

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 9

HEARING

RECEIVED
DEC 17 7 54 AM '96
UNITED STATES POSTAL SERVICE
WASHINGTON, D.C.

DATE: Monday, December 16, 1996

PLACE: Washington, D.C.

PAGES: 3322 - 3618

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1250 I St., N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 BEFORE THE
2 POSTAL RATE COMMISSION

3 - - - - - X

4 In the Matter of: :

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

6 CLASSIFICATIONS :

7 - - - - - X

8

9 Third Floor Hearing Room

10 Postal Rate Commission

11 1333 H Street, N.W.

12 Washington, D.C. 20268

13

14 Volume 9

15 Monday, December 16, 1996

16

17 The above-entitled matter came on for hearing,

18 pursuant to notice, at 9:33 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 APPEARANCES:

2 On behalf of the United States Postal Service:

3 DAVID H. RUBIN, Esquire

4 ANTHONY ALVERNO, Esquire

5 KENNETH HOLLIES, Esquire

6 SUSAN DUCHEK, Esquire

7 MICHAEL TIDWELL, Esquire

8 United States Postal Service

9 475 L'Enfant Plaza, Southwest

10 Washington, D.C. 20260-1137

11

12 On behalf of Direct Marketing Association, Inc.:

13 DANA T. ACKERLY, Esquire

14 Covington & Burling

15 1201 Pennsylvania Avenue, Northwest

16 Washington, D.C. 20004

17 (202) 662-5296

18

19

20

21

22

23

24

25

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1 APPEARANCES: [continued]

2 On behalf of the Office of Consumer Advocate:

3 DAVID RUDERMAN, Esquire

4 EMMET RAND COSTICH, Esquire

5 SHELLEY S. DREIFUS, Esquire

6 Office of Consumer Advocate

7 U.S. Postal Rate Commission, Suite 300

8 1333 H Street, Northwest

9 Washington, D.C.

10

11 On behalf of United Parcel Service:

12 KAREN L. TOMLINSON, Esquire

13 Schnader, Harrison, Segal & Lewis, Suite 3600

14 1600 Market Street

15 Philadelphia, PA 191103-4252

16 (215) 751-2274

17

18 On behalf of the Major Mailers Association:

19 RICHARD LITTELL, Esquire

20 Law Office of Richard Littell

21 1220 19th Street, NW, Suite 400

22 Washington, DC 20036

23 (202) 466-8260

24

25

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1 APPEARANCES: [continued]

2 On behalf of Nashua Photo, Inc.; Mystic Color Lab; and
3 Seattle Filmworks, Inc.:

4 WILLIAM J. OLSON, Esquire

5 JOHN S. MILES, Esquire

6 William J. Olson, P.C.

7 8180 Greensboro Drive, Suite 1070

8 McLean, VA 22102-3823

9 (703) 356-5070

10

11 On behalf of Douglas F. Carlson:

12 DOUGLAS F. CARLSON, pro se

13 P.O. Box 12574

14 Berkeley, CA 94712-3574

15 (510) 597-9995

16

17 On behalf of David B. Popkin:

18 DAVID B. POPKIN, pro se

19 P.O. Box 528

20 Englewood, NJ 07631

21 (201) 569-2212

22

23

24

25

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1 C O N T E N T S

2 RULINGS BY THE PRESIDING OFFICER: PAGE

3 [None.]

4

5 WITNESS DIRECT CROSS REDIRECT RECROSS

6 W. ASHLEY LYONS

7 BY MR. RUBIN 3342

8 BY MR. COSTICH 3357

9 BY MR. RUBIN 3430

10 BY MS. DREIFUSS 3431

11 SUSAN W. NEEDHAM

12 BY MR. ALVERNO 3442

13 BY MS. DREIFUSS 3458/3483

14 BY MR. ALVERNO 3501

15 BY MS. DREIFUSS 3505

16 BY MR. ALVERNO 3519

17 PAUL M. LION

18 BY MR. HOLLIES 3523

19 BY MS. DREIFUSS 3550

20

21 DOCUMENTS TRANSCRIBED INTO THE RECORD: PAGE

22 Second Status Report of United States Postal Service

23 on Implementation of Special Service Reform

24 Proposals, December 13, 1996 3331

25 Rebuttal Testimony of W. Ashley Lyons, USPS-RT-1 3344

1 C O N T E N T S [continued]

2	DOCUMENTS TRANSCRIBED INTO THE RECORD: [continued]	PAGE
3	Rebuttal Testimony of Susan W. Needham, USPS-RT-4	3445
4	Rebuttal Testimony of Paul M. Lion, USPS-RT-3	3525
5	Cross-Examination Exhibit OCA-XE-REBUT-1	3571
6	Cross Examination Exhibit OCA-XE-REBUT-2	3585
7	Cross Examination Exhibit OCA-XE-REBUT-3	3591

8

9 E X H I B I T S

10	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
11	Second Status Report of United States		
12	Postal Service on		
13	Implementation of Special		
14	Service Reform Proposals,		
15	December 13, 1996		3329
16	Rebuttal Testimony of W. Ashley Lyons,		
17	USPS-RT-1		3343
18	Rebuttal Testimony of Susan W. Needham,		
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20	Rebuttal Testimony of Paul M. Lion,		
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22	Cross-Examination Exhibit		
23	OCA-XE-REBUT-1	3569	3569
24	Cross Examination Exhibit		
25	OCA-XE-REBUT-2	3584	3589

1 C O N T E N T S [continued]

2 E X H I B I T S [continued]

3 EXHIBITS AND/OR TESTIMONY IDENTIFIED RECEIVED

4 Cross Examination Exhibit

5 OCA-XE-REBUT-3 3590 3597

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P R O C E E D I N G S

[9:33 a.m.]

COMMISSIONER QUICK: Good morning.

Today we begin our final session of hearings in Docket Number MC96-3 to consider the Postal Service request to change special service fees and classifications. These hearings are for the purpose of testing evidence submitted in rebuttal to direct presentations of participants other than the Postal Service.

Six Postal Service surrebuttal witnesses are scheduled to appear today and tomorrow. On Friday, I was notified by counsel that the Postal Service was submitting a request for authority to conduct an experiment with Business Reply Mail. Counsel was uncertain about whether this new development might affect the need for cross-examination of Postal Service witnesses DeMay and Infante.

The Postal Service has submitted its new request which has been docketed MC97-1. If counsel seeks an adjustment to our hearing schedule as a result of this filing, I will expect to be notified as promptly as possible. If it is necessary to defer the appearance of either Witness DeMay or Witness Infante, my current intention is to reconvene our hearings on Thursday the 19th.

However, at this point, counsel should assume that hearings will continue as originally scheduled with

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1 Witnesses DeMay and Infante appearing on Tuesday, December
2 17.

3 I have several other procedural matters to mention
4 before we begin. Friday, we received three motions from
5 David Popkin. One of these motions is to permit written
6 interrogatories on Postal Service rebuttal testimony. As
7 grounds for this motion, Mr. Popkin cited expense and
8 inconvenience of appearing in Washington to conduct oral
9 cross-examination. Thus, I assume Mr. Popkin is not present
10 today; is that correct?

11 [No response.]

12 COMMISSIONER QUICK: Mr. Popkin does not indicate
13 which witnesses' testimony he would like clarified through
14 questions. Does Postal Service counsel have any information
15 on the extent of written cross-examination Mr. Popkin would
16 like to submit?

17 MR. RUBIN: No, we have gotten no indication about
18 that.

19 COMMISSIONER QUICK: Okay. Mr. Popkin also
20 requests clarifications concerning regulations formerly
21 appearing in the Domestic Mail Manual Transition Book.
22 Postal Service filed a notice concerning the changed status
23 of its regulations on December 11. I am shortening the time
24 for responses to the two David Popkin motions on this issue.

25 Responses to those motions are to be filed by noon

1 on Thursday, December 19. Can the Postal Service meet that
2 deadline?

3 MR. RUBIN: Yes, that sounds reasonable.

4 COMMISSIONER QUICK: Thank you.

5 I was struck by one aspect of Mr. Popkin's motion.
6 He states his belief that the meaning of one or more
7 provisions has changed. Notwithstanding whether there are
8 valid grounds for opposing Mr. Popkin's motion, I request
9 the Postal Service to clarify the record on whether
10 regulations affecting special services currently at issue in
11 this case have been changed. If changes have been made,
12 please inform the Commission and participants of the nature
13 of any changes and of what regulations are currently
14 applicable.

15 Before Witness Lyons retakes the stand, I want to
16 clarify the status of the OCA motion to strike portions of
17 his rebuttal testimony. The Postal Service response to the
18 motion was filed late Friday afternoon. Counsel should
19 proceed with the cross-examination of Witness Lyons on the
20 assumption that the motion to strike will not be granted. I
21 intend to issue a written ruling on OCA's motion and if the
22 motion is granted in full or in part, we can take
23 appropriate steps to excise material from the record.

24 Finally, the Postal Service filed a second status
25 report on the implementation of special service reform

1 proposals late Friday afternoon. The Service states it has
2 no expectations of relying on this documents / in its briefs,
3 so it does not request that this report be made part of the
4 evidentiary record.

5 I believe the notice of counsel which accompanies
6 the second status report clearly explains its context. It
7 is evident that at this point the Postal Service is not
8 committed to the definitions and procedures described in
9 that report.

10 Nonetheless, the report does indicate concepts
11 being considered by the Postal Service at specific times
12 during the pendency of this case. I believe it will be
13 helpful to have this report as qualified and explained by
14 the accompanying statement of counsel in the record.
15 Therefore, I will furnish two copies of this document to the
16 reporter and I direct that it be transcribed at this point
17 and admitted into evidence with the limitations I have just
18 described.

19 [The Second Status Report of United
20 States Postal Service on
21 Implementation of Special Service
22 Reform Proposals, December 13,
23 1996, was received into evidence as
24 qualified and explained by the
25 accompanying statement of counsel

1 and was transcribed into the
2 record.]
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

SECOND STATUS REPORT OF UNITED STATES
POSTAL SERVICE ON IMPLEMENTATION OF
SPECIAL SERVICE REFORM PROPOSALS
(December 13, 1996)

On October 23, 1996, the Postal Service filed its First Status Report, Tr. 8/3217-21, which addressed implementation of the proposed box fee schedule. Today, the Postal Service files its Second Status Report, which summarizes issues raised at various implementation team meetings. The purpose of this report is to advise the Commission and participants regarding progress towards implementation assuming the Request is recommended and accepted. The meetings involved various groupings of Headquarters, Area, and District representatives, as well as a separate group of postmasters who are focused primarily upon the box fee proposal.

The First Status Report addressed eight areas in which tentative decisions had been reached; witness Raymond thereafter appeared on the stand for oral cross-examination on that Report. Tr. 8/3210-3321. As the First Report itself stated, the matters described were of necessity not final decisions since acts that constitute prerequisites, including a recommended decision from the Commission and Governors' action, had yet to occur. Tr. 8/3218, ¶ 1. However, while still tentative, the matters reported in the First Report are expected to be implemented if the box fee proposal is both recommended and adopted.

The Second Status Report, unlike the First Status Report, should not be viewed as presenting tentative decisions. Instead, it provides summary descriptions of issues

- 2 -

raised in respective meetings, the dates and locations of meetings, and the planning for the internal education effort that must necessarily accompany any implementation. As such, the Postal Service has no expectation of relying upon the Second Status Report in its initial or reply briefs and there is no need to make it part of the record in this case.¹

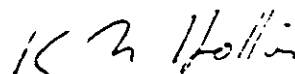
Attached is the Second Status Report: Preparations For Implementation of Special Services Reform.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Kenneth N. Hollies

¹ In this regard, the Postal Service has no intention of waiving its deliberative process and other privileges with respect to any decisions underlying or based upon implementation of the Second Status Report. Furthermore, any suggestion that the Postal Service is changing its proposal through the filing of the Second Status Report would be unwarranted. See, e.g., OCA Motion To Require The Postal Service To Provide Draft Implementation Rules For The Proposed Nonresident Box Fee And A Witness To Stand Cross-Examination On Such Draft Rules (November 26, 1996) at 2 (USPS acknowledgment of discussion regarding alternative name for nonresident fee characterized by OCA as example of "alarming inconsistencies with the ... [R]equest"). The Request has not been modified and no agency decisions – even tentative ones – are reflected in the Second Status Report.

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.

K N Hollies
Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3083; Fax -5402
December 12, 1996

Second Status Report: Preparations For Implementation of Special Services Reform (December 13, 1996)

This Second Status Report includes summaries of four sets of meetings involving: 1) the Headquarters Special Services Reform Implementation Committee; 2) the Area Special Services Reform Implementation Program Managers; 3) the National Area and District Special Services Reform Implementation Program Managers Conference; and 4) the Special Services Postmaster Task Force. Substantive proposals from a group are just that, and have not as yet been validated, adopted, or rejected by other groups, with the limited exception of certain matters in Section IV that appear in the First Status Report.

I. Headquarters Special Services Reform Implementation Committee

October 10, 1996

Introductions were made and the implementation process for Special Service Reform was outlined. This was followed by a presentation on the elements of the Special Services Reform filing. The importance of this implementation committee, the field team and postmaster task force was explained.

November 20, 1996

The committee was provided an in-depth presentation on the activities of the postmaster task force and an outline of the roles, responsibilities and expectations of the Area and District Special Services Reform Implementation Program Managers.

II. Area Special Services Reform Implementation Program Managers

Denver, CO, October 15-17, 1996

The first meeting of the Area Special Services Reform Implementation Program Managers was conducted in Denver, CO on October 15-17, 1996.

The group was provided three presentations: an overview of the elements of the Special Services Reform

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filing, an analysis of the components of the PO Box fee proposal, and a review of the retail forms redesign. It was also announced that we are assembling a task force of postmasters to concentrate specifically on the PO Box fee portion of the case.

The roles, responsibilities and expectations of the Area and District Program Managers were identified and discussed. Criteria for the selection of district representatives were identified and each area representative was asked to assist the field in the selection process for the districts.

Topics and concerns were identified for placement on the agenda for the national conference.

III. National Area and District Special Services Reform Implementation Program Managers Conference

Orlando, FL, November 13-15, 1996

The first national conference for the field Special Services Reform Implementation Program Managers was conducted in Orlando, FL, on November 13-15, 1996. Representatives from all area offices and eighty-two of the eighty-three district offices were present.

To provide a full understanding of the development and implementation of a rate or reform case, the attendees were provided an overview of the rate making process. This presentation was followed by an overview of the components of the Special Services Reform case.

The post office box fee proposal is by far the most complex element of this case. A more detailed presentation on this aspect of the case was provided. Due to its complexity a task force of Postmasters has been assembled to assist us in this portion of the case.

In conjunction with the Special Services Reform case, we are also in the process of redesigning certain retail forms. Although not an actual element of the case, we anticipate the new form designs (if accepted) will be available for implementation of Special Services reform.

At the end of November of this year we are launching a sixty-day post office box awareness campaign. Information announcing and materials supporting the program will be distributed to the field.

The process of successfully implementing a rate or classification case was addressed. This was followed by a detailed review of the role of the field Special Services Reform Implementation manager and expectations appropriate to that position.

The ten areas and their field representatives assembled into five groups for breakout sessions. Each group analyzed a specific task and then presented implementation recommendations for that issue.

[Redacted company name] provided a four-hour "presentation skills" presentation on the final day of the conference.

IV. Special Services Postmaster Task Force

Meetings on November 5-7 and November 20-21, 1996

DEFINITION OF A RESIDENT:

The group proposes that the following basic assumptions be used to identify a resident for the purpose of post office box rental (this does not include all potential scenarios or anomalies):

"Residency" is based on the post office finance number. Therefore, a person or business which "resides" within a community with more than one postal facility (post office, station or branch, contract postal unit, etc.) sharing the same finance number and who receives delivery from any of these facilities is considered a "resident".

All customers of a proposed Group E office will be considered a "resident" of that office.

Snowbirds, seasonal residents, students or others who own property or reside for a proposed period of more than 30 consecutive days will be eligible as "residents".

Under a proposed "proximity rule", if a customer's residence or business is closer to a post office than the office that provides their carrier delivery, they would be considered "residents" at both offices.

SIMPLIFIED ADMINISTRATION:

The group proposes to simplify post office box administration by redesigning the PS Form 1093, *Post Office Box Application*, to reflect residency status and other modifications. The customer signature block will include a residency certification statement, and will indicate that customers bear the burden of proof for establishing "resident" status.

Additionally, the group recommends that PS Forms 1091A, *Post Office Box Fee Register Card*, and 1538, *Receipt for Post Office Box/Caller Service Fees*, be redesigned. Consideration should also be given to 1) combining forms 1093, 1091A, and 1538 into one form; 2) reevaluation of key fees; 3) establishment of a universal fee schedule for all boxes; 4) elimination of post office box refunds entirely (or limit entitlements to the first 30 days of use); 5) limiting box usage to one family only; 6) establishing new procedures to close overflow or abandoned

boxes; and 7) reexamination of the general delivery policy.

1 COMMISSIONER QUICK: Does any participant have a
2 procedural matter to raise before we begin?

3 MS. DUCHEK: Commissioner Quick, I do.

4 COMMISSIONER QUICK: Ms. Duchek?

5 MS. DUCHEK: Mr. ^{Littell}~~Bentley~~ is here today and we
6 spoke briefly this morning. In the Commission's earlier
7 ruling on the admission of Mr. Bentley's new analysis into
8 the record, it was stated that, if following discovery, the
9 Postal Service desired to do rebuttal, we should file such a
10 statement by December 16th.

11 I will give an oral report as to where we are,
12 although if you would like it in writing, I can do that as
13 well. I'm hoping you'll say no, but in any event, we filed
14 our second round of questions on Mr. Bentley on Wednesday.
15 Mr. Bentley faxed responses to us Thursday and also had a
16 diskette delivered which we received on Friday.

17 I have someone reviewing the diskette and we
18 anticipate, based upon that, that we do have some written
19 followup questions which, barring unforeseen circumstances,
20 should go out tomorrow.

21 Therefore, at this point, I spoke with Mr. Littell
22 this morning and I'm unable to state at this point whether
23 we would desire to recall Mr. Bentley for oral cross and/or
24 whether we would have rebuttal, at least until we get a
25 better handle on what our new written discovery is going to

1 be and what the responses back will be. So that's where
2 things are on that.

3 Second point, I talked to both Mr. Littell and Mr.
4 Costich this morning. At some point, we would like to
5 designate for inclusion in the record, Mr. Bentley's written
6 responses or at least some of them, as well as some OCA
7 institutional responses that were filed.

8 Initially, we had filed a number of questions on
9 Witness Thompson and she responded to one of them which was
10 included in the record when she took the stand. After she
11 was off the stand, OCA filed some responses as an
12 institution, so I would ask that similar to late filed
13 Postal Service responses, that you consider establishing a
14 date or procedure whereby I could designate Mr. Bentley's
15 responses, assuming that we don't ask to recall him for oral
16 cross and the OCA institutional responses for inclusion in
17 the record.

18 I also spoke with Mr. Littell in the event we do
19 not wish to recall Witness Bentley, but we want certain of
20 his materials in the record. I don't think it's necessary
21 to recall him solely for that purpose. Mr. Littell and I
22 are willing to enter some sort of stipulation or attestation
23 on Mr. Bentley's behalf that those are, in fact, his true
24 and correct answers.

25 COMMISSIONER QUICK: Thank you, Ms. Duchek. You

1 needn't file your report in writing. We appreciate your
2 oral *report*.

3 MS. DUCHEK: Thank you very much.

4 COMMISSIONER QUICK: And I will take into
5 consideration your other request and let you know how to
6 proceed. Thank you.

7 Are there any other procedural matters?

8 CHAIRMAN GLEIMAN: Mr. Presiding Officer, I have a
9 procedural matter.

10 COMMISSIONER QUICK: Mr. Chairman?

11 CHAIRMAN GLEIMAN: On Friday, the 13th of this
12 month, we received what is characterized as the "Second
13 Status Report of the United States Postal Service on
14 Implementation of Special Services Reform Proposals" and the
15 cover sheet to the status report, signed by Mr. Hollies,
16 ends with the following sentence, "As such, the Postal
17 Service has no expectation of relying on the second status
18 report in its initial reply briefs and there is no need to
19 make it a part of the record in this case." Then there is a
20 footnote associated with that sentence.

21 I would respectfully request that this status
22 report be made a part of the evidentiary record in this
23 case. It has, in addition to a listing of meetings that
24 have been held, some definitions of a resident in it on page
25 three of the status report which are fairly succinct and

1 straight forward -- even I can understand them -- and I
2 think it would be helpful for us to have these definitions
3 that were apparently arrived at during a series of meetings
4 that took place in early mid-November in our record because
5 the definitions do clarify and perhaps, in some cases,
6 change our understanding, or at least my understanding, of
7 the cases originally filed and may have a bearing on the
8 dollars associated with changing the total dollar amounts
9 associated with changing the current post office box fee
10 schedule.

11 So I would like to see if we can't have this
12 document find its way into the evidentiary record.

13 COMMISSIONER QUICK: Thank you, Mr. Chairman.

14 I thought I had done that.

15 CHAIRMAN GLEIMAN: I may have been out of the room
16 if you did it. I apologize --

17 COMMISSIONER QUICK: Maybe I didn't. If I didn't,
18 I want to make sure that I direct that it be transcribed at
19 this point and admitted into evidence with the limitations
20 that I described earlier, when I was making my statement
21 earlier.

22 CHAIRMAN GLEIMAN: I apologize for taking
23 everyone's time. I was trying to figure out what time the
24 experimental case hit our door on Friday afternoon,
25 determining whether the filing date was going to be Friday

1 the 13th or Monday the 16th and I stepped out of the room
2 and I apologize.

3 COMMISSIONER QUICK: No problem. It could be
4 helpful -- if you could give me your copy I will put it with
5 mine and we'll give it to the Reporter and we'll have our
6 two copies there, and then we'll get some more.

7 Okay, any other --

8 [No response.]

9 COMMISSIONER QUICK: Mr. Rubin, will you please
10 identify your first witness.

11 MR. RUBIN: The Postal Service calls W. Ashley
12 Lyons as its next witness.

13 COMMISSIONER QUICK: Mr. Lyons is already under
14 oath in this proceeding.

15 Mr. Rubin, you may proceed.

16 Whereupon,

17 W. ASHLEY LYONS

18 a rebuttal witness, was called for examination by counsel
19 for the United States Postal Service and, having been
20 previously duly sworn, was examined and testified as
21 follows:

22 DIRECT EXAMINATION

23 BY MR. RUBIN:

24 Q Mr. Lyons, I have provided you with two copies of
25 a document titled "Rebuttal Testimony of

1 W. Ashley Lyons on behalf of United States Postal Service,"
2 and that is designated as USPS-RT-1.

3 Was this testimony prepared by you or under your
4 supervision?

5 A Yes, it was.

6 Q And do these copies include errata that were filed
7 on December 11th, 1996?

8 A Yes, they do.

9 Q And with those changes, if you were to testify
10 orally here today, would this be your testimony?

11 A Yes, that would be my testimony.

12 MR. RUBIN: Then I would like to ask that "The
13 Rebuttal Testimony of W. Ashley Lyons on Behalf of United
14 States Postal Service" be entered into the record.

15 COMMISSIONER QUICK: Are there any objections?

16 [No response.]

17 COMMISSIONER QUICK: Hearing none, Mr. Lyons'
18 testimony and exhibits are received into evidence.

19 [The Rebuttal Testimony of W.
20 Ashley Lyons, USPS-RT-1 was
21 received into evidence and
22 transcribed into the record.]

23

24

25

USPS-RT-1

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

Special Services Reform, 1996

Docket No. MC96-3

REBUTTAL TESTIMONY
OF
W. ASHLEY LYONS
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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1
2 AUTOBIOGRAPHICAL SKETCH
3

4 My name is W. Ashley Lyons. My autobiographical sketch is presented in
5 my direct testimony, USPS-T-1.

1

2 I. Purpose of Testimony

3 The purpose of my testimony is to rebut that portion of the testimonies of
4 OCA witnesses Thompson and Sherman criticizing the selective nature of the
5 special service reforms proposed by the Postal Service, and the resulting fee
6 increases and net revenue gains. I also oppose the testimony of OCA witness
7 Callow's proposal to reduce Group 1 post office box fees.

8

9 II. OCA Witness Thompson

10 A. Prior Year Loss Recovery

11 Office of the Consumer Advocate witness Thompson argues that the fee
12 changes requested by the Postal Service in this filing should not be
13 recommended because the Postal Service does not need additional revenue to
14 achieve the target for recovery of prior years' losses set by the Board of
15 Governors. This line of reasoning is based on the faulty notion that the Board's
16 policy limits the Postal Service to recovering the target articulated in Resolution
17 No. 95-9. In fact, the Resolution directs that the Postal Service "will plan for
18 cumulative net income, in the period since implementation of the rates adopted
19 in the most recent omnibus rate proceeding, to equal or exceed the cumulative
20 prior years' loss recovery target for the same period."¹ (Emphasis added.)
21 Witness Thompson confirmed this in her response to Postal Service

¹ Library Reference SSR-112.

1 Interrogatory USPS/OCA-T200-1 (Tr. 5/1372), but continued to focus in that
2 response on the fact that the "terms of the resolution will be met in both FY 96
3 and FY 97 without any rate increases". The only prohibition against doing better
4 than the target is in the mind of witness Thompson.

5 Consider the following situation. A football team decides prior to the
6 season that its goal is to win 10 out of 16 scheduled games. The team plays
7 better than expected and wins its first ten games. Would Coach Thompson have
8 her team deliberately lose the last six games because her pre-season goal had
9 already been accomplished? The answer is obvious. Clearly by approving both
10 the Docket No. MC96-3 filing and the FY 1997 Operating Budget, the Board has
11 taken actions aimed at doing better than the target.² The Board of Governors
12 has acted responsibly and logically by approving an operating budget that plans
13 a continuation of equity restoration during a period which has been
14 characterized by strong financial fundamentals and performance. Witness
15 Thompson's recommendation that net income should be constrained in order not
16 to exceed the minimum level of the Board's equity restoration target is illogical
17 and irresponsible.

18 Despite recent progress in restoring equity, the Postal Service's equity
19 position remains substantially negative. As I discussed in my direct testimony,
20 the Postal Service has incurred net losses, and consequently has experienced a
21 decline in equity, over all but two rate cycles since postal reorganization. The

² Library Reference SSR-152.

1 period following the Docket No. R80-1 rate change from 1981-1984, and, so far,
2 the current rate cycle period are exceptional in that cumulative net incomes have
3 been generated. Postal Service equity declined from \$1.7 billion, when it began
4 operations on July 1, 1971, to a negative \$6.0 billion at the end of FY 1994.
5 Since then, the Postal Service has begun to reverse this trend. Through the end
6 of FY 1996 equity has improved to a negative \$2.6 billion. Although this
7 represents a significant improvement, there is still a long way to go before equity
8 is returned to a positive position as it was when the Postal Service was
9 established 25 years ago. The plain fact of the matter is that the Postal Service's
10 equity remains substantially negative and there is no certainty that equity can
11 continue to be restored over future rate cycles. I believe the responsible course
12 of action is to restore additional equity now that will mitigate general rate
13 increases in the future. The revenue reforms proposed in this docket do just that
14 and are consistent with our legal mandate and sound business practice.

15 B. Selective Rate Increases and Net Revenue Neutrality

16 OCA witness Thompson also seems to argue that changes in rates and
17 fees that result in additional net revenue should not be recommended outside of
18 an omnibus rate case. She does admit in her response to interrogatory
19 USPS/OCA-T-200-2 (Tr. 5/1373-75), that "not all future classification cases must
20 be net revenue neutral", but fails to define in what classification cases net
21 revenue increases should be recommended. She further avoids specifying

1 beyond broad outlines what cases need not be net revenue neutral in her
2 responses to USPS/OCA-T-400-21 (Tr. 5/1405-07) and USPS/OCA-T-200-33
3 (Tr. 5/1408-10). During oral testimony, witness Thompson was unable to provide
4 precise information to clarify her position. See Tr. 5/1478-1500. Her
5 explanations are confusing and not persuasive.

6 It is not reasonable to assume that individual classification reform
7 proposals and their objectives can or should always await an omnibus rate case,
8 or be accomplished on a net revenue neutral basis. Such an approach could
9 lead to illogical actions. In general, the way to establish new services or reform
10 existing services for which fees are too low to reflect market demand or other
11 pricing criteria, is to set a new fee or increase the existing fee and thereby
12 increase net revenue. For example, the stamped card special service is new
13 and therefore adds net revenue. Witness Thompson generally desires that any
14 fee or rate increase be offset by a decrease in some other fee or rate. Sound
15 classification and pricing reforms that result in additional net revenue
16 presumably would have to be offset by other reforms that would result in a net
17 revenue loss. It does not make sense to spend time and resources searching for
18 ways to justify revenue reductions just for the sake of achieving a short term net
19 balance. Such an approach is not likely to make the customer subject to an
20 increase feel any better, and would be inconsistent with Postal Service goals of
21 net revenue generation and equity restoration. There is no reason to force the

1 concept of revenue neutrality onto all reform proposals when additional net
2 revenue is a consequence of reform.

3 Witness Thompson also contends that Docket No. MC95-1 somehow
4 committed the Postal Service to a perpetual, inflexible, and irrevocable policy of
5 net revenue neutrality in all future cases involving reform of rates or
6 classifications. She believes that the "framework" mentioned in the Request, at
7 page 2, refers to contribution neutrality. See Tr. 5/1373-74. She is mistaken.
8 The "framework" for classification reform to which she refers actually relates to
9 redefining the classes of mail to reflect different service levels desired by
10 customers. Docket No. MC95-1 Request, page 2 (Tr. 5/1414). The Postal
11 Service has never committed itself to a policy of net revenue neutrality for all
12 rate cases outside of omnibus cases.³ To have done so would have severely
13 limited the options available to satisfy the Board of Governors goal expressed in
14 Resolution 95-9, breaking even over time and restoring equity.

15

16 III. OCA Witness Sherman

17 OCA witness Sherman maintains that Docket No. MC96-3 is "unusual"
18 because the Postal Service proposes "price increases on a piece-meal basis
19 rather than in context, as in an omnibus rate case, where all rates for all services
20 can be compared." OCA-T-100 at 3, Tr. 7/2274. Witness Sherman argues that
21 the changes proposed in this docket should be evaluated in the context of an

³ Witness Thompson was unable to identify a specific citation in the MC95-1 Request where the Postal Service explicitly made such a commitment. See *generally* Tr. 5/1437-38, 1446-47, and 1450.

1 omnibus rate proceeding, so that the Commission can make comparisons across
2 services and recommend equitable contributions. OCA-T-100 at 4, Tr. 7/2275.

3 Although witness Sherman insists upon an omnibus rate proceeding, he
4 concedes that it is possible to compare existing relative price relationships with
5 those suggested by a Ramsey model or, for example, a uniform markup model,
6 whether one is proposing (or even contemplating) a change in all rates, many
7 rates, few rates, or no rates. But witness Sherman presents one caveat: in
8 order to compare existing relative price relationships, "all necessary data must
9 [be] available" outside omnibus rate proceedings. Tr. 7/2350. Each criticism is
10 addressed in turn.

11 A. Data Availability

12 Witness Sherman ignores the fact that data are available in this docket to
13 make precisely the type of comparisons he contends the Commission must make
14 when evaluating the proposals in this docket. For instance, witness Patelunas's
15 Exhibits USPS-T-5G and USPS-T-5J present cost coverages for the various
16 postal products and services both before and after the implementation of the
17 proposed rates for the special services. These data provide ample information
18 about cost and revenue relationships between and among the various postal
19 products and services.

20 Indeed, it appears witness Sherman's criticisms in this docket stem more
21 from his own limited experience, rather than from an objective evaluation of
22 either the availability of data or the process that is undertaken by the

1 Commission in recommending new fees and rates. For instance, when asked
2 whether the Commission has evaluated all rates in past dockets, Dr. Sherman
3 professed having no knowledge of "piecemeal cases." Tr. 7/2461. When
4 pressed, Dr. Sherman conceded that the Commission has recommended rates
5 or classifications without reviewing rates for every other category, but claimed
6 that "[t]here was agreement on what the aims were in those cases. They were
7 classification cases that involved no revenue change." Tr. 7/2461. A review of
8 past dockets reveals that revenue neutrality is not necessarily an inherent
9 characteristic of classification cases. For instance, in Docket No. MC96-2, the
10 Postal Service proposed, and the Commission recommended, fees that
11 generated a test year loss of contribution in excess of \$20 million and an
12 anticipated FY 97 loss much greater than that.

13 B. The Fear Of Distorting the Present Cost-Price Relationships

14 Witness Sherman has also alluded to the possibility that piece-meal
15 changes in rates and fees may result in distortions to a Ramsey model, or some
16 other form of relative relationship, when selected services are chosen for
17 increased prices. Tr. 7/2351-52. Dr. Sherman readily concedes that his criticism
18 is premised upon the assumption that all rates and fees were "in line" with
19 Ramsey pricing or some other deliberate approach to establishing price-cost
20 relationships. Tr. 7/2351. Dr. Sherman's argument is unpersuasive, however,
21 because it appears to be based on the mistaken premise that the Commission
22 uses a mechanical formula or rigid economic theory in determining rates. This

1 has been explicitly rejected by the Commission. As recently as the last omnibus
2 rate case, Docket No. R94-1, the Commission affirmed that it had adopted no
3 deliberate approach, Ramsey or otherwise, in establishing price-cost
4 relationships. In Appendix F to the Commission's Opinion in that Docket, the
5 Commission explained that:

6 [n]o one pricing theory, economic or otherwise, serves as the
7 dominant principle in the Commission's pricing decisions. This is
8 consistent with the Act, as interpreted by the courts. *Newsweek,*
9 *Inc. vs. U.S. Postal Service*, 663 F.2d 1186, 1200 (2d Cir. 1981).
10 Deciding markups and developing rate recommendations involves
11 balancing a number of statutory pricing criteria, some of which
12 complement each other and some of which conflict with each other.
13 The task of recommending rates is difficult because, in contrast to
14 costing analyses, economic theory offers guidance on only a few of
15 the nine pricing criteria of section 3622(b). Few of these criteria are
16 quantifiable through mathematical modeling. As a result, the
17 guidance that economic theory offers is mostly qualitative.
18 Selecting a single set of rates that satisfies all of the pricing criteria
19 requires the Commission to judgmentally determine how to
20 interpret the various pricing criteria and the weight to be accorded
21 to each.⁴
22

23 The above passage demonstrates that the Commission has relied upon
24 its judgment in making recommendations in accordance with the statutory pricing
25 criteria on rates and fees. As such, the Commission has not applied a
26 mechanical formula or an economic theory, such as Ramsey pricing, to assign
27 contributions. While the Postal Service believes that Ramsey pricing can
28 provide a useful analytic framework, judgment is an inevitable part of the
29 process and ultimately there is no precise science to assigning contributions in

⁴ Docket No. R94-1, Opinion and Recommended Decision, Appendix F at 17.

1 postal ratemaking. Nothing precludes the Commission from exercising its
2 judgment in making recommendations on a subset of rates and classifications
3 without engaging in a wholesale review of all other categories.

4
5 IV. OCA Witness Callow

6
7 OCA witness Callow recommends that Group 1 post office box fees be
8 reduced instead of increasing the fees as proposed by the Postal Service. This
9 OCA proposal should be rejected. For the reasons discussed in witness Lion's
10 testimony (USPS-RT-3) I believe there is a high probability that the new Group 1
11 box customers predicted by witness Callow to result from his proposed lower
12 fees will not materialize.

13 As explained by witness Lion in his rebuttal testimony, post office boxes
14 are frequently not readily available in those areas where demand is the highest.
15 Witness Lion also explains that the cost of adding new boxes in these areas is
16 higher than the average cost of post office boxes reflected in the Cost and
17 Revenue Analysis (CRA). This is because CRA post office box attributable
18 costs for facility space reflect booked costs for rent and depreciation. The
19 booked cost of facility space is generally below market rental rates since
20 appreciation in market value is not accounted for by straight line depreciation or
21 long term rental contracts. The current market cost of real estate that would
22 have to be incurred to add additional space for new boxes is higher than CRA
23 attributable costs, as discussed by witness Lion. It is my belief that current post

1 office box fees have hampered box expansion in many areas and lower box fees
2 will exacerbate this problem.

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1 COMMISSIONER QUICK: Only one participant, the
2 Office of Consumer Advocate, has requested oral cross
3 examination of witness Lyons.

4 Does any other participant have oral cross
5 examination for witness Lyons?

6 [No response.]

7 COMMISSIONER QUICK: Mr. Costich, will you please
8 begin.

9 MR. COSTICH: Thank you, Commissioner Quick.

10 CROSS EXAMINATION

11 BY MR. COSTICH:

12 Q Good morning, Mr. Lyons.

13 A Good morning, Mr. Costich.

14 Q Could you refer to page 2 of your rebuttal
15 testimony.

16 A I have found it.

17 Q In particular, lines 14 through 16.

18 A Yes.

19 Q You state here that witness Thompson made a
20 recommendation that net income should be constrained in
21 order not to exceed the minimum level of the Board of
22 Governors equity restoration target, is that correct?

23 A Yes.

24 Q Could you tell me where witness Thompson made that
25 recommendation?

1 A In terms of explicitly stating it in those terms I
2 am not sure I have the cite here, but implicitly throughout
3 her testimony where she was saying that the Postal Service
4 should not be allowed to raise rates above what had been
5 there in the past rate case, which is the amount designated,
6 the 936 ⁱⁿ ~~and~~ the prior year loss recovery.

7 I think as I understand it that one of the basic
8 purposes of her testimony is ^{that} ~~as~~ the Postal Service is moving
9 along and recovering the prior year's loss recovery and
10 therefore no need to increase -- in this case to increase
11 the revenue on the part of the Postal Service.

12 Q Okay. Could you look back up at lines 2 and 3 on
13 page 2.

14 A Yes.

15 Q Here you quote witness Thompson as saying that the
16 terms of the Board of Governors' equity restoration
17 resolution -- that's number 95-9, is that correct?

18 A I believe that's correct, yes.

19 Q The terms of that resolution will be met in FY '96
20 and FY '97 without any rate increases, is that correct?

21 A That's the quote of Ms. Thompson here. I would
22 want to point out that I appreciate her confidence in the
23 Postal Service. She has already determined that we will in
24 fact meet our budget in FY '97 -- she is in fact more
25 confident than I am, I'm afraid to say, in that regard, that

1 she has already written up '97 as indicating that we will in
2 fact make her budget.

3 I think that is the case. I feel reasonably
4 confident but I am not sure I can say the Postal Service
5 will meet it in '97.

6 I don't know that for a fact yet.

7 Q Given the budget that's been approved for FY '97,
8 the recovery of prior years' losses will extend into FY '98,
9 won't it?

10 A Okay. That's a key point. Given the budget, it
11 will if that budget is, in fact, achieved. I'm not sure
12 that I -- you know, we are in current FY '97, and I can't
13 state for a fact that we will, in fact, achieve it.
14 Hopefully so. But in that case, I can't say that as a given
15 that that will, in fact, occur.

16 Q Do you know how the Postal Service is doing in FY
17 '97 relative to its plans?

18 A Currently, I think for two of the first 13
19 accounting periods, it's pretty much on track in terms of
20 its -- in terms of the plans, though again I'd point out
21 that's only two of 13 accounting periods.

22 Q With respect to FY '96, there's no question about
23 how well the Postal Service is doing in terms of restoring
24 equity, is there?

25 A There isn't. That's actual historic data.

1 Q In your original testimony in this docket, you
2 said that in the context of an FY 1996 test period with a
3 projected net income, the proposals in this request that
4 will increase net income are consistent with the goal of
5 equity restoration. Do you recall making that statement?

6 A Would you tell me where I said that, please?

7 Q Page 11, line 6 through 8.

8 A Okay. I believe that's a paraphrase of what I
9 said, yes.

10 Q Is it also true that leaving current rates in
11 place is consistent with the goal of equity restoration?

12 A That depends, I think, it depends how you define
13 that. If it's to ^{meet or}~~meet~~ exceed it, I think to the degree
14 that the Postal Service exceeds it and is able to more
15 rapidly and more fully restore equity restoration, I think
16 that our proposal here is more consistent with that goal.

17 Q Well, in the context of an FY 1996 test period,
18 leaving current rates in place will still allow the Postal
19 Service to exceed the target of Resolution 95-9, won't it?

20 A Well, already FY '96, okay, has occurred. In that
21 sense, the FY '96 actual fiscal year, the Postal Service did
22 meet the equity restoration target, okay.

