



BEFORE THE  
POSTAL RATE COMMISSION

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In the Matter of: :  
COMPLAINT OF CONTINUITY SHIPPERS : Docket No. C99-4  
ASSOCIATION REGARDING CHARGES :  
FOR THE BULK PARCEL RETURN SERVICE :  
-----X

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

Volume I  
Wednesday, February 2, 2000

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

BEFORE:

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

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C O N T E N T S

WITNESS	DIRECT	CROSS	REDIRECT	REXCROSS
LAWRENCE G. BUC				
BY Mr. Horowitz	4			
BY Mr. Richardson		105/141		
BY Ms. Reiter		125		

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

[9:32 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today's hearing has been scheduled to receive the evidence of the Continuity Shippers Association, the Complainant in Docket Number C99-4.

This testimony has been jointly sponsored with the Direct Marketing Association.

The scheduling of today's hearing was noticed in Order Number 1282. That order also established subsequent procedural dates for this case, and I'd like to go over those right now:

Rebuttal testimony will be filed on or before February 16th. As is our practice, there will be no written discovery on that testimony.

The hearing to receive that testimony and to allow for cross examination will take place on Friday, February the 25th at 9:30 a.m.

Participants who filed briefs at earlier stages of this case; additional briefs may be submitted on or before March 3rd, and participants may incorporate portions of their previous briefs by reference, but I would request that they make every effort to make those references sufficiently specific so that the Commission can easily identify which portions of the earlier documents are being referred to.

1 Reply briefs may be filed on or before March 10th.

2 Are there any questions about the schedule?

3 [No response.]

4 CHAIRMAN GLEIMAN: Does any participant have any  
5 other procedural matters that they would like to raise at  
6 this point in time?

7 [No response.]

8 CHAIRMAN GLEIMAN: The only witness schedule to  
9 appear today is Lawrence G. Buc. Mr. Buc, you're already on  
10 the witness stand. Goodness gracious, that's what happens  
11 when you don't look up from your paper and your wires.

12 [Laughter.]

13 CHAIRMAN GLEIMAN: If you would please stand and  
14 we'll swear you in.

15 Mr. Horowitz, would you enter your witness's  
16 direct testimony into the record, please?

17 MR. HOROWITZ: Good morning, thank you.

18 Whereupon,

19 LAWRENCE G. BUC,  
20 a witness, having been called for examination, and, having  
21 been first duly sworn, was examined and testified as  
22 follows:

23 DIRECT EXAMINATION

24 BY MR. HOROWITZ:

25 Q Mr. Buc, in front of you, you have direct

1 testimony previously prepared and submitted in this case?

2 A Yes.

3 Q And is that correct?

4 A Yes.

5 MR. HOROWITZ: I move that the testimony be  
6 admitted.

7 CHAIRMAN GLEIMAN: And we're talking here about  
8 CSAT-1?

9 MR. HOROWITZ: Yes, we are.

10 CHAIRMAN GLEIMAN: Are there any objections?

11 [No response.]

12 CHAIRMAN GLEIMAN: Hearing none, that testimony is  
13 received in evidence as the Direct Testimony of Witness Buc.  
14 Mr. Reporter, you will transcribe this testimony into the  
15 record at this point.

16 [Direct Testimony of Lawrence G.  
17 Buc, CSAT-1, was received into  
18 evidence and transcribed into the  
19 record.]

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CSA-T-1

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

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COMPLAINT ON CHARGES FOR THE  
BULK PARCEL RETURN SERVICE

---

DOCKET NO. C99-4

DIRECT TESTIMONY OF  
LAWRENCE G. BUC  
ON BEHALF OF THE  
CONTINUITY SHIPPERS ASSOCIATION

Dated: December 17, 1999



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AUTOBIOGRAPHICAL SKETCH

My name is Lawrence G. Buc. I am the President of Project Performance Corporation (PPC), a consulting firm headquartered in McLean, Virginia. PPC provides management, information technology, and environmental consulting services to private and public sector clients. At the firm, I direct a practice that focuses on cost and economic analysis, usually in a postal or environmental context.

I attended Brown University and graduated in 1968 with an AB with honors in mathematics and economics. In 1978, I received an MA degree in economics from the George Washington University of America. While there, I was a member of Omicron Delta Upsilon, the national honorary economics society.

I have been involved in Postal Service rate and classification cases for a large part of my professional career. I joined the Revenue and Cost Analysis Division of the United States Postal Service in March of 1975 and have analyzed postal costs ever since. I have worked not only for the Postal Service, but also for the United States Postal Rate Commission (PRC) and a variety of private clients. I have participated in seven previous rate cases: R74-1, R76-1, R77-1, R84-1, R90-1, and R97-1. In the course of these proceedings, I performed analyses on a variety of elements of the

cases, drafted direct and rebuttal testimony, prepared and drafted responses to interrogatories, and provided support to cost, pricing, revenue requirement, and volume witnesses. In R84-1, R90-1, and R97-1, I appeared as a witness for intervenors before the Postal Rate Commission. I also appeared as a witness for the Postal Service in MC76-1 and for the Office of the Consumer Advocate in MC77-2.

I. PURPOSE AND SCOPE OF TESTIMONY

The purpose and scope of my testimony is divided into two sections. The first section rolls forward the costs for the Bulk Parcel Return Service (BPRS) from FY 1998 (as provided by the Postal Service in its Cost Study as revised) to FY 2000. The second section provides an analysis of the cost coverage factors which supports the conclusion that the current cost coverage is too high.

II. ESTIMATING FY 2000 BPRS COSTS

This section of my testimony develops BPRS unit cost for FY 2000. I start with the FY 1998 unit costs for BPRS from the Postal Service's BPRS Cost Study and roll them forward to FY 2000.<sup>1</sup> Table 1 shows the five different cost components that comprise BPRS unit cost.<sup>2</sup>

<sup>1</sup> The BPRS Cost Study was released by the Postal Service on October 30, 1998. The report was recently revised to reflect the mail processing costing methodology adopted by the Postal Rate Commission in Docket No. R97-1.

<sup>2</sup> These costs are taken from the PRC version of Table 3 Summary of Unit Costs, BPRS Cost Study, p. 7.

Please note that these cost estimates are likely to be overstated since the estimates for the BPRS Cost Study were developed under the assumption that costs should not be underestimated: "Since BPRS is a relatively new service, assumptions are made to ensure that cost estimates are not underestimated" (BPRS Cost Study, p. 2). In several different places, the BPRS Cost Study justifies particular assumptions by saying not that they will produce the most accurate estimates with the available data but that they will avoid producing an underestimate. For example: "...[U]sing the Special Standard B CRA adjustment factor has the potential to overestimate the true volume variable unit cost of BPRS mail processing. Since this is consistent with the approach taken in this study to make assumptions that will avoid underestimating costs, the Special Standard B CRA adjustment factor is used" (BPRS Cost Study, p. 4). As a result, the estimates in Table 1 err on the side of overestimating the attributable unit costs of BPRS.

Table 1. FY 1998 BPRS Unit Costs

Cost Components	Unit Costs (cents)
Collection	4.3
Mail Processing	59.4
Transportation	33.7
Delivery	2.4
Postage Due	4.0
<b>Total</b>	<b>103.8</b>

The rollforward of unit costs to FY 2000 focuses on projected changes in cost level from FY 1998. The Postal Service's Rollforward Cost Model also considers non-volume workload changes, additional days, and anticipated cost reductions and other programs.<sup>3</sup> These additional factors are not considered in the rollforward performed here because I roll forward attributable unit costs and am unaware of any cost reductions or other programs in FY 1999 or FY 2000 that would affect BPRS costs.

Changes in personnel costs are used to project cost level changes for Collection, Mail Processing, Delivery, and Postage Due. The rollforward from FY 1998 to FY 1999 is based on actual changes in average hourly rates. I obtained these averages from the year-to-date portion of the National Payroll Hour Summary Reports for AP 13 for PFY 1998 and 1999. Because the PFY 1999 Reports do not appear to include all City Delivery Carrier costs (presumably because the NALC arbitration decision was not made until late in the fiscal year), I use the Clerk and Mailhandler cost level factor to project the

<sup>3</sup> Description of the Production of Cost change Factors to Support the Postal Service Roll-Forward Model, R97-1 LR-H-12.

Collection and Delivery cost components in addition to the Mail, Processing and Postage Due cost components. The figures are shown in Exhibit 2.

The personnel cost level projections from FY 1999 to FY 2000 are performed using the terms of current labor contracts. The contract provisions for general wage increases and Cost-of-Living Adjustments (COLAs) are the same for FY 1999 and FY 2000 for the contracts negotiated by the three relevant unions: the APWU contract covering Clerks, the NPMHU contract covering Mailhandlers, and the NALC contract covering City Delivery Carriers. I perform the rollforward by applying these increases successively to the average hourly rate in AP 13 for PFY 1999 and then calculating the weighted average hourly rate for all of PFY 2000. Given the above problem with the average hourly rate figures for City Delivery Carriers from the National Payroll Hour Summary Report, the figures for Clerks and Mailhandlers are used to provide an average hourly rate base for the Collection and Delivery cost components in addition to the Mail Processing and Postage Due cost components.

The union contracts specify two COLAs per year. The COLA formulas are based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). I use DRI's projections of future changes in this index to derive COLA increases for PFY 2000. The projections of the CPI-W and the associated COLA wage increases are shown in Exhibit 1. The projections of PFY 2000 average hourly rates and the development of yearly cost level factors are shown in Exhibit 2.

I use changes in transportation cost indices to project cost level changes for Transportation. This is the rollforward procedure specified in the Postal Service's Rollforward Model for non-personnel costs. Exhibits 3 and 4 develop transportation cost level factors for FY 1999 and FY 2000 using the DRI cost indices for Trucking Operations and Private Transportation. The rollforward uses the cost level factors derived from the Trucking Operations index, since over 90 percent of Standard B's Purchased Transportation costs are for highway transportation. The cost level factors derived from the Private Transportation index are provided for comparison. It is worth noting that the rollforward would be less if I used the Private Transportation index instead.

Table 2 shows FY 2000 unit costs for BPRS, using the method described above and the personnel and non-personnel cost level factors developed in Exhibits 1-4. The calculations underlying this table are shown in more detail in Exhibit 5.

Table 2. FY 2000 BPRS Unit Costs

Cost Components	Unit Costs (cents)
Collection	4.6
Mail Processing	63.8
Transportation	35.9
Delivery	2.6
Postage Due	4.3
<b>Total</b>	<b>111.2</b>

### III. COST COVERAGE/PRICING

I have reviewed Docket No. MC97-4 which created the Bulk Parcel Return Service (BPRS) in relation to the policies of Title 39 and the nine factors stated in Section 3622(b). When originally established, the coverage for BPRS was set at 156%. Under the 1998 BPRS cost study (as revised), the actual coverage is 168%. The application of the Title 39 policies and the nine factors show that the current cost coverage for the BPRS of 168% is too high. The cost coverage should be 135% which is the coverage applied to Standard A Regular mail. My analysis supporting these conclusions is set forth below.

The first factor of "fairness and equity" is the foundation on which all the other factors are based, and provides the basis for balancing the other factors. §3622(b)(1). The current BPRS coverage of 168% contradicts the first factor. The 168% coverage is overstated in relation to this type of mail (Standard A regular) and to other similar return services, i.e. Bound Printed Matter. In addition, the Postal Service's "approach" to the BPRS cost study was to "make assumptions that will avoid underestimating costs." BPRS Cost Study, pp. 4, 5. The Postal Service's assumption of costs at their upper bounds should lead to cost coverage at its lower bounds in order to maintain a fair and equitable schedule.

The "value of the service" in factor 2 looks at the inherent worth of the service provided to the sender and recipient. §3622(b)(2). The value of the BPRS service is much lower than the current cost coverage. Parcels returned under BPRS are Standard A Regular mail which has a coverage of 135%. As Standard A Regular mail, BPRS parcels receive low priority in terms of transportation

and processing; only ground transportation is used; and the parcels are returned to designated postal facilities for pickup by the mailer at a predetermined frequency specified by the Postal Service or delivered by the Postal Service in a bulk manner and frequency specified by the Postal Service.

Other similar return services, such as Bound Printed Matter, have much lower cost coverages. Bound Printed Matter has a coverage of 136%. In R97-1, the Commission noted that the coverage proposed by the Postal Service for Standard A Regular was similar to Bound Printed Matter which it described as "another subclass used for bulk national mailings of (among other things) advertising materials." R97-1, p. 434. In fact, Bound Printed Matter provides a greater value in that the Postal Service delivers Bound Printed Matter returns to the company; by comparison, half of the BPRS users pick up their BPRS returns.

The value of the BPRS service is even lower than the value of the outgoing parcel under Standard A Regular mail at 135%. The "value" of the service on the outgoing Standard A leg is at its highest because, at that time, the parcel represents the delivery of the merchandise to the customer closing a sale. By comparison, on its return BPRS leg, the "value" of the service is the by-product of an unsuccessful sales transaction.

The difference in the value of the service for the outgoing and return legs is further shown by the experience of Cosmetique, a member of the Continuity Shippers Association and a BPRS mailer. Cosmetique tracks its BPRS returns according to whether the customer will continue their membership and receive the next shipment, or



whether the customer cancels their membership (and there is no next shipment and thus no potential next sale). Cosmetique's data from mid-1997 through mid-1999 shows that in 73% of the returns, the customer cancels their membership; conversely, in only 27% of the returns does the customer continue their membership. In short, 75 percent of the time, the BPRS return marks the conclusion of a business relationship.

I have also reviewed data from Cosmetique for the years 1997, 1998 and 1999 (through November) showing the number of opened versus unopened BPRS returns Cosmetique received. The percentage of opened versus unopened BPRS returns for each year is shown below:

	<u>Opened</u>	<u>Unopened</u>
1997	56.0%	44.0%
1998	54.4%	45.6%
1999 (Nov)	53.6%	46.4%

The data shows that neither the establishment of BPRS, nor the recent minor modification to BPRS to include opened returns, affected the Postal Service's actual handling of opened returns. The Postal Service always returned the parcels even if they were opened. The modification only codified the Postal Service's pre-existing practice. Moreover, the value of the service to the mailer is the same whether the return has been opened or unopened. Cosmetique has informed me that it processes unopened and opened returns in the same manner. The value of the BPRS service has not increased as a result of the recent minor modification.

Although a company may be able to reuse product that has been returned, the company incurs additional costs beyond the BPRS fee in order to do so, such as processing the returns, and restocking the

product. Opened returns require greater scrutiny than unopened returns before the merchandise can be reused. There is also return product that cannot be reused and must be scrapped.

One competitor in the continuity product market has reported to me that each unit of a main line of its products (representing forty percent of its business in terms of both volume and revenue) costs 30.77% more when re-introduced to inventory after return by the Postal Service than when taken directly from inventory for the first time, owing to the costs associated with re-integrating the product into inventory after being returned (including the cost of damages goods). This data shows the substantial costs for reusing returned product.

The return of the product also significant helps the Postal Service. The Postal Service noted that the companies can "more readily" dispose of the product in an "environmentally sensitive way than is possible for the Postal Service, given the wide array of contents." Direct Testimony of Mohammad Adra, MC97-4, USPS-T2, 12.

The BPRS fee of \$1.50 would more than meet the requirement that BPRS mail "bear the direct and indirect postal costs attributable" to it as required by factor 3. §3622(b)(3). At that rate, a contribution of 135% to institutional cost would be recovered.

Factor 4, which considers the impact of rates on consumers and mailers, is also served by decreasing the BPRS rate to more closely reflect the actual cost of service as shown by the 1998 BPRS Cost Study (as revised). §3622(b)(4). BPRS was created to remedy a draconian increase in the Third Class Single Piece (the predecessor to Standard A and the rate previously applied to these parcel

returns) in Docket No. R94-1. In R94-1, the Third Class Single Piece rate increased by an average of 66.25% in the 8-16 ounce range (which is the range for BPRS users). The highest Third Class Single Piece rate paid was \$2.95 (for one pound, ground service of 7-11 day delivery) which was only \$0.05 less than Priority Mail (for up to two pounds, air transportation within 2-3 day delivery). The establishment of BPRS only provided interim relief to the general public and BPRS users. Further relief is now known to be warranted.

Factor 5 considers the impact on alternatives services. §3622(b)(5). There is no economically realistic alternative to the Postal Service return of BPRS parcels. This factor favors lower BPRS rates.

Factor 6 looks at the reduction of costs through the mailer's preparation of the mail. §3622(b)(6). The bulk processing of BPRS parcels, the requirement for machinability of the parcels and the fact that half of the BPRS mailers pick up the BPRS returns establish that Postal Service costs are reduced through BPRS.

Factor 7 favors a straight forward fee structure. §3622(b)(7). There will be no effect on the per piece fee structure. This will continue to facilitate a straight forward and easily understood fee structure.

Educational, cultural, scientific and informational considerations of factor 8 do not apply. §3622(b)(8).

In conclusion, the policies of Title 39 and the nine factors of section 3622(b) support the lower cost coverage of 135%.

### Exhibit 1. COLA Adjustments to Wage Costs

Trigger Month	Actual CPI-W (1967=100) [1]	Ending Date of Corresponding Quarter	CPI-W Projections (1982-84=100) [2]	Projected 6-month Increase in CPI-W (1982-84=100) [3]	Projected CPI-W (1967=100) [4]	CPI-W Point Increase [5]	Wage Increase [6]
January-99	479.7				479.7		
July-99	486.3	9/30/1999	1.638		486.3	6.6	\$0.1650
January-00		3/31/2000	1.656	1.1%	491.6	5.3	\$0.1325

[1] U.S. Bureau of Labor Statistics.

[2] DRI projections, CPIW series.

[3] Percentage increase in [2] from period 6 months earlier.

[4] Actual values from [1] for 1999. Projected value for 2000 using  $(1 + [3]) \times$  CPI-W from 6 months earlier.

[5] Point increase in [4] from period 6 months earlier.

