

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 4

HEARING

CROSS-EXAMINATION OF THE POSTAL SERVICE'S
CASE-IN-CHIEF

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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 4

15 Wednesday, September 11, 1996

16

17 The above-entitled matter came on for hearing,
18 pursuant to notice, at 9:34 a.m.

19

20 BEFORE:

21 HON. EDWARD J. GLEIMAN, CHAIRMAN

22 HON. W.H. "TREY" LeBLANC, III, VICE CHAIRMAN

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

24 HON, GEORGE W. HALEY, COMMISSIONER

25

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1	C O N T E N T S				
2	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
3	CARL E. STEIDTMANN				
4	BY MR. ALVERNO	926			
5	BY MR. CARLSON		960		
6	BY MR. RUDERMAN		996		
7	SUSAN W. NEEDHAM				
8	BY MR. ALVERNO	1000			
9	BY MR. RUDERMAN		1178		
10	BY MR. POPKIN		1212		
11	BY MR. ALVERNO			1297	
12	BY MR. POPKIN				1310
13	BY MR. RUDERMAN				1311/1317
14	JOHN F. LANDWEHR				
15	BY MR. POPKIN				1321
16					
17	DOCUMENTS TRANSCRIBED INTO THE RECORD:				PAGE
18	Designated Written Cross-Examination of Carl E.				
19	Steidtmann				929
20	Designated Written Cross-Examination of Susan W.				
21	Needham				1004
22	Revised Response of Susan W. Needham to				
23	Interrogatory of David B. Popkin,				
24	DBP/USPS-T1-3				1304
25					

1	E X H I B I T S		
2	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
3	Direct Testimony of Carl E. Steidtmann,		
4	USPS-T-2	927	927
5	Designated Written Cross-Examination of		
6	Carl E. Steidtmann		928
7	Direct Testimony of Susan W. Needham,		
8	USPS-T-8	1001	1001
9	Designated Written Cross-Examination of		
10	Susan W. Needham		1003
11	OCA Questions to Susan W. Needham,		
12	XE-OCA/USPS-T-8-1	1197	
13	Revised Response of Susan W. Needham to		
14	Interrogatory of David B. Popkin,		
15	DBP/USPS-T1-3		1303
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

P R O C E E D I N G S

[9:34 a.m.]

PRESIDING OFFICER QUICK: Good morning. The hearing will come to order.

Welcome back to all of you who were with us last night.

Today, we are continuing hearings to receive the Postal Service evidence in support of its request for a recommended decision on mail classification changes and associated rate adjustments for special services. Our initial schedule called for Witnesses Carl Steidtmann and Susan Needham to appear today.

During yesterday's hearing, the Postal Service responded to a motion from David Popkin by agreeing to recall Witness Landwehr to respond orally to written interrogatories filed September 5. It was agreed by counsel that Mr. Landwehr would be our final witness today.

I have one preliminary matter to mention before we begin. Yesterday, the Commission denied the Postal Service motion for reconsideration of Order Number 1129. Thus the issue of whether the classification and rates for Business Reply Mail are fair and equitable remains before the Commission.

A number of discovery requests from Nashua Mystic were held in abeyance pending resolution of the motion for

1 reconsideration. Additionally, there were motions to compel
2 pending concerning many of those discovery requests.

3 I have reviewed these issues and this morning I am
4 issuing Ruling Number 10 resolving outstanding issues
5 concerning the Nashua Mystic discovery. I will have copies
6 of that ruling brought to the hearing room as soon as they
7 are available.

8 I have determined that answers should be provided
9 to many of the outstanding discovery requests. Under our
10 rules, responses are due 10 days from the date of my ruling
11 which, as a result of weekends, makes answers due on Monday,
12 September 23.

13 Mr. Rubin, Mr. Hollies, I would appreciate it if
14 you would immediately inform Postal Service counsel of this
15 ruling. Also, I would like to inform co-counsel and, if
16 necessary, more senior Postal Service management responsible
17 for the conduct of this case that the Commission expects the
18 Postal Service to make every reasonable effort to provide
19 these responses on or before September 23.

20 Many of these questions already have been
21 outstanding for more than a month. It remains the
22 Commission's expectation that we will adhere to our
23 procedural schedule in this case but, for us to do that, we
24 must have cooperation from the Service.

25 I recognize that counsel appearing before us are

1 diligent. If additional assistance is needed in order to
2 comply with our rules, I would expect you to ask your
3 management for this assistance.

4 Does any participant have a procedural matter to
5 raise at this time?

6 Postal Service counsel -- who is in charge here?
7 Mr. Alverno?

8 MR. ALVERNO: Mr. Alverno, yes.

9 PRESIDING OFFICER QUICK: Mr. Alverno, would you
10 identify your witness so I could swear him in, please?

11 MR. ALVERNO: Certainly. The Postal Service calls
12 Dr. Carl Steidtmann.

13 Whereupon,

14 , CARL E. STEIDTMANN,
15 a witness, was called for examination by counsel for the
16 Postal Service and, having been first duly sworn, was
17 examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. ALVERNO:

20 Q Please introduce yourself.

21 A My name is Carl Steidtmann. I am director of
22 Price Waterhouse and Chief Economist for their Management
23 Horizons Retail Consulting Division.

24 Q Earlier, Dr. Steidtmann, I handed you two copies
25 of a document entitled Direct Testimony of Carl Steidtmann

1 on Behalf of United States Postal Service. Have you had a
2 chance to review those documents?

3 A Yes, I have.

4 Q And was this testimony prepared by you or under
5 your direction?

6 A Yes, it was.

7 Q Do you have any changes or corrections to make?

8 A No, I don't.

9 Q If you were to testify orally today,
10 Dr. Steidtmann, would your testimony be the same?

11 A Yes, it would be.

12 MR. ALVERNO: Mr. Presiding Officer, I would like
13 to move that the Direct Testimony of Carl Steidtmann be
14 received as evidence at this time.

15 PRESIDING OFFICER QUICK: Are there any
16 objections?

17 [No response.]

18 PRESIDING OFFICER QUICK: Hearing none, the
19 testimony and exhibits are received into evidence. As is
20 our practice, they will not be transcribed.

21 [Exhibit No. USPS-T-2 was marked
22 for identification and received
23 into evidence.]

24 PRESIDING OFFICER QUICK: Mr. Steidtmann, have you
25 had an opportunity to examine the packet of designated

1 written cross-examination that was made available to you
2 earlier this morning?

3 THE WITNESS: Yes, I did.

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

7 THE WITNESS: Yes, they would be.

8 PRESIDING OFFICER QUICK: Two copies of the
9 corrected Designated Written Cross-Examination of Witness
10 Steidtmann will be given to the reporter.

11 THE WITNESS: They have been given to the
12 reporter.

13 PRESIDING OFFICER QUICK: And I direct that it be
14 accepted into evidence and transcribed into the record at
15 this point.

16 [The Designated Written Cross-
17 Examination of Carl E. Steidtmann
18 was received into evidence and
19 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
CARL E. STEIDTMANN
(USPS-T-2)

The following discovery responses have been designated as written cross-examination.

Asking Party

Answers to Interrogatories

American Postal Workers Union,
AFL-CIO

T2-1.

Newspaper Association of America

T2-2.


National Association of Postmasters
of the United States

T2-5.

Office of the Consumer Advocate

T2-1-4, 6-7.

Respectfully submitted,

A handwritten signature in black ink, reading "Margaret P. Crenshaw". The signature is written in a cursive, flowing style.

Margaret P. Crenshaw
Secretary

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION

APWU/USPS-T2-1
Page 1 of 2

APWU/USPS-T2-1. With reference to your testimony at page 8, please describe the "retail perspective" that determined that Special Delivery Service for "FASTNET" packages, Global Priority Mail, Registered and Certified Mail could not be a "viable part of the product mix."

APWU/USPS-T2-1 Response.

I am currently unfamiliar with the role that special delivery plays in the delivery of "FASTNET" packages, Global Priority Mail, Registered and Certified Mail. Although I do not have any specific knowledge as to how special delivery is provided in conjunction with these other products, I am able to comment on special delivery from a retail perspective.

Retailers must examine both the relative costs and benefits of their different product mixes as well as assess how best to optimize that mix. Therefore, a retail perspective requires focus. Retailers have come to realize that they can not be all things to all people. Good retail strategy requires making choices. Retailers must maintain a focus on the customer and how best to provide those products which add the most value to the customer and the highest level of benefits to the retailer.

As in the case of special delivery, a retailer should interpret low demand for a particular product as an indicator of that product's reduced viability in its product

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION

mix. A retailer which continues to offer a product with decreasing volumes may be ineffectively allocating its resources. For instance, the example in my testimony regarding the emergence of compact discs and the disappearance of the long-playing album illustrates the difficulty in attempting to offer a product no longer justified by consumer demand in the marketplace.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE NATIONAL ASSOCIATION OF POSTMASTERS OF
THE UNITED STATES

NAA/USPS-T2-2
Page 1 of 1

NAA/USPS-T2-2. Suppose an entity is able successfully to raise price in a market in which it faces competition. Would one explanation for this phenomenon be that it previously had been pricing below cost?

NAA/USPS-T2-2 Response.

Assuming that the phrase "able successfully to raise price in a market in which it faces competition," means that the entity is able to raise prices and increase profits, then yes, one possible explanation for this would be that it had previously been pricing below cost. Another explanation would be that the entity was previously pricing above cost but below the market price. A third explanation could be that there is an upward sloping demand curve, which can be the case for high status goods.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE NATIONAL ASSOCIATION OF POSTMASTERS OF
THE UNITED STATES

NAPUS/USPS-T2-5

Page 1 of 1

NAPUS/USPS-T2-5. In your testimony at page 3, you refer to box service as a "peripheral product." Please define the term "peripheral" as you use it. If box service is the sole method for an individual or business' receipt of mail, how can that be considered a "peripheral" service?

NAPUS/USPS-T2-5 Response.

As stated in my testimony, "Peripheral products are those products that have low visibility in the minds of consumers." In the context of my testimony, I was asserting that raising fees for box service would most likely not deter most consumers from purchasing other Postal Service products. I base this assertion on the fact that the majority of U.S. Postal Service customers currently do not purchase box services.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-1
Page 1 of 2

OCA/USPS-T2-1. In your testimony at 3, you state, "These customers [the large boxholders who are typically businesses] are in turn more likely to request other retail services in conjunction with visits to post offices to retrieve mail."

a. Have you or the Postal Service conducted a survey or study on the frequency, volume and valuation of transactions for Postal Service retail services among business boxholders and business nonboxholders?

b. If your response to part "a" of this interrogatory is affirmative, please provide a copy of the survey and the applicable cities. If your response is negative, please indicate the basis for your assertion.

c. Have you or the Postal Service conducted a survey or study to determine the frequency, volume and valuation of transactions for Postal Service retail services among nonbusiness boxholders and nonbusiness nonboxholders?

d. If your response to part "c" of this interrogatory is affirmative, please provide a copy of the study with the applicable cities. If your response is negative, please indicate the basis for your assertion.

e. Please explain how you determined that large boxholders are more likely to request other retail services than small or medium boxholders are.

OCA/USPS-T2-1 Response.

a. No, I have not conducted such a survey or study, and to the best of my knowledge, neither has the Postal Service.

b. My assertion is based upon my experience in the retail industry.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-1
Page 2 of 2

- I
- c. No, I have not conducted such a survey or study, and to the best of my knowledge, neither has the Postal Service.
 - d. My assertion is based upon my experience in the retail industry.
 - e. As noted in my testimony, it is my understanding that larger box holders are generally businesses. For the most part, businesses perform functions that make more use of postal services than individuals. As such, they are more likely to request other retail services when they visit a post office.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2

Page 1 of 5

OCA/USPS-T2-2. In your testimony at 5, you state that "[s]implifying a product line is worthwhile in a retail context because it generally decreases costs . . . and makes it easier to communicate the value and features of the service to customers."

a. Please provide all information you have available to you on retailers who "simplify" their product line while raising the remaining product prices. Your response should cite specific product lines as well as specific retailers.

b. What has been the market impact on those retailers you cite in part "a" of this interrogatory?

c. When retailers "simplify" their product line, can the simplification process create a potential for another retailer to enter that market and address any potential "void" brought about by the simplifications process? Please explain your response.

OCA/USPS-T2-2 Response.

a. The reference to product simplification on page 5 of my testimony pertains to the restructuring of the Postal Service's return receipt service.

Simplification of a product line does not necessarily go hand in hand with either an increase in product prices or a decrease in product prices. In general, retailers simplify a product line to reduce costs, which usually, although not always, results in a lower price, not a higher price. Retailers will adjust their prices to reflect all factors affecting remaining products, not just the simplification. For instance, higher

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2

Page 2 of 5

market prices or changes in service levels may induce a retailer to raise prices on remaining products despite the product simplification.

There are numerous examples of companies that have simplified their product offerings. In addition to the automobile manufacturers mentioned in my testimony, other examples can be found in the department store, mass merchandiser, and outdoor apparel industries. Department stores such as Dayton's in Minneapolis, Marshall Field's in Chicago, and Macy's in Atlanta once carried diverse goods such as hardware, furniture, fabric, and food. These department stores have greatly reduced these categories or gotten out of these businesses altogether to focus on apparel. The same has been true of national mass merchandisers, (i.e., nationwide non-specialized retailers) such as Sears Roebuck and JC Penney. Retailers such as Abercrombie and Fitch and Eddie Bauer once sold outdoor equipment, but have now eliminated those products in order to focus on apparel. Specific examples of companies that have simplified their pricing/product lines while raising the remaining product prices include Sears and Proctor and Gamble.

During the spring of 1989, Sears Roebuck undertook a pricing scheme simplification with the goal of reducing promotional spending. The goal was to offer a single set of "lower" prices and eliminate discounts. While Sears advertised that they would

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 3 of 5

lower all prices, the simplified price scheme resulted in prices that were lower than their standard prices, but above the previously offered discounted prices.

Similarly, two years ago, Proctor and Gamble, a global provider of brand name consumer products including cleaning detergents, paper, beauty and health, and food and beverage products, decided to simplify its pricing scheme to offer a single set of "everyday low prices." This simplification was part of Proctor and Gamble's initiative to move away from heavy coupon and discount promotions and reduce overall promotional costs. While the simplified pricing scheme was intended to represent "everyday low prices," the resulting prices were higher than many of the discount prices that had previously been offered through promotional efforts.

- b. In general, for the retailers mentioned in part "a" of this response, the narrowing of product focus has been positive, reducing costs and increasing gross margins. Sears Roebuck's price simplification was not as successful. Pressure from competitors forced Sears to resume its promotional efforts. For Proctor and Gamble, the simplification reduced company spending on coupons and price promotions. Furthermore, the simplification helped to eliminate pricing situations in which certain retailers could purchase Proctor and Gamble products at discounted

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 4 of 5

promotional prices and resell them to other stores for a profit, thus creating artificial competition for Proctor and Gamble.

- c. Generally, a retailer's decision to simplify a product line is the result of market pressures, and as such, there would not necessarily be a market "void" for another retailer to fill.

A retailer will often decide to obtain the benefits from streamlining its product line when it is no longer economically attractive for them to continue offering certain products. The fact that the product(s) are no longer economically attractive for the retailer may occur either because there is decreasing demand for the product(s) in the marketplace, as a result of competitive pressures, or from increasing product costs.

An example of a product line for which demand has decreased is the typewriter. As technology has replaced the typewriter with word-processing and personal computers, demand decreased and fewer and fewer typewriter products were

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 5 of 5

offered on the market. When retailers discontinued offering typewriter products, market "voids" were not created since there was low market demand.

An example of a product line that was streamlined due to competitive pressures is the product line offered by department stores. Department stores generally stopped offering consumer electronics and appliances when specialists like Circuit City or Best Buy began to expand and focus on those product categories. These specialists were able to offer consumers a much wider selection and lower prices than the department stores could. Simplification allowed department stores to exit a less profitable product line and focus its range of products. Market "voids" were not created since the competition had proactively taken over the market, thus leading department stores to simplification and its associated benefits.

Finally, for an example of simplification resulting from increasing product costs, see the reference to the automobile industry in my testimony at 5.

While there may be the potential for simplification to create an opportunity for another retailer to fill a void, it is not generally the case.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-3

Page 1 of 2

OCA/USPS-T2-3. In your testimony at 1, you state "In the context of the Postal Service, it also allows special service pricing to be addressed without being overshadowed by other rate and classification issues."

- a. In past omnibus rate cases, has special service pricing been overshadowed by other rate and classification issues?
- b. If your response to part a of this interrogatory is affirmative, please identify the case(s) and the issue(s) that overshadowed special service pricing.
- c. If your response to part a of this interrogatory is negative, please explain the basis for your statement.

OCA/USPS-T2-3 Response.

- a. Although I am not familiar with all past classification and rate proceedings, I am unaware of any past proceedings in recent years that have included a major redesign of special services. Since this proceeding presents a major special services redesign, however, we avoid the risk of overshadowing the proposals for special services at issue here with other rate and classification issues. The narrow scope of this proceeding also enables the Postal Service to focus its internal resources on these proposals. This is beneficial from a retailing perspective because it ensures a complete and thorough evaluation of the products under review.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-3
Page 2 of 2

- b. N/A

- c. As noted in my testimony, from a retailing perspective, it is beneficial to periodically perform selective reviews of products and prices. By incrementally reviewing a retailer's product line, the retailer is able to focus resources on a subset of its product line under review, thereby ensuring that proper attention is devoted to identifying the most beneficial adjustments for the product and/or prices under review.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-4
Page 1 of 2

OCA/USPS-T2-4. In your testimony at 2, you state, "... it appears that CMRAs provide a greater array of services than post office boxes."

- a. Please specifically identify the greater array of services offered by the CMRAs to which you are referring.
- b. For those services identified in part a of this interrogatory, please rank the services from highest to lowest value.

OCA/USPS-T2-3 Response.

- a. As referenced in my testimony at page 2, my statement is in reference to the services identified in USPS-T-4 tables 8A and 13 (e.g., call-in checking, notary, and telephone answering).
- b. I am assuming that you are referring to the value of these services from a market perspective, (i.e. how do consumers rank these ancillary services). The value of these services will vary depending upon the needs of the individual customer. For example, while a small business customer may place greater value on faxing, a graphic artist customer might place greater value on color copying. In order to determine the respective market value of these services it would be necessary to perform a market research study. I have not undertaken such a study, and

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

therefore cannot accurately determine the relative market value of these ancillary services.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-6
Page 1 of 3

OCA/USPS-T2-6. Your testimony at pages 5 - 6 states: "This increase in certified mail price reflects the fact that comparable service is currently offered at much higher prices. The certified mail fee increases thus comports with retail industry practices."

- a. Please explain in detail what the retail industry practices are with which the proposed certified mail fee increase will comport.
- b. Please explain in detail what "comparable service is currently offered at much higher prices" and who offers these comparable services.
- c. Does the proposed increase in certified mail fees reflect "what the market will bear" type pricing? Please explain.
- d. Does the proposed increase in certified mail fees simply reflect a large price increase for captive customers of a monopoly service? Please explain.
- e. Please explain how any aspect of the Postal Service's proposal for certified mail reflects anything but a price increase.

OCA/USPS-T2-6 Response.

- a. The proposed certified mail fee increase is consistent with the retail practice of pricing a product to reflect current market conditions. Specifically, as noted in the quote of my testimony, the increase in the price of certified mail reflects the fact that comparable service is currently offered at much higher prices. By increasing the fee for certified mail, the price of the certified mail service will be more in line with, although still substantially lower than, the prices for alternatives currently offered in the market.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-6

Page 2 of 3

- b. Please refer to USPS LR-SSR-110 at p. 20. The alternatives to certified mail include couriers, competitors' tracked and traced mail products, and special messengers. According to the survey research, those products average \$10.68 more per piece than certified mail.
- c. No, the Postal Service's proposal does not reflect "what the market will bear" pricing. Although the Postal Service is attempting to raise the fee for certified mail, the proposed price is still far below that of existing alternatives to certified mail. A "what the market will bear" approach, on the other hand, would entail raising the price for certified mail to a level closer to those alternative products.
- d. No, as noted above and in USPS-LR-SSR-110, certified mail customers have identified several market alternatives to the certified mail product offered by the Postal Service, and as such, the existence of "captive customers" is not borne out by the survey research.
- e. The Postal Service proposes an increase in the certified mail fee. Based upon the results of the survey summarized in USPS LR-SSR-110, however, the proposed fee

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-6

Page 3 of 3

increase will still leave the Postal Service's fee far below prices of alternative products.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-7

Page 1 of 1

OCA/USPS-T2-7. At page 7 of your testimony you discuss registry service. You say that registry in general is a relatively low volume service and that uninsured registered mail for higher value items is particularly low volume.

a. Is it the case that a low volume service must have a low value of service?

Please explain.

b. Is the object of "streamlining product options" a responsible reason for eliminating a product which has a high value of service to its customers? Please explain.

OCA/USPS-T2-7 Response.

a. It is not necessarily the case that a low volume service has a low value of service.

Premium products and services may be retailed in small quantities but still be highly valued. For instance, a Rolls Royce automobile is sold in extremely limited quantities but is considered a very high value product by consumers.

b. By streamlining product options, the retailer will base a rational decision on the relative merits of the parts of its product line. The retailer will generally discontinue products with low or diminishing volumes in order to concentrate resources on items or services which elicit greater demand in the market. By simplifying its product line, the retailer is able to offer better defined products and services, thereby avoiding confusion among customers.

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

4 [No response.]

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

10 MR. CARLSON: Yes, Mr. Presiding Officer. I have
11 not more than 10 minutes' worth of questions.

12 PRESIDING OFFICER QUICK: All right, Mr. Carlson.
13 Since your request was not received earlier, I
14 guess we will let Mr. Ruderman go ahead and then you can
15 follow him.

16 Mr. Ruderman, will you please begin?

17 MR. RUDERMAN: Thank you, Mr. Presiding Officer.

18 BY MR. RUDERMAN:

19 Q My review of your background indicates that you
20 provide retail consulting services and are an economist, is
21 that correct?

22 A That's correct, yes.

23 Q Let me ask you a question. If a company faces
24 increased competition in a normal environment, would you
25 recommend the company increase prices in response to

1 increased competition or reduce prices?

2 A Well, from a retail perspective, it really depends
3 on a vast array of other propositions that would be involved
4 in the marketplace. If a particular retailer faced
5 increased competition, my recommendation would be to find --
6 and that increased competition was resulting in a reduction
7 in their profitability -- my recommendation would be to see
8 other ways of going to the marketplace, either by changing
9 their advertising, by looking at other ways of communicating
10 with the customer, by changing the product mix they have, by
11 looking at the other elements of the retail mix.

12 The last thing that I would recommend for them to
13 do would be to cut price.

14 Q What about increasing prices, would that be the
15 last thing you'd recommend they do also?

16 A Well, not necessarily. Again, it would depend on
17 the situation and the other alternatives that would be
18 available to them. It's very conceivable that if they could
19 increase the value of the product they had to their
20 customers, they, in turn, might be able to increase the
21 price as well.

22 Q I'm sorry if I misstated the question. The
23 underlying assumption of the question is that they could not
24 increase the product -- change the product they were
25 offering in any significant way?

1 A Well, but in a retail context, most retailers will
2 have the ability to change some other aspect of the
3 marketing mix. My recommendation to a retailer would be to
4 look at what those other elements of the mix are and see if
5 there is some other way they can adapt to those and increase
6 the value of the product they're delivering to the customer
7 or deliver it in some other fashion that would allow them to
8 avoid cutting price.

9 Q In your experience in the retail industry, in
10 situations where companies have faced increased competition
11 and they have changed their prices, is it your experience
12 that they increased prices or reduced prices? Which occurs
13 more frequently?

14 A My experience in dealing with retailers is that
15 when they're faced with increased competition, they'll try
16 to do a lot of different things before they have to decrease
17 price. It's not to say that price won't be cut in some
18 instances, but it's usually done as a last resort.

19 Q What about increasing prices? Have you any
20 experience where retailers have increased price in the face
21 of increased competition?

22 A Yes. They've increased price again where they can
23 show added value to the customer where they've changed the
24 mix of the goods they're dealing with where they, in a
25 sense, try to reposition themselves away from the

1 competition that is driving prices down.

2 Q Can you identify any such instances?

3 A I think the best example of that is in the
4 department store industry. You've seen a number of the
5 department stores -- J.C. Penney would be an example of
6 this; Coles Discount Department Store in the midwest --
7 where they have found increased competition in the middle
8 market and they've really tried to change the product mix
9 they've got. They've gone upmarket and have, in the course
10 of doing that, slightly increased the prices of the goods
11 they're selling.

12 Q In those situations, the companies have improved
13 the quality of their product, is that correct?

14 A They've improved -- that's right, they've improved
15 the quality of the product; they've, in some cases, upgraded
16 the quality of their stores; they have increased the level
17 of service to the customers that they're dealing with.

18 Q Will your please turn to your response to
19 Interrogatory T2-6B, OCA interrogatory?

20 A If I can get a copy of it?

21 I'm sorry, which question?

22 Q OCA Interrogatory T2-6B.

23 A Very good.

24 Q Are there primary alternatives to certified mail
25 couriers and special deliveries?

1 A Yes, that's what the answer implies.

2 Q Are these alternatives used because they provide
3 pickup service and therefore, no standing in line at the
4 post office?

5 A In some cases, that's correct.

6 Q Are there other reasons why these alternatives are
7 used?

8 A There are a wide variety of differences why people
9 would use these different services, from the ones that you
10 mentioned to the fact that some of them are one-day delivery
11 services, to the fact that, in many cases, companies will
12 have contracts with the providers to provide that service.

13 Q Any other reasons?

14 A Not that I can think of off the top of my head.

15 Q Also in that interrogatory response, you indicate
16 that these alternative products average \$10.68 more per
17 piece than certified mail?

18 A That's correct.

19 Q Certified mail rate is \$1.10?

20 A That's correct.

21 Q Therefore, the alternative product average price
22 is approximately \$11.70, is that correct?

23 A That's correct.

24 Q Can you please explain how a product costing ten
25 times more than another product is a realistic alternative?

1 A Well, it's an alternative in the sense that it
2 provides many of the same functionalities as certified mail
3 and that it gives the sender verifiability that a piece of
4 mail has been sent.

5 Q But the question seeks to ascertain whether it's a
6 realistic alternative to the people who are now using
7 certified mail?

8 A Well, it certainly is an alternative that is used
9 by some people for that purpose.

10 Q You wouldn't expect many of these people to really
11 want to spend \$11.70 to send a piece of mail that was
12 costing them \$1.10?

13 A Again, from a retail perspective, there are many
14 reasons why people will act in the way that they do because
15 they feel that they're getting value from using that
16 particular product or service, so there are, I'm sure,
17 instances where people would use it for that particular
18 purpose.

19 Q Not many, you would think?

20 A Well, I think the point here is, from a retail
21 perspective, people don't operate exclusively on the basis
22 of price; that there are a wide variety of different reasons
23 why people find value in a particular product or service and
24 that they will pursue those, in many cases, regardless of
25 the price.

1 Q Again, I'm asking your opinion. You don't think
2 many of these people consider it a realistic alternative, do
3 you?

4 A Again, I haven't done a consumer survey to answer
5 that particular question.

6 Q Okay. Could you please turn to your response to
7 OCA Interrogatory T2-2? You discuss therein a number of
8 companies that have simplified their product offerings?

9 A Yes, that's correct.

10 Q One such company was Sears Roebuck which undertook
11 a pricing simplification scheme where they would lower
12 prices and eliminate discounts.

13 A That's correct, yes.

14 Q Did Sears introduce this pricing scheme to
15 maximize profits?

16 A Sears introduced everyday low price with the
17 intent of trying to reduce their cost of doing business and
18 to improve the quality of service that they were delivering
19 to their customers. I'm sure the expectation was that it
20 would improve their profitability.

21 Q So the answer is yes?

22 A I guess the problem I have with it is the term
23 "maximizing profitability." Most retailers don't work in a
24 profit-maximizing mode. They really are looking at trying
25 to improve their profitability as opposed to maximizing it.

1 So I would say that they were focusing on trying to improve
2 their profitability as opposed to maximizing it.

3 Q Do you think shareholders don't want companies to
4 maximize profits?

5 A Well, I'm sure shareholders may want them to
6 maximize profitability, but I think the problem is that very
7 few companies know at what point they are actually
8 maximizing profitabilities and there are a whole variety of
9 other objectives that many other retailers will pursue,
10 including marketshare, including service to the community,
11 including training and career development for their
12 associates, all of which may not necessarily improve --
13 maximize profitability in the context that most economists
14 think about maximizing profitability.

15 Q Was Sears forced to abandon this program?

16 A Yes, they were.

17 Q Can you explain why?

18 A Well, the basic strategy of everyday, low price is
19 based on the premise that you can also be the everyday, low-
20 cost provider in the marketplace, that you can, across the
21 board, offer the mix of products that you have at a low
22 enough price that will allow you to be competitive in the
23 marketplace.

24 They, in fact, were not the everyday, low-cost
25 provider and, so, as a result, other competitors --

1 particularly the discount stores, Wal-Mart and K-Mart --
2 were able to underprice them and they weren't able to
3 convince their consumers that they were sincere in keeping
4 their prices down and that they weren't going to promote.
5 So in order to bring traffic back into the stores, they had
6 to abandon their attempt at everyday, low price and go back
7 to their promotional activity.

8 Q So it would be fair to say that in hindsight Sears
9 made a poor decision when it increased prices while
10 simplifying its product line?

11 A No. I would say it was a good decision. It was a
12 bad outcome and it was a bad outcome because it was not
13 executed properly, that they didn't lay the groundwork
14 beforehand to reduce the cost of doing business to allow
15 them to execute the strategy in a fashion that would have
16 led to success.

17 Q You're saying it was a good decision even though
18 they abandoned the program?

19 A I am saying it was a good decision. It was a bad
20 outcome.

21 Many times in retailing you will make a decision
22 that at the time you made the decision seems like the right
23 thing to do and competition and other factors that are
24 beyond your control down the road will prove you to be
25 wrong.

1 I think that was the case here with Sears.

2 Q So in hindsight it had a bad result and a bad
3 outcome. It was a bad decision because if they had their
4 choice they wouldn't have done it if they could rewrite
5 history.

6 A If they could rewrite history, I think they would
7 have still made the decision but they would have approached
8 it differently. They would have tried to execute the
9 strategy differently than what they did.

10 I think that the mistake was in how they executed
11 the strategy. It wasn't with the strategic decision to
12 begin with.

13 Q You also state that Procter & Gamble initiated a
14 program of everyday low prices that were higher than many of
15 the discount prices that had previously been offered through
16 promotional efforts.

17 A That's correct, yes.

18 Q Did Procter & Gamble introduce this program to
19 maximize profits or, as you say, obtain as much profits as
20 was within their contemplation?

21 A I think they introduced it as an attempt to
22 improve their profitability, yes.

23 Q Does Procter & Gamble still follow this pricing
24 scheme?

25 A Yes, they do.

1 Q Has it reduced overall promotional cost because of
2 its everyday low prices?

3 A Yes, it has. In fact, if you saw last week's
4 Business Week, the cover story was about Procter & Gamble
5 and the efforts that they have made to simplify both their
6 product line as well as their promotional activities and the
7 success that is having and the fact that other marketers and
8 retailers are now looking at the success they have had and
9 will in some cases I think begin emulating what Procter &
10 Gamble has done.

11 Q Can you please to your response to Interrogatory
12 T2-2, NAA Interrogatory T2-2.

13 A Okay, yes.

14 Q NAA -- you changed the page.

15 A Oh, I'm sorry. Okay.

16 Q There you give three reasons why an entity would
17 raise prices in a market in which it faces competition.

18 One reason is that the entity has been pricing
19 below cost, is that correct?

20 A That's correct.

21 Q When is it appropriate for an entity to price its
22 products below cost?

23 A Well, in many cases a retailer will price a
24 product below cost as a traffic driver, as a way of getting
25 more customers into the store in hopes that they will not

1 buy just the below cost product but they will buy a much
2 broader market basket of goods.

3 For example, a discount store like Wal-Mart will
4 price, very often will price motor oil below cost in hopes
5 that people who are coming in will also buy filters and in
6 many cases the tools to do the task or other products as
7 well.

8 They will also very often price Pampers, baby
9 diapers, below cost in hopes that all the other things that
10 go with childcare will be attractive and that the consumer
11 who comes in to buy Pampers will also buy those products as
12 well.

13 Q Are those the primary reasons that you can think
14 of why, the entity price is product below cost?

15 A It will primarily be done as a traffic driver.

16 Q Does this reason apply to COD?

17 A I really can't say. I haven't studied COD enough
18 to really look at what it's positioning is within the mix of
19 products that the Postal Service officers.

20 MR. RUDERMAN: Okay, thank you. That completes my
21 cross examination.

22 PRESIDING OFFICER QUICK: Mr. Carlson?

23 MR. CARLSON: Thank you.

24 CROSS EXAMINATION

25 BY MR. CARLSON:

1 Q Good morning.

2 A Good morning.

3 Q If you could turn your attention, please, to page
4 4 of your testimony, lines 12 through 16, please.

5 A Yes.

6 Q I am hoping you can explain why a Post Office that
7 is more remote than a box at a customer's local office also
8 would be more convenient for the customer.

9 A Well, I think there are a variety of reasons why
10 that might be. We live in a society that is very mobile and
11 you may have a customer who travels around a great deal and
12 the Post Office that actually might not be nearest their
13 home or residence may, in fact, be on a route that they
14 travel fairly often and that might turn out to be more
15 convenient for them.

16 Q So by "remote" you mean farther from their local
17 Post Office?

18 A That's correct. Yes.

19 Q How do you know that nonresidents place a higher
20 value on box service than residents do?

21 A Well, again, from a retail perspective, I think if
22 you look at why consumers go out and demand products, if it
23 wasn't of more value to them, they would go to a local --
24 they would go to their local Post Office and acquire a box
25 there. So I think the fact that they, themselves, have to

1 go out of their way in order to acquire that box, through
2 revealed preference, I think, shows that that box is of more
3 value to the one that they would take that would be closer
4 to their home or to their resident -- or to, I'm sorry,
5 their business.

6 Q I want to explore that a little bit more. Do you
7 agree that a person who voluntarily rents a box for \$20 for
8 six months must place a value on that box of at least \$20?

9 A That's a fair assumption, yes.

10 Q Is it possible that a nonresident boxholder rents
11 a nonresident box because he values a box at his local
12 office for only \$10 or \$15 but he places a value of \$20 on a
13 nonresident box?

14 A You know, that --

15 Q Would you like an example?

16 A Yes, if you could, please.

17 Q Suppose the boxholder's local Post Office has
18 hours so short that the boxholder rarely could check his
19 mail when he gets home the same day, so he essentially would
20 receive his mail a day later. So perhaps he would -- that
21 box would be worth only \$10 to him whereas a box at a 24-
22 hour office might be worth \$20 to him. Is that situation
23 possible?

24 A That situation would certainly be conceivable.
25 Again, from a retail perspective, one of the problems that

1 all retailers have is that there is a wide variety of
2 different reasons why a consumer is going to use a
3 particular good or service and the real challenge is really
4 to focus on the core customer who you are trying to get into
5 the store and really try to maximize your revenues and your
6 business opportunities off of that core customer and the
7 noncore customers are of -- really aren't of the focus --
8 aren't of the focus that the business should have.

9 Q How do you know that the customer I just described
10 in my hypothetical is not the core nonresident customer?

11 A Well, it -- it very well may be. My point was
12 that there are a wide variety of different customers with
13 varying needs. The important thing from a retail
14 perspective is to focus on who that core customer really is.

15 Q So who is the core nonresident customer?

16 A I'm not sure I understand your question.

17 Q I haven't been able to determine how you know how
18 much value nonresident boxholders place on their boxes. I
19 have suggested one type of nonresident boxholder as being a
20 person who is trying to avoid insufficient lobby hours.

21 A Sure.

22 Q What evidence do you have that that type of
23 customer is not, in fact, the majority of the nonresident
24 box customers?

25 A But, again, your customer that you have given me

1 puts a higher value on the nonresident one than he does on
2 the resident one. So, you know, from -- again, from a
3 retailer's perspective, when you've got a customer whose
4 demand is greater, if there is some way that you can
5 differentiate between those customers, it is good business
6 practice to discriminate on the basis of price between them.

7 Q So if we discriminate on the basis of price, this
8 nonresident boxholder should be charged \$20 for his
9 nonresident box because that's what it's worth to him, which
10 is the same price of a resident box for somebody who values
11 a resident box at \$20?

12 A No. See, again, if -- if -- to get back to your
13 original point, isn't this the core customer, if the
14 customer is only willing to pay \$20 and the price of the box
15 is much higher than that, then that clearly isn't your core
16 customer, because that is not somebody who is willing to do
17 business with you at a price that you're trying to set in
18 the marketplace.

19 Q But the price right now is \$20. So he would be
20 willing to pay \$20 for a nonresident box at that office that
21 offers longer hours, so I don't see why he should pay an
22 extra \$18, which is the proposal here that supposedly
23 captures the added value to him, when it is not clear to me
24 that he values that nonresident box any more than the basic
25 fee.

1 A But, in fact, if there are customers out there who
2 do value it at that higher price, then there are -- then
3 those customers represent the core customers of the business
4 and those are the customers that you want to do business
5 with.

6 Q But we don't know that the core customers are the
7 ones who value nonresident boxes more than \$20 any more than
8 we know that the core customer is the one that I outlined in
9 my hypothetical.

10 A Right. But we do know that the -- that the
11 nonresident customer values it more and which --

12 Q More than what?

13 A More than the resident customer would, which then
14 suggests price discrimination, again, is a good business
15 practice because it allows you to -- to increase your
16 revenues and to allocate the scarce resources you have
17 across customers based on the value that they place on the
18 product.

19 Q Okay, but in my hypothetical, could you explain
20 how you calculate that the nonresident values the box higher
21 than the resident, given that I said that the nonresident
22 values a resident box at less than \$20 and values the
23 nonresident box at \$20 because it gives him the service that
24 he wants?

25 A Yeah, but your own example shows that the non --

1 that the -- that the customer values the nonresident box
2 more than the resident box. And, you know, you are always
3 going to have a downward sloping demand curve where there
4 are going to be people at the bottom of that demand curve
5 who are willing -- I mean, I am sure there are people out
6 there who would be willing to pay \$5 for the box. But that
7 doesn't necessarily mean that a business should go out and
8 offer that good or service for \$5 just because there is
9 somebody out there who is willing to pay \$5 for it.

10 You have to find the place on your -- on the
11 demand curve where you are really trying to maximize or
12 increase the revenues that you've got for the products and
13 services that you are trying to sell. That just makes good
14 retail sense that both price discrimination and
15 discriminating against customers on the basis of price make
16 good practice.

17 Q I understand that the nonresident boxholder in
18 this example values that nonresident box more than a
19 resident box but he values the nonresident box at \$20, which
20 is the same price that a resident in that other city would
21 get his box for. So I don't see why it follows that the
22 nonresident boxholder then should be priced at 20 plus 18.

23 A Well, again, as I have said before, the demand
24 curve for any product, virtually every product, is downward
25 sloping and there are always going to be people who are

1 below the equilibrium price level who are going to be
2 willing to pay a price for a product that's less than what
3 the business is willing to sell it at.

4 Then the purpose of pricing is to -- is, in a
5 sense, to allocate scarce resources.

6 Q If it is true that some people rent a nonresident
7 box for prestige reasons, is it also possible that their
8 main motivation for renting the nonresident box is to have a
9 prestigious address and not box service, per se?

10 A That's fair too, yes.

11 Q Then is it fair to conclude that these nonresident
12 boxholders might value a resident box at less than \$20 since
13 their main motivation for seeking a nonresident box is
14 prestige, not box service, and they don't perceive their
15 local Post Office address as prestigious?

16 A I'm not sure I understand the question you are
17 asking but let me see if I can answer it. And I think,
18 again, it goes back to the fact that there is a downward
19 sloping demand curve for every product.

20 Yes, I am sure there are people out there who are
21 willing to pay much less than \$20 for a Post Office box.
22 There is no question in my mind about it. I mean, if you
23 priced it at free, there would be a lot of people out there
24 who would be willing to take a Post Office box.

25 Q The question is --

1 A I am not sure what the point is, though.

2 Q The question isn't "willing," the question is,
3 willing to pay only some amount less than \$20. So, in other
4 words, this nonresident boxholder who desires a prestige
5 address would not obtain a resident box for \$20 because it
6 is worth only \$10 to him or zero. What he is looking for is
7 a prestige address, not a Post Office box, per se.

8 A Right.

9 Q So that's possible? It's possible that a person
10 who wants a box for prestigious reasons wouldn't pay
11 anything for a local box with a nonprestigious address?

12 A That's certainly possible, yes, because the
13 resident box has no -- doesn't represent a value to him or
14 her.

15 Q And isn't it true that you conclude that -- let me
16 back up.

17 Isn't it true that you can conclude that
18 nonresidents who rent boxes for prestige reasons place a
19 higher value on box service than residents only if you can
20 show that these boxholders still would have rented a box at
21 their local office for, say, \$20, the basic rental fee?

22 A Again, I'm sorry, I missed the nature of your
23 question.

24 Q I need to emphasize different words in it.
25 Isn't it true that you can conclude that

1 nonresidents who rent boxes for prestige reasons place a
2 higher value on box service than residents? Can you make
3 this conclusion only if you can show that these boxholders
4 still would have rented a box at their local office for the
5 basic fee of, say, \$20?

6 A No, I don't think so at all. You know, there are
7 a wide variety of different reasons as you have mentioned as
8 to why people will rent a box, a nonresident box. One of
9 them might be convenience. Another is for the prestige of
10 it. The fact that they wouldn't rent one in their local
11 residence, to me, is not -- in this particular example is
12 not really relevant because we are really talking about why
13 are they renting a nonresidential box and, to me, that is
14 really where the dynamic is and where the focus is. To
15 them, these are two completely different goods and obviously
16 not substitutable or they would have rented a resident box.

17 Q But it seems that, to justify a nonresident fee by
18 saying that nonresidents place a higher value on box service
19 than residents, we must have some notion of what they
20 would --

21 A No, no, I think you misunderstand the nature of
22 what I am testifying here to.

23 I am saying that it makes good retail practice to
24 discriminate on the basis of price when you can
25 differentiate different levels of demand. And it's quite

1 clear that there are -- the intensity of demand for a
2 nonresident is much greater than for a resident and,
3 therefore, it is just good business practice, good retail
4 practice to discriminate on the basis of that price.

5 Whether, you know, that nonresident would or would
6 not want a local box, in my mind, is really not the issue
7 here.

8 Q I don't want to belabor the point. I have been
9 sitting here for two days and I haven't heard the evidence
10 yet that shows that nonresidents place a higher value on
11 nonresident boxes than residents. I am just looking for it.
12 I see the claims, I see the conclusions but I haven't seen
13 the evidence yet.

14 The final question I had is regarding Return
15 Receipt and this would be your testimony at page 5,
16 generally lines 6 through 19 but specifically lines 13 and
17 14, where you noted that automobile companies used to offer
18 consumers their choice of options packages on new
19 automobiles and they solved their problem of this wide
20 variety of goods by packaging the most popular options
21 together. And you say that is similar to the Return Receipt
22 proposal.

23 A That's correct.

24 Q In the OCA's Interrogatory T8-26 --

25 A I am not sure I have that one.

1 Q Let me just state what it says and we will see if
2 we need to refer to it further.

3 A That would be fine.

4 Q Witness Needham stated that approximately 10
5 percent of the total Receipt Return volume asked for to
6 whom, date and address delivered.

7 Would you consider a volume of 10 percent to be
8 one of the most popular options?

9 A No. I certainly wouldn't, but in this case, you
10 know, what the automobile companies did in many cases were
11 that they took options that were relatively in some cases
12 high margin options in an attempt to try to upgrade the
13 customers to a higher priced car and packaged those together
14 with the most popular options, so it was really putting
15 together things that some customers might not want to have
16 bought with the things that they would have wanted to buy in
17 order to get a higher price and to move the customer up to a
18 more premium product at a higher price and at a higher
19 margin.

20 Q Using the automobile analogy, what the Postal
21 Service's proposal seems to be, which is to take to whom
22 date delivered, which was the large majority of Return
23 Receipt business and convert it into to whom, date, and
24 address delivered would be sort of like taking two car
25 options, one being power steering, which 90 percent of

1 people want, and velvet seats, which 10 percent of the
2 people want, and instead of letting them choose either
3 velvet seats or power steering or both saying now everybody
4 gets power steering and velvet seats and pays for both.

5 MR. ALVERNO: Objection. I don't think that Mr.
6 Carlson has properly characterized what the new proposal is.
7 It's not to whom, date, and address.

8 It is to whom, date, and address ~~delivered~~ ^{if different}, so if
9 the record can reflect that that is in fact what the service
10 will be, I guess the question can proceed.

11 MR. CARLSON: Okay.

12 THE WITNESS: I wouldn't disagree with your
13 characterization. I might choose a different set of options
14 but it is quite clear that what the automobile companies
15 have tried to do and what other retailers try to do is
16 package together things that are very popular with things
17 that might be high margin in order to get a higher price for
18 those and again to improve -- to upgrade the customer to a
19 premium service or to a premium product in an attempt to try
20 to improve the revenues of the business.

21 BY MR. CARLSON:

22 Q So this proposal is really an attempt to make more
23 money in the guise of better service?

24 A Well, I don't think it is in the guise of better
25 service. I think it is offering -- from a retail

1 perspective it is trying to do two things.

2 One is to simplify the cost of delivery and again
3 simplify the whole process of delivering the service, which
4 one, it reduces the cost and it also makes it easier for the
5 customer to understand, which is good retail practice, and
6 the other is to increase revenues, which is also -- any time
7 you can do that it also constitutes good retail practice.