23 Q And that was your original focus in your original
24 testimony, correct, a test year of FY 1996?

25 A It was the test year of FY 1996, but then again,

1 we're talking, as you -- as your question appears to
2 interpret it, it means that a target is such that it's a
3 precise number; and to the degree -- as I understand the
4 governor's resolution, it's to ~~meter~~^{meet or} exceed, and to the
5 degree that one exceeds that explicit prior year loss
6 recovery number, that's consistent perhaps with the spirit
7 -- I mean with the word and with the spirit of the
8 governor's resolution, which is to ~~meter~~^{meet or} exceed and try to
9 recover the prior loss recovery.

10 Q Would it be fair to say that your appeal to the
11 goal of equity restoration would justify any action in this
12 docket from doing nothing to recovering all prior year's
13 losses immediately?

14 A I don't think that would be fair to say. I mean,
15 again, the goals of equity restoration -- I mean, you can
16 say that about any goal, if you consider a goal exclusive of
17 everything else, you can come up with extreme examples. But
18 obviously the goal of equity restoration has to be
19 considered in light of various other things, impact upon
20 customers, the mailing community, even upon the economy of
21 the country. I don't see the Postal Service or the Board of
22 Governors as doing equity restoration without considering a
23 variety of other concerns there. I think you can use your
24 example and say that if you just pursued one activity, that
25 certain other things could happen that might be harmful, and

1 I wouldn't go that far in my assessment.

2 Q Well, does the goal of equity restoration place
3 any constraints on what the Postal Service has proposed in
4 this docket?

5 A I think the goal of equity restoration, but as I
6 recall in -- the report from Price Waterhouse acknowledged
7 and I think that there are other goals of the Postal Service
8 which must be kept in mind when the Governors consider that.
9 So I don't think the goal of equity restoration was ever
10 designed as being singular; the Postal Service has a variety
11 of goals; but it's certainly an important goal to the Postal
12 Service. And I don't want it highlighted that the Postal
13 Service in any way is here pursuing the goal of equity
14 restoration to -- at the same point ignoring other goals
15 that it deems important, and I think the report of Price
16 Waterhouse indicated that there are other goals that must be
17 kept in mind, and I don't see what we've proposed here as
18 being inconsistent with that.

19 Q I guess I'm having a little trouble distinguishing
20 the goal of equity restoration from motherhood, apple pie
21 and flag-waving. How is the proposal in this docket
22 structured, constrained, in any way affected by the goal of
23 equity restoration?

24 A I'm sorry, run past the -- not the reference to
25 motherhood, the flag and apple pie, but the actual question

1 there again, please. I forgot it with the flag-waving in
2 the first part.

3 Q How does the goal of equity restoration constrain
4 or otherwise structure the Postal Service's request in this
5 docket?

6 A How does the goal of equity restoration constrain
7 or -- well, I mean part of the enunciated goal in my
8 testimony was to restore equity. In that sense, what we're
9 saying that to the degree that these proposals enhance the
10 revenue or net income by the Postal Service, it certainly
11 meets those goals to restore equity and make the Postal
12 Service more financially viable.

13 Q Well, does the goal of equity restoration lead you
14 to request \$340 million of new net income?

15 A I think the goal of equity restoration suggests
16 the Postal Service to the degree that there are
17 opportunities for net income should realize those
18 opportunities. It should not do that without considering
19 other goals, but I think the -- you know, to the degree that
20 this proposal enhances net income, it's consistent with
21 that, and the Postal Service through a variety of means, be
22 they adjustments in fees, be they cost reduction
23 opportunities, should be looking to do that, and I see this
24 proposal as consistent with that as a piece of the goal of
25 equity restoration.

1 Q Would it be fair to say that the \$340 million of
2 new net income sort of fell out of the proposal and that the
3 equity restoration goal sort of justifies it after the fact?

4 A I don't think it would be fair to say that. I
5 think it is -- I mean, if you are implying would 330 million
6 or 350 million also restore equity and be consistent with
7 that, the answer is yes. But I think the amount of net
8 income came out of us looking at the pricing criteria and
9 the services involved here and when we adjust the prices and
10 looked at that, then we came up with a net income of 340
11 million. But to the degree that we decide to raise rates
12 and that it would be at the tail end, it would be, gee, we
13 are restoring equity and, no, I don't think that's fair to
14 say.

15 I think we realized coming into the proposal to
16 the degree that we better reflected the cost, better
17 reflected the market attributes of these services that, yes,
18 and that we are restoring equity that all of those are
19 consistent goals in this instance.

20 Q Could you turn to page 3 of your rebuttal?

21 A I have got it.

22 Q Lines 9 through 11.

23 A Yes.

24 Q Here you say that the Postal Service's equity
25 remains substantially negative and there is no certainty

1 that equity can be -- can continue to be restored over
2 future rate cycles; is that correct?

3 A Yes.

4 Q Doesn't this argue for immediate recovery of all
5 prior years' losses?

6 A No, it doesn't argue for immediate recovery of all
7 prior years' losses. As I indicated earlier, there are a
8 variety of considerations. The point of the matter, in this
9 testimony, is the fact that we have had two good years, is
10 not to say, gee, you are on the road to equity recovery, you
11 could ignore the past where the Postal Service more often
12 than not lost money.

13 I think the point of the matter is when you have
14 the -- the services that need fee adjustments and you can
15 make increased net income with that, that it is appropriate
16 to do so at this time, not to rest on your laurels on the
17 belief that, gee, given the last couple of years, everything
18 is going okay, we can coast along.

19 The history of the Postal Service, with its net
20 equity deficit, suggests that you can't count on that to
21 continue.

22 Q Well, if you can't count on that to continue,
23 shouldn't you be doing something as soon as possible to
24 restore that equity?

25 A Again, you have to weigh it against other

1 considerations and we are, in fact, this proposal is doing
2 something as soon as possible. It helps with net income.
3 Should the Postal Service -- should it raise its rates by
4 \$5- or \$6 billion immediately and what effect has that on
5 its customers, on the economy as a whole? Those are
6 considerations the Postal Service must consider in terms of
7 providing its basic mandate to provide service, universal
8 service to the country at a reasonable price. You have to
9 weigh those together.

10 And would a \$5- or \$6 billion increase immediately
11 do that, maybe restore the net deficit? Perhaps. But,
12 again, these goals aren't -- can't be considered in
13 isolation; they must be considered with a variety of goals.

14 Q If you would look at the next sentence there on
15 page 3, you say that the responsible course of action is to
16 restore additional equity now that will mitigate general
17 rate increases in the future; is that correct?

18 A Yes.

19 Q Doesn't this argue for immediate recovery of all
20 prior years' losses so that future rate increases will only
21 have to cover future cost increases?

22 A Well, arguably that does. Again, you can't
23 consider -- ought not to consider that in isolation. I
24 think at the same time, I think, already if you looked at
25 the -- if the Postal Service is able to continue its

1 restoration or just stay where it is, again, hopefully
2 Witness Thompson's predictions will come true and at least
3 maintain on the path to recovery of prior year loss
4 recovery.

5 I think already the amount for the next rate
6 increase would go down from 900-and-something-30-something
7 million to 500-something million and to the degree that this
8 proposal is adopted and helps in that matter, it can reduce
9 it even more.

10 I think it is a matter of how much you can do at
11 one time.

12 Arguably, it would be nice if the Postal Service s
13 equity was restored just like that but you can't do it, as I
14 am aware of. I mean, certainly, we will look to reduce
15 costs but it appears that part of the formula you are
16 suggesting here is substantial rate increases and I think
17 that has to be considered in light of that impact versus in
18 light of the goal of equity restoration.

19 Q Well, just how serious are you when you say that
20 the responsible course of action is to recover equity now?

21 A Well, in terms of how serious is the Postal
22 Service, obviously it has made significant strides in
23 restoring equity in terms of the last rate case. I think
24 that indicates a seriousness. And to the degree that we are
25 looking for more opportunities to the degree that this helps

1 restore equity, I think it indicates a genuine seriousness
2 on the Postal Service's part.

3 Q Would you agree that every day that goes by
4 without a rate increase represents a missed opportunity to
5 restore equity?

6 A Well, using that analogy every day since the last
7 rate increase, I mean theoretically on January 2nd, we
8 missed an opportunity not to restore equity and in that
9 sense, again, it has to be considered via the goals.

10 Yes, we could have raised rates on January 2nd and
11 on January 3rd, we'd be restoring equity under that scenario
12 more rapidly, but again, we have to consider the goal of
13 restoring equity versus other considerations.

14 Q What I'm hearing is that these other
15 considerations virtually overwhelm the goal of equity
16 restoration and that it's not really particularly important?

17 A Well, that may be what you're hearing, Mr.
18 Costich; that's not necessarily what I intended. It's that
19 -- I'm sorry I live in a complex world that you just can't
20 consider one thing in isolation, that there are a variety of
21 things.

22 You've got restoration of equity; you've got to
23 consider the impact on customers, and at the same time, we
24 don't want to restore equity, in a sense, on the backs of
25 the customers by just raising rates all the time to the

1 degree that we can implement ways of trying to control costs
2 to the degree that, in fact, we can induce more mail volume
3 and revenue so that more customers share the institutional
4 cost base.

5 I don't think that it's necessarily done through
6 one means and I don't think that this is the only means
7 through which the Postal Service intends to restore equity
8 and there are a variety of other considerations at the same
9 time.

10 To the degree, again, as I indicate, that if in
11 your definition of seriousness, we would be proposing rate
12 increases all the time and I'm not sure that's necessarily
13 consistent with the basic mandate of the Postal Service.

14 Q A little while ago, you mentioned \$500 million a
15 year as a prior year loss recovery number, do you recall
16 that?

17 A Yes, I do.

18 Q Could you tell me how you calculated that?

19 A I think what I did there was I said over \$500
20 million, I think essentially what I was doing was if you
21 took the 18 and the 15 and that's \$300 million a year and
22 you subtracted that off the existing prior year loss
23 recovery amount, plus also to the degree that I think we did
24 a little bit better in fiscal year 1994 than we had
25 originally projected.

1 I think if you took those numbers together, the
2 prior year loss recovery amount since the last rate case
3 would go down.

4 Q Over the current period of recovery?

5 A Over the current period of recovery.

6 Q Isn't that recovery already built into the current
7 rates?

8 A That amount of recovery was built into the current
9 rates for the test year which, as I recall, was fiscal year
10 1996, the last rate case.

11 Q If it's built into the current rates, there'd be
12 no reason to include it in another revenue requirement,
13 would there?

14 A It was built into -- the rates, though, are based
15 on a test year revenue requirement and test year was fiscal
16 year 1996. It was built into -- designed to recover prior
17 year losses through test year fiscal year 1996, as I recall
18 how it was constructed as part of that revenue requirement.

19 Q Could you turn to page four of your rebuttal?

20 A Excuse me a second. I am having a problem
21 locating that. It's mixed among several other pages here.

22 I have got it, finally.

23 Q Lines 9 through 12.

24 A Okay.

25 Q Here you refer to fees that are too low to reflect

1 market demand or other pricing criteria, is that correct?

2 A Okay, this is the sentence that says "In general,
3 the way to establish new reforms, reforming existing
4 services" -- okay, yes. I see the reference to market
5 demand.

6 Q Is this a kind of Mt. Everest argument? You raise
7 rates because the opportunity is there?

8 A That's an interesting phrase. I have never heard
9 that before. I'll have to use that when I'm back at work
10 some time.

11 I don't see that as ^{at}all the case. The point of
12 the matter is that we had some fees here when we were going
13 through the restructuring process that by the existing
14 standards of value of service and the like and a market that
15 needed to be adjusted. I don't see that as a Mt. Everest
16 argument.

17 Some work needed to be done. We had the
18 opportunity to go ahead and go do that. I mean to that
19 degree you -- you could use the Mt. Everest argument for
20 anything. You could say that to general rate increases or
21 the like.

22 I think the point of the matter here is that we
23 did have some fees that needed to be restructured.

24 We did have a goal of prior year loss recovery and
25 the fact that they were consistent with each other made it

1 an opportune time to deal with this.

2 Q Well, tell me this. Are rates for First Class
3 mail currently too low to reflect market demand?

4 A We really -- at the time we were focusing on
5 Special Services. I don't see the rates, as First Class
6 mail, being too low.

7 I don't think we have done that evaluation and I
8 don't think that in that regard we are focusing on these
9 classifications here in Special Services.

10 Q Well, if you take your argument seriously, that
11 you should raise rates where they are out of line with
12 market demand, aren't there a lot of rates that should be
13 raised right now?

14 A Not necessarily, and again this goes back to the
15 point of focusing on one specific aspect in reforming those.
16 Arguably you could go back, in using your scenario, and say
17 the market has changed this amount or that amount.

18 I think the real critical issue here with the
19 Special Services and a way of delineating it from the last
20 rate case, I don't think -- I think the fact of the matter
21 here for Certified Mail and post office boxes is that we had
22 ~~indicated~~ ^{indicated} historically that we felt, and I think to a certain
23 degree the Commission had agreed, that Certified Mail and
24 post office boxes had cost coverages that were well below
25 what the value of service suggested and I think here you had

1 a very definite difference in terms of where the existing
2 cost coverages were proposed and where the market demand and
3 value of service suggested that they would be.

4 I don't see the same situation existing
5 necessarily in First Class mail.

6 Q How about single piece Third?

7 A Single piece Third -- single piece Third I think
8 is a structural problem which probably deserves a lot of
9 attention and needs to be done right, and does not
10 necessarily need to be just -- we have been chasing our tail
11 trying to raise the rates on that for the past 15 or 20
12 years and I understand the point here, and you raise rates
13 40 percent again and the costs go up 60 percent and you
14 wouldn't have fixed anything.

15 I think -- which gets back to the point here -- we
16 went and looked at structural problems here and worked to
17 fix them, and I think to the degree that you say, gee,
18 single piece Third according to the CRA is below cost, we
19 need to raise rates again -- we have been doing that for 15
20 or 20 years without success.

21 I think you need to have a plan formulated to deal
22 with it, which is what we did with the Special Services
23 here.

24 We just weren't raising fees. We were making
25 structural changes.

1 Q What are the structural changes in Certified?

2 A Certified Mail, the structural change there is
3 that we had a misidentification of the revenues compared to
4 the cost and we corrected those changes.

5 I think that's the structural way in terms of how
6 we measured the cost coverage.

7 That is a change I think structurally in terms of
8 providing the right revenues to compare against the cost.

9 Q Well, it doesn't change the structure of the
10 product, does it?

11 A It changes the structure of how it is dealt with
12 in these kind of proceedings, yes, and given the nature, if
13 you correctly measure the revenue versus the cost, then you
14 have to deal with the implications on the price, so I think
15 in that sense it is a structural change.

16 It certainly has an implication for what customers
17 are charged.

18 Q And the structural change in post office boxes?

19 A The structural change in post office boxes are
20 again we were going back in terms of adjusting the fee
21 schedule, first of all, to try to delineate where free mail
22 service is provided and also to begin to structure the fees
23 to more closely reflect the cost.

24 Q So there is no change in the service itself?

25 A There is no change in terms of level of service.

1 No, there isn't.

2 Q What about postal cards?

3 A Postal cards again a structural change in how the
4 fee is set to reflect the value of us providing the actual
5 physical post card and, if you will, or stamped card under
6 the new way discussed and ^{affixing} ~~of fixing~~ the postage to it.

7 I think it's to better reflect that additional
8 service, so it is a change in how the product offering is
9 structured how we offer it to the public.

10 Q As far as the public is concerned, they are going
11 to pay 2 cents more for the same service, correct?

12 A But they'll note that the service now is a
13 different service than that of a postcard. Again, they were
14 paying the same thing for having more service and we're
15 correcting that feature.

16 So to the degree that we actually physically
17 provide the card, we'll reflect that in the price and be
18 more consistent with what we do with stamped envelopes where
19 we do the same thing. I think that's making our parallel
20 products more structurally consistent.

21 Q Could you turn to page seven of your rebuttal,
22 lines two and three?

23 A Okay.

24 Q Here you are discussing Professor Sherman's
25 testimony, correct?

1 A Yes.

2 Q You say Professor Sherman professed having no
3 knowledge of piecemeal cases, is that correct?

4 A Yes.

5 Q Could you give me some examples of prior
6 classification cases in which the Postal Service proposed
7 rate increases for the purpose of increasing net income?

8 A Well, in terms of proposed rate increases for the
9 purpose of increasing net income, let's see. The Postal
10 Service will -- I think this dates back. There are a couple
11 of cases. I know, for instance, when the nonstandard
12 surcharge went into effect, that was a surcharge put into
13 effect, I believe, in the late 1970s. The effect of that
14 was to increase net income.

15 Again, probably in the mid to late 1970s when the
16 Postal Service made permanent the product offering of
17 express mail, I don't think the Postal Service offered that
18 product at that time with the hope that it would break even.
19 It was designed with a fairly substantial cost coverage and
20 the idea would be that you would hopefully make money from
21 that product. That was in between rate cases.

22 Q So one of your examples is express mail, a
23 completely new service?

24 A Yes.

25 Q And your other example is the nonstandard

1 surcharge?

2 A That's correct.

3 Q Do you recall what the effect on net income was,
4 the nonstandard surcharge?

5 A No, I do not.

6 Q It wouldn't be too much, would it?

7 A Well, it's ended up the nonstandard surcharge, the
8 revenue collected from that I think has been less than was
9 originally forecast, but nevertheless, it was an increase in
10 net income.

11 Q Could you look at line nine on page seven? Here,
12 you're referring to MC96-2 as a case that wasn't revenue
13 neutral?

14 A Yes, that's correct.

15 Q And there was a change in net income of \$20
16 million in that case?

17 A That's in the test year as we proposed to the
18 Postal Rate Commission, yes, or in excess of, as I said.

19 Q That \$20 million change, did the Postal Service or
20 the Commission choose that number?

21 A By choosing it, I'm sorry, what do you mean by
22 choosing it?

23 Q How much discretion did they have in terms of
24 setting the rates for the preferred categories in that case?

25 A Well, they had the discretion of proposing or not

1 proposing the case, for instance. I mean, the Postal
2 Service could have said, in fact, that was a consideration
3 at the time, given you'll lose \$20 million and actually the
4 way it worked out in the test year, beyond actual fiscal
5 year 1997, much more than that, do you want to do a proposal
6 that will lose you \$40 million or so.

7 In fact, that was a consideration on the part of
8 the Postal Service. The Postal Service felt that the
9 benefits of classification reform outweighed those losses,
10 but nevertheless, it was a benefit they could have elected
11 to go with nonprofit classification reform or not to.

12 Q Do you recall what the change in net income was in
13 Docket No. MC95-1?

14 A No, I do not, offhand.

15 Q It's more than \$20 million, right?

16 A I don't know offhand.

17 Q But MC95-1 was a revenue neutral case?

18 A It was pretty much revenue neutral, yes.

19 Q Well, it was characterized that way, correct?

20 A Yes. Again, when you're dealing with that, the
21 point is if you have a number of \$20 million or so measured
22 against first class mail, that's essentially revenue neutral
23 in terms of its contribution.

24 But if you're looking at vis a vis third class *nonprofit*
25 mail, which may have a contribution of \$100 million, if

1 you're taking away \$20 million, \$30 million or \$40 million
2 from it, then on a percentage basis, you have dramatically
3 changed the contribution from that category. I should say
4 Standard A nonprofit. I've been in the Postal Service too
5 long, I need to learn the new demarkations here.

6 Q Would you refer to page 8 of your rebuttal, lines
7 1 through 4.

8 A Yes.

9 Q Here you say that the Commission has adopted no
10 deliberate approach, Ramsey or otherwise, in establishing
11 price-cost relationships; is that correct?

12 A Yes, that's correct.

13 Q Well, how should we describe the Commission's
14 approach to pricing? Haphazard? Random?

15 A Deliberate in a sense. I think the Commission
16 lays it out right there, and you have the choice of
17 deliberate. Deliberate meant that, I mean, as a sense, I
18 think once the -- well, in fact, I think you didn't use the
19 word. I think when I used to do rate level or rate policy
20 and it was -- the Commission agreed it was similar to their
21 -- one of my adversaries called it muddling through. You
22 didn't use that term for it, but nevertheless, the approach
23 is not a deliberate modelled approach; the approach is one
24 of judgment and the approach is of gathering all the facts
25 and using the various criteria, some of which complement

1 each other and some which not necessarily complement and
2 appear to be in contradiction of each other and of working
3 their way through. I think the Commission -- the language I
4 quoted there on the Commission -- from the Commission's
5 decision speaks for itself in terms of how the Commission
6 approaches their pricing process.

7 Q Well, could you read the last sentence of that
8 quote? It begins on line 18.

9 A Selecting a single set of rates, it requires all
10 the pricing criteria, requires the Commission to
11 judgmentally determine how to interpret the various pricing
12 criteria and the weight to be accorded to each.

13 Q Doesn't the reference to a single set of rates
14 that satisfies all pricing criteria suggest that the
15 Commission desires to compare all rates with each other and
16 adjust any rate necessary to generate the single set of
17 rates referred to here?

18 A I think the single set of rates which comes up
19 particularly in that criteria -- and I'm glad you brought
20 the issue up because I figured that someone would use my own
21 language in previous cases regarding the similar kind of
22 issue. The reason I think that's critical in terms of a
23 single set of rates is that that -- during a rate
24 proceeding, the Commission has a specific revenue
25 requirement to recover at that time, and given that fact, if

1 the Commission -- if the revenue requirement is \$55 billion,
2 then they're being asked to come up with a set of rates at
3 that time that recovers \$55 billion, and I think it's
4 appropriate for that particular revenue requirement that
5 they do recover one single set of rates.

6 But here we're saying that there is a need -- they
7 did meet the requirement and came up with a set of rates
8 that recovered the revenue requirement in that case. We've
9 pointed out -- we've got a new revenue requirement and we
10 pointed out a different set of -- I don't know if it's a
11 different set of circumstances, but more information and
12 likewise certain fees should be increased. I don't think
13 here the reference was to being locked in. In my own view,
14 though, the Commission can certainly speak for itself to the
15 revenue requirement at that time.

16 Q Are you saying there is no overall revenue
17 requirement for the test year in this docket?

18 A I'm saying we presented that you had the revenue
19 requirement in the past case, and the Commission is
20 referring to the single set of rates. They needed to find a
21 set of rates that satisfied that revenue requirement.

22 Q So you're saying they don't have to find a single
23 set of rates for FY '96 test year that satisfies that
24 revenue requirement?

25 A Well, I think we provided them a set of rates and

1 a proposal that would meet the needs of restoring the prior
2 year loss recovery here. But this case isn't quite the same
3 as that general rate case where they had the revenue
4 requirement of 55 or whatever billion it was to meet at that
5 time.

6 Q Are you suggesting that we could go along and have
7 another classification case like this, the Postal Service
8 could determine that the policy of mitigating rate increase
9 for first class, single piece continues to hold and
10 therefore we'll only raise third class rates?

11 A Conceivably the Postal Service can come up with
12 other cases where it may be viewed important to -- I mean
13 consistent with the goals of prior year loss recovery, and
14 also in terms of the pricing needs for that particular
15 classification, that the fees should be increased.

16 Arguably there may be instances when it's
17 determined that some fees or prices should be reduced. I'm
18 saying that you have to consider each circumstance and
19 develop the appropriate prices. And there may be at the
20 same time be where we decide that the appropriate revenue --
21 that the current price level is appropriate, but just that
22 some prices be changed within it.

23 Q So depending on the situation at any given time,
24 it would be possible to justify any kind of selective rate
25 increase; is that correct?

1 A Not that at all. I don't think it would be
2 possible to justify any kind of selective increase. I think
3 it would be -- you have to see the circumstances, the
4 products involved to determine what's appropriate. It may
5 be a selective rate increase; it may be something else. It
6 would depend on the circumstances involved with the
7 particular products, classifications.

8 Q Could you turn to page 9 of your rebuttal, line 7
9 through line 8?

10 A Yes.

11 Q Here, you say that Witness Callow recommends
12 reducing fees for Group 1A Post Office boxes; is that
13 correct?

14 A Yes.

15 Q These reductions are relative to what?

16 A Relative to the existing fees.

17 Q Now this is true for Group 1A?

18 A It's true for Group 1. I forget if it's 1A, B and
19 C off hand.

20 Q And what about all box sizes?

21 A I forget the specifics. I know there are a fair
22 amount of box reduction proposals there, though.

23 Q But you don't know whether these proposed
24 reductions for every box size in all three groups?

25 A I don't recall off hand, no, I don't.

1 Q Could you look at lines 9 through 12?

2 A Yes.

3 Q And here you refer to Witness Paul Lion for the
4 assertion that new box customers will not materialize as a
5 result of lower fees; is that correct?

6 A That's correct.

7 Q This is the argument that folks who won't buy at
8 the current price won't buy at any price, no matter how low?

9 A I don't know if I would quite use that paraphrase.
10 There are a couple of arguments here as I recall. I think
11 Witness Lion states it much more eloquently than Witness
12 ~~Lions~~ Lyons can but, nevertheless, one of the issues is you can't
13 provide a box where you don't have one. You can lower the
14 fees to zero and if we don't have a box, you can't get a box
15 there.

16 Q Well, that's -- that's a separate argument, right?

17 A Well, no. That certainly applies to in terms of
18 the probability that when you raise fees, the availability
19 of boxes will be there, that that's not an issue. That to
20 the degree that there will be fewer boxes, you don't feel
21 that you can meet the needs, the demand needs for raising
22 fees. But when you lower fees and if you believe, as
23 Witness Callow does, that more people want boxes, you've got
24 to know where those people will want boxes. And if they
25 want boxes where most people want boxes, you can have some

1 problems as indicated in Paul Lion's testimony. Also, I
2 think, as Paul Lion was indicating, to the degree I think
3 your sort of one-sentence paraphrase of it is that there is
4 a sort of a binary -- I think his phrase was it is a binary
5 view of decision process in that people -- it's not like
6 with First Class Mail where maybe if we raised the price for
7 First Class Mail that people, instead of sending out 100
8 letters a year will send out 90, here you either have a Post
9 Office box or you don't. And you've got an existing group
10 of customers who already have boxes and you ask them if they
11 will raise -- how they will respond if they raise fees. But
12 I am not sure in terms of if you can apply that same logic
13 to people who don't have boxes.

14 For instance, I will use myself as an example. If
15 you gave away the boxes, I still wouldn't get one. You
16 would have to give me enough money to force me to go down to
17 a Post Office and make it worth my while for me to get a
18 Post Office box. You know, that demand elasticity doesn't
19 relate to me.

20 My decision, I much prefer the convenience of
21 picking up my mail at home whereas I think the First Class
22 price elasticity does relate to me. If we raise prices of
23 First Class Mail a lot, I will send out fewer cards this
24 year. I think that was my way of trying to paraphrase it in
25 a very personal note, one of the arguments that Witness Lion

1 was making, that they are a separate and distinct type of
2 analyses here.

3 Q But the argument is not that we can't lower the
4 price enough to get Ashley Lyons to get a box; the argument
5 is we can't lower the price enough to get anybody to get a
6 new box right?

7 A I don't think "anybody" is the issue here. I
8 don't think that we said there might necessarily be any
9 response but I think Witness Lion gave a -- you know, if no
10 one new came, if you had what Witness Callow testified and
11 if you had a midpoint somewhere in between.

12 I think the argument is that you can't assume that
13 the same price sensitivity that moving up will result if you
14 move the prices down. I think it is a different group of
15 customers and you have to make the assumption that people
16 who want boxes will be provided boxes. And given that there
17 are constraints in certain offices, high-demand offices, for
18 boxes, I don't know if we can fulfill that demand if it
19 appears.

20 Q Well, we will get to that in a minute. But as far
21 as lowering the rate and not getting any increased demand,
22 are you saying there is nobody on the margin who is not
23 currently using box service but would if the price were
24 lower?

25 A If you are saying there is no one on the margin, I

1 don't think I ever said that. I said that Ashley Lyons
2 isn't on the margin and people probably think Ashley Lyons
3 is a weird example and never use him as the typical customer
4 on the margin.

5 I am saying that there are lots of people that
6 getting Post Office box service isn't a viable alternative
7 to delivery and therefore it is a difference from managing
8 the amount of a product that you will use as opposed to
9 making a decision whether you want to use it or not use it.

10 Q Well, your testimony is, I believe there is a high
11 probability that the new Group 1 box customers predicted by
12 Witness Callow to result from his proposed lower fees will
13 not materialize.

14 A That's correct.

15 Q So aren't you saying there is no one on the
16 margin?

17 A No, I said that those forecasts by Witness
18 Callow -- Witness Callow had a certain response. It could
19 be no one respond or one or two fewer people less than
20 Witness Callow and I am not confident at all that you will
21 get the full response suggested by Witness Callow.

22 Q Well, perhaps I misunderstood what you are saying.
23 When you say "will not materialize," I interpreted that to
24 mean you get nobody.

25 A I am sorry if I wasn't precise enough in my

1 language there. I felt what I was saying is that the volume
2 or the number of customers, that that amount would not
3 materialize.

4 Q But we don't know how much might; is that what you
5 are saying?

6 A Well, we don't know how much might and, given the
7 low cost coverage and the effect of the sensitivity of that
8 to the amount of customers materializing, you could end up
9 with problems, as Witness Lion points out in terms of
10 recovering cost.

11 Q All right, let's get to the other argument, that
12 assuming there is an increase in demand, you can't meet it
13 with new supply. Is that essentially another one of his
14 arguments?

15 A Well, I think if there is an increase in demand
16 ~~and conceive~~ ^{then} (them) it depends where the demand occurs.

17 If the demand occurs in the inappropriate post
18 offices, if it typically occurs where demand is higher, if
19 it occurs at post offices where the marginal cost of
20 providing new boxes is greater than the revenue, then it's
21 going to be quite difficult.

22 Will the Postmaster in a location go out and rent
23 \$100,000 worth of space to collect \$50,000 worth in post
24 office box fee revenue? I think that's a problem.

25 Q Okay. Could you look at lines 13 and 14 of your

1 rebuttal on page 9? Same page we were at.

2 A I'm sorry, what are the lines again?

3 Q 13 and 14.

4 A Yes.

5 Q Here you are summarizing witness Paul Lion's
6 argument --

7 A Yes.

8 Q -- namely that post office box shortages occur in
9 areas where demand is highest. Is that correct?

10 A Well, I mean I agree if you are not able to
11 provide the boxes, yes, it suggests that the demand is high
12 there and the supply is -- you are not able under the
13 current prices to meet that demand.

14 Q This statement is almost tautological. Correct?

15 A I don't know if I would categorize it as that, but
16 we are saying that there are some places, as indicated in
17 Lion's testimony, where we are unable to meet the demand
18 under the current fee structure.

19 Q Could you look down at lines 15 through 17.

20 Here you are citing Paul Lion again for the
21 proposition that in areas of high demand the cost of adding
22 new boxes exceeds the average cost of post office boxes.

23 A Yes.

24 Q All right. Could you point me to where in witness
25 Lion's testimony we can find this?

1 A Okay. It is stated not explicitly but implicitly
2 where Lion is talking I guess on pages 17 and 18 that where
3 Postmasters are looking to expand volume because they have
4 reached capacity and they are unable to because they can't
5 find space where the revenue will exceed the cost.

6 Q Well, you and Paul Lion are discussing two
7 distinct areas, is that correct?

8 A I'm sorry, what do you mean by two distinct areas?

9 Q Well, areas where costs are high, above average,
10 and areas where demand is high.

11 A Not necessarily.

12 I wouldn't call those two distinct areas there.

13 I think in fact you probably -- you know, the
14 indications typically where demand is high is where costs
15 are high, where people are and where they want boxes, for
16 instance.

17 Q Well, that's what I didn't see demonstrated in
18 Paul Lion's testimony, that there is a coincidence or an
19 overlap between the areas of high demand and areas of above-
20 average cost.

21 A Well, in terms of tautology -- if there were areas
22 of high cost. ^{But} ~~but~~ if they weren't areas of high cost then we
23 would be able to under the current fees to provide the boxes
24 and meet the demand.

25 I think it stands to reason using your term as a

1 tautology we wouldn't -- if there were areas of high demand
2 and the costs weren't high we'd probably be able to meet the
3 demand by expanding box service.

4 Q Well, that is the real empirical question, isn't
5 it?

6 How serious is this problem? How frequent does it
7 occur?

8 A I have talked to Postal Operations Managers who
9 told me that they are not going to expand boxes until we
10 raise fees. It does occur. It occurs in New York. I know
11 it occurs out West. I know it occurs in Las Vegas. It does
12 occur.

13 Postal Managers aren't going to sit there, I mean
14 for the most part, and say, gee, my main post office is full
15 and I've got people clamoring for boxes and I can go across
16 the street and rent it but it is going to cost a whole lot,
17 and I've got customers who want it but yet I can't -- and
18 they are even willing to pay more -- but I can't provide the
19 service.

20 If they were able to provide it under the existing
21 fees they would.

22 Q Well, isn't the solution to group those particular
23 kinds of offices and do a separate fee schedule?

24 A We did that in the past with New York and that
25 hasn't fully worked yet. That may be -- we indicate I think

1 in witness Taufique's testimony various, a variety -- you
2 know, some future considerations and that is the kind of
3 thing that could be considered in the future but I think we
4 have got a problem overall that our basic fee structure
5 isn't helping us, isn't recovering the costs fully. It
6 doesn't encourage Postmasters to expand when there is a
7 demand for the service, and I think we have a solution to
8 help deal with that problem and I think the point in
9 rebuttal was witness Callow's proposal would exacerbate the
10 problem, by discouraging Postmasters to increase capacity.

11 Q But we don't know the extent of that problem and
12 we are going to solve it by raising everybody's rates, is
13 that correct?

14 A I'm sorry, in terms of we don't know the extent of
15 the problem I think witness Lion has demonstrated that ^{we} have
16 a problem where he showed all of the offices where people
17 are close to capacity which realistically really means
18 they've met capacity because we have a substantial number of
19 offices there.

20 I think using your term tautology, if we were able to
21 provide the service and make money on it, we already would
22 have.

23 If we were able to provide -- if Postmasters had a
24 deal in a sense -- I shouldn't say "deal" -- but if there
25 were an arrangement, well, gee, I've got 1,000 customers who

1 want post office boxes I can use the current fees, rent
2 space across the street, and provide all of them fees and
3 we'll make money off the deal -- that circumstance would
4 have occurred already.

5 I think this is an indication where we are not
6 able to supply customers at the current fees.

7 Q So the extent of the problem is whatever we decide
8 the capacity limit is and the proportion of offices that are
9 at that --

10 A And I would go even beyond that in the sense that
11 we've already -- and Witness Taufique talks about that -- to
12 the degree that you have competitors charging several times
13 more in certain areas suggests that people have given up on
14 the Postal Service and gone elsewhere to fulfill their post
15 office box needs.

16 Q So the thing to do is to raise rates at the Post
17 Office?

18 A What's that?

19 Q So the solution to that is to raise rates at the
20 Postal Service?

21 A If the current fees -- if you've got customers
22 that are willing to pay more and, as we've demonstrated in
23 earlier testimony, three or four times more to provide -- to
24 have a service that they want and are willing to pay for and
25 the Postal Service is unable to provide it at current fees,

1 I think it suggests that maybe a fee increase is necessary
2 if that's what's required to meet customer needs and
3 customers are willing to pay more for it, and required to
4 cover the cost of providing that service, I see where
5 everyone benefits.

6 Q So how much will capacity be increased as a result
7 of the Postal Service's proposed fee increases?

8 A How much will it be increased? I don't know
9 offhand, but I know it won't be increased necessarily under
10 Witness Callow's proposal. I think to the degree that there
11 are people at the margin and raising those fees by 20 or 25
12 percent makes a difference, it will help matters some and it
13 will signal the post offices that we're, you know, serious
14 about providing them the kind of fees that are needed to
15 --for those at the margin so that they can go out and do the
16 necessary arrangements. And I'm not saying this is a
17 panacea for the post office box issue here, but I think it's
18 a start of trying to deal with that problem.

19 Q So dealing with the shortage in some less than
20 everywhere requires raising fees everywhere?

21 A I think Witness Taufique deals with that issue
22 some in ^{his} ~~their~~ testimony. I think to a certain degree, it
23 may indicate that under the current -- this is a problem
24 with a national system where you have 30,000 post offices.
25 You can consider those tradeoffs should you have separate

1 fees or the like. Then again, even if you raise the -- and
2 there are tradeoffs, you know, what happens in terms of
3 complexity. That's an issue that we will be looking at in
4 the future as we deal with this versus, you know, certain
5 offices having higher fees than others at the same time.

6 The data I've seen haven't suggested that their,
7 for instance, Group 1 offices, that even under this
8 arrangement, that the -- well, given the fact of
9 depreciation -- I think when we're looking at -- there are
10 not Group 1 offices that, on average, that, say, will be
11 charging ten times as much as the costs other than those
12 that are at fully depreciated sites. So I don't see that as
13 being an issue. I don't see the price for other offices as
14 being that unduly high. I mean, if you wanted to try to cut
15 it in different strata, there are certain offices that
16 aren't quite -- where the market costs aren't quite as high
17 or the book costs aren't quite as high. I don't see still
18 paying \$50 a year for a post office box as being unduly high
19 versus the cost of providing that service.

20 Q In Group 1C, there are CAG H offices.

21 A Uh-huh.

22 Q How high do you think the space cost is at those
23 offices?

24 A I don't know offhand. I think we -- in terms of
25 how those things are cut, I -- I don't know what they are,

1 if they're a fraction of what they are elsewhere or not.

2 Q Well, if there is a problem in terms of space
3 costs not being recovered at some facilities, and therefore
4 there being a capacity problem, isn't this the ideal case to
5 propose a change in grouping, a real change in the structure
6 of post office box fees?

7 A I think the -- not in terms of the ideal case.
8 Maybe that's somewhere -- somewhere along the line. I think
9 at the moment, though, you have a problem in terms of
10 getting fees that will deal with the Group 2 issue to get
11 fees that are more reflective of costs, in Group 1 to get
12 fees that begin moving things, developing higher fee levels
13 that will encourage -- so that we will make money on those
14 and begin to perhaps encourage some expansion.

15 If you're saying should you be able -- two steps
16 or three steps beyond this, should we stop and do nothing
17 and let the perfect be the enemy of the good? No, I don't
18 think that's the solution here. I think we have a problem
19 here and we've done a basic step in dealing with that.
20 We've looked, examined the costs, we've done the research,
21 we've got customers who want to provide -- who want boxes
22 and are willing to pay for it, and I think we've got a
23 proposal that deals with that.

24 If you're saying could we, after years, come up
25 with some other alternate fee schedule, we could do that.

1 We might do that for standard A mail or something else. The
2 idea is we've got something that addresses the issues right
3 now and I think it's a meaningful and workable proposal and
4 we should go with that.

5 Q You mentioned the Group 2 rates. There are CAG A
6 facilities in Group 2, aren't there?

7 A CAG A in Group 2?

8 Q Yes.

9 A You know more about it than I do. I thought CAG A
10 were much greater -- I thought given the size of CAG A, that
11 there would be very few in Group 2. I'm not familiar with
12 all the strata and how they're cut, Mr. Costich.

13 Q You would think that CAG A's are not the rural
14 facilities that you wanted to have low rates for, would you?

15 A Well, the CAG A's are not the rural facilities.
16 Well, it depends, and that goes back to if you're talking
17 about are there certain rural facilities that you want to
18 have low rates. I mean, one of the problems with rural post
19 offices, and I guess this gets to it, is that many of the
20 offices that have rural carriers are -- in fact,
21 Centreville, I think, for instance, aren't rural in the
22 traditional definition of what one considers to be rural.
23 That's a problem as we adjust the -- as the -- with a fee
24 difference between Group 1 and Group 2, that, you know, if
25 -- once these offices get reclassified, then they move up

1 now from \$8 to \$40. But in terms of the cost structure,
2 things that are formerly rural become -- or they meet our
3 definition, I think not. As suburbia expands or exurbia
4 begins, that these aren't true -- some of these offices
5 aren't necessarily rural anymore by traditional definitions.

6 Q Couldn't you come a lot closer to distinguishing
7 rural from urban if that is, in fact, what you want to do,
8 simply by choosing a CAG level and say Group 2 is below CAG
9 G or F and Group 1 is above?

10 A I'm not even sure in terms -- I'd have to look.
11 We've indicated but look at things in the future, I'm not
12 sure. CAG may or may not be a predictor of -- I'll use this
13 term -- urbanicity, if you will.

14 It may be a very good one. I'm not ready to
15 acknowledge that it is at this time. I haven't studied that
16 issue enough.

17 Q There are probably better predictors than the
18 current definition for Group 2, wouldn't you say?

19 A I think there are different ways of dealing with
20 the Group 2 issue long term. I'd agree there are other --
21 in terms of how mail is delivered via city versus rural
22 carriers, there are other ways of dealing with what is a
23 rural office versus a city office by a rural area, a city
24 area by traditional definitions.

