

Official Transcript of Proceedings

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

IN RE: MURDER OF MARTIN LUTHER KING, JR.

MEMORANDUM

VOLUME III

DATE: Thursday, January 13, 2000

PLACE: Washington, D.C.

PAGES: 780 - 806

ANN RILEY & ASSOCIATES, LTD.
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BEFORE THE
POSTAL RATE COMMISSION

-----X
In the Matter of: :
MAILING ONLINE EXPERIMENT : Docket No. MC2000-2
-----X

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

Volume III
Thursday, January 13, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:30 a.m.

BEFORE:

HON. W.H. "TREY" LeBLANC, PRESIDING OFFICER
HON. GEORGE A. OMAS, VICE CHAIRMAN
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
HON. RUTH GOLDWAY, COMMISSIONER

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P R O C E E D I N G S

[9:30 a.m.]

COMMISSIONER LeBLANC: Okay, Mr. Reporter. We can go on the record, please.

Good morning, ladies and gentlemen. Today we continue evidentiary hearings in Docket Number MC 2002. This is concerning the Postal Service's request for establishment of an experimental classification and fee schedule for Mailing Online.

Today our schedule calls for the receipt of three pieces of prepared testimony. Our first witness sponsors USPS-T-3. His appearance was rescheduled from yesterday to today so that counsel could prepare cross examination of late filed responses to discovery. No participant has filed a request to cross examine USPS-T-4, although the Office of the Consumer Advocate indicated that it might seek the opportunity to question this witness.

It is my intention to receive this testimony into evidence and then conclude with the reappearance of Witness Plunkett, sponsoring USPS-T-5.

Yesterday I directed Postal Service to prepare a packet of the designated materials related to the testimony of Witness Rothschild in Docket Number MC 98-1 suitable for incorporation into today's transcript. I will ask counsel for the Postal Service to move that material into the

1 evidentiary record after we conclude with preliminary
2 procedural matters this morning.

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

5 MR. COOPER: Yes, Mr. Presiding Officer. This is
6 Richard Cooper for the Postal Service.

7 Since Witness William Tekas for the Postal Service
8 has not received any requests for cross examination, we had
9 asked earlier if we could put him on the stand first, and I
10 believe that all the parties have agreed to do that.

11 COMMISSIONER LeBLANC: That was my understanding.

12 Mr. Tekas, would you stand so we can go ahead and
13 swear you in, please.

14 Whereupon,

15 WILLIAM M. TEKAS,
16 a witness, was called for examination by counsel for the
17 United States Postal Service and, having been first duly
18 sworn, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. COOPER:

21 Q Mr. Tekas, I have placed before you two copies of
22 a document entitled "Direct Testimony of William M. Tekas on
23 Behalf of United States Postal Service," marked as USPS-T-4.

24 Do you have those?

25 A Yes, I do.

1 Q Have you reviewed those?

2 A Yes, I have.

3 Q Were they prepared by you or under your direct
4 supervision?

5 A Yes, they were.

6 Q If you were to be giving testimony orally today,
7 is this the testimony that you would give?

8 A Yes, I would.

9 MR. COOPER: Mr. Chairman, I ask that these
10 documents be admitted into evidence. I will hand the copies
11 to the Reporter.

12 COMMISSIONER LeBLANC: Please do. Hearing no
13 objections then, the corrected version of USPS-T-4 is
14 received into evidence as the direct testimony of Witness
15 Tekas.

16 As our practice normal, Mr. Reporter, this
17 testimony will not be transcribed.

18 [Direct Testimony and Exhibits of
19 William M. Tekas, USPS-T-4, was
20 received into evidence.]

21 COMMISSIONER LeBLANC: Now there is no designated
22 written cross examination relating to USPS-T-4.

23 Does any participant have written cross
24 examination for Witness Tekas at this time?

25 MS. DREIFUSS: Yes, Commissioner LeBlanc. OCA

1 would like to designate and have entered into the record as
2 evidence two responses that Witness Tekas provided to OCA
3 interrogatories. The numbers of the interrogatories are
4 OCA/USPS-T4-1 and -2.

5 Counsel for Mr. Tekas contacted me this morning as
6 I entered the hearing room and said that Mr. Tekas had a
7 minor change to make to the first answer, and he has marked
8 these copies in that way.

9 CROSS EXAMINATION

10 BY MS. DREIFUSS:

11 Q I believe he's had a chance to look over these two
12 responses at that time.

13 A That is correct.

14 Q Mr. Tekas, if these questions were posed to you
15 today, would your answers be the same?

16 A Yes, they would.

17 Q These answers were prepared by you or under your
18 direct supervision, were they not?

19 A Yes, they were.

20 MS. DREIFUSS: With the Presiding Officer's
21 permission, I will hand two copies to the Reporter.

22 COMMISSIONER LeBLANC: Please do so.

23 MS. DREIFUSS: Thank you.

24 COMMISSIONER LeBLANC: Mr. Reporter, these are to
25 be received into evidence and will be transcribed into the

1 record at this point, please.

2 [Designation of Written
3 Cross-Examination of William M.
4 Tekas, USPS-T-4, was received into
5 evidence and transcribed into the
6 record.]

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T4-1, page 1 of 1

OCA/USPS-T4-1. Will various services of USPS.com such as those listed in witness Garvey's testimony at page 14, e.g., ZIP Code lookup, change of address services, post office locator service, rate information, and tracking and delivery confirmation, use the "USPS.com registration and payment functions?" If not, please describe all of the current and known future services that will use these functions.

RESPONSE:

Lin's

Please see Witness ~~Pinkett's~~ response to MASA/USPS-T3-9(b).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T4-2, page 1 of 2

OCA/USPS-T4-2. If MOL and other services like Shipping Online use the USPS.com *registration and payment functions*, but services such as those listed in interrogatory OCA/USPS-T-4-1 do not, please explain why some portion of the costs of registration and payment should not be allocated to MOL.

RESPONSE:

One way to conceptualize the payment and registration function that may shed some light on this issue is to think of the payment and registration function as a "shared infrastructure within a shared infrastructure". Specifically, it is my understanding that the registration and payment shared infrastructure resides within the overall USPS.com shared infrastructure. Throughout my testimony, I consistently state that in any shared infrastructure environment, only the costs of the infrastructure that are caused by specific products should be allocated to those products. Any shared costs that are not caused by specific products should be recovered by all products offered through the infrastructure (but not by any one product in particular). This same general principle can be applied in the "shared infrastructure within a shared infrastructure" contemplated by this question.

To better understand what I mean by a "shared infrastructure within a shared infrastructure", assume that the products offered through the USPS.com channel can be divided into two categories: those that use the payment and registration function (products $a_1, a_2, \dots a_n$) and those that do not (products $b_1, b_2, \dots b_m$). It

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T4-2, page 2 of 2

is my understanding that none of the individual products contained in the group that uses the payment and registration function (products $a_1, a_2, \dots a_n$) causes the function to exist. Therefore, none of the costs associated with the payment and registration function (the "shared infrastructure within the shared USPS.com infrastructure") should be allocated individually to any of the products in the group (products $a_1, a_2, \dots a_n$) that use the payment and registration function, but should be recovered by the group as a whole. If any one product did cause a portion of the costs associated with the payment and registration function to exist, then that portion of costs should be allocated directly to that product. Of course, no portion of the costs associated with the payment and registration infrastructure should be allocated to products that do not use that infrastructure (products $b_1, b_2, \dots b_m$).

Please also see Section V (pages 27 through 29) of my testimony for a complete discussion of how costs that are allocated to individual products and costs that are shared by several products should be recovered (as opposed to allocated).

1 COMMISSIONER LeBLANC: Does any participant wish
2 oral cross examination of Witness Tekas? Excuse me, ladies
3 and gentlemen, I've got a cough this morning. I do
4 apologize. Anybody orally?

5 [No response.]

6 COMMISSIONER LeBLANC: Okay. Any questions from
7 the bench?

8 [No response.]

9 COMMISSIONER LeBLANC: Okay. Well, Mr. Tekas, it
10 looks like you get off easy, as they say.

11 THE WITNESS: Thank you very much.

12 COMMISSIONER LeBLANC: Thank you for your brief
13 appearance here today and you are excused.

14 THE WITNESS: Thank you.

15 [Witness excused.]

16 COMMISSIONER LeBLANC: Mr. Hollies?

17 MR. HOLLIES: Would this be an appropriate time to
18 handle Witness Rothschild's testimony from the other case?

19 COMMISSIONER LeBLANC: We can do that now. That's
20 okay, yes. We'll go ahead and do that.

21 MR. HOLLIES: The Postal Service moved in a motion
22 filed together with our direct case that testimony and oral
23 cross examination and written cross examination -- excuse
24 me, is it not oral -- written cross examination and the
25 direct testimony of Witness Rothschild be admitted into

1 evidence, and that motion was formally granted at one
2 juncture.

3 It has been brought to my attention that there was
4 some additional written cross examination of Witness
5 Rothschild not covered in the scope of my initial motion,
6 and OCA in particular, as I understand it, believes that it
7 would be appropriate to include that other material as well
8 in what goes into the record.

9 The material I had pointed out in our motion was
10 all from Volume 2 of the transcript, and the additional
11 material is from Volume 6 of the transcript.

12 I have here two copies of both the Volume 2 and
13 Volume 6 material and I would propose that both be admitted
14 into evidence at this point.

15 Technically that is not what we moved for
16 originally but I think that it fills out the scope of
17 Witness Rothschild's contributions from the previous case in
18 a way that is appropriate.

19 The pages in question are from Volume 2 of the
20 transcript including pages 428 through 479 and then from
21 Volume 6 of the transcript, pages 1265 through 1272, and if
22 you think that it is appropriate I will certainly provide
23 these to the Court Reporter at this point in time as to
24 whether they get transcribed into the record, that is
25 obviously for you to decide.

1 COMMISSIONER LeBLANC: Ms. Dreifuss, any comment
2 at this point before we move on this?

3 MS. DREIFUSS: I appreciate Mr. Hollies'
4 suggestion that the material designated by OCA be combined
5 with other material designated by the Postal Service, so we
6 can have all of the Rothschild testimony in one place and
7 generally I think what he suggested is the proper way to go.

8 COMMISSIONER LeBLANC: You have no problems with
9 any of the questionable so-called material that he
10 mentioned?

11 MS. DREIFUSS: No, I don't.

12 COMMISSIONER LeBLANC: Okay, thank you. That
13 being the case, Mr. Hollies, if you can give the Reporter
14 two copies -- do you have two copies of it?

15 MR. COOPER: I do.

16 COMMISSIONER LeBLANC: Please -- because I know
17 that was kind of a large number there.

18 Mr. Reporter, I will grant the Postal Service's
19 motion here. These materials are to be received into
20 evidence and are to be transcribed at this point.

21 [Designation of Witness Beth B.
22 Rothschild's Testimony in MC 98-1
23 was received into evidence and
24 transcribed into the record.]

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Official Transcript of Proceedings

RECEIVED

Before the

AUG 26 9 11 AM '98

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: MAILING ONLINE SERVICE

Docket No. MC98-1

VOLUME 2

DATE: Wednesday, August 26, 1998

PLACE: Washington, D.C.

PAGES: 94 - 694

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Washington, D.C. 20036

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1 CHAIRMAN LeBLANC: Now, Mr. Reiter, do you have
2 corrected copies of the testimony of Postal Service Witness
3 Beth B. Rothschild and appropriate statement of
4 authenticity?

5 MR. REITER: Yes, I do.

6 CHAIRMAN LeBLANC: And you will also provide these
7 to the reporter?

8 MR. REITER: Yes, I will.

9 CHAIRMAN LeBLANC: Are there any objections?

10 [No response.]

11 CHAIRMAN LeBLANC: The testimony and exhibits of
12 Witness Rothschild are received into evidence, and keeping
13 with our practice again, the Postal Service direct evidence
14 will not be transcribed.

15 [Direct Testimony and Exhibits of
16 Beth B. Rothschild were received
17 into evidence.]

18 CHAIRMAN LeBLANC: There is also written
19 cross-examination for written -- I mean for Witness
20 Rothschild. I can't talk. Has that been taken care of, Mr.
21 Reiter?

22 MR. REITER: Yes, it has.

23 CHAIRMAN LeBLANC: Okay. And that will also be
24 part of the packet?

25 MR. REITER: Yes, it will.

1 CHAIRMAN LeBLANC: Thank you. And you will
2 provide two copies of the designated written
3 cross-examination to the reporter?

4 MR. REITER: Yes, I will.

5 CHAIRMAN LeBLANC: The answers are received into
6 evidence and are to be transcribed into the record when
7 appropriate, Mr. Reporter.

8 [Designation of Written
9 Cross-Examination of Beth B.
10 Rothschild was received into
11 evidence and transcribed into the
12 record.]
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Mailing Online Service

Docket No. MC98-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS BETH B. ROTHSCHILD
(USPS-T4)

Party

Office of the Consumer Advocate

Interrogatories

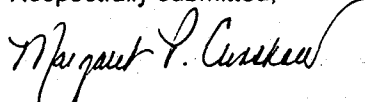
DBP/USPS-T4-1

MASA/USPS-T4-1-4

MASA/USPS-T5-9 redirected to T4

OCA/USPS-T4-1-32, 34-35

Respectfully submitted,



Margaret P. Crenshaw
Secretary

Interrogatory:

Designating Parties:

[illegible]

Designating Parties:

[illegible]

**Response of Postal Service Witness Rothschild
to Interrogatories of David B. Popkin**

DBP/USPS-T4-1: You indicate that a number of focus groups discussed the proposal prior to the filing. Did the focus groups discuss any of the following [If yes but not adopted, what was the reason for not adopting the idea?]:

[a] The ability to have the mail enter the system on the same day as it is put on the website.

[b] The concept of regional pricing.

[c] The ability to utilize post cards.

[d] The ability to utilize a return address.

[e] The ability to utilize the various address correction services.

RESPONSE:

[a] No.

[b] No.

[c] No.

[d] Yes. National Analysts was not involved in the selection of options adopted in the final service concept. We do not know the reasons for adopting or not adopting particular options.

[e] Yes. National Analysts was not involved in the selection of options adopted in the final service concept. We do not know the reasons for adopting or not adopting particular options.

**Response of Postal Service Witness Rothschild
To MASA Interrogatories**

MASA/USPS-T4-1. Reconcile your statement at page 3 of LR-2 that "[t]he focus groups were configured to represent the full range of potential end users," with your statement at page 2 of LR-2 that one of the qualifications for inclusion in the focus groups was that the organization "distribute less than 5,000 copies of the application at one time."

RESPONSE:

Within the universe of companies that meet the qualifying criteria (i.e., (1) produced one or more of the five high priority applications; (2) used desktop publishing systems for the layout and design, word processing, etc. associated with the application; (3) produced at least some of the application with a run size less than or equal to 5,000 pieces; (4) produced at least some of the application in non-glossy, non-four-color formats; and (5) performed the design or layout functions for the application in-house), we attempted to obtain full representation of industry and company sizes. Also, refer to our answer to interrogatory OCA/USPS-T4-5.

**Response of Postal Service Witness Rothschild
To MASA Interrogatories**

MASA/USPS-T4-2. Confirm that potential end users of MOL include organizations that mail 5,000 or more copies of an application at one time.

RESPONSE:

I cannot confirm whether or not potential end users of MOL include organizations that mail 5,000 or more copies of an application at one time because organizations with newsletter or advertising applications were terminated if, as indicated in the screening form, the "typical size of their production run for distribution at a single point in time" was greater than 5,000 pieces. Organizations with invoices, forms, or announcements were terminated, according to the screening form, if more than 5,000 "individual pieces were typically distributed at one time."

**Response of Postal Service Witness Rothschild
To MASA Interrogatories**

MASA/USPS-T4-3. Describe each of the "existing hybrid mail products" referred to at page 3 of LR-2.

RESPONSE:

The existing hybrid mail products include bulk hybrid mailers that target correspondence and transaction mail sent in large quantities, typically to household recipients (e.g., bills and statements, confirmations) and e-mail providers who offer hard-copy delivery of messages generated by e-mail users. The latter primarily carries individual or low volume correspondence messages which have low physical output quality requirements.

**Response of Postal Service Witness Rothschild
To MASA Interrogatories**

MASA/USPS-T4-4. Describe in detail the basis for the following statement at page 33 of LR-2:

[I]n Year 1, 38% of the total volume of the basic NetPost service at the 25% contribution margin is likely to be incremental pieces to the Postal Service.

- a. Confirm that by "incremental pieces to the Postal Service," you mean pieces that would not otherwise be mailed in the absence of MOL. If you cannot confirm, explain the reason(s) you cannot confirm.
- b. When you use the term "basic NetPost," are you referring to the "basic" as opposed to the "enhanced" service as defined in LR-2? If so, what percentage of volume projected for the enhanced service is likely in your view to represent incremental volume? State in detail the basis for your response.

RESPONSE:

- a. Confirmed.
- b. Yes, basic NetPost refers to the basic service as opposed to the enhanced service.

The percentage of incremental volume for the enhanced product is also 38%.

During the interview, respondents were asked to indicate how many of their existing pieces would be sent via NetPost and how many new pieces would be generated (Basic = Q.4a/b and enhanced = Q.11a/b). For all existing pieces, further delineation of those pieces that would be new to the Postal Service was obtained in a follow-up question (Basic = Q.5 & Enhanced = Q.12). The percentage of incremental pieces for the enhanced service was determined by adding Q.11b + Q.12g,h,i together and dividing that number by the total number of enhanced NetPost pieces estimated from the survey. The percentage of incremental pieces for the basic service was determined by adding Q.4b + Q.5g,h,i together and

**Response of Postal Service Witness Rothschild
To MASA Interrogatories**

dividing that number by the total number of basic NetPost pieces estimated from the survey.

**Response of Postal Service Witness Rothschild
to MASA Interrogatories**

MASA/USPS-T5-9. At various places in your testimony you state that 62% of the projected MOL mail "would have been prepared and entered as mail notwithstanding the availability of Mailing Online" (p.9), and that 38 percent of Mailing Online pieces would not have been mailed in the absence of the service" (p.7), in each case citing LR-2 at 38. Describe in detail how these percentages were derived. Confirm that they are not found at the cited page in LR-2, and that the proper reference is page 33 of LR-2.

RESPONSE:

Confirmed. How the percentages were derived can be found in the answer to interrogatory MASA/USPS-T4-4.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-1. Please refer to page 4 of your testimony where you discuss the focus groups held during December, 1995 and January, 1996.

- a. Were transcripts made of the focus group tapes? If so, please provide a transcript from one of the twelve focus groups. If not, please explain in detail how the data was analyzed?
- b. Please explain how the focus group data was coded and provide the coded data.

RESPONSE:

- a. No transcripts were made from the focus group tapes. Analysts listened to the tape recordings of all sessions and outlined salient points and observations from which conclusions were drawn and reported upon.
- b. No coding was done; rather, analysts noted key themes and points of view expressed by participants as described in point [a] above.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-2. Please refer to page 4 of your testimony where you list four characteristics for which mailing online was deemed most appropriate and five applications determined to best meet the criteria.

- a. Please provide a crosswalk between the four characteristics and the specific topics listed in Attachment B, Qualitative Discussion Guide.
- b. Please provide a crosswalk between the five applications and the specific topics listed in Attachment B, Qualitative Discussion Guide.

RESPONSE:

a. - b. Based upon analysis of the discussion of all of the topics listed in Attachment B Qualitative Discussion Guide, the project team, of which I am the head, determined qualitatively which types of focus group participants were interested in NetPost, the reasons for their interest, and the types and characteristics of the applications they produced. From this analysis, we derived the conclusions regarding the five applications and four characteristics stated on pages 3 and 4 of the library reference. Because the analysis was qualitative, no determinative "crosswalk" exists.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-3. Were the prices you assumed in the NetPost survey focus groups using 25% and 50% contribution margins for the piece printing and production costs the same prices which are detailed in the testimony of witnesses Seckar and Plunkett in this case? If not, please provide a table of all the prices you assumed in the focus group conversations.

RESPONSE:

No prices were presented during the focus groups. Participants were asked willingness-to-pay questions, including what they considered appropriate prices to be. I have no knowledge of the prices detailed in the testimony of witnesses Seckar and Plunkett.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-4. Did either the quantitative phase or the qualitative phase of the NetPost research involve a discussion or consideration of printing on card stock (folded or unfolded) for such documents as invitations or greeting cards? If so, what was the level of customer interest and your conclusions regarding this potential application of Mailing Online?

RESPONSE:

The NetPost research did not include a consideration of printing on card stock. Hence, the level of customer interest for this potential application is not available.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-5. Please refer to the NetPost research report, Library Reference-LR-2 at page 3 where it states, "The focus groups were configured to represent the full range of potential end-users and intermediaries...." If the NetPost study did not consider customers who might send invitations or greeting cards on card stock, how did you reach this conclusion?

RESPONSE:

Within the universe of applications deemed appropriate for the focus groups, we attempted to insure a mix of industry groups and company sizes that produce these applications. No attempt was made to include producers of other applications such as invitations or greeting cards.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-6. Please define "quick delivery" as used in the Library Reference LR-2 at the top of page 4.

RESPONSE:

"Quick delivery" is the terminology used by focus group participants; no quantitative definition was provided.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-7. Please refer to the statement in LR-2 at page 4 concerning the universe of establishments and producers that "generate at least some NetPost-appropriate pieces...." Was there a minimum number of pieces that needed to be produced in order to qualify for "some" in the universe you defined? If so, what was the minimum?

RESPONSE:

No minimum number was required. One or more pieces qualified.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-8. Did the sample design for the quantitative phase of the NetPost study produce a statistically significant sample?

RESPONSE:

The initial (and primary) purpose for this research was to support business planning activities, not to be submitted as testimony before the Postal Rate Commission. Our goal, as stated in page 2 of the library reference, was to provide an indication of whether there was sufficient interest to justify further evaluation of NetPost. To that end, a probability sample was drawn, interviews conducted and standard errors produced to provide an estimate of the range of NetPost pieces that could be expected based upon the survey results.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-9. Please refer to LR-2 at page 5 and explain the basis for selecting the employee size strata as you did with groups of 1-9 & unknown, 10-99 and 100+.

RESPONSE:

These are commonly used employee size classifications when researching business customers.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-10. Please provide the underlying quantitative analysis supporting the conclusions in the paragraph in LR-2 at page 6 relating to the decision to break down the employee size and industry grouping that (1) an industry related to the types and time sensitivity of documents produced, and (2) the organization's size related to comfort with technology and resources to assist in document production and distribution.

RESPONSE:

There is no quantitative support; rather, it was noted when analyzing the focus group proceedings that participants in certain industries produced certain applications with more frequency than others, and that participants from small organizations expressed different attitudes toward technology and had more constrained resources than participants from large organizations.

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-11. Please explain what is meant by the term "readable base" at the top of page 7 of LR-2.

RESPONSE:

A "readable base" for large organizations across all SIC's means a large enough sample so that estimates based on it would have reasonably small standard errors. A rule of thumb is that a stratum must contain at least 50 interviews to yield reasonable results.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-12. Please refer to USPS-LR-2/MC98-1, page 4. The report states, that "a given level of statistical reliability could be achieved using a smaller sample in the survey."

- a. What did the Postal Service indicate was an acceptable level of statistical reliability?
- b. What level of statistical reliability was achieved given the smaller survey sample?
- c. What levels of statistical reliability were initially recommended by National Analysts, Inc?

RESPONSE:

a. - c. When conducted, this research was not designed as support for a Commission filing. A specific level of reliability was neither requested nor recommended, and no precise level of statistical reliability was calculated.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-13. USPS-LR-2/MC98-1, page 4, indicates that the survey was targeted towards document producers in the continental United States that generate at least some NetPost-appropriate pieces, not to all document producers in the United States.

- a. Please explain why all 50 states within the United States were not included in the survey?
- b. Please explain what impact not addressing all 50 states had on the statistical validity of the survey results.
- c. Please explain what impact limiting the survey to NetPost-appropriate pieces as opposed to addressing all document producers in all 50 states had on the statistical validity of the survey results.
- d. In preparing the survey, was an assumption made that none of the non-NetPost document producers would prepare to "migrate" their documents to NetPost-appropriate pieces?
- e. If your response to part 'd' of this interrogatory is affirmative, please explain the rationale for assuming that non-NetPost document producers would not prepare to "migrate" their document to NetPost-appropriate pieces.
- f. If your response to part 'd' of this interrogatory is negative, then please explain the rationale for limiting the survey to document producers of NetPost-appropriate pieces.