8 MR. CARLSON: Okay, thank you. I don't have any
9 further questions.

10 PRESIDING OFFICER QUICK: Is there any followup
11 cross-examination?

12 [No response.]

13 PRESIDING OFFICER QUICK: Does any Commissioner
14 have questions? Commissioner LeBlanc, Commissioner Haley,
15 Mr. Chairman?

16 CHAIRMAN GLEIMAN: Mr. Steidtmann, on page 1 of
17 your testimony at line 2, you state the purpose of your
18 testimony is to comment on the retail soundness of the
19 Postal Service's special service proposals.

20 Could you define "retail soundness" for me?

21 THE WITNESS: In my mind, you really have to start
22 off with what a retailer is. And a retailer is a business
23 that buys and sells goods and services, buys and sells goods
24 and services, buys and sells goods and services to a
25 customer. Good retail soundness really starts with a market

1 positioning model that looks at who that customer is, what
2 that merchandise is, what the pricing is of that product,
3 who are the other competitors of that product and trying to
4 put together a mix of those characteristics that are
5 consistent and that will also, in the context of an economic
6 model, return an acceptable level of profitability to the
7 shareholders of the business.

8 CHAIRMAN GLEIMAN: I think I heard part of the
9 answer to the next question, but let me ask it anyway.

10 THE WITNESS: Okay.

11 CHAIRMAN GLEIMAN: If I had to ask you -- if I
12 asked you what the raison d'etre for a retail business, any
13 particular retail business was, could you tell me what it --

14 THE WITNESS: I think there are a variety of
15 different reasons to have a retail business. For the larger
16 public companies, it will be to make money, to maximize the
17 return to the shareholders. But, for many people that get
18 into retail as a fairly low entry -- low barrier to entry
19 business and so, for a lot of people, it is a lifestyle
20 choice. It is the opportunity to run your own business, to
21 have control over your own destiny, to be involved, in some
22 cases, in products or services that you identify with, that
23 are part of your lifestyle.

24 CHAIRMAN GLEIMAN: If I asked you what the raison
25 d'etre of the U.S. Postal Service was, could you tell me

1 what that is, in your view?

2 THE WITNESS: Well, I wouldn't want to
3 characterize myself as an expert on the Postal system and I
4 would only be answering, really, from a consumer's
5 perspective but it is to provide a -- a service to consumers
6 that results in the efficient and effective delivery of --
7 of the mail.

8 CHAIRMAN GLEIMAN: So, in effect, the Postal
9 Service, in your view, not being an expert on the Postal
10 Service, but talking as just Mr. John Q. Public, the Postal
11 Service is more like your second -- the second part of your
12 answer, which is the entry level mom and pop who gets in it
13 to provide a service to the public, as opposed to the larger
14 corporation whose objective is profit, the profitability or
15 profit maximization for its shareholders?

16 THE WITNESS: Well, I think for the Postal
17 Service, there are aspects of both. There is, as I
18 understand it, a desire on the part of the Postal Service to
19 show a return for the money. As a matter of fact, if I am
20 not mistaken, just recently it was announced that you --
21 that the Postal Service did make money and it make quite a
22 bit of press, positive press comment.

23 CHAIRMAN GLEIMAN: Are you familiar with how the
24 Postal Service made money?

25 THE WITNESS: No, I'm not.

1 CHAIRMAN GLEIMAN: Well, we won't get into that
2 and, as Mr. Runyon told people at the National Postal Forum,
3 don't believe everything you read in the newspaper.

4 Do you know if the Postal Service has an
5 obligation under existing law to maximize profits?

6 THE WITNESS: No, I don't.

7 CHAIRMAN GLEIMAN: Would you say that ^{Saks}~~Sachs~~ Fifth
8 Avenue and Sara Lee and the members of the National
9 Association of Convenience Stores have the same ultimate
10 objective, business objective, as the U.S. Postal Service in
11 terms of finances?

12 THE WITNESS: Well, I think they have some very --
13 some similar objectives in the sense that they are trying to
14 provide customer service, they are trying to provide a good
15 career for the people who are employed in that business,
16 that they are trying to generate revenues to cover their
17 costs. So I think that, yeah, there are some commonalities
18 between the goals although, obviously, the goals don't line
19 up 100 percent the same.

20 CHAIRMAN GLEIMAN: They all have, as a principal
21 objective, making money, profit?

22 THE WITNESS: The companies that you are talking
23 about, yes.

24 CHAIRMAN GLEIMAN: And the Postal Service has as a
25 principal objective?

1 THE WITNESS: Providing service.

2 CHAIRMAN GLEIMAN: If a chain store consistently
3 failed to meet its -- if in a chain, a large retail
4 operation, there were a number of stores that consistently
5 failed to meet their own operating costs and they tried all
6 that they could try or there were limits on what they could
7 try to do in the way of maximizing profitability for those
8 specific stores and you were consulting with this chain,
9 what would you recommend with respect to those stores, that
10 they keep them open or that they close them?

11 THE WITNESS: Well, again, it would really depend
12 on where the stores -- first where the stores were located.
13 Would these be the only store in the market that you had or
14 would they be one of many stores?

15 CHAIRMAN GLEIMAN: It is the only store in the
16 market but it is losing money hand over fist consistently
17 year after year and there is no prospect of anything that
18 they can do to make money. In effect, you are running a
19 public service operation with respect to that particular
20 store.

21 THE WITNESS: In that particular instance, my
22 recommendation would be to close that store.

23 CHAIRMAN GLEIMAN: Now, let's talk about the
24 United States Postal Service. The United States Postal
25 Service has 28,000-and-some-odd Post Offices. A number of

1 them are relatively small Post Offices and some of those
2 small Post Offices consistently, year after year, run a
3 significant deficit. I have seen Post Office closing appeal
4 cases where the Post Office maybe takes in \$1,000 -- does
5 \$1,000 in business for every \$10,000 in cost. There is
6 nothing the Postal Service can do to right that situation.

7 If this were a retail operation and you applied
8 the principles that you applied to the chain, you would, I
9 assume, recommend that these Post Offices be closed.

10 THE WITNESS: Yes, I would.

11 CHAIRMAN GLEIMAN: But the Post Office can't just
12 close them for economic reasons because they are prohibited
13 by law from closing facilities just because the facilities
14 aren't making money. Are you aware of that?

15 THE WITNESS: Yes, I am.

16 CHAIRMAN GLEIMAN: Now, on page 3 of your
17 testimony, at lines 17 and 18, you talk about doubling the
18 fees for all noncity delivery offices beginning to move the
19 Postal Service toward the goal of recovering box costs at
20 all such offices.

21 Do you know whether the Postal Service has a legal
22 obligation to recover -- to move toward the goal of
23 recovering Post Office box costs at all noncity delivery
24 offices?

25 THE WITNESS: No, I don't.

1 CHAIRMAN GLEIMAN: On page 4 at line 12, there's a
2 paragraph that discusses some customers choose post office
3 box service at post office boxes outside of their area of
4 residence and then it gives the reasons, or you give some
5 reasons.

6 Do you know, by virtue of a survey or a study you
7 have done, that these are the reasons that people choose
8 boxes or these are the reasons that people have boxes that
9 are outside of their own post office area or area of
10 residence as you -- the phrase you use?

11 THE WITNESS: No, I don't.

12 CHAIRMAN GLEIMAN: This is based on your gut
13 instincts?

14 THE WITNESS: Whether it be based on -- I give my
15 retail experience as to why consumers would behave in a
16 particular fashion. There may, in fact, be more reasons as
17 to why they would do that. As you mention, it would really
18 require a consumer survey to ask those questions.

19 CHAIRMAN GLEIMAN: Now, this rationale in this
20 paragraph is what you believe to be the basis for -- a
21 sufficient basis in terms of retail soundness for charging a
22 nonresident fee, there's some demand by these people and
23 therefore, they should pay more than they might otherwise
24 pay, or other folks may pay?

25 THE WITNESS: That's right. Again, from a retail

1 perspective, anytime a retailer can differentiate different
2 levels of demand for a particular product, there's an
3 opportunity to improve the revenue that's being generated
4 from that. There are a host of examples of retailers who do
5 that on a geographic basis where a department store, a
6 national chain, will have a much broader selection of winter
7 coats right now in the north and will charge a higher price
8 for them than they will in their stores in Atlanta.

9 I'm sure retailers who are selling chainsaws and
10 emergency equipment in Virginia and North Carolina are doing
11 a land office business, much better than what would be in
12 southern California right now.

13 CHAIRMAN GLEIMAN: I understand that to be the
14 case from what I see on the TV news and read in the
15 newspaper.

16 Well, that's kind of interesting because there are
17 post offices that have all their post office boxes rented
18 and post offices which do not have all their post office
19 boxes rented. Within those two groups and between those two
20 groups, there are post offices that have a substantially
21 large number or substantial number of nonresident box
22 renters and there are offices which have very few
23 nonresident box renters.

24 If you were applying retail principles, would you
25 have some variance in the price that you would charge, for

1 example, in an area where there were very few nonresident
2 boxholders and no waiting lists, versus an area where there
3 were a very high number of -- a post office where there was
4 a very high number of nonresident boxholders and a long
5 waiting list at 100 percent?

6 THE WITNESS: This really gets to the heart of
7 what is today one of the most complex retail problems that a
8 lot of retailers are trying to grapple with. They're
9 investing enormous sums in information technology to be able
10 to do just what you're talking about.

11 My advice would be yes, if you had the flexibility
12 to do that, if you had the information technology that gave
13 you the ability to identify and differentiate that, you
14 would clearly be doing a service, both to your customers as
15 well as to your shareholders to price in that fashion.

16 CHAIRMAN GLEIMAN: So back to your example, it's
17 preferable to charge, if you're a retailer, to charge a
18 higher price for winter coats in the northern United States
19 than it is to charge the same price in the south as you
20 charge in the north?

21 THE WITNESS: Absolutely. The customers in the
22 north will place a higher value on it, the intensity of
23 demand is going to be much greater. The mix of merchandise
24 that you're offering will be much broader in the north, so
25 the value to the customer will be greater, so again, going

1 back to the basis of my testimony, it makes good retail
2 sense to discriminate on that basis.

3 CHAIRMAN GLEIMAN: Do you think it makes good
4 retail sense for monopolies to discriminate?

5 THE WITNESS: Yes, I do. Again, the issue here is
6 the allocation of resources, scarce resources amongst
7 consumers and price discrimination allows you to improve the
8 efficiency of that allocation. So I would say yes.

9 CHAIRMAN GLEIMAN: So people who live or work in
10 downtown Washington and who have natural gas in their house
11 and have to pay a bill once a month can walk two blocks down
12 the street here and pay their gas bill instead of putting it
13 in the mail.

14 For somebody who lives way out in the rural
15 reaches of Washington's ^{Gas Co.'s} ~~gas company's~~ area of service, those
16 people out there, they'd have to get in a car and drive
17 pretty far to pay their bill in person and I can walk down
18 the street on my lunch hour.

19 The Postal Service probably ought to be in a
20 position to charge them more to mail their bill in than for
21 me to mail my bill in because I have alternatives?

22 THE WITNESS: Well, again, in an ideal world, that
23 would be the case. The problem is trying to identify the
24 differences in demand in this particular case which I think
25 would be quite difficult.

1 The other problem is that the transaction price is
2 so small that the cost of doing that would probably exceed
3 any benefit that you'd derive from it.

4 CHAIRMAN GLEIMAN: But, from a theoretical
5 standpoint, that's an example of price discrimination in the
6 postal world? That would be an example?

7 THE WITNESS: It would be an example. I would
8 characterize it as an extreme example and one that, in the
9 real world, would be, again, very difficult to practically
10 implement.

11 CHAIRMAN GLEIMAN: Do you think that the Postal
12 Service, as a sound retailing principle, should charge
13 people nonresidence fees for renting a post office box
14 outside of their residential area when the party renting the
15 box happens to be renting outside of their residential area
16 through no fault of their own?

17 I can give you a very good example that's still
18 sitting there on the chart to your left. If you look down
19 at the bottom of the chart, there are two little houses
20 there, House 1 and House 2. House 1 has been there for a
21 long time and the party who owns House 2 has, for this very
22 long period of time, always rented a post office box in Post
23 Office 2 which is sitting over there on the righthand corner
24 of the page. Do you see that?

25 THE WITNESS: Yes, I do.

1 CHAIRMAN GLEIMAN: Along comes the United States
2 Postal Service and it says we've have a lot of development
3 in this area and we have to redraw our zip code boundaries
4 and we're going to build a new post office to accommodate
5 all these new houses that have been built out in this
6 previously semi-rural area.

7 They build a post office out there on the top,
8 lefthand corner up in the northwest and they draw a zip code
9 line right down between Houses 1 and 2. So, House 1,
10 through no fault of its own, is now in residential area
11 served by Post Office 1. It has now become a nonresident
12 boxholder in Post 2.

13 Retail soundness, what principle of fairness,
14 equity, retail soundness, or whatever comes into play here?
15 The party, itself, has done nothing, but the circumstances
16 have changed by virtue of the Postal Service changing zip
17 code boundaries.

18 By the way, the changing in zip code boundaries is
19 not an uncommon occurrence. There are quite a few zip code
20 boundaries that are changed on a yearly basis -- they are
21 not changed every year, but many are changed in a given
22 year.

23 THE WITNESS: Again, from a retail perspective,
24 it's difficult to set pricing policy based on examples that
25 you can find, anecdotal examples that you an find. Again, a

1 retailer will price the products based on who the core
2 customer is that they're trying to attract into the store.

3 It doesn't mean that they still don't want the
4 business of that particular person; it doesn't mean that
5 particular person might not view the price discrimination as
6 unfair, but given the policy and how it would apply, I would
7 say yes, you should still discriminate on the basis of price
8 against that person as well.

9 CHAIRMAN GLEIMAN: Wouldn't a more sound retail
10 principle be if you forgot your profit maximization for a
11 moment to grandfather me in?

12 THE WITNESS: That would certainly be an
13 alternative, but again --

14 CHAIRMAN GLEIMAN: Because you care about your
15 customers.

16 THE WITNESS: Certainly, if you are very customer-
17 focused, you could respond by saying, gee, this is really
18 outrageous and we should grandfather you in, but the problem
19 with doing that from a retailer's perspective is that the
20 cost of doing that and the complexity that you add to the
21 system might more than offset any benefits that you would
22 get from doing that in terms of customer loyalty.

23 Again, it would be an issue that I would study
24 from a retail perspective, but the goal of trying to keep
25 the classifications as simple as possible, I think, in this

1 particular case, would still overrule.

2 CHAIRMAN GLEIMAN: You characterized my example as
3 anecdotal and it is, but it's not unreal or unrealistic.
4 Were you here at all yesterday?

5 THE WITNESS: No, sir, I was not.

6 CHAIRMAN GLEIMAN: Did you get any reports of the
7 testimony of yesterday?

8 THE WITNESS: No, I really didn't.

9 CHAIRMAN GLEIMAN: Would it surprise you if I were
10 to tell you that on more than half a dozen occasions, Postal
11 Service witnesses yesterday indicated that the information
12 they were providing was not based on statistical studies or
13 samplings or surveys, but rather, was based on anecdotal
14 information?

15 THE WITNESS: I really wouldn't know.

16 CHAIRMAN GLEIMAN: You don't know whether it would
17 surprise you or not?

18 THE WITNESS: No, I wouldn't know whether they, in
19 fact, did that. When I was saying it was anecdotal, I
20 wasn't doing that as a putdown to you. What I was just
21 suggesting is that there are a lot of anecdotal stories that
22 we can find. In a retail context, you can always come up
23 with anecdotes.

24 CHAIRMAN GLEIMAN: That was my point and I didn't
25 take it as a putdown when you said that. My point is, sir,

1 that -- and I think I'm being conservative when I say more
2 than half a dozen times, we were told yesterday that
3 information the Postal Service witnesses -- some Postal
4 Service witnesses were providing about box -- nonresident
5 boxholders and who they are, and what problems they create,
6 and why they rent boxes, and on and on and on, was
7 characterized by the witnesses as anecdotal.

8 My point here is that, yes, you're absolutely
9 right. We can find anecdotal information to be the basis
10 for something that we want to suggest is a wideranging
11 problem or matter that needs to be dealt with. That is just
12 what I think happened yesterday and I just wanted to point
13 out to you that anecdotes appears to be what a lot of this
14 is about because there are no studies.

15 I don't question your reasoning in page 4 at
16 paragraph 3 on that page, the one that talks about your
17 perception of why people choose boxes out of their
18 residential areas, but it's just your perception and it's
19 anecdotal. So we have a problem dealing with anecdotal.

20 Let me ask one last question. When the retailers
21 are deciding how much to sell those winter coats for in
22 which store, beyond their desire to maximize profits as a
23 whole, do they have any obligation to relate their prices to
24 cost?

25 THE WITNESS: Do they have an obligation? No.

1 However, the market competition that they face certainly
2 forces them to price within the context of the marketplace,
3 so there is not a legal obligation, but there certainly is a
4 market discipline that keeps prices within the context of
5 cost.

6 CHAIRMAN GLEIMAN: I apologize and I should know
7 better than to say one more question because I admonish
8 people for doing that because there's always one more or two
9 more.

10 You talked about loss leaders that retailers used
11 before. In the South they might have a loss leader on those
12 winter coats with the hope that somebody will come in and
13 buy it because they have got a chill that day, but also
14 because they figure maybe they can get somebody into the
15 store to buy some lighter weight clothing, going back to
16 your example with the Pampers or Huggies or whatever.

17 THE WITNESS: Right, that certainly would be
18 possible. You would certainly see from a retail perspective
19 regional differences in terms of loss leaders.

20 CHAIRMAN GLEIMAN: Okay, thank you.

21 PRESIDING OFFICER QUICK: Commissioner Haley? Did
22 you have any?

23 COMMISSIONER LeBLANC: Go on ahead.

24 PRESIDING OFFICER QUICK: Commissioner Haley, go
25 ahead.

1 COMMISSIONER HALEY: Thank you, thank you.

2 Good morning, Dr. Steidtmann.

3 THE WITNESS: Good morning.

4 COMMISSIONER HALEY: I have a question for you, an
5 assumption I wish you to consider.

6 Would you assume a post office box section and it
7 has two customers, A and B. Assume that both A and B pay
8 \$20 per year. As far as we know, both A and B value their
9 box at \$20 or more, would you agree?

10 THE WITNESS: I would agree.

11 COMMISSIONER HALEY: All right. If A is a
12 resident and B is a nonresident, we do not know whether
13 either customer would pay \$21 to rent a box, do we?

14 THE WITNESS: That's correct.

15 COMMISSIONER HALEY: Isn't it possible that either
16 A or B might be willing to pay \$21 or it might be possible
17 that neither would be willing to pay \$21?

18 THE WITNESS: That's correct.

19 COMMISSIONER HALEY: So isn't it true that in my
20 hypothetical we have no knowledge of whether A or B places
21 more value on the box currently being rented for \$20?

22 THE WITNESS: In your hypothetical example --

23 COMMISSIONER HALEY: Yes.

24 THE WITNESS: -- that would be true.

25 COMMISSIONER HALEY: Okay. To your knowledge has

1 the Postal Service done a study of the value current
2 customers place on the boxes currently being rented to
3 ascertain whether current nonresident box holders place a
4 higher value on the boxes they rent than the residents who
5 rent similar size boxes in those same facilities, to your
6 knowledge?

7 THE WITNESS: Not to my knowledge, no.

8 COMMISSIONER HALEY: Okay, that's it. Thank you.

9 PRESIDING OFFICER QUICK: Commissioner LeBlanc.

10 COMMISSIONER LeBLANC: Mr. Steidtmann, just one
11 question. The Chairman asked almost all of mine but when
12 you talk about an entity that is monopoly and it wants to
13 have retail soundness and so forth, how does that square, if
14 you will, with service versus a price situation?

15 What I am alluding to here is if you have all of
16 these back here on Table 1 where you talk about -- in all of
17 these, no matter what it is -- but that jumps off at me,
18 where you have supposedly people out there who are satisfied
19 with what they have got, happy as a lark with it, why
20 change?

21 THE WITNESS: Well, from a retail perspective, one
22 of the things that from my perspective makes retailing such
23 an interesting business is that the business environment is
24 constantly changing and what consumers want is changing with
25 that and the competition that you have to deal with is

1 constantly changing and that puts an enormous amount of
2 pressure on you as a retailer to constantly be monitoring
3 that and adapting the mix of products and services that you
4 have to meet with that change, so there are always going to
5 be consumers out there who don't want a change but the
6 nature of the business environment that most retailers
7 operate in today suggests that there is a need to constantly
8 monitor the changes taking place and adapt to that change.

9 COMMISSIONER LeBLANC: But if a person is willing
10 to pay \$10 more -- ten times more -- just increasing that
11 price up a little bit more, is that necessarily going to
12 change that reaction?

13 THE WITNESS: On the margin it should change some
14 consumers' behavior in a large mass market, yes.

15 COMMISSIONER LeBLANC: Enough to make a
16 difference?

17 THE WITNESS: Again, you'd have to give me more
18 examples of what kind of product you are talking about and
19 what the broader context would be.

20 COMMISSIONER LeBLANC: Thank you very much.

21 PRESIDING OFFICER QUICK: Chairman Gleiman.

22 CHAIRMAN GLEIMAN: Just a couple of more questions
23 about retail advice you might give or market positioning
24 advice you might give the Postal Service.

25 The Postal Service -- I take it you read

1 newspapers and watch TV. You have undoubtedly seen Priority
2 Mail ads.

3 THE WITNESS: Yes, I have.

4 CHAIRMAN GLEIMAN: The \$12, \$6, \$3 ad.

5 THE WITNESS: Yes.

6 CHAIRMAN GLEIMAN: The Postal Service is at least
7 domestically the fastest growing business area in terms of
8 increasing volume -- I don't know whether it has any
9 increase in market share -- is Priority Mail, but the volume
10 is increasing considerably, due I suspect in large part to
11 the advertising campaign.

12 So think about that ad a little bit.

13 Here you are. The Postmaster General calls you in
14 and says, well, I want to make more money and you say, well,
15 Mr. Postmaster General, I see these ads on TV and it looks
16 like you could, I understand you are doing well in the
17 Priority Mail area. It looks like you could probably bump
18 your prices up in Priority Mail and maximize your profits in
19 this area even more so than you are now.

20 Is that advice that you might give based on that
21 situation?

22 THE WITNESS: Well, I haven't studied the price
23 elasticity of Priority Mail and the other alternatives,
24 competitive alternative to it and what their pricing might
25 be, but I would advise the Postmaster General to look at a

1 wide variety of different issues that might improve his
2 market share, pricing being just one of them.

3 CHAIRMAN GLEIMAN: I was talking not about market
4 share. You can increase market share and lose money.

5 THE WITNESS: Yes, you can.

6 CHAIRMAN GLEIMAN: I was talking about maximizing
7 profit.

8 THE WITNESS: Well, again I think I would go back
9 to my original answer. In the context of retailing, there
10 are a wide variety of different levers that you can focus on
11 besides price. You can look at service. You can look at
12 information that you are giving the customer. You can look
13 at convenience and I would want to look at the cost of
14 delivery of all those different dimensions.

15 And also look at what the competition was doing in
16 each of those areas in order to -- you know, to make a final
17 recommendation.

CHAIRMAN GLEIMAN:

18 A If you had a product that was priced at or below
19 cost and your competitors were charging substantially higher
20 prices for the comparable product, would you recommend that
21 prices be raised on the product that was at or below cost if
22 you could do so without losing business, if you could
23 maximize profit?

24 THE WITNESS: Again, in a retail context, it would
25 depend to a degree on what that product was. I mean, if

1 consumers took their pricing cues as to what my store was
2 all about or my business was all about off of that product
3 and it brought in other business and other traffic, then
4 raising that price might not be the thing to do to improve
5 the profitability of my business.

6 If it didn't have that pricing cue that consumers
7 were taking and if the product was well below the
8 customers -- my competitive -- my competition, then there
9 might be a case to be made to raise price. But, again, I
10 would want to examine what the other marketing variables
11 were first.

12 CHAIRMAN GLEIMAN: Well, let's go back to Priority
13 Mail for a minute. You know, the Postal Service claims the
14 service is comparable, they've got more trucks and airplanes
15 and everything else and more stores, whatever they call them
16 in the ad, and it only costs half of what one competitor
17 charges and a fourth of what the other competitor charges or
18 slightly below a fourth. And if the price goes up, I still
19 have to buy my stamps to put on my bills that I pay wherever
20 I buy them, whether it is in the supermarket or in the Post
21 Office. I am a small businessman and I have a meter. If
22 they raise priority mail rates, I still have to go to the
23 Postal Service to get my meter reset.

24 So we are just talking about the Priority Mail
25 here. I am still going to go to the Postal Service to do

1 all these other things. Would you recommend that they
2 maximize profits, all things considered?

3 THE WITNESS: Again, not having studied the
4 problem enough, I mean, there are too many other variables
5 here that are at play and one of the things that I have
6 learned, particularly in dealing with the CEOs of large
7 organizations is you don't go in and tell them something off
8 the top of your head, particularly when you've got as little
9 on the top of your head as I do anymore, to, you know, even
10 if it seems intuitively obvious. You know, there are a lot
11 of other variables here that are involved that could result
12 in less than -- in producing less profitability than what
13 you have today.

14 CHAIRMAN GLEIMAN: And that is a general rule for
15 you, that you've got to look at all the possible variables,
16 you can't go off, you know, based on anecdotal information
17 without understanding all the ramifications?

18 THE WITNESS: That's true.

19 CHAIRMAN GLEIMAN: Thank you.

20 PRESIDING OFFICER QUICK: Does any participant
21 have followup cross-examination as a result of questions
22 from the bench?

23 MR. RUDERMAN: Yes, Mr. Presiding Officer.

24 PRESIDING OFFICER QUICK: Mr. Ruderman.

25 MR. RUDERMAN: Yes.

CROSS EXAMINATION

BY MR. RUDERMAN:

Q Could you please assume that customers choose box service -- that most customers choose box service at their own Post Office of residence?

A Okay, I'll assume that.

Q And does this reveal that these customers value residential box service more than they value nonresidential box service?

A That's true.

Q Does this imply that there should be a residential surcharge?

A No, it doesn't. No, it doesn't. Because the fact that they are not nonresidents means that their demand for nonresidents is zero.

The other aspect -- let me follow up, continue with that. The other aspect of it, too, is who really is your core customer here and the core customer is that resident. And so that is the customer that you want to come into the store as frequently as possible so that really is the customer you are trying to attract.

Q Well, would it not be more profitable for the Postal Service if they could transfer some of the people who rent box offices at facilities where there is a waiting list to facilities where there is no waiting list and they have a

1 surplus capacity?

2 MR. ALVERNO: Objection. How is this followup,
3 Mr. Ruderman?

4 MR. RUDERMAN: Because we were talking about
5 situations in which -- in which the -- where we were talking
6 about value and where the customer is renting outside of the
7 area of nonresidence and we are reversing the situation into
8 situations where the Postal Service is renting in areas of
9 residence and to ascertain the value of that situation vis-
10 a-vis the other situation.

11 PRESIDING OFFICER QUICK: Do you want to restate
12 the question?

13 THE WITNESS: I guess I don't recall whose
14 questions those were.

15 BY MR. RUDERMAN:

16 Q Commissioner Chairman and Attorney Carlson were
17 both addressing this area.

18 A We are just talking now about --

19 Q Value of service.

20 A -- follow-up on what the Commissioner's --

21 Q Yeah, they both were addressing value of service.

22 We are talking about value of service and
23 profitability and making best use of the Postal Service's
24 resources and the last question I asked you, from the Postal
25 Service's perspective, taking into consideration value of

1 service, would it be -- would the Postal Service benefit if
2 it was able to shift people away from facilities, away from
3 waiting lists to facilities where there is a surplus
4 capacity?

5 A Well, from a retail perspective, the easiest way
6 to do that is through pricing. And to price in the areas
7 where there is excess demand at a higher price and allow the
8 marketplace to do the rationing. Otherwise, you get a very
9 complex situation and a much more costly administrative
10 situation to try to have the retailer or, in this case, the
11 Post Office administer that kind of reallocation of
12 consumers.

13 Q Do you think it is appropriate to charge both
14 residents and nonresidents the same price if there is a
15 waiting list?

16 A Again, I think it is appropriate to discriminate
17 on the basis of price when there is evidence that there is a
18 difference in demand.

19 MR. RUDERMAN: Thank you very much.

20 PRESIDING OFFICER QUICK: This brings us to
21 redirect. Mr. Alverno, would you like an opportunity to
22 consult with your witness?

23 MR. ALVERNO: Please.

24 PRESIDING OFFICER QUICK: All right, let's take a
25 10-minute break, come back at five after -- take a 12-

1 minute break or 11-minute break and come back at five after
2 11:00.

3 [Recess.]

4 PRESIDING OFFICER QUICK: Ready to go, Mr.
5 Alverno?

6 MR. ALVERNO: Yes, Mr. Presiding Officer. The
7 Postal Service has no redirect examination.

8 PRESIDING OFFICER QUICK: All right. Well, I
9 guess there can't be any further recross examination then.

10 Thank you, Mr. Steidtmann. We appreciate very
11 much your contribution to the record and if there is nothing
12 further you may be excused.

13 THE WITNESS: Thank you very much.

14 [Witness excused.]

15 MR. ALVERNO: Mr. Chairman -- excuse me, Mr.
16 Presiding Officer? May we have a few more minutes to get
17 Ms. Needham's interrogatories ready? We have some revisions
18 and we are trying to make sure they are all in there.

19 PRESIDING OFFICER QUICK: What are you thinking
20 of?

21 MR. ALVERNO: Just a few minutes, perhaps five
22 minutes.

23 PRESIDING OFFICER QUICK: Five minutes? That's
24 fine.

25 MR. ALVERNO: Thank you.

1 [Recess.]

2 PRESIDING OFFICER QUICK: Welcome back, Ms.
3 Needham.

4 THE WITNESS: Thank you.

5 PRESIDING OFFICER QUICK: You are already under
6 oath in this proceeding.

7 Mr. Alverno, will you proceed?

8 MR. ALVERNO: Certainly. The Postal Service calls
9 Susan Needham.
10 Whereupon,

11 SUSAN W. NEEDHAM,
12 a witness, was called to the stand by counsel for the Postal
13 Service and, having been previously duly sworn, was examined
14 and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. ALVERNO:

17 Q Please introduce yourself.

18 A Yes. My name is Susan Needham.

19 Q And where are you employed?

20 A I am employed as U.S. Postal Service Headquarters
21 in the Pricing Unit.

22 Q Earlier you received two copies of a document
23 entitled "Direct Testimony of Susan Needham on behalf of
24 United States Postal Service."

25 Have you examined those documents?

1 A Yes, I have.

2 Q And was this testimony prepared by you or under
3 your direction?

4 A Yes, it was.

5 Q And do you have any changes or corrections to
6 make?

7 A Yes, I do. I believe we are filing a revision to
8 OCA Interrogatory --

9 Q Excuse me. This is just for the testimony.

10 A Oh. No, no.

11 Q And if you were to testify orally today, would
12 your testimony be the same?

13 A Yes, it would.

14 MR. ALVERNO: Mr. Presiding Officer, I would ask
15 that the direct testimony of Susan Needham, USPS-T-8 on
16 behalf of United States Postal Service be received into
17 evidence at this time.

18 PRESIDING OFFICER QUICK: Are there any
19 objections?

20 [No response.]

21 PRESIDING OFFICER QUICK: Hearing none, her
22 testimony and exhibits are received into evidence. As is
23 our practice, they will not be transcribed.

24 [Exhibit No. USPS-T-8 was marked
25 for identification and received

1 into evidence.]

2 PRESIDING OFFICER QUICK: Ms. Needham, have you
3 had an opportunity to examine the packet of designated
4 written cross examination that was made available to you
5 earlier this morning?

6 THE WITNESS: Yes, I have.

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

10 THE WITNESS: If they include -- I would like to
11 check and see if they include revised, my revised response
12 to OCA-T-28.

13 PRESIDING OFFICER QUICK: Mr. Alverno, do you --

14 MR. ALVERNO: Let me give her a copy of those,
15 just to make sure that they are there.

16 PRESIDING OFFICER QUICK: All right.

17 MR. ALVERNO: Thank you.

18 [Pause.]

19 THE WITNESS: Thank you. I've had an opportunity
20 to review and they do contain the revised interrogatory
21 responses.

22 PRESIDING OFFICER QUICK: Two copies of the
23 Corrected Designated Written Cross-Examination of Witness
24 Needham will be given to the reporter and I direct that it
25 be accepted into evidence and transcribed into the record at

1 this point.

2 [The Designated Written Cross-
3 Examination of Susan W. Needham was
4 received into evidence and
5 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
SUSAN W. NEEDHAM
(USPS-T-8)

The following discovery responses have been designated as written cross-examination.

Asking Party

American Bankers Association

Answers to Interrogatories

T8-1-3.

T1-1 redirected from witness
Lyons.

American Postal Workers Union,
AFL-CIO

T8-1-5, 6(a) (1-2, 4-5) and 6(a)
(3) (in part), 6(b) - 12(a-d, f), 13-29,
30 (revised) 31, 32 (revised), 33-
39, 41-43, and 44(b).

Office of the Consumer Advocate

T8-1-2(c), 2(e)-7(b), 8-9, 11-17, 19-
38, 40, 42-53.
T5-25 redirected from witness
Patelunas.
T1-32-33 redirected from witness
Lyons.

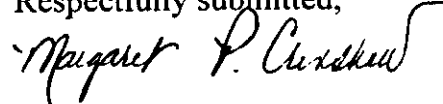
David B. Popkin

T8-1-9, 11.
T1-11 redirected from witness
Lyons.

United Parcel Service

T8-1-8.

Respectfully submitted,



Margaret P. Crenshaw
Secretary

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION

ABA/USPS-T8-1. In your response to interrogatory ABA/USPS-T1-1, redirected from witness Lyons, you mention products which are required by law and on which vendors set prices in accordance with market conditions. Specify those products whose use is required by law and whose "vendor" is a governmental entity protected by a governmentally imposed monopoly.

RESPONSE:

Although I am unfamiliar with any such vendor, I am also not aware of any specially imposed prices or rates offered to customers by vendors for products whose use is required by law by virtue of the fact that use of the vendor's product is required by law.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION

ABA/USPS-T8-2. What percentage of the total volume of certified mail is First-Class Mail?

RESPONSE:

100 percent. Certified Mail is provided for matter mailed as First-Class Mail.

See DMCS SS-5.02

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION**

ABA/USPS-T8-3. In your response to ABA/USPS-T1-1, redirected from witness Lyons, you mentioned alternatives to certified mail for mailers with a legal requirement to use certified mail. Please specify what those alternatives are.

RESPONSE:

Please refer to USPS LR-SSR-110 at p. 20. The alternatives to certified mail include couriers, competitors' tracked and traced mail products, and special messengers. According to the survey research, those products average \$10.68 more per piece than certified mail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION
REDIRECTED FROM WITNESS LYONS

ABA/USPS-T1-1. At pages 12 through 20 of your testimony you discuss policy aspects of the changes requested by the Postal Service in this proceeding. Was any consideration given to mailers who are required by law or contract to use certified mail?

ABA/USPS-T1-1 RESPONSE:

Yes. The Postal Service conducted market research to evaluate the reasons for certified mail use. USPS LR-SSR-110 at 7. Indeed, one of the survey questions specifically asked if customers used certified mail to satisfy a legal requirement. Of the survey respondents, 29 percent cited a legal requirement as one reason, among others, for using certified mail. USPS LR-SSR-110 at 20. For those customers that use certified mail for this purpose, the proposed price of \$1.50 would still be a bargain, regardless of any legal requirement, given that the alternatives are several multiples more costly, averaging more than \$10 per piece. USPS LR-SSR-110 at 21. Additionally, the proposed fee would be three times smaller than the fee of \$4.85 for uninsured registry, which, in the context of legal requirements, often is a permissible substitute. The increase in the fee should be manageable from the customer's perspective, since the fee would be increased a mere 40 cents per transaction, which, according to witness Lyons, will not result in a "large additional expenditure" for business customers. See USPS-T-1 at 18 lines 1-2. The resulting cost coverage of 146 percent is modest, thereby reflecting the fact that some certified mail users must use this service to meet a legal requirement. I would also note that the mere fact that in some contexts certified mail usage may be required by law should not, in and of

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION
REDIRECTED FROM WITNESS LYONS

itself, compel the cost coverage for certified mail to be held exceptionally low. The usage of a variety of products, such as child car seats, smoke alarms, and insurance is often required by state and local law, and vendors of these products generally seek to set prices in accordance with market conditions, much as the Postal Service is proposing here.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-1 At page 116 of your testimony, you indicate that the Postal Service's proposal to eliminate Special Delivery Service is "best viewed as a classification change."

- a) Why is the proposal to eliminate special delivery service "best viewed as a classification change"?
- b) If the proposal to eliminate Special Delivery Service is viewed as a classification change, do the policies and factors related to rates and fees in 39 U.S.C. § 3621 apply? Did you evaluate the proposal as if they applied? What was the result of that analysis?
- c) If the proposal to eliminate Special Delivery Service is viewed as a classification change, do the policies and factors related to rates and fees in 39 U.S.C. § 3622 apply? Did you evaluate the proposal as if they applied? What was the result of that analysis?

RESPONSE:

- a) Because it proposes to change the classification language in the DMCS.
- b) My testimony addresses the criteria in section 3623. An analysis of section 3621 was not necessary for the purposes of my testimony; however, please see Exhibit USPS-T-1A for an analysis of the financial impact of the proposed changes, including the elimination of special delivery.
- c) Sections 3622 and 3623 overlap to some degree, and, in addressing section 3623 factors, my testimony addresses such overlapping factors.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-2 At page 118 of your testimony, you indicate that "Special delivery mail is intended to receive preferential treatment in dispatch and transportation." Please explain the basis for your statement that special delivery mail is intended to receive and/or received preferential treatment in transportation.

RESPONSE:

It should be emphasized that special delivery does not travel in a separate network; rather, special delivery pieces travel with mail in the corresponding subclass. With that in mind, special delivery pieces received and may receive preferential treatment from origin to destination by use of speedy bags, which facilitate separation and enable recognition of special delivery pieces.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-3 At page 118 of your testimony, you indicate that "Delivery by regular carriers sometime requires deviations from the regular route schedule to deliver these special delivery pieces in a timely manner." Please identify any and all regulations that direct or permit regular carriers to deviate from their regular route schedule to deliver special delivery pieces.

RESPONSE:

USPS LR-SSR-140 (Domestic Mail Manual Transition Book §§ 915.51, 915.52);

Postal Operations Manual §§ 622.2, 624.122; USPS LR-SSR-139 (Handbook

PO-603 §§ 341.721, 341.121); USPS LR-SSR-146 (Handbook PO-504 §§

341.1, 344).

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-4 At footnotes 45, 48, 50, 52 and 53 you refer to the Domestic Mail Manual Transition Book. What is this document? Why is it an appropriate source for these footnotes? Could you have a copy of this book made a Library Reference?

RESPONSE:

In 1992, the Postal Service determined to revise and reorganize the Domestic Mail Manual to make it simpler and easier to use by streamlining the rules, stating them in plain English, reorganizing them, and limiting the Domestic Mail Manual's contents to rules which govern the relationship of the Postal Service and its customers. This resulted in the excision of materials covering recommendations for voluntary customer action and internal instructions to postal employees. On July 1, 1993, these excised provisions were published in a separate part of the Domestic Mail Manual entitled the Domestic Mail Manual Transition Book. It is still effective and serves as an appropriate source for internal operating procedures. A copy is provided in USPS LR-SSR-140.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-5 At pages 119-120 of your testimony, you state that:

"Once a special delivery piece reaches its destination post office, it is distributed to a special delivery messenger or the appropriate route carrier to be either delivered immediately or with the remainder of the addressee's mail."

- a) Please identify any and all regulations that permit a regular route carrier to routinely deliver special delivery mail.**
- b) Please identify any and all regulations that permit a regular route carrier to deliver special delivery mail with the remainder of the addressee's mail.**

RESPONSE:

a-b) Rural Carriers: USPS LR-SSR-140 (Domestic Mail Manual Transition Book § 915.543); USPS LR-SSR-139 (Handbook PO-603 §§ 340 341.42, 422.4, and 535.12f); Postal Operations Manual §§ 622.14 and 623.4; see also Postal Bulletin 21872, 7-21-94.

City Carriers: USPS LR-SSR-140 (Domestic Mail Manual Transition Book § 915.52a(3)); USPS LR-SSR-138 (M-41 Handbook, Chapter 7); Postal Operations Manual § 622.113.

Postmasters or employees in general: Postal Operations Manual § 622.113.

Highway Contract Service: USPS LR-SSR-140 (Domestic Mail Manual Transition Book § 915.543); USPS LR-SSR-146 (Handbook PO-504 §§ 332.4 and 344); Postal Operations Manual § 623.4.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-6 At page 120 of your testimony, footnote 51, you refer to section 624 of the Postal Operations Manual to support your statement that "Any postal employee, including special delivery messengers and postmasters, may make special delivery runs."

- a) Postal Operations Manual 624.12 specifies that certain postal employees in CAG H-L offices – postmasters and postal operations administrators (POAs) who are paid at the postmaster level and "any other USPS employee who makes deliveries during off duty time i.e., time not officially on the clock" – are paid fees for special delivery runs.

1. What is the fee schedule for special delivery runs by these postal employees? If there is no fee schedule, how is the fee determined?

2. Why is a fee paid to postmasters and postal operations administrators (POAs) who are paid at the postmaster level? Is this fee in addition to the pay these employees receive for the time spent on the special delivery run? Are these employees paid for the time spent on the special delivery run?

3. Why would a USPS employee make deliveries "during off-duty time i.e., time not officially on the clock"? Are these employees paid for the time spent on the special delivery run? Is this consistent with the Fair Labor Standards Act (FLSA)? Is this fee in addition to the pay these employees receive for the time spent on the special delivery run?

4. How much did the Postal Service pay in fees to postal employees in the base year pursuant to Postal Operations Manual section 624.122.a? How many pieces of Special Delivery mail were delivered during the base year pursuant to Postal Operations Manual section 624.122.a?

5. How much did the Postal Service pay in fees to postal employees in the base year pursuant to Postal Operations Manual section 624.122.b? How many pieces of Special Delivery mail were delivered during the base year pursuant to Postal Operations Manual section 624.122.b?

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

- b) Postal Operations Manual sections 624.112, 624.122.c, and 624.122.d specify that certain non-postal employees are paid for Special Delivery runs.

1. How many Special Delivery contract messengers were employed, hired or used in the base year? How many pieces of special delivery mail did they deliver in the base year? How much did the Postal Service pay in fees to Special Delivery contract messengers in the base year? Did the Postal Service pay these Special Delivery contract messengers for the time they spent on Special Delivery runs? If so, how much did the Postal Service pay in total during the year? At what rates? Did the Postal Service reimburse the Special Delivery contract messengers for any of their costs and/or expenses? If so, please identify all types of costs and/or expenses? If so, please identify all types of costs and/or expenses reimbursed and provide the total amounts the Postal Service paid for these costs or expenses in the base year.

2. How many highway contract route carriers were paid a fee for making a special delivery run for a CAG A-G office in the base year? How many pieces of special delivery mail did they deliver in a base year for a fee? How many pieces of special delivery mail did they deliver in the base year without receiving a fee? How much did the Postal Service pay in fees for Special Delivery runs to highway contract route carriers in CAG A-G offices in the base year? Did the Postal Service pay these highway contract route carriers for the time they spent on Special Delivery runs? If so, how much did the Postal Service pay in total during the base year? At what rates? Did the postal Service reimburse the highway contract route carriers for any of their costs and/or expenses? If so, please identify all types of costs and/or expenses reimbursed and provide the total amounts the Postal Service paid for these costs or expenses in the base year.

3. how many highway contract route carriers were paid a fee for making a Special Delivery run for a CCAG H-L office in the base year? How many pieces of special delivery mail did they deliver in the base year without receiving a fee? How much did the Postal Service pay in fees for Special delivery runs to highway contract route carriers in CAG H-L offices in the base year? Did the Postal Service pay these highway contract route carriers for the time they spent on Special Delivery runs? If so, how much did the Postal Service pay in total during the base year? At what rates? Did the Postal Service reimburse the highway contract route carriers for any of their costs and/or expenses? If so, please identify all types of costs and/or expenses reimbursed and provide the

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

total amounts the Postal Service paid for these costs or expenses in the base year.

c. How much did the Postal Service spend in Special Delivery fee payments pursuant to Postal Operations manual 624 in the base year?

d. If any Postal employee may make Special Delivery runs, why have there been Special Delivery Messengers since 1885? Why does the Postal Operations Manual direct the establishment of Special Delivery Units and formalize delivery rules for Special Delivery Messenger service?