25 At the same time as we deal with that, there's

1 still a requirement, the goal that it better reflect costs
2 even for the more rural areas.

3 Q Well, you'd probably end up with a lot lower cost
4 in the rural areas, wouldn't you?

5 A You may end up, at the same time -- that's an easy
6 assumption to make, but we may have renegotiated and built a
7 lot of new offices, smaller offices. If that's the case,
8 then you've got new lease arrangements and new post offices
9 that aren't fully depreciated. It may not be as low as one
10 might expect. Before I just automatically assume that, I'd
11 like to see more data on that.

12 Part of the issue is, if you're building new
13 offices and replacing smaller, older offices, then yes, it
14 would make a difference in terms of what the expense level
15 is for the real estate at those offices.

16 Q So in spite of the fact that this is a
17 classification case, a special services classification case,
18 a post office box restructuring case, in spite of all the
19 problems that we've just discussed, the Postal Service's
20 solution is just raise rates, is that correct?

21 A That almost sounds like a rhetorical question. I
22 don't think the Postal Service solution is just to raise
23 rates at all. I think in this case, there is a demonstrated
24 need that fees needed to be adjusted.

25 We went in, looked at the cost, looked at the

1 market **the post** office box is operated in, looked at the
2 number of boxes, and I think there is a demonstrated need
3 that the current fee levels barely cover costs in total,
4 that they didn't provide -- that they didn't cover costs in
5 some instances, and I think there was a demonstrated need
6 that the fee should be adjusted here.

7 I think for certified mail, we demonstrated some
8 changes where we weren't comparing the appropriate revenue
9 against the cost and when we did that, we got cost coverages
10 that were barely positive, in fact suggested that we had way
11 under surcharged certified mail in the past.

12 I think we looked at several other things. They
13 weren't all fee increases. We proposed eliminating special
14 delivery mail where the volume had gone below \$1 million
15 where we charge almost the same for express mail without
16 providing any real demonstrable service for that.

17 I think we have made some major improvements all
18 along. To say this is just whenever the Postal Service
19 wants to, they increase fee revenues is a gross
20 mischaracterization of it.

21 MR. COSTICH: Thank you, Mr. Lyons. I have no
22 further questions, Commissioner Quick.

23 COMMISSIONER QUICK: We will take a break until
24 11:00 a.m. and resume at that point.

25 [Recess.]

1 COMMISSIONER QUICK: Is there any follow-up cross-
2 examination?

3 [No response.]

4 COMMISSIONER QUICK: Do the Commissioners have
5 questions for this witness?

6 Commissioner LeBlanc?

7 COMMISSIONER LeBLANC: Mr. Lyons, how are we doing
8 this morning?

9 THE WITNESS: Pretty good, thank you. How about
10 yourself?

11 COMMISSIONER LeBLANC: All right.

12 Part of your rebuttal of Witness Thompson rests on
13 the argument that the Service should be able to exceed, as I
14 read it, the goals set by the governors for contributions to
15 prior year losses.

16 Now, since, as I read it, you use the
17 justification of application of prior year losses for that,
18 what assurances can you give this Commission that the extra
19 revenues will be used for prior year loss recovery?

20 THE WITNESS: Well, in terms of the assurance,
21 first of all I want to clarify. I think the governors's
22 goal was in a sense to meet or exceed the prior year loss
23 recovery which means, I mean, if you exceed the prior year
24 loss recovery, you are still meeting the governors' goal.
25 But within that, that's a good question in a sense, you

1 know, how can I personally assure you that we will in fact
2 recover those? I know that, well, first of all I think the
3 fact that the Postal Service has, in fact, done, you know,
4 by traditional standards, quite well the past two years, 1.8
5 billion, 1.5 billion, as a suggestion, indicates the Postal
6 Service is serious about the fact that the governors have
7 filed this case where part of the outcome is additional net
8 income that the governors are serious about this.

9 I mean, can I personally assure you that we won't
10 cycle the money, you know, that we'll go through several
11 years of deficit, I really can't. I can't assure that there
12 won't be all of a sudden an OBRA from out of nowhere that
13 would create a deficit for the Postal Service. I would like
14 to give you that assurance but I can't. Certain things
15 happen. But everything I have seen operate in terms of the
16 Postal Service and in terms, even, discussions of when to
17 file the next rate case, that issue comes up regarding in
18 terms of the commitment to recovery of prior year loss,
19 recovery of prior year losses. And I know as a fact that's
20 taken seriously in internal discussions.

21 COMMISSIONER LeBLANC: A what came out of nowhere?

22 THE WITNESS: In terms of -- what did I say?

23 I can't guarantee you that there won't be an OBRA,
24 yes, an OBRA won't come out of nowhere. Sounds like --

25 COMMISSIONER LeBLANC: Well, what is the

1 contingency for then?

2 THE WITNESS: Well, the contingency was -- the
3 contingency recovers those kind of things in the test year.

4 COMMISSIONER LeBLANC: Bingo. So go back to the
5 answer of the PYL.

6 THE WITNESS: Okay, I'm sorry, so --

7 COMMISSIONER LeBLANC: So what assurance is
8 then -- so you're saying you just cannot give any assurance?

9 THE WITNESS: I can't. I mean, in a sense, well,
10 OBRA's have come up before and the OBRA is there and if there
11 is a \$2 billion OBRA that hits now, then, yes, I mean, the
12 OBRA is only one point. There are other things in terms of
13 the contingency. But, yes, an OBRA can hit or other things,
14 the economy can go south.

15 What I am saying, though, is based on the track
16 record since the last rate -- rate increase, the Postal
17 Service, I think, has demonstrated a seriousness about
18 achieving that income in trying to restore prior year loss
19 recovery. I think a \$3.3 billion move in the right
20 direction is -- is certainly a positive step. If I were
21 looking on the outside, I would look to see have they been
22 doing it so far and the fact of the matter is the Postal
23 Service has been restoring prior years' losses.

24 COMMISSIONER LeBLANC: You also talked about --
25 oh, lord, you talked about a million and one things with

1 Mr. Costich. You talked about impact on your customers.
2 You talked about an effect which you really said was that
3 the Board of Governors does what the Board of Governors
4 wants to do. Fair statement?

5 THE WITNESS: I don't know if I would go that far.
6 I think that implies a certain arbitrariness or
7 capriciousness on the Governors' part. I think that they
8 have certain policies that they are trying to achieve which
9 are covered. There is not only prior year loss recovery,
10 which is certainly an important policy, but there are other
11 policies in terms of impacting -- you know, serving the
12 customer and the impact of their policies in terms of how
13 our employees are treated and policies of providing a
14 universal service that provides effective service.

15 And -- the point I was trying to make was not to
16 indicate an arbitrariness or capriciousness on the part but
17 the fact that they are weighing all of these policies.

18 COMMISSIONER LeBLANC: You know, you talked
19 about -- demonstrate the need for adjustments, I think was
20 your wording I wrote down if I did it properly.

21 THE WITNESS: Okay.

22 COMMISSIONER LeBLANC: When you say demonstrate
23 the need for adjustments, what about the two classes of mail
24 that are below cost?

25 THE WITNESS: Okay, I'm glad you brought that up.

1 Okay, first of all, for money orders, in retrospect, one of
2 the things I would have done in this case, no it's not to
3 change the money order fees. I would have calculated the
4 float on money order revenue which, if you look at the last
5 rate case, the Commission forecast \$30 million on float.
6 And the float is the interest income on the outstanding
7 money order balance. It typically runs about \$400 million.

8 If we would have included that in our forecast of
9 money order revenue explicitly -- for instance, the
10 Commission forecast \$30 million in FY '95. If it had used
11 that 30 million and applied it against \$170 million in money
12 order revenue that we forecast, you would have had a \$200
13 million money order revenue against \$195 million cost. I
14 think by using the float, we would have shown that money
15 orders are above cost.

16 I didn't do that calculation. In retrospect, that
17 was an error on my part because I wasn't focusing on money
18 orders.

19 COMMISSIONER LeBLANC: But do we, as a Commission,
20 overlook our part which is to use all nine criteria?

21 THE WITNESS: Well, traditionally when we have
22 looked at the Postal Service and the Rate Commission, we
23 have included that calculation of investment income that
24 comes from the cash balance of money orders that we have on
25 hand and included it in the money order revenue.

1 COMMISSIONER LeBLANC: But you never said that in
2 the case.

3 THE WITNESS: I did make reference to that, I
4 believe, not in the filing, but I think I made reference to
5 that in my cross examination.

6 COMMISSIONER LeBLANC: In your cross?

7 THE WITNESS: Yes. I wasn't focusing on money
8 orders at the time and I failed to do that.

9 The other specific one is COD. COD, the Postal
10 Service proposed and the Commission recommended COD with a
11 relatively low cost coverage. COD is a relatively small
12 service and as such, it's fairly volatile in terms of
13 revenues and costs.

14 For instance, I think that we had forecast in the
15 test year, and one of the things that caused us some
16 problem, we had forecast COD showing a loss. Again, that
17 frankly isn't unexpected for this kind of service which is
18 relatively volatile.

19 We had forecast COD revenue, for instance, as
20 being like \$4.15 a piece versus COD cost of \$4.36. We took
21 a look at the RPW for fiscal year 1996, and the RPW shows
22 COD revenue as, in fact, being \$4.38 a piece. I don't have
23 the cost, but that shows if you use that revenue figure, COD
24 will, in fact, against the forecast cost, barely cover its
25 cost but it would cover its cost.

1 I don't know how the costs are going to turn out,
2 but --

3 COMMISSIONER LeBLANC: That's the key though?

4 THE WITNESS: Nevertheless, at least one part of
5 it -- if you use the more recent updated revenue number,
6 that's an issue. The key thing with COD is that it is a
7 small service and with the volatility, you can expect these
8 adjustments. At the same time, the revenue figure suggests
9 that cost may, in fact, we met and I wouldn't rule that out.

10 I'd be a bit leery for services such as COD or
11 small services as that making annual adjustments. I think
12 there will be some volatility and if you see a number that's
13 sort of bad, it may not be so bad the next year.

14 COMMISSIONER LeBLANC: Well, that's something we
15 will have to take into consideration.

16 THE WITNESS: Yes.

17 COMMISSIONER LeBLANC: You characterize Ms.
18 Thompson's testimony -- and if I mischaracterize what you're
19 saying, please correct me -- as I read it, that the Postal
20 Service does not need additional revenue to achieve the
21 target for recovery of prior year losses set by the Board.

22 In that regard, if I go back to what I talked
23 about a minute ago, from a revenue neutral standpoint, if
24 you're reducing your cost and you want to take into
25 consideration the impact on the customers, service, and the

1 profit people, the service PMG talks about and all that, why
2 not reduce cost or at least stay revenue neutral? That's a
3 very substantial reduction in cost of half a million, to use
4 your figures, I believe, that you did a minute ago?

5 THE WITNESS: I'm sorry, the half a billion as it
6 relates to --

7 COMMISSIONER LeBLANC: You said \$300 million comes
8 off net equity and I believe you used, or Mr. Costich used,
9 \$536 or \$505 billion?

10 THE WITNESS: Now I recall. This is if you take
11 the ^{1.8}~~1.8~~ and the ^{1.5}~~1.5~~ which totals about \$3.3 ^{billion}~~million~~ and I
12 think we indicated in fiscal year 1994 a little better than
13 we had forecast in the rate case, if you take those numbers,
14 we are, in fact -- I used to work in budget and I remember "
15 these numbers offhand.

16 As I recall, the prior year loss recovery was \$936
17 million. In the rate case, if you calculated it today, it
18 might be \$500 million and change. What I'm saying is that
19 ^{would}~~won't~~ be a positive benefit in the future in the next
20 general rate case when we do -- presumably everything will
21 turn out accordingly, we'll meet our budget, we won't have
22 ^{OBRA's}~~overages~~ and we'll raise rates at the appropriate time.

23 Our rates will have more -- the prior year loss
24 recovery would be approximately \$400 million less and be a
25 \$400 million lower burden to offset part of the cost

1 increase. I think that's the context that I would use that
2 in.

3 COMMISSIONER LeBLANC: So you wouldn't reduce
4 rates, you'd just look at it long term as you're saying and
5 then again, the governors pick and choose what they want to
6 do?

7 THE WITNESS: Well, they select the appropriate
8 time they feel for the filing, yes.

9 COMMISSIONER LeBLANC: One of things in your
10 rebuttal, again to witness Thompson, you talk about what she
11 is talking about from a revenue neutrality standpoint, if I
12 read it --

13 THE WITNESS: Okay.

14 COMMISSIONER LeBLANC: -- Can lead to illogical
15 actions. Then you go on to say that it does not make sense
16 to spend time and resources searching for ways to justify
17 revenue reduction to achieve revenue neutrality.

18 I am totally baffled then because if you have a
19 \$400 million, \$500 million -- whatever figure that you come
20 up with -- is not enough to drive looking at revenue
21 reduction but yet the Postal Service always looks at revenue
22 increases, it would seem to me that if you, maybe one,
23 depending on how you look at it, two classes of mail that
24 don't cover their costs, you've got \$1.5, \$1.8 billion in
25 revenue for the last couple years. You've got everything

1 going in your favor and yet you still come in with a X
2 million depending on whose figures you look it of an
3 increaser, so if it doesn't justify revenue reduction, it's
4 hard for me -- and I'm trying -- to understand why you can
5 spend time in finding ways to increase rates.

6 THE WITNESS: Okay. Well, a couple of things.

7 One is that I think the point is that that \$500 --
8 the lower prior year loss recovery will be reflected in the
9 future rate increase in terms of if everything is going our
10 way, it must be put in a context.

11 We still have a huge equity deficit.

12 As a point of analogy, suppose I owe the bank --
13 and I'll make up a number -- \$100,000 on my house. I have
14 had a couple of good years. I paid down on my mortgage even
15 more than I thought, and now I only owe the bank \$75,000 and
16 I'm going gee, boss, I don't need that pay increase -- in
17 fact, I need a pay reduction because I am ahead of my
18 mortgage schedule. I still have a \$75,000 debt hanging over
19 me and to the degree that I am in good shape and can pay off
20 that debt, I think I am better and everyone is better off
21 for me as an individual to pay that debt while I can to the
22 degree that doesn't incur in this example of my mortgage
23 example I don't overwork myself so I impair my health that I
24 can't pay it the future and there are a variety -- all that
25 is to say you have a variety of considerations to be made.

1 Given that I incurred a \$100,000 debt and still
2 have a substantial amount of debt, the fact that I can pay
3 it off a little bit more quickly than I had anticipated I
4 don't feel is a bad thing, and I feel that as long as I can
5 pay those debts off I should continue to do so and if I can
6 accelerate the schedule I think without harming I think
7 other aspects in this case of my life or other aspects of
8 the Postal Service obligation, we are better off for having
9 done that.

10 COMMISSIONER LeBLANC: Commissioner Quick, I've
11 got some more question but I don't want to hog the mike, so
12 if I can I'll come back a little bit later, maybe let one of
13 the other Commissioners --

14 COMMISSIONER HALEY: No questions.

15 COMMISSIONER QUICK: Mr. Chairman?

16 CHAIRMAN GLEIMAN: Ever hear the phrase "mark-up
17 indice" --

18 THE WITNESS: Yes, I have.

19 CHAIRMAN GLEIMAN: Where?

20 THE WITNESS: I have heard it from the Commission
21 in its recommended decisions.

22 CHAIRMAN GLEIMAN: Thank you. Now if I understand
23 part of this case, a decision was made to reflect, to modify
24 rates to reflect the demand and on or for and convenience
25 of, value of service of certain services. That's why

1 adjustments have been proposed.

2 THE WITNESS: That's part of the reasons. I think
3 again some of the other adjustments, everything from
4 simplicity, we did propose the free boxes where there are no
5 delivery but that is -- and to better reflect some of the
6 costs, but yes, that is part of the rationale underlying the
7 case.

8 CHAIRMAN GLEIMAN: There's a problem with your
9 supply of your boxes, so you want to raise rates so that you
10 can generate some money in some areas and provide more
11 boxes?

12 THE WITNESS: That's part of the issue but the
13 other real basic thing is even in certain other areas where
14 we weren't recovering our cost, that was an important part
15 so that we'd better reflect the cost of providing that
16 service.

17 CHAIRMAN GLEIMAN: Can you tell me what you know
18 about the post office box campaign?

19 THE WITNESS: I know that there is a campaign
20 going out to promote the use of post office boxes and to
21 show the service to our customers and the value of the
22 service that they have.

23 CHAIRMAN GLEIMAN: Do you know whether the program
24 is a nationwide program or whether it is targeted just to
25 areas where there are boxes available?

1 THE WITNESS: I think it's pretty much a
2 nationwide campaign.

3 CHAIRMAN GLEIMAN: So even in all those areas
4 where you have got capacity problems per Mr. Lion, witness
5 Lion, you are going to go out and try and increase the
6 demand?

7 THE WITNESS: Well, I'm not sure. I think there
8 was some discussion early on and I am a little familiar with
9 that in terms of what kind of promotion would be at those
10 places where a capacity was -- where we had met capacity and
11 I am not sure what the final resolution of that issue was,
12 but I knew that it was pretty much nationwide and I knew
13 that they were providing some flyers and stuff to customers
14 with existing post office boxes.

15 CHAIRMAN GLEIMAN: Are you familiar with the RPW
16 for this past year?

17 THE WITNESS: Somewhat, yes.

18 CHAIRMAN GLEIMAN: Has demand increased or
19 decreased for Certified Mail services?

20 THE WITNESS: The volume is down by 4 percent,
21 though I must note I think it was up 20 percent the year
22 before. It's sort of a high hurdle. I think for Certified
23 Mail you need to look over the longer term.

24 CHAIRMAN GLEIMAN: Well, what is the longer term?
25 Where was it the year before that?

1 THE WITNESS: I think where it was the year before
2 that I think it increased like roughly 20 percent the year
3 before and I think most years it's shown increases and I
4 think if you looked at it over a 10-year period you would
5 see Certified Mail is jumping very substantially over that
6 timeframe.

7 I acknowledge it's down 4 percent in FY '96. But
8 at the same time, it had a fairly high hurdle from the year
9 before.

10 CHAIRMAN GLEIMAN: But it didn't -- I mean, it
11 didn't -- it didn't measure up to the year before. It was
12 below the year before.

13 THE WITNESS: It was ^{below} ~~before~~ the year before.

14 CHAIRMAN GLEIMAN: So it's not like it was
15 increasing at a lesser rate; it was actually decreasing.

16 THE WITNESS: It's actually decreasing, but, I
17 mean, if you looked at the trend over time, it's a fairly
18 substantial growth over the past ten or 15 years, stronger
19 than any other special service, I believe.

20 CHAIRMAN GLEIMAN: So you think that the drop off
21 this past year was an aberration?

22 THE WITNESS: I think it may well be an
23 aberration. I mean, I can't say for sure. You would want
24 to look at, you know, in terms of future years. But I think
25 given the strong growth in the past, I -- it's certainly not

1 part of the normal trend for that.

2 CHAIRMAN GLEIMAN: Do you know if there have been
3 any laws enacted within the last year that might impact
4 negatively on the Postal Service's volume in the certified
5 mail area?

6 THE WITNESS: Not offhand, I don't know one way or
7 the other if there were laws that were enacted.

8 CHAIRMAN GLEIMAN: Do you know whether, for
9 example, the IRS was directed to accept mail certification
10 from other than the Postal Service?

11 THE WITNESS: I have some vague recollection
12 hearing about that, but I don't know. I can't precisely
13 confirm that.

14 CHAIRMAN GLEIMAN: You're proposing to do away
15 with special services. Special services increased almost 31
16 percent this past year.

17 THE WITNESS: That's right. It went from, what
18 300 million to -- I'm sorry -- 300,000 to 390,000. That
19 means each post office, instead of getting ten, gets about
20 12 or 13 a year. I don't see that -- I mean, given such a
21 low number, and there was one quarter, as I recall, where
22 the volume is particularly high, I'm -- I think in that case
23 you've got an overall trend of where it's gone down year
24 after year after year after year, and it's finally reached a
25 certain point of 300,000 or 400,000. It would be awfully

1 difficult, I think, for a national organization to provide a
2 service under rate schedule and not get some volume.

3 I think that I don't see that as recovering it,
4 you know, as it being on its way to its old self of being 70
5 million pieces a year.

6 MR. RUBIN: We are referring to --

7 THE WITNESS: To special delivery.

8 MR. RUBIN: Special delivery.

9 CHAIRMAN GLEIMAN: Yes.

10 MR. RUBIN: Thank you.

11 CHAIRMAN GLEIMAN: I thought that's what I asked
12 you.

13 THE WITNESS: I think you said special services,
14 but I --

15 CHAIRMAN GLEIMAN: Oh, I'm sorry, special
16 delivery.

17 THE WITNESS: I interpreted it to be special
18 delivery.

19 CHAIRMAN GLEIMAN: Thank you for interpreting what
20 I ask. I appreciate it.

21 So you think that the demand there is just an
22 aberration also?

23 THE WITNESS: Well, in terms of an aberration,
24 it's difficult. If you compare it to a \$70 million -- 70
25 million piece base back in 1950 or so, I think to the degree

1 that it's 300,000 or 400,000 pieces, for a national
2 organization such as the Postal Service, I think that it's
3 the fact -- the mere fact -- the real fact of the matter is
4 that it's dwindled down to something that's almost difficult
5 to spot in terms of it's a relatively small number, and it
6 could bounce around at that level for a while and it would
7 still be difficult to find.

8 CHAIRMAN GLEIMAN: Okay. I'm just trying to
9 figure out, you know, what demand is here. I mean, I see
10 something go up, even though it's small, it goes up 31
11 percent.

12 THE WITNESS: Yes.

13 CHAIRMAN GLEIMAN: You know, I scratch my head
14 about it relative to what's happening on the other side with
15 some of the other services.

16 THE WITNESS: One point on special delivery, even
17 if the demand does go up, I -- I mean, frankly, it's
18 providing a service to consumers, a service that is charged
19 about a nickel or dime less, and you don't have a real
20 specific guarantee of delivery as opposed to at least
21 Express Mail. I'm not sure even if the demand were
22 increased that we're doing our customers a real service by
23 providing them two services at almost the same price where
24 one has a relatively high level of service associated with
25 it, and I can't associate -- I can't tell a customer that

1 special delivery will provide you this or this definitely.

2 CHAIRMAN GLEIMAN: With respect to your
3 discussion, and I guess I'll ask Witness Lion this also,
4 about nonmailbox users, do you view nonmailbox users as a
5 homogeneous group?

6 THE WITNESS: No, I do not.

7 CHAIRMAN GLEIMAN: But when you've attempted to
8 rebut Witness Callow's testimony, it appears as though you
9 treat them that way. You say there are people who use
10 mailboxes and there are people who don't use mailboxes, and
11 you can't assume that people who don't use mailboxes are
12 going to start using them. These are people who either
13 never were interested in them.

14 THE WITNESS: I don't think you can treat either
15 as necessarily a homogeneous group. I think the
16 characteristics of people who use mailboxes vary somewhat
17 and the characteristics of people who don't use mailboxes
18 vary, but nevertheless, we've collected data from people who
19 do, in fact, use mailboxes.

20 To the degree that they have needs that are
21 somewhat different for a kind of service, I don't think it's
22 fully reflected -- you can't use that data to assume that
23 their needs are the same as the people who don't use
24 mailboxes.

25 CHAIRMAN GLEIMAN: You don't know how many people

1 who don't use mailboxes would have used them had they been
2 available, assuming that Witness Lion is right about the
3 capacity problem you currently have?

4 THE WITNESS: In terms of -- no, I don't. Can you
5 speculate from a list of particular alternatives or from
6 CMRA usage or from waiting lists or what have you? No, I
7 don't know how many people would have used a mailbox.

8 CHAIRMAN GLEIMAN: Just one more question. I want
9 to make sure I understand. When you were talking about
10 prior year loss recovery, the \$1.5 billion that the Postal
11 Service ended up at the end of this past fiscal year, \$936
12 million of that was money that was -- I thought you used the
13 phrase -- built into the rate case as prior year loss money?

14 THE WITNESS: Okay, the \$936 million, if I recall
15 the figure, is what's built into the Commission's
16 recommended decision for the --

17 CHAIRMAN GLEIMAN: For the test year?

18 THE WITNESS: For the test year.

19 CHAIRMAN GLEIMAN: Which was fiscal year 1996?

20 THE WITNESS: I think it was in fiscal year 1996,
21 yes.

22 CHAIRMAN GLEIMAN: Then of the \$1.5 billion that
23 the Postal Service had at the end of the year, \$936 million
24 of it was money that they should have had in hand because of
25 something that we did that you asked for, in part, in that

1 rate case? It was money that was supposed to be left at the
2 end of the year so that you could pay down debt?

3 THE WITNESS: That's correct, yes, with the 1996
4 test year.

5 CHAIRMAN GLEIMAN: So, there was about \$600
6 million of it that was actual unanticipated profit for some
7 reason or another? Surplus, shall we say?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: Thank you.

10 COMMISSIONER QUICK: Commissioner LeBlanc?

11 COMMISSIONER LeBLANC: Mr. Lyons, if you will
12 clarify something for me.

13 In your rebuttal to Witness Callow, you talk about
14 -- well, let me try to do it another way. Do you agree or
15 disagree with his 95 percent figure or should I ask Witness
16 Lion that?

17 THE WITNESS: Probably you should ask Witness
18 Lion. That's the advantage of going on first, you can refer
19 to someone else, but I think Witness Lion is the better
20 person to ask in this instance.

21 COMMISSIONER LeBLANC: All right. You made the
22 comment to Mr. Costich that "The present fee structure can't
23 afford" -- I believe I've got this right and I lost the
24 translation -- but as I understood it "building further
25 boxes, increasing the box supply."

1 THE WITNESS: Okay. If I said that, I think what
2 I meant to say is you can't necessarily -- in fact, we are
3 expanding boxes but we're not always expanding boxes in the
4 right places and that's the critical point. You can only --
5 it doesn't encourage boxes to be expanded where there is
6 high demand and high cost.

7 Are we expanding boxes when we build a new
8 facility? Arguably, we are. I think we have more boxes out
9 at Brentwood than we did at the City Post Office. Did we
10 expand the number of boxes on Capitol Hill, no, we haven't
11 because we can't afford, at the current rents, necessarily
12 to have many more.

13 I think that's the point I was trying to make.
14 You can expand boxes, but you can't necessarily expand them
15 where the demand is highest based on the price.

16 COMMISSIONER LeBLANC: Are you saying then that
17 your structure will allow even the high demand areas to be
18 able to afford those increases?

19 THE WITNESS: It will help some of the high demand
20 areas, yes.

21 COMMISSIONER LeBLANC: What happens if the Board
22 of Governors, in their great wisdom, as you said earlier,
23 chooses not to use that money for that and we give it to
24 you?

25 THE WITNESS: Well, at the same time, I think --

1 COMMISSIONER LeBLANC: Aren't we in the same
2 position that we're in now?

3 THE WITNESS: Not necessarily. One of the things
4 that Witness Lion alludes to is that when Postmasters, post
5 offices, initially make these kind of views, and when the
6 Postal Service is looking at these kind of proposals, do you
7 want to provide more box service, ^{with} ~~which~~ the cost of
8 providing the service versus what's the revenue intake and
9 to the degree that you've increased the revenue part of the
10 formula, you've made that and you go through an approval
11 process, you've demonstrated that this will be a financial
12 benefit to the Postal Service.

13 I think it does provide a benefit in that regard
14 irregardless of how the Postal Service may eventually spend
15 the money, nevertheless, the decision point of comparing
16 revenue versus cost at a particular site, it does
17 differentiate the revenue in that case and it does make a
18 difference.

19 COMMISSIONER LeBLANC: So the fact that you've got
20 all this money coming in, you've reduced your PYO negative
21 equity burden by half, you're still making money. The PMG
22 has come out and said that there will not be any rate
23 increases. Everything else is going wonderful. Nothing
24 will change.

25 THE WITNESS: I don't -- I disagree with that. I

1 think in terms of this, something would change. To the
2 degree that you've got higher box fees in this instance, it
3 makes the decision point, the hurdle, if you will, for
4 providing box service a little bit different. They're
5 expanding it. I mean, it's more complex than that, but
6 nevertheless when a post office or the facility people are
7 looking should we expand box service here, and they're
8 considering the revenue versus the cost of doing that, it's
9 a pretty basic consideration. I get \$100,000 and I'll make
10 -- and I'm just using a number -- in additional revenue
11 versus \$80 million in additional costs, it may make sense to
12 do it; whereas before it was 75 million -- 75,000 in
13 additional revenue versus 80,000 in additional costs. I
14 think you make those hurdle points different, or you're able
15 to recover that cost of that -- of expanding box service a
16 little bit more readily. Will it cover every one? No, I
17 don't think so, but --

18 COMMISSIONER LeBLANC: So again, it comes back to
19 what the Board of Governors wants to do.

20 THE WITNESS: Well, I don't think so. I don't
21 think this is really -- I mean, in that sense, I mean, I'm
22 talking about the real downstream decisions that are made,
23 and --

24 COMMISSIONER LeBLANC: Well, you don't make those
25 downstream decisions, do you, with all due respect?

1 THE WITNESS: No, sir, I don't.

2 COMMISSIONER LeBLANC: Then who does make them?

3 THE WITNESS: The downstream decisions would be
4 made by the -- more by the local operating people who are
5 under a budget --

6 COMMISSIONER LeBLANC: Which has to be approved by
7 upper management, which has to be approved by the Board of
8 Governors.

9 THE WITNESS: But the process that goes through
10 that is essentially a revenue versus cost process.

11 COMMISSIONER LeBLANC: I understand that. So my
12 question is, coming back to what I was trying to get to
13 earlier, you mention a plan for special services in your
14 colloquy with Mr. Costich. Does that plan come down from
15 top management to you and then you take it and make that
16 decision as to what you want to do, or where does that plan
17 come from and who implements it?

18 THE WITNESS: Okay. In terms of a plan for
19 special services, what I may have related to, I think, in
20 terms of a plan, there's not a plan in terms of -- I'm not
21 the person who controls how we're going to expand post
22 office boxes or not. I don't think there's a specific --
23 it's done on a specific, you know, site by site basis, does
24 it make sense to do it in this site for a variety of
25 reasons.

1 COMMISSIONER LeBLANC: Okay. Excuse me for
2 interrupting you, but let me stop you there.

3 THE WITNESS: Okay.

4 COMMISSIONER LeBLANC: Who makes that decision?

5 THE WITNESS: That decision is made through the --
6 I'm not that familiar with the process, but I do know that
7 it's done through the process of comparing revenue versus
8 cost. It depends probably on the size of the expansion and
9 the like how far it has to be approved up the stream. If
10 you're saying the Governor set a basic process for handling
11 those kind of -- you know, that they want capital or rental
12 decisions to be made on a businesslike basis, the answer is
13 yes to the degree that how far they go down in the decision
14 process, I'm not familiar with that.

15 COMMISSIONER LeBLANC: All right. Then let me
16 come back --

17 THE WITNESS: But I know that the local offices
18 and I know that facilities and the local management that
19 cover that have to justify the things that they do. They
20 have to have some basis for saying, we think this is a sound
21 decision.

22 COMMISSIONER LeBLANC: So then again, I come back
23 to my initial question: Where does the plan come from?
24 Because you specifically made comment, said the plan for
25 special services.

1 THE WITNESS: The plan for special services -- I
2 think I alluded to the fact that in Mr. Taufique's
3 testimony, that we were looking at, you know, further --
4 further revisions in post office box pricing. We had a plan
5 to take further looks at that. There is not a -- I wasn't
6 alluding to a specific plan in that regard, that we had a
7 plan for expanding boxes on this site versus this site. I'm
8 sorry if I left that impression.

9 COMMISSIONER LeBLANC: The implementation plan at
10 page 3 states that "permanent general delivery is expected
11 to be implemented as a general entitlement" in Group 2
12 offices if this proposal is implemented.

13 Now, are there any data available on the effect
14 this move will have on the box usage and demand and, if so,
15 could you provide it to us and, if not, could you develop
16 some best estimates and get that to us pretty quickly?

17 THE WITNESS: We'll get back to you on those --
18 that information.

19 COMMISSIONER LeBLANC: Mr. Presiding Officer,
20 could we have that in a fairly short period of time? Would
21 that be okay, Mr. Lyons?

22 COMMISSIONER QUICK: Well, Mr. Rubin?

23 MR. RUBIN: Could you clearly repeat the question?

24 COMMISSIONER LeBLANC: I'm sorry, say again?

25 MR. RUBIN: Commissioner LeBlanc, could you

1 restate the question for us, please?

2 COMMISSIONER LeBLANC: Sure. I'll read it. I
3 hope I've gotten it written up properly.

4 The implementation plan at page 3 states that the
5 permanent general delivery is expected to be implemented as
6 a general entitlement in Group 2 offices if this proposal is
7 implemented.

8 My question is, are there any data available on
9 the effect this move will have on box usage and demand? If
10 the answer to that is, yes, I need the information, please.
11 If the answer to that is, no, could you develop some best
12 estimates and get that to us fairly quickly?

13 MR. RUBIN: Yes, we can try our best on that.

14 COMMISSIONER QUICK: Do you want to give us an
15 idea of how soon you can have that?

16 COMMISSIONER LeBLANC: Well, let me ask you a
17 question. Do you have the data?

18 MR. HOLLIES: To my knowledge, there is no such
19 data. That doesn't mean we can't develop estimates. So the
20 question is how long is it going to take to develop
21 estimates.

22 Well, it's not real clear to me because we don't
23 have a strong -- I'm not aware at least of a strong
24 quantitative foundation for making those estimates. We can
25 do what we can do and I would think we could do it in a

1 week.

2 COMMISSIONER LeBLANC: Thank you very much. We
3 will take a look at it at that point.

4 Thank you.

5 Mr. Lyons --

6 Mr. Presiding officer, I think that's --

7 Thank you, Mr. Lyons.

8 THE WITNESS: Thank you, sir.

9 COMMISSIONER QUICK: Mr. Chairman? Is it
10 possible? I will direct this to counsel, if I may. Would
11 it be possible to have the Postal Service file as a library
12 reference the materials that have been distributed to the
13 field in connection with the Post Office box campaign and
14 also to provide any documents that explain what the purpose
15 of this campaign is that go beyond the materials that are
16 distributed to the field?

17 I am kind of confused. You know, we've got a
18 capacity problem out there and at the same time we're out
19 there with some type of a campaign that I don't understand
20 the purpose of. You know, whether it is to create more
21 capacity or what it is. I just think it would be helpful if
22 we had that material to look at.

23 MR. RUBIN: Yes, I am aware of the materials that
24 have actually gone out, can be supplied as a library
25 reference and I will see if there is additional material

1 that might explain the purpose more.

2 CHAIRMAN GLEIMAN: One of the -- as I recall, I
3 lose track of the names sometimes, but one of the witnesses
4 in your direct case, Witness Landwehr, is deeply involved in
5 this and may have been involved in this when he was up here
6 testifying and I am just kind of curious as to what kind of
7 background there is and what the whole purpose is for the
8 Postal Service. So anything beyond what was distributed to
9 the field would be most appreciated.

10 MR. RUBIN: That's fine.

11 CHAIRMAN GLEIMAN: Thank you.

12 COMMISSIONER QUICK: Does any participant have any
13 cross-examination as a result of the questions from the
14 Bench?

15 [No response.]

16 COMMISSIONER QUICK: That brings us to redirect.

17 Mr. Rubin, would you like an opportunity to
18 consult with your witness before stating whether redirect
19 testimony will be necessary?

20 MR. RUBIN: Yes, I'd like five minutes.

21 COMMISSIONER QUICK: Fine.

22 Five minutes.

23 [Recess.]

24 COMMISSIONER QUICK: Mr. Rubin?

25 MR. RUBIN: Thank you.

1 REDIRECT EXAMINATION

2 BY MR. RUBIN:

3 Q Mr. Lyons, in your discussion with Chairman
4 Gleiman about Docket Number R94-1, I think there was
5 reference to the test year of that case as fiscal year '96.
6 Is that the correct test year for R94-1?

7 A No, the test year was actually FY 1995, fiscal
8 year 1995.

9 Q Thank you.

10 And in your earlier discussion with Mr. Costich,
11 he asked about the possibility of using CAG as a determinant
12 of the groupings for Post Office boxes. Do you think that
13 the CAG groupings could reflect all of our concerns in
14 setting Post Office box fees?

15 A I am not sure that they could. For instance, CAG,
16 by definition, it is a measure of -- it is a way of
17 categorizing post offices by revenue, how much revenue they
18 incur. In that sense, I think the thought was the offices
19 with the larger revenue would have more cost which may or
20 may not be the case but, even more importantly, the offices
21 with larger revenue doesn't necessarily equate to Post
22 Office box user needs and revenue doesn't also equate to
23 demand.

24 There are certain offices that are relatively
25 small that have a high demand for Post Office boxes.

1 Perhaps those that are for some reason or other that the
2 demographics are such that they are relatively well to do
3 are alike so if you had certain CAGs, you may, basing it on
4 a CAG basis, you would either perhaps by focusing on those
5 few distinct offices, you may force everyone's fees to be
6 higher than necessarily or otherwise you would fail to
7 reflect the needs of, demand for these certain high
8 demographic, if you will, offices.

9 So I am a bit wary at this time saying that CAG
10 would be the appropriate level to consider Post Office box
11 fees by. I think you could fail to take into account some
12 demand factors and I am not a hundred percent sure that you
13 would reflect the cost, necessarily.

14 MR. RUBIN: Thank you.

15 That's all we have.

16 COMMISSIONER QUICK: Did the redirect generate any
17 further cross-examination?

18 MS. DREIFUSS: Yes, it did, Commissioner Quick.

19 RECROSS EXAMINATION

20 BY MS. DREIFUSS:

21 Q I have to confess I was not in the hearing room
22 when you and Mr. Costich were discussing the issue of
23 grouping by CAG. However, I am familiar with that issue and
24 I do want to ask you, since you are now, I think, stepping
25 back from, I believe, a statement you made earlier this

1 morning, that grouping by CAG might be a way of helping to
2 pinpoint areas where there are shortages and perhaps have
3 the fees higher for higher level CAGs, I think you are
4 stepping back from a statement you made this morning?

5 A Okay, as I recall, I don't think I used those
6 words. In fact, I think Mr. Costich indicated that and we
7 were focusing more on a cost kind of aspect and I said I
8 thought it might be interesting but you don't know, in terms
9 of the data, that maybe some of the lower CAG offices -- by
10 lower CAGs, the ages or what have you, might in fact -- we
11 might be surprised and they might have higher cost because
12 maybe the offices have been replaced or they have renewed
13 leases or rental agreements.

14 So I was wary of supporting any particular -- of
15 that kind of structure before I had seen the data and what
16 we are saying here is that not only just the cost data but
17 we are concerned about the demand and other characteristics
18 that go into play here and I am not sure that CAG fully
19 reflects those. I don't see it as being necessarily
20 stepping back and being inconsistent with what I said
21 earlier but I think it is elaborating on it more, on that
22 discussion.

23 Q Well, one of the concerns that the OCA has about
24 the Postal Service's proposal to raise rates in this
25 proceeding is that, based on figures that Paul Lion has

1 provided, even the Postal Service's view of box shortages, I
2 believe the figure that he uses is 38 percent of facilities
3 have at least 100 percent of one size box fully rented.
4 That means of the 62 percent, the remaining 62 percent,
5 don't appear to have any sort of box shortage problem.

6 Would you agree with that, that 38 percent have
7 some sort of box shortage problem. The remaining 62 percent
8 don't seem to have a box shortage problem?

9 A I will let Paul -- Mike Lion -- I guess he is
10 listed as "Paul" but, as I call him, "Mike" Lion's testimony
11 speak for itself. I don't recall the specific figures but
12 that is subject to check in terms of the precise amount
13 there.

14 Q All right, we will make that subject to check.
15 But let's say that the majority of offices -- well,
16 that's -- that's a premise that I can establish later if it
17 is necessary. Let's say a majority of offices do not have a
18 box shortage problem. Nevertheless, the Postal Service is
19 proposing fee increases for those facilities as well as the
20 facilities where there are box shortages; isn't that
21 'correct?

22 MR. RUBIN: Objection, this is beyond the scope of
23 redirect.

24 MS. DREIFUSS: Well, I must confess I wasn't -- I
25 wasn't here during the conversation but I can certainly pick

1 up, based on the redirect, what kinds of statements were
2 exchanged. Apparently Mr. Costich, and I guess one of the
3 Commissioners can kindly correct me if I'm wrong,
4 Mr. Costich was suggesting that establishing fee tiers by
5 some kind of CAG grouping might more appropriately redress
6 the shortage problem than the current groupings.

