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DATE

UNITED STATES POSTAL SERVICE

OFFICE OF THE ATTORNEY GENERAL

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DATE: February 21, 1960

PLACE: Washington, D.C.

PAGES: 15

U.S. OFFICE OF POSTAL SERVICE

13 Constitution Avenue, N.W.

Washington, D.C. 20250

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BEFORE THE
POSTAL RATE COMMISSION

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In the Matter of: :
MAILING ONLINE SERVICE : Docket No. MC2000-2
and SHIPPER-PAID FORWARDING :
CLASSIFICATIONS AND FEES :
----- X

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

Volume IV
Thursday, February 24, 2000

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

BEFORE:

- HON. W.H. "TREY" LeBLANC, III, COMMISSIONER,
- PRESIDING OFFICER
- HON. EDWARD J. GLEIMAN, CHAIRMAN
- HON. RUTH GOLDWAY, COMMISSIONER
- HON. DANA COVINGTON, COMMISSIONER

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1 APPEARANCES:

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1 APPEARANCES: [continued]

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C O N T E N T S

WITNESS DIRECT CROSS REDIRECT RECROSS
NONE

RULINGS: PAGE
NONE

DOCUMENTS TRANSCRIBED INTO THE RECORD: PAGE
Designated materials from prior proceedings 516
Designation of Witness Stirewalt's testimony
from prior proceedings 1307

E X H I B I T S

EXHIBITS AND/OR TESTIMONY IDENTIFIED RECEIVED
Designated materials from prior
proceedings 516 516
Designation of Witness Stirewalt's
testimony from prior proceedings 1307 1307

P R O C E E D I N G S

[9:30 a.m.]

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2
3 COMMISSIONER LeBLANC: Good morning, ladies and
4 gentlemen. Today we continue evidentiary hearings in Docket
5 Number MC2000-2 concerning the Postal Service request for
6 establishment of an experimental mail classification and fee
7 schedule for Mailing Online.

8 Today our schedule calls for the receipt of direct
9 cases of participants other than the Postal Service. Only
10 one participant submitted direct evidence, the Office of the
11 Consumer Advocate. However, yesterday the Office of the
12 Consumer Advocate withdrew its evidentiary presentation.
13 For that reason no direct testimony will be received into
14 evidence today.

15 Nevertheless, there are several procedural matters
16 to dispose of. The most pressing involves the completion of
17 the evidentiary record for this docket. A substantial
18 amount of evidence from previous cases, Docket Number MC98-1
19 was designated for inclusion into the evidentiary record of
20 this particular case.

21 The Postal Service, the Office of the Consumer
22 Advocate, Pitney Bowes, and Mail Advertising Service
23 Association, Incorporated all designated materials.

24 The Postal Service only submitted its designations
25 on Tuesday, the 22nd, instead of on Friday, the 18th.

1 Additionally, the Postal Service designations were
2 improperly prepared. The required two copies were not
3 separated into packets and materials were stapled in such a
4 way as to make their incorporation impossible without first
5 separating sheets within the individual documents.

6 The Postal Service accompanied its transmission
7 with a motion for late acceptance.

8 Mr. Hollies, the unsatisfactory condition of the
9 Postal Service designations required the Commission staff to
10 spend approximately 10 additional person-hours to prepare
11 packets for inclusion into the record.

12 I will grant the Postal Service motion for late
13 acceptance, but I want to make it very, very clear at this
14 point that the Commission will not accept such deficient
15 filings in the future. It would be completely impossible to
16 prepare designations in an omnibus rate case if participants
17 did not strictly adhere to the procedures developed over the
18 past 15 years.

19 I have been informed that substantial designations
20 were received in another recent case. Mr. Hollies, could
21 you please take it upon yourself to inform each of the
22 members of the Postal Service team litigating Docket Number
23 R2000-1 -- the designated materials must be properly
24 segregated and identified.

25 The evidence from previous dockets that has been

1 designated for incorporation into evidence in this case can
2 be divided into two portions. The first portion includes
3 designations and counter-designations which are unopposed.
4 This material will be incorporated into the record first.

5 These materials were collected and mailed by the
6 Commission's administrative staff. Copies of this material
7 have been available on the counsel's table this morning.

8 Have all of the counsels here taken the
9 opportunity to make sure that all designated materials have
10 been included?

11 Has anyone not seen it? Let's put it to you that
12 way.

13 MR. HOLLIES: I have not seen it, largely because
14 of the limited time that I had here this morning and the
15 voluminous -- the magnitude of the material. I believe,
16 however, having spoken with representatives of the Admin
17 Office that they are correct, but we could take a moment and
18 verify that, if you would like.

19 COMMISSIONER LeBLANC: Let's do take a moment
20 because we want the record to be as clear as possible.

21 Mr. Reporter, we will go off the record just a
22 moment.

23 [Recess.]

24 COMMISSIONER LeBLANC: Okay, Mr. Reporter, we'll
25 go back on the record. I will reiterate for the record

1 again, that these materials were collected and melded by the
2 Commission's administrative staff.

3 Now, I will ask, since we had such a long break,
4 each counsel to make a statement as to whether or not you
5 have seen the material; that it is correct. State your name
6 and who you represent at the time you do it. I guess we'll
7 start then with Mr. Wiggins.

8 MR. WIGGINS: Frank Wiggins for Pitney Bowes, Mr.
9 Presiding Officer. And the Pitney Bowes designations are in
10 the record.

11 COMMISSIONER LeBLANC: Okay. And we have a new
12 counsel here for MASA.

13 MR. WIGGINS: Yes, Martin Himeles, from Zuckerman,
14 Spaeder, a partner of Mr. Bush's, for MASA.

15 I have reviewed the materials, Mr. Presiding
16 Officer, and they are correct.

17 COMMISSIONER LeBLANC: Thank you. Ms. Dreifuss?

18 MS. DREIFUSS: Shelly Dreifuss for the Office of
19 the Consumer Advocate. I have also reviewed the designated
20 packets, and they appear to be correct.

21 COMMISSIONER LeBLANC: Mr. Hollies?

22 MR. HOLLIES: I reviewed the packet, and I found
23 three classes of matters requiring attention, and they have
24 been attended to.

25 There was a duplicate of page 2301, which was

1 pulled from both sets. Pages 2096 and 2097 were missing.
2 We have procured those from the Docket Section, and have now
3 included them in each set.

4 And for the record, I would like to note that
5 there is a master list put together by the Docket Section of
6 all of the designations.

7 It does not include page 2775, which was, however,
8 designated by MASA, albeit incorrectly the first time.
9 They did amend that error, so we have left that page in the
10 sets, and with that, I believe they are complete.

11 COMMISSIONER LeBLANC: Mr. Wiggins, are you
12 familiar with that, since -- I mean -- excuse me, Mr.
13 Wiggins.

14 MR. HIMELES: That would be me, Mr. Presiding
15 Officer.

16 COMMISSIONER LeBLANC: I understand. I'm sorry,
17 sir, excuse me.

18 MR. HIMELES: That's all right.

19 COMMISSIONER LeBLANC: And have you reviewed that,
20 and is that acceptable to you?

21 MR. HIMELES: Yes, it is. The transcript page was
22 in there, so that was correct, and I concur with Mr.
23 Hollies.

24 COMMISSIONER LeBLANC: Thank you. That being the
25 case, everybody has looked at it and seemingly is in

1 agreement. I will ask Mr. Hollies to provide the Reporter
2 with the copies, and I direct that they be copied into the
3 transcript, and received into evidence at this time.

4 [Designated materials from prior
5 proceedings, in compliance with
6 Presiding Officer Ruling
7 MC2000-2/7, were received in
8 evidence and copied into the
9 record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Mailing Online Service

Docket No. MC2000-2

DESIGNATION OF MATERIALS FROM PRIOR
PROCEEDINGS IN COMPLIANCE WITH
P.O. RULING MC2000-2/7

Mail Advertising Service Association

James F. Callow Tr. 2247-2248; 2253-2255; 2257; 2263; 2285-2289; 2311, line 11 - 2321, line 11; 2326, line 1 - 2336, line 13; 2340, line 9 - 2345, line 19; 2347, line 7 - 2352, line 23; 2361, line 20 - 2367, line 22

Lee Garvey Tr. 143; 159-60; 162; 163; 164-173; 179-188; 198-199; 201-206; 211; 215-16; 224; 236-237; 1509, line 9 - 1513, line 16; 1533, line 24 - 1535, line 1; 1541, line 15 - 1585, line 4; 1596, line 21 - 1599, line 9; 1659, line 2 - 1667, line 19; 1682, line 1 - 1685, line 3; 1699, line 1 - line 24; 1701, line 21 - 1707, line 22; 1714, line 7 - 1718, line 9, 1719, line 25 - 1721, line 7, 1735, line 7 - 1737, line 8, 2834, line 19 - 2839, line 20, 2845, line 6 - line 22, 2855, line 7 - 2858, line 12, 2863, line 6 - 2865, line 2, 2872, line 3 - 2873, line 8, 2905, line 17 - 2929 line 23, 2954, line 2 - 2971, line 8, 3080, line 1 - 3086, line 16

Richard L. Jurgena Tr. 2079 - 2090, 2098, 2099

Chong Bum Lim Tr. 1924 - 1929, 2003, line 25 - 2007, line 25, 2008, line 21 - 2010 line 19, 2014, line 14 - line 20,

Michael K. Plunkett Tr. 1776 - 1782; 1787 - 1788; 1790; 1794 - 1800, line 18; 1803 - 1813, line 11; 1814, line 20 - 1816, line 16; 1819, line 22 - 1821, line 1; 1822, line 11 - 1823, line 11; 1826, line 23 - 1831, line 9

Roger C. Prescott Tr. 2103 - 2142, 2152

Beth B. Rothschild Tr. 872, 1284, line 15 - 1302 line 8; 1314, line 1 - line 15; 1321, line 16 - 1325, line 3

Docket No. MC2000-2

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C. Scott Schuh Tr. 2050 - 2066; 2071; 2073; 2074; 2075; 2076

William M. Takis Tr. 2757, line 10 - 2769, line 18; 2774, line 2 - 2775, line 16; 2778, line 19 - 2782, line 19; 2784, line 16 - 2787, line 23

Office of the Consumer Advocate

James F. Callow Tr. 10/2200-2238; 2249; 2252; 2259; 2261; 2265-83; 2284; 2290-91; 2293-94; 2297; 2300, lines 8-25, 2301; lines 1-20; Tr. 10A/2522-23

Lee Garvey Tr. 2/158; 189-90; 250-51; Tr. 6/1349-51; 1359-60; 1384-85; 1400; 1599, lines 13-25; 1600, lines 1-25; 1601, lines 1-12; Tr. 12/2823, lines 12-22

Chong Bum Lim Tr. 10A/2566-68; 2569; 2570-72; 2581-84; 2591-92; 2602; 2610

Michael K. Plunkett Tr. 2/572; 617; Tr. 5/1102-04; 1136-37; Tr. 8/1770-71; 1773-75

Pitney Bowes Inc.

Patrick Brand Tr. 4/816-25

Lee Garvey Tr. 6/1429-31; 1541-1583; Tr. 7/1714-1718

United States Postal Service

James F. Callow Tr. 10/2301-2391; 2244-97

Lee Garvey Tr. 2/218; Tr. 6/1596-1599, line 24; Tr. 7/1719-25

Richard L. Jurgena Tr. 9/2094, 2096-97

Chong Bum Lim Tr. 10A/2542

Michael K. Plunkett Tr. 2/617-622; Tr. 5/1122-1131; Tr. 8/1776-1831

Roger C. Prescott Tr. 9/2146-77

C. Scott Schuh Tr. 9/2050-76

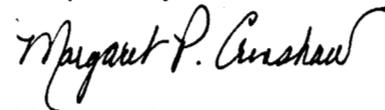
Docket No. MC2000-2

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William M. Takis Tr. 11/2667, line 17-2709, line 22; 2714, line 7-2720, line 14; 2732, line 9-2733, line 1; 2743, line 6-2748, line 11; 2753, line 11-2754, line 14; 2772, line 8-2773, line 14; 2774, line 14-2775, line 1; 2778, lines 5-18

Beth B. Rothschild Tr. 6/1309-1325

Respectfully submitted,



Margaret P. Crenshaw
Secretary

DESIGNATIONS OF MATERIALS FROM
PRIOR PROCEEDINGS FILED IN
COMPLIANCE WITH RULING MC2000-2/7

Witness	Vol.	Page	Line	Page	Line	Designating Party	
Garvey	2	143				MASA	
		158				OCA	
		159			160		MASA
		162					MASA
		163					MASA
		164			173		MASA
		179			188		MASA
		189			190		OCA
		198			199		MASA
		201			206		MASA
		211					MASA
		215			216		MASA
		218					USPS
		224					MASA
		236			237		MASA
250			251		OCA		
Plunkett	2	572				OCA	
		617				OCA, USPS	
		618			622		USPS
Brand	4	816		825		Pitney Bowes	
Rothschild	4	872				MASA	
Plunkett	5	1102		1104		OCA	
Plunkett		1122		1131		USPS	
Plunkett		1136		1137		OCA	
Rothschild	6	1284	15	1302	8	MASA	
Rothschild		1309		1325		USPS	
Rothschild		1314	1	1314	15	MASA	
Rothschild		1321	16	1325	3	MASA	
Garvey	6	1349		1351		OCA	
		1359		1360		OCA	
		1384		1385		OCA	
		1400				OCA	
		1429			1431		Pitney Bowes
		1509		9	1513	16	MASA

Witness	Vol.	Page	Line	Page	Line	Designating Party
		1533	24	1535	1	MASA
		1541		1583		Pitney Bowes, MASA
		1584		1585		MASA
		1596		1599	24	MASA, USPS
		1599	13	1601	12	OCA
	7	1659	2	1667	19	MASA
		1682	1	1685	3	MASA
		1699	1	1699	24	MASA
		1701	21	1707	22	MASA
		1714		1718		MASA, Pitney Bowes
		1719		1725		USPS
		1719	26	1721	7	MASA
		1735	7	1737	8	MASA
Plunkett	8	1770		1771		OCA
		1773		1775		OCA
		1776		1831		USPS
		1776		1782		MASA
		1787		1788		MASA
		1790				MASA
		1794		1800	18	MASA
		1803		1813	11	MASA
		1814	20	1816	16	MASA
		1819	22	1821	1	MASA
		1822	11	1823	11	MASA
		1826	23	1831	9	MASA
Lim	8	1924		1929		MASA
		2003	25	2007	25	MASA
		2008	21	2010	19	MASA
		2014	14	2014	20	MASA
Schuh	9	2050		2076		USPS
		2050		2066		MASA, USPS
		2067		2070		USPS
		2071				MASA, USPS
		2072				USPS
		2073		2076		MASA, USPS
Jurgena	9	2079		2090		MASA
		2094				USPS
		2096		2097		USPS
		2098				MASA
		2099				MASA
Prescott	9	2103		2142		MASA

Witness	Vol.	Page	Line	Page	Line	Designating Party
		2146		2151		USPS
		2152				MASA, USPS
		2153		2177		USPS
Callow	10	2200		2238		OCA
		2244		2297		USPS
		2247		2248		MASA, USPS
		2249				OCA, USPS
		2249		2251		USPS
		2252				OCA, USPS
		2253		2255		MASA, USPS
		2254				USPS
		2257				MASA, USPS
		2258				USPS
		2259				OCA, USPS
		2260				USPS
		2261				OCA, USPS
		2262				USPS
		2263				MASA, USPS
		2264				
		2265		2283		OCA, USPS
		2284				OCA, USPS
		2285		2289		MASA, USPS
		2290		2291		OCA, USPS
		2292				USPS
		2293		2294		OCA, USPS
		2297				OCA, USPS
		2300	8	2301	20	OCA
		2301		2391		USPS
		2311	11	2321	11	MASA
		2326	1	2336	13	MASA
		2340	9	2345	19	MASA
		2347	7	2352	23	MASA
		2361	20	2367	22	MASA
Garvey	10A	2522		2523		OCA
Lim	10A	2542				USPS
USPS	10A	2566		2568		OCA
USPS	10A	2569				OCA
USPS	10A	2570		2572		OCA
USPS	10A	2581		2584		OCA
USPS	10A	2591		2592		OCA
USPS	10A	2602				OCA
USPS	10A	2610				OCA

Witness	Vol.	Page	Line	Page	Line	Designating Party
Takis	11	2667	17	2709	22	USPS
		2714	7	2720	14	USPS
		2732	9	2733	1	USPS
		2743	6	2748	11	USPS
		2753	11	2754	14	USPS
		2757	10	2769	18	MASA
		2772	8	2773	14	USPS
		2774	14	2775	1	USPS
		2774	2	2774	16	MASA
		2778	5	2778	18	USPS
		2778	19	2782	19	MASA
		2784	16	2787	23	MASA
		Garvey	12	2823	12	2823
2834	19			2839	20	MASA
2845	6			2845	22	MASA
2855	7			2858	12	MASA
2863	6			2865	2	MASA
2872	3			2873	8	MASA
2905	17			2929	23	MASA
2954	2			2971	8	MASA
3080	1			3086	16	MASA

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO INTERROGATORIES OF MASA

MASA/USPS-T1-3. Describe all consideration given by the Postal Service to the question whether any volume of MOL mail will be diverted from other sources of mail. Include in your answer the identification of any study bearing on this question, and produce any report of any consideration bearing on this question.

RESPONSE:

As described in my testimony at page 13, consideration has been given by the Postal Service to the question of diversion. To my knowledge, no studies or reports exist. It is also worth noting that diversion (in the context of this question) frequently occurs due to factors outside of the control of the Postal Service. For instance, businesses are frequently evaluating their printers and letter shops to determine which are appropriate for their needs. Also commercial ventures are constantly starting up and some move on to other areas of opportunities and some go "out of business". This is not to say that the subject of diversion should not be considered. In fact the Postal Service is concerned only that any discussion of "diversion" should be placed in the context of the normal dynamics of commercial enterprise.

RESPONSE OF POSTAL SERVICE WITNESS GARVEY TO
INTERROGATORIES OF THE MAIL ADVERTISING SERVICE ASSOCIATION,
REDIRECTED FROM WITNESS PLUNKETT

MASA/USPS-T5-10 You state at page 15 of your testimony that "Postal Service software used for Mailing Online will ensure that all Mailing Online volume is sorted in conformity with the most current sort plans available, and with the greatest possible depth."

- (a) Describe in detail what this testimony refers to.
- (b) Confirm that MOL mail will achieve sortation levels and depth beyond that required for the automation rates paid by the customer.
- (c) Confirm that MOL mail will achieve greater sortation and depth on average than automation mail presented directly to the Postal Service by mailers using the First Class and Standard Mail Automation categories available to MOL users.

RESPONSE:

- (a) As described in my answer to OCA/USPS-T1-17, approved commercial presort software is an integral part of the Mailing Online system. Planned regular updates will keep this presort module current with the most recent sort plans available. The software is used to sort batches to the greatest possible depth before transmittal to the print sites.
- (b) Unable to confirm. However, if Mailing Online succeeds in attracting the numbers of users we seek, we predict that large volumes of locally destinating mail will flow through the MOL system and allow high densities and levels of sort beyond those required for the requested basic automation rate. We will test this hypothesis during the market test and experimental service periods.
- (c) Unable to confirm. See my answer to 10 (b) above.

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

OCA/USPS-T1-1. Please refer to your testimony at page 9, lines 1-2, concerning Mailing Online volume. Please confirm that customers of the Mailing Online service will not be required to specify a minimum volume to be printed and inducted into the mailstream in order to utilize the Mailing Online service. If you do not confirm, please explain.

RESPONSE:

Confirmed

MC98-1

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

OCA/USPS-T1-2. Please refer to your testimony at page 2, lines 9-12, concerning commercial print sites. Please confirm that each commercial print site for the Mailing Online service will pay the \$100 First-Class Presorted Mailing fee and the Standard Mail Bulk Mailing fee. If you do not confirm, please explain.

RESPONSE:

Neither the First-Class Presorted Mailing fee nor the Standard Mail Bulk Mailing fee will be paid by the commercial print sites since the permits on which the mailings are submitted are held by Postal Service.

MC98-1

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

OCA/USPS-T1-4. Please refer to your testimony at page 2, lines 9-12, concerning commercial print sites.

- a. Please confirm that the Postal Service intends to issue 25 separate solicitations for bids for the 25 commercial print sites expected to be in operation during 2001. If you do not confirm, please explain.
- b. Please confirm that more than one of the 25 commercial print sites expected to be in operation during 2001 could be owned and operated by the same commercial printer. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. This is possible if the same commercial printer separately bids on and is awarded more than one competitive solicitation.

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

OCA/USPS-T1-5. Please refer to your testimony at page 2, lines 9-12, concerning commercial print sites.

- a. Please confirm that, as demand grows, there will be more than one commercial printer within the geographic area of some commercial print sites. If you do not confirm, please explain.
- b. If there is more than one commercial printer within a geographic area of a commercial print site, will the rates vary depending upon which commercial printer is assigned the customer's documents?
- c. If there is more than one commercial printer within a geographic area of a commercial print site, please explain how the Postal Service will choose to assign the printing of a customer's document to one of the commercial printers.

RESPONSE:

- a. Our intent in estimating 25 sites is to ensure adequate geographic coverage within the continental United States with reasonable service expectations regardless of volume. Volume estimates provided to vendors with the RFP currently presume that a single printer will receive all volume for a given area. Actual demand distribution cannot be gauged accurately without experience and it may be necessary to adjust expansion plans to divide a specific geographic area among more than one commercial printer.
- b. Yes, our proposal is for Mailing Online fees to be based on actual contract prices of specific printers. Rates for postage, of course, would not vary.
- c. Routing is currently based on ZIP Code ranges. New printer locations within a geographic area would be assigned distinct ZIP Code ranges within that area. Document assignment would be based on destination ZIP Code.

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

OCA/USPS-T1-6. Please refer to Appendix A, page 2, where data collection is described. Does the Postal Service plan to collect information on any of the following:

- a. the frequency and duration of technical support calls from customers or printers;
- b. the frequency of equipment and transmission repairs;
- c. time spent educating USPS Mailing Online customers about the new service or;
- d. time spent instructing USPS Mailing Online customers in how to use the new service.

RESPONSE:

- a. c-d. For the experimental Mailing Online service (MOL) all customer support, education and training are to be handled through the PostOffice Online Help Desk, a contracted telephone support center. An automated call tracking system is planned to capture data on all calls, including frequency, duration and cause. MOL specific data will be collected from this system.
- b. Technical support activities for the MOL system will be logged at the data center to track equipment and network outages.

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

OCA/USPS-T1-7. Please refer to your testimony at page 2, lines 9-12, concerning commercial print sites.

- a. Please confirm that each commercial printer awarded one of the expected 25 printing contracts will perform and provide the same printing services as every other commercial printer awarded a printing contract. If you do not confirm, please explain.
- b. Please confirm that the printing contracts awarded for each of the expected 25 commercial print sites will be identical, except for the total price of the contract. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. It is our intent to have each contract as identical as possible and we have worked hard to identify any changes before awarding the first one. We realize however that changes may arise due to unforeseen circumstances and are prepared to be flexible to the extent necessary.

MC98-1

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

OCA/USPS-T1-8. Please refer to your testimony at page 1, lines 13-15.

- a. Please confirm that the Postal Service, via its proposed Mailing Online service, will serve as an intermediary to certain firms in the commercial printing industry, gathering printing jobs from small-volume customers. If you do not confirm, please explain.
- b. Please confirm that commercial printers possessing sophisticated digital printing technology have the capability to receive documents and data in digital form via the internet for printing, independent of the Postal Service's proposed Mailing Online service. If you do not confirm, please explain.
- c. Please confirm that commercial printers awarded one of the 25 expected commercial printing contracts will print, presort and enter the Mailing Online mail matter in the same manner as customers who do not utilize Mailing Online service. If you do not confirm, please explain.

RESPONSE:

- a. As stated in my testimony at page 2, lines 4-9, documents submitted by Mailing Online customers will be processed at a control center and the print files created as a result will be distributed to commercial print sites.
- b. It is my understanding that such commercial printers generally have the technical capability to receive documents and data in digital form via the internet.
- c. I am only able to confirm that commercial printers entering Mailing Online mailings will be required to abide by preparation and entry requirements -- as stated in USPS-LR-5/MC98-1.

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

OCA/USPS-T1-9. Please refer to your testimony at page 2, lines 12-15. Please explain the phrase "system-sorted batch mailings."

RESPONSE:

As explained in my testimony at page 10, lines 16-18, batch address files are presorted by the system to the maximum depth of sort prior to transmission; this presorted address file constitutes a "system-sorted batch mailing."

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

OCA/USPS-T1-10. Please refer to your testimony at page 5, lines 14-17, where it states that the "printing and production charges [were] covered by the Postal Service as part of the developmental costs." [footnote omitted]

- a. At any time during the operational test period, did the Postal Service cover the printing and production charges by performing the printing and production at one or more Postal Service facilities? Please explain.
- b. If, during the operational test period, the Postal Service contracted with any commercial printers for printing and production services, please provide:
 - i. the name of the commercial printer(s);
 - ii. the location of the commercial printer(s), and;
 - iii. the number of employees of each commercial printer.
- c. Please provide a copy of the contracts referred to in part (b) of this interrogatory.
- d. Since the commencement of the operational test period, on how many days have Mailing Online pieces been transmitted electronically to the postal facility or commercial printer(s) referred to in parts (a) and (b) of this interrogatory? On how many days have there been no transmissions?
- e. Please provide a frequency distribution showing the number of days on which 0, 1, 2, etc., electronic transmissions of Mailing Online pieces have been made to the postal facility or commercial printer(s) referred to in parts (a) and (b) of this interrogatory since the commencement of the operational test period.
- f. Please provide a tabulation showing the volume of Mailing Online pieces broken down by number of transmissions per day. In other words, the tabulation should show the total volume of Mailing Online received at the postal facility or commercial printer(s) referred to in parts (a) and (b) of this interrogatory on days when 1, 2, 3, etc., transmissions were made.

RESPONSE:

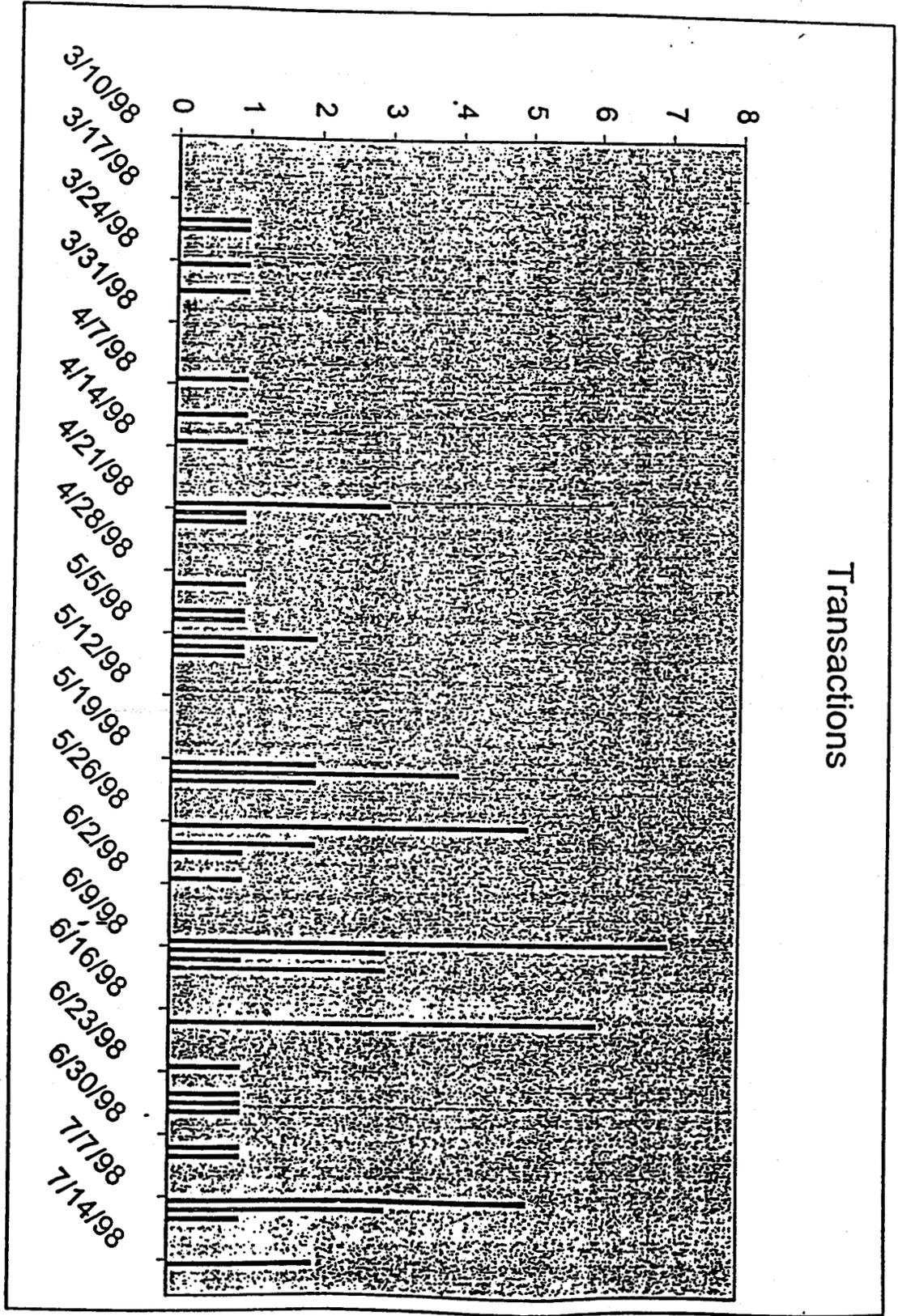
- a. No, printing and production was always performed at commercial printing facilities.
- b.
 - i. Xerox Business Services (XBS) is the commercial printer for the operational test period, through a sub-contracting arrangement with Tracor (formerly Cordant).
 - ii. The XBS facility is located in Farmer's Branch, Texas.
 - iii. I have no knowledge of the number of employees of XBS.

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

- c. A copy of the postal contract to which the provision of printing services was sub-contracted to XBS is being filed as USPS-LR-7/MC98-1.
- d-f. See Exhibit 1 to Response to OCA/USPS-T1-10, attached.

MC98-1

EXHIBIT 1 TO RESPONSE TO OCA/USPS-TI-10



Transactions

11

11

EXHIBIT 1 TO RESPONSE TO OCA/USPS-T1-10

Date	Transactions	Mail Pieces
3/10/98	0	0
3/11/98	0	0
3/12/98	0	0
3/13/98	0	0
3/14/98	0	0
3/15/98	0	0
3/16/98	0	0
3/17/98	0	0
3/18/98	0	0
3/19/98	1	9
3/20/98	1	1660
3/21/98	0	0
3/22/98	0	0
3/23/98	0	0
3/24/98	1	10
3/25/98	0	0
3/26/98	0	0
3/27/98	1	2
3/28/98	0	0
3/29/98	0	0
3/30/98	0	0
3/31/98	0	0
4/1/98	0	0
4/2/98	0	0
4/3/98	0	0
4/4/98	0	0
4/5/98	0	0
4/6/98	1	119
4/7/98	0	0
4/8/98	0	0
4/9/98	0	0
4/10/98	1	535
4/11/98	0	0
4/12/98	0	0
4/13/98	1	1831
4/14/98	0	0
4/15/98	0	0
4/16/98	0	0
4/17/98	0	0
4/18/98	0	0
4/19/98	0	0
4/20/98	3	5901
4/21/98	1	89
4/22/98	1	531
4/23/98	0	0
4/24/98	0	0
4/25/98	0	0
4/26/98	0	0

EXHIBIT 1 TO RESPONSE TO OCA/USPS-T1-10

Date	Transactions	Mail Pieces
4/27/98	0	0
4/28/98	0	0
4/29/98	1	509
4/30/98	0	0
5/1/98	0	0
5/2/98	1	94
5/3/98	1	65
5/4/98	0	0
5/5/98	2	5
5/6/98	1	31
5/7/98	1	27
5/8/98	0	0
5/9/98	0	0
5/10/98	0	0
5/11/98	0	0
5/12/98	0	0
5/13/98	0	0
5/14/98	0	0
5/15/98	0	0
5/16/98	0	0
5/17/98	0	0
5/18/98	0	0
5/19/98	2	2487
5/20/98	4	1577
5/21/98	2	14
5/22/98	0	0
5/23/98	0	0
5/24/98	0	0
5/25/98	0	0
5/26/98	5	1823
5/27/98	0	0
5/28/98	2	158
5/29/98	1	68
5/30/98	0	0
5/31/98	0	0
6/1/98	1	1272
6/2/98	0	0
6/3/98	0	0
6/4/98	0	0
6/5/98	0	0
6/6/98	0	0
6/7/98	0	0
6/8/98	7	592
6/9/98	3	9
6/10/98	1	696
6/11/98	3	189
6/12/98	0	0
6/13/98	0	0

EXHIBIT 1 TO RESPONSE TO OCA/USPS-T1-10

Date	Transactions	Mail Pieces
6/14/98	0	0
6/15/98	0	0
6/16/98	0	0
6/17/98	6	478
6/18/98	0	0
6/19/98	0	0
6/20/98	0	0
6/21/98	0	0
6/22/98	1	3
6/23/98	0	0
6/24/98	0	0
6/25/98	1	1509
6/26/98	1	3
6/27/98	1	1293
6/28/98	0	0
6/29/98	0	0
6/30/98	0	0
7/1/98	1	937
7/2/98	1	1142
7/3/98	0	0
7/4/98	0	0
7/5/98	0	0
7/6/98	0	0
7/7/98	5	2951
7/8/98	3	4760
7/9/98	1	2178
7/10/98	0	0
7/11/98	0	0
7/12/98	0	0
7/13/98	0	0
7/14/98	2	1702
7/15/98	0	0
7/16/98	0	0
7/17/98	0	0

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

OCA/USPS-T1-15. Please refer to your testimony at page 10, lines 15-18.

- a. Please explain the phrase "like printing and finishing options."
- b. Please explain the phrase "batch address file."
- c. Please confirm that two types of files will be transmitted to the commercial printers, 1) a print file containing documents having like printing and finishing options and 2) the batch address file. If you do not confirm, please explain.
- d. Please explain the process by which commercial printers will utilize the batch address file so that Mailing Online mail pieces will be "presorted to the maximum depth of sort."

RESPONSE:

- a. The Mailing Online "electronic job ticket" printing and finishing specifications (see my testimony at page 10, lines 6-8) are the determinants of "like printing and finishing options" for merging and batching.
- b. A "batch address file" is the address file component of the two parts necessary for a printer to produce mailpieces, i.e. documents and addresses. It contains information matching addresses to document files (for subsequent routing and delivery of printed documents) and batch identification information to allow the accurate batching of documents.
- c. Two types of files are transmitted: 1) individual document files, and 2) batch address files.
- d. Since all sortation occurs at the system level, prior to transmission to the printer, each batch address file is fully presorted upon its receipt by the printer.

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

OCA/USPS-T1-16. Please refer to your testimony at page 10, lines 18-21.
Please confirm that one finishing option for Mailing Online customers is mail
pieces without envelopes. If you do not confirm, please explain.

RESPONSE:

Confirmed. A self-mailer option is expected to be introduced for the experimental
period, but will not be available during the market test.

MC98-1

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

OCA/USPS-T5-17 [sic]. Please refer to Exhibit USPS 1A, "Mailing Online Process Diagram." One of the boxes in that diagram is entitled "Mailing Online System Merge and Batch."

- a. One of the tasks under Merge and Batch is "Batches mailpieces with similar job characteristics." During the operations test, what is the maximum number of possible categories of batches? I.e., How many *different* categories of "job characteristics" are there? How is each category defined in the System software? Please provide a copy of the lines of code that perform this task.
- b. Please provide the following volume information from the operations test. Separately for each possible category of "job characteristics," provide (i) total volume to date, (ii) maximum batch volume to date, (iii) minimum batch volume to date, (iv) average volume per batch to date.
- c. One of the tasks under Merge and Batch is "Batches mailpieces by delivery destination." Please define "delivery destination." If this does not mean "entry facility," please explain. During the operations test, what is the maximum number of possible delivery destinations? How is each possible delivery destination defined in the System software? Please provide a copy of the lines of code that perform this task.
- d. Please provide the following volume information from the operations test. Separately for each possible "delivery destination," provide (i) total volume to date, (ii) maximum batch volume to date, (iii) minimum batch volume to date, (iv) average volume per batch to date.
- e. One of the tasks under Merge and Batch is "Presorts batches to finest level." During the operations test, is there a minimum size presort batch, e.g., one full tray? Does "finest level" mean presorting to the same depth as would the entry facility prior to dispatch? Does "finest level" mean presorting to the same depth as would a presort mailer depositing First-Class Mail at the entry facility? Please explain.
- f. During the operations test, did the System software use more than one sort scheme to "Presort[] batches to finest level"? E.g., did sort schemes vary by day of the week, day of the month, or season of the year? During the operations test, did the entry facility in Texas use more than one outgoing sort scheme? E.g., did sort schemes vary by day of the week, day of the month, or season of the year? Please explain how the sort scheme(s) used by the System software were matched or otherwise coordinated with the sort scheme(s) used at the entry facility in Texas.
- g. One of the tasks under Merge and Batch is "Transfers data files to print site servers." During the operations test, is there a cutoff time prior to which this task must be completed each day? If not, why not? If so, how is this cutoff time determined? If so, please provide a copy of the lines of code in the System software that enforce this cutoff time.

RESPONSE:

MC98-1

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

- a. A precise answer to this question is difficult. I have calculated that during the operations test, for regular mail-merge mailing with on-line proofing, there are 75 possible categories of batches within each possible page count combination. The system software defines batches based upon page count, paper size, bindery options, plex options, spot color options and proofing options. Also, non-merge jobs are currently defined as separate batches, as are fax-back and mail-back proofing requests.