[6] Wage increase corresponding to [5] using COLA formula of 0.4 points = \$0.01 per hour, R97-1 LR-H-12.

## Exhibit 2. Average Wage Cost-Level Factor Development

	Portion of Year Wage Applies	Clerks and Mailhandlers	City Delivery Carriers	
PFY 1998 Average Hourly Rate	100.0%	\$16.05	\$16.99	[1]
PFY 1999 Average Hourly Rate	100.0%	\$16.55	\$17.12	[2]
PFY 1999 Cost-Level Factor		1.031	1.007	[3]
PFY 1999 AP13 Average Hourly Rate		\$16.81	\$17.13	[4]
COLA using July 1999 trigger on 9/11/1999		\$0.17	\$0.17	[5]
Average Hourly Rate with 9/11/1999 Increase	19.2%	\$16.97	\$17.29	[6]
11/20/1999 General Wage Increase		1.4%	1.4%	[7]
Average Hourly Rate with 11/20/1999 Increase	30.8%	\$17.21	\$17.54	[8]
COLA using January 2000 trigger on 3/11/2000		\$0.13	\$0.13	[9]
Average Hourly Rate with 3/11/2000 COLA	50.0%	\$17.34	\$17.67	[10]
PFY 2000 Average Hourly Rate	100.0%	\$17.23	\$17.56	[11]
PFY 2000 Cost-Level Factor		1.041	1.026	[12]

[1] National Payroll Hours Summary Report PFY 1998, AP 13 year-to-date figures for straight time hours on line 1: page 27 for Clerk, page 54 for Special Delivery Messenger, page 33 for Mailhandler, and page 40 for City Delivery Carrier.

[2] National Payroll Hours Summary Report PFY 1999, AP 13, year-to-date figures for straight time hours on line 1: page 27 for Clerk/Special Delivery, page 33 for Mailhandler, and page 40 for City Delivery Carrier.

[3] = [2] / [1]

[4] National Payroll Hours Summary Report PFY 1999, AP 13, current period figures for straight time hours on line 1: page 27 for Clerk/Special Delivery, page 33 for Mailhandler, and page 40 for City Delivery Carrier.

[5] Exhibit 1, column 6.

[6] = [4] + [5]

[7] APWU, NPMHU, and NALC labor agreements.

[8] = [6] + ([6] x [7])

[9] Exhibit 1, column 6.

[10] = [8] + [9]

[11] Weighted Average of [6], [8], and [10] using weights from Portion of Year Wage Applies column.

[12] = [11] / [2]

### Exhibit 3. Transportation Average Cost Index Development

FY	Calendar Year Quarters	Trucking Operations Cost Index [1]	Private Transportation Cost Index [2]
1998	1997:4	1.114	1.405
1998	1998:1	1.130	1.384
1998	1998:2	1.132	1.381
1998	1998:3	1.146	1.375
1998	Average	1.131	1.386
1999	1998:4	1.154	1.376
1999	1999:1	1.169	1.363
1999	1999:2	1.173	1.400
1999	1999:3	1.188	1.418
1999	Average	1.171	1.389
2000	1999:4	1.191	1.447
2000	2000:1	1.204	1.453
2000	2000:2	1.211	1.459
2000	2000:3	1.216	1.451
2000	Average	1.206	1.453

[1] DRI projections, PPI4213NS series.

[2] DRI projections, CUSAT1NS series.

**Exhibit 4. Transportation Cost-Level Factor Development**

<b>FY</b>	<b>Average Trucking Operations Cost Index [1]</b>	<b>Trucking Operations Cost-Level Factor [2]</b>	<b>Average Private Transportation Cost Index [3]</b>	<b>Private Transportation Cost-Level Factor [4]</b>
1998	1.131		1.386	
1999	1.171	1.036	1.389	1.002
2000	1.206	1.029	1.453	1.046

[1] Average figures taken from [1] in Exhibit 3.

[2] Ratio of current year to past year in [1].

[3] Average figures taken from [2] in Exhibit 3.

[4] Ratio of current year to past year in [3].

## Exhibit 5. BPRS Unit Costs

Cost Component	Revised FY					
	FY 1998 Unit Cost (cents) [1]	1998 Unit Cost (cents) [2]	FY 1999 Cost-Level Factor [3], [4]	FY 1999 Unit Cost (cents) [5]	FY 2000 Cost-Level Factor [3], [4]	FY 2000 Unit Cost (cents) [6]
Collection	4.4	4.3	1.031	4.4	1.041	4.6
Mail Processing	48.1	59.4	1.031	61.2	1.041	63.8
Transportation	33.7	33.7	1.036	34.9	1.029	35.9
Delivery	2.4	2.4	1.031	2.5	1.041	2.6
Postage Due	4.4	4.0	1.031	4.1	1.041	4.3
Total	93.0	103.8		107.2		111.2

[1] Table 3 Summary of Unit Costs, Bulk Parcel Return Service Cost Study, Oct 30, 1998, p 7.

[2] USPS revisions to [1] to comport with mail processing costing methodology adopted by the Commission in R97-1.

[3] Collection, Mail Processing, Delivery, and Postage Due from Clerks and Mailhandlers column of Exhibit 2.

[4] Transportation from Trucking Operations Cost-Level Factors column of Exhibit 4.

[5] Revised 1998 Unit Cost column x 1999 Cost-Level Factor column.

[6] 1999 Unit Cost column x 2000 Cost-Level Factor column.



## CERTIFICATE OF SERVICE

This will certify that the foregoing Direct Testimony of Lawrence G. Buc was served on December 17, 1999, by first class mail, on the following:

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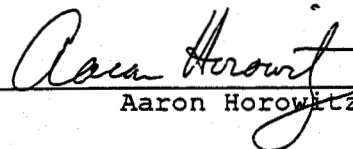
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1 CHAIRMAN GLEIMAN: Is there any written cross  
2 examination that anyone wants to offer up at this point in  
3 time?

4 MR. RICHARDSON: Mr. Presiding Officer, I'm Ken  
5 Richardson on behalf of OCA. I have some interrogatories I  
6 would offer into evidence.

7 CHAIRMAN GLEIMAN: If you would please give two  
8 copies to the Court Reporter?

9 MR. RICHARDSON: I have previously given the Court  
10 Reporter the two copies, and I have also supplied the  
11 witness, Mr. Buc, with a copy of OCA Interrogatories,  
12 OCA/CSA-T1-1-16.

13 Mr. Buc, if you were asked those questions today,  
14 would your answers be the same?

15 THE WITNESS: Yes.

16 MR. RICHARDSON: I therefore move the admittance  
17 into the record of these interrogatories, and there are  
18 copies for the Commissioners.

19 CHAIRMAN GLEIMAN: I'd like to think that they're  
20 in notebooks or in computers, that we have them all up here  
21 anyway. Thank you, we appreciate that.

22 If someone feels a need for one, we may call on  
23 you for your assistance.

24 MR. REITER: Mr. Chairman, the Postal Service  
25 would also like to designate some interrogatories. I

1 previously provided to the witness, two copies of his  
2 responses to Postal Service Interrogatories, 1-6.

3 Mr. Buc, good morning. I'm Scott Reiter for the  
4 Postal Service. I should have said that first.

5 If you were asked those questions orally today,  
6 would your answers be the same?

7 THE WITNESS: Yes, they would be.

8 MR. REITER: Mr. Chairman, I ask that those  
9 answers be entered into the record of this proceeding, and I  
10 will provide the two copies to the Reporter.

11 CHAIRMAN GLEIMAN: I appreciate that. Are there  
12 any objections to entering any of the written cross  
13 examination as designated materials?

14 [No response.]

15 CHAIRMAN GLEIMAN: Hearing none --

16 MR. RICHARDSON: Mr. Presiding Officer, also have  
17 another group of interrogatories which I would like to  
18 perhaps offer into the record at this time, if it's  
19 appropriate.

20 CHAIRMAN GLEIMAN: It sure is. Let's do them all.

21 MR. RICHARDSON: These are institutional  
22 interrogatories from OCA to USPS, and they are  
23 interrogatories 1-35, and I have also provided two copies to  
24 the Reporter. And we have copies available for the  
25 Commission, if anybody so desires, or for the participants.

1           CHAIRMAN GLEIMAN: At this point, I will order  
2 that all of the designated Written Cross Examination be  
3 received into evidence and transcribed into the record.

4                           [Exhibit OCA/CSA-T1-1 was received  
5 in evidence and transcribed into  
6 the record.]

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OCA/CSA-T1-1

- a. Please provide a list of the member companies of the Continuity Shippers Association (herein, CSA).
- b. Please identify the companies listed in part a. of this interrogatory that are (1) continuity marketing mailers, (2) negative option mailers, or (3) both. See the testimony of witness Mohammad A. Adra (USPS-T-2) in Docket No. MC97-4 at 4.
- c. Please describe in general terms the products or merchandise (i.e. recorded music, books, cosmetics, etc.) distributed through the US Postal Service by the companies listed in part a. of this interrogatory.
- d. Please identify the class or classes of mail used to distribute the products or merchandise described in part c. of this interrogatory.

RESPONSE:

a. The voting members of the Continuity Shippers Association are Cosmetique, Inc. and International Masters Publishing. Non-voting participants at CSA events have included:

BMG  
 Centrobe  
 Experian  
 Hosiery Corporation of America  
 LL Bean  
 Meredith Corporation  
 Quad Graphics  
 Readers Digest  
 Solar Communications  
 Wingset

- b. Both Cosmetique and IMP are continuity marketing mailers.
- c. Cosmetique distributes cosmetics through the US Postal Service using Standard (A) mail. IMP distributes printed material, such as printed collectable cards, books, etc., through the US Postal Service using Standard (A) mail, Standard (B) mail, Special Standard (B) and Bound Printed Matter.
- d. Please see my response to c, above.

OCA/CSA-T1-2

Please refer to your testimony at page 5, where it states "Under the 1998 BPRS cost study (as revised), the actual coverage is 168%." Please show all calculations used to derive the figure of 168 percent.

RESPONSE:

The calculation is as follows:

Rate divided by cost equals coverage:

$$\$1.75/\$1.038=168.59\%$$

OCA/CSA-T1-3.

Please refer to your testimony at page 5, where it states "The 168% coverage is overstated in relation to this type of mail (Standard A regular) and to other similar return services, i.e. Bound Printed Matter."

- a. Please confirm that the Bound Printed Matter subclass consists of Standard Mail weighing at least 16 ounces, but not more than 15 pounds. If you do not confirm, please explain.
- b. Please identify the products or merchandise described in OCA/CSA-T1-1(c), above, that qualify for return via Bulk Parcel Return Service (herein, BPRS) that also qualify for the Bound Printed Matter subclass.
- c. Please confirm that the Bound Printed Matter subclass has two separate rates, one for single piece and another for bulk mailings. If you do not confirm, please explain.
- d. Please confirm that mail matter qualifying for single piece Bound Printed Matter rates are not required to be "machineable." If you do not confirm, please explain.
- e. Please confirm that neither the DMCS nor the DMM authorize a return service specifically dedicated to the return of material qualifying for the Bulk Bound Printed Matter subclass. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. None.
- c. Confirmed.
- d. Confirmed.
- e. Not confirmed. The Merchandise Return Service is available to mail delivered under the Bulk Bound Printed Matter subclass. Returns of mail delivered under the Bulk Bound Printed Matter subclass are also rated under the Single Piece Bound Printed Matter rate.

OCA/CSA-T1-4.

Please refer to your testimony at page 5, where it states "The 'value of service' in factor 2 looks at the inherent worth of the service provided to the sender and recipient."

- a. Please confirm that another consideration subsumed within the second criterion is the economic value of the service provided to the sender and recipient. If you do not confirm, please explain.
- b. Please confirm that the economic value of service is often measured by the price elasticity of demand. If you do not confirm, please explain.
- c. Please confirm that, in general, a low elasticity of demand indicates a sender with a high value of service. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.



OCA/CSA-T1-5.

Please refer to your testimony at page 9, where it states "There is no economically realistic alternative to the Postal Service return of BPRS parcels." Please confirm that a mailer having no economically realistic alternative or available substitutes for the return of BPRS parcels has a low price elasticity of demand. If you do not confirm, please explain.

RESPONSE:

Confirmed. However, as price is increased, even with inelastic demand, the quantity demanded declines, and at some price the quantity demanded goes to zero. At BPRS rates that are too high, the mailer will forego return of a parcel.

Please note that BPRS users also do not have a realistic economic alternative or available substitutes for the outbound Standard (A) mail delivery either. The cost coverage for the outbound leg already reflects that price elasticity of demand.

OCA/CSA-T1-6.

Please refer to your testimony at page 5, where it states "Parcels returned under BPRS are Standard A Regular mail which has a coverage of 135%."

- a. Please confirm that Standard Mail (A) parcel shape mail bearing a BPRS endorsement cannot be returned via any subclass of Standard Mail (A). If you do not confirm, please explain.
- b. Please confirm that a customer receiving a Standard Mail (A) parcel shape mail piece bearing a BPRS endorsement cannot re-enter the parcel into the mail for return to the mailer at any Standard Mail (A) rate. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed, but see response to OCA/CSA-T1-13.
- b. Confirmed, but see response to OCA/CSA-T1-13.

OCA/CSA-T1-7.

Please refer to your testimony at page 6, where it states "By comparison, on its return BPRS leg, the 'value' of the service is the by-product of an unsuccessful sales transaction."

- a. Please confirm that, prior to BPRS, there was no "value" of return service available in the DMM or DMCS for any mail class following an unsuccessful sales transaction. If you do not confirm, please explain.
- b. Please confirm that, prior to BPRS, the result of an unsuccessful sales transaction was the routing of some products and merchandise to the Mail Recovery Centers (MRCs). If you do not confirm, please explain and provide any data to support your assertions.
- c. Please confirm that, prior to BPRS, any products and merchandise routed to MRCs resulting from an unsuccessful sales transaction were sold to the public at auctions or discarded. If you do not confirm, please explain (1) how CSA member companies recovered products or merchandise from MRCs, and (2) the estimated volume (in percentage terms) of products or merchandise routed to MRCs. Also, please provide any data to support your assertions.
- d. Please confirm that, prior to BPRS, mailers now using BPRS were uncertain for an indefinite period of time as to the outcome of the sales transaction if their returned merchandise was routed to mail recovery centers.
- e. Please confirm that BPRS facilitates the return of inventory of products or merchandise that is the result of any unsuccessful sales transaction. If you do not confirm, please explain and provide any data to support your assertions.
- f. Please confirm that BPRS facilitates payments by customer who include checks and other forms of payment for prior purchases in returned products or merchandise where there is a unsuccessful sales transaction. If you do not confirm, please explain and provide any data to support your assertions.

RESPONSE:

- a. Not confirmed. Prior to BPRS, Standard Mail (A) parcel shaped mail pieces were returned under the Third Class single piece rate.

b. Confirmed. Please note, however, that the same result has occurred after the creation of BPRS.

c. Not Confirmed. Cosmetique informed me that the Postal Service returned parcels that were misrouted to the MRCs both before and after the creation of BPRS. Before the creation of BPRS, after the creation of BPRS, and after the recent minor modification to BPRS, and Cosmetique has received less than 1% of all its returns from MRCs.

d. Confirmed. Please note, however, that the same result has occurred after the creation of BPRS.

e. Confirmed. Any service that provides the return of merchandise would have this same effect.

f. Confirmed. Any service that provides the return of merchandise would have this same effect.

OCA/CSA-T1-8.

Please refer to your testimony at page 7, where it states "Although a company may be able to reuse product that has been returned, the company incurs additional costs beyond the BPRS fee in order to do so, such as processing the returns and restocking the product."

- a. Please confirm that, prior to BPRS, a company also incurred the additional costs of processing the returns, and restocking the product before being able to reuse the product. If you do not confirm, please explain.
- b. Please confirm that, prior to BPRS, a company incurred cost of recovering products routed to MRCs. If you do not confirm, please explain and provide any data to support your assertions.
- c. Please compare the "BPRS fee," referenced in the quote above, to the costs of recovering products routed to MRCs in part b. of this interrogatory.

RESPONSE:

- a. Confirmed. Cosmetique informed me the creation of BPRS has not changed its returns operation.
- b. Confirmed. Cosmetique informed me that the costs of recovering products misrouted to MRCs has not increased or decreased because of the creation of BPRS.
- c. The BPRS fee is \$1.75. Cosmetique informed me that the Postal Service procedures in MRCs is to gather returns and mail them in one container on a frequency determined by the Postal Service. The Postal Service charges Cosmetique the Standard B rate for the entire container. For example, if a container holds 55 returns weighing 50 pounds, the BPRS fee would be \$96.25 (55 returns x \$1.75). The Postal Service charge for the 50 pounds from a MRC will not exceed \$34.49 (Standard B mail, zone 8).

OCA/CSA-T1-9.

Please refer to your testimony at page 8, where it states "One competitor in the continuity product market has reported to me that each unit of a main line of its products (representing forty percent of its business in terms of both volume and revenue) costs 30.77% more when re-introduced to inventory after return by the Postal Service than when taken directly from inventory for the first time, owing to the costs associated with re-integrating the product into inventory after being returned (including the cost of damaged goods)."

- a. Please confirm that, for the competitor cited in the quote above, each unit of a main line of products returns also costs 30.77% more to re-introduced to inventory when the parcels are returned directly to that competitor by its customers without utilizing the BPRS. If you do not confirm, please explain and provide any data to support your assertions.
- b. Please confirm that for the competitor cited in the quote above, prior to BPRS each unit routed to MRCs cost 30.77% more to re-introduce to inventory, plus the cost of recovering returns from the MRCs. If you do not confirm, please explain and provide any data to support your assertions.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

OCA/CSA-T1-10.

Please refer to the section of your testimony entitled "Cost Coverage/Pricing."