7 And since -- since, I believe, Mr. Lyons responded
8 favorably to that notion earlier. Now, I can't swear to
9 that.

10 THE WITNESS: I don't think I did. I think I
11 registered some concerns and I am elaborating on those
12 concerns in this step.

13 COMMISSIONER QUICK: Do you want to rephrase your
14 question and see if it will pass muster? If not, let me --
15 you are at a disadvantage here, obviously.

16 THE WITNESS: Well, I think Mr. Costich asked me
17 almost the identical question earlier on, I mean.

18 BY MS. DREIFUSS:

19 Q What was your answer, if you don't mind?

20 A Well, I wish I remember. I know that I answered a
21 similar question there.

22 Essentially, the answer is that irregardless, your
23 question presupposes your only goal here is to alleviate a
24 capacity problem in those areas where we had capacity
25 problems but I think there are some overall concerns here in

1 terms of reflecting -- better reflecting costs, better
2 reflecting value of service and the capacity issue is
3 another issue.

4 I think to the degree that our fee proposal better
5 reflects the cost, if you will, the cost and only the value
6 of service that we feel Post Office boxes provide, that's a
7 critical ingredient in this proposal.

8 At the same time, we feel there is a capacity
9 element here and the reason for addressing it in rebuttal
10 was to the degree that the OCA's proposal would, in fact,
11 reduce fees, we felt that that might tend to, in the future,
12 exacerbate those problems in those areas.

13 Q You would agree though -- I'm trying to keep this
14 relevant to the earlier cross examination -- that with
15 respect to expanding box sections, there's no need to
16 increase fees in those offices where there isn't a capacity
17 problem, isn't that correct?

18 A Yes, if that was the only goal.

19 MR. RUBIN: Again, I would object. The only thing
20 that's opened up here is the use of CAGs as the determinant
21 of box groupings.

22 COMMISSIONER QUICK: Right. I agree with that.
23 Let's --

24 MS. DREIFUSS: Okay, I won't ask anymore
25 questions, Commissioner Quick. I do have a request though.

1 Commissioner LeBlanc raised the question with
2 Witness Lyons about -- it was an issue of how determinations
3 are made whether to expand the box section or not.
4 Apparently, to some extent, it's made at the local level and
5 then these decisions must be cleared further up the line.

6 In a sense, this is more relevant, and I'll
7 readily admit this, it's more relevant to Paul Lion's
8 testimony than it is to Ashley Lyons' testimony, so I can
9 raise it again when Paul Lion takes the stand. However,
10 this is really a request directed to counsel and it was
11 discussed between Commissioner LeBlanc and Ashley Lyons, so
12 I think I'll raise it here.

13 We wanted to see if the Postal Service could
14 provide any written policy statements or guidelines on how
15 the decision is made to expand the box section at particular
16 facilities where shortages exist?

17 COMMISSIONER QUICK: Okay, you've put them on
18 notice of what you're going to ask Mr. Lion, so they know
19 the question is going to be repeated.

20 MS. DREIFUSS: It's actually not a question for
21 Mr. Lion, I don't think; I believe it's a question for
22 Counsel.

23 MR. RUBIN: Yes, and it's really late discovery.
24 I think we've had similar questions that Witness Needham has
25 responded to and perhaps Witness Landwehr might be the

1 witness. I'd have to check but we can direct attention to
2 those answers. I think they covered that topic.

3 COMMISSIONER QUICK: Maybe after lunch you can
4 figure it out. Can you get that -- can we figure out by
5 this afternoon whether or not these questions have been
6 addressed before?

7 MR. HOLLIES: We have faced these type of
8 questions on at least two occasions during the discovery
9 process of this case and I presume that it's possible to
10 obtain more information, but this is really just a further
11 discovery request coming from the OCA rather late in the
12 game.

13 I think the point was that there are different
14 levels of decisionmaking. My understanding is that if it's
15 a small enough investment, the Postmaster may be able to
16 make a decision; if it's a dollar value that's much higher,
17 then it would go to the district and perhaps to the area and
18 perhaps to headquarters, and if it were many hundreds of
19 millions of dollars, that's the kind of thing the Board of
20 Governors would want to see.

21 The point here is that the period in which those
22 types of questions could be posed to us has come and gone;
23 we have responded favorably or affirmatively to those
24 questions which we have faced, and it is not a timely
25 request at this point and it's a little unclear, also, how

1 it would really enhance the record in any way.

2 MS. DREIFUSS: Commissioner Quick, the request for
3 these materials was triggered -- again, we're not talking
4 about Ashley Lyons' testimony, we're talking about Paul
5 Lion's testimony -- by that section of Paul Lion's testimony
6 where he tries to justify using market costs over book costs
7 by saying that's the way individual postmasters would make
8 the decision to expand the box section. It was triggered
9 directly by his rebuttal testimony.

10 COMMISSIONER QUICK: Well, right now, we're
11 supposed to be talking about Ashley Lyons' testimony, so
12 let's put this off until Mr. Paul Lion gets up here.

13 MS. DREIFUSS: All right, Commissioner Quick, I'll
14 wait.

15 COMMISSIONER QUICK: Is there any further followup
16 as a result of redirect? Mr. Chairman?

17 CHAIRMAN GLEIMAN: I think this is proper
18 followup.

19 The first redirect question you were asked had to
20 do with the test year for the R-94 omnibus rate case and I
21 think the record will show that my reliance on 1996 as a
22 test year was in reference to a response that you gave to
23 Commissioner LeBlanc.

24 Be that as it may, just so I understand,
25 regardless of what the test year was, what is your

1 understanding of what happens when a rate case -- when there
2 is a recommendation made in a rate case that has built into
3 it a provision that says there's \$936 million, give or take
4 a little bit, that is in this rate base for prior year
5 losses, is that something that's just realized in the test
6 year or is that something that's supposed to be there each
7 and every year of that rate cycle in that particular rate
8 case?

9 THE WITNESS: Well, I guess before the Governors
10 policy statement on that, it was a little less clear.
11 Technically, when the Commission comes up with this
12 recommended decision, it's focusing on a specific test year
13 and it estimates that these are the estimated revenues,
14 these are the estimated costs, here is how much is out of
15 that, the revenues are associated with including it with the
16 estimated cost as a contingency provision -- I believe it
17 was 2 percent in the last rate case and I think any amount
18 for recover of prior year losses of \$936 million to the
19 degree that what happens between cycles was probably a
20 little bit less clear in the past.

21 However, I think with the Governors' policy
22 statement, the Governors' policy is to meet or exceed that
23 amount subsequent to the actual test year of the rate case
24 or file for another rate increase or at least have a strong
25 explanation of why that policy should not be met that given

1 year.

2 CHAIRMAN GLEIMAN: I understand that and I
3 appreciate very much what the Governors did and I think it
4 was a good decision on their part, especially in light of
5 your explanation about the potential impact in the next rate
6 case where you're dealing with less accumulated prior year
7 loss and the positive impact that has on the potential
8 subsequent rate increases.

9 After the test year, the revenue requirement
10 doesn't go down by \$936 million; we don't lower rates across
11 the board by \$936 million. It's still in there each year.

12 THE WITNESS: Well, that's the issue. It's there
13 in the rates and you could have sort of a philosophical
14 discussion at the same time. Arguably, inflation has hit
15 costs more than two or three percent and to the degree --

16 CHAIRMAN GLEIMAN: Let me interrupt you. When we
17 do a case, we anticipate inflation for the test year.

18 THE WITNESS: Yes.

19 CHAIRMAN GLEIMAN: So if costs go up beyond the
20 test year, then the Postal Service either has to find some
21 other way to pay for those costs or do some cost savings,
22 some cost avoidance, what have you.

23 What you're telling me is then that in the out
24 years, if you don't have another rate case, then the money
25 that was put in there for prior year losses just gets eaten

1 up by cost increase.

2 THE WITNESS: Well, it hasn't been eaten up --

3 CHAIRMAN GLEIMAN: In the last two years, it
4 hasn't been eaten up?

5 THE WITNESS: Okay, in the way you phrased your
6 question, the Postal Service has to go out and find some
7 ways of reducing costs or doing something, and I think we
8 have, in fact, exceeded that \$936 million, we've met the
9 Governors' requirement there and apparently we've been able
10 to do the appropriate things to meet the prior year loss
11 recovery goals of the Board of Governors and forestall a
12 rate increase.

13 CHAIRMAN GLEIMAN: Okay. Thank you.

14 COMMISSIONER QUICK: Thank you, Mr. Lyons. We
15 appreciate your appearance here today and your contributions
16 to our record.

17 If there is nothing further, you are excused.

18 [Witness excused.]

19 COMMISSIONER QUICK: Who -- Mr. Alverno, was he
20 handling this next witness?

21 Would you identify the next Postal Service witness
22 for the record. We will proceed at least until 12:45 and
23 see how we're doing. We may go to 1:00 before we break for
24 lunch. We'll see.

25 [Pause.]

1 MR. ALVERNO: Mr. Presiding Officer, the Postal
2 Service calls Susan W. Needham.

3 COMMISSIONER QUICK: Ms. Needham is already under
4 oath in this proceeding. Therefore you may proceed, Mr.
5 Alverno.
6 Whereupon,

7 SUSAN W. NEEDHAM
8 a rebuttal witness, was called for examination by counsel
9 for the United States Postal Service and, having been
10 previously duly sworn, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. ALVERNO:

13 Q Please introduce yourself.

14 A Yes. My name is Susan W. Needham.

15 Q And where are you employed?

16 A I am employed in the Pricing Office at Postal
17 Service Headquarters.

18 Q Earlier you reviewed copies of documents entitled
19 "Rebuttal Testimony of Susan W. Needham on behalf of the
20 United States Postal Service," marked as USPS-RT-4.

21 Have you examined them?

22 A Yes, I have.

23 Q And was this testimony prepared by you or under
24 your direction?

25 A Yes, it was.

1 Q And do you have any changes or corrections to
2 make?

3 A Actually, I have one correction.

4 On page 2 of the testimony, Footnote Number 6,
5 where it says Transcript 4, 1073, I would like that changed
6 to Transcript 4, 1072-3 to signify both pages, 1072 and
7 1073.

8 Q Are do the copies that are with the Reporter now
9 reflect that change?

10 A Yes.

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

13 A With that correction, yes.

14 Q Yes, with those corrections.

15 A Yes.

16 MR. ALVERNO: Mr. Presiding Officer, I ask that
17 the rebuttal testimony of Susan W. Needham on behalf of the
18 United States Postal Service, marked as USPS-RT-4, be
19 received as evidence at this time.

20 COMMISSIONER QUICK: Are there any objections?

21 [No response.]

22 COMMISSIONER QUICK: Hearing none, Ms. Needham's
23 testimony and exhibits are received into evidence.

24 [The Rebuttal Testimony of Susan W.
25 Needham, USPS-RT-4, was received

1 into evidence and transcribed into
2 the record.]

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USPS-RT-4

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

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

REBUTTAL TESTIMONY
OF
SUSAN W. NEEDHAM
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

- 1 My name is Susan W. Needham. My autobiographical sketch is
- 2 presented in my direct testimonies, USPS-T-7 and USPS-T-8.

1 I. PURPOSE

2
3 The purpose of my testimony is two-fold. First, I rebut claims made by
4 OCA witnesses Collins and Sherman that the record concerning certified mail is
5 unclear. Second, my testimony provides examples of services that favor
6 resident or locally-based customers.

7
8
9 II. THE CERTIFIED MAIL COST COVERAGE METHODOLOGY HAS BEEN
10 EXPLAINED.

11
12
13 Witnesses Collins and Sherman claim that the record concerning certified
14 mail costs and revenues is "murky" and "not perfectly clear."¹ This is one reason
15 OCA witness Collins recommends that the certified mail fee not be changed, but
16 rather that this matter be "revisited during the next omnibus rate case."² I am
17 puzzled by these remarks, because in my view, the record has been clarified
18 and provides ample support for the proposed fee increase for certified mail.

19
20 The costs and revenues and resulting cost coverages³ for certified mail in
21 this docket have been very closely scrutinized by the Postal Service, the
22 Commission, and the OCA. For purposes of calculating the certified mail cost
23 coverage, I explained that the Postal Service had determined to remove ancillary

¹ Tr. 5/1699; Tr. 7/2289.

² Tr. 5/1700.

³ The fraction for calculating the cost coverage is: (revenues)/(costs).

1 service revenues from the numerator of the fraction used to calculate the
2 certified mail cost coverage.⁴

3

4 Historically, the CRA has included ancillary service revenues, which
5 include revenues for return receipts and restricted delivery associated with
6 certified mail, in certified mail revenues.⁵ In order to evaluate prices for certified
7 mail with precision, it is incumbent upon the pricing witness to first subtract all
8 ancillary service revenues from the revenue figure shown in the CRA. If
9 ancillary service revenues are not removed, the certified mail cost coverage is
10 inflated. Recommended fees that are based on such inflated cost coverages will
11 likely be too low.

12

13 As explained in my response to OCA/USPS-T8-8,⁶ in Docket No. R94-1,
14 the Postal Service presented a cost coverage for certified mail of 172.1 percent,
15 based on revenues of \$526,248,000 and costs of \$305,826,000.⁷ The
16 numerator of the figure used to calculate the cost coverage presented by the
17 Postal Service, however, erroneously included ancillary service revenues of
18 \$233,028,000, for restricted delivery and return receipts associated with certified

⁴ USPS-T-8 at 71.

⁵ See Tr. 4/1072-73. The CRA does *not* include ancillary service costs in certified mail costs.

⁶ Tr. 4/1072-73

⁷ Docket No. R94-1, Exhibit USPS-11F, page 3.

1 mail.⁸ The Commission recommended a fee of \$1.10 based on costs of
2 \$309,213,000 and revenues of \$526,248,000.⁹ The Commission recommended
3 fee in Docket No. R94-1 followed the Postal Service cost coverage methodology
4 and was based upon the mistaken assumption that certified mail revenues were
5 free of any ancillary service revenues. If, however, the Commission
6 recommended cost coverage had been calculated without ancillary service
7 revenues in the numerator, it would have been 94.8 percent.¹⁰

8
9 The Postal Service pricing witness in Docket No. R90-1 presented a
10 certified mail cost coverage of 127 percent, based on costs of \$147,859,000 and
11 revenues of \$188,404,000.¹¹ Upon review of the pricing witness' work in that
12 docket, it appears that certified mail revenues were properly adjusted in the
13 Postal Service's pricing proposal, so that they excluded ancillary service
14 revenues.¹² Unfortunately, however, the pricing witness in that docket

⁸ Docket No. R94-1, Foster WP VIII at 5 (\$224,681,000 + \$8,347,000).

⁹ PRC Op. & Rec. Dec., Appendix G, Schedule 1.

¹⁰ This figure is calculated using revenues for the certified mail basic fee of \$293,220,000, reported at PRC Op. & Rec. Dec., Docket No. R94-1, App. G, Schedule 2 at 20, divided by certified mail costs of \$309,213,000, reported at PRC Op. & Rec. Dec., Docket No. R94-1, App. G, Schedule 1.

¹¹ Docket No. R90-1, USPS-T-22 at p. 40.

¹² Compare Docket No. R90-1, USPS-T-22 WP-6 page 1 (revenue of \$188.404 million for certified mail, free of ancillary service revenues) and USPS-T-22 page 40 (revenue of \$188.404 million for certified mail, free of ancillary service revenues) with Exhibit USPS-17E at p.23 (CRA certified mail revenue of \$379 million, including ancillary service revenues).

1 erroneously subtracted an amount representing ancillary service costs from the
2 CRA certified mail costs (which did not include ancillary service costs), resulting
3 in an inflated proposed cost coverage.¹³ The proposed cost coverage was
4 inflated because, in this instance, the *denominator* of the cost coverage fraction
5 was erroneously *understated*. The Commission, on the other hand,
6 recommended a certified mail fee of \$1.00 in Docket No. R90-1, based on
7 revenues of \$391,770,000 and costs of \$315,392,000 to arrive at a cost
8 coverage of 124 percent.¹⁴ As in Docket No. R94-1, the Commission's
9 recommended fee of \$1.00 in Docket No. R90-1 was based upon a cost
10 coverage calculation with ancillary service revenues erroneously included in the
11 numerator. (The Commission correctly did not adjust the denominator by
12 removing ancillary service costs.) If the Commission had removed certified mail
13 revenues from the numerator of the fraction used to calculate the certified mail
14 cost coverage, the cost coverage would have been 65 percent.¹⁵

15
16 As explained in my testimony, the historic practice has been to calculate
17 the cost coverage for certified mail with ancillary service revenues included in
18 the numerator.¹⁶ In this proceeding, we have attempted to remove these

¹³ Tr. 4/1200, lines 7-19.

¹⁴ Docket No. R90-1, PRC Op. & Rec. Dec., App. G, Schedule 1.

¹⁵ This figure is calculated by dividing certified mail revenue of \$205,068,000, Docket No. R90-1, PRC Op. & Rec. Dec., App. G, Schedule 2, at 19, by certified mail costs of \$315,392,000, Docket No. R90-1, PRC Op. & Rec. Dec., App. G, Schedule 1.

¹⁶ USPS-T-8 at 71.

1 revenues from the numerator of the fraction used to calculate the certified mail
2 cost coverage so that we can evaluate the certified mail fee accurately. Despite
3 our attempts to present the certified mail cost coverage without ancillary service
4 revenues in pricing testimony, the certified mail before- and after- rates cost
5 coverages of 107 percent and 146 percent, respectively, in my testimony, USPS-
6 T-8 at 71, and in my interrogatory responses, and witness Lyons' Exhibit USPS-
7 T-1C, were inflated due to the fact that return receipt for merchandise volumes
8 were included in the calculation of certified mail revenues.¹⁷ After we became
9 aware of this problem with the numerator of the fraction used to calculate the
10 cost coverage for certified mail in this docket, we undertook to correct the
11 record. Witness Lyons' response to Presiding Officer's Information Request No.
12 5 presents before- and after- rates cost coverages of 102.1 percent and 139.2
13 percent, respectively.¹⁸ These cost coverages are appropriate for the
14 Commission's evaluation of the certified mail fee proposal because the certified
15 mail revenues in these figures are free of ancillary service and return receipt for
16 merchandise revenues, and the certified mail costs have not been subject to any
17 unnecessary adjustments for ancillary service costs.

18
19 Thus, past Postal Service proposals and Commission recommended fees
20 for certified mail have been based on inflated cost coverages. I believe this

¹⁷ The volume that was originally used in the calculation of certified mail revenue included return receipt for merchandise volume. See Tr. 8/3019-20.

¹⁸ Tr. 8/3020-23; see also Tr. 8/3076.

1 serves as further justification for the Commission to recommend the proposed
2 \$1.50 fee for certified mail. Since certified mail users have been paying a fee
3 below (now slightly above) cost, it is fair and reasonable that they begin to pay a
4 fee that aligns better with the high value service they receive. Now is the time
5 for the Commission to remedy past errors, for certified mail users have been
6 paying exceptionally low fees for an extended period of time.

7

8

9 III. MARKETPLACE EXAMPLES OF NON-RESIDENT TYPE FEES
10 OR RESIDENT TYPE DISCOUNTS AND DEMAND PRICING.
11

12 OCA Witness Callow attacks the absence of a quantified cost basis for
13 the Postal Service's proposed non-resident fee for post office box service,
14 implying that such a price structure is inappropriate unless it is founded on a
15 measured cost differential.¹⁹ While I have not conducted a comprehensive
16 survey, I identified, in my testimony and on cross-examination, examples of fees
17 charged by other public and private entities which are similar to the proposed
18 non-resident fee but are not based on quantified costs. I elaborate on this
19 testimony below.

20

21 During oral cross-examination, I briefly alluded to county government non-
22 resident fees. I mentioned the holiday camps (during winter and spring breaks)

¹⁹ Tr. 5/1523-26.

1 and summer camps operated by the Arlington County Parks and Recreation
2 Department in Arlington, Virginia.²⁰ These camps, as well as two-day
3 parent/teacher conference camps set up during the school year, were
4 established for children whose parents work and need daycare for their children
5 when the public schools are closed. There are two sets of fees charged for each
6 camp: one for residents and a 50 percent higher fee for non-residents of
7 Arlington County. The operating expenses for these camps are paid for by the
8 fees charged, not by taxes. The services are the same for each child enrolled in
9 these camps (*i.e.*, supervision, materials for arts and crafts projects, two daily
10 snacks, transportation for field trips, etc.). There is thus no cost difference per
11 child, regardless of resident status. However, non-residents of Arlington who
12 work in or around Arlington are obviously willing to pay the non-resident fee. In
13 many instances, other Northern Virginia county governments do not offer
14 comparable camps when the schools are closed, and alternatives to these
15 camps can be more costly and difficult to locate. The county non-resident fee is
16 comparable to the proposed non-resident post office box fee. A demand exists
17 for a service by both local and non-local customers, and the non-local customers
18 are willing to pay more than local customers.

19

20 I also testified orally about resident golf discounts for residents of Fairfax
21 County, Virginia. The Fairfax County Park Authority operates public golf courses

²⁰ Tr. 3/909-10.

1 in Fairfax County. At some of the courses, residents of Fairfax County are able
2 to purchase golf play passes at a discount. The golf play fees, like the Arlington
3 County camp fees, are used to cover all operating expenses and are not
4 subsidized by tax revenues. This is another example of charging a higher fee
5 for non-residents when the operating costs per person are the same, regardless
6 of residency status. I believe that non-residents of Fairfax County are willing to
7 pay higher fees than the Fairfax County residents because of the value of
8 service for these non-resident customers.

9

10 There are also other examples. Afternoon or twilight moviegoers take
11 advantage of lower ticket prices. The higher, prime-time ticket prices evidently
12 are not based on costs, but rather are based on demand. Since more people
13 attend evening movie performances than afternoon and/or twilight shows, movie
14 theater operators offer discounted ticket prices for earlier shows to encourage
15 larger attendance. Finally, the former movie video chain, Erol's, would allow
16 customers who rented a movie at one location to return the movie to another
17 location, for an additional fee. This service reflects the same type of
18 convenience for customers that is reflected in the non-resident box service.

19

20 While these examples were suggested to me by my personal knowledge
21 of local practices, I believe that others would be revealed by a broader inquiry
22 into the matter. I do not believe such a study is necessary, however, because
23 these limited examples demonstrate that establishing a price differential based

- 1 on residency is neither irrational nor unprecedented. It can have a sound basis
- 2 in policy and operations, as demonstrated by the Postal Service's case here.
- 3 Furthermore, particularly where price levels are influenced by market
- 4 considerations, as in the Postal Service's proposals, the price structure and
- 5 levels need not be dictated by a measured cost differential.

1 COMMISSIONER QUICK: The Office of Consumer
2 Advocate requested oral cross examination of witness
3 Needham. Does any other participant have oral cross
4 examination for witness Needham?

5 [No response.]

6 COMMISSIONER QUICK: Ms. Dreifuss, will you please
7 begin?

8 I'm sorry, the Chairman may have to leave and we
9 would like for him to ask would he like to ask a question
10 before he --

11 CHAIRMAN GLEIMAN: Ms. Needham, maybe you can help
12 me, and I apologize for having to ask this question here. I
13 didn't do my homework properly.

14 Your autobiographical sketch was in your direct
15 testimony. I don't recall but have you ever been a budget
16 expert or worked for the Budget Office in Arlington or
17 Fairfax or any other county in Northern Virginia.

18 THE WITNESS: No.

19 CHAIRMAN GLEIMAN: Have you ever worked for Erols?

20 THE WITNESS: No.

21 CHAIRMAN GLEIMAN: Have you ever worked for any
22 movie chains?

23 THE WITNESS: Yes. I have.

24 CHAIRMAN GLEIMAN: Which one and when and in what
25 capacity?

1 THE WITNESS: Well, actually it was back when I
2 was in high school and college. My father managed a movie
3 theater and I worked, I wasn't actually technically a paid
4 employee per se, but I did work there.

5 CHAIRMAN GLEIMAN: But you don't have experience
6 as a budget analyst in either movie theaters or movie rental
7 chains or in county government or recreation departments?

8 THE WITNESS: No.

9 CHAIRMAN GLEIMAN: Okay, thank you.

10 THE WITNESS: Sure. Thank you, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Thank you, Ms. Dreifuss.

12 COMMISSIONER QUICK: Thank you for your
13 indulgence, Ms. Dreifuss. Will you please proceed?

14 MS. DREIFUSS: Yes, sir.

15 CROSS EXAMINATION

16 BY MS. DREIFUSS:

17 Q I am going to begin the cross examination I guess
18 with another area that may be slightly controversial.

19 I don't think it is controversial in that somebody
20 will have to answer these questions. It's controversial in
21 terms of who will answer the questions.

22 Part of Paul Lion's testimony discusses the issue
23 of rate of growth of CMRAS and we wanted to ask either Paul
24 Lion or witness Needham about a response she gave to an OCA
25 interrogatory, Number 31, and it gets at the same issue.

1 It discusses the amount of growth in Mail Boxes,
2 Etc., which I believe is one of the major CMRAs.

3 I don't know what the Postal Service would prefer,
4 that we ask Paul Lion about witness Needham's answer or ask
5 her.

6 MR. ALVERNO: Certainly you can ask witness Lion
7 materials about his rebuttal testimony and if that relates
8 to his rebuttal testimony, I'm sure Mr. Lion will be
9 prepared to answer it.

10 Ms. Needham is here testifying about some very
11 limited aspects of the proposals frankly I don't see how
12 that's related at all or within the scope of her testimony.

13 MS. DREIFUSS: I do agree. It is not related to
14 her rebuttal testimony. It is related to her direct
15 testimony and we felt since she was on the stand she could
16 best answer questions about her former answer better than
17 another Postal Service witness.

18 MR. ALVERNO: Then I do object to questions that
19 are framed that ^{are} not within the scope of this witness's
20 rebuttal testimony. There are opportunities for followup
21 and the OCA can exercise those at the appropriate times.

22 MS. DREIFUSS: Well, will the Postal Service agree
23 to call -- recall Witness Needham, if Paul Lion is unable to
24 shed light on an answer she gave earlier?

25 MR. ALVERNO: Absolutely not, no.

1 MS. DREIFUSS: I think in the interests of
2 administrative efficiency, Commissioner Quick, it would be
3 best to have us ask her these questions now --

4 COMMISSIONER QUICK: Ask her the questions and if
5 she doesn't want to answer them, she doesn't have to
6 respond.

7 MS. DREIFUSS: Thank you.

8 BY MS. DREIFUSS:

9 Q Ms. Needham, do you recall answering an OCA
10 interrogatory? It was posed earlier in the proceeding
11 during the direct case phase of the Postal Service. It was
12 our Interrogatory OCA/USPS-T7-31 and the specific
13 question -- it looks like you may have a copy?

14 A I have a copy of the transcript if you could give
15 me the cite.

16 Q I will be glad to give you the transcript site.
17 It is in transcript 3, page 706.

18 COMMISSIONER LeBLANC: 706?

19 MS. DREIFUSS: 706.

20 MR. ALVERNO: Excuse me, I don't have a copy of
21 that and if Ms. Dreifuss wants to proceed with the cross-
22 examination, I would request that I receive a copy of that.

23 MS. DREIFUSS: I would be happy to. I've got an
24 extra copy of the transcript here.

25 COMMISSIONER LeBLANC: Is that transcript 6?

1 MS. DREIFUSS: It's transcript 3, page 706.

2 COMMISSIONER LeBLANC: Oh, 3. I'm sorry. Thank
3 you.

4 MS. DREIFUSS: I wanted to give counsel for the
5 Postal Service a moment to look it over.

6 [Pause.]

7 BY MS. DREIFUSS:

8 Q Ms. Needham, have you had a chance to review your
9 answer? I am focusing in particular on your answer to
10 subpart (c) of that interrogatory.

11 A I haven't gotten to there yet. I was just getting
12 there.

13 Q Okay, sure. I'll wait.

14 A Okay.

15 Q In your answer to subpart (c), you give some
16 information you gathered on Mailboxes, Etc.; is that
17 correct?

18 A Correct.

19 Q You describe it as a major alternative for Post
20 Office box service; is that correct?

21 A Yes.

22 Q And you state that between 1990 and 1996 the total
23 number of centers increased 129 percent from 1,119 to 2,564;
24 is that correct?

25 A That's correct.

1 Q And your source for the Mailboxes, Etc., 1990
2 figure is their 1990 annual report; is that correct?

3 A Correct.

4 Q And your source for the 1996 figure is their Form
5 10-Q for January 1996; is that correct?

6 A Yes.

7 Q Did you have occasion to calculate the annual
8 growth that would result from a 129 percent increase in the
9 number of Mailbox, Etc. outlets between 1990 and 1996?

10 A I didn't, no.

11 Q You didn't?

12 Would you accept subject to check that a 129
13 percent growth rate over six years compounds to 14.8 percent
14 per year?

15 A I -- I -- subject to check.

16 Q Thank you.

17 When you were researching the growth of Mailboxes,
18 Etc., did you have occasion to look at the 1996 annual
19 report for Mailboxes, Etc.?

20 A No, I didn't.

21 MS. DREIFUSS: I don't have any further questions.
22 That's all I -- on that point. I do have others, but not on
23 that point.

24 COMMISSIONER QUICK: You get our hopes up --

25 MS. DREIFUSS: I don't want everyone to get too

1 encouraged.

2 BY MS. DREIFUSS:

3 Q Would you turn, please, to your testimony at pages
4 6 to 7?

5 COMMISSIONER LeBLANC: This is her rebuttal,
6 right, Ms. Dreifuss?

7 MS. DREIFUSS: This is her rebuttal testimony,
8 that's right.

9 COMMISSIONER LeBLANC: Just wanted to make sure I
10 was with you.

11 MS. DREIFUSS: Now I think I am back to asking
12 controversial questions, at least so far.

13 THE WITNESS: Okay.

14 BY MS. DREIFUSS:

15 Q This, I guess, gets at the issue that the Chairman
16 raised with you just a few minutes ago. At pages 6 to 7,
17 you testify about the costs and fees of holiday and summer
18 camps operated by the Arlington County Parks and Recreation
19 Department; is that correct?

20 A That's correct.

21 Q And you testify at page 7, lines 7 to 8, that the
22 operating expenses for these camps are paid for by the fees
23 charged; is that correct?

24 A That's correct.

25 Q What are the fees for -- for these camps?

1 A For the upcoming holiday camp, which will be for
2 December 26, 27 and 30 and 31, for those four days for a
3 resident it is \$112 per child plus, if you are a
4 nonresident, 50 percent additional.

5 Q Okay, and what are the operating costs per child
6 for that upcoming holiday camp?

7 A Well, they are pretty close to the fee charged.
8 My -- my understanding is that the -- like I said, the fees
9 charged cover the operating expenses and, per child, the
10 fees would not vary as far as the operating costs. The fees
11 do vary, resident versus nonresident.

12 Q So are the operating costs then close to \$112 per
13 child or close to \$112 per child plus 50 percent?

14 A Well, I would -- I'm not sure off hand but I
15 imagine the percentage of nonresident that is allowed would
16 factor into that so it -- it could be a little above 112 or
17 it might just be 112 but I'm not exactly sure. I just know
18 that -- that the operating expenses are paid for by the fees
19 and are not subsidized by taxes.

20 Q Well, you were speculating though about the
21 operating costs. You don't know what they are; is that
22 correct?

23 A Right, I don't know what the operating costs are
24 but I do -- I'm not speculating when I say that they -- the
25 fees charged cover the operating expenses.

1 Q What -- what can we rely on in this proceeding to
2 support that statement other than your testimony today?

3 A Well, I have information I received from Arlington
4 County in speaking with -- I might not be -- have worked as
5 a budget analyst as Mr. Gleiman had asked but that doesn't
6 mean that I can't obtain information from the appropriate
7 individuals and I did obtain information to confirm what I
8 had stated in my testimony and had alluded to earlier when I
9 was on the stand back in September.

10 Q Is that information part of the record?

11 A No, it's not.

12 Q What are the separate administrative costs of
13 running the program?

14 A What exactly are you referring to?

15 Q Well, here's an example. Before the actual
16 operation of the holiday camp, am I right that some
17 promotional and informational materials have to be
18 distributed to the public so they will be aware what the
19 fees are that will be charged?

20 A Yes, there is a brochure.

21 Q What is the amount of those expenses?

22 A I don't know.

23 Q Is that part of the operating expense?

24 A I assume it would be.

25 Q You assume. Do you know for sure?

1 A I know that all the costs associated, and if that
2 is a cost associated with the holiday camp, which it seems
3 to me it would be, are recovered by the fees.

4 Q Is that a cost associated with the holiday camp?

5 A To me it is.

6 Q And you can state with certainty that it is
7 covered by the operating expenses?

8 A No, I can't.

9 Q Okay.

10 A I don't know how the county classifies it, but I'm
11 telling you that the costs for operating -- the operational
12 costs -- I don't know how they classify it, but I do know
13 that the operating costs are covered by the fees charged.

14 Q What department of the Arlington County Parks and
15 Recreation Department handles telephone inquiries about the
16 holiday camp program?

17 A Right, and it is Parks and Recreation. Let me see
18 if I can give you the specific. One second. I am sure I
19 have it somewhere here with me. I just can't seem to locate
20 it right now.

21 Parks and Recreation is the department beneath
22 that as far as an office. I don't have the name with me,
23 but I've got -- I know I --

24 Q Well, the name of the office probably isn't going
25 to be important. Just describe what you believe -- you

1 don't need to give me the specific name, just describe what
2 office administers the programs?

3 A The Parks and Recreation Department, I'm not sure
4 which office. I've got it written down somewhere and I
5 don't have it with me.

6 Q Do the employees who field the telephone
7 inquiries, do they answer telephone calls for other Parks
8 and Recreation Department programs aside from the summer and
9 holiday camps?

10 A Perhaps. I'm not sure.

11 Q If they do, how are those administrative expenses
12 apportioned to the various programs within the Parks and
13 Recreation Department?

14 A I don't know.

15 Q It's possible that type of administrative expense
16 is not included in the operating expenses of the holiday and
17 summer camp program, isn't it?

18 A Anything is possible, really. I think the point
19 here is not so much -- we might be able to tie this up a lot
20 quicker. I can state that the operating expenses for these
21 camps, holiday, summer, two-day parent-teacher conference
22 camps, that sort of thing, are covered by the operating --
23 the fees cover the operating expenses for these camps.
24 There is no tax subsidy involved and there is a nonresident
25 fee and a resident fee. That's the basic premise that I'm

1 testifying to.

2 With respect to specifically if somebody answers
3 the phone and they might have to direct it here or there,
4 I'm not sure about any of those. I just know that there is
5 no tax money involved in paying for the camps, but there is
6 a differentiation between a resident and nonresident fee.

7 Q With respect to the telephone inquiry question, it
8 may not be included within the operating expenses, is that
9 correct?

10 A Like I said, anything is possible. I don't know.

11 Q If it's not included within the operating
12 expenses, then it's your testimony that the fee doesn't
13 cover it, is that correct?

14 A My testimony is that the fees charged cover the
15 operating expenses.

16 Q Is what I asked you an operating expense?

17 A I don't know if I'd classify it as an operating
18 expense or not. I don't know whether that's just -- there's
19 an information line for the County, a general information
20 line.

21 How many calls come in just with information --
22 how do they apportion that, I don't know. I really don't.
23 Would that be considered an operating expense, I don't know.

24 Like I stated before, I'm here to say that there's
25 no cost differential but there is a fee differential and

1 there's not a tax subsidy either.

2 Q Let's go with your example about the information
3 line for the County. Is it possible that the information
4 line fields some calls concerning these holiday and summer
5 camps?

6 A I'm sure the information line would field calls of
7 all kinds, yes.

8 Q Assuming that such inquiries are made, I guess the
9 County has to pay for the salaries of the individuals who
10 handle the telephone increase, is that correct?

11 A Sure, but I guess that would go to everything that
12 County provides.

13 Q Right now I just want to focus on the holiday and
14 summer camps because that's what you testified about?

15 A Yes.

16 Q If the telephone inquiries countywide, the general
17 information line to the extent that some calls are related
18 to the holiday and summer camps program, I want to know
19 whether those costs are recovered by the fees charged for
20 the holiday and summer camps?

21 A I don't know if they're considered part of the
22 operating expenses. It's my understanding that they would
23 be covered by the fees. They might have a miscellaneous^{fund} to
24 take into account for things like that.

25 All I know for sure is that the operating expenses

1 are covered by the fees charged. If that includes
2 telephone, a minute of someone's time on standard
3 information, if they've got that broken out, yes, then that
4 would. I don't know that for a fact, but I don't think
5 that's really important here.

6 I think what's important is that there -- what I'm
7 trying to state is that there is no tax money and there is
8 no difference in cost per child, however, there is a fee
9 differential based on resident status.

10 Q Let's assume for the moment that the telephone
11 inquiries are not recovered by the fees charged for the
12 holiday and summer camps program, then they would be funded
13 by taxpayer revenues, would they not, since they are not
14 recovered by the fees?

15 A If you want to assume that, fine.

16 I can't make those assumptions. Like I said, I
17 know that the operating expenses are covered by the fees.
18 You would have to tell me if that is considered an operating
19 expense or not. If it is, then it's covered by the fees, so
20 no, I can't --

21 Q Well, I think you should be telling me whether it
22 is an operating expense covered by the fees since it is your
23 testimony that the fees cover all operating expenses.

24 A Well, they do, but I don't know what all the
25 operating expenses are and I think you are missing the point

1 here.

2 The point is that there is a cost per child and
3 the cost remains the same regardless of resident status.

4 However, there is a higher fee charged for
5 nonresidents and that's what my testimony focuses on -- the
6 very notion or idea of this demand pricing. Without getting
7 very specific into what the County charges for ~~here~~^{this} and
8 that, I still can be up here as a witness even though I
9 never did work for the Budget Office, for Arlington County,
10 or that I am not familiar in exactly what everything is in
11 operating expense, but when I can tell you that the
12 operating expenses are covered by the fees, I think that
13 says it all right there.

14 You can assume what is an operating expense and
15 why isn't or I could, but all I can tell you is the
16 operating expenses are covered by the fees charged.

17 Q Well, if there are expenses, administrative
18 expenses, that are not covered by the operating costs but
19 that are still associated with provision of this service,
20 who would be funding those administrative costs?

21 A I don't know if there are any.

22 Q If there are.

23 A If there were, as a hypothetical, if you are
24 saying it is not coming out of the operating -- it's not
25 attributed to the operating expenses of the camp or a

1 miscellaneous whatever fund that could be, that money could
2 be going into with the fees also, it could be coming from
3 taxpayer or subsidy or it could be coming from revenues from
4 a fee charged by another type of program. I'm not sure.

5 Q The 50 percent higher portion that nonresidents
6 pay --

7 A Yes?

8 Q Is that intended to cover operating expenses?

9 A Like I said, I'm not sure if part of the way they
10 determine the fee is based on -- it's a little bit higher
11 than \$112 or \$112, but there is at least a portion of the
12 nonresident fee that is just paid for. It's charged because
13 of convenience or whatever reason the nonresident person is
14 enrolled.

15 Q I have similar questions concerning your testimony
16 on golf courses, and I am wondering if there is a way of
17 basically our coming to agreement that you'll give me more
18 of less the same kinds of answers concerning the golf
19 courses as you would for the Holiday and Summer Camps.

20 A I think that is fairly safe to say, that as far as
21 the golf courses go I would just like to state the fees
22 charged paid for the operating expenses.

23 I am not sure exactly what all the operating
24 expenses entail but residents of Fairfax County get a
25 discount and it has nothing to do with the fact that their

1 taxpayer money is not involved in those.

2 Q What Fairfax County administrative section
3 administers the golf course program?

4 A That is Fairfax County Parks & Recreation.

5 Q What is the organizational structure for the
6 Fairfax County Parks & Recreation Department?

7 A I don't know.

8 Q Okay.

9 A I'm sorry, it's the Fairfax County Park Authority

10 Q Okay.

11 A It's a little different than Arlington County.

12 Q Where did the money come from to purchase land and
13 construct the golf courses?

14 A Oh, I suppose that I -- I could make a guess that
15 it -- a capital expense like that would have been from taxes
16 and I wouldn't ever dispute the fact that where these golf
17 courses are or these schools that house the camps, whatever,
18 were originally built probably with taxpayer money to -- to
19 house a school or that sort of thing or be a park or
20 something.

21 Q Could that account for the fee differentiation
22 that you describe in your testimony, the fact that taxpayers
23 either have had or continue to bear some portion of expenses
24 related to these programs that nonresidents would not ever
25 have contributed to?