RESPONSE:

a) 1) We cannot identify any fees paid to postal employees. Postal employees would be paid their regular hourly salary for all work performed including the delivery of special delivery mail. Rural Carriers are paid via Form 8127 for any route deviations, including the delivery of special delivery mail, which is submitted to the Minneapolis PDC for regular payroll processing. Total special delivery fee expenses of \$4,575 were charged in the Base Year - FY 1995. USPS LR-SSR-10 (FY 95 Cost Segments and Components Reconciliation to Audited Financial Statements and Account Reallocations at Cost Segment 9, page 2, Component 63). Beyond this, the Postal Service does not track the purpose for which such expenses are used or to whom fees (if any) are paid.

a) 2, 4 and 5) We cannot identify any fees paid to postal employees. Postal employees would be paid their regular hourly salary for all work performed including the delivery of special delivery mail. Total special delivery fee

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

expenses of \$4,575 were charged in the Base Year - FY 1995. (FY 95 Cost Segments and Components Reconciliation to Audited Financial Statements and Account Reallocations at Cost Segment 9, page 2, Component 63). Beyond this, the Postal Service does not track the purpose for which such expenses are used or to whom fees (if any) are paid. Volume statistics are not tracked beyond the level of detail reported in USPS LR-SSR-145.

a)3) A partial objection to this interrogatory has been filed. There is no information indicating that postal employees are making deliveries "off the clock."

b) 1) The Postal Service has not identified any information about the use of any special delivery contract messengers nor any related volume statistics.

b) 2 and 3) Highway Contract Route carriers were not paid any fees, reimbursed for any expenses, nor paid for any time to deliver an unknown and unrecorded quantity of special delivery mail. See USPS LR-SSR-146 (Handbook PO-504 §§ 324.1 & 344).

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

c) See response to (a)(2) above.

d) Special Delivery service was initiated in 1885 pursuant to a legislative act. We are unaware that "special delivery messengers" have existed since 1885. A hallmark of the service since its initiation, however, is that a variety of employee classifications have simultaneously effected delivery. We are unaware of any specific rationale for the development of Postal Operations Manual provisions regarding the development of Special Delivery units or rules regarding Special Delivery Messenger Service. We would observe, however, that Special Delivery Units or Special Delivery messengers are found in only a minute fraction of the nation's post offices.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-7 With reference to your testimony at page 121, line 12, through page 122, line 9:

a. Once the regular carrier is out on his or her route, is there any other way for subsequently arriving mail matter to be routinely delivered other than by Special Delivery service?

b. If yes, please identify any and all regulations that permit routine expedited delivery by anyone other than a Special Delivery Messenger after the letter carriers has left to begin his or her normal course of delivering other mail.

RESPONSE:

a) Yes, although the chance of special delivery pieces arriving after the carriers have left the delivery office is slim because special delivery mail travels with mail corresponding to the class of service.

b) For postmasters or employees in general, see Postal Operations Manual § 622.113.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-8 Your testimony at page 122, line 11 through page 123, line 1, provides:

"Over time, the general upgrading of both air mail and First Class mail diminished the relative advantage of special delivery. Today, special delivery is often delivered by carriers during the normal course of their routes. Therefore, the service provided by special delivery for First-Class Mail often approaches regular First-Class Mail service, or First-Class Mail service in conjunction with a special service such as registry or certified service (or registered or certified with restricted delivery and/or return receipt service), without much of the value added of those special services, despite the premium price for special delivery." (footnote omitted)

- a. From 1968 to the present, specifically how has the "general upgrading of both air mail and First Class Mail diminished the relative advantage of special delivery?"**
- b. Please provide any and all statistics or other evidence you have that supports the statement that Special Delivery "is often delivered by carriers during the normal course of their routes."**
- c. Does regular First Class mail service provide expedited delivery service - e.g. up to four daily delivery trips, first delivery beginning by 8:00 a.m. and ending as late as midnight, with delivery on Sundays and holidays?**
- d. Does registry or certified service (with or without restricted delivery and/or return receipt service) call for expedited delivery service without payment of an additional (Special Delivery) fee?**

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

RESPONSE:

a) Examples include changing service standards to meet public needs, development of processing and distribution at general mail facilities (now processing and distribution centers), and the introduction and use of mail automation. See also USPS LR-SSR-137 at 11.

b) See USPS LR-SSR-138 (Handbook M-41 § 723); USPS LR-SSR-140 (Domestic Mail Manual Transition Book § 915.51); USPS LR-SSR-139 (Handbook PO-603 § 341.7); USPS LR-SSR-146 (Handbook PO-504 § 344). See also United States Postal Service, *Information Desk* at page 1 of Special Delivery section ("If the mail is available before morning deliveries, the regular letter carrier may deliver it."); USPS LR-SSR-141 (Publication 201 at 26-27). No statistics are available on this subject; however, my experience as a letter carrier, anecdotal information provided by postmasters, and the nature of the distribution process inform this conclusion.

c) No.

d) No.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-9 With respect to your discussion of revenue history on page 123 and Table XXXI, Special Delivery Revenue, on page 124:

- a.** Does Table XXXI include revenue from destinating international "expres" (Special Delivery) mail?
- b.** If Table XXXI does not include revenue from destinating international "expres" (Special Delivery) mail, why not?
- c.** If Table XXXI does not include revenue from destinating international "expres" (Special Delivery) mail, please provide the Special Delivery Revenue annually from 1970 through 1995 including the revenue from international "expres" (Special Delivery) mail.
- d.** Is Government Special Delivery revenue included in Table XXXI? Please provide the Government Special Delivery revenue annually from 1970 through 1995.

RESPONSE:

a) No. We understand expès and special delivery to be independent of each other.

b & c, See also response to (a). The UPU Convention lists what can be charged for incoming international mail, and there is no "expès" charge. Thus, there is no additional revenue from destinating international expès mail.

d) Yes, government special delivery revenue is included in Table XXXI. Government special delivery volume 1991 to 1995 are reported below. Data for 1994 and prior to 1991 are not available.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

Government Special Delivery Revenue

Fiscal Yr.	Revenue
	(in dollars)
1991	487,816
1992	426,413
1993	201,240
1994	Not Available
1995	56,763

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-10 With respect to your discussion of volume history on page 125 and Table XXXII, Special Delivery Volumes, on page 126:

- a. Does Table XXXII include volume from destinating international "expres" (Special Delivery) mail?
- b. If Table XXXII does not include volume from destinating international "expres" (Special Delivery) mail, why not?
- c. If Table XXXII does not include volume from destinating international "expres" (Special Delivery) mail, please provide the Special Delivery Volume annually from 1970 through 1995 including the revenue from international "expres" (Special Delivery) mail.
- d. What accounted for the 75% volume increase in 1991 and the 100% volume increase in 1994.
- e. Why has Government Special Delivery volume been excluded from Table XXXII's figures since 1984? Please provide the Government Special Delivery Volume annually from 1970 through 1995.

RESPONSE:

- a) No. We understand exprès and special delivery to be independent of each other.
- b & c) See also response to (a). International exprès mail is reported as part of foreign postal transactions in RPW but is not differentiated from other inbound international mail; consequently, the Postal Service has no data responsive to this request.
- d) The Postal Service has no information responsive to this request.
- e) The presentation in Table XXXII excludes government mail (including Postal Service volume) in order to better illustrate the low volume for special delivery service outside the Postal Service. Government special

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

delivery volume (including Postal Service volume) from 1984 to 1995 are reported below. Data prior to 1984 are not available.

Government and Postal Service Special Delivery Volume

Fiscal Yr.	Volume
	(in millions)
1984	0.7
1985	0.5
1986	0.5
1987	0.5
1988	0.3
1989	0.1
1990	0
1991	0.2
1992	0.2
1993	0.5
1994	0.1
1995	0.6

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-11 At page 127 of your testimony you state that "There are many available alternatives to special delivery, such as Express Mail, Priority Mail, First-Class Mail, long distance phone calls, faxes, and electronic mail messaging."

- a.** Do Express Mail, Priority Mail, and First-Class Mail routinely provide for expedited delivery service after the mail matter arrives at the delivery office?
- b.** Can telephone calls, faxes and e-mail deliver original documents and/or packages?
- c.** What percentage of USPS delivery points have telephone [sic]? Fax machines? Personal computers?

RESPONSE:

- a)** Expedited mail routinely receives expedited transportation and time certain delivery. For Priority Mail, please see witness Lyons' response to UPS/USPS-T1-2. First-Class Mail does not routinely provide for expedited delivery service. Please see my testimony at pages 122 and 129-30, where I discuss the value of Special Delivery when compared to First-Class Mail.
- b)** Generally no; however, in the context of an e-mail messages, it may be that the transmission itself is the original.
- c)** I am not aware of any information responsive to this request.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-12 At page 128 of your testimony you assert that Express Mail provides more expeditious delivery and is either equivalent in price or only marginally more expensive than Special Delivery.

- a. How much would a customer pay to send a seventy pound package to the furthest zone by Express Mail? How much would it cost the customer to send the same seventy pound package to the furthest zone by Special Delivery Priority Mail?
- b. Is it not true that Priority Mail and Express Mail utilize the same transportation and processing system?
- c. Is it not true that for any package over one pound, it is always cheaper to send it by Special Delivery Priority Mail than by Express Mail? If not, what is the point at which Special Delivery Priority Mail is cheaper than Express Mail?
- d. Have any studies been done of Special Delivery mail by weight? If so, please provide copies of all data and analysis. If not, why not?
- e. Please provide the mean, median, and mode weight for Special Delivery mail matter for each year from 1970 through 1995.
- f. One of Special Delivery's special features is Sunday and holiday delivery. Have any studies been done of Special Delivery mail by day of the week delivery and by holiday delivery? If so, please provide copies of all data and analysis. If not, why not?

RESPONSE:

a) Express Mail is not zoned. A 70 pound package (post office to addressee) would cost \$98.95 via Express Mail. To send the same package to zone 8 via special delivery Priority Mail, the price would be \$88.35. It is important to note here, however, that 91 percent of special delivery volume in FY95 (excluding Government) weighed under 2 pounds. See USPS LR-SSR-145.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

- b) See response to APWU/USPS-T8-41.
- c) Yes.
- d) No, it hasn't been needed.
- e) An extension to this response has been requested.
- f) No. The type of studies to which you refer have not been needed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-13 When was Special Delivery service last promoted by the Postal Service? When was the last Special Delivery stamp issued?

RESPONSE:

Special Delivery is promoted to postal customers in Publication 201, *A Consumer's Guide to Postal Service and Products*, which was last revised in January 1995. A version of this publication in Spanish, *Guia Para El Consumidor De Servicios Y Productos Postales*, which also contains product information about special delivery, was issued in June 1994. Copies of these documents are marked as USPS LR-SSR-141 and USPS LR-SSR-142, respectively. *Information Desk*, an internal reference guide designed to assist postal field employees to promote postal products, also includes product information on special delivery. The section in *Information Desk* on special delivery indicates a date of May 1995. In addition, special delivery is described in *Domestic Mail Manual Quick Service Guide*, most recently issued on July 1, 1996. The last special delivery stamp was issued on May 10, 1971; however, it is not necessary to apply a special stamp to special delivery pieces to receive special delivery service.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-14 At page 129 of your testimony you compare Special Delivery to the service standards for Express Mail and conclude that Special Delivery "lags far behind with respect to reliability and speed." Please provide statistics showing the actual reliability and speed of Express Mail and the actual reliability and speed of Special Delivery.

RESPONSE:

The Postal Service does not maintain statistics on reliability and speed of special delivery; however, Express Mail, unlike special delivery, receives expedited transportation. The ontime performance for a.m. Express Mail service was 95.2 percent for FY 95. Total Express Mail network performance was 94.1 percent for FY 95.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-15 What formal analysis has the Postal Service done on the value of Special Delivery service to Postal Service customers to support your statement at page 130 that "Large decreases in special delivery volume have proven that the value of the product is low in the minds of most customers." Please provide copies of all data and analysis.

RESPONSE:

My testimony (USPS-T-8) contains this analysis.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-16 When you use the term "expedited mail" at page 130, line 9, of your testimony, to what class or service are you referring?

RESPONSE:

In the context of this particular sentence, I was referring to Expedited Mail and Priority Mail.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-17 What formal analysis has the Postal Service done on the value of Special Delivery service to Postal Service customers to support your statement at page 130 that other Postal Service services draw a recipient's attention to the mail piece as well as Special Delivery service indicia? Please provide copies of all data and analysis.

a. Isn't it reasonable to conclude that as Special Delivery has become more unique, its use draws even more attention to the mailpiece?

b. When a uniformed Special Delivery Messenger delivers a piece of Special Delivery mail, isn't that the most 'personalized service' the Postal Service has to offer?

RESPONSE:

a-b) No studies on this topic have been conducted; however, registered and certified mail are more likely to receive the recipient's attention because a signature is required for receipt of these pieces. Domestic Mail Manual D042.1.7. In contrast, a signature is not required for receipt of a special delivery mailpiece, since the piece may simply be deposited in the addressee's mailbox with a notice of attempted delivery. USPS LR-SSR-138 (Handbook M-41 § 741.2); USPS LR-SSR-139 (Handbook PO-603 § 341.722); USPS LR-SSR-146 (Handbook PO-504 § 344). For these reasons, special delivery does not provide the "most personalized" service to customers. Express Mail is also more advantageous when compared to special delivery, since it gives the sender the option of requiring or waiving the recipient's signature.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-18 With respect to your testimony on page 131 that First-Class Mail service has been upgraded, in what way has First-Class Mail been "upgraded" so that "special delivery service is no longer needed?"

RESPONSE:

Consolidation of operations in the processing and distribution centers resulted in changes in transportation to meet delivery needs. As a result, most mail is transported in one trip from the processing and distribution center to the delivery unit for delivery by the carrier the same day. These changes have reduced the relative advantage of special delivery, which was designed to be delivered as soon as possible after receipt at the delivery unit. Since there has never been a separate, dedicated transportation network for special delivery, and special delivery pieces travel with mail of the same subclass, special delivery pieces are often delivered by the carrier with the rest of the addressee's mail. See also USPS LR-SSR-137.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-19 With respect to your testimony on page 131, what formal analysis has the Postal Service done to support the statement that Express Mail and First Class mail "virtually dominate" the postal market in reliability and speed?" Please provide copies of all data and analysis.

RESPONSE:

No such analysis has been performed. The statement is simply a comparative analysis based upon the service descriptions of Express Mail and First-Class Mail with the service description of special delivery, coupled with a comparison of the decline in special delivery volume versus the increases in both Expedited Mail volume.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-20 At page 131 of your testimony you suggest that the Postal Rate Commission consider a sixth criterion in evaluating you [sic] proposal to elimination [sic] Special Delivery service. Please provide your full rationale for the development of this new criterion for classification changes. Is it to be given equal weight to the other criteria. [sic]

RESPONSE:

Since the matters I raise in the sixth criterion did not appear to fall neatly into one of the discrete categories prescribed in section 3623, I requested that the Commission treat this separately as a sixth criterion. I must emphasize, however, that the sixth criterion is related to the scope of the Commission's review of classification changes. I recommend that the Commission give this criterion due consideration in weighing this proposal; it makes little sense to offer a product that offers customers so little utility for so high a price. Please see my testimony at pages 131-32.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-21 At page 131, lines 17 - 19, your testimony states:

"As the country began to develop and employ advanced communications means, the need for special delivery diminished."

a. To what year or years are you referring in this quote?

b.. What do you mean by "advanced communication means" in this quote?

a) Although no specific year was contemplated, the reference could apply to most of the present century.

b) Examples include airmail, expedited and overnight services, e-mail, fax, and telephones. The growth of alternative parcel carriers has also contributed to the diminished need for special delivery.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-22 Has the Postal Service performed a Special Delivery market analysis and strategy recommendation since 1975? If any such analysis has been performed or data collected to do so, please provide a copy of the data and/or analysis.

RESPONSE:

Not to my knowledge.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-23 Has the Postal Service conducted a Special Delivery market analysis with strategy recommendations following the Commission's 1987 suggestion to do so? If any such activities has been performed or data collected to do so, please provide a copy of the data and/or analysis.

RESPONSE:

No, but my testimony (USPS-T-8) analyzes special delivery.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-24 Has the Postal Service conducted a Special Delivery market analysis with strategy recommendations following the Commission's 1994 reiteration of its 1987 suggestion to do so? If any such activities has been performed or data collected to do so, please provide a copy of the data and/or analysis.

RESPONSE:

No, but my testimony (USPS-T-8) analyzes special delivery.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-25 On pages 135-136 of your testimony you indicate that the Postal Service "carefully weighed the Commission's past pronouncements of the viability of this service and concurs with the Commission's findings." On what data specifically did the Postal Service rely when it "carefully weighed the Commission's past pronouncements?" Please provide copies of all such data and all analysis of it.

RESPONSE:

In addition to the Commission's conclusions regarding special delivery, the Postal Service relied on volume and revenue histories listed in Tables XXXI and XXXII of my testimony. See also USPS-T-2.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-26 On page 132 of your testimony you indicate that in 1975 Special Delivery service was a "viable special service." Please specify what has changed to cause it no longer to be viable or capable of continuing effectiveness.

RESPONSE:

Express Mail was introduced shortly thereafter, and alternative overnight carriers also grew since then.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-27 On page 132 you quote from the Postal Service's 1975 market analysis and strategy recommendation of special delivery mail, referring to certain "new products", including Beta Mail, Urgent Message Service and Mailgram. Please describe each of these products and provide us with its current status.

RESPONSE:

For a service description of Mailgram, see USPS LR-SSR-141 at 29; see *also* Domestic Mail Manual § P040.6.0. Cost, revenue, and volumes for Mailgram are reported in Exhibit USPS-T-5C at page 10. Beta Mail was conceived as a highly-reliable, expedited delivery service for letters and flats between major metropolitan areas. Urgent Message Service was designed to provide for electronic transmission of messages and was a precursor to E-COM. Beta Mail and Urgent Message Service are not offered by the Postal Service.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-28 On page 128 and 133 of your testimony you speculate that the users of special delivery are usually older citizens. Please indicate all bases for this assumption on your part.

RESPONSE:

It is based upon my experience as a letter carrier and anecdotal information from postmasters.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-29 On page 128 of your testimony you indicate that specific information on "the non-governmental special delivery customer base does not exist." Please indicate all information that does exist on the governmental special delivery customer base and provide copies of all data and analyses.

RESPONSE:

Please see my responses to APWU/USPS-T8-9(d) and 10(e) and USPS

LR-SSR-145.

Revised August 29, 1996

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-30 You refer to "advanced communications methods" at page 133 of your testimony. To what methods are you referring? Can these methods deliver packages?

RESPONSE:

See my response to APWU/USPS-T8-21(b).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-31 In general, what actions can be taken by the Postal Service to reduce per unit attributable costs for any classification or service? Specifically, what actions could be taken by the Postal Service to reduce per unit attributable costs for Special Delivery Service? What actions have been taken by the Postal Service to reduce per unit attributable costs for Special Delivery Service?

RESPONSE:

Examples of actions that can contribute to reductions in per unit attributable costs include improvements in productivity and reduction in labor and capital costs. I am not aware of any recent action which could be or has been undertaken to reduce the per unit attributable cost for special delivery.

Revised August 29, 1996

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-32 At page 136 of your testimony you conclude that "As a rapid communications vehicle, special delivery has outlived its usefulness and cannot compete with more "rapid and technologically-advanced communications offerings."

a. Please identify the "rapid and technologically-advanced communications offerings" to which you are referring.

b. Was the Postal Service's evaluation of the "usefulness" of Special Delivery Service limited to letter size material, or did the Postal Service also consider Special Delivery's utility for package delivery? If the Postal Service did consider Special Delivery's usefulness for package delivery, please provide copies of all data, studies or analysis.

c. Did the Postal Service's evaluation of the "usefulness" of Special Delivery Service include any analysis of its usefulness for Fastnet, Global Priority Mail and Same Day Delivery? If so, please provide copies of all data, studies or analysis.

RESPONSE:

a) See my response to APWU/USPS-T8-21(b).

b) Yes, as discussed in my testimony and in my response to

APWU/USPS-T8-18. Incidentally, I would note that the volume of special delivery mail weighing more than 2 pounds in subclasses other than First-Class is very small. In FY 95, it was only 3 percent of total volume (excluding Government). See USPS LR-SSR-145.

c) Yes; we recognize that these services are not dependent upon the existence of domestic special delivery service.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-33 At page 136 of your testimony you indicate that the Postal Service "knows of no way to revitalize this service." On what studies, analyses and/or data did the Postal Service rely when reaching the conclusion that there was no way to revitalize Special Delivery service. [sic] Please provide copies of all such studies, analyses and/or data.

RESPONSE:

There are no such studies; however, the Postal Service reviewed the Commission's past conclusions on special delivery, along with the information presented in my testimony (USPS-T-8). As stated on page 136 of my testimony, I do not believe that special delivery can compete with more rapid and technologically advanced communication offerings, especially at a favorable price. The precipitous decline in special delivery volume supports this conclusion.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-34 Were any library references other than SSR-107, SSR-115 and SSR-116 relied upon by the Postal Service to make the recommendation to eliminate Special Delivery Service? If so, please identify all such Library References.

RESPONSE:

No.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-35 Please provide tables comparable to Tables XXXI and XXXII showing annual Express Mail Revenue and Volume from Fiscal Year 1970 through 1995.

RESPONSE:

Fiscal Yr.	Volume	Revenue
	(millions)	
1978	8.0	\$ 88.6
1979	12.2	\$ 133.6
1980	17.5	\$ 184.2
1981	23.8	\$ 269.7
1982	28.5	\$ 339.2
1983	36.8	\$ 422.3
1984	43.9	\$ 489.9
1985	45.3	\$ 543.8
1986	40.1	\$ 490.8
1987	41.5	\$ 498.7
1988	45.6	\$ 523.8
1989	53.3	\$ 572.0
1990	58.6	\$ 630.7
1991	58.0	\$ 668.0
1992	53.2	\$ 639.0
1993	52.4	\$ 627.1
1994	56.2	\$ 671.4
1995	56.7	\$ 710.9

Notes:

FY 83 and prior includes International Express Mail.

FY 87 and prior excludes Penalty & Franked Express Mail.

Express Mail established on October 9, 1977.

Source: Annual Reports of the Postmaster General

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-36 Does the decreased market share of Express Mail relative to other Postal Service products indicate a reduction of marketplace demand for this type of product?

RESPONSE:

Your question assumes that Express Mail has experienced a decreased market share relative to other Postal Service products; however, you do not indicate the period within which this alleged decline has occurred. As a result, I am unable to comment upon matters which I do not know to be supported by any record evidence.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-37 Has the number of letter carrier routes with more than one delivery trip per day increased or decreased since 1970? Please provide all available data, studies or analyses.

RESPONSE:

Decreased. These were to be phased out, and all indications are that there have been no multi-trip routes in the past few years.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-38 Please describe Delivery Point Sequencing. As a result of Delivery Point Sequencing, should letter carriers leave the delivery office earlier than before the introduction of Delivery Point Sequencing? Under Delivery Point Sequencing, what would be the optimum time for a letter carrier to leave the delivery office to begin deliveries?

RESPONSE:

This topic was described in great detail by witness Lewis in Docket No.

MC95-1. See Docket No. MC95-1, USPS-T-4 and Tr. 4/984 et. seq.; see

a/so Docket No. MC93-2, USPS-T-1. Yes. There is no set time. Carrier

leaving times depend on multiple factors, such as the scheduled arrival of

mail from the plant, local carrier schedules, route size, caseable volume,

and customer characteristics (businesses vs. residential, high vs. low

volume), among others.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-39 Can Express Mail be sent certified? Can Express Mail be sent Registered?

RESPONSE:

No; however, Express Mail offers customers service that is largely equivalent to certified, since Express Mail pieces have unique identifiers, can be combined with return receipt, may require the recipient's signature, and delivery records are maintained. No.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-41 How are Express Mail and Priority Mail not
destinating in an Express Mail Eagle Network city handled differently
from such mail that is destinating in an Express Mail Eagle Network city?

RESPONSE:

Express Mail and Priority Mail that are destinating in an Eagle
Network city are routed to the Eagle. Each origin has a certain amount of
Priority Mail it is allowed to send via the Eagle. There is no limit for
Express Mail. After the mail arrives at the network city, the mail is
delivered to the AMC or AMF for transporting to the processing and
distribution center, or in some cases, directly to an associate office if
transportation exists. Additionally, Express Mail destinating at some
network cities have unique distribution procedures in place to process the
mail at the AMC/AMF (versus the plant) and the mail is given directly to
the letter carrier to meet our noon delivery requirements.

Express Mail and Priority Mail that do not move in the Eagle
Network either travel via commercial airline, surface transportation, or
other dedicated air transportation, such as the WNET, the dedicated
transportation that handles Express and Priority for the Pacific and
Western Areas. In the case of surface transportation, the highway
contract trips generally are planned from one processing and distribution
center to another.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

In some cases, air taxis are used for Express Mail. The air taxis depart from a non-Eagle city and connect with the Eagle at an Eagle site. Finally, there are some origins that currently use surface transportation into the Eagle hub for both Express Mail and Priority Mail for Eagle cities.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

APWU/USPS-T8-42 Prior to this case, what special services or mail classifications has the Postal Service sought to eliminate? Please identify the Postal Rate Commission case in which the Postal Service requested each such recommended decision.

RESPONSE:

Examples include: Dead letter return service (R84-1); ZIP + 4 (MC95-1);

E-COM (MC84-2); Controlled circulation (R80-1); Limited Circulation

(R84-1); Domestic Airmail (R76-1); and transient second-class (R84-1).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO**

APWU/USPS-T8-43 Did the Postal Service make a decision to promote the use of Express Mail and de-emphasize Special Delivery Service? Please explain your answer and provide any related data, analyses or studies.

RESPONSE:

The Postal Service promotes both Express Mail and Special Delivery (see my response to APWU/USPS-T8-13). I am not aware of any decision to de-emphasize Special Delivery. Special Delivery is simply at the end of its product life cycle because of changing times, the availability of alternatives, and customer needs.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO

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.
- b. Explain how the Postal Service obtains revenue for supplying international "Expres" Mail service.
- c. Provide a full accounting of the cost/revenue impact of elimination of this international service.

RESPONSE:

- a) Redirected to witness Patelunas.
- b) There is no additional charge; it is included in terminal dues. Please see Docket No. R94-1, Response to FEC/USPS-9(a).
- c) Objection filed.

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

OCA/USPS-T8-1. Please refer to page 58, lines 9-15, of your testimony. The proposed increase in the fee for the combined certified mail/return receipt service appears to increase the cost coverage of this combined special service from 205.5 percent to 274.3 percent. Exhibits USPS-T-5J at 23 and USPS-T-5G at 23. Is this correct? Please explain.

OCA/USPS-T8-1 RESPONSE:

No. First, please note that the cost coverages in Exhibits USPS-T-5J and USPS-T-5G were the subject of revisions filed on July 1, 1996. See Notice of United States Postal Service Concerning the Filing of Errata to the Exhibits of Witness Patelunas. Second, the combined cost coverage in the interrogatory for certified mail/return receipt, even if corrected in accordance with the errata filed on July 1, is incorrect, since return receipt costs are not included in the denominator of the fraction from which the cost coverage is derived in those exhibits. Finally, I question whether a combined cost coverage using the total costs and revenues for return receipt and certified mail is meaningful. Return receipt is a separate special service, distinct from certified mail, and used in conjunction with a variety of services. To combine the cost coverages for these two products would erroneously imply that total return receipt costs and revenues are associated with certified mail, when in fact they are not.

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

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.

- a. With regard to the increase in the cost coverage for certified mail, will the Postal Service implement service changes to enhance the quality of certified mail for postal customers? Please explain any service changes to be implemented and provide documentary support.**
- b. Please explain how increasing the cost coverage of the combined certified mail/return receipt service from 205.5 percent to 274.3 percent better reflects customer demand.**
- c. Please explain how increasing the cost coverage of the combined certified mail/return receipt service from 205.5 percent to 274.3 percent better reflects Postal Service costs.**
- d. Please explain how raising fees helps keep postage rates stable for certified mail.**
- e. Please explain how raising the fee for the combined certified mail/return receipt service, having one of the highest relative cost coverages, is appropriate, given that there are no proposed fee increases for special services with significantly lower cost coverages, such as COD and money orders.**

OCA/USPS-T8-2 RESPONSE:

a) The proposed 146 percent cost coverage for certified mail does not reflect new, proposed service changes for certified mail, and I am not aware of any planned changes underway to improve this service. It is my understanding, however, that the Postal Service has recently implemented changes to certified mail to enhance its quality. Specifically, the Postal Service has added a "print name" block on all

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE

accountable mail signature forms and a new tag on the certified mail label. The "print name" block requests, in addition to the recipient's signature, the recipient's printed name, which is particularly useful if the recipient's signature is illegible. The certified mail label also now includes a fluorescent tag so that carrier sequence and delivery barcode sorters can identify certified mail during automated processing. This measure enables certified mail to receive automated processing while facilitating record accountability in delivery.

b) Please see my response to OCA/USPS-T8-1 noting that the combined cost coverage is incorrect due to the absence of return receipt costs in the denominator and questioning the utility of combining cost coverages for return receipts and certified mail. The increased cost coverages for each of these products better reflect the high value of service that they offer as seen from customer demand. See USPS-T-8 at 69-71, 91.

c) Please see my response to OCA/USPS-T8-1 noting that the combined cost coverage is incorrect due to the absence of return receipt costs in the denominator and questioning the utility of combining cost coverages for return receipts and certified mail. The proposed cost coverages of 146 percent and 171 percent for certified mail and return receipt, respectively, align closer to the systemwide cost coverage recommended in Docket No. R94-1.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE

d) Redirected to witness Lyons

e) Please see my response to OCA/USPS-T8-1 noting that the combined cost coverage is incorrect due to the absence of return receipt costs in the denominator and questioning the utility of combining cost coverages for return receipts and certified mail. With respect to the COD and money order cost coverages, please see witness Lyons' response to OCA/USPS-T1-1.

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

OCA/USPS-T8-3. Refer to page 67, lines 1-6, of your testimony concerning alternatives to certified mail.

- a. Please explain to what extent a certificate of mailing is a substitute for certified mail.**
- b. Please provide the cross-price elasticity of demand for a certificate of mailing and certified mail.**

OCA/USPS-T8-3 RESPONSE:

a) A certificate of mailing provides proof that a mailpiece was entered into the postal system on a certain date (DMM S914.2.1). Certified mail labels, which are issued to the sender at the point of acceptance, have an attached receipt with a block to include the date the piece was entered into the postal system. This is the extent a certificate of mailing can be a substitute for certified mail.

By purchasing a certificate of mailing, the sender does not have the capability of proving delivery of a particular piece, since certificate of mailing service does not assign a unique number to each piece for which the service is purchased. Certified mail, however, provides the sender with both accountability and proof of delivery. Certified mail also captures the recipient's attention because a signature is required by the recipient prior to receipt and certified pieces bear unique green labels.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE

b) No econometric estimates of cross-price elasticity have been made for these two products.

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

OCA/USPS-T8-4. Refer to pages 1-2 of your testimony concerning the proposal for registered mail. Assuming the proposal for registered mail is recommended by the Commission, will the Postal Service implement service changes to enhance the quality of registered mail for postal customers? Please explain any service changes to be implemented and provide documentary support.

OCA/USPS-T8-4 RESPONSE:

Yes. As discussed in my testimony, all registered pieces valued above \$100 will carry postal insurance. This proposed change simplifies the product, thereby reducing retail transaction time, and reduces confusion associated with this product offering. The Postal Service is also in the process of developing the delivery confirmation receipt system, which automates delivery recordkeeping, thereby enabling postal employees to promptly check information on delivery of registered pieces from delivery units. The delivery confirmation receipt system is currently being used in Raleigh, North Carolina, and Atlanta, Georgia, and is expected to be available nationwide in the near future. Recent changes associated with registry also are intended to improve quality. The Postal Service recently combined all individual claims forms into one generic form to simplify the claims process. The Postal Service is also currently contracting with a management consulting firm for recommendations to further automate the claims process and reduce claims processing time. Additionally, as explained in my response to OCA/USPS-T8-2(a), a "print name" block was recently added to all accountable mail signature forms.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T8-5. Refer to pages 27-29 of your testimony concerning the proposal for insured mail. Assuming the proposal for insured mail is recommended by the Commission, will the Postal Service implement service changes to enhance the quality of insured mail for postal customers? Please explain any service changes to be implemented and provide documentary support.

OCA/USPS-T8-5 RESPONSE:

Yes. As explained in my testimony at pages 28-29, the Postal Service is exploring a proposed operational change for handling insured mail that is designed to enhance customer satisfaction and reduce loss of insured mail pieces by increasing accountability of insured pieces in delivery.

The delivery confirmation receipt system, which is described in my response to OCA/USPS-T8-4, will also enable prompt access to insured mail delivery information. In addition, recently implemented changes to accountable mail signature forms and claims processing described in my responses to OCA/USPS-T8-2(a) and OCA/USPS-T8-4 are intended to improve the quality of insured mail.

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

OCA/USPS-T8-6. Refer to pages 73-74 of your testimony concerning the proposal for return receipt. Assuming the proposal for return receipt is recommended by the Commission, will the Postal Service implement service changes to enhance the quality of return receipt for postal customers? Please explain any service changes to be implemented and provide documentary support.

OCA/USPS-T8-6 RESPONSE:

Yes. As discussed in my testimony, the Postal Service is proposing that basic return receipt service provide more information than the present basic service offers.

Specifically, basic return receipt service would provide to whom, date, and address delivered (if it differs from the address on the mailpiece) rather than just to whom and date delivered. This address correction feature enhances the quality of this service to return receipt customers, since they will receive address change information or have confidence in the address information that they have.

Additionally, as discussed in my response to OCA/USPS-T8-2(a), the Postal Service recently added a new "print name" block on all accountable mail signature forms. This measure is especially useful to return receipt customers in circumstances in which the recipient's signature is illegible.

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

OCA/USPS-T8-7. Refer to page 116 of your testimony concerning the proposal for special delivery.

- a. Please confirm that special delivery has a FY 96 before rates cost coverage of 116.7 percent. Exhibit USPS-T-5G at 24.**
- b. Please confirm that special delivery would provide a FY 96 before rates contribution to institutional costs of \$0.4 million. Exhibit USPS-T-5G at 24.**
- c. To what extent would the proposal to eliminate special delivery cause the Postal Service to lose this contribution to institutional costs for the FY 96 test year, taking into account workpaper USPS-T-1, WP B. Please provide calculations.**

OCA/USPS-T8-7 RESPONSE:

- a) Using Exhibit USPS-T-5G (as revised on July 1, 1996), I can confirm the before rates cost coverage for special delivery would be 116.7 percent. Using Exhibit USPS-T-1C, the cost coverage is 119 percent, due to alternative rounding conventions.**
- b) Not confirmed. This figure in Exhibit USPS-T-5G was revised on July 1, 1996. Using the revised exhibit, I can confirm that the before rates contribution to institutional costs would be \$0.3 million.**
- c) Redirected to witness Lyons.**

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

OCA/USPS-T8-8. The purpose of this and the next interrogatory is to compare the Postal Service's cost coverage proposals for return receipt and certified mail in this proceeding with the Postal Service's proposals in prior proceedings. Please confirm, correct, or, as appropriate, complete the following tables pertaining to certified mail and return receipt. The sources of Table I are the Cost and Revenue Analysis Reports, TY at proposed rates.

Table I
Certified Mail (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	288.6	379.0	131%
Docket No. R94			
Postal Service	305.8	526.2	172%
Docket No. MC96-3			
Postal Service	285.9	784.3	274%

Table II
Return Receipt (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	158.8	191.9	121%
Docket No. R94			
Postal Service			
Docket No. MC96-3			
Postal Service			

RESPONSE:

When comparing the Postal Service's cost coverage proposals for certified mail and return receipts in this proceeding with corresponding proposals for these service in prior proceedings, it is necessary to use the pure cost coverage

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

methodology applied by the Postal Service in this proceeding. The certified mail cost coverages in Table I of the question are inflated because they are calculated with ancillary service revenues. I have accordingly backed out the ancillary service revenue from certified mail revenue in the revised table below.

Table I (Revised)
Certified Mail (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	288.6	188.4	65%
Docket No. R94			
Postal Service	305.8	293.2	96%
Docket No. MC96-3			
Postal Service*	285.9	416.7	146%

*Source: Exhibit USPS-T-1C

Table II
Return Receipt (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	158.8	191.9	121%
Docket No. R94			
Postal Service	178.0	236.8	133%
Docket No. MC96-3			
Postal Service*	214.0	365.6	171%

*Source: Exhibit USPS-T-1C

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-9. In Docket No. R90-1, witness Patelunas' Exhibit 17E, p. 26 shows the following figures for certified mail: Total attributable costs--\$288.6 million; Revenue--\$379.0 million; and Revenue as a percent of attributable cost--131 percent. These figures appear to contain costs and revenues for the ancillary services return receipts and restricted delivery. Witness Larson backs out these costs associated with the ancillary services (see Docket No. R90-1, USPS-T-22, WP-6, p.2) and provides tables in her testimony which show attributable costs, revenue and cost coverage separately for both certified mail and return receipt. The cost coverage for certified is 127 percent and for return receipt is 121 percent (see USPS-T-22, pp. 40 and 49.)

In Docket No. R94-1, witness Patelunas had a similar exhibit, 7X, which contains the following figures for certified mail: Total attributable costs--\$305.8 million; Revenue--\$526.2 million; and Revenue as a percent of attributable costs--172.1%. Witness Foster at USPS-T-11, pp. 65 and 67 speaks of a cost coverage for certified mail of 172.1 percent and for return receipts of 133.1 percent. However, his testimony does not contain tables with separate costs and revenues, as does witness Larson's testimony, nor does he calculate these in his workpapers.

- a) Please provide the appropriate breakout figures.
- b) Is the 172.1 percent cost coverage figure cited above comparable to the 127 percent figure in R90-1? Please explain.
- c) In this docket, witness Patelunas again supplies an exhibit similar to the ones cited above. Exhibit 5J shows the following figures for certified mail: Total attributable costs--\$285.9 million; Revenue--\$784.3 million; and Revenue as a percent of attributable costs--274.3 percent. Are these figures comparable to the Docket Nos. R90-1 or R94-1 figures? Please explain in detail why or why not. Please provide comparable figures and, if necessary, explain any - changes to costing or data collection.

RESPONSE:

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

- a) For certified mail and return receipt pure cost coverages, please see response to OCA/USPS-T8-8. For restricted delivery revenues and costs, see Docket No. R94-1, Exhibit USPS-11F at pages 3, 7.
- b) The question compares certified mail cost coverages including ancillary service revenues. As explained in my response to OCA/USPS-T8-8, however, ancillary service revenues should be excluded from the certified mail cost coverage calculation. Since both cost coverages in the question include ancillary service revenues, the two figures are comparable in that regard, but serve no purpose for analysis here.
- c) Again, the question calculates a certified mail cost coverage including ancillary service revenues. As explained in my response to OCA/USPS-T8-8, however, ancillary service revenues should be excluded from certified mail cost coverage calculations. Since the cost coverage in the question includes ancillary service revenues, the figures presented in the *interrogatory* (not the response) to OCA/USPS-T8-8 are comparable.. Comparable figures to those proposed in this proceeding can be found in my *response* to OCA/USPS-T8-8 in Table I (revised).

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

OCA/USPS-T8-11. The following questions request information on changes in factors pertaining to cost coverage for certified mail and return receipts. The cost coverage percentages mentioned in this interrogatory may be somewhat different from the percentages contained in interrogatory OCA/USPS-T8-8 because the source of the percentages is different. See interrogatory OCA/USPS-T8-9.

- a) Have there been any changes in the value of the mail service provided users of return receipt service since the Postal Service requested a cost coverage of 121 percent for return receipt service in Docket No. R90-1? Please explain and provide documentary support, if any.
- b) Have there been any changes in the value of the mail service provided users of certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? Please explain and provide documentary support, if any.
- c) Have there been any changes in the value of the mail service provided users of return receipt service since the Postal Service requested a cost coverage of 133.1 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.
- d) Have there been any changes in the value of the mail service provided users of certified mail service since the Postal Service requested a cost coverage of 172.1 percent for certified mail service in Docket No. R94-1? Please explain and provide documentary support, if any.
- e) Have there been any changes in "the effect of rate increases" on users of return receipt service since the Postal Service requested a cost coverage of 121 percent for return receipt service in Docket No. R90-1? See Section 3622 (b) (4). Please explain and provide documentary support, if any.
- f) Have there been any changes in "the effect of rate increases" on users of certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? See Section 3622 (b) (4). Please explain and provide documentary support, if any.

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

- g) Have there been any changes in "the effect of rate increases" on users of return receipt service since the Postal Service requested a cost coverage of 133 percent for return receipt service in Docket No. R94-1? See Section 3622(b) (4). Please explain and provide documentary support, if any.
- h) Have there been any changes in "the effect of rate increases" on users of certified mail service since the Postal Service requested a cost coverage of 172 percent for certified mail service in Docket No. R94-1? See Section 3622(b) (4). Please explain and provide documentary support, if any.
- i) Has there been any change in the availability of alternative means of using return receipt service since the Postal Service requested a cost coverage of 121 percent for return receipt service in Docket No. R90-1? Please explain and provide documentary support, if any.
- j) Has there been any change in the availability of alternative means of using certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? Please explain and provide documentary support, if any.
- k) Has there been any change in the availability of alternative means of using return receipt service since the Postal Service requested a cost coverage of 133 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.
- l) Has there been any change in the availability of alternative means of using certified mail service since the Postal Service requested a cost coverage of 172 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.
- m) Has there been any change in the degree of preparation of certified mail by those using certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? Please explain and provide documentary support, if any.
- n) Has there been any change in the degree of preparation of mail by those using return receipt service since the Postal Service requested a cost

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

coverage of 121 percent for return receipt service in Docket No. R90-1?
Please explain and provide documentary support, if any.

- o) Has there been any change in the degree of preparation of mail by those using certified mail service since the Postal Service requested a cost coverage of 172 percent for certified mail service in Docket No. R94-1? Please explain and provide documentary support, if any.
- p) Has there been any change in the degree of preparation of mail by those using return receipt service since the Postal Service requested a cost coverage of 133 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.

RESPONSE:

The cost coverages in this interrogatory are overinflated, as explained in my response to OCA/USPS-T8-8. Without accepting the cost coverages in the interrogatory, however, I proceed to answer each subpart as follows:

- a) Since the filing of Docket Nos. R90-1 and R94-1, there has been a change which has resulted in an increase in the value of service for return receipt customers. Specifically, a "print name" block was added to all accountable delivery signature forms by December 1994. This change was especially beneficial to return receipt customers who in the past had difficulty deciphering illegible signatures. In requesting that recipients provide both a signature and a printed name, the difficulty in deciphering illegible signatures has been eliminated.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

b and d) Since Dockets No. R90-and R94-1, there has been a change which has resulted in an increase in the value of service for certified mail customers. Specifically, a fluorescent tag was added to the certified mail label in March 1993, so certified mail could be pulled out of the automated system at the delivery point and moved into the accountable mail system. The certified mail detectors to identify the fluorescent tags were deployed beginning in September 1995.

Additionally, since Docket No. R90-1, there has been another change which has resulted in an increase in the value of service for certified mail customers. As mentioned in my response to OCA/USPS-T8-11(a), since December 1994, accountable delivery signature forms now contain a "print name" block.

c, e-m, and o) Not to my knowledge; however, since Docket No. R94-1, the Postal Service conducted market research concerning certified mail and return receipt usage, and the results of that study have contributed to the justification for the proposals for these products in this proceeding. See USPS LR-SSR-110.

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

n and p) As explained in my testimony (USPS-T8-8 at pages 88-89 and 93), the Postal Service's proposal for return receipt service would reduce the number of product options, thereby simplifying preparation for mailers and saving time for customers and postal employees.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-12. If there have been no significant changes in any of the criteria bearing on the institutional cost contribution for return receipt, why do you now, as opposed to waiting for the next omnibus rate case, propose increasing the institutional cost contribution for return receipts? Is the sole purpose to generate additional net revenues? Please explain.

RESPONSE:

As explained in my response to OCA/USPS-T8-11, there has been a change in the value of service criterion for return receipt service. With respect to the reasons for instituting this proceeding at this juncture, please see witness Lyon's testimony, USPS-T-1, at pages 5-7, for an explanation of the multiple purposes of this proceeding.

The sole purpose of the return receipt proposal is not is not to generate additional new revenues. As explained in my testimony, USPS-T-8 at pages 86-94, this proposal would provide a form of address correction in conjunction with return receipt service. The proposal would accordingly provide a value-added enhancement to return receipt service for the same price as the enhanced option that is presently offered.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-13 If there have been no significant changes in any of the criteria bearing on the institutional cost contribution from certified mail, why do now, as opposed to waiting for the next omnibus rate case, propose increasing the institutional cost contribution for certified mail? Is the sole purpose to generate additional net revenues?

RESPONSE:

Please see my response to OCA/USPS-T8-11 for changes in Criterion 2 which bear on the institutional cost contribution for certified mail. With respect to the reasons for instituting this proceeding at this juncture, please see witness Lyon's testimony, USPS-T-1, at pages 5-7, for an explanation of the multiple purposes of this proceeding. The purposes for the proposal are explained in my testimony, USPS-T-8 at 68-73.

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

OCA/USPS-T8-14. Please refer to page 72, lines 4-12, of your testimony. The proposed fee increase for certified mail is 36 percent.

- a)** If the certified mail fee were set at the current 107 percent cost coverage for the Docket No. MC96-3 test year, what would the fee be?
- b)** Other than instances where the Commission had to recommend substantial rate increases to barely cover attributable costs, are you aware of any instance since Docket No. R84-1 where the Commission recommended a 36 percent rate increase for a class, subclass or special service? Please identify all instances.
- c)** If the certified mail fee were set at 146 percent cost coverage using FY 95 as the test year, what would the fee be?
- d)** Please refer to p. 92, line 13. If the return receipt fees were set at the current 127 percent cost coverage for the Docket No. MC96-3 test year, what would the fees be assuming adoption of the classification proposals?
- e)** If the return receipt fees were set at 171 percent cost coverage using FY 95 as the test year, what would the fees be assuming adoption of the classification proposals?