RESPONSE:

- a. When conducted, this research was not designed as support for a Commission filing, but as business planning research. Our goal was to determine if there was "enough" volume to warrant further development, not what the total volume of NetPost would be. It is a common industry standard to confine business planning research to the continental U.S.
- b. - c. The statistical impact was not determined.
- d. Yes

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

- e. Again, let me reiterate that for business planning purposes, the objective was to determine if there was enough volume among the most likely users to warrant further evaluation of NetPost, not to estimate the total volume.
- f. Not applicable.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-14. Please refer to USPS-LR-2/MC98-1, pages 6-7.

- a. In designing the survey sample, please explain why the estimated "appropriate universe size" (Table 2) used does not match the known D&B universe size (Table 1).
- b. Referring to part 'a' of this interrogatory, please explain what the statistical impact is upon survey results of changing the "known" D&B universe size to an "estimated" universe size.
- c. Who made the decision to change the estimated "appropriate universe size" from the known D&B universe size?
- d. At 6, "[t]he NetPost-appropriate universe size was estimated at the conclusion of data collection, based on the eligibility rates found during the screening process." Please explain the specifics of what analysis was performed to determine the estimated "appropriate universe size"?
- e. If any analysis was performed, and/or if any supporting documentation exists that relates to determining the "appropriate universe size," please cite the source and provide copies of all information not otherwise filed in this docket.
- f. If no supporting documentation or analysis was prepared to determine the estimated "appropriate universe size," please explain how the estimate was developed.

RESPONSE:

- a. - c. These questions cannot be answered because they proceed from an incorrect premise. Table 2 is Sample Allocation, not appropriate universe size.
- d. - f. The specifics of the analysis to determine the appropriate universe sizes are on page 21. The estimated sizes are shown on pages 22-23 of the library reference.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-15. Please refer to USPS-LR-2/MC98-1, page 7. "Quotas were also set for the number of respondents However, early field experience indicated that the incidence of companies that had NetPost-appropriate advertising mail, newsletters, and forms was so low that the number of screening interviews required to obtain 300 completed interviews for each would be prohibitive. Therefore, the quotas for interviews by application were revised"

- a. Please explain what impact the revised quota had on the statistical validity of the survey results when extrapolated out to the entire 50 states.
- b. If your response to part 'a' of this interrogatory is "insignificant" or can be interpreted as having a "similar" meaning, please explain why the sampling plan initially "called for 300 interviews to be completed for each of the five applications."

RESPONSE:

- a. - b. Because the goal of this research was to determine if there would be enough NetPost volume in total to warrant further development, it was not deemed time- or cost-effective to continue searching for respondents who turned out to produce such low incidence applications. The precise statistical impact on the survey results of having reduced sample sizes for these applications was not important to our purpose and is unknown.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-16. The following refers to USPS-LR-2/MC98-1, page 7. Please refer to the following statement, "large organizations were oversampled in order to obtain a readable base for them, even though their likelihood of sending NetPost volume was believed to be lower than other size groups."

- a. Please explain who made the determination to "oversample" large organizations?
- b. Please explain the purpose of obtaining a "readable base" given that the "likelihood of sending NetPost volume was believed to be lower than other size groups."
- c. What is the statistical impact on the validity of survey results as a consequence of over sampling a group that was expected to have lower NetPost volume?

RESPONSE:

- a. A staff sampling statistician, in collaboration with the remainder of the research team, of which I am the head, made the determination.
- b. We needed to confirm our hypothesis with a sample size that would produce reasonably stable results.
- c. The precise statistical impact on the survey results of oversampling was not important to our purpose and is unknown.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-17. Section F of USPS-LR-2/MC98-1, indicates that the questionnaire was provided to the survey participant via a computer diskette. Please provide a copy of that diskette and a copy of any additional information included with the diskette.

RESPONSE:

A computer diskette will be provided under separate cover. As noted in Appendix F -- NetPost Service/Optional Worksheets -- respondents who completed the computerized version of the questionnaire received a paper copy of the NetPost service description, an introductory letter, a quick reference sheet, and optional worksheets #1 and #2.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-18. Section F of USPS-LR-2/MC98-1, indicates that the survey participant received a \$35.00 honorarium if the questionnaire was fully completed and returned within two weeks from its receipt.

- a. Why was an honorarium offered?
- b. Who determined the amount of the honorarium?
- c. What impact does offering a cash honorarium have on the statistical validity of the survey?
- d. If your response to part 'c' of this interrogatory is 'none' or can be interpreted similarly, please explain why someone filling out a questionnaire wouldn't quickly provide just "any" response to each question and return the form for the cash honorarium. Include in your response a description of how the survey results were adjusted to address the possibility of "random" answers.
- e. Who determined whether or not a returned questionnaire was satisfactorily completed and met the return criteria and thus "earned" the honorarium?
- f. How many of the returned questionnaires were not eligible for the honorarium?
- g. Please refer to part 'f' of this interrogatory. Provide a table indicating the number of and the reason(s) for a returned questionnaire being declared ineligible for the honorarium.

RESPONSE:

- a. - d. It is common industry practice when conducting commercial and public sector research to offer an honorarium to respondents. Such honoraria typically improve response rates and encourage participants to take their survey task seriously. The actual impact of the honorarium on the statistical validity of this study cannot be determined. The project team, of which I am the head, determined the amount of the honorarium based on past experience, industry standards, and budgetary constraints.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

- e. The project team, of which I am the head, determined whether or not a returned questionnaire was eligible.
- f. 120.
- g. The only reason why someone did not receive the honorarium was if the questionnaire was not completed in its entirety. For establishing completeness, all questions except Q.16 had to be answered.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-19. The following interrogatories refer to section E of USPS-LR-2/MC98-1.

- a. A review of the questionnaire indicates that, in order to complete the survey, a participant may have had to perform mathematical calculations. Please explain what steps were taken to verify the results of mathematical calculations on returned surveys.
- b. This question refers part 'a' of this interrogatory. If mathematical calculations were not confirmed, please explain why not? Include in your response, the statistical impact each incorrect mathematical computation would have upon the accuracy of the survey results.

RESPONSE:

- a. - b. In those instances where respondents returned paper worksheets, all calculations were reviewed and corrected as necessary. In those instances where an electronic version was completed, respondents were asked by the computer program to check their responses resulting from mathematical calculations and if they exceeded the maximum amount allowable in the computer program, they were asked to recheck and verify their figures.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-20. The following interrogatory refers to section E of USPS-LR-2/MC98-1. In reviewing a copy of Version 5 of the January 1997, questionnaire that was distributed to survey participants, it appears that a number of "branching decisions" needed to be made by a respondent. For example see the following comment from page 5, "IF YOU CHECKED Q.3C, SKIP TO THE ENHANCED NETPOST SERVICE ON PAGE 11." Please explain what methods of 'error' checking were performed to ensure that the respondents understood and properly completed the "branching decision" questions.

RESPONSE:

For the computerized questionnaire, respondents automatically skipped to the appropriate next question. If the respondent found he/she had made a mistake, he/she could go back to the previous screen to correct his/her answer. The procedures for error checking the paper questionnaire are described on pages 18 and 19 of the library reference.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-21. Please refer to USPS-LR-2/MC98-1, page 34. Please provide a breakdown of Total, First-Class, and Standard volumes in Table 15 by Application. (See page 28, Table 10 for the five Application types.)

RESPONSE:

**Basic NetPost Service and 25% Contribution Margin
Rate Schedule Volume Estimate (000's)**

**Adjusted Volume Estimate
Year 1**

	Total	Newsletters	Direct Mail	Invoices	Forms	Announcements
Total Volume	295,665	14,931	45,710	13,867	84,678	136,479
Next-Day Volume	91,745	1,097	905	691	36,200	52,858
Standard Volume	203,920	13,834	44,805	13,176	48,478	83,621

**Adjusted Volume Estimate
Year 2**

	Total	Newsletters	Direct Mail	Invoices	Forms	Announcements
Total Volume	516,015	26,059	79,776	24,201	147,787	238,192
Next-Day Volume	160,119	1,915	1,580	1,205	63,179	92,252
Standard Volume	355,895	24,143	78,196	22,996	84,608	145,941

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

**Adjusted Volume Estimate
Year 3**

	Total	Newsletters	Direct Mail	Invoices	Forms	Announcements
Total Volume	804,531	40,629	124,380	37,732	230,418	371,371
Next-Day Volume	249,646	2,986	2,463	1,879	98,504	143,832
Standard Volume	554,885	37,643	121,918	35,853	131,914	227,539

**Adjusted Volume Estimate
Year 4**

	Total	Newsletters	Direct Mail	Invoices	Forms	Announcements
Total Volume	1,127,826	56,955	174,362	52,895	323,009	520,604
Next-Day Volume	349,964	4,186	3,452	2,634	138,086	201,630
Standard Volume	777,862	52,769	170,910	50,261	184,923	318,974

**Adjusted Volume Estimate
Year 5**

	Total	Newsletters	Direct Mail	Invoices	Forms	Announcements
Total Volume	1,317,404	66,529	203,671	61,786	377,304	608,113
Next-Day Volume	408,790	4,890	4,033	3,077	161,298	235,522
Standard Volume	908,613	61,639	199,638	58,709	216,007	372,591

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-22. Did any of your market research collect data that could be used to estimate frequency of transmissions by Mailing Online customers? If not, why not? If so, please provide such estimates, broken down by class of mail and application type if possible.

RESPONSE:

No. It was not part of our contractual responsibilities.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-23. Did any of your market research collect data that could be used to estimate current frequency of mailing by respondents? (See, e.g., USPS-LR-2/MC98-1, Tab E, page 2.) If not, why not? If so, please provide such estimates, broken down by class of mail and application type if possible.

RESPONSE:

No. It was not part of our contractual responsibilities.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-24. Please refer to Table 5 of USPS-LR-2/MC98-1, page 13.

- a. Please explain how the percentages shown in the column labeled "Produce Application" were developed.
- b. Refer to part 'a' of this interrogatory. Please provide copies of all analyses that were performed to develop the "Produce Application" percentages. Cite all sources and provide copies of all documents not previously filed in this docket.

RESPONSE:

- a. The percentages are calculated based on Q.S2 of the Screening Form. If a respondent answered "yes", they are considered eligible (i.e., they produce the application). Non-eligibles are those that answered "no" to Q.S2 of the Screening Form. The percentage shown in the column labeled "Produce Application" equals Eligibles divided by (Eligibles + Non-eligibles).
- b. The analysis can be found in each of the five SAS programs submitted in Section K of the Appendix – Raking Program Specifications. The code for newsletters is in NEWS.SAS and begins with the comment /* NEWSLETTER ELIGIBILITY */. The code for direct mail advertising is in DIRECT.SAS and begins with the comment /* DIRECT MAIL, AD FLYERS - ELIGIBILITY */. The code for invoices is in INVOICES.SAS and begins with the comment /* INVOICE ELIGIBILITY */. The code for forms is in FORM.SAS and begins with the comment /* FORMS ELIGIBILITY */. The code for announcements is in ANNOUN.SAS and begins with the comment /* ANNOUNCEMENTS ELIGIBILITY */.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-25. Please refer to USPS-LR-2/MC98-1, page 13. The following statement appears. "If an organization produced multiple applications, they were randomly assigned to one [application] using an algorithm which assigned respondents to low incidence applications with a greater probability than by chance alone."

- a. How many organizations produced multiple applications?
- b. Was any analysis performed on the types of organizations that had multiple applications? If so, please provide copies of all analyses. If not, why not.

RESPONSE:

- a. 736.
- b. No. It was not part of our contractual responsibilities.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-26. Please refer to USPS-LR-2/MC98-1, page 14, and the probabilities of selection assigned to each of the five applications for advertising (.33), invoices (0), forms (.19), newsletters (.22) and announcements (.26).

- a. Who defined the probabilities of selection for each of the five applications?
- b. Was any analysis performed to determine the appropriate probabilities assigned to each of the five applications? If so, please provide copies of all such analyses. If not, why not.

RESPONSE:

- a. The probability of selection for each of the five applications was determined by a staff sampling statistician.
- b. In the course of doing this research, an initial set of probabilities of selection for the applications was determined based upon the project team's best estimates of the incidence of each application and our desire to sample locations that produced only one type of application as well as combinations of those applications. The initial probabilities of selection were:

Advertising	Invoices	Newsletters	Forms	Announcements
.05	.05	.15	.25	.5

Based upon the incidence results observed during the screening process and the number of applications for which interviews were being obtained, the initial probabilities were adjusted to those presented on page 14 of the library reference. The adjustments were necessary so that we could concentrate our efforts on selecting lower incidence (i.e., harder to find) applications.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-27. Please refer to Table 6 of USPS-LR-2/MC98-1, page 16. The response rate to the USPS questionnaire is low.

- a. In your experience, is the response rate (39.6%) for returning the USPS computerized questionnaires a goal to aspire to? If not, what is the "normal" targeted response rate for a computerized questionnaire?
- b. In your experience, is the response rate (24.7%) for returning the USPS hard copy questionnaires a goal to aspire to? If not, what is the "normal" targeted response rate for hard copy questionnaire?
- c. Was any analysis performed to determine why the hard copy questionnaire response rate was lower than the computerized response rate? If so, please provide copies of all analyses performed. If not, why not.
- d. Was any analysis performed to determine why the overall USPS questionnaire response rate was only 36.1%. If so, please provide copies of all analyses performed. If not, why not.
- e. Since only 36.1% of the total questionnaires sent out were returned, please explain how realistic the survey results are.
- f. In your opinion, did the \$35.00 honorarium improve the survey response rate?

RESPONSE:

- a. - b. This research was initially undertaken for business planning purposes, not for submission to the Commission. In this context, the response rates achieved are not low and are, in fact, quite customary for research of this type.
- c. No. It was not part of our contractual responsibilities.
- d. No. It was not part of our contractual responsibilities.
- e. See answer to a.
- f. I don't know.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-28. The following interrogatory refers to USPS-LR-2/MC98-1, page 38, where the following statements appear: "[B]ootstrapping' is the customary, and preferred technique to use.... The computer programming and run time required for bootstrapping are substantial. Therefore, it was decided that an approximation of the standard error estimates, which could be produced with minimal effort, would suffice."

- a. Who made the decision to approximate the standard error estimates?
- b. Was the decision to approximate the standard error estimates made prior to the commencement of the NetPost survey?
- c. Was the decision to approximate the standard error estimates made after the survey response rates were known?
- d. If the response to part 'b' and 'c' of this interrogatory is negative, please explain at what stage of the survey was the determination made to approximate the standard error estimates.
- e. Was the decision to approximate the standard error estimates using minimal effort a reflection of the Postal Service's opinion of the statistical viability of the survey results? If not, please explain.

RESPONSE:

- a. - e. Given that this research was conducted primarily for business planning purposes, a decision was made by the Postal Service and National Analysts to use the approximation method described in the library reference. It was made on the basis of the goals of the study and not based on the response rates, actual estimates, or the statistical viability of the survey results.

**Responses of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-29. The following interrogatory refers to USPS-LR-2/MC98-1, page 38-39, where the following statement appears: "To account for this disproportionate sampling, weights were assigned to each respondent in order to project the estimates to the correct eligible universe."

- a. Who developed the weights that were assigned to each respondent?
- b. Please explain how the weights were assigned to each respondent, show the weight derivation, cite all sources and provide copies of all sources not previously filed in this docket.

RESPONSE:

- a. A staff sampling statistician developed them.
- b. A description of how the weights were assigned to each respondent appears on pages 20-30 of the library reference.

**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

OCA/USPS-T4-30. The following interrogatory refers to section I of USPS-LR-2/MC98-1. Record 2 of the "Control File" states, "Minimum weight cutoff (can be negative)." Please explain the rationale for having a negative minimum weight cutoff. Include in your explanation examples of instances where a negative minimum weight cutoff is appropriate.

RESPONSE:

The documentation provides a general description of what our software allows. Despite the fact that the software permits a negative minimum weight cutoff, to the best of my knowledge, we have never conducted a study in which negative weights were used.

**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

OCA/USPS-T4-31. Section E of USPS-LR-2/MC98-1 contains version 1 and version 3-5 of questionnaires dated January 1997.

- a. Please provide a copy of version 2 of the questionnaire dated January 1997.
- b. Please explain the purpose of the different versions of the questionnaire dated January 1997.
- c. There are 6 pages after page 19 of the "version 5" questionnaire. Two of the 6 are marked "3" on the bottom, 2 are marked "5" on the bottom, and 2 are unnumbered but are titled "NETPOST SERVICE." One page 5 has a note that appears to indicate it has the 25% contribution margin prices, the other page 5 appears to indicate it has the 50% contribution margin prices.
 - (1) Please confirm that the interpretation of "25%Cont." as 25 percent contribution margin is correct. If you are unable to confirm, please explain.
 - (2) Please confirm that the interpretation of "50%Cont." as 50 percent contribution margin is correct. If you are unable to confirm, please explain.
 - (3) Please explain the purpose of including the 2 seemingly identical page number 3s. If they are not identical, please identify the difference(s).
 - (4) Please explain the purpose of including the 2 seemingly identical unnumbered pages titled "NETPOST SERVICE." If they are not identical, please identify the difference.
- d. Page 5 of the version 5 questionnaire indicates that a separate "five-page brochure that describes NETPOST and its prices" was provided. Please provide a copy of that brochure.

RESPONSE:

- a. To my knowledge, Version 2 was included in the library reference. If it was not, Postal Service counsel will make it available.
- b. There are five versions of the questionnaire because each one corresponds to a different application (i.e., Version 1 = newsletters, Version 2 = direct mail advertising, Version 3= invoices, Version 4 = forms, and Version 5 =

**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

OCA/USPS-T4-32. The following interrogatories refer to USPS-LR-2/MC98-1.

- a. Section J provides a hard copy printout of the SAS programs used in analyzing the survey data. Please provide an electronic copy of the source code for each SAS program used in analyzing the survey data.
- b. Please refer to part "a." above when responding to this interrogatory. Provide an electronic copy of the raw data file(s) used by each SAS program identified in Section J of USPS-LR-2/MC98-1.
- c. Section H provides a hard copy of the "Netpost Screening Summary Report (816)." Please provide an electronic copy of the source code used to generate that report as well as an electronic copy of the raw data file(s) used.

RESPONSE:

a. - c. Requested information will be provided by the Postal Service as a library reference.

RESPONSE OF POSTAL SERVICE WITNESS ROTHSCHILD
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T4-34. Please refer to USPS-LR-2/MC98-1, pages 30-37.

- a. USPS-LR-2, page 30 indicates that "[t]he weighted survey results for questions 4, 7, 8, 11, 14, and 15 provide raw estimates of NetPost volume under each price and product configuration scenario." Please provide a copy of the survey summary results for each of the 6 questions referenced.
- b. Please refer to Table 15, page 34. For each year and for each cell within Table 15, show the derivation of all calculated numbers. Give citations to page, column and row (if applicable) to source documents for all figures. Provide copies of all source documents not previously filed in this docket.
- c. Please refer to Table 16, page 35. For each year and for each cell within Table 16, show the derivation of all calculated numbers. Give citations to page, column and row (if applicable) to source documents for all figures. Provide copies of all source documents not previously filed in this docket.
- d. Please refer to Table 17, page 36. For each year and for each cell within Table 17, show the derivation of all calculated numbers. Give citations to page, column and row (if applicable) to source documents for all figures. Provide copies of all source documents not previously filed in this docket.
- e. Please refer to Table 18, page 37. For each year and for each cell within Table 18, show the derivation of all calculated numbers. Give citations to page, column and row (if applicable) to source documents for all figures. Provide copies of all source documents not previously filed in this docket.

RESPONSE: This information is being filed as Library Reference 12. (The information requested in part (a) is provided in the printed tables and the derivations requested in parts (b) through (e) are embedded in the spreadsheets provided on the diskette in the library reference.)

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

OCA/USPS-T4-35. Please refer to Table 7, page 22. For each cell within Table 7, show the derivation of all calculated numbers. Give citations to page, column and row (if applicable) to source documents for all figures. Provide copies of all source documents not previously filed in this docket.

RESPONSE: Each cell in Table 7 is derived by multiplying the number in the corresponding SIC and Employee Size cell in Table 1 by the percentages in Table A below. Some of the numbers may not correspond exactly with the numbers in Table 7 due to rounding errors because the percentages below are shown with only four decimal places.

Table A

<u>Invoices & Statements</u>				
<u>SIC Group</u>	<u>Employee Size Group</u>			<u>Total Establishments</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
1	21.7633%	45.0936%	4.3859%	25.5782%
2	19.7617%	23.8078%	0.0000%	20.2176%
3	49.0096%	20.5586%	11.7639%	43.6364%
4	32.6033%	30.0891%	12.7129%	32.0041%
Total	28.2909%	30.8755%	7.2306%	28.3520%
<u>Announcements & Confirmations</u>				
<u>SIC Group</u>	<u>Employee Size Group</u>			<u>Total Establishments</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
1	10.4021%	8.4169%	33.4471%	10.6080%
2	11.4713%	10.2835%	5.9310%	11.2042%
3	25.4976%	41.0276%	66.8096%	28.8557%
4	16.3561%	25.7715%	34.4211%	17.8185%
Total	14.6184%	18.0834%	32.0226%	15.4370%

RESPONSE OF POSTAL SERVICE WITNESS ROTHSCHILD
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

<u>Advertising Mail</u>				
<u>SIC Group</u>	<u>Employee Size Group</u>			<u>Total Establishments</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
1	2.4254%	0.4567%	3.3762%	2.0908%
2	13.4107%	6.1893%	0.0000%	12.0252%
3	25.2252%	20.2073%	105.9904%	26.0472%
4	9.4400%	14.1244%	30.5032%	10.3349%
Total	10.6428%	8.8229%	24.4181%	10.5828%
<u>Newsletters</u>				
<u>SIC Group</u>	<u>Employee Size Group</u>			<u>Total Establishments</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
1	1.8611%	4.8363%	10.9191%	2.6249%
2	4.2811%	4.5692%	16.7533%	4.4766%
3	19.8941%	31.2551%	53.6145%	22.4216%
4	16.6365%	27.8946%	91.1343%	19.1178%
Total	10.4161%	15.1099%	45.0099%	11.7029%
<u>Forms</u>				
<u>SIC Group</u>	<u>Employee Size Group</u>			<u>Total Establishments</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
1	4.6618%	14.5636%	19.2993%	6.8224%
2	8.0384%	4.4104%	3.3540%	7.3664%
3	32.6352%	36.7396%	12.9783%	32.9032%
4	15.8818%	22.0948%	87.8576%	17.6787%
Total	12.9509%	16.0940%	38.8695%	13.8570%

NATIONAL FINALISTS
AUG. 24, 1998 11:57

ID. 215-496-6801

479
AUG 25 '98 11:57 No. 020 P. 03**DECLARATION**

I, Beth B. Rothschild, declare that if I were to answer these questions orally today, my answers would be the same.

Beth B. Rothschild

Dated: August 26, 1998

Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

Nov 20 8 08 AM '98

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

In the Matter of: **MAILING ONLINE SERVICE**

Docket No. **MC98-1**

VOLUME 6

DATE: Thursday, November 19, 1998

PLACE: Washington, D.C.

PAGES: 1205 - 1645

ANN RILEY & ASSOCIATES, LTD.

1025 Connecticut Avenue, N.W., Suite 1014

Washington, D.C. 20036

(202) 842-0034

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

OCA/USPS-T4-36. Please refer to NetPost's Commercial Prices, at the 25 percent contribution margin, shown on the rate cards that appear at the end of Attachment E in USPS-LR-2/MC98-1.

- a. Please confirm that the prices in the rate card entitled "Next-Day Delivery" reflect the rates of postage for First Class Mail. If you do not confirm, please explain.
- b. Please confirm that the prices in the rate card entitled "Standard (Two-To Five-Day) Delivery" reflect the rates of postage for Standard (A) mail. If you do not confirm, please explain.
- c. Please confirm that the prices in the rate cards entitled "Next-Day Delivery" and "Standard (Two-To Five-Day) Delivery" reflect the rates of postage that are to be effective on January 10, 1999. If you do not confirm, please explain.
- d. For the "Next-Day Delivery" and "Standard (Two-To Five-Day) Delivery" rate cards, please provide the amount of postage assumed in the prices shown in each cell.

RESPONSE:

a,b,c. All prices in each rate card were the sum of a postage and production cost given to us by the Postal Service.

d. The following postage rates were assumed for both the *simplex and duplex next-day delivery* commercial prices at the 25% contribution margin.