- a. Please confirm that Standard Mail (A) parcel shape mail returned via BPRS consists of merchandise having an intrinsic value far in excess of the cost of the Standard (A) postage. If you do not confirm, please explain and provide any data to support your assertions.
- b. Please confirm that Standard Mail (A) parcel shape mail returned via BPRS consists of merchandise that may be proprietary to the mailer. If you do not confirm, please explain and provide any data to support your assertions.
- c. Please confirm that Standard Mail (A) parcel shape mail returned without postage prepaid by the customer but via BPRS preserves the integrity of the merchandise. If you do not confirm, please explain and describe the condition of Standard Mail (A) parcel shape mail containing products or merchandise recovered by CSA member companies from MRCs. Also, please provide any data to support your assertions.
- d. Please confirm that Standard Mail (A) parcel shape mail returned via BPRS reduces the overall expense and effort of mailers billing and collecting from customers who have returned merchandise. If you do not confirm, please explain and provide any data to support your assertions.
- e. Please confirm that Standard Mail (A) parcel shape mail returned without postage prepared by the customer but via BPRS serves to protect mailers against false claims by consumers that merchandise was not received. If you confirm, please explain and provide any data to support your assertions. If you do not confirm, please explain.

RESPONSE:

- a. Not Confirmed. The economics would dictate that a mailer would use BPRS so long as the value of the merchandise returned exceeds the cost of the return postage, plus the cost of processing and restocking returns. The same statement can be true for any service that returned product.
- b. Confirmed. The statement is also true for any service that provides the return of merchandise.

c. Not Confirmed. Cosmetique informed me that (on average) 20% of its products returned through the Postal Service lose their integrity.

d. Confirmed. The statement is also true for any service that provides the return of merchandise.

e. Not Confirmed. A customer who returns a parcel (whether under BPRS or otherwise) could not falsely claim non-receipt of it (because their return shows that they received it), and would have no motivation to do so because they receive full credit from Cosmetique for the return. A parcel that is truly undeliverable as addressed would properly permit the customer to claim non-receipt.



OCA/CSA-T1-11.

In Docket No. MC97-4, USPS witness Mohammad A. Adra (USPS-T-2) makes the following statements on pages 4-6 concerning the need of shippers for a BPRS type service.

- a. "An effective and efficiently operating parcel return service is especially needed by mail order firms in general, and by continuity and negative option marketing firms in particular." Do you agree with the statement of witness Adra? Please explain your answer.
- b. "With continuity marketing, refusals and cancellations are handled by return of the product." Do you agree with the statement of witness Adra? Please explain your answer.
- c. "As described above [in the testimony], continuity and negative options mailers, in particular, incur a relatively high parcel return rate as a normal course of business and their parcels tend to be concentrated mostly in the upper weight increments." Do you agree with the statement of witness Adra? Please explain your answer.

RESPONSE:

- a. I agree, if a "fair price" is included in the definition of an "effective and efficiently operating parcel return service."
- b. Cosmetique informed me that nearly all of its refusals are handled through returns. A smaller proportion of cancellations are handled through returns because there are a number of different ways customers inform Cosmetique of their decision to cancel their memberships.
- c. Cosmetique informs me that their returns are in the upper weight increment of Standard Mail (A). I do not have information concerning the weight of returns for other BPRS users. Neither I nor members of the Continuity Shippers Association have information regarding whether "continuity and negative option mailers, in particular, incur a relatively high parcel return rate as a normal course of business."

OCA/CSA-T1-12.

Please confirm that the BPRS cost coverage at the current rate of \$1.75, based on the FY2000 BPRS unit cost in Table 2 of your testimony of 111.2 cents is 157 percent ( $\$1.75/111.2 = 157.39$  percent), only one percent higher than the originally established BPRS coverage of 156 percent which was based on unit cost of 111.90 cents ( $\$1.75/1.1190 = 156.39$  percent).

RESPONSE:

Confirmed.

OCA/CSA-T1-13.

Please refer to page 5 of your testimony where you state, "As Standard (A) Regular mail, BPRS parcels receive low priority in terms of transportation and processing...."

- a. Please explain the basis for your assumption that BPRS is Standard (A) Regular mail.
- b. Do not BPRS parcels receive the same priority in terms of transportation and processing as all Standard (A) Regular mail?
- c. Can you name any terms of service applicable to BPRS less desirable than the terms of service of Standard (A) Regular mail?
- d. If BPRS service receives the same terms of service in certain areas and a higher value of service in other areas, does it not follow that, overall, the terms of service available to BPRS are higher than the service for Standard (A) Regular mail?

RESPONSE:

- a. ~~Parcels that are returned under BPRS meet all the requirements of Standard (A) Regular mail, and are charged under Standard (A) Regular Mail on their outbound leg. In fact, DMM S924.1.2 states that "BPRS is available only for the return of machinable parcels, as defined in C050, initially prepared and mailed as Regular or Nonprofit Standard Mail (A) machinable parcels." [Emphasis added.]~~
- b. Yes, both BPRS and Standard (A) Regular mail receive the same low priority.
- c. Yes. There is no service standard for BPRS. In addition, the Postal Service can determine the frequency of delivery of BPRS returns.
- d. Yes, if BPRS had a higher value of service. It also is true that since BPRS receives lower terms of service in certain areas and has a lower value of service in other areas, the terms of service available to BPRS is lower than the service for Standard (A) Regular mail.

OCA/CSA-T1-14.

On page 7 of your testimony you state, "Moreover the value of the service to the mailer is the same whether the return has been opened or unopened. Cosmetique has informed me that it processes unopened and opened returns in the same manner. The value of the BPRS service has not increased as a result of the recent minor modification."

- a. Please confirm that the "recent minor modification" cited in the quote above refers to the classification changes adopted by the Commission and approved by the Governors in Docket No. MC99-4. If you do not confirm, please explain.
- b. Please confirm that the "recent minor modification" cited in the quote above has eliminated the legal and business uncertainty as to the treatment by the Postal Service of Standard (A) parcels that have been opened, resealed, and redeposited into the mail. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Not Confirmed as to "business uncertainty." Confirmed as to "legal uncertainty." Cosmetique's experience with receiving opened returns through the Postal Service has not changed with the creation of BPRS or the recent modification to BPRS. The following chart is based on data from Cosmetique:

Percentage of Opened v. Unopened Cosmetique  
Third Class Single Piece/BPRS Returns

Pre-BPRS 3/97-10/97		BPRS 10/97-9/99		BPRS-Modification 10/99-12/99	
Opened	Unopened	Opened	Unopened	Opened	Unopened
55.91%	44.09%	54.47%	45.53%	52.44%	47.56%

OCA/CSA-T1-15.

On page 7 of your testimony you state, "Moreover the value of the service to the mailer is the same whether the return has been opened or unopened. Cosmetique has informed me that it processes unopened and opened returns in the same manner. The value of the BPRS service has not increased as a result of the recent minor modification."

- a. Does Cosmetique include BPRS return labels in its packages?
- b. Has Cosmetique informed its customers that they are now permitted to return opened material without the payment of postage?
- c. Has Cosmetique experienced any increase in returns of opened packages since BPRS was modified?

RESPONSE:

- a. No.
- b. Yes, when a customer inquires by phone how to return a parcel (whether opened or unopened), Cosmetique informs them that they have the option of redepositing the return into the mail stream and that the parcel may be returned to Cosmetique without the customer paying the return postage. Cosmetique has informed its customers of this since before the minor modification in October 1999. See Answer to OCA/CSA-T1-14(b).
- c. No. See Answer to OCA/CSA-T1-14(b).

OCA/CSA-T1-16.

In your testimony at page 9, you cite factor 7 as favoring a straightforward fee structure and that your proposal will continue to facilitate such a fee structure. Is it not true that the current fee structure is also straightforward and consistent with factor 7?

RESPONSE:

Yes.

1 [Designation of Written Cross  
2 Examination of Lawrence G. Buc,  
3 USPS/CSA-T1-1 was received into  
4 evidence and transcribed into the  
5 record.]  
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USPS/CSA-T1-1

Please refer to your responses to OCA/CSA-T1-80. Please explain why Cosmetique prefers to receive its returns via BPRS, as opposed to via the Mail Recovery Centers (MRCs), given the significant postage difference you cite in your answer.

RESPONSE:

Cosmetique informs me that it prefers to receive returns directly without them going through the MRCs because it receives the returns sooner and there is less handling by the Postal Service. This enables Cosmetique to update customer accounts sooner. There is also a concern that merchandise may be auctioned or sold if it goes to a Mail Recovery Center.



USPS/CSA-T1-2.

Please refer to your response to OCA/CSA-T1-10(a). In addition to the value of the merchandise and the cost of return postage, processing and restocking, do mailers determining whether to use BPRS also take into account the value of any payments or any information or correspondence concerning customer desires contained within the returned parcels.

RESPONSE: Yes. The same is true for any return service, including the Third Class single piece rate applied to the returns prior to the creation of BPRS.

USPS/CSA-T1-3.

Please refer to your response to OCA/CSA-T1-10(c). Does Cosmetique have a breakdown of returned parcels which have "los[t] their integrity" between those which are not opened and those which have been opened and resealed by the recipient? Do you and Cosmetique believe a returned parcel which has been opened and resealed by the recipient is more likely to "lose its integrity" than one which has not been opened?

RESPONSE:

Cosmetique does not have data on this issue. Cosmetique and I believe that an opened return is more likely to lose its integrity than an unopened one. However, the creation of BPRS, both before and after the recent minor modification, has not impacted the loss of integrity percentages seen by Cosmetique.

USPS/CSA-T1-4.

Please refer to your response to OCA/CSA-T1-11(a). In light of your response to OCSA/CSA-T1-10(a), would you define a "fair price" as one which is both below the value of the merchandise plus the cost of return postage, processing and restocking, and is also less than or equal to the cost of having the parcel returned by any other available means?

RESPONSE: No. The determination of a "fair price" does not depend on the value of the merchandise where a monopolist takes advantage of their market power. Since, as a practical matter, monopolistic conditions exist here, the regulatory process becomes involved to set the "fair price."

USPS/CSA-T1-5.

Please refer to your response to OCSA/CSA-T1-11(c), where you state: "Neither I nor members of the Continuity Shippers Association have information regarding whether 'continuity and negative option mailers, in particular, incur a relatively high parcel return rate as a normal course of business.'"

- (a) Do you mean to say that Cosmetique and other BPRS mailers do not know what percentage of their outgoing parcel volume is returned?
- (b) If the answer to part (a) is no, please provide the percentage of outgoing parcel volume returned both in total and via BPRS. This percentage need not be disaggregated by mailer. If the answer to part (a) is yes, please explain fully why this information is not available.

RESPONSE:

- (a) No. Neither the CSA nor I know the return parcel percentage for all BPRS mailers, nor know whether the return percentage for any mailer is "relatively high."
- (b) For Cosmetique in 1999, the percentage of all returns in relation to outgoing parcels was 12.9%.  
- For Cosmetique in 1999, the percentage of BPRS returns in relation to outgoing parcels was 10.8%.

USPS/CSA-T1-5[1].

Please refer to your response to OCA/CSA-T1-5, where you state that: "[w]hen a customer inquires by phone how to return a parcel (whether opened or unopened), Cosmetique informs them that they have the option of redepositing the return into the mail stream and that the parcel may be returned to Cosmetique without the customer paying the return postage. Cosmetique has informed its customers of this since before the minor modification in October 1999. See Answer to OCA/CSA-T1-14(b).

- (a) Are you and Cosmetique aware that the recent changes to BPRS allow the Postal Service to return opened and resealed parcels without a BPRS label only if "it is impracticable and inefficient for the Postal Service to return the mailpiece to the recipient for payment of return postage."? DMCS § 935.11.
- (b) Are you and Cosmetique aware that, despite Cosmetique's instructions to its customers, where it is practicable or efficient for the Postal Service to do so, the Postal Service may return opened parcels, even those endorsed BPRS but which have no return label, to the recipient for payment of postage?
- (c) Do you and Cosmetique believe that the lack of a return label affects the likelihood that an opened, resealed and redeposited BPRS-endorsed parcel is successfully returned by the Postal Service to the original mailer? Do you and Cosmetique believe that a BORS parcel with a return label is more likely to be returned directly to the original mailer without either being returned to the recipient for postage, routed to an MRC, or otherwise handled in a way that delays or impedes receipt of the parcel by the original mailer, compared to a BPRS parcel without a return label?
- (d) Please explain fully why Cosmetique chooses not to use return labels.
- (e) Please explain fully why BPRS mailers who use return labels choose to do so.

RESPONSE:

- (a) Yes.

- (b) Yes.
- (c) Cosmetique informs me that it receives less than 5 calls a month from customers stating that they redeposited a return into the mail stream and the parcel was brought back to them. This shows that the lack of a label has virtually no effect on the Postal Service's handling of labeled versus unlabelled returns in terms of the parcel being returned to the original recipient for postage. In addition, Cosmetique informs me that less than one tenth of one percent (>.1%) of all its returns come from a Mail Recovery Center with any indication concerning the requirement that returned postage must be paid by the recipient once it is opened. However, Cosmetique and I believe there is some small incremental percentage of returns that would not be delayed or impeded if a label was used as (compared to not using a return label).
- (d) Cosmetique informs me that its experience has been that the inclusion of a label with the outgoing parcel increases the percentage of returns (and correspondingly decreases the percentage of payments).
- (e) A BPRS mailer [not Cosmetique] informs me that it chooses to include a return label with its outgoing parcels because, in their opinion, it enhances customer service by making it easier for the customer to return the item.

USPS/CSA-T1-6.

Please refer to your testimony at page 5, where you state: "when originally established, the coverage for BPRS was set at 156%. Under the 1998 BPRS cost study (as revised), the actual coverage is 168%."

- a. Please provide your understanding of the basis for establishing the original BPRS cost coverage at 156 percent.
- b. Please provide your understanding of the system-wide cost coverage at the time the BPRS cost coverage was originally set at 156 percent.
- c. Please provide your understanding of the system-wide cost coverage to which the 168 percent should be compared.

RESPONSE:

- a. I do not have any understanding for the basis for establishing the original BPRS cost coverage at 156%. I have been informed that the BPRS rate of \$1.75 was the result of a negotiation between the Postal Service and the Association for Postal Commerce (formerly the Advertising Mail Marketing Association). The attributable cost and cost coverage to comprise that \$1.75 was not part of the negotiation. After the parties agreed to the \$1.75 figure, the Postal Service derived cost figures and cost coverage figures that appeared in the MC97-4 case.
- b. I understand that the system-wide cost coverage at the time that the BPRS cost coverage was created was 156%.
- c. The cost coverage of 168% should be compared to the 135% cost coverage for Standard Mail (A) regular. As for a comparison to system-wide average, I would compare it to the 156% discussed above.

USPS/CSA-T1-7.

Please refer to your testimony at page 5 where you state that the appropriate cost coverage for BPRS is 135 percent, "the coverage applied to Standard A Regular mail."

- a. Please provide your understanding of the contents of BPRS and the contents of Standard Mail (A) Regular.
- b. Please confirm that the levels of mail preparation (criterion 6 of the pricing criteria set forth in section 3622(b)) are not identical for Standard Mail (A) Regular and BPRS.
- c. Please confirm that criterion 2 of the nine pricing criteria refers to the value of the mail to both the sender and the recipient.
  - i. If you do not confirm, please explain fully.
  - ii. If you do confirm, please explain how the value of returned pieces (in BPRS) is the same to the sender and recipient as the value of Standard Mail (A) Regular.

RESPONSE:

- a. The contents of BPRS are machinable Standard (A) parcels that weigh less than 16 ounces. In practice, BPRS parcels contain merchandise.
- b. There are several different mail preparation levels for Standard Mail (A) Regular, and thus BPRS could not be identical with all of them.
- c. Confirmed. The "value of service" is one of the nine factors under the Act that are used to determine the cost coverage. On an overall balance, both BPRS and Standard Mail (A) Regular should have the same cost coverage. In addition, BPRS and Standard Mail (A) Regular share several significant similarities under the "value of service" criterion, including the same mode of transportation, lower priority of service, etc.



USPS/CSA-T1-8.

Please refer to your testimony at page 5 where you refer to the comparison of the cost coverages for Bound Printed Matter and Standard Mail (A) to the cost coverage for BPRS. Please also refer to your testimony at page 9 where you state that ECSI value does not apply to BPRS.

- a. Confirm that the Commission has applied consideration of ECSI value to the development of rate levels for Bound Printed Matter.
  - i. If you cannot confirm, please explain fully.
  - ii. If you do confirm, please explain fully how ECSI value should be applied to returned material in BPRS.
- b. Confirm that the Commission does not apply consideration of ECSI value to the development of rate levels for Standard Mail (A). If you cannot confirm, please explain fully.

RESPONSE:

- a. Confirmed. ECSI value should not be applied to returned material under BPRS.
- b. Confirmed.

USPS/CSA-T1-9.

Please refer to your testimony at page 5 and your statement that the "Postal Service's assumption of costs at their upper bounds should lead to cost coverage at its lower bounds in order to maintain a fair and equitable schedule."

- a. Please provide the basis for this statement.
- b. Please provide any reference to past Commission Opinions in which this principle was applied or referred to.
- c. Is it your testimony that this principle should be applied to any and all rate level development?
- d. Is it your testimony that the opposite is also true, that when costs have been measured using incomplete information with the possibility that they are actually higher, the cost coverage should be set higher in order to compensate. Please explain fully.

RESPONSE:

- a. The rate for any rate cell is a function of both the attributable costs and the cost coverage. Where either element is skewed (either upwards or downwards), the other should be adjusted to obtain the appropriate rate and thus maintain a fair and equitable schedule.
- b. I am not aware of any references to this principle in past Commission Opinions.
- c. See response to a.
- d. See response to a.

USPS/CSA-T1-10.

Please refer to your testimony at pages 5 and 6 where you refer to the value of service for BPRS being lower than that of Standard Mail (A) Regular.