RESPONSE:

- a.** If the current cost coverage for certified mail of 107% (as reflected on Exhibit USPS-T-1C) is applied to MC96-3 after rates test year costs, the fee that results is the current fee of \$1.10.
- b.** The Commission recommended that certain post office box fees be increased by more than 36 percent in Docket No. R90-1.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

- c. If the certified mail fee were set at 146% of FY 95 costs the fee would be \$1.42 as calculated in Attachment 1.
- d. Assuming the adoption of the proposed classifications and no change from before rates volumes, the fees would be \$1.11 for non-merchandise, \$1.59 for merchandise, and \$6.60 for requested after mailing. Please refer to Attachment 2 for supporting calculations.
- e. Assuming the adoption of the proposed classifications, if the return receipt fees were set at 171% of FY 95 costs the fees would be \$1.45 for non-merchandise, \$2.19 for merchandise, and \$10.21 for requested after mailing. Please refer to the Attachment 1 for supporting calculations.

Return Receipt Hypothetical at 171% Cost Coverage
Fiscal Year 1995

Return Receipt Non-Merchandise	Unit Costs	Transactions	Total Costs	Fees		Revenue 171%
				171%	Current Fees	
RR-Whom and When	\$0.842	213,003	\$179,349		\$1.10	
RR-Whom When Where	\$1.075	4,381	\$4,710		\$1.50	
	\$0.847	217,384	\$184,058	\$1.45		\$314,739
Merchandise						
RR-Whom and When	\$1.019	2,771	\$2,824		\$1.20	
RR-Whom When Where	\$1.318	19,625	\$25,866		\$1.65	
	\$1.281	22,396	\$28,689	\$2.19		\$49,059
RAM	\$5.970	215	\$1,284	\$10.21	\$6.60	\$2,195
Total Return Receipt		479,775	\$214,031			\$365,993
					Coverage	1.71

Certified Mail Hypothetical at 146% Cost Coverage
Fiscal Year 1995

	Unit Costs	Transactions	Total Costs	Fees		Revenue
				146%	Current Fees	
Certified	\$0.974	288,827	\$281,317	\$1.42	\$1.10	\$410,724
					Coverage	1.46

Sources:

Return Receipt Unit Costs -- USPS LR SSR-130, Return Receipt Cost Update for FY 1995, (Compare USPS-LR-SSR-104)

Return Receipt Transactions -- UPSP-T-1, WP D Page 2, FY 1995 figures.

Certified Unit Costs and Transactions -- USPS-T-5C, Page 16, Fiscal Year 1995

**Hypothetical at 127% Cost Coverage and Before Rates Volume
Return Receipt
(in Thousands)**

Test Year 96, Using Before Rates Volumes				Current Fee	Adjusted Fee
Return Receipt Non-Merchandise	Revenue	Cost	Coverage		
Whom and When	242,603	189,705	128%	\$1.10	
Whom When Where	6,812	4,984	137%	\$1.50	
Total	249,414	194,689	128%		\$1.11 249,414
Return Receipt Merchandise					
Whom and When	3,562	3,088	115%	\$1.20	
Whom When Where	34,685	28,285	123%	\$1.65	
Total	38,246	31,373	122%		\$1.59 38,246
Return Receipt After Mailing	1,472	1,361	108%	\$6.60	\$6.60 1,472
Total Return Receipt	289,132	227,423	127%		289,132

Test Year 1996 Unit Costs

SSR-104 Cost Study Updates

Non-Merchandise

Transactions

RR-Whom and When	\$ 0.86	220548
RR-Whom When Where	\$ 1.10	4541
	\$ 0.87	225089

Merchandise

RR-Whom and When	\$ 1.04	2968
RR-Whom When Where	\$ 1.35	21021
	\$ 1.05	23989
RAM	\$ 6.10	223

Revised September 9, 1996

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-15. In Docket No. R94-1 the Postal Service proposed and the Commission recommended a 10.2 percent rate increase for certified mail. This increased the certified mail fee from \$1.00 to \$1.10. Assuming implementation of the Postal Service's proposal in this proceeding, the certified mail fee will have increased by 50 percent by the next omnibus rate case. Other than instances where the Commission recommended substantial rate increases to cover attributable costs, are you aware of any instance since Docket No. R84-1 where the Postal Service proposed, or the Commission recommended, a 50 percent rate increase for a class, subclass or special service? Please identify all instances.

RESPONSE:

Certain post office box fees were increased by more than 50 percent following Docket No. R90-1. I must also note that I know of no instance since Docket No. R90-1 where the coverage for certified mail has exceeded 100%.

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

OCA/UPS-T8-16. In Docket No. R90-1, the Commission rejected the Postal Service's proposed 34 percent rate increase for post and postal cards. The Commission reduced the proposed rate increase to 27 percent. Therein, at para. 5045, the Commission stated:

We have taken into account the fact that they involved an uncommonly high (27%) increase. In addition, mailers have few low-cost alternatives to the post or postal card, given the Private Express statutes; and so we have tried to moderate the impact of the necessary increases.

- a) In recommending what amounts to a 50 percent rate increase for certified mail between omnibus rate cases did you consider the Commission's reasoning when it rejected the proposed 34 percent rate increase for post and postal cards in Docket No. R90-1?
- b) In light of the above quotation, please explain how you tried to "moderate the impact" of the increase on certified mail?
- c) The above quotation states that one of the reasons for moderating the impact is that there are "few low-cost alternatives." Are there "low-cost alternatives" to certified mail? Please explain and identify the low-cost alternatives.
- d) If there are few or no "low cost alternatives" to certified mail, especially with the return receipt option, please explain whether and to what extent you lowered the proposed certified mail fee increase to account for the unavailability of "low-cost alternatives."

RESPONSE:

- a) In recommending the proposed increase to the certified mail fee, I did not specifically consider the Commission's rejection of the Postal Service's proposed rate increase for postcards and postal cards in Docket No.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

R90-1. I note, however, that the Commission rejected a rate for a premium product which resulted in a higher cost coverage than the systemwide average and opted instead for a rate which resulted in a cost coverage below, yet close to, the systemwide average. The Postal Service's proposal for certified mail seeks to accomplish that objective, *i.e.*, to bring the certified mail in line with the Docket No. R94-1 systemwide cost coverage.

I did not review the referenced quotation when I tried to "moderate the impact" of the certified mail increase. Rather, as opposed to proposing an even higher fee for certified than \$1.50, I chose to look instead at the resulting proposed cost coverage (which, in my estimation, is still low for a premium product) of 146 percent and determined that the proposed fee would be reasonable and consistent with the statutory criteria. Please see my testimony at page 72, lines 4-12, where I discuss criterion 4 and the consideration given the impact of the proposed increase on certified mail customers.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

c and d) Please see my response to OCA/USPS-T8-16(b) where I discuss the development of the fee with consideration given to the proposed cost coverage. With respect to "low-cost alternatives" to certified mail, registered mail with a fee of \$4.85 is an alternative. Even so, registered mail provides enhanced security and accountability, features that may not be as important for certified mail users for a considerably higher fee. Therefore, certified mail continues to stand out as a high value product for a low fee, even when considering the proposed increase.

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

OCA/USPS-T8-17. Please answer the questions in interrogatory OCA/USPS-T8-16, substituting return receipt service for certified mail service. In answering the questions, you may assume that the proposed rate increase between omnibus rate increases is different in amount from that for certified mail.

RESPONSE:

a-d) My proposal for return receipt is for restructuring and not an outright fee increase. While customers would pay more for the proposed basic service option for return receipts, it would provide an enhancement to the existing basic service option. Notwithstanding, I did not consider the quoted language when considering the proposed changes to return receipt service.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-19. Library Reference SSR-108, Registered Mail Survey, indicates that a number of large registered mail users desire and would use an Express Mail overnight registry service. In fact, at least one "desperately wants" this service.

- a) Did the Postal Service consider instituting such a service?
- b) If the Postal Service did consider such a service, please explain why it was rejected.
- c) If this was not considered, please explain why not, especially in light of the Service's concerns about market response and customer satisfaction.

RESPONSE:

- a) The Postal Service has analyzed the feasibility of instituting an Express Mail registry service.
- b) Registered mail is the most secure and accountable service the Postal Service offers. At each point throughout the registry system where custody for registered articles is transferred, the transferee must sign an acknowledgment of receipt. For extremely high value articles, alternative methods of delivery are employed, such as armed guards. These security and accountability measures could not be changed in a manner to facilitate the expeditious and guaranteed service offered by Express Mail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-19

Page 2 of 2

However, the Postal Service's concerns about market response and customer satisfaction prompted the proposal in this filing for an increase to the Express Mail merchandise indemnity limit from \$500 to \$5,000. This proposal, if implemented, should meet the needs of many customers desiring expedited delivery of relatively high value articles.

c) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-20. Library Reference SSR-108, Registered Mail Survey, indicates that some large registered mail users desire and would use a pickup service in conjunction with registry service.

- a) Did the Postal Service consider instituting such a service?
- b) If the Postal Service did consider such a service, please explain why it was rejected.
- c) If this was not considered, please explain why not, especially in light of the Service's concerns about market response and customer satisfaction.

RESPONSE:

- a) No.
- b) Not applicable.
- c) The Postal Service has not been presented with sufficient customer interest in a registered mail pickup service.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-21. Library Reference SSR-108, Registered Mail Survey, indicates that at least one large registered mail user would like an increase in the maximum amount of insurance available for registered items (\$50,000 was the amount mentioned).

- a) Did the Postal Service consider raising the present \$25,000 limit of insurance?
- b) If the Postal Service did consider raising the limit, please explain why it was rejected.
- c) If this was not considered, please explain why not, especially in light of the Service's concerns about market response and customer satisfaction.

RESPONSE:

- a) No.
- b) Not applicable.
- c) The Postal Service has not received sufficient customer interest to warrant consideration of an indemnity increase for registered mail.

Incidentally, I note that the customer to whom the question refers spent only between \$0 to \$5,000 on registered mail in 1992. See USPS LR-SSR-109. This does not constitute a relatively "large" registered mail customer as your question suggests.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-22. Please provide the percentage of certified mail and return receipt mail which is subject to the Private Express Statutes.

RESPONSE:

Data are not collected on the breakdown of certified mail or return subject to the Private Express Statutes. Therefore, the percentage of certified mail or return receipts subject to the Private Express Statutes is not available.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-23. With reference to return receipt: the mailer puts his name and address on the reverse of the card and fills in the box labeled "3. Article Addressed to:" with the recipient's name and address. If the mailer has checked off box #1, requesting the addressee's address and the addressee has not moved, does the carrier normally re-enter the full address in box #8 or does he enter "same" or a similar phrase to indicate that the address is the same address as in box #3?

RESPONSE:

Carrier handbooks require that the carrier or clerk delivering the mailpiece enter the delivery address in box #8. Methods Handbook Series M-41 §336.2; Handbook PO-603 §§ 341.442, 341.542.

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

OCA/USPS-T8-24. What percentage of return receipts which request the addressee's address have actually been forwarded and thus, the return receipt shows an address different from that listed by the sender? If you have no statistics on this, please give your best estimate and explain its basis.

RESPONSE:

No statistics are available on the percentage of return receipts that have been forwarded to a different address other than the one on the mailpiece. Based upon Docket No. MC95-1, USPS LR-MCR-76 pages 3-1 and 4-3, a proxy for the percentage of return receipts that are forwarded could be developed based on FY 93 data by estimating total forwarded mail volume as follows:

1	Total UAA Volume (First-Class, third-class, fourth-class, Priority, and Express)	4,629.645 mill.
2	Total RPW Mail Volume (First-Class, third-class, fourth-class, Priority, and Express)	159,403.24 mill.
3	Percent UAA Volume (1)/(2)	2.9%
4	Percent UAA Forwarded Volume	39%
5	Percent UAA Volume Forwarded (3) * (4)	1.13%

Source: USPS LR-MCR-76 pages 3-1, 4-3

It is important to keep in mind that under the Postal Service proposal, all return receipt customers who presently opt for the basic service will receive enhanced service, regardless of whether their return receipt pieces are actually forwarded. This is because customers will know whether the addresses they apply to their return receipt mailpieces are correct simply by checking the return receipt to see if a new address was printed in box #8 of the receipt.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-25. What percentage of return receipts which do not request the addressee's address have actually been forwarded and thus, are delivered to an address different from that listed by the sender? If you have no statistics on this, please give your best estimate and explain its basis.

RESPONSE:

Please see my response to OCA/USPS-T-8-24.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-26. You propose to combine two present alternatives of return receipt into one. Under the proposal all return receipt users will be notified if the delivery address is different from the one appearing on the mail piece. At page 86 of your testimony, concerning the rationale for this restructuring of return receipts, you state, "[t]he change would provide better service to customers who do not request delivery address information" and that this is "a value enhancement over the current basic service option. . . ."

Please explain how better service would be provided or value to the customers would be enhanced taking into account the following:

- a) Ninety-eight percent of regular return receipt customers do not request delivery address information at the time of mailing even though it is presently available. See Table XXIV, p. 84.
- b) Ninety-eight percent of the customers of return receipt would be provided with information that they presumably neither want nor care about (since they did not avail themselves of this option).
- c) These customers would pay a fee 36% higher to receive information which they previously had opted not to receive.

RESPONSE:

a, b and c) First, the 98 percent figure cited in the interrogatory is incorrect. In 1995, the volume of return receipts for which address information was requested at the time of mailing was almost 10 percent of total return receipt volume at the time of mailing (including return receipt for merchandise). See USPS-T-8, Table XXIV at p. 84. Notwithstanding, that customers presently do not make relatively high use of this option does not imply that they will not receive better service, or services they do not need or want. The return receipt proposal would provide address confirmation to all return receipt customers and represents a value-added

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

enhancement to the basic service. In any event, if given the option between a pure fee increase or a fee increase with a value-added service enhancement, I am confident that customers would choose the latter.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-27. Library Reference-SSR-109, Supplemental Materials Relating to Insured Mail Proposal, contains a "Mail Insurance Survey, 1993." This survey shows that a number of Postal Service customers ship high value parcels (e.g., values of \$20,000, \$50,000, and higher) with other carriers. See page 45. The "comment section" also shows that numerous large customers are requesting that the Postal Service provide higher insurance limits than those proposed in this docket. Maximums frequently mentioned are \$25,000 and \$50,000.

- a) In light of the results of this first survey, how did you determine that limits of \$2,000 to \$5,000 should be the subject of the second survey (Attachment 2)?
- b) Were limits higher than those proposed considered or studied? Please explain why they were rejected. In answering this question, please address the fact that UPS and Federal Express offer insurance up to \$50,000. See USPS-T-2 at 6.

RESPONSE:

a and b) The largest percentage of total insured parcel volume shipped with carriers other than the Postal Service between \$700 and \$2,000 was in the \$1,501 to \$2,000 category as reported in the 1993 survey results (Library Reference SSR-109, page 94). The 1996 survey was designed to gauge customer demand above the \$2,000 level. The \$5,000 cap was selected for several reasons. First, it represents a logical value cut-off point in terms of whole dollar multiples of \$1,000. Second, \$5,000 is easily memorable. Third, given the recent popularity surge in computer and other technological equipment, such as laptops, the Postal Service determined that mailers' indemnity requirements would probably have increased since 1993, particularly in the \$2,000 to \$5,000 range. Higher limits were not considered because the Postal Service wanted to have

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-27

Page 2 of 2

experience with the more moderate increase in the indemnity limit proposed in
the request.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-28. In your testimony at 106, you state,

The 1995 cost to manufacture a postal card was 1.1 cents. This cost is 0.7 cents higher than the cost presented in Docket No. R76-1.

- a) In R90-1, did the Postal Service include selling, shipping, and manufacturing costs of postal cards when developing the postal card pricing proposal presented? Please identify which of the above costs were included and cite the source(s) of your answer.
- b) In R94-1, did the Postal Service include selling, shipping, and manufacturing costs of postal cards when developing the postal card pricing proposal presented? Please identify which of the above costs were included and cite the source(s) of your answer.
- c) In preparing your testimony, please explain why selling and shipping costs were not included in your testimony at 106-107.
- d) Your testimony at 107 indicates that the proposed cost coverage of 170% reflects the high value inherent in the postal card. In establishing the proposed cost coverage, please identify what consideration was given to the lack of privacy a postal card message has.

RESPONSE:

a and b) Yes. In Dockets No. R90-1 and R94-1, the Postal Service proposed that postal card and post card subclass rates cover attributable costs and make reasonable contributions to institutional costs. See Docket No. R90-1, USPS-T-18 at pp. 24-25; Docket No. R94-1, USPS-T-11 at pp. 37 and 77.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

c) Given the time and data available, I determined to only consider the manufacturing costs of postal cards in developing the stamped card fee, as the manufacturing costs are readily available and unique to postal cards. See USPS LR-SSR-106.

d) Please see USPS-T-8, page 110, lines 2-5, where I discuss the privacy feature of postal cards above that of picture postcards.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-29. Please provide updated workpapers comparable to witness Larson's Docket No. R90-1, USPS-T-22, WP-7.

RESPONSE:

Please see Lyons WP D at page 6 and Lyons WP A at page 5.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-30. The second Mail Insurance Survey, at LR-SSR-109, Part II, p. 112, contains the statement, "[i]f they (the respondents) ask a suggested price tell them approximately \$.90 per \$100 in value or 1% of the value."

- a) On what basis was \$.90 chosen? Were indemnity analyses performed? Please explain.
- b) Were other prices considered? Why or why not?

RESPONSE:

- a) The \$.90 incremental fee for each \$100 value level was chosen because it merely extends the current incremental insured mail fee of \$.90 per \$100 in value recommended by the Commission in Docket No. R94-1. No indemnity analyses were performed to arrive at this fee.
- b) No other fees were considered. Since this proposal is an enhancement to an existing special service, the Postal Service determined that continuing the existing fee structure would be the most reasonable course of action.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-31. A comparison of your proposed indemnity fees for insurance at pages 45-48 of your testimony and of your proposed registry fees at p. 16 shows a difference of \$38.05 in the fees for \$5,000 of insurance.

- a) Do you believe that your proposed insurance fees are a reasonable alternative to the proposed registry fees for the same size and weight parcel?
- b) Explain why or why not.

RESPONSE:

a and b) That the proposed fees for insured mail exceed those for insured registry is not surprising. Indeed, the existing fee schedules for insured registry and insured mail already manifest this relationship in the over \$500 to \$600 bracket. For merchandise in that range, the insured mail fee already exceeds the insured registry fee. Despite this fee relationship, customers still make relatively substantial use of insured mail as compared to insured registry, compare Lyons WP D at pp. 4, 6, despite the availability insured registry at a lower fee, presumably because they perceive the service offered by insured mail to be superior to registry for their needs. Thus, it is expected that for higher value articles, there will be sufficient demand among customers for insured mail over insured registry, despite the fee relationship, and therefore the insured mail at proposed fees will, in my opinion, serve as a reasonable alternative to insure registry.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-32. What are the delivery standards for registered mail? Please provide the most recent available delivery statistics, including but not limited to average days to deliver, separately, by overnight, one-day, two-day, three-day, and four-day delivery area. Do any registry items typically require more than four days to deliver? Explain.

RESPONSE:

Postal Service data systems do not track registry delivery performance, and I know of no published service standard specifically for registered mail. Although the Postal Service's service commitments for First-Class Mail do not expressly exclude registered mail, it is my understanding that a reasonable service expectation (particularly for longer distances) for registered mail would be equivalent to the service commitment of the applicable First-Class Mail subclass plus one to two days. Applicable service commitments for First-Class Mail subclasses are attached. The need for additional time for registered mail is occasioned by the special accountability and handling procedures for registered mail, such as nighttime and weekend transportation restrictions. Customers may also perceive registry to be slower because registered mail recipients may wait longer to retrieve articles at the post office rather than asking for redelivery on another day.

UNITED STATES POSTAL SERVICE Service Commitments

(ZIP Coded mail only)

Mail Class	Over-night	2nd Day	3rd Day	4th Day	5th Day	6th Day	7th Day	8th Day	9th Day	10th Day	Notes
Express Mail											Directories available at your local post offices.
Priority Mail											Primarily a two-day product.
First-Class Mail											11 ounces or less.
Second Class											Surface preferential
Fourth Class											See local BMC Manager for Parcel Post Commitments.
Third Class											Mail entered at the Destination. P&DC has a 2 & 3 day commitment.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-33. Who are the major users of certified mail, i.e., types of businesses, individuals? Provide a percentage breakdown by type of user.

RESPONSE:

The certified mail survey conducted by Price Waterhouse (USPS LR-SSR-109) identified a number of likely certified mail users, including bankers; legal services firms; insurance agents, brokers, and services; courts; and police departments. Although this is a fair cross-section of businesses that are likely to use certified mail, it is not an exhaustive list. I am not aware of any other market research or other information identifying the characteristics or profiles of users of certified mail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-34. Who are the major users of return receipt mail, i.e., types of businesses, individuals? Provide a percentage breakdown by type of user.

RESPONSE:

No information exists on the major users of return receipts or any associated percentage breakdown by type of user.

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

OCA/USPS-T8-35. The following table includes information provided in your testimony at 106 and data provided for postal cards in USPS Cost Segments and Components reports, stamps and dispensers, cost segment 16.

FY	Govt. Postal Cards Mfg. Costs	USPS Cost Seg. & Components Rpt. Cost and Dispensers Cost Segment 16
1989	\$4,913,678	\$4,914,000
1990	\$4,361,220	\$4,361,000
1991	\$4,927,198	\$4,927,000
1992	\$3,774,841	\$3,775,000
1993	\$4,156,707	\$4,157,000
1994	\$3,077,873	\$3,078,000
1995	\$4,352,568	\$4,353,000

- a) Does a relationship exist between the cost data provided in your Table XXIX entitled Government Postal Cards Manufacturing Costs, Source USPS LR-SSR-106 at 6, and the FY 1989-95 data provided in cost segment 16, stamps and dispensers, the USPS Cost Segments and Components report? If a relationship exists, please identify the type of relationship.
- b) The following refers to part a of this interrogatory. If a relationship between the data exists, please explain why your testimony refers to a specially created library reference as opposed to a report readily available to the Postal Service and on file with the Postal Rate Commission.
- c) The following refers to exhibit USPS-T-5H at 49. Please confirm that cost segment 16, stamp and dispenser postal card costs are \$3,760,000. If you do not confirm, please explain.
- d) The following refers to exhibit USPS-T-5J at 15. For FY96 proposed rates (with mix), please confirm that postal card volume is 421,302,000. If you are unable to confirm, please explain.
- e) The following refers to parts c and d of this interrogatory. Please confirm that the unit manufacturing cost is \$0.008925, when USPS witness Patelunas' stamped card manufacturing costs and volumes are used ($\$3,760,000 / 421,302,000 = \0.008925).

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-35

Page 2

- f) The following refers to part e of this interrogatory. Assume that the unit manufacturing cost of a stamped card is \$0.008925. Please confirm that a proposed fee of \$0.02 yields a stamped card cost coverage of 224 percent ($\$0.02/\0.008925). If not, explain.
- g) The following refers to your testimony at 107. Please confirm that FY 1996 stamped card manufacturing costs are \$4,950,000. If you do not confirm, please explain.
- h) Please explain why the stamp and dispenser postal card costs identified in part c of this interrogatory differ from those identified in your testimony.
- i) Please take into account your responses to parts a - h of this interrogatory and your testimony at 106-07. Please confirm that your addition of postal card manufacturing costs results in double counting those costs. If you are unable to confirm, please explain.

RESPONSE:

- a) Yes. The relationship between Table XXIX and cost segment 16 data is that the figures in Table XXIX are rounded to the nearest thousand in cost segment 16.
- b) Library Reference SSR-106 is a more convenient source because it contains all data which are used in my analysis on page 107 of my testimony.
- c) Confirmed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-35
Page 2

- d) Confirmed.
- e) Confirmed.
- f) Confirmed.
- g) Confirmed.
- h) When preparing my testimony, I obtained year-to-date FY 96 manufacturing costs and units shipped. The resulting unit cost of 1.175 cents was derived by dividing the costs by the units shipped. See USPS-T-8, Table XXIX. This unit cost (1.175 cents) was multiplied by the FY 96 volume to arrive at the manufacturing cost. The proposed fee revenue was divided by the manufacturing cost to obtain the proposed cost coverage. See USPS-T-8, Table XXX.
- i) Not confirmed. The 1.175 cent unit cost for postal card manufacturing presented in my testimony is presented as the unique cost of postal cards.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

The Postal Service maintains that the DMCS should be restructured so that this unique cost would be borne solely by the users of this product via a special service fee for stamped cards, rather than by all users of the postal and postcard subclass. I must emphasize that I have not "double counted" any costs in my testimony.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-36. Your testimony at 103-04 indicates that,

given the associated 'bargain' with postal cards, the Postal Service recently decided to review current manufacturing costs of postal cards and analyze the value of service associated with the general design of a postal card and the convenient feature of pre-affixation of postage.

In your testimony at 104, you refer to USPS LR-SSR-106 at 7-13, and state, "The first article in Postal World describes the beneficial features of postal cards." Postal World also identifies prestamped postal card limitations.

- a) Please confirm that a postal card is 3 inches x 5 inches and is smaller than the maximum 4 inches x 6 inches allowed at the post card rate. If you are unable to confirm, please explain.
- b) Does the stamp or permit imprint on a postal card limit the space available to the card user? If you are unable to confirm, please explain.
- c) Does the postage on the return half of a double postal card limit the space available for preprinting a courtesy reply or Business Reply response? If you are unable to confirm, please explain.
- d) For the double card, please confirm that on the response half, "the perf/fold is located at the top, not the bottom as USPS itself prefers." USPS LR-SSR-106 at 7.
- e) Since postal cards bear "live" postage, please confirm that large volume users may need to add security measures to prevent postal card theft. If you are unable to confirm, please explain.
- f) Since postal cards bear "live" postage, please confirm that large volume users may need an accounting mechanism to allow for refunds due to postal card spoilage. If you are unable to confirm, please explain.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-36

Page 2

RESPONSE:

- a) Confirmed, except that the maximum width for post cards is 4 1/4 inches.
See DMCS section 222.12(b).

- b and c) Generally, no more so than a stamp, permit imprint or other postage indicium on a postcard.

- d) I can confirm that the "perf/fold" is located at the top of the response half of the double postal card; I am unable to confirm that the Postal Service prefers the location of the "perf/fold" at the bottom of the double postal card.

- e) I am unable to confirm because I am not aware of the security measures employed by large volume postal card users. However, I note that since postal cards are larger and bulkier than individual stamps, they may be harder to conceal in theft.

- f) I am unable to confirm because I am not aware of the procedures for refunds due to postal card spoilage employed by large volume postal card users.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-37. The following interrogatory refers to your testimony at 106-07.

- a) Please confirm that the postal card manufacturing costs identified in Table XXIX were attributed to postal cards in the years indicated. If you are unable to confirm, explain.
- b) Please confirm that in R94-1, the Commission recommended a cost coverage of 136.7 percent for the post card subclass. If you are unable to confirm, explain.
- c) Please explain why the attributed postal card manufacturing costs, which were marked up in R94-1 such that post cards had a 136.7 percent cost coverage, are now being required to assume an additional cost coverage of 170 percent.
- d) The following refers to OCA/USPS-T8-35(f) and part c of this interrogatory. Please explain why the attributed postal card manufacturing costs should be required to assume an additional cost coverage of 224 percent versus the 136.7 percent recommended in R94-1.

RESPONSE:

- a) Confirmed.
- b) Confirmed for the Postal and Post Cards subclass.
- c) Let me preface this response by emphasizing that we are discussing postal cards, and not the markup over the entire postal and post card subclass. There is no proposed increase to the postcard postage rate in this filing. The 170 percent after rates cost coverage applies only to

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

postal cards, and more specifically to the two-cent fee for stamped cards proposed in this filing. Please see my testimony, USPS-T-8, pages 107-09, for an explanation for the proposed 170 percent cost coverage for stamped cards.

- d) Please see my response to OCA/USPS-T8-35(f).

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-38. A comparison of the Postal Service's proposed indemnity fees for insurance at pages 45-48 of your testimony and of the insurance fees of competitors at pages 4-5 of LR-SSR-109 shows that the Postal Service's proposed fees are higher than all of the competitors, sometimes significantly higher (e.g., \$45.70 v. \$17.15 for RPS and UPS at the \$5,000 level).

At page 53 of your testimony, you state "so if the [insurance] fee is not consistent with the price the market can bear, customers will use the abundant postal and alternative delivery options which are currently available."

- a) Your statement seems incompatible with the actual fees you propose. Considering the "abundant" alternatives, please explain why customers would choose to use Postal Service insurance rather than the competitors.
- b) Please explain what you mean by "the price the market can bear."

RESPONSE:

- a) I do not understand the quoted statement to be inconsistent with the proposed fees. Considering the abundant alternatives for merchandise delivery, coupled with the fact that all present Postal Service insurance fees are higher than the competitors' fees listed in LR-SSR-109, current Postal Service insurance customers still choose to use the Postal Service, and the Postal Service expects that some of its customers will continue to choose postal insurance for higher value articles.
- b) By "the price the market can bear" I was referring to fees that customers would be willing to pay. As explained in my response to (a) above,

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

current Postal Service insurance customers are already willing to pay more for postal insurance than the competitors' offerings. The purpose of the insurance proposal was to respond to customer demand by providing a higher indemnity limit.

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

OCA/USPS-T8-40. Please refer to your testimony at page 87 concerning merchandise return receipt service.

- a) Please explain why it is necessary to "clearly exclude documents" from this service?
- b) Has the Postal Service encountered problems with this service or its customers? If so, please explain. If not, why do you need to "limit" this service?
- c) Can merchandise be sent by First-Class Mail under 12 ounces? If so, why are you proposing to prohibit someone using First Class Mail from using this service.
- d) At present, all of former third-class mail (now Standard) is eligible for this service. Your proposal excludes all Standard Mail except single piece from this service. Please explain why.
- e) Has the Postal Service considered publishing a definition of "merchandise"? Why or why not? Would this help alleviate any problems?

RESPONSE:

- a) The original intent of return receipt for merchandise service was to provide merchandise mailers with an option of purchasing a return receipt without another special service for parcels. It is necessary to exclude documents because they are not considered merchandise by the Postal Service.
- b) Basic return receipt for merchandise service is available for a fee \$1.20, whereas certified mail with return receipt is presently available for \$2.20. A mailer seeking to obtain proof of delivery of a mailpiece containing documents may be tempted to choose basic return receipt for

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

merchandise service to save \$1.00. This would be contrary to the DMCS, because return receipt for merchandise service was not intended as a substitute for certified mail for documents. The DMCS, however, gives the Postal Service no effective mechanism to prevent this practice, particularly since First-Class Mail is sealed against inspection.

- c) Merchandise weighing 11 ounces or less may be sent by First-Class Mail Letters and Sealed Parcels subclass. Mail within this subclass presents the greatest opportunity for misuse of return receipt for merchandise service because the contents are sealed against inspection and it more likely to contain documents or correspondence.
- d) The question is incorrect; the Postal Service is not proposing to limit return receipt for merchandise service to Single Piece Standard Mail. Rather, the Postal Service proposes that return receipt for merchandise service be available for Standard Mail subclasses for which there is a reasonable expectation of usage. These subclasses include Single Piece, Parcel Post, Bound Printed Matter, Special, and Library. See Request Attachment A p. 16.
- e) Yes, the Postal Service has published an interpretation of the term. Administration and eligibility would nonetheless be further simplified if the service is limited to specified subclasses.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-42. Please refer to your answer to OCA/USPS-T8-8.

- a) Please provide the calculations, with appropriate citations, to support the cost coverages from which you have "backed out the ancillary service revenues." Please include restricted delivery as a separate item, as well as return receipt.
- b) Please provide the similar cost coverages and calculations backing ancillary services from the cost coverages, costs and revenues shown in the Commission's Decisions in Docket Nos. R90-1 and R94-1. If data are missing or not available to perform these calculations, please specify what data are missing.

RESPONSE:

(a)

Certified Mail MC96-3

- 1. Certified Mail Revenue (\$000s) = 416,705 (USPS-T-1 WP D, page 1)
- 2. Certified Mail Cost (\$000s) = 285,880 (Exhibit USPS-T-5I, page 2)
- 3. Certified Mail Cost Coverage = 146% (1/2)

Return Receipts MC96-3

- 1. Return Receipt Revenue (\$000s) = 365,618 (USPS-T-1 WP D, page 2)
- 2. Return Receipt Cost (\$000s) = 214,021 (USPS-T-1 WP D, page 3)
- 3. Return Receipt Cost Coverage = 171% (1/2)

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-42 (continued)

b)

Certified Mail R90-1

1. Certified Mail Revenue (\$000s) = 188,404 (USPS-T-22 WP-6, page 1)
2. Certified Mail Cost (\$000s) = 288,586 (USPS-T-22 WP-6, page 2)
3. Certified Mail Cost Coverage = 65% (1/2)

Return Receipts R90-1

1. Return Receipt Revenue (\$000s) = 191,850 (USPS-T-22 WP-8, page 2)
2. Return Receipt Cost (\$000s) = 158,796 (USPS-T-22 WP-8, page 5)
3. Return Receipt Cost Coverage = 121% (1/2).

Certified Mail R94-1

1. Certified Mail Revenue (\$000s) = 293,220 (USPS-T-11 W/P VIII, page 5)
2. Certified Mail Cost (\$000s) = 305,826 (Exhibit USPS-11F, page 3)
3. Certified Mail Cost Coverage = 96% (1/2)

Return Receipts R94-1

1. Return Receipt Revenue (\$000s) = 236,805 (USPS-T-11 W/P VIII, p. 24)
2. Return Receipt Cost (\$000s) = 177,968 (Exhibit USPS-11F, page 7)
3. Return Receipt Cost Coverage = 133% (1/2)

Revised September 9, 1996

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-43. Please refer to your answer to OCA/USPS-T8-8, particularly Table 1 (Revised).

- a) Please confirm that the Postal Service's proposed fees for certified mail in the last two rate cases did not cover attributable costs.
- b) If you cannot confirm, please explain the correct interpretation of this table.
- c) If you do confirm, please explain why the Postal Service proposed fees that were substantially below attributable costs.

RESPONSE:

- a) Confirmed.
- b) Not applicable.
- c) I disagree with the interrogatory's characterization that the 96 percent certified mail cost coverage proposed in Docket No. R94-1 was "substantially below attributable costs." In Docket No. R94-1, the Postal Service's certified mail cost coverage calculations included ancillary service revenue but not the ancillary service costs.

In Docket No. R90-1, the certified mail attributable costs of \$288.6 million did not include ancillary service costs and therefore did not need to be further adjusted.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-44. Please provide a copy of the Methods Handbook which you refer to in answer to OCA/USPS-T8-23 as a Library Reference.

RESPONSE:

Please see USPS LR-SSR-138 and USPS LR-SSR-139.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-45. Please refer to your answer to OCA/USPS-T8-26. The "ninety-eight percent of regular return receipt customers" was a reference to non-merchandise return receipts. There you state:

Notwithstanding, that customers presently do not make relatively high use of this option [receiving the delivery address] does not imply that they will not receive better service, or services they do not need or want. The return receipt proposal would provide address confirmation to all return receipt customers and represents a value-added enhancement to the basic service. In any event, if given the option between a pure fee increase or a fee increase with a value-added service enhancement, I am confident that customers would choose the latter.

- a) It is not clear how one receives a service enhancement in this case: a customer at present can obtain an address on the return receipt for an additional fee of \$.40 but overwhelmingly chooses not to. Now the Postal Service proposes to provide the information, which the customer has chosen not to receive, and charge him the additional \$.40. Please try again to explain how this constitutes better service and not primarily a fee increase.
- b) Hasn't the customer already essentially voted against the "value-added service enhancement" by not purchasing it? Please explain.
- c) Please explain why a customer who is purchasing a "premium product," such as return receipt service, should be compelled to purchase an added service such as address correction.

RESPONSE:

- a) Consider that the current basic service option for return receipts is a signature and date. The proposal in this filing is for a basic service option for return receipts that includes a signature, date and address (if different).

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

Obviously, there is the enhancement of an address (if different) of the proposed basic return receipt service option over the current basic return receipt service option. Had the Postal Service proposed a fee increase for the current basic return receipt service option without any enhancement, this would be a pure fee increase. However, the Postal Service is not proposing a fee increase to the current return receipt service option of providing a signature, date, and address, with the exception of providing the address only if it differs from the address on the mailpiece. I remain confident that, if given the choice between a pure fee increase with no enhancement and a fee increase with an enhancement, customers would opt for the enhancement.

- b) Not at all. Not all customers may be aware of the current option of providing the address where the mailpiece was delivered.
- c) A basic service option which included the delivery address if different from the address on the mailpiece would provide better service to customers and would save both employees and customers time. Good address hygiene in turn also improves service, thereby enhancing customer satisfaction and improving postal operations.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-46. Could a "premium product" be defined as a product offered for a fee that provides ancillary benefits to a mailer when his piece of mail is entered into the mailstream in any of the First, Periodical or Standard classes? If not, please provide your definition of a "premium product."

RESPONSE:

Yes.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-47. Please refer to your response to OCA/USPS-T8-17. Please explain how you determined that providing the "address if different" is a sufficient enhancement to the service to justify the increase in fees that you propose.

RESPONSE:

Please see my response to OCA/USPS-T8-45 (a) and (c).

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-48. Please refer to your answer to OCA/USPS-T8-28. You answer in the affirmative. However, the citations given in your response do not make specific reference to the selling, shipping and manufacturing costs of postal cards. Please provide citations specific to these costs.

RESPONSE:

It is my understanding that in Docket Nos. R90-1 and R94-1, data on the selling, shipping, and manufacturing costs of postal cards were included in the cost segment and component data presented by witness Barker (see Docket No. R90-1, USPS-T-13, Exhibit USPS-13A at pages 17 and 67, and Docket No. R94-1, USPS-T-4, Exhibit USPS-4A at pages 19 and 50). It is my further understanding that in the above-referenced exhibits, manufacturing costs of postal cards are presented in cost segment 16, "stamps and dispensers." Cost segment 3, "Window Service" ("Window Service Post Office Box" in Docket No. R90-1) includes window service selling costs associated with postal cards. Shipping costs associated with postal cards are included in the costs of other accountable paper and are treated as institutional.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-48. Please refer to your answer to OCA/USPS-T8-28. You answer in the affirmative. However, the citations given in your response do not make specific reference to the selling, shipping and manufacturing costs of postal cards. Please provide citations specific to these costs.

RESPONSE:

It is my understanding that in Docket Nos. R90-1 and R94-1, data on the selling, shipping, and manufacturing costs of postal cards were included in the cost segment and component data presented by witness Barker (see Docket No. R90-1, USPS-T-13, Exhibit USPS-13A at pages 17 and 67, and Docket No. R94-1, USPS-T-4, Exhibit USPS-4A at pages 19 and 50). It is my further understanding that in the above-referenced exhibits, manufacturing costs of postal cards are presented in cost segment 16, "stamps and dispensers." Cost segment 3, "Window Service" ("Window Service Post Office Box" in Docket No. R90-1) includes window service selling costs associated with postal cards. Shipping costs associated with postal cards are included in the costs of other accountable paper and are treated as institutional.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-49. The following interrogatories relate to the analysis of the pricing criteria in your testimony at pages 108-113.

- a) USPS-T-5C at page 10 (Base Year Cost and Revenue Analysis) shows the per-piece revenue for postal cards as \$0.197 and the per-piece cost as \$0.075. Please confirm that these produce an implicit cost coverage of 263% for postal cards ($19.7/7.5$). If you are unable to confirm, please explain why.
- b) Please confirm that the GPO manufacturing costs for postal cards shown at page 106 of your testimony (specifically \$4,352,568 for FY 1995) are a subset of the total attributable costs for postal cards shown at Exhibit USPS-T-5C at page 1. If you are unable to confirm, please explain why.
- c) Please confirm that the FY 1995 implicit cost coverage for postal cards without the proposed 2-cent stamped card fee would be 309 percent ($19.7/(7.5-1.175)$). If you are unable to confirm please explain.
- d) Were you aware of the facts contained in a-c above when you proposed the new special service of stamped cards and its attendant 2-cent fee? If so, please explain how it was taken into account when you considered the pricing criteria of the Act.
- e) If you were not previously aware of the above, please explain how you would now take it into account in formulating a proposal for a fee for stamped cards.
- f) If you were not previously aware of the above and your proposal for stamped cards would remain the same as in the Request, please explain how you would change your testimony regarding the pricing criteria and provide errata.

RESPONSE:

- a) Confirmed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-49
Page 2 of 2

- b) Exhibit USPS-T-5C at page 1 does not present total attributable costs for postal cards separately. Attributable costs are presented only for First-Class Mail as a whole. Nevertheless, the total attributable cost for First-Class Mail does include GPO manufacturing costs for postal cards.
- c) Not confirmed. It is incorrect to subtract the per piece manufacturing cost of 1.175 cents in this scenario. This per piece manufacturing cost is incurred whether or not the proposed two-cent fee is implemented.
- d) While I did not consider the specific facts referenced in subparts a-c of this interrogatory, I was aware that the manufacturing costs of postal cards were included in the Postal and Post Card subclass when I developed my proposal. Please see my testimony, USPS-T-8, pages 108-113, for my discussion of the application of the pricing criteria to the stamped card proposal.
- e) and f) It is not now necessary to consider the issues raised in subparts a-c because they refer to the rate for postal cards, as opposed to the specific stamped card fee the Postal Service proposes.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-50. Would your proposal for a new special service, stamped cards, eliminate the rate category Postal Cards from the Postal and Post Cards Subclass? Please explain why or why not.

RESPONSE:

No. The product name "stamped cards" would replace the product name "postal cards" in the Postal and Post Cards subclass. The introduction of special services for particular rate categories does not necessarily eliminate the rate categories to which they may be combined. The special service for stamped envelopes has not eliminated the applicable rate categories reflected in the various postage denominations.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-51. You state at page 110 of your testimony that postal cards currently are not directly bearing their manufacturing costs. Please confirm that the rate postal cards pay does cover their attributable manufacturing costs. If you are unable to confirm, please explain why.

RESPONSE:

I stated in my testimony that postal cards are not directly bearing their manufacturing costs when compared to private postcards. See USPS-T-8, page 110, lines 7-9. Currently, all Postal and Post Card subclass users are covering the manufacturing costs of postal cards. The Postal Service proposes that these costs be treated separately through the stamped card fee. This will enable postal card users to directly bear the manufacturing costs for the stamped paper provided.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-52. What percent of postal cards is presorted?

RESPONSE:

The Postal Service has no information responsive to this request. I note, however, that postal cards are available only for the single-piece, nonpresorted postcard rate.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T8-53. In answer to interrogatory OCA/USPS-T5-11 witness Patelunas states: "A remedy to the misidentification problem is proposed in this case: simply treat cards as cards without the postal-private distinction."

- a) Is this what you are proposing? Please explain.
- b) If you are not proposing to eliminate all distinctions between postal and private cards, please indicate which Postal Service witness does and provide an appropriate citation.

RESPONSE:

- a) While I am not directly proposing to treat cards as cards without the postal-private distinction, my proposal to establish a special service fee for stamped (postal) cards would provide special treatment for stamped card manufacturing costs, which is one cost distinction between post and postal cards. Thus, one possible outcome of my proposal would be to combine the remaining post and postal card costs, and accordingly, for purposes of the post and postal card rate, simply treat all cards as cards.
- b. No other witness is making a proposal in this case concerning postal cards.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS PATELUNAS

OCA/USPS-T5-25. The following interrogatory refers to your response to OCA/USPS-T5-11.

- a) Exhibit USPS-T-5C at 10 shows a per piece postal card cost of \$0.075. Given that the current post card mailing rate is \$0.20, please confirm that the implicit postal card cost coverage is 266.7 percent ($\$0.20/\0.075). If you are unable to confirm, please explain.
- b) Assume that the Commission approves the additional \$0.02 postal card fee. Please confirm that the implicit postal card cost coverage excluding the postal card fee of \$0.02 is 316.2 percent ($\$0.20/(\$0.075-\$0.01175)$). See also USPS-T-8 at 107. If you are unable to confirm, please explain.
- c) Refer to exhibit USPS-T-5C at 10. Please confirm that the implicit single post card cost coverage is 126.5 percent ($\$0.205/\0.162). If you are unable to confirm, please explain.
- d) Please confirm that in Docket No. R94-1, the Commission recommended a postal card subclass cost coverage of 136.7 percent. PRC Op. R94-1. para. 5103. If you are unable to confirm, please explain.
- e) Refer to exhibit USPS-T-5C at 10. Given that the implicit cost coverage for single post cards is 126.5 percent ($\$0.205/\0.162) as opposed to 262.7 percent ($\$0.197/\0.075) for postal cards, please explain the rationale for leaving single post cards cost coverage below the Commission's R94-1 recommendation, while increasing that of postal cards.

RESPONSE:

- a) Not confirmed. Using the revenue per piece of 19.7 cents from Exhibit USPS-T-5C at 10, the cost coverage is 263 percent.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS PATELUNAS

OCA/USPS-T5-25
Page 2 of 2

- b) Not confirmed. If the Commission approved the stamped card fee, there would be a new stamped card cost coverage of 170 percent (see Exhibit USPS-T-1C).
- c) Confirmed.
- d) Not confirmed. The Commission recommended a 136.7 percent cost coverage for the postal card and postcard subclass in Docket No. R94-1.
- e) I note that in subpart a) of this interrogatory your "implicit" cost coverage for postal cards is 267 percent, yet in this subpart your "implicit" cost coverage changes to 263 percent. Nevertheless, the proposal in this filing is for a new special service, namely a stamped card fee and the resulting proposed revenues and costs are not intended to be a part of the postal card revenues and costs.