The code that determines the batch for a specified job, plus the delivery destinations based on the addressee ZIP Codes is reproduced below.

```
MainMenu.Label1.Caption = "Opening Job Template" DoEvents
```

```
Erase sData
```

```
iCnt = 0: QjobDoc = 0: QjobMail = 0
```

```
iFileNum = FreeFile
```

```
Open cJobInDir & sTextFile For Input As iFileNum Do While Not EOF(iFileNum)
```

```
iCnt = iCnt + 1
```

```
Input #iFileNum, sData(iCnt)
```

```
Loop
```

```
Close iFileNum
```

```
*****
Determine the eligible print sites for the job based on whether or not the
job is spot color or B&W
*****
```

```
qStr = "color_zip_lo >= 000 "
```

```
If sData(7) = "CLRD" Then
```

```
sData(7) = "None"
```

```
qStr = "black_zip_lo >= 000 "
```

```
End If
```

```
gblSiteCnt = 0
```

```
Erase gblBatches
```

```
Set RdoJob = rdoNetPost.OpenResultset("SELECT *FROM print_site",  
rdOpenDynamic, rdConcurRowVer)
```

```
RdoJob.MoveFirst
```

```
Do While Not RdoJob.EOF
```

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

```

gblSiteCnt = gblSiteCnt + 1
gblBatches(gblSiteCnt, 3) = RdoJob("print_site_code") &
Format$("000000")
gblBatches(gblSiteCnt, 4) = 0
gblBatches(gblSiteCnt, 5) = 0
gblBatches(gblSiteCnt, 6) = RdoJob("print_site") gblBatches(gblSiteCnt, 7) =
RdoJob("user_id") gblBatches(gblSiteCnt, 8) = RdoJob("password")
RdoJob.MoveNext
Loop
RdoJob.Close

```

```

*****
Determine the zip code (destination) ranges for each eligible print site
*****

```

```

For siteLoop = 1 To gblSiteCnt
Set RdoJob = rdoNetPost.OpenResultset("SELECT * FROM print_site_zips
WHERE print_site_code = " & Left$(gblBatches(siteLoop, 3), 2) & "",
rdOpenDynamic, rdConcurRowVer)
RdoJob.MoveFirst
zCntr = 0
Do While Not RdoJob.EOF
zCntr = zCntr + 1
If sData(7) = "None" Then
gblBZips(siteLoop, zCntr, 1) = RdoJob("black_zip_lo") gblBZips(siteLoop, zCntr,
2) = RdoJob("black_zip_hi")
Else
gblBZips(siteLoop, zCntr, 1) = RdoJob("color_zip_lo") gblBZips(siteLoop, zCntr,
2) = RdoJob("color_zip_hi")
End If
RdoJob.MoveNext
Loop
gblBZips(siteLoop, 0, 0) = zCntr
Next

```

```

*****
Determine the doc and mail id
*****

```

```

Set RdoJob = rdoNetPost.OpenResultset("select *from job where job_id = " &
Val(JobTemplate), rdOpenDynamic, rdConcurRowVer)

```

```

RdoJob.MoveFirst
QjobDoc = RdoJob("job_doc")
QjobMail = RdoJob("job_mail")
gblProof = RdoJob("Job_Proof")
gblMemID = RdoJob("Job_Emp")
gblTitlMail = RdoJob("Job_Page")

```

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

RdoJob.Close

gblMailMerge = False

Determine the whether the job is merge or non-merge and page count

```
Set RdoJob = rdoNetPost.OpenResultset("select *from doc where doc_id = " &  
QjobDoc, rdOpenDynamic, rdConcurRowVer)  
RdoJob.MoveFirst  
QfileDoc = RdoJob("Doc_Name")  
gblJobApp = RdoJob("Doc_App")  
ImpCnt = RdoJob("Doc_Page")  
gblDocPgCnt = RdoJob("Doc_Page")  
If UCase$(RdoJob("Doc_Merge")) = "YES" Then  
gblMailMerge = True  
End If  
RdoJob.Close
```

```
If gblDocPgCnt < 2 Then  
gblDocPgCnt = 2  
End If
```

Determine the job plex

If UCase\$(Mid\$(sData(6), 1, 3)) <> "ONE" Then
ImpCnt = CInt(ImpCnt / 2)
End If

Set envelope size based on the page size and page count

'Set envelope size based on the page size and page count sData(12) =
'White#10(9*4)"
If ImpCnt > 5 Then
sData(12) = "White#?(82/4*12)"
Else
If sData(9) = "11*17" Then
If ImpCnt > 2 Then
sData(12) = "White#?(82/4*12)"
End If
End If
End If

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

'If the job is to be sent to recipients on the mail list:
' check plex, mail class, paper size, color, binding, envelope style.
' envelope size, fold type, Merge vs Non-merge and Document page count '
' If the job is a mail merge find all open batches and use the corresponding '
Batch IDs if all characteristics mentioned above are the same
' Else create new Batch IDs for all print sites '
' If the job is a non-merge job
' create new Batch IDs for all print sites '
' If the job is a FAX BACK or MAIL BACK then create a unique set of Batch IDs '
for the job

If UCase\$(gblProof) = "VIEW ONLY" Then
If gblMailMerge Then

xSelStr = "Status = 'O' And MailClass = "" & sData(10) & _
"" And MailSize = "" & sData(6) & _ "" And size = "" & sData(9) & _
"" And color = "" & sData(7) & _
"" And binding = "" & sData(8) & _
"" And env_style = "" & sData(5) & _ "" And env_size = "" & sData(12) & _ "" And
fold = "" & sData(13) & _
"" And DocMerge = "" & gblMailMerge & _ "" And PageCnt = "" & ImpCnt & "" ;"

Set rsJob = dbpomdata.OpenRecordset("Select * From Batch Where " &
xSelStr)

If rsJob.RecordCount > 0 Then
rsJob.MoveFirst
Do While Not rsJob.EOF
For ILoop = 1 To gblSiteCnt
If Mid\$(rsJob("Batch"), 1, 2) = Mid\$(gblBatches(ILoop,
3), 1, 2) Then
gblBatches(ILoop, 3) = rsJob("Batch") gblBatches(ILoop, 5) = 1
ILoop = gblSiteCnt
End If
Next
rsJob.MoveNext
Loop
End If
rsJob.lose

End If
End If

For ILoop = 1 To gblSiteCnt
If Val(Mid\$(gblBatches(ILoop, 3), 3, 6)) = 0 Then
Set rsJob = dbpomdata.OpenRecordset("SELECT Batch From Batch WHERE

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

```

Mid$(Batch,1,2) = "" & Mid$(gblBatches(lLoop, 3), 1, 2) & " ORDER BY Batch ;"
If rsJob.RecordCount > 0 Then
rsJob.MoveLast
gblBatches(lLoop, 3) = Mid$(gblBatches(lLoop, 3), 1, 2) &
Format$(Val(Mid$(rsJob("Batch"), 3, 6)) + 1, "000000")
Else
gblBatches(lLoop, 3) = Mid$(gblBatches(lLoop, 3), 1, 2) &
Format$(1, "000000")
End If
rsJob.Close
End If
Next

```

- *****

- b. To the extent the requested information is available, it appears in USPS-
LR-6/MC98-1.
- c. Address ZIP Codes are used to determine "delivery destination" which
refers to the ranges of ZIP Codes assigned to respective print sites.
Printing contractors will be required to deliver finished mail pieces to
specified mail entry units. During the operations test, one physical print
site receives all batches; however the system distinguishes two virtual
print sites (to test ZIP Code routing) and two separate servers at the
physical print site, each representing a range of ZIP Codes. The code that
accomplishes these tasks is reproduced below.

```

*****
' Determine the zip code (destination) ranges for each eligible print site
*****
For siteLoop = 1 To gblSiteCnt
Set RdoJob = rdoNetPost.OpenResultset("SELECT *FROM print_site_zips
WHERE print_site_code = "" & Left$(gblBatches(siteLoop, 3), 2) & """,
rdOpenDynamic, rdConcurRowVer)
RdoJob.MoveFirst
zCntr = 0

```

MC98-1

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

```
Do While Not RdoJob.EOF
zCntr = zCntr + 1
If sData(7) = "None" Then
gblBZips(siteLoop, zCntr, 1) = RdoJob("black_zip_lo") gblBZips(siteLoop, zCntr,
2) = RdoJob("black_zip_hi")
Else
gblBZips(siteLoop, zCntr, 1) = RdoJob("color_zip_lo") gblBZips(siteLoop, zCntr,
2) = RdoJob("color_zip_hi")
End If
RdoJob.MoveNext
Loop
gblBZips(siteLoop, 0, 0) = zCntr
Next
```

- d. To the extent the requested information is available, it appears in USPS-LR-6/MC98-1.
- e. Each batch is presorted individually regardless of volume. Using a commercial presort software module, each batch is analyzed for presort potential and handled accordingly, with whatever sortation possible being performed to the finest level according to standard Postal Service First-Class Mail classification rules
- f. The same commercial software was used to perform all sorts performed by the system software. I am unaware of more than one sort scheme being used. The mail entered at the Texas facility was not processed there. To simulate multiple print sites close to users' origination points, prepared mailings ("delivery destination" batches) have been drop shipped to the Tampa and Hartford plants. No coordination has been attempted between sort schemes at these facilities and the system sort.
- g. Data file transfers occur at two times:
 - 1. document print files are transferred immediately upon completion of a customer transaction,

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

2. batched address files are transferred at a specified cutoff time each day. Currently this cutoff is 2:00 PM Eastern Time. The pertinent code is reproduced below.

Code to enforce Cutoff Time.

***** ' At midnight every day an ACCESS database is updated to indicate that the daily processes for the day have not been run. There are two daily processes - ' 1 - the daily maintenance program which runs at midnight AND ' 2 - the daily cutoff (1400 EST) which prepares the batches for compilation and distribution ' This code executes if the system time is greater than 1400 and the process has not been previously run (gblNPProc is 0). It runs only once a day.

```
If CompTime >= gblNPTTime Then
If gblNPProc = "0" Then
Set xTmClock = dbpomdata.OpenRecordset("TmClock") xTmClock.MoveFirst
xTmClock.Edit
xTmClock("NPSort Proc") = "1"
xTmClock.Update
xTmClock.Close
```

```
pwDate = Format$(Date, "yyyymm/dd") On Error Resume Next
FileCopy cLogDir & "pw.dat", cLogDir & "pw" & _
Mid$(pwDate, 6, 2) & Mid$(pwDate, 9, 2) & ".dat"
FileCopy cLogDir & "pwe.dat", cLogDir & "pw.dat" On Error GoTo 0
NPVal = Shell("c:\netpost\src\npmain\npmain.EXE", 4) DoEvents
For iLoop = 1 To 500 DoEvents ' Give NP SORT time to start and
' close out all active batches
Next
Unload Me
End
End If
End If
h.
```

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

OCA/USPS-T1-18. Please refer to Exhibit USPS 1A, "Mailing Online Process Diagram." One of the boxes in that diagram is entitled "Job Approval And Payment Authorization." During the operations test, are Mailing Online customers informed prior to job approval when their jobs will be printed, entered into the mailstream, or dispatched from the entry facility? If not, why not? If so, please provide a copy of the lines of code in the System software that perform this task. Does the Postal Service offer any assurance or estimate of the probability that a particular job will be dispatched from the entry facility on the same day the job is approved? If not, why not? If so, what is the basis for this assurance or estimate?

RESPONSE:

Mailing Online customers are informed at the time of job submission, prior to final approval, what the expected mailing date will be for their job. This date is calculated based upon the system daily cutoff time of 2:00 PM ET, the current time, and the day of the week and date of the next postal business day. No information is provided at this time regarding dispatch from the entry facility. This is intended to keep current expectations regarding dispatch of First-Class Mail intact. The pertinent code is reproduced below.

2) Cutoff Time

```
*****
***** ' At midnight every day an ACCESS database is updated to indicate
that the daily processes ' for the day have not been run. There are two daily
processes - ' 1 - the daily maintenance program which runs at midnight AND '
2 - the daily cutoff (1400 EST) which prepares the batches for compilation and '
distribution ' ' This code executes if the system time is greater than 1400 and the
process has not ' been previously run (gbINPProc is 0). It runs only once a day.
```

```
If CompTime >= gbINPTime Then
If gbINPProc = "0" Then
Set xTmClock = dbpomdata.OpenRecordset("TmClock") xTmClock.MoveFirst
xTmClock.Edit
xTmClock("NPSort Proc") = "1"
xTmClock.Update
xTmClock.Close
```

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

```
pwDate = Format$(Date, "yyyymm/dd") On Error Resume Next
FileCopy cLogDir & "pw.dat", cLogDir & "pw" & _
Mid$(pwDate, 6, 2) & Mid$(pwDate, 9, 2) & ".dat"
FileCopy cLogDir & "pwe.dat", cLogDir & "pw.dat" On Error GoTo 0
NPVal = Shell("c:\netpost\src\npmain\npmain.EXE", 4) DoEvents
For iLoop = 1 To 500      'Give NP SORT time to start and
DoEvents                ' close out all active batches
Next
Unload Me
End
End If
End If
```

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

- d-e. A system enhancement to be implemented for the market test will allow users to extend either retention period for an additional 30 days, at their option. As I understand the maintenance process, it occurs thusly: when first placed in the database, files are tagged with an expiration date; each day at a specified time a system routine which checks expiration dates automatically runs and deletes files due for deletion using standard file deletion procedures.
- f. Commercial printers are contractually required to delete all Mailing Online files upon completion of the job. No files will be retained by the printers any longer than is necessary to assure successful completion of their daily work.
- g. Partially confirmed. One comment was received from a certain David B. Popkin. That comment was acknowledged, and the system of records is now being maintained.

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

OCA/USPS-T1-23. Please refer to your testimony at page 1, footnote 2. You state, "The Postal Service will provide full service access via the World Wide Web, using browser functions in lieu of user-installed software."

- a. Please describe in detail how a Mailing Online customer would transmit a Word document "via the World Wide Web, using browser functions in lieu of user-installed software" during (i) the operations test period, (ii) the market test period, (iii) the experimental period, (iv) the post-experiment period.
- b. Please reconcile your testimony with the following. "The Postal Service's preferred objective for this experiment is to have it recommended by the Commission by the end of November, 1998. This would allow the Postal Service to explore the possibility that major software developers could integrate Mailing Online into impending updates of software in order to make the service widely and easily available" Motion of the USPS for Expedition . . . , July 15, 1998. In particular, why is such integration necessary if "full service access via the World Wide Web" is available "using browser functions in lieu of user-installed software"?
- c. Please explain how "integrat[ing] Mailing Online into impending updates of software [would] make the service [more] widely and easily available."

RESPONSE:

- a. (i-iii) Using the built-in file transfer capability of standard browser software, the Mailing Online Web server receives files selected for upload by users from content resident on their local drives or network. This is accomplished via a series of Hyper Text Markup Language (HTML) pages which the user views and interacts with while online using the World Wide Web. This process is enabled by the capabilities of the browser and therefore does not require additional software such as might be used in a point-to-point file transfer.

(iv) Unknown.
- b-c. Given the fact that the internet is just an access channel, and the World Wide Web is only a graphical interface to the internet, it is important for destinations on the internet to have effective "signposts". Unlike a PC

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

OCA/USPS-T1-24. Please refer to Exhibit 1 to your response to interrogatory OCA/USPS-T1-10.

- a. For each date on which more than one transaction occurred, please provide the number of different mailers who transmitted on that date and the volume transmitted on that date by mailer.
- b. Please provide the total number of different mailers who have utilized Mailing Online during the period covered by Exhibit 1.
- c. For each separate mailer who has utilized Mailing Online during the period covered by Exhibit 1, please provide the total number of transactions that occurred during the period covered by Exhibit 1 and the dates on which those transactions occurred. (It is not necessary to identify mailers; merely differentiate them.)
- d. For each separate mailer who has utilized Mailing Online during the period covered by Exhibit 1, please provide the total number of transactions that occurred in each calendar month during the period covered by Exhibit 1.
- e. For each separate mailer who has utilized Mailing Online during the period covered by Exhibit 1, please provide the average number of transactions per calendar month during the period covered by Exhibit 1.

RESPONSE.

Answers to each of these questions are provided in the Attachment to Response to OCA/USPS-T1-24. The body of the Attachment contains five pages. One of these reports on operations test activity in Hartford, while the other four report on activity in Tampa. Please note that these latter four pages consist of a single table physically arrayed across all four pages, with columns representing each operations test customer and each row representing dates.

Attachment to Response to OCA/USPS-T1-24, Page 1

Tampa Market	Customer_ID							
Submt_Date	197753531	336035201	336053810	336062533	336131223	336154416	336241207	797380048
3/18/98	Delta							
	Sum of Jobs	0	0	0	0	1	0	0
	Sum of Total_No_Pages	0	0	0	0	9	0	0
	Sum of Total_No_Env	0	0	0	0	9	0	0
3/20/98	Sum of Jobs	0	0	1	0	0	0	0
	Sum of Total_No_Pages	0	0	3320	0	0	0	0
	Sum of Total_No_Env	0	0	1660	0	0	0	0
3/24/98	Sum of Jobs	0	0	0	0	0	0	1
	Sum of Total_No_Pages	0	0	0	0	0	0	10
	Sum of Total_No_Env	0	0	0	0	0	0	10
3/27/98	Sum of Jobs	0	0	0	1	0	0	0
	Sum of Total_No_Pages	0	0	0	2	0	0	0
	Sum of Total_No_Env	0	0	0	2	0	0	0
4/6/98	Sum of Jobs	0	0	1	0	0	0	0
	Sum of Total_No_Pages	0	0	238	0	0	0	0
	Sum of Total_No_Env	0	0	119	0	0	0	0
4/13/98	Sum of Jobs	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	1070	0	0	0	0	0
	Sum of Total_No_Env	0	535	0	0	0	0	0
4/13/98	Sum of Jobs	0	0	0	0	0	0	1
	Sum of Total_No_Pages	0	0	0	0	0	0	3662
	Sum of Total_No_Env	0	0	0	0	0	0	1831
4/20/98	Sum of Jobs	0	0	1	0	0	1	0
	Sum of Total_No_Pages	0	0	2604	0	999	0	3600
	Sum of Total_No_Env	0	0	1302	0	999	0	3600
4/21/98	Sum of Jobs	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	366	0	0	0	0	0
	Sum of Total_No_Env	0	89	0	0	0	0	0
4/22/98	Sum of Jobs	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	1593	0	0	0	0	0
	Sum of Total_No_Env	0	531	0	0	0	0	0
4/26/98	Sum of Jobs	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	1527	0	0	0	0	0
	Sum of Total_No_Env	0	509	0	0	0	0	0
5/2/98	Sum of Jobs	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	282	0	0	0	0	0
	Sum of Total_No_Env	0	94	0	0	0	0	0
5/5/98	Sum of Jobs	0	0	0	1	0	0	0
	Sum of Total_No_Pages	0	0	0	9	0	0	0
	Sum of Total_No_Env	0	0	0	3	0	0	0
5/6/98	Sum of Jobs	0	0	0	1	0	0	0
	Sum of Total_No_Pages	0	0	0	93	0	0	0
	Sum of Total_No_Env	0	0	0	31	0	0	0
5/20/98	Sum of Jobs	0	4	0	0	0	0	0
	Sum of Total_No_Pages	0	6721	0	0	0	0	0
	Sum of Total_No_Env	0	1577	0	0	0	0	0
5/26/98	Sum of Jobs	0	1	0	2	0	0	0
	Sum of Total_No_Pages	0	2036	0	12	0	0	0
	Sum of Total_No_Env	0	509	0	6	0	0	0
5/28/98	Sum of Jobs	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	272	0	0	0	0	0
	Sum of Total_No_Env	0	68	0	0	0	0	0
6/1/98	Sum of Jobs	0	0	0	0	0	1	0
	Sum of Total_No_Pages	0	0	0	0	0	1272	0
	Sum of Total_No_Env	0	0	0	0	0	1272	0
08-Jun-1998	Sum of Jobs	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	54	0	0	0	0	0
	Sum of Total_No_Env	0	54	0	0	0	0	0
09-Jun-1998	Sum of Jobs	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0
11-Jun-1998	Sum of Jobs	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0
17-Jun-1998	Sum of Jobs	1	0	0	0	0	0	0
	Sum of Total_No_Pages	280	0	0	0	0	0	0
	Sum of Total_No_Env	280	0	0	0	0	0	0
26-Jun-1998	Sum of Jobs	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0

Attachment to Response to OCA/USPS-T1-24, Page 2

	Sum of Total_No_Env	0	0	0	0	0	0	0	0
7-Jun-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
01-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
02-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
07-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
08-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
09-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
14-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
21-Jul-1998	Sum of Jobs	0	1	0	0	0	0	0	0
	Sum of Total_No_Pages	0	58	0	0	0	0	0	0
	Sum of Total_No_Env	0	68	0	0	0	0	0	0
23-Jul-1998	Sum of Jobs	0	1	0	0	0	0	0	0
	Sum of Total_No_Pages	0	188	0	0	0	0	0	0
	Sum of Total_No_Env	0	47	0	0	0	0	0	0
25-Jul-1998	Sum of Jobs	0	0	1	0	0	0	0	0
	Sum of Total_No_Pages	0	0	3972	0	0	0	0	0
	Sum of Total_No_Env	0	0	1324	0	0	0	0	0
28-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
30-Jul-1998	Sum of Jobs	0	0	0	0	0	0	0	0
	Sum of Total_No_Pages	0	0	0	0	0	0	0	0
	Sum of Total_No_Env	0	0	0	0	0	0	0	0
Total Sum of Jobs		1	14	4	5	1	2	2	1
Total Sum of Total_No_Pages		280	14157	10134	116	9	2271	3672	3600
Total Sum of Total_No_Env		280	4071	4405	42	9	2271	1841	3500
Transactions By Month									
March		0	0	1	1	1	0	1	0
April		0	4	2	0	0	1	1	1
May		0	7	0	4	0	0	0	0
June		1	1	0	0	0	1	0	0
July		0	2	1	0	0	0	0	0
Transactions/Mo		0.20	2.80	0.80	1.00	0.20	0.40	0.40	0.20

Attachment to Response to OCA/USPS-TI-24, Page 4

0	0	0	3	0	0	0	0	0	0	3	
0	0	0	0	1	0	0	0	0	0	1	1
0	0	0	0	2586	0	0	0	0	0	2586	
0	0	0	0	1293	0	0	0	0	0	1293	
0	0	0	1	0	0	0	0	0	0	1	1
0	0	0	937	0	0	0	0	0	0	937	
0	0	0	937	0	0	0	0	0	0	937	
0	0	0	0	0	1	0	0	0	0	1	1
0	0	0	0	0	4588	0	0	0	0	4588	
0	0	0	0	0	1142	0	0	0	0	1142	
0	0	0	0	0	0	3	1	0	0	4	2
0	0	0	0	0	0	11	5356	0	0	6347	
0	0	0	0	0	0	11	2888	0	0	2879	
0	0	0	0	0	0	0	1	1	0	2	2
0	0	0	0	0	0	0	3678	2178	0	5854	
0	0	0	0	0	0	0	1838	2178	0	4016	
0	0	0	0	0	0	0	0	1	0	1	1
0	0	0	0	0	0	0	0	2178	0	2178	
0	0	0	0	0	0	0	0	2178	0	2178	
0	0	1	0	0	0	0	0	0	0	1	1
0	0	4544	0	0	0	0	0	0	0	4544	
0	0	1136	0	0	0	0	0	0	0	1136	
0	0	0	0	0	0	0	0	0	0	0	1
0	0	0	0	0	0	0	0	0	0	58	
0	0	0	0	0	0	0	0	0	0	58	
1	0	0	0	0	0	0	0	0	0	2	2
1240	0	0	0	0	0	0	0	0	0	1428	
310	0	0	0	0	0	0	0	0	0	357	
0	0	0	0	0	0	0	0	0	0	1	1
0	0	0	0	0	0	0	0	0	0	3972	
0	0	0	0	0	0	0	0	0	0	1324	
0	0	0	0	0	0	0	0	0	2	2	1
0	0	0	0	0	0	0	0	0	9980	9980	
0	0	0	0	0	0	0	0	0	4990	4990	
0	0	0	0	0	1	0	0	0	0	1	1
0	0	0	0	0	4884	0	0	0	0	4884	
0	0	0	0	0	1166	0	0	0	0	1166	
4	5	5	2	1	2	3	2	2	2	58	18
1672	22	4552	948	2586	9232	11	8012	4356	9880	78608	
670	17	1138	940	1293	2308	11	4506	4356	4990	36748	
0	0	0	0	0	0	0	0	0	0	0	
0	0	0	0	0	0	0	0	0	0	0	
0	0	0	0	0	0	0	0	0	0	0	
3	5	4	1	1	0	0	0	0	0	0	
1	0	1	1	0	2	3	2	2	2	2	
0.80	1.00	1.00	0.40	0.20	0.40	0.60	0.40	0.40	0.40	0.40	

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

OCA/USPS-T1-26. Please refer to your response to OCA/USPS-T1-2. Please explain the rationale for having the Postal Service hold the permits on which the mailings are submitted.

RESPONSE:

Two factors influenced this decision: (1) since the Postal Service is collecting the postage directly from Mailing Online customers, it will have funds in hand when the transaction is complete. It would not make sense, nor would it be cost effective, to transfer these postage funds to a third party only to receive them again when the mail is entered some 24 hours later. (2) Since the files are being split and routed based on ZIP Codes, and then batched according to print site destination, postage paid for one customer transaction will potentially represent multiple entry points. The consequent accounting would represent a formidable challenge if a centralized accounting system were not being used, and the only logical holder of such a centralized account is the Postal Service since all other parties are site specific vendors or customers.

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

OCA/USPS-T1-29. Please refer to your response to OCA/USPS-T1-12.

- a. Please explain how the number of market test participants will be "limited to several thousand."
 - i. Does the Postal Service presently possess, or is it in the process of preparing, a list of "several thousand" market test participants? If so, please provide the list.
 - ii. Will the several thousand market test participants be "limited" by their geographic location? Please explain.
 - iii. Will the several thousand market test participants be "limited" as a consequence of their association with one or more organizations? If so, please name the organization and provide the list of participants.
- b. Please identify and provide the costs associated with "informing potential customers or advertising the availability of Mailing Online service during the expanded (market) test period."
- c. Please identify the table(s) in the testimony of witness Seckar, and the attachment(s) and page number(s) in the testimony of witness Stirewalt, containing the costs of "informing potential customers or advertising the availability of Mailing Online service during the expanded (market) test period."

RESPONSE:

- a. First, the area of the test is geographically bounded as explained in my Response to OCA/USPS-T1-28 above; second, parties interested in participating will be asked a series of qualifying questions prior to registration. See my Response to DBP/USPS-T1-3(c).
Those providing answers consistent with our established criteria will be permitted to register and become users of the PostOffice Online (POL) services. A limitation of 5000 active registrants has been programmed into the system; an active registrant is defined by having either just registered or performed some POL transaction within the last 30 days. Inactive registrants will be dropped after 30 days of inactivity and new participants allowed to register to fill those slots.

MC98-1

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

- i. No list exists.
 - ii. Yes, participants must provide an address within the market test area as part of the registration process.
 - iii. No, participation will be not be based in any way on organizational affiliation.
- b. Redirected to the Postal Service.
 - c. Redirected to the Postal Service.

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

OCA/USPS-T1-31. Please refer to your testimony at page 2, line 7, concerning address hygiene.

- a. Please explain the phrase "address hygiene."
- b. Please describe the activities of the computer network control center to provide "address hygiene" for Mailing Online customers.

RESPONSE:

- a. In the context of my testimony, "address hygiene" refers to the validation, standardization and ZIP+4 Code appending process performed by the Mailing Online network control center in processing customer address files.
- b. See my Response to MASA/USPS-T5-8. As I understand it, the Mailing Online system uses the USPS Address Management System (AMS) database to accomplish the following process:
 - i. Compare complete address records to the current national database;
 - ii. validate, and modify if necessary and possible, the individual elements of address records such as street spelling and ZIP Code;
 - iii. validate each address's conformance, or lack of;
 - iv. assign ZIP+4 Codes and carrier route identification to valid addresses, and;
 - v. identify specific problems with unverifiable address records if possible and tag them with return codes.

MC98-1

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

OCA/USPS-T1-36. Please refer to your testimony at page 10, lines 2-5, where it states that Mailing Online customers "will be notified of addresses that cannot be matched with the Postal Service's Address Management System database and are therefore being purged from the list."

- a. Please confirm that Mailing Online customers will be charged for the service feature described above. If you do not confirm, please explain.
- b. Please confirm that the Postal Service will return the corrected mailing list, or the names being purged from the list, to Mailing Online customers. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. As explained in my testimony at page 2, lines 16-18, customers are charged postage plus a fee based upon printing and production options. These fees are explained in the testimony of Witness Plunkett.
- b. Confirmed that Mailing Online Customers will receive a viewable and/or printable list of unverifiable addresses via a PDF rendering online, these are the addresses being purged from the list.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS ROTHSCHILD

OCA/USPS-T4-33. Please refer to your response to OCA/USPS-T4-8.

- a. When was the decision made that the quantitative phase of the NetPost study be submitted as testimony in this docket?
- b. In your response you state, "Our goal ... was to provide an indication of whether there was sufficient interest to justify further evaluation of NetPost." Based upon the response rate to the quantitative survey, is it your opinion that there is sufficient public interest to justify continued evaluation of NetPost? Please explain the rationale for your response.

RESPONSE:

- a. The quantitative study was initiated to provide basic information for technical design and business case planning. The Postal Service needed to quantify the size of the possible volume represented by implementing the concept of Mailing Online service. Investment in technical research and development required both justification and some basis for design scaling. This research provided an idea of the scale of a fully implemented national service offering. When it became clear in the fall of 1997 that Mailing Online was a viable concept for the Postal Service to pursue, the decision was made to seek authority for a market test and an experimental classification. At that point the quantitative research was evaluated and deemed substantially sufficient for the limited purposes of these filings.
- b. The question presumes a correlation between the response rate to a complex research survey instrument and public interest in the subject of that survey. The specific indicator sought here was not of a general public interest, but rather the taking of a measurement of an intent to translate

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS ROTHSCHILD

interest into action. We believed that public interest in this service had been demonstrated sufficiently by focus group participants to justify continued evaluation. We sought here to quantify the interest more specifically as projected mail volume for business planning and technical research and development.

MC98-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

1. For purposes of this question a "mailing" will mean the physical presentation of Mailing Online pieces to a postal facility by a Mailing Online printer.
 - a. Please confirm that a mailing will not have to conform to the DMM makeup requirements for the rate categories involved.
 - b. If a. is confirmed, please list the DMM makeup requirements that will be waived or modified for Mailing Online pieces.
 - c. Will each mailing be subject to the same cut off times imposed by the postal facility on other customers (e.g., a 7:00 PM cut off time for acceptance of First-Class automation mail.)
 - d. Please confirm that, in the Experimental Phase, nonprofit organizations sending less than 200 pieces could use Mailing Online and receive the same postage rate (excluding printing) as a nonprofit organization sending 200 pieces?

RESPONSE:

- a. Although specific DMM regulations have yet to be drafted, this question is confirmed to the extent noted in response to part (b). In all other respects, the makeup requirements are expected to be the same for Mailing Online (MOL) pieces and non-MOL pieces. In addition, there might need to be some minor adjustments to the manifest mailing system requirements to reflect the manner of entry of MOL pieces; whether this will be necessary and what the particular modifications might be have yet to be determined.
- b. If Mailing Online service is recommended as requested, the DMM minimum quantity requirement for a mailing would be modified. To be consistent with the requested DMCS language Mailing Online pieces would not be required to meet the 500-piece minimum for First-Class automation rate mailings or the 200-piece minimum for Standard Mail automation rate mailings. Furthermore, the requirement that Standard

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

Mail be addressed for delivery within the service area of the BMC (or auxiliary service facility (ASF) or sectional center facility (SCF)) at which it is entered in order to obtain the destination BMC discount would also not be applicable, as indicated in the proposed DMCS language

- c. It should also be noted that although the rates applicable to Mailing Online pieces are proposed to be limited to the basic automation rates, the presorting requirements applicable to Mailing Online pieces would remain the same as the presort requirements for all other automation mail. As a result, depending on the number of pieces and presort density of an individual mailing, there may be Mailing Online pieces required to be prepared in a manner that would ordinarily allow qualification for a lower 5-digit, 3-digit, or 3/5-digit automation presort rate, although they would still pay the basic automation rates (less the DBMC discount for Standard Mail) as indicated in the proposed DMCS language. Yes, commercial printers preparing Mailing Online jobs are required to enter mailings no later than the cut-off time specified by the designated Business Mail Entry Unit. See USPS-LR5-MC98-1.
- d. Confirmed.

MC98-1

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF THE MAIL ADVERTISING SERVICE ASSOCIATION,
REDIRECTED FROM WITNESS SECKAR**

MASA/USPS-T2-3. Confirm the following. In the event that you are unable to confirm, explain in detail why not.

c. In proposing the several postage options to be charged MOL customers, you have assumed that, as a result of the batching of different mailings by the contract printers, MOL mailings presented to the Post Office by the contract printers will generally meet the qualifications established in the DMM and the DMCS for the postage rates charged to the customer. If your answer is yes in whole or in part, describe in detail the studies, analyses or other bases you have for making this assumption.

MASA/USPS-T2-3 Response.

c. Confirmed. This assumption is based on the volume forecasts contained in USPS-LR-2/MC98-1. These forecasts indicate that, at full implementation, Mailing Online is expected to generate tens of thousands of pieces per printer per day on average. Thus it is expected that Mailing Online pieces will meet the aforementioned qualifications. There are currently no real-world data available to support that projection. The Postal Service intends to collect such data during the course of the proposed market test and experiment.

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

OCA/USPS-T5-28. Please refer to the attachment to your response to OCA/USPS-T5-21 and to USPS-LR-11, Part 1, Schedule, 1.1 Items and Prices.

- a. Please update your attachment to reflect the actual unit prices shown in the Schedule.
- b. Where in your attachment did you include the costs for any of items A through F under "Finishing?" Please cite specific page and line numbers. If your attachment does not contain these costs, please explain fully why they are not included.
- c. The section in the Schedule entitled "Print Mode (per impression)" does not contain unit prices for either simplex or duplex 11 X 17. Please explain why this size was excluded.

OCA/USPS-T5-28 Response.

- a. See attachment for updated table. Note that impression costs no longer include information systems costs, so a new column for information system costs has been added. Likewise, transportation costs are presumably included - though not identified - in the prices in USPS-LR-11, Part 1, Schedule, 1.1 and are therefore not shown in the updated table. A column for folding and insertion costs has also been added.
- b. The examples in the attachment assume no stapling, binding, or saddle stitching. Costs for finishing were not available when the original attachment was created. See page 7 of my testimony. Furthermore, the market research presented in USPS-LR-1/MC98-1 provides no guidance regarding which finishing options customers might prefer. In the attached exhibit, I have assumed only that letter-size pieces require two folds.
- c. Redirected to witness Garvey.

