
11 words, 1A plus 1B plus 1C, and very few 1As and 1Bs show up
12 in that group.

13 Q And so for Group 1 box-holders, am I correct that
14 that Table 2 on page 12 indicates that your price survey was
15 based on responses from 600 people?

16 A Yes.

17 Q How did you determine that 600 interviews would
18 produce a reliable sample size?

19 A Actually, we are not even thinking in terms of
20 600. We are thinking in terms of 200 because we have three
21 sub-samples, one for each box size within the group, and 200
22 gives us a range of error in the plus and minus 5 to 6
23 percent range, which seemed to be adequate for the study we
24 were doing.

25 Q And then on page 3, lines 10 through 12, you

1 stated that you wouldn't want to interview people -- let me
2 just read it, read the testimony: "If we drew a single
3 sample and started at the beginning, someone whose name
4 begins with A would have a greater chance of being
5 interviewed than someone whose name began with Z because we
6 would probably finish before we got to Z" -- could you
7 explain why that outcome would be a bad one or why you would
8 want to avoid it?

9 A That outcome may not even be a bad one, but what
10 we try to do is reduce the occasion for bias.

11 Sometimes we cannot predict what kinds of bias
12 might show up, but there are certain rules of thumb.
13 Population characteristics, ethnicity can be predicted in
14 the presence of certain letters in last names.

15 Q Okay. Then on page 2, lines 18 through 21, am I
16 correct that 152 Group 1 post offices were targeted as a
17 representative sample to which questionnaires were sent to
18 postmasters?

19 A That's right.

20 Q What is the ALMS bar coding system?

21 A That is -- now I am getting out of my area of
22 expertise -- but that is the system that maintains address
23 records.

24 Q Okay. Would a sample of 50 post offices have been
25 reliable?

1 A Any properly drawn sample is reliable, but the
2 reliability, the precision begins to be lost. We did a
3 compromise. It seemed like this is a sample with 150 cells.
4 A sample with 350 cells might be better but really not a lot
5 better.

6 Q So the reliability was about plus or minus 5 to 6
7 percent --

8 A This is an element in the development of the
9 sample design, not the final sample, sir.

10 Q How about if it had been only 10 post offices?
11 Would it have been reliable?

12 A Again, the reliability would be such that you
13 wouldn't be able to reproduce your results from time to
14 time.

15 Statistically every time you get over 60, you get
16 to a point where you can reproduce your results most of the
17 time.

18 Under 60 it gets tough, and I am sure my sampling
19 expert friends will tell me I have just pressed it a little
20 bit, but it's simply a question of can you get a large
21 enough sample to reproduce it again and again.

22 Q Would you have confidence in the results of a
23 survey that surveyed only 10 or even 5 post offices?

24 A I would be very uneasy with it.

25 Q Because it may not be a representative enough

1 sample?

2 A It might be perfectly representative, but with
3 only 5 the next time I draw -- you know, it's the old
4 question of drawing balls from the urn. If you have ~~white~~ *white*
5 balls and black balls, you can predict the proportion with a
6 few handfuls pulled from the urn, but if you only took a
7 couple balls out of the urn, you might find yourself very
8 limited in what you can predict.

9 Q ~~Support~~ *Suppose* I told you that a poll purporting to
10 predict the results of the November Presidential election
11 indicated that President Clinton was leading Republican
12 challenger Bob Dole by 60 percentage points. Suppose
13 further that this poll surveyed only registered Democrats.
14 Would you trust the results of this poll?

15 A Polls only do what they are designed to do. If
16 they are designed to measure something, they measure it, and
17 if you do a poll only among registered Democrats, you would
18 not expect to get the same results as if you did the same
19 poll among registered Republicans, particularly as might
20 predict Mr. Clinton's chances, but the fact is that the size
21 of the sample is the same for almost any question.

22 If I can get 2,000 cases of something, I'm really
23 pretty accurate if I ask the proper question, if I ask them
24 of a good population.

25 Q But it wouldn't be a good way to predict the

1 results of the General Election, which has --

2 A No, it wouldn't even come close.

3 Q I just have a few more questions.

4 Suppose that I told you that a poll purporting to
5 predict the results of the Presidential election indicated
6 that President Clinton was leading Bob Dole by 20 percentage
7 points. Suppose further that this poll was conducted by
8 surveying voters in just four cities nationwide, each city
9 have a population of under 50,000.

10 Would you trust that poll?

11 A No. Again, if you want to know a poll of what
12 people and cities under 50,000 are, that's fine. That's
13 interesting information, but the polls that predict national
14 behavior have to be national polls.