- a. Is it your understanding that recipients of Standard Mail (A) Regular materials, specifically advertising materials, value unsolicited Standard Mail (A) to the same degree that they do BPRS merchandise? Please provide the basis for your understanding.
- b. Please confirm that recipients of Standard Mail (A) Regular advertising materials do not, in general, return to the sender the advertising materials that they do not value.
- c. Please confirm that recipients of Standard Mail (A) Regular advertising materials have often done nothing to ensure that they received those materials (such as request a catalog or place their names on mailing lists). If you do not confirm, please explain fully.

RESPONSE:

- a. I do not know. If the advertising provides information on products that they would like to purchase, the recipient may consider the advertising piece to be more valuable than the BPRS merchandise. If the advertising piece provides information on products that they would not like to purchase, they may consider the advertising piece to be less valuable than the BPRS merchandise.

The recipient of BPRS merchandise considers the merchandise to be more valuable on the outbound leg than the return leg. On the outbound leg, the recipient is receiving merchandise that they may purchase (which occurs much more frequently than returns). On the return leg, the BPRS merchandise is shown not be of value to the original recipient.

- b. Confirmed.
- c. Confirmed.

USPS/CSA-T1-11.

Please refer to your testimony at page 7 where you describe the return of merchandise as representing the "conclusion of a business relationship." Is it your understanding that the sending of unsolicited Standard Mail (A) advertising materials constitute the beginning of a "business relationship?" If so, please explain fully. If not, please explain the circumstances under which non-merchandise Standard Mail (A) Regular materials would represent the beginning or continuance of a "business relationship."

RESPONSE:

The advertising piece may be the beginning or continuation of a business relationship. It provides information on products to which the recipient may respond.

USPS/CSA-T1-12.

What percent of Standard Mail (A) Regular advertising mail is discarded without being read? Please provide the basis for this understanding.

RESPONSE:

According to the Postal Service Household Diary Study for the fiscal year 1998, 18.2% of advertising mail was discarded. This percentage relates to the value of the mail on the outgoing, rather than the return, leg.

USPS/CSA-T1-13.

Please refer to your testimony at pages 7 and 8 where you describe the additional costs to Cosmetique of handling and/or re-introducing product into inventory. Please confirm that Cosmetique would not be re-introducing product into inventory were it not cost-effective for Cosmetique to do so. If you cannot confirm, please explain fully.

RESPONSE:

Confirmed. This is also true for any return service.

USPS/CSA-T1-14.

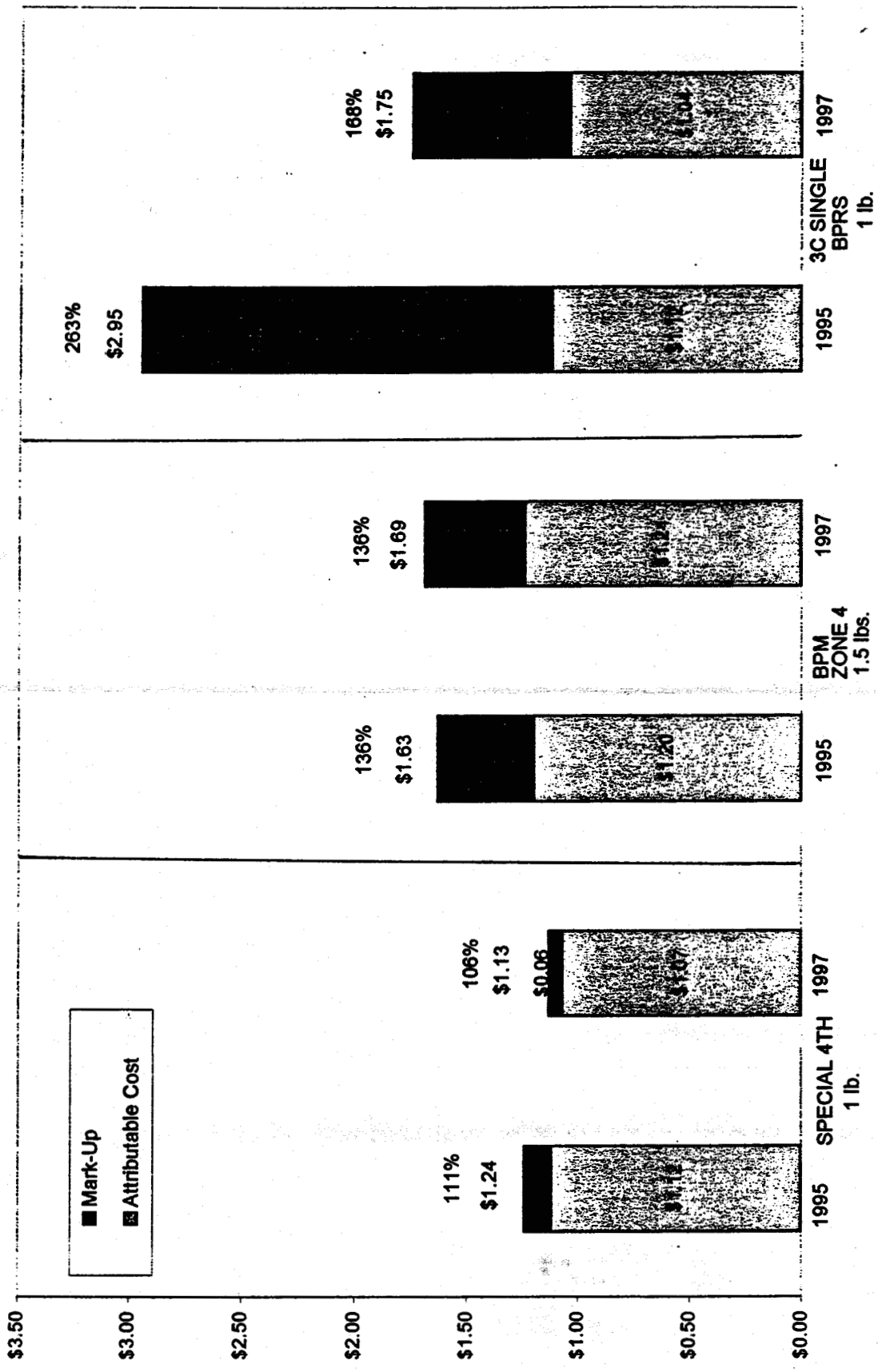
Please refer to your testimony at page 8 where you discuss criterion 4 of the pricing criteria.

- a. Please confirm that the introduction of the BPRS fee represented a significant decrease in the rates or fees paid by continuity mailers for the return of their rejected materials. If you cannot confirm, please explain fully.
- b. Please provide your understanding of any rate increases or decrease which have been applied to the other rate categories or subclasses which you use as the basis for comparison to the cost coverage for BPRS since the time that the BPRS fee was introduced.

RESPONSE:

- a. Confirmed. In January 1995, the Third Class single piece rate (which applied to these returns prior to BPRS) increased by 165% in the higher weight limits. In October 1997, BPRS was created which represented a significant decrease in rates.
- b. See Chart #1 Attached.

# COMPARISON OF RATES FOR RETURN SERVICES





USPS/CSA-T1-15.

Please provide your understanding of the basis upon which the Commission set the cost coverage for Standard Mail (A) Regular at 135 percent.

RESPONSE:

The Commissions discussion of this subject can be found at pages 433-436 in its Recommended Decision from R97-1.

USPS/CSA-T1-16.

Please refer to your response to OCA/CSA-T1-5 where you confirm that mailers without economically realistic alternatives would exhibit a low elasticity of demand. You state that "BPRS users do not have a realistic economic alternative or available substitutes for the outbound Standard (A) mail delivery either." It is your understanding that the Commission did or did not take into account the elasticity of demand for outbound Standard Mail (A) when setting the cost coverage for Standard Mail (A)? Please explain your response fully.

RESPONSE:

I understand that the Commission took into account the elasticity of demand for outbound Standard Mail (A) when setting the coverage. The point is that the same low elasticity of demand applies to both BPRS and to outbound Standard Mail (A) (along with numerous other characteristics which are the same). Given the sameness between the outbound Standard Mail (A) Regular and the return under BPRS, the same cost coverage should apply to both.

1 [Response to interrogatories  
2 OCA/USPS-1 through 35 were received  
3 in evidence and transcribed into  
4 the record.]  
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Docket No. C99-4

**OCA/USPS-1.** Please refer to the "Bulk Parcel Return Service Cost Study," dated October 29, 1998, as revised by USPS letter dated December 2, 1999 (herein "Revised BPRS Cost Study"). Each of the replacement pages attached to the December 2, 1999, letter are labeled "Revised" or "PRC Version." Those replacement pages labeled "Revised," and summarized in Table 3, show a total unit cost of 92.5 cents, while those replacement pages labeled "PRC Version," and summarized in Table 3, show a total unit cost of 103.8 cents.

- a. Please identify the correct (according to the Postal Service) total unit cost for the BPRS service in this proceeding. Please explain your rationale for selecting the total unit cost of 92.5 cents or the total unit cost of 103.8.
- b. Please identify the total unit cost the Postal Service believes should be used by the Postal Rate Commission as the basis for computing the cost coverage of the BPRS service in this proceeding. Please explain your rationale for selecting the total unit cost of 92.5 cents or the total unit cost of 103.8.

**RESPONSE:**

- a. The Postal Service's general position is that the appropriate measurement for reporting of BPRS costs for FY 1998 is 92.5 cents. Please see the response to part (b) regarding the appropriate costs to be used in evaluating the specific complaint in this proceeding.
- b. Since this proceeding is presumably limited to the issue of the appropriate cost coverage for BPRS, since the only established cost coverage for comparison is the originally assigned cost coverage, and since that cost coverage was developed using the PRC version of costs, the Postal Service believes that the cost of 103.8 cents should be used for the unique circumstance of this proceeding. Moreover, the other existing rates which the complainant uses as a basis for comparison were based on the same PRC costing methodology as the 103.8 cents.

Docket No. C99-4

**OCA/USPS-2. Please refer to the Revised BPRS Cost Study.**

- a. At page 1, Table 1, in the last column, please confirm that there are five mailers (e.g., mailers 2, 3, 5, 6, and 8) who pick up their bulk parcel returns from the Postal Service. If you do not confirm, please explain and identify which of the eight mailers pick up their bulk parcel returns from the Postal Service.
- b. At page 6, in the first sentence of the second paragraph under "D. Delivery Costs," it states that "Four of the eight BPRS recipients do not have their returns delivered to them by the Postal Service." Please reconcile this sentence with Table 1.
- c. In Exhibit E, column [3], please confirm that a "Cost per Delivery per Piece" of \$0.00 identifies mailers who pick up their bulk parcel returns from the Postal Service. If you do not confirm, please explain.
- d. In Exhibit E, column [3], Mailer 2 has a "Cost per Delivery per Piece" of \$0.04. In Table 1, Mailer 2 is identified as a mailer that picks up its bulk parcel returns from the Postal Service. Please reconcile Exhibit 3 and Table 1.

**RESPONSE:**

- a & b. Please refer to the erratum filed with the Commission today, regarding on Page 1, Table 1. In that table, the last column for Mailer 2 has been corrected to read "USPS." The cost numbers in Exhibit E are correct.
- c. Confirmed.
- d. See answer to a & b above.

Docket No. C99-4

OCA/USPS-3. Please refer to Revised BPRS Cost Study, Exhibit B. In the column "Wage Rate Adjustment Factor (FY96-FY98) [2]."

- a. Please identify the source(s) for the "FY 1998 wages" and "FY 1996 wages" used to calculate the wage rate adjustment factor of 1.10.
- b. Please identify the source(s) for the "FY 1998 wages" and "FY 1996 wages" used to calculate the wage rate adjustment factor of 1.05.
- c. Please identify the source(s) for the "FY 1998 wages" and "FY 1996 wages" used to calculate the wage rate adjustment factor of 1.02.

**RESPONSE:**

- a-c. Wage rates are from the National Payroll Summary Reports for A/P 13, FY 1996 and 1998.

Docket No. C99-4

OCA/USPS-4. Please refer to the Revised BPRS Cost Study, Exhibit E. Please confirm that the unit cost of delivery for BPRS can be calculated as follows:  
 $((\$0.0307075 \cdot 6,510) + (\$0.0359070 \cdot 4,050) + (\$0.00 \cdot 2,730) + (\$0.0498708 \cdot 4,500) + (\$0.00 \cdot 3,800) + (\$0.00 \cdot 1,200) + (\$0.0151607 \cdot 839,2941) + (\$0.00 \cdot 426)) / 24,055$ .  
If you do not confirm, please explain.

RESPONSE:

Confirmed.

Docket No. C99-4

OCA/USPS-5. Please refer to the Revised BPRS Cost Study, Exhibits B, C, D, E and F.

- a. In Exhibit B, please confirm that the unit cost of collection for BPRS parcels, in the amount of \$0.0433, is calculated from volume variable costs. If you do not confirm, please explain.
- b. In Exhibit B, please identify any fixed costs used in the calculation of the unit cost of collection for BPRS parcels.
- c. In Exhibit C, please confirm that the unit cost of mail processing for BPRS parcels, in the amount of \$0.4809, is calculated from volume variable costs. If you do not confirm, please explain.
- d. In Exhibit C, please identify any fixed costs used in the calculation of the unit cost of mail processing for BPRS parcels.
- e. In Exhibit D, please confirm that the unit cost of transportation for BPRS parcels, in the amount of \$0.3367, is calculated from volume variable costs. If you do not confirm, please explain.
- f. In Exhibit D, please identify any fixed costs used in the calculation of the unit cost of transportation for BPRS parcels.
- g. In Exhibit E, please confirm that the unit cost of delivery for BPRS parcels, in the amount of \$0.0242, is calculated from volume variable costs. If you do not confirm, please explain.
- h. In Exhibit E, please identify any fixed costs used in the calculation of the unit cost of delivery for BPRS parcels.
- i. In Exhibit F, please confirm that the unit cost of postage due for BPRS parcels, in the amount of \$0.0398, is calculated from volume variable costs. If you do not confirm, please explain.
- j. In Exhibit F, please identify any fixed costs used in the calculation of the unit cost of postage due for BPRS parcels.

**RESPONSE:**

- a. Confirmed
- b. N/A. Please see response to part a.
- c. Confirmed
- d. N/A. Please see response to part c.
- e. Confirmed.
- f. N/A. Please see response to part e.
- g. Confirmed. The estimated costs are volume variable costs. Although the cost of a truck's leaving a postal facility and traveling to a mailer's plant is essentially the



Docket No. C99-4

same whether the truck is holding one or one thousand parcels, the unit cost will rise if small volumes violate the implicit assumption that it is appropriate to use average unit costs. ?

- h. N/A. Please see response to part g.
- i. Confirmed. The estimated costs are volume variable costs. For one of the postage due methodologies, weight averaging, the cost vary with volume in more of a step-function. For this postage due method, the container of parcels is weighed. The cost of weighing a container is essentially the same whether it holds one or five hundred parcels. However, the cost varies with volume as volume dictates the number of containers and the type of methodology used to calculate postage due.
- j. N/A please see response to part i.

Docket No. C99-4

OCA/USPS-6. Please refer to the Revised Bulk Parcel Return Service Cost Study, Exhibit F (revised December 2, 1999), page 1. Mailer 1 is the only mailer that undertakes both a complex and simple postage due calculation.

- a. Please explain what is involved in (1) a complex postage due calculation and (2) a simple postage due calculation.
- b. Please identify what requirements of the Postal Service or features of Bulk Parcel Return Service cause a mailer to undertake (1) a complex postage due calculation or (2) a simple postage due calculation. Please explain your answer.

**RESPONSE:**

- a. Postage due for all returns is calculated for Mailer 1 by using a "postage due cost factor." One day a month this postage due cost factor is calculated, and the remaining days of the month the postage due cost factor is used to calculate total postage due.

In the revised BPRS Cost Study, the "complex postage due calculation" refers to the one day a month the postage due cost factor is calculated. On this day, total postage due is calculated for all returns. Then a cost factor is calculated, to the third decimal point, by dividing the total postage due by total net weight of all returns. This cost factor is averaged with the nine most recent postage due and weight entries to derive the new average postage due cost factor. Then, the mailer is notified of the new postage due cost factor.

In the BPRS Cost study, the "simple postage due calculation" refers to the days the cost factor is used to calculate postage due. On these days, total postage due for returns is calculated by multiplying the postage due cost factor by the total net weight of returns each day.

- b. What is referred to as a "complex" and a "simple" postage due calculation are both part of one postage due methodology. Therefore one cannot be used without the other.

Docket No. C99-4

OCA/USPS-7. Please refer to the Revised Bulk Parcel Return Service Cost Study, Exhibit F (revised December 2, 1999), page 1.

- a. At row 5, please explain the reason for the change from "10.0" to "1.0 Average days a month do elaborate postage due."
- b. At row 6, please confirm that the figure "3.0" represents average hours per month sorting mail. If you do not confirm, please explain.
- c. At row 24, please confirm that the figure "1.8" represents average hours per month spent on postage due and worksheets. If you do not confirm, please explain.
- d. At row 24, in the formula for the figure "1.8," please confirm that the number "7.14" represents the average number of containers weighed per day. If you do not confirm, please explain.
- e. At row 15, which shows the figure of "0.6647," please confirm that the "Average hours a day, on days do simple postage due" should be  $0.49731024$  ( $0.069651294 * 7.14$ ). If you do not confirm, please explain.

**RESPONSE:**

- a. The study was based on a misunderstanding that the complex postage due method was used the first 10 days of every month. In reality, the complex postage due method was only used for the first 10 days of the first month it was implemented. For all other months, the postage due cost factor would only be calculated one day a month. The revisions to the BPRS cost study make this correction.
- b. Not confirmed. The average hours a day it takes to sort mail using the complex postage due method (the day the postage due cost factor is calculated) is 3 hours. Since this method is only performed one day a month, the total hours used to sort the returns using the complex postage due methodology at the return facility is 3 hours.
- c. Not confirmed. This is the average hours a day it takes to complete paperwork on the days the complex postage due method is used. Since this occurs only one day a month, it can also be thought of as the average hours a month it takes to do paperwork for the complex postage due method.
- d. Confirmed.