Exhibit A
Sample Mailing Online Prices - 1999
(Using 8/19/98 Contract Prices)

	Impression Costs (A)	Paper Costs (B)	Envelope Costs (C)	Folding & Insertion Costs (D)	Information Systems Costs (E)	Subtotal (F)	Contribution (G) = (F) * 0.25	Fee (H) = (G) * 1.25	Postage (I)	Total Postage & Fee (J) = (I) + (H)
Example 1 2 Page, 8.5x11, Simplex, Black & White, First-Class	\$ 0.0396	\$ 0.0094	\$ 0.0150	\$ 0.0336	\$ 0.0016	\$ 0.0992	\$ 0.0248	\$ 0.1240	\$ 0.2700	\$ 0.3940
Example 2 10 Page, 8.5x14, Duplex, Black & White, First-Class	\$ 0.3960	\$ 0.0680	\$ 0.0540	\$ 0.1550	\$ 0.0160	\$ 0.6890	\$ 0.1723	\$ 0.8613	\$ 0.7400	\$ 1.6013
Example 3 5 Page, 8.5x11, Simplex, Spot Color, Standard (A)	\$ 0.1490	\$ 0.0235	\$ 0.0150	\$ 0.0336	\$ 0.0040	\$ 0.2251	\$ 0.0563	\$ 0.2814	\$ 0.2190	\$ 0.5004
Example 4 22 Page, 8.5x14, Duplex, Spot Color, First-Class	\$ 1.3112	\$ 0.1496	\$ 0.0540	\$ 0.1550	\$ 0.0352	\$ 1.7050	\$ 0.4263	\$ 2.1313	\$ 1.4000	\$ 3.5313

Detailed Calculation of Costs for Exhibit A, Example 1

2 Page, 8.5x11, Simplex, Black & White, First-Class

Source	Description	Amount
(A) Impression Costs		
(e) USPS-LR-11, Part 1, Schedule, 1.1	Total Impression Cost, 8.5x11, Black & White	\$ 0.0198
(b)	Number of Impressions	2
(c) = (e) * (b)	Total Impression Costs	\$ 0.0396
(B) Paper Costs		
(d) USPS-LR-11, Part 1, Schedule, 1.1	8.5 x 11 Paper Cost per sheet	\$ 0.0047
(e)	Number of Sheets	2
(f) = (d) * (e)	Total Paper Costs	\$ 0.0094
(C) Envelope Costs		
(g) USPS-LR-11, Part 1, Schedule, 1.1	# 10 Envelope - No window and logo	\$ 0.0150
(h) USPS-LR-11, Part 1, Schedule, 1.1	Two folds	\$ 0.0336
(D) Folding & Inserting Costs		
(E) Information Systems Costs		
(i) USPS T-2, Exhibit A, page 2, line 32	Variable Information Systems Costs	\$ 0.0008
(j)	Number of Impressions	2
(k) = (i) * (j)		\$ 0.0016
(F) Subtotal		
(l) = (c) + (f) + (g) + (h) + (k)		\$ 0.0992
(G) Contribution		
(m)	Markup	25%
(n) = (l) * (m)	Contribution	\$ 0.0248
(H) Total Fee		
(o) = (l) + (n)		\$ 0.1240
(I) Postage		
(p)	Weight per 8x11 sheet of paper (ounces)	0.2
(q)	Number of sheets	2
(r) = (p) * (q)	Total paper weight (ounces)	0.4
(s)	Weight per #10 envelope (ounces)	0.2
(t) = (r) + (s)	Total mail piece weight (ounces)	0.6
(u) = roundup((t) / 1)	Number of postage ounces	1.0
(J) Rates		
(v) R97-1 rates eff. 1/10/99	Rate	\$ 0.2700
(w) R97-1 rates eff. 1/10/99	First ounce automation basic presort rate letters	\$ 0.2700
(x) = (v) * [(u) - 1] * (w)	Additional ounce automation basic presort rate letters	\$ 0.2700
(y) = (o) + (x)	(I) Total Postage and Fees	<u>\$ 0.3940</u>

Detailed Calculation of Costs for Exhibit A, Example 2

10 Pagn, 8.5x14, Duplex, Black & White, First-Class

Source	Description		
(A) Impression Costs			
(e) USPS-LR-11, Part 1, Schedule, 1.1	Total Impression Cost, 8.5x14, Black & White	\$ 0.0198	
(b)	Number of Impressions	20	
(c) = (a) * (b)	Total Impression Costs	\$ 0.3980	
(B) Paper Costs			
(d) USPS-LR-11, Part 1, Schedule, 1.1	8.5 x 14 Paper Cost per sheet	\$ 0.0068	
(e)	Number of Sheets	10	
(f) = (d) * (e)	Total Paper Costs	\$ 0.0680	
(C) Envelope Costs			
(g) USPS-LR-11, Part 1, Schedule, 1.1	Flat Envelope - no window no logo	\$ 0.0540	
(h) USPS-LR-11, Part 1, Schedule, 1.1	No Folds	\$ 0.1550	
(E) Information Systems Costs			
(i) USPS T-2, Exhibit A, page 2, line 32	Variable Information Systems Costs	\$ 0.0008	
(j)	Number of Impressions	20	
(k) = (i) * (j)		\$ 0.0160	
(F) Subtotal			
(l) = (c) + (f) + (g) + (h) + (k)		\$ 0.6690	
(G) Contribution			
(m)	Markup	25%	
(n) = (l) * (m)	Contribution	\$ 0.1723	
(M) Total Fee			
(o) = (l) + (n)		\$ 0.8613	
(P) Postage			
(p)	Weight per 8x14 sheet of paper (ounces)	0.254	
(q)	Number of sheets	10	
(r) = (p) * (q)	Total paper weight	2.54	
(s)	Weight per flat envelope (ounces)	0.4	
(t) = (r) + (s)	Total mail piece weight	2.94	
(u) = roundup((t), 1)	Number of postage ounces	3.0	
(V) R97-1 rates eff. 1/10/99			
(v)	First ounce automation basic presort rate flats	Rate \$ 0.3000	
(w)	Additional ounce automation basic presort rate flats	\$ 0.2200	
(x) = (v) + [(w) - 1] * (w)	Total Postage	\$ 0.7400	
(y) = (o) + (x)	(1) Total Postage and Fees	\$ 1.6013	

Detailed Calculation of Costs for Exhibit A, Example 3

5 Page, 8.5x11, Simpler Spot Color, Standard (A)

Source	Description		
(A) Impression Costs			
(a) USPS-LR-11, Part 1, Schedule, 1.1	Total Impression Cost, 8.5x11 Spot Color	\$ 0.0296	
(b) = (a) * (b)	Number of Impressions	5	
(c) = (a) * (b)	Total Impression Costs	\$ 0.1480	
(B) Paper Costs			
(d) USPS-LR-11, Part 1, Schedule, 1.1	8.5 x 11 Paper Cost per sheet	\$ 0.0047	
(e) = (d) * (e)	Number of Sheets	5	
(f) = (d) * (e)	Total Paper Costs	\$ 0.0235	
(C) Envelope Costs			
(g) USPS-LR-11, Part 1, Schedule, 1.1	# 10 Envelope - No window and logo	\$ 0.0136	
(h) USPS-LR-11, Part 1, Schedule, 1.1	Two folds	\$ 0.0336	
(E) Information Systems Costs			
(i) USPS T-2, Exhibit A, page 2, line 32	Variable Information Systems Costs	\$ 0.0008	
(j) = (i) * (j)	Number of Impressions	5	
(k) = (i) * (j)		\$ 0.0040	
(l) = (c) + (f) + (g) + (h) + (k)		\$ 0.2237	
(G) Contribution			
(m) = (l) * (m)	Markup Contribution	25%	\$ 0.0559
(n) = (l) * (n)			\$ 0.2796
(H) Total Fee			
(o) = (l) + (n)			
(I) Postage			
(p) = (o) * (p)	Weight per 8x11 sheet of paper (ounces)	0.2	
(q) = (p) * (q)	Number of sheets	5	
(r) = (p) * (q)	Total paper weight	1.0	
(s) = (r) * (s)	Weight per #10 envelope (ounces)	0.2	
(t) = (r) + (s)	Total mail piece weight	1.2	
(u) = roundup(t), 1	Number of postage ounces	2.0	
(v) R97-1 rates eff. 1/10/99	Standard (A) Letter Size Basic Piece rate	Rate \$ 0.2350	
(w) R97-1 rates eff. 1/10/99	Destination Entry Discount - BMC	\$ 0.0160	
(x) = (v) + [(u) - 1] * (w)	Total Postage	\$ 0.2190	
(y) = (o) + (x)	(I) Total Postage and Fees	\$ 0.4986	

Detailed Calculation of Costs for Exhibit A, Example 4

22 Page, 8.5x14, Duplex, Spot color, First-Class

Source	Description	
(A) Impression Costs		
(e) USPS-LR-11, Part 1, Schedule, 1.1	Total Impression Cost, 8.5x14 Spot Color	\$ 0.0298
(b)	Number of Impressions	44
(c) = (e) * (b)	Total Impression Costs	\$ 1.3112
(B) Paper Costs		
(d) USPS-LR-11, Part 1, Schedule, 1.1	8.5 x 14 Paper Cost per sheet	\$ 0.0068
(e)	Number of Sheets	22
(f) = (d) * (e)	Total Paper Costs	\$ 0.1496
(C) Envelope Costs		
(g) USPS-LR-11, Part 1, Schedule, 1.1	Flat Envelope - No window and no logo	\$ 0.0540
	No folding	\$ 0.1550
(D) Folding & Inserting Costs		
(h) USPS-LR-11, Part 1, Schedule, 1.1		
(E) Information Systems Costs		
(i) USPS T-2, Exhibit A, page 2, line 32	Variable Information Systems Costs	\$ 0.0008
(j)	Number of Impressions	44
(k) = (i) * (j)		\$ 0.0352
(F) Subtotal		
(l) = (c) + (f) + (g) + (h) + (k)		\$ 1.7050
(G) Contribution		
(m) = (l) * (m)	Markup	25%
(n) = (l) * (m)	Contribution	\$ 0.4263
(H) Total Fee		
(o) = (l) + (n)		\$ 2.1313
(I) Postage		
(p)	Weight per 8x14 sheet of paper (ounces)	0.254
(q)	Number of sheets	22
(r) = (p) * (q)	Total paper weight	5.508
(s)	Weight per Flat envelope (ounces)	0.4
(t) = (r) + (s)	Total mail piece weight	5.908
(u) = roundup((t), 1)	Number of postage ounces	6.0
(V) R97-1 Automation basic presort		
(v)	Rate	\$ 0.3000
(w) R97-1 Automation basic presort	Additional ounce rate flats	\$ 0.2200
(x) = (v) + ((u) - 1) * (w)	Total Postage	\$ 1.4000
(y) = (o) + (x)	(I) Total Postage and Fees	\$ 3.5313

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

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Mailing Online Services)
_____)

Docket No. MC98-1

REBUTTAL TESTIMONY
OF PATRICK BRAND

Communications with respect to this document should be directed to:

Ian D. Volner
N. Frank Wiggins
Venable, Baetjer, Howard & Civiletti, LLP
1201 New York Avenue, N.W., Suite 1000
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September 4, 1998

1 being employed by DirectNET. More importantly, the precise communications
2 technology – e.g., dial-up vs. Internet access – will not significantly influence the
3 user's decision whether to subscribe to Mailing Online or to DirectNET, so long
4 as the basic benefits of convenience and quality are the same and the cost of
5 access to the data center is not materially different. Mr. Garvey is basically
6 correct that users of Internet access through the Worldwide Web pay only the
7 cost of a local telephone call. Of course, that will be true of both DirectNET
8 Internet access and the Postal Service's proposed Mailing Online. But, even in
9 the case of dial-up DirectNET users, Pitney Bowes does not charge for the
10 software and has established toll-free lines for data communications, and the
11 client software can be downloaded from our Website. Therefore, from a
12 customer's viewpoint, the technological distinctions that Mr. Garvey seeks to
13 draw are immaterial.

14 In view of these considerations, I think the conclusion that DirectNET and
15 Mailing Online are functionally equivalent is inescapable. Both services are
16 designed to take advantage of recent advances in electronic communications,
17 state-of-the-art printing technologies and conventional postal functions to create
18 integrated services for the production, processing and delivery of mail. Both are
19 intended to enhance the capabilities of small businesses to use a PC and the
20 modern telecommunications network as a means of creating a mailing piece,
21 delivering it to a printer and having it entered into the mailstream for delivery by
22 the United States Postal Service. The Postal Service proposes to offer certain

1 service enhancements (such as mailing of flats) that Pitney Bowes does not now
2 offer. On the other hand, Pitney Bowes offers a number of service
3 enhancements (including the ability to produce and insert in the mailing a reply
4 envelope) that the Postal Service does not propose. But these differences in
5 service characteristics do not alter the fact that the two services are functionally
6 equivalent.

7 Competitive Effects

8 In these circumstances, it is not clear to us why Postal Service Witness
9 Garvey has chosen to omit DirectNET from his discussion of the competitive
10 effects of the proposed Mailing Online service, and why Witness Plunkett has
11 apparently ignored competitive considerations entirely in his pricing proposals.
12 Mr. Garvey's testimony (at pages 12-13) acknowledges that Mailing Online will
13 compete for mailing dollars with traditional printing and mail preparation houses.
14 I am at a loss to understand why the Postal Service believes that Mailing Online
15 will not compete with DirectNET for mailing dollars given the fundamental
16 similarities of the two services. Moreover, DirectNET is not the only electronic
17 communication-based access service in the market. I understand that Neopost
18 offers a similar service. The Postal Service should be aware of this fact because
19 Neopost is a participant in the Microsoft project along with Pitney Bowes and the
20 Postal Service.

21 The adverse effect on competition is exacerbated because of the way the
22 Postal Service has structured the postage rates applicable to mailings that it will

1 enter into the mailstream as agent for its Mailing Online customers. The Postal
2 Service proposes to exempt itself and therefore its Mailing Online customers
3 from the volume minima applicable to Standard (A) and automation First-Class
4 mail. The Postal Service also proposes to confer upon itself and pass through to
5 Mailing Online customers certain drop entry discounts even though, as I
6 understand it, no mail will be drop entered at a destination BMC during the
7 proposed Market Test. The Postal Service apparently believes that eventually
8 the volume of Mailing Online mail that does not qualify for discounts will be
9 relatively small. Of course, that remains to be seen. What is clear is that the
10 Postal Service has sought special discounts for itself so that it can pass through
11 to its customers very favorable postage rates for which those customers would
12 not otherwise qualify.

13 Despite the functional similarity of Mailing Online and DirectNET, Pitney
14 Bowes cannot offer these special discounts. On the contrary, Pitney Bowes has
15 been obliged to establish specific volume limitations on Standard (A) mail and on
16 First-Class automation compatible mail. We offer our customers the lowest rate
17 "practical" but we cannot, as the Postal Service proposes to do, offer a rate that
18 is lower than the customer would otherwise be able to obtain. The Postal
19 Service's rejoinder to this obvious pricing inequity is, from a marketing
20 perspective, unconvincing. The Postal Service admits that Pitney Bowes would
21 need to "solicit enough customers" to achieve the volume and geographic
22 distribution (in the case of drop entry discounts) in order to be able to offer the

1 rates that the Postal Service intends to offer to Mailing Online customers. Both
2 of these services are, however, in start-up. What happens until Pitney Bowes is
3 able to solicit enough customers? It must either lose money on postage or
4 remain noncompetitive. Of course, the Postal Service will not lose money on
5 unearned postage discounts; that revenue shortfall will be absorbed by other
6 customers.

7 The question, then, is what effect these special postage discounts the
8 Postal Service proposes to offer to Mailing Online users will have on competition.
9 The answer, it seems to me, is quite clear. Certainly during the proposed Market
10 Test and the proposed two-year experimental phase, potential customers
11 deciding whether to use Mailing Online or DirectNET will be faced with the
12 opportunity to obtain from the Postal Service postage discounts for which they
13 would not otherwise qualify and which they cannot obtain from DirectNET. For
14 customers for whom price is the primary or perhaps the only consideration, the
15 choice seems reasonably clear -- they will opt for Mailing Online. It is true that
16 some of the Postal Service's competitive edge in price terms may be offset
17 because of service enhancements that Pitney Bowes offers and that the Postal
18 Service does not propose. Nonetheless, my experience strongly suggests that
19 for many potential users of these two PC-based postal systems, the choice will
20 come down to price. As to price, the Postal Service has conferred upon itself a
21 significant and unfair competitive edge. I also do not understand how the Postal
22 Service can consider that the results of the proposed Market Test or the

1 experiment will provide meaningful information as to the value of Mailing Online
2 service in a competitive marketplace when it seeks to arrogate to itself, and its
3 Mailing Online customers, rate preferences that will not be available to other
4 functionally equivalent and competitive services.

5

6

PATRICK BRAND
Resume

Pitney Bowes 1983 - 1998

- **VP Marketing Small Office Division (1997 - Current)**
Responsible for all revenue generation and business development for this new and growing division of Pitney Bowes
- **Director Worldwide Product Management, Mailing Systems (1993-1997)**
Responsible for managing the entire worldwide postage meter product line for Pitney Bowes
- **Director, Small Business Marketing, Mailing Systems (1988-1992)**
Responsible for all marketing efforts to small businesses through both direct sales and direct marketing channels
- **Controller, Supplies and Direct Response Marketing (1986-1987)**
Responsible for all aspects of financial reporting, budgeting and management of the Supplies and Direct Response Marketing Division
- **Assistant Controller, Copier Division (1984-1985)**
- **Senior Internal Auditor (1983-1984)**
- **Deloitte, Haskins and Sells (1980-1983)**
Staff Auditor and Senior Consultant

Education

- 1979 - BS Finance Major, University of Connecticut
- 1980 - MBA Finance/Accounting

Certifications

Certified Public Accountant - Connecticut 1983
Certified Management Accountant - 1983

Patents

Patentholder relating to printing security in postage meters - 1998

DECLARATION

I, Patrick Brand, declare as follows:

1. The testimony to which this Declaration is appended, styled "Rebuttal Testimony of Patrick Brand" was prepared by me or under my direction and control; and
2. If I were to testify orally, my testimony would be the same.



Patrick Brand

Dated: Sept. 10, 1998

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

MASA/USPS-T4-8. Confirm that if MOL were not limited to short-run mailings (defined as less than 5000 pieces), and that mailings of greater than 5000 pieces would qualify for the service, then your market survey did not represent the full range of potential end users of MOL. If you cannot confirm, explain why in detail. If you do confirm, provide any information you have with respect to what the potential volume is from mailings greater than 5000 pieces.

RESPONSE:

We confirm that the market survey did not represent the full range of potential end users of MOL. Given that the study's purpose was to support business planning, our objective was to determine whether there was sufficient demand among NetPost's most likely users to justify its further development. The volume estimates include the volume of all mailings, including those with more than 5000 pieces, sent by mailers who typically produce mailings of less than 5000 pieces. No information was gathered about the potential volume that could be generated by mailers who typically produce mailings with greater than 5000 pieces.

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

OCA/USPS-T5-35. Please refer to your response to OCA/USPS-T1-46(d) (redirected from witness Garvey) and to your Exhibit USPS-5D (USPS-T-5, page 30). In your interrogatory response you state, "[I]f document length is a parameter used to define potential batch types, some are highly unlikely to be chosen at all."

- a. Please confirm that your Exhibit 5D shows 16,444,(000) 8.5x11 pieces of year-one MOL consisting of more than 15 pages. If you do not confirm, please state what the number 16,444 in your exhibit represents.
- b. Please confirm that your Exhibit 5D allocates 31 percent of the 16,444,(000) pieces, or 5,103,(000) pieces, to First Class flats. If you do not confirm, please show the correct allocation and explain its basis. If you do confirm, please explain the basis for your allocation.
- c. Please confirm that your Exhibit 5D allocates 33.3 percent of the 5,103,(000) pieces, or 1,699,(000) pieces, respectively to the four-ounce, five-ounce, and six-ounce weight increments of First Class flats. If you do not confirm, please show the correct allocation and explain its basis. If you do confirm, please explain the basis for your allocation.
- d. Please confirm that a 29-page, 8.5x11 flat with envelope would weigh 6.2 ounces. If you do not confirm, please provide the correct weight and show its derivation.
- e. Please confirm that your Exhibit 5D assumes that there will be no year-one, First-Class, 8.5x11 MOL pieces in excess of 28 pages. If you do not confirm, please show where such pieces appear in your exhibit and explain the basis for your allocation. If you do confirm, please explain the basis for your assumption.
- f. Please list all subclass/job-type/page-count categories for which you have assumed zero year-one volume and explain the basis for your assumption.
- g. Please provide an allocation of year-one MOL volume across subclass/print-site/job-type/page-count categories that is consistent with your Exhibit 5D. If more than one such allocation exists, please provide the best one and explain why your choice is best.
- h. Please confirm that you have implicitly assumed that the likelihood of particular job-type/page-count batches declines with page count. If you do not confirm, please explain why you have assumed zero year-one volumes for certain high-page-count batches.
- i. Do you agree that it is reasonable to assume that the likelihood of particular job-type/page-count batches declines with page count. If you do not agree, please provide a more plausible assumption and justify it.
- j. Please confirm that one-page documents are more likely than any other MOL documents. If you do not confirm, please identify all page counts that are more likely and explain the basis for your response.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE****OCA/USPS-T5-35 Response:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed. This assumption is implied in the result of the allocation described in part d.
- f-i. All volume distributions embodied in my testimony and/or interrogatory responses are derived from the testimony of witness Rothschild (USPS-T-4). While the survey permits reasonable inferences regarding general parameters, it does not allow informed construction of precise estimates of volumes within subclass/job-type/page-count categories as contemplated in this interrogatory. In order to estimate postage revenues, I made an admittedly simplistic assumption that all documents exceeding 15 pages in length would be flats with weights evenly distributed among 4 ounce, 5 ounce, and 6 ounce increments. This assumption produces the seemingly anomalous result that all documents contain fewer than 29 sheets of paper. However, though this assumption is simplistic, it is based on an observed inverse relationship between document length and relative share of document volume. This relationship is apparent from the data provided by witness Rothschild which clearly demonstrate a decline in volume as the length of the document decreases. As a practical matter, there may be no job-type/page-count combinations that produce zero batches in a given year. However, as document length and complexity increase, alternatives to digital printing

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

are presumably more cost competitive. For instance, the probability that a customer would use Mailing Online to send a 48 page, spot color, duplex printed, tape bound document is likely to be very small. An alternative to my approach would have been to estimate volumes for all possible combinations. This approach, which would have produced a seemingly complete set of volumes, would have entailed a number of assumptions for the sake of spurious precision. As mentioned above, data supporting this approach were lacking.

j. Not confirmed. Though this may be a reasonable conclusion, the testimony of witness Rothschild aggregates one and two page documents into a single category, and provides no additional basis for concluding that one page documents are more likely than two page documents. Witness Seckar assumes that one and two page documents are equally likely (Exhibit USPS-2A). To the extent that I have relied on witness Seckar's testimony, my testimony employs the same assumption.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 1**

Issue 1: The Commission inquires regarding the effect on competitors of waiving the eligibility requirements for automation basic rates.

A major reason for proposing exceptions to the eligibility requirements is to simplify the Mailing Online transaction in the face of conflicting requirements. The Postal Service has determined to charge a firm fixed price at the time the transaction is confirmed, and then merge customer documents into larger batches prior to printing. The decision to use a single rate from the middle of the potential range of existing categories is a strategic one to provide customers a convenient and simple means of inducting mail into the postal system.

The alternatives have significant shortcomings. For instance, the Postal Service could simply offer a discount commensurate with a customer's volume and depth of sort. This alternative would preclude extension of the benefits of automation to small-volume customers. If postage discounts for Mailing Online customers were dependent on the size of the mailing, Mailing Online would merely extend further benefits of automation to large volume customers. In such a case, the choice of digital printing, with its flat rate pricing, would also seem inappropriate. Large volume customers are already well served by existing providers and, it could be argued, might not materially benefit from the Postal Service's entry into this segment of the hybrid mail market. Moreover, it seems unlikely that private enterprises currently serving larger customers, e.g. lettershops, would welcome this kind of pricing structure.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 1**

Another alternative would be to develop an automated rebate system, which the Commission discusses in its Market Test Opinion (at 27). Under such a system, customers whose mailings are under the threshold volume would be charged single-piece rates for First-Class Mail, and denied access to Standard Mail rates at the time the transaction is confirmed. Customer accounts would then be credited with a rebate when cost savings from batching arise. The technical complexity of this approach, especially in light of the strategic necessities discussed above, would militate against this alternative. In a single printer system, customer transactions could not be completed when orders are placed, and, at a minimum, an additional round of communication between the customer and the Postal Service would be necessary. In a multiple printer system, customer rebates would require reconciliation originating from each involved print site, as well as aggregation of that information, while still requiring another round of communication with customers. This alternative thus is not consistent with the goals of convenience and simplicity. The Postal Service has not attempted to estimate what such a system would cost; but, it presents programming challenges which, though not technically insurmountable, are formidable.

The need to simplify the transaction where possible arises out of the Postal Service's main goal for Mailing Online: convenience. Mailing Online employs technically sophisticated systems that enable customers to easily create and use mailpieces at their desktop. This approach embodies a strategic

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 1**

decision to favor customers who value convenience at the risk of alienating customers who are willing to expend greater effort in order to attain the lowest possible price. Indeed, a consequence of the Postal Service's approach is an opportunity for competitors to develop a system that employs the kind of rebate system to which the Commission refers.

When dealing with traditional hard copy mail, minimums are necessary. Enforcement of automation compatibility requirements necessitates somewhat labor-intensive acceptance procedures that militate against making discounts available to smaller mailers, i.e., the high transaction cost of assuring automation compatibility results in a minimum volume requirement. The hybrid nature of Mailing Online reduces the need for these acceptance procedures. In effect, the Mailing Online system performs an analogous function at essentially zero cost. Thus, one of the bases for volume minimums is eliminated due to the electronic interface between the Postal Service and its customers.

It would be premature to assume that the factors arguing in favor of specific minimums for traditional mail are equally well-suited to hybrid mailproducts. As the Mailing Online experiment unfolds, we can expect to learn a great deal about the cost causative characteristics of Mailing Online. Though it is impossible to predict with precision what the salient cost causative elements of Mailing Online will be, deferring this issue until the experiment has shed additional light on the effect of the waiver is preferable to application of existing

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 1**

DMCS limits based on an untested assumption that hybrid products are directly comparable to traditional mail.

Examination of the traditional uses of the automation presort categories provides additional support for making these categories available to Mailing Online customers. The existing automation basic categories are most often applied to the residuum of larger mailings wherein most pieces qualify for deeper discounts. In such cases, the number of pieces to which the automation basic rate is applied may be well below the threshold minimums. Mailing Online mailings will therefore be substantially indistinguishable from the traditional mail that currently makes use of automation basic rates. Implied in the availability of automation basic rates for small residual volumes is an acknowledgment that pieces which are compatible with the physical automation requirements cost less to process and therefore warrant a discount. In those instances where batching does not result in a mailing that complies with volume minimums, Mailing Online pieces will nevertheless comply with all existing physical eligibility requirements, and therefore resemble the portion of the current mailstream that uses basic automation rates.

In the event Mailing Online becomes a permanent service, competitors offering functionally equivalent services may also emerge. If so, these competitors will likely assert a right to the same rates that Mailing Online uses. Existing worksharing arrangements thrive, thanks in part to cooperative efforts between the Postal Service, mailers, and third-party vendors. For example, the

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 1**

Postal Service licenses raw data to, and certifies, providers of presorting software. Assuming the Postal Service is satisfied that pieces generated by such equivalent services generate mailpieces similar in all salient respects to those created by Mailing Online, they should be accorded access to the same rate categories.

The Postal Service sought, and for the market test phase of Mailing Online the Commission recommended, exceptions to the minimum volume requirements for automation basic rates that would otherwise apply to mail produced through Mailing Online. It may be preferable for many reasons to have a unique rate for Mailing Online pieces. As is indicated in my testimony (USPS-T-5, p. 10), data collected during the Mailing Online experiment could be used to develop such a rate category. However, lacking empirical data to support such a proposal, the Postal Service instead chose to use the existing category which appears most appropriate, given what is known about Mailing Online mailpieces.

While attempting to determine the effect that Mailing Online may have on private businesses, it must be kept in mind that private businesses, in a general sense, will gain more than the Postal Service if Mailing Online is approved as proposed. With the 25 percent cost coverage, nearly eighty percent of Mailing Online fee revenues would cover printing costs and be paid directly to the private printing contractors providing Mailing Online services.

Furthermore, the Postal Service has an obvious disincentive to limit competition, because efficient providers of hybrid services are likely to increase

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 1**

mail volume by making mail more convenient and less costly to use. However, it is my understanding that no private enterprises currently provide a service with the characteristics of Mailing Online. Market research sponsored by the Postal Service demonstrates that demand for hybrid mail services exists. If Mailing Online is successful, it will provide a signal to private entrepreneurs that a potentially profitable market niche exists. The Postal Service would welcome this because, as additional customers take advantage of hybrid mail services, mail volumes will increase.

The Postal Service has chosen to pursue a conservative approach in selecting discounts. Given the batching capabilities of the Mailing Online system, it is difficult to determine at the time of mailing the level of discounting for which a customer's mail will qualify. Consequently, the Postal Service has chosen relatively modest discounts which assume that a small level of batching and sortation depth will be achieved. In fact, we expect that in most instances, the mail may be presorted more finely and dropshipped more deeply into the system than is necessary to qualify for the proposed discounts. Nevertheless, while the Postal Service recognizes that while in some instances batching may not achieve the volume minimums, in a fully integrated system much of the volume of mail will be presorted and dropshipped more finely than the discounts suggest.

The discounts proposed by the Postal Service will actually benefit competitors. By foregoing deeper discounts, the proposed pricing scheme will

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 1**

allow competitors to price below the Postal Service for larger volume mailers where greater presort and dropship potential exists.

As a practical matter, the impact of the Mailing Online on potential entrepreneurs who might be interested in hybrid mail is not easily measurable. The Postal Service, by virtue of its size, may enjoy an advantage in obtaining printing services by being able to guarantee volume levels that produce low unit costs. However, some of this advantage is dissipated through obligations that the Postal Service must meet. For instance, in order to protect the privacy of the Mailing Online electronic documents and the resulting hard copy, the printing contract requires that contractors take extraordinary measures to prevent intermingling of Mailing Online jobs with other print orders. These measures must, by necessity, restrict the flexibility with which Mailing Online contractors might otherwise manage their operations, and thereby increase costs. It is conceivable that a potential competitor, unbound by these constraints, may be able to purchase printing capacity from printers who can more easily use existing equipment and space. This may thereby enable such a competitor to achieve lower costs than Mailing Online. Alternatively, digital printers with excess capacity could choose to enter the hybrid mail business. In addition to optimizing equipment usage, such a business might enjoy a cost advantage because it would presumably charge a rate comparable to what contractors would charge the Postal Service while the Postal Service's fees would be 25 percent higher.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 4**

Issue 4: The Commission inquires whether the requested waiver of the destination entry requirement for the DBMC discount could be accomplished in alternative ways that do not require making the discount available to Mailing Online mailings on terms different from the existing Domestic Mail Classification Schedule.

The Commission's sensitivity to the entry characteristics of Mailing Online pieces raises an important point for the conduct of the experiment, namely that until a greater number of printers are operating, mail may be entered at points that are often distant from its destination. Thus, without an exception to existing regulations, some Mailing Online pieces might not otherwise qualify for DBMC discounts until the experiment is well underway. One possible remedy would be to allow the DBMC discount for mailings destinating within the BMC service area of the facility at which the pieces are entered. However, this approach would still be problematic given the necessity for charging customers a fixed price when a job is submitted and the impractical complexity of constructing a system that would permit customer refunds. Given the relatively small size of the mailings, the Postal Service concedes that the presence or absence of the discount is unlikely to have a material impact on the quality of data collected during the experiment and is therefore willing to postpone an exception, pending the outcome of the experiment, for consideration in the context of any request for permanent DMCS language.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKÉTT
TO NOTICE OF INQUIRY NO. 1, ISSUE 6**

Issue 6: The Commission inquires about the criteria that should be used to determine an appropriate markup for Mailing Online during the proposed experiment.

In its Opinion, the Commission agrees that Mailing Online's relationship to other postal services justifies application of a 125 percent cost coverage during the market test (Opinion, at 32). The Commission rightly recognizes that "there is also a reasonable expectation that Mailing Online will substantially benefit individual, home office, and small-volume business mailers by simplifying their interface with the Postal Service's complex rates and regulations" (Opinion, at 34). The Postal Service agrees, and considers this a compelling argument for maintaining the 125 percent cost coverage during the experiment. As has been pointed out, the proposed cost coverage is consistent with the ratemaking criteria of the Act (USPS-T-5 at 17-21), not only for the market test, but for the experimental phase as well. The Commission (Opinion, at 32) compares Mailing Online's cost coverage with the cost coverages for First-Class Mail and Standard A. While these comparisons are apt, the Postal Service maintains that, by providing a system whereby small volume customers can expedite the mail acceptance process, Mailing Online fees most closely resemble permit fees, thus meriting a relatively low cost coverage. Moreover, the unique characteristics of Mailing Online weigh against application of a higher cost coverage. As has been pointed out, nearly all of the costs of Mailing Online are incurred on a unit basis

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO NOTICE OF INQUIRY NO. 1, ISSUE 6**

(Opinion, at 32), thus reducing the likelihood of cross subsidization. Moreover, these costs are not based on sampling or cost studies, but are specified in contractual agreements between the Postal Service and its partners. These facts ensure that cost coverage is relatively constant, and therefore less prone to erosion than cost coverages for typical Postal Service products.

Furthermore, any comparison of cost coverages across products implies a notion of "fairness", i.e. that because of either similarities or differences between and among products, there is a fair amount that a given product ought to contribute to institutional costs. Mailing Online is perhaps unique in that most of the direct costs of the service are borne by contractors. While this characteristic of the service does not obviate fairness considerations, it does affect the context in which such considerations should be considered. Contractors pass through, both their direct costs and some additional amount to cover overhead expenses and provide an adequate return. Thus, the Mailing Online cost coverage is not fully analogous to traditional cost coverages, since a private sector profit is already included in Mailing Online.

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

OCA/USPS-T5-41. Please refer to your testimony at page 11, lines 2-5, and the following quote from PRC Op. MC98-1, at 13-14.

All Mailing Online mail that undergoes batching is expected to have lower mailstream cost characteristics than it has at the time that it is submitted by the customer. [footnote omitted] The Postal Service recognizes that a system that reduces the mailstream cost of mail after it is submitted by the mailer but before the Postal Service enters it into the mailstream gives rise to a number of practical pricing problems. If the Mailing Online customer were charged the mailstream rate that its mailing could qualify for under the regular schedule at the time that it submits its mailing, the mailer would go uncompensated for the reduction in mailstream costs that its purchase of Mailing Online service enhancements made possible. Alternatively, if Mailing Online customers were not quoted a mailstream price until after they placed their orders and the mailstream costs of the batches formed with their orders were calculated, customers disappointed by the quoted prices could reject them and cancel their orders. This would undo batches that were tentatively formed, and disrupt the calculation of mailstream rates for other mailings that contributed to the tentative batches. Tr. 2/567, Postal Service Brief at 13.

- a. Please confirm that all Mailing Online mail that "undergoes batching" is assumed by the Postal Service to have lower costs than when it is submitted by the customer. If you do not confirm, please explain.
- b. Please confirm that the Automation Basic discounts for all First-Class Mail, and Automation Basic Destination BMC discounts for all Standard A mail are assumed by the Postal Service to represent the average cost savings of mail that undergoes batching. If you do not confirm, please explain.
- c. Please confirm that the Postal Service agrees with the third sentence in the passage quoted above. If you do not confirm, please explain.
- d. Please confirm that the Postal Service agrees with the fourth and fifth sentences in the passage quoted above. If you do not confirm, please explain.

OCA/USPS-T5-41 Response:

- a. Confirmed generally, though costs might be equal in some circumstances.

Mailing Online pieces, of course, undergo processing beyond batching that also reduces costs.

- b. Not confirmed. I proposed use of Automation Basic rates for a number of reasons, which are explained in my testimony (USPS-T-5, pp. 10-12). While

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

these rates are not expected to represent the average cost savings, they are expected to be more representative than any other existing rate of the type of mailpiece that will be produced through Mailing Online.

c-d. Redirected to witness Garvey.

15 Q Do you have available to you -- Ms. Rothschild, I
16 am Frank Wiggins for Pitney-Bowes. Do you have available to
17 you a document that I earlier provided to your counsel
18 called Pitney-Bowes Cross-Examination Exhibit?

19 COMMISSIONER LeBLANC: Could you speak up just a
20 tad?

21 MR. WIGGINS: Absolutely.

22 COMMISSIONER LeBLANC: Thank you, sir.

23 THE WITNESS: Yes, I do.

24 MR. WIGGINS: Would the bench like to have copies
25 of this? I am going to be taking the witness through some

1 numerical examination?

2 COMMISSIONER LeBLANC: It would be helpful,
3 please. You do have copies for the reporter, if we need
4 them? Thank you.

5 BY MR. WIGGINS:

6 Q Take a look with me, if you would, Ms. Rothschild,
7 at the first page of that document. That is, I believe, a
8 page, indeed, the first page out of a Library Reference that
9 you submitted, or that was submitted on your behalf?

10 A It was part of a response to an interrogatory.

11 Q I'm sorry. Help me to understand just what you
12 are telling us here. Under the column headed 25 percent,
13 that first number, the weighted total number, what does that
14 represent?

15 A That represents the total number of businesses
16 that would send NETPOST volume at the 25 percent
17 contribution margin price point.

18 Q Okay. That's a number of businesses, and when it
19 says weighted, what does that mean?

20 A That means that, based on our survey, we
21 interviewed a certain number of businesses, and those
22 businesses were then projected to the population, the
23 eligible user population, in order to represent the total
24 universe.

25 Q So the next row down which says total unweighted,

1286

1 and the number there is 194, that is the actual number of
2 businesses that responded to your survey saying that we have
3 NETPOST mail, is that right?

4 A It is the number of businesses in response to the
5 question, how many of your existing pieces you would have
6 used NETPOST during the past months. So it is a subset of
7 the people that we actually interviewed.

8 Q But it is a number of businesses, not a number of
9 pieces, is that right?

10 A That is correct.

11 Q Okay. So these are businesses who say --

12 A Yes.

13 Q -- I have mail that I would have employed NETPOST
14 to distribute had NETPOST existed during the past 12 months?

15 A That is correct.

16 Q Okay. And then you get down to the rows that
17 read, respectively, 1 to 200, 201-999, et cetera.

18 A That's correct.

19 Q What do the numbers there represent?

20 A That represents the number of pieces.

21 Q And 1 to 200 means a piece -- it means 1 to 200
22 pieces would have been sent, is that right?

23 A That is correct.

24 Q So that when we see the number underneath the
25 556914 number of 22.5, does that mean that 22.5 percent of

1287

1 the pieces represented in the responses given to you by
2 people who said I would have used NETPOST for existing mail,
3 22.5 percent of them had 1 to 200 pieces in their mailings?

4 A It does not represent the number of pieces, it is
5 not a distribution of volume. It is a distribution of
6 businesses.

7 Q Exactly. I'm sorry if I misspoke.

8 A Okay. So --

9 Q But 22.5 percent of the businesses you interviewed
10 said that they had pieces -- mailings, rather, that would go
11 out in 1 to 200 piece groups, is that correct?

12 A No. It represents that, in total, a given
13 business had a total of somewhere between 1 to 200 pieces
14 that they would send. It has nothing to do with how many
15 mailings they would actually send it.

16 Q I see. So we don't know how many there would be
17 in any given mailing. That is how many there would be in
18 what --

19 A In total.

20 Q But in what time interval? Forever?

21 A No. It was in, as the question says, during the
22 past 12 months.

23 Q Okay. During the past 12 months, 22.5 percent of
24 the businesses responding affirmatively to your question
25 said I would have, over that 12 month interval, 1 to 200

1 pieces?

2 A They actually provided a specific number.

3 Q Oh, no, I understand.

4 A What is represented on the table is the businesses
5 that said a number between 1 and 200.

6 Q I appreciate that, and I am sorry for misspeaking.

7 A Okay.

8 Q So we don't really have any notion from this of
9 how many pieces per mailing would have been offered by any
10 of these respondents?

11 A That is correct.

12 Q But we do know with a certitude that if they only
13 had one mailing during the 12 month interval, that mailing
14 would not have had more than 200 pieces?

15 A That is a fair assumption.

16 Q Well, that is what it says, isn't it?

17 A That is correct.

18 Q Okay.

19 A Yes.

20 Q The number down at the very bottom of Table 1, in
21 the 25 percent column, what does that represent? It says
22 sum, s-u-m.

23 A Yes. That represents the total number of pieces,
24 actual pieces, from all the businesses at the 25 percent
25 price point that would send NETPOST -- existing pieces they

1 already had, that they would send NETPOST during the past 12
2 months.

3 Q And is that, is it the sum of other numbers that I
4 see on this page?

5 A No, it is not. It represents taking each of the
6 individual businesses that contributed to this table and
7 their actual number of pieces they said they would send,
8 times their weight, because it is projected to the
9 population, and that is where the sum comes from.

10 Q So it is the sum of numbers that are not -- there
11 are cells that aren't really displayed here, is that right?

12 A Presented here, that is correct.

13 Q And if I add the sum from the 25 percent column on
14 Table 1, page 1, with the sum of the 25 percent column at
15 Table 2, page 2, --

16 A Yes.

17 Q -- do I have the entire universe of what your
18 survey found would have been sent by mailings who would have
19 used NETPOST for both their existing and new mailings during
20 that hypothetical 12 month period?

21 A That is correct.

22 Q So that is a year's worth of total NETPOST, is
23 that right?

24 A As reported by the survey.

25 Q As the survey measures.

1 A Yes.

2 Q And I was heartened to find that, as I'm sure you
3 were, when I looked at question 7, which asked this same
4 population of people about whether they would send their
5 NETPOST mailings by First Class or Standard A mail, that I
6 added up the responses, the First Class responses and the
7 Standard A responses, and I got the same sum as I got when I
8 added up these first two pages.

9 A That's correct.

10 Q And that is methodologically the way it ought to
11 have come out; is that right?

12 A That is correct.

13 Q Okay. When I added up those numbers, I got a
14 number that is 13167856234. It's a number that you
15 report --

16 A 13 billion; yes.

17 Q Yes, 13 billion pieces roughly.

18 A That is correct.

19 Q And change. When I applied the weighting factor
20 that you used to account for the fact that not everybody
21 would be aware of NETPOST and not everybody would have
22 Internet access, and the one I liked best was a 50 percent
23 they're fudging on me factor. But I put all those together
24 and you calculate the combination of those discounting
25 factors, if you would.

- 1 A Um-hum.
- 2 Q As .0221.
- 3 A Yes.
- 4 Q Right? And I multiplied .0221 times that 13
5 billion number, and I did not get -- I was shocked and
6 appalled -- I did not get the 295 million pieces that you
7 report to be the survey projected 1999 NETPOST 25 percent
8 volume. Why is that?
- 9 A May I ask a question?
- 10 Q I won't guarantee an answer, but you certainly --
- 11 A What number did you get?
- 12 Q I got 291 and change.
- 13 A That's -- okay. The reason why you did not get
14 the exact numbers is because what is presented in the
15 library reference for all the adjustment factors are
16 whole-number percentages, and when the actual calculations
17 were done, they were done to the 12th decimal place. And
18 when you carry everything out to the 12th decimal place, you
19 will get more precise numbers.
- 20 Q Okay. But theoretically --
- 21 A Yes.
- 22 Q Methodologically what I did was the right thing, I
23 just didn't have --
- 24 A Yes; absolutely.
- 25 Q Enough spaces on my calculator. I was using a too

1 primitive number.

2 A That is correct.

3 Q One ought to take that 13 billion number and
4 multiply it by the product of the discounting factors, and
5 you'll get the volume.

6 A That is correct.

7 Q Okay.

8 Your table 15 in your testimony of the library
9 reference that is incorporated in your testimony shows that
10 approximately 30 percent, it's 30.1 or something like that,
11 of the projected volume of -- that is not a document that's
12 in the cross-examination exhibit, that's in her testimony.
13 It's page 18; is that right?

14 A What table number?

15 Q Table 15.

16 A It's on page 34.

17 Q Well, like 18, page 34 of the testimony. That
18 table reports that approximately 30 percent of the projected
19 NETPOST volume will be First Class mail; is that right?