15 Q And furthermore, if those cities were
16 unrepresentative of the voters, if those cities were
17 unrepresentative of the voting trends in the country in
18 general, then it would be even less trustworthy or reliable.

19 A When it is not trustworthy, it doesn't matter.

20 Q Suppose that, hypothetically, in certain cities,
21 boxholders place an atypically high value on P.O. box
22 service because a high crime rate in their neighborhood
23 jeopardizes the safety of the mail placed in their apartment
24 or house mailbox by their carrier. Would your survey
25 provide reliable information for the general population of

1 boxholders if it surveyed only boxholders in these crime-
2 infested cities, referring to your survey now?

3 A If that were the case, it would not be projectable
4 to all boxholders.

5 Q Suppose you wished to determine whether a specific
6 boxholder characteristic, for example, homeowner versus
7 renter, influenced a boxholder's willingness to accept a
8 price increase. Suppose further that your survey showed
9 that 75 percent of renters would accept a \$10 semiannual fee
10 increase.

11 Would you be able to conclude from this data that
12 renters are more likely than homeowners to accept the fee
13 increase?

14 A It might be possible, but we didn't ask the
15 question.

16 Q How would it be possible?

17 A If we had asked the question, we might have a
18 solution for you there.

19 Q But if you didn't ask homeowners, could you --

20 A If I didn't ask whether they were homeowners or
21 renters, I can't answer that question.

22 Q But if you had asked, are you a renter or are you
23 a homeowners, but you asked the question only of renters,
24 you couldn't then determine whether --

25 A No, that's true.

1 Q Okay.

2 Suppose that someone asserted that people who live
3 in one city but obtain a Post Office box in another city are
4 more likely than local resident boxholders to check their
5 mail infrequently and allow their mail to accumulate in
6 their box. Suppose, further, that this person's statement
7 included evidence that nonresident boxholders behave as
8 asserted but did not include a comparison of the frequency
9 of this behavior between resident boxholders and nonresident
10 boxholders.

11 Would you be convinced by this person's assertion
12 that nonresident boxholders are more likely than resident
13 boxholders to pick up their mail infrequently?

14 A I think you've lost me.

15 Q Let me try it again.

16 A Go back through that again?

17 Q Suppose someone asserted that people who live in
18 one city but obtain a Post Office box in another city are
19 more likely than local resident boxholders to check their
20 mail infrequently and allow their mail to accumulate in
21 their box.

22 Suppose further that this person's statement
23 included evidence that nonresident boxholders behave as
24 asserted but did not include a comparison of the frequency
25 of this behavior between resident boxholders and nonresident

1 boxholders.

2 Would you be convinced by this person's assertion
3 that nonresident boxholders are more likely than resident
4 boxholders to pick up their mail infrequently?

5 A Is this a survey-based assertion?

6 Q Suppose it were.

7 A Yeah. All these are interesting hypotheses.
8 Generally what we are in the business of doing is testing
9 hypotheses. We could test that one but we really didn't
10 try.

11 Q So you would want, based on your response to the
12 previous question, you would want to compare the frequency
13 of this behavior among residents versus nonresidents --

14 A And I would wish to identify residents versus
15 nonresidents and asked them about their behavior and perhaps
16 get third party testimony as to their behavior.

17 Q But you would need to know the behavior of both of
18 them?

19 A Yes, I would.

20 Q My final question refers to your response to the
21 interrogatory OCA-USPS-T6, 28A through C.

22 A Okay.

23 Q You noted that of the 220 Post Offices that
24 responded to your initial questionnaire, only 32 reported
25 having waiting lists and only 19 had waiting lists longer

1 than 10 people; is that correct?

2 A That is correct.

3 Q Can we conclude with some degree of reliability
4 that only 15 percent of Post Offices nationwide have waiting
5 lists for P.O. boxes and only about 6 percent have waiting
6 lists longer than 10 people?

7 A I believe those are reasonable assumptions within
8 certain ranges of reliability.

9 Q Okay, then, can we conclude at approximately 85
10 percent of Post Offices nationwide a person who wants a P.O.
11 box can walk into the Post Office and either obtain one that
12 day or be placed in the number one position on a waiting
13 list?

14 A No.

15 Q Why not?

16 A Because there seems to be some very poor linkage
17 between waiting lists and demands. When demand is heavy,
18 there isn't necessarily a waiting list.