1 A No. No, it's not my understanding. These are --
2 these are separate from -- the summer camps are separate
3 from school -- school bonds or whatever which would go to
4 just fund the school itself. It has nothing to do with
5 its -- with what goes on there.

6 These don't have to go on there. The summer camps
7 or the holiday camps or the golf course or whatever, they
8 don't have to be there. The school would have to be there,
9 for example, and the park may have to be there.

10 Q You've really lost me. I understand the golf
11 course wouldn't have to be there but my question was, where
12 did the money come from to purchase the land on which it's
13 located and construct the facilities associated with it?

14 A Um-hum. Um-hum.

15 And I said it -- it could -- it probably was
16 taxpayer money. I am not sure, bonds and so forth. But in
17 terms of paying off something and charging it back to -- to
18 the other uses there, such as the holiday camp with the
19 school or that sort of thing, no, it's -- it's my
20 understanding that that's not the case.

21 Q Did the nonresidents of Fairfax County, let's say,
22 contribute in any way to tax revenues that may have been
23 used to construct golf courses?

24 A I -- they may -- they may have contributed to buy
25 the park land but I'm not sure about the golf courses. I

1 can say this, when I was preparing this testimony, I saw
2 some other examples and they were more similar to what
3 you -- to what you are bringing up but yet there was tax --
4 there was some sort of taxpayer subsidy at one point that
5 the residents were getting a reduced or favorable fee over
6 nonresidents for other things and those I discounted because
7 they -- they involved taxpayer subsidy with respect to the
8 service that they were getting, be it a dumping site or even
9 other golf courses but in other counties. But this is not
10 the case here.

11 Q Well, is it your understanding that a nonresident
12 of let's say Arlington County, we'll switch back to
13 Arlington County, that a nonresident pays taxes to Arlington
14 County?

15 A That a nonresident would pay taxes to Arlington
16 County?

17 Q Yes.

18 A It depends on if they own a home, a house in
19 Arlington County but have their primary residence in Fairfax
20 County or something, it's possible, sure.

21 Q Would such a person be considered a resident for
22 purposes of camp fees or a nonresident?

23 A Wherever their residence where they -- their
24 primary residence is now would -- they would be considered a
25 resident of -- if they, say, lived in Fairfax County --

1 would be a resident of Fairfax County and would pay the
2 nonresident fee.

3 Q What are the major sources of revenue in Arlington
4 County?

5 A Oh, gee, I don't know. We've got such a low tax
6 rate as far as real estate taxes go, I imagine there's some
7 money coming from, you know, real estate taxes and I don't
8 know what percentage of personal property tax we might get
9 from the state or state -- you know, some sort of
10 appropriations. I don't know.

11 Q For nonresidents of Arlington County who do not
12 own real estate in Arlington County and presumably I don't
13 see any reason for their portion of the personal property
14 tax to be paid to Arlington County, would they be
15 contributing to Arlington County's revenues in any
16 significant way, as best you can determine?

17 A Well, I suppose with -- if they -- if they are
18 paying for certain services, they would be contributing. I
19 don't know to what degree but if they pay for certain
20 county -- county-run classes, programs, that sort of thing,
21 they would be contributing.

22 Q Well, do you know whether those classes cover
23 their costs or not?

24 A I don't know anything about that. Just the
25 holiday ~~counts~~ *Camps*.

1 Q Is there any information on the record concerning
2 -- well, let me back up for a moment. What do we have on
3 the record to substantiate your statement that the -- that
4 there are no taxpayer subsidies of the operating expenses of
5 the Fairfax County golf courses?

6 A We have my testimony on the record, but in terms
7 of substantiating that, there -- to my knowledge, there's
8 nothing else on the record. You have my sworn testimony,
9 but --

10 Q Could you turn to page 8, lines 15 to 18 of your
11 testimony, please.

12 A Okay.

13 Q There you discuss the return of a rental movie to
14 a different location than where the video was rented; is
15 that correct?

16 A That's correct.

17 Q Do you recall your response to interrogatory
18 DFC/USPS-T7-9, and it is located at transcript 3, page 658.

19 A Both subparts or just A or B or --

20 Q Just one moment, please. I'll read the question
21 and answer for the benefit of anyone who doesn't have a copy
22 and then I will hand this copy to the Postal Service for
23 them to refer to.

24 I want to focus on subpart A where you were asked,
25 "Is it possible that the stores charged this fee to recover

1 the cost of transporting videos back to the original store
2 or correcting a resulting imbalance in inventory." And your
3 answer was, "Yes, it is possible that the fee is charged for
4 transportation or correcting an imbalance in inventory."

5 A Uh-huh.

6 Q And then you go on and you expand on the
7 statement.

8 A Right. It's one sentence. I think it's fairly
9 important here. I'm reading from DFC/USPS/T7-9, subpart A.
10 The next sentence says, "Similar to the non-resident fee
11 proposal, however, the video store is providing a
12 convenience to the customer."

13 Q You do agree, you continue to agree, as you've
14 stated in response to DFC Interrogatory 9, that the fee for
15 returning a video to a location different from where
16 originally rented may be based on higher costs of
17 transportation or an imbalance in inventory; is that
18 correct?

19 A Oh, yes. I said it's possible, yes. I agree
20 there. Uh-huh.

21 Q Then how does it establish the point that you
22 attempted to make at page 6, line 18, where you state that
23 the fees, the video fees that you talk about are not based
24 on quantified costs. In fact, they may be based on
25 quantified costs; is that correct?

1 A Let's see. Page 6, line 18.

2 Q Yes. Well, you could probably read a little bit
3 further back, at line --

4 MR. ALVERNO: I don't see that reference on page
5 16. Did you mean page 8?

6 MS. DREIFUSS: No, I mean page 6.

7 THE WITNESS: Six. Now, actually, if I could --
8 yes, I know on page 1 of my testimony, when discussing the
9 -- on lines 5 and 6, I state that second, my testimony
10 provides examples of services that favor resident or locally
11 based customers, and that's what I'm talking about here.
12 Let's see. But with respect to line 18, there may be costs
13 associated with -- it's possible that there are costs that
14 were associated with that video return service which --
15 well, this particular company doesn't operate in the movie
16 rentals, with respect to movie rentals anymore, and the --
17 there's another chain that used to provide this service but
18 no longer does. So with respect to what exactly the cost
19 was, I'm not sure, you know, if anybody ever figured that
20 out, but there was a fee charged.

21 BY MS. DREIFUSS:

22 Q But you did agree in the interrogatory response
23 that I cited that it may have been based on higher
24 transportation costs or an imbalance in inventory, did you
25 not?

1 A Oh, sure. Sure.

2 Q So in fact, it may be based on quantified costs;
3 is that correct?

4 A Oh, it could be. Uh-huh.

5 Q Okay. Could you turn to page 1 of your testimony,
6 please. At page 1, you state that one of the purposes of
7 your testimony is to rebut claims made by OCA Witnesses
8 Collins and Sherman that the record concerning certified
9 mail is unclear. Is that correct?

10 A That's correct.

11 Q In other words, you believe the record is clear;
12 is that correct?

13 A Yes, I do. I believe the record has been
14 clarified, as I stated further down on that page, line 16
15 through 18 of page 1.

16 Q I'm going to summarize what I think may be your
17 position, and you tell me whether you agree or disagree with
18 my statement. Postal Service witnesses in every omnibus
19 rate case, including R84-1, R87-1, R90-1 and R94-1, have all
20 reported the cost coverage for certified mail incorrectly.
21 Do you agree with that statement?

22 A This was Postal Service pricing or cost witnesses?

23 Q Pricing witnesses.

24 A Well, let's see. In R90 and R94, they -- I can
25 state that they were, in my testimony here, they were -- the

1 pricing witness presented cost coverages were incorrect.

2 Q And you're not sure about R84 and R87?

3 A R84 and R87, they were incorrect also, but it's
4 not part of this testimony.

5 Q Similarly, the Commission -- would you agree with
6 this statement: The Commission has reported the cost
7 coverage for certified mail incorrectly in every omnibus
8 rate case including -- from R84 through R94-1? Basically
9 the same cases.

10 A Well, I know that the CRA cost coverage and the
11 Commission cost coverages both have been reported with
12 ancillary service revenues and certified mail, but not the
13 costs for that in the certified mail cost. So in that
14 respect, the cost coverages have been over-inflated. If you
15 use the CRA and the CRA revenues with their costs, nothing's
16 wrong with the CRA costs, the Commission has recommended
17 cost coverages that are inflated in that respect in R94-1
18 and R90 and R87-1 and R84.

19 Q They were inflated and therefore you believe they
20 are not correct?

21 A I don't believe they're -- it's my testimony that
22 they are not -- they do not represent pure or accurate
23 certified mail cost coverages, no.

24 Q Would you agree with this statement: Witness
25 Needham is the first and only Postal Service witness --

1 perhaps we would amend it by saying pricing witness -- since
2 at least back to R84-1 to report the cost coverage for
3 certified mail correctly?

4 A Well, with the exception of -- with the exception
5 of a little return receipt for merchandise revenue, which
6 you might -- which was straightened out in Presiding Officer
7 Information Request Number 5, I believe that that statement
8 is probably true, yes.

9 COMMISSIONER QUICK: Excuse me, Ms. Dreifuss.
10 Could you give me a little idea where you are and if you --

11 MS. DREIFUSS: I am pretty far along in my cross
12 examination of Witness Needham.

13 COMMISSIONER QUICK: What do you think --

14 MS. DREIFUSS: I imagine it wouldn't take more
15 than about 20 minutes to finish.

16 COMMISSIONER QUICK: Well, I'll tell you, why
17 don't we go ahead and break for lunch and we'll come back.
18 Come back at two o'clock.

19 [Whereupon, at 1:00 p.m., the hearing was recessed
20 for lunch, to reconvene at 2:00 p.m., this same day.]

21
22
23
24
25

AFTERNOON SESSION

[2:00 p.m.]

Whereupon,

SUSAN W. NEEDHAM,

the witness on the stand at the time of the recess, having
been previously duly sworn, was further examined and
testified as follows:

COMMISSIONER QUICK: Ms. Dreifuss, you may
proceed.

MS. DREIFUSS: Thank you.

CROSS EXAMINATION [resumed]

BY MS. DREIFUSS:

Q Just prior to the lunch break, we were discussing
your view that a lot of mistakes have been made over the
years, Dockets R90-1, R94-1, in terms of reporting the cost
coverages for Certified Mail; is that correct? We were --
that was a line of questions I was pursuing with you?

A Yeah, I was referring, I guess, to -- yeah, the
CRA cost coverages and the Commission recommended cost
coverages not being pure.

Q Right.

And an important part of your conclusion that
mistakes have been made in reporting the cost coverage for
certified mail is primarily your observation at page 2,
lines 4 to 6 of your testimony, where you state that

1 historically, the CRA has included ancillary service
2 revenues which include revenues for return receipts and
3 restricted delivery associated with Certified Mail and
4 Certified Mail revenues; is that correct?

5 A Correct.

6 Q What authority -- I'm sorry, let me ask one more
7 thing. At the end of that sentence, on line 6, you give a
8 footnote which supports the statement that I just read to
9 you; is that correct?

10 A It indirectly, I guess, alludes to it, I guess,
11 because it says "see." I would have to check that. I've
12 got the --

13 Q Well, I am talking about footnote 5 which follows
14 on the end of that sentence.

15 A Right, right, where it says "See TR4"?

16 Q Right.

17 A Right, yeah.

18 Q Did you want to take a moment to refer to that
19 transcript cite to see if -- were you citing it to support
20 that sentence?

21 A Well, yeah. I've got it right here, actually, the
22 footnote site. And the sources, it says here in the
23 interrogatory, itself, the sources of the table are the CRA
24 reports, test year and proposed rates, fees and those -- the
25 tables on page 1072, Table 1 on page 1072 shows the cost --

1 the costs from the CRA correctly as far as just with respect
2 to certified mail and the revenues in Table 1 before I
3 revised it on page 1073, the revenues that have the
4 ancillary service revenues included.

5 Q In those two pages of Transcript 4, that is, pages
6 1072 to 1073, did you separately break out the ancillary
7 service revenues that the were, you say, incorrectly
8 included?

9 A Well, by breaking them out on Table 1 revised, I
10 subtracted them from the revenue. So therefore Table 1
11 revised on page 1073, you have the Certified Mail costs as
12 they relate to just the Certified Mail revenue and the
13 resulting Certified Mail cost coverage.

14 Q Did you cite to any document in this record or any
15 previous record which would indicate that those ancillary
16 service revenues should be subtracted because they were
17 incorrectly included with the Certified Mail revenues?

18 A I stated here in response to the interrogatory on
19 the page, page 2 of 2, page 1073, where the first full
20 sentence says the Certified Mail cost coverages in Table 1
21 of the question are inflated because they are calculated
22 with ancillary service revenues. I have accordingly backed
23 out the ancillary service revenue from Certified Mail
24 revenue in the revised table below.

25 Q Basically, the support for that conclusion, it

1 stops with you, doesn't it? You haven't cited to another
2 Postal Service witness, a Commission opinion, any kind of
3 documentation for that conclusion? It's your conclusion and
4 we can't go back any further than that; is that correct?

5 A I don't think I quite understand what you mean,
6 that we can't go any further -- I mean, it's my conclusion.
7 This is the fact that's what -- these are facts; they're in
8 the record, that the revenue in the CRA and the Commission
9 decisions for Certified Mail to arrive at the cost coverage
10 were based on ancillary service revenue included with the
11 Certified Mail revenue but only, like I said, only the
12 Certified Mail costs themselves, in order to calculate the
13 cost coverage.

14 Q Right, the only way we can know that that is what
15 happened in previous cases is to rely on your statement that
16 that is the case?

17 A Oh, no, no. I mean, it's in the record; you can
18 go back and look at the records and see. All you have to do
19 is look at the workpaper for Certified Mail that the pricing
20 witnesses had in their testimonies. You can see the revenue
21 from just Certified Mail on those workpapers plus the
22 revenue from Certified Mail with the ancillary services on
23 those workpapers, as far as the pricing goes. As far as the
24 CRA goes, the revenue is -- has always been included. The
25 ancillary service revenue has always been included with the

1 Certified Mail revenue. However, again, the costs are just
2 for Certified Mail only.

3 Q You are stating today and you did in this
4 interrogatory response that ancillary service revenues are
5 included with Certified -- as part of Certified Mail
6 revenues in the CRA?

7 A In the CRA and in the Commission's decisions too.
8 I didn't get a chance to finish it. You can go back and
9 check past decisions and see that the revenues -- the
10 revenues were overstated or whatever -- whatever phrase you
11 want to use in terms of an exact comparison. They were
12 inconsistent with the costs in terms of the cost coverage
13 because they're using extra revenue to calculate a cost
14 coverage for something so it is going to give you an
15 inflated cost coverage.

16 Q If I were to go back to the testimony of the
17 pricing witnesses in R -- let's say R94-1, the pricing
18 witness in R94-1, whom I believe was Grady Foster; is that
19 correct?

20 A Right.

21 Q Would I see him make any statement like that
22 anywhere in his testimony that the ancillary Certified Mail
23 revenues were included in the Certified Mail revenues that
24 he used to calculate cost coverage for Certified Mail?

25 A I would have to see his testimony.

1 Q So you're not aware of any such statement?

2 A I don't recall. I worked very closely on that
3 testimony. I don't recall but I'm not saying it's not
4 there. I would need to review his testimony. But I can say
5 that the ancillary service revenues were included.

6 Q Well, you say he incorrectly included them in R94
7 as part of Certified Mail's revenues and for purposes of
8 calculating the cost coverage, is that correct?

9 A Where is that?

10 Q Well, do you believe that he incorrectly included
11 them?

12 A I said he incorrectly -- I mean did I say that
13 somewhere?

14 Q Maybe you didn't say that directly, so let me ask
15 you. Did Grady Foster, the pricing witness in R94-1,
16 incorrectly include the ancillary revenues of Certified Mail
17 as part of Certified Mail's revenues for purposes of
18 calculating the cost coverage for Certified Mail?

19 A Grady Foster included the ancillary service
20 revenues for calculating the cost coverage for Certified
21 Mail because no changes were to be made with respect to the
22 omnibus case, it was a 10.3 percent across the board, unless
23 the fees or rates did not cover the costs.

24 So no changes to the way we had done anything in
25 the past could have been done.

1 Whether witness Foster would have tried to change
2 the Certified Mail cost coverage methodology then I am not
3 sure but it doesn't really matter at this point because it
4 was something that really couldn't be done within the
5 confines of what we were limited to in that proceeding, as
6 far as our proposal went.

7 Q Well, the cost coverage that he gave in R94-1, was
8 that correct or incorrect?

9 A It's incorrect in terms of the way I -- in terms
10 of a pure cost coverage. It is not a pure cost coverage.

11 Q Was the cost coverage for Certified Mail reported
12 in the same way in Docket Number R87-1? That is, were
13 ancillary service revenues included in the revenues for
14 Certified Mail for purposes of reporting that cost coverage
15 or calculating that cost coverage, and if so, were they
16 included incorrectly?

17 A I don't believe so, no.

18 The costs were calculated incorrectly but that
19 would be by the pricing witness, but are you speaking about
20 the pricing witness or the CRA or our costing witness?

21 Q Let's talk about the pricing witness in R87-1.

22 A Yes.

23 Q That pricing witness, I believe, reported a cost
24 coverage for Certified Mail.

25 A Yes.

1 Q In reporting the cost coverage for Certified Mail
2 did that pricing witness incorrectly include the ancillary
3 service revenues for Certified Mail as part of the Certified
4 Mail revenues?

5 A I don't believe so. I think the problem there
6 would have been with the -- what the pricing witness
7 presented in the costs.

8 The costs -- when I say the costs I am not talking
9 about the CRA costs because like I stated before, there's no
10 problem with the costs for Certified Mail as reported in the
11 CRA. However the pricing witness subtracted costs from the
12 Certified Mail costs that should not have been subtracted,
13 assuming there were ancillary service costs in the CRA cost.

14 It's been an inconsistency. That's the way the
15 Commission has been recommending the cost coverage, using
16 the -- I guess just following the same lines as the way the
17 Commission had handed down recommendations before,
18 recommended decisions, taking the CRA revenues and costs or
19 when I say revenues I mean the revenue -- Certified Mail
20 revenue with the ancillary service revenue -- and just the
21 cost.

22 Q Just a moment ago you were telling me that the
23 mistake made by the pricing witness in R87-1 was subtracting
24 the costs associated with ancillary services incorrectly?

25 A I believe so. I would have to just check but I

1 believe that the mistake was subtracting costs that weren't
2 supposed to be subtracted.

3 Q Is that the same mistake that was made by the
4 pricing witness in R90-1?

5 A Yes, I am talking about the same type of mistake.

6 Q So the mistake that was made in R90-1 was also
7 made in R87-1?

8 A Right.

9 Q In R90-1, are you aware that the pricing witness
10 ever explicitly acknowledged that a mistake was being made
11 in subtracting ancillary service costs when they should not
12 have been?

13 A No, not -- not to my knowledge.

14 Q In R87-1, did the Postal Service pricing witness
15 explicitly acknowledge that ancillary service costs were
16 being incorrectly subtracted?

17 A Not to my knowledge, no.

18 Q In this proceeding, would I have the opportunity
19 to ask Grady Foster whether he agreed that he had
20 incorrectly reported cost coverage in R94-1?

21 A I don't -- I don't know what the rules are, but I
22 know he's not a witness in this proceeding. He's no longer
23 in my office, in the pricing office. But I did the
24 workpapers for him for R94-1, so why -- I know what happened
25 then.

1 Q In other words, you contributed to the incorrect
2 reporting of the cost coverage in R94-1?

3 A Well, like I stated before, whether or not it was
4 incorrect or correct, which I guess is what we're trying to
5 figure out here, which I feel it is incorrect, we were
6 mandated to follow the same lines that we always had with
7 respect to the proposal except for, like I said, the 10.3.
8 There were to be no changes in anything other than the fees
9 in any classification or how we presented, you know, a cost
10 coverage or whatever. And this is a good opportunity to
11 bring that to light, and I appreciate the fact that the OCA
12 had asked, inquired about previous rate cases so we could
13 show what the pure certified cost coverage is -- has been
14 very low for certified mail. It's a good opportunity to
15 review just how low the cost coverage has been when all
16 along I guess everybody was under the assumption that it was
17 a much higher cost coverage. In reality, it really isn't.

18 Q Could you turn to pages 3 to 4 of your rebuttal
19 testimony, please, and in particular -- actually, we had
20 just discussed a moment ago the nature of Witness Larson's
21 mistake in Docket Number R90-1.

22 A Uh-huh.

23 Q Turn to lines 1 to 2 of page 4, please.

24 A Okay.

25 Q I'll quote what you say there. The pricing

1 witness in that docket erroneously subtracted an amount
2 representing ancillary service costs from the CRA certified
3 mail costs which did not include ancillary service costs
4 resulting in an inflated proposed cost coverage. Did I
5 correctly quote your testimony?

6 A Yes, except at first, I -- unfortunately --

7 Q Oh.

8 A Yes. Which it was unfortunate. Otherwise we
9 would have had an accurate cost coverage.

10 Q And the authority you provide for that statement
11 that I just quoted is your footnote 13, is that correct?

12 A Yes. Uh-huh.

13 Q And footnote 13 cites to what?

14 A Let's see. Footnote 13 cites to transcript 4,
15 page 1200, lines 7 to 19.

16 Q Do you know what I find at that point?

17 A What?

18 Q If I go to page 1200, line 7 to 14, what would I
19 find there as the authority for the statement I just read?

20 A I think it's 7 to 19.

21 Q I'm sorry. I'm sorry, 7 to 19, you're right. In
22 footnote 13, you do cite to lines 7 through 19. And what
23 would I find at lines 7 through 19?

24 A That the return receipt and restricted delivery
25 costs were subtracted from certified mail costs in R90 and

1 they shouldn't have been. I did verify that with the
2 costing -- appropriate costing people on the -- with the CRA
3 that the certified mail costs were pure costs in R90 and no
4 adjustment was necessary to the cost.

5 Q But at any rate, for purposes of reaching the
6 conclusion that a mistake may have been made in R90-1, we
7 don't have any more than your statements; is that right?
8 You haven't cited to -- you haven't cited the R90-1 record,
9 nor have you cited to any Commission opinions, nor any other
10 documents; is that correct?

11 A Well, it's all there in the record. Yes. It's
12 there for anyone to see. But I -- it's easy enough to go in
13 and see that an adjustment was made to the cost and that the
14 cost for -- costs for certified mail from the CRA have been
15 accurate.

16 Q You might have cited to the record in R90-1 but
17 you did not?

18 A No, I was on the stand when this happened and no,
19 I have an interrogatory here. It says OCA Interrogatory 8
20 that I revised to take care of that. I don't really think
21 that there was any -- I don't think there was any need to
22 cite anything else. I never was asked to. I know the OCA
23 had the opportunity to ask me to clarify things, but I
24 didn't get asked about this.

25 Q Well, I'll ask two questions based on that last

1 remark.

2 First of all, you could have cited in your
3 response to OCA Interrogatory No. 8 -- we'll refer to it as
4 Number 8 for simplicity sake and it's found at Transcript 4,
5 pages 1072 to 1073. Does that sound right?

6 A Right, yes.

7 Q You could have cited to the record in R90-1 to
8 support your conclusion, but you did not, isn't that true?

9 A I was never asked to. I guess I could have been
10 asked to have cited to the transcript, but I didn't. I
11 wasn't asked to, so I didn't.

12 Q When did OCA see your final response, your final
13 revised response to that interrogatory?

14 A Well, September 9th was the date that I filed my
15 second revision. Of course, the one filed July 25th
16 mirrored the September 9th one, so they first saw it July
17 25th, then they saw it again September 9th.

18 Q The citation that we're talking -- I'm sorry, the
19 revision that we're talking about does concern the very
20 R90-1 cost coverage figure that we've been discussing, is
21 that correct? That's why you revised your answer on
22 September 9, 1996, is that correct?

23 A Correct, back to the July 25, 1996 response, yes.

24 Q Other than accepting your representation that
25 Witness Larson incorrectly subtracted ancillary service

1 costs in R90-1, is there any other independent corroboration
2 of that statement?

3 A Not to my knowledge. Like I said, it's all there
4 in the record and I was never asked further to clarify it by
5 the OCA.

6 Q You originally filed an answer to Interrogatory 8
7 on July 25th, is that correct?

8 A Correct.

9 Q Did you revise it?

10 A Yes, I did.

11 Q How many times did you revise it?

12 A Well, I revised it on August 15th.

13 Q Let me stop you right there. On August 15th, did
14 you report the correct cost coverage for R90-1?

15 A When you say correct, you mean the pure, certified
16 cost coverage, that is certified mail costs and certified
17 mail revenues?

18 Q Well, I don't know that's the way I would put it.
19 Let me ask you this. Is the cost coverage that you reported
20 on July 25th correct or is it the one that you reported on
21 August 15th?

22 A July 25th and September 9th are both correct.

23 Q Does that mean that the cost coverage you reported
24 on August 15th is incorrect?

25 A That's correct. That's why I revised it.

1 Q To --

2 A On September 9. The original one I did was
3 correct on July 25, as was the second revised one on
4 September 9.

5 Q So sometime between July 25 and August 15, you
6 made a mistake, right?

7 A You betcha.

8 Q Earlier today you referred to another mistake that
9 was reported --

10 A That I had made?

11 Q I don't know who made that mistake. There was
12 some indication in response to question one of Presiding
13 Officers Information Request Number Five that another
14 mistake had been made; is that correct?

15 A Oh, yeah. We had -- and I referenced that because
16 it had been brought to our attention the there was some
17 return receipt for merchandise information in with the
18 Certified Mail information, the volume, and we had
19 adjusted -- that was adjusted for in Presiding Officer
20 Information Request Number Five, question one, which when
21 you asked me about my cost coverages that I had presented in
22 my testimony, at the time that I presented them to the best
23 of my knowledge they were pure. However, when we did find
24 out that there was a little bit of return receipt for
25 merchandise volume that had been put in, in adjusting for

1 that, came up with new cost coverages for Certified Mail
2 that are lower than what was proposed.

3 Q When you say some -- I think you said merchandise
4 return volume was incorrectly included, that was the
5 mistake?

6 A Return receipt for merchandise. Let's make
7 that --

8 Q Return receipt for merchandise?

9 A Yeah, I should make that distinction because we do
10 have merchandise return service which is a special service.

11 Q Return receipt for merchandise was incorrectly
12 included in what way?

13 A In the volume.

14 Q How did that impact the cost coverage?

15 A Well, the cost coverage that I had -- that I had
16 presented in my direct testimony for Certified Mail, moved
17 down to 102 percent as far as the before rates cost coverage
18 and the proposed Certified Mail cost coverage was reduced to
19 139 percent.

20 Q I am trying to understand how the reflection of
21 too much volume winds up affecting the cost coverage. Does
22 it affect costs or revenues or both?

23 A Well, that's a good question. I didn't -- I
24 didn't specifically answer this Presiding Officer's
25 Information Request. I didn't sign to it, actually, Ashley

1 Lyons did. He'd probably be better -- the better one to
2 ask.

3 But I just know that my base year volume was
4 different. The one that I had arrived at, I took out of the
5 RPW and did not include return receipt for merchandise
6 volume in that. But, for whatever reason, it was included
7 in certified -- the Certified Mail volume.

8 Q So there was a portion of the volume that you
9 assumed was correct, was actually -- should not have been
10 included when you originally calculated your cost coverages?
11 Is that basically what happened, do you think?

12 A No. Actually, I took it out of the base year but
13 as far as the part that I did, did not include return
14 receipt for merchandise.

15 With respect to the forecast, which is what we
16 use, apparently did, did have that volume. So now it is --
17 it came to our attention later in the game that that
18 included some so hence the cost coverage has gone down even
19 more so.

20 Q So in this proceeding, we know of at least two
21 mistakes. One of them, you wound up correcting. That is,
22 you made a mistake in answering OCA Interrogatory Number 8
23 on August 15.

24 A Right.

25 Q But you eventually caught that mistake and

1 corrected it?

2 A Yes, I did.

3 Q And then there is a mistake which Ashley Lyons
4 reports in answer to Presiding Officer Information Request
5 Number Five?

6 A Correct, and he corrected that in the -- in his
7 response to that.

8 MS. DREIFUSS: Okay. I have no further questions
9 for Witness Needham.

10 Thank you.

11 COMMISSIONER QUICK: Is there any followup cross-
12 examination?

13 [No response.]

14 COMMISSIONER QUICK: Are there questions from the
15 Bench?

16 [No response.]

17 COMMISSIONER QUICK: Apparently there are no
18 questions from the Bench. Consequently, there will be no
19 followup cross-examination as a result of questions from the
20 Bench. That brings us to redirect.

21 Mr. Alverno, would you like to have an opportunity
22 to consult with your witness?

23 MR. ALVERNO: Please. About five minutes?

24 COMMISSIONER QUICK: Yes, sir, five minutes it
25 will be.

1 MR. ALVERNO: Thank you.

2 [Recess.]

3 COMMISSIONER QUICK: All right, Mr. Alverno. Are
4 you prepared to continue?

5 MR. ALVERNO: Thank you, yes, Mr. Presiding
6 Officer.

7 REDIRECT EXAMINATION

8 BY MR. ALVERNO:

9 Q Ms. Needham, you were asked about footnote 13 and
10 whether or not you had supplied -- in general, whether you
11 had supplied citations for some of the revenues and costs in
12 prior dockets.

13 Is there any other place in this record where you
14 have provided citations to prior dockets with regard to
15 explaining the ancillary service, revenues and costs or the
16 Certified Mail revenues and costs?

17 A Yes, there is. In my response to Interrogatory
18 OCA/USPS-T8-42, I provided for R90-1 and R94-1 the Certified
19 Mail revenues, costs and cost coverages and have
20 substantiated, cited each one of these where I pulled them
21 from the appropriate witness's workpapers.

22 In R90-1, the Certified Mail cost coverage of 65
23 percent came from the revenue in Witness Larson's Workpaper
24 6 divided by the cost from Witness Larson's also Workpaper
25 6. And in R94, the Certified Mail cost coverage of 96

1 percent came from Witness Foster's workpaper 8 for the
2 revenue divided by the cost in Exhibit 11-F as I have cited
3 here.

4 Q These are -- these are corrections that you made
5 to prior dockets; isn't that right? This page, on page
6 1126, represents the correct cost coverages with any either
7 corrections made for revenues or costs, depending upon what
8 the pricing witness did in those dockets?

9 A Correct.

10 Q And with regard to Docket Number R90, where did
11 you explain what the source of the problem was in addition
12 to OCA/USPS-T8-8?

13 A I have also explained to -- explained it in my
14 response to OCA/USPS-T8-43, where I state that in docket
15 R90-1, the Certified Mail attributable costs of \$288.6
16 million did not include ancillary service costs and
17 therefore did not need to be further adjusted.

18 Q And what did the Commission -- on what basis did
19 the Commission recommend the proposed fee of I believe it
20 was \$1.00 in Docket Number R90?

21 A Well, it was -- the Commission followed the CRA
22 inconsistent treatment of taking the Certified Mail, pure
23 Certified Mail costs with the Certified Mail plus ancillary
24 service revenue to arrive at a cost coverage.

25 Q So in other words, the Commission followed the CRA

1 and disregarded the work of the pricing witness but still --
2 or is that right?

3 A Yes.

4 Q And so is it fair to say that at least in Docket
5 Number R90, both the Postal Service pricing witness and the
6 Commission recommended fees on the basis of an incorrect
7 cost coverage. However, they reached that result through
8 different means?

9 A Exactly, yeah. Whereas the witness in R90
10 calculated the cost coverage based on costs that should
11 never have been subtracted from the certified mail cost.
12 That was done incorrectly, and then the Commission
13 recommended decision was based on the CRA in which ancillary
14 service revenues were included with the certified mail
15 revenue.

16 Q And on what basis might the pricing witness in
17 Docket Number R90 have subtracted ancillary service costs
18 from the certified mail cost? What logic was there to that?

19 A Well, I believe that it would -- it was probably
20 judging from the fact that there was -- the CRA had included
21 ancillary service revenue. So if you follow that line of
22 thought, one might assume that ancillary service costs were
23 included, also. I -- because that's the way a cost coverage
24 should be -- should be calculated using the correct -- or
25 just whatever revenues are for X with cost for X as opposed

1 to revenues for X plus Y and only cost for X.

2 Q Okay. So it's fair to say, then, that the
3 longstanding error in the way that certified mail revenues
4 have been reported in the CRA have contributed either to
5 errors in~~the~~ the cost coverage for certified mail by the
6 pricing witness or errors by the Commission in recommending
7 a fee for certified mail?

8 A Correct.

9 Q Now, you were asked, you know, whether or not the
10 Commission should rely only on your assertions, or -- let me
11 correct that.

12 You were asked if there was more information other
13 than the assertions made in your testimony that would
14 support some of the conclusions you've drawn about the
15 certified mail cost coverage.

16 How easy or what means by which -- would one use
17 to determine that the cost coverages recommended by the
18 Commission in prior dockets were incorrect?

19 A Well, as I stated before, I mean, these -- all of
20 this is on the record. You would really have to look,
21 first, the CRA, the Commission bases it on the CRA. There
22 is an inconsistent treatment of revenues and costs and the
23 Commission followed the same methodology that was in the --
24 that the CRA used as far as the revenues with ancillary
25 service revenue over the -- just the pure certified cost.

1 Q Is it also evident from looking at the appendices
2 to the Commission's recommended decisions?

3 A You could look at Appendix G, Schedule 1, and then
4 also the Schedule 2, whatever the appropriate pages are for
5 whichever docket of -- for certified mail.

6 Q And if one looks at those, if one looks at
7 Appendix G and compares Schedule 1 and Schedule 2, would it
8 be abundantly clear that what was going on was that the
9 Commission was including ancillary service revenues --

10 A Oh, sure.

11 Q It would be abundantly clear?

12 A Oh, yes. Yes. It's right there. That's -- when
13 I had stated before you can look at the record, that's
14 actually specifically what I was speaking to. I probably
15 should have been a little more specific. But it's right
16 there in the Commission's Schedule G of Appendix 1.

17 MR. ALVERNO: That's all I have, Mr. Presiding
18 Officer.

19 COMMISSIONER QUICK: Did the redirect generate any
20 further cross examination?

21 MS. DREIFUSS: It did, Commissioner Quick.

22 COMMISSIONER QUICK: Ms. Dreifuss.

23 RE CROSS EXAMINATION

24 BY MS. DREIFUSS:

25 Q In view of your citation to OCA questions 42 and

1 43, I believe that's inconsistent with your statement during
2 cross examination that the OCA did not follow up on
3 interrogatory 8. Indeed we did in interrogatories 42 and
4 43, didn't we?

5 A Oh. No, I wasn't referring to that; I was
6 referring to when I was on the stand. Mr. Ruderman said gee,
7 if we need further clarification on any of this, can we
8 contact you, and I believe my attorney said yes, you can. I
9 never heard anything else. This was after this was, you
10 know, into the record. So I wasn't -- when I was referring
11 to follow up, I wasn't referring to follow up on OCA-T8
12 specifically, but just in general the certified -- I mean,
13 if it had to follow up on T8 in any other way or any of the
14 follow ups to T8, which I think included 42, might have
15 included OCA-15, too, or something, but I'm not sure.
16 Anyway, I never heard anything and the counsel didn't
17 either, so I guess I figured everybody had figured it all
18 out.

19 Q But as a matter of fact, we did pursue the issue
20 beyond our Question 8 to you, we pursued it in our Questions
21 42 and 43, is that correct?

22 A Oh, sure, you did but like I said when I was on
23 the stand, 42 and 43 were part of it.

24 Beyond that, I didn't hear anything further.

25 Q You were asked by Mr. Alverno whether it's

1 abundantly clear and very evident. I believe those were
2 words that he used in going back to the Commission's
3 methodology for calculating the Certified Mail cost coverage
4 in R90 and I believe he was talking about R94 also, or was
5 it just R90?

6 A Oh, I can go back -- yes -- I can say R94 and R90,
7 whether he had meant that or not.

8 Q And did you also agree that it was abundantly
9 clear from looking at Postal Service, information provided
10 by the Postal Service in those proceedings that it is
11 abundantly clear that ancillary service revenues were
12 included with the revenues of Certified Mail, or is it just
13 in the Commission's methodology that you thought it was
14 abundantly clear?

15 A With respect to when you say "Postal Service" do
16 you mean the pricing or the costing person or --

17 Q I am not sure what Mr. Alverno was referring to
18 there.

19 MR. ALVERNO: I can clarify it. I was referring
20 to the Commission's recommended decisions, Schedules 1 and 2
21 of Appendix G. I asked if that was abundantly clear, if one
22 could see the error.

23 MS. DREIFUSS: All right.

24 BY MS. DREIFUSS:

25 Q If it is abundantly clear, how do you suppose the

1 Commission wound up making mistakes in that proceeding?

2 A Which proceeding?

3 Q In either R90 or R94-1.

4 A I really don't know. I know that if they were
5 looking at the CRA, the way it was reported in the CRA, and
6 it seems to pretty much mirror it all the way down the line.

7 I believe that's probably just the way that they
8 looked at it without really -- maybe nobody really
9 questioned it before now.

10 Q Basically it's your testimony that the Postal
11 Service witnesses have been making mistakes in reporting the
12 cost coverage for Certified Mail in Dockets R84, R87, R90,
13 and R94, is that correct?

14 A That's correct. Maybe for different reasons
15 amongst the proceedings and then different, maybe different
16 from the CRA and the Commission recommendations.

17 Q Well, again, if it is so abundantly clear and
18 evident, why were these mistakes perpetuated case after case
19 after case by the Postal Service?

20 A I don't know whether it really matters what the
21 Postal Service proposed.

22 I think the important thing here is what the
23 Commission recommended -- I mean it's, you know, it's -- I
24 think the Commission had every opportunity or the OCA or
25 someone to check these things too.

1 But the important thing is what was implemented,
2 the fees, the cost coverages that were truly implemented,
3 and they're so low.

4 Q Should the Commission have ignored what Postal
5 Service pricing witnesses were saying in all of those
6 proceedings?

7 A I don't --

8 Q To the extent that mistakes were made, should the
9 Commission have just ignored what the pricing witnesses were
10 telling them?

11 A If the Commission or the OCA found out to the
12 contrary that if they had checked or whatever, then maybe
13 that would have been a reason to ignore it.

14 Q Was there any reason for the participants in those
15 proceedings R84, R87, R90 or R94 or the Commission, was
16 there any reason for the participants or the Commission to
17 believe that the Postal Service pricing witnesses were
18 incorrectly including some revenues with certified mail
19 revenues that didn't belong there or subtracting costs when
20 they shouldn't have been subtracted? Was there any way for
21 participants, for the Commission, to know that aside from
22 getting answers from the Postal Service that that's what was
23 going on?

24 A Well, I don't know. I mean, I -- I assume things
25 are scrutinized pretty much by the OCA, by the Commission,

1 that the Postal Service presents. If they looked at the
2 inconsistent treatment in the CRA of revenues with costs
3 and, again, I am not saying that the revenues -- neither the
4 revenues nor the costs in the CRA are incorrect, I am just
5 saying that the way the inconsistent treatment of them in
6 arriving at these inflated cost coverages for certified
7 mail, if there was any reason to, you know, to question
8 that, sure. It probably should have been done by the OCA or
9 the Commission.

10 Q In hindsight, the Commission and the OCA and other
11 participants should have been very skeptical about believing
12 what Postal Service pricing witnesses were telling them in
13 dockets R84, R87, R90 and R94; is that correct?

14 A With respect to what?

15 Q With respect to the cost coverage for Certified
16 Mail, the issue --

17 A Okay, well, I mean, I think pricing witnesses in
18 the past, past dockets, told them many things and I wouldn't
19 say that, based on the Certified Mail cost coverage they
20 should be skeptical of everything the pricing witnesses
21 said.

22 With respect to the Certified Mail cost coverage,
23 well, it was the way -- like I said, I think what's real
24 important here is to realize that what's been recommended,
25 not -- it's not so much what's been proposed. Actually,

1 what has been recommended by the Commission? They have
2 followed the CRA inconsistent treatment and it is a good
3 time, probably, to stop that and realize the true cost
4 coverage for Certified Mail and that's what I'm trying to do
5 here.