20 A If I had a calculator, I would check it. I only
21 have the number.

22 Q Well, subject to check. The Postal Service
23 answered a bunch of interrogatories about that, and I think
24 30.1 or something like that is the percent. But it's about
25 30 percent, eyeballing it. Right?

1 A Yes.

2 Q And if I look at the results of your question 7,
3 which is also asking for the First Class Standard A split --

4 A Um-hum.

5 Q Of NETPOST mail, is it not? Pages 3 and 4 of the
6 cross-examination exhibit.

7 A That's correct.

8 Q I show just almost a complete reversal in that
9 relationship. I see the NETPOST survey respondents in these
10 gross numbers telling me that roughly 60 percent -- I'm
11 sorry, I have the wrong pages. Show a --

12 COMMISSIONER LeBLANC: Mr. Wiggins, so I can
13 follow you now, are you still on 3 and 4, because you said
14 you thought you'd made a mistake. Are we still on 3 and 4
15 now? Where are we?

16 MR. WIGGINS: Hang with me a mo.

17 I'm sorry, it's not 3 and 4; 3 and 4 is reflective
18 of the first set of numbers that I just gave you out of her
19 table 15. She answered another question for me, however,
20 and that was my interrogatory to her.

21 BY MR. WIGGINS:

22 Q Which, Ms. Rothschild, if you look at page 6 of
23 the --

24 A Okay.

25 Q Cross-examination exhibit.

1 A Um-hum.

2 Q What I've sought to do here, and you check and see
3 whether I did it right, is to transcribe the answers that
4 you gave me to an interrogatory that asked the respondents
5 to the survey how the mail that they currently sent via a
6 number of different modalities that was going to move to
7 NETPOST had been sent in the current state. Okay?

8 So if you look at page 6 -- and I apologize to the
9 bench for my own confusion; when I do numbers, I get all
10 goofy. And Ms. Rothschild responded to this interrogatory
11 giving us information that was not available in other of her
12 submissions that had to do with the responses to a part of
13 the survey instrument that said to Respondents of the mail
14 that you are -- you sent in the preceding 12 months that
15 would, had you had the option, have been sent via NETPOST,
16 as MOL then was called, how was that mail sent? And what
17 you see on page 6 of the cross-examination exhibit is the
18 totals that you provided in response to my interrogatory.
19 Is that right, Ms. Rothschild?

20 A That's correct.

21 Q And what you see there is the flip in relationship
22 that I mistakenly previously attributed to two other pages.
23 What you see there is at these folks who are going to commit
24 their mail to NETPOST are going to commit very substantially
25 much more First Class mail.

1 Is that right, Ms. Rothschild?

2 A What this says is that among the current pieces
3 that people would switch to NETPOST, --

4 Q Right.

5 A -- a large proportion of them are currently being
6 sent by first class mail.

7 Q And what the survey also showed, if I have this
8 right, is that once the mail becomes NETPOST mail,
9 substantially more of it is going to be standard A than
10 first class; is that right?

11 A According to what is on Table 15 in the library
12 reference, it is true that the distribution of pieces shows
13 a larger proportion for standard. But what is not in
14 question five that we were looking at on the table in the
15 material --

16 Q Page 6 of the --

17 A Page 6 --

18 Q -- of the cross examination.

19 A -- of the cross examination is the new pieces that
20 would come to NETPOST. And when you add in the new pieces
21 of NETPOST, it is conceivable, as shown by the survey
22 results on page -- Table 15, page 34, that the distribution
23 could change.

24 Q If one wanted to take the numbers that I'm showing
25 on page 6, the numbers that you provided me as an answer to

1 an interrogatory, and make them comparable to the numbers at
2 Table 15, would I multiply by .021 plus another nine digits?

3 A You can take the information that is on this page
4 6 and do that, but you would be leaving out a portion of the
5 volume that would come to NETPOST.

6 Q Oh, I fully understand that, because this is only
7 existing mail; is that correct?

8 A But --

9 Q It leaves out, if I'm right -- and the totals work
10 out. You see the total down there at the foot of this
11 little calculation that I have created named T?

12 A Yes.

13 Q Okay. Well, that's the same number --

14 A As what was on the table.

15 Q -- that one sees if you look at page 1, which is
16 your document. That's existing pieces that would have used
17 NETPOST.

18 A That's correct.

19 Q So that I would know by doing the calculation that
20 I just described to you how many existing pieces. I could
21 compare existing pieces in each category of mail with the
22 first class and standard breakdown that you've got on page
23 34, table 15 of your document; is that right?

24 A They're asking two different sets of questions, so
25 I would have to -- I'm not -- can you explain to me what

1 comparison you are trying to make?

2 Q I would be really interested to know whether, at
3 the end of the day, after the introduction, you know, by the
4 account of your survey, obviously -- that's the information
5 we have -- at the end of the day, after the introduction of
6 the NETPOST MOL service, is there going to be mail that used
7 to be paying first class rates that is going to be -- net --
8 is there going to be mail that used to pay first class rates
9 that, with the advent of NETPOST, is paying NETPOST third
10 class postage?

11 How would I do that, if I could?

12 A You can do that by taking the number of businesses
13 who said they would send NETPOST pieces and of their
14 existing volume, their first class pieces.

15 Q Okay. That would be the first row at page 6 of --

16 A That is correct.

17 Q Okay. I take that 55 --

18 A And you could, I think, and I would have to go
19 back and check this, but I believe that you could then look
20 at how those business -- let me stop.

21 You cannot do what you're intending to do, and the
22 reason that you can't do it is because we did not ask people
23 to take their specific classes of mail and tell us which
24 class of mail they would now send it by NETPOST. So all we
25 know is in the aggregate.

1 Q Let me ask -- well, I'm not talking about
2 individual pieces; I'm only talking about in the aggregate,
3 net.

4 A Uh-huh.

5 Q Okay. I'm not saying, you know, letter three, how
6 would you treat with that.

7 There's a relationship, is there not, in Table 15
8 between first class and standard pieces? One can create a
9 ratio there, and I'm telling you it's about 30 percent --

10 A Yes.

11 Q -- first class.

12 A Uh-huh.

13 Q And if you look at page 6, you can create a ratio
14 between standard and first class, can you not?

15 A Yes.

16 Q And would that ratio or would that pair of ratios
17 have any meaning? Would it show you a migration of pieces
18 that at present are traveling first class that would, after
19 the inauguration of the NETPOST experimental period, travel
20 NETPOST third class?

21 A And my answer to you is I believe no, and the
22 reason why you cannot establish a relationship between the
23 two questions is that the base on which we ask the question,
24 what appears in table 15 is the total number of NETPOST
25 pieces. It is not just the pieces that were existing. And

1 I cannot establish a relationship between how new pieces
2 would come standard A or first class and existing pieces
3 now.

4 Q Well, you can after a fashion, can't you? Do you
5 know what proportion of NETPOST mail is going to be new
6 pieces? You did that calculation for us.

7 A Yes.

8 Q It's 38 percent, right?

9 A Uh-huh.

10 Q Which means 60 --

11 A Yes.

12 Q Sixty-two percent of the NETPOST mail is going to
13 be existing pieces.

14 A That is correct.

15 Q Does that help you to make the relationship that I
16 was describing?

17 A No, because among those 62 percent, as I
18 indicated, there are a distribution of those pieces now.
19 But I never then said, tell me only about your existing
20 pieces, how will you send it. So I can't establish that
21 relationship.

22 Q Let's go about it in just a slightly different
23 fashion. If you look at page 6, the relationship between
24 the first class line and the standard line, it's 5.57 and
25 1.78, right? Call it 6 to 2, okay, rounding generously in

1300

1 both instances, but to deal with my numerical illiteracy.
2 There are roughly three times as many first class pieces as
3 they are mailed today as there are standard pieces in the
4 population of mail that's going to move to NETPOST; is that
5 right?

6 A Yes.

7 Q And now you look at table 15, and table 15 tells
8 me that there are roughly three times as many standard A
9 pieces as there are first class pieces in the NETPOST world;
10 is that right?

11 A That's correct.

12 Q And we know that 60 percent of that population
13 that's represented in table 15 is existing mail. That's
14 mail that lives on page 6 in my cross examination exhibit,
15 correct?

16 A Would you say that again, please?

17 Q Sure. We know that of the mail represented on
18 table 15, 62 percent is mail that is also represented on
19 page 6 of the cross examination exhibit; isn't that right?

20 A That's correct. That's correct.

21 Q Doesn't that tell you something?

22 A First of all, in the table on page 6, what is
23 standard mail is -- there are two. There's standard and
24 standard nonprofit. So the relationship you are describing
25 is not exactly correct.

1301

1 Q Well, I was rounding in any event.

2 A Okay.

3 Q But, you know, close enough for government work.

4 A Okay.

5 Q But adding that other set of relationships that I
6 just did, the 62 percent and 38 percent, does that tell you
7 anything at all?

8 A It tells me that there is a relationship between
9 existing and new pieces.

10 Q Yes. But it doesn't help you to understand the
11 movement of mail. We have three times as much mail right
12 now, the mail that's going to move over to be NETPOST mail,
13 as we have standard mail, and at the close of business after
14 NETPOST is established, we have three times as much standard
15 mail as we do have first class mail. There's been a twist,
16 correct? And you're saying that that change in proportion
17 can be attributed to either or both of two things. It could
18 be attributed to new mail; is that right?

19 A That's correct.

20 Q Now, in order to make that relationship work, how
21 much of the new mail would have to be standard A?

22 A I can't calculate that here without a calculator.
23 It's --

24 Q Well, more than all of it; isn't that right?

25 [Pause.]

1 Q More than all of it?

2 A Some portion of it, but until I actually did the
3 calculations, I can't answer whether it's more, some or all.

4 Q It seems to me arithmetically obvious.

5 MR. WIGGINS: I don't have any further questions
6 of Ms. Rothschild.

7 Thank you, Ms. Rothschild.

8 THE WITNESS: Okay.

9

10

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first	5573339720
2nd	1434078
std	1787998314
std non-prof	785092857
priority	44289740
express	6441026
non-postal	140655414
e-mail	18938498
other	395852826
T	8754042473

PLEASE READ THE SEPARATE FIVE-PAGE BROCHURE THAT DESCRIBES NETPOST AND ITS PRICES NOW.

Please continue to think only about your newsletters even if you produce other types of documents for your organization. We understand that NetPost may be relevant for other types of documents; however, during this phase of research, we are only interested in your newsletters.

3. Assuming that NetPost had been available during the past 12 months, which of the following would you have done? (Check all that apply)		4. For how many newsletters would you have used NetPost during the past 12 months? (Please record a number, not a percentage)
3a. I would have used NetPost for <i>some or all of the pieces</i> that I produced during the past 12 months	<input type="checkbox"/>	4a. _____ Record for how many of your <i>existing pieces</i> you would have used NetPost during the past 12 months
3b. I would have used NetPost for <i>new pieces</i> beyond what I produced during the past 12 months	<input type="checkbox"/>	4b. + _____ Record for how many <i>new pieces</i> you would have used NetPost during the past 12 months
3c. I would <i>not</i> have used NetPost at all	<input type="checkbox"/>	
		4d. = _____ Total NetPost Volume

IF YOU CHECKED Q.3C, SKIP TO THE ENHANCED NETPOST SERVICE ON PAGE 11.

5. (ONLY ANSWER IF Q.4A IS GREATER THAN "0"; OTHERWISE SKIP TO Q.7) How many of the newsletters that you would have sent via NetPost did you *actually* distribute via each of the following services:

[REFER TO THE GLOSSARY ON PAGE 19, WHICH PROVIDES DEFINITIONS OF EACH OF THESE SERVICES.]

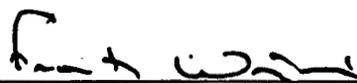
<u>U.S. Postal Service:</u>		
5a.	First-Class Mail (\$.32 per piece for the first ounce) including presort	_____
5b.	Second-Class Mail	+ _____
5c.	Third-Class/Standard Mail (Bulk Mail)	+ _____
5d.	Bulk Mail (Non-Profit)	+ _____
5e.	USPS Priority Mail (Two- to Three-Day Service - \$3.00 or more per piece)	+ _____
5f.	USPS Express Mail (Overnight Service - \$10.75 or more per piece)	+ _____
5g.	Non-Postal Delivery Services (e.g., FedEx, UPS)	+ _____
5h.	E-mailed (electronic mail/Internet mail)	+ _____
5i.	All Other (e.g., hand delivered, central pick-up, inserts with other mailings, fax, etc.)	+ _____
5j.	Total NetPost Volume distributed by means 5a - 5i during past 12 months	= _____

↑
Total NetPost volume
must equal response
to Q.4a on page 5

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served this document upon the
United States Postal Service.

DATE: November 16, 1998



N. Frank Wiggins

1314

1 COMMISSIONER LeBLANC: Is there any follow up?
2 Are there any questions from the bench?

3 Ms. Rothschild, just let me follow what Mr.
4 Wiggins said just to make sure I understood this. Let me
5 word it another way.

6 Yesterday, Mr. Plunkett was talking about -- well,
7 one of the witnesses yesterday was talking about leakage.
8 In your mind, there is no crossover, there is no leakage,
9 then? Is that what you're saying? I'm not trying to put
10 words on your mouth; I'm trying to understand here.

11 THE WITNESS: No. The answer that I'm giving is, I
12 can't answer the question about leakage because we didn't
13 ask the questions that particular way. That is the only
14 thing that I am saying. I can't answer whether there would
15 be or wouldn't be, not that there isn't any.

16 COMMISSIONER LeBLANC: During the
17 cross-examination on August 26th, Witness Garvey stated that
18 data from the market test will be used to augment the
19 existing Mailing Online usage and volume estimates. Just so
20 you know, that is Transcript 2, page 332, lines 4 through
21 13.

22 Could you describe -- then I am a little confused
23 here, so let me back up. Then could you describe how the
24 data from that market test might be used to validate and
25 augment the estimates from your market survey work?

1315

1 THE WITNESS: I think you would have to ask Mr.
2 Garvey what he meant. I don't know what he meant because I
3 am not aware of what it is we would be doing.

4 COMMISSIONER LeBLANC: But you did take the
5 survey?

6 THE WITNESS: The survey data have been presented,
7 but the market test is distinct from the survey, and I am
8 not privy to, nor do I know how the Postal Service envisions
9 using the market test with the survey data.

10 COMMISSIONER LeBLANC: So no one talked to you
11 about this, in effect, because you couldn't -- in effect,
12 you would not have an opinion how it would be -- how you
13 could validate or augment the estimates from your market
14 survey work?

15 THE WITNESS: My understanding is that the market
16 test is limited in size, scope and duration, and there is
17 not an exact relationship between the two, so, no, I am not
18 aware of how that could be done.

19 COMMISSIONER LeBLANC: Okay. Thank you.

20 THE WITNESS: You're welcome.

21 COMMISSIONER LeBLANC: Any follow-up from the
22 question I just asked from the bench?

23 [No response.]

24 COMMISSIONER LeBLANC: Okay. That brings us to --
25 I'm sorry. Mr. Wiggins?

1316

1 MR. WIGGINS: Not from me.

2 COMMISSIONER LeBLANC: That brings us into
3 redirect. Mr. Reiter, would you like an opportunity to
4 consult with your witness?

5 MR. REITER: Yes, I would.

6 COMMISSIONER LeBLANC: Five minutes, 10 minutes,
7 what do you need?

8 MR. REITER: Ten minutes.

9 COMMISSIONER LeBLANC: I'm sorry?

10 MR. REITER: Ten minutes, please.

11 COMMISSIONER LeBLANC: Okay. Why don't we come
12 back then in 10 minutes. We will make it 10 minutes. Off
13 the record, Mr. Reporter.

14 [Recess.]

15 COMMISSIONER LeBLANC: Mr. Reiter, are you ready?

16 MR. REITER: Yes, I am.

17 COMMISSIONER LeBLANC: Mr. Reporter, back on the
18 record.

19 REDIRECT EXAMINATION

20 BY MR. REITER:

21 Q Ms. Rothschild, when earlier you were discussing
22 with Mr. Wiggins some of the proportions of various kinds of
23 mail, comparing your Table 15 to page 6 of his
24 cross-examination exhibit, you explained why you thought
25 that comparison couldn't be done. Do you have any

1317

1 additional factors that would bear in consideration of that
2 issue that you would like to explain?

3 A Yes. On Table 15, the designation First Class and
4 Standard, in our survey we presented to individuals a
5 delivery time for the pieces, and the designation here First
6 Class was referenced as next day delivery and Standard as
7 two to five day delivery and, therefore, when you go back to
8 the information that appears on page 6, which is in the
9 exhibit which I was given today, you would have to add up
10 all the pieces here and then take them in total and say, how
11 would they be distributed? You can't just look at First
12 Class to First Class, because it could be any of the pieces
13 listed in the table that then would be sent for next day or
14 for Standard delivery.

15 MR. REITER: Thank you. That's all I have, Mr.
16 Presiding Officer.

17 COMMISSIONER LeBLANC: Mr. Wiggins or Mr.
18 Richardson, any redirect on that?

19 MR. WIGGINS: I do, Mr. Presiding Officer.

20 RECROSS-EXAMINATION

21 BY MR. WIGGINS:

22 Q When you calculated, Ms. Rothschild, the 62
23 percent, 38 percent ratio, you told us that you did that by
24 adding the number of pieces that were shown on Table -- the
25 document that is page 1 of the cross-examination exhibit,

1318

1 existing now, is that right, to the number of pieces that
2 were reported in the response to your interrogatory -- or to
3 your survey instrument number 5 -- question 5 to your survey
4 instrument in the rows G, H, and I, is that right? You
5 added those together and you divided them by the total of
6 NETPOST mail in order to get that relationship, right?

7 A The answer was in question 4(b), which is new
8 pieces, and --

9 Q I'm sorry, 4(b), not 4(a), I'm sorry.

10 A 4(b). And G, H, and I in question 5. That
11 becomes the numerator and the denominator are all total
12 pieces which is 4(d).

13 Q Yes. And isn't that committing the same fallacy
14 that you just accused me of? If a fallacy, I committed, you
15 did it, too?

16 A Can you explain what fallacy you are --

17 Q Well, you are telling me that you can't make the
18 comparison that I suggested on page 6 of my
19 cross-examination exhibit because I am not treating with all
20 of the pieces that are reported in response to your question
21 5. Is that right?

22 A No.

23 Q Was the nature of your --

24 A No.

25 Q Maybe I misunderstood your criticism of me. Say

1 it again.

2 A Okay. What I am saying is there is an obvious
3 relationship between question 4 and question 5 because the
4 sum of the parts and how people divided up their answers
5 were intended to be one and the same. Okay. So when I
6 calculate the new pieces, the 38 percent, I can take all the
7 new pieces that didn't yet exist, plus the pieces that were
8 never in the Postal Service pot to begin with, --

9 Q Right.

10 A -- and get an answer by dividing that number by
11 the total number of pieces. But what I am saying to you is
12 that, when I then have that total number of pieces, and I
13 ask people, how will you send them when NETPOST exists, --

14 Q That is question 7, correct?

15 A That is question 7. What I am saying is that we
16 gave people in the survey two categories of response, one is
17 next day and one is standard, and they divided up all their
18 pieces of NETPOST that they would send. So that there is no
19 relationship, per se, between question 5, which is how they
20 send existing pieces, because existing pieces could be
21 Standard pieces that could come First Class and vice versa.
22 So you can't make the relationship that you have intended to
23 do by saying this relationship of First to Standard ought to
24 be the same as it is here, you can't do that.

25 Q Would it be fair, though, if I did the adjustment

1 that you did, if I multiplied the raw numbers by the .021
2 factor -- wait, wait --

3 A Okay.

4 Q And I saw -- you will have plenty of chance, but
5 let me just get it out here.

6 A Okay.

7 Q And I saw at the end of that calculation that, of
8 the projected NETPOST mail, there was less First Class mail
9 than was reported to exist in the current pre-NETPOST
10 environment by question 5 respondents. Okay. If I am
11 looking just at that number, and I see a question 5 number
12 and I see a post-NETPOST First Class number, and the First
13 Class number is smaller, in absolute terms, could I
14 correctly conclude from that that some mail that had been
15 paying First Class postage before NETPOST was introduced was
16 paying less than First Class postage, because the only
17 alternative is Standard A NETPOST, correct?

18 A You can't conclude what you are intending to do
19 because these are some pieces -- what I'm saying is there
20 are some pieces that are currently going standard that may
21 indeed go next day, and therefore they would be paying a
22 higher rate, --

23 Q But they would be reported as that, wouldn't they?

24 COMMISSIONER LeBLANC: Mr. Wiggins, let her finish
25 her response.

1321

1 THE WITNESS: The answer is no. What I'm saying
2 is you have to divide -- you have to take all the pieces in
3 question five, and there is no relationship between what is
4 in question five and what appears in table 15. That is what
5 I'm saying. Multiplying by the 0221 isn't going to get you
6 there because it's a constant. The -- so forget that for
7 the moment.

8 The relationship between question five and what is
9 question seven is because we are asking people to divide up
10 pieces on two different basis, and the second reason is
11 because how people currently send and how they would
12 subsequently send includes more than just first class mail,
13 it includes all the kinds of mail listed in table 5.

14 MR. WIGGINS: Sure.

15 BY MR. WIGGINS:

16 Q But it's right, isn't it, that people are now
17 sending their mail in some fashion, and some population of
18 that mail is going first class, correct? The NETPOST mail.

19 A Yes.

20 Q And do you believe that you have accurately
21 captured, within the boundaries of surveys and stuff like
22 that --

23 A Yes.

24 Q -- the number of pieces that are right now,
25 pre-NETPOST, going first class?

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(202) 842-0034

1 A Yes.

2 Q And some part of that population of mail, after
3 NETPOST gets implemented, is going to be traveling NETPOST
4 first class; is that right?

5 A I would expect them to use the next day service,
6 yes.

7 Q Well, no, I mean some people are going to use the
8 next-day service and some are going to use the standard.

9 A That's correct.

10 Q We're looking at a single population of mail.
11 We're looking at that group of mail that is today not using
12 NETPOST because there is no NETPOST, but once we have
13 NETPOST, it's going to be using NETPOST, right?

14 A Yes.

15 Q That's what we're looking at.

16 A Uh-huh.

17 Q And right now today, when I look that mail in the
18 eye, I see some number of its pieces traveling first class,
19 correct?

20 A That's correct.

21 Q And that's reported in your survey, is it not?

22 A That is correct.

23 Q And what number should I look for in your survey
24 to tell me what that number is? Where should I look?

25 A What -- I'm not sure what --

1323

1 Q What part of your survey should I examine in order
2 to determine right now today what piece of that population
3 we're looking at is going first class?

4 A What portion of potential NETPOST is going first
5 class today? It's on the table you gave me.

6 Q Okay. That's the first line on page 6.

7 A That is correct.

8 Q Okay. And then after we have NETPOST, your
9 respondents tell you that some other magnitude, some other
10 number of pieces of mail is going to travel first class; is
11 that correct?

12 A They told us that it would travel next day, yes.

13 Q Okay. Do you think that accurately captures the
14 differential between first and standard A?

15 A What captures?

16 Q The to me very confusing description in your
17 survey of next day and two to five days. Do you think that
18 accurately captured the difference between first class and
19 standard A?

20 A It captures the difference between different
21 delivery times. That is the distinction we intended to make
22 in the survey, between next-day and two- to five-day
23 delivery.

24 Q Is that how NETPOST, or MOL as now it is known,
25 operates?

1324

- 1 A I can't answer that question.
- 2 Q You don't know whether it has --
- 3 A I don't know.
- 4 Q -- rates that are called next day and rates that
5 are called two to five days?
- 6 A No, I do not.
- 7 Q If it doesn't, would your survey accurately
8 predict anything about the way that people are going to
9 respond to what's actually being offered here?
- 10 A Can you repeat the question?
- 11 Q Absolutely. Your survey measured the way people
12 responded to two descriptions of mail. One was called next
13 day and one was called two to five days, correct?
- 14 A That's correct.
- 15 Q If the Postal Service is not offering a mail
16 delivery rate that is called next day and two to five days,
17 would your survey predict anything about what they're likely
18 to yield when they offer what they're offering?
- 19 A It depends on the relationship between what
20 they're currently offering and the survey.
- 21 Q Do you know the answer? Do you -- are you able to
22 --
- 23 A No, I do not know the answer.
- 24 Q Okay. If I wanted to know how many people in your
25 survey said, oh, boy, if you give me next day, I will take

1 it for this many pieces of mail, where would I look?

2 A On what is on table 15.

3 Q Thank you.

4 MR. WIGGINS: I have nothing further, Mr.
5 Presiding Officer.

6 COMMISSIONER LeBLANC: Any follow up, Mr. Reiter?

7 MR. REITER: No, there isn't.

8 COMMISSIONER LeBLANC: Mr. Richardson?

9 Well, Ms. Rothschild, I think that may do it for
10 you this afternoon.

11 THE WITNESS: Thank you.

12 COMMISSIONER LeBLANC: We appreciate your
13 appearance here today and your contributions to our record,
14 and if there is nothing further, you are excused.

15 Thank you.

16 [Witness excused.]

17 COMMISSIONER LeBLANC: Our last witness this
18 afternoon, Lee Garvey, is already under oath in this
19 proceeding, and I believe -- is Mr. Hollies going to -- yes.
20 Mr. Hollies, will you introduce your witness? Take your
21 time, get yourself squared away there.

22 MR. HOLLIES: The Postal Service recalls Mr. Lee
23 Garvey.

24 [Pause.]

25 COMMISSIONER LeBLANC: Mr. Hollies, are you set

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

OCA/USPS-T1-44. Please refer to Tr. 4/845. Here you state that "it would be possible to modify the system so as to store and forward the reports [generated by the sortation software in Mailing Online]"

- a. Has such a modification been performed? If not, what is the expected date of modification?
- b. What is the name of the sortation software utilized in Mailing Online? Please provide a copy of any instruction manuals, documentation, readme files, or online help files that accompany the sortation software.
- c. Do commercial mailers or presort bureaus use the same sortation software? Do such other users maintain electronic records of the manifests, 3600s, and 3602s generated by the sortation software? If so, what prevents the Postal Service from doing the same?
- d. Can the sortation software used in Mailing Online generate a report that shows the volumes for each manifest, 3600, or 3602 that would qualify for each presort discount? (See PRC Op. MC98-1, October 7, 1998, at 45: "If the mailing statements provide the level of sort achieved on each batch . . . , then the provision of these statements will be sufficient.") If so, please provide all such existing reports and all future reports on an ongoing basis (electronic and hard copy). If not, please "find an alternative means of providing the depth of sort data for each batch." *Id.*
- e. Can any of the manifests, 3600s, or 3602s generated by the sortation software be associated with a particular page count/job type category. For example, do the reports or mailing statements generated by the sortation software contain an identification code that can be associated with an identification code in the job type/page count reports generated by the system software? If so, please provide the tabulations requested in OCA/USPS-T1-43.

RESPONSE:

- a. No system modification has been performed which would allow the storing and forwarding of sortation software reports. Although no firm timeline has been established, a ready means of providing this information has been identified in the form of a built-in switch in the commercial software which allows the creation of a "Mail.dat" file for each batch file statement. The Mail.dat file contains all of the variable elements of a mailing statement and allows for storage and manipulation of the data in soft-copy

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

format. We are currently analyzing the time and effort requirements of a modification to allow the creation and electronic forwarding of "Mail.dat" files for all MOL statements.

- b. The sortation software utilized is Postalsoft's "Presort Jobfile". Documentation supplied with the software is the property of the Firstlogic - Postalsoft company and cannot be released or reproduced without their express permission. The company declined to authorize inclusion of the documentation in this response but did indicate a willingness to discuss the possibility of sharing it with participating parties on a one-to-one basis. Counsel can provide contact information upon request.
- c. According to Postalsoft, Presort Jobfile is used by a variety of commercial mailers, presumably including presort bureaus. Also, according to Postalsoft, electronic records (Mail.dat files) can be generated by Presort Jobfile and such reports could be (and may be) generated and maintained by other users. The existing MOL system configuration and settings prevent the Postal Service from generating and storing mail.dat files.
- d. The MOL system as currently configured does not generate or keep those records, nor can any reports other than mailing statements be generated; as indicated above, a system modification to enable a Mail.dat reporting option is currently being investigated.
- e. Currently, mailing statements generated by Presort Jobfile do not contain any identification which would allow them to be associated either with a

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

particular batch number or the job type/page count reports generated by
the system. We intend to investigate such an option in the near future.

MC98-1

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

OCA/USPS-T1-49. Please refer to your response to OCA/USPS-T1-45.

- a. In part b. of your response you state, "[O]nly mail-merge jobs are currently combined into co-mingled batches; all others are handled as separate batches. Current (and future) system development is focused on improved functionality including the capability to combine all like documents into co-mingled batches." Please provide copies of correspondence from the system developer relating to the ability or inability of the MOL system software to "combine all like documents into co-mingled batches." If no such correspondence exists, please explain the basis for your response and provide documentary verification thereof.
- b. In part f. of your response you state, "[T]he possible page-count/job-type batches equals $62 \times 48 = 3000$ [sic]." In his response to interrogatory OCA/USPS-T1-46(d), redirected from you, witness Plunkett states, "Some batch types are simply more likely to be chosen than others. Moreover, if document length is a parameter used to define potential batch types, some are highly unlikely to be chosen at all."
 - i. Do agree with witness Plunkett's statement? If so, what is the basis for your agreement?
 - ii. Please provide a table, containing 62×48 cells, that displays the relative likelihood of each possible page-count/job-type batch and is consistent with the assumption that, on average, MOL pieces will be presorted to a depth justifying grant of the Automation Basic discounts.
 - iii. Please provide tables that allocate year-one MOL volume across subclass/page-count/job-type batches. Please show that this allocation is consistent with the assumption that, on average, MOL pieces will be presorted to a depth justifying grant of the Automation Basic discounts.

RESPONSE:

- a. To my knowledge, no such correspondence or other documentation exists on this topic. As stated in my response to part (b), the current system is an enhanced version of the original proof-of-concept software. The specification for that development stated:

"Merge and presort. This capability will allow the NetPost system to automate network logistics, achieving optimum utilization of printing

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

resources, and maximizing postal automation efficiency."

As noted in my response to part (b), the developer understands that current (and future) system development will be focused on this and other improved functionality.

b.

i. I agree that we are likely to learn that certain batch types are more prevalent than others. This learning is the purpose of the experiment.

ii. I have no basis for predicting or even assuming the relative numerical likelihoods of possible batches and therefore am unable to produce such a table.

iii. I have no basis for accurately allocating MOL volumes across possible batches and therefore am unable to produce such tables.

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

OCA/USPS-T1-59. Please refer to part b. of your response to OCA/USPS-4, redirected to you from the Postal Service. You state, "Although the capability is not required at this time, system design allows automatic routing of jobs based upon specific printing requirements as well as destination ZIP Codes."

- a. Do you mean that "the capability" is built into system software at present? If so, please provide a copy of the computer code that implements "the capability." If not, please define the term "system design."
- b. Please explain in detail how the computer code for the system will be adjusted as new print sites are added.
- c. Please explain in detail how the computer code for the system will be adjusted as prices in printer contracts change.
- d. Please explain in detail how the computer code for the system will be adjusted as specialized capabilities are added at one or more print sites.
- e. Please provide documentary verification (e.g., correspondence from the system developer) of your response to this interrogatory.

RESPONSE:

- a. The response to OCA/USPS-4 refers to the basic design of the system which uses a matrix of document printing and finishing characteristics associated with specific print sites along with mailpiece destination ZIP Codes to determine the print site for a specific document/address combination. This allows new printing and finishing requirements to be integrated easily into MOL without altering the basic structure of the software design. The term "system design" refers to the way in which MOL has flexibility and expandability designed into the system so as to allow continued automatic routing of jobs based upon a potentially changing variety of criteria.
- b. According to the developer, "[T]he computer code will not need to be modified. The current system uses a print site table that defines the characteristics of the print site. This combined with the [ZIP C]ode of the addressee determines the print site destination for a mail piece."

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

- c. According to the developer, "[T]he current system contains a materials cost database which defines the cost by print site of the various services requested per job. Each mail piece's distribution (print site) within a job determines the overall cost." This database will be modified as prices in printer contracts change.
- d. See the response to part (b) above. The code would not need to be adjusted, the print site table would be simply be modified to reflect the addition or deletion of specialized capabilities.
- e. See Attachment 1 to OCA/USPS-T1-59(e).

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

OCA/USPS-T1-70. Please refer to page one of the October 16, 1998, Governors' Decision in this docket. The following statement appears there: "The Postal Service then batches (combines) *all* submitted jobs and transmits them electronically to digital printing contractors" (Emphasis added.)

- a. Please confirm that the MOL system software does not now, never has, and never will combine all jobs. If you do not confirm, please explain.
- b. Please confirm that the MOL system software does not now and never has combined any non-mail merge jobs. If you do not confirm, please explain.
- c. What is the number and proportion of total MOL jobs submitted to date that were mail-merge jobs? What is the number and proportion of total MOL jobs submitted to date that have been batched? What is the number and proportion of total MOL pieces submitted to date that have been batched?

RESPONSE:

- a. Not confirmed. A fundamental design objective of the MOL system is to combine all jobs to the greatest extent possible, and this is the basis for the quoted language. Although differences in processing categories and handling characteristics are likely to prevent complete combination of all jobs for the foreseeable future, the goal of maximizing efficiencies of batching will continue to drive MOL development efforts and a full combination will remain possible, at least in concept.
- b. Confirmed. Although non mail-merge jobs are not currently combined, future system development is focused on making such combination possible in the future.
- c. These numbers and proportions are not currently available. With respect to the operations test, I hope to provide these data in the next few days. With respect to the market test, these data will be reported when data begin flowing to the Commission.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO NOTICE OF INQUIRY NO. 1, ISSUE 3

Issue 3: The Commission inquires whether the waiver of volume minimums should extend beyond Mailing Online, either on the basis of functional equivalency or some other basis, and what might constitute functional equivalency.

The Postal Service has requested a waiver of volume minimums for Mailing Online during the experiment for the primary purpose of modeling what it expects to see in a mature MOL service. This is necessary for analyzing potential interest in a new service that develops and utilizes several electronically enabled combinations of logistic and commerce functions.

Important to this discussion is an acknowledgment of the fact that the Postal Service, while requesting these waivers for the basic automation rate volume thresholds, has also foresworn any deeper discounts regardless of volume or level of sortation achieved, thus committing to a single average rate category (within class and shape) for all volume received and mailed. The use of an average rate is also critical to completion of a transaction in a single Web-site visit, as discussed in Witness Plunkett's response to Issue 1. Extension of waivers to other hybrid mail services would require similar limitations upon both larger and smaller discounts, as well as true functional equivalence.

Criteria necessary to establish functional equivalence with Mailing Online include the following:

1. Automation compatible mailpieces, including 100% standardized addresses and barcodes on all mailpieces;

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO NOTICE OF INQUIRY NO. 1, ISSUE 3

2. Co-mingling and batching of like mailpieces;
3. Sortation to the finest level of sort possible within batches;
4. Geographic batching and distribution of mailpieces prior to printing and mailing;
5. Secure and completely automated electronic submission of jobs, providing for real-time quotes and secure on-line payment; and
6. Web and browser-based access with no absolute need for client software or a point-to-point dial-up connection with the vendor.

In evaluating the criteria for functional equivalence, it must be noted that the practice of electronic file submission and job ticketing has become common among digital printers and others in the print and mail services industries. Software utilities and Web sites are electronically linking more and more printers and mail service providers to their client companies every day. This to-be-expected extension of existing commerce is commonly designed to emulate existing business practices. Pitney Bowes DirectNET is an example of this approach. DirectNET software provides users the opportunity to design simple mailpieces and create a job ticket for electronic uploading. Users are provided an estimate of the cost of their work, but are informed that final pricing cannot be determined until some time in the future. Included in the estimated cost of each transaction is a set-up fee, a fee traditional to the printing services industry which is designed to cover the cost of providing individualized service to a particular customer. It signifies that the job paid for will be "set-up" and run just for that

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS GARVEY
TO NOTICE OF INQUIRY NO. 1, ISSUE 3

customer. Users are contacted subsequent to submitting the job and informed of the actual (often negotiated) costs of production. This is similar to the traditional printer-client interaction.

Mailing Online offers an alternative process by providing a complete single transaction approach. All parts of the job creation and specification process are conducted online and the transaction is completed in one session.

A goal of the Postal Service is to encourage the development of innovative approaches to mailing. Accordingly, the Postal Service would consider creating special licensing or certification criteria for third-party services that are full functional equivalents of Mailing Online.

9 Mr. Garvey, as a Presiding Officer, I'm a little
10 bit confused after hearing Mr. Plunkett, Mr. Seckar, and a
11 few yesterday --

12 CHAIRMAN GLEIMAN: If I could just interrupt, he's
13 confused even when he's not presiding.

14 COMMISSIONER LeBLANC: I told you I followed my
15 Chairman's lead.

16 But during yesterday's hearing it was stated that
17 significant changes are being made in the Mailing Online
18 system for the experiment. In response to interrogatory of
19 OCA, USPS-T-66, you state that plans have not been finalized
20 for the, and I quote, "full range of services to be offered
21 during the course of the experiment." End of quote.

22 And you start off today for me with a summary
23 statement, if you can, of exactly what it is that we are
24 being asked to consider. And I say that because Mr. Hollies
25 yesterday answered for Mr. Stirewalt because he said Mr.

1510

1 Stirewalt didn't know about some of the changes. Then we
2 have Mr. Plunkett, who says volume 5, transcript page 1024,
3 talked about the changes in the software program, the
4 meetings that are being taken place are taking place today,
5 and I'm not sure whether it's today or fairly shortly, but
6 it's soon, and the changes in the software.

7 Really, what's going on? Where are we at this
8 point? So again I start off with the same question. Could
9 you please give us a summary statement of exactly what it is
10 that we're being asked to consider today?

11 THE WITNESS: I'd be glad to. I'm not a systems
12 engineer, so this will be a nontechnical description by its
13 nature.

14 COMMISSIONER LeBLANC: But you are the policy
15 witnesses.

16 THE WITNESS: That is correct.

17 COMMISSIONER LeBLANC: Thank you.

18 THE WITNESS: As I've indicated in previous
19 responses, the system that's being used for the market test
20 and which was used for the operations test was a
21 proof-of-concept system. Technically speaking it was
22 designed to prove the concept and to allow low-volume usage
23 of the Mailing Online system. Obviously for the Postal
24 Service to offer a full-scale nationally implemented version
25 of Mailing Online such a proof-of-concept system would not

1511

1 be suitable.

2 The technical design of a system that would meet
3 the rigorous requirements that the Postal Service technical
4 experts, the IT folks in the Postal Service, require of such
5 a production-level system have as I understand it
6 necessitated a revision of the original architecture of the
7 system, and I think the substantial changes that are being
8 talked about are not so much in the nature of changing
9 what's being offered for the service but in how it's
10 configured in a technical sense, how many sites there are
11 for purposes of redundancy fail over for disaster recovery,
12 and I think that that, if I'm hearing correctly, is what
13 everyone's talking about in the substantial revisions in the
14 Mailing Online system.