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

OCA/USPS-T1-32. In MC95-1, Postal Service witness McBride states, USPS-T-1 at 17,

The effects of the imbalance in institutional cost burden between the efficient and less efficient components of the subclasses are exacerbated by the fact that efficient mail tends to be more price sensitive. This greater price sensitivity stems from the fact that efficient mailers in all classes tend to have more non-postal options open to them in the market place.

a. Assume postal cards are more automation compatible than post cards and thus more efficiently processed by the Postal Service, please explain why increasing the effective postal card rate from \$0.20 to \$0.22 would not result in an imbalance in the institutional cost burden between the efficient and less efficient cost components.

b. Please explain why charging the \$0.02 fee for a postal card would not drive postal customers to other alternatives such as post cards which cost the Postal Service more to process.

RESPONSE:

a) Even assuming that postal cards are more automation compatible than postcards, the proposal is not to increase the postal card rate, but rather to establish a new special service fee for postal cards. Therefore, I cannot respond to the cost imbalance you assert with respect to a rate increase.

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

b) I do not believe that customers would be driven to alternatives. The alternatives to postal cards are post cards with postage indicia printed or affixed thereon. Even if customers must pay a fee of \$0.02 for stamped cards, that price is a relative bargain, well below the market price of any private postcard, which can be purchased for several multiples of the proposed fee--as much as \$0.45 when sold in bulk . See USPS LR-SSR-106 at p. 5. In addition, through use of stamped cards, customers avoid all of the costs associated with separately obtaining and applying postage through alternative means, such as meter rental and/or resetting fees, permit fees and permit indicia printing fees, and/or costs associated with obtaining stamps. Also, the cost of affixing postage is avoided through use of a stamped card. For these reasons, I do not believe customers would be driven to alternatives.

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

OCA/USPS-T1-33. In the Postal Service's pamphlet "Max It," Postmaster General Runyon is quoted as saying, "If it costs less for the Postal Service to process and deliver, it should cost less for you to mail." See attachment. Given Postmaster General Runyon's statement, please explain why the Postal Service is raising the effective mailing rate for postal cards, which are less costly to process and deliver, as opposed to post cards, which are more costly to process and deliver.

RESPONSE:

The stamped card fee is completely unrelated to processing and delivery costs.

The special service *fee* for stamped cards is intended to recover manufacturing costs directly from postal card users, rather than from all postal and post card subclass users. The Postal Service has simply not had occasion to determine whether separate *rates* for post and postal cards would be appropriate or warranted.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-1. [a] With respect to registered mail, where in the postal regulations does it require a mailer to declare the full value of the article? [b] What method does the Postal Service have to check or ascertain the actual value of an article being mailed? [c] What penalty does a mailer who does not declare the full value of the article potentially suffer if an article is mailed as registered mail without insurance?

RESPONSE:

a) See Domestic Mail Manual Transition Book 911.25; Domestic Mail Manual

S911.2.0; Domestic Mail Manual R900.15.0.

b) See Domestic Mail Manual S911.2.1.

c) See Domestic Mail Manual S911.2.1; an audit and/or false claims, program fraud, criminal, and/or revenue deficiency action could ensue.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-2. Your testimony on page 25 appears to indicate that the delivery time for registered mail is slower than for non-registered mail. [a] Please explain and clarify. [b] Can Priority Mail be sent registered? [c] What are the delivery standards for First-Class Mail and Priority Mail that is registered?

RESPONSE:

- a) Please see my response to OCA/USPS-T8-32.
- b) In that case, it would be heavy-weight registered mail.
- c) Please see my response to (a).

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-3. [a] Confirm the proposed fee for a \$5000 insured parcel is \$45.70 and for a \$5000 registered letter is \$7.65 or \$38.05 less. [b] Confirm that insurance may be obtained on standard mail [B], First-Class Mail, and Priority Mail and that registration may be obtained on First-Class Mail and Priority Mail. [c] Other than 69 and 70-pound standard mail parcels being sent to the 5th zone intra-BMC, are there any instances where a \$5000 insured package would be cheaper than a registered package. [d] What percentage of all insured packages fall into this particular weight, distance, and intra-BMC category? [e] Confirm that registered mail [being Priority Mail or First-Class Mail] would receive better delivery service than an insured package being sent standard mail. [f] Confirm that the security provided to a registered article will be greater than an insured article. [g] Clarify any nonconfirming responses. [h] Why would any mailer want to use the higher insurance rates [as opposed to registering the mail]?

RESPONSE:

- a) Confirmed for insured mail.
- b) Not confirmed. Some Standard Mail (A) may be insured.
- c-d) I do not understand the question. Rates of postage are calculated separately from insurance or registry fees, and registry and insurance fees do not vary with weight.
- e) I have not studied this, so I am unable to provide a response.
- f) Confirmed.
- g) Not applicable.
- h) Please see my responses to OCA/USPS-T8-27 and 31.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-4. [a] Can Express Mail be registered? [b] If not, has this been considered? [c] Why is the mailer of a high value article for which expedited delivery is desired required to pay a "double-whammy" to achieve this - Express Mail over Priority Mail and insurance fee over registry fee?

RESPONSE:

- a) No.
- b) Please see my response to OCA/USPS-T8-19.
- c) There is no "double whammy;" the mailer is merely paying for expeditious handling and insurance.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-5. You indicate that the use of \$100 increments for insurance are simple to understand. [a] Wouldn't \$1000 increments at the higher values, such as are utilized in the registry rates, be equally simple? [b] Were any other increments other than \$100 considered? If not, why not; if so, why weren't they adopted?

RESPONSE:

- a) It could be just as simple as \$1 increments.
- b) No. There was no occasion to consider them.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-6. On page 56 of your testimony, you indicate that \$500 would more than cover the average claim for Express Mail document reconstruction. [a] What was the maximum valid claim made in FY 1995? [b] Was any consideration given to other maximum limits as well as the ability to purchase higher values? [c] If not, why not; if so, why weren't they adopted?

RESPONSE:

- a) Only the average paid claim for Express Mail document reconstruction is tracked. See USPS LR-SSR-109 at 2.
- b) No.
- c) There was no occasion to consider alternatives.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-7. On page 73 you indicate that the \$1.50 certified mail fee coupled with the \$1.50 return receipt fee would be simple and easy to remember.. [a] Would it be even easier to remember if the certified mail and return receipt fees were each 34 cents making a one ounce certified mail - return receipt letter cost an even \$1.00? [b] If not, why not?

RESPONSE:

- a) No more so than a penny or \$100.00.
- b) I have not studied this topic.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-8. On page 87 of your testimony, you indicate the rationale for limiting the return receipt for merchandise to Priority Mail and Standard Mail. [a] Confirm that the effect of this would be to prohibit its use for articles weighing 11 ounces or less for which the expedited handling of First-Class Mail is desired for the merchandise without paying the extra cost for Priority Mail. [b] Confirm that for articles weighing 11 ounces or less, the mailer must determine whether to deliberately slow up the mail by sending it Standard Mail [even though the cost would be the same as First-Class Mail] or pay the extra postage to send it Priority Mail. Explain any nonconfirming response.

RESPONSE:

- a) Confirmed, but as your question admits, this service would still be available to mailpieces weighing 11 ounces or less.
- b) Not confirmed. The choice you posit would not necessarily be available, such as where the mailing contains merchandise but is not eligible for one of the applicable Standard Mail subclasses.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-9. With respect to the proposal to charge a 2-cent fee [in addition to postage] for stamped cards, [a] will this apply to all stamped cards? [b] Does the definition of stamped cards include any card which is prepared and sold by the Postal Service which has a stamp imprinted on it and which is valid for mailing? If not, provide any exceptions.

RESPONSE:

- a) Yes, by definition.
- b) Yes, implicitly, but pricing of certain philatelic card products may be different.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-T8-11. With respect to the elimination of Special Delivery service, [a] confirm that in all respects Express Mail will receive equal or better delivery service than Special Delivery will. [b] Specify any instances, conditions, days of the week or holidays, types of offices, type of delivery or location of the addressee, etc., if any, where Special Delivery mail would receive better delivery service than an Express Mail article. For both parts of this interrogatory, provide responses assuming [a] both articles arrived at the area mail processing center to the delivery office at the same time, [b] both articles are available for dispatch from the area mail processing center to the delivery office at the same time, and [c] both articles arrive at the delivery office at the same time.

RESPONSE:

- a) Generally yes. See a/so USPS LR-SSR-137 (Docket No. R94-1, Tr. 7A-3354).
- b) I know of no particular instances.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
REDIRECTED FROM WITNESS LYONS

DBP/USPS-T1-11 [a] Advise any actions that have been taken by the Postal Service since January 4, 1991 to improve the quality of the return receipt service. [b] Has the Postal Service conducted any studies to determine the quality of the return receipt service and/or the extent to which it complies with the DMM and other requirements? If not, why not? [c] Provide copies of any directives, memoranda, regulations, surveys, etc. related to the quality of the return receipt service.

RESPONSE:

- a) Please see my response to OCA/USPS-T8-6.
- b) No. It has not been needed.
- c) See Domestic Mail Manual Transition Book 913.73, 932.412.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-1. Please refer to pages 26-58 of your testimony. With respect to the Postal Service's offering of insurance for mail and merchandise sent via domestic Express Mail:

- a) State the authority for the Postal Service to offer such an insurance product;
- b) List all licenses held by the Postal Service for authorization to sell such insurance;
- c) State the insurance company or companies underwriting such coverage;
- d) List all states in which each such insurance company is authorized to write such insurance; and
- e) Provide a copy of all insurance policies which spell out the terms and conditions of the Postal Service's coverage for such insurance.

RESPONSE:

- a) The authority for the Postal Service to offer insurance is federal law.
- b) None.
- c) None.
- d and e) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-2. Please provide the complete underwriting analysis which supports the Postal Service's current and proposed insurance coverages and rates by class and subclass of mail, and by incremental insured values.

RESPONSE:

Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-3. Please provide claim loss data for each of the last five years by:

- a) Class and subclass of mail;
- b) Type of loss or damage, with the number of claims and total dollar value for each type; and
- c) Claim liability by value distribution by class and subclass for:
 - (1) \$0.00 to \$50.
 - (2) \$50.01 to \$100;
 - (3) \$100.00 to \$200;
 - (4) \$200.01 to \$300; and
 - (5) continuing in \$100 increments to the maximum value covered.

RESPONSE:

- a) The Postal Service does not track claims data by class or subclass.
- b) See response to (a). Data are available, however, by type as reported in USPS LR-SSR-109 at pp. 2-3 and USPS LR-SSR-109A.
- c) See response to (a). Data are available by value increment. See USPS LR-SSR-109 at 3 and USPS LR-SSR-109A.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

USP/USPS-T8-4. Please provide the number of claims and total value of loss for each of the last five years for claims resulting from:

- a) No record if an insured mailpiece is lost or stolen while the carrier is on the street;
- b) The carrier neglecting to secure a signature for an insured piece;
- c) No record if an insured mailpiece is lost or stolen prior to being taken out for delivery.

RESPONSE:

- a-c) The Postal Service does not collect or maintain this type of information.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-5. On pages 28-29 of your testimony, you state that "the Postal Service is exploring the feasibility of an operational change to enhance the security of insured mail. Specifically, the Postal Service is investigating the feasibility of having clerks at delivery offices identify and make a record of insured pieces to be delivered by carriers before they leave for their routes." Please state:

- a) The estimated cost of this operational change;
- b) Whether the entirety of this cost will be attributed to the individual classes and subclasses of mail for which insurance is obtained;
- c) Whether this cost been taken into account in the proposed rates; and
- d) If the answer to subpart (c) of this interrogatory is in the negative, describe fully and in detail how this cost will impact the proposed cost coverage for insured mail.

RESPONSE:

- a-d) My testimony makes clear that the operational change to improve security of insured mail is only a proposal under consideration. No final procedures have been finalized. Consequently, I am unable to determine the effect on costs, if any, until such time as a proposal is adopted.
- Moreover, the operational change, if adopted, would not be implemented during the TY; rather, if a change in handling procedures for insured mail is approved, the cost effects could be included in the next rate proceeding.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6. Please refer to pages 19-22 in LR-SSR-109, Attachment 1 to the same library reference.

- a) State whether the input data in Attachment 1 results from the insurance survey provided on pages 19-22 of LR-SSR-109;
- b) For each column of data in Attachment 1, indicate to which survey question it corresponds; and
- c) For each column of data in Attachment 1, explain fully and in detail how to interpret the data. For example, on page 26 of LR-SSR-109, the first input column 2 entitled 1992 Total Sales is "3". What does that mean?

RESPONSE:

- a) The input data in Attachment 1 result from the insurance survey provided on pages 19-22 of LR-SSR-109.

- b)

<u>Column Name</u>	<u>Corresponding Question Number</u>
Type of Business	1
1992 Total Sales	2
1992 \$ Spent USPS	3 (the Postal Service)
1992 \$ Spent Other	3 (All Other Carriers)
1992 Volume USPS	4 (the Postal Service)
1992 Volume Other	4 (All Other Carriers)
%Parcels	5 (Businesses)
%Parcels House	5 (Households)
 USPS Products Used:	
USEEXP	6 (Express Mail)
USEPR1	6 (Priority Mail)
USE1	6 (First Class)
USE3	6 (Third Class)
USEPP	6 (Parcel Post)
USEBPM	6 (Bound Printed Matter)
USESRL	6 (Special Fourth Class)
USELR	6 (Library Rate)

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6

Page 2 of 12

b) (continued)

<u>Column Name</u>	<u>Corresponding Question Number</u>
What % USPS Parcels Have?:	
%PARINS	7 (Insurance)
%PARREG	7 (Registered Mail)
%PARR&I	7 (Registered Mail & Insurance)
%PARCOD	7 (Collect-on-Delivery (COD))
Typical Min. Value Range USPS	8
Typical Max. Value Range USPS	9
Typical Max. Value Other	10
% Parcels w/Other Shippers:	
\$700	11
\$800	11
\$900	11
\$1-1.5K	11
\$1.5-2K	11
Add'l Parcels w/USPS over \$700:	
Yes	12
No	12
If Yes, How Many?	12
If No, Go to End	12

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6

Page 3 of 12

b) (continued)

<u>Column Name</u>	<u>Corresponding Question Number</u>
USPS Products Used More Frequently if \$100 Insurance in Base Price:	
Priority	13 (Priority Mail)
1 st	13 (First Class)
3 rd	13 (Third Class)
PP	13 (Parcel Post)
BPM	13 (Bound Printed Matter)
SR	13 (Special Fourth Class)
LR	13 (Library Rate)
Additional Annual Volume if \$100 Insurance in Base Price:	
ADDPR1	14 (Priority Mail)
ADD1	14 (First Class)
ADD3	14 (Third Class)
ADDP	14 (Parcel Post)
ADDBPM	14 (Bound Printed Matter)
ADDSR	14 (Special Fourth Class)
ADDLR	14 (Library Rate)
Comments	Comments Section at end
If No Comments	12

c) Question 1 asked for the type of business. If the respondent chose one of the provided types of businesses, that business was recorded. If the respondent chose "other," other was recorded with the type of business

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6

Page 4 of 12

c) (continued)

in parentheses. Question 2 asked for an estimate of the dollar amount of total sales in 1992. If the respondent checked \$0-\$500,000, the number 1 was entered. If the respondent checked \$500,000-\$1,000,000, the number 2 was entered. If the respondent checked \$1,000,000-\$10,000,000, the number 3 was entered. If the respondent checked \$10,000,000-\$20,000,000, the number 4 was entered. If the respondent checked \$20,000,000-\$30,000,000, the number 5 was entered. If over \$30,000,000 was checked, the number 6 was entered.

Question 3 asked for an estimate of the dollar amount spent in 1992 on postage for parcels with the Postal Service and all other carriers. Under the Postal Service column, if \$0-\$5,000 was checked, the number 1 was entered; if \$5,000-\$10,000 was checked, the number 2 was entered; if \$10,000-\$25,000 was checked, the number 3 was entered; if \$25,000-\$50,000 was checked, the number 4 was entered; if \$50,000-\$75,000 was checked, the number 5 was entered; if \$75,000-\$100,000 was

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6
Page 5 of 12

c) (continued)

checked, the number 6 was entered; and if over \$100,000 was checked, the number 7 was entered. Under the All Other Carriers column, if \$0-\$5,000 was checked, the number 1 was entered; if \$5,000-\$10,000 was checked, the number 2 was entered; if \$10,000-\$15,000 was checked, the number 3 was entered; if \$25,000-\$50,000 was checked, the number 4 was entered; if \$50,000-\$75,000 was checked, the number 5 was entered; if \$75,000-\$100,000 was checked, the number 6 was entered; and if over \$100,000 was checked, the number 7 was entered.

Question 4 asked for an estimate of 1992 parcel volume mailed with the Postal Service and all other carriers. Under the Postal Service column, if 0-500 was checked, the number 1 was entered; if 500-1,000 was checked, the number 2 was entered; if 1,000-5,000 was checked, the number 3 was entered; if 5,000-10,000 was checked, the number 4 was entered; if 10,000-25,000 was checked, the number 5 was entered; if 25,000-50,000 was checked, the number 6 was entered; if 50,000-75,000 was checked, the number 7 was entered; if 75,000-100,000 was

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6
Page 6 of 12

c) (continued)

checked, the number 8 was entered; and if over 100,000 was checked, the number 9 was entered. Under the All Other Carriers column, if 0-500 was checked, the number 1 was entered; if 500-1,000 was checked, the number 2 was entered; if 1,000-5,000 was checked, the number 3 was entered; if 5,000-10,000 was checked, the number 4 was entered; if 10,000-25,000 was checked, the number 5 was entered; if 25,000-50,000 was checked, the number 6 was entered; if 50,000-75,000 was checked, the number 7 was entered; if 75,000-100,000 was checked, the number 8 was entered; and if over 100,000 was checked, the number 9 was entered.

Question 5 asked for the percentage of parcels mailed to businesses and households. The percentage of parcels sent to businesses was entered under the % Parcels column and the percentage of parcels sent to households was entered under the % Parcels House column.

Question 6 asked which Postal Service products were used and to check all that applied from a list of certain Postal Service products. If Express

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6
Page 7 of 12

c) (continued)

Mail was checked, an "X" was entered in the USEEXP column; if Priority Mail was checked, an "X" was entered in the USEPRI column; if First Class was checked, an "X" was entered in the USE1 column; if Third Class was checked, an "X" was entered in the USE3 column; if Parcel Post was checked, an "X" was entered in the USEPP column; if Bound Printed Matter was checked, an "X" was entered in the USEBPM column; If Special Rate was checked, an "X" was entered in the USESR column; and if Library Rate was checked, an "X" was entered in the USELR column.

Question 7 asked for the percentage of parcels mailed with the Postal Service that had certain special services attached. If the respondent provided a percentage for insurance, that percentage was entered under the %PARINS column; if the respondent provided a percentage for registered mail, that percentage was entered under the %PARREG column; if the respondent provided a percentage for registered mail and insurance, that percentage was entered under the %PARR&I column;

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6

Page 8 of 12

c) (continued)

and if the respondent provided percentage for COD, that percentage was entered under the %PARCOD column.

Question 8 asked for the typical minimum value of insurance purchased with the Postal Service. If the respondent checked \$0.01 to \$50, the number 1 was entered in the MINUSPSINS column; if the respondent checked \$50 to \$100, the number 2 was entered in the MINUSPSINS column; if the respondent checked \$100 to \$200, the number 3 was entered in the MINUSPSINS column; if the respondent checked \$200 to \$300, the number 4 was entered in the MINUSPSINS column; if the respondent checked \$300 to \$400, the number 5 was entered in the MINUSPSINS column; if the respondent checked \$400 to \$500, the number 6 was entered in the MINUSPSINS column; and if the respondent checked \$500 to \$600, the number 7 was entered in the MINUSPSINS column.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6

Page 9 of 12

c) (continued)

Question 9 asked for the typical maximum value of insurance purchased with the Postal Service. If the respondent checked \$0.01 to \$50, the number 1 was entered in the MAXUSPSINS column; if the respondent the checked \$50 to \$100, the number 2 was entered in the MAXUSPSINS column; if the respondent checked \$100 to \$200, the number 3 was entered in the MAXUSPSINS column; if the respondent checked \$200 to \$300, the number 4 was entered in the MAXUSPSINS column; if the respondent checked \$300 to \$400, the number 5 was entered in the MAXUSPSINS column; if the respondent checked \$400 to \$500, the number 6 was entered in the MAXUSPSINS column; and if the respondent checked \$500 to \$600, the number 7 was entered in the MAXUSPSINS column.

Question 10 asked for the typical maximum value of insurance purchased with carriers other than the Postal Service. The number written down was what was entered in the MAXOTHINS column.

Question 11 asked what percentage of parcels insured by other shippers had a value of \$700, \$800, \$900, \$1000 - \$1,500, or \$1,500 - \$2,000. If

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6

Page 10 of 12

c) (continued)

the respondent provided a percentage for \$700, that percentage was entered in the \$700 column; if the respondent provided a percentage for \$800, that percentage was entered in the \$800 column; if the respondent provided a percentage for \$900, that percentage was entered in the \$900 column; if the respondent provided a percentage for \$1,000 to \$1,500, that percentage was entered in the \$1 - \$1.5K column; and if the respondent provided a percentage for \$1,500 to \$2,000, that percentage was entered in the \$1.5 - 2K column.

Question 12 asked if additional parcels would be mailed with the Postal Service if insurance was offered for articles valued at \$700 and over. If the respondent checked yes, an "X" was entered in the Add'l Parcels w/USPS over \$700 "Yes" column. If the respondent checked no, an "X" was entered in the Ad'l Parcels w/USPS over \$700 "No" column.

Question 12 further asked the respondent, if their answer to the first part was in the affirmative, how many parcels. The number of parcels was entered in the "If Yes, How Many" column. If the respondent's answer to the first part of Question 12 was in the negative, the respondent was

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6
Page 11 of 12

c) (continued)

asked why not. An "X" was entered in the "If No, Go To End" column and any comments were entered in the "If No, Comments" column.

Question 13 asked which Postal Service products would be used more frequently if they were priced to include \$100 insurance from a list of given products. If the respondent checked Priority Mail, an "X" was entered in the "Priority" column; if the respondent checked First Class, an "X" was entered in the 1st column; if the respondent checked Third Class, an "X" was entered in the 3rd column; if the respondent checked Parcel Post, an "X" was entered in the PP column; if the respondent checked Bound Printed Matter, an "X" was entered in the BPM column; if the respondent checked Special Rate, an "X" was entered in the SR column; and if the respondent checked Library Rate, an "X" was entered in the LR column.

Question 14 asked for an estimate of the additional volume if the products in Question 13 were priced to include insurance. If the respondent provided a number for Priority Mail, that number was

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-6

Page 12 of 12

c) (continued)

recorded in the ADDPRI column; if the respondent provided a number for First Class, that number was recorded in the ADD1 column; if the respondent provided a number for Third Class, that number was recorded in the ADD3 column; if the respondent provided a number for Parcel Post, that number was recorded in the ADDPP column; if the respondent provided a number for Bound Printed Matter, that number was recorded in the ADDBPM column; if the respondent provided a number for Special Rate, that number was recorded in the ADDSR column; and if the respondent provided a number for Library Rate, that number was recorded in the ADDLR column.

The last section of the questionnaire asked for comments. If the respondent provided comments, these comments were entered in the Comments column.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-7. Please refer to page 34 of your testimony, on which you indicate that 48% of the survey participants responded "yes" when asked if they would mail additional parcels with the Postal Service if the indemnity level was raised above \$600.

- a) Provide the insurance rates given to these respondents; and
- b) State exactly how many more parcels these respondents estimated they would mail with the Postal Service.

RESPONSE:

- a) No fees were provided to those customers surveyed.
- b) Please see USPS LR-SSR-109, page 95.

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-8. Please refer to page 54 of LR-SSR-109, on which there is a column entitled "(Annual) If Yes, How Many?"

- a) State whether this corresponds to the second part of Question No. 12 from the insurance survey;
- b) If your answer to subpart (a) of this interrogatory is yes, state the percentage of total additional packages that would be mailed with the Postal Service that is represented by line 24 (a Mail Order/Telemarketing business that estimates it would mail an additional 1,000,000 packages); and
- c) If the respondent referred to in subpart (b) of this interrogatory were to change its mind or go out of business, explain: (1) the impact that would have on the financial viability or desirability of the Postal Service's proposal to increase the indemnity level; (2) the resultant change in costs for the Postal Service; and (3) the resultant change in revenues for the Postal Service.

RESPONSE:

- a) Yes. Please see my response to UPS/USPS-T8-6(c).
- b) See UPS/USPS-T8-6(c). The percentage of total additional packages represented by the business on line 24 is 98.8 percent.
- c) The desirability or financial viability of the proposal to increase the insurance indemnity limit would not be diminished if the respondent referred to in subpart (b) of this interrogatory was not able to produce the estimated additional volume. The market research was intended to

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T8-8

Page 2 of 2

c) (continued)

determine interest from a portion of our known parcel customers, and the results of the research confirmed sufficient customer demand to support a moderate indemnity limit increase.

1 PRESIDING OFFICER QUICK: Does any participant
2 have additional written cross-examination for Witness
3 Needham.

4 MR. POPKIN: Yes, I have a question regarding the
5 corrections.

6 PRESIDING OFFICER QUICK: Mr. Popkin?

7 MR. POPKIN: Do they include the correction I was
8 given this morning regarding the response to my
9 Interrogatory T1-3?

10 MR. ALVERNO: I don't believe that has been
11 designated.

12 MR. POPKIN: Okay.

13 PRESIDING OFFICER QUICK: The Office of Consumer
14 Advocate submitted a timely request for oral cross-
15 examination of Witness Needham. Additionally, yesterday it
16 was agreed by counsel that Ms. Needham would respond orally
17 to questions from Mr. Popkin in lieu of providing written
18 responses to followup interrogatories filed by Mr. Popkin
19 filed by Mr. Popkin on September 5.

20 MR. ALVERNO: Mr. Presiding Officer, that applied
21 to Witness Landwehr and, perhaps, to some of the questions
22 that Ms. Needham answered on T7. But as far as T8 is
23 concerned, I believe that, having had discussions with the
24 witness, it would be best if we provided written responses
25 to those questions.

1 PRESIDING OFFICER QUICK: All right. I assume,
2 Mr. Popkin, you do want to do oral cross-examination?

3 MR. POPKIN: I did ask to do that in my filing of
4 September 3 and I do intend to do so.

5 PRESIDING OFFICER QUICK: Okay, so we have the
6 Office of Consumer Advocate and Mr. Popkin will be pursuing
7 oral cross-examination. Are there any other participants
8 who wish to question Witness Needham?

9 [No response.]

10 PRESIDING OFFICER QUICK: Okay. Mr. Ruderman,
11 would you please begin?

12 MR. RUDERMAN: Thank you, Mr. Presiding Officer.

13 CROSS EXAMINATION

14 BY MR. RUDERMAN:

15 Q Good morning.

16 A Good morning.

17 Q Could you please turn to your response to
18 Interrogatory T8-45(c)?

19 A OCA interrogatory?

20 Q OCA interrogatory, yes.

21 That question asks -- are you there?

22 A Yes, thanks.

23 Q That question asks you why a customer who is
24 purchasing Return Receipt service should be compelled to
25 purchase an added service such as address correction.

1 Please bear with me.

2 I am not sure the answer to Interrogatory 45 was
3 responsive to the question. Could you please answer this
4 question again? How did you determine that providing the
5 address-if-different enhancement is sufficient to justify
6 the increase in fee you propose?

7 A Well, in my testimony I discuss combining the two
8 service levels currently for return receipt, the first
9 service level being the signature and date, the second one
10 being signature, date and address where delivered.

11 In combining these two into one, the proposal is
12 for a new service option, one service option, for before --
13 at the time of mailing for Return Receipts which would
14 include signature, date and address where delivered if it
15 differs from that on the mail piece.

16 This is an enhancement over the existing basic
17 service option. It mirrors the second level, the current
18 second level of providing the address. But, in this case,
19 the address would only need to be provided where it differs.
20 If there is no difference between the address on the mail
21 piece and where it is delivered, I didn't see a need for
22 supplying the address.

23 So, in terms of proposing a fee for the new
24 service option, it's this -- it's the same fee as for the
25 existing higher service option because, basically, it would

1 provide the same service and that's an enhancement over the
2 basic option.

3 Q Is it correct that the additional cost to the
4 Postal Service to provide the service is approximately a
5 one-cent fee?

6 A Could you refer me to --

7 Q Sure, Interrogatory 41(a).

8 A This is the response that was redirected from me
9 to the Postal Service?

10 Q Yes, that is what it says.

11 A All right.

12 Q I think it says the average unit cost is .87
13 cents.

14 A If you assume, as the response suggests, a
15 forwarding percentage of 2.69 percent, yes, the cost for
16 providing the address, if different, will increase the
17 average unit cost by about one -- one cent.

18 Q And for the people who were not requesting that
19 address correction service before, they will now be paying
20 an additional 40 cents; is that correct?

21 A Well, in terms of them not -- the basic service
22 option, if it changed just to one option, it would be 40
23 cents more than the basic service option now.

24 Q Then back to my original question, what are the
25 reasons that ran through your mind that justified raising

1 the rate by 40 cents for an additional service enhancement
2 that costs the Postal Service one cent?

3 A I discuss the pricing criteria in my testimony.
4 The reason, you know, how it addresses the pricing criteria,
5 how the fee was developed. I would also like to -- to note
6 here that this is preferable, in my mind, as I have stated
7 in a couple of interrogatory responses, to merely proposing
8 a fee increase for Return Receipt basic option. I think, if
9 given a choice, people would rather pay \$1.50 for a Return
10 Receipt that would provide the address if different. I
11 think that's an important thing that people would want to
12 know because, considering the fact that they are sending
13 something accountable, that a return receipt would be
14 attached to, with the exception of merchandise, but they --
15 you know, it might not be accountable if they use Return
16 Receipt for merchandise, they would like to know if -- if it
17 was forwarded to a different -- delivered to a different
18 address, as opposed to paying \$1.50 for not having that
19 enhancement.

20 Q Do you know if they would like to know to the
21 extent that they would be willing to pay 40 cents extra for
22 this service enhancement?

23 A I have not conducted any studies as to -- on that
24 issue, so I can't answer to that.

25 But again, I state that I assume they would be --

1 if given the choice between just an outright fee increase or
2 a service enhancement to a -- with a new product --

3 Q If a person is going to pay 40 cents extra, they
4 would rather get something for it than nothing. That's a
5 fair statement, is it not?

6 A I think so.

7 Q Is it not a fact that, from your perspective, most
8 of the increase in the rate really represents just an
9 attempt by the Postal Service to gain additional revenues
10 from the return receipt service and ^{if} the different option is
11 just really a throw in?

12 A Oh, no, I don't agree at all. As I've discussed
13 in my testimony, this would simplify the return receipt
14 option by offering, one, it would be less confusing for
15 employees or customers who are trying to decide on what kind
16 of return receipt.

17 Some may not even be aware that they could get the
18 address if different, they may not look at that block on the
19 return receipt form because it's positioned in such a way
20 that it's really difficult to see that option when you're
21 checking off a service type. No, I wouldn't agree at all.

22 Q But you would agree if the rate was raised to
23 \$1.15 or a nickel instead of 40 cents, the Postal Service
24 would still be making a handsome profit on ^{adding} ~~add~~ this if
25 different option?

1 A I'm sorry, if the fee were increased?

2 Q If the fee was raised only a nickel instead of 40
3 cents, the Postal Service still would be making a handsome
4 profit on adding the if different option?

5 A No, I'd have to turn to the before rates cost
6 coverage for return receipts. As far as making a handsome
7 profit, I haven't done any calculations based on a \$5.15 fee
8 for the basic option.

9 Q The additional if different option will cost the
10 Postal Service 1 cent, is that correct? We agree upon that,
11 is that correct?

12 A We agree if that forwarding percentage is assumed
13 of 2-1/2 -- almost 3 percent.

14 Q And the only benefit people who are utilizing this
15 service, are going to obtain under this new classification
16 is that they will receive the if different address option,
17 is that correct?

18 A Right, over the basic service option, they would
19 be receiving that value enhancement.

20 Q That value enhancement is going to cost them 40
21 cents, is that correct?

22 A Well, let's see, over what they would be paying
23 for the basic option. Of course there are those customers
24 now that pay \$1.50 for that service, so it wouldn't cost
25 them any different.

1 Q You're talking about the basic option?

2 A Right. Okay.

3 Q Yes, instead of raising the fee by 40 cents. In
4 other words, instead of making 40 times the cost of this
5 feature, you raise the fee a nickel and only make five times
6 the cost of the feature, the Postal Service still would be
7 making a handsome profit, is that not true?

8 A Well, I again, I'd like to turn to --

9 MR. ALVERNO: Objection. I think that handsome
10 profit is the wrong characterization of what's going on.

11 MR. RUDERMAN: Well, five times the cost.

12 MR. ALVERNO: There's no profit here, period.

13 MR. RUDERMAN: Well, if the --

14 MR. ALVERNO: Are you suggesting there's a
15 contribution to institutional costs?

16 MR. RUDERMAN: Fine.

17 BY MR. RUDERMAN:

18 Q A handsome contribution to institutional costs as
19 a result of adding the add feature?

20 A Thank you. I don't know what the resulting cost
21 coverage would be. I know it would be higher than our
22 current cost coverage before rates of 127 percent, but
23 again, we're considering premium product here and that's a
24 fairly low cost coverage in my estimation.

25 Q While you're referring to the word premium

1 product, let me go off on a little tangent for a moment.

2 Could you please turn to your response to OCA Interrogatory
3 46?

4 A Okay.

5 Q Do you accept the definition provided in that
6 response that a premium product is a product offered for a
7 fee that provides ancillary benefits to a mailer?

8 A This interrogatory asks could a premium product be
9 defined as a product that offered for a fee that provides
10 ancillary benefits to a mailer when his piece of mail is
11 entered into the mail stream in any of the first, periodical
12 or standard classes, and it could also be defined as a
13 product for fee that provides ancillary benefits to a mailer
14 before a piece is entered into the mail stream and first,
15 periodical or standard classes.

16 Q All right. Could you please tell me if these are
17 premium products by your definition -- certified mail?

18 A Certified mail is.

19 Q Return receipt?

20 A Yes.

21 Q Post office boxes?

22 A Yes.

23 Q Insurance?

24 A Yes.

25 Q Registry?

1 A Yes.

2 Q Special delivery?

3 A Yes.

4 Q Postal cards?

5 A Postal cards, yes.

6 Q Stamped envelopes?

7 A Yes.

8 Q Money orders?

9 A Yes.

10 Q Express mail?

11 A Yes.

12 Q Priority mail?

13 A Yes.

14 Q Business reply mail?

15 A Yes.

16 Q On-site meter service?

17 A Yes.

18 Q Okay.

19 A The special services, except for the -- I mean, in

20 addition, I would say that all the special services, aside

21 from the mail classes, are considered premium products.

22 Q There are a lot of premium products, so when you

23 use that justification to justify something, it could be

24 used for a lot of different products, isn't that true?

25 A It definitely applies to our special services,

1 which I'm the expert witness on. In my estimation, it
2 applies to our -- the term premium product applies to
3 express mail and priority, some of the other classes of mail
4 that provide above and beyond service than regular mail.

5 Q Are there any other premium services I omitted?

6 A That you omitted? I'd have to get a list of all
7 of our products, but I think you pretty much -- well, except
8 for the rest of the special services, I think you've gotten
9 as many as I can think of off the top of my head.

10 Q Okay. At pages 86 through 94 of your testimony,
11 you provide the rationale for increasing the return receipt
12 by 40 cents.

13 A Okay.

14 Q Is one of the primary justifications that the
15 \$1.50 fee is easy to remember?

16 A That was one consideration. I don't know whether
17 I'd necessarily term it as primary, but it was just one
18 consideration.

19 Q All right. Could you please explain to me why a
20 \$1.50 fee is easier to remember than a \$1.10 fee?

21 A Well, especially when combined with certified
22 mail, a lot of return receipt mail -- a lot of certified
23 mail has return receipt. If the proposal we have for
24 certified mail for \$1.50 was recommended along with a return
25 receipt fee for \$1.50, \$3.00 is a pretty easy fee to

1 remember in terms of the combined product. Prior to Docket
2 R-94, we had an easy fee to remember for certified, return
3 receipt.

4 Q Do you have any idea what proportion of people who
5 use return receipt service know what the charge of it is,
6 what the charge is before they purchase the service?

7 A I don't know what percentage do, no.

8 Q It's quite likely that most of the public, when
9 they go to the Post Office, do not know what the charge is
10 and memory is totally irrelevant to them?

11 A Well, you're talking about private citizens, I
12 think, in some part. I know that we've identified that
13 there are large business users of Certified Mail. They
14 have -- presumably, these businesses have mail rooms with
15 meters and so forth. I -- I think a lot -- a lot of those
16 customers of Certified Mail probably have a pretty good idea
17 of what the -- of what the fee would be for return receipts.

18 Q But ease of memory is not very important to them.
19 If they have a lot of business in this area, certainly they
20 know what the fee is; is that correct?

21 A If -- I'm, sorry, could you repeat the question?

22 Q Ease of memory, remembering the fee, whether it be
23 \$1.50 or \$1.10, is not very important to them because
24 certainly they know what the fee is on a regular basis; is
25 that not correct?

1 A I wouldn't say that's correct. I don't -- I don't
2 know.

3 Q Could you please return to your response to USPS-
4 T8-35?

5 A OCA?

6 Q OCA-USPS.

7 A Okay.

8 Q There you confirm that unit manufacturing cost of
9 postal cards is 0.008925 cents; is that correct?

10 A Which subpart?

11 Q E.

12 A B?

13 Q E as in Edward.

14 A E. I have confirmed that using Witness
15 Patelunas's manufacturing costs and volumes, that the
16 number -- the unit cost that you can derive from that would
17 be 0.008925.

18 Q All right, could you please turn to page 107, line
19 12 of your testimony?

20 A Sure. Okay.

21 Q Is Witness Patelunas's cost the same cost that you
22 used?

23 A No, it's not.

24 Q Which is the correct figure?

25 A When you say "correct figure" --

1 Q Which is the correct figure to show that unit
2 manufacturing cost of postal cards?

3 A Well, I can tell you that my unit cost is an
4 alternative to Witness Patelunas's. In Table 29 of my
5 testimony on the page before, I arrive at the unit cost
6 using the -- the year-to-date manufacturing costs and the
7 units shipped. For the purposes of my testimony, I used
8 this unit cost.

9 Q Excuse me, your unit cost is 1.175 cents; is that
10 correct?

11 A Correct.

12 Q Could you tell me why your unit cost figure is
13 superior to that provided by Mr. Patelunas?

14 A I am not going to comment on the superiority of --
15 of one versus the other. Mine is an alternative to the one
16 that can be derived from Witness Patelunas's.

17 Q Could you explain the difference between the two
18 and what causes the difference?

19 A Well, mine -- mine is using the year-to-date GPO,
20 Government Printing Office manufacturing costs and the units
21 shipped. I have that in my Library Reference SSR-106, if
22 you could allow me a minute to pull out that library
23 reference.

24 I don't have Witness Patelunas's testimony in
25 front of me but I do recall that -- in fact, let me flip

1 back to the interrogatory which was -- was that 35?

2 Q Yes, let me refer you to your response to 35(h).
3 Maybe that will help you. Let me just ask you a question on
4 the same area.

5 A Okay.

6 Q Is one figure representative -- represent the
7 units shipped and the other represent the FY '96 volume?

8 A Correct.

9 Q And which figure represents the units shipped?

10 A The cost figure presented in my testimony, the
11 1.175 cents.

12 Q And the FY '96 volume is the approximately 9 cent
13 figure, is that correct?

14 A I'm sorry, could you repeat that?

15 Q The lower figure represents the FY '96 volume, is
16 that correct, the .8925 cents?

17 A Yes. Subject to check. Like I said, I don't have
18 Patelunas's testimony in front of me.

19 Q Okay.

20 A I'm sorry. I could probably check in the -- well,
21 no -- in the interrogatory it really doesn't -- but I'll say
22 yes, subject to check.

23 Q All right. You majored in Business in school?

24 A Yes.

25 Q All right, and I'm sure you've seen financial

1 statements, have you not?

2 A Yes.

3 Q And manufacturing companies normally have an item
4 called on their income statement that says "cost of goods
5 sold" --

6 A Right.

7 Q If you were to calculate the cost of goods sold
8 for the year FY '96 would you use the units shipped figure
9 or the FY '96 volume figure?

10 A I would for the purposes of the per unit cost, I
11 would use the units shipped figure -- in this testimony, but
12 this is not -- this is not -- this is not a cost of goods
13 sold. This is not a comparison -- this is different than
14 the comparison you are bringing up or the example you are
15 bringing up.

16 Q In other words, your figure is not an attempt to
17 measure the cost of goods sold for FY '96?

18 A No, my figure represents the units shipped versus
19 the manufacturing cost. It is an alternative, as I stated,
20 to the unit cost that can be derived from Witness
21 Patelunas's exhibit -- testimony or exhibit.

22 Q Are you aware if it is customary for the Postal
23 Service to measure cost of goods sold on its income
24 statement and for purposes of pricing in Postal Rate
25 Commission proceedings based on units shipped to them and

1 not on the actual volume consumed?

2 A I am not aware of that.

3 Q You do not know?

4 A I do not know.

5 Q Okay. Let's assume for the meantime that they
6 measure income based on actual consumption and not on
7 shipments and that the result is that the cost of postal
8 cards is on an average .8925 cents.

9 This would produce an implicit cost coverage of
10 224 percent.

11 Are you aware of any other special services with a
12 224 percent cost coverage or higher?

13 A Well, assuming that this would implicitly provide
14 a cost coverage of 224 percent, and I don't agree with that,
15 but I will assume that, let me check and see if there is --
16 and I beg your indulgence. I have a lot of papers here.

17 Q You can answer this in writing if you want, if it
18 is going to take you some time.

19 A I just want to double-check before --

20 [Pause.]

21 I am not aware of any.

22 Q Okay, thank you, and please assume that your
23 proposal results in a 224 percent cost coverage. Do you
24 think that cost coverage is consistent with the criteria of
25 the act?

1 A Well, I really don't feel that it is appropriate
2 for me to address a 224 percent cost coverage. I have
3 addressed 170 percent cost coverage in my testimony.

4 I think that is fair and that is within the
5 criteria of the act.

6 Q So if it produces a 224 percent cost coverage, you
7 would basically have no comment and would not propose a rate
8 change that results in a 224 percent cost coverage?

9 A No, no, no, I am not saying that at all. I am
10 just saying that I would not have had any opportunity to
11 consider such a cost coverage because the one presented in
12 my testimony is 170 percent.

13 Q And do you think that the cost coverage for
14 stamped envelopes and postal cards, stamped postcards should
15 be close to each other?

16 A I did not -- they are two different products.
17 They are similar in that we provide some form of stationery
18 but there are benefits inherent to one that might not be to
19 another so I have not -- I have not really viewed the cost
20 coverage of stamped envelopes, which is normally pretty
21 high, with -- compared it to stamped card -- the stamped
22 card proposal.

23 Q Would you accept that Exhibit USPS-5-5A at page 24
24 shows a cost coverage for stamped envelopes for FY '96 at
25 proposed rates to be 158 percent?

1 A Subject to check, I will accept that.

2 Q Does that seem like a reasonable relationship
3 between the 158 percent and the 170 percent you propose for
4 postal cards? Stamped postal cards?

5 A Well, you are asking me to compare cost coverage
6 of a different product, of --

7 Q They are very similar products, are they not?

8 A They are similar in the -- in the -- with respect
9 to the fact that we offer something above the postage, the
10 stamp. With stamped envelopes we offer an envelope. With
11 stamp -- excuse me, with postal cards, we offer the postage
12 plus stationery. So, to some customers, having that
13 stationery to write on and not having to supply it to put in
14 a stamped envelope might be of more benefit. All I know for
15 sure is that if faced with buying a 20 cent postcard stamp
16 or a postal card for 20 cents, I think the 20 cent postal
17 card is a much better value because you are getting that
18 free stationery plus the pre-affixation of the postage. So,
19 in that way, it differs from -- there are differences
20 between stamped envelopes and postal cards.

21 Q We have been talking a lot of times about value.
22 Have you spoken to any customers to see if they consider
23 stamped postal cards to have greater value than stamped
24 envelopes?

25 A I have presented in my library reference some

1 information as to how customers perceive the value of postal
2 cards.

3 Q But not stamped envelopes?

4 A But with relationship to stamped envelopes versus
5 postal cards, I haven't -- I don't know of any information
6 comparing the two that has been asked of customers.

7 Q You really don't know if customers perceive that
8 stamped postal cards have a greater value than stamped
9 envelopes, do you?

10 A It depends on the individual user. Like I said,
11 for some, I would imagine having that stationery is -- would
12 be -- would be --

13 Q You said that.

14 A Yes.

15 Q Okay.

16 A So it depends on the customer. I know for large
17 customers of postal cards, they find it very beneficial to
18 have the free stationery and the free postage -- free
19 affixation of the postage.

20 Q I'll move on.

21 There has been a series of questions that the OCA
22 has submitted to you through the Postal Service, and they
23 were submitted last week. They relate to the cost coverages
24 for certified mail. You are aware of that, are you not?

25 A Oh, yes. Thank you.

1 Q Okay.

2 MR. RUDERMAN: I have two copies which I would
3 like to be marked as OCA Cross Examination Exhibit 1 for
4 inclusion in the record, if it's okay, Presiding Officer.

5 PRESIDING OFFICER QUICK: Yes.

6 MR. RUDERMAN: These are titled XE-OCA/USPS-T8-1.
7 [Exhibit No. XE-OCA/USPS-T8-1 was
8 marked for identification.]

9 BY MR. RUDERMAN:

10 Q You were requested -- I'm sorry, do you have that?

11 A Yes. I've got that, and it's T8, correct, was the
12 -- yes. I have it, yes. Thank you.

13 Q I guess it would be appropriate to give it to the
14 witness.

15 MR. ALVERNO: Do you have an extra copy?

16 [Witness reviewing document.]