6 Q Does the Commission or the Postal Service collect
7 the data that is reported in the CRA?

8 A I believe the Postal Service collects the data
9 that is reported in the CRA, yes.

10 Q Do you think it is wrong for the Commission to
11 rely on the CRA and Postal Service representations about it?

12 A No, the CRA, like I said, there is nothing wrong
13 with the revenues or the costs. The only thing is, within
14 the revenues for Certified Mail, they included ancillary
15 service revenues. Now, whether it's the decision of the
16 whomever, the Commission, to recommend a cost coverage with
17 ancillary service revenues, you know, it is not my decision.
18 However, I don't think it's -- I don't think it's an
19 appropriate way of calculating the cost coverage, hence my
20 testimony.

21 Q Since the Commission should have been skeptical
22 about what pricing witnesses were saying about Certified
23 Mail's cost coverage in dockets R84, R87, R90 and R94, why
24 shouldn't they be skeptical of all the things that you are
25 telling them in this proceeding?

1 MR. ALVERNO: Objection. I believe that question
2 is argumentative because the witness hasn't accepted the
3 characterization of -- or hasn't received a response from
4 Witness Needham that we should be skeptical about what the
5 pricing witnesses have done in prior dockets.

6 MS. DREIFUSS: Commissioner Quick, I think it's
7 appropriate for the witness to either agree or disagree with
8 the premise of my question. I don't think the question
9 itself is objectionable.

10 MR. ALVERNO: It is argumentative. It requires
11 the witness to adopt counsel's representations about what
12 the evidence is.

13 COMMISSIONER QUICK: Do you want to try to
14 rephrase it?

15 BY MS. DREIFUSS:

16 Q Postal Service witnesses made mistakes concerning
17 Certified Mail's cost coverage in Dockets Number R84, R87,
18 R90 and R94; is that correct?

19 A That's correct.

20 Q And you have even admitted that you have made at
21 least one mistake in this proceeding which you believe
22 you've caught and that was your revised answer to OCA
23 interrogatory number 8; is that correct?

24 A That's correct.

25 Q And there was another mistake uncovered even more

1 recently that Ashley Lyons reports in answer to Presiding
2 Officer Information Request No. 5, is that correct?

3 A Correct.

4 Q How can the Commission be confident that there
5 aren't many other mistakes in this proceeding either coming
6 from the CRA or the way the CRA is used, how can the
7 Commission have confidence in general that Postal Service
8 witnesses have testified correctly and, in particular, that
9 you have testified correctly?

10 A Well, just because the ancillary service revenues
11 were included in the certified mail revenue for the cost
12 coverage of certified mail should not influence the way the
13 Commission views the credibility of all of the Postal
14 Service pricing witnesses. That would be absurd.

15 What I've presented here is well-documented, has
16 been. I have rebutted the testimony of Witnesses Sherman
17 and Collins with respect to the certified mail cost
18 coverage. There were ample opportunities for OCA counsel to
19 contact me after I was off the stand if any further
20 clarification was needed and that didn't happen.

21 Why should the Commission not accept my testimony,
22 my documentation? I don't see any reason. I'm trying to
23 change a historic practice in order to better reflect the
24 true cost coverage of a special service. It's in fairness
25 to the Commission and to the Postal Service that this

1 correction be made since we've realized it's been over
2 inflated throughout the years.

3 Just because people went along the same way -- for
4 example, I could turn that back to the Commission. Just
5 because the Commission recommended decisions based on an
6 overinflated cost coverage, should we not listen to what the
7 Commission has to recommend, should we think everything they
8 recommend is faulty?

9 Q Were you asking me a question or was that
10 rhetorical?

11 A I guess it's -- it's just sort of back to what you
12 were saying. I mean, the Commission made, if you want to
13 call it a mistake, a mistake in the past by recommending
14 cost coverage with ancillary service revenues in the
15 certified mail revenue, but just the certified mail cost,
16 but I'm not going to let that persuade me to think that the
17 Commission cannot make good decisions or good
18 recommendations.

19 Q Do you believe that Marla ^{Larson}~~Lawson~~ in R90-1 believed
20 that she was using correct cost and revenue figures to
21 calculate the cost coverage for certified mail?

22 A No doubt, making the adjustment in R87 and R90 and
23 I also feel that every pricing witness -- Witness Lyons in
24 R84, Witness Larson in Dockets R87 and R90, and Witness
25 Foster in R94 -- believed that they were presenting good

1 cost coverages, good proposals.

2 Q And that's what you believe about your cost
3 coverage in this proceeding, is that correct? You believe
4 we should rely on them? We should rely on what you're
5 presenting in this proceeding and also the representations
6 you make about cost coverages reported in previous dockets?

7 A What I'm presenting is all true. If you don't
8 want to wish to rely on the truth that's here in the record,
9 then that's okay, but I believe that the Commission should
10 view this change in the historic practice carefully in
11 calculating the cost coverage.

12 Q Do you think Marla Larson thought she was
13 testifying truthfully in Docket No. R90-1?

14 A I'm sure, and it's easy to see. Like I said, the
15 CRA, since it included ancillary service revenues in with
16 certified mail revenues, would lead one to believe that the
17 costs would contain ancillary service costs. That's not the
18 case though.

19 MS. DREIFUSS: I have no further questions.

20 COMMISSIONER QUICK: Questions from the bench?

21 CHAIRMAN GLEIMAN: I have a comment more than a
22 question, I think, and I appreciate your efforts, Ms.
23 Needham, to correct mistakes that have been perpetuated over
24 past years. I think that's really great, but we're in an
25 awkward position here as the rate commission.

1 I was reading something called "The Roll Call"
2 this morning and on page 12, it has a line in here that I
3 think is appropriate for the moment. Talking about election
4 results, it says, "It's like the old joke, half the lessons
5 we learn from election are sheer nonsense, nobody knows
6 which half." I guess you could substitute CRA in there and
7 I guess there's a lesson learned.

8 I haven't been here for that many omnibus rate
9 cases, only since 1994, but certainly I'm not led to believe
10 now that I ought to question every single dot and jot and
11 tiddle on the page that anybody from the Postal Service
12 sends up here, lest I be duped into making a recommendation
13 that has what turns out is an inflated or overstated or
14 underinflated, whatever, incorrect cost coverage or cost,
15 period, or price.

16 You all are sworn when you're here and by and
17 large, I accept what you all say on the stand and I accept
18 your explanation today which appears to be sincere and
19 straightforward. For anybody to suggest that from 1984 to
20 1987 to 1990 to 1994, there was a mistake in there and that
21 the Commission was recommending something that was out of
22 line, well, it's because maybe we relied once too often when
23 we shouldn't have on numbers the Postal Service sent over
24 here.

25 It just makes me more skeptical of anything that

1 comes across my desk from the Postal Service. I don't have
2 enough time, there aren't enough hours in the day and I'm
3 not smart enough to figure out ever number that you folks
4 send over here, but boy, it sure makes me wonder about which
5 half is nonsense and which half isn't.

6 Thank you, and I accept your explanation. This is
7 not pointed at you. I think you've done a commendable job
8 trying to explain the history of this very confusing area.
9 Thank you.

10 CHAIRMAN GLEIMAN: Any other comments?
11 Commissioner LeBlanc?

12 COMMISSIONER LeBLANC: Ms. Needham, I want to kind
13 of clear the record, then I want to ask you one clarifying
14 question.

15 You kept talking about the Commission and the OCA
16 as though we were one and I just want to make sure that for
17 the record, it is clear that they are -- and I think I see
18 you shaking your head -- so that's good that you may know
19 it, but I just want to make sure that the record is clear
20 that we are not one in any particular case. They are an arm
21 of the government, as we are, but they represent a different
22 entity.

23 I just wanted to make sure the record was clear in
24 that regard, so not only the OCA, but all other parties had
25 a chance to possibly bring out any inconsistencies.

1 THE WITNESS: Yes.

2 COMMISSIONER LeBLANC: That sounds like an answer
3 I get from my wife. She looks up -- yes.

4 [Laughter.]

5 COMMISSIONER LeBLANC: Sometimes no.

6 You kept talking about the change in cost. You
7 used the word any number of times, a certified pure cost
8 that you felt comfortable with. Just because something is
9 certified pure, does not necessarily make it correct, does
10 it?

11 THE WITNESS: Well, actually, the pure certified
12 mail cost coverage.

13 COMMISSIONER LeBLANC: Doesn't necessarily make it
14 correct, does it?

15 THE WITNESS: Well, in my estimation, in terms of
16 the certified mail, it does make it -- I believe it's
17 correct, that you just take the cost associated with
18 certified mail and compare them to just the revenues
19 associated with certified mail.

20 COMMISSIONER LeBLANC: It just would seem that
21 with what we've heard this afternoon, there would be a lot
22 of room in there for some skepticism as well, so I just
23 wanted to bring that out.

24 THE WITNESS: Okay.

25 COMMISSIONER LeBLANC: Thank you.

1 COMMISSIONER QUICK: Thank you, Ms. Needham -- I'm
2 sorry, Mr. Alverno?

3 MR. ALVERNO: I think there will be some followup
4 or recross, or redirect, I'm sorry.

5 COMMISSIONER QUICK: Go ahead.

6 MR. ALVERNO: Should I go ahead?

7 COMMISSIONER QUICK: Yes.

8 MR. ALVERNO: Okay.

9 FURTHER REDIRECT EXAMINATION

10 BY MR. ALVERNO:

11 Q Ms. Needham, when you were being examined by Ms.
12 Dreifuss in the latest round she asked you about the
13 mistakes that have been made in this docket, and the first
14 one I believe was your filing a revised, a second revised
15 response to OCA/USPS TA-8, is that right?

16 A Correct.

17 Q All right. Now that error had nothing to do with
18 the costs or revenues for this particular docket. It
19 concerned historical information regarding I believe it was
20 Docket Number R90.

21 A R90, correct.

22 Q Okay, so the error that was made in that
23 interrogatory did not affect anything with regard to the
24 Commission's evaluation of the proposal at issue here, with
25 specifically the revenues or the costs for the base year and

1 the test year?

2 A No.

3 Q Okay, and with regard to witness Lyons's response,
4 which was the other item that was cited by Ms. Dreifuss,
5 witness Lyons' response to Presiding Officer Information
6 Request Number 5, Question 1, that question did address what
7 was going on in this particular docket?

8 A Correct. Yes. Yes.

9 Q Now earlier when we -- when I asked you whether or
10 not it was abundantly clear from the past Commission
11 recommended decisions and Appendix G, Schedules 1 and 2,
12 that one could see that the revenues for ancillary services
13 were included in the Certified Mail revenues.

14 You said yes, in fact, it was abundantly clear.
15 You were saying it was abundantly clear with the benefit of
16 hindsight, is that right?

17 A Yes. I mean --

18 Q So it was not necessarily abundantly clear at the
19 time but it is clear now when one looks at those schedules?

20 A No, I mean -- well, that's because that's all I
21 could do was look back on the past --

22 Q Okay.

23 A -- proceedings.

24 Q And also can one ascertain the errors that were
25 made in the pricing witness's work by comparing information

1 against -- in the pricing witness's work in prior dockets
2 with information in the CRA and the Commission's recommended
3 decisions, can one draw conclusions about the inclusion of
4 Certified Mail revenues in -- Certified Mail revenues?

5 A Oh, yes.

6 Q Or ancillary service revenues --

7 A Ancillary. Right. You can, yes, you can, and
8 perhaps probably what wasn't stated here today but what is
9 important is the beauty of this case is that we were able to
10 define something that might have gone unnoticed, you know,
11 such as the Certified Mail cost coverage issue -- things
12 like that that we're able to pinpoint that might just go
13 through time not being corrected.

14 It's kind of hard when you are putting together an
15 omnibus case and there is a lot to do, and I do realize that
16 the OCA is separate from the Commission, and I wasn't
17 making -- I didn't refer to the other parties but of course
18 there usually are other parties and I meant to say that,
19 too, so I wanted to state that.

20 Q Okay, and when Commissioner LeBlanc asked you if
21 we should view with skepticism the Postal Service's costs
22 and revenues I believe with regard to Certified Mail
23 because, well, they may not be accurate is what I believe
24 Commissioner LeBlanc said.

25 You have no basis for questioning the accuracy of

1 the costs for Certified Mail or the revenues in prior
2 dockets given the information that you have provided in this
3 docket?

4 A That's correct.

5 Q Okay.

6 That's all I have, Mr. Presiding Officer. Thank
7 you.

8 COMMISSIONER QUICK: Is there any further recross
9 examination to the further redirect?

10 [No response.]

11 COMMISSIONER QUICK: Thank you, Ms. Needham. We
12 appreciate your appearance here today and your contributions
13 for our record.

14 If there is nothing further, you are excused.

15 THE WITNESS: Thank you.

16 [Witness excused.]

17 [Pause.]

18 COMMISSIONER QUICK: We'll go off the record here
19 for a couple minutes until OCA gets back.

20 [Recess.]

21 COMMISSIONER QUICK: Mr. Hollies, are you ready to
22 go?

23 MR. HOLLIES: Yes.

24 COMMISSIONER QUICK: Would you please identify our
25 last witness for the day?

1 MR. HOLLIES: The Postal Service calls Paul M.
2 a.k.a. "Mike" Lion to the stand.

3 COMMISSIONER QUICK: Mr. Lion is already under
4 oath in this proceeding, so Mr. Hollies, you may proceed.
5 Whereupon,

6 PAUL M. LION,
7 a rebuttal witness, was called for examination by counsel
8 for the United States Postal Service and, having been
9 previously duly sworn, was examined testified as follows:

10 DIRECT EXAMINATION

11 BY MR. HOLLIES:

12 Q Mr. Lion, I have handed you two copies of a
13 document identified as USPS-RT-3, and I ask whether you can
14 identify it.

15 A Yes, this is my rebuttal testimony.

16 Q Is it true and complete? Are the copies true and
17 correct, to the best of your knowledge?

18 A Yes. There's one correction.

19 Q Would you please tell us about that correction?

20 A On page 4, line 18, "constraint" should have an
21 "R" in it.

22 Q And are the two copies you have before you
23 correctly marked with that annotation?

24 A Yes, and initialed.

25 Q And you have initialed. Thank you.

1 MR. HOLLIES: With that, the Postal Service would
2 like to move USPS-RT-3 into evidence at this time.

3 COMMISSIONER QUICK: Are there any objections?

4 [No response.]

5 COMMISSIONER QUICK: Hearing none, the testimony
6 will be included in the record at this point.

7 [The Rebuttal Testimony of Paul M.
8 Lion, USPS-RT-3, was received into
9 evidence and transcribed into the
10 record.]

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USPS-RT-3

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

REBUTTAL TESTIMONY OF
PAUL M. LION
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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LIBRARY REFERENCES

- LR-SSR-157. Post Office Box Capacity Utilization By Box Size
- LR-SSR-158. Cost Coverages for OCA-Proposed Box Fees
- LR-SSR-159. Cost Coverages -- Market vs. Book Space Provision Costs
- LR-SSR-160. Copies of Outside Materials Cited in USPS-RT-3

REBUTTAL TESTIMONY
OF
PAUL MICHEL LION

AUTOBIOGRAPHICAL SKETCH

The autobiographical sketch that appears in my direct testimony (USPS-T-4) was admitted into evidence at Tr. 3/579-580.

1 I. PURPOSE OF THE TESTIMONY

2 The purposes of this testimony are to rebut: (1) Witness Callow's
3 argument that there are no significant post office box shortages (Section II); (2)
4 Witness Callow's argument that the fees proposed by OCA would provide
5 adequate cost coverage (Sections III and IV); and (3) Witness Sherman's
6 argument that it is reasonable to estimate CMRA costs from their fees (Section
7 V).

8 Section II explains why all installed post office boxes are not generally
9 available for use, and identifies the number of facilities that meet various
10 definitions of "full capacity". I conclude that there are shortages of boxes at
11 many facilities.

12 Section III challenges a key assumption underlying the OCA post office
13 box fee proposal, specifically the assumption regarding the elasticity of
14 acceptance among new customers. The elasticity of acceptance for post office
15 box fee increases used by the Postal Service was based on a survey of existing
16 customers. The OCA, however, applies this same elasticity estimate to new
17 customers who would initiate box service in response to a fee decrease. This
18 section explains how these two populations are distinct from one another such
19 that the OCA's assumption overstates the likely number of new customers. I
20 conclude that the analysis presented by the OCA represents an optimistic upper
21 bound on cost coverage for its proposal, and that the likely result, if the OCA-
22 proposed fees were implemented, would be a cost coverage of less than 100
23 percent for post office boxes.

1 Section IV demonstrates that the pricing of post office box fees should
2 take into account the market-based space provision costs if this case is to
3 provide, as intended, a financial incentive for local postal managers to install new
4 box sections to meet demand. The appropriate incentive exists for local
5 managers only if the marginal revenues (at their facilities) exceed the marginal
6 costs of expansion (at their facilities). Their cost estimates of expanding post
7 office box service are based on current real estate market costs, unlike CRA
8 costs which rely on depreciated book costs that are (on average) 25 percent
9 lower. I conclude that in order to provide the appropriate incentive to local
10 managers, the Commission should take this difference into account in pricing
11 box fees.

12 Section V presents recent data on growth in the market for Commercial
13 Mail Receiving Agents (CMRAs). The current annual growth rate is estimated at
14 over 40 percent, indicating that this market is not in equilibrium. Since witness
15 Sherman's estimation of CMRA costs presumes a market in equilibrium, that
16 estimation is not valid.

1 II. MEASURES OF CAPACITY UTILIZATION

2 Many industries rely on the concept of "capacity utilization" to measure
3 shortages and surpluses. Generally speaking, this ratio is defined with used
4 capacity in the numerator and installed capacity in the denominator. In the
5 context of post office boxes, capacity utilization is defined as the ratio of boxes in
6 use to installed boxes.

7 It is important, however, to distinguish "available capacity" from "installed
8 capacity", since some of the latter may be unavailable. As a result, an enterprise
9 may be operating at "full capacity" when most, but not all, installed capacity is in
10 use. Inconsistencies in the pattern of supply and demand are almost inevitable
11 in geographically distributed industries (such as the Postal Service). In the
12 airline industry, for example, capacity utilization is referred to as "load factor" and
13 measured in fractional terms; a load factor of more than .75 is generally
14 considered to mean very crowded airplanes. In this industry, some capacity is
15 unavailable to meet demand because the geographic pattern of demand is
16 different from the distribution of aircraft and because of aircraft in transition,
17 among other things. The same is true in the railroad industry, where capacity
18 utilization is measured separately for freight cars and locomotives.

19 An example that more closely resembles post office boxes is the housing
20 industry, where vacancy rates greater than zero can nonetheless be considered
21 "full occupancy". Housing stock may be unavailable due to tenants in transition
22 or housing units under repair. A more familiar example is the national
23 unemployment rate where, for example, six percent unemployed may

1 nonetheless constitute "full employment".¹ Similarly, as elaborated upon below,
2 all installed post office boxes are not typically available for use so that "full
3 capacity" is generally reached when less than 100 percent of installed boxes are
4 actually in use.

5 With five different box sizes in five different delivery groups in post offices
6 all across the country, there are many potential measures of post office box
7 capacity. Useful measures of capacity can be developed by box size (or
8 combinations thereof), by facility (or groups thereof), by delivery group, or by
9 geographic area. Each of these may be informative, depending, in part, on the
10 aspect of capacity that is being examined.

11 Two such measures have been presented in this proceeding. First, there
12 is the 38 percent number presented in Table 6 of my testimony (USPS-T-4 at 9).
13 Second, there is the 5 percent number presented by witness Callow (Tr. 5/1531).
14 Both numbers are correct measurements of different aspects of capacity
15 constraint.²

16 The first measure (38 percent) is the percentage of facilities that have a
17 "capacity constraint" in any box size or, equivalently, in "at least one box size"
18 (USPS-T-4 at 9). If a facility has such a capacity constraint, and a customer
19 wants one of the box sizes that are "sold out", there are three possibilities: (1)

¹ Foster Associates, Foster Forecast, December 1, 1996, Bethesda MD, a copy of which is included in LR-SSR-160.

² All estimates of capacity constraints in this testimony and in my direct testimony, as well as that of witness Callow, are derived from the Post Office Box Study described in USPS-T-4. As such, only boxes in Delivery Groups I-A, I-B, I-C and II are considered. Capacity utilization for all box sizes is presented in LR-SSR-157.

PML

1 the customer will go elsewhere, (2) the customer will pay more than planned, or
2 (3) the customer will settle for a smaller box than needed. In each case, there is
3 likely to be a dissatisfied customer. For an organization such as the Postal
4 Service that focuses on customer satisfaction, avoidance of customer
5 dissatisfaction is important. As shown (and precisely defined) on page 9 of
6 USPS-T-4, a capacity constraint in at least one box size exists in 38 percent of
7 all Group I and Group II offices.

8 The second measure (5 percent) is defined as the percentage of facilities
9 where 100 percent of installed boxes are in use (Tr. 5/1531). It is clearly useful
10 to know the number of facilities for which boxes are completely "sold out".

11 In developing this 5 percent number, witness Callow was careful to
12 account correctly for those facilities offering fewer than five box sizes.
13 Nevertheless, this measure fails to quantify adequately the number of offices
14 facing capacity constraints since it confuses "boxes installed" with "boxes
15 available", a confusion first introduced at page 12 of witness Callow's testimony
16 (Tr. 5/1531).

17 For individual post offices, the number of available boxes is normally less
18 than the number of boxes installed. On a nationwide basis, having all installed
19 boxes in use is a virtual impossibility. Reasons for this include: (1) occasional
20 need for repairs to boxes, box sections, or buildings; (2) misalignment of box size
21 supply available at some offices with local demand at established fees; (3)
22 shortages in some fast-growing and high-cost markets and surpluses in markets
23 with population or economic decline; (4) administrative time required to close out

accounts and make released boxes available for use; and (5) miscellaneous delays, such as keys lost by customers who have moved. Thus, any complete picture of capacity constraints should include offices where the number of boxes in use approaches, but does not reach, the number installed.

Table 1 on the next page summarizes the actual numbers of boxes in different capacity utilization ranges by box size. The right column shows the percentage of total boxes, both installed and in use, in each range. As the table shows, 37 percent of installed boxes are in facilities in which over 90 percent of boxes are in use; 35 percent of total installed boxes are in use in these facilities.

It is interesting to note that, in each of the top three categories, utilization for size 1 boxes is well above the average for all box sizes in that capacity utilization range, whereas utilization for the other sizes is less than (or equal to) the overall average (again in the same range). This indicates that most capacity constraints occur in box size 1. This is also true when all utilization ranges are considered.

Table 1: Actual Capacity Utilization by Box Size and Range

Capacity Utilization Range	Box Size	1	2	3	4	5	Total	Percent of Total
90-100%	Installed	3,305,432	1,425,447	442,497	77,082	13,816	5,264,274	37 percent
	In Use	3,222,451	1,364,783	399,557	64,069	11,148	5,062,008	35%
	Ratio	97%	96%	90%	83%	81%	96%	
80-90%	Installed	1,936,529	860,209	273,536	47,642	9,492	3,127,408	22%
	In Use	1,723,153	700,488	204,931	31,929	6,217	2,666,718	19%
	Ratio	89%	81%	75%	67%	65%	85%	
70-80%	Installed	1,346,051	618,716	187,743	32,478	5,872	2,190,860	15%
	In Use	1,077,194	428,563	123,212	18,383	3,260	1,650,612	12%
	Ratio	80%	69%	66%	57%	56%	75%	
<70%	Installed	2,258,735	1,046,306	322,015	57,718	22,982	3,707,756	26%
	In Use	1,269,438	490,734	152,774	22,154	5,498	1,940,598	14%
	Ratio	56%	47%	47%	38%	24%	52%	
All	Installed	8,846,747	3,950,678	1,225,791	214,920	52,162	14,290,298	100%
	In Use	7,292,236	2,984,568	880,474	136,535	26,123	11,319,936	79%
	Ratio	82%	76%	72%	64%	50%	79%	

We have no direct measure of the percent utilization that represents full capacity for post office boxes, but we can test the sensitivity of this measure of capacity parametrically by defining full capacity at different values of the ratio of boxes in use to installed boxes. This is done in Table 2 below for values of the utilization ratio from 100 percent (as in witness Callow's testimony) to 85 percent.

Table 2. Cumulative Number of Post Offices At Capacity - All Sizes				
Full Capacity Utilization Rate	Number of Offices	Percentage of Offices	Number of Boxes at these Facilities	Percentage of All Boxes
100 %	1,332	5.2 %	713,311	5.0 %
> 98 %	3,051	11.9 %	1,972,782	13.8 %
> 95%	5,077	19.8 %	3,336,169	23.4 %
> 90 %	7,989	31.2 %	5,264,274	36.8 %
> 85 %	10,770	42.1 %	6,939,693	48.6 %

In this table, the left-hand column shows different levels of capacity utilization that can be defined as full capacity. The next two columns show respectively the cumulative number and cumulative percentage of offices that are at that level of utilization, and thus "at capacity". No distinction is made here among box sizes: capacity utilization is simply the total number of boxes in use at a particular office divided by the number of boxes installed at that office. For example, if full capacity is defined as 98 percent of boxes installed, then on average 2 percent of boxes are unavailable for one reason or another. With this definition, the table shows that almost 12 percent of the facilities in Groups I and

11 are capacity constrained. Similarly, if full capacity is defined at the 95 percent level -- 5 percent of boxes unavailable on average -- then almost 20 percent of facilities in these two groups are effectively sold out.

The last two columns show respectively the cumulative number and cumulative percentage of boxes at these same facilities. As the table indicates, those facilities at capacity generally have a disproportionately large number of the installed boxes. With full capacity defined as 98 percent utilization, the 12 percent of offices at capacity have 13.8 percent of all installed boxes. At the 95 percent level, the 19.8 percent of offices at capacity have 23.4 percent of all boxes installed.

Box size 1 is the most prevalent and most popular of the five different sizes. Table 3 below is comparable to Table 2, except that it focuses exclusively on size 1 boxes.

Table 3. Cumulative Number of Post Offices At Capacity - Size 1				
Full Capacity Utilization Rate	Number of Offices	Percentage of Offices	Number of Boxes at these Facilities	Percentage of All Boxes
100 %	2,524	9.9 %	874,840	9.9 %
> 98 %	5,142	20.1 %	2,141,881	24.2 %
> 95%	7,677	30.0 %	3,170,171	35.8 %
> 90 %	10,582	41.4 %	4,339,967	49.1 %
> 85 %	12,901	50.4 %	5,218,486	59.0 %

1 At the 98 percent level, over 20 percent of post offices are at capacity for
2 box size 1. At the 95 percent level, almost one-third of all Group I and Group II
3 offices are at capacity. Again, these are the larger offices, with a
4 disproportionate number of the boxes installed.

5 Thus, the single measure of capacity that witness Callow relies upon
6 overstates the inventory of boxes available for use by assuming that 100 percent
7 utilization is universally possible. The extent of this overstatement can be judged
8 by noting the increases in the number of facilities at full capacity if the definition
9 of full capacity is set at more realistic (but still relatively high) levels, such as 98
10 percent or 95 percent. In conclusion, these data show that there are many
11 localities where consumer demand for boxes is not being met due to capacity
12 constraints.

1 III. COST COVERAGE AT OCA-PROPOSED FEES

2 In his testimony, witness Callow presents on behalf of the OCA a
3 proposed set of fees for post office boxes that he estimates will result in a cost
4 coverage of 101 percent for this service (Tr. 5/1542). Of course, this level of
5 cost coverage implies that boxholders would not make a significant contribution
6 to institutional costs. Of more concern here, however, is the likelihood that the
7 OCA-proposed schedule of fees, if adopted, would actually result in a cost
8 coverage of less than 100 percent, meaning that boxholders would be
9 subsidized by other postal customers, and the requirement that each service
10 cover its attributable costs would be violated.

11 Witness Callow's analysis rests upon a critical assumption: that the
12 elasticity of new boxholders, who would be attracted by proposed lower fees, is
13 identical to the elasticity of existing boxholders. The latter elasticity was derived
14 from an estimate of how existing boxholders would react to a fee increase. This
15 study was done explicitly for this proceeding, as reported by witness Lyons
16 (USPS-T-1, WP C at 2). Prospective boxholders attracted by a fee decrease
17 were not included in this study. In effect, witness Callow assumes that the
18 accept rate for prospective customers who are not now using post office box
19 service is the same as the reject rate for existing customers.

20 Witness Callow explained that this boxholder elasticity was the only
21 information he had, so he used it (Tr. 5/1617). While his use of the best
22 available data may be laudable, in this instance he applied a measure derived
23 from one population to another population, which -- logic would suggest -- differs

1 on the parameter measured. We know that (1) existing customers and (2)
2 possible new customers are distinct with respect to their propensity to use post
3 office boxes; customers have indicated their interest in post office box service by
4 obtaining boxes, while non-customers have indicated their lack of interest by not
5 obtaining boxes. A more realistic approach would be to assume that non-
6 customers have a lower rate of response to fee changes than would existing
7 customers.

8 The reason that the demand for post office boxes may well be
9 asymmetrical is that, as witness Callow concedes, these two groups "start at a
10 different place" [sic] (Tr. 5/1614). For most customers, the decision to use a post
11 office box is a binary decision; you either have one or you don't. It is, in this
12 sense, different from a commodity, such as First-Class Mail, which can be
13 purchased in greater or lesser amounts. Because of the relatively low fees for
14 post office boxes, the decision to obtain box service is not driven primarily by
15 price, but by specific needs and by convenience. This is corroborated by the fact
16 that so many people are willing to pay much higher fees for CMRA boxes.

17 A second factor contributing to the asymmetrical demand is that box
18 shortages occur at some locations, as shown in the previous section of this
19 testimony. Even if some new customers were attracted by a fee decrease from
20 \$40 to \$32 annually (as proposed by witness Callow for size 1 boxes in Delivery
21 Group I-C), the boxes may not be available where needed. While existing
22 customers choosing to stop box service may implement that decision through
23 inaction (failure to renew service), new customers must affirmatively follow

1 through to obtain service. The necessary follow-through could become
2 logistically more difficult if the location chosen for new box service faces a
3 capacity constraint in the box size desired. In contrast, when fees are increased
4 and some existing customers decline, their places may be taken by those on
5 waiting lists willing to pay the higher fee.³

6 Lacking specific data on prospective customers, the analysis below varies
7 the elasticity for this group parametrically. The assumption used by witness
8 Callow -- that the elasticity for fee decreases is identical to that for fee increases
9 -- can be considered an optimistic upper bound. The actual cost coverage that
10 would result were his proposal implemented would almost certainly be less. A
11 lower bound to the cost coverage that would result can be determined by
12 assuming that the rate decreases would not attract any new customers (no new
13 boxes). In addition to these two limiting cases, a mid-range value for the
14 elasticity of acceptance, exactly halfway between the two extremes, has been
15 analyzed.

16 For purposes of this analysis, there are three categories of boxholders:

17 (1) Delivery Group II and Size 5 boxes in Delivery Group I

18 (2) Size 4 boxes in Delivery Group I.

19 (3) Remainder of Delivery Group I.

20 For the first category, the recommended fees are higher for both Postal
21 Service and OCA proposals. The elasticities developed by witness Lyons apply

³ Witness Callow suggests that new customers attracted by a fee decrease may come from waiting lists. (Tr. 5/1609). However, lowering fees will not create new boxes. Rather, it would likely inhibit needed expansion, as shown in Section IV below.

1 to this category of customers, and the estimated decrease in the number of
2 boxholders is the same for both proposals.

3 For the third category, the OCA has recommended fee decreases. There
4 may be new customers attracted by the reduced fees. The elasticity of
5 acceptance of these prospective customers was varied in this analysis as
6 described below.

7 The second category can be handled as part of either of the other two.
8 The OCA-proposed fees do not change from current fees, and therefore the
9 numbers of boxholders do not change.

10 The issue in this analysis is how many new customers would likely decide
11 to use post office boxes based on the OCA-proposed fee decreases. To
12 estimate the sensitivity of the cost coverage to this critical parameter, the
13 acceptance rate was varied for category 3 above. Three separate cases are
14 defined as follows:

- 15 1. Upper bound: OCA elasticities used.
- 16 2. Lower bound: Elasticities set to zero. (No new boxes).
- 17 3. Mid-range: Mid-point elasticities used.

18 The results are shown in Table 4 on the next page.⁴

⁴ The spreadsheets on which Table 4 is based were derived from OCA-LR-3 (revised November 5, 1996), and are included in LR-SSR-158.

Table 4. TYAR Cost Coverage as a Function of the Elasticity of Acceptance (dollars in thousands)			
	Upper Bound (OCA Proposal)	Mid-Range	Lower Bound (No New Boxes)
TYAR Revenue	\$535,303	\$516,728	\$498,154
TYAR Cost	\$529,832	\$527,143	\$524,455
Contribution	\$ 5,472	(\$10,415)	(\$26,301)
Cost Coverage	101 %	98 %	95 %

1
2 The table shows that, as the elasticity of acceptance declines, both
3 revenues and costs decline, but revenues do so at a greater rate -- resulting in
4 declining contribution and cost coverage. In all likelihood, new customers would
5 be attracted at a lower rate than existing customers and, hence, adoption of the
6 OCA proposal is likely to result in a negative contribution and a cost coverage of
7 less than 100 percent.

IV. ACTUAL COSTS OF EXPANDING POST OFFICE BOX SERVICE

The Commission requires that book costs of space provision be used in the calculation of attributable costs. Attributable space provision costs are "capped", or cannot exceed, book costs. See Docket No. R76-1, PRC Op., App. J at 177-187 and Docket No. R90-1, PRC Op. at III-102. If attributable space provision costs were based on market rental rates without capping, they would be \$1.413 billion for the Postal Service as a whole. LR-SSR-100, page II-1, item 14. However, these costs are capped at book costs of \$1.128 billion in witness Patelunas' testimony. LR-SSR-100, page II-1, item 10. Attributable space provision costs are thus below the level that would obtain if market rental rates were used.

Nonetheless, there is a real cost/revenue trade-off that postal managers must address when evaluating whether to expand post office box service to meet new customer demand. When justifying the expansion of post office box sections, local postal managers base their decisions on a comparison of the costs of expansion with the expected additional revenues. Thus, if this proceeding is to produce an incentive for these local managers to expand their box sections to meet new demand, consideration of market-based costs for space provision is essential in setting the prices for those boxes.

Attributable space provision costs for FY96 are 79.8 percent of the market rental rate ($\$1.128 / \$1.413 = .798$). This translates into a 25 percent premium for market-based space costs. This premium applies to each category of space provision costs, such as post office boxes. Applying this factor to the FY96

space provision cost of \$186 million developed by witness Callow (OCA-LR-3, revised November 5),⁵ produces an estimate of \$233 million for attributable market-based space provision costs for that year.

Substituting \$233 million for \$186 million for total space provision costs in the standard spreadsheets (developed in this proceeding by OCA and adapted by the USPS) allows one to compare the difference in cost coverage for post office boxes using market and book costs. The results are shown in Table 5 for the test year before rates (TYBR).⁶

Table 5. TYBR Cost Coverage Market vs. Book Space Provision Costs (dollars in thousands)		
	Book Costs	Market Costs
Revenue	\$528,536	\$528,536
Cost	\$529,374	\$576,366
Contribution	(\$838)	(\$47,830)
Cost Coverage	100 %	92 %

Table 5 shows that using market-based space provision costs drops the post office box cost coverage before rates by 8 percentage points -- from 100

⁵ In developing this number, witness Callow used the procedures outlined in my testimony for space provision costs. However, in FY95, the Postal Service changed its cost methodology. As a result Cost Segment 20 should be adjusted to take out equipment interest (and add it to All Other costs). This correction is small and has no effect on the significant digits in this analysis. Details on this adjustment are presented in LR-SSR-159.

⁶ Supporting documentation appears in LR-SSR-159.

1 percent to 92 percent. For any of the other fee proposals, the result would be
2 about the same: a drop of about 8 percentage points in the cost coverage.⁷

3 Of course, the imputed cost coverage calculated in this way is a system-
4 wide average. Where space costs are relatively higher, the local cost coverage
5 will be even lower. It is just those areas that are most likely to need new post
6 office boxes.

7 A postal manager facing the decision to expand post office box service
8 thus has a far higher hurdle to overcome in justifying expansion than that implied
9 by traditional cost coverages based on depreciated book costs. Decisions to
10 expand box service are usually initiated by local postal officials. The revenues
11 and costs are reflected in the budget of local managers, and ultimately in how
12 their performance is evaluated.

13 Thus if projected revenues fall short of actual costs, a rational manager
14 would choose not to invest. Even if revenues exceed costs, the return must be
15 sufficient compared with alternative investments.

16 The bottom line is that, unless revenues are sufficiently above actual
17 costs, which include market rental costs, expansion of the numbers of post office
18 boxes to meet new demand will be adversely affected. This would be
19 unfortunate because, as a comparison with CMRA prices shows, post office
20 boxes are underpriced and could readily bear a greater portion of institutional

⁷ Space provision costs for FY96 are about 35% of total costs attributable to post office boxes. Applying the 25% market premium, yields an estimated overall cost increase of 8.8% ($.25 * .35$). Since revenues remain constant, the cost coverage changes by a factor of $.92 = 1 / 1.088$.

- 1 costs. This aspect of postal costing should be kept in mind in determining the
- 2 appropriate CRA-based cost coverage for post office box service.

1 V. CMRA MARKET GROWTH

2 On cross-examination, witness Sherman surmised that CMRA costs of
3 providing box service are higher than those of the Postal Service based on the
4 higher prices that CMRAs charge their customers (Tr. 7/2433-35). He also
5 agreed that such a conclusion is possible only when the relevant market is "in
6 long-run equilibrium" (Tr. 7/2434).

7 Based on information gathered during this proceeding, the CMRA market
8 has not yet reached equilibrium. In an interview on October 11, 1996, a
9 representative of the Associated Mail and Parcel Centers (AMPC) of Napa,
10 California - the trade association for CMRAs - defined its membership as
11 operations "like Mail Boxes, Etc.", although they tend to be "independents".
12 (Bulk mailers and vendors are not included.) According to the AMPC
13 representative, AMPC at that time had about 9,000 CMRAs on its mailing list. In
14 a statement before the House Subcommittee on the Postal Service in
15 September, 1996, the president of AMPC estimated the industry total was "over
16 10,000 mail and parcel centers nationwide".⁸ In a 1994 circular, AMPC reported
17 a total of 5,000 CMRAs.⁹

18 As of December 31, 1992 the Census of Service Industries, published by
19 the United States Department of Commerce, reported that there were 2,514

⁸ Statement of Charmaine Fennie, before the House Subcommittee on the Postal Service, September 26, 1996. Supporting materials cited in this section are provided in LR-SSR-160.

⁹ AMPC, Membership Benefits, October, 1994, Napa, California.

1 CMRAs nationwide.¹⁰ The Economic Census provides a detailed portrait of the
2 U.S. economy every five years. In 1987, data for "private mail centers" were
3 aggregated in a miscellaneous category and thus are not available.¹¹

4 An entity that doubles in two years is growing at an annual rate of 41.4
5 percent. These data suggest that the number of CMRAs doubled between 1992
6 and 1994, and again between 1994 and 1996.

7 Thus, taken together, the data portray an explosive growth rate for
8 CMRAs, in excess of 40 percent per year over the past four years. Even
9 allowing for the definitional differences in data between the Department of
10 Commerce and the industry trade association, it seems clear that this is not a
11 market "in long-run equilibrium".

¹⁰ Bureau of the Census, Data User Services Division, 1992 Economic Census CD-ROM Report Series, Washington, DC . A copy of this reference is available in the library at Postal Service headquarters.

¹¹ Private mail centers are defined by the Census Bureau as establishments engaged primarily in providing mailboxes and other postal and mail services.

1 COMMISSIONER QUICK: The Office of Consumer
2 Advocate requested oral cross examination of witness Lion --
3 I'm sorry is that --

4 THE WITNESS: Lion.

5 COMMISSIONER QUICK: Lion -- trying to be Frenchy
6 here, I guess.

7 Does any other participant have any oral cross
8 examination for witness Lion?

9 [No response.]

10 COMMISSIONER QUICK: Ms. Dreifuss, you may begin.

11 MS. DREIFUSS: Thank you, Commissioner Quick.

12 CROSS EXAMINATION

13 BY MS. DREIFUSS:

14 Q Thank you, Commissioner Quick. Good afternoon.

15 A Good afternoon.

16 Q Could you turn to page 3 of your rebuttal
17 testimony, please.

18 A Yes.

19 Q I apologize. I got started at the wrong place.

20 Could you refer to page 5 of your rebuttal
21 testimony, lines 14 through 16.

22 A Yes.

23 Q In that part of your testimony you state that
24 witness Callow's measure -- I believe that is the measure
25 you are talking about in line 13, is that right?

1 A Yes.

2 Q So we could say witness Callow's measure instead
3 of this measure, "fails to quantify adequately the number of
4 offices facing capacity constraints since it confuses boxes
5 installed with boxes available." Is that a correct
6 statement?