15 COMMISSIONER LeBLANC: Having said that, then,
16 could you provide some assessment of the expected impact on
17 projected costs and benefits from the modifications, or as
18 you call them, just the changes that are being made?

19 THE WITNESS: Impact on the cost as compared to
20 what?

21 COMMISSIONER LeBLANC: As to where they started
22 out.

23 THE WITNESS: I can give you an estimate as I have
24 it today of what the development of the new system is
25 projected to cost.

1512

1 COMMISSIONER LeBLANC: Please do so.

2 THE WITNESS: The estimate that I have in hand for
3 the development of this what we're calling Version 3 of
4 Mailing Online is somewhere in the neighborhood of \$3-1/2
5 million.

6 COMMISSIONER LeBLANC: Is that 3-1/2 million more,
7 or is that just 3-1/2 million now?

8 THE WITNESS: That is \$3-1/2 million.

9 COMMISSIONER LeBLANC: Okay.

10 THE WITNESS: Now that is an estimate. It hasn't
11 been analyzed. I only received it in the past few days.
12 But that's the estimate that I have in hand.

13 COMMISSIONER LeBLANC: Do you envision any major
14 changes in benefits that you offer to the general public as
15 well as maybe down the road commercial mailers or anybody
16 else? I mean is anything changing there?

17 THE WITNESS: Because of the system design, you
18 mean?

19 COMMISSIONER LeBLANC: Yes.

20 THE WITNESS: The changes -- to answer your
21 question directly, no. I think the changes that are being
22 made are changes to offer the benefits of reliability and
23 dependability and what people would expect from the Postal
24 Service in terms of availability.

25 COMMISSIONER LeBLANC: Availability to what?

1513

1 THE WITNESS: To the website.

2 COMMISSIONER LeBLANC: To the original starting
3 point or to the Mailing Online?

4 THE WITNESS: What I meant to say was that the --
5 I think that the American public when they use the Post
6 Office online system will expect to see it there as they do
7 the post office on the corner when they go there to go to
8 it.

9 They don't expect it to be experiencing technical
10 difficulties so that it can be down for a couple of days,
11 technically down, and they can't use it. It needs to be
12 dependable and reliable and technically there all the time.

13 COMMISSIONER LeBLANC: And that will not affect
14 the Mailing Online as far as you can see it?

15 THE WITNESS: Only in making it more reliable and
16 dependable.

24 Q You suggest that in the fullness of time, and I
25 think you said this in response to a question or two from

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1534

1 the bench, you anticipate merging -- or I am sorry, batching
2 more documents than are at present being batched. Is that
3 right?

4 A That is correct.

5 Q And at present only merged documents are batched,
6 is that right?

7 A Only documents that are created as mail merge
8 documents are batched -- are merged and batched. Yes, that
9 is correct.

10 Q Obviously, only documents that are merged are
11 merged, but the only documents that are batched are those
12 that are merged, right?

13 A Yes.

14 Q Okay. Do you have a notion of how long into the
15 future that condition is likely to obtain?

16 A As I think I responded earlier today, we are
17 looking to have that changed as soon as possible and it may
18 change in an incremental manner.

19 Q So you don't know?

20 A I do not know. We would like to have it change at
21 least partially by the time the experiment begins, perhaps
22 completely by then.

23 Q But that is what you would like. Do you have a
24 basis for giving us a sound projection of when it is likely
25 to happen?

1535

1 A Unfortunately, I don't.

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1541

1 A That is true insofar as it goes. The inability to
2 batch is not going to be cured or speeded up by noticing how
3 much can be batched today.

4 Q Because it requires a more elemental revision to
5 the software, is that right?

6 A That is correct.

7 Q Which you hope is going to happen sometime
8 relatively soon, but you don't know? Is that correct as
9 well?

10 A I do not know. I have testified to that.

11 Q In your answer for the Postal Service to the
12 Commission's Notice of Inquiry Number 1, Issue 3, if you
13 would like to get that in front of you --

14 A I have it.

15 Q -- you essentially concede the point that Pitney
16 Bowes has been trying to make, that those who have mail
17 functionally equivalent, I think is the word we used in a
18 brief, to that of Mailing Online, ought to be accorded the
19 same discount structure, right?

20 A It says so in here, yes.

21 Q Well, do you believe that to be right?

22 A Yes.

23 Q You testified to it under oath in this paper,
24 right?

25 A I testified to the fact that the Postal Service

1542

1 believes that functionally equivalent services should be
2 considered for the same discount. I testified nothing about
3 Pitney Bowes though.

4 Q No, no, no, no -- I understand that.

5 When you say considered for, aren't you willing to
6 go a little bit further than that and say so long as we
7 could come to agreement about what is functionally
8 equivalent -- not considered for -- given the same discount,
9 isn't that right?

10 A I am not at liberty to make that policy statement
11 for the Postal Service.

12 Q I am asking you your opinion as the policy guy, as
13 the Presiding Officer put it, for the Postal Service on
14 Mailing Online, what is the right outcome in your view, as a
15 policy guy?

16 A My view is as stated in the answer to this that I
17 think, I personally think, that it should be considered.

18 Q Not given? Not granted but considered?

19 A I can't, I don't have the power to grant.

20 Q I understand. I am not asking you to give me
21 anything right here today except your opinion, and I am
22 asking you what your opinion is, and you say your opinion is
23 consider it and I am asking does your opinion go further
24 than that, not just considered but granted?

25 I don't know what "considered" means.

1543

1 A As solely my opinion --

2 Q Yes.

3 A -- all other considerations of the Postal Service
4 aside, it would be my opinion that that would be true, yes,
5 that it should be granted.

6 Q Thank you. You set out beginning at the bottom of
7 the first page of your answer on Issue 1 of NOI Number 1 a
8 series of criteria in your words "necessary to establish
9 functional equivalents" -- and I would like to walk through
10 these with you and make sure that I understand not only what
11 they are but why they are, in your view, the right tests.

12 The first says automation compatible, as a first
13 element.

14 Is there anything other than 100 percent
15 standardized addresses and barcodes on all mail pieces,
16 which is the next part of that sentence that you would
17 require in terms of automation compatibility of a mail piece
18 in order to qualify it for the grant of a discount
19 equivalent to that?

20 A I would state that the Postal Service has specific
21 standards and requirements for automation compatibility, and
22 I could not vary those.

23 Q Okay, so I would -- I would look at the DMM in
24 EO80 or whatever the heck it is and apply those standards to
25 my mail and you would apply them to MOL Mail, is that right?

1 A That's correct.

2 Q And we'd both meet, we would both have the same
3 bar to clear in establishing our eligibility, is that right?

4 A I think that is the intent, yes.

5 Q Yes. Whatever the DMM says -- it's good for you,
6 good for me. Okay?

7 A Yes.

8 Q Thank you. The next one, Number 2, on your Hit
9 Parade is commingling and batching of like mail pieces.

10 You have just told me that MOL does not do that
11 universally. Would you require Pitney Bowes or another
12 competitor to do it universally in order to qualify for the
13 discounts?

14 A As indicated here, yes.

15 Q Well, now why is that fair? Why is it that your
16 competitor ought to have to satisfy a standard that the
17 Postal Service does not in order to get equivalent
18 treatment?

19 A I don't believe the Postal Service has ever made
20 the claim that we were completely able to do the commingling
21 and batching that is intended in the ultimately Mailing
22 Online system.

23 As is frequently the case, mailers or
24 organizations such as Pitney Bowes will come to the Postal
25 Service and propose that something is a worthwhile idea and

1545

1 we work with either those mailers or organizations to make
2 it happen. That frequently involves flexibility on both
3 sides.

4 Q You certainly have done that with Pitney Bowes
5 over time and my client appreciates it. I am not trying to
6 denigrate the generosity of spirit of the Postal Service in
7 most particulars, but I don't understand why you are getting
8 so parsimonious here all of a sudden.

9 You are willing to treat yourself with this
10 open-minded generosity in experiment, in moving forward to
11 something that you think is going to be overall better for
12 both the Postal Service and the public, but you are not
13 willing to help Pitney Bowes do the same thing. Why is
14 that?

15 A I don't believe I ever said we weren't willing to
16 help Pitney Bowes do that.

17 Q I think you just said, didn't you, that you were
18 going to require of my client commingling and batching that
19 the Postal Service does not require of itself. Did I get
20 that wrong?

21 A You did. I indicated that what I said in my
22 response here was that full functional equivalence to
23 Mailing Online would require these elements.

24 Q I see, but is it not your position that full
25 functional equivalence is required for entitlement to the

1546

1 same discounts that the Postal Service is according itself?

2 A Yes, that's correct.

3 Q It is correct. You demand full functional
4 equivalence.

5 A Under this circumstance and under what we are
6 talking about here, yes.

7 Q Okay, well, I mean I am not trying to fence with
8 you here, Mr. Garvey. I want to understand first what your
9 notion of the requirement is and then I want to understand
10 why, and what you are saying to me, if I have it right now,
11 is that you are going to require of a competitor, and we'll
12 use Pitney Bowes as an example, you are going to require of
13 Pitney Bowes something that you will not require of the
14 Postal Service in order to get the same schedule of economic
15 benefit discounts, is that right?

16 A In a fully-implemented Mailing Online system, that
17 would be correct, yes.

18 Q Well, how about tomorrow? You know, Pitney Bowes
19 is looking, taking a real hard look, at doing some of these
20 things to a greater extent than it does today, and part of
21 what is going to inform whether, you know, it starts moving
22 in that direction is what it's going to have to pay the
23 Postal Service.

24 When I call them this evening or tomorrow morning
25 after we are through, I got to say to them, hey, Pitney

1547

1 Bowes, this is what Mr. Garvey thinks. What about tomorrow,
2 Mr. Garvey?

3 A I can't speak for tomorrow.

4 Q Well, can you explain to me why you think it the
5 right outcome as a policy guide for Mailing Online that the
6 Postal Service gets one set of benefits and you deprive your
7 competitors of equivalent benefits tomorrow?

8 MR. HOLLIES: Mr. Presiding Officer, I would like
9 to object to this line of questioning at this point. In
10 essence, what counsel is getting into is he's asking for
11 legal opinions from this witness, who is not a lawyer, and I
12 think that's why we're being stymied.

13 This case is about the request made by the Postal
14 Service which has specific DMCS language in it, and it is
15 the case that Pitney Bowes would not be, as it were, let in
16 the door pursuant to that language; and of course, it's also
17 possible that in its direct case, Pitney Bowes will make a
18 separate request or separate proposal which would let it in
19 the door.

20 The line of questioning is in some sense
21 unnecessary. I think this is unnecessarily strained, and
22 it's because these legal issues are interfering. The bottom
23 line as stated in the response of Mr. Garvey to the notice
24 of inquiry is that we're trying to create a level playing
25 field, and if everybody is playing by the same rules on the

1548

1 same field, we would open the door up to anybody who wanted
2 to be let in.

3 This particular line of questioning has to do with
4 the fact that Mailing Online is not yet mature. We are here
5 to -- we have requested authorization to conduct an
6 experiment as it matures, and we would expect that as part
7 of any permanent -- request for permanent service, as is
8 indicated in some of these responses, that would be an
9 appropriate time to make sure that the playing field is
10 level as defined by the DMCS if that has not occurred prior
11 to that time.

12 COMMISSIONER LeBLANC: Mr. Wiggins, do you care to
13 comment?

14 MR. WIGGINS: Sure. I will certainly stipulate
15 the immaturity, Mr. Presiding Officer, and I will point out
16 to you just that this witness has said -- and this is an
17 important point to my client. I mean, we have been
18 advocating this. He said that it's only fair -- and it's
19 not a legal question; he's a policy guy and he's making a
20 policy judgment here -- it's only fair that people who have
21 mail functionally equivalent to that of Mailing Online get
22 the same discounts, and I'm trying to explore with the man
23 how that's going to work. And what he's saying to me is
24 that he didn't mean it and that he's going to require of
25 Pitney Bowes, for example, things that he would not require

1549

1 of the Postal Service in order for that eligibility, and I'm
2 trying to explore that. It seems to me that's a
3 fundamentally important point.

4 COMMISSIONER LeBLANC: Mr. Garvey, you are the
5 policy witness, are you not?

6 THE WITNESS: I am, indeed.

7 COMMISSIONER LeBLANC: And he was talking direct
8 to your testimony and your responses to issues to the NOI,
9 was he not?

10 THE WITNESS: He was.

11 COMMISSIONER LeBLANC: Then under the
12 circumstances, you can -- the objection will be overruled
13 and you will answer as best that you can based on your
14 policy position with the Postal Service.

15 Now, if it is a legal issue, you say that you're
16 not in a position to know it if it's a legal issue, whatever
17 you may want to call it, counsel will be in a position then
18 to either argue it on brief, he can come back in oral
19 argument, or Postal Service counsel can change in question
20 and the redirect this afternoon or whenever that will occur.
21 But answer to the best of your ability at this time.

22 Objection overruled.

23 Move on, Mr. Wiggins.

24 MR. WIGGINS: Thank you, Mr. Presiding Officer.

25 BY MR. WIGGINS:

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1550

1 Q Mr. Garvey, the question is why is it that you
2 think it's the right outcome as a policy matter that the
3 Postal Service should be entitled to discount when it does
4 not universally -- indeed, we just saw evidence that it does
5 only in 13 percent of the mail pieces -- do batching? You
6 would require Pitney Bowes to do batching more broadly,
7 right?

8 A As stated in the response to this question, it is
9 the Postal Service's and my opinion that functional
10 equivalence would enable Pitney Bowes or any other player to
11 request the same conditions for mailing as Mailing Online.
12 As you indicate, that does in fact include a discount, but
13 it also includes some other restrictions, and if you'll read
14 further down the list, you'll find those.

15 Q Oh, we're going to read the whole list.

16 A As stated by counsel, it's not my place to
17 indicate that such things could be done as part of this case
18 or proceeding.

19 Q Well, would it be okay, do you think, if Pitney
20 Bowes -- as a policy matter, if Pitney Bowes came to you and
21 said, okay, we'll do batching, but we're only going to do
22 batching of mail merge pieces, and anything that isn't mail
23 merge, we're going to present it and we're going to ask for
24 a discount, we're not going to batch it; would that be okay?

25 A Would it be okay in what sense?

1551

1 Q To qualify for a discount, the same discount that
2 the Postal Service is giving itself for non-batched mon-mail
3 merge pieces.

4 A Well, I would say as an opinion, if it were Pitney
5 Bowes' ultimate intent to achieve a system that acquired
6 these characteristics as outlined in this document, that
7 that would certainly be something worth considering.

8 Q Pitney Bowes ought to get the same warm-up period
9 that the Postal Service is getting in order to make its
10 system mature; is that right?

11 A I couldn't make that decision, but I certainly
12 wouldn't deny that, no.

13 Q Would you advocate it?

14 A Would I advocate it?

15 Q Yes. Would you advocate to the Postal Service if
16 that's the right outcome?

17 A Perhaps with the provision that Pitney Bowes has
18 had quite a bit more warm-up time than the Postal Service
19 already.

20 Q What does that mean?

21 A Well, as you're aware and as everyone else perhaps
22 should be aware, Direct Net, the service offered by Pitney
23 Bowes and claimed as equivalent to Mailing Online, has been
24 under development and in market for quite some time.

25 Q So you feature Direct Net as it is now constituted

1552

1 as equivalent to Mailing Online; is that your testimony?

2 A I said it's claimed.

3 Q Well, what's your assessment? Is it?

4 A No, as I previously testified, I don't believe
5 that it's equivalent.

6 Q Well, if Pitney Bowes came to you and said, by
7 golly, Mr. Garvey, I believe you have a point there, we're
8 not precisely equivalent, we've been doing a slightly
9 different thing, but you guys have such a smart idea here
10 that we would like to be like you, we would like to have
11 Pitney Bowes online -- PBOL we call it -- and we want this
12 warm-up period to do it and get your discount, would you
13 advocate the discounts in that environment for Pitney Bowes?

14 A I would advocate taking a close look at Pitney
15 Bowes' proposal.

16 Q You have no notion of how you would come out on
17 the merits of it? This isn't very complicated, is it, Mr.
18 Garvey?

19 A I'm sorry?

20 Q This isn't a terribly complicated hypothetical
21 that I posed for you, is it?

22 A I don't believe I can make that judgment. I think
23 that it would have to stand on the merits of the proposal.

24 Q What about your third factor: sortation to the
25 finest level of sort possible within batches. Obviously,

1553

1 that does not apply to any mail that is not batched; is that
2 correct?

3 A All mail is batched. The definition of a batch
4 for Mailing Online is a quantity of mail that arrives at the
5 print site ready to be printed.

6 Q So that it -- in going back to factor two, it's
7 the commingling part of that that's important; is that
8 right?

9 A It's the commingling into merged batches, yes.

10 Q Well, I'm having a conceptual difficulty here. I
11 thought that it was your testimony in response to some
12 interrogatories that merge means melding the document file
13 and the address file that are associated with any mail
14 piece. Did I get that wrong?

15 A No, you didn't.

16 Q Okay. So that's merging. And define for me, as
17 you did in an interrogatory, and I think inconsistently here
18 just a moment ago, describe to me what batching as opposed
19 to merging is.

20 A Batching, as I have just mentioned, is preparing a
21 quantity of mail that arrives at the printer batched and
22 prepared to be printed.

23 Q We have used the term to be defined in the
24 definition, and that always give me some heartburn, because
25 it tends to tautology. Can you give me a definition of

1554

1 batching that doesn't have batching in the definition?

2 A Well, perhaps it would help if I used this diagram

3 --

4 Q That would be perfect.

5 A -- to be illustrative of what will happen in the
6 ultimate system.

7 Q That would be perfect. Perfect.

8 A If we can look at the diagram --

9 COMMISSIONER LeBLANC: Excuse me, Mr. Garvey.
10 Make sure we are on the same sheet of music. You are
11 talking about the diagram now that was given by Commissioner
12 Covington?

13 THE WITNESS: That is correct, PRC-X-1.

14 COMMISSIONER LeBLANC: Thank you.

15 THE WITNESS: If you look at the two segregated
16 groups, the merge orders and then non-merge orders, and on
17 the left, the lines are drawn down to orders batched
18 together from the merged orders. Ultimately, what will
19 happen is that lines will be drawn down from the non-merge
20 groups as well, and you will end up with a group of lines
21 which converge at the bottom into merged batched which are
22 combined by physical characteristics, so that even non-merge
23 orders consisting of multiple documents will create
24 documents that are merged into merged jobs, so that your
25 ultimate mail stream consists of all documents presorted in

1555

1 ZIP code order.

2 BY MR. WIGGINS:

3 Q And the presortation and ZIP code order is what
4 you mean when you use the word merge?

5 A No, that is what I mean when I use the word
6 sortation, as in item 3.

7 Q And commingling, as you use that word in your item
8 2, is schematically represented on PRC-X-1 at what point on
9 the left hand side of the page?

10 A Where your two merge orders come together in a
11 single batched order together.

12 Q Right. And it is at that point as well that what
13 you refer to as sortation would occur?

14 A Essentially, yes, that merged batch is what is
15 sorted.

16 Q Right. And must that merged, sorted batch be
17 presented to a single acceptance point at the Postal
18 Service? Does this go to a single Post Office, is that part
19 of the definition?

20 A Yes.

21 Q So that you can't have a batch that is going to be
22 entered at more than one Postal facility, is that correct?

23 A That is correct.

24 Q Okay. And the finest level of sort possible means
25 what, saturation? High density?

1556

1 A The finest level of sort possible is defined by
2 the batch itself, so that, depending upon the density of ZIP
3 codes and the quantity of mail pieces, it is sorted to
4 whatever level is achievable, given that quantity and
5 saturation -- or density.

6 Q And how do you know?

7 A How does who know?

8 Q How does the person who is going to be accepting
9 the mail -- and I take it that person who accepts the mail
10 will be determining whether I have passed the test here,
11 right? Is that correct?

12 A I don't know what test you are referring to.

13 Q The test that tells me, okay, Pitney Bowes, you
14 have satisfied the Garvey equation and you, too, are now
15 entitled to the discounts that the Postal Service accords
16 itself. What's the test?

17 A Checking the sortation of a batch would be one,
18 certainly, one step in doing such an analysis, yes.

19 Q And how would you define -- we are setting up the
20 rules of the game here, Mr. Garvey, and I want to make the
21 game operational. I want to know, when I go back to my
22 office and have to call Pitney Bowes, I want to say this is
23 what you need to do. And in order to do that, I have to
24 know what that acceptance person is going to require of the
25 Pitney Bowes mail in order to make it eligible for the

1 discounts. Okay.

2 Now, you are going to issue instructions to that
3 acceptance clerk, and you are going to say here are the
4 conditions that the Pitney Bowes mail must satisfy in order
5 to be eligible for these discounts. In terms of your
6 standard number 3, what do you tell that acceptance clerk?

7 A The acceptance clerk follows a set of guidelines
8 that are in the Domestic Mail Manual for the sortation of
9 mail. The actual sortation in the Mailing Online system is
10 performed by a piece of Postal Soft software, used by many
11 commercial mailers, that takes the input, the addresses, and
12 sorts them according to DMM guidelines.

13 Q So would a demonstration that I had passed test
14 number 3 consist of me saying to you, Mr. Garvey, I am using
15 Postal Soft or an equivalent program, would that be all it
16 took to pass test number 3?

17 A No, as I said, the clerk would use DMM guidelines
18 to do the physical check of the mail.

19 Q Well, but what is the clerk going to look at, Mr.
20 Garvey? How do I know what I need to do to satisfy the
21 clerk?

22 A Well, he is going to look at what he looks at
23 today, which is the physical preparation of the mail, the
24 tray labels, the mailing statements and the documentation
25 attached.

1 Q Sure. Okay. And there are lots of different
2 degrees of sortation that I might accomplish, correct? I
3 could sort it to five digits, okay. And I could pass every
4 DMM requirement concerning the presentation of mail that
5 wanted to have five digit discount. Okay. I have passed
6 all those tests. I walk in to the clerk with a five digit
7 mail and I say, okay, Mailing Online discount. Does that
8 work for you?

9 A I don't know what you mean by that.

10 Q Well, what is the clerk going to say to me? I
11 have passed --

12 A If the quantity of mail that you have and the
13 density of ZIP codes that you have need to be sorted to a
14 five digit level, and you have done so, that qualifies. If,
15 however, you have a quantity of mail that qualifies and
16 necessitates a three digit, or a combined three and five
17 digit sort, that is what the clerk would be looking for.

18 Q No more finely sorted than that would be required?
19 I do three-five, to the extent that I can't get five, and I
20 do five to the extent that I can't, and the clerk says,
21 okay, Wiggins, or Pitney Bowes.

22 A As you would do today, to get the finest level of
23 sortation possible, you would look at the ZIP codes within
24 there, the tray parameters necessary, and you would do the
25 sortation based upon that.

1559

1 Q Well, how does the clerk know -- there is a finer
2 level of sortation than five digit, is there not?

3 A There's carrier route level, yes.

4 Q For example, and even within carrier route, you
5 have some choices, don't you?

6 A I am not an expert on such things, but I know that
7 there are -- I think that there are different rates
8 available for carrier route, depending upon level of
9 saturation. I am not sure about that.

10 Q Well, let's suppose that they are. Is that a
11 sortation issue, in your mind?

12 A Carrier route is not a characteristic of normal
13 sortation, no.

14 Q Okay. So even if I had mail which was susceptible
15 to sortation to the carrier route standards in the DMM, you
16 wouldn't require that?

17 A That is correct.

18 Q Okay. So I have to sort to five digit if I can,
19 is that right? Is that basically the requirement?

20 A You have to sort to the finest level required,
21 yes.

22 Q Well, say to me, is there a level required more
23 rigorous, more onerous than five digit? Is that the
24 toughest standard you have got?

25 A I don't know the answer to that question.

1560

1 Q So you don't know what you mean when you say
2 sortation to the finest level of sort possible?

3 A I would refer you to the Domestic Mail Manual.

4 Q Would you refer me to a particular section in the
5 DMM?

6 A If I had one in front of me, yes, I would.

7 Q Could I ask, Mr. Presiding Officer, that when the
8 witness has occasion to be close in hand with a DMM that he
9 provide the citation that he's just represented he could?

10 COMMISSIONER LeBLANC: To make sure I'm with you
11 here, you want a definition from the witness as to the
12 finest sortation available?

13 MR. WIGGINS: Yes. He just told me that if he
14 could look at a DMM, he could cite me to a DMM section that
15 would advise me.

16 COMMISSIONER LeBLANC: No, I understood that.

17 MR. WIGGINS: Yes.

18 COMMISSIONER LeBLANC: I just want to make sure I
19 understood the question. Is that correct?

20 MR. WIGGINS: Yes, that section of the DMM that
21 tells me what I need to accomplish in order to have the
22 finest level of sort available.

23 COMMISSIONER LeBLANC: Mr. Garvey, do you have any
24 problem with that? We need a cite, because if I understood
25 what you just said, you said if you had one in front of you,

1 you could give us a cite. Is that correct?

2 THE WITNESS: To a section of the DMM; yes.

3 MR. WIGGINS: That's all I'm looking for.

4 COMMISSIONER LeBLANC: Okay.

5 MR. HOLLIES: I wonder if there isn't some way we
6 could facilitate this line of questioning. The description
7 in Mr. Garvey's response to NOI-1, issue 3, indicates that
8 sortation to the finest possible level is what would be
9 appropriate to establish functional equivalence on this one
10 criterion.

11 The DMM defines the respective levels of
12 presortation that are available, and so I'm sure Mr. Garvey
13 can provide a cite to those sections of the DMM which
14 prescribe the levels of sortation. That does not mean,
15 however, that the DMM is going to tell Mr. Wiggins what the
16 finest level of possible sortation is. What we're talking
17 about here is a piece of software that takes input and sorts
18 it to the extent that it can. It's that simple. So I'm not
19 sure that the citation Mr. Wiggins now seems to be reaching
20 for is actually going to answer the question he's trying to
21 ask.

22 CHAIRMAN GLEIMAN: Could I interject? Is it
23 possible, Mr. Garvey, that to achieve functional equivalence
24 you don't mean that something needs to be sorted to the
25 finest level possible but to the level required by the

1562

1 Postal Service for itself, whether it's traditional
2 hard-copy mail or hybrid mail?

3 THE WITNESS: Perhaps it is a matter of
4 understanding. The intent here is that rather than being
5 sorted to a basic automation rate sort, which is the rate
6 requested, it is sorted beyond that if possible within that
7 batch.

8 COMMISSIONER LeBLANC: Then in that case, Mr.
9 Garvey, we will need a definition of what the finest sort
10 is, because if you're going to go to the finest level
11 then --

12 CHAIRMAN GLEIMAN: The finest level of sort is not
13 listed in the Domestic Mail Manual. I can almost guarantee.
14 And I'll go get one and you can look in there and find it if
15 you want. It tells you what you have to do, what's
16 required.

17 MR. WIGGINS: That's precisely my problem, Mr.
18 Presiding Officer. My version of the DMM doesn't have that,
19 either.

20 COMMISSIONER LeBLANC: It says what is required;
21 that is correct.

22 MR. WIGGINS: That's right. And that's what I'm
23 questioning after here.

24 COMMISSIONER LeBLANC: I understand, Mr. Wiggins.

25 MR. WIGGINS: Okay. Good. Thank you.

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1563

1 MR. HOLLIES: The basic point here is that Mailing
2 Online is about removing costs from the system, the costs of
3 handling mail, and the more sorted it is, the deeper
4 presortation level it is, the better it is, and the
5 functional equivalence requirement is that it be as deep as
6 possible.

7 MR. WIGGINS: Mr. Chairman, I always enjoy having
8 Ken explain things to me, but we have a witness here to do
9 that.

10 COMMISSIONER LeBLANC: Thank you very much. It
11 might help, Mr. Wiggins, if Mr. Garvey cannot respond any
12 further, try a hypothetical. Would that help you?

13 MR. WIGGINS: Sure. If I have -- and let's
14 take -- let me proceed through the next couple of points,
15 and then we'll get a hypothetical.

16 BY MR. WIGGINS:

17 Q No. 4 is called "geographic batching," and let's
18 just stop there. What do those words mean in this context?
19 Geographic batching.

20 A They refer to batching by geographic location.

21 Q Does that mean by where my printing site is?

22 A I think that's the reference; yes.

23 Q Okay. So that if I, Pitney Bowes, like the Postal
24 Service in the early sledding of my efforts to do an
25 imitative hybrid mail offering have only one printing

1 location -- like you're going to have, right?

2 A Like we do have; yes.

3 Q Like you do have now, yes, the notion of
4 geographic batching is nonexistent; is that right?

5 A The notion is existent; the actuality of it is
6 not.

7 Q I see. A nice distinction. Wittgensteinian, one
8 might even say.

9 And if I have two printing locations, say to me
10 how geographic batching works. I've got nationwide mail,
11 nationwide input, nationwide output, okay? And I've got two
12 printing places, let's say one west coast, one east coast.
13 Say how geographic batching works, what's required of me.

14 A The basic requirement is that mail destined for
15 the west coast would be routed to a west coast print site,
16 and mail destined for an east coast one would be routed
17 there.

18 Q And if it's going to Omaha, I have my choice.

19 A I don't know Omaha's relationship to the east or
20 west coast.

21 Q Darn near right in the middle.

22 Okay. So you have to send it to the printing
23 location that is closest to the point of ultimate
24 destination. Is that a fair summary?

25 A Yes.

1565

1 Q Okay. And is there any requirement, in your No. 4
2 here concerning geographical batching, is there a
3 requirement as to how many printing places I need to have?
4 Because that's going to affect the extent to which I do
5 geographic batching, isn't it?

6 A Certainly it will.

7 Q Sure. Is there a requirement unstated but hidden
8 in those words as to how many print locations I need?

9 A No, as indicated in my previous testimony, even
10 the Postal Service doesn't know what the ultimate number of
11 print sites will be for Mailing Online.

12 Q Okay. So in your assessment if you were to
13 advocate an outcome, Pitney Bowes could come to you with one
14 print site and qualify for discounts; is that right?

15 A As I've said, Pitney Bowes' proposal would be
16 judged on its merits.

17 Q Would you apply to Pitney Bowes any standard that
18 you're not applying to yourself? That's what it really gets
19 down to, isn't it, Mr. Garvey?

20 A Well, I think what it really gets down to is
21 whether consideration was being given to something that
22 Pitney Bowes was proposing to do today or something that
23 Pitney Bowes was proposing to do in the future.

24 Q So that Pitney Bowes would have to come to you and
25 say okay, I have only got one print site now because I am

1566

1 like the Postal Service, but when my system gets mature I am
2 going to have 10.

3 Do you have a view of how you would come out on
4 that?

5 A How I would come out in what regard?

6 Q Would you advocate -- I know you don't have the
7 power to grant it, but would you advocate to the Postal
8 Service that Pitney Bowes be entitled to the same regime of
9 discounts that the Postal Service is giving to itself?

10 A I would go further than that to say that if Pitney
11 Bowes were proposing to have 100 sites that were printing
12 mail that were going to come into the Postal Service that I
13 would advocate consideration of Pitney Bowes' proposal.

14 Q Okay, so you are good to go on 100. How about 10?

15 A Ten would be fine.

16 Q You go on to say geographic batching -- we have
17 now got a handle on that a little bit -- and distribution of
18 mail pieces prior to printing, has that, those words really
19 added anything to the concept that we have just discussed of
20 geographic batching?

21 A Well, if one does batching but doesn't distribute
22 the batches, it doesn't do you any good in terms of
23 geographic --

24 Q No, no, but we have a functional now definition of
25 geographic batching which is a requirement that you deliver

1 the mail for printing to the print site nearest to its
2 ultimate point of distribution. Right? We agreed on that,
3 didn't we?

4 A No, I think if you will refer to back to my
5 answer, what I said that what geographic batching was
6 defined as was batching the mail based upon the zip codes on
7 the mail pieces in the system level.

8 Q Okay. Does that mean that you have to have a
9 printing facility located physically within every zip code
10 in the country?

11 A Not at all. It simply means if you geographic
12 batching you have to route the batches which have been
13 geographically formed out to some remote location where they
14 are destined.

15 Q Well -- they are destined to a zip code, is that
16 correct? All mail is destined to a zip code. This much I
17 know. Correct?

18 A Well said. Yes.

19 Q Thank you, and you just told me that I have to
20 batch it to its destination. I ask you the immediately
21 preceding question -- does that mean I need to have a
22 printing facility in every zip code? And you said no.

23 So say to me again what the heck you mean by
24 batching.

25 A Let me use the example that you gave of 10 print

1 locations.

2 Q Perfect.

3 A If you have 10 print locations around the country,
4 you must determine what zip codes are around that print
5 location.

6 Q Right.

7 A And you must batch the mail at the system level so
8 that mail for those zip codes goes to the print site that is
9 contiguous to those zip codes.

10 Q Well, not just contiguous, right, because if I
11 have only got 10 printing locations, I am not going to have
12 every zip code in the country contiguous with my print
13 sites, right?

14 A That's correct. Contiguous is the wrong word
15 there.

16 Q Exactly.

17 A Around that print site.

18 Q Yes, exactly -- around is a good, good word.

19 Suppose that I locate my print site on a map,
20 right? I know where it is. It is in Oxnard, California,
21 and I take out my protractor and draw a circle around
22 Oxnard, and that is going to constitute the delivery area
23 for that print site, okay? That is what you have in mind,
24 isn't it?

25 A Not exactly. That would be a simplistic example

1 of such --

2 Q I am a lawyer.

3 A That's a joke.

4 Q Go ahead.

5 A That's a simplistic example. A more appropriate
6 one would be to define a service area as being the zip codes
7 which receive the best service by the plant or processing
8 facility where that mail was being deposited.

9 Q Okay, that's fair enough, and is that entirely in
10 the discretion of Pitney Bowes? Pitney Bowes can make that
11 judgment and come into you and say, Mr. Garvey, I can
12 honestly -- I would look you right in the eye and I can say,
13 because I want to provide good service to my customers, that
14 I have selected for my 10 printing locations the service
15 area as to each of those printing locations that will best
16 be served by that printing location, and in the course of it
17 I have covered up the whole United States, because that is
18 what I need to do.

19 Would that qualify? Was that good enough?

20 A Any answer I could give to that would be sheer
21 conjecture.

22 Q Well, that is what we are here for.

23 MR. HOLLIES: I would object if that is where
24 counsel is going. We are not here to speculate.

25 COMMISSIONER LeBLANC: Mr. Garvey, you can answer

1 that to the best of your ability but --

2 MR. WIGGINS: I withdraw that question, Mr.
3 Presiding Officer.

4 COMMISSIONER LeBLANC: Thank you.

5 BY MR. WIGGINS:

6 Q So to be clear that we are together on this,
7 geographic batching and distribution doesn't have any
8 hard-edged requirements? I mean it doesn't mean that I have
9 got to have 25 printing places or I have got to have a
10 printing place once every 500 miles or anything mechanical
11 of that sort. It's a thing that would be evaluated.

12 What I am thinking about here, Mr. Garvey, is
13 Pitney Bowes is going to come to you and say qualify this
14 operation for discounts, and I want to help them and I want
15 you to help them to know what to say in order to make that a
16 smooth process, so as to geographic distribution I say to
17 them, go to Garvey and say, okay, this is what I can show
18 you that establishes the best possible service given the
19 print sites that I have. Is that right?

20 A I would say, and the reason I said this would be
21 conjecture, is such parameters haven't been established and
22 if, for instance, Pitney Bowes or some other provider were
23 to come to us and say we only have five sites but we have
24 proven that through having those five sites we can get next
25 day delivery in 95 percent of the country, I would say good

1 for you -- that's great.

2 If, on the other hand, they said we have 100 but
3 we are only getting overnight delivery in five percent of
4 the country, I would say 100 doesn't sound like enough to
5 me.

6 Q Is the standard to be able to do overnight
7 delivery to 95 percent of the country? Is that your
8 standard?

9 A The Postal Service's standard is to provide the
10 best possible service from wherever we provide that service.

11 Q But, see, but that is so open-textured, Mr.
12 Garvey. That commits -- if that were the standard that
13 commits the decision as to whether a Pitney Bowes is or is
14 not eligible to your whimsy. You wouldn't want that, would
15 you, Mr. Garvey?

16 A Is the question would I want whimsy to be part of
17 the decision?

18 Q That is absolutely the question I seriously
19 intended.

20 A No, I wouldn't but --

21 Q No. You have to have -- I'm sorry.

22 A -- but I'd respond that we are engaging in a test,
23 a market test and an experiment for the exact reason that we
24 don't know the answers to these questions and we, ourselves,
25 need to find them out.

1 Q Does Pitney Bowes need to sit on the sidelines
2 during the interval when you are finding stuff out, or can
3 they experiment along beside you?

4 MR. HOLLIES: Objection. It calls for a legal
5 conclusion.

6 If Pitney Bowes is suggesting that they are going
7 to file a case here at the Rate Commission and seek
8 authorization to conduct an experiment, that's fine, but I
9 don't think that is a fair question to ask the witness to
10 answer.

11 MR. WIGGINS: I probably didn't ask it very well,
12 Mr. Presiding Officer.

13 COMMISSIONER LeBLANC: I would agree with that.
14 If you could reword it --

15 MR. WIGGINS: Sure, absolutely.

16 BY MR. WIGGINS:

17 Q As a matter of Postal policy, Mr. Garvey, do you
18 think it appropriate that would-be competitors with the
19 Mailing Online service be constrained to compete with the
20 Postal Service until after the conclusion of the experiment?

21 That is all I am asking.

22 A Not on absolute terms, no.

23 Q I see. You would take it under consideration, is
24 that right?

25 A That's correct.

1 Q Let's look down at your feature 5, Mr. Garvey:
2 Secure and completely automated electronic submission of
3 jobs. Let's stop at that point.

4 Why on earth do you care about that? Isn't that
5 an issue between Pitney Bowes and its customers?

6 A In what regard?

7 Q In the regard as to which we've taken up this
8 entire discourse, Mr. Garvey. We're thinking about what
9 characteristics Pitney Bowes' competitive hybrid mail
10 service has to have in order to qualify itself for the same
11 discounts that the Postal Service is giving itself. That's
12 what we're looking at here.

13 And I say to you, what the heck does the Postal
14 Service care whether Pitney Bowes has secure and completely
15 automated electronic submission? That's between Pitney
16 Bowes and its customers, isn't it?

17 A Whether Pitney Bowes takes mail from their
18 customers as hard copy or electronic and in what format and
19 by what method is not the subject of my concern.
20 Equivalency to Mailing Online, however, would include these
21 characteristics.

22 Q Well, but why is that equivalence important to
23 know whether I qualify for a discount?

24 These other things -- let's go back. These other
25 things have to do with how hard a job the Postal Service is

1574

1 going to have to do when it ultimately gets my mail and
2 delivers it, right? Automation compatible, for example.
3 That's how Postal-friendly my mail is, correct?

4 A Yes.

5 Q Okay. I can understand why you care about that.
6 Commingling and batching. Well, that's another version, as
7 we've discussed it, of making the mail easier for the Postal
8 Service to handle, correct?

9 A Correct.

10 Q I can understand why you care about that.
11 Sortation to the finest level -- same thing, right? And I
12 can understand why you care about that.