**First Class Postage (Automation Presort, 3-Digit
Letter-Size, 3/5 Flat-Size)**

1-2 pages	\$0.254	\$0.254	\$0.254	\$0.254	\$0.500	\$0.500
1-4 pages	\$0.254	\$0.254	\$0.254	\$0.254	\$0.684	\$0.684
5-6 pages	0.484	0.484	0.684	0.684	0.914	0.914
7-10 pages	0.684	0.684	0.914	0.914	1.144	1.144
11-15 pages	0.914	0.914	1.144	1.144	1.374	1.374
16-20 pages	1.144	1.144	1.374	1.374	1.604	1.604
21-25 pages	1.374	1.374	1.604	1.604	1.834	1.834
26-30 pages	1.604	1.604	1.834	1.834	2.064	2.064
31-35 pages	1.834	1.834	2.064	2.064	2.294	2.294
36-40 pages	2.064	2.064	2.294	2.294	2.524	2.524
41-45 pages	2.294	2.294	2.524	2.524	2.89	2.89
46-48 pages	2.524	2.524	2.89	2.89	2.89	2.89

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

The following postage rates were assumed for *duplex standard delivery* commercial prices at the 25% contribution margin.

Standard Rate Duplex					
Pages	Ltr-Size	Non-Ltr	Pages	Ltr-Size	Non-Ltr
1	0.162		25	-	\$0.2422
2	0.162		26	-	\$0.2500
3	0.162		27	-	\$0.2577
4	0.162		28	-	\$0.2654
5	0.162		29	-	\$0.2731
6	0.162		30	-	\$0.2809
7	-	\$0.1760	31	-	\$0.2886
8	-	\$0.1760	32	-	\$0.2963
9	-	\$0.1760	33	-	\$0.3041
10	-	\$0.1760	34	-	\$0.3118
11	-	\$0.1760	35	-	\$0.3195
12	-	\$0.1760	36	-	\$0.3272
13	-	\$0.1760	37	-	\$0.3350
14	-	\$0.1760	38	-	\$0.3427
15	-	\$0.1760	39	-	\$0.3504
16	-	\$0.1760	40	-	\$0.3582
17	-	\$0.1804	41	-	\$0.3659
18	-	\$0.1881	42	-	\$0.3736
19	-	\$0.1958	43	-	\$0.3813
20	-	\$0.2036	44	-	\$0.3891
21	-	\$0.2113	45	-	\$0.3968
22	-	\$0.2190	46	-	\$0.4045
23	-	\$0.2268	47	-	\$0.4123
24	-	\$0.2345	48	-	\$0.4200

**Response of Postal Service Witness Rothschild
to OCA Interrogatories**

The following postage rates were assumed for *simplex standard delivery* commercial prices at the 25% contribution margin.

Standard Rate Simplex					
Pages	Ltr-Size	Non-Ltr	Pages	Ltr-Size	Non-Ltr
1	0.162		25	-	\$0.2422
2	0.162		26	-	\$0.2500
3	0.162		27	-	\$0.2577
4	0.162		28	-	\$0.2654
5	0.162		29	-	\$0.2731
6	0.162		30	-	\$0.2809
7	-	\$0.1760	31	-	\$0.2886
8	-	\$0.1760	32	-	\$0.2963
9	-	\$0.1760	33	-	\$0.3041
10	-	\$0.1760	34	-	\$0.3118
11	-	\$0.1760	35	-	\$0.3195
12	-	\$0.1760	36	-	\$0.3272
13	-	\$0.1760	37	-	\$0.3350
14	-	\$0.1760	38	-	\$0.3427
15	-	\$0.1760	39	-	\$0.3504
16	-	\$0.1760	40	-	\$0.3582
17	-	\$0.1804	41	-	\$0.3659
18	-	\$0.1881	42	-	\$0.3736
19	-	\$0.1958	43	-	\$0.3813
20	-	\$0.2036	44	-	\$0.3891
21	-	\$0.2113	45	-	\$0.3968
22	-	\$0.2190	46	-	\$0.4045
23	-	\$0.2268	47	-	\$0.4123
24	-	\$0.2345	48	-	\$0.4200

**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

OCA/USPS-T4-37. Please refer to NetPost's Commercial Prices, at the 25 percent contribution margin, for "Next-Day Delivery" shown on the rate card that appears at the end of Attachment E in USPS-LR-2/MC98-1.

- a. Please confirm that there is no price per piece associated with 1-2 page, 11x17 Black & White or Spot color, Simplex pieces. If you do not confirm, please explain and provide the price per piece.
- b. Please confirm that 1-2 page, 11x17 Black & White or Spot color, Simplex pieces was not offered as an option to survey respondents. If you do not confirm, please explain.
- c. Please confirm that you have estimated no Mailing Online volume for 1-2 page, 11x17 Black & White or Spot Color, Simplex pieces. If you do not confirm, please explain.

RESPONSE:

a,b,c. Confirmed.

**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

OCA/USPS-T4-38. Please refer to NetPost's Commercial Prices, at the 25 percent contribution margin, shown on the rate cards that appear at the end of Attachment E in USPS-LR-2/MC98-1.

- a. In the row labeled "More than 15 pages" on the "Next-Day Delivery" and "Standard (Two-To-Five Day) Delivery" rate cards, please confirm that the "Applicable postage rate + per page production cost" represents a weighted average price per piece for Simplex and Duplex 8.5x11, 8.5x14, and 11x17 Black & White and Spot color. If you do not confirm, please explain.
- b. In the row labeled "More than 15 pages" on the "Next-Day Delivery" and "Standard (Two-To-Five Day) Delivery" rate cards, please provide the "Applicable postage rate + per page production cost" for Simplex and Duplex 8.5x11, 8.5x14, and 11x17 Black & White and Spot color.

RESPONSE:

- a,b Not confirmed. Each category of color, size of paper, delivery time, and number of sides was calculated separately. The applicable postage rate + per page production cost on which revenue estimates were based for the category of more than 15 pages was an average of the prices for 16-40 pages as shown in the chart below. For example, the price for more than 15 pages, black and white, next-day, simplex is \$2.89. It was computed by summing the prices for the five categories and dividing by five.

	Black & White			Spot		
	8.5 x 11	8.5 x 14	11 x 17	8.5 x 11	8.5 x 14	11 x 17
NEXT-DAY DELIVERY						
Simplex 16-20 pages	\$1.97	\$2.23	\$2.83	\$2.91	\$3.17	\$3.79
21-25 pages	\$2.43	\$2.69	\$3.39	\$3.63	\$3.89	\$4.61
26-30 pages	\$2.89	\$3.16	\$3.96	\$4.34	\$4.61	\$5.44
31-35 pages	\$3.34	\$3.62	\$4.52	\$5.06	\$5.34	\$6.27
36-40 pages	\$3.80	\$4.09	\$5.08	\$5.78	\$6.06	\$7.09
More than 15 pages	\$2.89	\$3.16	\$3.96	\$4.34	\$4.61	\$5.44

8.5 x 11	8.5 x 14	11 x 17	8.5 x 11	8.5 x 14	11 x 17
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**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

Duplex	16-20 pages	\$2.20	\$2.46	\$3.39	\$3.16	\$3.42	\$4.43
	21-25 pages	\$2.73	\$2.99	\$4.08	\$3.95	\$4.21	\$5.40
	26-30 pages	\$3.25	\$3.52	\$4.77	\$4.73	\$5.00	\$6.36
	31-35 pages	\$3.77	\$4.05	\$5.46	\$5.52	\$5.80	\$7.33
	36-40 pages	\$4.29	\$4.58	\$6.15	\$6.30	\$6.59	\$8.29
	More than 15 pages	\$3.25	\$3.52	\$4.77	\$4.73	\$5.00	\$6.36

**STANDARD
DELIVERY**

		Black & White			Spot		
		8.5 x 11	8.5 x 14	11 x 17	8.5 x 11	8.5 x 14	11x 17
Simplex	16-20 pages	\$1.04	\$1.06	\$1.41	\$1.97	\$2.00	\$2.36
	21-25 pages	\$1.30	\$1.34	\$1.78	\$2.50	\$2.53	\$3.00
	26-30 pages	\$1.57	\$1.61	\$2.15	\$3.02	\$3.06	\$3.63
	31-35 pages	\$1.83	\$1.88	\$2.52	\$3.55	\$3.60	\$4.27
	36-40 pages	\$2.10	\$2.15	\$2.89	\$4.07	\$4.13	\$4.90
	More than 15 pages	\$1.57	\$1.61	\$2.15	\$3.02	\$3.06	\$3.63

		8.5 x 11	8.5 x 14	11 x 17	8.5 x 11	8.5 x 14	11x 17
Duplex	16-20 pages	\$1.27	\$1.30	\$1.87	\$2.22	\$2.25	\$2.86
	21-25 pages	\$1.60	\$1.63	\$2.37	\$2.82	\$2.85	\$3.64
	26-30 pages	\$1.93	\$1.97	\$2.87	\$3.41	\$3.45	\$4.41
	31-35 pages	\$2.26	\$2.31	\$3.37	\$4.01	\$4.06	\$5.19
	36-40 pages	\$2.59	\$2.65	\$3.87	\$4.60	\$4.66	\$5.96
	More than 15 pages	\$1.93	\$1.97	\$2.87	\$3.41	\$3.45	\$4.41

**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

OCA/USPS-T4-44. Please provide volume estimates for the 1999-2003 time period based upon the rates and premailing fees in effect during the market test.

RESPONSE:

I am not aware of the rates and premailing fees expected to be in effect during the market test. It is not part of our contractual responsibilities to calculate these estimates.

**Response of Postal Service Witness Rothschild
To OCA Interrogatories**

OCA/USPS-T4-45. Please provide volume estimates for the 1999-2003 time period based upon the rates and premailing fees expected to be in effect during the experimental phase.

RESPONSE:

I am not aware of the rates and premailing fees expected to be in effect during the experimental test. It is not part of our contractual responsibilities to calculate these estimates.

1 COMMISSIONER LeBLANC: Will you please index this
2 ruling at the front of today's transcript, please.

3 [Presiding Officer's Ruling
4 Indexed.]

5 COMMISSIONER LeBLANC: Now I believe -- are you
6 going to do this, or is Mr. Rubin going to do this, Mr.
7 Hollies?

8 MR. HOLLIES: Mr. Rubin is going to handle Witness
9 Lim.

10 COMMISSIONER LeBLANC: Okay. Mr. Rubin, you have
11 the floor, as they say.

12 MR. RUBIN: Thank you. The Postal Service calls
13 Chong Bum Lim as its next witness.

14 COMMISSIONER LeBLANC: Mr. Lim, before you sit
15 down, if you could stand and raise your right hand, please,
16 I will swear you in.
17 Whereupon,

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

22 COMMISSIONER LeBLANC: Mr. Rubin.

23 DIRECT EXAMINATION

24 BY MR. RUBIN:

25 Q Mr. Lim, have you had a chance to review two

1 copies of a document titled Direct Testimony of Chong Bum
2 Lim on behalf of United States Postal Service, and
3 designated as USPS-T-3?

4 A Yes, I have.

5 Q And was this testimony prepared by you or under
6 your supervision?

7 A Yes, it was.

8 Q And do the two copies you reviewed include errata
9 that you filed or you prepared on January 11th?

10 A Yes, they do.

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

13 A Yes, sir; yes, it would.

14 MR. RUBIN: I have provided those two copies of
15 the Direct Testimony of Chong Bum Lim on behalf of the
16 United States Postal Service to the Reporter, and I ask that
17 that testimony be entered into the record in this
18 proceeding.

19 COMMISSIONER LeBLANC: Hearing no objections then,
20 USPS-T-3 is received into evidence as the direct testimony
21 of Witness Lim, and is our practice, the testimony will not
22 be transcribed.

23 [Direct Testimony of Chong Bum Lim,
24 USPS-T-3 was received into
25 evidence.]

1 COMMISSIONER LeBLANC: There is designated written
2 cross examination relating to USPS-T-3.

3 Mr. Lim, a packet of designated written cross
4 examination was made available to you in the hearing room
5 this morning by our staff.

6 If these questions were posed to you this morning,
7 would you answers be the same as those previously provided
8 in writing?

9 THE WITNESS: There are some adjustments that were
10 made.

11 COMMISSIONER LeBLANC: Please, if you will?

12 MR. RUBIN: The set that had been previously
13 designated are -- I don't believe there are any corrections,
14 except for one small change to OCA Interrogatory T-3-1; that
15 the number in that response was typed OCA-T2-1, and that has
16 been corrected in the package that's been provided to the
17 Reporter.

18 COMMISSIONER LeBLANC: There was no substantive
19 change, then; it was just the actual number?

20 MR. RUBIN: Right. Mr. Lim will have some changes
21 to go over with some additional interrogatories that I
22 believe the OCA wishes to enter into the record.

23 COMMISSIONER LeBLANC: You have already given him
24 the corrected two copies, then; have you, Mr. Rubin?

25 MR. RUBIN: I have of the first set. I can bring

1 the second set, too.

2 COMMISSIONER LeBLANC: Let's take it one at a
3 time. You've already done the first set then?

4 MR. RUBIN: Right.

5 COMMISSIONER LeBLANC: All right, now, how would
6 you like to go forward with the second set? Do you want to
7 do that, or do you want Mr. Lim to do that?

8 MR. RUBIN: I think Mr. Lim, and probably OCA
9 counsel should make a -- or move that those be put into the
10 record.

11 MS. DREIFUSS: Commissioner LeBlanc, we have
12 prepared two sets of responses for Mr. Lim to OCA
13 interrogatories. They're OCA Numbers OCA/USPS-T3-2 through
14 34.

15 I think the Postal Service counsel may have marked
16 some, I believe, minor changes to some of those answers this
17 morning.

18 And I'm not sure if Mr. Lim has had a chance to
19 look over the answers.

20 THE WITNESS: Yes, I have.

21 MS. DREIFUSS: Have you had a chance to look them
22 over, Mr. Lim?

23 THE WITNESS: Yes, I have.

24 MS. DREIFUSS: If those questions were posed to
25 you orally today, would your answers be the same?

1 THE WITNESS: Yes.

2 MS. DREIFUSS: Were those answers prepared by you
3 or under your direct supervision?

4 THE WITNESS: Yes, they were.

5 MS. DREIFUSS: In that case, I move that these
6 answers be transcribed into the record, and entered as
7 evidence.

8 If Mr. Rubin has the copies, then perhaps --

9 COMMISSIONER LeBLANC: That's why I looked that
10 way. Mr. Rubin, did you --

11 MR. RUBIN: The copies have been provided to the
12 Reporter. I would suggest that Witness Lim just go through
13 these.

14 COMMISSIONER LeBLANC: I was going to say, please
15 let -- would you get those from Mr. Lim, please, then?

16 MR. RUBIN: He's prepared to have -- he's marked
17 an additional copy on his.

18 COMMISSIONER LeBLANC: Would you please check
19 those, Mr. Lim, and clarify for the record, any changes that
20 you need to make at this time that have not been made,
21 please?

22 Mr. Reporter, while we're waiting for Mr. Lim on
23 this, on that first set of -- before this actual set here,
24 on the material, it will be received into evidence and
25 should be transcribed at this time, please.

1 [Designated Written Cross
2 Examination of Chong Bum Lim, was
3 received into evidence and
4 transcribed into the record.]
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Mailing Online Experiment

Docket No. MC2000-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS CHONG BUM LIM
(USPS-T-3)

Party

Office of the Consumer Advocate

Interrogatories

MASA/USPS-T3-1-7

OCA/USPS-T3-1

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS CHONG BUM LIM (T-3)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

MASA/USPS-T3-1

MASA/USPS-T3-2

MASA/USPS-T3-3

MASA/USPS-T3-4

MASA/USPS-T3-5

MASA/USPS-T3-6

MASA/USPS-T3-7

OCA/USPS-T3-1

Designating Parties:

OCA

OCA

OCA

OCA

OCA

OCA

OCA

OCA

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE MAIL ADVERTISING
SERVICE ASSOCIATION INTERNATIONAL**

MASA/USPS-T3-1. Referring to your testimony at page 9, lines 18-19:

- a. Identify all products in addition to MOL with respect to which the Help Desk will provide assistance.
- b. Are the products listed in response to subpart a the same as the products with respect to which the Help Desk provided assistance during the market test of MOL? Describe any differences.
- c. If there are differences as set forth in subpart b, how did you account for those differences in developing the 25% cost driver you used to allocate a portion of Help Desk costs to MOL?
- d. Describe generally any differences in the way the Help Desk will operate during the experimental period on the USPS.com platform compared to the way the Help Desk operated on the Post Office Online platform.

RESPONSE:

- a. The Help Desk is planned to provide assistance to users of a number of current and future Postal Service Internet applications. These applications include but are not limited to Mailing Online, Shipping Online Client, Application Program Interfaces, Direct Mail, PosteCS, and Priority Mail.
- b. During the market test, the Help Desk provided assistance to Mailing Online, Shipping Online Browser, PostOffice Online, and PosteCS.
- c. The 25% ratio is based on a conservative approach. As stated in my testimony, I used the number of calls and email inquiries received by the Help Desk during the market test. The ratio is calculated by dividing the number of MOL inquires by total inquires. Since the Help Desk will provide assistance to additional applications during the experiment the calculated ratio should actually overstate the portion of Help Desk costs caused by MOL. Notwithstanding, it is the best available driver for estimating Mailing Online's costs during the experiment.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE MAIL ADVERTISING
SERVICE ASSOCIATION INTERNATIONAL**

- d. During the experiment, the Help Desk will provide assistance to additional applications as outlined in my response to part (a). Support procedures for MOL itself will essentially remain the same.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE MAIL ADVERTISING
SERVICE ASSOCIATION INTERNATIONAL**

MASA/USPS-T3-2. In your testimony (at 10 lines 1-3), you state that to develop the Help Desk cost driver you "used the number of calls and e-mail inquiries received by the help desk during the market test," and that "this may not correspond directly to the experimental period under USPS.com."

- a. Confirm that the number of calls and e-mail inquiries you refer to is equal to the total number of such telephone calls and e-mail inquiries received over the entire life of the market test until its termination in May 1999. If you cannot confirm, explain why not.
- b. How many (i) calls and (ii) e-mail inquiries were received by the Help Desk during the market test?
- c. Explain in what ways the market test numbers "may not correspond" to the experimental period under USPS.com.

RESPONSE:

- a. The number of market test calls and email inquiries from which the proportion of Mailing Online related Help Desk costs was derived for my testimony corresponds to the duration of the market test. While no data were available from the first week of the market test, their absence likely had no impact upon the resulting proportions of Help Desk requests.
- b. The total number of calls logged by the Help Desk during the market test was 5,063, while email inquiries during that time totalled 2,694.
- c. Given that the Help Desk will provide assistance to additional applications beyond those supported during the market test, as stated in my testimony and response to MASA/USPS-T3-1(a), I expect that the Mailing Online portion during the experiment may well be smaller. Since it is difficult to predict how much assistance additional applications will require, I use the market test proportion as the best available cost driver to generate a conservatively high estimate of help desk costs expected during the experiment.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE MAIL ADVERTISING
SERVICE ASSOCIATION INTERNATIONAL**

MASA/USPS-T3-3. Confirm that in your testimony in MC98-1, you accounted for what you called Technical Help Desk costs, and did not attribute the expenses associated with fielding other, non-technical, inquiries from customers or prospective customers of MOL that would have been handled by the Post Office Online help Desk.

- a. Are the Help Desk costs quantified at Workpaper C page 8 entirely the result of "Technical Help Desk" costs, that is, they do not include any costs incurred by the Postal Service for customer inquiries about MOL of a non-technical nature?
- b. Confirm that Technical Help Desk inquiries are inquiries of a technical nature about how the software and Internet connection works. If you cannot confirm, explain what is included in and excluded from your definition of Technical Help Desk calls.
- c. Have you accounted for "non-technical" customer inquiries? If so, how?
- d. If you have not accounted for non-technical customer inquiries, confirm that such inquiries will occur, that they will be handled by the USPS.com help desk, and give your best estimate of the number of such inquiries that can be expected.

RESPONSE:

- a. The costs reported in Workpaper C include both technical and non-technical inquiries.
- b. Technical Help Desk costs account for Technical Help Desk time spent responding to Help Desk inquiries involving questions about the operations or status of the MOL system. Help Desk personnel interact with the Technical Help Desk and also respond back to the customer.
- c. Yes, non-technical inquiries are accounted for in Workpaper C, including the cost for the Help Desk personnel (Services Labor (Line 28)), and in the associated Hardware, Software, and Services costs.
- d. Not applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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SERVICE ASSOCIATION INTERNATIONAL**

MASA/USPS-T3-4. In MC98-1, Postal Service witness Stirewalt estimated total Help Desk call hours (LR 1, Attachment 1), based on an assumption that the first call from a customer would last an average of .5 hours, and the subsequent calls would last an average of .1 hours. Describe how, if at all, you have relied on or changed these assumptions of witness Stirewalt.

- a. How many call hours do you estimate will be required for MOL Technical Help Desk inquiries during the experimental period?
- b. How many call hours do you estimate will be required for USPS.com help desk inquiries during the experimental period?

RESPONSE:

This interrogatory evidently arises from a fundamental misunderstanding of my testimony. Unlike witness Stirewalt, I do not rely upon assumed durations or total call hours of Help Desk inquiries. They are unnecessary to my estimation methodology and do not appear in my testimony. My estimates of Help Desk costs are instead based upon resources such as hardware and staff which increase over time. See also my response to MASA/USPS-T3-5.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE MAIL ADVERTISING
SERVICE ASSOCIATION INTERNATIONAL**

MASA/USPS-T3-5. Confirm that you would expect Help Desk usage to increase as MOL usage increases.

REPONSE:

Confirmed. It is expected that Help Desk usage will increase as the number of new MOL users increases. Increases in Help Desk usage as the experiment progresses are accounted for in additional hardware, software, reports, development, and labor costs shown in my Workpaper C.

MC2000-2

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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SERVICE ASSOCIATION INTERNATIONAL**

MASA/USPS-T3-6. With respect to your estimates of Help Desk usage associated with MOL:

- a. How many Help Desk (i) calls and (ii) e-mails did you assume would be required for MOL by transaction and by volume (per impression) over the life of the experiment?
- b. How many Help Desk (i) calls and (ii) e-mails did the Postal Service handle for MOL by transaction and by volume (per impression) over the life of the market test?
- c. If you did not make the above calculations in preparing your testimony, make the calculations required to answer subparts a & b.

RESPONSE:

- a. No such assumptions were necessary to my testimony. Please see the response to interrogatories MASA/USPS-T3-4, 5 and 7.
- b. This information was unnecessary to develop the estimates in my testimony, and such study was not done. My response to interrogatory MASA/USPS-T3-2(b) could probably be used in conjunction with the market test data reports to develop some feel for the answer, although I understand witness Garvey does not believe the raw numbers on market test activity are especially good proxies for what should be expected during the experiment.
- c. Since the estimates demanded by this subpart in no way support or inform my testimony, and appear to reflect a misunderstanding of it, I have not attempted to perform them. However, I understand that anybody who believes such calculations are useful for some constructive purpose can nonetheless attempt them from data already available.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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SERVICE ASSOCIATION INTERNATIONAL**

MASA/USPS-T3-7. Did you consider allocating Help Desk costs as a function of the MOL volume or transactions expected during the experimental period? Explain why you decided not to use an allocation methodology based on number of Help Desk inquiries as a function of volume and/or transactions.

RESPONSE:

I considered but rejected reliance upon volume or transactions. The correlation between Mailing Online volume or transactions with Help Desk cost is weak.

The main reason is that one experienced user with large volume transactions may have no need to contact the Help Desk. Conversely, a large number of small volume users may contact the help desk repeatedly, especially when first using the service. The best available driver for Help Desk costs is the proportion of calls and inquiries processed by the market test Help Desk. The resulting estimate is also conservatively high, because the Help Desk during the experiment will support additional services. Also, implicit in the projected increases over time in the hardware, software, staffing, etc. of the Help Desk is an allowance for increasing volume.

Interrogatory Number Corrected 1/12/00

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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OCA/USPS-T3-1. Please refer to your testimony in this proceeding, and your testimony (USPS-ST-9) in Docket No. MC98-1. Please identify any assumptions or methodological approaches in your testimony in this proceeding that are different from the assumptions made or methodological approaches used in your testimony in Docket No. MC98-1. Please explain the significance of, and your rationale for, any changes identified.

RESPONSE:

In this docket, I follow the same methodological approach as in Docket No. MC98-1.

One assumption has changed: access to Mailing Online is now through USPS.com rather than PostOffice Online, and therefore references to POL and SOL do not apply.

Diagram 1 in my testimony presents my methodology in a more detailed decision-flow diagram than I presented in Docket No. MC98-1. Please also note that Section III, Part C of my testimony explains the changes in my costing results from Docket No. MC98-1.

1 THE WITNESS: The changes pertain to spelling of
2 BEA System and OCA/USPS-T --

3 COMMISSIONER LeBLANC: I'm sorry, you said V-A or
4 B-A?

5 THE WITNESS: From BEA to BAE Systems. In
6 OCA/USPS-T3-3, line 2, that change was made from BEA Systems
7 to BAE Systems.

8 COMMISSIONER LeBLANC: Okay.

9 THE WITNESS: Further, in OCA/USPS-T-3-19, in the
10 second page, line 7, that change was also made from BEA
11 Systems to BAE Systems.