19 So we measured waiting lists but, in doing so, we
20 didn't necessarily measure demand.

21 Q But if there is no waiting list at a Post Office
22 and I want a box at that Post Office, then there are
23 either -- there is either one box available or they are
24 filled to capacity but there is no one ahead of me on a
25 waiting list; isn't that right?

1 A My understanding, and this is not the research
2 that I have done, other witnesses have talked about it, is
3 that there may be a full Post Office, an unavailability of
4 boxes and no waiting list.

5 Q Yes.

6 A In other words, you may not be able to get a box
7 and they won't take your name or, if they do, it may not go
8 on a waiting list.

9 Q Okay, then if we assume that if a Post Office did
10 have a policy of maintaining a waiting list when there was
11 excess demand, then one would be able to conclude that if
12 there was no waiting list at that Post Office or no one on
13 the waiting list, then that person either could obtain a box
14 that same day or be first on the waiting list?

15 A If there were a waiting list. But since there
16 isn't a waiting list, you may not be able to get a box,
17 period. I don't understand -- I am just going by what I
18 have heard from the other witnesses.

19 MR. CARLSON: I don't have anything further.

20 PRESIDING OFFICER QUICK: Mr. Carlson.

21 Mr. Ruderman?

22 CROSS EXAMINATION

23 BY MR. RUDERMAN:

24 Q Could you please turn to your response to OCA,
25 Interrogatory T6-9C?

1 A Yes.

2 Q This question pertains to a survey question which
3 reads, quote: Do you reside or is your place of business in
4 the same zip code as the town where you obtained box
5 service. You stated here that the purpose of the question
6 was to gain an understanding of the proportion of box
7 holders who believed their boxes were in a zip code other
8 than that of their home address. Is that correct?

9 A That is correct.

10 Q This question contemplates that the respondent
11 would express his own opinion as to whether he is a non-
12 resident?

13 A That is correct.

14 Q Is it possible that the respondent could answer
15 yes because both the residence and box are in the same town?

16 A This is a single question which you are
17 demonstrating is probably more complicated than the one we
18 asked. What we asked is very clearly stated and how the
19 respondent accepted it is how the respondent answered it.

20 Q So, the answer to my question is that, it is
21 possible --

22 A It is possible.

23 Q -- that the respondent could have answered yes?

24 A Yes.

25 Q Could he answer yes even though the correct answer

1 is no?

2 A I'm not sure what the correct answer is.

3 Q Well, is it possible that he answered yes because
4 both the residence and box are in the same town, even
5 though, in fact, the answer should have been no because he
6 was not a resident of that postal facility?

7 A Well, following my original logic that it is how
8 he sees it, whatever he answers is the correct answer for
9 him or her.

10 Q The correct answer for him may not be, in fact,
11 the correct answer as the circumstances exist?

12 A That is true.

13 Q Do you agree that there is some ambiguity in this
14 survey question 1A?

15 A I think it is the other side of the coin. There
16 isn't the kind of precision you would like.

17 Q Do you agree that the tabulations based on
18 responses to survey question 1A cannot be used to produce
19 estimates of proportions of non-residents and that they only
20 can be used to produce estimates of proportions of
21 respondents who believe they are non-residents?

22 A I think I can agree with you. What we are saying
23 is, you can make an estimate in the correct direction.

24 Q Please turn to your response to OCA Interrogatory
25 T6-11C.

1 You state that the data from your waiting
2 list surveys were sparse and that they were not suitable for
3 inferences; isn't that correct?

4 A That's correct.

5 Q Suppose you were specifically asked to conduct a
6 survey of potential box renters on waiting lists. Would
7 this be possible assuming sufficient resources?

8 A Yes.

9 Q Could such a market research type provide
10 information o the proportion of non-residents on waiting
11 lists?

12 A Yes.

13 Q Could such a market research study be used to test
14 various levels of non-resident surcharges to determine the
15 effect on non-residents?

16 A Yes, it could.

17 Q Please turn your response to OCA Interrogatory T6-
18 28.

19 Mr. Carlson touched on the question so to speak
20 and I may be somewhat redundant, but let me continue. You
21 state in your response there that you contacted 293 Post
22 Offices and only 32 of them reported having waiting lists.
23 Further, only 13 of the offices had more than 10 persons on
24 a waiting list.

25 Does this indicate that offices with long waiting

1 lists for boxes are not common?