13 The record should note that the --

14 A Correct.

15 Q -- witness nodded.

16 A Thank you.

17 Q Geographic batching. Is that a thing that's
18 related to how efficiently the Postal Service is going to be
19 able to handle my mail?

20 A Yes, it is.

21 Q Absolutely. We've got a theme going here, Mr.
22 Garvey, right? All of these first four points can be
23 thought at some level to relate to how convenient my mail is
24 to the Postal Service, right?

25 A Convenient would be one word for it, yes.

1575

- 1 Q Efficient is another word.
- 2 A That's another word, yes.
- 3 Q Accurately describes how the -- the effect on the
4 Postal Service?
- 5 A Yes.
- 6 Q Is that correct? Yes.
- 7 Now we get to secure and completely automated
8 electronic submission of jobs. Submission to whom, let me
9 ask first. Submission of jobs -- to whom is the submission
10 to be made?
- 11 A To the service provider.
- 12 Q To the printer; is that correct?
- 13 A Not necessarily to the printer no. To the party
14 who is running the service.
- 15 Q To Pitney Bowes, in my hypothetical.
- 16 A If Pitney Bowes is the printer, then --
- 17 Q No, no, no, no.
- 18 A -- yes, that's correct.
- 19 Q No. Pitney Bowes is the Postal Service. It's
20 going to be a competitor with the Postal Service. It's
21 going to have -- I chose Oxnard because it's kind of close
22 to San Mateo, I think. It's going to have an Oxnard
23 facility, right?
- 24 A Okay.
- 25 Q Now, when you say secure and completely automated

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1576

1 electronic submission, do you mean when the mail gets to
2 Oxnard, it is secure and complete -- it is done in a secure
3 and completely automated electronic way? Is that what you
4 mean by this standard?

5 I'm just trying to figure out what this means.

6 A This means that the customer, the person who is
7 producing -- the person or party who is producing the mail
8 --

9 Q Right.

10 A -- submits that mail to the service provider,
11 whether that be the printer or some intermediary --

12 Q Okay.

13 A -- third party, by electronic means.

14 Q Okay. Just electronic. Secure and completely
15 automated are excess verbiage here; is that correct?

16 A That is not correct.

17 Q Why do you care? Why does the Postal Service
18 care? This has nothing to do with the quality of the mail
19 when it gets to you guys.

20 A I never said that the quality of the mail is all
21 that we care about.

22 Q Well, why do you care about this? I mean, you're
23 poking your little federal nose into a purely commercial
24 transaction that is none of your darn business, thank you.

25 MR. HOLLIES: Objection. Counsel is now badgering

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1 the witness.

2 MR. WIGGINS: I think the witness has been
3 badgering me.

4 MR. HOLLIES: I renew my objection.

5 COMMISSIONER LeBLANC: Mr. Wiggins --

6 MR. WIGGINS: Let me reframe the question.

7 COMMISSIONER LeBLANC: Mr. Wiggins, reframe --

8 MR. WIGGINS: I shall. I'm sorry.

9 COMMISSIONER LeBLANC: Calm down and reframe,
10 please.

11 MR. WIGGINS: I'm calm as can be, Mr. Presiding
12 Officer.

13 COMMISSIONER LeBLANC: Thank you.

14 BY MR. WIGGINS:

15 Q Why does the Postal Service, in determining
16 whether Pitney Bowes ought to be eligible for the same
17 discounts that the Postal Service is offering itself, why
18 does the Postal Service care whether the Pitney Bowes
19 competing online hybrid mail has secure and completely
20 automated submissions?

21 COMMISSIONER LeBLANC: Thank you, Mr. Wiggins.

22 MR. WIGGINS: Sure.

23 THE WITNESS: From a perspective of functional and
24 costing equivalency, it would be important to specify that
25 these are fundamental characteristics of Mailing Online.

1578

1 BY MR. WIGGINS:

2 Q How does the costing part of that run? That
3 doesn't make sense to me. I understand if you want me to be
4 a clone of Mailing Online, I've got to do this because you
5 guys are doing this, but I'm asking a different kind of
6 question. I'm asking -- you know, from the perspective of
7 economic equivalence, I can understand why you want mail
8 that's efficient for you to handle. You're entitled to that
9 if I'm entitled to a discount, okay? But why do you care
10 about this front-end stuff that has nothing to do with what
11 the mail is going to look like when you finally put your
12 paws on it?

13 A You're referring to the Postal Service when you
14 say you?

15 Q Yes. You're their witness.

16 A Okay. I think that the issue of providing
17 equivalency of service in terms of security and convenience
18 is of concern to the Postal Service because that's
19 fundamental to the service that we're proposing here, that
20 that's a basic part of it.

21 Q Sure. I can understand why the Postal Service
22 cares about that, because you've got your image and stuff
23 like that, but isn't that an issue that ought to be resolved
24 between Pitney Bowes and its customers that's really none of
25 the Postal Service's business?

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1 A Which issue are you referring to -- one of, these
2 three or all three?

3 Q Whether Pitney Bowes ought to be obliged to supply
4 to its customers secure and completely automated electronic
5 submission. Suppose Pitney Bowes' customers don't care and
6 say we'll do with a little bit less security, we'll do with
7 a little bit less automation and we'll buy our service from
8 you, Pitney Bowes. It's part of what competition is about,
9 Mr. Garvey. Why shouldn't I be entitled to do that?

10 A I can't say that you shouldn't.

11 Q And doesn't the sixth one of your standards,
12 Web-and browser-based access, fall into the same sort of
13 category? Why shouldn't Pitney Bowes be able to get the
14 same discounts that the Postal Service gets if -- though it
15 does have some of its service Web- and browser-based, it
16 also has a dial-in service. Why doesn't that qualify?

17 A If Pitney Bowes chose to propose such a change in
18 the requirements, that would be entirely up to Pitney Bowes.

19 Q But it would be okay with the Postal Service. It
20 wouldn't disqualify from eligibility for the same rate
21 treatment; is that right?

22 A Once again, I can't comment on rate treatment. I
23 can comment on what the Postal Service would consider in
24 terms of proposals for equivalent services to Mailing
25 Online.

1580

1 Q Okay. And it would not require that it be Web and
2 browser based; is that right?

3 A Not necessarily.

4 Q Okay. So your sixth factor really doesn't belong
5 here; is that right?

6 A In terms of absolute equivalency, yes, it does
7 belong there.

8 Q No, no, in terms of what standards the Postal
9 Service ought to apply when it's evaluating Pitney Bowes'
10 proposal for an equivalent rate treatment.

11 A I'll say again, I can't comment on the rate part,
12 but to establish full functional equivalence, which is what
13 I've addressed in these points, it still belongs on the
14 list.

15 Q Well, do you think that the Commission had
16 something in mind when it asked the question about
17 functional equivalence? Do you think they were saying, who
18 ought to be entitled to the same kind of discount that
19 you're getting? Or did you not read the question that way?

20 MR. HOLLIES: Objection. Calls for speculation.

21 MR. WIGGINS: I'm calling for the witness to tell
22 me how he read the question, Mr. Presiding Officer, and I
23 think that's pretty fair.

24 COMMISSIONER LeBLANC: Objection overruled.

25 Answer the question, Mr. Garvey, to the best of

1 your ability.

2 THE WITNESS: All right.

3 COMMISSIONER LeBLANC: If you don't understand,
4 he'll explain it again, but try one more time.

5 THE WITNESS: I am sure that the Commission in its
6 question had a broad spectrum of concerns, one of which was
7 considering alternative proposals to Mailing Online.

8 I don't believe that I've laid out in my answer as
9 fully read to this question any barriers to what you have
10 proposed or what Pitney Bowes proposes. These points,
11 however, establish a firm baseline for what would be
12 functional equivalence to Mailing Online. Alternatives to
13 that or other proposals are not eliminated by what I've said
14 in this answer.

15 BY MR. WIGGINS:

16 Q That's perfectly fair and terribly helpful, Mr.
17 Garvey. Thank you. Could -- and I take it, subsumed within
18 that more generous approach to the question, Pitney Bowes,
19 if it wanted to, though the Postal Service isn't right now
20 doing postcards, for example, Pitney Bowes could do that and
21 that wouldn't make Pitney Bowes ineligible, in your view?

22 A As stated in the case, the Postal Service proposes
23 to do postcards in the experiment, so --

24 Q Well, but you are not doing them now, right?

25 A Not for the market test, no.

1582

1 Q Okay. And the same thing with nonprofit, you are
2 thinking about doing it someplace down the line but you
3 haven't done it yet? Pitney Bowes could do that and it
4 would be okay?

5 A Pitney Bowes could propose that and it would be
6 okay, yes.

7 Q I am just trying to get a view of what
8 disqualifying characteristics might be, in your mind,
9 because that is important to my client. Are there any other
10 disqualifying characteristics that you can think of that
11 Pitney Bowes should be alert to?

12 MR. HOLLIES: I would like to object to that on
13 two grounds. It has been asked and answered in one sense.
14 It is speculation because we don't know what the form of a
15 service the Postal Service would be offering, that Pitney
16 Bowes was proposing to offer a similitude to.

17 COMMISSIONER LeBLANC: And?

18 MR. HOLLIES: Well, I think I really ought to go
19 back to asked and answered. We don't know what the proposal
20 is that Pitney Bowes is offering, and the witness has
21 answered questions previously to the effect that he would be
22 unable to evaluate it without seeing it, which includes all
23 of its various factors and variables and the totality of the
24 plan.

25 MR. WIGGINS: It is a broad question, Mr.

1583

1 Presiding Officer, I realize that, but it is intentionally
2 broad. I have proposed that Pitney Bowes is considering a
3 service competitive with Mailing Online, and I have asked
4 the witness whether there are any disqualifying
5 characteristics that that service might -- any things that
6 Pitney Bowes could say that would be absolute
7 disqualifications, in his mind. I am trying to get the
8 rules of the road set out, which is, I think, what the
9 Commission was trying to do in this question.

10 COMMISSIONER LeBLANC: I understand, but if you
11 could maybe narrow the scope of that question a little bit,
12 it may fit in more to what he can answer right at this
13 particular point. Try a hypothetical again.

14 MR. WIGGINS: I think I will just let the witness'
15 earlier generous statement stand, Mr. Presiding Officer.

16 COMMISSIONER LeBLANC: Thank you.

17 MR. WIGGINS: And I apologize, this is the longest
18 half hour of cross-examination I have ever done.

19 COMMISSIONER LeBLANC: You are getting close to
20 Tim Mays now.

21 MR. WIGGINS: Yeah, I appreciate that.

22 COMMISSIONER LeBLANC: Yeah, I bet you do.

23 MR. WIGGINS: But I am also very close to finish,
24 you will be pleased to hear.

25 BY MR. WIGGINS:

1 Q You said, in response to one of our
2 interrogatories, Mr. Garvey, interrogatory 1, conveniently
3 enough, that -- there were actually two interrogatories --
4 in answer to number 4, you say that the only -- implicitly,
5 you say that the only form of payment that will be accepted
6 by Mailing Online, at least initially, is credit cards, is
7 that right?

8 A This is Pitney Bowes' question number 4?

9 Q Well, you can just answer that question for me, if
10 you can. It is answered in number 4, yes.

11 A Yes, that is correct.

12 Q Just credit cards?

13 A Yes.

14 Q And we ask you in question 1, whether, to your
15 knowledge, there was any cost to the Postal Service entailed
16 by the use of credit cards. Is it going to cost the Postal
17 Service any money to accept payment in that fashion, do you
18 know?

19 A I think the question is answered here.

20 Q It is. It says this information is commercially
21 sensitive and its release -- and I am talking with your
22 lawyers about that, because I wanted actually a number. I
23 am asking you not for a number, but I am asking you whether
24 you recognize -- whether you know whether there is any cost
25 associated, to the Postal Service?

1585

1 A I think that question is answered here as well in
2 the second sentence.

3 Q So the answer is yes?

4 A Yes.

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1 batches are the same job type, page length?

2 A Using a manual batch-matching process, it would be
3 possible to do that, yes. It is a very tedious and
4 hand-intensive process at the moment.

5 Q So that is what you are going to provide the
6 Commission, the opportunity to engage in tedious
7 hand-process?

8 A No. We are going to provide the Commission with
9 the depth of sort information that they have requested.

10 Q Perhaps I misunderstood your earlier response. I
11 thought you said that you were going to do that by providing
12 the reports for each batch.

13 A That's correct, yes.

14 Q In hard copy?

15 A Yes.

16 Q And then it will be up to the Commission to try to
17 match up each of those reports and figure out how many
18 batches are the same, is that correct?

19 A If the Commission decides or chooses to make that
20 matching, yes.

21 Q Could you refer to your response to Interrogatory
22 OCA/USPS-T1-61?

23 I had hoped that this question would eliminate an
24 ambiguity concerning the market for MOL, but I seem to just
25 have made things worse.

1597

1 A I have it.

2 Q First, can we agree that MOL is aimed at mailers
3 with short-run or low volume print jobs?

4 A Yes.

5 Q So the question becomes how to define short-run or
6 low-volume, right?

7 A That is one question, yes.

8 Q Well, that pretty much determines the market for
9 MOL, right?

10 A That is what we think at the moment. One of the
11 reasons we are conducting a market test is to verify that.

12 Q In your direct testimony, did you define short-run
13 as fewer than 5,000 impressions?

14 A Without specifically going to my testimony, I
15 couldn't cite whether I used the word "impressions" -- I
16 wouldn't dispute it.

17 Q Well, I think there is a quote from your testimony
18 in the Interrogatory with a citation to your testimony --
19 Note 7, page 9 contains the words "5,000 printed
20 impressions."

21 You don't disagree with that, do you?

22 A I do not.

23 Q But Witness Stirewalt's direct testimony was
24 assuming in excess of 12,000 impressions per mailing, is
25 that correct?

1598

1 A Yes.

2 Q And then the last time you were here you talked in
3 terms of 5,000 documents instead of 5,000 impressions, is
4 that right?

5 A I don't specifically remember that but I wouldn't
6 argue with it.

7 Q There is a transcript cite in the question but the
8 discussion I think is ambiguous since it refers to mailings
9 of 5,000 as opposed to 5,000 documents, but is that what you
10 think you meant back then, 5,000 documents?

11 A The issue of 5,000 documents or 5,000 impressions
12 or some variants thereof has been some great subject of
13 discussion as we go through this. One of the reasons I
14 included the attachment that I did to the interrogatory was
15 to give a sense of the fact that such absolutes are hard to
16 draw, and it is convenient to use 5,000 as a proxy number
17 but it is used differently in different contexts, and in
18 looking back at my testimony here, I note that it says we
19 have defined short-run as less than 5,000 printed
20 impressions. Defining short-run doesn't necessary mean the
21 mailing size that we are talking about, so I would emphasize
22 that there is ambiguity between the impressions and
23 documents and pieces throughout this discussion.

24 Q I guess the ultimate concern is exactly which
25 market MOL is going after, mailings of less than 5,000

1 pieces, mailings of less than 10,000 pieces? How high up
2 are you aiming?

3 A Well, I think that the 5,000 pieces is a good
4 proxy for the upper limit that we're aiming for. I think it
5 also represents, given the economic nature of digital
6 printing, a pretty substantial upper limit, although not an
7 absolute limit. It depends upon the user's requirement for
8 convenience versus cost. But I think that in general we'll
9 see mailings smaller than 5,000 pieces.

10 Q You've seen quite a few of those during the
11 operations test, haven't you?

12 A Yes, that is correct; we have.

13 Q Could you refer to your response to Interrogatory
14 OCA/USPS-T1-70.

15 In your response to part A you say the goal of
16 maximizing efficiencies of batching will continue to drive
17 MOL development efforts and a full combination will remain
18 possible at least in concept.

19 Did I quote you correctly?

20 A Yes.

21 Q When you say a full combination, do you mean
22 merging every possible job type into one big batch before
23 distributing to print sites and then presorting?

24 A Yes, except that the presorting occurs prior to
25 the distribution to the print sites.

1600

1 Q You create separate batches for each print site
2 before you presort them, don't you?

3 A Correct. ~~I don't think we're meaning to say~~
4 ~~anything different.~~

5 Q / *I don't think we're meaning to say anything different.*
6 Well, let's see if we can't agree that there are
7 at least a few practicalities that preclude batching
8 everything. I believe earlier you mentioned that you don't
9 intend to batch flats and letters, do you?

10 A Given the current processing capabilities of
11 postal plants, no, I wouldn't imagine that we could. I
12 however don't know what lies in the future of postal
13 processing, and it may very well be possible someday that we
14 would accept mailings of combined letters, flats. I'm not
15 precluding that, and that's why I indicated in this response
16 at least in concept.

17 Q We'd be talking about some pretty different
18 mail-processing equipment.

19 A I would agree with that; yes.

20 Q And would it make sense to combine First Class and
21 Standard A letters?

22 A That's an interesting question, and on one level
23 it would make a lot of sense to combine them. However,
24 given the current differences between the handling of those
25 two classes, I would say that it would be unlikely.

26 Q During the market research you offered a next-day

1 service and a two- to five-day service; correct?

2 A Yes, that's what we were proposing.

3 Q And it wouldn't make much sense to batch those two
4 together, would it?

5 A You mean given those two choices of service
6 offerings --

7 Q Yes.

8 A It wouldn't make much sense to batch those two
9 together. No, it would not.

10 Q So there are some limits at least to the
11 desirability of batching; correct?

12 A I would not disagree with that.

13 Q And there's technical limits to what you can
14 accomplish in terms of batching as well, aren't there?

15 A Technical from what perspective?

16 Q Well, look at your response to part B of
17 interrogatory 70. You confirm that the non-mail-merge jobs
18 are currently not combined; correct?

19 A That's correct; yes.

20 Q And that's a technical problem with the software;
21 is that correct?

22 A Well, it's a design factor of the software which
23 was intentional, as I mentioned, to facilitate the rapid
24 introduction of the system that we've used for the
25 operations test and are using for the market test. It,

2 Q In the third paragraph of your response, you
3 provide a list of criteria that a competitor would have to
4 meet in order to be considered functionally equivalent to
5 Mailing Online. Is that correct?

6 A That is correct.

7 Q And these are basically hurdles that a potential
8 competitor would have to jump in order to gain access to
9 whatever rate the Postal Service was charging itself?

10 A You could think of it that way, yes.

11 Q And the first criterion is automation
12 compatibility?

13 A Yes, it is.

14 Q Yes, and it is pretty obvious why you want to
15 require that.

16 A Yes.

17 Q The second criterion requires the potential
18 competitor to batch like pieces, correct?

19 A Yes.

20 Q Who would be the judge of whether like pieces are
21 being batched?

22 A That's a very good question and as I think I have
23 said at least several times during these hearings, we
24 ourselves are not certain of the level of commingling of
25 different size pieces, which can occur in an optimum

1 environment, so I can't really answer the question.

2 Q If a potential competitor could batch
3 heterogeneous pieces that the Service wasn't currently able
4 to batch, would that result in disqualification?

5 A You mean if they were able to exceed the level of
6 sortation that the Mailing Online Service is able to do?

7 Q Not the sortation, the batching.

8 A I'm sorry, the level of batching?

9 Q Yes.

10 A I don't believe so, no.

11 Q Well, they wouldn't be a full functional
12 equivalent would they? They would be more than a full
13 functional equivalent, right?

14 A Since the ultimate intent of Mailing Online, as we
15 discussed yesterday, is to at least in concept to commingle
16 everything. I would say that they would achieve a greater
17 degree of functional equivalency than Mailing Online itself.

18 Q Well, suppose the competitor couldn't do quite as
19 well as the Postal Service was doing in terms of batching.
20 Would that result in disqualification?

21 A I think that calls for a judgment that would
22 depend upon the level to which they were able to meet or not
23 meet.

24 Q The rest of the criteria that you have listed
25 there all serve to require the potential competitor to mimic

1 Mailing Online, is that correct?

2 A I am not sure that the word "mimic" captures the
3 full intent of these but that is part of it, yes.

4 Q If a competitor were to find a slightly different
5 market niche, he would be disqualified even if he could meet
6 Criterion 1, is that correct?

7 A You mean if he were only able to meet Criterion 1?

8 Q No, even if he met Criterion 1, that was providing
9 a slightly different services than Mailing Online, he would
10 be disqualified, correct?

11 A I cannot verify that. It would depend upon the
12 exact proposal.

13 Q Well, suppose the competitor only offered to
14 handle the most common jobs? Is there a criterion in your
15 list that would disqualify such a competitor from the volume
16 waiver?

17 A Can I ask what you mean by most common jobs?

18 Q Can we agree that even at present certain jobs
19 submitted to Mailing Online are more common than others?

20 A Yes.

21 Q And if we ranked all the jobs that have been
22 submitted, we would find one that was the most common?

23 A Yes, certainly.

24 Q Suppose a competitor only offered to provide
25 service for that kind of job, the most common job that the

1662

1 Postal Service receives, is there any one of your six
2 criteria that would disqualify that competitor?

3 A To answer the second part of your question first,
4 there are no one of my six criteria that would disqualify
5 that competitor, no, but the point I think of answering that
6 question would be that the intent of Mailing Online is to
7 provide equal access to all types of jobs and it is implicit
8 in the whole concept.

9 Q So your view would be that a potential competitor
10 would really have to offer the entire Mailing Online Service
11 as the Postal Service does?

12 A My response would be that the Postal Service has
13 an intent to provide this service at the greatest breadth of
14 possible jobs as possible. That is implicit in our intent.

15 I cannot say that another service which did not
16 have that breadth of intent would be excluded from the rate
17 considerations that the Postal Service is requesting.

18 Q Well, in the extreme example that I gave you where
19 the competitor offers only one job type, namely the most
20 common job type, would you think that would exclude the
21 competitor?

22 A I would think so, yes.

23 Q Could you refer to your response to Interrogatory
24 OCA/USPS-T1-52?

25 A I have it.

1663

1 Q In Part (a) of your response, I understand you to
2 be agreeing with the proposition that exemptions from
3 minimum volumes would be unnecessary if Mailing Online
4 matures, is that correct?

5 A Yes.

6 Q Isn't it the case that the Postal Service is
7 offering job options that will hardly ever be used?

8 A I think I have answered in a previous
9 interrogatory response that I have no way of knowing at this
10 point what options will or will not be used.

11 As an opinion I would say that certainly there are
12 job options which will be used more frequently than others.
13 We know that to be true, and part of the testing we will be
14 doing will be measuring those job options.

15 Q Isn't it the case that Witness Plunkett in his
16 revenue calculations assumed that there were a lot of job
17 options that would never show up at all?

18 A I am sorry. I have an exhibit -- I haven't
19 examined Witness Plunkett's calculations in that regard.

20 Q Okay. You are not aware that he assumes there
21 won't be any jobs of greater than 28 pages?

22 A I was not aware of that, no.

23 Q If it turns out that certain job options are rare
24 and if a customer submits one of those rare jobs in small
25 volumes, you are still going to need the exemption from the

1 volume requirement, aren't you?

2 A Through the period of the experiment we have asked
3 for the exemption so that we can have the freedom to measure
4 what options will and will not be chosen, and it would be my
5 assumption that as part of our filing for a permanent
6 classification that we would take into account the learning
7 that we gained during the experiment.

8 Q Would that involve actually dropping options?

9 A I would say that it might involve dropping options
10 as well as perhaps adding options.

11 Q Well, you are going to be adding options all
12 through the experiment, is that correct?

13 A We have the intent of examining additional
14 options. There are technical developments in the printing
15 and finishing field that are occurring as we speak, that
16 have occurred in the recent past, and there are also
17 customer requirements that we expect to discover during the
18 period of the test that we haven't uncovered during the
19 market research.

20 Q Could you refer to your response to Interrogatory
21 OCA/USPS-T5-41? That's a redirect from Witness Plunkett.

22 A I have it.

23 Q In your response to part C you say that charging
24 single-piece rates for Mailing Online would fail to reflect
25 cost savings from address verification and standardization

1 and from delivery point bar-coding. Is that correct?

2 A Yes.

3 Q Could you tell me why Mailing Online customers
4 should get a price break for submitting that kind of
5 automation-compatible mail but other customers who submit
6 the same kind of mail don't get that price break?

7 A The system that allows Mailing Online to do a very
8 low-cost and automated and completely verifiable acceptance
9 of addresses that can be standardized and its control over
10 the physical creation of the mail piece create an
11 environment in which we can do a level of verification that
12 is not possible under other circumstances. If such a
13 circumstance were to exist or to have preexisted Mailing
14 Online, I'm not aware of it.

15 Q Well, are you saying that the cost of verifying a
16 non-MOL mailing for automation characteristics exceeds the
17 cost savings to the Postal Service as a result of a mailing
18 being automation-compatible?

19 A I'm not familiar with the entire history of the
20 Postal Service's investigation of the cost of verifying
21 mail. I do know that Mailing Online offers an extremely
22 efficient and low-cost method of verification which has
23 under consideration of the system allowed those involved in
24 the development of it to agree that it implies that we
25 should be able to offer this discount to very low-volume

1 mailings.

2 Q Provided that they come to the Postal Service
3 through Mailing Online; correct?

4 A Provided that there is a 100-percent -- well, not
5 100 percent, there's no 100 percent -- but an extremely
6 reliable and low-cost method of verification such as Mailing
7 Online; yes.

8 Q Well, this gets back to the question of full
9 functional equivalence. How is the Postal Service going to
10 verify that a potential competitor is in fact submitting
11 mail that has the same automation compatibility
12 characteristics as Mailing Online?

13 A That's a very good question, and one that has been
14 the subject of some discussion. There was earlier an effort
15 in the Postal Service that I'm aware of called system
16 certification that I think attempted to achieve a level of
17 measurement of the way in which systems performed the
18 address standardization and presorting and that kind of
19 thing so that the verification requirements on the Postal
20 Service's part would be very low. I think it was an attempt
21 to achieve the same kind of understanding of what it would
22 take to verify a system like Mailing Online in its accuracy
23 and completeness.

24 Q This attempt to verify other systems has never
25 come to fruition?

1 A I don't know the complete history of it, but I
2 know that it was not -- hasn't achieved the level of success
3 that was expected, and I'm not certain why, but I know that
4 the intent was there, and the desire is still there on the
5 part of the Postal Service to achieve more effective and
6 more efficient methods of verification.

7 Q But as of this moment you don't have such a
8 method?

9 A I'm sorry, I don't know the status of that -- are
10 you talking about for the system certification or for
11 Mailing Online equivalency?

12 Q Either one. I took you to be describing one that
13 would apply to Mailing Online.

14 A I was using that as a simile, actually. No, we
15 don't have an equivalency test for a Mailing Online
16 equivalent. We haven't had a need for one yet. We do in
17 fact have a system certification process. I don't know the
18 status of it, and I don't know whether it would be directly
19 applicable to a Mailing Online equivalency test.

1 Q It is true now, is it not, that the Postal Service
2 will charge a Mailing Online customer a rate for postage
3 that is higher than the rate that that mailing would qualify
4 once it is batched with all the other mailings, at least in
5 some circumstances?

6 A It is true that the rate charged might be higher
7 or lower.

8 Q But at least it is your expectation, is it not,
9 that as the service matures, it is more likely to be a
10 higher rate that is charged to the customer than a lower
11 rate?

12 A Well, as I have said, we are not -- we don't
13 really know about that.

14 Q I didn't ask whether you know, I asked what your
15 expectation was, and I believe that your interrogatory
16 answers and your testimony suggests that it is your
17 expectation that the rate that is charged will be higher
18 than what the batched mailings would ultimately qualify for.

19 A By the end of the period of the experiment, yes, I
20 would imagine that, if our expectations come to fruition,
21 that we will have sufficient volume of mail that we will be
22 achieving a level of presort that would be greater than
23 that, yes.

24 Q So why don't you have now, or at least by the end
25 of the experiment, the problem that you were discussing with

1 Mr. Costich in your testimony earlier this morning, that you
2 would have to explain to Mailing Online customers why you
3 were charging them more than what their mailing would
4 otherwise have qualified for?

5 A Why don't we have that now?

6 Q Yes, that is my question.

7 A We have that same problem, yes, and the answer to
8 is that we are charging everyone the same rate regardless.

9 Q That doesn't really solve the problem because you
10 are still charging some people more than what they would
11 otherwise have qualified for if you had simply based the
12 rate on what the batched mailing would qualify for once it
13 got distributed out to the print sites.

14 A That is true, and if you take that to the nth
15 degree, someone who drops a letter in a mailbox, if they
16 have typed their address and included a bar code on that
17 envelope, as opposed to handwriting, we are charging them
18 more than our cost of processing that letter, whereas, the
19 handwritten letter is charged the same amount as the
20 typewritten bar coded address.

21 Q Well, let me put it to you this way. You don't
22 really expect, under the system as it is currently
23 configured, that you are going to get a lot of calls from
24 Mailing Online customers belly-aching about why they didn't
25 get a lower rate than what you charged them when they

1 submitted their mailing over the web site?

2 A I don't know what to expect.

3 Q Do you have any personnel costs built into your
4 cost structure here for people that are going to field these
5 calls that may happen but you don't know what to expect?

6 A I think you will find in the cost testimony the
7 information you are looking for.

8 Q Really. Can you tell me where in the testimony
9 there is a cost built-in for people handling calls from
10 customers complaining about rates, that they were
11 overcharged on their rates?

12 A As you will find in the testimony, there is a
13 single point of contact for the customers and that is a Help
14 Desk.

15 Q And that is not -- it was not anticipated when you
16 developed the costs for that particular point of contact
17 that that person would be fielding calls from people
18 complaining about rates, was it?

19 A I think it was anticipated that the Help Desk will
20 field all kind of calls.

21 Q Without regard -- and you made no distinction
22 about what types of calls you expected to get?

23 A Did I individually make a distinction about that?

24 Q The Postal Service in developing its costing.

25 A I am sure there was a general analysis considered

1685

1 of what kind of issues might cause people to call, but, no,
2 I don't believe that any special attention was given to rate
3 calls.

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1 Q I'd like you to take a look at MASA-T-122, please.

2 A Yes, I have it.

3 Q That interrogatory has some questions about Fast
4 Forward. As I understand your answer in subsection D, Fast
5 Forward is available to private parties for an annual fee of
6 \$10,000.

7 A Yes.

8 Q And I'm now not talking about Mailing Online, I
9 just want to understand how Fast Forward works. Can a
10 mailer make use of the Fast Forward system without becoming
11 a licensee?

12 A If he uses the Fast Forward system through another
13 service provider or third party; yes.

14 Q Okay. But he can't use the Fast Forward system at
15 the Postal Service. In other words, he wouldn't just submit
16 a mailing and ask for it to be run through Fast Forward by
17 the Postal Service.

18 A That is correct.

19 Q And with respect to Mailing Online, those mailings
20 will be run through Fast Forward by the Postal Service.

21 A Yes.

22 Q And they will be run through Fast Forward by the
23 Postal Service without any separate charge.

24 A Yes.

21 Q Now one of the things that you've said as a reason
22 that you believe that Mailing Online might actually assist
23 letter shops and be beneficial to letter shops is that you
24 think that they might -- letter shops might I think the term
25 you've used is evolve a capacity to use digital printing.

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1 You recall your use of something like that term?

2 A Yes, I certainly do.

3 Q And so it's your belief that although a letter
4 shop might bid on a printing contract and not get it, it
5 nevertheless would benefit because in the course of bidding
6 it might evolve this capacity to use digital printing.

7 A It is my belief; yes.

8 Q And you -- well, withdrawn.

9 It's also your testimony, is it not, that -- at
10 least it's your understanding and belief that letter shops
11 and other mailing service firms are not likely to want the
12 business of mailers that are mailing at less than 5,000
13 pieces.

14 A It's my understanding from discussions with that
15 industry; yes.

16 Q Well if that's true, why would it be of any great
17 benefit to a letter shop to develop a capacity to use
18 digital printing, which you say is uneconomical, over 5,000
19 pieces when they're not in the business, as you understand
20 it, of trying to service mailings of less than 5,000 pieces?

21 A As I've stated in my response to interrogatories,
22 I think letter shops are interested, as are all businesses,
23 in responding to all of the needs of their customers. They
24 stay in business by acknowledging and responding to customer
25 requirements. Customers will have all kinds of needs, and

1 letter shops will be able to respond better to those needs
2 if they are more well equipped to cover a breadth of needs.

3 Q But the needs that you think that they would
4 become better equipped to respond to would be the needs of
5 customers to engage in mailings of less than 5,000 pieces.
6 Is that not right?

7 A Not necessarily, but I see your point. Yes.

8 Q Now one of the other ways that you think that or
9 you at least said that you think that letter shops might
10 benefit from Mailing Online is by the growth in businesses
11 that use Mailing Online to the point where they may need
12 services from letter shops that would be more sophisticated
13 than those offered on Mailing Online. Is that an
14 approximate paraphrase of your testimony?

15 A Yes, it is.

16 Q Okay. A certain number of businesses are going to
17 grow to the point where they have larger mailings or more
18 sophisticated needs because they have good businesses and
19 they have good expansions plans and their market penetration
20 gets greater, and so they grow. Right?

21 A Yes.

22 Q And that's not a function of Mailing Online,
23 that's a function of their business plan and the growth of
24 their business.

25 A Well, I would disagree with that to the extent

1 that it's always been a function of the Postal Service to
2 assist in the successful commerce of businesses in the
3 United States, and it would be hard to imagine that the
4 growth of businesses of any size in the United States could
5 have come to where it is today without the Postal Service
6 being available.

7 Q But surely you're not saying that the success of a
8 business in growing to the point where it has enough
9 customers to want to mail at greater than 5,000 pieces is
10 caused by its use of Mailing Online, are you?

11 A I would suggest that it's part of the Postal
12 Service's charter to enable in whatever way it can the
13 growth of businesses in the United States.

14 Q I don't think that really answered my question.
15 Are you suggesting that the use of Mailing Online will be
16 the cause of businesses growing to the point where they need
17 services that are more sophisticated than that used by
18 Mailing Online?

19 A I can't say that that will happen in every
20 circumstance, but it would certainly be nice if Mailing
21 Online were that successful in meeting the needs of these
22 businesses.

23 Q Okay. And you have no studies, data, or other
24 information on which to base your opinion that that might
25 happen, do you?

1 A Studies? No.

2 Q Would you agree with me that if your assumption
3 that letter shops or mailing service firms are not
4 particularly interested in mailings of less than 5,000
5 pieces is incorrect, that your assessment of the competitive
6 impact of Mailing Online is incomplete at least?

7 A Well, I think if you'll review my exact words,
8 I've not used 5,000 as a number when I talk about letter
9 shops. What I suggest is that letter shops are interested
10 in larger mailings than will be generally represented by
11 Mailing Online customers. I think 5,000 is the upper end of
12 the spectrum the middle of which will be far lower than
13 5,000, and certainly my understanding of letter shops'
14 activities confirms that that is the case. Yes.

15 Q And if your understand's wrong, then you haven't
16 really adequately or completely addressed the nature of the
17 competitive impact of Mailing Online on letter shops.

18 A In performing an analysis if your assumptions are
19 incomplete, as they always will be, you have to get the best
20 information you can and just go forward. So yes, I would
21 agree that incomplete information leads to inaccurate
22 analysis, but one can never know everything.

23 Q And you would also then agree with me that if your
24 assumption that users of Mailing Online are likely to be
25 users with mailings of less than 5,000 pieces is wrong, that

1 your assessment of the competitive impact of Mailing Online
2 on letter shops and mailing service firms is inadequate for
3 that reason too.

4 A Well, I won't say inadequate. I think it's
5 perfectly adequate for the purposes we have proposed for the
6 market test and the experiment. We will certainly learn
7 during the market test and the experiment more than we know
8 today, and we'll be able to perform a more complete
9 analysis.

10 Q Well, let me change the word from "inadequate" to
11 "incomplete," which was the word I used before with respect
12 to less than 5,000.

13 A I would not disagree. Everything is incomplete at
14 this point.

15 Q Would you agree with me that economics are not the
16 only factor at play in a mailer's determination whether to
17 use a digital printing process or some other more
18 traditional printing process?

19 A Yes, I would agree.

20 Q Is it your understanding that digital printing at
21 whatever volume level we are talking about has more
22 flexibility than the more traditional forms of printing?

23 A In some regards, particularly having to do with
24 personalization, yes. In terms of flexibility of volume and
25 cost, I would disagree.

1 Q But if you are a mailer for whom personalization
2 of the message is an important feature of your marketing
3 plan, then even if your printing run is 20,000 or 40,000 or
4 50,000, you may still choose digital printing?

5 A Yes, you may, and it actually has other
6 considerations other than just the length of the run. It is
7 possible using some, as I understand it, some new printing
8 technology having to do with electronic plates on offset
9 printing to do personalization on large printing runs as
10 well. However, there's a time factor that enters into it
11 such that if you don't have the time to engage in offset
12 printing, which normally takes several weeks, than digital
13 printing will be an answer for that personalization, whereas
14 if you had more time and less money you could do it the same
15 way using offset technology.

16 Q Okay, so in addition to personalization, timing
17 may also be a factor that might cause someone to use digital
18 printing over some other more traditional printing process?

19 A Absolutely, yes.

20 Q Without regard to what the volume of the printing
21 is? In other words, it could be greater than 5,000 pieces?

22 A Certainly.

1 you check with the printer and run it and then get back to
2 them the second it is all in one operation?

3 THE WITNESS: That is correct. It is a totally
4 automated and instantaneous process.

5 CHAIRMAN GLEIMAN: A single web site visit
6 transaction?

7 THE WITNESS: Yes.

8 CHAIRMAN GLEIMAN: Okay, I just wanted to make
9 sure that I understood how it was happening.

10 You are a very good witness. I want to compliment
11 you on an excellent performance.

12 You have got a very carefully constructed and
13 thoughtful response to NOI Number 1, Issue 3, and it's been
14 discussed at great length and I don't want to be repetitive,
15 but I do have a couple of questions that I just need some
16 clarification on.

17 A lot of talk about these criteria and functional
18 equivalence.

19 What are we talking about when we talk about
20 functional equivalence, the system as it was submitted in
21 the case when you filed it last summer or the system as it
22 might exist after the meeting the other day, or functional
23 equivalence to some system that might exist in the future,
24 because you said that this was some kind of evolutionary
25 process that was going on, so functional equivalent to what?

1715

1 THE WITNESS: I would admit that functional
2 equivalence is a moving target in this instance.

3 CHAIRMAN GLEIMAN: So today if Pitney Bowes was
4 offering a product or one of Mr. Bush's member companies was
5 offering a project -- a product that met those six criteria,
6 they might not meet them tomorrow or a week from now or a
7 month from now or a year from now in the middle of the
8 experiment because your system might evolve to something
9 different, is that correct?

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: I am not sure I would spend the
12 time and effort trying to become a functional equivalent of
13 something that was a moving target.

14 Looking at the specific criteria in that response,
15 and again I hope I don't take too much time replowing old
16 ground here but Mr. Wiggins made the point that there
17 appeared to be a number of the criteria that related
18 directly to generating mail pieces which were, to use the
19 term that a lot of us have used over the years, efficient
20 mail pieces for the Postal Service -- a lot of work done
21 upfront and turned over to the Postal Service to drive cost
22 out of the system.