12 Thirdly, in response to OCA/USPS-T-3-21, the fifth
13 line, which indicates BEA provided should be corrected to
14 BAE.

15 And lastly, in response to OCA/USPS-T-3-23, the
16 second line to the response, OCA/S, should be replaced with
17 OCS's.

18 COMMISSIONER LeBLANC: Ms. Dreifuss, does that
19 clarify the changes?

20 MS. DREIFUSS: Yes, it does, thank you.

21 COMMISSIONER LeBLANC: Okay.

22 MS. DREIFUSS: Perhaps I should renew my motion.

23 COMMISSIONER LeBLANC: Thank you. I was just
24 getting ready to --

25 MR. RUBIN: There's one more.

1 BY MR. RUBIN:

2 Q Mr. Lim, did you also substitute a cleaner copy of
3 the first page of the attachment to OCA T-3-3?

4 THE WITNESS: Yes. I apologize for not mentioning
5 that. There was a copy that was hard to read in my response
6 to -- let's see here -- OCA/USPS T-3.3, in the attachment to
7 the response to that interrogatory. I provided a cleaner
8 copy that shows the figures that were in that table.

9 COMMISSIONER LeBLANC: Is that it, Mr. Rubin?

10 MR. RUBIN: Yes, that's everything.

11 COMMISSIONER LeBLANC: And the Reporter has two
12 copies of all of the corrections then?

13 MR. RUBIN: That's correct.

14 COMMISSIONER LeBLANC: Ms. Dreifuss, do you still
15 want these entered into evidence and transcribed into the
16 record?

17 MS. DREIFUSS: Yes, sir, I do.

18 COMMISSIONER LeBLANC: Mr. Reporter, if you can do
19 so, please?

20 [Additional Designated Written
21 Cross-Examination of Chong Bum Lim
22 was received into evidence and
23 transcribed into the record.]

24

25

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-2. Please refer to your testimony at page 10. You state "Based on current usage levels in San Mateo" Please explain what this "current usage" consists of and how it relates to MOL since the withdrawal of the previous MOL experiment request on May 5, 1999.

RESPONSE:

Since the withdrawal of the previous MOL experiment request, T3 lines were installed in San Mateo for non-MOL purposes. Please see the response to OCA/USPS-T3-5.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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OCA/USPS-T-3-3. Please refer to your testimony at page 10. Please specify the volume estimates that underlie your MOL T3 connection usage. Also state any assumptions made concerning the number of simultaneous users of MOL. Provide the source of volume figures and assumptions made.

RESPONSE:

The MOL system is estimated to need 12Mbps of the T3 bandwidth. This is based on conversations with the Senior Consultant at BEA Systems, the MOL subcontractor. The MOL system is built for an upper bound limit of 5000 simultaneous users. No specific volume of impressions or pieces underlies the T3 usage.

I have attached to this response a copy of the spreadsheet showing the Mailing Online contractor's calculation for the bandwidth requirement corresponding to the number of sessions per hour (synonymous with simultaneous users). Five thousand sessions lies between the second and third lines in the attachment, which after interpolation indicates 1.455 MB/s and 11.64Mb/s bandwidth requirement for 5000 simultaneous users.

It is important to note that the invoicing for the T3 lines by the service company is based on a 95th percentile usage level. Therefore, theoretically, even if all the 5000 users simultaneously requested services from the web server, the 12Mbps would provide 2.4Kbps access to each user, which is not an unreasonable download/upload rate. If this were a short spike in usage, outside the 95% percentile range for the month, then this increase would not even be charged to the Postal Service.

Attachment 6 Response to OCA/LOPS-7-3-3

No. Sessions	Sessions Per Hour	To User		From User	
		Size Per Hour (MB)	Rate (MB/s)	Size Per Hour (MB)	Rate (MB/s)
1,000	2,000	721	0.20	2,095	0.58
2,000	4,000	1,443	0.40	4,189	1.16
3,000	6,000	2,164	0.60	6,284	1.75
4,000	8,000	2,886	0.80	8,379	2.33
5,000	10,000	3,607	1.00	10,474	2.91
6,000	12,000	4,329	1.20	12,568	3.49
7,000	14,000	5,050	1.40	14,663	4.07
8,000	16,000	5,771	1.60	16,758	4.65
9,000	18,000	6,493	1.80	18,853	5.24
10,000	20,000	7,214	2.00	20,947	5.82
11,000	22,000	7,936	2.20	23,042	6.40
12,000	24,000	8,657	2.40	25,137	6.98
13,000	26,000	9,379	2.61	27,231	7.56
14,000	28,000	10,100	2.81	29,326	8.15
15,000	30,000	10,822	3.01	31,421	8.73
16,000	32,000	11,543	3.21	33,516	9.31
17,000	34,000	12,264	3.41	35,610	9.89
18,000	36,000	12,986	3.61	37,705	10.47
19,000	38,000	13,707	3.81	39,800	11.06
20,000	40,000	14,429	4.01	41,895	11.64

T1 Speed

1.544 Mbs (bits)

T1 Rate

0.154 Mbs (bytes)

T3 Speed

44.736 Mbs (bits)

T3 Rate

4.474 Mbs (bytes)

01/11/2000

Mailing OnLine

Network Traffic Model Variables

Document Upload Factor	1.5 Doc_Upload	Average Number of Doc Uploads per job
Mail List Upload Factor	1.5 ML_Upload	Average Number of Mail List Uploads per job
Mail List Size	256000 ML_Size	Average Mail List File Size (in bytes)
Average Session Length	30 Session_Length	Average Session Length for User in MOL
Average Document Size	476160 Doc_Size	Average Document Size
Avg Doc PDF Size	119040 PDF_Size	Average Document PDF File
Avg Bad Address PDF	5120 Bad_PDF	Average AMS Returned Bad Address PDF File
Avg Good Address PDF	25600 ML_PDF	Average Mail List PDF File
Average HTML per session	153600 HTML_Size	Average Size of HTML downloads per session

Internet Analysis Tab - Formulae for first row

Sessions per Hour To User	$A5 * (60 / \text{Session_Length})$
Sizer per Hour Rate	$(B5 * (\text{HTML_Size} + ((\text{PDF_Size} + \text{Bad_PDF} + \text{ML_PDF}) * \text{ML_Upload}))) / (1024 * 1024)$
From User Sizer per Hour Rate	$(B5 * ((\text{Doc_Size} * \text{Doc_Upload}) + (\text{ML_Size} * \text{ML_Upload}))) / (1024 * 1024)$

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-4. Do you expect the T3 connection usage to increase during the life of the experiment? If so, how much? If not, explain why.

RESPONSE:

A high estimate of usage for the T3 connection by 5000 simultaneous MOL users was used. It is estimated that the average T3 connection for MOL usage will increase during the experiment, but not beyond the estimated 12Mbps upper bound for the MOL system during the 3-year period of the experiment.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-5. What is the source of the T3 connection fee set forth at line 190 of Workpaper A? Please state specifically your source(s) for the \$648,000 and \$1,296,000 figures. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of the connection fee estimates:

- a. company or organization that employs this individual,
- b. organizational unit or department within the company or organization,
- c. position of individual within the company or organization,
- d. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
- e. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
- f. Also provide any written information transmitted to you by individuals listed above that was used to develop the connection fee estimates.
- g. Provide any notes that you made reflecting any oral communications made by such individuals to you.
- h. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE:

The \$648,000 figure is the cost of each T3 line for 3 years (therefore it is \$18,000 per month per T3 line multiplied by 12 months per year multiplied by 3 years). The \$1,296,000 figure is the \$648,000 multiplied by the two T3 lines.

The main source for the \$18,000 per month cost per T3 line used in my estimate is the connection fee charged by the service providers to the Postal Service. In this case the service providers are MCI Worldcom and PacBell. The cost schedule for T3 service is available on the Internet under "Burstable T-3 Service" at <http://boardwatch.internet.com/isp/summer99/bb/uunetpg7.html>. A printout of this web page is provided with this response. I confirmed that this cost schedule was the same pricing for T3 service charged to the Postal Service.

Since the charge for a T3 line is graduated, as indicated by the T3 cost schedule, and both T3 lines have been installed and are in use for non-MOL purposes, I had to assess the "current usage" of those lines. I assessed the "current usage" by questioning

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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the billing Postal Service's representative in the National Network Service Center in Raleigh. She provided an email indicating the monthly charges incurred for both T3 lines based on the invoices she received from the service providers. I have attached to this response a printout of the email that was sent to me.

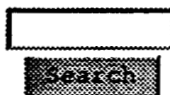
The email showed that the general monthly level cost of each T3 line is approximately \$18,000, that is, half of the approximately \$36,000 charged for both T3 lines during months 4/20/99 through 8/20/99. Looking at the T3 line cost schedule, the \$18,000 amount indicated that non-MOL usage of those T3 lines is within the range of 9.01 Mbps ~10.5Mbps, the charge for which is \$19,000. Applying the expected T3 line usage of 12Mbps, or 6 Mbps per T3 line, the cost for an additional 6Mbps per T3 was calculated for MOL by using the conservatively high range of 16.5Mbps ~ 18Mbps in the cost schedule. The charge in this range is \$37,000. The difference in monthly charges between the two bandwidths is \$37,000 minus \$19,000. Thus \$18,000 is the resulting cost for T3 line caused by Mailing Online.

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MCI WorldCom -
UUNETISP Directory -
11th Edition, 1999

MCI WorldCom - UUNET (continued from front page)

BURSTABLE T-3

Availability: All U.S. backbone cities**Average Install Time:** 8-10 weeks, depending on telco availability**Recommended Equipment:** Cisco 7204 router with Silicon Switch Processor and a series of required software packages; LarseCom DS-3 CSU/DSU

Burstable T-3 Service

Monthly price based on 95th percentile usage level.

Availability: All U.S. backbone cities**Average Install Time:** 8-10 weeks,**Setup:** \$6,000

Bandwidth	Monthly
up to 6 Mbps	\$12,000
6.01 Mbps-7.5 Mbps	\$14,000
7.51 Mbps-9 Mbps	\$17,000
9.01 Mbps-10.5 Mbps	\$19,000
10.51 Mbps-12 Mbps	\$22,000
12.01 Mbps-13.5 Mbps	\$26,000
13.51 Mbps-15 Mbps	\$29,000
15.01 Mbps-16.5 Mbps	\$32,000
16.51 Mbps-18.01 Mbps	\$37,000
18.01 Mbps-19.5 Mbps	\$43,000
19.51 Mbps-21 Mbps	\$48,000
21.01 Mbps-45 Mbps	\$55,500

Recommended Equipment: Cisco 7204 router

SHADOW T-3

Shadow T-3 is a multi-homed, dual T-3 service, for which UUNET provides two T-3 connections to the customer. The Shadow T-3 connection serves as an emergency back-up for the primary T-3 connection. The recommended configuration terminates the Shadow T-3 at a second

Page 2 of 4

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UUNET hub, distinct from the hub where the customer has its main T-3 connection. All traffic is normally sent through the primary connection. If the primary connection fails or if there is a problem with the primary hub, the Shadow T-3 carries all traffic until the primary connection is restored. The Shadow T-3's automatic re-routing capability is designed to ensure the integrity of the customer's data.

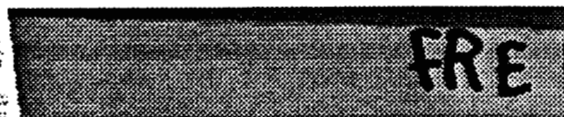
Availability: All U.S. backbone cities

Average Install Time: 8-10 weeks

Setup: \$5,000

Monthly: \$3,000

Recommended Equipment: Cisco 7204 router



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<http://www.internet.com>

**NATIONAL NETWORK SERVICE CENTER
4200 WAKE FOREST ROAD
RALEIGH NC 27668-9700
FAX NUMBER (919) 501-9724**



DATE: October 20, 1999

TO: Justin Heung - Price Waterhouse Coopers
TELEPHONE NUMBER: 703-741-1749
FAX NUMBER: 703-741-1616

FROM: Mary Jane Marchant
TELEPHONE NUMBER: 919-501-9047
FAX NUMBER: 919-501-9724

COVER PLUS 8 PAGES

FYI - Attached is an internal memo noting the DS-3 costs for Internet service for San Mateo CA and Raleigh NC. Also attached is the latest bill for each of the services.

Any questions please call me on Friday - will be away from the office tomorrow.

Mary Jane

Attachment To Response To UCA/USPS-1-5-2

Page 4 of 4.

Author: MARY J. MARCHANT at RANC009L

Date: 10/6/99 3:58 PM

Normal

Receipt Requested

TO: CHARLES P BERKANT at RANC003L, MARVIN G GATZMER

BCC: MARY J. MARCHANT

Subject: Re(2): Circuit Costs

----- Message Contents

UPDATE:

I have just determined that there is another DS-3 into San Mateo provided by PACBell - Circuit No.: 83HFQA042133.001 - billed under Account Nos: SOINV 7863 and 2342710733.

The breakdown is as follows:

Account Number	Invoice Date	Certified Date	Certified Amount	Comments
SOINV7863	6/20/99	MA	\$28,027.00	2342710733 2/07/99
	54,846.66			
2342710733	3/07/99		\$5,192.85	
2342710733	4/07/99		\$30,342.85	
2342710733	5/07/99		\$29,942.85	
2342710733	6/07/99		\$29,942.85	
2342710733	7/07/99		\$29,942.85	
2342710733	8/07/99		\$29,379.86	
2342710733	9/07/99		\$14,049.32	

Total Amount paid = \$201,667.09

This amount is in addition to the figures provided in my earlier email. If you are determining the entire cost of INTERNET service you would need to add those figures.

Mary Jane

----- Reply Separator -----

Subject: Re: Circuit Costs

Author: MARY J. MARCHANT at RANC009L

Date: 9/24/99 8:57 AM

MCI Worldcom Circuit No.: WZ809449 is the Internet circuit into San Mateo PDC @ 2700 Campus Drive.

MCI Worldcom Circuit No.: WZ809408 is the Internet circuit into NISSC, Raleigh NC.

Both circuits are currently being billed under one account - 00025511. Although there was one payment under account number 02896676. The breakdown is as follows:

Account Number	Invoice Date	Certified Date	Certified Amount	Comments
00025511	11/20/96	01/07/99	\$39,647.88	Initial Payment
00025511	12/20/96	01/07/99	\$18,581.23	
00025511	01/20/99	01/27/99	\$18,581.23	
00025511	02/20/99	03/08/99	\$18,581.23	
00025511	03/20/99	07/07/99	\$64,995.35	Internet Install fee
00025511	04/20/99	07/07/99	\$36,206.40	
00025511	05/20/99	07/07/99	\$36,206.40	
00025511	06/20/99	07/07/99	\$36,206.40	
00025511	07/20/99	07/29/99	\$36,345.52	
00025511	08/20/99	08/30/99	\$36,345.52	
02896676	04/10/99	05/03/99	\$29,098.58	

Total Amount Paid on both accounts = \$370,795.74

I provided the circuit and account numbers because I have had calls from several different offices and there's always confusion about circuit numbers, exact locations or account numbers. For future

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-6. Please refer to USPS-T-3, Workpaper A, lines 1-117.

- a. How did you determine the type of hardware and equipment that would be necessary to implement the MOL experiment? Please state specifically your source(s) for the hardware and equipment items listed. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of hardware and equipment estimates:
 - i. company or organization that employs this individual,
 - ii. organizational unit or department within the company or organization,
 - iii. position of individual within the company or organization,
 - iv. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
 - v. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
 - vi. Also provide any written information transmitted to you by individuals listed above that was used to develop the hardware and equipment estimates.
 - vii. Provide any notes that you made reflecting any oral communications made by such individuals to you.
 - viii. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.
- b. How did you determine the quantities of hardware and equipment that would be necessary to implement the MOL experiment? Please state specifically your source(s) for the quantities of hardware and equipment items listed. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of estimates of hardware and equipment quantities:
 - i. company or organization that employs this individual,
 - ii. organizational unit or department within the company or organization,
 - iii. position of individual within the company or organization,
 - iv. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
 - v. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
 - vi. Also provide any written information transmitted to you by individuals listed above that was used to develop estimates of hardware and equipment quantities.
 - vii. Provide any notes that you made reflecting any oral communications made by such individuals to you.
 - viii. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

RESPONSE:

The list of items of the type and quantity of hardware, software and telecom/networking in Workpaper A was provided by the developer's MOL Program Manager, a Director at Marconi Electronics (which has recently been acquired and renamed BAE Systems). Lines 1-192 of Workpaper A represent the total expenditure for hardware, software, telecommunication and networking for the core MOL system during the entire period of the experiment.

The bill of materials list is the product of extensive meetings and interactions by various entities within the Postal Service and the contractors. I attended some of these meetings and also met separately with the Director, the Senior Consultant and the Director of Engineering at BAE Systems responsible for developing Mailing Online to question, discuss and validate these and other conclusions regarding Mailing Online. For the purpose of my testimony, their bill of materials was provided to me. A listing of the items that I used from this bill of materials has been filed as USPS-LR-2/MC2000-2.

When I was collecting data for my testimony, the design of the MOL system had been finalized. Indeed, most of the items listed in the corresponding bill of materials had already been procured. In fact, the equipment listed under the Development and Testing environment had been installed and was in use. I reviewed the identified hardware and software and found it to constitute a complete and robust architecture about which I was confident I could provide reliable testimony to the commission. Also I found the developers to be technically competent and capable of providing solid judgement and solutions. I was able to use actual data and costs rather than rely on

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

theoretical models to identify the hardware and software costs. Therefore, I am very confident of the accuracy of these costs.

I have outlined how I obtained and verified Mailing Online information. As can be seen, I had no reason to follow the quite different path for collecting and verifying information embodied in the interrogatory. To the limited extent I could provide additional data and information such as notes reflecting oral communications, I would need to reassemble all events during the many months of meetings and discussions for the current and prior Mailing Online testimonies. This would require several months of unproductive work. In addition providing "all sources and assumptions utilized by the individual to reach the conclusions" would require a similar amount of time, and all sources or assumptions would not readily be available.

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OCA/USPS-T-3-7. Does the list of hardware and equipment in lines 1-117 of Workpaper A constitute an estimate of all hardware and equipment expenditures that will be necessary over the course of the entire 3-year experiment? If not, then state the period of time for which these items will be acquired.

RESPONSE:

Yes, as explained in the response to OCA/USPS-T3-6.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-8. Explain how the Postal Service's plan "to have its full network of 25 print sites in place near the middle of the second year of the experiment" (Request at 3) has resulted in estimates of specific quantities of hardware and equipment to be listed in Workpaper A. By way of illustration, if the Postal Service were to have planned approximately half the number of print sites—say 12 print sites in total for the duration of the experiment—which hardware and equipment estimates would have changed, and by how much? Please be specific.

RESPONSE:

The items in Workpaper A constitute the core MOL system and would not be affected by any plans for print site implementation. Workpaper D shows the total cost of equipment related to print sites for the period of the experiment based on the MOL Print Site Rollout shown in Table 12 of witness Poellnitz' testimony, USPS T-2.

If the number of print sites were to be halved to 12 rather than 25 sites, then the unit quantities of the Hardware, Software, and T1 installation (Workpaper D, Items 2 through 24 & 38) for the production environment would be changed from 25 to 12 units and the T1 service (Item 39) would decrease. The decrease in the T1 service would depend on the year and month of implementation of the 12 Print Sites, since the service is based on monthly usage. For example, if a T1 line was installed in December rather than in April of the same year, then it would cost less due to a difference of eight months.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-9. For purposes of developing the hardware and equipment estimates presented in lines 1-117 of Workpaper A, what assumption was made concerning the number of simultaneous MOL users?

- a. State the number of simultaneous users assumed.
- b. Explain how this assumption affects the type and quantity of hardware and equipment that must be acquired.
- c. For purposes of illustration, how would specific hardware and equipment acquisitions be affected if the number stated in response to part a. of this interrogatory were to double? How would specific hardware and equipment acquisitions be affected if the number stated in response to part a. of this interrogatory were to be halved?

RESPONSE:

The MOL system capacity is based on the assumption of 5000 simultaneous users. I have personally not done specific analysis of the effect of doubling or halving the number of users because the Mailing Online system has already been finalized and procured based on this assumption of 5000 simultaneous users. However to provide a rough and general idea, if the number of simultaneous users of the system were to double, the number of CPUs for the Cubix boxes, web servers and MOL controller would increase. Additional software would be required for additional Cubix CPUs and if additional Web Servers are required, then additional web server Netscape software would be also required. Switches and routers may need to be added and additional storage capacity would be necessary. Halving would have similar effects in the opposite direction.

See also my response to OCA/USPS-T3-10.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-10. Do the anticipated hardware and equipment needs set forth in lines 1-117 of Workpaper A reflect the yearly and total volume estimates for impressions and pieces (i.e., as indicated by the volume of envelopes), that are set forth in Exh. USPS-5A? If not, then what volume assumptions underlie the hardware/equipment estimates? If so, explain the relationship between the volume estimates and the type and quantity of equipment set forth in the workpaper.

- a. By way of illustration, how would the hardware and equipment estimates change if total volume were doubled?
- b. By way of illustration, how would the hardware and equipment estimates change if total volume were halved?
- c. By way of illustration, how would the hardware and equipment estimates change if yearly volumes remained constant, instead of increasing steadily over the 3-year period?

RESPONSE:

The system and software have been designed based on 5000 simultaneous users. The number of simultaneous users determines the capacity of the MOL system. Based on these, certain projections for storage and transmission capacities could be made. The relationship between volume estimates for impressions and pieces and number of simultaneous users has not been clearly established. Without more information about this relationship, I cannot estimate the impact on hardware and equipment should the volumes of impressions or pieces change.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-11. Does the Postal Service currently own any of the equipment listed in lines 1-117 of Workpaper A as a result of offering MOL during the operations test or the market test?

- a. If so, how are the expenditures for currently-owned equipment accounted for in Workpaper A?
- b. If expenditures for currently-owned equipment are not included in the Workpaper A cost estimates, then has witness Plunkett accounted for them in his analysis? (This may be redirected to witness Plunkett for a response). Give a specific explanation, including citations, to the place(s) in Postal Service testimony or workpapers where expenditures for already-owned equipment are accounted for.

RESPONSE:

No. All equipment for the experiment is for a scaled national rollout and does not include any from the operations or market tests. Parts (a) and (b) are not applicable since there are no such expenditures to account for. See also witness Plunkett's response to interrogatory OCA/USPS-T5-6.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-12. Please refer to USPS-T-3, Workpaper A, lines 119-174.

- a. How did you determine the type of software that would be necessary to implement the MOL experiment? Please state specifically your source(s) for the software listed. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of software estimates:
- i. company or organization that employs this individual,
 - ii. organizational unit or department within the company or organization,
 - iii. position of individual within the company or organization,
 - iv. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
 - v. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
 - vi. Also provide any written information transmitted to you by individuals listed above that was used to develop software estimates.
 - vii. Provide any notes that you made reflecting any oral communications made by such individuals to you.
 - viii. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.
- b. How did you determine the quantities of software that would be necessary to implement the MOL experiment? Please state specifically your source(s) for the quantities of software listed. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of estimates of software quantities:
- i. company or organization that employs this individual,
 - ii. organizational unit or department within the company or organization,
 - iii. position of individual within the company or organization,
 - iv. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
 - v. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
 - vi. Also provide any written information transmitted to you by individuals listed above that was used to develop estimates of software quantities.
 - vii. Provide any notes that you made reflecting any oral communications made by such individuals to you.
 - viii. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE:

See the response to OCA/USPS-T3-6.

MC2000-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-13. Does the list of software in lines 119-174 of Workpaper A constitute an estimate of software expenditures that will be necessary over the course of the entire 3-year experiment? If not, then state the period of time for which the software will be acquired.

RESPONSE:

Yes. See the response to OCA/USPS-T3-6.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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OCA/USPS-T-3-14. Explain how the Postal Service's plan "to have its full network of 25 print sites in place near the middle of the second year of the experiment" (Request at 3) has resulted in estimates of specific quantities of software to be listed in Workpaper A. By way of illustration, if the Postal Service were to have planned approximately half the number of print sites—say 12 print sites in total for the duration of the experiment—which software estimates would have changed, and by how much? Please be specific.

RESPONSE:

See the response to OCA/USPS-T3-8.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-15. For purposes of developing the software estimates presented in lines 119-174 of Workpaper A, what assumption was made concerning the number of simultaneous MOL users?

- a. State the number of simultaneous users assumed.
- b. Explain how this assumption affects the type and quantity of software that must be acquired.
- c. For purposes of illustration, how would specific software acquisitions be affected if the number stated in response to part a. of this interrogatory were to double? How would specific software acquisitions be affected if the number stated in response to part a. of this interrogatory were to be halved?