17 THE WITNESS: Okay.

18 BY MR. RUDERMAN:

19 Q You were requested to answer these questions in
20 writing in lieu of oral cross examination as they are rather
21 complicated. The purpose of the questions was to clear up
22 the confusion which has surrounded attempts to make
23 comparisons of certified mail, return receipt, and
24 restricted delivery between cases. As it states in there,
25 you were requested to take any extra steps necessary to

1 clarify the record. The only thing that has been submitted
2 that we are aware of in response to these questions was a
3 notice of errata of response of Witness Needham to
4 interrogatories to the OCA. The notice of errata was dated
5 September 9th, 1996, and I believe it's included within the
6 record today.

7 A Right. Okay.

8 Q This response was -- this notice of errata was not
9 fully responsive, and frankly we are still confused about
10 what changes were made between R-90 and this case.

11 On Monday, at TR2-129 and at 153 and 154, Witness
12 Lyons testified that there was a major structural change in
13 costing for certified mail and that change was to correct
14 errors in the past, and this change related to pricing.

15 MR. RUDERMAN: I have a few copies of Witness
16 Lyons testimony here, which I'll pass around.

17 THE WITNESS: Yes, I'd like to see that.

18 MR. RUDERMAN: Sure.

19 THE WITNESS: I'd like to just state here that
20 what Witness Lyons was referring to was not a major
21 structuring -- a major structural change in the costing of
22 Certified Mail but, rather, in the cost coverage
23 methodology.

24 BY MR. RUDERMAN:

25 Q Yes, they were responding to the pricing of --

1 pricing and costing and costs and the relationship thereto
2 to determine cost coverage.

3 Could you please explain what that change was?

4 A The changes was to remove the ancillary revenue
5 from the Certified Mail revenue when calculating Certified
6 Mail cost coverage.

7 In the past, the method had been to include the
8 ancillary service revenue with the Certified Mail revenue
9 and divide that by only the Certified Mail cost, not the
10 ancillary revenue cost. Therefore, the result was not a
11 what I call in my testimony a pure Certified Mail cost
12 coverage.

13 Q Could you please turn to -- you'll have to bear
14 with me a little bit, because this is rather complicated
15 here.

16 Could you please turn to the last page that I gave
17 you that was marked as OCA-USPS-T1 for identification
18 purposes consists of -- yes, the last page in that document.

19 A Okay.

20 MR. ALVERNO: I'm sorry, the last page of what?

21 THE WITNESS: What he -- what he just passed out.

22 BY MR. RUDERMAN:

23 Q All right. That is what was used in Docket Number
24 R-90. It represents a Certified Mail development of
25 attributable costs. Do you see that document in front of

1 you now?

2 A I do.

3 Q Now, you are saying that there are errors in that
4 document?

5 A Yes, I am.

6 Q What were those errors, please?

7 A The errors were, the first line that lists the
8 attributable costs before and after rates for Certified
9 Mail, those that already had the Return Receipt and
10 Restricted Delivery cost taken out of them. For whatever
11 reason, the witness who prepared these took out additional
12 costs that should not have been removed. I have verified
13 that those were the accurate numbers for the Certified Mail
14 cost -- Certified Mail costs with the ancillary costs
15 removed from them.

16 So I have revised my response to Interrogatory
17 Number 8 to reflect that I stand by the R-90 cost coverage
18 for Certified Mail using the pure certified cost coverage is
19 65 percent.

20 Q And this problem that you had with regard to
21 calculating the cost coverage, I assume, for Certified Mail
22 or Return Receipts and Restricted Delivery dated back to R-
23 84 and R-87; is that correct?

24 A It -- I know it dated back to R-84 and the
25 proceedings since then. Prior to R-84, I'm not sure.

1 Q Let me just leave it at that. If there are
2 further problems with regard to our calculations, I assume
3 you would have no problem if we contacted you or your
4 counsel and requested clarifications?

5 MR. ALVERNO: I can receive those communications.

6 MR. RUDERMAN: Thank you.

7 BY MR. RUDERMAN:

8 Q Please refer to your answer to OCA Interrogatory
9 T8-38A.

10 A Okay.

11 Q You state that "Current Postal Service insurance
12 customers still choose to use the Postal Service despite the
13 higher Postal Service fees." Why do these people continue
14 to use the Postal Service?

15 A Well, these people choose to continue Postal
16 Service insurance for a number of reasons. One is customer
17 convenience with using the Postal Service. Another would be
18 as cited in my testimony. If a customer came in with say
19 four package, three of which were to be insured at \$500 and
20 the fourth to be insured at \$800, they wouldn't be able now,
21 under our current indemnity limit, to insure that fourth
22 package.

23 It has been brought to my attention that these
24 customers would prefer to use the Postal Service as their
25 carrier of choice, yet they are limited by the indemnity

1 limit.

2 Also, I think when considering the differences
3 between say registered mail and insured mail fees, the
4 customer would probably take into consideration the total
5 price of the whole mailing instead of just the special
6 service fee.

7 Q Thank you.

8 A Okay.

9 Q Please refer to your response to T8-40A and B.

10 A Okay.

11 Q There you state that "Documents should be excluded
12 from the return receipt option because it would be contrary
13 to DMCS because return receipt for merchandise service was
14 not intended as a substitute for certified mail for
15 documents." Why was return receipt limited to merchandise?

16 A When return receipt for merchandise was conceived,
17 it was intended to be for merchandise for people that wanted
18 to send merchandise and just get the notification that it
19 was delivered. This would be, you know, merchandise that
20 they did not want to have insured. There was a need for
21 that.

22 I know of the original intent of the Service and
23 it now really should be more clearly defined.

24 Q Well, in light of the fact that return receipt is
25 used for documents, is there a need for that service?

1 A Return receipt documents, we do not consider
2 merchandise.

3 Q That's not answering my question.

4 A Okay.

5 Q My question was in light of the fact that it is
6 now used for documents, would you not think there is a need
7 for that service?

8 A There is already return receipt service that, in
9 combination with certified mail, I would assume would be --

10 Q Does the fact that it's being used for documents
11 indicate to you that these people want that service and
12 there is a need for that service? A yes or no answer is all
13 that's --

14 A No.

15 Q They are purchasing it because they all need the
16 service?

17 A It does indicate a need for that service. I think
18 in some ways, people are trying to misuse the service by
19 attempting to save money off purchasing an additional
20 service to go with the return receipt.

21 Q They are not misusing the service if they are
22 allowed to purchase the service and it's certainly
23 legitimate for a person to want to save money, is that not
24 true?

25 A I think it's legitimate for people to want to save

1 money but my misusing the service, it basically states
2 "return receipt for merchandise," that's what it says,
3 "return receipt for merchandise." The Postal Service is
4 proposing here to clearly define the term merchandise.
5 Well, I'm sorry. They already have a definition for
6 merchandise to clearly define this product offering with
7 respect to merchandise.

8 Q Does it cost the Postal Service more to provide
9 return receipt service for documents as well as merchandise?

10 A I don't have any numbers on that.

11 Q Do you think it cost the Postal Service more?

12 A I mean, I have return receipt costs but I don't
13 know what percentage of the return receipt merchandise would
14 be documents, so I can only --

15 Q Can you think of any reason why it would cost the
16 Postal Service more to provide a service for documents than
17 for merchandise?

18 A I don't think I can answer that question. I don't
.19 have enough information.

20 Q So you can't think of any reason?

21 A I don't have enough information to answer that.

22 Q Could you please define merchandise?

23 A Let's see. The Postal Service defines
24 merchandise. There was a definition in the mailroom
25 companion sometime printed during the last year. Let me

1 check through my papers. I may not have a copy of that. My
2 counsel may have a copy.

3 MR. ALVERNO: In fact, I do have a copy.

4 THE WITNESS: Oh, thank you, Tony.

5 MR. ALVERNO: May I approach the witness?

6 PRESIDING OFFICER QUICK: Certainly.

7 THE WITNESS: Thank you. Yes, I have a copy.

8 According to this, the Postal Service defines
9 merchandise as "matter that is commonly bought or sold."

10 BY MR. RUDERMAN:

11 Q Okay. Thank you. Let me just summarize this
12 quickly. It's my understanding that your classification
13 proposal in this area is because it was never the Postal
14 Service's original intent to allow documents to be offered
15 for return receipt service, is that correct?

16 A I'm sorry, can you provide a site for that?

17 Q I'm just summarizing what you've said.

18 A Oh, okay.

19 Q Would you mind resummarizing it?

20 A Well, I didn't quite understand every word you
21 said. I'm sorry, could you repeat the question?

22 Q The reason for the classification proposal in this
23 area is because the Postal Service originally did not intend
24 to allow documents to be offered the return receipt service?

25 A Correct.

1 Q The reason that the Postal Service did not intend
2 to allow documents to be offered this service is what?

3 A Because documents are generally not considered
4 merchandise.

5 Q And that's the sole reason?

6 A I know that -- I'm not -- I know that the term -- I
7 know what was conceived as this product and it was for
8 merchandise, and there was an exclusion of documents.

9 Q Okay. I'll move on.

10 PRESIDING OFFICER QUICK: Mr. Ruderman, do you
11 have any notion of how much more you have?

12 MR. RUDERMAN: It won't be 10 minutes. It should
13 be less than 10 minutes.

14 PRESIDING OFFICER QUICK: All right. Then
15 continue.

16 MR. RUDERMAN: It's just one little area -- one
17 somewhat long area, I'm sorry.

18 BY MR. RUDERMAN:

19 Q Please refer to your response to OCA T8-31.

20 A Okay.

21 Q Are you there?

22 A Yes.

23 Q There, you acknowledge that the rates for insured
24 registry are lower at certain brackets than insured mail.
25 You go on to state, "It is your belief that people choose

1 insured mail over insured registry because the customers
2 perceive the service offered by insured mail to be superior
3 to registry for their needs." In what way is insured mail
4 service superior to registry?

5 A Well, if you're discussing registered mail without
6 insurance, certainly insurance -- the insured mail would
7 provide indemnity. I believe that also customers perceive
8 that the speed --

9 Q Excuse me. We're talking about insured registry.
10 I may have misled you.

11 A Oh, okay. All right. Well, with respect to the
12 speed of delivery, customers may consider insurance to be
13 faster than registry considering that registry has the
14 security that has time associated with that.

15 Q Okay. In what way is insured registry service
16 superior to insured mail?

17 A Okay. Insured registry service provides the
18 security through the mail stream that insured mail does not
19 have the checkpoints that registered mail has to be signed
20 for at each point where it is going through the process.

21 Q With regard to First Class mail, isn't it likely
22 that many customers choose insured mail over insured
23 registry because they are unaware that insured registry is
24 less expensive than insured mail?

25 A With respect to First Class mail?

1 Q Yes.

2 A It is true that those would use insured mail with
3 First -- insured mail First Class you are saying as opposed
4 to registered insured with First Class --

5 Q Yes. Insured registry is less expensive than
6 insured mail and the question is do you think people still
7 choose insured mail as opposed to insured registry because
8 they are not aware that they could obtain essentially the
9 same service or similar services --

10 MR. ALVERNO: I'm sorry --

11 MR. RUDERMAN: -- or a similar service at less
12 expense?

13 MR. ALVERNO: I guess I didn't hear the question.

14 MR. RUDERMAN: I'll repeat the question.

15 MR. ALVERNO: Mr. Ruderman, were you suggesting
16 that insured mail is always cheaper than registry?

17 MR. RUDERMAN: No.

18 MR. ALVERNO: Or, I'm sorry, that registered was
19 always cheaper than insurance or just in certain --

20 MR. RUDERMAN: In certain areas.

21 MR. ALVERNO: -- value increments. Okay. Thank
22 you.

23 MR. RUDERMAN: Okay.

24 THE WITNESS: I have almost forgotten the
25 question, but -- I'm sorry.

1 BY MR. RUDERMAN:

2 Q I'll repeat -- I will read the question to you.

3 A Thank you.

4 Q I'll read it slowly. With regard to First Class
5 mail, isn't it likely that many customers choose insured
6 mail over insured registry because they are unaware that
7 insured registry is less expensive than insured mail?

8 A I don't know whether I would characterize it as
9 likely but I could say it's possible.

10 Q Do you think that window clerks inform customers
11 that they can send their First Class mail as insured
12 registry at a lower rate than insured mail?

13 A I don't know about that but I assume that
14 registered mail customers know exactly what they want and I
15 mean as far as I think registered mail customers come in and
16 know what they want and I also feel that probably insured,
17 unless the customer was asking what are my options, you
18 know, this or that, I want to send this and make sure that
19 if it gets lost or damaged I get paid for it.

20 Then the clerk would explain the various options.

21 Q So only if the customer asked?

22 A I am not saying only if the customer asked. I am
23 just saying I can see that happening, that there would be an
24 explanation. I really don't know, you know, as far as
25 whether the clerk would stop someone before they sent an

1 insured package to say, well, wait a minute -- you know.

2 Q I don't expect you to know. If your answer is I
3 don't know, just say that.

4 A Yes.

5 Q Please assume that the proposed insurance fees are
6 adopted and that the Postal Service's insured mail customers
7 sending higher valued packages become aware of the large
8 difference between the insured registry fee and the
9 insurance fee, would you be concerned that a large number of
10 pieces may shift to registry service, insured registry
11 service?

12 A Concerned? No. I am -- we are proposing to
13 increase the indemnity limit based on demonstrated needs of
14 our customers. This was prompted by, you know, customer
15 demand.

16 These customers I feel want to use insurance,
17 insured mail, for the reasons, you know, I had mentioned
18 before. They are already using the service. They don't
19 have a problem with it.

20 Q Let me interrupt. So you are not concerned about
21 a shift or are you concerned about a shift?

22 A I mean I am not -- I am not sure what kind of a
23 shift would --

24 Q A shift in volume.

25 A Right, but I don't know to what extent.

1 [Pause.]

2 MR. RUDERMAN: Thank you very much. That
3 concludes my cross examination.

4 THE WITNESS: Thank you.

5 MR. RUDERMAN: It was nice meeting you.

6 THE WITNESS: Thank you, you too.

7 PRESIDING OFFICER QUICK: Mr. Popkin, do you have
8 questions?

9 MR. POPKIN: I'll have a considerable amount of
10 questions, yes.

11 PRESIDING OFFICER QUICK: You do?

12 MR. POPKIN: Yes.

13 PRESIDING OFFICER QUICK: Yes, okay. We will
14 break for lunch and return at 1:30.

15 THE WITNESS: Oh, my goodness.

16 PRESIDING OFFICER QUICK: And continue with Ms.
17 Needham.

18 [Whereupon, at 12:25 p.m., the hearing was
19 recessed for lunch, to reconvene at 1:30 p.m., this same
20 day.]

21

22

23

24

25

AFTERNOON SESSION

[1:32 p.m.]

Whereupon,

SUSAN W. NEEDHAM,

the witness on the stand at the time of the recess and,
having been previously duly sworn, was further examined and
testified as follows:

PRESIDING OFFICER QUICK: We will continue now.
Mr. Popkin.

CROSS EXAMINATION

BY MR. POPKIN:

Q Good afternoon. Welcome back from our friendly
lunch.

A Good afternoon.

Q Accountable mail, how would you define that?

A Accountable mail is, in my definition, would be
mail that is signed for by the recipient.

Q So that would include Certified Mail?

A Correct.

Q Registered Mail?

A Um-hum.

Q Express Mail?

A Yes.

Q And I guess return --

A I -- oh, I'm sorry. Yes was the answer. I was

1 saying "um-hum" instead of "yes."

2 Q Okay. That doesn't come out in the transcript.

3 A Accountable mail would be Registered Mail,
4 Certified Mail, insured mail and collect-on-delivery.

5 Q I guess Return Receipt for merchandise has a
6 number on it and has to be signed for.

7 A If -- let's see, that would -- no. No, that
8 wouldn't -- that wouldn't be accountable mail. Well, Return
9 Receipt for merchandise?

10 Q Right.

11 A Yes. Yes.

12 Q That would be accountable mail?

13 A Right. Exactly, yeah.

14 Q And now, accountable mail at some point enters the
15 mail stream and is placed in the custody of the United
16 States Postal Service by a mailer, correct?

17 A Correct.

18 Q And at some point, the mail is delivered to an
19 addressee and it leaves the custody of the United States
20 Postal Service, unless the addressee happens to be the
21 Postal Service itself, correct?

22 A When you say it leaves the Postal Service, do you
23 mean when it's delivered?

24 Q Right, when it's delivered. In other words, at
25 some point, a Postal Service employee is going to deliver

1 this mail or have the mail leave the -- at that point, the
2 mail will leave the custody of the United States Postal
3 Service?

4 A Correct.

5 Q Is it the policy of the United States Postal
6 Service at the time that the mail leaves its custody, namely
7 it's delivered, for all accountable mail to have it signed
8 for by the addressee at the time of delivery?

9 A At the time of delivery, accountable mail would be
10 signed for.

11 Q Okay. In other words, the addressee will sign for
12 it at the time of delivery and there is no provisions, no
13 other conditions or special conditions, special
14 arrangements, agency agreements, any of the words that I
15 have been given in the past, to differ? In other words,
16 when the mail leaves the custody of the United States Postal
17 Service and it goes over to the custody of the addressee or
18 their agent or whoever, it is signed for?

19 A The --

20 Q The mail itself.

21 A The accountable -- the ones that I mentioned, the
22 Certified, the --

23 Q Right. Okay.

24 A Is signed for by the person or designee.

25 Q However -- yeah, okay.

1 Okay, accountable mail may have a return receipt
2 in some instances. I believe actually all the forms could,
3 correct?

4 A Let's see. Yes.

5 Q Well, the return receipt for merchandise by
6 definition, Certified can, Registered can, insured can. I
7 don't know if we counted insured before but insured is
8 accountable.

9 A Insured we did count, yes.

10 Q Okay. And C.O.D. All of those could have a
11 return receipt?

12 A Yes. Yes.

13 Q Is there any provision in the regulation or any
14 policy written or unwritten or any arrangements that would
15 allow this return receipt to be completed by the addressee
16 or their agent at some point after the accountable mail
17 leaves the custody of the Postal Service?

18 A Exactly could you cite to -- you are asking me if
19 there are any instances? Or --

20 Q I am asking you --

21 A If you could cite me to what specifically you are
22 referring to.

23 Q When a piece of accountable mail that has a return
24 receipt on it --

25 MR. ALVERNO: Objection. The point here is that

1 you are supposed to be following up on answers that have
2 been given before by Witness Needham. So what question are
3 you referring to?

4 Please direct the witness's attention to that
5 question.

6 BY MR. POPKIN:

7 Q All right. Interrogatory T1-1C or D.

8 A Okay. Redirected from Witness Lyons. And that
9 was T1-1 --

10 Q T1-1D. Is it still required that the employee of
11 the United States Postal Service --

12 A I'm sorry, if you could just give me just a second
13 to get to that.

14 PRESIDING OFFICER QUICK: Excuse me just a second.
15 I want to clarify something. This is not followup.

16 MR. ALVERNO: Mr. Presiding Officer, as I read the
17 Special Rules of Practice, the purpose of cross-examination
18 at this hearing is to clear up matters that were raised in
19 interrogatory responses and all I am asking that Mr. Popkin
20 do is actually cite the witness to the interrogatory
21 response that forms the basis for his question.

22 PRESIDING OFFICER QUICK: Well, he has done that
23 now.

24 MR. ALVERNO: Yes, he has.

25 THE WITNESS: Yes, thank you. That was very

1 helpful to me. I knew that there was an interrogatory that
2 asked this question. I just wasn't sure what it was but I
3 am glad it was pointed out to my attention.

4 And the answer I have stated to T1-1D is, no.

5 BY MR. POPKIN:

6 Q And then my response in T8-14, would your response
7 to D have been yes if I had stated, turn it over to the
8 clearing clerk (who must mail it back no later than the
9 first work day after delivery) instead of mail it back to
10 the sender.

11 A T8-14, is that -- you mean your --

12 Q My Interrogatory T8-14.

13 A Okay, these are the ones that are in the process
14 of being prepared.

15 Q So these are the ones that we're here to answer
16 today.

17 A I -- I believe that I was providing written
18 responses to these.

19 MR. ALVERNO: Yes. If I may interject,
20 Mr. Presiding Officer, at the beginning of the hearing we
21 did mention that Witness Needham did intend to answer these
22 questions in writing.

23 And, as far as Mr. Popkin is concerned, I don't
24 see the difference if he asks her at the hearing or if he
25 receives a written answer. Perhaps, a written answer might

1 be more informed.

2 MR. POPKIN: Perhaps an oral answer I can follow
3 up better. I don't require any oral follow-up.

4 MR. ALVERNO: This is a complete waste of time, to
5 engage in these discussions of the fine elements of Return
6 Receipt service. This may be Mr. Popkin's fetish, but
7 frankly it is not relevant to the conduct of this
8 proceeding.

9 PRESIDING OFFICER QUICK: Mr. Alverno, let's not
10 characterize the motives of any participant in this case or
11 cast aspersions on anybody. That's not your role. That's
12 not anybody's role here.

13 Continue, Mr. Popkin. If the witness is going to
14 answer these in writing, she can tell you that, and if she
15 can answer them here, she will do that.

16 BY MR. POPKIN:

17 Q Okay. You answered no to T1-1-D and I posed a
18 correction to it since you referred me to the transition
19 manual and I asked you if that would be correct if I stated
20 it as I did in T8-14A.

21 A I have not prepared a response to T8-14A.

22 Q Have you prepared any response to any of my
23 interrogatories T8-14 through T8-34?

24 A Not completely, no.

25 Do you recall when the due date is for those, Mr.

1 Popkin?

2 Q The due date is probably the 19th of --

3 A September?

4 Q -- September.

5 A I can pretty assuredly tell you that I will have
6 them, the written responses, to you, but I did get -- I
7 believe it was 331 follow-up interrogatories from you
8 including subparts right before I went on the stand.

9 That includes the subparts. I believe it was
10 about 331 questions or at least those were the ones that you
11 had told the Manager of Pricing -- Pricing and
12 Classification Implementation would be coming in to me, and
13 i think that is about the correct number.

14 That's an awful lot of questions right before I
15 was to go on the stand. I haven't completed the answers to
16 all of them and I will provide the written responses to them
17 by the time they are due.

18 Q In your revised response to T1-3, redirected from
19 Witness Lyons that was presented to me today -- it was filed
20 today --

21 A Yes. I've got it.

22 Q -- okay -- my interrogatory T1-3C as in "Charlie,"
23 asked is it a requirement that the date of delivery shown on
24 the return receipt represent the actual date of delivery.

25 MR. ALVERNO: Objection. This hasn't been

1 designated yet or made a cross examination exhibit for that
2 matter.

3 MR. POPKIN: This refers to return receipt
4 service --

5 MR. ALVERNO: It hasn't been designated and it is
6 not a cross examination exhibit, Mr. Popkin.

7 MR. POPKIN: May I finish?

8 MR. ALVERNO: Deal with the objection.

9 MR. POPKIN: This refers to Return Receipt
10 service. The witness has discussed Return Receipt service.
11 I would like to ask her questions regarding Return Receipt
12 service.

13 MR. ALVERNO: The answer is not in evidence.

14 CHAIRMAN GLEIMAN: Mr. Presiding Officer, I am
15 confused. Mr. Popkin, are you -- is this in reference to a
16 response that you have received to an interrogatory?

17 MR. POPKIN: That's correct. I received the
18 corrected copy today which I had no opportunity to follow up
19 on in my same follow-ups, and I would like to take advantage
20 of being here today to avoid having to file a separate
21 follow-up interrogatory.

22 CHAIRMAN GLEIMAN: I just needed to get clear in
23 my own mind what it was that your question was based on.
24 You submitted an interrogatory to the Postal Service
25 witness. The Postal Service witness answered it or gave you

1 a revised answer to it?

2 MR. POPKIN: They gave me a revised answer this
3 morning.

4 CHAIRMAN GLEIMAN: Okay. I'm going to take leave
5 for a moment because I want to check the special rules
6 because I am getting real confused about what the purpose of
7 this hearing is because I was under the impression that you
8 could, and it may be a mistaken impression, that you could
9 cross examine on any of the interrogatories, not only those
10 that had been submitted as written cross examination.

11 Moreover, Postal Service counsel used the phrase
12 before that this was "follow-up cross examination" or
13 "follow-up" -- he didn't say "cross examination," he said
14 "follow-up" and I am under the impression that we are still
15 in the portion of the hearing where we are doing direct
16 cross examination, and while I appreciate that there's some
17 confusion here, there is a term of art.

18 "Follow-up" means what happens after everybody
19 gets their first go-round and then you have follow-up to
20 that first go-round of questions, so we have got to be
21 careful.

22 At the risk of confusing me even more than I am
23 usually confused, so at this point I am going to go check
24 special rules with our legal advisor.

25 MR. ALVERNO: I do apologize. Yes, Mr. Chairman,

1 it is clarifying written cross examination.

2 CHAIRMAN GLEIMAN: As I said, I am going to go
3 check the rules with the special counsel to see if it is
4 only designated written cross. It is not just designated --

5 MR. ALVERNO: It is not limited to designated
6 written cross. However, the answer is not in evidence and
7 he is asking her to assume the truth of the matter in the
8 question, so I propose that Mr. Popkin either make it a
9 cross examination exhibit or designate it.

10 PRESIDING OFFICER QUICK: Well, I will cite the
11 Presiding Officer's Ruling Number MC96-3/3, July 25th, 1996,
12 page 8 -- Attachment B, page 8 -- B. Oral Cross
13 Examination: "Oral cross examination will be permitted for
14 clarifying written cross examination and for testing
15 assumptions, conclusions or other opinion evidence."

16 Mr. Popkin, would you like to read your question
17 into the record and then you can pursue your discussion with
18 the witness on it?

19 BY MR. POPKIN:

20 Q Is it a requirement that the date of delivery
21 shown on the Return Receipt represent the actual date of
22 delivery?

23 PRESIDING OFFICER QUICK: That question is now
24 part of the record. You can follow up.

25 MR. POPKIN: Thank you.

1 BY MR. POPKIN:

2 Q Is that a requirement?

3 A The response to my interrogatory refers you to
4 Attachment 1.

5 Q Where in Attachment 1 does it say yes or no?

6 A Attachment 1 is a directive to Postal employees to
7 obtain the return receipt date of -- to obtain the return
8 receipt, date of delivery on the return receipt.

9 Q Which one of the 3, 6, 9 paragraphs specifies
10 that? And the real concern I have is not with that, but is
11 it required that that be the actual date of delivery as
12 opposed to a date which is not the actual date of delivery?

13 A This directive does not state that it is a
14 requirement that the date of delivery represent the actual
15 delivery.

16 Q Should the date of delivery be the actual date of
17 delivery?

18 A The attempt here is for the Postal Service
19 employees to ensure that the date of delivery written on the
20 return receipt is the actual date of delivery.

21 Q Okay. Thank you.

22 In the first bullet item of this attachment number
23 1, it asks that district managers contact delivery offices
24 and have them, quote, "review current delivery arrangements
25 with large volume delivery points, including government

1 agencies, regarding practices such as handing over
2 accountable mail to be signed for at a 'later' more
3 convenient time. Evidence indicates that a large percentage
4 of this problem is due to this practice which is
5 controllable from -- and I assume that's RN. It's a little
6 blurred on the copy.

7 Could you explain what that means?

8 A I think it's fairly self-explanatory. It's
9 discussing accountable mail. Accountable mail is signed
10 for, certified, registered is signed for. This deals with
11 the return receipts that are attached to those pieces of
12 accountable mail.

13 Q So in other words, there are policies that may
14 exist which allow for this to happen, for the return receipt
15 to be left on the article and signed for at a later more
16 convenient time.

17 A Well, due to the nature that this is -- these
18 pieces would be delivered to a mail room, such as at Postal
19 Service headquarters, for example, to various employees, the
20 accountable mail piece itself is going to be signed for.
21 The return receipt is going to be -- this directive is
22 telling people, employees, to obtain signature on the return
23 receipt, to review the current arrangements in order to see
24 if there's a way to account for the return receipt pieces.

25 I know that in our building, we do spot checks of

1 return receipts and that's what I --

2 Q In other words, what you're saying here is that
3 there is a policy that allows for delivering the accountable
4 mail with the return receipt to be completed at a later
5 time, and that this policy is an acceptable policy and that
6 it should just be reviewed -- I don't know what for, but
7 reviewed?

8 A No, I'm not saying that at all. When you speak of
9 accountable mail, I'm referring to the accountable piece and
10 not the return receipt. We do not deliver accountable mail
11 and say, well, it can be signed for later. No, it has to be
12 signed for right then and there. That's what I'm saying.

13 Q But you do deliver accountable mail with return
14 receipts and let the return receipt be signed for at a later
15 time.

16 A Yes.

17 Q What is the authority in the regulations that
18 permits that since the response to my interrogatory, you
19 indicated in, let's see, T1-1E, what are the requirements,
20 and you referred me to the transition book that said that
21 the delivering employee shall do it at the time of delivery.

22 A What is it -- it states that, you're telling me,
23 in the domestic mail --

24 Q That's what you indicated in your response to this
25 subpart (e).

1 A Correct.

2 Q So subpart (e) of the transition books says the
3 delivering employee will get the return receipt signed for
4 at the time of delivery.

5 A The domestic mail manual transition book explains
6 the requirements, which was what -- we're talking about
7 subpart (e), correct?

8 Q Correct.

9 A Yes.

10 Q The requirements are listed in there and the
11 requirement of subpart E says that the return receipt will
12 be signed for at the time of delivery. Could you read it?

13 A I would have to check the domestic mail.

14 Q Could you read 942.41 of the Domestic Mail Manual
15 as far as it relates to what the delivering employee shall
16 do? The part that --

17 A Right. That -- 932.411, Delivering Employee. The
18 delivering carrier or window clerk must obtain on the Form
19 3811 either the signature or the authorized signature stamp
20 of the individual or organization receiving the article. If
21 the article is accepted by the addressee, item 5 of the form
22 must be completed. If the article is accepted by an agent,
23 item 6 must be completed. Except under 933.4, do not make
24 restricted delivery to addressee only unless requested on
25 the Form 3811.

1 The delivery employee must complete the date of
2 delivery if the addressee has not already done so. Complete
3 the addressee's address in item 8 only if requested in item
4 1. The delivering employee must examine the card for
5 completeness and make any unnecessary corrections. USPS
6 employees must give return receipts to the clearing clerk
7 daily.

8 Q Okay. In other words --

9 MR. ALVERNO: Excuse me. That answer is not
10 complete, because the citation was to 932.41, which also
11 includes 9 --

12 THE WITNESS: 32.

13 MR. ALVERNO: -- 32.412 --

14 THE WITNESS: I was just going to read that.

15 MR. ALVERNO: -- which falls under 932.41.

16 THE WITNESS: Right. And I was just going to read
17 the -- I was going to read the whole --

18 BY MR. POPKIN:

19 Q Okay.

20 A 932.412, Clearing Employee. The clearing clerk
21 must check all return receipts to make sure that they are
22 properly signed and dated. If the mailer requested
23 restricted delivery, check to see that delivery was not made
24 to an agent, except under 933.4. If delivery was improper,
25 the addressee must sign a second return receipt. Prompt

1 corrective action must be taken with delivery employees if
2 return receipts are improperly handled or completed.

3 A properly completed return receipt must be mailed
4 no later than the first work day after delivery.
5 Undeliverable articles must be handled under 159. And so
6 concludes section 932.41.

7 Q Thank you. Now, that is the only requirement you
8 state in your response to interrogatory exists for the
9 delivery of return receipts; in other words, the completion
10 of return receipts for proper action to be taken. And yet
11 my experience, as well as reading this August 1st
12 memorandum, which was the attachment, in both the first
13 bullet and the fourth bullet, seem to indicate that there
14 are exceptions to this.

15 What is the authority for the exceptions? What
16 are the exceptions and what is the authority for it?

17 A Well, I was just going to ask you what the
18 exceptions were.

19 Q Well, the exceptions apparently, based on my
20 anecdotal experience, and I'm not testifying, are lots of
21 them. But if you read the first bullet, which says, in
22 part, to be signed for at a later, more convenient time, if
23 you read the fourth bullet, it states longstanding
24 unofficial arrangements that promote exceptions of stated
25 procedures for convenience need to be reviewed and voided,

1 if necessary.

2 It implies that there are cases where this is not
3 done. Namely, the Postal Service leaves it up to the
4 addressee to complete the return receipt at a more
5 convenient -- later, more convenient time and deposit it
6 back in the mail.

7 What is the authority for doing so?

8 A I have to ask you. I got the first part of the
9 bullet. What was the other bullet you were referring to
10 that you --

11 Q The first bullet on page 2.

12 A Right.

13 Q States longstanding unofficial arrangements.

14 A Okay.

15 Q That promote exceptions to stated procedures for
16 convenience need to be reviewed and voided, if necessary.
17 Both of these seem to indicate that there are policies or
18 procedures where the return receipt is completed at a later,
19 more convenient time. Where are the -- where does this
20 exist and under what conditions and what is the authority
21 for it?

22 A Well, according to what you just said, it's
23 unofficial. So --

24 Q That was the second bullet.

25 A Right. So I couldn't -- I couldn't answer to

1 that. Unofficial means unofficial. So I don't know what
2 the authority would be.

3 Q Okay.

4 A The first bullet, could you --

5 Q The first bullet --

6 A -- repeat the question?

7 Q The first bullet says review current delivery
8 arrangements with large volume delivery points, including
9 government agencies, regarding practices such as handing
10 over accountable mail -- and that does not refer to return
11 receipts, it just says accountable mail -- to be signed for
12 at a later, more convenient time.

13 The point that I'm making here is that the Postal
14 Service is claiming that return receipts are a premium
15 service and yet all you're providing for is letting the
16 addressee mail back a card, a postal card or the equivalent
17 of a postal card at a later date.

18 So the question I have is where does this exist?
19 Where is the acting manager of delivery referring to? What
20 types of circumstances is she referring to and where is the
21 authority for delivery of the mail in this manner?

22 A I'm not an expert on delivery. I can't tell you
23 what any current delivery arrangements are. I appreciate
24 hearing your opinion about what a return receipt is, but I
25 feel that it adds a lot more value than a postal card.

1 Q I still would like the answer to my interrogatory
2 in writing, then, when you have the opportunity to provide
3 me with those details.

4 Okay, going on, in the Return Receipt, it is a
5 premium service, isn't it? You mentioned that in response
6 to, I believe, the OCA's interrogatory and in your
7 testimony.

8 A Right.

9 Q Does a mailer have the right to receive premium
10 service when they purchase a premium product?

11 A I -- I don't see why not.

12 Q Okay.

13 Is a return receipt supposed to be an independent
14 acknowledgement that the article was delivered to whom it
15 was delivered, the date on which it was delivered and, if
16 requested, the address at which it was delivered? .

17 A And what do you mean by "independent"?

18 Q Someone other than the addressee, an independent
19 party, in this case normally the United States Postal
20 Service, guaranteeing, certifying, notifying, whatever word
21 you want to use, the sender of the mail that this letter
22 has, in fact, been delivered, to whom and where, if asked
23 for.

24 Is that the purpose of a return receipt?

25 A The purpose of the return receipt is for knowledge

1 to the mailer as to the proof of delivery.

2 Q Should this be an independent notification?

3 A Should it be an independent notification?

4 Q Namely, if I send a certified letter to the
5 Internal Revenue Service, should the Internal Revenue
6 Service tell me, yes I got this, no I didn't get this or
7 whatever, or is it up to the United States Postal Service to
8 provide me with an independent notification, namely
9 guarantee that this return receipt represents accurate
10 information to the extent that a mistake has not been made,
11 obviously?

12 A Yes, that's -- that's what a return receipt would
13 do, provided you paid for the Return Receipt service.

14 Q Okay.

15 If, in fact, return receipts are completed by the
16 addressee at a later time, how is this independent
17 notification achieved?

18 A You are saying that the -- is this assuming that
19 the return receipt is not returned?

20 Q No, assuming -- let's take the example I gave
21 where I send my tax return to IRS and the Postal Service,
22 let us assume that is one of the examples where they -- that
23 are referred to in this first and fourth bullet where the
24 Internal Revenue Service completes the return receipt at a
25 later time, at a more convenient later time. How do I get

1 independent acknowledgement that my letter was delivered, to
2 whom it was delivered, namely, I assume, IRS, when it was
3 delivered, which may or may not be critical to my tax
4 return, and of course the address, should it be different,
5 which I am not, obviously, concerned in that case?

6 A I'm sorry. I am going to have to ask you to just
7 repeat the first part of that question because it went on so
8 long that I can't remember the beginning of it.

9 Q Very simple. If a piece of accountable mail is
10 delivered in the manner contemplated by bullets one and
11 four, namely the return receipt is left on for the addressee
12 to complete, how does that represent an independent
13 notification to me for the \$1.10 or \$1.50, as you are
14 proposing, that I am paying to get this notification?

15 A You will -- you'll get the notification. If -- if
16 you don't, a second -- a second notification can be
17 requested -- a replacement return receipt can be requested.

18 Q The question I have is, I am paying \$1.10 now to
19 get a return receipt.

20 A Right.

21 Q The service that I am buying, the value that you
22 are offering me, is that I will get an independent
23 notification of the delivery of my piece of accountable
24 mail.

25 A Correct.

1 Q How does this method of delivery that the Postal
2 Service uses in some, many or whatever number it might be
3 cases provide me with that?

4 A Well, I don't know in how many cases it does and
5 I'm not sure how many return receipts are returned back --
6 or returns receipts do not have the actual delivery date on
7 them.

8 Q That was not my question. My question is, whether
9 it's one, whether it's done correctly, whether it happens to
10 be correct, whether it happens to be wrong, that's not the
11 question.

12 The question is very simple. If a piece of
13 accountable mail is delivered in the manner contemplated by
14 these two bullet items, which means in the case I gave the
15 IRS completes the return receipt, how am I getting the
16 service that I paid for, namely an independent notification
17 of the delivery of that article?

18 A How are you not getting it?

19 Q I am not getting it because the United States
20 Postal Service is not providing me with the information as
21 an independent agency. I am getting it by the addressee
22 providing it to me. In other words, if the IRS completes
23 this at a more convenient later time, it is not being
24 completed by the Postal Service. It is not independent, as
25 you're offering this valued premium product to me.

1 A Well, yes. In fact, I am glad you brought up that
2 directive because these unofficial or arrangements that have
3 been made, this is a -- this is an effort to ensure that all
4 return receipts are -- have the actual date of delivery on
5 them and they are filled out properly.

6 Q Excuse me. I don't want to interrupt you but I
7 want to expedite things here too. I am not interested in
8 whether it has the actual date of delivery, I am not
9 interested in who it was delivered to, I am not interested
10 in where it was delivered if it was, I am interested in
11 getting the service I am paying for, namely an independent
12 notification by the Postal Service rather than by the
13 addressee of the delivery of my mail.

14 How does this procedure, these longstanding
15 unofficial arrangements or these signed-for-at-a-later-
16 more-convenient-time, how do these procedures allow me to
17 get the service that I am paying for?

18 A I don't know to what extent you are not getting
19 the service that you paid for. I do not know how many times
20 the IRS may fill it out when it is convenient to them. I
21 don't know.

22 Q Will you concede that there may be one time that
23 if the mail is delivered this way that I am not getting an
24 independent notification?

25 A I don't think I can concede anything. Could you

1 cite a time when this has happened to you with the IRS?

2 Q I would say it happens around the 15th of April
3 just about every year because I'm pretty sure that IRS
4 completes the return receipts at a later, more convenient
5 time. The problem I've always had is with the Federal
6 Communications Commission where they complete return
7 receipts a week or two later, where they put the date on
8 --the recipient may have been on AL at the time, so he puts
9 the wrong date on it. He puts the date on when he actually
10 mailed the return receipt back rather than the date of
11 delivery. So I've had plenty of experience with this as has
12 been related in many previous cases. I'm trying to --

13 A In testimony that you presented?

14 Q No, no, in briefing. What I am trying to --

15 MR. ALVERNO: Excuse me. Objection. There is no
16 briefing I'm aware of where Mr. Popkin has actually said
17 under oath that this has happened to him, so the objection
18 is, this questioning is misleading because it assumes a fact
19 that's not in evidence.

20 MR. POPKIN: Briefing is not evidence.

21 MR. ALVERNO: Briefing or testimony, I don't care
22 what it is, it's not in evidence.

23 PRESIDING OFFICER QUICK: Why don't you rephrase
24 your questions.

25 MR. POPKIN: All right.

1 BY MR. POPKIN:

2 Q You're the expert on return receipts?

3 A On pricing return receipts.

4 Q Okay.

5 A I'm not an expert on delivery or operations or
6 classifications per se.

7 Q Then can I count on a written response to my
8 interrogatories with respect to this?

9 MR. ALVERNO: No, no, no. You had your chance to
10 do your followups. This is the end of the story as far as
11 the Postal Service is concerned.

12 PRESIDING OFFICER QUICK: He has what?

13 MR. ALVERNO: He's had his chance to ask his
14 followups through written cross examination. We're going to
15 answer those questions. As far as the Postal Service is
16 concerned, we're going to answer his questions unless
17 they're objectionable and we hope this saga ends.

18 PRESIDING OFFICER QUICK: So you will be giving
19 written responses to his interrogatories, is that correct?

20 MR. ALVERNO: That's correct.

21 PRESIDING OFFICER QUICK: All right.

22 BY MR. POPKIN:

23 Q Now let's talk about pricing since that's your
24 expertise. If, in fact -- and we'll pick on the IRS since
25 I'm pretty sure that they do complete it after the fact --

1 if, in fact, IRS does complete the return receipt after the
2 fact and mail it back at a more convenient time, where is
3 there any added cost to the Postal Service other than the
4 actual transmission of that return receipt back to me as if
5 it was a post card or postal card or stamped card, depending
6 on which term you want to use? Where does the Postal
7 Service incur any added cost for that particular return
8 receipt card?

9 A Is this as opposed to asking the IRS to send you a
10 postal card when they receive your piece?

11 Q No. Let's back track. If I send a certified mail
12 letter to you, the mailman will come to your house, knock on
13 the door. It takes time. He'll ask you to sign the yellow
14 slip, he'll ask you to sign the green card. All of this
15 takes time. He will evaluate the green card, he will bring
16 it back, give it to the clearing clerk. The clearing clerk
17 will evaluate the great card. All of this takes time; time
18 is money. True?

19 A True, time is money.

20 Q The rest of the scenario is true as to what will
21 happen, correct?

22 A Yes. Could you also address the federal agencies
23 that use rubber stamps? Would you include those too?
24 There's time with that, on the return receipts.

25 Q I'm not interested in what time it takes to sign.

1 There is a finite amount of time that this letter carrier is
2 required to deal with you in getting you to complete the
3 return receipt. He has to wait for you to sign it, he rips
4 it off, gives it to you, has to look at it to determine all
5 of the items that has to be. This has nothing to do with
6 signature stamps.

7 If you happen to be a large mailer or a federal or
8 state agency, then you're entitled to use various types of
9 rubber stamps. That just is a more expeditious way of
10 signing your name.

11 A But Mr. Popkin, excuse me, I think you're not
12 taking into consideration those carriers that would be
13 waiting for the rubber stamp.

14 Q Oh, I am.

15 A Okay. You were just applying it only to an
16 individual and the carrier at the house.

17 Q No, all I'm saying is that if the Postal Service,
18 in delivering the accountable mail with a return receipt
19 follows the requirements of the transition book, the letter
20 carrier or the caller box, or the window clerk, whoever is
21 delivering the letter, will have a number of tasks to
22 complete to process that return receipt if they follow the
23 manual. Correct?

24 A Yes, correct.

25 Q These added costs are what the Postal Service uses

1 to justify their \$1.10 or \$1.50, as proposed, rate, among
2 other things?

3 A Among other things of providing the service, yes.

4 Q Right, plus the markup or whatever, attributable
5 institutional costs, or however you want to word it?

6 A Yes.

7 Q If a piece of accountable mail was delivered
8 without the Postal Service obtaining this independent
9 notification and just allowing the addressee -- let's
10 backtrack one. Once this clearing clerk deposits the return
11 receipt in the mail. In other words, once it's gone through
12 the entire chain in the delivery office, then the clearing
13 clerk will just mail it, correct?

14 A I'm sorry. Once it's --

15 Q Once the letter carrier delivers it or the window
16 clerk delivers it and it goes back to this clearing clerk,
17 and everybody has looked at it and confirmed that it's
18 satisfactory.

19 A Correct.

20 Q The clearing clerk will just deposit it in the
21 mail?

22 A Right.

23 Q Take all 100 or 200, or 10,000, whatever the
24 number might be, or 3, and throw them into the outgoing mail
25 bin or wherever they deposit their outgoing mail, correct?

1 A Correct.

2 Q Okay. Once that has been done, the Postal
3 Service's cost in getting it from that point back to the
4 sender of the mail is identical as if it was a postal card,
5 or post card, or stamped card, whichever word you want to
6 use?

7 A The cost of going through the mail stream --

8 Q Correct.

9 A The cost of going through the mail stream is the
10 same for a return receipt since it is a postal card size,
11 yes.

12 Q Right. It would be the same as if I sent a
13 greeting card to my nephew, a post card, 3-1/2 by 5-1/2
14 postal card. The cost of handling a return receipt is the
15 same as any other postal or stamped card?

16 A Transportation, I am talking about the
17 transportation costs.

18 Q Right, right, from the outgoing mail section, bin,
19 wherever they deposit it to the addressee, the costs are the
20 same?