**Docket No. C99-4**

**e. Confirmed. Row 15 should read .49731024. With this change, the new estimated postage due unit cost of BPRS is 3.9 cents and the total estimated cost of BPRS is 103.7 cents.**

Docket No. C99-4

OCA/USPS-8. Please refer to the Revised BPRS Cost Study, Exhibit F (revised December 2, 1999), page 1. In the "Sources:" to Exhibit F,

- a. At "Row 7/:" please confirm that the reference should be "(25)/(4)." If you do not confirm, please explain.
- b. At "Row 12/:" please confirm that the reference should be "(8)\*(9)\*(10)." If you do not confirm, please explain.
- c. At "Row 15/:" please confirm that the reference should be "0.069651294\*(14)." If you do not confirm, please explain.
- d. At "Row 22/:" please confirm that the reference should be "(19)\*(20)\*(21)." If you do not confirm, please explain.
- e. At "Row 23/:" please confirm that the reference should be "(9)+(22)." If you do not confirm, please explain.

**RESPONSE:**

- a. Confirmed.
- b. Not confirmed. The reference should read (8)\*(10)\*(11).
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.

Docket No. C99-4

OCA/USPS-9. Please refer to the Revised BPRS Cost Study, Exhibit F (revised December 2, 1999), pages 2, 3, and 6. For Mailer 3, it is estimated that 26 (0.26) percent of all returns are BPRS, while 25 (0.25) percent of the time is devoted to sorting BPRS returns. By contrast, 50 (0.50) percent of all returns received by Mailers 2 and 6 are BPRS. However, only 25 (0.25) percent of the time is devoted to sorting BPRS returns. For Mailers 2 and 6, please explain why the time to sort BPRS parcels is not proportional to the volume of BPRS parcels.

**RESPONSE:**

"Proportion of returns" and "proportion of time spent on BPRS versus other types of returns" are two separate inputs. "Proportion of returns" is defined as the percent of total returns that are BPRS. "Proportion of time spent on BPRS versus other types of returns" is defined as the percent of time spent sorting a BPRS parcel compared to the time spent sorting a non-BPRS return. For Mailers 2, 3, and 6, sorting a BPRS parcel takes only 25 percent of the time it takes to sort a non-BPRS return. The reason it takes more time to sort other returns (for Mailers 2, 3, and 6) is that while BPRS returns were simply thrown into the appropriate container, other types of returns were weighed and rated. Since the "sort time" includes the weighing and rating of other parcels, it would be unfair to allocate sort time to BPRS strictly by the percent of returns that are BPRS. Therefore, in addition to the percent of returns that are BPRS, the time spent on BPRS versus other types of returns (25 percent) was used to allocate sort time.

Docket No. C99-4

OCA/USPS-10. Please refer to the Revised BPRS Cost Study, at page 5 and 6, where it states:

The second assumption is that none of the BPRS parcels are held out at the local AO. . . . Since it is not know what percent of BPRS parcels are held out at local AO's, this assumption was made in a manner that ensures that costs are not *overestimated*. (emphasis added)

However, the general approach taken in the Revised BPRS Cost Study is "to make assumptions that will avoid *underestimating costs*." Revised BPRS Cost Study at 4 (emphasis added); see also *Id.* at 5.

- a. Please explain why it is appropriate to ensure that costs are not overestimated with respect to this assumption.
- b. Please estimate the impact on the cost estimate of assuming none of the BPRS parcels are held out at the local AO.

RESPONSE:

- a. There is an error in the statement at page 5 and 6. The statement should read.

The second assumption is that none of the BPRS parcels are held out at the local AO. . . . Since it is not know what percent of BPRS parcels are held out at local AO's, this assumption was made in a manner that ensures that costs are not *underestimated*.

Holding out parcels at the local AO would save both transportation and mail processing costs.

- b. Since it is unknown what percent of BPRS parcels are entered at their destinating AO and it is unknown what percent of those parcels will be held out, it is not possible to estimate the impact on the cost estimate. However, since it is unlikely that a large percent of parcels will be entered at the destinating AO, it would be unlikely that this assumption has a large impact on the cost estimate.

Docket No. C99-4

OCA/USPS-11. Please refer to the Revised BPRS Cost Study, Exhibit D, page 2, Table 3.

- a. Please confirm that the "Number of Legs, Adjusted" for Local and Intermediate Intra BMC is calculated as follows:  $1.9366 (2 \text{ Intermediate Leg} * (1-0.0317))$ . If you do not confirm, please explain and show the correct calculation.
- b. Please show all calculations used to derive the figure "1.96," the "Number of Legs, Adjusted" for Local and Intermediate Inter-BMC.

**RESPONSE:**

- a. The exact equation is  $1.94 = 0 * (.0317) + 2 * (1 - .0317)$ . In the Parcel Post transportation model in Docket No. R97-1, it is assumed that 3.17 percent of intra-BMC parcels are held out at the local AO. These parcels will incur zero legs of transportation. This is represented in the equation by " $0 * (.0317)$ ." The intra-BMC parcels that are NOT held out at the local AO will incur two legs of both local and intermediate transportation. This is represented in the equation by " $2 * (1 - .0317)$ ."
- b. The calculation is as follows:  $1.96 = 1 * (.0448) + 2 * (1 - .0448)$ . In the Parcel Post transportation model in Docket No. R97-1, it is assumed that 4.48 percent of inter-BMC parcels are entered at the origin BMC. These parcels will only incur one leg of local and one leg of intermediate transportation. This is represented in the equation by " $1 * (.0448)$ ." The inter-BMC parcels that are NOT entered at the origin BMC will incur two legs of both local and intermediate transportation. This is represented in the equation by " $2 * (1 - .0448)$ ."



Docket No. C99-4

OCA/USPS-12. Please refer to the Revised BPRS Cost Study, Exhibit D, page 5.

- a. At row 5, please confirm that the "Total Cost (Distance Related)" should be \$88,580,000. If you do not confirm, please explain.
- b. At row 7, please confirm that the "Total Cost (Non-Distance Related)" should be \$2,185,000. If you do not confirm, please explain.
- c. In the "Sources:" at "Row 17:," please confirm that the reference "page 7" should be "page 9." If you do not confirm, please explain.

**RESPONSE:**

- a. Confirmed. To be consistent with errata filed by witness Hatfield in Docket No. R97-1, this number should read \$88,580,000.
- b. Confirmed. To be consistent with errata filed by witness Hatfield in Docket No. R97-1, this number should read \$2,185,000.

After making these two changes to the BPRS cost study, the estimated transportation unit cost of BPRS is still 33.7 cents. Therefore, the total estimated unit cost of BPRS does not change.

- c. The source for row 17 on page 5 of Exhibit D does read "page 9." It should read page 7. The source for row 18 should also read "page 7."

Docket No. C99-4

OCA/USPS-13. Please refer to the Revised BPRS Cost Study, Exhibit C ("PRC Version"), pages 5 and 6. In column "[4] piggyback" for the Intra-BMC Model and Inter-BMC Model, all the piggyback factors are changed. Please explain why the Postal Service did not use the piggyback factors from Docket No. R97-1, USPS-LR-H-77, pages 231 and 232.

**RESPONSE:**

As requested, the cost study was changed to reflect "PRC-version" methodology.

Piggyback factors were changed to reflect the PRC-version piggyback factors used in

Docket No R97-1.

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

**OCA/USPS-14. Please refer to USPS witness Adra's testimony in Docket No. MC97-4 (USPS-T-2), which OCA has moved to be admitted into this record, and the discussion at page 16 concerning the value of mail service of the then proposed BPRS service pursuant to criterion 2 of Section 3622(b) of the Postal Reorganization Act. The testimony states, "Value of service (criterion 2) for returned parcels would be similar to that of parcel post as described previously in terms of level of service. At the same time BPRS provides shippers of outbound parcels a convenient means of receiving returned parcels from customers, suggesting a higher value of service than the absolute level of service would indicate." Is this testimony still applicable to the BPRS service today?**

**RESPONSE:**

**Yes.**

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

**OCA/USPS-15. Please refer to USPS witness Adra's testimony in Docket No. MC97-4 (USPS-T-2), which OCA has moved to be admitted into this record, particularly pages 13-14 which discuss the characteristics of the BPRS pieces.**

- a. Is it still true that, "The BPRS pieces tend to be fairly homogenous in terms of weight and dimensions, with the majority of the volume concentrating in the upper weight increments range?" If not, please explain.**
- b. Witness Adra's testimony referring to a market survey stated that "there are no BPRS pieces weighing less than 7.5 ounces." Is this still true? If not, please indicate the proportion of current BPRS pieces that weigh less than 7.5 ounces.**
- c. If there are more than a minimal number of BPRS pieces that weigh less than 7.5 ounces, please indicate the lightest weight of BPRS pieces and the proportion of the lightest BPRS pieces of the total number of BPRS pieces.**

**RESPONSE:**

- a. It is still true that the majority of the BPRS volume is concentrated in the upper-weight increments range. Exhibit A, page 1 of 1, of the 1998 BPRS Cost Study, shows the average weight and average cube of BPRS parcels. The study covers the 8 mailers who were BPRS participants at the time of the study. The average weight ranges from 9 to 15.04 ounces. The average cube ranges from 0.02 to 0.14 cubic feet.**
- b. We have no evidence that indicates that there are BPRS pieces weighing less than 7.5 ounces. Our evidence, as reflected by the BPRS Cost Study cited above, shows that the minimum average weight is 9.00 ounces.**
- c. See response to b.**

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**OCA/USPS-16. Please refer to the DMM, section F010.5.3g (forwarding and related services).**

- a. Please confirm that if the Postal Service forwards a parcel endorsed "Address Service Requested—BPRS," and it is delivered (months 1 through 12), the fee charged the mailer in addition to the initial postage, is an "ACS address correction fee and postage at single-piece First-Class or Priority Mail rate as applicable for weight of piece charged via ACS participant code."**
- b. If the piece described in a, above, is then returned by the addressee using a BPRS label, does the mailer pay the BPRS fee in addition to the single piece First-Class rate or does the mailer pay only the BPRS rate?**
- c. In situation b, above, please confirm that the mailer using BPRS service avoids the weighted fee set out in Section F010.5.3f which would be the appropriate single-piece First-Class or Priority Mail rate, as applicable, multiplied by 2.472 and rounded up to the next whole cent.**
- d. Please confirm that the weighted fee for a parcel with physical characteristic that would make it eligible for BPRS service and weighing 13 ounces, but returned First-Class pursuant to the weighted fee schedule referenced in c, above, would pay a charge of the First-Class rate of \$2.97 multiplied by 2.472 for a total fee of \$7.35. If not, please explain.**

**RESPONSE:**

- a. Confirmed.**
- b. For the return segment, the mailer pays only the BPRS rate.**
- c. Confirmed.**
- d. Confirmed.**

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**OCA/USPS-17.** Please refer to USPS witness Adra's testimony in Docket No. MC97-4, (USPS-T-2), which OCA has moved to be admitted into this record, discussing at pages 4-6 the reasons shippers needed a BPRS type service to relieve them from the high return postage costs.

- a. Is it still true that, "An effective and efficiently operating parcel return service is especially needed by mail order firms in general, and by continuity and negative option marketing firms in particular?" If not, please explain.
- b. Is it still true that, "With continuity marketing, refusals and cancellations are handled by return of the product?" If not, please explain.
- c. Is it still true that, "As described above [in the testimony], continuity and negative options mailers in particular, incur a relatively high parcel return rate as a normal course of business and their parcels tend to be concentrated mostly in the upper weight increments?" If not, please explain.

**RESPONSE:**

- a. Yes, to the best of our knowledge.
- b. Yes, to the best of our knowledge.
- c. Yes, to the best of our knowledge.

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**OCA/USPS-18: Please refer to witness Adra's testimony in Docket No. MC99-4 (USPS-T-1) in which he presented the Postal Service's classification proposal to amend the BPRS service to allow into BPRS parcels that have been opened, resealed and re-deposited into the mail for return to the mailer.**

- a. **At page 4, lines 5-6, of the testimony he noted that the deficiencies in the original BPRS service were such that "original mailers may experience delays or lapses in having their merchandise returned, and may be denied customer payments and information." Please confirm that the amendment to the BPRS service in Docket No. MC99-4 reduced these problems and thereby increased the value of the BPRS service.**
  
- b. **At page 4 of the testimony, witness Adra describes the following benefits of the amendment of the BPRS service to mailers: (a) "giving [original mailer's] an effective vehicle to retrieve (and pay for the return of) merchandise that their customers refuse after opening and inspection;" (b) "gives [original mailer's] direct control to minimize customer dissatisfaction;" and (c) "provides the mailer with both the merchandise and any customer payment and correspondence included in a resealed parcel." Please confirm that the above benefits to mailers were not present under the BPRS service initially approved and that these benefits increase the value of the BPRS service.**

**RESPONSE:**

- a. **Confirmed.**
  
- b. **Confirmed.**

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**OCA/USPS-19. Should the Commission seek to establish a cost coverage for the BPRS service in this proceeding that is identical to the coverage for Standard Mail (A) service? Please explain your response.**

**RESPONSE:**

The cost coverage for BPRS was originally set at the system-wide average coverage as BPRS was a new service being priced in isolation with some questions regarding the actual costs of providing the service. The current reconsideration of the cost coverage for BPRS, again in isolation, rests on no new information except for a slightly different cost figure and a recent amendment to the BPRS service which would increase its value. The appropriate context in which to reconsider the cost coverage would be in an omnibus rate case in which the nine pricing criteria may be used to balance considerations among all of the classes and subclasses of mail. In such a context, the cost coverages of all classes and subclasses of mail would be relevant and taken into consideration.

Had the Commission seen fit to establish a cost coverage for BPRS that was identical to that of Standard Mail (A), it could have done so when BPRS was established. As was noted in that proceeding, BPRS differs in service features and mail characteristics from Standard Mail (A). Standard Mail (A) contains advertising matter as well as merchandise, is highly presorted and otherwise prepared by the mailer prior to entry into the postal mail system. At the same time, were the Commission to apply the pricing criteria to Standard Mail (A) given additional information available since Docket



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**No. R97-1, the Commission might very well change the cost coverage assigned to  
Standard Mail (A).**

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OCA/USPS-20: Is the cost coverage for Special Standard Mail (B) relevant to a determination of the coverage for the BPRS rate? If so, what is the reasonable range of difference between the two coverages assuming their current service characteristics?

Please refer to the response to OCA/USPS-19. As noted there with regard to Standard Mail (A), the Commission could have chosen to apply the Special Standard Mail (B) cost coverage to BPRS when it was established but did not do so. Also, application of the nine pricing criteria to Special Standard (B) at this time could very well result in a different cost coverage from that recommended by the Commission in Docket No. R97-1. At such time as the pricing criteria are applied to all classes and subclasses of mail, the implications for direction in cost coverage differ based upon the different criteria.

For example, consideration of ECSI value for Special Standard (B), which is not of such relevance to BPRS in total, would, in isolation, recommend a lower cost coverage for Special Standard (B) than for BPRS, which contains material of a more diverse nature. Without consideration of all of the pricing criteria, it is not possible to arbitrarily establish a "reasonable range of difference" between the two coverages. Service characteristics are of concern in only one of the pricing criteria.

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**OCA/USPS-21. Is the system-wide coverage average relevant to a decision in this proceeding as to the appropriate BPRS coverage? If so, should the Commission recommend a coverage for the BPRS service that is higher or lower than the system-wide average? Please explain your response.**

**RESPONSE:**

**Please refer to the responses to OCA/USPS-19 and OCA/USPS-20.**

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OCA/USPS-22:

- a. If the Commission is to recommend a new BPRS rate in this proceeding, should inflation adjustments be made to the total unit cost determined in the BPRS cost study, as revised December 2, 1999?
- b. If inflation adjustments should be made, for what period of time should they be made?
- c. If inflation adjustments should be made, please provide the inflation adjustment factor or factors to be used.

RESPONSE:

Please refer to the responses to OCA/USPS-19 and OCA/USPS-20. Recommending a new rate in isolation makes it difficult to maintain the relationship between rates established in an omnibus case with a particular test year and set of cost forecasting assumptions. The rates for other categories of mail were established in Docket No. R97-1 with a test year of 1998. Implicit in the development of the rates recommended in that docket were a set of assumptions regarding costs, volumes and revenues. Arguably, any new BPRS rate recommended in isolation at this time could be set on the same basis as the rates currently in effect. On the other hand, if each of those rates currently in effect were re-examined at this time, the way that BPRS is now being re-examined, the Commission's rules point to the use of a test year no farther into the future than 24 months for purposes of forecasting costs and revenues to determine a breakeven position. [As is apparent in omnibus rate cases, application of a simple inflation factor does not permit appropriate consideration of the portions of the postal system used by each category of mail.] The costs for First-Class Mail, for example, rarely rise or fall in unison with those of Library Rate.