RESPONSE:

See the response to OCA/USPS-T3-9.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-16. Do the anticipated software needs set forth in lines 119-174 of Workpaper A reflect the yearly and total volume estimates for impressions and pieces (i.e., as indicated by the volume of envelopes), that are set forth in Exh. USPS-5A? If not, then what volume assumptions underlie the software estimates? If so, explain the relationship between the volume estimates and the type and quantity of software set forth in the workpaper.

- a. By way of illustration, how would the software estimates change if total volume were doubled?
- b. By way of illustration, how would the software estimates change if total volume were halved?
- c. By way of illustration, how would the software estimates change if yearly volumes remained constant, instead of increasing steadily over the 3-year period?

RESPONSE:

See the response to OCA/USPS-T3-10.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
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OCA/USPS-T-3-17. For the software listed at lines 121-174, state for each software item whether it is "off-the-shelf" or customized. If the software is customized, then state which company (or individual) designed the software and how the cost was estimated.

RESPONSE:

All software at lines 121-174 of Workpaper A is "off-the-shelf" software that will be configured to work with the MOL application. The labor hours for the software configuration are included in the labor cost of MOL Application Development in lines 194 and 195.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-18. Please refer to USPS-T-3, Workpaper A, lines 176-188.

- a. How did you determine the type of telecom/networking item that would be necessary to implement the MOL experiment? Please state specifically your source(s) for the telecom/networking items listed. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of telecom/networking estimates:
- i. company or organization that employs this individual,
 - ii. organizational unit or department within the company or organization,
 - iii. position of individual within the company or organization,
 - iv. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
 - v. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
 - vi. Also provide any written information transmitted to you by individuals listed above that was used to develop telecom/networking estimates.
 - vii. Provide any notes that you made reflecting any oral communications made by such individuals to you.
 - viii. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.
- b. How did you determine the quantities of telecom/networking items that would be necessary to implement the MOL experiment? Please state specifically your source(s) for the quantities of telecom/networking items listed. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of estimates of quantities of telecom/networking items:
- i. company or organization that employs this individual,
 - ii. organizational unit or department within the company or organization,
 - iii. position of individual within the company or organization,
 - iv. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
 - v. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
 - vi. Also provide any written information transmitted to you by individuals listed above that was used to develop estimates of quantities of telecom/networking items.
 - vii. Provide any notes that you made reflecting any oral communications made by such individuals to you.
 - viii. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE:

See the response to OCA/USPS-T3-6.

MC2000-2

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-19. Please refer to line 194 of Workpaper A. Please explain in detail the work performed under the description "MOL Cost for Development (to Date)." State specifically your source(s) for the \$3,258,290 cost figure. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of the cost figure:

- a. company or organization that employs this individual,
- b. organizational unit or department within the company or organization,
- c. position of individual within the company or organization,
- d. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
- e. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
- f. Also provide any written information transmitted to you by individuals listed above that was used to develop the cost figure.
- g. Provide any notes that you made reflecting any oral communications made by such individuals to you.
- h. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE:

The \$3,258,290 figure is based on the invoices collected for the AP reports filed AP2 through 13 under "MOL Development and Coding for V3". It indicates the subcontractor labor hours for development cost for MOL through September 1999. I included these numbers so that I could use actual numbers and provide an accurate reflection of costs. I made two adjustments to the AP report "MOL Development and Coding for V3" category to calculate the specific MOL cost under USPS.com (please see the attached worksheet that provides a more detailed description).

First, I removed costs for designing web pages since these efforts were to develop templates for MOL that matched with the look and feel of the PostOffice Online web pages. Since these templates are not used for MOL under USPS.com, the cost was not included.

Second, I likewise removed cost for the PostOffice Online subcontractors who dedicated time to MOL issues since this was work done for the MOL model under

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

PostOffice Online, rather than the experimental system. This work by the PostOffice Online subcontractors was not used for MOL under USPS.com, and in keeping with the testimony of witness Takis, was excluded from my testimony.

The remaining cost for MOL Development from September 1999 through implementation of MOL is provided in line 195 "MOL Application Development". Please see the response to OCA/USPS-T3-20. Together, these two items constitute the total labor and expenses by the MOL subcontractor (BEA Systems) to develop and implement the version 3 of Mailing Online. Examples of such work include:

- Defining system requirements.
- Developing system design and system review
- System Development and Testing
- System Implementation
- System Testing

I participated in some of these activities giving me a high confidence in the quality of the figure presented in my testimony. See also my response to OCA/USPS-T3-6 for the discussion of how my approach does not lend itself to answering the specific subparts of this interrogatory.

Attachment 10
Page 1041

Worksheet A
MOL Cost For Development (To Date)

	sp2	sp3	sp4	sp5	sp6	sp7	sp8	sp9	sp10	sp11	sp12	sp13	Total
1 Current Specific (AP Reports)	\$ 277,804	\$ 177,288	\$ 186,613	\$ 170,840	\$ 222,948	\$ 581,254	\$ 490,178	\$ 241,681	\$ 181,148	\$ 270,868	\$ 290,282	\$ 607,809	\$ 3,878,869
2 Removal of Brand Dialogue													
3 Marconi Only (Digital Removed)	\$ 75,048	\$ 39,084	\$ 39,084	\$ 170,840	\$ 222,948	\$ 457,191	\$ 472,193	\$ 210,612	\$ 148,028	\$ 245,183	\$ 284,078	\$ 607,809	\$ (114,044)
	\$ 45,225	\$ 117,585	\$ 70,214										
	\$ 53,150												
4 Final MOL Specific Remaining	\$ 173,423	\$ 158,680	\$ 109,308	\$ 170,840	\$ 222,948	\$ 457,191	\$ 472,193	\$ 210,612	\$ 148,028	\$ 245,183	\$ 284,078	\$ 607,809	\$ 3,258,290
Adjustment Reason	Removal Digital	Removal Digital	No Change	No Change	No Change	Removal Digital	Removal BD	Removal BD	Removal BD	Removal BD	Removal BD	No Change	

*Notes

Costs reported in AP reports differ from those presented in USPS-T3 Testimony due to the following reasons:

1. AP reports rely on the accrual method where as the testimony uses both actuals and projected costs.
2. The AP reports were not required to apply any cost theories to determine MOL's portion of shared costs. The testimony applied various costing methodologies to allocate MOL's portion of shared costs for Help Desk and T3 service costs.
3. The AP reports are based on Version 3.0 development activities (Brand Dialogue & Digital) which occurred during the Market Test and under the POL system. Given that POL is being replaced by USPS.com, some of these activities no longer have a bearing on Version 3.0 under USPS.com. The costs associated with these activities were therefore considered sunk and excluded from testimony.
4. Certain costs appearing in the AP reports are categorized differently in testimony.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-20. Please refer to line 195 of Workpaper A. Please explain in detail the work performed under the description "MOL Application Development." State specifically your source(s) for the \$970,202 cost figure. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of the cost figure:

- a. company or organization that employs this individual,
- b. organizational unit or department within the company or organization,
- c. position of individual within the company or organization,
- d. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
- e. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
- f. Also provide any written information transmitted to you by individuals listed above that was used to develop the cost figure.
- g. Provide any notes that you made reflecting any oral communications made by such individuals to you.
- h. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE:

The MOL Application Development cost combined with line item 196, MOL Cost for Development (To Date) of \$3,258,290, constitute the total cost for subcontractor labor to develop the MOL system. See also the response to OCA/USPS-T3-19.

Please note that the MOL Application Development figure in my testimony (\$970,202) is being revised to \$2,239,171 due to a shift of \$1,268,969 to MOL Application Development from MOL Enhancements (line 196). Accordingly, MOL Enhancements will be reduced in the same amount from \$9,395,581 to \$8,126,612. The \$2,239,171 for implementing MOL into the production environment had been incorrectly categorized. I have attached with this response the fax provided to me summarizing the cost estimates by the MOL subcontractors. See also my response to OCA/USPS-T3-6.

Marconi MOL FY2000
Date: September 20, 1999
NetPost-MOL Development

MOLv3 Development	\$970,202
MOL Enhancement Development	\$2,523,614
MOL Implementation	\$1,268,969
Total Development	\$4,762,785

NetPost-MOL Support

MOL V2 Support	\$42,743
MOL Support	\$566,580
Total Support	\$609,323
 Total	 \$5,372,108

MARCONI

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Reston, VA 20191-1536
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FAX (703) 758-7370

Memo

To: Jane Langdon / USPS
Acting Manager, Internet Business Group

From: Scott Spitzer / Marconi
General Manager

Date: August 3, 1999

Subject: MOL Pilot DAR – Cost estimates developed by Marconi for support

Marconi is pleased to submit the following estimates for support for Mailing OnLine. This memo and its attachments have been provided to support assumptions related to the MOL Pilot DAR. Please call me at (703) 758-7083 if you have any questions. We look forward to working with you on this important Internet project.

Marconi Labor

It is estimated that Marconi labor support costs for the next five years will be:

MOL Support

FY2000 September 1999-September 2000

MOL V2 support	September- 1999-October 1999	\$60,858
MOL v3 implementation	September 1999-February 2000	\$751,653
MOL V3 support	February 2000-July 2000	\$621,621
MOL v3.1 implementation	June 2000-July 2000	\$337,620
MOL v3.1 support	August 2000-September 2000	\$195,823
		\$1,967,575

FY2001 September 2000-September 2001

MOL v3.1 support	September 2000-April 2001	\$913,840
MOL v4 implementation	March 2001-April 2001	\$375,134
MOL v4 support	May 2001-September 2001	\$620,106
		\$1,909,080

FY2002 September 2001-September 2002

MOL development	September 2001-September 2002	<u>\$616,102</u>
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FY2003 September 2002-September 2003

MOL development	September 2002-September 2003	\$616,102
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FY2004 September 2003-September 2004

MOL development	September 2003-September 2004	\$616,102
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All information included in this memo and the attachments is confidential and is to be used in the DAR evaluation only

MARCONI

11400 Commerce Park Drive
Reston, VA 20191-1536

(703) 758-7083
FAX (703) 758-7370

Memo

To: Jane Langdon / USPS
Acting Manager, Internet Business Group

From: Scott Spitzer / Marconi
General Manager

Date: August 3, 1999

Subject: MOL Pilot DAR – Cost estimates developed by Marconi for Software Development

Marconi is pleased to submit the following estimates for software development for Mailing OnLine. This memo and its attachments have been provided to support assumptions related to the MOL Pilot DAR. Please call me at (703) 758-7083 if you have any questions. We look forward to working with you on this important Internet project.

Marconi Labor

It is estimated that Marconi labor costs for development for the next five years will be:

FY2000 September 1999-September 2000		
MOL v3.1 development	October 1999-may 2000	\$2,437,760
MOL v4 development	june 2000-september 2000	\$1,044,754
		\$3,482,514
FY2001 September 2000-September 2001		
MOL v4 development	September 2000-February 2001	\$1,553,621
MOL v4.1 development	June 2001-September 2001	\$1,571,443
		\$3,125,064
FY2002 September 2001-September 2002		
MOL development	September 2001-September 2002	\$1,327,800
FY2003 September 2002-September 2003		
MOL development	September 2002-September 2003	\$1,126,538
FY2004 September 2003-September 2004		
MOL development	September 2003-September 2004	\$878,079

Signature _____

All information included in this memo and the attachments is confidential and is to be used in the DAR evaluation only

Travel and Other Direct Costs

It is estimated that Marconi travel for the next five years will be:

Year 1	Year 2	Year 3	Year 4	Year 5
\$275,000	\$175,000	\$175,000	\$175,000	\$175,000

It is estimated that Marconi Other Direct Costs for the next five years will be:

Year 1	Year	Year 3	Year 4	Year 5
\$50,000	\$50,000	\$50,000	\$50,000	\$50,000

Signature _____

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-21. Please refer to line 196 of Workpaper A. Please explain in detail the work performed under the description "MOL Enhancements." State specifically your source(s) for the \$9,395,581 cost figure. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of the cost figure:

- a. company or organization that employs this individual,
- b. organizational unit or department within the company or organization,
- c. position of individual within the company or organization,
- d. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
- e. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
- f. Also provide any written information transmitted to you by individuals listed above that was used to develop the cost figure.
- g. Provide any notes that you made reflecting any oral communications made by such individuals to you.
- h. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE:

"MOL Enhancements" corresponds to all costs for enhancements to the MOL application during the period of the experiment after the initial planned version 3.0 of MOL has been implemented for the experiment. Additional software enhancements such as software updates are also included in this estimate. The program manager at BEA provided the figures. These are reasonable and conservatively high estimates based on my understanding of the planned system enhancements, some of which are mentioned in my testimony, page 6, under Planned Enhancements. See also my response to OCA/USPS-T3-6.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-22. Please refer to line 197 of Workpaper A. Please explain in detail the work performed under the description "MOL Integration with USPS.com." State specifically your source(s) for the \$250,000 cost figure. If your sources are written documents, then provide copies of such documents and cite the specific pages relied upon. If your source(s) are individuals, then state the following for each individual who contributed to the development of the cost figure:

- a. company or organization that employs this individual,
- b. organizational unit or department within the company or organization,
- c. position of individual within the company or organization,
- d. all sources and assumptions utilized by the individual to reach the conclusions that were provided to you,
- e. the medium used by individuals to communicate information to you (state specifically whether the communication was oral or in writing).
- f. Also provide any written information transmitted to you by individuals listed above that was used to develop the cost figure.
- g. Provide any notes that you made reflecting any oral communications made by such individuals to you.
- h. If no written materials currently exist, then specifically state, to the best of your recollection, each conversation you had with the individuals listed above.

RESPONSE:

The item "MOL Integration with USPS.com" refers to the collaborative work necessary to ensure that the USPS.com system works with the MOL system for registration and payment. It is based on a high estimate costs for activities such as sharing information, joint testing and implementation of MOL with the USPS.com system. This information was obtained through face-to-face meetings between myself, witness Garvey, and the subcontractor organization, Andersen Consulting. I had further conversations with the Andersen Consulting program manager for USPS.com to discuss the activities and variables for these costs. Due to the unsettled nature of when and what other applications may be within the USPS.com environment besides MOL, we adopted a conservatively high estimate of the labor hours necessary for MOL Integration with USPS.com. See also my response to OCA/USPS-T3-6.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-23. Please refer to the data report for A/P1, FY 2000, Table 3. MOL Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$2,920,485.90. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

Please note that the cost for Development and Coding in A/P1, FY 2000, Table 3 total \$312,793 and not \$2,920,485.90 (the OCA's figure also includes hardware and software costs). A similar incorrect reference is made in the question in OCA/USPS-T3-24.

The costs for V2 Development and Coding as well as other costs for V2 have not been included in my testimony since they do not pertain to development of the MOL V3 to be used for the experiment. Please see my response to OCA/USPS-T3-19.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-24. Please refer to the data report for A/P2, FY 2000, Table 3. MOL Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$479,023.84. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-23.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-25. Please refer to the data report for A/P13, FY 99, Table 3. MOL Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$607,808.95. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-26. Please refer to the data report for A/P10, FY 99, Table 3. MOL Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$242,343.42. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-27. Please refer to the data report for A/P11, FY 99, Table 3. MOL Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$270,868. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-28. Please refer to the data report for A/P12, FY 99, Table 3. MOL Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$355,892.63. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-29. Please refer to the data report for A/P8, FY 99, Table 3. MOL-Specific Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$490,176.34. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-30. Please refer to the data report for A/P8, FY 99, Table 3. Shared Development and Coding costs for V2 and V3 are set forth in this table in the amount of \$414,228.80. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-31. Please refer to the data report for A/P9, FY 99, Table 3. MOL-Specific Development and Coding costs for V3 are set forth in this table in the amount of \$241,680.80. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-32. Please refer to the data report for A/P9, FY 99, Table 3. Shared Development and Coding costs for V3 are set forth in this table in the amount of \$30,874.40. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

See the response to OCA/USPS-T3-19.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-3-33. Please refer to the data report for A/P7, FY 99, Table 3. MQL-Specific Development and Coding costs for V2 and V3 and for Certification and Accreditation and are set forth in this table in the amount of \$609,989.83. Please explain exactly where and how these costs have been taken into account in your workpapers.

RESPONSE:

The Certification and Accreditation costs are for V2 and therefore were not accounted for in my testimony. Additionally, see the response to OCA/USPS-T3-19.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-3-34. Please refer to the data report for A/P7, FY 99, Table 3. Shared Development and Coding costs for V3 are set forth in this table in the amount of \$921,860.22. Please explain exactly where and how these costs have been taken into account in your workpapers

RESPONSE:

Shared Development and Coding costs for V3 reported in A/P7 are for enhancements made to PostOffice Online and development of web pages for MOL under PostOffice Online. Since these are not relevant to MOL under USPS.com, they are not reported in my testimony.

1 MS. DREIFUSS: Commissioner LeBlanc, in addition,
2 there are some responses to MASA interrogatories that
3 Witness Lim provided that I would also like to designate as
4 written cross examination of the OCA.

5 COMMISSIONER LeBLANC: Please move on.

6 MS. DREIFUSS: The numbers are MASA/USPS-T3-8, and
7 9. If I may, I'd like to hand Mr. Lim these two copies so
8 he could take a moment to review them.

9 COMMISSIONER LeBLANC: Please.

10 MS. DREIFUSS: Thank you.

11 BY MS. DREIFUSS:

12 Q Mr. Lim, have you had a chance to review the two
13 interrogatories I just mentioned?

14 A Yes, I have.

15 Q If those questions were posed to you today, would
16 your answers be the same?

17 A Yes, they would.

18 Q Were those answers prepared by you or under your
19 direct supervision?

20 A Yes, they were.

21 MS. DREIFUSS: Commissioner LeBlanc, I ask that
22 these answers be entered into the record as evidence of the
23 OCA and transcribed.

24 COMMISSIONER LeBLANC: Any objections, Mr. Rubin?

25 MR. RUBIN: No objections.

1 COMMISSIONER LeBLANC: So moved, Mr. Reporter,
2 please.

3 You do have two copies, right, Ms. Dreifuss?

4 Thank you.

5 [Additional Designated Written
6 Cross-Examination of Chong Bum Lin
7 was received into evidence and
8 transcribed into the record.]
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2nd additional

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL

MASA/USPS-T3-8. Confirm that you have identified no Help Desk costs for the so-called "Pre-Experiment" period.

- a. Confirm that there was a Help Desk for the market test of MOL.
- b. Identify the amount of Help Desk expense incurred during the market test.
- c. State how you have accounted for Help Desk costs incurred during the market test.

RESPONSE:

Confirmed that I have included no "Pre-Experiment" costs.

- a. Confirmed.
- b. The total amount of Help Desk expense incurred during the market test was not needed and therefore was not collected for my testimony. I understand Help Desk costs for the market test were provided in reports filed with the Commission.
- c. Costs incurred for the market test, like all other market test costs during the experiment, were not included in my testimony.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO INTERROGATORIES OF THE MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL**

MASA/USPS-T3-9. Confirm that it would be necessary to have registration and payment functions for MOL in the absence of USPS.com.

- a. State separately what the cost of the payment and registration functions is for USPS.com during the experimental period for MOL.
- b. Identify all services or products other than MOL that will use the (i) payment and (ii) registration functions of USPS.com during the experimental period.

RESPONSE:

Confirmed. Registration and payment functions would be necessary for Mailing Online in the absence of USPS.com; likewise, USPS.com would require payment and registration functions in the absence of Mailing Online.

- a. I understand that witness Takis addresses the appropriate costing of shared components serving a group of products, and that in conformity with his approach, Mailing Online should not pay for the USPS.com payment and registration system since the equipment is needed regardless of Mailing Online. Even if Mailing Online were required to pay the portion of the payment and registration system that corresponds to Mailing Online's proportional use, the resulting cost would be trivial. The USPS.com payment server is planned to accommodate over 3.6 million transactions per day, while Mailing Online needs only 24,000 per day. Applying this 0.66% cost driver to the \$168,020 expected cost of the payment server and software leaves around a thousand dollars.
- b. I understand that the plans for eventual use of USPS.com are currently under development. However, a partial list consists of Mailing Online, Shipping Online, PosteCS, Stamps Online, and Postmark America.

1 COMMISSIONER LeBLANC: The OCA has requested oral
2 cross-examination concerning USPS-T-3. Does any other
3 participant wish oral cross-examination of this topic?

4 All right. Since nobody's out there, Ms.
5 Dreifuss, you have the floor.

6 MS. DREIFUSS: Thank you.

7 CROSS EXAMINATION

8 BY MS. DREIFUSS:

9 Q Good morning Mr. Lim.

10 A Good morning.

11 Q I'd like to talk to you first about the
12 preexperiment costs that you've reported in your testimony.
13 Could you generally describe what the preexperiment costs
14 are that you've accounted for?

15 A First let me just define preexperiment in the
16 context of my testimony. It's all the costs incurred before
17 the MOL system goes live, live meaning it's publicly
18 available on the Internet. They generally include costs to
19 develop the system so that they can be offered through the
20 net, so the development cost of the MOL system is the
21 primary cost of those preexperiment costs.

22 Q I'm sorry, I'm having trouble hearing you because
23 of the noise outside. Could you speak up please?

24 A Sure.

25 Q Thank you.

1 Could you repeat the last sentence. I didn't
2 catch that.

3 A Sure. The preexperiment costs pertain to the
4 costs incurred before the production -- the system goes
5 live. Basically that's publicly available on the Internet
6 before MOL's available on the Internet. The costs for those
7 preexperiment costs primarily include the development of
8 that system, as well as the procurement of the hardware,
9 software, in order to offer the MOL to the public.

10 Q Is any of the equipment or the software in use --
11 was any of the equipment or software in use during the
12 market test?

13 A No, they were not.

14 Q In your response to OCA Interrogatory No. 11, you
15 state that all equipment for the experiment does not include
16 any from the operations or market tests. Is that generally
17 true throughout your testimony, that is, that no market test
18 or operations test costs have been accounted for in your
19 testimony?

20 A That is correct.

21 Q How did you determine to include certain costs as
22 appropriate for this proceeding and exclude others that were
23 incurred during the operations and markets test?

24 A It follows the methodology that I outline in my
25 testimony. Maybe as a reference we can look at that. If we

1 could turn to my testimony, I think the diagram here
2 explains it fairly clearly. If you would look at my
3 testimony at page 8, diagram 1, not to go through each step
4 here, but in general I looked at the costs that were
5 specific to the MOL system for use in the period of the
6 experiment, and they do not include costs which do not
7 pertain to the MOL system for use during the experiment.

8 Q To your knowledge were there MOL-specific costs
9 incurred during the market test?

10 A These are MOL-specific costs for use during the
11 period of the experiment, and if I were to use some of the
12 references made before, these are for Version 3, which is
13 the version required and to be built for the use in the
14 experiment. What you refer to is a previous version, and as
15 I mentioned before, for the period of the experiment, those
16 costs, even the hardware and software, are not being reused
17 for the period of the experiment.

18 Q To your knowledge, though, there were costs
19 expended to operate MOL during the market test, were there
20 not?

21 A There was a system for the market test. I assume
22 there's costs associated with that. Yes.

23 Q Do you recall the total, even just a rough
24 assessment of the total MOL-specific expenditures for
25 information technology during the market test? That is, I'm

1 going to go by the separation that you're making, that
2 you've not accounted for here as helping to prepare for the
3 experiment. These would be market-specific --
4 market-test-specific costs.

5 A I understand. Maybe I should just reiterate again
6 the methodology that I apply here. I did not study the
7 costs or the system that's used for the period of the market
8 test. It is the system that's being used in the period of
9 the experiment that is relevant for my testimony. To
10 reemphasize that, the equipment for use during the period of
11 the experiment, the Version 3 version of MOL, is a
12 completely new system. It replaces what is existing there
13 that was existing for the market test. And therefore there
14 was no need to identify any costs related to that version
15 that existed during the market test.

16 Q Was Version 2 of the software used during the
17 market test?

18 A The software that was used for Version 2 will be
19 completely replaced by the software that's being used for
20 Version 3. In essence, you can say it's a completely new
21 system that's replacing what is existing there.

22 Q Do you think -- let me just make sure I get an
23 answer to this question. Has there ever been a Version 2 of
24 the MOL software?

25 A Yes, there is an MOL application running, so there

1 is what's termed a Version 2 of MOL being used in the market
2 test, but that is -- it's a nomenclature attached to that
3 version doesn't necessarily mean that it's related to the
4 version that's used in the period of the experiment.

5 Q Version 2 is the version that was used during the
6 market test, I believe. Is that correct?

7 A That's correct.

8 Q And it cost some money to produce, did it not?

9 A I'm sure it did.

10 Q Do you have any idea of how much was expended to
11 generate Version 2?

12 A No. To reemphasize, that was not something that
13 was needed to prepare my testimony. Those were costs
14 expended for a system which is completely different from
15 what is being designed and implemented for the period of the
16 experiment.