21 A Subject to check, yes, I think that's fairly
22 accurate.

23 Q Well, it's the same type of mail. It's a postal
24 card or it's a 3-1/2 by 5-1/2 inch card stock piece of mail?

25 A Yes.

1 Q All right. Now, if in fact -- let's go back to my
2 letter to IRS. IRS is doing all of the work other than that
3 transportation. In other words, IRS is looking at the
4 letter, comparing the number, signing the thing, ripping it
5 off --

6 MR. ALVERNO: Objection. It assumes a fact that's
7 not in evidence.

8 BY MR. POPKIN:

9 Q All right. What would you imagine IRS to do if
10 they were completing it at a later, more convenient time?

11 A I don't know what the specific arrangements are
12 with the Internal Revenue Service as far as a rubber stamp
13 or getting employees' signatures.

14 Q Right. Would you expect them to look at the
15 article?

16 A I would expect them to look at the article.

17 Q Would you expect them to tear the return receipt
18 off?

19 A I can't say whether the --

20 Q Assuming it's attached.

21 A Whether the IRS would do that or whether the
22 person to whom the return receipt is delivered would do
23 that.

24 Q Somebody other than a Postal Service employee,
25 would you expect -- since the article has already been

1 delivered?

2 A If the article has already been delivered with the
3 return receipt in tact and no other information filled out
4 on it and that would include any information that perhaps a
5 postal employee would have filled out on it prior to it
6 being delivered.

7 Q Well, it was mailed. In other words, if the
8 return receipt is delivered to IRS attached to the envelope,
9 would you expect IRS to look at the article? You said yes.

10 A Yes.

11 Q Would you expect them to take the return receipt
12 off of the article since it's attached?

13 A If they were the ones returning it with the
14 signature and date stamp. I don't know -- we haven't really
15 discussed as to whether or not the postal employee that was
16 delivering the article went ahead and put the date of
17 deliver down on the return receipt prior to delivery.

18 Q We're assuming that IRS is one of the agencies
19 referred to in this bulletin. They may or may not be. My
20 perception is they are, but for purposes of discussion,
21 we're assuming that they are one of the agencies.

22 A One of the eight agencies did you say?

23 Q No. It says review current delivery arrangements
24 with large volume mails, including government agencies
25 regarding practices.

1 A Right.

2 Q So for purposes of discussion, I'm calling IRS one
3 of those agencies. I'm not entering into evidence that they
4 are, since I can't, but just for purposes of making the
5 question easier, let us assume that they are.

6 A It only speaks to signed for at a later date here.

7 Q Right.

8 A I must point that out. Are you telling me that
9 all of these will not have the date of delivery as filled
10 out by the postal employee?

11 Q Well, in the case of IRS, I know the signature
12 stamp and the date are all one, so that's a separate story.

13 A In all cases, is that how it would be handled or
14 just maybe by that clerk in the mailroom.

15 Or just maybe by that clerk in the mailroom.

16 Q I'm only talking about Holtsville, New York, which
17 is the one I use, but that's not the point.

18 A Well, I'm sorry, but I do think it is the point.
19 You're talking about -- you're talking about delivery date,
20 actual date of delivery. This is the big point you've been
21 pushing, pushing, pushing, and I've got to tell you right
22 here that it talks about signing for at a later date. It
23 does not make reference here that the delivery date is not
24 actually filled out by the postal employee delivering the
25 return receipt, does it? Or if it does, could you please

1 point it to me? Because I don't see it here.

2 Q Okay.

3 A In this bullet you were referring to, number one.

4 Q That's correct. Bullet number one does allow the
5 postal employee to indicate the date or makes no reference
6 to that.

7 A And is there anywhere else in here where you have
8 seen the date?

9 Q I am not referring to the date. My line of
10 questions at this point is to determine that because of
11 these policies that exist --

12 MR. ALVERNO: Objection. No policies are in
13 evidence.

14 BY MR. POPKIN:

15 Q All right. The fact that there is a memorandum
16 dated August 1, 1996 from Sandra D. Curran, which states
17 that one should review current delivery arrangements. So
18 they are arrangements, not policies. My concern is that the
19 only cost that I can see that the Postal Service will incur
20 in processing one of these return receipts is the cost of
21 handling a postcard.

22 A And my contention with that is that you're not --
23 I have brought up the fact of the date of delivery. And I
24 don't see anywhere in this memorandum or directive,
25 whatever, directive, where it refers to the date of

1 delivery.

2 PRESIDING OFFICER QUICK: Mr. Popkin and Ms.
3 Needham, we want to develop as complete and thorough record
4 as we can here and as clear a record as we can. I think it
5 might be helpful. Mr. Popkin, if you maybe had asked that
6 question -- and I know you want to get an answer. Ask your
7 questions as clearly and as non-repetitively as you can and
8 then let her answer and then go on from there.

9 Both of you mentioned the fact that you were
10 having a discussion. Well, discussions are nice and they're
11 rather illuminating sometimes, but we're trying to develop
12 this record. If you're trying to get in the record the last
13 question you -- or the last point you make, why don't you
14 just ask that question, let her answer, and then go on from
15 there.

16 MR. POPKIN: Okay.

17 PRESIDING OFFICER QUICK: And if we could have
18 your answers be as responsive and as succinct as possible,
19 that would be helpful, too. I mean, this is all very
20 interesting, but we do have to keep moving along here. If
21 the record is going to be useful, it should be as cogent and
22 relevant as we can make it.

23 And that brings me to -- do you have quite a bit
24 more? Would you like to take a break now, Ms. Needham?
25 Would that be helpful?

1 THE WITNESS: Yes, please.

2 PRESIDING OFFICER QUICK: Ten minutes. Okay.

3 Let's come back at 20 till and then we'll proceed from
4 there.

5 [Recess.]

6 PRESIDING OFFICER QUICK: Let's have order in the
7 room here and let's proceed, Mr. Popkin.

8 BY MR. POPKIN:

9 Q All right. Continuing on, let's finish up the
10 Return Receipts then.

11 You have indicated before Return Receipts are a
12 premium service that the Postal Service provides, correct?

13 A Correct.

14 Q And that a customer who utilizes the premium
15 service should expect premium -- or premium product should
16 expect premium service?

17 A Correct.

18 Q Has the Postal Service conducted any studies to
19 determine the quality of the Return Receipt service?

20 A Not to my knowledge. The only thing -- that
21 directive that I pointed to earlier, I mean I just wanted to
22 mention, you know, that is a directive saying that we
23 understand that there are some situations where there are
24 problems with Return Receipts, and this is why we want to
25 make sure that these unofficial agreements are not

1 continued.

2 We want to ensure that these unofficial agreements
3 are discontinued and the procedures for handing the Return
4 Receipts are used properly.

5 Q By properly you mean in accordance with the
6 transition book section you referred to?

7 A Correct.

8 Q Okay. But the question I asked was has any study
9 been done to determine the quality of Return Receipt, Return
10 Receipt service, not what efforts have been made to improve
11 it.

12 A I said not to my knowledge.

13 Q Okay. Are you aware that this Commission in
14 Docket R90-1 in their recommended decision issued January
15 4th, 1991, footnote 110, paragraph 6576, felt that there was
16 a suggested deterioration of Return Receipt service which
17 should be of concern to the Service?

18 A Are you reading that verbatim?

19 Q No, I am paraphrasing it.

20 A I would like to see that. I read the R90 decision
21 but it's been a little while, so I would like to see that
22 before I agree that I am aware of what you stated.

23 Q Well, based on what footnote 110 actually says,
24 can you explain why the Postal Service did not do --

25 MR. ALVERNO: Objection. Whatever footnote 100

1 says is not in evidence, nor has it been designated for that
2 matter.

3 BY MR. POPKIN:

4 Q If you were aware that the Postal Rate Commission
5 felt that there was a suggested deterioration of Return
6 Receipt service which they felt should be of concern to the
7 Postal Service, would you have conducted a study to
8 determine the quality of the service?

9 A If I were aware of that, I -- that doesn't really
10 fall into the responsibility of my position whether or not I
11 was aware of it.

12 Q As an expert witness in this area, would you feel
13 that if the Postal Rate Commission felt that way that the
14 Postal Service should conduct a study, an evaluation?

15 A I'm an expert with respect to pricing. I am not
16 sure if there was a delivery or operations or that type of
17 witness available that would have been asked about that.

18 Q Well, this refers to the quality of service which
19 is of course directly related to pricing.

20 A Without reading that, I don't know exactly -- and
21 you are referring back to that which I know isn't in
22 evidence so I don't know whether, I don't think I can answer
23 the question since I haven't seen in.

24 Q All right. Let's go on to Return Receipt for
25 merchandise.

1 Could you confirm that the main proposal that you
2 are dealing with here is to require that service to be used
3 only with respect to Standard Mail A or B or Priority Mail,
4 in other words eliminating the option to use it with First
5 Class mail?

6 A Well, I wouldn't say we're eliminating the option
7 to use it with First Class mail because Priority Mail is
8 considered First Class mail.

9 Q With letters that are paid at 32 cents for the
10 first ounce, 23 cents each additional ounce rate which goes
11 up to 11 ounces -- are you eliminating that option to use
12 it?

13 A I am not proposing to eliminate merchandise under
14 11 ounces.

15 Q Well, the question I have is if I have a four-
16 ounce piece of merchandise, Mr. Carlson's eyeglass case, and
17 I want to send this and use the Return Receipt for
18 merchandise service, under the new rules would I have only
19 two ways that I could send that, either Standard Mail, which
20 would be the appropriate rate for four-ounce which is \$1.01
21 if I recall, or Priority Mail, which would be \$3, but not
22 First Class mail, which would be \$1.01?

23 A That is correct.

24 Q If I wanted to mail it today, prior to the
25 decision, I would also have that option of sending it by

1 First Class mail for the \$1.01 postage plus the cost of the
2 Return Receipt, is that correct?

3 MR. ALVERNO: So that the record is clear, the
4 subclasses to which Mr. Popkin is referring is "Letters and
5 Sealed Parcels" -- not First Class mail, which would
6 encompass both Priority Mail and First Class mail.

7 THE WITNESS: Thank you. Now could you repeat
8 your question, please.

9 BY MR. POPKIN:

10 Q If I were to mail it today under the existing
11 regulations, I would have the option of mailing it with the
12 same two options plus "Letters and Small Parcels" category
13 of First Class mail?

14 A You could mail it under the "Letters and Sealed
15 Parcels" subclass, correct.

16 Q Why is the Postal Service proposing to take away
17 my option of mailing this four-ounce parcel by First Class
18 mail rather than dealing with the question that says
19 merchandise is merchandise. In other words, why are they
20 not defining merchandise to achieve what their goal was in
21 this service?

22 A We are not proposing to take away your option to
23 mail return receipt for merchandise at First Class mail.

24 Q But you are -- are you taking it away at the
25 letter and sealed parcel subcategory of First Class mail?

1 In other words, let's backtrack. Do you agree that the
2 service standards for standard mail differ from First Class
3 mail?

4 A That the service standards for standard --

5 Q Delivery time.

6 A Delivery standards for standard mail differ from
7 First Class mail?

8 Q Correct, yes.

9 A To my knowledge, they do.

10 Q And the First Class mail in all cases is faster?

11 Or, correspondingly, standard mail -- the standards, not the
12 results, the standards, the service standards for First
13 Class mail are less for faster delivery than for standard
14 mail?

15 A I am not an expert on delivery but I would be --
16 be apt to agree that the service standards for First Class
17 mail are -- are quicker than they -- quicker delivery than
18 standard mail.

19 Q Okay, so if I have Mr. Carlson's eyeglass case to
20 mail under the proposed regulations and we will assume that
21 it -- will you agree that that's merchandise? That meets
22 the definition of merchandise?

23 A Contents that could be bought or sold. Or parcel,
24 parcel --

25 Q Let's take an example. Mr. Carlson's eyeglass

1 case that's sitting here, that's not the question. It's
2 merchandise.

3 If I bring this into the Post Office under the
4 proposed rules, will you agree that I have two options? If
5 I want the more expeditious handling I would have to send it
6 priority mail for \$3 rather than the standard rate for
7 dollar one, so that in effect you are creating a \$1.99 rate
8 increase for me to mail this four-ounce package if I choose
9 to have expedited handling or whatever the official word is
10 for First Class mail?

11 A I don't think "expedited" is -- I think
12 "expedited" refers more to Express Mail, but --

13 Q Well, whatever the definition is for First Class
14 mail.

15 A Under the proposal, the First Class mail would,
16 under the 11 ounces, would go Priority Mail.

17 Q I would have to send it Priority Mail which would
18 therefore be an increase in my cost? In other words --

19 A Over the letters and sealed parcel subclass.

20 Q Right, in other words --

21 A Correct.

22 Q -- Priority Mail can be sent for one ounce, two
23 ounces, three ounces, all the way up to 11 ounces at the
24 same \$3 fee?

25 A The rate would stay the same.

1 Q Okay. What is the justification for doing that as
2 opposed to just tightening up or establishing the desire of
3 the term "merchandise"?

4 A First Class mail is sealed against inspection.
5 There is no way to verify if contents are merchandise or
6 nonmerchandise. The basic purpose of the initial proposal
7 came from demand from parcel mailers and these were, at the
8 time, Fourth Class parcel mailers who noted that they had a
9 desire for service of this type. It was investigated,
10 decided to go with it and when the original regulations were
11 written, it included the First Class, Third Class, Fourth
12 Class, Priority. We have since determined that a clear
13 definition of what merchandise is can be found in priority
14 and standard mail.

15 Q Is priority mail sealed against inspection?

16 A I'm not sure. It might be, but I know first class
17 mail is. First class mail does include priority mail, but
18 I'm not exactly sure of that.

19 MR. POPKIN: Will you stipulate that, counsel?

20 MR. ALVERNO: Subject to check, yes.

21 MR. POPKIN: Thank you.

22 BY MR. POPKIN:

23 Q All right. Let's move on to registered mail. If
24 it utilize registered mail, what service am I buying? In
25 other words, what are the components of the service that I'm

1 buying?

2 A Okay. Do you have a specific interrogatory cite
3 or is this just a --

4 Q It's somewhere here, but it's -- the answer I'm
5 looking for, if you'll confirm it, is I'm buying both the
6 secure transmission -- namely, assigning a number, giving a
7 receipt, signing for it at each point of transfer, allowing
8 the ability to have return receipt, getting a signature on
9 delivery. The secure transmission, as well as if I decide
10 to choose the option of insurance.

11 MR. ALVERNO: Objection. I think that as long as
12 Mr. Popkin is referring to specific interrogatories, he
13 could direct all of our attentions to those interrogatory
14 responses, and so that way we will be, in fact, in
15 conformance with the special rules of practice which allow
16 Mr. Popkin to explore or clarify matters that were answered
17 in written discovery.

18 BY MR. POPKIN:

19 Q Interrogatory T8-24AAA.

20 A Would that be an OCA interrogatory?

21 Q No, mine.

22 A T8-24.

23 Q Right. It's one of the new ones.

24 A I can't respond to those. I'm preparing written
25 responses.

1 Q Are you aware of -- are you aware of the answer to
2 this, that those are the two basic parts of registry
3 service?

4 A I cannot answer to these questions. I haven't
5 completed the interrogatory responses yet.

6 Q All right. Can you -- is registry service a
7 premium product?

8 A I believe I already said it was.

9 Q Okay. Can you describe how this -- a registered
10 article is processed when the customer brings it to a
11 window?

12 A I'll -- I'll do -- I'll do the best I can or
13 perhaps I can even do better than that. I believe I have
14 the Domestic Mail Manual here, that I could cite you.

15 Q Well, I'm just looking for an explanation of some
16 of the points that a window clerk would do. In other words,
17 is it true that the window clerk will evaluate the receipt
18 that has been pre-filled out by the customer?

19 A When you say the receipt, the receipt for the
20 registered article?

21 Q Right. In other words, the customer is required
22 to fill out the receipt before they bring it to the window.
23 Will you agree that the -- that that's done?

24 A I would agree that the clerk would check over the
25 receipt.

1 Q Right. The clerk will also complete the receipt
2 as far as the postage, cost, the registry fees, any other
3 fees, initial it; in other words, a number of items that are
4 required to complete the receipt.

5 A I would confirm that there potentially are a
6 number of items that would need to be done.

7 Q Right.

8 A Such as those.

9 Q Right.

10 A Without having exactly the -- I might be missing a
11 few, you might be missing a few.

12 Q Right.

13 A But --

14 Q That's correct. But in general, they're going to
15 fill out their part of the receipt. They're going to put a
16 red tag with the number on the article.

17 A Correct.

18 Q They're going to postmark the flaps of the
19 article.

20 A That's my understanding.

21 Q Right. Okay. Now, what happens to the letter
22 next?

23 A That I would have to -- I mean, I can -- I can go
24 back on my experience as to what I know. I don't know if
25 things have changed in the last 13 years since I was in the

1 field with respect to registry. My understanding is that
2 there's a pouch for registered mail that the articles are
3 placed in, but they have to be signed into a book first.

4 Q Right. In other words, there is a number -- a
5 series of things where the clerk A will hand it to clerk B
6 and get a receipt; clerk B will hand it to clerk C.

7 A Right. I know that it's signed for at each --
8 each time it leaves -- leaves one's hands throughout the
9 process.

10 Q Okay. If clerk A is the acceptance clerk and they
11 turn this article over to clerk B, how will clerk B know the
12 value of this article?

13 A Well, clerk B could look at the postage.

14 Q Is the postage always indicative of the value of
15 the article?

16 A The postage would contain the appropriate postage
17 plus the fee for the registry and any ancillary services.

18 Q Is it permissible to pay more than the required
19 postage? In other words, if the required postage was \$8,
20 could I put two five-dollar stamps on that article?

21 A You certainly could, if you wanted to.

22 Q And that would --

23 A You can go right ahead and do that, put dollar
24 stamps on one-ounce first class pieces, too.

25 Q Could stamps fall off of mail in transit and not

1 create a short-paid article?

2 MR. ALVERNO: Objection. What's the point of
3 this? This doesn't matter related to the pricing proposal
4 for registered mail or the classification changes at issue
5 here. I don't see where this is going. This is just
6 another attempt by Mr. Popkin to make inquiries on a postal
7 witness who is captive in the Commission.

8 MR. POPKIN: What I am attempting to obtain here
9 is that once the article leaves the acceptance clerk at the
10 window, the Postal Service has no idea that -- of the value
11 of that article and whether it's worth \$100, \$500, or
12 \$1,000; will be unable to provide any added care or
13 security.

14 And, therefore, on uninsured mail, uninsured
15 registered mail, there is no justification for the added
16 fee.

17 PRESIDING OFFICER QUICK: Why don't you ask that
18 question and eliminate some of the predicates? Just ask the
19 question and then if she can answer it, fine. If she can't
20 --

21 MR. POPKIN: Okay.

22 PRESIDING OFFICER QUICK: Rather than going
23 through the whole process of what happens when --

24 MR. POPKIN: All right.

25 BY MR. POPKIN:

1 Q How will Postal Service employees along the
2 processing route -- let me rephrase the question. What
3 added care or security will a Postal Service employee
4 provide for an article which has a value of \$100 versus one
5 that has \$500?

6 A And you're talking about with respect to
7 registered mail.

8 Q If I register an article that has one engraved
9 picture of Franklin in it for \$100 or I mail an article that
10 has five of them in it with a value of \$500, what added care
11 or security will the Postal Service provide the one that has
12 five engraved pictures of Franklin?

13 A Mr. Popkin, I'm going to ask you if this refers to
14 one of your follow-up interrogatories.

15 Q Yes, it does. It's part of T8-24 and it refers to
16 your pricing policy, which I'm trying to determine here why,
17 if you're proposing to eliminate uninsured registered mail,
18 except for the first \$100 limitation, which, in effect, is
19 you're trying to force the person who has no need for the
20 indemnity part of a registered letter and only wants a
21 secured handling, to pay an added fee by buying insurance
22 that they no longer -- that they have no need for.

23 MR. ALVERNO: Objection, because that's not in
24 evidence. With the proposal that the Postal Service
25 proposes, if there is a letter that has no value, the

1 customer will still have the option of having uninsured
2 registry. End of story.

3 MR. POPKIN: And if the article is worth -- has a
4 value of \$500, they will no longer have the option, and
5 that's what I'm trying to determine. What added care or
6 security the Postal Service will provide for an article that
7 has a value of \$500 over one that has a value of \$100.

8 PRESIDING OFFICER QUICK: That's the kind of
9 question to ask and then let her respond. Just ask them
10 direct like that and let her respond we'll see what we get.

11 THE WITNESS: Mr. Popkin, I have -- I am preparing
12 interrogatory responses to answer that. I thought it
13 sounded familiar, but like I said, with the 331 questions
14 you posed, it's hard to keep them all as follow-up. It's
15 hard to keep them all in track.

16 I'm in the process of working on that. The only
17 thing I can tell you is my recollection of my responses that
18 hasn't been completed yet is there are differences in
19 handling as value increases.

20 BY MR. POPKIN:

21 Q That's what I'm looking for, is the specific
22 differences and I trust that counsel will make every effort
23 to provide me then with as clear and as concise and
24 responsive answers that they can.

25 MR. ALVERNO: If we don't object, we certainly

1 will.

2 BY MR. POPKIN:

3 Q Since you like to use other examples, such as your
4 day care centers in Arlington County and so on, with respect
5 to telephone service, is telephone service now being
6 unbundled, namely local calls are being separate from --
7 local toll calls being separate from long distance calls?

8 A I don't know. With respect to the summer camp
9 program I was referring to yesterday, that dealt with an
10 example of the nonresident fee.

11 Q That's right.

12 A That was the testimony yesterday. Today is T8.

13 Q That is correct. I am just using that as an
14 example that, in your testimony, you like to give other
15 examples that are not related to the Postal Service and your
16 pricing policies.

17 Are you aware that telephone service is now being
18 unbundled?

19 MR. ALVERNO: Objection. That is not in evidence.

20 THE WITNESS: I don't --

21 MR. POPKIN: I'm asking her for --

22 PRESIDING OFFICER QUICK: Where are we going with
23 this?

24 MR. POPKIN: Well, where I am going is that the
25 registry fees are now being bundled. In other words, rather

1 than having the option of buying secure transmission of the
2 letter and insurance -- or without insurance, I am now
3 being --

4 PRESIDING OFFICER QUICK: You can ask her that.
5 Don't ask her about telephone. Just ask her --

6 BY MR. POPKIN:

7 Q Why is the Postal Service bundling these two
8 options? In other words, forcing me for articles valued
9 over \$100 to buy insurance?

10 A I believe I addressed that in my testimony under
11 the proposal. I will point that out to you.

12 On pages 1 to 2 of my -- excuse me -- testimony, I
13 explain in the proposal how the testimony demonstrates the
14 proposal would simplify the fee schedule considerably,
15 reduce administrative costs while taking advantage of the
16 minimal costs of insuring Registered Mail above that sending
17 it Registered.

18 I also further discuss --

19 Q Well, can we take these points now?

20 Why is eliminating rates -- has there been
21 confusion in the rate structure?

22 A There has been confusion in the fee structure for
23 Registered Mail, there sure has, yes. I'm glad you brought
24 that up, too. There has been quite a bit of confusion.

25 There -- a lot of times mailers will get

1 registered mail, assuming that, because they're registering
2 it for X amount, \$5,000, say, that they are going -- if it's
3 lost in the mail or damaged, whatever, that they will be
4 reimbursed that \$5,000. Some customers feel implicit in the
5 term "registry" is that there -- it provides indemnity and
6 registry without insurance does not provide indemnity. It
7 is a security handling service throughout the mail.

8 Q Correct. Does the form that the customer mails
9 ask them to make that choice, whether they want insurance or
10 not?

11 A Could you show me the form, please?

12 Q I don't have it here.

13 A I can't answer your question.

14 MR. POPKIN: Will you concede that that question
15 is asked on the form?

16 MR. ALVERNO: No.

17 MR. POPKIN: Okay.

18 PRESIDING OFFICER QUICK: Well, is it a reasonable
19 assumption?

20 Go ahead, Mr. Popkin.

21 MR. POPKIN: Yeah, this does not seem to be a very
22 cooperative activity.

23 PRESIDING OFFICER QUICK: Look, if we -- we have a
24 mutual problem here. You need to sharpen up your focus and
25 ask clear and more concise questions and the witness and her

1 attorney need to be more responsive. That's the situation.

2 Now, we are going to continue for a while, so you
3 get as much done as you can. We are going to continue for,
4 I don't know, a while and see what we come up with but let's
5 attend to what we're about here, everybody, not just
6 Mr. Popkin.

7 We don't need smart aleck attorneys and we need
8 more cooperative and more forthcoming witnesses. Let's go.
9 And we need more clear questions. Don't do a lot of
10 predicates. Get the final question you want to ask, ask it
11 and let her respond. Don't then repeat it another way
12 because you don't like her response. Accept what she gives
13 you and go from there. I mean, if she doesn't know or if
14 it's evasive, you know, accept what it is. Let's go.

15 BY MR. POPKIN:

16 Q What administrative costs would be reduced by
17 eliminating the noninsured registry fee over \$100?

18 A The costs explained to the customers, the
19 differences between registered with insured and registry
20 without insured, and also the fees, explaining the fees
21 associated with those two options.

22 Q Could you explain what you mean by the minimal
23 cost of insuring registered mail?

24 A The minimal cost to the customer, it varies from
25 10 cents per piece for an article valued up to \$100 to I

1 believe it's \$2.70 per piece at \$25,000.

2 Q In other words, I refers to the added cost of
3 insurance versus noninsurance?

4 A Yes, that's the added cost to the customer of
5 insured registry versus uninsured registry.

6 Q Why is it necessary for the mailer to declare the
7 full value on a registered article -- let me take that back.
8 What is the rationale behind the regulation for that?

9 A I did not prepare the regulation, so I don't
10 really feel comfortable about answering that.

11 Q Okay. Let's go on to insurance. You chose over
12 and above the existing rates a 90 cent per \$100 fee up to
13 \$5,000?

14 A I'm proposing that the existing fee over \$100 per
15 \$100 increment, yes, be --

16 Q Over I believe the existing \$600, it's going to be
17 90 cents per \$100?

18 A Right, just like it's 90 cents per \$100 above that
19 \$100.

20 Q Okay. Why was 90 cents per \$100 chosen as opposed
21 to some other number?

22 A I have addressed that in the pricing criteria
23 within the testimony. I have spoken to, with respect to
24 Criterion 1, how it is fair and equitable because it
25 maintains the existing fee structure above \$100.

1 I have also addressed it with respect to the other
2 criteria. They are listed at page 51 through 55 of my
3 testimony.

4 Q But the main -- one of the main reasons is you
5 decided, from \$100 up, you went 90 cents per \$100, you
6 wanted to just continue that, is that correct?

7 A I wouldn't say that was the main reason.

8 Q A reason?

9 A A reason.

10 Q Why didn't you establish something that was
11 similar to registered mail where you go \$100, then \$500 and
12 then you go in \$1,000 increments? In other words, the
13 increment gets larger as you go up in value.

14 A Because our current structure for insured mail is
15 by \$100 up through \$600, whereas in registered, if I'm not
16 mistaken, it goes from \$100 to \$500 to \$1,000. We have
17 it -- I have it at ever \$100 because it already -- we
18 already started out with \$100 value levels.

19 Q Moving on to certified mail, one of the items you
20 indicated in response to the OCA and in response to my
21 Interrogatory T8-7 --

22 A And what was the OCA interrogatory?

23 Q I don't recall. It was one of the questions he
24 was asking this morning.

25 A Oh, okay.

1 Q Was that you indicated that the \$1.50 certified
2 mail fee coupled with the \$1.50 return receipt fee would be
3 simple and easy to remember and my question to you was
4 wouldn't it be even easier to remember if the certified mail
5 and the return receipt fees were each 34 cents, making the
6 one ounce certified mail return receipt letter cost an even
7 dollar, and your response was "No more so than a penny or
8 \$100."

9 Does that mean that any even amount from a penny
10 up to a hundred dollars would have been easy to remember?

11 A No. That's just saying a penny or \$100 are easy
12 to remember.

13 Q That was the question I asked you. Okay. Then
14 why was \$1.50 chosen?

15 A \$1.50 was chosen based on a variety of reasons
16 also discussed in the pricing criteria of my testimony.

17 Certified mail provides a high value of service to
18 its customers. It currently has a lost cost coverage, as
19 the OCA has been able to point out in interrogatories to me
20 when using a pure cost coverage of just for certified mail,
21 Dockets R-87 and R-90. They were below cost for certified
22 mail.

23 Q Okay. With respect to express mail, in one of the
24 items that was asked earlier, and of course I have asked it
25 previous interrogatories, is the comparison between priority

1 registered mail and express insured mail.

2 I am still not clear how a knowledgeable mailer
3 would want to use the more expensive insured mail over the
4 less expensive registered mail.

5 MR. ALVERNO: Objection. There is no proposal for
6 priority express whatever -- registry.

7 MR. POPKIN: Registered mail, if it is --

8 PRESIDING OFFICER QUICK: All right.

9 BY MR. POPKIN:

10 Q If I had a \$5000 article to mail and assume that
11 it was over 11 ounces, I would have to send it by priority
12 mail if I wanted it to go expeditiously other than express
13 mail?

14 In other words, I would have three choices --
15 express, priority, or standard mail?

16 A For over 11 ounces, is that what you were saying?

17 Q Right.

18 A To my knowledge, yes.

19 Q Okay. If it was worth \$5000, if I chose to insure
20 it, I am going to be paying a lot higher rate for the
21 insurance than if I chose to register it, correct?

22 A The fee for the insurance for \$5000 is higher than
23 the registry fee for \$5000, but the total price of the
24 postage plus the fee would depend on what class you were
25 mailing it at.

1 I suppose if you mailed them both at the same
2 class, then you would pay more for the insurance at \$5000
3 than the registered.

4 Q I will leave that one for a written response then
5 because I have posed several examples here, but let's not
6 tie that up.

7 All right, document reconstruction. The Postal
8 Service is proposing to reduce the maximum amount down to I
9 believe \$500 maximum?

10 A Let me flip to that in my testimony to make sure
11 there is a --

12 Q It's probably on page 56 of your testimony.

13 A Oh, yes. Well, I'm at 29 but it would be -- we
14 are proposing the indemnity limit per -- per piece of
15 \$50,000 be reduced to 500 per piece and the indemnity limit
16 per occurrence be reduced from 500,000 down to 5,000.

17 Q Correct, I believe. And your justification for
18 this on page 56, line 2 and 3, is that the average claim was
19 less than \$100?

20 A Correct.

21 Q And in my interrogatory, I asked you what the
22 maximum claim was and you were unable to provide that to me.

23 A Right. And what was that interrogatory?

24 Q T8-6.

25 A Okay. I -- yeah. The -- we only track the paid

1 claims by the total amount so therefore I cannot give you
2 the maximum valid claim made in 1995. We only have it by
3 totals.

4 Q Well, I don't know, do you have the total amount
5 that was paid?

6 A Of all the paid claims.

7 Q Of all the claims.

8 A I believe it is also in --

9 Q So in other words, your average -- in other words,
10 you only know two pieces -- I just want to know if I
11 understand this because averages, you know, the sum of the
12 items divided by the number of items. So, in other words,
13 all you know, the only information you have available, is
14 the total claims were paid for all document reconstruction
15 cases and the total number of document reconstruction cases
16 that were filed?

17 A That were settled, I would say.

18 Q Settled, filed, okay.

19 A Yes. I -- I've been -- I've been informed that it
20 is privileged information to disclose, for whatever
21 purposes. It is privileged information to disclose the
22 claims.

23 Q I am not interested in --

24 MR. ALVERNO: So that the record is clear, the
25 Postal Service has made no objection on the grounds of

1 privilege with regard to that interrogatory. The only
2 information that we do have is the information that is
3 reported in SSR-109.

4 BY MR. POPKIN:

5 Q Well, my -- my point is, do you feel as an expert
6 pricing witness that one could make a better decision as to
7 the validity if they knew both the average and the maximum?

8 A No, I -- I can tell you that this proposal is
9 appropriate considering that the average -- even what the
10 average falls at, we are still offering to keep the -- the
11 maximum higher than what we have seen, five times higher
12 than the average.

13 This service was created a long time ago, before
14 the advent of a lot of technological equipment that now
15 precludes a high -- the high reconstruction costs that would
16 have been incurred years ago.

17 Q That wasn't the question I asked. The question I
18 asked was, do you as an expert pricing witness feel that you
19 could make a better decision if you knew both the average
20 number and the maximum number?

21 A And my answer was, no. I can repeat the rest of
22 it.

23 Q No, okay.

24 Why do you feel that that is so?

25 A I feel that, based on the information that has

1 been presented in the testimony here along with the
2 information in Library Reference SSR-109, there is
3 sufficient justification for this classification change and
4 I have addressed that in the classification criteria in my
5 testimony.

6 Q That was not the question I asked.

7 The question I asked was, as a pricing expert --

8 PRESIDING OFFICER QUICK: Mr. Popkin, your
9 understanding of what you asked and her understanding of
10 what you asked may differ a little bit. She gave you her
11 response based on how she understood the question. Asking
12 it again may not achieve that much more. It might be well
13 just to proceed.

14 BY MR. POPKIN:

15 Q Let's go on to stamped cards.

16 In your response to T8-9, you utilized the term --

17 A Excuse me. Was that yours or OCA's?

18 Q Mine. My T8-9B.

19 A Okay.

20 Q You utilized the term philatelic card products.

21 What is a philatelic card product?

22 A A philatelic card product could be a picture
23 postcard special series, a postal card, rather, that is
24 produced by the Philatelic Fulfillment Center.

25 Q Is the Philatelic Fulfillment Service Center,

1 which I believe is the correct designation, a subgroup of
2 the United States Postal Service?

3 A It's part of the Postal Service.

4 Q Okay. Does a philatelic product meet all of the
5 requirements to qualify it as a postal or stamp card as
6 specified in the classification schedule?

7 A I wouldn't be surprised, although I'm not sure
8 because the pricing for these products is not done under the
9 DMCS. I'm only familiar with the pricing of products under
10 the Domestic Mail Classification Schedule.

11 Q The Section 222.11 of the Classification Schedule
12 define a postal, presently or stamped, proposed, card as a
13 postal or stamped card -- a postal or stamped card is a card
14 with postage imprinted or impressed on it and supplied by
15 the Postal Service for the transmission of messages?

16 PRESIDING OFFICER QUICK: Is that a question?

17 MR. POPKIN: That was a question.

18 THE WITNESS: I thought it was a statement.

19 PRESIDING OFFICER QUICK: Repeat, I was all
20 confused.

21 MR. POPKIN: Okay.

22 BY MR. POPKIN:

23 Q Does Section 222.11 of the Classification Schedule
24 define -- and I'll use the present one so we don't keep
25 going postal stamped because that's the only changes that

1 are made -- does it define a postal card as "A postal card
2 is a card with postage imprinted or impressed on it and
3 supplied by the Postal Service for the transmission of
4 messages"?

5 A I don't have that in front of me but subject to
6 check, I'd agree.

7 MR. POPKIN: May I show it to her?

8 PRESIDING OFFICER QUICK: Surely.

9 THE WITNESS: There is a page missing here, page 7
10 -- I mean page 6. It goes from 5 to 6. This goes to the
11 end of page 5. I'd like to see if you have 6, if there's
12 anything else that it states about it in that section.

13 MR. POPKIN: May I see your copy?

14 MR. ALVERNO: No, we only have one copy.

15 PRESIDING OFFICER QUICK: What is the document you
16 have there, Mr. Popkin?

17 ~~MR. ALVERNO~~ ^{POPKIN}: In Order 1115.

18 ~~MR. POPKIN~~ ^{ALVERNO}: We don't have that document with us.
19 We have our own proposal with us.

20 CHAIRMAN GLEIMAN: Mr. Popkin, she said subject to
21 check, that she would agree with your definition. Is there
22 some kind of followup question or something?

23 MR. POPKIN: Yes.

24 BY MR. POPKIN:

25 Q Is a philatelic card product a card?

1 A Yes.

2 Q Does a philatelic card product have postage
3 imprinted or impressed on it?

4 A To my knowledge, yes.

5 Q Is a philatelic card product supplied by the
6 Postal Service?

7 A Yes.

8 Q May a philatelic card product be used for the
9 transmission of messages?

10 A Yes, I suppose so. Sure.

11 Q May it, whether it's use or not is not the
12 question?

13 A Yes, I assume so. I'm not an expert on philatelic
14 -- these fall under the purview of a different office. They
15 are not a product of the -- they are not under the DMCS
16 purview, these philatelic card products. They are priced by
17 the Philatelic Fulfillment Center or retail or whatever
18 office. They are not postal or stamped cards as presented
19 in my testimony.

20 Q Do you know what the authority is for pricing them
21 different than postal or stamped cards?

22 A Well, they are not under the domestic mail
23 classification schedule, so that's the extent of my
24 knowledge.

25 Q Okay. You just indicated that they were, that

1 they met every condition of the schedule.

2 MR. ALVERNO: Objection. I don't believe the
3 witness conceded to any of that. While Mr. Popkin may have
4 gotten her to concede that certain elements of a postal card
5 are shared by these commemorative or philatelic postal
6 cards, he has not received confirmation from the witness
7 that they are, in fact, postal cards.

8 BY MR. POPKIN:

9 Q Do philatelic card products meet each of the
10 elements of Section 222.11 of the Classification Schedule?

11 A If I could see the rest of that section, if you
12 have page 6, because yours ends right at the end of that
13 page and I would be -- it would be very unwise for me, I
14 believe, to confirm something I haven't even seen.

15 MR. RUDERMAN: Excuse me. If Mr. Popkin wants to
16 provide them, one of our staff people will go down and get
17 the missing page.

18 PRESIDING OFFICER QUICK: How vital is this to the
19 line of questioning? Where is this line of questioning
20 going to end up? Is there --

21 MR. POPKIN: I'd just like the Postal Service to
22 agree that these are postal cards and therefore, they should
23 be priced in accordance with postal cards or stamped cards
24 as we --

25 PRESIDING OFFICER QUICK: Well, she said it's a

1 separate office, I believe, that handles these things.

2 MR. POPKIN: But it is an office of the Postal
3 Service.

4 PRESIDING OFFICER QUICK: She gave you her answer
5 as best she could.

6 MR. POPKIN: Okay.

7 BY MR. POPKIN:

8 Q What is the name and title of the Postal Service
9 office employee who is responsible for pricing these cards,
10 do you know?

11 A Actually, offhand, I don't know for sure. It
12 could be done directly at the Philatelic Fulfillment Service
13 Center, but I'm not sure. It used to be done in the old
14 Office of Retail but that was years ago. We don't have an
15 office like that -- we don't have an office by that name, to
16 my knowledge, so I don't know if the successor type office
17 took over those responsibilities or if it rests at the
18 Philatelic Fulfillment Center, but I would suggest probably
19 one of those two. At least one of those two should know the
20 successor to the Office of Retail or the Philatelic
21 Fulfillment Service Center.

22 Q Well, all right. That was in one of my
23 interrogatories. So I trust I'll get an answer for that.
24 Okay. Does the head of that agency or branch or section,
25 whatever it is, is that a management employee of the Postal

1 Service?

2 A I don't know for sure since I don't know which --
3 where the pricing comes out of. I gave you two potential
4 suggestions as to who would know. I'm not saying
5 definitively it's one of those two.

6 Q Will that person receive a bonus based on their
7 performance?

8 MR. ALVERNO: Objection. How is this relevant to
9 the proposals at issue before the Commission?

10 MR. POPKIN: That's relevant to the order that was
11 issued today with respect to the turning down the request to
12 dismiss postal cards.

13 MR. ALVERNO: How so?

14 MR. POPKIN: How so? If the individual who makes
15 that decision receives a bonus, then that affects his pay by
16 charging more for these cards than other cards.

17 MR. ALVERNO: No, no. The proposal is to cover
18 the manufacturing costs of the cards. That's the only --
19 that's the only component of -- it's in the fee itself. So
20 whether or not a bonus is paid would have no bearing on the
21 fee for the card.

22 THE WITNESS: And of this -- of what I'm proposing
23 in my testimony. Thank you.

24 BY MR. POPKIN:

25 Q Well, it's proposed to charge a two-cent fee for

1 the actual card, correct? In other words, two cents plus
2 postage.

3 A The fee -- the fee proposed is two cents over the
4 postage rate to cover the cost of the card and reflect the
5 value of service inherent with the postal card. I presume
6 now we're just speaking of postal/proposed stamped cards --

7 Q Correct.

8 A -- as opposed to the philatelic.

9 Q Correct.

10 A Okay.

11 Q Now, if the Postal Service provides a philatelic
12 card product and charges a price which is different than the
13 two cents, then I would like to investigate that particular
14 proposal.

15 A That would be done so outside of the purview of
16 the Postal Rate Commission, to my knowledge, since it does
17 not fall under the DMCS, the philatelic card products.

18 MR. ALVERNO: If I may interrupt.

19 PRESIDING OFFICER QUICK: There is an answer.
20 There is your answer. Go ahead to the next question.

21 MR. POPKIN: All right.

22 BY MR. POPKIN:

23 Q On to special delivery. What I'm trying to
24 determine here is is there a reason for special delivery.
25 In other words, is there any circumstance -- let us assume

1 that two articles come into a mail processing center at the
2 same time. One is express mail, one is special delivery.

3 Is there any place, any type of office, any type
4 of delivery, any day, any condition under which the special
5 delivery mail will get faster service than the express mail?

6 A Is this -- was this posted as an interrogatory?

7 Q It was and it was tried -- I tried to clarify it.

8 A It would be helpful if you could --

9 Q T8-11 and you said that it would be generally yes,
10 but yet you know of no particular instance.

11 A It would be very helpful to me, sir, if you could
12 refer me to the interrogatory response before -- before
13 asking the question. I think it would save time. Okay. I
14 have -- I have reviewed my response to this. Generally,
15 yes, I would confirm that express mail would receive equal
16 or better delivery service than special delivery.

17 Q Well, are the conditio -- the question I'm asking
18 is if this is under the regulations -- in other words, not
19 what might be done by some local postmaster. In other
20 words, are there specific regulations for the delivery of
21 special delivery?

22 A Let me check. I believe I have something here. I
23 don't want to hold this up.

24 Q The only question I had was are there regulations
25 with respect to the delivery of special delivery, not what

1 are they.

2 A Yes. Yes.

3 Q Are there regulations with respect to the delivery
4 of express mail?

5 A Yes.

6 Q If two articles were to arrive at a mail
7 processing center at the same time, would they either be
8 delivered at the same time, following the regulations, or
9 would the express mail article be delivered earlier, which
10 is acceptable, or is there some instance where special
11 delivery might be useful?

12 A I am not going to say that special delivery is
13 useless but --

14 Q Okay, in comparison. In other words, where I am
15 heading here is and my feeling is that if there is no place
16 where special delivery will serve to provide a more
17 expedited delivery than express mail, then I have no
18 objection to the proposal to drop it.

19 In order to make that determination, I am asking
20 you if there are any conditions where special delivery would
21 get a more expedited delivery time than express mail,
22 assuming they arrive at the mail processing center at the
23 same time.

24 A second question, assuming that they depart the
25 mail processing center at the same time.

1 A third scenario is where they arrive at the
2 delivery office the same time.

3 A It all depends on the situation in the office as
4 to whether, you know, express mail would have a time certain
5 delivery. Special delivery, it's possible it could -- it
6 could arrive -- it could be delivered earlier but I wouldn't
7 say it was likely.

8 I don't really know for sure. It just depends on
9 the -- there could be many different situations.

10 Q And that is what I am looking for, for which
11 situations exist, okay, if any.

12 One final area, T8-13 --

13 A Okay.

14 Q -- in your response -- the interrogatory that I
15 asked in (A) was "Will all of the rates being proposed in
16 this proceeding and which ultimately are approved by the
17 Commission and adopted by the Board of Governors be
18 available to the public without any surcharge or other cost
19 not approved in these proceedings?"

20 In other words, what I am concerned with here is
21 the complaint I made, I believe last year, with respect to
22 printed, stamped envelopes that are not available in
23 accordance with the Section SS-19 I believe.

24 MR. ALVERNO: Objection. That is argumentative.

25 BY MR. POPKIN:

1 Q The question I am asking is, to put it on the
2 record from the Postal Service, that it is their intention
3 to have these rates available at the prices that may be
4 approved by the Commission and adopted by the Board of
5 Governors at the price that was approved.

6 MR. ALVERNO: Objection. This calls for a legal
7 conclusion. If Mr. Popkin wants an answer, he can go back
8 and read Order 10-88 of this Commission where it says the
9 Postal Service's pricing of those particular postal cards is
10 in fact subject to its discretion or -- excuse me -- the
11 Commission said that the Postal Service may -- your
12 complaint case should be dismissed because the Commission
13 doesn't have jurisdiction to determine whether or not 1721
14 applied to your postal card proposal, but the Commission did
15 emphasize that the Postal Service was offering stamped
16 envelopes at the Philatelic Fulfillment Center at rates
17 recommended by the Commission and approved by the Governors.

18 As far as the Postal Service is concerned, this
19 matter is settled.

20 BY MR. POPKIN:

21 Q The question that I have asked, the complaint that
22 was filed was with respect to printed stamp envelopes and
23 cards. What I am looking for here is I don't want -- in
24 fact, there was a very interesting cartoon, I was reading
25 the Washington Times this morning and this gentleman was on

1 the phone and he says, "The best things in life are still
2 free; we're just adding a small charge for shipping and
3 handling."

4 And what I am looking for here is to determine, is
5 there any thought by the Postal Service to add any surcharge
6 or other costs or shipping or handling to obtain any of
7 these services that are being proposed today or will the
8 public be able to get them at the prices that may ultimately
9 be approved?