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**OCA/USPS-23:**

- a. Please confirm that the Standard Mail (A) mailstream consists of letter shape, flat shape, and parcel shape mail. If you do not confirm, please explain.**
- b. Please confirm that nearly all of Standard Mail (A) parcel shape mail consists of merchandise ordered by customers or product samples. If you do not confirm, please explain and provide any data to support your contrary assertions.**
- c. Please confirm that nearly all Standard Mail (A) letter shape and flat shape mail consists of printed material. If you do not confirm, please explain and provide any data to support your contrary assertions.**

**RESPONSE:**

- a. Confirmed**
- b. Confirmed**
- c. Confirmed that "nearly all" is printed material. Some merchandise samples, such as packets of shampoo, may meet the definition of a letter or a flat**

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**OCA/USPS-24.**

- a. **Please confirm that the Postal Service proposed Bulk Parcel Return Service (BPRS) facilitates the return of Standard Mail (A) parcel shape mail. If you do not confirm, please explain.**
- b. **Please confirm that neither the DMCS nor the DMM authorize a service specifically dedicated to the return of Standard Mail (A) letter shape or flat shape mail. If you do not confirm, please explain.**

**RESPONSE:**

- a. **Confirmed.**
- b. **Confirmed.**

**Docket No. C99-4**

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**OCA/USPS-25.**

- a. **Please confirm that the BPRS service offering effectively deaverages the Standard Mail (A) parcel shape mailstream for the return of merchandise. If you do not confirm, please explain.**
- b. **Please confirm that Standard Mail (A) parcel shape mail returned via BPRS consists of merchandise having an intrinsic value far in excess of the cost of postage. If you do not confirm, please explain.**
- c. **Please confirm that Standard Mail (A) parcel shape mail returned via BPRS consists of merchandise that may be proprietary to the mailer. If you do not confirm, please explain.**
- d. **Please confirm that Standard Mail (A) parcel shape mail returned via BPRS preserves the integrity of the merchandise. If you do not confirm, please explain and describe the preparation of Standard Mail (A) parcel shape mail for auction at Mail Recovery Centers (MRCs).**
- e. **Please confirm that Standard Mail (A) parcel shape mail returned via BPRS reduces the expense and effort of mailers billing and collecting from customers who have returned merchandise. If you do not confirm, please explain.**
- f. **Please confirm that Standard Mail (A) parcel shape mail returned via BPRS serves to protect mailers against false claims by consumers that merchandise was not received. If you do not confirm, please explain.**

**RESPONSE:**

- a. **Confirmed.**
- b. **Although the Postal Service has no basis to assess the intrinsic value of the contents of a BPRS parcel, it is reasonable to assume that a BPRS parcel would consist of merchandise having an intrinsic value in excess of the \$1.75 cost of return postage.**
- c. **Although the Postal Service has no basis to assess the nature of the contents of a BPRS parcel, it is reasonable to assume that a BPRS parcel would consist of merchandise that may be proprietary to the mailer.**

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- d. **Confirmed.**
- e. **Although the Postal Service is not in a position to confirm regarding the internal business practices of mailers, it is reasonable to assume that mailers are using the best method available to them to return their parcels when they elect BPRS.**
- f. **Although the Postal Service is not in a position to confirm regarding the internal business practices of mailers, it is reasonable to assume that a mailer who has received merchandise by means of BPRS would be in a superior position to evaluate its customers' claims than if the parcel had not been returned quickly and efficiently.**



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**OCA/USPS-26:**

- a. Please confirm that Standard Mail (A) parcel shape mail bearing a BPRS endorsement cannot be returned via any subclass of Standard Mail (A). If you do not confirm, please explain.
- b. Please confirm that a customer receiving a Standard Mail (A) parcel shape mail piece bearing a BPRS endorsement cannot re-enter the parcel into the mail for return to the mailer at any Standard Mail (A) rate. If you do not confirm, please explain.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.

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**OCA/USPS-27.**

- a. **With respect to mail processing, does the Postal Service process both Special Standard (B) and Standard Mail (A) in the same manner. Please explain.**
- b. **With respect to transportation, does the Postal Service transport both Special Standard (B) and Standard Mail (A) in the same manner. Please explain.**
- c. **With respect to delivery, does the Postal Service deliver both Special Standard (B) and Standard Mail (A) in the same manner. Please explain.**
- d. **Please confirm that the Special Standard (B) subclass is preferred rate mail. If you do not confirm, please explain.**

**RESPONSE:**

- a. **Standard Mail (A) can be letter trays, sacks, packages of flats, machinable parcels or irregular parcels. With respect to parcel processing, the split is between machinable and non-machinable for all Standard Mail parcels. Machinable parcels are sorted at the BMCs on the parcel sorters to 3 or 5-digits based on origin-destination characteristic differences. Irregular Standard Mail (A) parcels may be processed to 3-digits on SPBSs or in manual operations with other non-machinable Standard Mail (B) at the BMCs for subsequent 5-digit sortation at the plant before going to the delivery unit.**
- b. **Not taking into account machinability or origin-destination characteristic differences, the manner of transportation would be the same where the volumes are worked together as described above in part (a).**
- c. **There may be differences between Standard Mail (A) and (B) with respect to delivery. Standard Mail (A), due to its lighter weight and smaller dimensions, tends more readily to fit into a mail receptacle. Occasionally, Standard Mail (A)**

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may also be sorted into the carrier case in the event of "horizontal" flats casing primarily for firms. Standard Mail (B), due to its heavier and larger characteristics, is more likely than Standard Mail (A) not to fit into the mail receptacle and require a "left notice" in the event there is no carrier release endorsement. Standard Mail (B) is rarely able to be cased into the carrier case and must be sorted into route sequence when loading the vehicle.

d. Confirmed.

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**OCA/USPS-28. Please confirm that BPRS may be used by mailers for the return of parcels in the case where the parcels were originally delivered to customers via a delivery service other than the Postal Service. If you do not confirm, please explain.**

**RESPONSE:**

**Not confirmed. In accordance with DMCS 935.21, BPRS is "available only for the return of machinable parcels, as defined by the Postal Service, initially mailed under the following Standard Mail subclasses: Regular and Nonprofit."**

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**OCA/USPS-29. What is the service standard for BPRS?**

**RESPONSE:**

**There is no service standard for BPRS.**

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OCA/USPS-30. Is only ground transportation used to transport BPRS returns?

**RESPONSE:**

Yes.

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**OCA/USPS-31. Does the Postal Service have the option of requiring BPRS users to pick up the returns?**

**RESPONSE:**

**Mailers have the option of picking up the returns, but the Postal Service cannot require them to do so unless their return address is a PO Box or caller service.**

Docket No. C99-4

**OCA/USPS-32.**

- a. Please confirm that the Bound Printed Matter subclass consists of Standard Mail weighing at least 16 ounces, but not more than 15 pounds. If you do not confirm, please explain.
- b. Please confirm that the Bound Printed Matter subclass consists of three separate rate categories, single-pieces, presorted, and carrier route. If you do not confirm, please explain.
- c. Please confirm that the Bound Printed Matter rate categories of presorted and carrier route are for bulk mailings of at least 300 pieces. If you do not confirm, please explain.
- d. Please confirm that mail matter qualifying for the single-piece Bound Printed Matter rate category are not required to be "machineable." If you do not confirm, please explain.
- e. Please confirm that all parcel shaped mail pieces that qualify for any of the rate categories of the Bound Printed Matter subclass do not qualify for return via Bulk Parcel Return Service (BPRS). If you do not confirm, please explain, and identify those Bound Printed Matter parcel shaped mail pieces that qualify for BPRS.
- f. Please confirm that neither the DMCS nor the DMM authorize a return service specifically dedicated to the return of material qualifying for the presorted and carrier route rate categories of Bound Printed Matter. If you do not confirm, please explain.

**RESPONSE:**

- a.-f. Confirmed.



Docket No. C99-4

OCA/USPS-33. Other than BPRS, is the Postal Service aware of any economically realistic alternative for mailers for the return of Standard (A) parcels?

**RESPONSE:**

Although mailers are in a better position to judge what is "economically realistic" for their businesses, if the question means to ask whether BPRS is the least expensive and most convenient method for return of Standard (A) parcels, the Postal Service can confirm that that is so.

Docket No. C99-4

OCA/USPS-34. Please confirm that the minor classification changes recommended by the Commission and approved by the Governors in Docket No. MC99-4 for Bulk Parcel Return Service eliminated the legal and business uncertainty for mailers as to the return by the Postal Service of Standard (A) parcels that have been opened, resealed, and redeposited into the mail. If you do not confirm, please explain.

**RESPONSE:**

Confirmed that the changes resulting from Docket No. MC99-4 provided a regularized, definite, and reliable method for return to the original mailers of Standard (A) parcels that had been opened, resealed, and redeposited into the mail by the recipients without the payment of return postage by the recipients or the use of Merchandise Return Service.

Docket No. C99-4

OCA/USPS-35. Please update Table 1 of the BPRS cost study, as revised, for any new mailers that have qualified for BPRS service.

RESPONSE:

This information has not been collected.

1 CHAIRMAN GLEIMAN: The Office of the Consumer  
2 Advocate is the only participant that requested an  
3 opportunity to orally cross examine Witness Buc.

4 Has any other participant determined that it would  
5 like to cross examine this witness?

6 MR. REITER: Mr. Chairman, yes, the Postal Service  
7 has a few questions for the witness as well, but I'm happy  
8 to defer to the OCA and let them start, if they would like  
9 to do that.

10 CHAIRMAN GLEIMAN: I'm sure that they would like  
11 to get on with their cross examination. Anyone else? If  
12 not, then, Mr. Richardson, would you begin?

13 MR. RICHARDSON: Thank you, Mr. Presiding Officer.

14 CROSS EXAMINATION

15 BY MR. RICHARDSON:

16 Q Good morning, Mr. Buc.

17 A Good morning.

18 Q First, I'd like to just discuss with you, your  
19 appearance here and the testimony that you are providing  
20 here.

21 You're appearing for Continuity Shippers, and you  
22 also modified or amended your testimony to indicate that you  
23 are appearing on behalf of DMA; is that correct?

24 A That's correct.

25 Q Are you appearing on behalf of any other users of

1 BPRS, other than Continuity Shippers?

2 A My testimony was sponsored by Continuity Shippers  
3 and DMA.

4 Q But you're not representing the views of any other  
5 BPRS users in your testimony here; is that correct?

6 A Through their membership in CSA, I would be, but  
7 if you're asking me, am I a paid witness on behalf of  
8 anybody else, no.

9 Q Well, have you discussed the BPRS service with any  
10 of the other users of BPRS service in reaching your  
11 conclusions that you have presented here in your testimony?

12 A I have received information from some of them, and  
13 also through counsel, my counsel, on what their positions  
14 are on various things.

15 Q How many have you spoken to, and are you at  
16 liberty to indicate which ones you have spoken to?

17 A No.

18 Q How many BPRS users do you understand that there  
19 are?

20 A I think there are about 10.

21 Q And how many have you spoken to?

22 A Directly, I have spoken to Cosmetique, and I have  
23 talked to my counsel, who has also talked to other  
24 Continuity Shippers.

25 Q So would it be fair to say that your testimony

1 here only represents the views of Cosmetique in terms of the  
2 opinion testimony that you're presenting?

3 A I don't think that's right. I think I represent  
4 the Continuity Shippers. I've spent some time discussing  
5 the issues with Aaron Horowitz, who is my counsel on this  
6 issue.

7 And as far as I know, my testimony represents the  
8 viewpoint of the Continuity Shippers and of DMA.

9 Q And how many BPRS users are in Continuity  
10 Shippers? Are there any others, other than Cosmetique?

11 I know your testimony refers to the members of  
12 Continuity Shippers, but I do not know whether any of those  
13 listed are BPRS users.

14 A I think in our interrogatory -- response to your  
15 Interrogatory 1, we tell you -- I tell you that there are  
16 two voting members, and that both of them are Continuity  
17 mailers.

18 Q Along those same lines, on page 8 of your  
19 testimony, you refer to one competitor of Cosmetique, I  
20 believe it is, or a competitor in the Continuity product  
21 market has reported to you. Is that competitor a BPRS user  
22 to your knowledge?

23 A I believe that they are.

24 Q And on page 7, where you discuss the value of  
25 service, and I guess two-thirds of the way down the page,

1 you state, "Moreover, the value of the service to the mailer  
2 is the same whether the return has been opened or unopened."  
3 You refer to the value of service to the mailer. Again, are  
4 you speaking of Cosmetique or CSA or any other BPRS users at  
5 that point?

6 A I am trying to think -- I am trying to generally  
7 think of the BPRS user.

8 Q Have you spoken to any BPRS user with respect to  
9 that particular issue of value of service?

10 A No.

11 Q And on page 9 of your testimony, where you refer  
12 to Factor 8 under the Postal Reorganization Act, Section  
13 3622(b), the educational, cultural, scientific and  
14 informational considerations of Factor 8 do not apply in  
15 your testimony. Again, are you referring to with respect to  
16 Cosmetique or any particular other BPRS users that you know  
17 of?

18 A I think I am responding with respect to all BPRS  
19 users.

20 Q Don't some BPRS users deal in books and CDs?

21 A Yes, they do.

22 Q And would you say that -- wouldn't you say that  
23 CDs at least have some cultural value, depending upon your  
24 viewpoint as to the music?

25 A Yeah. Yeah, there is an interesting point here, I

1 actually suggested to DMA the other day, or I asked of DMA  
2 whether the educational, cultural, and scientific and  
3 informational, the value would apply to Standard A given  
4 that I believe it provides lots of information, and I was  
5 told that the legislative history is pretty clear that it  
6 doesn't apply to Standard A. So we are claiming none of  
7 that value for BPRS.

8 Q Are you suggesting that BPRS is Standard A?

9 A Well, I am not exactly, I guess it is a special  
10 service. But on its outgoing leg it is Standard A, when it  
11 comes back it is a special service. But when I think about  
12 pricing of it at least, it is more like Standard A than it  
13 is like anything else in terms of a mail class.

14 Q I will get back question later, we had an  
15 interrogatory on that. Just a summary of your  
16 recommendation now, the structure of your recommendation is  
17 you accept the BPRS cost study of the Postal Service and  
18 then you roll forward with some estimates for the fiscal  
19 years '99 and 2000, then you apply what in your opinion is a  
20 reasonable cost coverage of 135 percent and reach a price of  
21 \$1.50 per unit, is that correct?

22 A That's correct.

23 Q Have you ever testified on cost coverage before,  
24 before this Commission or any other place?

25 A I have been a pricing witness on Standard A, what



1 was then Third Class.

2 Q In what docket was that?

3 A I think it was 84-1.

4 Q And you made recommendations as to cost coverage?

5 A I believe so.

6 Q Now, getting back to your comments about whether  
7 or not Standard A or special service is involved in BPRS, in  
8 our interrogatory, OCA/CSA-T1-6, your response to a question  
9 as to whether or not it is Standard A, you confirmed that  
10 BPRS endorsed mail cannot be returned under Standard A mail.  
11 You still agree with that statement, don't you?

12 A Yes. Yes.

13 Q And you referred to the outgoing portion of mail  
14 which ends up to be BPRS and returned under BPRS, but in  
15 referring to the outgoing portion where it is Standard A,  
16 why is that relevant to you?

17 A When you are thinking about pricing, I guess you  
18 need something to compare it to, I guess you are comparing  
19 it to lots of things. And the easiest thing for me to think  
20 about comparing this to is Standard A because it gets  
21 shipped out as Standard A, it is coming back, it is not  
22 Standard A, it is a special service, but in my way of  
23 thinking it is more like Standard A and it is easier to  
24 compare it to Standard A than anything else on its way back.

25 Q Now, turning to your acceptance of the -- or use

1 of the BPRS cost study on the cost. Now, you accept the  
2 base number, the BPRS cost of 103.8, I believe, and that is  
3 shown most easily on your Exhibit 5, is that correct?  
4 103.8.

5 A That is where we have started from.

6 Q That is where you start from.

7 A For the purposes of this case.

8 Q And then you undertake some estimates as to using  
9 DRI projection and transportation cost index and other  
10 estimates that you show there on your exhibit, is that  
11 correct? You undertake some estimation of your own to reach  
12 the unit cost of, oh, 111.2 cents.

13 A Yes, although the Postal Service labor costs are  
14 bigger than the transportation costs in terms of the roll  
15 forward.

16 Q But those are estimates. How firm are those  
17 estimates in your mind?

18 A Under the methodology, you know, the Commission  
19 methodology, assuming that the costs are as variable as the  
20 modified BPRS study says that they are, you know, I would be  
21 pretty surprised if we were off by more than a penny or two.  
22 I mean we are not rolling forward very far in the roll  
23 forward costs that much in terms of cents per piece.

24 Q So, where you come up with 111.2 cents, if it were  
25 a penny or two either way, you wouldn't be surprised, and

1 that would be within a reasonable variance that you would  
2 expect?

3 A Now, remember we have said accepting the  
4 methodology, you know, accepting this as a starting point.  
5 The Postal Service says in their study that they took care  
6 to make sure that they didn't underestimate costs. You  
7 know, from reviewing the study, we believe, I believe, I say  
8 that I think these are an overestimate more likely than an  
9 underestimate. So if you are asking me about the position  
10 of the roll forward, I think the roll forward is pretty  
11 precise.

12 If you are asking me about the starting point, if  
13 somebody were to look at that and go through that with a  
14 fine tooth comb, and make that the subject of litigation, I  
15 believe that at the end of the day, I would find that they  
16 were less than the 103.8. But we have accepted them for the  
17 purpose of this case. Now, let me make that clear, I am not  
18 arguing with the starting point.

19 Q I am just referring to the roll forward itself.  
20 How much variance would you expect would be reasonable to  
21 see in that?

22 A To give you -- I can't give you a precise  
23 statistical answer to that. This wasn't a sampling thing,  
24 it wasn't a projected, you know. But we had the Postal  
25 Service labor numbers, that the costs were '99. And, so,

1 basically, we really are estimating from '99 to 2000 using  
2 the same method that the Postal Service would use. We took  
3 what the settlements were and we figured out what that would  
4 mean in terms of labor costs. We took that cost inflation,  
5 if you would, the cost level, and multiplied it times the  
6 starting point and came up with a unit cost for 2000.

7 Q So, would it be fair to say a penny or so would be  
8 within reason?

9 A Again, I can't give you a statistical answer.

10 Q I understand that.

11 A I can't give you a statistical answer. But,  
12 personally, you know, having done this work for a while,  
13 yeah, I would be real surprised if we were off by more than  
14 a penny either way.

15 Q Fine. Thank you very much. Now, I want to go to  
16 the coverage side of your testimony and leave the cost side.  
17 And you recommend cost coverage of 106 -- 135 percent. And  
18 your testimony on page 5, you indicate that, I guess about  
19 six lines down, the current cost coverage for the BPRS of  
20 168 percent is too high. Do you see that?