17 Q Are you aware that there are Version 2 costs
18 reported in the market-test reports?

19 A Yes, I am aware of that.

20 Q Do you think that the Postal Service -- I'm sorry,
21 not the Postal Service -- I believe -- was BAE the primary
22 agent for developing Version 3?

23 A They are the main contractors; yes.

24 Q Did BAE develop Version 2 or at the very least did
25 their former incarnation as Marconi develop Version 2, do

1 you know?

2 A I believe they did have -- it's not -- again, I
3 did not study that system in depth, but I do know they were
4 involved with the development of that version.

5 Q Do you know specifically whether they learned from
6 mistakes or good choices they made in developing Version 2,
7 and applied what they had learned in developing Version 2 in
8 their development of Version 3? Do you know whether that's
9 true or not?

10 A There was some feedback that was received from the
11 users. There were some, I understand, issues that occurred
12 with Version 2, and I suspect that those were experiences
13 that they gained from the system that was used during the
14 market test; yes.

15 Q Do you think that there are similarities between
16 Versions 2 and 3?

17 A Again, I did not study the system that's used in
18 Version 2, because it was not relevant to my testimony. I
19 understand from feedback in various meetings that I had with
20 the developers, and I've sat in through some of the weekly
21 meetings that take place for MOL, that there were issues
22 with Version 2. The version that's being used for the
23 period of the experiment, Version 3, thus replaces
24 completely that system that exists there.

25 Q Although it may be a complete replacement, it is

1 possible at least that it functions in a manner similar to
2 Version 2; isn't that true?

3 A Well, the purpose of MOL is similar. You have a
4 user uploading a document for eventual printing and
5 delivery, and therefore there's of course similarities
6 there. In terms of the actual design and actual coding,
7 actual systems, although I've not looked specifically at the
8 system that's used during the market test, it is a
9 completely different system that's much more scaled to
10 handle the experiment which is a national launch, and the
11 type of equipment used is very much different.

12 Q Who were some of the key people in BAE who
13 designed Version 3?

14 A I don't have all the list of all the individuals,
15 but I have worked closely with the key individuals and I do
16 mention them in response to an OCA interrogatory, if I may
17 point to that specific one. I know it is in here somewhere,
18 but let me just verbalize, it was the senior consultant at
19 BAE Systems, the program manager BAE Systems for MOL, as
20 well as the senior architect at BAE Systems. I believe that
21 response is in one of the OCA interrogatories.

22 Q Do you recall the name of that individual, or is
23 that something you would need to find in the response?

24 A Which individual are you referring to?

25 Q I'm sorry. You just named three individuals.

1 A That's correct.

2 Q Okay. Architect, manager and team leader, I think
3 were the three positions you just mentioned.

4 A The three -- no, the three individuals were the
5 senior consultant, the senior architect and the program
6 manager.

7 Q Do you know if these individuals -- right now it
8 is not essential that you name them. Do you know if these
9 individuals worked on Version 2?

10 A I believe they were involved in some capacity with
11 Version 2, yes.

12 Q Would you describe the development of Version 3 as
13 a building process on Version 2, that is the Postal Service
14 learned from its mistakes and its correct choices in Version
15 2 and then designing Version 3, is that correct?

16 A Again, there is some feedback that was received,
17 and some of that feedback was I am sure in some capacity
18 used in the -- the feedback from the user and the
19 experiences of the users was used in some capacity in terms
20 of formulating a better design that is equipped to fill the
21 need of the users during the system that is developed for
22 Version 3.

23 I would just like to maybe add, the Version 3
24 system is completely different and it does, again, replace
25 what is there for Version 2. The way it -- the application

1 that it uses to perform the functions required for Version 3
2 is I would say similar in function in terms of providing the
3 same service to the MOL user, however, it is completely
4 different. Again, the scaling that is required for Version
5 3 is much different. The sort of -- the scale that is sort
6 of failover and other design requirements that is required
7 for Version 3 are different.

8 Q Well, to the extent that Version 2 was effective,
9 if there were portions of it that were working well,
10 wouldn't it be prudent for the designers to incorporate
11 those features and functions to the extent possible in
12 Version 3?

13 A Again, based on the functional requirements, I
14 would suspect that in designing the system for Version 3,
15 some of that feedback that was received on what worked well
16 for the user would have been, it would have been prudent to
17 incorporate those into design.

18 Q And to the extent that there is personnel overlap
19 between that group that designed Version 2 and the group
20 that designed Version 3, they were able to bring the
21 experience to bear in designing Version 3, that they had
22 acquired in designing Version 2, isn't that also correct?

23 A I would think there is some level of, again,
24 experience or feedback that was received during the market
25 test that was beneficial to them.

1 Q I would like to turn to another matter now. The
2 MOL system planned for the experiment is scaled to 5,000
3 simultaneous MOL users, is it not?

4 A That is correct.

5 Q That determination to serve 5,000 users
6 simultaneously, what portions of the functional areas that
7 you address in your testimony are influenced by that choice
8 to serve 5,000 simultaneous users?

9 A In serving the -- let me sort of reclarify I think
10 the question. In trying to serve the 5,000 users, that will
11 be, again, the 5,000 users being the upper bound
12 requirements for the MOL system, in trying to serve that,
13 you would have to have all the components. As a user, you
14 would need all the components within the MOL system to offer
15 the service that is provided by MOL.

16 Q And it must affect the amount of hardware
17 involved, I would think.

18 A Yes, in designing this system, the number of users
19 is an important consideration. It drives a lot of the
20 requirements that are needed for a system's design, and that
21 was what was used for the design of the MOL system for the
22 experiment.

23 Q In response to OCA interrogatory Number 9, for
24 example, it appears that the amount of hardware and
25 equipment purchased will reflect the need to serve 5,000

1 simultaneous users, is that correct?

2 A I'm sorry. Would you just clarify that question
3 again, please?

4 Q I gather from your answer to OCA Interrogatory
5 Number 9 that the amount of hardware and equipment acquired
6 during the experiment will reflect the need to serve 5,000
7 simultaneous users, will it not?

8 A Yes, that is what is stated in the first line,
9 that the MOL system capacity is based on the assumption of
10 5,000 simultaneous users.

11 Q And similarly, the size of the T3 connection,
12 well, I guess you described it as T3 connection usage also
13 reflects the need to serve 5,000 simultaneous users, does it
14 not?

15 A That is correct.

16 Q Do you know how the Postal Service made the
17 decision to serve 5,000 simultaneous users?

18 A Again in terms of designing a system for the
19 Internet the primary perspective of a design is to look at
20 the user and the user's experience and the activities that a
21 user does using a system, and it is an important factor in
22 defining the capacity of the system.

23 The capacity of 5,000 simultaneous users at one
24 time is the upper bound for the capacity of the system.
25 What that means is that usage will always be lower than that

1 upper bound in the design of the system and its full use
2 during its peak load -- that would be 5,000 simultaneous
3 users.

4 The decision to have that 5,000 simultaneous users
5 is based on the national roll-out expected for the system.
6 Again, as I mentioned before, it is a very highly scaled
7 system. The capacity for 5,000 simultaneous users is a very
8 large one and based on the assumption of the national
9 rollout, that was the capacity decided upon through various
10 meetings, various conversations between all the various
11 parties involved in the designing of the system.

12 Q Do you know what factors were looked at in
13 determining that 5,000 simultaneous users would be the upper
14 bound for the system?

15 A I did sit in in some of the meetings when this
16 design discussion was taking place.

17 There's various factors involved when launching a
18 system for use on the public Internet, and you want to take
19 into consideration a lot of different factors, but in
20 essence the experience of the people designing and the
21 experience of the people in the design of the system, of
22 various parties involved, felt that that was a good capacity
23 based on knowledge of Internet use, based on knowledge of
24 other existing systems that were designed for the Internet,
25 that that would have the capacity to handle what is expected

1 from this launch of the MOL application for national use.

2 Q Do you know if this upper bound of 5,000
3 simultaneous users is in any way dependent upon the Postal
4 Service's volume estimates for MOL?

5 A As I mentioned before, in terms of designing a
6 system, it's key that you have your user's perspective in
7 mind. As you would imagine, say, even the look or feel of a
8 system you have to take the user's perspective in mind in
9 presenting the right services and features that the user
10 would expect and require in using an application such as
11 MOL.

12 The number of -- in terms of building up the
13 capacity for the user, you would expect, say, the bandwidth
14 that is used for the Internet connection to be based again
15 on the user's activities with the MOL application, for
16 example, the uploading of files and the downloading of
17 files -- those sort of activities.

18 That sets the requirement for what is necessary
19 for, say, the web servers and what is necessary for the main
20 controller, some of the storage activities.

21 In terms of number of impressions, that is a
22 result of the experience of a user using the MOL
23 application, and, say, for example -- I think that it's not
24 the, that the relationship between that, the number of
25 impressions, and the capacity of a system -- in designing a

1 system, that relationship is unclear, the reason being, say,
2 for example, you could have one user, the MOL user, upload
3 one file with, say, a 1000 e-mail list, and so for example
4 if that was a one page document that was sent to 1000
5 individuals that would be 1000 impressions.

6 If you had, say, 1000 users sending one document
7 to be printed to one individual that would be also 1,000
8 impressions.

9 However, if you were to design a system for use,
10 the requirements for 1,000 users using MOL would be
11 different from if you would expect one user using the MOL
12 application, and therefore using that example you can see
13 that the relationship between the system in terms of
14 designing the capacity of the system, is unclear.

15 The impressions again is a result of the
16 activities of the user and it is the user's activities and
17 the user's requirements that are instrumental in designing a
18 system.

19 Q So for example, if Witness Rothschild thought that
20 the volumes that she estimated would be generated by -- I am
21 just going to throw out a number because I don't remember
22 what her assumption is -- but let's say she assumed they
23 would be generated by an average of 10,000 users per day,
24 just to throw out any number since I don't recall, that
25 would probably tax the system more than the same number of

1 impressions generated by 1,000 users per day. Does that
2 sound right?

3 A There's a lot of assumptions built into what you
4 have stated.

5 Q Well, let's keep everything equal, except we will
6 talk about using MOL in such a way that there are 10,000
7 users per day on the one hand and using MOL in another way
8 where the same number of impressions would be generated by
9 1,000 users. Do you need to build a larger system to
10 service 10,000 users a day than you do 1,000 users a day?

11 A Well, the term "larger" is a very general term,
12 but again the requirements that you have for 10,000 users as
13 opposed to 1,000 users in your example would be different.

14 Q Different -- a more expensive one? Different in
15 that way?

16 A Maybe it will be easier to just go back to the
17 example again. If were to have 10,000 users accessing the
18 MOL system through various bandwidth, say 10,000 users using
19 56K modem, a modem that you have generally in use these
20 days, to access the MOL system, that would require a
21 different design in terms of if you would expect a lesser
22 amount, 1,000 or even less -- my example is 1,001 -- a user,
23 that the 1,000 users or that one user, my example, would
24 require if they were having, using the same modem, the SONY
25 56K of bandwidth, there's again a lot of different

1 assumptions and a lot of variability in Internet use in
2 general because of the structure of the way the Internet
3 works in terms of the -- the expectations for the users'
4 experience, but the best way to approach that is to again
5 base it on a lot of experience of other systems, of other
6 Net systems and incorporate some of those, that knowledge
7 into the design of a system.

8 Q If, during the experiment, MOL generates about the
9 same level of usage it did during the market test, would you
10 have needed to design as large scale a system as was
11 designed for the experiment?

12 A I haven't studied the volumes required for the --
13 that was a result of the market test. But I do know that
14 the market test, again, was used in a smaller market, if I
15 recall correctly, five different cities. The experiment
16 system, the MOL Version 3 system is to be used for a
17 national rollout, available nationally and I guess even
18 being on the Internet internationally, and, therefore, the
19 scaling of that system is different.

20 MS. DREIFUSS: Commissioner LeBlanc, I have no
21 further questions. I do have a compliment to Mr. Lim. I
22 found his answers to our last set of interrogatories to be
23 very thorough, very complete. I was delighted to see them.
24 It resulted in having very few questions for him today.

25 COMMISSIONER LeBLANC: Thank you, Ms. Dreifuss.

1 Are there any signature from the bench?

2 [No response.]

3 COMMISSIONER LeBLANC: Mr. Rubin, would you care
4 for some time with your witness?

5 MR. RUBIN: Yes, actually, I would like 10 minutes
6 to talk with him.

7 COMMISSIONER LeBLANC: All right. Well, we will
8 take -- let's just give you an extra five, we will take a 15
9 minute break then. We will be back here at 25 till,
10 according to the clock on the wall, as they say.

11 MR. RUBIN: Thank you.

12 COMMISSIONER LeBLANC: Thank you.

13 [Recess.]

14 COMMISSIONER LeBLANC: Mr. Rubin?

15 MR. RUBIN: The Postal Service will have no
16 redirect for Witness Lim.

17 COMMISSIONER LeBLANC: I like to hear that, Mr.
18 Rubin. Thank you. I just went and got a cup of coffee,
19 too, so what can I tell you?

20 All right. Well, then since you have finished
21 with that part, we can right along then.

22 Mr. Lim, there being nothing further, this
23 completes your appearance here today and the Commission
24 appreciates your contribution to our record, and with that,
25 you are excused.

1 THE WITNESS: Thank you.

2 COMMISSIONER LeBLANC: Thank you.

3 [Witness excused.]

4 COMMISSIONER LeBLANC: Mr. Hollies, are you going
5 to do Mr. Plunkett today, or who is doing Mr. Plunkett?

6 MR. HOLLIES: I believe the attorney handling Mr.
7 Plunkett's appearance is Mr. Reiter to my right.

8 COMMISSIONER LeBLANC: Okey-dokey-smokey. Mr.
9 Reiter.

10 MR. REITER: Good morning. Our next witness is
11 Michael Plunkett.

12 COMMISSIONER LeBLANC: He is already under oath,
13 so you can enter his testimony if you will, please, Mr.
14 Reiter.
15 Whereupon,

16 MICHAEL K. PLUNKETT,
17 a witness, having been recalled for examination and, having
18 been previously duly sworn, was examined and testified
19 further as follows:

20 DIRECT EXAMINATION

21 BY MR. REITER:

22 Q Mr. Plunkett, I have shown you two copies of a
23 document entitled "Direct Testimony of Michael Plunkett on
24 Behalf of United States Postal Service," designated
25 USPS-T-5. Was that testimony prepared by you or under your

1 direction?

2 A Yes, it was.

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

5 A Yes, it would.

6 MR. REITER: Commissioner LeBlanc, with that, I
7 would ask that the Testimony of Michael Plunkett be entered
8 into the record of this proceeding and I will hand two
9 copies of it to the reporter.

10 COMMISSIONER LeBLANC: Are there any objections?

11 [No response.]

12 COMMISSIONER LeBLANC: Hearing none, then USPS-T-5
13 is received into evidence as the Direct Testimony of Witness
14 Plunkett and, as is our practice, his testimony will not be
15 transcribed.

16 [Direct Testimony of Michael K.
17 Plunkett, USPS-T-5, was received
18 into evidence.]

19 COMMISSIONER LeBLANC: There is Designated Written
20 Cross-Examination relating to USPS-T-5. Mr. Plunkett, a
21 packet of the Designated Written Cross-Examination was made
22 available in the hearing room this morning by our Commission
23 staff. If these questions were posed to you this morning
24 orally, would your answers be the same as you previously
25 provided in writing?

1 THE WITNESS: Yes, they would.

2 COMMISSIONER LeBLANC: Then, Mr. Reiter, you have
3 already given him the two copies?

4 MR. REITER: Yes.

5 COMMISSIONER LeBLANC: That is a yes? He does
6 have it. Okay.

7 MR. REITER: Yes, the witness does have them.

8 COMMISSIONER LeBLANC: Okay. Then I will move at
9 this point, the material is to be -- can you hear me? Okay.
10 The material is to be received into evidence at this time.
11 It should be transcribed also, please.

12 [Designation of Written
13 Cross-Examination of Michael K.
14 Plunkett, USPS-T-5, was received
15 into evidence and transcribed into
16 the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Mailing Online Experiment

Docket No. MC2000-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT
(USPS-T-5)

Party

Office of the Consumer Advocate

Interrogatories

OCA/USPS-T5-1-5

POIR No. 1, Question 1

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT (T-5)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

OCA/USPS-T5-1

OCA/USPS-T5-2

OCA/USPS-T5-3

OCA/USPS-T5-4

OCA/USPS-T5-5

Designating Parties:

OCA

OCA

OCA

OCA

OCA

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

OCA/USPS-T5-1. Please refer to Exhibit D in your testimony, page 27, at line 6 in the "Total" column. Please confirm that the amount \$29,083,518 should be changed to \$30,303,918. If you do not confirm, please explain.

OCA/USPS-T5-1 Response. Confirmed. A revised exhibit D is appended.

Exhibit D **Mailing Online Cost and Revenue Summary (corrected)** **Years 1 - 3**

	Source Exhibit C	Year 1	Year 2	Year 3	Total
(1) Printer Costs	\$	62,841,355	\$ 111,785,835	\$ 173,571,529	\$ 348,198,720
(2) Variable IT Costs	USPS-2A, Table 6, Item 32	1,279,226	1,643,119	1,889,420	4,811,765
(3) Total Markup Costs	(1) + (2)	64,120,581	113,428,954	175,460,949	353,010,485
(4) Revenue at 30% Markup	1.3 * (3)	\$ 83,356,756	\$ 147,457,640	\$ 228,099,234	\$ 458,913,630
(5) Contribution	(4) - (3)	19,236,174	34,028,686	52,638,285	105,903,145
Other Costs					
(6) Product Specific IT Costs	USPS-2A, Table 16	\$10,426,623	\$11,170,266	\$8,406,999	\$30,003,888
(7) Advertising Costs	USPS-2A, Table 15	725,000	725,000	725,000	2,175,000
(8) Incremental Costs	(6) + (7)	\$75,272,204	\$125,624,250	\$184,592,948	\$385,489,402
(9) Experimental Revenue/Incremental Costs	(4) / (8)	110.7%	117.4%	123.6%	119.0%

(6) Product specific IT costs include pre-experiment costs which have been spread evenly throughout the three years of the experiment.

NOTE: Shaded areas have been changed

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

OCA/USPS-T5-2. Please refer to Exhibit E in your testimony, page 29, at line 5, "Information System Costs." Please confirm that the fee for Information Systems Costs for "First Class" and "Standard A" should be \$0.002 and \$0.008, respectively. If you do not confirm, please explain.

OCA/USPS-T5-2 Response. Confirmed. A revised Exhibit E is appended.

Exhibit E
Mailing Online Sample Fees (corrected)
Year 1

Year 1		First Class	Standard A	
		Black & White 8.5X11 - 2 Page Simplex	Spot Color 8.5X11 - 8 Page Simplex	
	Note			
(1)	Impression Costs	One impression per sheet	\$ 0.034	\$ 0.181
(2)	Paper Costs		\$ 0.009	\$ 0.038
(3)	Envelope Costs		\$ 0.015	\$ 0.047
(4)	Insertor Costs		\$ 0.024	\$ 0.030
(5)	Information Systems Costs		\$ 0.002	\$ 0.008
(6)	Transportation Costs		\$ 0.000	\$ 0.006
(7)	Subtotal	[(1)+(2)+(3)+(4)+(5)+(6)]	\$ 0.084	\$ 0.310
(8)	Contribution	(7)*.3	\$ 0.025	\$ 0.093
(9)	Fee	[(7)+(8)]	\$ 0.109	\$ 0.403
(10)	Postage	R-97 Rates	\$ 0.270	\$ 0.245
(11)	Total Postage & Fee	[(9)+(10)]	\$ 0.379	\$ 0.648

Note: Unit costs from Exhibit B
 Shaded areas have been changed.

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

OCA/USPS-T5-3. Please refer to your testimony in this proceeding and your testimony (USPS-T-5) in Docket No. MC98-1. Please identify any assumptions or methodological approaches in your testimony in this proceeding that are different from the assumptions made or methodological approaches used in your testimony in Docket No. MC98-1. Please explain the significance of, and your rationale for, any changes identified.

OCA/USPS-T5-3 Response. Please refer to page 8 of my testimony, USPS-T-5.

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

OCA-USPS-T-5-4. Please refer to your Exhibit B. What would the Information Technology Unit Costs be if you included the Product Specific IT Costs in the calculation? If you also included advertising costs?

OCA-USPS-T5-4 Response. Including product specific IT costs would result in an average per unit IT cost of 0.32 cents per impression. Adding advertising costs would increase the per unit cost by an additional 0.02 cents per impression.

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

OCA/USPS-T5-5. Please refer to your testimony at page 4, line 9 and page 6, lines 1 and 2. Is it your intent that the 0.1 cent for information technology will be charged for each impression over the entire course of the experiment? If so, please explain why you used the unrounded 0.00064 number in calculating your sample fees.

OCA/USPS-T5-5 Response. Please refer to my response to OCA/USPS-T5-2.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

Question 1. The Commission marks up attributable costs to estimate revenue for subclasses and special services. In Docket No. 97-1, the Commission includes both volume variable costs and product specific costs in defining attributable costs. Please confirm that the 119.4% calculated in USPS T-5, Exhibit D at line 9, provides the implicit markup of 19.4% if product specific costs are included in the definition of attributable costs used by the Commission. Also, please explain why the USPS does not include product specific costs in the mark-up base.

Response:

For the Mailing Online experiment, the Postal Service has projected that it will incur volume-variable costs and product specific costs. In the atypical circumstances of Mailing Online, the product specific costs are anticipated to be incurred primarily to provide a hardware and software system that will largely survive into the post-experimental period.

As suggested by the question, the Commission's preferred approach has been to define attributable costs as the sum of volume variable and product specific. Applying that approach here, all volume variable and product specific costs incurred during the experimental period would be identified, summed, and, after adding an appropriate markup, recovered from mailers through the rates and fees set for the experiment. Thus, the up-front costs of developing the system would fall exclusively on mailers during the experimental period. Such an approach precludes the option of evaluating the product's ability to recover those costs over a period which reflects the expected duration of the system, including the post-experiment period.

If placing the burden of recovering the up-front costs of system development entirely on the experiment increases the recommended price, it would greatly decrease the possibility of success and a later expansion of volume that would allow more

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

gradual, but complete, recovery of all start-up costs. (Note that when a system is anticipated to be deployed in stages, rather than to be created all at once, a portion of start-up costs may continue to be incurred even after some parts of the system are in operation, without detracting from their status as start-up costs.)

Therefore, the Commission should take into account that the nature of the product specific costs involved in the Mailing Online experiment is not necessarily the same as the nature of more typical product specific costs. The product specific costs associated with the Postal Service's established services tend to be incurred on an ongoing basis. The Mailing Online product specific costs, on the other hand, are largely in the nature of start-up costs. In the future, if Mailing Online becomes an established service, it is expected to continue to incur some product specific costs, and those would over time become much more similar to the product specific costs for other established services. Until then, however, it seems to me more reasonable to acknowledge the important distinction between volume variable costs and product specific start-up costs.

In addition, our ability to estimate unit volume variable costs with some precision is much greater than our ability to estimate unit start-up costs with a similar degree of precision. This is because our ability to know the right level of volume to use as the denominator in deriving unit start-up costs is constrained by the nature of the service as an experiment, and the fact that it might be appropriate to include some post-experiment volumes.

Therefore, rather than ignore the distinction between volume variable and product specific costs, I have proposed a cost coverage of 130 percent (markup of 30 percent) over volume variable costs. (If a broader definition of attributable costs were

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

used instead, I would propose a lower cost coverage, along the lines of OCA witness Collins's testimony in Docket No. MC98-1.) At the same time, of course, I have taken the product specific costs into account in my Exhibit D, when showing how the Postal Service envisions that the product specific costs will be covered. In this instance, at volume projected for the experiment, all costs of Mailing Online, including the product specific costs, will be recovered, and, additionally, an amount equal to 19.4 percent of total costs will be recovered as well. I confirm that, as suggested by the question, this amount represents the markup implicit in the Postal Service's Mailing Online proposal if the markup were to be calculated with reference to attributable costs as previously defined by the Commission for ongoing services. While this figure may be interpreted as a reason to worry less about the concern that attempting to recover all start-up costs during the experiment may be inappropriate, I believe it is necessary, with regard to a new product such as Mailing Online, to distinguish between volume variable and product specific start-up costs.

Finally, it should also be remembered that the mail pieces entered using Mailing Online provide additional contribution via their native subclasses, separate from their attributes as Mailing Online pieces. This provides an additional means of generating contribution that would be available to cover the costs of establishing the Mailing Online system.

1 COMMISSIONER LeBLANC: The OCA filed a request for
2 oral cross-examination concerning USPS-T-5. Does any other
3 participant wish oral cross-examination at this time?