10 PRESIDING OFFICER QUICK: Well, you can answer or
11 you can say you don't know. You can say that's yet to be
12 determined.

13 THE WITNESS: Not to my knowledge.

14 MR. POPKIN: No further questions on mine.

15 PRESIDING OFFICER QUICK: Thank you, Mr. Popkin.

16 Is there any followup cross-examination, Mr.
17 Ruderman, Mr. Carlson?

18 [No response.]

19 PRESIDING OFFICER QUICK: We do have questions
20 from the Bench, I assume. Let's go ahead and take them.

21 Chairman Gleiman.

22 CHAIRMAN GLEIMAN: Mr. Popkin asked you about
23 document reconstruction fees and, as I understand the
24 situation and response you gave, you said that the proposed
25 maximum is five times the average or that was the

1 information, I can't recall whether you gave that or Mr.
2 Popkin gave it. But, as I understood it, you indicated that
3 the Postal Service did not have or you did not have
4 information -- I get confused because Mr. Alverno was
5 answering part of the question also -- but I understood the
6 Postal Service witness and/or attorney to say that the
7 Postal Service did not have information on what the maximum
8 settled claim was. Is that true?

9 THE WITNESS: That's correct.

10 CHAIRMAN GLEIMAN: Is it then reasonable to assume
11 that you do not know whether the proposed maximum fee for
12 document reconstruction is high enough to cover the largest
13 settled claim last year?

14 THE WITNESS: Actually, this isn't a fee; it's
15 just a proposal to reduce the indemnity limit. But I don't
16 know if the proposal to reduce the indemnity limit to 500 is
17 lower than the maximum.

18 CHAIRMAN GLEIMAN: Thank you.

19 THE WITNESS: Thanks.

20 CHAIRMAN GLEIMAN: You have talked quite a bit
21 about premium services and I must tell you that I am
22 somewhat confused about what premium service is or what a
23 premium service is. At one point, you ran through the list
24 in response to a question, as I recall earlier today, of all
25 the special services and you said that they were all premium

1 services and that perhaps Express Mail was a premium service
2 and I thought you said that basically anything other than
3 regular mail service is a premium service.

4 THE WITNESS: I was giving my definition. I felt
5 that Express Mail is a premium product compared to First
6 Class mail.

7 In terms of a Postal Service definition with
8 respect to the special services, of which I am here
9 testifying as the expert pricing witness, the Postal Service
10 does consider all of its special services to be premium
11 products. I shouldn't speak on behalf of the Postal Service
12 as far as premium products in general but my definition --

13 CHAIRMAN GLEIMAN: So, with respect to special
14 services, your definition as a special service expert is
15 that they are all premium services or products?

16 THE WITNESS: That's my definition --

17 CHAIRMAN GLEIMAN: Who writes the Domestic Mail
18 Manual?

19 THE WITNESS: Well, an office that was called
20 Mailing Standards and I am not sure --

21 CHAIRMAN GLEIMAN: The Postal Service, a private
22 company, the Postal Rate Commission? Which --

23 THE WITNESS: The Postal Service. Maybe there are
24 some contractors that work on it too.

25 CHAIRMAN GLEIMAN: But it is within the

1 responsibility of the Postal Service.

2 THE WITNESS: Yes.

3 CHAIRMAN GLEIMAN: Do you know if you check the
4 Domestic Mail Manual you find out that Post Office box
5 service is a premium service, lock box service is a premium
6 service and that caller service is a premium service and
7 that there are no other services, special or otherwise, that
8 are listed as premium services? Are you aware of that?

9 THE WITNESS: No, I am not.

10 CHAIRMAN GLEIMAN: With respect to special
11 services, special delivery, do you know if there is any kind
12 of special delivery or any other kind of service that the
13 Postal Service provides that entails same-day delivery?

14 THE WITNESS: Same-day delivery? Well, there is
15 the possibility that a piece of First Class mail deposited
16 at the destinating Post Office that would postmark or
17 whatever could get same-day service.

18 CHAIRMAN GLEIMAN: Something that was deposited
19 early enough in the day so that the carrier could get it in
20 his hands or her hands?

21 THE WITNESS: Sure.

22 CHAIRMAN GLEIMAN: Would you have any information
23 about a situation, and I am reading something that I found
24 in the Postal Service clips within the last week. It is an
25 article out of the Baltimore Sun of August 17. The article

1 is entitled QVC to Shine its Spotlight on Baltimore.

2 And just let me read you one paragraph and if you
3 don't know anything about this, then I will understand. And
4 if you do, I would appreciate anything you might know.

5 "Baltimore is also offering the network," this is
6 QVC which is going to have a program originating in
7 Baltimore, "the chance to try something new from the U.S.
8 Postal Service, Fastnet, a same-day and next-day delivery
9 service will be available in Baltimore at the time of the
10 airing of this program.

11 "QVC is really interested in experimenting with
12 the service which will allow viewers to order a strawberry
13 pie that day and have it for dinner."

14 Are you aware of any service, premium service or
15 special service or special delivery that is being offered
16 that would allow somebody to order a strawberry pie via QVC
17 from Hausner's Restaurant in Baltimore and have it delivered
18 that very same day?

19 THE WITNESS: With respect to what the Postal
20 Service now currently offers?

21 CHAIRMAN GLEIMAN: Yes.

22 THE WITNESS: I am not aware of it.

23 CHAIRMAN GLEIMAN: If they were offering such a
24 service, do you think it would be premium service?

25 THE WITNESS: It sounds --

1 CHAIRMAN GLEIMAN: Super-premium?

2 THE WITNESS: It sounds very premium by my
3 definition.

4 CHAIRMAN GLEIMAN: I was just hoping they were
5 going to do it. I might order a strawberry pie because
6 Hausner's has good strawberry pies.

7 Thank you. I have no further questions.

8 THE WITNESS: Thank you.

9 PRESIDING OFFICER QUICK: Commissioner LeBlanc?

10 COMMISSIONER LeBLANC: Ms. Needham, we -- as the
11 Presiding Officer has said, we definitely want as clear a
12 record as possible and if you don't care to answer this
13 question now, or Mr. Alverno, if you would want me to put it
14 into writing, we can also do that.

15 But in reviewing the transcript yesterday, and I
16 will try to take a little Bench liberty and maybe a little
17 Commission liberty here, but to clarify the record, in my
18 discussion with you last night, and it was getting pretty
19 late, but you stated that, and I can give you the cites,
20 I'll put those out for you now, but it's on page 881 of the
21 transcript and her colloquy with me. And page 885 and 886
22 of your transcript -- of the transcript when you were
23 talking to the Chairman.

24 You stated, and I had to write this down and make
25 sure I get this right, but two persons have the same Post

1 Office. One receives carrier delivery from another Post
2 Office but the other person is ineligible for delivery from
3 any office then the ineligible person gets a free box and
4 the eligible person pays for their box. That was your
5 response to me. I'll be glad to read it into the record, if
6 you would like.

7 THE WITNESS: It must have been late. I don't --

8 COMMISSIONER LeBLANC: Now, let me see -- if I
9 can, I just want to finish. I just want to clarify the
10 record here, because in your later response to the Chairman,
11 you said that if their post office is a delivery post office
12 from which one patron receives carrier delivery, but the
13 other person is ineligible for carrier delivery from any
14 office, and both have to pay a fee for their boxes.

15 THE WITNESS: Yes.

16 COMMISSIONER LeBLANC: If that is the case, why is
17 it fair and equitable? Number two, what makes a delivery
18 office a delivery office?

19 THE WITNESS: Oh, okay. Well, with respect to
20 that, the second situation you described is my
21 understanding, if there is any delivery coming out of the
22 office, albeit rural, carrier, or city carrier. Under the
23 proposal, it would be termed a delivery in the delivery
24 group, in the delivery office. So that should answer that.

25 Why is it fair and equitable to charge a fee for a

1 person who cannot get free delivery -- who cannot get
2 carrier delivery.

3 COMMISSIONER LeBLANC: Who cannot get -- right.

4 THE WITNESS: Any type of carrier delivery. I
5 have -- I stated last night about -- and I know it was
6 getting late and I'm sure people didn't want to hear anymore
7 about the implementation procedures, where one of -- one of
8 the benefits of reviewing the implementation procedures and
9 trying to work through that would be to see if there would
10 be a way to give -- because basically what we're trying to
11 do is provide free box service to the greatest extent
12 possible.

13 In order to eschew obfuscation here, we have
14 chosen to go with a definition of a group as far as the
15 office goes, as far as, you know, those customers of an
16 office.

17 COMMISSIONER LeBLANC: Then why San Luis?

18 THE WITNESS: Why San Luis?

19 COMMISSIONER LeBLANC: Is that the opposite of
20 what you're --

21 THE WITNESS: They're non --

22 COMMISSIONER LeBLANC: They're a non-delivery
23 office.

24 THE WITNESS: -- delivery office. Right. So,
25 therefore, under the proposal, the box service would be

1 free, except for to those non-residents.

2 COMMISSIONER LeBLANC: Isn't that a contradiction?

3 THE WITNESS: Contradiction to -- that's a non-
4 delivery office.

5 COMMISSIONER LeBLANC: San Luis is.

6 THE WITNESS: Right. I don't understand. A
7 contradiction to what?

8 CHAIRMAN GLEIMAN: Some of the people in San Luis,
9 according to what we've been told, get delivery from other
10 offices.

11 THE WITNESS: Oh, and those other offices would be
12 the ones that would charge their customers, because they're
13 providing delivery. There's no delivery coming out of San
14 Luis, so it should not be considered a delivery office.

15 COMMISSIONER LeBLANC: So who makes the charge?

16 THE WITNESS: Who makes the --

17 COMMISSIONER LeBLANC: Where does the charge come
18 from? You said they're charged.

19 THE WITNESS: Who is charged?

20 COMMISSIONER LeBLANC: All right. Let's try it
21 again.

22 THE WITNESS: I'm sorry.

23 COMMISSIONER LeBLANC: I'm just trying to clarify
24 it for me here.

25 THE WITNESS: Right.

1 COMMISSIONER LeBLANC: I thought you -- all right.

2 THE WITNESS: Oh, non-residents would be -- would
3 be charged --

4 COMMISSIONER LeBLANC: Okay.

5 THE WITNESS: -- for box service.

6 COMMISSIONER LeBLANC: Non-residents would be
7 charged for the box service.

8 THE WITNESS: Non-residents, correct.

9 COMMISSIONER LeBLANC: Okay.

10 THE WITNESS: And like I said, for purposes of the
11 proposal, to avoid making things too difficult at first,
12 with respect to the proposal, here you've got delivery or
13 non-delivery offices. People eligible -- customers of the
14 non-delivery office would receive free box service. Now
15 they're paying two dollars a year. The proposal is to
16 reduce that fee to zero.

17 COMMISSIONER LeBLANC: What about the ones --

18 THE WITNESS: And then there are people that are
19 customers of a delivery office, but cannot -- they fall
20 within the boundaries -- the service area of that delivery
21 office, but they do not receive service. During
22 implementation, we'd like to look at a way to try to give
23 them free box service.

24 COMMISSIONER LeBLANC: I believe Mr. Lyons
25 addressed that issue, didn't he? He said you all would try

1 to look at it.

2 THE WITNESS: Yes.

3 COMMISSIONER LeBLANC: I'd like to put it on the
4 record that I sure hope the Postal Service follows up with
5 looking at that, because that is an inequity that needs to
6 be addressed and I want to make sure it gets on the record.

7 MR. RUBIN: Can I --

8 COMMISSIONER LeBLANC: Thank you very much. I
9 appreciate that going -- changing from day to day.

10 THE WITNESS: Sure.

11 COMMISSIONER LeBLANC: I do appreciate it, Mr.
12 Alverno. Thank you. Mr. Presiding Officer, thank you very
13 much.

14 PRESIDING OFFICER QUICK: Does any participant
15 have follow-up cross examination as a result of questions
16 from the bench?

17 CHAIRMAN GLEIMAN: Mr. Presiding Office, before
18 you get to that.

19 PRESIDING OFFICER QUICK: Mr. Chairman.

20 CHAIRMAN GLEIMAN: Counsellor Rubin was about to
21 say something and hopefully he anticipated the concern I
22 have. In re-class one, we got to a point where we were
23 hearing the direct cases of other parties and the Postal
24 Service was willing to provide some status reports, both
25 written and in the way of witnesses who were working on

1 implementation teams.

2 I'm wondering, so that -- I don't know how the
3 rest of you feel, but -- and certainly we're not in a
4 position to make a decision yet because we haven't heard the
5 direct cases of other parties and had an opportunity for
6 people to argue on brief.

7 But I certainly would hope that we have a better
8 understanding before we get to the point where we have to
9 make a decision about just what's going to happen out there
10 with the folks in example A and example B and whether all
11 these inequities or perceived inequities are going to be
12 worked out. And even if we don't call them inequities, just
13 so we know which boxes are going to go from eight to 16 and
14 from eight to zero and from eight to two and, you know,
15 wherever else they might go.

16 There is money involved in this case and we have
17 an obligation to have an understanding when we make our
18 decisions. So, Mr. Rubin, I don't know whether you were
19 anticipating all that or not, but I sure hope that we could
20 come to some accommodation -- if not today, in the near
21 future.

22 MR. RUBIN: Yes. I do think it would make sense
23 to have more communication on the implementation issues and
24 I think we'll be able to do that, and I hope we'll also get
25 communication about what the concerns are. I think we can

1 get that through intervenor testimony, but also perhaps the
2 Commission will continue to give us ideas of what they need
3 to know in order to reach a decision.

4 PRESIDING OFFICER QUICK: Any participant, follow-
5 up cross examination as a result of questions from the
6 bench?

7 [No response.]

8 PRESIDING OFFICER QUICK: Do you think ten
9 minutes? If we take a ten-minute break, is that enough for
10 you to --

11 MR. ALVERNO: How about 15 minutes, sir?

12 PRESIDING OFFICER QUICK: All right. We'll come
13 back at 4:25 and proceed with redirect and then go to Mr.
14 Landwehr following Ms. Needham.

15 [Recess.]

16 PRESIDING OFFICER QUICK: That brings us to
17 redirect. Mr. Alverno -- you have consulted with your
18 witness. Will you please proceed.

19 MR. ALVERNO: Thank you, Mr. Presiding Officer.

20 REDIRECT EXAMINATION

21 BY MR. ALVERNO:

22 Q Ms. Needham, earlier you had a discussion with Mr.
23 Ruderman from the OCA concerning manufacturing costs for
24 stamped cards.

25 Would you clarify, please, the differences in unit

1 manufacturing costs for stamped cards estimated by you and
2 Witness Patelunas?

3 A Well, as I discussed earlier with Mr. Ruderman, my
4 number does differ from Witness Patelunas's but I really
5 don't think that they are in conflict with each other.

6 It is my understanding that Witness Patelunas
7 began with an FY '95 manufacturing cost and then applied a
8 factor, some type of inflation factor such as the CPI for
9 printing and supplies as well as a mail volume effect.

10 The costs I used were more specific to stamped
11 cards in that they were based on the most recent
12 manufacturing costs.

13 Q Thank you. Earlier you had a conversation or,
14 excuse me, during cross examination you were asked about
15 various special services being accountable services.

16 With regard to return receipts and return receipts
17 for merchandise, are those accountable services?

18 A Well, I had mentioned accountable because it
19 doesn't really fit the definition of accountable. I know in
20 my testimony I referred to return receipt for merchandise as
21 non-accountable, however there are aspects of, like a
22 feature of return receipt for merchandise such as the fact
23 that the delivery record is kept on file for two years,
24 which is a similar feature to an accountable mail product.

25 Q And can the signature be waived for return receipt

1 for merchandise?

2 A Yes, it can, so that would definitely classify it
3 as nonaccountable.

4 Q Later you had a discussion with regard to the
5 Postal Service's proposal for changing eligibility for
6 return receipt for merchandise. Specifically, I believe you
7 had an example with a four-ounce parcel that contained
8 eyeglasses or merchandise.

9 You had the example -- you were asked if under the
10 Postal Service's proposal if a mailer would only have a
11 choice between Priority Mail and Standard Mail.

12 Do you recall that conversation?

13 A Yes, I do.

14 Q Now suppose we had a mailer -- excuse me. Suppose
15 the Postal Service's proposal were adopted as proposed and
16 implemented. Could the mailer also use the First Class
17 Letters and Sealed Parcels subclass in order to use return
18 receipt -- in order to receive a return receipt?

19 A Well, sure. I think I had mentioned before you
20 could always get a return receipt with Certified Mail. In
21 fact, the cost of mailing that First Class, Certified,
22 Return Receipt would be less than Priority Mail with a
23 return receipt for merchandise.

24 Q Just so we can make this example clear, what would
25 the Priority Mail postage be? Excuse me, in the Priority

1 Mail example with Priority Mail plus return receipt for
2 merchandise?

3 A Priority mail, assuming the proposals are --

4 Q Exactly.

5 A Okay, the Priority Mail rate would be \$3 and the
6 return receipt for merchandise fee would be \$1.65.

7 Q So the total would be?

8 A 4.65.

9 Under the letters and sealed parcels subclass, the
10 postage rate would be \$1.01 for four ounces and \$3.00 --
11 well, \$1.50 for the certified mail and \$1.50 for the return
12 receipt, \$3.00, total for the special services fees for a
13 total of \$4.01.

14 Q That would be approximately 64 cents lower than
15 using the Priority Mail return receipt for merchandise
16 option, correct?

17 A Correct.

18 Q Earlier, you had some questions concerning the fee
19 for I believe it was Certified Mail return receipt being
20 \$1.50 and about your selection of \$1.50 as the appropriate
21 fee for one or both of those. Could you comment a little
22 bit on selecting the \$1.50 fees in those circumstances?

23 A Well, I remember specifically with respect to
24 being asked whether it was an easy fee to remember. I had
25 commented that, yes it was. I know that Mr. Popkin had

1 brought up an interrogatory about that and I said zero or
2 one penny or \$100 would be an easy fee to remember too,
3 however neither -- neither one of those fees would be well
4 within the range of the cost coverage desired whereas maybe
5 \$1.48 or \$1.52 or \$1.53 or \$1.47 would fall within a desired
6 cost coverage range. \$1.50, compared with those, would be
7 easier to remember, one of those features.

8 Is that --

9 Q And there are a whole host of other factors that
10 you considered for both those fee proposals, isn't that
11 correct?

12 A Oh, my goodness, yes. And they are listed in the
13 criteria sections of my testimony, the high value of service
14 that comes from both of those.

15 Q Earlier, you had some questions concerning the
16 stamped envelope cost coverage. Do you know what that cost
17 coverage is?

18 A Well, actually, I have the last three recommended
19 decisions from the -- from the Postal Rate Commission. I
20 have the stamped card cost coverages and in R-87 it was
21 174.7 percent. In R-90, it was 214.6 percent in the first
22 decision, the later decision was -- I want to make sure I am
23 looking at the -- the later decision was 169.1 percent and
24 in R-94, 172.9 percent.

25 Q Let's assume, Ms. Needham, that you were to use

1 Witness Patelunas's manufacturing cost figure. Would the
2 cost coverage -- it would be much higher, wouldn't it, for
3 return receipts than you have reported in your testimony, is
4 that right?

5 A The .9 cents, yes. Yes, it would be higher than
6 what I've proposed.

7 Q And assuming that you had a cost coverage, say in
8 the range of 200 to 225 percent, what -- you know, what
9 would your testimony be as far as whether or not that fee
10 met the criteria of the act?

11 A I believe that that -- a proposed cost coverage of
12 224, I believe it was, would fall within the criteria of the
13 act. I know that this fee has to be set on a -- with a
14 whole cent rounding constraint. I believe if you only took
15 one penny, if you had .9 cents, had one penny, I think it
16 comes up with a cost coverage of around 110 percent. I
17 would not hesitate to go for that extra -- propose that
18 extra penny, even if the cost was -- my cost had turned out
19 to be below one cent.

20 224 percent is a relatively high cost coverage
21 but, considering the high value of service derived from
22 stamped cards, I feel it is appropriate.

23 MR. ALVERNO: Thank you. That's all we have.

24 THE WITNESS: Thank you.

25 MR. ALVERNO: We do have one motion, Mr. Presiding

1 Officer. We would like to move into the record Witness
2 Needham's response to DBP-USPS-T1-3, the corrected response
3 which was filed today and we do have two copies for the
4 Reporter.

5 PRESIDING OFFICER QUICK: All right, give it to
6 the Reporter and it will be included in the record.

7 [Revised Response of Witness
8 Needham to Interrogatory of David
9 B. Popkin, DBP-USPS-T1-3 was
10 received into evidence and
11 transcribed into the record.]
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

NOTICE OF REVISED RESPONSE OF WITNESS NEEDHAM TO
TO INTERROGATORY OF DAVID B. POPKIN
(DBP/USPS-T1-3 REDIRECTED FROM WITNESS LYONS)

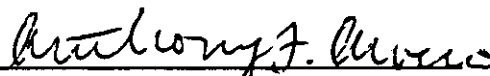
The Postal Service hereby gives notice of a revised response of witness Needham to DBP/USPS-T8-3, filed on August 23, 1996. The response is revised to include new information that has come to witness Needham's attention since the original response was filed. A revised response to DBP/USPS-T1-3 is attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Washington, D.C. 20260-1137
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September 11, 1996

Revised September 11, 1996

RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
REDIRECTED FROM WITNESS LYONS

DBP/USPS-T1-3 [a] Does the return receipt service also provide for notification to the sender of the date of delivery? [b] Provide copies of any directives etc. which require this. [c] Is it a requirement that the date of delivery shown on the return receipt represent the actual date of delivery? [d] What procedures does the Postal Service utilize to ensure that the actual date of delivery is shown? [e] If there is such a procedure, how can it be accomplished if the accountable mail is delivered to the addressee with the return receipt still attached? [f] What evidence of delivery is provided if the date shown is missing or incorrect or written over?

RESPONSE:

a) Yes.

b) See Domestic Mail Manual Transition Book 932.41

c) See attachment 1 to this interrogatory.

d) See Domestic Mail Manual Transition Book 932.412; Domestic Mail Manual S915.4.0; USPS LR-SSR-137 (response of witness Larson to your interrogatory no. 20 in Docket No. R90-1 and provisions in Handbook PO-603 and Handbook Series M-41).

See also attachment 1 to this interrogatory.

e) See response to (d).

f) A record, which is maintained for two years, is also made at the post office prior to delivery, and this can be consulted if necessary.



FILE COPY

August 1, 1996

DISTRICT MANAGERS

**SUBJECT: Failure to Obtain Signature on PS Form 3811
Domestic Return Receipt.**

There has been an increased number of complaints from customers regarding incorrect handling of return receipts by delivery personnel.

The majority of these complaints center around return receipts received by the sender with no signature, illegible signature, or not received at all. This is a long standing problem and we have placed repeated reminders in the Postal Bulletin with little impact on the situation.


In order to make a real difference towards resolution I am asking that you take a more proactive approach to the problem. I ask that you contact the delivery offices in your district and have them:

- Review current delivery arrangements with large volume delivery points, including government agencies, regarding practices such as handing over accountable mail to be signed for at a "later", more convenient time. Evidence indicates that a large percentage of this problem is due to this practice, which is controllable from our end.
- Ensure that retail outlets have discarded all editions of PS Form 3811 dated prior to December 1994. The newer edition has a space for the addressee or their agent to print as well as sign their name.
- Ensure that carrier supervisors review the proper procedures for obtaining a signature on accountable mail with the delivery personnel in their office. Make sure employees are reminded that should a piece of accountable mail be discovered after the carrier has left for the street, the need for obtaining a signature is identical to those pieces that were signed for from the accountable clerk.

- 2 -

- Long standing, unofficial arrangements that promote exceptions to stated procedures for "convenience" need to be reviewed and voided if necessary. Large volume addressees, using mailroom/reception employees as agents, need to understand and adhere to all appropriate procedures. Also, proper letters of authorization must be on file for one person to act as agent for another.
- A significant concern is a lack of realization by some employees that the customer is the sender, who has paid for this service, and any arrangement that makes it easier for the addressee at the expense of that service should not be tolerated.

I appreciate your efforts on this issue and I know that with your involvement we can improve on the current situation.



Sandra D. Curran
Acting Manager, Delivery

cc: Managers, Delivery Programs Support (Area)

DECLARATION

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

Susan W Needham

Dated: September 11, 1996

CERTIFICATE OF SERVICE

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -5402
September 11, 1996

Anthony F. Alverno
Anthony F. Alverno

1 PRESIDING OFFICER QUICK: Did the redirect
2 generate any further recross examination?

3 MR. POPKIN: Yes, I have a couple of quick
4 questions.

5 PRESIDING OFFICER QUICK: Okay.

6 RECCROSS EXAMINATION

7 BY MR. POPKIN:

8 Q Does Express Mail also have the waiver of
9 signature?

10 A To my knowledge it does.

11 Q So would that remove it from being an accountable
12 item, accountable mail article?

13 A I don't know how long delivery records for Express
14 Mail or they are -- how long they are held on file if the
15 signature is waived. I am not really sure.

16 Q Okay.

17 A I don't believe that an employee signs for it
18 prior to delivery.

19 Q Okay. The question was raised about utilizing
20 certified mail, First Class letter rate, certified mail in
21 lieu of Priority Mail, return receipt, for merchandise on a
22 four-ounce article.

23 Would you concede that if I mailed not only the
24 eyeglass case but the eyeglasses and it came up to seven
25 ounces that I would add three times 23 or 69 to the \$4.01,

1 and it would now be \$4.70 compared to the \$4.65, so that
2 anything from seven ounces to 11 ounces would still be more
3 by certified mail, First Class letter rate?

4 A Subject to check, yes.

5 Q Okay. You also indicated that with respect to the
6 First Class -- excuse me, to the certified mail that numbers
7 between 147 and 152 would fall within the appropriate cost
8 coverage range and therefore I assume that you rounded that
9 to the nearest or a near -- I won't say the nearest but to a
10 nearby five-cent figure for let's call it convenience, is
11 that correct?

12 A I rounded it to a whole number. I might not have
13 been using a nickel rounding constraint, but my point was
14 that, you know, you could --

15 Q A nice, convenient number rather than 147 or 152?

16 A Yes. Oh, sure.

17 Q 147 to 152 gave you the appropriate cost coverage
18 range that you were looking for and you decided to pick 150
19 because of that?

20 A It fell within the -- that along with the other
21 criteria, yes.

22 MR. POPKIN: Okay, no further questions.

23 PRESIDING OFFICER QUICK: Mr. Ruderman?

24 RECROSS EXAMINATION

25 BY MR. RUDERMAN:

1 Q I just want to check my math here. On the stamped
2 envelopes your proposal contemplates a 170 percent cost
3 coverage, is that right?

4 A You mean stamped cards?

5 Q Stamped cards, yes.

6 A Yes.

7 Q I'm sorry, stamped cards, and if the true coverage
8 under your proposal is 224 percent, this represents a 54
9 percent increase over what your recommended cost coverage
10 is?

11 A Well, actually I still don't represent my
12 recommended cost coverage to be 170 percent --

13 Q I am just asking you -- the difference between 224
14 and 170 is 54? Right?

15 A That's correct.

16 Q And the difference between 170 and 110 is 60?

17 A Correct.

18 Q So it is not a real huge difference. I mean you
19 could kind of go either way?

20 A Well, I don't know. I think for the Service the
21 value here involved that the stationery, the pre-affixation
22 of postage -- I think it is worth at least the 2 cents. I
23 could see the 2 cents, especially since my cost comes out at
24 over a penny unit cost.

25 MR. RUDERMAN: That's all, thank you.

1 THE WITNESS: Thank you.

2 PRESIDING OFFICER QUICK: Questions from the
3 bench? Mr. Chairman?

4 CHAIRMAN GLEIMAN: Yes. In the first question
5 that you were asked on redirect, it had -- as I recall it
6 had to do with the manufacturing cost of stamped cards and
7 the difference between the cost figures that you used and
8 Mr. Patelunas, who is the costing witness, and the figures
9 that he had.

10 As I understand the answer, you said that the
11 difference was relatively small but that this resulted, the
12 difference resulted from the fact that he used a prior
13 year's actual costs and adjusted them for some inflation
14 factor and I think you mentioned the CPI or whatever it was
15 and that you used more recent real costs.

16 Is my understanding correct of what your response
17 was?

18 THE WITNESS: Well, he used data -- I said that
19 they really don't conflict in that he used his method, I
20 used mine.

21 Yes, his is more forecast estimated and mine came
22 from actual available data from FY '96.

23 CHAIRMAN GLEIMAN: Did you adjust his figures or
24 you used different data than he used?

25 THE WITNESS: I used different data than he used

1 for -- I mean I used -- yes I used different data.

2 CHAIRMAN GLEIMAN: Is it standard for cost pricing
3 witnesses to develop their own costing rather than use the
4 costing that has been presented by the costing witness?

5 THE WITNESS: I don't know if it's -- I'd term in
6 standard. I know it's happened before.

7 CHAIRMAN GLEIMAN: Can you give me the instances
8 where you know it has happened before?

9 THE WITNESS: I would have to think about that.

10 CHAIRMAN GLEIMAN: Well, I would be prepared to
11 accept your list for the record if you would be willing to
12 provide it --

13 THE WITNESS: Oh, sure.

14 CHAIRMAN GLEIMAN: -- rather than spend time this
15 afternoon.

16 THE WITNESS: Because I would like to be able to
17 get all that I could in.

18 CHAIRMAN GLEIMAN: Sure. Well, I don't expect it
19 to be an exhaustive list and I haven't been here that long.
20 You have been at this a lot longer than I have and sometimes
21 I miss these finer points, but I didn't recall in the past
22 two and a half years running into a situation where I heard
23 somebody explicitly state that they disregarded costing
24 evidence and used their own costs, developed their own costs
25 when coming up with prices, but maybe I did miss something

1 during that period and it did happen.

2 On another one, you mentioned with respect to the
3 fees and whether they are easy to remember or not, and by
4 the way, I think that while there was an exchange about a
5 penny and a dollar and what's easy to remember, it was you
6 and not the cross examiners, the parties, who introduced the
7 concept of ease of memory of one figure or another.

8 On page 73 of your testimony at line 3 and 4, it's
9 where you introduce it in the testimony that is before us
10 today, but you mentioned that in addition to ease of memory
11 there were other considerations and one of the primary
12 considerations -- one of the primary considerations, not the
13 only consideration though -- was that by coming up with
14 these figures, the \$1.50 plus \$1.50 you wound up within,
15 quote, "the desired cost coverage range."

16 Could you just tell me -- I may have missed the
17 numbers -- but what is the desired cost coverage range that
18 you were working with?

19 THE WITNESS: Well, I looked to the system-wide
20 cost coverage recommended in R-94 --

21 CHAIRMAN GLEIMAN: System-wide average?

22 THE WITNESS: Yes -- no, I guess, well, we call it
23 the system-wide cost coverage but for all classes of mail,
24 154, something like that, in my testimony I address how it
25 is a little bit -- my resulting cost coverage for return

1 receipts is a little bit higher and the one for certified
2 mail is a little bit lower than that, but within a range of
3 I guess -- a range -- if you want me to quantify it between
4 140 and 171 percent.

5 CHAIRMAN GLEIMAN: Okay, thank you.

6 Lastly, on the question that you were asked toward
7 the tail end and that Mr. Ruderman just talked to you about,
8 as I understand it, the actual cost coverage because of the
9 rounding situation with respect to the stamped cards is 224
10 percent.

11 Was that understanding correct?

12 THE WITNESS: The actual cost coverage?

13 CHAIRMAN GLEIMAN: The cost coverage, the actual
14 cost coverage when you factor in the fact that you had to
15 round because you have got an integer constraint that you
16 wound up with the cost coverage of 224?

17 THE WITNESS: No, that's not correct.

18 CHAIRMAN GLEIMAN: Well, then, correct me.

19 THE WITNESS: I wound up with the cost coverage of
20 170 percent.

21 I confirmed through OCA interrogatories that if
22 you used Witness Patelunas's forecast numbers that you could
23 arrive at that unit cost, which would, compared with the
24 fee, come up with 224 percent.

25 CHAIRMAN GLEIMAN: And as I found out in my first

1 question, you didn't use Witness Patelunas's forecast costs.
2 You developed your own costs or used some other costs?

3 THE WITNESS: I used actual data available for FY
4 '96, year to date, the most recent data I could get my hands
5 on.

6 CHAIRMAN GLEIMAN: That's interesting. We try to
7 do that frequently and we have a hard time getting year to
8 date last year figures for months and months and months and
9 months. I am kind of fascinated that you were able to come
10 up with such current figures for your purposes.

11 Perhaps we will pursue that at another time,
12 another place with the Postal Service.

13 Thank you.

14 THE WITNESS: Thank you.

15 MR. RUDERMAN: Excuse me. Can I ask?

16 PRESIDING OFFICER QUICK: Mr. Ruderman.

17 FURTHER RECROSS EXAMINATION

18 BY MR. RUDERMAN:

19 Q Presumably, as of September 30th, we will really
20 know the true manufacturing cost of the cards, isn't that
21 correct?

22 A I presume so. When you say the true manufacturing
23 cost --

24 Q The actual costs for 1996.

25 A Yes. Well, depending on which way you look at it.

1 From where I got my information, the stamped --

2 Q What the costs are in 1996.

3 A The stamped -- I believe that data will be
4 available from stamped, from the philatelic department,
5 around that time, as far as the final CRA or cost report. I
6 can't say if that will be out September 30th.

7 MR. RUDERMAN: Could I ask counsel to please
8 provide that information when he has the actual data for
9 '96?

10 MR. ALVERNO: Assuming that we have data that we
11 can use to update those figures. I can't confirm that
12 they're going to be available September 30th.

13 CHAIRMAN GLEIMAN: I've got to ask another
14 question or two here, and I'm not sure that this is the
15 right witness to ask it of and maybe it's not a question for
16 the witness at all.

17 I'm kind of confused. We got the CRA -- the
18 filing date of this case was -- do you recall? I don't
19 recall, off the top of my head.

20 MR. RUBIN: June the 7th.

21 CHAIRMAN GLEIMAN: Okay. We had a -- we got the
22 CRA, I guess, for last year a little bit before that, as I
23 recall, but we didn't have it available for several months
24 after the non-profit re-class was filed. And I'm kind of
25 fascinated, because now we're looking at a situation with

1 stamped cards where we're using what I would assume, based
2 on the Postal Service's objections to giving us CRAs earlier
3 than we otherwise get them, was unaudited data.

4 That's usually the excuse we get when we don't get
5 a CRA until months and months and months, almost three-
6 quarters of the year has gone by. And I'm a little
7 concerned now. I'm wondering whether there is good data
8 available and when we can get it. We're kind of playing two
9 different games here.

10 You get to use the most recent cost data that's on
11 unaudited and which you won't give us as part of the CRA
12 until next spring or early summer, and I'm very troubled by
13 that. That's just a statement. I don't know if you can
14 respond to it. You're more than welcome to, but it's
15 troubling to me.

16 MR. RUBIN: Well, I don't know the big picture. I
17 would note, however, that this number that we're dealing
18 with the manufacturing cost is a pretty isolated element
19 that would go into the CRA, and perhaps that explains the
20 distinction.

21 CHAIRMAN GLEIMAN: Every element of the CRA can be
22 an isolated element if you desire it to be so. I see
23 someone suggesting that that's not the case. Maybe we ought
24 to have a technical conference on CRAs and what elements
25 should be available earlier than other elements.

1 I mean, I'm willing to take as much data as early
2 as I can possibly get it and in as firm a form as I can
3 possibly get it rather than waiting nine months after the
4 end of the fiscal year to get something that is completely
5 audited, but which had good data in it that could have been
6 made available earlier. So perhaps we could pursue that at
7 another time and place.

8 PRESIDING OFFICER QUICK: Thank you, Ms. Needham.
9 We appreciate very much your being with us again today.

10 THE WITNESS: Thank you.

11 PRESIDING OFFICER QUICK: And contributing to the
12 record.

13 MR. ALVERNO: Mr. Presiding Officer, I just have
14 one issue. I'm sorry.

15 PRESIDING OFFICER QUICK: Sure.

16 MR. ALVERNO: When I spoke earlier, I'm not sure
17 if I had made the reporter understand what we did with those
18 responses to DBP USPS-T1-3. I asked that they be moved into
19 evidence in the record and I just wanted to clarify that
20 that's, in fact, what you ruled on.

21 PRESIDING OFFICER QUICK: That's what I thought I
22 ruled on.

23 MR. ALVERNO: Yes. Okay. Thank you. Because the
24 reporter just asked me what to do with them.

25 PRESIDING OFFICER QUICK: Okay. Thank you, Ms.

1 Needham. If there is nothing further, you may be excused.

2 THE WITNESS: Thank you.

3 [Witness excused.]

4 PRESIDING OFFICER QUICK: Our final witness today
5 is John Landwehr. The Postal Service agreed to recall Mr.
6 Landwehr to respond to oral questions from Mr. David Popkin
7 in lieu of providing written responses to follow-up
8 interrogatories.

9 I understand that the Postal Service agrees to
10 this procedure in large measure to avoid additional
11 extensive written motion practice which might delay our
12 procedural schedules, and, for that, I appreciate this
13 cooperative response.

14 Mr. Landwehr is already under oath in this
15 proceeding. So as soon as he is comfortable, you may
16 proceed, Mr. Popkin. Let's let him get seated and get his
17 documents.

18 Whereupon,

19 JOHN F. LANDWEHR,
20 a witness, was recalled for examination and, having been
21 previously duly sworn, was further examined and testified as
22 follows:

23 FURTHER RECROSS EXAMINATION

24 BY MR. POPKIN:

25 Q Interrogatory T3-18D, as in David.

1 A Okay. This is the new ones. Okay.

2 Q New ones.

3 A Yes.

4 Q These are only new ones that I'm dealing with.

5 A Okay. Very good.

6 Q How many separate postal facilities are there in
7 the United States and possessions that provide post office
8 box service?

9 A I don't know the exact number, but it's around
10 28,000, give or take.

11 Q Well, that's only post offices. What I'm looking
12 for is stations, branches.

13 A I don't know. I don't have the exact number.

14 Q Can we get this number provided, please?

15 MR. HOLLIES: Forgive me. I'm a little late in
16 getting my things out on the table. Which number are you
17 dealing with?

18 MR. POPKIN: T3-18D, how many separate postal
19 facilities are there that provide box service.

20 THE WITNESS: That may be contained in Lion
21 testimony, possibly.

22 MR. POPKIN: Well, if it is.

23 BY MR. POPKIN:

24 Q In other words, this would include not only
25 independent offices, but their branches and stations and any

1 other facility that has them.

2 MR. HOLLIES: This interrogatory is -- or purports
3 to be follow-up to your T3-1 and in that, you're asking
4 about what post offices this witness is familiar with. Now,
5 in no sense of the word can it be said that you needed the
6 answer to T3-1 in order to propound T3-18D.

7 And on that basis, I would object on the grounds
8 that it is not proper follow-up. I would also note,
9 however, that the Postal Service does put this information
10 into the public realm and I do not have it available to me
11 right at this moment. So it's not as though our
12 unwillingness to provide it at this time in any way
13 precludes your access to the information.

14 MR. POPKIN: Well, the reason, of course, is to
15 compare his evaluations with the total spectrum. I would
16 like to know what the total spectrum is and I don't believe
17 that it's in the public realm in that it may show that there
18 are branches and stations but it doesn't indicate which of
19 them have box service.

20 MR. HOLLIES: Well, that's not the question that
21 you asked either.

22 PRESIDING OFFICER QUICK: Do you want to rephrase
23 your question?

24 BY MR. POPKIN:

25 Q How many separate postal facilities are there in

1 the United States and possessions that provide Post Office
2 box service. It seems like a very straightforward question.

3 A My response was, I do not know.

4 MR. POPKIN: And my response was that, since -- if
5 he doesn't know, is there some other witness or postal --
6 can it be redirected as an institutional question to give me
7 the response at some point in the future?

8 In other words, can this be redirected as an
9 institutional interrogatory?

10 MR. HOLLIES: That's a fair question. We were
11 just discussing whether there was any information -- what
12 kinds of information are available.

13 We will study that and see what we can provide
14 you. I am sure we can provide you something.

15 MR. POPKIN: Thank you.

16 BY MR. POPKIN:

17 Q Going on to T3-19E, is the determination of hours
18 during which Post Office boxes are accessible outside of
19 window hours made solely at the discretion of the local
20 postmaster?

21 MR. HOLLIES: I would object to that one as asked
22 and answered. We went through that in some length
23 yesterday.

24 MR. POPKIN: Okay. I don't have a copy of the
25 transcript yet.

1 BY MR. POPKIN:

2 Q Have there been any directives -- subject to
3 finding it there, have there. Otherwise, I reserve the
4 right to follow up on it. Have there been any directives,
5 regulations or guidelines issued by Headquarters, any area,
6 any district or any other postal organization including the
7 Postal Inspection Service, with respect to the hours that
8 the box section of the Post Office should be open for the
9 pickup of mail?

10 MR. HOLLIES: We've also dealt with this one at
11 great length yesterday and you asked for some materials and
12 we declined to provide them. It is well outside the scope
13 of this proceeding.

14 But we did explore the existence or, in this case,
15 actually, the lack of existence of such general guidelines
16 and Mr. Landwehr discussed with you the kinds of
17 considerations that go into determining the local hours of
18 operation and the box section hours of operation.

19 On that grounds, I object to this question as
20 being redundant and repetitive.

21 MR. POPKIN: And if the transcript so indicates
22 that there are no guidelines that you can provide copies
23 with, then I reserve the right to follow up on it.

24 THE WITNESS: I do have one item we -- we could
25 use. In the DMMT 951.74, it states if postmasters find that

1 safety and security provisions allow it and there is
2 sufficient public demand, they may keep the box lobby open
3 24 hours a day. And that's DMMT 951.74.

4 That is one. When I spoke yesterday, I could
5 not -- I remembered seeing it but I could not remember
6 exactly where that was.

7 BY MR. POPKIN:

8 Q Okay, the second question -- we will go down to
9 subpart O in that interrogatory. And you indicated in your
10 response there was no consideration to providing key access
11 to boxholders. Yet Table 8B on T4 has a column called Lobby
12 Key at four percent of the offices. Was your initial
13 response correct that there is a provision for providing
14 access keys to boxholders or that if there was not, should
15 it be yes?

16 A See, this was referring to T3-3; is that correct?

17 Q No, I asked you if there was any provision for key
18 access being provided.

19 A And I said --

20 Q You said, no.

21 A No, I didn't say, no. I said, I am not aware of
22 any consideration. That's different.

23 Q Okay.

24 A I am just not aware of any.

25 Q Do you know what this key lobby problem

1 represents?

2 A No, I don't. I am not -- the offices that I have,
3 I am familiar with and I have been to were either full 24-
4 hour box lobbies or they were box lobbies that were open
5 during the normal business hours. Other than that, I have
6 not been exposed to the key access. Not to say -- I am sure
7 there is; I am just not familiar with it. It may be in some
8 of the higher crime areas where they have to have special
9 arrangements made or other considerations but that's -- I am
10 just not aware of that in my experience.

11 MR. POPKIN: Can I refer to this as a written
12 institutional interrogatory then that some postal employee
13 who is familiar with this can provide me?

14 MR. HOLLIES: The Postal Service objects to this
15 particular question. It is not proper follow-up. It could
16 have been asked during discovery and it pertains
17 specifically to the testimony of a witness who is not a
18 postal employee.

19 As such, it would not be appropriate to redirect
20 it to the Postal Service itself and our objection stands.

21 BY MR. POPKIN:

22 Q One final question then. Do you know why
23 Middleburg does not have city delivery?

24 A Not specifically, no. It is a rural office that
25 has two rural routes established and whenever you have a

1 change in route status converting to a city route then it
2 has to go through local and district approvals, but why
3 specifically I don't know.

4 MR. POPKIN: Okay, thank you then.

5 PRESIDING OFFICER QUICK: Well, is there any cross
6 examination or any follow-up as a result of cross
7 examination of Witness Landwehr?

8 [No response.]

9 PRESIDING OFFICER QUICK: Any questions from the
10 bench?

11 [No response.]

12 PRESIDING OFFICER QUICK: Mr. Hollies, do you wish
13 any time with your witness for redirect?

14 MR. HOLLIES: I would like a brief moment, perhaps
15 about two minutes to talk things over.

16 PRESIDING OFFICER QUICK: Sure, take your time.
17 Take two or three minutes, whatever you want.

18 [Recess.]

19 PRESIDING OFFICER QUICK: Mr. Popkin? We are
20 going to proceed.

21 MR. HOLLIES: We have no further questions. The
22 witness did have a statement of thanks he would like to
23 make.

24 THE WITNESS: I meant to say yesterday but I don't
25 believe I did but I would like to put it down for the

1 record, the postmasters of these three facilities, Mark
2 Stoppelworth at Blaine, Washington; Josephina Rodriguez in
3 San Luis and also Norris Beavers from Middleburg, Virginia,
4 were very cooperative and conducted themselves very
5 professionally when they were working with me and I wanted
6 to extend my appreciation publicly to them.

7 PRESIDING OFFICER QUICK: Thank you.

8 We appreciate very much your coming back, making
9 yourself available for these followup questions by
10 Mr. Popkin and we hope that wherever you are going to you
11 have a safe journey.

12 THE WITNESS: Thank you.

13 PRESIDING OFFICER QUICK: You are excused.

14 [Witness excused.]

15 PRESIDING OFFICER QUICK: This concludes today's
16 hearing. Hearings will resume November 18 to receive the
17 direct cases of intervenors. These hearings are adjourned
18 and thank you very much.

19 [Whereupon, at 5:15 p.m., the hearing was
20 recessed, to reconvene on Monday, November 18, 1996.]

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