21 A Yes.

22 Q And what I would like to know is, going back to  
23 your initial assignment in this case, when you were hired by  
24 CSA, and how you were asked to approach this issue, when you  
25 were given the assignment, what assignment were you given?

1 Did they tell you that 168 percent is too high and then come  
2 up with an appropriate cost coverage? Or did they say, just  
3 what is the appropriate cost coverage for service for BPRS?  
4 Disregard everything else and look at it de novo, or from  
5 the beginning.

6 A You know that is kind of a really hard question  
7 because you represent clients in the world, but I have been  
8 doing this for a fairly long time and I have only testified  
9 as to things that I believe in. I have found that that is  
10 really important over the years to keep your credibility.  
11 And what that means is that, since you only testify as to  
12 things that you believe in, it is probably the case that  
13 certain sets of clients never bother to come to you because  
14 you don't believe in the things that they believe in.

15 I believe that when Aaron first came to, I am  
16 searching my memory banks here, he said, well, what do you  
17 think about this? You know, we kind of view this stuff as  
18 having a coverage that is a little bit too high, but what do  
19 you think about that? And we sat --

20 Q The 168 percent?

21 A Yeah. And we sat down and we talked about it,  
22 and, on reflection, I also believed that the coverage was a  
23 little too high, and I was retained. But I have never been  
24 willing to testify as to things that I don't believe in. I  
25 have been fairly consistent over the years.

1 Q If you were asked to give your opinion in an  
2 omnibus rate case, the appropriate cost coverage in the  
3 omnibus rate case and you were given a test year unit cost  
4 estimate, would you approach the assignment in the same way  
5 that you approached it in this case as to cost coverage?

6 A In an omnibus rate case you are trying to think  
7 about everything together and you have new costs for  
8 everything and you have everything that you can balance and  
9 juggle.

10 Here you don't have new costs for everything. It  
11 is a little bit more difficult, so, no, you don't do it  
12 exactly alike, because you are not free to adjust the  
13 coverage for everything else at this point.

14 Q And that would affect your opinion as to the  
15 appropriate cost coverage?

16 A Well, in a full-blown rate case where you are  
17 trying to think about every single thing, you have got every  
18 class and every subclass and you have to make sure that your  
19 opinion, your beliefs are consistent across all classes and  
20 subclasses, and you are free to change them.

21 Here I am not free to change what the coverage of  
22 everything else is.

23 Q Have you read the CSA complaint in this, in this  
24 docket?

25 A Yes.

1 Q And so you are aware that the complaint objected  
2 to the high coverage of 168 percent given the costs in the  
3 BPRS cost study of the Postal Service?

4 A Yes, that's correct.

5 Q Do you see anywhere in the complaint that it  
6 objected to the coverage which was initially accrued by the  
7 Commission in the BPRS opinion, in MC97-4 of 156 percent?

8 A No.

9 Q Are you aware that when the Commission approved  
10 the BPRS rate that it determined the system-wide cost  
11 coverage that it applied to the BPRS rate of 156 percent is  
12 reasonable and consistent with the requirements of the  
13 Postal Reorganization Act?

14 A Yes.

15 Q And are you aware that in a complaint case brought  
16 under Section 3662 of the Postal Reorganization Act the  
17 burden is on the Complainant to demonstrate that the rates  
18 being charged do not conform to the policies of the Postal  
19 Reorganization Act?

20 A I'll take your word for that. I'll accept that  
21 subject to check.

22 Q And under the opinion in MC97-4, which approved  
23 the BPRS rates, you'll agree subject to check that the unit  
24 cost rate applied there, determined there was 111.9 cents,  
25 to which the cost coverage was applied?

1 A I accept that subject to check.

2 Q I would refer you to a page 3 of that opinion, and  
3 now your testimony accepts the cost figure for Year 2000  
4 that we just discussed of 111.2 cents, which is seven-tenths  
5 of a cent different from the unit cost that was utilized by  
6 the Commission in Docket Number MC97-1, is that correct?

7 A That's correct.

8 Q So since the underlying costs for the current BPRS  
9 are virtually identical to the unit costs on which you base  
10 your estimate, especially given the variance which we  
11 discussed of the estimates could you tell me what has  
12 changed since the Commission determined that the 156 percent  
13 system-wide cost coverage is a reasonable basis for the BPRS  
14 service and which would be sufficient to justify reducing  
15 the cost coverage at this time?

16 A What's changed in my mind, what should have  
17 changed in the Commission's mind why they should accept  
18 something different?

19 Q Well, what facts have come out since the date of  
20 the Commission opinion that would warrant a finding now that  
21 the 156 percent applied in that opinion is now not  
22 reasonable and not consistent with the Postal Reorganization  
23 Act?

24 A I can't think of one single factor. I think now  
25 that we know better what coverage looks like, now that we



1 have the cost study, it's probably time, in my opinion it  
2 would be time to rethink it. That's why we're having a  
3 complaint case.

4 Q The cost study came out and it determined rates to  
5 be I believe -- or the costs, excuse me, to be a 93 cent  
6 range which you again show on your Exhibit 5. However,  
7 based on your forward-looking estimates -- I am bringing it  
8 up to 2000 -- you do agree that the unit costs are virtually  
9 identical, the 111.2 cents versus the 111.9 cents, is that  
10 correct?

11 A Yes. The starting point for my costs was a dollar  
12 three point eight and not the ninety-three. We used the  
13 PRC-corrected methodology numbers.

14 Q Thank you. Now I want to turn away from those  
15 subjects and focus more specifically on the interrogatories  
16 that OCA asked and just maybe fill out some of your  
17 responses to those responses.

18 If you could turn to OCA/CSA-T1-3(e), I just want  
19 to ask you a couple questions about your responses to 3(e).

20 That question returned -- related to bound and  
21 printed matter and is it your understanding that merchandise  
22 delivered by bulk bound printed matter may also be returned  
23 via Parcel Post?

24 A Sure.

25 Q And in your response in 3(e) indicates that bulk

1 bound printed matter can be returned under merchandise  
2 return service or single piece bound printed matter rate.  
3 However, I don't believe that is specifically responsive to  
4 the question, which asked you whether or not there was a  
5 return service specifically dedicated to the return of bulk  
6 bound printed matter and would you confirm that there is no  
7 return service specifically dedicated, and I emphasize  
8 specifically dedicated to bulk bound printed matter?

9 A You mean that only can be used by --

10 Q That's correct.

11 A -- bulk bound printed matter. Yes.

12 Q Thank you. Now if you will turn to our  
13 Interrogatory Number 5, that is OCA/CSA-T1-5

14 A Got it.

15 Q And that question concerns economically realistic  
16 alternatives and in the last paragraph your response  
17 indicates that BPRS users do not have a realistic economic  
18 alternative or available substitutes for the outbound  
19 Standard A mail delivery.

20 Are you claiming that Cosmetiques and printed  
21 collectible cards, books, CDs and other merchandise must be  
22 mailed under Standard A mail?

23 A No.

24 Q Is the merchandise subject to the letter rule?

25 A You mean the private express statutes?

1 Q Yes.

2 A No.

3 Q Are there private carriers who deliver such  
4 merchandise?

5 A Yes, or there could be. I don't -- you know, I  
6 don't know. There could be. Does anybody have a business  
7 doing that. I'm not sure, but there is no legal reason why  
8 they couldn't. There may not be one.

9 Q Thank you. Your response to that question in the  
10 first paragraph as to indicate that as price is increased,  
11 even with an inelastic demand the quantity demanded might at  
12 some price go to zero, do you have an opinion as to what  
13 BPRS rate might be so high that it would cause the demand to  
14 go to zero?

15 A I know that when in the case of Cosmetique at  
16 about three dollars they think that it would be pretty close  
17 to zero demand, that at that price it is not economically  
18 feasible.

19 Q And why is that? What is the alternative for  
20 Cosmetique? At that point is there another service  
21 available, or would they simply stop accepting returns?

22 A I guess they would stop accepting returns.

23 Q Are you aware of any mailers who no longer use  
24 BPRS because the rate is too high?

25 A No.

1 Q Would you say the demand for BPRS is now  
2 declining?

3 A I don't know how to answer that question.

4 Q Do you have any knowledge that it is declining?  
5 Has there been a shift in the demand curve?

6 A As a result of the price drop? I just don't know  
7 what the question means in economic terms, I'm sorry.

8 Q Let's turn to the next area, our OCA/CSA-T1-7(b).

9 A Got it.

10 Q And that question refers -- or discusses value of  
11 service generally. And you indicate that the routing of  
12 some products and merchandise to mail recovery centers is  
13 still occurring since the creation of BPRS. Now, I  
14 understand that to be the case. But, in general, has the  
15 volume of Cosmetique merchandise routed to mail recovery  
16 centers since the inception of BPRS declined?

17 A I don't think so, no.

18 Q Do you know what the case is with respect to other  
19 BPRS users?

20 A I don't.

21 Q Have you asked other BPRS users that question?

22 A No.

23 Q Now, even if some products and merchandise of  
24 Cosmetique are still routed to mail recovery centers, would  
25 you say the BPRS service is still a worthwhile service?

1           A     Well, clearly, Cosmetique is using it, other  
2 people are using it, therefore, it must be a worthwhile  
3 service. It would be more worthwhile if it a were a little  
4 less expensive.

5           Q     Now, in the same question, your response is, to  
6 parts e and f, you confirm that BPRS facilitates the return  
7 of inventory of products and facilitates the payment for  
8 prior purchases. However, in your confirmation, you  
9 indicated that any service that provides a return of  
10 merchandise would have the same effect. But in this case we  
11 are speaking about BPRS service, and there is no realistic  
12 economic alternative to BPRS, isn't that correct?

13          A     That is what we believe, yes.

14          Q     And that is what you testified to --

15          A     Yes. Yes.

16          Q     -- in response to some of our interrogatories and  
17 in your testimony. Now, in that same interrogatory, part c,  
18 you indicate that both before, during and after the recent  
19 modification of BPRS, Cosmetique has received less than 1  
20 percent of all its returns from mail recovery centers, and  
21 you actually calculate, in response to our Interrogatory  
22 8(c), that mail is actually cheaper if Cosmetique receives  
23 return parcels directly from mail recovery centers where it  
24 is containerized and sent back as Standard B mail. And you  
25 use the example, in response to our Interrogatory 8(c), with

1 50 pieces, where if it is containerized and mailed as  
2 Standard B, it would be \$34.49 versus under the BPRS it  
3 would be \$96.25.

4           Given the price differential there, one might  
5 conclude that the system for the return of parcels to  
6 Cosmetique prior to BPRS was acceptable and that BPRS is not  
7 needed. Would you -- you are not concluding that, are you,  
8 that BPRS is not needed?

9           A     No. No, we like BPRS.

10          Q     Now, I would like you to refer to Interrogatory  
11 10(a). And that interrogatory discusses, or really asks you  
12 the question whether parcel shaped mail returned via BPRS  
13 consists of merchandise having an intrinsic value far in  
14 excess of the cost of Standard A postage. And you did not  
15 confirm that, citing the fact that there is other costs, you  
16 include the cost of processing and the cost of restocking  
17 returns. But, nevertheless, wouldn't it be fair to say that  
18 merchandise returned via BPRS is of a high value and it  
19 is --

20          A     I don't know what you mean by "high value." You  
21 know, Cosmetique is not selling diamonds, it is selling  
22 cosmetics. And, again, I just don't know what you mean by a  
23 high value.

24          Q     Certainly, -- well, I will go on to the next  
25 question. Again, in the same interrogatory, your response

1 to part c states that "Cosmetique informed me that, on  
2 average, 20 percent of its products returned through the  
3 Postal Service lose their integrity." Does the average 20  
4 percent figure to which you refer refer to the BPRS returns  
5 or returns from mail recovery centers, or both?

6 A Well, there is not much that comes back from  
7 recovery centers, so whatever goes on there isn't going to  
8 affect the average very much. There is just not enough back  
9 from the recovery centers.

10 MR. RICHARDSON: Okay. If you will bear with me,  
11 Mr. Presiding Officer, I have one more question -- two more.

12 BY MR. RICHARDSON:

13 Q Now, if you would refer to OCA/CSA-T1-14(b).

14 A (d)?

15 Q (b).

16 A (b).

17 Q (b) as in boy. And there you confirm the  
18 statement posed to you as to a legal uncertainty, but not as  
19 to a business uncertainty, and that there has been virtually  
20 no change in opened versus unopened returns prior to and  
21 after BPRS. Has BPRS affected the time limits of returns to  
22 Cosmetique?

23 A I believe it has.

24 Q And has BPRS improved the time limits of returns  
25 for Cosmetique compared to the timeliness of returns, well,

1 prior to BPRS?

2 A I think so, yeah.

3 Q And has --

4 CHAIRMAN GLEIMAN: That was two questions. But I  
5 will let you go on.

6 MR. RICHARDSON: Since the second one was very  
7 similar to the first, I would like a chance to have one last  
8 one.

9 CHAIRMAN GLEIMAN: Please proceed.

10 BY MR. RICHARDSON:

11 Q Has BPRS improved the timeliness of returns for  
12 Cosmetique subsequent to the recent minor classification  
13 changes for BPRS parcels that have been opened, resealed,  
14 and redeposited into the mail?

15 A No.

16 MR. RICHARDSON: Those are all the questions I  
17 have, Mr. Presiding Officer.

18 CHAIRMAN GLEIMAN: Mr. Reiter.

19 MR. REITER: Thank you, Mr. Chairman.

20 CROSS-EXAMINATION

21 BY MR. REITER:

22 Q Mr. Buc, first, I want to follow up on a few of  
23 your answers to Mr. Richardson. When you were talking about  
24 demand for BPRS, you indicated you weren't sure what his  
25 question was getting at. Let me try and get at it a



1 different way. Do you have any information as to whether  
2 the volume of BPRS, the number of pieces, has increased or  
3 decreased over the past few years?

4 A I don't.

5 Q And do you have any knowledge as to whether the  
6 number of mailers using BPRS has increased or decreased over  
7 the years?

8 A I don't.

9 Q Sorry?

10 A I don't.

11 Q Just before you were discussing with Mr.  
12 Richardson the price that Cosmetique has paid for containers  
13 of returned merchandise from mail recovery centers, and you  
14 gave some information about that in your response to  
15 OCA-8(c), you indicated that it is relatively inexpensive  
16 compared with BPRS, but that Cosmetique still liked BPRS. I  
17 assume one of the reasons is the issue you were just talking  
18 about, which was timeliness, would that be one of them?

19 A Yes.

20 Q Are there any others?

21 A I think you are more certain that you are going to  
22 get it back, that is a big factor. There is timeliness, the  
23 customer is probably happier. And timeliness has a couple  
24 of different dimensions, and being sure that you get it back  
25 has a couple of different dimensions. Some of the people

1 have terminated their relationship with Cosmetique when they  
2 send it back, but some of them haven't. And it is a good  
3 thing to know that they haven't, because those people can  
4 get the next shipment. It is a good thing for those that  
5 have terminated, to know that, so that their account gets  
6 credited or so that they don't get a dunning letter. So  
7 BPRS is very good for Cosmetique and other Continuity  
8 shippers.

9 Q Earlier when you were discussing the cost study  
10 with Mr. Richardson, I believe he asked you whether you felt  
11 that the cost study provided a sufficient starting point to  
12 support your recommendation of a fee for BPRS.

13 Did you agree with him on that?

14 A I'm not sure that I would characterize it that  
15 way. I think that what I have said is that we accept this  
16 for this rate case. We pointed out that the Postal Service  
17 says in all likelihood this is an upper bound estimate of  
18 what the true costs would be if they went in and did a  
19 slightly different kind of study and so it serves a useful  
20 working purpose but I don't think this is the definitive  
21 cost study.

22 I'm perfectly willing to accept it for this  
23 complaint case, but it is not the end of the discussion in  
24 terms of are the costs accurate.

25 Q Now I want to back up at a couple things you said

1 there. One is could you point me to where the Postal  
2 Service said what you said they just said?

3 A "Since BPRS is a relatively new service,  
4 assumptions are made to ensure that cost estimates are not  
5 underestimated" -- BPRS Cost Study, page 2.

6 Q That is regarding choices of assumptions. When an  
7 analyst has a choice of assumption he or she makes sure that  
8 they take what is usually called the conservative approach,  
9 which is not to underestimate.

10 A Yes.

11 Q Are there any other statements to support what you  
12 said earlier?

13 A Sure. I can cite you again from my testimony.  
14 "Using the special Standard B CRA adjustment factor has the  
15 potential to overestimate the true value and variable unit  
16 cost of BPRS mail processing. Since this is consistent with  
17 the approach taken in the study to make assumptions that  
18 will avoid underestimating costs, the special Standard B CRA  
19 adjustment factor is used" and that is from the Study, on  
20 page 4.

21 Q And again that is a question of choice of  
22 assumptions?

23 A Absolutely.

24 Q Okay, thank you. But to be clear, your testimony  
25 on behalf of your clients who are asking the Commission to

1 recommend a fee in this case, is that right?

2 A That's correct.

3 Q And in order to do that, they do need to start  
4 with a cost figure?

5 A That's correct.

6 Q And they need to start with a cost figure that is  
7 sufficiently acceptable to them to go on from there under  
8 the requirements of the Act and their own regulations, would  
9 you agree with that?

10 A That's correct.

11 Q And so is it your position that for that purpose  
12 the Postal Service's cost study is adequate as a starting  
13 point for your analysis?

14 A As a starting point, as we discussed further, I  
15 believe that I say, you know, if you have made sure that you  
16 haven't overestimated costs so that you may perhaps be at  
17 the upper end of what you really think the real costs are,  
18 perhaps you ought to be a little bit careful to put your  
19 thumb down on the other side of the scale when you think  
20 about things like coverage.