2 A I believe it does.

3 Q Do you agree that close to 85 percent of the
4 offices have no list at all?

5 A That seems to be true, yes.

6 Q And that only 4 percent of the offices had long
7 waiting lists?

8 A Yes.

9 Q You state in your response to Interrogatory 28C --
10 are you there?

11 A Excuse me?

12 Q 28C.

13 A 20C?

14 Q 28.

15 A Okay.

16 Q 27 plus one.

17 A Okay. I'm at 28.

18 Q 28C. It would appear that a sample of Post
19 Offices with substantial waiting lists would require either
20 a highly disproportionate sample or a large -- or a very
21 large random sample. We use neither.

22 What types of offices would have to be
23 disproportionately sampled?

24 A I don't wish to sound trite about it. We have to
25 sample offices with waiting lists and finding them would

1 involve various approaches, I think. We could do a very
2 large random sample and ask them if they had waiting lists
3 and we would grow it.

4 We could also search for places we thought would
5 have waiting lists and use a much more sophisticated
6 sampling approach and have a means to fold them back into a
7 real public later on. Some combination of the two is
8 probably the way to do this but we are still dealing with
9 waiting lists and there is some evidence that waiting lists
10 aren't a pure descriptor of demand.

11 Q Would a part of this task include identifying
12 border offices that would likely have waiting lists?

13 A We could hypothesize they would have waiting lists
14 and therefore sample them in a disproportionate manner.

15 Q And similarly, you would sample vanity offices in
16 a disproportionate manner?

17 A If there was some reason to believe that they had
18 waiting lists. If we can hypothesize there is a greater
19 likelihood of certain kinds of offices having them, we could
20 come up with a design that will enable us to study them.

21 Q Please turn to the Post Office box fee Table 1 at
22 page 9 of your testimony.

23 A Okay.

24 Q Is it correct that your market research survey
25 tested only three box rate levels for each respondent?

1 A That is correct.

2 Q Did your market research test nonresident fees on
3 respondents who believed they were nonresidents?

4 A No, it did not.

5 Q Please explain why your market research did not
6 test various nonresident fee levels on respondents who
7 believed they were nonresidents.

8 A It was never included as one of the specifications
9 of the research.

10 Q At the time you were commissioned to do the
11 research, were you aware that a surcharge would be placed on
12 nonresidents?

13 A No, I was not.

14 Q And during the time you were designing the sample
15 and the questionnaire, were you aware that there would be
16 such a surcharge?

17 A No, I was not.

18 Q Is there any reason why nonresidents could not
19 have been asked rate acceptance questions regarding the
20 nonresident surcharge?

21 A If we had designed the study to do it, they could
22 have been. But we have already decided that we don't even
23 know what a nonresident is from this study. At least I feel
24 I don't.

25 Q Do you speak on behalf of the Postal Service here?

1 A No, I kind of speak on behalf of the Postal
2 Service there.

3 Q Would you please turn to your response to OCA
4 Interrogatory T-6 25D?

5 In this response, you confirm that nonresident
6 respondents were not informed of their added \$36 per year
7 nonresident fees. Is it possible that the nonresident
8 survey respondents would have reacted differently to the
9 tested box rate levels if they were also informed that they
10 would be subject to the new nonresident fees?

11 A It certainly is possible.

12 Q You said, yes, right?

13 A Yes.

14 MR. RUDERMAN: That concludes the cross-
15 examination of Witness Ellard on behalf of the OCA. Thank
16 you very much.

17 PRESIDING OFFICER QUICK: Is there any followup
18 cross-examination?

19 MR. CARLSON: None from Doug Carlson.

20 PRESIDING OFFICER QUICK: Does any commissioner
21 have questions?

22 Commissioner Haley, do you have any questions?

23 COMMISSIONER HALEY: If I might ask, Mr. Ellard,
24 did your survey specifically ask current nonresidents about
25 their reaction to the proposed nonresident fee? If not, how

1 does the Service reliably determine the expected volume
2 changes from the introduction of the nonresident fee?

3 THE WITNESS: My survey does not specifically ask
4 nonresidents about the nonresident fee. The Postal Service
5 has used data that I have provided to draw inferences beyond
6 my research using those data as a starting point.

7 COMMISSIONER HALEY: Very well.

8 Okay, thank you.

9 PRESIDING OFFICER QUICK: Mr. Chairman, do you
10 have questions?

11 CHAIRMAN GLEIMAN: Yes, a very few.

12 I am a bit confused. I just want to make sure I
13 understand.

14 When you did your surveys, you did not have in
15 mind because you did not know that the Postal Service was
16 planning to charge nonresident fees; is that correct?