7 A Yes.

8 Q Generally speaking, in your testimony, in this --
9 I believe we are in Section 2 of your testimony at this
10 point --

11 A Yes.

12 Q Okay. In this section of your testimony when you
13 use the terms "boxes available" or "available boxes" are you
14 referring to a number of boxes close to but a little less
15 than the number of boxes installed at a post office?

16 A Yes. Some boxes are unavailable for various
17 reasons that are outlined in the testimony.

18 Q Okay, and let's explore that with a hypothetical.
19 Assume that 100 boxes in a given facility are
20 installed. Two percent of them are not in rentable
21 condition and 60 are rented.

22 A Sixty?

23 Q Sixty boxes are rented. Do you have those figures
24 in mind?

25 A Yes.

1 Q Then would you say that there are 98 boxes
2 available at the office?

3 A Yes.

4 Q And two boxes would be unavailable; is that
5 correct?

6 A Yes.

7 Q Is it your understanding that Witness Callow would
8 say that there are 40 boxes available for rent? That is,
9 you start out with 100 boxes installed, 60 are rented and is
10 it your view that Witness Callow would say that 40 boxes are
11 available for rent?

12 A I'm not sure what Witness Callow would say. I
13 think he confused "installed" with "available." In my
14 testimony, I never used the word "available" boxes.

15 Q Do you have --

16 A That is to say, that's in my direct testimony I
17 was referring to there.

18 Q You never used the term?

19 A "Available boxes."

20 Q -- "available boxes" in your direct testimony?

21 A I don't think so, no.

22 Q Did you ever use the term "boxes available" in
23 your direct testimony?

24 A I -- I'm not sure.

25 Q Do you see a difference between "boxes available"

1 and "available boxes"?

2 A No. I did not use the term -- I do not think I
3 used the term "boxes available."

4 Q Do you have a copy of your direct testimony with
5 you today?

6 A I have it over there.

7 Q I wonder if you could get that copy? There are
8 going to be a number of questions comparing your rebuttal
9 testimony with your direct testimony.

10 Thank you.

11 Could you turn to Table 9A of your direct
12 testimony? That's at page 14 of USPS-T-4.

13 A Page?

14 Q Page 14, your Table 9A.

15 A 14. Yes, I see your point.

16 Q So you would agree that in Table 9A, in the fourth
17 column from the left, you use the phrase "boxes available;"
18 is that correct?

19 A That's right. I would guess I would correct my
20 original statement to mean when we were talking about
21 capacity. It's in the table, yes.

22 Q Right. So in your direct testimony, you did use
23 the term "boxes available"?

24 A I did use the term "boxes available," yes. In a
25 different context than what I was referring to but it's

1 still there.

2 Q Okay, now, let's look at page 13 of your direct
3 testimony. That's the page just before Table 9A, at lines 7
4 through 8. Now, at these lines, you are describing what one
5 would find in Table 9A; is that correct? And let me read
6 what you say there.

7 Table 9A -- I'm sorry. I am going to go a little
8 further back on page 13. We --

9 MR. HOLLIES: The Postal Service would ask that
10 counsel ask single questions and permit their being answered
11 before she proceed.

12 MS. DREIFUSS: I am not under the impression that
13 I am doing otherwise. Commissioner Quick, do you find that
14 I am preventing the witness from answering the questions I
15 pose?

16 COMMISSIONER QUICK: No, go ahead. And just be as
17 clear as you can in your predicates and things like that,
18 okay?

19 MS. DREIFUSS: Yes, sir.

20 BY MS. DREIFUSS:

21 Q Let's start back a little further than I
22 originally stated. On page 13, starting with line 5, you
23 state:

24 Tables 9A and 9B on the next page show the data in
25 terms of the numbers of Postal facilities and the

1 corresponding percentages respectively. Those facilities
2 facing alternative providers and that have unused boxes are
3 also indicated.

4 Is that a correct quote from that page?

5 A Yes.

6 Q In the way that you have used the term boxes
7 available in column 4 of Table 9-A, did you mean in that
8 column boxes installed but not rented?

9 A It's been a while, I have to think about this a
10 minute. I think it means facilities with less than 100
11 percent rented.

12 Q So in column 4, you're talking about facilities
13 that have boxes installed but not rented, is that correct?

14 A Some boxes not rented, yes.

15 Q Does column 4 distinguish a number for boxes
16 installed and boxes rentable?

17 A No.

18 Q Okay, let's look at the way you were defining
19 these columns in Table 9-A. For purposes of Table 9-A, if a
20 facility faced alternative providers and had 96 rented boxes
21 out of 100 installed boxes, what would be tabulated in the
22 fourth column of Table 9-A?

23 A Would you review that, please?

24 Q Sure. If a facility -- well, I'll pick up the
25 terminology of column 4. If a facility faced CMRAs and had

1 96 rented boxes out of 100 installed boxes, what would be
2 tabulated in the fourth column of Table 9-A?

3 A That would be counted as one of the facilities
4 with boxes available.

5 Q What if 97 boxes were rented?

6 A Out of 100?

7 Q I'm sorry?

8 A Out of 100?

9 Q Yes, out of 100?

10 A Again.

11 Q Could you repeat your answer?

12 A It would be counted as one of those facilities.

13 Q Okay. What if all 100 boxes were rented?

14 A It would not be counted.

15 Q So, for purposes of Table 9-A, only facilities
16 with installed boxes that are not rented are defined as
17 having boxes available, is that right?

18 A Installed boxes -- I'm sorry.

19 Q For purposes of Table 9-A, facilities that had
20 installed boxes that are not rented have boxes available.
21 That's what you're reporting in column 4, isn't that
22 correct?

23 A That's right, yes.

24 Q If 100 out of 100 boxes are rented, then none are
25 available, right?

1 A That's right.

2 Q Let's turn to page three of your rebuttal
3 testimony, please. We'll come back to the direct testimony
4 but for right now, rebuttal testimony, page three.

5 A Okay.

6 Q Beginning at line three, you state, "Generally
7 speaking, this ratio is defined with use capacity in the
8 numerator and installed capacity in the denominator," is
9 that correct?

10 A Yes.

11 Q And you're referring to the concept of capacity
12 utilization in the previous sentence, is that correct?

13 A Yes.

14 Q Now we're going to go back to your direct
15 testimony, page eight. You describe your Table 5 as showing
16 post office boxes in use as a percentage of boxes installed,
17 is that correct?

18 A Yes.

19 Q Did Table 5 give a capacity utilization figure of
20 boxes in use and installed capacity was in the denominator?

21 A Yes, you could call that capacity utilization.

22 Q Now, let's look at your Table 6. You gave a
23 number of facilities reporting all boxes of a given size in
24 use; that's what Table 6 does, is that correct?

25 A Yes.

1 Q At lines one and two of this page, page nine, you
2 describe Table 6 as showing the number of facilities
3 reporting that all installed boxes are in use for a
4 particular size indicating a capacity constraint for that
5 size?

6 A Yes.

7 Q And in Table 6, you were expressing capacity
8 constraint by facility, right?

9 A Yes.

10 Q And this was accomplished by comparing boxes used
11 with percent of boxes installed; is that correct?

12 A Yes.

13 Q Look at Table 7 of your direct testimony. There
14 you describe another measure of capacity constraint as the
15 number of boxes in use equal the number of boxes installed;
16 is that correct?

17 A Yes.

18 Q Was there anyplace in your direct testimony that
19 you cautioned the participants or the Commission that the
20 number of available boxes is normally less than the number
21 of boxes installed?

22 A No, I didn't mention that in my direct testimony.

23 Q And, in fact, Witness Callow -- Witness Callow's
24 measures of capacity constraint were calculated using boxes
25 installed in the denominator just as you did in your direct

1 testimony; is that correct?

2 A Yes, I have no problem with his measure. It is
3 one of many measures. There are different ways of looking
4 at the problem.

5 Q All right, let's turn now to your rebuttal
6 testimony at pages 5 through 6. There, you present some
7 reasons for the number of available boxes being less than
8 the number installed; is that correct?

9 A Yes, yes.

10 Q The first reason you give is occasional need to --
11 for repairs to boxes, box sections or buildings; is that
12 correct?

13 A Yes.

14 Q What kinds of repairs are routinely needed to
15 boxes?

16 A I'm not sure.

17 Q Do you know the percentage of boxes that need such
18 repairs?

19 A No, but I would bet it was greater than zero.

20 Q But you don't know how much greater than zero?

21 A I don't know how much greater than zero.

22 Q I imagine then you wouldn't know what -- what
23 number of broken boxes are found in offices that have
24 waiting lists for that box size, would you? Do you know
25 that?

1 A No, no.

2 Q Do you know what proportion of boxes are
3 unavailable for use due to repairs to the building in which
4 they are located?

5 A No.

6 We tried to collect data on this in the survey but
7 it was unreliable. Apparently the question was ambiguous
8 although I didn't think so when we sent it out. But the
9 data were not reliable.

10 Q Okay, do you know what proportion of boxes are
11 unavailable for use due to repairs to box sections?

12 A No. Again, greater than zero.

13 Q When there is a repair to the box section, what
14 happens to the mail of the boxholders?

15 A I don't know.

16 Q Do you know for repairs to box sections or repairs
17 to buildings whether those are -- to what extent those are
18 found in offices that have waiting lists for boxes?

19 A No, no.

20 Q Okay, now, let's turn to the second reason you
21 give at page 5. Another reason that boxes may be
22 unavailable is misalignment of box size supply available at
23 some offices with local demand at established fees.

24 A That's right.

25 Q What do you mean by "misalignment"?

1 A Well, you're taking an average here, in some of
2 these cases the entire United States, and there is something
3 like ^{30,000}~~37,000~~ facilities with so many boxes. Some places, the
4 demand is greater, some places the supply is greater. I
5 understand there's a number of empty boxes, for example,
6 available out at the Brentwood Avenue facility. So it is a
7 mismatch -- the supply and the demand don't match up
8 exactly.

9 Q Is that pretty much the same as your reason three?

10 A It's pretty much the same.

11 Q Do you know what proportion of installed boxes are
12 not available to be rented because of the misalignment
13 problem?

14 A No. I don't think it's possible to measure that.

15 Q In --

16 A But it's greater than zero.

17 Q Do you know how much greater than zero?

18 A No.

19 Q For reason three, you say there are shortages in
20 some fast-growing and high-cost markets and surpluses in
21 markets with population or economic decline. How can a
22 surplus of boxes cause a capacity constraint?

23 A A surplus wouldn't cause a capacity constraint but
24 when you're taking your measure, 100 percent, 98 percent
25 rented or whatever, the ones in the surplus there get

1 counted in so that's why you have to drop it below 100
2 percent in order to allow for the fact people are demanding
3 boxes in places where they aren't even though there are some
4 excess boxes in other places.

5 Q Well, surpluses would tend to make -- to make
6 availability possible in all situations, wouldn't it? To
7 the extent that boxes in a given size --

8 A No, you're talking about a measure. We're talking
9 about, in this section, measures of capacity and my argument
10 is that not 100 percent is the appropriate measure but
11 something less and I use 98, 95. The reason you use 98, or
12 95, is because in that average you have lumped in,
13 ~~unn~~necessarily, all those boxes which are where they are not
14 needed and therefore you take -- it's less than 100 percent.

15 At 98 percent, somewhere you are turning away
16 customers. Because they aren't where, if you could take and
17 move them from Brentwood down to the Washington post office,
18 that would be one thing, but you can't, so it has to be --
19 that's why you have to use a measure of less than 100
20 percent in order to understand the capacity problem.

21 Q In a facility that has a surplus of boxes
22 available, the capacity constraint is irrelevant, isn't it?
23 You are not going to run into that problem?

24 A Sure, it's irrelevant in that facility but that
25 facility is included in the averages.

1 For example, you have a facility in which you have
2 60 percent of the boxes are rented and then there's -- I've
3 started on this thought, I hope I can finish it -- but all
4 the Size 1 boxes are rented. People want the Size 1 boxes
5 and they are not happy with the larger boxes.

6 You have a capacity constraint. You are turning
7 away customers probably or else they are dissatisfied
8 because they have to buy a more expensive box. Still, your
9 measure tells you 60 percent, so at 98 percent that's
10 getting pretty tight.

11 Q Okay. In your example you hypothesize that Box
12 Size 1 there was a shortage.

13 A Yes.

14 Q And I think you further hypothesize that there be
15 a fairly sizeable surplus of Box Sizes 2, 3, 4 and 5, is
16 that correct?

17 A I didn't say anything about that, but the larger
18 boxes probably, yes.

19 Q Okay. Well, let's hypothesize a facility where --

20 A Let's say they are all Box Size 5 that's left.
21 Everything else is gone. You may have -- you just have an
22 excess of the wrong inventory. You have excess of Box 5 and
23 customers who want the smaller boxes are being turned away
24 or being dissatisfied, and for an organization that wants to
25 satisfy its customers, that's a concern.

1 It is not an absolute limit. It's a constraint
2 though, and that is a problem.

3 Q Let's go back to your hypothetical where there was
4 a shortage of Box Sizes 1 and let's further assume that
5 there is a fairly large surplus of the other size boxes.

6 A Okay.

7 Q To the extent that there is a fairly sizeable
8 surplus, there's no capacity constraint problem there,
9 right, assuming that --

10 A There certainly is a capacity constraint problem
11 for the customer who wants Size 1 and doesn't want to pay
12 for Size 2.

13 Q Is there any capacity constraint --

14 A That is a constraint. It means you can't do
15 everything you want.

16 Q Is there any capacity constraint problem for
17 customers who want Box Sizes 2 through 5?

18 A Not for them, no.

19 On the other hand, if you are trying to satisfy
20 your customers, you are concerned about the people who are
21 not getting the service they want and that is why it is a
22 concern.

23 Q Right in the hypothetical you're concerned about
24 customers who want box size one but you need not suffer
25 great concern over box size customers two through five?

1 A That's right. That's why we call it a constraint.

2 Q Do you know what proportion of installed boxes are
3 unavailable due to a shortage of boxes?

4 A No.

5 Q The fourth reason you give for boxes being
6 unavailable is administrative time required to close out
7 accounts and make release boxes available for use, is that
8 correct?

9 A Yes.

10 Q Are there any postal regulations that specify how
11 long a box must be kept on rented after a boxholder closes
12 out an account?

13 A I don't know.

14 Q Do you know what proportion of boxes are currently
15 unavailable due to the time required to close out accounts?

16 A No, we have no data on boxes unavailable.

17 Q Do you know the average length of time that a box
18 is held in this nonrentable status?

19 A No.

20 Q Is it your expectation that postmasters would
21 attempt to turn around boxes more quickly in high demand
22 areas than in low demand areas?

23 A I would think so, but I don't know.

24 Q The fifth reason you've given for boxes being
25 unavailable is miscellaneous delays such as keys lost by

1 customers who have moved, is that correct? That was the
2 fifth reason?

3 A Yes.

4 Q Isn't it correct that a replacement set of keys is
5 held at the post office?

6 A I don't know.

7 Q Do you know how long it takes to get a replacement
8 key?

9 A No.

10 Q Do you know whether it's standard policy to change
11 the locks on boxes after one customer has given it up and a
12 new one is about to rent it?

13 A No.

14 Q Do you know what proportion of installed post
15 office boxes are not available for rent because of a lost
16 key problem?

17 A No.

18 Q You spoke about miscellaneous delays such as keys
19 lost by customers. I gather since you used delays in the
20 plural, you had other things in mind. What would they be?

21 A No, I used miscellaneous because I just thought
22 there would be others.

23 Q Please refer to page eight, Table 2 of your
24 rebuttal testimony.

25 A Right.

1 Q This table shows that 1,332 offices or
2 approximately 5.2 percent have 100 percent of their
3 installed boxes rented, is that correct?

4 A Yes.

5 Q And in your initial testimony, you showed that
6 9,745 of the offices, which was approximately 38 percent,
7 have rented 100 percent of their installed boxes?

8 A No, 100 percent of at least one box size.

9 Q I'm sorry, of at least one of the installed box
10 sizes. I apologize.

11 If your rebuttal testimony is correct, that
12 generally the number of installed boxes is higher than the
13 number of boxes truly available for rent, then why do so
14 many facilities report that 100 percent of installed boxes
15 are in use?

16 A Because that's possible, yes. Why not?

17 Q Could you turn, please, to the top of page 8 of
18 your rebuttal testimony? You state: We have no direct
19 measure of the percent utilization that represents full
20 capacity for Post Office boxes. And then you continue from
21 there; is that correct?

22 A Right.

23 Q And then let's look at Table 1, Table 1 of your
24 rebuttal testimony.

25 Is the purpose of this table to show how many

1 offices would be at capacity at various hypothetical
2 definitions of what might constitute full capacity?

3 A No, the purpose of this table was just to show how
4 many are in different ranges of utilization.

5 Q You don't know what the correct number should be
6 for capacity --

7 A There is no correct number. You really need to
8 look at a range of numbers, not just one. In other words,
9 at 98 percent, if that's your definition of capacity, you
10 have certain number of constraints. At 95 percent, you have
11 a broader number of facilities facing constraints and I
12 think using all of those numbers leads to a better
13 understanding than just a single one because, obviously,
14 they can go over. Even if you define it at 98 percent, some
15 facilities are more than 98 percent.

16 Q The OCA provided the Postal Service with a cross-
17 examination exhibit last -- I guess at this point it was
18 last week, about the middle of last week. I'm losing track
19 of the dates. We identified it as OCA-XE-REBUT-1.

20 A Right.

21 Q Do you have a copy of that cross-examination
22 exhibit?

23 A Yes.

24 MS. DREIFUSS: And I believe Postal Service
25 counsel has a copy of that cross-examination exhibit.

1 I would like to give some copies to the
2 commissioners at this time.

3 MR. HOLLIES: There are also apparently copies on
4 the side table over here.

5 MS. DREIFUSS: Yes, thank you for pointing that
6 out. There are copies for any members of the audience who
7 would like to look at it.

8 BY MS. DREIFUSS:

9 Q Have you had a chance to review our Cross-
10 Examination Exhibit Number 1?

11 A Yes, it's my Table 2 with some extra lines. I
12 think it confirms what I said in my testimony.

13 MS. DREIFUSS: At this point, since Witness Lion
14 is familiar with this cross-examination exhibit and I think
15 he said that it was similar to his Table 2 --

16 THE WITNESS: Yes.

17 MS. DREIFUSS: I would move to have this
18 identified and transcribed at this time as OCA-XE-REBUT-1
19 and admitted into evidence.

20 COMMISSIONER QUICK: It will be admitted in the
21 evidence at this point.

22 [Cross-Examination Exhibit
23 OCA-XE-REBUT-1 was marked for
24 identification, received into
25 evidence and transcribed into the

1 record.]
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This exhibit modifies Table 2 of USPS-RT-3 to include additional capacity utilization levels. All figures are based on the SSR-157 SAS program, correcting for rounding error problems.

Cumulative Number of Post Offices At Capacity - All Sizes				
Full Capacity Utilization Rate	Number of Offices	Percentage of Offices	Number of Boxes	Percentage of All Boxes
= 100.00%	1332	5.2%	713311	5.0%
≥ 99.90%	1349	5.3%	738422	5.2%
≥ 99.50%	1709	6.7%	1031044	7.2%
≥ 99.00%	2204	8.6%	1384069	9.7%
≥ 98.00%	3056	11.9%	1974532	13.8%
≥ 95.00%	5106	20.0%	3343469	23.4%
≥ 90.00%	8018	31.3%	5269774	36.9%
≥ 85.00%	10794	42.2%	6946273	48.6%

3572

Output from the SAS program of Item 1, SSR-157 - (with rounding error corrected)

The SSR-157 BOXGROUP definitions are as follows:

BOXGROUP 1 refers to TOTUSE=100
BOXGROUP 2 refers to $100 > \text{TOTUSE} \geq 98$
BOXGROUP 3 refers to $98 > \text{TOTUSE} \geq 95$
BOXGROUP 4 refers to $95 > \text{TOTUSE} \geq 90$
BOXGROUP 5 refers to $90 > \text{TOTUSE} \geq 85$
BOXGROUP 6 refers to $85 > \text{TOTUSE}$

09:54 Tuesday, December 10, 1996 4

Analysis Variable : TOTINST

BOXGROUP	N Obs	Sum
1	1332	713311.00
2	1724	1261221.00
3	2050	1368937.00
4	2912	1926305.00
5	2776	1676499.00
6	14797	7344025.00

Modifications to the SAS program of Item 1, SSR-157.

Boxgroups are modified so that:

BOXGROUP 1 refers to TOTUSE=100
BOXGROUP 2 refers to $100 > \text{TOTUSE} \geq 99.9$
BOXGROUP 3 refers to $99.9 > \text{TOTUSE} \geq 99.5$
BOXGROUP 4 refers to $99.5 > \text{TOTUSE} \geq 99.0$
BOXGROUP 5 refers to $99.0 > \text{TOTUSE} \geq 98$
BOXGROUP 6 refers to $98 > \text{TOTUSE}$

SAS program lines that assign values to "boxgroup" are modified as follows:

```
boxgroup=6;  
if totuse eq 100 then boxgroup=1;  
if 100 gt totuse ge 99.9 then boxgroup=2;  
if 99.9 gt totuse ge 99.5 then boxgroup=3;  
if 99.5 gt totuse ge 99 then boxgroup=4;  
if 99 gt totuse ge 98 then boxgroup=5;
```

SAS output with modified boxgroup levels:

07:28 Wednesday, December 11, 1996 1

Analysis Variable : TOTINST

BOXGROUP	N Obs	Sum
1	1332	713311.00
2	17	25111.00
3	360	292622.00
4	495	353025.00
5	852	590463.00
6	22535	12315766.00

1 THE WITNESS: I do want to make one point about
2 this, however. The numbers are slightly different, the
3 reason being, I believe, the round off problem from the SAS
4 programs, whether you run it on a PC, a personal computer,
5 or on the mainframe. We ran ours on the mainframe. There
6 is a round off problem when you run it and the differences
7 are down I think in the third digit or so but generally the
8 same.

9 MS. DREIFUSS: I appreciate that clarification.
10 May I hand two copies to the reporter at this
11 time?

12 COMMISSIONER QUICK: Yes, please do.

13 MR. HOLLIES: Mr. Presiding Officer, I would
14 object at this stage inasmuch as no foundation or at least
15 an incomplete foundation has been laid for this exhibit. I
16 am not -- that's not to say it can't be laid but it has not,
17 to this point, been laid. And without its having been laid,
18 I do not believe it's appropriate to actually admit it as
19 evidence; it is appropriate to transcribe it into the record
20 as a cross-examination exhibit but, as yet, there is not a
21 proper foundation for admitting it. As we have two further
22 exhibits which have similar characteristics which we will
23 presumably be getting to in short order, I think it's
24 appropriate to raise this now.

25 BY MS. DREIFUSS:

1 Q Witness Lion, you agreed -- at the first page of
2 the cross-examination exhibit we give a table entitled
3 Cumulative Number of Post Offices at Capacity, All Sizes.

4 A Yes, with capacity defined at different levels.

5 Q The columns of the OCA cross-examination exhibit,
6 the table that I was referring to at page 1, those column
7 headings are the same as the column headings on your page 2?

8 A Generally. One of them is different but it means
9 the same thing, I think.

10 Q You looked at -- let's turn to your Table 2 for a
11 moment. You defined full capacity utilization rate at
12 various --

13 A Various ratios, in-use to installed. Various
14 ratios of boxes in use to boxes installed.

15 Q Are you under the impression that OCA's table in
16 the cross-examination exhibit does the same but at different
17 levels?

18 A Yes. The only difference that I see off hand is
19 that you have -- where I went from 100 to 98, you put in
20 99.9, 99.5 and 99.

21 Q Do you expect that if you had calculated the
22 number of offices and percentage of offices and number of
23 boxes and percentage of boxes at these full capacity
24 utilization rates, the ones presented in the OCA table, that
25 you would have come up with the same results or similar

1 results accounting for the rounding problem?

2 A Yes. These numbers look reasonable.

3 MS. DREIFUSS: Commissioner Quick, I now move that
4 this be entered into evidence.

5 MR. HOLLIES: No objection.

6 MS. DREIFUSS: And I have questions concerning the
7 cross examination exhibit but these are easy questions.
8 There won't be a problem with them.

9 [Discussion off the record.]

10 MS. DREIFUSS: I'm reminded that I haven't yet
11 given two copies to the Reporter and if you have no
12 objection I'll do so at this time.

13 COMMISSIONER QUICK: Please do.

14 BY MS. DREIFUSS:

15 Q Looking at OCA's table in the cross examination
16 exhibit, do you agree that if the full capacity utilization
17 rate is defined as 99 percent then the percentage of offices
18 at that level is 8.6 percent?

19 A Yes, that's what the table says.

20 Q Do you agree that if the full capacity utilization
21 rate is defined as 99.5 percent, then the percentage of
22 offices at that level would be 6.7 percent?

23 A Yes.

24 Q Would you agree that the percentage of offices at
25 a full capacity utilization rate can be as near or as far

1 from 5.2 percent as desired by selecting the appropriate
2 full capacity utilization rate?

3 A Well, I wouldn't do it that way. I think that the
4 function, looking at the different capacity utilization
5 rates and the number of offices, is the key, and it shows
6 that these numbers of offices grow rapidly as you get down
7 to what I would call a practical level -- 98, 95, so forth.

8 I think, although we don't have data on how many
9 boxes are actually unavailable, two percent margin strikes
10 me as pretty thin, and that is a -- 12 percent of the
11 offices have that and if you look at my Table 3, it's even
12 more so for Box Size 1. I think at 98 percent it's about 20
13 percent of the offices have all their -- are 98 percent full
14 on Box Size 1 -- 20 percent.

15 That's 1 out of 5, so I think, my point is that
16 it's a function here that you should look at and try to
17 understand what's going on rather than some magic number
18 that this is capacity because you can exceed that number
19 but, on the average when you are at 98 percent or 99 you are
20 going to be disappointing some customers.

21 Q You don't have any measures of how many customers
22 would be disappointed?

23 A It's impossible to measure.

24 How can you measure how many people are
25 discouraged?

1 Waiting lists are one way but not every facility
2 keeps a waiting list.

3 Q Well, it is true that, looking at OCA's table in
4 the cross examination exhibit, that if we, if the Commission
5 were to decide that full capacity is close to 100 percent,
6 we're generally talking about percentage of offices at
7 capacity that would be pretty close to 5.2 percent.

8 A My point is that the Commission shouldn't decide
9 what full capacity is but try and understand how these
10 numbers change when you -- it doesn't give you much margin
11 for error before you're up ^{to 10} 10 percent of facilities in
12 trouble or having constraints and in Box Size 1 you can
13 double that, 20 percent.

14 I think the thing to do with this is not to set a
15 magic number but to try and understand what these data are
16 saying.

17 Q How would the Commission know at what point to
18 become concerned about capacity constraints?

19 A I think you should become concerned when 10
20 percent of your facilities are experiencing constraints --
21 even 5 percent strikes me -- that is something to be
22 concerned about, not as much perhaps, but --

23 Q Now do you know --

24 A It's not like a nationwide shortage but there are
25 shortages in different areas, something -- I don't know that

1 the Commission itself does anything about that but it's
2 something to take into account when you are setting the
3 rates.

4 Q Do you know whether 10 percent of offices are
5 experiencing these constraints?

6 A Ten percent of offices are 100 percent full --
7 have 100 percent of their Size 1 boxes rented, and if you
8 just allow a little bit for the error, for the fact that
9 some of them may be out of commission for one reason or
10 another, that's at 20 percent.

11 I think what the data are saying is that there are
12 shortages in different places and it is something if you
13 want to keep your customers satisfied it is something you
14 need to do something about.

15 Q The 10 percent figure for box size one, I guess
16 that came from Table 3?

17 A Table 3, yes.

18 Q Do you have similar calculations for other box
19 sizes?

20 A Yes, they are in Library Reference 157, I believe
21 it is.

22 Q They don't show a -- a full utilization rate as
23 high as for box size one; is that correct?

24 A Box size two, it's pretty high. I can't recall
25 off hand. It gets lower as -- for larger box sizes.

1 But if you look back at Table 1, again, if you
2 look across at the ratio of utilization, like between 90 and
3 100 percent, the size one boxes are 97 percent rented; size
4 two, 96 percent; size three, 90; size four, 83; size five,
5 81. So above average is the case with box sizes one, two
6 and three, heavily utilized. Whereas, boxes four and five
7 are below the average. The average is 96 percent in that
8 case.

9 And that is the case, not only above 90 percent
10 but above 80 percent as well. I think what they are showing
11 is that there are problems -- there are problems, there are
12 constraints on the smaller box sizes.

13 Q Please refer to page 14 of your rebuttal
14 testimony.

15 COMMISSIONER QUICK: Ms. Dreifuss, before we go
16 on, maybe we will take a 10-minute break. I think it's five
17 after. Does it say five after there? We will come back at
18 4:15.

19 [Recess.]

20 COMMISSIONER QUICK: Ms. Dreifuss, you may
21 proceed.

22 BY MS. DREIFUSS:

23 Q Could you refer to page 14 of your rebuttal
24 testimony, please?

25 A Yes.

1 The problem is I can't read with my glasses on and
2 I can't see you unless I have them on.

3 Q I have the same problem.

4 At lines 15 through 17.

5 A Yes.

6 Q You list three sets of elasticities that you chose
7 to examine; is that correct?

8 A Yes.

9 Q These are the upper bound, in which you use OCA
10 elasticities; is that correct?

11 A Yes.

12 Q The lower bound, in which you use zero elasticity
13 for fee decreases only.

14 A Yes.

15 Q And the midrange in which you use midpoint
16 elasticities; is that correct?

17 A Right.

18 Q Are you familiar with the direct testimony of
19 Ashley Lyons in this proceeding?

20 A I am familiar with it. Not very familiar.

21 Q Are you aware of a statement that he made in an
22 appendix to his direct testimony in which he stated an
23 analysis of Post Office -- an analysis of Post Office box
24 usage after the increase of 8 percent in 1985 and 34 percent
25 in 1988 shows little or no decline in Post Office box usage?

1 A I'm not directly familiar with that, no.

2 Q If there is little or no decline in Post Office
3 box usage following a rate increase, does that correspond to
4 zero elasticity?

5 A Zero elasticity means you don't lose any
6 customers, I think. You increase the rates and all the
7 customers accept that and stay.

8 That, however, is done at a certain point in time
9 and over time it might -- wouldn't apply.

10 Q The lower bound that you examined for Witness
11 Callow assumed zero elasticity, no response of a fee
12 decrease; is that correct?

13 A That's right. That's a pessimistic assumption.
14 That's why it's lower bound.

15 Q To your knowledge --

16 A It's pessimistic for a rate decrease. It would be
17 optimistic for a rate increase.

18 Q To your knowledge, did the Postal Service ever
19 test that notion in measuring a response rate to its fee
20 increases that it made earlier in this proceeding? In other
21 words, the same assumption that, given a fee increase, there
22 would be no -- no volume change or full acceptance of the
23 fee increase?

24 MR. HOLLIES: Objection. That's a compound
25 question and it will not read back very clearly. I wonder

1 if counsel would be so kind as to restate that with fewer
2 components?

3 MS. DREIFUSS: Sure, I'd be happy to.

4 MR. HOLLIES: Thank you.

5 BY MS. DREIFUSS:

6 Q Let me start back with what you looked at with
7 respect to Witness Callow's testimony.

8 The lower bound for measuring a response to his
9 price decreases was zero elasticity.

10 A Yes.

11 Q Do you know whether that same lower bound was ever
12 applied to Postal Service fee increases?

13 A Well, zero elasticity wouldn't be a lower bound
14 for a fee increase; it would be an upper bound. It is
15 optimistic for -- when you say you are going to keep all
16 your customers and it is pessimistic for you to say you're
17 not going to get any new ones from a fee decrease.

18 Q Do you know whether that assumption which --

19 A I don't know whether it has or not. I haven't
20 seen it if it has. I haven't seen it done by the Postal
21 Service, let me say.

22 Q OCA furnished another cross-examination exhibit to
23 the Postal Service last week that we identified as OCA-XE-
24 REBUT-2.

25 A Yes.

1 Q And I believe Postal Service counsel has a copy of
2 that with them today.

3 A I have it.

4 MS. DREIFUSS: And you have it.

5 And I would like to distribute that to
6 commissioners and there are copies on the table behind
7 Postal Service counsel. Lest I forget to give two copies to
8 the Reporter, let me first simply ask that this be
9 identified as OCA Cross Examination Exhibit OCA-XE-REBUT-2,
10 and this time merely transcribed into the record, and if it
11 is all right with you, Commissioner Quick, I'll hand two
12 copies to the Reporter.

13 [Cross Examination Exhibit
14 OCA-XE-REBUT-2 was marked for
15 identification; and transcribed
16 into the record.]

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Cross-Examination Exhibit OCA-XE-REBUT-2

This exhibit is based on LR-SSR-158, "Mid-Range," with the following modifications:

1. On the page entitled "Costs & Revenues," the fees in column [6], "Proposed Fees," have been replaced with the Postal Service's proposed fees.
2. On the page entitled "Boxholders," two changes have been made:
 - a. In column [5], "Modified Accept Rate," the entries have been replaced with 1.00. This causes the figures in column [7], "Elasticity," to equal 0, and the before rates volume to equal the after rates volume.
 - b. The section on Caller Service has been completed. The same analysis for post office boxes was made for Caller Service in Delivery Groups IA, IB, and IC.

Costs & Revenues

USPS PROPOSED POST OFFICE BOX FEES

(LR-SSR-158, File: "Midrange" assuming perfect inelasticity, without nonresident fee)

CONTRIBUTION & COST COVERAGE

(Annual)

		TYBR Boxholders	TYAR Boxholders	TYBR Unit Cost	TYAR Unit Cost	Current Fees	Proposed Fees	TYBR Revenues	TYAR Revenues	TYBR Costs	TYAR Costs	TYAR Contribution	TYAR Cost Coverage
Group	Box Size	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
I-A	1	35,409	35,409	\$43.41	\$43.41	\$48.00	\$60.00	\$1,699,632	\$2,124,540	\$1,537,107	\$1,537,107	\$587,433	138%
	2	2,236	2,236	\$61.75	\$61.75	\$74.00	\$92.00	\$165,464	\$205,712	\$138,070	\$138,070	\$67,642	149%
	3	1,239	1,239	\$116.76	\$116.76	\$128.00	\$160.00	\$158,592	\$198,240	\$144,671	\$144,671	\$53,569	137%
	4	129	129	\$226.80	\$226.80	\$210.00	\$242.00	\$27,090	\$31,218	\$29,257	\$29,257	\$1,961	107%
	5	38	38	\$446.86	\$446.86	\$348.00	\$418.00	\$13,224	\$15,884	\$16,981	\$16,981	(\$1,097)	94%
	ALL	39,051	39,051	\$47.79	\$47.79	\$52.85		\$2,064,002	\$2,575,594	\$1,866,086	\$1,866,086	\$709,508	138%
I-B	1	63,586	63,586	\$38.98	\$38.98	\$44.00	\$56.00	\$2,797,784	\$3,560,816	\$2,478,387	\$2,478,387	\$1,082,429	144%
	2	14,735	14,735	\$55.10	\$55.10	\$66.00	\$82.00	\$972,510	\$1,208,270	\$811,883	\$811,883	\$396,387	149%
	3	5,385	5,385	\$103.47	\$103.47	\$112.00	\$140.00	\$603,120	\$753,900	\$557,159	\$557,159	\$196,741	135%
	4	843	843	\$200.20	\$200.20	\$190.00	\$218.00	\$160,170	\$183,774	\$168,766	\$168,766	\$15,008	109%
	5	911	911	\$393.66	\$393.66	\$310.00	\$372.00	\$282,410	\$338,892	\$358,626	\$358,626	(\$19,734)	94%
	ALL	85,460	85,460	\$51.19	\$51.19	\$56.35		\$4,815,994	\$6,045,652	\$4,374,821	\$4,374,821	\$1,670,831	138%
I-C	1	4,558,877	4,558,877	\$28.15	\$28.15	\$40.00	\$50.00	\$182,355,080	\$227,943,850	\$128,322,151	\$128,322,151	\$99,621,699	178%
	2	1,928,614	1,928,614	\$38.86	\$38.86	\$58.00	\$72.00	\$111,859,612	\$138,860,208	\$74,936,684	\$74,936,684	\$63,923,524	185%
	3	641,776	641,776	\$70.98	\$70.98	\$104.00	\$130.00	\$66,744,704	\$83,430,880	\$45,551,681	\$45,551,681	\$37,879,199	183%
	4	137,917	137,917	\$135.22	\$135.22	\$172.00	\$190.00	\$23,721,724	\$26,204,230	\$18,649,442	\$18,649,442	\$7,554,788	141%
	5	29,183	29,183	\$263.71	\$263.71	\$288.00	\$300.00	\$8,404,704	\$8,754,900	\$7,695,895	\$7,695,895	\$1,059,005	114%
	ALL	7,296,367	7,296,367	\$37.71	\$37.71	\$53.87		\$393,085,824	\$485,194,068	\$275,155,852	\$275,155,852	\$210,038,216	176%
II	1	5,141,274	5,141,274	\$25.96	\$25.96	\$8.00	\$16.00	\$41,130,192	\$82,260,384	\$133,456,603	\$133,456,603	(\$51,196,219)	62%
	2	2,065,039	2,065,039	\$35.57	\$35.57	\$13.00	\$26.00	\$26,845,507	\$53,691,014	\$73,454,258	\$73,454,258	(\$19,763,244)	73%
	3	534,762	534,762	\$64.41	\$64.41	\$24.00	\$48.00	\$12,834,288	\$25,668,576	\$34,442,915	\$34,442,915	(\$8,774,339)	75%
	4	44,584	44,584	\$122.08	\$122.08	\$35.00	\$70.00	\$1,560,440	\$3,120,880	\$5,442,949	\$5,442,949	(\$2,322,069)	57%
	5	4,972	4,972	\$237.43	\$237.43	\$55.00	\$110.00	\$273,460	\$546,920	\$1,180,518	\$1,180,518	(\$633,598)	46%
	ALL	7,790,631	7,790,631	\$31.83	\$31.83	\$10.61		\$82,643,887	\$165,267,774	\$247,977,241	\$247,977,241	(\$82,889,467)	67%
III	1 to 5	2,707,964	2,707,964			\$2.00	\$0.00	\$5,415,928	\$0			\$0	
TOTAL		17,919,473	17,919,473					\$488,025,635	\$659,103,088	\$529,374,000	\$529,374,000	\$129,729,088	125%
Caller Service		100,770	100,770					\$35,149,116	\$50,385,000			\$50,385,000	
Reserved		178,717	178,717			\$30.00	\$30.00	\$5,361,510	\$5,361,510			\$5,361,510	
GRAND TOTAL		18,198,960	18,198,960					\$528,536,261	\$714,849,598	\$529,374,000	\$529,374,000	\$185,475,598	135%

CALLER SERVICE ANALYSIS

Delivery Group													
IA	1,507	1,507			\$500	\$500	\$753,500	\$753,500					
IB	1,373	1,373			\$480	\$500	\$659,040	\$686,500					
IC	65,251	65,251			\$450	\$500	\$29,362,950	\$32,625,500					
II	32,639	32,639			\$134	\$500	\$4,373,626	\$16,319,500					
CS TOTAL	100,770	100,770	\$287.54	\$287.54			\$35,149,116	\$50,385,000	\$28,974,905	\$28,974,905	\$21,410,095	174%	

Boxholders

USPS PROPOSED POST OFFICE BOX FEES
(LR-SSR-158, File: "Midrange" assuming perfect inelasticity, without nonresident fee)

TYAR BOXHOLDERS
(Annual)

POST OFFICE BOXES		TYBR No. of Boxholders	Fraction of Boxes in Use	No. of Boxes Available	USPS Accept Rate	Modified Accept Rate	USPS Percent Increase	Elasticity	Current Box Fees	Proposed Box Fees	Percent Change	TYAR Boxholders	USPS TYAR Boxholders
Delivery Group	Box Size	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
IA	1	35,409	0.74	47,850	0.87	1.00	25%	0	\$48.00	\$60.00	25%	35,409	30,789
	2	2,236	0.83	2,694	0.85	1.00	24%	0	\$74.00	\$92.00	24%	2,236	1,909
	3	1,239	0.79	1,568	0.87	1.00	25%	0	\$128.00	\$160.00	25%	1,239	1,079
	4	129	0.81	159	0.92	1.00	15%	0	\$210.00	\$242.00	15%	129	119
	5	38	0.55	69	0.90	1.00	20%	0	\$348.00	\$418.00	20%	38	34
	ALL	39,051	0.75	52,341								39,051	33,930
IB	1	63,586	0.74	85,927	0.87	1.00	27%	0	\$44.00	\$56.00	27%	63,586	55,289
	2	14,735	0.83	17,753	0.85	1.00	24%	0	\$66.00	\$82.00	24%	14,735	12,583
	3	5,385	0.79	6,816	0.87	1.00	25%	0	\$112.00	\$140.00	25%	5,385	4,689
	4	843	0.81	1,041	0.92	1.00	15%	0	\$190.00	\$218.00	15%	843	779
	5	911	0.55	1,656	0.90	1.00	20%	0	\$310.00	\$372.00	20%	911	817
	ALL	85,460	0.75	113,194								85,460	74,157
IC	1	4,558,877	0.74	6,160,645	0.87	1.00	25%	0	\$40.00	\$50.00	25%	4,558,877	3,964,047
	2	1,928,614	0.83	2,323,631	0.85	1.00	24%	0	\$58.00	\$72.00	24%	1,928,614	1,646,895
	3	641,776	0.79	812,375	0.87	1.00	25%	0	\$104.00	\$130.00	25%	641,776	558,882
	4	137,917	0.81	170,268	0.95	1.00	10%	0	\$172.00	\$190.00	10%	137,917	130,460
	5	29,183	0.55	53,060	0.98	1.00	4%	0	\$288.00	\$300.00	4%	29,183	28,555
	ALL	7,296,367	0.77	9,519,979								7,296,367	6,326,839
II	1	5,141,274	0.74	6,947,668	0.92	1.00	100%	0	\$8.00	\$16.00	100%	5,141,274	4,704,526
	2	2,065,039	0.83	2,487,999	0.86	1.00	100%	0	\$13.00	\$26.00	100%	2,065,039	1,784,534
	3	534,762	0.79	676,914	0.85	1.00	100%	0	\$24.00	\$48.00	100%	534,762	453,368
	4	44,584	0.81	55,042	0.85	1.00	100%	0	\$35.00	\$70.00	100%	44,584	37,798
	5	4,972	0.55	9,040	0.85	1.00	100%	0	\$55.00	\$110.00	100%	4,972	4,215
	ALL	7,790,631	0.77	10,176,662								7,790,631	6,984,441
TOTAL		15,211,509										15,211,509	13,421,367

Carrier Service												
IA	1,507	n/a	n/a	1.00	1.00	0%	0	\$500	\$500.00	0%	1,507	1,507
IB	1,373	n/a	n/a	0.98	1.00	4%	0	\$480	\$500.00	4%	1,373	1,343
IC	65,251	n/a	n/a	0.94	1.00	11%	0	\$450	\$500.00	11%	65,251	61,505
II	32,639	n/a	n/a	0.58	1.00	273%	0	\$134	\$500.00	273%	32,639	19,070

1 BY MS. DREIFUSS:

2 Q Have you had an opportunity to look at this cross
3 examination exhibit?

4 A Yes.

5 Q Do you have any questions about it before I begin?

6 A No.

7 Q Could you start at page 2 of this cross
8 examination exhibit.

9 A Yes.

10 Q Did you understand that in preparing this page we
11 started with a spreadsheet from LR-SSR-158?

12 A Yes, I did. It's my spreadsheet, which I adapted
13 from witness Callow's spreadsheet.

14 Q Thank you.

15 A And I thank him for doing the formatting.

16 Q Do you also understand that on this page the only
17 change the OCA has made is to substitute "USPS proposed
18 fees" for "OCA fees"?