4 [No response.]

5 COMMISSIONER LeBLANC: Okay. Then, Ms. Dreifuss,
6 you can begin, please.

7 MS. DREIFUSS: With your permission, Commissioner
8 LeBlanc, I do have some responses to interrogatories that
9 Mr. Plunkett has provided to OCA and MASA that I believe
10 have not yet been designated for the record.

11 COMMISSIONER LeBLANC: Please. Please.

12 MS. DREIFUSS: I would like to designate for the
13 record OCA/USPS-T-5-6 through 8, that is one set. The other
14 set is MASA/USPS-T-5-1 through 3. If I may approach the
15 witness, I will ask him to look these over.

16 COMMISSIONER LeBLANC: Please.

17 CROSS EXAMINATION

18 BY MS. DREIFUSS:

19 Q Mr. Plunkett, have you had a chance to look over
20 those responses?

21 A Yes, I have.

22 Q If those questions were posed to you today, would
23 your answers be the same?

24 A Yes, they would.

25 Q Were those answers prepared by you or under your

1 direct supervision?

2 A Yes, they were.

3 MS. DREIFUSS: Commissioner LeBlanc, I ask that
4 these responses be transcribed into the record and entered
5 as evidence. I will now hand two copies to the Reporter.

6 COMMISSIONER LeBLANC: Are there any objections?

7 [No response.]

8 COMMISSIONER LeBLANC: So ruled, Mr. Reporter.

9 [Additional Designated Written Cross
10 Examination by OCA of Witness Michael K.
11 Plunkett was received in evidence and
12 transcribed into the record.]
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*addition
cross in
Transcript*

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T[5-6. Please refer to your testimony at pages 10 and 11, line 23, and lines 1-2; respectively, where it states "Moreover, at projected volumes Mailing Online pieces will achieve depth of sort that is, on average, much greater than required to qualify for automation basic rates."

- a. Please explain in detail how the Postal Service intends to verify that volume of Mailing Online pieces during the experiment will achieve a depth of sort that is, on average, much greater than required to qualify for automation basic rates.
- b. Please confirm that, as part of the "Experimental Data Collection Plan," the Postal Service will compute and report the actual average depth of sort achieved for Mailing Online pieces during the experiment. If you do not confirm, please explain.

Response.

The Postal Service plans to make available electronic data files which contain complete depth of sort information for pieces entered via Mailing Online. Given the projected length of the experiment, an overall average for depth of sort attained is unlikely to be very meaningful, simply because volumes entered at the end of the experiment are likely to be much greater than those entered closer to the launch date. Nevertheless, the Postal Service's expectation is that volumes will be sufficient that analysis will support the Postal Service's current position: Automation Basic rates are a useful substitute for unique Mailing Online rates given the absence of empirical data upon which to base such rates.

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-TJ5-7. Have you set the size and amount of MOL fees to recover any of the advertising costs for MOL (even if shared with other services) that have been expended to date, including the operations test and the market test?

- a. If so, explain how these costs are to be recovered through MOL fees. Include citations to Postal Service testimony, exhibits, and workpapers.
- b. If not, why not?

Response.

In setting fees for Mailing Online, I relied solely on the cost testimonies, and associated workpapers and exhibits, of witnesses Takis (USPS-T-4), Poellnitz (USPS-T-2), and Lim (USPS-T-3). While a detailed explanation of their assumptions would best be obtained from the appropriate witness, my understanding is that the treatment of historical costs is governed by prior Postal Service and Commission precedent, specifically that costs incurred in previous years are not carried forward to be recovered through revenues in prospective periods. Thus, for example, if Parcel Post fails to cover its costs completely during one rate cycle no carryover loss is recovered in the next. With Mailing Online, we are also faced with a situation where the market test was completed in its entirety before the Postal Service even filed its current Request for an experiment, so the connection between the two is even further attenuated.

I further understand that to the extent that costs incurred in development of Mailing Online version 3.0 can be isolated, they have been included in witness Poellnitz's estimate of total product specific costs. As such my testimony (Exhibit D) describes how Mailing Online costs are recovered during the experiment.

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T[]5-8. The Mailing Online Accounting Period data reports filed with the Commission throughout (and following) the market test have reported five types of costs. Please provide a crosswalk to your testimony and exhibits, *for every A/P report* filed with the Commission, for each of the costs reported in:

- a. Table 1, Advertising and Marketing costs
- b. Table 2, Help Desk costs
- c. Table 3, Hardware and Software costs
- d. Table 4, Communications costs
- e. Table 5, Print Site costs

Include an explanation of how each of these costs have been included in either the attributable costs of MOL or have been recovered through the cost coverage you propose for MOL.

RESPONSE:

See my response to interrogatory OCA/USPS-T5-7.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORIES OF MAIL ADVERTISING SERVICES ASSOCIATION
INTERNATIONAL**

MASA/USPS-T5-1. Referring to the "product specific costs" that are the subject of your testimony at page 5 through 7 of your testimony:

- a. Confirm that the product specific costs are \$30,303,917 over the life of the experiment (USPS-5D, line 8, as corrected in response to OCA/USPS-T5-1).
- b. Confirm that product specific costs have not been attributed to MOL as part of the cost base to which your mark-up is applied.
- c. Confirm that you have assumed that product specific costs would be recovered over a three year period out of the mark-up portion of the fees charged MOL users.
- d. Identify each asset acquired or created through the expenditure of product specific costs, state the cost of acquisition, and provide your understanding of the depreciable life of the asset (and the basis for that understanding).
- e. Account for any portion of product specific costs not assigned to an asset identified in response to subpart d and state how this portion would be treated with respect to depreciation or amortization.
- f. Identify all workpapers, exhibits, or other references upon which you relied for the determination of amount of product specific costs, and the individual components of product specific costs.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed that Mailing Online will recover all of its costs during the experiment.
- d. This information is the subject of witness Lim's testimony (USPS-T-3)
- e. While I am not an expert in accounting or costing methodology, my understanding is that any "assets" used to develop Mailing Online have been accounted for in witness Lim's testimony. I further understand that if product specific costs include expense items which may not appropriately be

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORIES OF MAIL ADVERTISING SERVICES ASSOCIATION
INTERNATIONAL

considered "assets", such expenses would not be depreciated or amortized and would instead be assigned to the year in which they are expected to accrue.

- f. This interrogatory apparently reflects a failure to read my testimony, which expressly relies upon on the testimonies and supporting materials of witnesses Takis (USPS-T-4), Poellnitz (USPS-T-2), and Lim (USPS-T-3).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORIES OF MAIL ADVERTISING SERVICES ASSOCIATION
INTERNATIONAL**

MASA/USPS-T5-2. Do any of the components of product specific costs involve expenditures that are likely to recur over the life of MOL? If so, identify those components of product specific costs that fall in this category.

RESPONSE:

To the extent that any such costs recur during the period of the experiment, they have been identified and included by witnesses Lim (USPS-T-3) and Poellnitz (USPS-T-2).

However, for the purposes of my pricing analysis, a distinction between recurring and non-recurring product specific costs was not relevant.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORIES OF MAIL ADVERTISING SERVICES ASSOCIATION
INTERNATIONAL**

MASA/USPS-T5-3. Describe fully the ways in which your 30% markup methodology differs from the mark-up methodology you used in MC98-1.

RESPONSE:

Please refer to my testimony at pages 8-10.

1 COMMISSIONER LeBLANC: Anything else, Ms.
2 Dreifuss, before we begin?

3 MS. DREIFUSS: No, sir.

4 COMMISSIONER LeBLANC: You have the floor.

5 MS. DREIFUSS: Thank you.

6 BY MS. DREIFUSS:

7 Q Good morning, Mr. Plunkett.

8 A Good morning.

9 Q I wonder if you could turn to your response to OCA
10 Interrogatory Number 6, please?

11 A Okay.

12 Q We referred to a statement that you made in your
13 testimony, quote, "Moreover, at projected volumes, Mailing
14 Online pieces will achieve depth of sort that is, on
15 average, much greater than required to qualify for
16 automation basic rates." End quote.

17 And in your response, you stated that the Postal
18 Service plans to make available, electronic data files which
19 contain complete depth-of-sort information for pieces
20 entered via Mailing Online.

21 I wanted to ask you about the Postal Service's
22 plans to provide that information.

23 Does the Postal Service plan to analyze these
24 electronic data files and compute the actual depth-of-sort
25 achieved to determine if the expectation is borne out during

1 the experiment?

2 A Well, I believe that -- I don't have the data --
3 well, one moment.

4 [Pause.]

5 As we discussed yesterday, I mean, there will be
6 the capability of retaining and compiling all the data
7 associated with each Mailing Online print job during the
8 course of the experiment. That would allow that kind of
9 analysis to be performed.

10 That does not mean we have plans to complete that
11 analysis today, but the data will certainly be present if
12 someone chooses to perform that kind of analysis.

13 Q The Postal Service doesn't have any plans to
14 aggregate the information and report it regularly?

15 A We have, at present, a data collection plan that
16 we have filed in conjunction with this case.

17 For internal purposes, we may do other kinds of
18 analysis. We have not determined what those will be yet.

19 My assumption is that our needs and the things
20 that we wish to analyze will change during the course of the
21 experiment, so it will be difficult for me today to tell you
22 exactly what we plan to look at.

23 It is not, to me, inconceivable that we will
24 achieve a certain level of volume that would render, you
25 know, proof of our ability to attain automation basic levels

1 unnecessary.

2 So I wouldn't say today that we will view that
3 kind of analysis as something we'll need to do. I may be
4 proved to be wrong.

5 But if we achieve what we expect, I don't think
6 there will be any question about this issue when we approach
7 the end of the experiment.

8 Q As you mentioned a moment ago, and you did also
9 mention this yesterday, you'll have the data that could be
10 used to generate an overall profile of the amount of presort
11 that has been achieved for a given period of time; is that
12 correct?

13 A That's correct.

14 Q And I guess what you just said is, right now,
15 you're not planning as part of the regular data reporting,
16 to provide such reports, let's say, every six months; is
17 that correct?

18 A I don't think the current plan calls for that, no.
19 To reiterate something I said yesterday, our purpose in
20 selecting the automation basic rate was not because we
21 thought that's the rate that the permanent service will want
22 to use; it's simply that we thought, given the existing rate
23 and classification schedule, it seemed the best proxy for
24 what we think is liable to happen.

25 One of the reasons we're not all that interested

1 in performing the kind of analysis we're discussing is
2 because our view is not that at the conclusion of the
3 experiment that we will want to identify the right rate
4 categories in the existing classification schedule.

5 It's that we'll hope to be able to substantiate
6 the basis for a unique rate or set of rates for Mailing
7 Online.

8 I'm not sure that the kind of analysis you're
9 discussing, would be all that useful in helping us to do
10 that. It may be a different type of analysis that will be
11 required, and that's what I was referring a few moments ago
12 when I said I expect our needs and our assumptions about
13 what we need to look at will change during the course of the
14 experiment.

15 That's one of those things that I expect to learn
16 much more about as we progress through the experiment, which
17 is difficult to project today.

18 Q I'd like to turn to another matter now, please.

19 A All right.

20 Q Could you turn to page 7 of your testimony,
21 please? At that point -- do you have that page in front of
22 you?

23 A Yes, I do.

24 Q At that point, you discuss your treatment of
25 pre-experiment costs; is that right?

1 A Yes.

2 Q And you ultimately conclude as a result of the
3 discussion at the top of page 7, that you will include
4 one-third of the pre-experiment IT costs in the incremental
5 costs for each year of the experiment; is that correct?

6 A I'm looking at my exhibit.

7 [Pause.]

8 For the purposes of performing the incremental
9 cost test, yes.

10 Q And I'd like to go through the reasoning process
11 that you used to reach that conclusion.

12 You start out by saying that these costs were
13 expensed in the years in which they were accrued.

14 Generally, are those the costs that have been
15 reported in the market test reports?

16 A I believe those costs include costs reported
17 during the market test, but include other costs that were
18 incurred prior to reporting for the market test began.

19 Q Okay, thank you. And you state that expensing
20 them in the years during which they were accrued is
21 consistent with Generally Accepted Accounting Principles.

22 And then you state that subsequent versions of
23 Mailing Online constitute an asset with a depreciable value,
24 and that the pre-experiment costs, ought, therefore, to be
25 capitalized.

1 And I'm really not following what you're driving
2 at in that sentence. Could you clarify that, please?

3 A I'll try. My understanding is that many of those
4 costs were costs incurred to do software development.

5 On a forward-looking basis, my understanding is
6 that the Postal Service accounting system treats such costs
7 now as capitalized.

8 However, at the time those costs were incurred,
9 that was an issue that was still being decided, so there was
10 not a clear direction on how to treat those costs at the
11 time they were incurred.

12 As a result, they were expenses, when no my
13 understanding is that it is likely that they would have been
14 capitalized. And I'm trying to explain why what was done
15 does not to appear to have been inappropriate, given the
16 state of accounting practices at the time. It is not
17 necessarily consistent with the way such costs would be
18 treated, if they were incurred in this current year.

19 COMMISSIONER LeBLANC: Ms. Dreifuss, can I
20 interject one thing here?

21 MS. DREIFUSS: Yes.

22 COMMISSIONER LeBLANC: Just to make sure I'm with
23 you, they were capitalized at what point?

24 THE WITNESS: These costs I'm referring to in this
25 instance were not capitalized; they were treated as

1 expenses. If the same costs were incurred today, my
2 understanding is that they would be capitalized, and our --
3 COMMISSIONER LeBLANC: They would not be expensed off today?

4 THE WITNESS: Right. And, for example, the
5 development costs we're incurring now are treated as
6 capitalized, treated as capital and non-expense items.

7 But at the time those costs were incurred, that
8 was not the case.

9 COMMISSIONER LeBLANC: And that is the plan for
10 the future as well?

11 THE WITNESS: Yes, that's correct.

12 COMMISSIONER LeBLANC: Okay, thank you. I'm
13 sorry, Ms. Dreifuss. Thank you.

14 BY MS. DREIFUSS:

15 Q I think it's clearing up for me a little bit. I
16 guess what you were saying there is, since they were
17 expensed, you might have chosen simply to view them as some
18 costs and not try to recover them by applying -- or apply
19 the incremental cost test to them?

20 A That sort of gets beyond the scope of my work. My
21 understanding is that that kind of treatment would have been
22 consistent with existing practice and sound economic theory,
23 but that's not what we've chosen to do in this case.

24 Q Well, in the next sentence you rule out treating
25 them as sunk; is that correct?

1 A We have not done so; no.

2 Q And you decide not to put them in the attributable
3 cost base I believe but simply to apply the incremental cost
4 test to them; is that correct?

5 A Correct.

6 Q I don't know if you were in the hearing room a
7 little while ago when I was discussing with Mr. Lim what the
8 preexperiment costs are. Were you in the hearing room at
9 that time?

10 A I heard some of that discussion.

11 Q Did you define what the preexperiment costs were
12 or did Witness Lim do that, or perhaps still another person?

13 A Could you explain what you mean by define?

14 Q Well, I'm trying to find out who made the
15 decision -- I'm looking at that dividing line between
16 expenses made for the operations and market test and
17 expenses incurred or planned for the conduct of the
18 experiment. Would you be the witness to defend that
19 decision?

20 A About how those decisions were made? Those were
21 not made by me. I relied on the work of Witnesses Lim,
22 Poellnitz, and Tekas. Decisions about how to treat specific
23 cost elements would have been made in the case of
24 information technology costs I believe by Witness Lim in the
25 case of other costs, although I don't think any other costs

1 are at issue here. Those would have been made by Witness
2 Poellnitz probably in consultation with Witness Tekas. But
3 I was not involved in determining how those costs were
4 defined.

5 Q You I believe are responsible though for deciding
6 not to try to apply the incremental cost test to operations
7 test and market test costs; is that correct?

8 A Well, I would disagree. I mean, I rely on the
9 cost witnesses who made the determination what the
10 incremental costs of Mailing Online are for the experiment.
11 Then I viewed my responsibility to set prices that ensured
12 that the Postal Service would cover the incremental costs
13 that have been identified by appropriate experts that
14 testified in this case. It was not my decision to say these
15 are or these are not incremental costs of Mailing Online.
16 That was the work performed by the cost witnesses.

17 Q You answered OCA Interrogatories 7 and 8, did you
18 not?

19 A Yes, I did.

20 Q And you didn't redirect them to another witness;
21 is that correct?

22 A That's correct.

23 Q You answered them.

24 A Yes.

25 Q We asked you in Interrogatory No. 7: Have you set

1 the size and amount of MOL fees to recover any of the
2 advertising costs for MOL that have been expended to date,
3 including the operations test and the market test?

4 And then you go on to say in your answer that your
5 understanding is that the treatment of historical costs is
6 governed by prior Postal Service and Commission precedent;
7 specifically, the costs incurred in previous years are not
8 carried forward to be recovered through revenues in
9 prospective periods.

10 So assuming from the fact that you answered that
11 you're defending the decision not to apply the
12 incremental-cost test to the operations test and market test
13 costs that we asked you about in the question.

14 A Well, I mean, this is an issue that was discussed,
15 and I don't remember when, but at some point in the past,
16 and so I'm familiar with, you know, the thinking that was
17 behind the treatment of those costs, and I understand that
18 to be the existing -- the state of the art in treatment of
19 such costs.

20 I think I used the example of Parcel Post, where
21 in a given rate cycle if Parcel Post does not cover its
22 costs, the losses incurred during the prior cycle are not
23 carried then forward and applied to Parcel Post
24 specifically, they are treated as, for lack of a better
25 term, sunk.

1 Q Do you know whether that has specifically happened
2 with Parcel Post over an entire rate cycle, that is, it
3 actually was operating at a deficit?

4 A I use that as a convenient example because I know
5 that in prior cases Parcel Post has had an extremely low
6 cost coverage, and I believe that in years tending toward
7 the end of rate cycles I believe Parcel Post has not covered
8 its costs.

9 Q Do you know whether that's been true over an
10 entire rate cycle?

11 A I do not know that.

12 Q In your response to No. 7 you talk about Postal
13 Service and Commission precedent. Could you cite me
14 specific Postal Service and Commission precedents in support
15 of that statement?

16 A I think that's what we've just been discussing. I
17 mean, the -- and again, I'm not an expert on Postal Service
18 costing by any means -- but my understanding is that costs
19 associated with a product in -- historical costs associated
20 with a given product are generally not applied on a
21 prospective basis and used to set prices.

22 Q Right, historical costs may not be as a rule, but
23 if there is a deficit for a particular service, it is
24 possible that the Commission might want to include that in
25 the rate base -- if not the attributable rate base, at least

1 as part of the incremental costs of such a service in a
2 given rate case. Isn't that correct?

3 A I'm not aware of specific examples where that's
4 been done.

5 Q I did a little research and came across the
6 Commission opinion in Docket No. R83-1. That was the E-COM
7 rate case. You sound like you're somewhat familiar with
8 E-COM.

9 A Only by its reputation.

10 Q Right. And this was the rate case. This was the
11 case that increased E-COM rates several years after E-COM
12 had been in operation. And in that opinion the Commission
13 states, and I'll quote it to you -- I'm reading from page
14 244 of the opinion -- it is uncontroverted that during the
15 period from the initiation of E-COM service through the
16 beginning of the test period, E-COM has operated at a loss.
17 Our record shows that it is likely that E-COM revenues will
18 have failed to recover in excess of \$47 million of
19 attributable costs prior to the beginning of the test
20 period. These expenses have been paid for out of the
21 general fund of the Postal Service. The rates we set for
22 E-COM in order to be fair and equitable with regard to other
23 postal services must recover attributable costs in the test
24 period plus make a sufficiently large contribution to
25 institutional costs as to -- and I'm going to emphasize this

1 last part of the sentence -- as to fairly deplete the
2 outstanding balance of accumulated revenue deficiencies
3 incurred in the past.

4 That was a lot for you to digest. Would you like
5 me to give you a copy of that so you could look it over for
6 a minute?

7 A Certainly.

8 MS. DREIFUSS: May I approach that witness?

9 COMMISSIONER LeBLANC: Please, Ms. Dreifuss.

10 MS. DREIFUSS: Thank you.

11 [Pause.]

12 THE COURT: Ms. Dreifuss, do you happen to have
13 any copies for the bench of that?

14 MS. DREIFUSS: I do have copies and I would be
15 glad to have my colleague circulate them if anybody is
16 interested -- certainly for all the Commissioners and
17 service counsel.

18 COMMISSIONER LeBLANC: Thank you.

19 MS. DREIFUSS: And anybody else who would like
20 one.

21 [Pause.]

22 COMMISSIONER LeBLANC: And so we are on the
23 same -- excuse me, what page are we on and where are we
24 looking here?

25 MS. DREIFUSS: I am on page 244.

1 COMMISSIONER LeBLANC: All right.

2 MS. DREIFUSS: And I just read a good portion of
3 paragraph 7037.

4 The paragraph begins, "The problem of past
5 shortfalls" --

6 COMMISSIONER LeBLANC: Thank you.

7 MS. DREIFUSS: I just wanted to focus on that,
8 that particular statement.

9 [Pause.]

10 BY MS. DREIFUSS:

11 Q Have you had a chance to review that paragraph I
12 read to you a moment ago?

13 A Yes, but I am reading beyond.

14 [Pause.]

15 BY MS. DREIFUSS:

16 Q Have you had a chance to read it over?

17 A Yes.

18 Q It would appear that in the R-83 case the
19 Commission did attempt to recover at least some portion of
20 the E-COM deficits through the rates that were then being
21 established for a future period of time. Is that your
22 impression also?

23 A Well, I don't -- I mean I have a -- it looks like
24 what I have is a section of a larger opinion.

25 Q Oh.

1 A So it -- I mean based on what I have seen, it
2 appears that that was a consideration given in setting the
3 rate.

4 There are some important differences here though
5 and again I am not familiar with the history of E-COM or
6 what preceded E-COM prior to this opinion, but it appears
7 from my reading of this portion of the opinion that E-COM
8 was an established service that had a rate in effect, which
9 is somewhat different from what we have here.

10 There also appears to be serious concern that
11 there was a risk of cross-subsidization. I don't believe
12 that to be the case in this instance either and it is
13 unclear to me about what the practical effect of the opinion
14 that was rendered in this case was on E-COM.

15 I mean I know that the service no longer is in
16 existence. I don't know what that implies about this
17 treatment of those costs and whether that was the
18 appropriate treatment or not, but it is something I would,
19 before I draw too many parallels between what we are doing
20 in Mailing Online and what was done with E-COM, it is
21 something that I would need to look into further.

22 Q Let me ask you, was the market test profitable for
23 the Postal Service? That is, did the revenues, the revenues
24 accrued through the market test, cover the expenses that
25 were made during the market test?

1 A No, they did not.

2 Q There was a deficit, wasn't there during the
3 market test?

4 A Yes, that is what I just said.

5 Q And if those, if that deficit isn't included in
6 some manner in the Mailing Online rates that you propose,
7 then they will be paid out of the general funds of the
8 Postal Service, will they not?

9 A What do you mean, paid out of the general funds of
10 the Postal Service?

11 Q Well, I am going to pick up on the language of the
12 opinion. In E-COM, which generated a deficit, the
13 Commission said these expenses, the E-COM expenses, have
14 been paid for out of the general fund of the Postal Service,
15 and I think what they were driving at there is that it
16 wasn't the E-COM users that would have to pay them if they
17 were left out of the rates proposed for E-COM, it would be
18 all classes and services in general.

19 A Well, if costs are treated as institutional, which
20 appears to be how it was proposed they be handled in the
21 E-COM case we are referring to, then by definition those
22 costs are borne by all users of the Postal Services.

23 But in this particular case we are talking about
24 historical costs that have been paid. They impose no burden
25 on current or future users of the Postal Service. Those

1 costs, to the extent that we have been able to identify
2 them, and to the extent that they are incremental costs of
3 the Mailing Online experiment, we were attempting to recover
4 those as well.

5 I would also point out that in the years during
6 which the Mailing Online market test was developed and
7 operated, the Postal Service was not operating at a loss, so
8 there is no risk that we're burdening future ratepayers by
9 adding to the prior year losses of the Postal Service -- if
10 that is what you are suggesting.

11 Q Are you aware of a type of cost called a prior
12 year loss?

13 A Yes, I am.

14 Q If Mailing Online revenues had -- I'm sorry, if
15 Mailing Online revenues during the market test had covered
16 Mailing Online costs, then those funds that were expended
17 and not covered by revenues could have been used to pay down
18 prior year losses, could they not?

19 A I suppose that one could argue that.

20 Q Just to wrap this up, you have not given specific
21 consideration in the rates that you proposed for Mailing
22 Online during the experiment to any deficit that arose
23 during the market test, is that correct?