23 Can you explain to me how, since it was either you
24 or Mr. Hollies yesterday and I don't recall which of you it
25 was, talked about the system being designed to drive out

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1716

1 cost, how criterions five and six drive cost out of the
2 system in the sense that we have talked about that over the
3 years?

4 How does that drive costs out of the Postal
5 Service's -- as a matter of fact, let's include number four
6 in there too, four, five, and six. How do those drive costs
7 out of the system, the system being taking care of that hard
8 copy mail that ultimately you deliver, whether it is the
9 product of Mailing Online or some other type of hard copy
10 mail?

11 THE WITNESS: Yes. Well, starting with number
12 four, I think it is fairly apparent there that what you are
13 doing is getting the mail closer to where it is going to be
14 delivered.

15 If you are routing it geographically according to
16 the destination zip code on the mail piece, you are likely
17 to have less transportation to the delivery point.

18 CHAIRMAN GLEIMAN: Well, let me ask you a question
19 about that.

20 Does it cost -- does it make any difference to the
21 Postal Service whether I geographically batch and distribute
22 mail pieces prior to printing and mailing -- prior to
23 printing -- let's stop there -- or whether I print them all
24 in one place, sort them out, and put them on an airplane and
25 drop ship them around the country?

1717

1 Is one less costly than the other for the Postal
2 Service to deliver? In other words, mail that I drop ship
3 around the country --

4 THE WITNESS: I understand.

5 CHAIRMAN GLEIMAN: -- that are printed
6 centrally --

7 THE WITNESS: No, not explicitly and I think in
8 one of my responses yesterday I indicated that the ultimate
9 measure of that I think will be the Service performance of
10 the distribution, such that if the mail can be presented to
11 the Postal Service in a more efficient way to allow a better
12 service for the mail, then we would not require or expect a
13 large degree of geographic distribution, but the direct
14 answer to your question about cost for the Postal Service is
15 geographic routing is directly related to cost.

16 CHAIRMAN GLEIMAN: No, that is not the question I
17 asked, and I think you gave me an answer, but let me ask the
18 question again.

19 I print everything in one spot and I sort it out
20 and I put it on a plane or in a truck and I drop it all
21 around the country at the very same places, entry points,
22 that the Postal Service would put its Mailing Online mail
23 that's printed and in a distributed manner.

24 What is the difference in cost to the Postal
25 Service for processing and delivering -- you know,

1718

1 processing and delivering that mail? Is there any
2 difference in cost?

3 THE WITNESS: No, there is not.

4 CHAIRMAN GLEIMAN: So it really doesn't matter
5 whether I geographically batch and distribute mail pieces
6 prior to printing in terms of driving costs out of the
7 system?

8 THE WITNESS: That is correct, if you assume that
9 there's another method of achieving the same goal.

10 CHAIRMAN GLEIMAN: By the way, can you distribute
11 mail pieces prior to printing? Your words here are
12 "geographically batching and distribution of mail pieces
13 prior to printing" -- do I understand it to mean that those
14 bits of electronic data are mail pieces in your mind?

15 THE WITNESS: I understand the intent of your
16 question and I think it may require a legal conclusion that
17 I can't make.

18 CHAIRMAN GLEIMAN: Well, I mean what did you mean?
19 Those are your words?

20 THE WITNESS: In my mind I think of them as mail
21 pieces.

22 CHAIRMAN GLEIMAN: Okay, thank you.

23 Just one more quickie question. The Postal
24 Service's proposal would not prohibit a large mailer who
25 wanted to mail 100,000 pieces to transmit 20 batches of

1719

1 5,000 pieces to the Postal Service in a given day, would it?

2 THE WITNESS: Currently no. There is nothing in
3 place to keep that from happening.

4 CHAIRMAN GLEIMAN: Thank you.

5 COMMISSIONER LeBLANC: Mr. Garvey, I know we have
6 a number of questions more and I have got unfortunately a
7 number and I think some of my colleagues do to, but I'll
8 start and probably out of deference to them I'll stop and
9 let them pick up also, but I will stay with NOI Number 1,
10 Issue 3, since everybody else has beat it up to death. You
11 talk about, in item number 1, 100-percent standardized
12 automation-compatible addresses. I think you may have
13 touched on this, but let me ask it another way. Does a
14 mailer have to use software certified by the Postal Service
15 to achieve this standard?

16 THE WITNESS: It's not stated here, but I think
17 it's implicit in the reference; yes.

18 COMMISSIONER LeBLANC: If I am an outside person
19 and it's not stated but it's implicit, how do I interpret
20 that?

21 THE WITNESS: Well, the requirements for achieving
22 automation discounts for mail today require the use of
23 CASS-certified software for processing addresses. The same
24 requirement would address in this scenario.

25 COMMISSIONER LeBLANC: Okay. Well, then let me go

1720

1 to another point then, since you brought up the CASS
2 certification. If the Postal Service adds Fast Forward, I
3 think Mr. Bush touched on this earlier and others, during
4 the market test or the experiment, would a hybrid mailing
5 service have to use Fast Forward software to be then
6 functionally equivalent?

7 THE WITNESS: The Postal Service in its use of
8 Fast Forward is achieving an operational efficiency by
9 bypassing the centralized forwarding unit, allowing the mail
10 to be forwarded before it becomes physical mail, as it were.
11 The requirement coexists with the automation requirement
12 that list be processed through either a Fast Forward system
13 or be processed through an NCOA licensed vendor. So the
14 ultimate end that's achieved by Mailing Online's use of Fast
15 Forward achieves two goals, in that it reaches an automation
16 compatibility requirement, but it also achieves an
17 operational savings for the Postal Service.

18 I would say for the part of the requirement
19 specified by the automation requirements that the addresses,
20 the list have been run through either NCOA or Fast Forward,
21 that part would apply to someone else. Yes.

22 COMMISSIONER LeBLANC: But how does that tie in
23 with this moving functionally equivalent target that the
24 Chairman talked about? Because it's constantly moving. And
25 so therefore in my mind, how do you -- how does that mailing

1721

1 then use it if you've changed. Did I misunderstand you?

2 Are you changing it as you're going along?

3 THE WITNESS: Are we changing the system?

4 COMMISSIONER LeBLANC: Yes.

5 THE WITNESS: Yes, we are. We're changing the
6 system to achieve the ultimate goals expressed here and in
7 other parts of my testimony.

8 COMMISSIONER LeBLANC: All right. Well then let's
9 move on to the CASS certification side then. How much then
10 would it -- all right, let's go another way. How much does
11 it cost then to purchase or lease the CASS-certified
12 software?

13 THE WITNESS: All CASS-certified software that I'm
14 aware of has been developed by outside vendors.

15 COMMISSIONER LeBLANC: And is it updated
16 frequently, and how much does the updation of that cost?

17 THE WITNESS: I think that's up to the vendors of
18 the software. The Postal Service does CASS certification at
19 no cost.

20 COMMISSIONER LeBLANC: But has that -- well, okay,
21 that answers that question.

22 All right, let's move on to your second item then,
23 your commingling of the mail pieces. Isn't it true that on
24 occasion some Mailing Online pieces will not be commingled?
25 As an example, on a day when only one customer purchases a

1722

1 particular sized envelope, let's say?

2 THE WITNESS: Yes, that is true.

3 COMMISSIONER LeBLANC: Okay.

4 I recall you mentioned that the Postal Service
5 might someday be able to sort letters and flats in the same
6 mail stream. I think this came up yesterday, but maybe not.

7 THE WITNESS: Yes, it was yesterday.

8 COMMISSIONER LeBLANC: I think it was yesterday.
9 Realistically, let me ask you a question. Can we expect to
10 see that during the Mailing Online experiment at all?

11 Or let me put it another way. Would it be fair to
12 interpret the commingling as meaning -- and I got this in
13 quotes from me -- to the extent required for automated mail
14 discounts then?

15 THE WITNESS: During the experiment.

16 COMMISSIONER LeBLANC: During the experiment.

17 THE WITNESS: Yes.

18 COMMISSIONER LeBLANC: All right, let's move on to
19 the geographic batching that Mr. Wiggins hit a lot on last
20 night. As I understand it, the current plans for the
21 Mailing Online call for a printer, and I wrote this because
22 I don't want to make a mistake on this one, for a printer in
23 most bulk mail center areas. Is that correct?

24 THE WITNESS: Yes.

25 COMMISSIONER LeBLANC: All right.

1723

1 Would a hybrid mailing service be geographically
2 functional -- I'm sorry -- would a hybrid mailing service be
3 geographically functionally equivalent if it accepts and
4 presents only mail pieces destined for delivery in the
5 service area of the local bulk mail center?

6 THE WITNESS: I think this may get to the
7 discussions that we've had about the destinating bulk mail
8 center discount, and we have admitted that the Postal
9 Service does not intend during the period of the experiment
10 to necessarily have the capability to enter at all bulk mail
11 center facilities.

12 COMMISSIONER LeBLANC: So your answer --

13 THE WITNESS: The answer is no, it would not be a
14 functionally equivalent requirement given that
15 understanding.

16 COMMISSIONER LeBLANC: And the reason being again,
17 I'm sorry, I want to make sure I'm clear here, your
18 reason --

19 THE WITNESS: That during the experiment the
20 Postal Service itself doesn't intend or necessarily intend
21 to be able to deposit mail at all bulk mail center areas.

22 COMMISSIONER LeBLANC: Okay. While we're on Mr.
23 Wiggins, I think it was last night you were talking about a
24 number of things, but I believe you said in your opinion,
25 correct me if I'm wrong here, a hybrid mailing service would

1724

1 not necessarily need to enter their mail at exactly the same
2 number of offices as the Postal Service uses to enter
3 Mailing Online in order to be functionally equivalent. Is
4 that correct?

5 THE WITNESS: That is correct.

6 COMMISSIONER LeBLANC: Okay. I just wanted to
7 clarify that.

8 And my last two items, and then I'll let my two
9 colleagues jump in here if they have some questions, but
10 I've got to tell you, I've got a little bit of a problem
11 here. Your answer talks about functional equivalency here,
12 but it seems to me that you're describing what I'm going to
13 call a very narrow service that is exactly the same if you
14 will as the Mailing Online. I mean, it's really tied very
15 closely together.

16 Now let me give you an example. I hope I do this
17 right. In item 5 you listed, and I want to read this here,
18 that the equivalent service must provide real-time quotes
19 and -- and that's in quotes -- and in quotes again, secure
20 online payment.

21 Now I know that Mailing Online has these
22 attributes, but I don't see why real-time quotes are
23 essential to functional equivalence. Follow me there?

24 THE WITNESS: Yes, I do.

25 COMMISSIONER LeBLANC: Now in your answer to issue

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1725

1 2 in the notice of inquiry you discuss a possibility of a
2 service that provides value-added refunds, something the
3 Postal Service decided not to incorporate in the Mailing
4 Online. Can you please explain to me then why a hybrid mail
5 service that provides value-added refunds should not be
6 eligible for the same postage rates as Mailing Online?

7 THE WITNESS: I think it would be necessary for me
8 to admit that such an option might be possible for
9 consideration.

10 COMMISSIONER LeBLANC: Then let me ask another
11 question about secure online payment. If my two colleagues
12 will bear with me, I've just got one other question. I know
13 that the Postal Service does not intend, or it's my
14 understanding, to deduct Mailing Online fees from the
15 existing accounts. We've talked about this. But would you
16 explain why a functionally equivalent hybrid mail service
17 that allows customers to maintain accounts for payment
18 should not be eligible for the same postage rates as Mailing
19 Online?

20 THE WITNESS: Well, just to clarify, it's not that
21 the Postal Service doesn't intend to offer prepaid accounts
22 or access to existing prepaid accounts. It's that during
23 the market test and perhaps during the early phases of the
24 experiment it's been determined by the experts in our
25 organization that such a thing on the Internet may not be

7 COMMISSIONER LeBLANC: Okay. Yesterday, in your
8 colloquy with Mr. Wiggins, you seemed to take the position
9 that Mailing Online, if you will, -- I am not trying to put
10 words in your mouth, or mischaracterize what you said, so,
11 please, stop me if I am wrong, but you seem to take the
12 position that Mailing Online should have special access to
13 the discounts before certain functions such as commingling
14 and geographic batching were fully achieved, but that Pitney
15 Bowes or other third party providers of hybrid mail should
16 have to demonstrate that their services fully achieve these
17 functions before gaining the same special access to mail
18 stream discounts. That is my interpretation of what you
19 said. If I am wrong, please tell me so, but let me put my
20 question out there first.

21 If my understanding is correct, is the Postal
22 Service assuming that there will be no need to level the
23 playing field in terms of access to mail stream discounts
24 until after the experimental phase?

25 THE WITNESS: Well, to correct your understanding

1736

1 of what I said, I think I said that fully equivalency would
2 not necessarily be an absolute measurement, that such
3 proposals as would come to the Postal Service would be
4 judged on their merits, and that if an approach towards full
5 functional equivalency were offered, that that would be
6 judged at the time on its merits.

7 I think that leveling -- complete leveling of the
8 playing field, in my opinion, cannot occur until after the
9 experiment, because the Postal Service will not know until
10 close to that time anyway what it is that Mailing Online
11 service really is. In the permanent classification that we
12 formulate, we will demonstrate and integrate the
13 understanding that we achieve during the experiment of what
14 it is about, what level of commingling and batching we can
15 achieve, what all the factors are that drive costs, and that
16 will be the point at which we can determine what a level
17 playing field actually is.

18 COMMISSIONER LeBLANC: So everything would be
19 after whatever we do here, in effect, then, is that correct?
20 In other words, for a hybrid mail piece to be eligible for
21 any kind of special access to automation discounts, if I
22 understood you correctly, then it would come after the
23 experimental phase, not necessarily during it.

24 THE WITNESS: I would say that permanent access to
25 those rates would certainly come afterwards. I think on the

1 same terms that the Postal Service is trying to understand
2 what rates and what discounts should apply, that if some
3 other party were to propose trying to do the same thing,
4 that that would certainly be considered. But we have a lot
5 of learning to do and it may be that we discover during the
6 experiment that the rates that we want to propose are
7 entirely different than the automation rates. We have
8 chosen those as a proxy because we don't know.

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

OCA/USPS-T5-48. Please refer to your response to NOI No. 1, Issue 1, at page 6, the relevant portion of which is quoted in OCA/USPS-T5-47. Please confirm that the data necessary to calculate the actual depth of sort

a. for First-Class mail volume is the level of presort (e.g., none, basic, 3-digit, etc.) by job type, by page count, by print site, respectively. If you do not confirm, please explain, and identify all the types of data necessary to calculate the actual depth of sort.

b. for Standard A mail volume, for pieces weighing 3.2985 ounces or less, is the level of presort by job type, by page count, by print site for regular and enhanced carrier route. If you do not confirm, please explain, and identify all the types of data necessary to calculate the actual depth of sort.

c. for Standard A mail volume, for pieces weighing more than 3.2985 ounces, is the level of presort by job type, by page count, by print site for regular pieces and enhanced carrier route pieces. If you do not confirm, please explain, and identify all the types of data necessary to calculate the actual depth of sort.

OCA/USPS-T5-48 Response:

a-c. Not confirmed. For all mailings that either meet existing minimum volume thresholds, or meet existing thresholds as a result of being commingled with other documents, all that is required to determine depth of sort is the daily report of mail characteristics and the corresponding mailing statements. In the event that a particular mailing does not become part of a sufficiently large batch to have been presorted, such pieces are treated by Mailing Online software as single piece mailings, irrespective of the level of sortation they receive. With the eventual advent of the Mail.dat utility, depth of sort information for non-qualifying mailings will also become available. (See also witness Garvey's responses to OCA/USPS-T1-71&72.)

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

OCA/USPS-T5-49. In his responses to OCA/USPS-T1-47c.-d. and OCA/USPS-T3-78a., witness Garvey seems to indicate that the information needed to calculate an actual average qualifying discount for MOL will not be available until "mid-1999." Is this your understanding? If not, when will depth of sort data by batch type (i.e., volumes by batch type by presort level) be available?

OCA/USPS-T5-49 Response:

Witness Garvey in fact indicated that the next major release of Mailing Online software will be available in mid-1999. My understanding is that this version will allow the collection of depth of sort data. This does not, however, mean that sufficient data will exist to draw conclusions about "average" qualifying discounts at that time. Given the current procedural schedule of the Mailing Online case, the experiment may have barely begun in mid-1999. If so, it would certainly be premature at that time to expect to draw informed inferences regarding the depth of sort Mailing Online volume is likely to attain.

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

OCA/USPS-T5-51. Please refer to your response to OCA/USPS-T5-48. Please answer the following questions for 1) mailpieces meeting the existing minimum volume requirements, and 2) mailpieces meeting the existing minimum volume requirements as a result of being commingled with other mailpieces. For purposes of this interrogatory, "level of presort" and "depth of sort" are both defined to be a vector of integers whose elements are the volumes of a mailing that qualified for the various available presort discounts (as shown on a Qualification Report), the order of the elements being from greatest discount to no discount. For example, the Qualification Report appearing at Tr. 6/1423 reflects a "level of presort" or "depth of sort" of [0, 0, 0, 0, 0, 0, 1].

- a. Please confirm that for MOL First-Class batches, the types of data necessary for the processing center computer to determine the level of presort are
- i. job type;
 - ii. page count;
 - ii. address list ZIP+4 Codes, and;
 - iv. ZIP Code tables for print sites.

If you do not confirm, please explain, and identify all the types of data necessary to calculate the actual depth of sort.

- b. Please confirm that for MOL Standard (A) batches weighing 3.2985 ounces or less, the types of data necessary for the processing center computer to determine the level of presort are
- i. job type;
 - ii. page count;
 - ii. address list ZIP+4 Codes, and;
 - iv. ZIP Code tables for print sites.

If you do not confirm, please explain, and identify all the types of data necessary to calculate the actual depth of sort.

- c. Please confirm that for MOL Standard (A) batches weighing more than 3.2985 ounces, the types of data necessary for the processing center computer to determine the level of presort are
- i. job type;
 - ii. page count;
 - ii. address list ZIP+4 Codes, and;
 - iv. ZIP Code tables for print sites.

If you do not confirm, please explain, and identify all the types of data necessary to calculate the actual depth of sort.

- d. Do you agree with the definition of "level of presort" and "depth of sort" given at the beginning of this interrogatory? If not, please provide rigorous definitions of these terms. Please confirm that the depth of sort for any particular batch will always contain some zeros because the Qualification Report includes all possible presort levels for letters and flats and for First Class and Standard (A). If you do not confirm, please define each of the presort levels appearing on the Qualification Report shown at Tr. 6/1423.

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

- e. Please confirm that distributing batches to print sites does not cause any change in the depth of sort; i.e., the number of pieces qualifying for each discount would be the same whether depth of sort were determined for a batch before or after distributing to print sites. If you do not confirm, please describe all situations in which distributing to print sites would cause pieces of a batch to lose qualification for a particular discount.
- f. In your response you refer to "a particular mailing [that] does not become part of a sufficiently large batch to have been presorted." Does the MOL system sort Standard (A) batches of 200 pieces? Does the MOL system sort First-Class batches of 200 pieces? If not, why not? What number of pieces constitutes "a sufficiently large batch"? What was the rationale for choice of this number?

OCA/USPS-T5-51 Response:

- a-c. Confirmed. However, as witness Garvey indicated, the processing center computer will eventually have the capability of merging documents with different characteristics. When this change is made, most of the job type information will not be necessary to determine depth of sort.
- d. Yes. Confirmed.
- e. Not confirmed. Distribution of customer documents to print sites will affect the depth of sort that the mailing will attain. The nature and magnitude of the effect depends on what is meant by "before...distributing to print sites", and by the other documents that are present in the Mailing Online system. While I cannot describe all situations in which there would have been an effect, consider for example, a customer who submits a 400-piece Standard (A) mailing to Mailing Online, with 100 pieces going to each of four different 3-digit areas, each served by different printers. This mailing has presumably satisfied all of the existing qualification standards for basic automation rates. However, when that document is subsequently distributed to the

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

four different print sites, four separate address lists are created and none of the four mailings would, under the existing DMCS, qualify for anything but First-Class Mail single piece rates. This assumes of course that the mailings in the instant case are not commingled with other jobs. Conversely, if one (or more) of the four 100-piece lists are joined with a larger mailing in the same 3-digit area, then those pieces may qualify for discounts for which the original mailing would not have qualified.

- f. Mailing Online presorts all batches, and therefore all documents of which mailings are comprised, irrespective of the number of pieces within a batch. The response should instead have referred to a mailing that lacks sufficient volume to have met existing minimum volume thresholds.

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

OCA/USPS-T5-52. Please refer to your revised response to interrogatory OCA/USPS-T5-10, filed January 14, 1999.

- a. When OCA asks you whether the "fixed information systems costs" of MOL "will become institutional, rather than attributable," are you applying the definition of "attributable" articulated by the Commission in PRC Op. R97-1, paras. [4016-4018], i.e.,

[4016] In analyzing witness Panzar's position, the Commission first considers whether it is reasonable to limit the concept of attributable cost to marginal cost. The Commission has recognized since Docket No. R71-1 that marginal costs are the most important element of attributable cost. Over the years both the Service and the Commission have also included specific fixed costs under the rubric of attributable. Further, the Commission has analyzed costs caused by the classes of mail and found other nonvariable costs to be attributable (the fixed portion of special delivery messengers, the fixed portion of the Eagle Air Network, and the single subclass stop portion of access, among others). The Commission has even deleted marginal costs from attributable costs as in the case of the air transportation of parcel post to the Alaskan bush. In the latter case, the Commission found that the primary cause of those costs was the Service's universal service obligation, even though the cost varied with the volume of parcel post being transported to the bush.

[4017] The Commission is not prepared to depart from the position that attributable cost means costs which can be said to be reliably caused by a subclass of mail or special service. Marginal costs, by definition, include only the additional costs caused by the last unit of output. Marginal costs are an important subset of attributable costs, but the Commission cannot agree that marginal cost is all that is meant by the term "attributable." Unlike incremental costs, marginal costs have been central to microeconomic theory for a long time. The framers of the Act knew about and could have used the concept of marginal costs, but they did not. The language of the Act requires the Commission to set rates for each subclass so that it covers its attributable cost and makes a reasonable contribution to all other costs. In interpreting this language the Commission continues to believe that the authors of the Act intended "attributable" to

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

mean more than just marginal cost. If they had meant marginal cost, they would have said so.

[4018] Marking up attributable cost is the means by which the Commission makes its determination of a reasonable contribution to all other costs. All other costs are the difference between total cost and attributable costs. All other costs are not the difference between total cost and marginal cost. When the Commission determines the reasonableness of a subclass's contribution to all other costs, it must use attributable cost as a base and *mark-up*.

....

[4024] The Commission's calculation of attributable costs by subclass and service does not precisely conform to witness Panzar's definitions of either marginal cost or incremental cost. However, they come closest to being the incremental costs associated with the subclasses and services taken one at a time.

- b. Do you agree with the Commission's view that attributable costs should include the volume variable costs of a subclass plus the specific fixed costs of that subclass?
- i. If you disagree, state whether you reject the Commission's articulated view of attributable costs.
 - ii. If you disagree with the Commission's view of attributable costs, then state your definition of attributable costs. Include in your discussion whether attributable costs must include the specific fixed costs of a subclass.
 - iii. Is the definition given in subpart ii. of this interrogatory the one you applied in determining the costs to be marked up for the purpose of recovering Information Systems costs in MOL's premailing, per impression fee?
 - iv. If your answer to subpart iii. is negative, then state the definition of attributable costs you applied in determining the costs to be marked up for the purpose of determining the premailing, per impression fee for MOL.
 - v. Did you include any of the fixed Information Systems costs in the cost base you marked up to determine the premailing, per impression MOL fee?
 - vi. If you excluded the specific fixed Information Systems costs from the cost base you marked up to determine the premailing, per impression MOL fee, didn't you deviate completely from the Commission's articulation of attributable costs?

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

- c. Do you agree with the Commission that incremental costs come closer to being the attributable costs of a subclass than do marginal costs?
- i. If you agree with this view, did you apply it in determining the costs to be marked up for the purpose of determining the premailing, per impression MOL fee?
 - ii. If you disagree with this view, then state whether you marked up only the marginal costs of MOL to calculate the premailing, per impression MOL fee.
- d. Do you agree with the Commission that the volume variable plus the specific costs of a subclass best approximate attributable costs and that both should be added together and marked up to determine the rate for the subclass?
- i. If you agree with this view, did you apply it in determining the costs to be marked up for the purpose of determining the premailing, per impression MOL fee?
 - ii. If you disagree with this view, then state whether you marked up only the marginal costs of MOL to calculate the premailing, per impression MOL fee.
- e. Please review a relevant holding of the Commission in PRC Op. MC97-5, at page, 47 concerning the recoupment of start-up costs of a proposed, new Packaging Service:
- The Commission has adjusted packaging service costs to recover all start-up costs during the two-year life of the provisional service. . . . Reliance on the packaging service's contribution to institutional costs for recovery of these direct costs is also an unacceptable approach, for two reasons. First, it would be inappropriate in principle to recover an attributable cost from revenues that have been earmarked for contribution to the Postal Service's institutional costs. Second, doing so in this instance would reduce the institutional cost contribution of packaging service to an unacceptably low level.
- i. Have you applied this approach in your method for setting rates in MC98-1? Please explain.
 - ii. Specifically, have you included the start-up costs for MOL in the attributable cost base to be marked up for the purpose of establishing MOL rates? Please explain.
 - iii. If you have not done so, have you rejected the Commission's holding in PRC Op. MC97-5? Please explain.
 - iv. Is there any way to reconcile your answer to interrogatory OCA/USPS-T5-10 (revised January 14, 1999) with the Commission's holding in Docket No. MC97-5? Please explain.

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

- v. What is the true cost coverage of MOL if start-up costs are included in the attributable costs to be marked up?
- vi. Isn't the true cost coverage far less than the 125 percent you have proposed if start-up costs are included in the costs to be marked up?
- f. Please compare your answer to question 1, POIR No. 2, that, "[T]he Postal Service considers that fees should be based on a markup of the volume variable costs of the service. Exhibits A and B were developed in conformity with this view," with the view articulated by the Commission at paras. [4016-18, and 4024] of PRC Op. R97-1, quoted in part a. above. Include in your comparison whether your view can be reconciled with the Commission's.

OCA/USPS-T5-52 Response:

a. In my revised response I was not applying any particular definition of attributable cost. I was simply pointing out that the fixed information systems costs will not become institutional, at least in the sense that institutional costs are paid for by all classes of mail.

b. In general, I agree with the Commission's view of attributable costs insofar as it describes the Commission's current definition of the term. However, I disagree with the notion that such attributable costs, which include fixed costs, provide the best basis for setting prices in all instances. See Tr. 2/641-43; Tr. 5/1115, 1181-84. I would instead suggest that in many cases, particularly when dealing with new products and services, the use of fixed costs as part of the base to be marked up may produce problematic results.

For instance, most new services incur some startup costs. While the categories are not precisely analogous, these costs are, among the categories posited in this interrogatory, most closely akin to specific-fixed costs, and may constitute a large portion of the costs of the service, especially during early, low volume periods.

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

Depending on the nature of demand for the service, using fixed costs of this kind as a basis for ratemaking will produce one of two results. If demand is price elastic, basing prices on an all-inclusive definition of costs will result in higher prices, and may sufficiently dampen demand such that the service appeals only to the least price-sensitive users. For the Postal Service, which views Mailing Online as an extension of its mandate to provide universal access to its customers, such an approach is inappropriate. If demand is inelastic, the product will more quickly recover its startup costs. However, once startup costs have been recovered, prices will be higher than statutory criteria would otherwise warrant.

The foregoing highlights a somewhat arbitrary distinction between costs attributable to the Mailing Online experiment and costs attributable to Mailing Online in general. If Mailing Online becomes a permanent service, the one-time costs referred to by witness Seckar will in effect be sunk and will have no ongoing effect on future fees for Mailing Online. It is unnecessary and unfair to burden experimental users of Mailing Online with costs that will provide benefits to future users of a permanent service. In this regard, the GAO recently recognized that "it may not be reasonable to expect all new products to become profitable in their early years, because new products generally take several years to become established and recover their start-up costs¹." Of course, the Postal Service cannot, in every case, alter the design of a service to defer infrastructure costs required for a permanent service until after an experiment required to determine

¹GAO Report on U.S. Postal Service - Development and Inventory of New Products, at 4.20 (November, 1998)(GAO/GCD-99-15)

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

the service's viability. In the instant case, the alternative would be to develop a system architecture on a smaller scale that would serve the needs of the experiment, but that would be replaced if a permanent classification were sought. This would obviously increase the total development costs of the product. Instead, the Postal Service chose a system architecture which will be scalable to a capacity greater than will be needed for the experiment.

A too-rigid adherence to the pricing dictum articulated in the question could have a chilling effect on development of otherwise beneficial experimental services. The Postal Service could present every new product as a candidate for permanent classification. As these products by definition lack empirical cost and revenue data, litigation of such cases would be problematic at best. Instead, the Postal Service has attempted to make use of the alternative ratemaking procedures that allow for consideration of the unique circumstances that pertain to new products.

In determining the costs to be marked up, and the resulting fee structure, I sought an approach that would satisfy the Postal Service policy goal of universal low cost access to services, while meeting a stringent cost threshold.

c. While I am not an expert in Postal Service costing, my understanding is that the relationship between attributable, incremental, and marginal costs varies considerably across subclasses. Thus I can provide neither an unqualified assent nor an unqualified dissent.

i. See my response to part b.

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

ii. My fee proposal marks up printer costs, which are similar to marginal costs, and variable information systems costs, which are roughly equivalent to average marginal costs.

d. See my responses to parts b and c.

e. i-ii. My approach for setting fees in this docket is presented in my testimony. As it relates to the issue of attributable costs, my response to part b of this interrogatory is also relevant.

iii-iv. My testimony reflects what is, in my opinion, the most appropriate approach in the circumstances of this case. Thus I did not let this quote determine my approach in this case. See also my response to subpart v.

Witness Lim estimates start-up costs to be \$11.1 Million during the experiment.

v. If these costs are somehow included in Mailing Online unit costs prior to markup, then revenues would increase by \$13.9 Million. Cost coverage would not change.

Furthermore, I do not believe that the cost contribution of Mailing Online would be unacceptably low if start-up costs are included using my projected revenues. I estimate that the cost coverage would be 118.2 percent in those circumstances.

v.i. No. See my response to subpart v.

f. See my response to part b.

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

OCA/USPS-T5-53. Please refer to part a. of your revised answer (January 14, 1999) to interrogatory OCA/USPS-T5-10.

- a. Are the one-time costs of \$11.1 million you refer to merely a rounding of the \$11,120,030 set forth in Table 2, column 3 ("One Time Cost"), at page 2 of USPS-ST-9?
- b. Are the one-time costs of \$11.1 million the start-up costs of MOL?
- c. Are the start-up costs of a service that are uniquely caused by offering that service incremental costs of that service? If your answer is negative, please explain.
- d. Are the start-up costs of MOL part of the incremental costs of MOL? If your answer is negative, please explain.
- e. Are the incremental costs of a service (including its unique start-up costs) attributable to that service?
 - i. If your answer is negative, please explain your position.
 - ii. If your answer is negative, reconcile it with the views articulated by the Commission in paras. [4016-18, and 4024] of PRC Op. R97-1.
- f. Are the incremental costs of MOL (including its unique start-up costs) attributable to MOL?
 - i. If your answer is negative, please explain your position.
 - ii. If your answer is negative, reconcile it with the views articulated by the Commission in paras. [4016-18, and 4024] of PRC Op. R97-1.

OCA/USPS-T5-53 Response:

- a. Yes.
- b. Witnesses Lim and Seckar describe them as "one-time" costs.
- c. Yes.
- d. To the extent that any costs of Mailing Online could reasonably be said to conform to the definition presented in part c, they would be incremental to Mailing Online.

Because Mailing Online shares equipment with Post Office Online, and generates Standard Mail (B) and First-Class Mail revenue, I would not agree that much of the costs identified as Mailing Online startup costs are "uniquely caused" by Mailing Online.

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

- e. While I am not an expert in costing, my understanding is that, to the extent such costs can be measured, incremental costs are caused by the existence of a service, and, in that sense, attributable. However, attributable cost, as mentioned in my response to interrogatory OCA/USPS-T5-52, is a term of art with no precise economic meaning.
- f. See my response to parts d and e.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORIES
OF PITNEY BOWES**

PB/USPS-T5-5 Please confirm that both pages 1 and 2 to the attachment of Witness Plunkett's revised response to OCA/USPS-T-10 exclude inserter costs of the sort reported by Mr. Seckar in his calculations of incremental costs (see Worksheet 3 of the most recent calculation) and one-time information systems costs. Why were these costs excluded?

PB/USPS-T5-5 Response:

Confirmed. In revising my response to interrogatory OCA/USPS-T5-10, my focus was on showing that the revised "one-time" Mailing Online systems costs were still well below the excess of revenues over costs projected for Mailing Online. I did not update the other cost and revenue information to reflect witness Seckar's later calculation of incremental costs because updating would not change this result. Attached is a revised page 1 of the attachment that includes witness Seckar's inserter costs. Including these costs also causes total revenues to increase by an amount equal to 1.25 times these costs, so that the excess of revenues over costs increases to \$48.7 million.

Attachment to Revised Response to OCA/USPS-T5-10

Revised
February 4
1999

Revenues Including Variable Information Systems Costs

	Note	1999	2000	Total 1999-2000
Impression Costs				
Total Impression Costs	Attachment to witness Sectar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 25	\$ 50,896,130	\$ 85,008,793	\$ 135,904,923
Fixed Info Systems Costs (BW, 8.5x11 & 8.5x14)	Attachment to witness Sectar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 7	\$ 1,845,942	\$ 3,221,864	\$ 5,067,805
Fixed Info Systems Costs (BW, 11x17)	Attachment to witness Sectar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 15	\$ 518,211	\$ 904,417	\$ 1,422,628
Fixed Info Systems Costs (Spot Color, 8.5x11 & 8.5x14)	Attachment to witness Sectar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 23	\$ 1,686,464	\$ 2,943,333	\$ 4,629,797
Total Impression Costs excl. fixed info systems costs	=(a) - (b) - (c) - (d)	\$ 46,847,513	\$ 77,937,379	\$ 124,784,893
Paper Costs				
8.5x11 B&W pages	USPS T-2A page 9 line 45	541,001,192	944,192,341	1,485,193,533
8.5x11 Spot Color pages	USPS T-2A page 10 line 71	433,424,586	756,442,279	1,189,866,865
Pages printed on 8.5x11 paper	=(f) + (g)	974,425,778	1,700,634,620	2,675,060,398
8.5x11 paper - Price per piece	USPS T-2A page 28	\$ 0.0049	\$ 0.0050	
8.5x11 paper - Total cost	=(h) * (f)	\$ 4,762,993	\$ 8,578,708	\$ 13,341,702
8.5x14 B&W pages	USPS T-2A page 9 line 49	60,418,029	105,442,192	165,860,221
8.5x14 Spot Color pages	USPS T-2A page 10 line 75	48,402,467	84,475,301	132,877,768
Pages printed on 8.5x14 paper	=(k) + (l)	108,818,496	189,917,493	298,735,989
8.5x14 paper - Price per piece	USPS T-2A page 28	\$ 0.0053	\$ 0.0055	
8.5x14 paper - Total cost	=(m) * (n)	\$ 580,568	\$ 1,045,872	\$ 1,626,440
11x17 B&W pages	USPS T-2A page 9 line 53	84,417,856	147,331,826	231,749,682
11x17 Spot Color pages	USPS T-2A page 10 line 79	67,631,597	118,035,295	185,666,892
Pages printed on 11x17 paper	=(p) + (q)	152,049,453	265,367,121	417,416,574
11x17 paper - Price per piece	USPS T-2A page 28	\$ 0.0102	\$ 0.0105	
11x17 paper - Total cost	=(r) * (s)	\$ 1,552,851	\$ 2,798,866	\$ 4,349,717
Total Pages	=(h) + (m) + (r)	1,235,293,727	2,155,919,234	3,391,212,961
Total Paper Cost	=(j) + (o) + (t)	\$ 6,896,412	\$ 12,421,246	\$ 19,317,658
Envelope Costs				
First-Class Letters	USPS T-2A page 6 line 92	77,672,143	135,558,745	213,230,888
Standard Mail (A) Letters	USPS T-2A page 6 line 94	172,640,919	301,304,758	473,945,677
Total letter size pieces	=(w) + (x)	250,313,062	436,863,503	687,176,565
# 10 Envelope no window and logo - Price per piece	USPS T-2A page 28	\$ 0.0272	\$ 0.0281	
Envelope Costs - letter size pieces	=(y) * (z)	\$ 6,820,530	\$ 12,284,574	\$ 19,105,104
First-Class flats	USPS T-2A page 6 line 93	14,072,713	24,580,863	38,633,376
Standard Mail (A) flats	USPS T-2A page 6 line 95	31,279,247	54,580,685	85,860,932
Total flat size pieces	=(bb) + (cc)	45,351,960	79,151,348	124,503,308
Flat sized envelope no window and no logo - Price per piece	USPS T-2A page 28	\$ 0.0468	\$ 0.0483	
Envelope Costs - flat size pieces	=(dd) * (ee)	\$ 2,122,000	\$ 3,821,971	\$ 5,943,971
Total Envelopes	=(y) + (dd)	295,665,022	516,014,851	811,679,873
Total Envelope Cost	=(aa) + (ff)	\$ 8,942,530	\$ 16,106,544	\$ 25,049,075
Transportation Costs				
First-Class Letters	USPS T-2A page 6 line 92	77,672,143	135,558,745	213,230,888
First-Class Letters - Transportation cost per piece	USPS T-2A page 7 line 140	\$ 0.00055	\$ 0.00054	
Total First-Class letter transportation costs	=(ii) * (ii)	\$ 42,594	\$ 73,423	\$ 116,017
First-Class flats	USPS T-2A page 6 line 93	14,072,713	24,580,863	38,633,376
First-Class flats - Transportation cost per piece	USPS T-2A page 7 line 141	\$ 0.00063	\$ 0.00062	
Total First-Class flats letter transportation costs	=(ll) * (mm)	\$ 11,717	\$ 20,198	\$ 31,915
Standard Mail (A) Letters	USPS T-2A page 6 line 94	172,640,919	301,304,758	473,945,677
Standard Mail (A) Letters - Transportation cost per piece	USPS T-2A page 7 line 142	\$ 0.00120	\$ 0.00119	
Total Standard Mail (A) letter transportation costs	=(oo) * (pp)	\$ 207,925	\$ 358,421	\$ 566,347
Standard Mail (A) flats	USPS T-2A page 6 line 95	31,279,247	54,580,685	85,860,932
Standard Mail (A) flats - Transportation cost per piece	USPS T-2A page 7 line 143	\$ 0.01586	\$ 0.01567	
Total Standard Mail (A) flat transportation costs	=(rr) * (ss)	\$ 498,104	\$ 855,185	\$ 1,351,289
Total Transportation Costs	=(kk) + (nn) + (qq) + (tt)	\$ 758,340	\$ 1,307,227	\$ 2,065,567
Inserter Costs				
Total Printing, Transportation, and Inserter Costs	Attachment to witness Sectar's updated response to hearing question Tr. 7/1733-34, Worksheet 3	\$ 8,593,250	\$ 14,882,876	\$ 23,476,126
25% Markup on printing and transportation costs	=(v) + (v) + (hh) + (uu) + (vv)	\$ 72,038,046	\$ 122,855,073	\$ 194,893,119
Total Revenue Including Markup	=(ww) * 25%	\$ 18,009,512	\$ 30,863,768	\$ 48,873,280
Net Contribution	=(ww) + (xx)	\$ 90,047,558	\$ 153,318,841	\$ 243,366,399
	=(yy)-(ww)	\$ 18,009,512	\$ 30,863,768	\$ 48,873,280

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORIES
OF PITNEY BOWES**

PB/USPS-T5-6 Do you recommend that the .1 cent per impression fee called for in proposed fee schedule 981 found at Attachment B2, page 1 of the Postal Service Request should be increased to .21 cents? If not, why not?