21 Q But you qualified your statement earlier in saying  
22 that that was only true for this proceeding?

23 A Nobody knows what will happen in our 2000-1. I  
24 mean I --

25 Q I am not asking you to predict what would happen.

1 I asked you perhaps to explain why a cost study which is a  
2 sufficient starting point in your opinion here in this room  
3 today wouldn't be one tomorrow in the same room?

4 A Well, I would defer to the attorneys, but I often,  
5 quote, "decide" that I am not an attorney but I sometimes  
6 talk or act like one in a rate case or I pretend to be one  
7 for various things, and, correct me if I'm wrong, but I  
8 believe that in a rate case, in future cases, somebody could  
9 go back, look at the study, and say, you know, we want to  
10 talk about the study a little bit more. We want to look at  
11 its assumptions. We want to think about it a little bit  
12 more.

13 Q I understand that, and I am not really asking you  
14 for legal opinions. I am asking you as an expert, telling  
15 the Commission that in this case the study is adequate as a  
16 starting point to recommend a fee, and I am trying to  
17 understand why that opinion would change just because there  
18 is a different docket number.

19 A Because there might be more analysis. We have  
20 chosen not to analyze the cost study. We simply accepted it  
21 and rolled it forward. Had we analyzed it, we might have  
22 come up with a recommendation that we not accept it as a  
23 starting point. We have simply said in the interest of time  
24 and the interest of economy we will just take the Postal  
25 Service's study as a starting point. We will figure out

1 what we think our best estimate of Year 2000 costs are, and  
2 then we will recommend a coverage.

3 It could be that in some future docket somebody  
4 would say, well, I won't take their estimate as a starting  
5 point, I will actually go look at it.

6 Q Right, and that is the legal point that I really  
7 don't want to discuss with you. People have that right. I  
8 agree with you, and I don't mean to suggest that they don't.

9 What I am asking is in your opinion, having looked  
10 at the cost study and coming here in this proceeding and  
11 telling the Commission it's an adequate starting point, what  
12 would change your opinion about that in a different  
13 proceeding -- your own opinion, not that someone else  
14 couldn't come in and look at it.

15 A Well, I believe that it's an adequate starting  
16 point because it is too high, and my clients and I are  
17 willing to start with a cost study that we believe is either  
18 the right amount or too high, but that, you know, we are  
19 willing to give that away for the purpose of this case, but  
20 we do believe that it is either the right amount or too  
21 high, and we are willing to accept the fact that it is too  
22 high.

23 Now if anybody is going to get hurt by the fact  
24 that it is too high it's us, because the coverage will be  
25 applied to a number that we arguably think is too high, but

1 we are willing to accept that for this case.

2 Q Earlier you were discussing with the OCA your  
3 answer to their Question 5. You indicated in that answer  
4 that BPRS mailers had no realistic economic alternative for  
5 the outbound Standard A mail that they send.

6 I think you told Mr. Richardson that you were not  
7 aware of any other companies that might carry make-up,  
8 books, other merchandise. Is that what you meant to say?

9 A I am not aware of anybody who has a thriving  
10 business delivering this sort of stuff outside of the Postal  
11 Service.

12 Q You are not aware of any company that has a  
13 thriving business delivering merchandise?

14 A Oh, there are people who deliver merchandise, but  
15 I think I was talking about in this price range, these sort  
16 of things.

17 Rumor has it that there are people who deliver  
18 parcels outside of the Postal Service.

19 Q With all kinds of merchandise in it.

20 A With all kinds of merchandise. That is exactly  
21 right.

22 Q And -- all right. Do you know why Cosmetique or  
23 other mailers in Continuity Shippers Association don't use  
24 those alternatives when they send out their parcels?

25 A Yes. I am not going to give any trade secrets

1 away, but if you look at the Cosmetique advertising, the  
2 kits sell for somewhere around \$20 and if you start  
3 FedEx'ing these or sending these via UPS I believe you have  
4 eaten up a whole lot of what might have been a profit  
5 margin.

6 Q I am not talking about express delivery. I am  
7 talking about just the same basic level of service as you  
8 are getting from the Postal Service.

9 A Because the Postal Service's price is better. I  
10 mean, you know, if UPS's price were better I would bet that  
11 Cosmetique would go talk to them.

12 Q Do you know in general if the rates for Standard  
13 Mail A Parcels are compensatory to the Postal Service?

14 That is, is the average revenue per piece greater  
15 than the average cost per piece?

16 A Well, I think we had a long discussion about that  
17 in 97-1.

18 Q And do you know how that came out?

19 A I believe that the Rate Commission believes that  
20 the Standard A parcels were not compensatory.

21 Q Do you believe that the lack of contribution by  
22 those parcels is relevant to determining the appropriate  
23 cost coverage for those parcels on their return journey?

24 A If you put them both together and you are getting  
25 stung a little on the way out and you are making a lot on



1 the way back?

2 Q Yes.

3 A Look --

4 Q Is that yes?

5 A No, what I think what that was was that I don't  
6 believe there's any law that says each rate cell has to be  
7 compensatory.

8 Q I would agree with you.

9 A And, you know, the Commission does -- the Postal  
10 Service proposes rate design. The Rate Commission kind of  
11 gets around to where they accept or propose their own rate  
12 design and that is the way this one came out.

13 Q My question was, and I am not sure how you came  
14 out, is is that fact relevant in setting a BPRS cost  
15 coverage?

16 A I don't believe so.

17 Q We just talked about in your opinion that is not  
18 proper?

19 A I'm not sure what you mean by that balance.

20 Q Taking into account the lack of contribution from  
21 the Standard Mail A Parcels on their outbound journey in  
22 figuring out what the cost coverage should be for BPRS on  
23 the return.

24 A I don't think it's -- I would think about that a  
25 little bit in balancing. I wouldn't think about that an

1 enormous amount.

2 Q Okay, so that's somewhat relevant, is that a fair  
3 characterization of what you just said?

4 A Pricing is the balancing of many different factors  
5 and, yes, it is fine to consider that somewhat in the  
6 balancing. I don't think you could stick your head in the  
7 sand and ignore it totally.

8 Q Would you look at your answer to the Postal  
9 Service's Question 10(a), please?

10 A 10(a)?

11 Q Yes.

12 [Pause.]

13 You see there that the recipient values the  
14 merchandise more on the outbound leg than on the return leg,  
15 since the recipient is obviously doesn't want the  
16 merchandise and is returning it; is that correct?

17 A Yes.

18 Q Now, if we focus on the mail service, instead of  
19 the merchandise, do you believe the recipient values the  
20 return trip less than the outbound trip?

21 A You know, I wouldn't think so, because on the  
22 inbound trip, the recipient is getting, or hopes that he or  
23 she is getting that they want, that they paid money for,  
24 that's good for them.

25 On the way back, it's kind of an afterthought, oh,

1 I didn't want it, it wasn't worth what I thought I was  
2 paying. It's convenience, but I don't think it's as  
3 valuable on the way back as on the way out.

4 Q Wouldn't the customer have a strong interest in  
5 having an easy way of returning unwanted merchandise in  
6 order to make sure that he or she is not billed for it?

7 A Absolutely. I believe there is value to the  
8 customer on the way out; I just don't think it's as high as  
9 on the way in.

10 Q Would you look at your answer to Postal Service  
11 Question 5(1)? It was the first of two questions to be  
12 asked, and you remembered it to distinguish them,  
13 specifically parts (d) and (e), please.

14 A I think I've got it.

15 Q In (d), you said, Cosmetique informs me that its  
16 experience has been that the inclusion of a label with the  
17 outgoing parcel increases the percentage of returns, and  
18 correspondingly decreases the percentage of payments.

19 Then in response to part (e), you said that a BPRS  
20 mailer, not Cosmetique, informs me that it chooses to  
21 include a return label with its outgoing parcels because, in  
22 their opinion, it enhances customer service by making it  
23 easier for the customer to return the item.

24 Would it be a fair conclusion from those two  
25 statements that Cosmetique has made a business decision that

1 discouraging returns is more important to them than  
2 enhancing customer service by making returns easy?

3 A I think businesses think about a whole variety of  
4 things. It's clear that Cosmetique values the reduction of  
5 the return rate more than the other company did.

6 But I'm not sure that I could agree with what you  
7 said.

8 Q In response to your answer -- I'm sorry -- in  
9 response to OCA's question 14(b) -- if you have that.

10 A Hold on just a second.

11 [Pause.]

12 Got it.

13 Q You indicate there that there has not been a  
14 significant change in Cosmetique's statistics regarding the  
15 percentage of opened parcels returned, opened and unopened;  
16 that the ratio of those two was similar before BPRS, after  
17 BPRS, and after the recent BPRS enhancement; is that right?

18 A That's correct.

19 Q Is a possible explanation for this that the Postal  
20 Service was returning opened parcels to Cosmetique all  
21 along?

22 A Yes, they have been.

23 Q And would you therefore agree that the creation  
24 and the enhancement of BPRS merely regularized the already-  
25 existing but not specifically authorized situation?

1 A Yes.

2 Q Do you know what motivation the Postal Service  
3 might have had for returning open parcels before there was a  
4 specific authorization for it?

5 A I believe that I have heard that the Postal  
6 Service also wants to make the system work right, and that  
7 if they don't return them, they get lots of phone calls.

8 Q But when you say the system worked right, what  
9 specific steps or actions are you talking about?

10 A I think it's probably in the interest of the  
11 Postal Service to get them back to Cosmetique to avoid phone  
12 calls to them as to why things didn't happen.

13 Q I'm sorry, phone calls from whom to whom?

14 A From people who redeposited the parcels to their  
15 local Postmaster, saying, you know, I put this thing back,  
16 and nothing has ever happened. How come nothing happened?

17 Q Wasn't there an answer to that that the Postal  
18 Service could have given them?

19 A Yes.

20 Q Which would have been what?

21 A I guess, don't look at us. But sometimes I think  
22 the Postal Service said don't look at us; that isn't our  
23 problem.

24 Q Don't look at us, or is it that if you want to  
25 return something you've opened, you need to pay postage to

1 return it?

2 A Yes, they might have said that, which most people  
3 would hear as don't look at us, but, yes, they might have  
4 said that, to tell them exactly what they were supposed to  
5 do.

6 Q I don't know if that's don't look at us, so much  
7 as come and see us and pay us, but --

8 Would Cosmetique also have had a strong interest  
9 in having opened parcels returned to them at that time as  
10 well?

11 A Yes.

12 Q And could there have been phone calls from  
13 Cosmetique to the Postal Service as well?

14 A [No audible response.]

15 Q Was that an "I don't know"?

16 A That was an "I don't know."

17 Q Do the Postal Service's actions in this regard say  
18 anything to you about the value of the service, the fact  
19 that even before it was specifically authorized, the Postal  
20 Service thought this was a good idea, and went out on a limb  
21 for Cosmetique and others?

22 A I have never said that there was no value of  
23 service here. Again, let me be perfectly clear:

24 I think that this is a valuable service. The  
25 issue is how valuable and what should the price be?

1           So, sure, I think the Postal Service has also  
2 found this a valuable service, and --

3           Q     And wouldn't you say a relatively highly valuable  
4 service, to engage in all of those activities for 70 years?

5           A     I don't think I'd say a highly valuable service.  
6 I think we'll just leave it at valuable service.

7           Q     I said, relatively. Are we going to agree on  
8 that, perhaps?

9           A     I don't really know what you mean by relatively  
10 highly valuable, and --

11          Q     Well you're the cost coverage expert, so tell me  
12 what you mean by it?

13          A     I think it's about as valuable as Standard A;  
14 that's about what I think.

15          Q     Which I would say is traditionally not regarded as  
16 highly valuable. So you don't regard BPRS as highly  
17 valuable?

18          A     I'd hate to say that on behalf of Standard A  
19 people. I believe that, again, the whole cost coverage  
20 issue is a balancing. It's a looking at one factor, looking  
21 at another factor.

22                 Look, the elasticity of demand for all Postal  
23 products shows that they're valuable, okay? And nobody  
24 should sit up here ever and say that none of them are  
25 valuable.

1           The issue is, how valuable with respect to each  
2 other they are, and how you balance everything to determine  
3 what the coverages are. They're all valuable.

4           Q     The optimal exercise is to balance them  
5 altogether.

6           A     That's the optimal way of doing it.  
7 Unfortunately, that's not the way we're doing it here.

8           Q     That's not the way that you're recommending that  
9 it be done here.

10          MR. REITER: Thank you, that's all I have.

11          CHAIRMAN GLEIMAN: Is there any followup?

12          MR. RICHARDSON: I have a couple of questions.

13                         FURTHER CROSS EXAMINATION

14          BY MR. RICHARDSON:

15          Q     Mr. Buc, the Postal Service asked you some  
16 questions about 14(b) of OCA's interrogatories to you. And  
17 in that response, (b), you did not confirm that BPRS removed  
18 business uncertainty, especially the BPRS modification; is  
19 that correct?

20          A     That's correct.

21          Q     But you have also testified that Cosmetique does  
22 not use labels in their packages, pursuant to what is now  
23 permitted, following the BPRS modification?

24          A     That's correct.

25          Q     Wouldn't it be true that if Cosmetique did use



1 labels, that there may be a different percentage of opened  
2 packages, returned to Cosmetique under the BPRS service?

3 A I have no information bearing on it. It could be;  
4 it could be that it wouldn't be. I just don't know.

5 Q To the extent that that would be true, it would,  
6 the modification would relieve the business uncertainty that  
7 you otherwise didn't confirm as to Cosmetique.

8 A It would relieve that aspect of some of it, yes.

9 MR. RICHARDSON: I think that's all I have, Mr.  
10 Presiding Officer.

11 CHAIRMAN GLEIMAN: Are there any questions from  
12 the bench? Commissioner Covington.

13 COMMISSIONER COVINGTON: Good morning, Mr. Buc. I  
14 am Commissioner Covington, and we are pleased to have you  
15 here with us today. As I looked at your autobiographical  
16 sketch, I noticed you have been around. You have been with  
17 USPS, you've been PRC and now you are over in the private  
18 sector like Mr. Reiter was saying, dealing with costs.

19 I looked at the five different cost components  
20 that you used to help compile your direct testimony, that  
21 being collection, mail processing, transportation, delivery,  
22 and postage.

23 I think it was your contention, Mr. Buc, that the  
24 current cost coverage that USPS is using for BPRS is too  
25 high.

1 THE WITNESS: Yes, sir.

2 COMMISSIONER COVINGTON: And I would imagine that  
3 is still your contention here today.

4 I notice when you looked at transportation you  
5 made statements somewhat to the effect that if the roll-  
6 forward that you use, I think you said it would be less if  
7 you had looked a private transportation index as opposed to  
8 a purchased transportation cost. Can you explain to me what  
9 the analogy is in that regard?

10 THE WITNESS: We got these indices from DRI, Data  
11 Resources, and when we looked at -- let me turn to the work  
12 papers -- we used the trucking operations costs simply  
13 because most of this stuff is trucked.

14 Our understanding is that the private  
15 transportation cost index has elements on it, more elements  
16 on it other than trucking. It has more heavy weighting  
17 towards other things.

18 COMMISSIONER COVINGTON: And I think you stated in  
19 there that 90 percent of the transportation is purchased?

20 THE WITNESS: Yes.

21 COMMISSIONER COVINGTON: Okay --

22 THE WITNESS: And is trucked.

23 COMMISSIONER COVINGTON: And is trucked, okay.

24 All right, my second question for you and I think Mr. Reiter  
25 and possibly Mr. Richardson had brought this one up, your

1 association is primarily -- well, primarily consists of  
2 everything from I guess hosiery to books to records to  
3 videotape.

4 At this juncture, are you aware of any new mailers  
5 who may have come up into the BPRS service arena?

6 THE WITNESS: I'm not.

7 COMMISSIONER COVINGTON: And one follow-up  
8 question. In your opinion, do you see BPRS as being an  
9 efficient and/or a least expensive way of returning  
10 something that comes to you by way of Standard A Parcel?

11 THE WITNESS: I think it is the least expensive  
12 way you can get something back. In terms of efficiency,  
13 I'll leave that aside for now unless you really want to push  
14 me.

15 Most regulated monopolies are not known for being  
16 highly efficient providers of services, so it's the cheapest  
17 way you can get something back now and if the Postal Service  
18 looked otherwise, might it operate more efficiently? Yes.

19 COMMISSIONER COVINGTON: Okay, thank you, Mr. Buc.  
20 That's all I have, Mr. Presiding Officer.

21 CHAIRMAN GLEIMAN: You just made reference to the  
22 inefficiencies inherent in regulated monopolies. Are those  
23 same inefficiencies inherent in monopolies that aren't  
24 regulated?

25 THE WITNESS: Absolutely.

1 CHAIRMAN GLEIMAN: Just kind of curious.

2 THE WITNESS: Absolutely -- or similar, right.

3 Monopolies are not known for being efficient  
4 providers.

5 CHAIRMAN GLEIMAN: Thank you. I just wanted to  
6 clarify that -- in my own mind that there wasn't a  
7 distinction between regulated and non-regulated monopolies,  
8 at least from your perspective.

9 Are there any other questions from the bench?

10 [No response.]

11 CHAIRMAN GLEIMAN: If not, did questions from the  
12 bench generate any follow-up?

13 [No response.]

14 CHAIRMAN GLEIMAN: It doesn't appear that there is  
15 any.

16 Mr. Horowitz, that brings us up to redirect.  
17 Would you like a few minutes with your witness before we  
18 start on redirect?

19 MR. HOROWITZ: That's fine, Mr. Presiding Officer.  
20 No redirect.

21 CHAIRMAN GLEIMAN: No redirect? Well, thank you.  
22 We appreciate that.

23 That being the case, Mr. Buc, I want to thank you  
24 for your testimony today. The Commission appreciates your  
25 appearance and your contributions to the record and with

1 that we complete today's hearing, and we will reconvene on  
2 Friday, February the 25th to hear rebuttal testimony, and  
3 this hearing is adjourned. Thank you all.

4 [Whereupon, at 10:37 a.m., the hearing was  
5 concluded.]

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