17 THE WITNESS: That's correct.

18 CHAIRMAN GLEIMAN: From your survey data, because
19 you are not sure as I understand it what a nonresident is,
20 you really don't have any data that is good enough to enable
21 someone to pick out certain parts of the survey group and
22 say these are nonresidents for purposes of definition?

23 THE WITNESS: I think that in one of my responses
24 just now, I pointed out that the information we have is most
25 likely directionally correct. In other words, our

1 definition, which is a single question which doesn't hold up
2 to the kind of challenge that it might get here, still is a
3 good surrogate for a long series of questions.

4 CHAIRMAN GLEIMAN: On whether someone is a
5 resident or nonresident?

6 THE WITNESS: Yes.

7 CHAIRMAN GLEIMAN: Do you recall that question?

8 THE WITNESS: The question was whether they had a
9 Post Office -- I am now quoting it generally. I can find it
10 specifically, if you would like?

11 CHAIRMAN GLEIMAN: No, that's all right. Just
12 generally.

13 THE WITNESS: Whether or not they had a Post
14 Office box and a zip code different from the zip code in
15 which their mail was delivered, and if that is a bad
16 paraphrase, I will be glad to find the question.

17 CHAIRMAN GLEIMAN: Do you consider the results of
18 your survey, which as I understand it, showed somewhere in
19 the -- for the purposes of the questions, the mid-70s as
20 being willing to accept an increase in post office boxes
21 rental fees to be a pessimistic result in the sense that --

22 THE WITNESS: Yes, I believe that I said it was a
23 worst case in my testimony. There a number of things that
24 go into that but among them is that, the increase is a very
25 small increase on a very small fee. The potential challenge

1 of changing one's behavior is not the kind of thing people
2 think about when they answer one of these questions. What
3 we measure is what people say in response to a very specific
4 series of questions.

5 Behavior is something a little else. We have to
6 make some factors to figure out what the behavior would be.

7 CHAIRMAN GLEIMAN: Each of the three fees that you
8 offer to the various parties who were surveyed are, in
9 effect, higher than that which the Postal Service is --

10 THE WITNESS: Yes, they are.

11 CHAIRMAN GLEIMAN: -- proposing?

12 THE WITNESS: No, not all three are higher; I
13 don't believe so.

14 Table 1 in my testimony, on page 9.

15 CHAIRMAN GLEIMAN: Okay.

16 Do you recall what you found when you did your
17 market research on the proposed E-Com Service way back when?

18 THE WITNESS: No, I do not.

19 CHAIRMAN GLEIMAN: I was just curious.

20 Thank you, I have no further questions.

21 PRESIDING OFFICER QUICK: Does any participant
22 have followup cross examination as a result of questions
23 from the bench?

24 [No response.]

25 PRESIDING OFFICER QUICK: Mr. Ruderman?

1 MR. RUDERMAN: No.

2 PRESIDING OFFICER QUICK: That brings us to
3 redirect.

4 Mr. Hollies, would you like an opportunity to
5 consult with your witness before --

6 MR. HOLLIES: Yes, I would like a few minutes.

7 PRESIDING OFFICER QUICK: How many, five, ten?

8 MR. HOLLIES: Why don't we start with ten and if
9 everybody is here, maybe we can start early.

10 PRESIDING OFFICER QUICK: All right, it looks to
11 me like we will come back at 3:27 or something like that.

12 [Recess.]

13 PRESIDING OFFICER QUICK: Counsel will be seated.
14 We will be ready to go hear.

15 Mr. Hollies?

16 MR. HOLLIES: The Postal Service respectfully
17 declines this opportunity to pose further questions.

18 Thank you.

19 PRESIDING OFFICER QUICK: All right, then we don't
20 have any further recross examination generated.

21 Thank you, Mr. Ellard. We appreciate very much
22 your contributions to the record. If there is nothing
23 further, you are excused.

24 [Witness excused.]

25 PRESIDING OFFICER QUICK: These hearings will

1 reconvene tomorrow, September 10th, at 9:30 a.m., when we
2 will receive testimony from Postal Service witnesses
3 Landwehr, Lion and Needham.

4 Tomorrow Witness Needham will be presented USPS-
5 T-7. She is also sponsoring a second piece of testimony,
6 USPS-T-8. That testimony will be presented on Wednesday,
7 September 11th.

8 Thank you very much. We will see you tomorrow.

9 [Whereupon, at 3:20 p.m., the hearing was recessed
10 to reconvene at 9:30 a.m., Tuesday, September 10, 1996.]
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