24 A I disagree with that. As I have mentioned, to the
25 extent that our cost witnesses identified pre-experiment

1 costs that are considered to be incremental to Mailing
2 Online we have identified how we will be covering those
3 costs during the experimental period and, as I mentioned in
4 my testimony, we have requested a higher markup in the
5 experiment than we requested in the market test, and in part
6 that is based on acknowledgement from a program management
7 standpoint the Postal Service is interested in ensuring that
8 Mailing Online pays its own way irrespective of what that --
9 I don't want to say that is independent of Commission and
10 Postal Service ratemaking practice, but it is sort of an
11 additional consideration that is somewhat outside these
12 proceedings.

13 I would also point out that Mailing Online exists
14 not in isolation. I don't know enough about how E-COM was
15 operated to know if it is an apt comparison or not, but the
16 Postal Service -- I mean Mailing Online has absolutely no
17 value independent of First Class and Standard A mail.

18 It exists solely as a means through which
19 customers can access First Class and Standard A mail so to
20 suggest, as I think you have, that we are imposing a burden
21 on users of First Class and Standard A mail which contribute
22 the vast majority to the Postal Service's institutional
23 costs I think is somewhat -- I am reaching for the correct
24 term -- but I think that ignores the fundamental principle
25 behind Mailing Online, which is that we are creating a

1 different means through which customers can get access to
2 the Postal Service's largest existing products.

3 I wouldn't -- I would have been remiss if I had
4 failed to point out that any costs that the Postal Service
5 incurs in developing, promoting, and litigating Mailing
6 Online are costs that are incurred to make it easier for
7 customers to use First Class and Standard A mail and I think
8 that it is important that one considers that.

9 I mean we don't do this for the sake of Mailing
10 Online in isolation. This is done as a means to provide
11 access to a service. It is analogous in many ways to
12 collection boxes or our retail units. Those are costs that
13 the Postal Service incurs to allow its customers to use the
14 mailing services that it provides.

15 Mailing Online sort of fits into that category of
16 services. In this case because we are incurring costs to
17 develop it and to make it available to customers, we have
18 sought to establish fees that will allow us to recover those
19 costs.

20 It is not inconceivable the Postal Service could
21 have gone forward and done Mailing Online and incurred an
22 identical total number of costs and said, well, we'll just
23 impose those costs on First Class and Standard A mailers,
24 but we have elected not to do that.

25 Instead, we have elected to try to recover those

1 costs through a fee schedule.

2 Q Right for the prospective period that we are
3 talking about that is the experimental -- the period of the
4 experiment, the Postal Service's position appears to be that
5 it's appropriate to recover all of the printing fees, all of
6 the information technology costs by rates that are set for
7 the period of the experiment; that's true, isn't it?

8 A Yes, that's true.

9 Q And I'm talking about the same types of costs that
10 were generated in a prior period.

11 A I'm not so sure I would characterize them as the
12 same kinds of costs. Those costs were incurred and paid in
13 conjunction with the Mailing Online market teste, which is
14 in many ways a fundamentally different product.

15 Given where we are today and moving forward with
16 the Mailing Online experiment, one could argue that any
17 costs associated with what was done in the market test or
18 with prior versions of Mailing Online, were more akin to a
19 research and development cost that allowed us to learn and
20 to get -- collect information that we will then use in
21 developing the Mailing Online experiment.

22 So I'm uncomfortable with your characterization of
23 those costs as being of the same kind as the costs we're
24 including in the Mailing Online experiment.

25 Q The market test for Mailing Online was generally

1 conducted so that Mailing Online experimental customers
2 would have a satisfying experience; that the Mailing Online
3 system would work smoothly; that Mailing Online customers,
4 during the experiment, would find benefits in generating
5 First Class Mail and Standard A Mail through a Mailing
6 Online type of service; isn't that correct?

7 A No, I don't think that was the case at all. The
8 market test was conducted in limited locations to, in
9 effect, test the concept, to see how customers would respond
10 to this product that allows them to create hard-copy mail
11 out of solely electronic documents.

12 I don't think that necessarily implies that it was
13 conducted in order to, you know, learn about the experiment.

14 The experiment is -- the original filing in the
15 previous docket called for the market test to give way to an
16 experiment that at the time that original docket was filed,
17 was more similar to the market test than what we have today.

18 The service we are discussing here today is
19 fundamentally different than what was done in the market
20 test.

21 Q You say it's fundamentally different, and yet,
22 interestingly, in an answer to an OCA interrogatory that we
23 asked you -- and just focusing on your testimony, we asked
24 you to point out any differences between your testimony in
25 this proceeding and your testimony in Docket Number MC98-1.

1 And your answer was, look at page 8 of your
2 testimony. So let's see how different the proposal for this
3 experiment is from MC98-1.

4 When I look at page 8 of your testimony, I see
5 that you talk about differences between the current proposal
6 and the previous docket. And you say IT costs are higher;
7 and then you say activation of print sites is scheduled to
8 occur more rapidly than had been planned.

9 And then you say something about some costs, and
10 that you're going to recover the pre-experiment costs.

11 And then you say you're proposing a somewhat
12 higher markup, and that's the end of it.

13 Now, those differences that you cite in your
14 testimony don't strike me as terribly fundamental.

15 A I think you're asking a different question now.
16 If I'm correct, your previous question suggested that the
17 market test was conducted in order to ensure that
18 experimental customers would have a good experience; that we
19 would learn from the market test, things that would enable
20 us to develop a, I guess, better version for the experiment.

21 And what I said was that I did not feel that was
22 the case because the product that we have today is
23 fundamentally different in the way that customers will
24 perceive its benefits than what we had in the market test.

25 That, I think, is a different matter than what I'm

1 discussing in page 8 of my testimony where I'm discussing
2 the pricing proposals used in this case, and how they relate
3 to the pricing proposals in the previous docket.

4 We have proposed a pricing structure that is
5 virtually identical to that proposed in the previous docket,
6 but I don't think that should be taken to imply that the
7 product we have today is virtually identical to what was in
8 the market test.

9 And in the market test, customers saw a set of
10 screens. The screens that the customers will see in the
11 experiment are different. They don't look the same.

12 We think they're better, and the customers will
13 feel they're more intuitive.

14 In the market test, we had one printer. The
15 complexity inherent in the experimental service was nowhere
16 to be found in what we had in the market test.

17 All documents went to a single printer; they were
18 entered at a single facility in Boston, irrespective of
19 where those pieces were destined for.

20 In the experiment what we have is just the
21 opposite: We will have a nationwide network of printers and
22 a very complex set of algorithms for ensuring that customer
23 documents are entered at or very close to their destination.

24 That is what I was referring to when I said we
25 have today, a fundamentally different product than we had

1 during the market test. I was not referring specifically to
2 the pricing proposals, which I admit are virtually
3 identical.

4 Q The experience -- the overall operation of Mailing
5 Online, that is, a customer will access the service over the
6 Internet; the Postal Service will take the jobs of various
7 small customers and batch them and try to presort them
8 deeply; enter them as far downstream as possible.

9 Those functions and those goals appear to me to be
10 the same between the market test and the experiment. Aren't
11 they the same?

12 A I agree that the concept is the same, and that is
13 the concept that we were seeking to test in the market test.
14 But I don't think that means that the vehicle that we have
15 to offer that experience to the customers today is the same
16 or even close to what we had in the market test.

17 There are just too many important differences in
18 the way the system operates and in the way the system will
19 be perceived by the users for me to be willing to accept the
20 characterization of the two products as being similar.

21 Q Would there have been a market test if there had
22 been no experiment planned; do you know?

23 A Well, I think it's hard to answer that. But I
24 don't think you do a market test for its own sake.

25 You do a market test in expectation of something

1 beyond that market test. For us, what was beyond that
2 market test was the experiment.

3 I suppose another option would have been to
4 propose a market test to be followed by a permanent service.
5 Given the logistical issues required in establishing a
6 nationwide network of printers, that did not seem to be
7 appropriate.

8 I can't give you a yes or no answer, except to say
9 that I don't think we would have proposed a market test with
10 nothing expected beyond it.

11 Q And aren't we really looking at a evolutionary
12 process where you start out on a small scale with a market
13 test, then experiment and work out all the wrinkles and
14 perhaps, as you have mentioned before, change the postage
15 rate from a basic automation rate, perhaps to something
16 else; and eventually lead to a permanent classification?
17 Isn't that an evolutionary process?

18 A I don't want to -- I don't want to appear to be
19 too precise in the way terms are used, but I would strongly
20 disagree with characterizing what we're doing as
21 evolutionary.

22 In my opinion, evolutionary implies sort of a
23 graduated series of steps, which is sort of an accretion of
24 one layer built solidly on top of a preexisting layer.

25 Now, we have a series of steps; I'll agree with

1 that. But in my opinion, there are some very important
2 breaks along the way.

3 The change from the market test version of Mailing
4 Online to the experimental version of Mailing Online is not
5 what I would consider an evolutionary step from a technical
6 standpoint, and I've gone on at length about that already.

7 Now, I don't know for certain, but my expectation
8 is that we will make some changes in the pricing, although I
9 hope somebody else will be the pricing witness then, when we
10 get to a permanent case, and those changes, I don't expect
11 to be evolutionary in that we'll go from using one set of
12 existing rates to maybe a slightly different set.

13 My hope and expectation is that we will make a
14 complete break from the existing rate classification
15 schedule to develop a set of unique rates for Mailing
16 Online. That is not something that I would characterize as
17 evolutionary because it's not a gradual progression from an
18 existing state to a slightly different state; it's an
19 entirely new state of circumstances, and we have to take
20 this interim step to learn enough to create that state.

21 But we don't intend to build off of the existing
22 rate structure; we intend to create something separate and
23 distinct.

24 Q You would agree though that the Postal Service
25 will try to learn from each of these stages, that is,

1 beginning with the market test and moving on to the
2 experiment, it will try to learn from and apply what it
3 learns at one stage to the next, won't it?

4 A Yes, but the things we'll try to learn may be
5 different in one stage compared to another. I think what we
6 learned in the market test was that customers -- certain
7 kinds of customers like this concept very much. We also
8 learned that even the ones who like the concept very much
9 did not like the software and the interface with our system
10 and their experience with it during the market test at all.

11 So that's one of the reasons we can't just make a
12 minor evolutionary step toward a slightly different system.
13 We have to create something that is almost entirely
14 different. But it's why we think the basic concept is sound
15 and has potential value to our customers, because the
16 feedback on the concept was favorable.

17 Now during the experiment we don't expect to learn
18 much about the basic concept. We think we're there. We
19 expect to learn things that will allow us to refine our
20 approach and to make some technical improvements where
21 appropriate and to offer additional features. And those I
22 would sort of characterize as possible evolutionary steps in
23 the future. But one of the things we hope to gain is a more
24 complete body of knowledge about how to set prices for the
25 service, which again as I mentioned earlier I would not

1 characterize as evolutionary, but as creating something
2 distinct and separate.

3 Q The example you alluded to just a moment ago, that
4 you looked at customer reactions during the market test, is
5 really an example of what I was talking about, that is, you
6 looked at favorable customer responses to certain parts of
7 the MOL market test and you looked at unfavorable responses
8 to other parts, and you tried to apply those responses in
9 developing and designing the MOL experiment, didn't you?

10 A Not exactly, and partly that's an issue of timing.
11 I mean, the development of the experimental service is a
12 very long process. I mean, the lead time required to
13 develop that software extends pretty far back. Plans to
14 develop this new larger, more complete and complex version
15 of the experiment were in place before we started collecting
16 customer feedback on that.

17 Now we've gotten some customer feedback that will
18 allow us to make some future modifications and will allow us
19 to refine our approaches for subsequent versions, but really
20 anything we collected in that in the market test was sort of
21 too late to change the basic structure of the experimental
22 design. That was already in place. In fact, I think
23 Witness Lim did most of his work on the costs of the
24 architecture needed to support Version 3.0 before we'd even,
25 you know, started to collect anything in the way of market

1 test data, and it was just too -- we had to start before we
2 had that to develop this system, so I can't agree that that
3 feedback helped us to design Version 3.0. It wasn't there
4 in time to do that.

5 Q Do you think that customer feedback will help
6 inform decisions on how to create subsequent versions of
7 3.0, for example, 3.1 or 3.2?

8 A I don't know that it'll have much of an effect on
9 1 or 2, but one of the things we learned is that customers
10 would like to see templates available, so that, you know, it
11 would help guide them in how to create documents. That
12 doesn't imply a fundamental change in the way the design of
13 the system is, but it's an added feature that we may want to
14 include in the subsequent version. We learned some things
15 like that that will help us in the future, but again really
16 too late to have any impact on the design of 3.0.

17 Q The last question I want to ask you goes back to
18 that portion of your testimony that we talked about a few
19 moments ago. If you could go back to page 8, please.

20 I reviewed the differences in your testimony from
21 its presentation in this docket compared to the previous
22 docket, and I wanted to check with you to see if you feel
23 that's a complete statement of any differences between your
24 two testimonies.

25 A Could you point to the specific statement?

1 Q Yes. Let me just refresh your memory. In
2 Interrogatory No. 3 we asked you to refer to your testimony
3 in this proceeding and your testimony in Docket No. MC98-1,
4 and please identify any assumptions or methodological
5 approaches in your testimony in this proceeding that are
6 different from the assumptions made or methodological
7 approaches used in your testimony in Docket No. MC98-1.

8 And your answer is please refer to page 8 of my
9 testimony, which we did.

10 And am I right that whatever differences you were
11 alluding to are generally found in the second paragraph on
12 that page?

13 A Yes, I believe that's the case.

14 Q And I wanted to ask you if that's in your opinion
15 a complete statement of the important differences and
16 assumptions in methodology.

17 A Yes, I believe that to be accurate.

18 Q Okay.

19 MS. DREIFUSS: I have no further questions,
20 Commissioner LeBlanc.

21 COMMISSIONER LeBLANC: Thank you very much, Ms.
22 Dreifuss.

23 Are there any questions from the bench?

24 Okay. Well, going back to the Postal Service
25 again, how about some time to spend with your customers --

1 oh, customers.

2 [Laughter.]

3 That goes back to my old days.

4 THE WITNESS: They would treat me better if I were
5 their customer.

6 COMMISSIONER LeBLANC: With your client.

7 MR. REITER: Yes, we would.

8 COMMISSIONER LeBLANC: What are we talking about,
9 10, 15 minutes?

10 MR. REITER: Fifteen would be great.

11 COMMISSIONER LeBLANC: Fifteen it is. We'll take
12 a break. Be back at 10 till, according to the clock on the
13 wall, as we say.

14 MR. REITER: Thank you.

15 COMMISSIONER LeBLANC: Thank you.

16 [Recess.]

17 COMMISSIONER LeBLANC: Okay, Mr. Reporter, back on
18 the record. Maybe we can treat you like a customer now, Mr.
19 Plunkett, since you said you might be treated better. I
20 don't know.

21 THE WITNESS: I meant by the lawyers. I didn't
22 mean by the Rate Commission.

23 COMMISSIONER LeBLANC: Mr. Reiter.

24 MR. REITER: Thank you.

25 REDIRECT EXAMINATION

1 BY MR. REITER:

2 Q Following up on that, I believe when you were
3 speaking with Ms. Dreifuss earlier in reference to prior
4 year's losses, you may have misspoken and said that the
5 Postal Service and the Commission treat those losses as sunk
6 costs. Am I correct that you misspoke there?

7 A I did misspeak. I mean the term I should have
8 used is "institutional," not "sunk."

9 Q In connection with that discussion about what
10 should be done with the differences between costs and
11 revenues for the Mailing Online market test, I wonder if you
12 would give us your opinion on if the situation had been
13 reversed and during that period the Postal Service had made
14 a profit on Mailing Online, would you then deduct those
15 profits from the cost of the experiment in designing fees
16 for the experiment?

17 A No, we would not. We would identify all of the
18 relevant cost during the experiment and we would set fees so
19 as to recover all those costs and to make a contribution to
20 institutional costs during the experiment.

21 Q You were also asked by Ms. Dreifuss questions
22 concerning reporting by the Postal Service of depth of sort
23 information during the experiment.

24 Would you care to elaborate on your answer?

25 A I will attempt to. We had a discussion yesterday

1 about the differences between what is done with a 500 piece
2 First Class mailing and a 499 piece First Class mailing.

3 My understanding of how the presortation software
4 works is that the first step is to maximize the level of
5 sortation for the mailing so that both mailings would be
6 placed as close to optimal as possible, perhaps up to walk
7 sequencing.

8 What I am not certain about, and we will attempt
9 to find this out, is whether or not -- is how the Mailing
10 Online system will retain that information for pieces that
11 don't qualify for certain rate categories, which means that
12 even though the pieces would be presorted at a finer level,
13 they may show up in reporting as having not been presorted
14 unless we intervened to take steps to make sure that the
15 appropriate information is retained and we will try to find
16 out how that information will be retained by the Mailing
17 Online system.

18 MR. REITER: Commissioner LeBlanc, if the
19 Commission is interested in knowing that, we would be glad
20 to provide that information. I think we probably could do
21 that within a week.

22 COMMISSIONER LeBLANC: You were reading my mind
23 and you also asked my prior year cost situation. Thank
24 you -- so you got two of those done.

25 Please, Mr. Reiter, if you don't mind, how many

1 days you said?

2 MR. REITER: A week.

3 COMMISSIONER LeBLANC: That would be fine.

4 MR. REITER: Thank you.

5 COMMISSIONER LeBLANC: Thank you. Is that all
6 your redirect then?

7 MR. REITER: That's all the questions I have. We
8 just need to do the corrections.

9 COMMISSIONER LeBLANC: Let's try to handle
10 redirect one time and --

11 MR. REITER: Okay.

12 COMMISSIONER LeBLANC: -- and then we will come
13 back to the questions if we can.

14 Ms. Dreifuss, do you have any questions from
15 redirect?

16 MS. DREIFUSS: I do just have one question on
17 redirect.

18 RECROSS EXAMINATION

19 BY MS. DREIFUSS:

20 Q The situation that you were discussing with Mr.
21 Reiter just a moment ago, you were talking about a situation
22 in which during the Mailing Online market test Mailing
23 Online might have generated a profit, is that right?

24 A Hypothetically yes.

25 Q Right. Is it correct that in a situation like

1 that there would be no risk of cross subsidy by any other
2 class or service? Is that correct?

3 A Unless -- well, there would be no need for other
4 products to cross-subsidize Mailing Online if it were
5 operating at a profit during that period.

6 I suppose there would be a risk that Mailing
7 Online could in such a circumstance be cross-subsidizing
8 other products that were not covering their costs.

9 Does that answer your question?

10 Q Yes, but the Mailing Online product itself would
11 not be cross-subsidized by other products?

12 A No, not if it is operating at a profit, no.

13 MS. DREIFUSS: Okay. That's all I have.

14 COMMISSIONER LeBLANC: Did that bring any
15 questions from the bench?

16 [No response.]

17 COMMISSIONER LeBLANC: Okay. Thank you very much,
18 Ms. Dreifuss. Now we can handle the Errata now, I believe,
19 Mr. Reiter, if we will, please.

20 MR. REITER: I think we need about five minutes to
21 finish getting the document ready but I can do all but hand
22 the documents to the Reporter at this point I think.

23 COMMISSIONER LeBLANC: Well, do all three of you
24 need to be involved in it as far as the Errata is concerned
25 or can you go ahead and do the other while actually working

1 on the Errata?

2 MR. REITER: Yes -- I think it would be more
3 helpful if we actually had the witness describe the changes
4 and since those are being calculated --

5 COMMISSIONER LeBLANC: Well, why don't we take a
6 five minute break --

7 MR. REITER: Thank you.

8 COMMISSIONER LeBLANC: -- and let everybody get
9 together and make sure we are on the same sheet of music
10 then. We will be off the record for five minutes.

11 [Recess.]

12 COMMISSIONER LeBLANC: Mr. Reporter, we will go
13 back on the record, please.

14 Mr. Reiter, can we continue with the errata,
15 please?

16 MR. REITER: Yes, I will. I will explain the
17 changes that we have incorporated into the two copies that
18 the reporter has. In response to OCA Question 1, Witness
19 Plunkett provided some corrections to his Exhibit D. In
20 addition, Witness Lim, on January 11th, filed some errata to
21 his testimony and exhibits, which then created changes in
22 Witness Poellnitz's Exhibit A, which flowed through to
23 Witness Plunkett's Exhibit D. All of those changes have
24 been incorporated into the copies that the reporter has, as
25 well as a correction of two citations.

1 In response to OCA Interrogatory Number 2, Witness
2 Plunkett made corrections to his Exhibit E. No further
3 corrections have been made to that, and that exhibit --

4 COMMISSIONER LeBLANC: To Mr. Plunkett's --

5 MR. REITER: Exhibit E.

6 COMMISSIONER LeBLANC: Okay.

7 MR. REITER: And so that will appear in his
8 testimony exactly as it was corrected in response to OCA 2.
9 Since Exhibit D, however, has changes in addition to what
10 appear with his response, with the witness' response to OCA
11 Number 1, we would like to ask that it be transcribed so
12 that all of those changes are accessible.

13 COMMISSIONER LeBLANC: You want all errata
14 transcribed?

15 MR. REITER: No, sir.

16 COMMISSIONER LeBLANC: Or just the last?

17 MR. REITER: Just Exhibit D.

18 COMMISSIONER LeBLANC: Okay. Mr. Plunkett, since
19 a lot of that belongs to you, are you satisfied with that?

20 THE WITNESS: Yes, I am.

21 COMMISSIONER LeBLANC: Ms. Dreifuss, are you and
22 Mr. Gerarden okay with that as far as the OCA is concerned
23 for the record here?

24 MS. DREIFUSS: The changes seem satisfactory to
25 us.

1 COMMISSIONER LeBLANC: And it is okay to
2 transcribe it, as far as you are concerned, on Number D that
3 we just talked about?

4 MS. DREIFUSS: I think it would be a good idea.

5 COMMISSIONER LeBLANC: Okay. As far as the rest
6 of it is concerned, we will just let it be part of the
7 evidentiary record then.

8 MR. REITER: Yes.

9 COMMISSIONER LeBLANC: Okay. Hearing no
10 objections then, Mr. Reporter, I will go ahead and approve
11 that as is.

12 [Exhibit D, USPS-T-5 was received
13 into evidence and transcribed into
14 the record.]

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Revised 1/13/00

Exhibit D

Mailing Online Cost and Revenue Summary (corrected)

Years 1 - 3

	Source Exhibit C	Year 1	Year 2	Year 3	Total
(1) Printer Costs		\$ 62,841,355	\$ 111,785,835	\$ 173,571,529	\$ 348,198,720
(2) Variable IT Costs	USPS-2A, Table 6, Item 32	1,279,226	1,643,119	1,889,420	4,811,765
(3) Total Markup Costs	(1) + (2)	64,120,581	113,428,954	175,460,949	353,010,485
(4) Revenue at 30% Markup	1.3 * (3)	\$ 83,356,756	\$ 147,457,640	\$ 228,099,234	\$ 458,913,630
(5) Contribution	(4) - (3)	19,236,174	34,028,686	52,638,285	105,903,145
Other Costs					
(6) Product Specific IT Costs	USPS-2A, Table 6	\$ 9,580,643	\$ 11,893,285	\$ 8,829,988	\$ 30,303,917
(7) Advertising Costs	USPS-2A, Table 7	725,000	725,000	725,000	2,175,000
(8) Incremental Costs	(1) + (2) + (6) + (7)	\$ 74,426,224	\$ 126,047,239	\$ 185,015,937	\$ 385,489,402
(9) Experimental Revenue/Incremental Costs	(4) / (8)	112.0%	117.0%	123.6%	119.0%

(6) Product specific IT costs include pre-experiment costs which have been spread evenly throughout the three years of the experiment.

NOTE: Shaded areas have been changed

1 COMMISSIONER LeBLANC: Now, are there any other
2 procedural matters that we need to clear up before we close
3 for the day?

4 [No response.]

5 COMMISSIONER LeBLANC: Everybody is okay with it?
6 Good.

7 Mr. Plunkett, there being nothing further then, I
8 think we have got everything under control. Maybe you are a
9 customer, maybe whatever we are here today, but, anyway,
10 this completes your testimony for today, and the Commission
11 appreciates your contribution to our record and thank you
12 very much, and you are excused.

13 THE WITNESS: Thank you, Mr. Presiding Officer.

14 [Witness excused.]

15 COMMISSIONER LeBLANC: There being nothing
16 further, ladies and gentlemen, this hearing is adjourned
17 until February 24th, when we will resume hearings to receive
18 the direct testimony of participants other than the Postal
19 Service. Thank you very much. Have a good day.

20 Off the record, Mr. Reporter.

21 [Whereupon, at 12:14 p.m., the hearing was
22 recessed, to reconvene, Thursday, February 24, 2000.]