19 A Yes. There are two inputs. One is the proposed
20 fees on this page and the other is the accept rate on the
21 other. Everything else is derived from those two.

22 Q In other words, we were applying the notion of 100
23 percent accept rate to Postal Service proposed fees in a
24 manner similar to the way you applied that notion --

25 A Yes, and it gives you an upper bound. It gives

1 you something that cost coverage, the actual would almost
2 certainly be lower than that.

3 MS. DREIFUSS: I'd like to move that this be
4 admitted into evidence.

5 MR. HOLLIES: No objection.

6 COMMISSIONER QUICK: Without objection, it will be
7 put into evidence.

8 [Cross Examination Exhibit
9 OCA-XE-REBUT-2 was received into
10 evidence.]

11 BY MS. DREIFUSS:

12 Q And now I would like to ask you some questions
13 about it.

14 A Okay.

15 Q Now do you agree if we look at page 2 of the cross
16 examination exhibit, do you agree that under our assumption
17 of 100 percent accept rate this results in a 135 percent
18 cost coverage for the Postal Service?

19 A Yes. Yes, I do.

20 Q Thank you.

21 A That is a upper bound. The more likely one is the
22 one done after -- by the accept rates that the Postal
23 Service estimated, witness Ellard estimated and then Witness
24 Lyons applied his experience to, and that gives you the most
25 likely estimate.

1 This is an upper bound and presumably you could do
2 a lower bound as well, which is -- in my testimony on
3 witness Callow's I did an upper bound, lower bound, and mid-
4 bound, midrange, as well.

5 Q Okay. Could you turn your attention now to still
6 another OCA cross examination exhibit.

7 Again we provided this to the Postal Service last
8 week.

9 We identified it as OCA-XE-REBUT-3 and I imagine
10 Postal Service counsel has a copy and Mr. Lion, do you have
11 a copy?

12 A I have a copy, yes.

13 MS. DREIFUSS: I would like to give copies to the
14 Commissioners, and I guess on my way I'll hand two copies to
15 the Reporter --

16 COMMISSIONER QUICK: Yes, save yourself some --

17 MS. DREIFUSS: Right, and ask that they be
18 transcribed and identified only at this time.

19 COMMISSIONER QUICK: It will be transcribed in the
20 record at this point.

21 [Cross Examination Exhibit
22 OCA-XE-REBUT-3 was marked for
23 identification; and transcribed
24 into the record.]

25

Cross-Examination Exhibit OCA-XE-REBUT-3

This exhibit is based on USPS-T-1 WP C, with several minor modifications.

1. On pages 2 and 3 of WP C, the entries in the column labeled "% Accept" were all set to 100%. This caused the before rates volumes to equal after rates volumes.
2. A summary of total revenue (resident and nonresident boxholders), total TYAR cost (since AR volumes equal BR volumes, use TYBR costs from USPS-T-1, WP F), and cost coverage was added to the bottom of page 1.

Post Office Boxes: Price Sensitivity And Revenue Estimation
(USPS-T-1, WP C with perfect inelasticity -- before rate boxes=after rate boxes.)

Residents Revenue Analysis												
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Tier	Box Size	Annual Current Fee	Proposed Resident Fee	% Change	Total # of boxes	Before Increase # of boxes	% Accept	After Increase # of Boxes	Before Increase Revenues	After Increase Revenues	Additional Revenues	
1A	1	\$48	\$60	25%	35,409	28,302	100%	28,302	\$1,358,494	\$1,698,118	\$339,624	
	2	\$74	\$92	24%	2,236	1,594	100%	1,594	\$117,921	\$146,605	\$28,683	
	3	\$128	\$160	25%	1,239	1,076	100%	1,076	\$137,779	\$172,224	\$34,445	
	4	\$210	\$242	15%	129	112	100%	112	\$23,535	\$27,121	\$3,586	
	5	\$348	\$418	20%	38	33	100%	33	\$11,489	\$13,799	\$2,311	
	CS	\$500	\$500	0%	1,507	1,507	100%	1,507	\$753,500	\$753,500	\$0	
Subtotal					40,558	32,624		32,624	\$2,402,717	2,811,366	408,649	
1B	1	\$44	\$56	27%	63,586	50,823	100%	50,823	\$2,236,233	\$2,846,115	\$609,882	
	2	\$66	\$82	24%	14,735	10,501	100%	10,501	\$693,078	\$861,096	\$168,019	
	3	\$112	\$140	25%	5,385	4,678	100%	4,678	\$523,969	\$654,961	\$130,992	
	4	\$190	\$218	15%	843	732	100%	732	\$139,150	\$159,656	\$20,506	
	5	\$310	\$372	20%	911	791	100%	791	\$245,348	\$294,417	\$49,070	
	CS	\$480	\$500	4%	1,373	1,373	100%	1,373	\$659,040	\$686,500	\$27,460	
Subtotal					86,833	68,900		68,900	\$4,498,817	5,502,745	1,005,929	
1C	1	\$40	\$50	25%	4,558,877	3,643,852	100%	3,643,852	\$145,754,087	\$182,192,609	\$36,438,522	
	2	\$58	\$72	24%	1,928,614	1,374,463	100%	1,374,463	\$79,718,862	\$98,961,346	\$19,242,484	
	3	\$104	\$130	25%	641,776	557,552	100%	557,552	\$57,985,366	\$72,481,708	\$14,496,342	
	4	\$172	\$190	10%	137,917	119,817	100%	119,817	\$20,608,569	\$22,765,280	\$2,156,711	
	5	\$288	\$300	4%	29,183	25,353	100%	25,353	\$7,301,701	\$7,605,938	\$304,238	
	CS	\$450	\$500	11%	65,251	65,251	100%	65,251	\$29,362,950	\$32,625,500	\$3,262,550	
Subtotal					7,361,618	5,786,288		5,786,288	\$340,731,535	416,632,381	75,900,846	
2	1	\$8	\$16	100%	5,141,274	4,863,652	100%	4,863,652	\$38,909,216	\$77,818,432	\$38,909,216	
	2	\$13	\$26	100%	2,065,039	1,918,636	100%	1,918,636	\$24,942,271	\$49,884,542	\$24,942,271	
	3	\$24	\$48	100%	534,762	471,966	100%	471,966	\$11,327,195	\$22,654,390	\$11,327,195	
	4	\$35	\$70	100%	44,584	39,349	100%	39,349	\$1,377,202	\$2,754,404	\$1,377,202	
	5	\$55	\$110	100%	4,972	4,388	100%	4,388	\$241,348	\$482,697	\$241,348	
	CS	\$134	\$500	273%	32,639	32,639	100%	32,639	\$4,373,626	\$16,319,500	\$11,945,874	
Subtotal					7,823,270	7,330,631		7,330,631	\$81,170,859	\$169,913,966	\$88,743,107	
				Group I	7,489,009	5,887,812		5,887,812	\$347,631,070	\$424,946,493	\$77,315,423	
				Group II	7,823,270	7,330,631		7,330,631	\$81,170,859	\$169,913,966	\$88,743,107	
				Total	15,312,279	13,218,443		13,218,443	\$428,801,928	\$594,860,458	\$166,058,530	

Nonresident total revenue: 189,959,351
Revenue loss due to group 3 fee: (\$5,415,928)
Total Resident+Nonresident: \$779,403,882
Total TYAR (=total TYBR) costs: \$529,374,000
Cost coverage: 147.23%

Post Office Boxes: Price Sensitivity And Revenue Estimation
(USPS-T-1, WP C with perfect inelasticity – before rate boxes=after rate boxes.)

Non-Residents Revenue Analysis

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Tier	Box Size	Annual Current Fee	Proposed Non-residn Fee	% Change	Total # of boxes	Before Increase # of boxes	% Accept	After Increase # of Boxes	Before Increase Revenues	After Increase Revenues	Additional Revenues
1A	1	\$48	\$96	100%	35,409	7,106	100%	7,106	\$341,101	\$682,203	\$341,101
	2	\$74	\$128	73%	2,236	642	100%	642	\$47,543	\$82,236	\$34,694
	3	\$128	\$196	53%	1,239	162	100%	162	\$20,788	\$31,832	\$11,044
	4	\$210	\$278	32%	129	17	100%	17	\$3,551	\$4,701	\$1,150
	5	\$348	\$454	30%	38	5	100%	5	\$1,733	\$2,261	\$528
Subtotal					39,051	7,933		7,933	414,717	803,234	388,517
1B	1	\$44	\$92	109%	63,586	12,761	100%	12,761	\$561,491	\$1,174,026	\$612,536
	2	\$66	\$118	79%	14,735	4,234	100%	4,234	\$279,432	\$499,591	\$220,159
	3	\$112	\$176	57%	5,385	706	100%	706	\$79,058	\$124,234	\$45,176
	4	\$190	\$254	34%	843	111	100%	111	\$20,995	\$28,067	\$7,072
	5	\$310	\$408	32%	911	119	100%	119	\$37,019	\$48,721	\$11,703
Subtotal					85,460	17,931		17,931	977,995	1,874,640	896,645
1C	1	\$40	\$86	115%	4,558,877	914,927	100%	914,927	\$36,597,078	\$78,683,717	\$42,086,639
	2	\$58	\$108	86%	1,928,614	554,151	100%	554,151	\$32,140,750	\$59,848,293	\$27,707,543
	3	\$104	\$166	60%	641,776	84,125	100%	84,125	\$8,748,996	\$13,964,743	\$5,215,748
	4	\$172	\$226	31%	137,917	18,078	100%	18,078	\$3,109,479	\$4,085,711	\$976,232
	5	\$288	\$336	17%	29,183	3,825	100%	3,825	\$1,101,701	\$1,285,318	\$183,617
Subtotal					7,296,367	1,575,106		1,575,106	81,698,004	157,867,783	76,169,779
2	1	\$8	\$52	550%	5,141,274	277,522	100%	277,522	\$2,220,173	\$14,431,125	\$12,210,952
	2	\$13	\$62	377%	2,065,039	146,403	100%	146,403	\$1,903,236	\$9,076,971	\$7,173,735
	3	\$24	\$84	250%	534,762	62,696	100%	62,696	\$1,504,693	\$5,266,426	\$3,761,733
	4	\$35	\$106	203%	44,584	5,227	100%	5,227	\$182,946	\$554,065	\$371,119
	5	\$55	\$146	165%	4,972	583	100%	583	\$32,060	\$85,106	\$53,046
Subtotal					7,790,631	492,430		492,430	5,843,109	29,413,694	23,570,585
Group I					7,420,878	1,600,970		1,600,970	83,090,717	160,545,657	77,454,941
Group II					7,790,631	492,430		492,430	5,843,109	29,413,694	23,570,585
Total					15,211,509	2,093,400		2,093,400	88,933,825	189,959,351	101,025,526
							Group III total # of boxes				2,707,964 (11)
							Group III current fee				\$2
							Revenue Loss due to elimination of fee in Group 3				(\$5,415,928)
Grand Total							Group I & II Residents =				\$166,058,530
							Group I & II Non-residents=				\$101,025,526
							Group III =				(\$5,415,928)
							Total Additional Revenues=				\$261,668,128

1 BY MS. DREIFUSS:

2 Q We indicated on page 1 of this cross-examination
3 exhibit that we were looking at workpaper C to Ashley
4 Lyons's direct testimony.

5 A Yes.

6 Q And there are some slight modifications to his
7 workpaper C that are contained in this cross-examination
8 exhibit; is that correct?

9 A Yes. You did the upper bound, again, I think.

10 Q Could you refer to column 6, please? And could
11 you verify that the accept rates have been set to 100
12 percent?

13 A Yes.

14 Q And that would cause before and after rate volumes
15 to be the same, right?

16 A Yes, and they are.

17 Q At the bottom of page 2 of this cross-examination
18 exhibit, there is a summary of total revenue and cost for
19 the Postal Service's box proposal; do you see that?

20 A Yes.

21 Q Subject to check, would you accept that the total
22 revenue figure is simply the sum of the resident and
23 nonresident revenue adjusted for revenue loss from Group 3?

24 A Yes.

25 Q And that the total revenue would be 779,403,882?

1 A Yes, and the difference between this and the last
2 one, I think, is the nonresident fee.

3 Q Okay.

4 A Otherwise, the assumptions are the same.

5 Q And subject to check, would you accept that the
6 ratio of the total revenue to cost would be approximately
7 147 percent?

8 A Yes, I would. That, again, is the upper bound.

9 Q The lower bound would be the bound calculated by
10 the Postal Service of 128 percent; is that correct?

11 A No, I think that would be the midrange. I haven't
12 considered what a lower -- that's from using Witness Lyons's
13 acceptance rates which I would characterize as the most
14 likely based on his experience and the fact that we did
15 have -- and he based that in turn on the data gathered by
16 Witness Ellard.

17 Q At any rate, if we begin with 120 percent, the
18 Cross-Examination Exhibit Number 3 gives an upper bound of
19 147 percent and the midpoint between 128 percent and 147
20 percent would be contained in our Cross-Examination Exhibit
21 Number 2 and we give that as 135 percent; does that sound
22 correct?

23 A No, no, no, I wouldn't characterize it that way.
24 You've got two different assumptions working between two and
25 three. One has a nonresident fee and one does not. The two

1 that are comparable are the one from Exhibit 2 where you've
2 got 135 percent, that's an upper bound. Witness Lyons's --
3 I got 127 percent for him but maybe it's 128. But at any
4 rate a lower bound would be lower than that. In fact, it
5 would be since the whole thing is basically linear in the
6 elasticity, it would be since you dropped eight points from
7 mid to -- from the upper bound to the midpoint, you drop
8 another eight points, it would be about 119 percent. But
9 then if you add the nonresident fee, I think that's an upper
10 bound there and I don't remember what the corresponding
11 postal figure was for that but I would characterize that as
12 the midpoint for including the nonresident fee.

13 I think the most likely estimates are the ones
14 given by Witness -- resulting from Witness Lyons because
15 they actually use some data.

16 Q At any rate, our Cross-Examination Exhibit Number
17 2 would give 135 percent cost coverage with no nonresident
18 fee included?

19 A Yes.

20 Q And our Cross-Examination Exhibit Number 3 would
21 give 140 percent as an upper bound with the resident fee
22 included?

23 A Yes --

24 Q I'm sorry, with the nonresident fee included. I
25 misspoke a moment ago.

1 A Both of these are assuming that from the rate
2 increases, you would lose no customers which is what makes
3 it optimistic, very optimistic.

4 Q You didn't come up with any errors in the --

5 A No, I accept the numbers. The numbers look to me
6 to be correct.

7 MS. DREIFUSS: I move that this be accepted into
8 evidence, Commissioner Quick.

9 MR. HOLLIES: No objection.

10 COMMISSIONER QUICK: Without objection, it will be
11 moved into evidence at this point.

12 [Cross Examination Exhibit
13 OCA-XE-REBUT-3 was received into
14 evidence.]

15 THE WITNESS: We are each using each other's
16 spreadsheets so it is easier to check.

17 It's the assumptions that are the debatable part.

18 BY MS. DREIFUSS:

19 Q Let's go back to page 14 of your rebuttal
20 testimony, please.

21 A Yes.

22 Q By "upper bound" at line 15, do you mean that
23 these are the largest possible cost coverages that would
24 result from witness Callow's use of elasticities?

25 A Yes. I think he was optimistic in applying an

1 elasticity developed for people who already have postal
2 boxes and applying that to people who are prospective users,
3 and I outlined the reasons for that in the testimony.

4 Q And what underlies your statement at line 15 is
5 that "Witness Callow increased volumes for fee decreases and
6 decreased volumes for fee increases" -- is that correct?

7 A No, no. I think it would have to do with that the
8 elasticity, the sensitivity, which is what elasticity is,
9 should be less -- they'd be less responsive. People who
10 haven't used postal boxes before, they're -- for one thing
11 their propensity to use postal boxes is less, just from
12 logic, and there are certain things such as the capacity
13 constraints which would prevent them from, perhaps prevent
14 them -- one from acquiring a box when he wanted to and on
15 the other hand, on the other side there are waiting lists
16 available when the fees are increased for people to replace
17 the people who had left.

18 So in my opinion, it's a -- the demand is
19 asymmetric at that point. I think it's what the economists
20 call a kinked demand curve.

21 THE REPORTER: A what demand curve?

22 THE WITNESS: Kinked -- k-i-n-k-e-d.

23 I discussed that with a economist over the weekend
24 who told me be sure not to say "kinky" demand curve.

25 [Laughter.]

1 BY MS. DREIFUSS:

2 Q If you assume that volumes did not decrease with
3 fee increases under the OCA's proposal, would that have
4 increased revenue?

5 A Assumed again -- if?

6 Q If you assumed that volumes did not decrease with
7 the fee increases that OCA proposes, would that have
8 increased revenue?

9 MR. HOLLIES: Objection. It's beyond the scope of
10 his rebuttal testimony.

11 [Pause.]

12 COMMISSIONER QUICK: Do you want to try again?

13 MS. DREIFUSS: Yes.

14 COMMISSIONER QUICK: Try again and --

15 BY MS. DREIFUSS:

16 Q You characterize witness Callow's determination
17 that volumes would decrease as a result of his fee
18 increases, and that is part of your upper bound figure, is
19 that correct?

20 A Witness Callow in his proposed fees increased fees
21 for some, namely Group 2, and decreased fees for others, and
22 when he applied the increased fees to Group 2, he -- let me
23 think just a minute -- when he applied the fee increase to
24 Group 2 he accepted basically the Postal Service
25 characterization that those, that there would be a volume

1 loss there, so we all agree on that.

2 The part where we don't agree is that in cases
3 where he decreased fees he said that we get new boxholders
4 at the same rates, using the same elasticities you used for
5 existing boxholders, and so that is the part of his analysis
6 that -- I didn't challenge, I tested it.

7 That's basically an optimistic assumption and
8 it's -- the answer is likely to be lower than that. That
9 gives you an upper limit and what I did is assume, okay,
10 nobody shows up. There's no new boxholders. That's a lower
11 limit and the problem with it is that his -- his analysis,
12 which is an upper limit, gives it coverage of only 101
13 percent, so almost anything that is likely to happen is
14 going to result in cost coverage below 100 percent.

15 Now, you know, I am not saying that no new
16 boxholders will show up. That is a lower limit and his is
17 an upper limit and it is going to fall someplace in^{between} but the
18 problem is that the upper limit is at 101 and the lower
19 limit is at 95 and then just to test it again, I picked a
20 midpoint, which is at 98, which again it's linear in the
21 elasticities and that's the way it will turn out.

22 Q What you call an upper bound at line 15, you
23 describe it as an optimistic upper bound?

24 A That's right, yes.

25 Q Is it the most optimistic -- I'm going to get real

1 twisted in this. Is it the most optimistic upper bound that
2 one could establish?

3 A No. But the most optimistic upper bound is a
4 meaningless concept. You want to get the upper bound as low
5 as you can but it is still above what is likely to happen.

6 I mean, the concept you look for is the least
7 upper bound, not the greatest upper bound. It just doesn't
8 have any meaning.

9 Q But it would be possible to calculate cost
10 coverages under a more optimistic upper bound than the one
11 you used?

12 A Well, it would be possible but what would be the
13 point? I mean, what you want to do is get as close to
14 reality as you can and unfortunately, when we did the most
15 likely case for the -- for the Postal proposal, we had some
16 data and applied the judgment. On this side of it, there is
17 no data. Basically we are saying, assume what was used here
18 and use it here and I think that's optimistic and so
19 therefore we are forced to this kind of logic thing. Okay,
20 this is the upper bound, this is the lower bound and
21 someplace in the middle is going to be reality. The
22 midpoint isn't the most likely in this case but it is the
23 midpoint. That's about all you can say.

24 But the point is, he is getting 101 percent -- 101
25 percent cost coverage on something that is likely to be high

1 and why estimate that is even further away from reality?

2 Q The lower bound that you refer to on line 16?

3 A Yes.

4 Q Says there will be no response or zero
5 elasticity --

6 A Right, no new boxes.

7 Q -- for a price decrease.

8 A Yes. Yes. It is a hypothesis, not a prediction.

9 Q Now, if we were going to be making a symmetrical
10 assumption for fee increases, why couldn't we assume that
11 there would be no response or zero elasticity for a fee
12 increase?

13 A Well, I just took Witness Callow's -- Witness
14 Callow's proposal in which he had, as with the Postal
15 Service proposal, proposed doubling Group 2 fees and then
16 there is a decline in the member -- in the boxholders and
17 used that. I think that's right, that there will be a
18 decline, that the fact that we all agree on it is something
19 that puts it aside to focus on the thing where we don't
20 agree and all I did was try and say, well, suppose it
21 doesn't work out, what's the worst case possible. And the
22 worst case possible is you lower the fees and nobody new
23 shows up. I mean, it couldn't get any worse than that, I
24 agree.

25 That is not a prediction of what is going to

1 happen, it's a limit and I think that's a lower limit. The
2 101 percent, I think, is an optimistic upper limit and so
3 reality falls someplace in the middle. And the midpoint is
4 no more likely than -- except that we know it is going to
5 fall somewhere in the middle.

6 Q Okay, let's hypothesize then a more optimistic
7 upper bound than the one you used. It's hypothetical. That
8 optimistic, that hypothetical higher upper bound could be
9 that volumes did not decrease with a fee increase under
10 OCA's proposal. That's a possibility, right?
11 Hypothetically?

12 A It's a hypothesis, yes. You can hypothesize just
13 about anything, I think.

14 Q Okay. Based on that hypothesis --

15 A Doesn't make it realistic, though.

16 Q Based on that hypothesis, would higher revenues
17 have been generated based on such an assumption?

18 A If you assume you double the fees and you don't
19 drive anybody away, that's unrealistic. But if you do that,
20 if -- you can calculate higher revenues. You'd never see
21 them, though. I think the point is, to try and get the
22 greatest -- the least upperbound, to get it as -- you know,
23 going for a greatest upperbound just strikes me as
24 meaningless. You want to bound things as close as you can,
25 not as loose.

1 Q In line with a hypothesis that we just discussed a
2 moment ago, if revenues were to go up based on an assumption
3 of no response to fee increases, then OCA's cost coverage
4 would go up, too; is that right?

5 A Yes. If assumed revenues went up, assumed cost
6 coverage would go up. I don't agree that it's a good
7 assumption.

8 Q Would you turn to page 16 of your rebuttal
9 testimony, please.

10 A Yes, I have it.

11 Q Lines 9 through 11. You state that attributable
12 space provision costs are thus below the level that would
13 obtain if market rental rates were used; is that correct?

14 A Yes.

15 Q In your earlier direct testimony, I don't think
16 you need to take it out, and LR-SSR-119, you allocated costs
17 to post office boxes; is that correct?

18 A I allocated, yes. Right.

19 Q In making that allocation, did you use the post
20 office box attributable costs of \$481.9 million found in the
21 cost segments and components report for FY 1994? Do you
22 recall that?

23 A I don't recall a number. I used a standard
24 method. It was based -- it's based on book costs, if that's
25 what you're driving at.

1 Q In USPS-T-4, that was your direct testimony, did
2 you discuss the effect of basing attributable space
3 provision costs on market rental rates for post office
4 boxes?

5 A No. The Commission requires that we use the other
6 method, so we do.

7 Q Are you under the impression that Witness Callow
8 used market rental rates to allocate costs in any way?

9 A No, but what he did is propose a fee schedule that
10 at best would give you 101 percent. That's the optimistic
11 view. And the point of this testimony is that decisions at
12 the local level are made on the basis of real costs, and
13 that adds about 25 percent to the market costs on average
14 and basically takes any cost coverage you've got and knocks
15 it down 8 points, and that the Commission, in making its
16 recommendation, should take into account the fact that
17 people at the local level and their managers will look for a
18 return on investment and on real costs, not -- you can
19 propose -- you can require anything you want here, but out
20 there, they have got to deal with the real costs. That was
21 the point -- that's the point of the testimony, to rebut the
22 idea that even 100 percent is sufficient.

23 Q You pick up that theme at page 16 of your
24 testimony, I guess it's the second paragraph from the top.

25 A Uh-huh.

1 Q You start out by saying there is a real cost
2 revenue tradeoff that postal managers must address when
3 evaluating whether to expand post office box service to meet
4 new customer demand; is that correct?

5 A Yes. Yes.

6 Q and then you say when justifying the expansion of
7 post office box sections, local postal managers base their
8 decisions on a comparison of the cost of expansion with
9 expected additional revenues. Is that correct?

10 A Yes.

11 Q Is there any documentation in the proceeding that
12 you're aware of which sets out the guidelines that local
13 postal managers would need to follow in order to determine
14 whether it is prudent to expand their box sections?

15 MR. HOLLIES: Objection. Assumes a fact not in
16 evidence. Assumes that there are such guidelines.

17 MS. DREIFUSS: I don't believe I did assume it. I
18 asked if he was aware of any. If he is not aware, it's up
19 to --

20 THE WITNESS: I don't know of any such guidelines,
21 but it's just economic sense that your revenues have to
22 exceed your costs if you're going to make an -- justify an
23 investment. And I'm told that's the way they do it and
24 that's the way they should do it. It just makes sense.

25 BY MS. DREIFUSS:

1 Q So you believe that the Postal Service should --
2 one of the reason the Postal Service should raise the rates
3 in this proceeding is to make it more justifiable to expand
4 box sections where shortages exist; is that correct?

5 A I think that's a consideration to -- if you want
6 local managers to invest where it's needed, that they should
7 have an incentive. And my understanding is that it's Postal
8 Service policy to give them such an incentive.

9 Q It's true, though, that these fee increases
10 proposed by the Postal Service will also be imposed even at
11 facilities where there aren't any box shortages; isn't that
12 true?

13 A That's going to be true as long as you do it on a
14 nationwide basis.

15 Q Okay.

16 A On the other hand, it's also true that anybody
17 renting a postal box, paying for it, is going -- has the
18 option of free delivery, and so it is a premium service in
19 that sense.

20 Q Nevertheless, -- so are you raising a second point
21 now? You're saying that fee increases should be based on
22 the notion that it's a premium service and getting away from
23 the notion that --

24 A No, I guess not. I don't want to raise that.

25 MS. DREIFUSS: Thank you.

1 Commissioner Quick, earlier when Ashley Lyons was
2 on the stand, I basically was pursuing a question that
3 Commissioner LeBlanc has raised whether there may be
4 guidelines, and Postal Service counsel stated that I haven't
5 established that there are guidelines. I don't know whether
6 there are. I don't know whether there are written policy
7 statements or guidelines that are distributed to local
8 postal managers concerning when it's appropriate to invest
9 in expanding the box section, but if there are such
10 guidelines or any written policy, I would ask that the
11 Postal Service make inquiries and provide them to us.

12 COMMISSIONER QUICK: Can you look into that, Mr.
13 Hollies?

14 MR. HOLLIES: We are fundamentally opposed to that
15 inasmuch as this is a question that has been inquired into
16 on discovery. Indeed, I believe at page 695 of the
17 transcript, you will find transcribed an interrogatory
18 response of Witness Needham which deals directly with this
19 question. I won't pretend that her answer is effusive in
20 any sense of the word, but it does indicate that the OCA
21 considered this question during the discovery period and did
22 with it what it did with it.

23 At this stage, the OCA's counsel's state of
24 knowledge is not relevant or is not in any way a basis for
25 imposing a legal standard in this proceeding. We have a set

1 of procedural rules which all participants are bound to
2 abide by. The discovery period has come and gone. The OCA
3 did, in fact, raise this question during discovery, so it
4 clearly considered it and had an opportunity to follow up on
5 it should it so desire and at this point, thanks to a
6 question from Commissioner LeBlanc, OCA counsel has
7 discovered that there is something she doesn't know and
8 would like to know more about it, and we object inasmuch as
9 it is too late and the opportunity has already come and
10 gone.

11 I might parenthetically add that we have checked
12 preliminarily and do not believe there are any such
13 documents. Indeed, we believe there is good reason to think
14 why there should not be such documents. These are decisions
15 made fundamentally at a local level, and as such, the local
16 conditions should be a very significant input into making
17 those decisions, and since that local information does vary
18 from location to location, there would be no reason to think
19 that a standard imposed from the top end of our organization
20 would be an appropriate response to this class of problem.

21 MS. DREIFUSS: I do appreciate your making a
22 preliminary inquiry. And I guess, Commissioner Quick, I
23 would just ask that a little more time be spent to see
24 whether -- you know, I know only a few hours have elapsed
25 since I first raised the matter, and I would like to see if

1 just a little more time could be devoted to see if such
2 materials do exist; if so, provide them.

3 COMMISSIONER QUICK: Well, perhaps we can see if
4 overnight you can find out anything more and then we'll
5 address this in the morning.

6 MR. HOLLIES: At this point, I have no
7 expectation of being back in the office between now and my
8 appearance here tomorrow, so that may prove somewhat
9 problematic. And I would repeat our basis for the
10 objection. The discovery period has run; the OCA has had
11 their opportunity on this; and just because counsel realizes
12 something that she doesn't -- there is something that she
13 doesn't know at this late stage is no basis for excusing
14 compliance with the procedural schedule.

15 MS. DREIFUSS: Commissioner Quick, I have to admit
16 I was encouraged by Commissioner LeBlanc's interest in the
17 matter, and that's what stimulated the question. It's true,
18 OCA did ask questions about that earlier in the proceeding,
19 but we thought that there might be a continued interest on
20 the part of the Commission and of course there is on the
21 part of the OCA.

22 COMMISSIONER QUICK: Well, Mr. Hollies makes a
23 pretty good point. At this time, let's -- I'll take it
24 under advisement. If we have further interest from the
25 bench, maybe we'll proceed from there.

1 BY MS. DREIFUSS:

2 Q Mr. Lion, in this section of your testimony,
3 Section 4, that we have just been discussing, essentially
4 your position is that the rate increase should come first to
5 justify the cost expenditures later; is that right?

6 A No. My -- the managers in the field are going to
7 make their decisions based on good economic sense. To some
8 extent they are evaluated on that and I think that they
9 should have the incentive to provide postal box expansion
10 where the demand justifies it and they won't, I think, if
11 the revenues are -- fall short of the costs because it would
12 be not in their own best interest.

13 So I think that the Commission should take that
14 into account, that's all.

15 Q There isn't anything to prevent expenditures from
16 taking place right now to expand the box sections in various
17 facilities where shortages exist, is there?

18 A If a manager looks at the space he's got to rent
19 and it costs more than he can expect to earn for his Post
20 Office in revenue, than that's a disincentive. He would be
21 discouraged from doing so. And to the extent there are some
22 of these capacity problems, maybe that's part of the
23 explanation. That's a speculation, but --

24 Q If expenditures are made -- let's assume,
25 hypothetically, that the Postal Service management at the

1 highest levels announced a policy, we want to get rid of
2 these box shortages, that's very important. Go ahead, local
3 postmasters, make the expenditures you need to make to
4 expand the box sections and later, to the extent that that
5 results in higher attributable costs for Post Office boxes,
6 we will just roll that into the revenue requirement in the
7 next omnibus rate case. There would be nothing to prevent
8 that, right?

9 A I don't know why the Postal management would want
10 to do that. I guess I don't know. My answer is I guess
11 there is nothing to prevent it. It seems to be unlikely to
12 me.

13 Q Could you turn to page 21 of your testimony,
14 please?

15 A Just a minute.

16 Okay.

17 Q At -- basically in the two full paragraphs on that
18 page, you are talking about the growth of CMRA outlets; is
19 that correct?

20 A Yes.

21 Q You don't know, I imagine, whether that holds true
22 for the boxes that are offered by CMRAs, do you?

23 A No, we do not have information on the number of
24 boxes.

25 Q Earlier in the proceeding -- I'm sorry. Earlier

1 in the hearing today, I was permitted to raise with Witness
2 Needham an interrogatory response that she made to an OCA
3 interrogatory. I don't know whether you were present. It
4 doesn't really matter.

5 A Yes, I was present and I heard it.

6 Q Okay.

7 MR. HOLLIES: At this point, it seems appropriate
8 to interject I wonder if counsel would make a proffer as to
9 why this is within the scope of this particular witness's
10 testimony?

11 MS. DREIFUSS: Oh, I think it's obvious.

12 MR. HOLLIES: Perhaps you could state that.

13 MS. DREIFUSS: Let me go ahead and read Witness
14 Needham's response to Witness Lion and to the commissioners
15 and I think it will be obvious why it is relevant.

16 BY MS. DREIFUSS:

17 Q The response to Witness Needham's that I am going
18 to read is located at Transcript 3, page 707. It is in
19 response to Interrogatory OCA/USPS-T7-31, subpart (c).

20 There she states, and I will quote: "Yes, with
21 respect to Mailboxes, Etc., MBE, a major alternative for
22 Post Office box service, between 1990 and 1996, the total
23 number of centers increased 129 percent from 1,119 to
24 2,564."

25 And I will add that her sources for that

1 information are an MBE 1990 annual report and the Form 10-Q
2 for MBE for January 1996.

3 Do you know roughly what annual rate of growth
4 would produce a 129 percent six-year growth rate?

5 A Well, in the first place, I think that's a five-
6 year growth rate, just to quibble, because you did say
7 January '96. So it had to be from 1990 to 1995.

8 I would -- I worked it out a little while ago and
9 I think it is close to 20 percent a year.

10 Q The 2564 figure that witness Needham gave for
11 January, 1996, that would have been the number of MBA
12 outlets established, I believe --

13 A MBE you mean.

14 Q I'm sorry. It would be better if they were MBA
15 probably.

16 The MBE outlets for January, 1996 would have been
17 that number?

18 A Yes.

19 Q You provide a counterpart for that number in your
20 rebuttal testimony, I believe.

21 If you give me just a moment, I will lay my hands
22 on it.

23 [Pause.]

24 BY MS. DREIFUSS:

25 Q At page 20 of your rebuttal testimony you cite

1 some information circulated by AMPC, is that correct?

2 A Yes.

3 Q And --

4 A That's the trade association of CMRAs.

5 Q Right. It might be helpful to say what AMPC
6 stands for.

7 A Associated Mail and Parcel Centers, Napa,
8 California.

9 Q Okay. At line 16 you give a figure of 10,000 mail
10 and parcel centers nationwide, is that correct?

11 A Yes, that number was given in testimony before
12 Congress by the President of AMPC.

13 Q Okay, now going back to witness Needham's 2,564
14 outlets for MBE in 1996, that would be -- as it works out
15 very nicely -- roughly a quarter of the 10,000 mail and
16 parcel centers that you refer to at line 16, is that
17 correct?

18 A Yes.

19 Q And so for a quarter of that 10,000, that is the
20 MBE portion of the 10,000, to whatever extent it is
21 represented in the 10,000, the annual growth rate would be
22 along the lines, let's say, of the 20 percent that you
23 mentioned.

24 A Yes.

25 Q But not the 40 percent?

1 A Not the 40 percent, yes.

2 Of course, MBEs, as you know, is only a part of
3 the picture.

4 Q Right. We agreed it was roughly a quarter of the
5 10,000 that you mentioned in your testimony.

6 A Okay -- but even growing at 20 percent it is not
7 an industry in equilibrium. If the whole thing is growing
8 at 10 percent I wouldn't call it an industry in equilibrium
9 and this section was to rebut Professor Sherman's point that
10 he could determine, take the prices that the CMRA's are
11 charging and determine their costs, and he said that that
12 had to be in long-run equilibrium.

13 Well, whether it is growing at 40 percent, 20
14 percent, or 10 percent it's not my idea of equilibrium and I
15 think that the number of entries into this field is rapid
16 and apparently there are big economic gains or so many
17 people wouldn't be coming in.

18 But the whole point is you cannot determine --
19 take their costs and take their prices and then say that
20 their costs are higher or lower than the Postal -- you just
21 don't know what CMRA costs are.

22 Q Getting back to MBE, I was able to get hold of
23 their annual report for 1996, and let me just ask you if you
24 have any reason to disagree with a statement that I found
25 there.

1 The annual report states that, "The MBE area
2 franchise network in the United States is essentially built
3 out."

4 Do you have any reason to disagree with that
5 statement?

6 A No.

7 MS. DREIFUSS: I have no further questions for
8 Witness Lion.

9 COMMISSIONER QUICK: Is there any followup cross-
10 examination? I suspect not.

11 [No response.]

12 COMMISSIONER QUICK: Are there any questions from
13 the Bench?

14 [No response.]

15 COMMISSIONER QUICK: No questions from the Bench
16 then.

17 That brings us to redirect. Mr. Hollies, would
18 you like an opportunity to consult with your witness?

19 MR. HOLLIES: I hope to make this as brief as
20 possible but, yes, five minutes, I think, is appropriate.

21 COMMISSIONER QUICK: Fine, five minutes you have.

22 [Recess.]

23 COMMISSIONER QUICK: Mr. Hollies?

24 MR. HOLLIES: We have no further questions.

25 COMMISSIONER QUICK: Well, I guess we have no

1 further recross examination then as a result of redirect.

2 Thank you, Mr. Lion. We appreciate your
3 appearance here today and your contribution to our record.
4 If there is nothing further, you are excused.

5 [Witness excused.]

6 COMMISSIONER QUICK: We will resume tomorrow
7 morning at 9:30 a.m. to hear testimony from Postal Service
8 Witnesses Taufique, DeMay and Infante.

9 Thank you, we are adjourned.

10 [Whereupon, at 5:16 p.m., the hearing was
11 recessed, to reconvene at 9:30 a.m., Tuesday, December 17,
12 1996.]

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