PB/USPS-T5-6 Response:

The Postal Service's request includes a 0.1 cent per impression cost in the fee schedule, and is not subject to alteration except by the Board of Governors. However, I indicated in my revised response to Presiding Officer's Information Request No. 2, Question 2 that, using the new information provided by witnesses Lim and Seckar, a per impression cost of 0.21 cents could be used.

REVISED RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 2

Revised January 14, 1999

2. In the proposed fee schedule, the pre-mailing fee for Mailing Online is shown as 1.25 * (printer costs + .1). USPS Request, Attachment B1. In the response of witness Plunkett to Interrogatory OCA[USPS]-TJ5-28, the information systems cost is shown as .16 cents for two impressions and .4 cents for five impressions, implying a per impression charge of .08 cents. Tr. 2/618. Please reconcile this apparent discrepancy.

RESPONSE: According to witness Seckar's current estimates, the variable information systems cost of Mailing Online cents for 1999-2000 are \$0.0021 per impression. This estimate exceeds the adjustment factor added to printer costs in the fee proposal. See my testimony at page 6, lines 11-15. That factor was developed by rounding witness Seckar's original estimate of the variable information systems cost (\$0.0065) to the nearest tenth of a cent. Application of the same methodology to the new cost estimate would result in a per impression cost of \$0.002. However, because the information systems cost adjustment factor is added with other costs prior to the application of a markup, the need for adherence to convention is less compelling in this instance. Therefore, an adjustment of \$0.0021 could be used.

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO QUESTION POSED BY PITNEY BOWES AT THE HEARING ON
NOVEMBER 18, 1998**

Question (Tr. 5/1169-70):

Counsel for Pitney Bowes requested a correction to witness Plunkett's attachment to the response to OCA/USPS-T5-37.

Response:

Attached is a corrected attachment to OCA/USPS-T5-37. The original attachment inadvertently contained an extraneous digit in one of the volume numbers (11X17 volumes for 1999) that resulted in an overstatement of volumes and revenues. I would also point out that while my attachment refers to volume estimates contained in the testimony of witness Seckar (Ex. USPS-2A, Table 4), I do not employ witness Seckar's assumption that customers who would have preferred to print 11X17 spot color documents will instead print 8.5X14 color documents. (See Tr. 5/1058-1059.)

Revised Attachment to Response to OCA-T5-37, Page 1 of 3

Mailing Onli. stumes
1999-2003

	1999	2000	2001	2002	2003	1999-2000
Paper						
(1) 8 1/2 x 11 Sheets	874,426,778	1,700,634,820	2,851,488,717	3,710,888,780	4,341,778,237	3,213,000,424
(2) 8 1/2 x 14 Sheets	108,819,498	189,917,483	298,104,750	418,892,484	541,778,237	2,876,000,398
(3) 11 x 17 Sheets	182,449,483	289,387,121	412,749,007	879,888,888	972,881,318	200,758,900
(4) Total Sheets	1,235,263,727	2,155,819,234	3,361,343,474	4,712,070,000	5,504,135,397	417,418,874
Impressions						
(5) Black & White Impressions	1,170,399,332	2,042,681,001	3,184,768,008	4,404,824,848	5,214,089,493	3,213,000,424
(6) Color Impressions	934,802,418	1,457,128,884	2,221,823,218	3,193,480,371	3,718,889,008	2,892,831,312
(7) Total Impressions	2,005,301,751	3,499,789,906	5,406,591,226	7,649,305,219	8,932,978,501	6,005,831,736
Envelopes						
(8) 8 1/2 x 14 Sheets	184,122,428	338,789,769	528,724,394	740,487,888	884,987,137	632,818,187
(9) 8 1/4 x 8 Sheets	20,442,840	35,877,721	55,828,880	77,878,878	91,888,448	68,120,261
(10) 11/17 x 3 Sheets	24,880,378	43,073,881	67,187,483	94,144,288	109,889,888	87,284,288
(11) Total No. 10 Envelopes	239,245,343	417,841,371	651,007,757	912,810,942	1,096,812,008	886,782,704
(12) 8 1/2 x 8 Sheets	38,104,387	66,247,883	100,408,493	148,108,228	174,238,887	107,382,888
(13) 8 1/4 x 4 Sheets	5,882,843	9,778,842	14,248,108	21,372,888	24,888,288	16,381,888
(14) 11/17 x 2 Sheets	11,712,388	20,441,184	31,076,340	44,827,228	52,187,878	32,183,444
(15) Total Flat Envelopes	68,410,880	106,467,488	155,522,939	216,218,108	261,390,882	164,887,188
Folding						
(16) 8 1/2 x 11 Letters	388,244,888	877,881,517	1,088,448,887	1,488,876,388	1,728,814,273	1,088,836,373
(17) 8 1/4 Letters	40,888,888	71,388,442	111,281,820	168,887,788	192,172,888	112,248,822
(18) 11/17 Letters	74,041,128	129,221,843	201,472,448	282,432,884	329,887,884	202,882,188
(19) Subtotal - Letter Folios	603,171,001	1,078,481,802	1,388,172,989	1,919,886,982	2,241,884,417	1,381,330,883
(20) 8 1/2 Flat	8,882,843	9,778,842	15,248,108	21,372,888	24,888,288	16,381,888
(21) 8 1/4 Flat	11,712,388	20,441,184	31,076,340	44,827,228	52,187,878	32,183,444
(22) 11/17 Flat	22,318,288	38,218,288	57,118,288	80,888,288	94,888,288	62,888,288
(23) Subtotal - Flat Folios	42,913,519	68,438,114	103,442,736	146,038,344	171,163,454	111,653,620
(24) Total Folios	520,488,384	908,388,438	1,416,288,402	1,986,418,828	2,310,448,828	1,428,874,782
Finishing Options						
Staples						
(25) 8 1/2 (2-18 Pages)	88,848,810	120,181,055	167,345,877	202,828,888	248,778,278	188,810,888
(26) 8 1/4 (More than 18 pages)	12,338,101	21,824,573	33,888,459	47,848,103	64,882,878	33,887,874
(27) 8 1/4 (2-48 Pages)	8,828,134	16,823,816	25,818,738	38,334,884	42,441,428	28,148,882
(28) 8 1/7	80,787,846	188,388,546	248,824,878	348,888,871	404,188,874	248,817,381
(29) Total	1,024,487	3,388,888	5,238,820	7,348,821	8,874,884	28,435,557
Saddle Stitching						
(30) 8 1/2 x 11	0	0	0	0	0	0
(31) 8 1/2 x 14	0	0	0	0	0	0
(32) 11 x 17	1,824,487	3,388,888	5,238,820	7,348,821	8,874,884	28,435,557
(33) Total	1,824,487	3,388,888	5,238,820	7,348,821	8,874,884	28,435,557
Tape Binding						
(34) 8 1/2 x 11	4,111,834	7,174,858	11,188,488	15,681,701	18,317,887	11,285,881
(35) 8 1/2 x 14	0	0	0	0	0	0
(36) 11 x 17	0	0	0	0	0	0
(37) Total	4,111,834	7,174,858	11,188,488	15,681,701	18,317,887	11,285,881

NOTE:

Source: Ex. USPB-2A, Table 4

Revised Attachment to Response
to OCA-T5-37, Page 2 of 3

MAILING ONLINE MARKET TEST UNIT COSTS

Feature	Contract Cost	IS Cost	Total Cost
Paper (per sheet)			
(a) 8½ x 11	\$ 0.0047	\$ -	\$ 0.0047
(b) 8½ x 14	0.0068	0	0.0068
(c) 11 x 17	0.0108	0	0.0108
Printing (per impression)			
(d) Simplex (8½ x 11)	0.0207	0.001	0.0217
(e) Simplex (8½ x 14)	0.0207	0.001	0.0217
(f) Duplex (8½ x 11)	0.0207	0.001	0.0217
(g) Duplex (8½ x 14)	0.0207	0.001	0.0217
(h) Spot Color (per impression)	0.0100	0	0.0100
Finishing			
(l) Folding (per fold)	0.0100	0	0.0100
(l) Stapling (per staple)	0.0080	0	0.0080
(k) Saddle Stitch (per finished piece)	0.2000	0	0.2000
(l) Tape Binding (8½ x 11) (per finished piece)	0.4500	0	0.4500
(m) Tape Binding (8½ x 14) (per finished piece)	0.5500	0	0.5500
(n) Applying Tabs to Self Mailer	0.0700	0	0.0700
Envelopes			
(o) #10 envelope	0.0150	0	0.0150
(p) Flat envelope	0.0540	0	0.0540
Inserting (per envelope)			
(q) #10 envelope	0.0136	0	0.0136
(r) Flat envelope	0.1550	0	0.1550

Revised Attachment to Response to OCA-T5-37, Page 3 of 3

Mailing Online Costs & Non-Postage Revenues
1999-2003

	1999	2000	2001	2002	2003	1999-2000
Paper Costs						
(1) 8 1/2 x 11 Sheets	4,670,801	7,992,993	12,462,044	17,489,833	20,408,368	12,872,784
(2) 8 1/2 x 14 Sheets	730,906	1,261,439	2,013,512	2,822,879	3,297,088	2,031,408
(3) 11 x 17 Sheets	1,642,134	2,885,985	4,489,292	6,283,988	7,319,000	4,509,059
(4) Total Paper Costs	\$ 6,961,801	\$ 12,160,387	\$ 18,943,948	\$ 26,856,447	\$ 31,020,362	\$ 19,112,288
Impression Costs						
(5) Black & White Impressions	28,297,996	44,325,746	68,109,294	98,990,402	113,106,142	68,723,411
(6) Color Impressions	25,489,407	49,190,863	72,017,433	100,987,187	117,887,164	72,687,392
(7) Total Impression Costs	\$ 51,884,072	\$ 90,516,732	\$ 141,126,727	\$ 197,837,699	\$ 231,092,306	\$ 142,380,604
Envelope Costs						
(8) Letters 8 1/2 x 11 Sheets	2,811,836	5,081,938	7,823,364	11,107,318	12,874,367	7,063,773
(9) 8 1/2 x 14 Sheets	308,636	535,188	834,388	1,189,883	1,366,297	841,804
(10) 11/17 x 3 Sheets	370,208	649,108	1,007,382	1,412,184	1,649,530	1,016,314
(11) Total Letters	\$ 3,588,080	\$ 6,266,234	\$ 9,665,134	\$ 13,709,385	\$ 16,090,194	\$ 8,921,891
(12) Letter Insertion Costs	3,253,737	5,678,644	8,653,705	12,411,007	14,487,772	8,932,381
(13) Flat 8 1/2 x 11 Sheets	6,081,180	10,578,388	16,489,008	25,120,810	27,000,081	16,938,898
(14) 8 1/2 x 14 Sheets	888,486	1,519,890	2,383,148	3,512,781	3,888,007	2,384,148
(15) 11/17 x 2 Sheets	1,815,414	3,188,385	4,939,903	6,924,970	8,088,098	4,992,789
(16) Total Flat	\$ 8,745,080	\$ 15,287,461	\$ 23,799,959	\$ 35,558,561	\$ 39,976,186	\$ 24,007,811
(17) Flat Insertion Costs	3,048,893	5,317,244	8,290,238	11,821,818	13,878,107	8,363,007
(18) Total Envelope & Insertion Costs	\$ 18,634,130	\$ 32,921,960	\$ 50,765,115	\$ 71,090,827	\$ 83,028,682	\$ 51,188,690
Folding Costs						
(19) 8 1/2 x 11 Letters	3,882,448	6,775,915	10,564,486	14,809,784	17,299,143	10,888,364
(20) 8 1/2 x 14 Letters	408,881	715,884	1,112,919	1,688,878	1,821,729	1,122,408
(21) 11/17 Letters	740,411	1,282,216	2,014,724	2,824,328	3,298,073	2,032,828
(22) 8 1/2 x 11 Flat	88,029	97,786	152,481	215,727	249,882	163,816
(23) 8 1/2 x 14 Flat	117,124	204,412	318,703	448,772	521,871	321,838
(24) 11/17 Flat	5,204,864	9,083,884	14,162,894	19,884,186	23,181,487	14,288,748
(25) Total Folding Costs	\$ 10,437,666	\$ 18,060,108	\$ 27,168,307	\$ 37,801,868	\$ 43,373,313	\$ 28,617,273
Finishing Options						
(26) Stapling	725,883	1,268,476	1,874,993	2,768,088	3,233,387	1,982,139
(27) Saddle Stitching	384,891	671,739	1,047,324	1,486,184	1,714,973	1,086,830
(28) Tape Binding	1,848,985	3,228,886	5,033,919	7,084,785	8,242,948	5,078,881
(29) Total Finishing Costs	\$ 2,960,519	\$ 5,169,101	\$ 8,056,835	\$ 11,289,019	\$ 13,191,278	\$ 8,127,421
(30) Total Costs	\$ 85,623,486	\$ 149,430,483	\$ 232,994,520	\$ 328,021,811	\$ 381,824,682	\$ 238,064,848
(31) Revenue	\$ 107,031,858	\$ 188,799,329	\$ 281,243,150	\$ 408,277,284	\$ 476,908,083	\$ 293,831,187
(32) Net Contribution	\$ 21,408,372	\$ 37,359,886	\$ 58,248,630	\$ 81,655,453	\$ 95,381,013	\$ 58,766,237

1794

1 Q Would you turn to your revised response to
2 Interrogatory OCA/USPS-T5-10, Part B? It was filed January
3 14th.

4 A I have it.

5 Q You state that the one time costs that are shared
6 between Mailing Online and the rest of Post Office Online
7 have been allocated using conservative planning assumptions.
8 Who did that allocation?

9 A I believe -- well, I am referring to the work
10 presented by Witness Lim. I believe, in preparing his
11 testimony, he was guided by information he received from the
12 system architects working on the Mailing Online system.

13 Q Did you have any part in the process of allocating
14 costs, POL costs to MOL?

15 A No, I did not.

16 Q How did you know that the planning assumptions
17 were conservative?

18 A Well, I reviewed the testimony in its draft form
19 prior to its being submitted. I had opportunity to talk
20 about some of the planning assumptions that were included in
21 the testimony with the witness and with the attorneys, and
22 that is -- that was the basis for my forming that opinion.

23 Q Could you turn to Part A of that -- I'm sorry, to
24 Part A of Interrogatory 52, OCA's Interrogatory 52 to you?

25 A I have it.

1795

1 Q You state that the fixed information systems'
2 costs will not become institutional, is that correct?

3 A Well, the response goes on to say at least in the
4 sense that institutional is meant to refer to costs that are
5 paid for by all classes of mail, and I believe that to be
6 correct.

7 Q So it is basically your position that the -- by
8 means of the mark-up or the cost coverage, that MOL's fixed
9 costs will be recovered?

10 A Yes, that is correct.

11 Q But it is true, as you state in your answer to
12 Part E, that the cost coverage will no longer be the 125
13 percent that you proposed, but, instead, would fall to
14 approximately 118 percent, is that correct?

15 A Well, I guess that depends on how one interprets
16 the question. My interpretation of the question was, what
17 would happen to the cost coverage if one were to include the
18 fixed costs in the costs to be marked up? Given the pricing
19 structure we have proposed, if you do that, you are then
20 marking up those costs and, therefore, are not changing the
21 cost coverage, you are making the total revenue and,
22 therefore, the total contribution greater, but it would
23 still be 125 percent of whatever cost basis you chose to
24 mark up. If that was my -- if that interpretation of the
25 question was correct, then you wouldn't be reducing the cost

1 coverage.

2 Q Well, how do you propose that the fixed costs of
3 Mailing Online be recovered?

4 A As I have indicatedⁱⁿ my testimony and my
5 interrogatory responses, our proposal was to mark up the
6 variable portion -- or the printer costs and the variable
7 portion of the Postal Service's information systems' costs
8 and that that would provide sufficient revenue to recover
9 any additional fixed costs incurred in the development of
10 Mailing Online.

11 Q And that level of recovery would be 118 percent,
12 is that true?

13 A Given the assumptions presented in my response
14 here, that would be correct. But I would point out that
15 --I'll leave it at that.

16 Q Could you turn to your response to Part B of
17 Interrogatory 52, please?

18 A Yes, I have it.

19 Q At page 5 of 7.

20 A All right.

21 Q You state that once startup costs have been
22 recovered, prices will be higher than statutory criteria
23 would otherwise warrant, is that correct?

24 A That's correct.

25 Q What would prevent the Postal Service from coming

1 back to the Commission at the end of the experiment with new
2 rates that excluded startup costs because they had already
3 been recovered during the course of the experiment?

4 A Well, I mean there is nothing that absolutely
5 would prevent the Postal Service from doing so. The Postal
6 Service is free to initiate any rate changes it deems
7 appropriate. However, the Postal Service, as any
8 organization would, has an interest in maintaining rate
9 stability where possible, and then using that as a principle
10 in determining rates. And, you know, for the purposes of
11 this case, we believe a superior approach would be to
12 reflect the fact that those are one time costs that will
13 ultimately be sunk in the fee proposal as it is presented in
14 the experiment, so that that will not be necessary in the
15 event of a permanent classification.

16 Q Is it your understanding that, at the end of the
17 two year experimental period, the Postal Service could
18 continue to offer Mailing Online as proposed in this
19 proceeding without coming to the Commission for further
20 action?

21 A No, that's not.

22 Q So the Postal Service will have to come to the
23 Commission at the end of the experiment if it either wants
24 to renew the experiment or ask for permanent rates?

25 A That is my understanding, yes. But I would point

1 out that, again, the fact that the Postal Service will be
2 required to submit a filing does not mean that the Postal
3 Service will want that filing to include a dramatic change
4 in the rates, either in a positive or a negative direction.
5 The Postal Service, as I said, has an interest in
6 maintaining rate stability where possible. So, the Postal
7 Service has an interest in not presenting rates in an
8 experiment that would have been dramatically altered in the
9 event of a permanent filing.

10 Q Well, if you propose rates, let's say, at the end
11 of the experiment, to be offered on a permanent basis, you
12 wouldn't necessarily have to drop the price dramatically,
13 you could simply increase the cost coverage, couldn't you,
14 to avoid that kind of -- that rate instability?

15 A Again, the Postal Service, I suppose, can seek any
16 cost coverage it deems appropriate for Mailing Online. I
17 think there are some unique characteristics of this service
18 that argue against a high cost coverage. So, while I may or
19 may not be the witness who is lucky enough to recommend
20 prices in a permanent case, based on my view of the product
21 and costs, this is clearly one in which a high cost coverage
22 is not appropriate.

23 Q But, at any rate, at that point, at the end of the
24 experiment, the Postal Service could weigh its options. It
25 could decide to increase the cost coverage and maintain

1799

1 rates at close to the level they are proposed for the
2 experiment, or it could reduce them to reflect the fact that
3 startup costs have been recovered, isn't that true?

4 A Well, it could, but such an approach would be
5 diametrically opposite to the Postal Service's reason for
6 developing and presenting this product. I mean this product
7 is designed to provide more or less universal access at a
8 low cost to a very large number of consumers. That seems to
9 me to be somewhat at odds with a high cost coverage.

10 Now, again, there can be different views on that,
11 but you are suggesting that the Postal Service is
12 unconstrained when it comes back to present a case for
13 permanent classification. My view is more that the way this
14 product has been developed provides a form of constraint
15 that operates on the Postal Service's pricing proposals when
16 we get to the point where we are filing a permanent
17 classification request.

18 Q Well, you just mentioned that one of the Postal
19 Service's objectives in offering Mailing Online is to give
20 universal access to this type of service at a low price.
21 If, at the end of the experiment, the Postal Service decided
22 to propose somewhat lower rates to reflect the fact that
23 startup costs had been recovered, it would further that
24 goal, wouldn't it?

25 A It would further that goal, but, again, at the

1800

1 expense of another goal of the Postal Service, which I also
2 said was to maintain rate stability where possible. Now, I
3 understand there is a tradeoff involved, and what we have
4 attempted to do in preparing this case is to make those
5 tradeoffs in such a way as to meet both of those goals for
6 the experiment and in anticipation of a future permanent
7 classification.

8 Q If the Postal Service, at the end of the
9 experiment, decided to maintain rates at roughly their
10 present level, and that presumes that the costs would
11 warrant doing so, and if the cost coverage happened to be
12 higher than proposed in this proceeding, customers of
13 Mailing Online, for the most part, would not be aware that
14 the cost coverage that they would be paying on a permanent
15 basis was very different than the cost coverage they were
16 paying during the experiment, is that correct?

17 A I would imagine the customers would be completely
18 indifferent.

19 Q In the second paragraph of Part B of Interrogatory
20 52, you state that it is unnecessary and unfair to burden
21 experimental users of Mailing Online with costs that will
22 provide benefits to future users of a permanent service, is
23 that correct?

24 A Yes.

25 Q It was the Postal Service that chose the two year

1 recovery for the startup costs, isn't that correct?

2 A Well, not exactly.

3 Two years I believe is the limit on duration for
4 an experiment. That forms a boundary over which the Postal
5 Service is unable to go when determining the recovery
6 period.

7 If the Postal Service were completely
8 unconstrained in setting a recovery period it would not have
9 been two years.

10 Q Is the Postal Service certain that it would have
11 been improper to estimate the useful life of the hardware,
12 the software, the network that's involved in offering MOL
13 both as an experiment and eventually a permanent service and
14 then pro-rating those costs over the useful life as opposed
15 to the two year experimental period?

16 A I am not, I don't pretend to be an expert in
17 costing. I'll say that in my view that is a more rational
18 approach to allocating those costs. However, because the
19 Postal Service knew it was operating under a two year time
20 constraint I don't believe those calculations were ever
21 done, because they were not deemed a candidate for
22 consideration.

23 Q I know you are not a lawyer. Were you under the
24 impression that there was a legal impediment to depreciating
25 the equipment over its useful life?

1802

1 A I was the witness in the packaging service case.
2 I know what happened in that decision.

3 The Postal Service, you know, while it may not see
4 eye to eye with the Commission in every respect is not
5 likely to send over a proposal that it knows is, for lack of
6 a better term, dead on arrival.

7 Q I am going to frankly admit that I am not that
8 familiar with the details of the provisional packaging case.
9 Did the Postal Service propose a two year recovery period
10 during that case also?

11 A I believe the recovery period that was proposed
12 was five years.

13 MS. DREIFUSS: Okay. I have no further questions.

14 COMMISSIONER LeBLANC: Thank you, Ms. Dreifuss.
15 Mr. Wiggins?

16 MR. WIGGINS: Thank you, Mr. Presiding Officer.

17 CROSS EXAMINATION

18 BY MR. WIGGINS:

19 Q Mr. Plunkett, I am Frank Wiggins here for --

20 A I remember.

21 COMMISSIONER LeBLANC: Mr. Wiggins, you are going
22 to have to pull your mike a little closer, if you will,
23 please.

24 THE WITNESS: Certainly.

25 COMMISSIONER LeBLANC: Thank you.

1 BY MR. WIGGINS:

2 Q In talking with Ms. Dreifuss, you responded to one
3 of her questions by saying that the Postal Service's
4 ambition for the MOL service was to provide access to the
5 service to a very large number -- I think were your precise
6 words -- of customers. Did I get that right?

7 A Well, yes, although I don't think ambition was my
8 exact word but --

9 Q No -- very large number. Those are your --

10 A I think that's correct.

11 Q -- your exact words. Do you have an estimation of
12 that number, that very large number?

13 A I don't, no. I mean the testimony of Witness
14 Rothschild contains information about the number and types
15 of customers who might be candidates for use of Mailing
16 Online. I don't offhand recall what those were.

17 Q Do you yourself have an expectation that a very
18 large number of customers will have recourse to Mailing
19 Online?

20 A Well, the product has been developed and designed
21 in such a way that by definition millions of customers will
22 have access to the service. If they choose to use it is
23 another matter.

24 Q It is that latter point that I am questing after
25 and maybe I have not said it clearly.

1 Do you have an expectation of how many people will
2 take advantage of Mailing Online?

3 A Well, no. That is why we are conducting this
4 experiment, to try to get a better idea of how responsive
5 customers are going to be to this product. We don't know
6 the answer to that yet.

7 Q And you personally don't have any belief, is that
8 right?

9 A Well, I think -- I mean I am comfortable with the
10 volume projections contained in Witness Rothschild's
11 testimony that have been used in this case as providing an
12 estimate, but as I have said, we are conducting this
13 experiment to in effect validate that estimate and to
14 determine whether or not it is close enough to what will
15 actually happen to make this a viable product.

16 Q Have a look at your revised answer to OCA Number
17 10, would you, please -- number 10 to you, T5-10.

18 A I have it.

19 Q In the question itself it recites fixed
20 information system costs current at the time that the
21 question was asked of \$2,285,697.

22 In your response you corrected that to \$2,283,697.
23 Do you recall that?

24 A It doesn't show up here because this is the
25 revised version.

- 1 Q I don't have the earlier version.
- 2 A Subject to check, I'll --
- 3 Q Subject to check.
- 4 A I'll accept that, sure.
- 5 Q And in your revised answer, you say that the
6 one-time information system costs are now \$11.1 million, is
7 that right?
- 8 A I believe that's the number in Witness Lim's
9 testimony, yes.
- 10 Q So that the in fixed information system costs have
11 increased by a factor of many times?
- 12 A Roughly five-fold.
- 13 Q A little bit less than five, by my count. Do you
14 know what caused that change?
- 15 A My understanding is there was essentially an
16 extensive redesign of the information systems architecture
17 needed to support Mailing Online and that required a
18 re-evaluation of the costs associated with that
19 architecture.
- 20 Q And this \$11.1 million is not by your rate design
21 recovered in the 25 percent markup, is that right?
- 22 A No. It is recovered through the 25 percent
23 markup.
- 24 Q Is it marked up?
- 25 A Those costs are not marked up on a per unit basis

1 but are recovered through the markup.

2 Q And say again for me, you talked with Ms. Dreifuss
3 about it a little bit, why you think it appropriate not to
4 mark up that number.

5 A This will require a somewhat lengthy response. I
6 mean there are a number of reasons and I have attempted to
7 put them into this interrogatory response.

8 The most immediate is that these are one time
9 costs. Fixed costs, as they are generally used in postal
10 ratemaking, are recurring, fixed costs. They don't vary
11 with volume but they reappear every year and therefore it
12 can be considered an ongoing portion of the costs of a
13 particular service.

14 These costs are different. They are one-time
15 costs. After the experiment if we were to file a case,
16 those costs would be absent from the Postal Service's
17 proposals if they are based on a prospective test year. As
18 such, they would be completely excluded from consideration
19 in determining a cost coverage.

20 In my opinion that argues for excluding them in
21 developing fees in this case.

22 Another feature of this case in particular is that
23 a significant portion of the total costs are directly passed
24 from private businesses through the Postal Service on to
25 customers. I presented a revised attachment to this

1807

1 interrogatory that shows a net contribution for Mailing
2 Online of \$48 million. That number is calculated by
3 subtracting the total costs of \$194 million from projected
4 revenues of \$243 million.

5 Another way you can look at those costs and
6 revenues is by looking solely at the Postal Service's
7 portion. The direct costs paid to printers are roughly \$170
8 million. Now if you subtract that number out of both sides
9 or out of both the numerator and denominator and
10 calculating a cost coverage, what you find out is that the
11 Postal Service gets about \$68 million in revenue that it
12 doesn't have to pass on to its printers.

13 To produce that revenue the Postal Service is
14 incurring approximately \$22 million in direct costs.

15 If you compare those numbers, there's roughly a
16 three-to-one ratio of the revenues that will accrue to the
17 Postal Service and the direct costs borne by the Postal
18 Service. To my mind that argues for a lower cost coverage
19 in this case because when you mark up the printer costs,
20 none of that money goes to the printers. All of that money
21 goes to the Postal Service, but because the Postal Service
22 is not bearing any of those costs, essentially that
23 incremental revenue has an infinite effective cost coverage.

24 Q Does the Postal Service buy transportation from
25 non-Postal Service entities?

1808

1 A Certainly.

2 Q And wouldn't the argument that you have just
3 voiced to me apply equally to the amounts of money that the
4 Postal Service pays to trucking firms?

5 A Well, I mean I haven't looked at every single
6 product ~~for~~ which contract^{for} a portion of the costs, but I'd
7 venture a guess to say that in no other case do those
8 contracted costs consume such a huge proportion of the total
9 as they do in this case.

10 Q So it is not a matter of principle here but of
11 magnitude, is that right?

12 A Not exactly. I'd just say that the principle in
13 this case, even if it is generally applicable, becomes more
14 of an issue because of the magnitude of the contracted costs
15 in this case. You can apply -- I suppose you could do the
16 same sort of calculation for any product, but I don't think
17 you would produce such a startling result for any other
18 product as you would in this case.

19 Q You responded in sub-part -- what is now labelled
20 as E-5 on page 7 of 7 --

21 A Is this OCA-52?

22 Q OCA-52, correct.

23 A Okay.

24 Q That -- and let me just -- you talked with Ms.
25 Dreifuss about this and I thought I understood it but you

1 made me confused.

2 If one included the \$11.1 million of fixed
3 information service costs in the calculation of attributable
4 costs and kept the revenues at the level that you have
5 projected them to be, the effective cost coverage would be
6 118.2 percent, is that right?

7 A That was the intended meaning of that response.
8 That's correct.

9 Q Okay. So that if it were appropriate to include
10 that, contrary to -- I mean you have explained why you think
11 it not appropriate, but were the Commission to feel
12 otherwise and determine that it was appropriate to include
13 those costs in the amounts to be marked up, if revenue were
14 not increased, the coverage would be as you have calculated
15 here?

16 A But if you included those in the costs to be
17 marked up, then the revenue would increase.

18 Q Okay. And what would happen in that case is that
19 the price of the product would go up, is that correct?

20 A Sure. On a per unit basis, that's correct.

21 Q Sure. Because you are going to be charging -- you
22 are marking up the amount by 25 percent, it goes straight to
23 the customer.

24 A Well, you are spreading that \$11 million over a
25 fixed number of units and that will have a small, but, yeah,

1810

1 non-trivial per unit impact on the costs and, therefore, the
2 revenues generated.

3 Q Right. You have said to me that the fixed
4 information service costs go up -- have gone up in the time
5 in between the filing of this case and the time of your
6 revised response to the OCA Number 10, it went up by a
7 factor of roughly five times.

8 A Yes.

9 Q You had a colloquy with Chairman Gleiman the last
10 time you were on the stand, and this is at Volume 2, page
11 686, in which you say, in response to a question of his,
12 "So, since this project is less subject to having its
13 contribution eroded by increases in costs over time, it is
14 for that reason," and perhaps for some reasons, "less
15 necessary to have a higher mark-up than would otherwise be
16 the case." Do you remember that, would you like to look at
17 it?

18 A No, I remember it.

19 Q Okay. Do you have the same confidence today,
20 having seen a five-fold increase in the costs of fixed
21 information services?

22 A I think, if anything, that the effect of that
23 increase proves the point I was trying to make in that
24 instance. When I made that remark, I certainly didn't
25 anticipate a five-fold increase in the fixed costs

1811

1 associated with the products, and, yet, even with that, you
2 know, huge increase in the fixed costs, the product will
3 easily recover those costs. And I would also point out what
4 I consider to be a central point in that colloquy is I said
5 over time. And what I was referring to is the fact that
6 over time -- well, over time these fixed costs disappear.

7 But over time, the variable costs are subject to
8 change. The Postal Service will enter into new agreements
9 with new printers, and those will have an unpredictable
10 effect on the variable costs of the service, but, as we have
11 structured the fee proposal, when that happens, revenues
12 will be adjusted accordingly, and, therefore, the cost
13 coverage will not be eroded.

14 Q And you say that the fixed costs will disappear.
15 What we have seen is something dramatically different from
16 that. What we have seen is that the fixed costs have
17 increased dramatically.

18 A Those are one time costs. In two years, if we
19 come back with a permanent case, based on a prospective test
20 year, those costs will not form a part of that case. Those
21 costs will have, in effect, disappeared.

22 Q Sure, I understand that two years down the road.
23 But what about another six months down the road? Could this
24 happen again? Might it be 66 or 55 million instead of 11,
25 as it once was 2-1/2 and is now 11?

1812

1 A Well, I mean we are at the point now where any
2 substantive changes in the system architecture would have a
3 devastating effect on our ability to provide the service
4 when it is intended to be provided. So I can't believe
5 there will be any substantive changes in the system
6 architecture between now and the implementation of a
7 nationwide service.

8 Q But wasn't that also the case when you had fixed
9 information system costs of \$2.3 million?

10 A No, I don't think so. I mean I think those were
11 the best estimate that Witness Stirewalt could make at the
12 time, but at that time, almost none of the costs were known
13 and, you know, they were still working on developing a
14 system. Now, most of that development work has progressed
15 to the point where more of that costs are known absolutely
16 and the portion that is not known can be predicted with, I
17 would suspect, a much higher degree of reliability than was
18 possible six months ago.

19 Q So you didn't know what you were talking about
20 when you said the costs were \$2.3 million?

21 A That was the best estimate I had to work with at
22 the time.

23 Q And what -- say again for me, what changed?

24 A In the interim period there has been a
25 reevaluation of the technical requirements of the system

1813

1 such that a redesign of the system architecture was
2 necessary. Based on those changes, new cost estimates were
3 developed. As I mentioned a few minutes ago, we have gotten
4 to the point now where a similar reevaluation can't really
5 take place without placing the future or the near-term
6 future of the product in jeopardy, so there won't be changes
7 of that magnitude again during this experiment. I mean I
8 probably shouldn't say absolutely there can't be, I am not
9 the policy witness, and I don't work for New Businesses, but
10 it is hard for me to believe they would countenance such a
11 change at this point in the development of the product.

12 Q Well, and you are not a systems design guy either,
13 right?

14 A Certainly not.

15 Q So you aren't able to make an independent
16 evaluation of the likelihood or improbability of, once the
17 nationwide experiment gets underway, somebody discovering
18 another systemic flaw that requires another massive systemic
19 revision, are you?

20 MR. HOLLIES: Objection, there is no foundation
21 for that question that there was a massive flaw.

22 THE WITNESS: That's what I was about to say.

23 BY MR. WIGGINS:

24 Q Well, let me ask the witness one more time. Do
25 you understand what changed that required the movement from

1814

1 \$2-1/2 million to \$11 million in fixed information cost
2 systems?

3 A Well, as you just pointed out, I am not an
4 information systems person, but, in general terms, I
5 understand. My understanding is as the test was in its
6 early stages, the people responsible for developing the
7 system, based on information they were collecting at the
8 time, determined that in order to meet the needs of a large
9 number of simultaneous users and provide the type of service
10 we thought was necessary to provide, they had to redesign
11 the system architecture and change, you know, the planned
12 equipment purchases necessary to do so.

13 And as I also pointed out, we are past the point
14 where that can really be done again. We are anticipating a
15 conclusion to this case sometime in the next five or six
16 months, at which time the Postal Service will need to be
17 ready to implement a system. It is too late to make massive
18 changes to a system that has just been redesign^{ed} and expect
19 to be able to do that.

20 Q Is it fair to say, in your understanding, and I
21 appreciate it is not a technical understanding, that in
22 between the time of the \$2.3 million estimate and the \$11
23 million estimate, somebody figured out that the \$2.3 million
24 system wasn't going to work, or wasn't going to work up to
25 your requirements in terms of speed and access and such

1 like?

2 A I mean that is a more specific kind of question
3 that maybe Witness Lim would be better positioned to answer
4 than I am. I didn't speak directly with any of the
5 development team working on the product, and I can't say
6 that they determined something was wrong or that it wouldn't
7 work, and I am not able to answer that question.

8 Q Well, do you think they just determined they
9 wanted to spend more money?

10 A I don't know why they would. But I don't know
11 what they determined, I wasn't party to those meetings or to
12 those conversations, or to those decisions.

13 Q Is it equally the case that you don't have any
14 reason to repose confidence in the conclusion that the \$11
15 million system will work? Do you have a sense of that?

16 A My role in this case is not to evaluate the
17 appropriateness of the system architecture. We hired an
18 expert witness to do that for us. That is not my job there.

19 Q And it proved out to be true -- you say that it is
20 too late now to do another massive redesign of the system,
21 correct?

22 A If we hope to implement the product on the
23 timetable we anticipate, it seems to me it is too late.

24 Q So what happens in economic terms if the system is
25 brought online nationwide and it doesn't work?

1 A I don't know what you mean by in economic terms.
2 If the system doesn't work, customers will attempt to use
3 and will become frustrated by it, and many of them will not
4 return. There is no -- you know, if there is an economic
5 term for that, it escapes me right now.

6 Q Well, it is called failure, isn't it?

7 A Well, I didn't know that had a precise economic
8 meaning, but --

9 Q It does now.

10 A That is a term you could use.

11 Q Okay. And what happens to the \$11 million if
12 there is such failure?

13 A Well, that is a question that I can't answer. I
14 mean I don't know to what extent that equipment could be
15 used for other products that might not fail. It is
16 impossible for me to answer that question.

17 Q To the extent that there's \$11 million worth of
18 stuff -- the software can't be used for anything else,
19 right, you know that?

20 A No, I don't know that. I mean some of that
21 software is off the shelf software that may have other uses.
22 I don't know the answer to that question.

23 Q The WordPerfect software, for example, could be
24 used other places?

25 A Well, not just that, I mean I believe there's

1817

1 address maintenance software that has other applications.
2 You know, most of what we are talking about are computers
3 and associated hardware which can be used for almost
4 anything. It is not clear to me that if, for some reason,
5 Mailing Online did not go forward, that that money is just
6 gone. I mean that equipment probably has many uses that
7 have nothing whatsoever to do with this case.

8 Q Have you investigated those uses?

9 A No, I am confident that the product will go
10 forward when it is expected and that there will no need for
11 us to look for other uses.

12 Q But to the extent that those component parts of
13 Mailing Online don't have comfortable other uses within the
14 Postal Service, that portion of the \$11 million will have to
15 be borne by other users of Postal Service products, is that
16 your understanding?

17 A Well, again, this is -- you are asking a
18 hypothetical question about something that I haven't spent
19 any time considering. But I will say this, I mean the
20 Postal Service is certain that its customers need, want and
21 expect to have access to Postal services via the Internet,
22 and whether it is Mailing Online or some other forum, there
23 will be a product that meets those needs.

24 Now, can I say with absolute certainty that, in
25 the situation you have posed, that, you know, equipment that

1818

1 is not usable by Mailing Online could not be used by some
2 such product, that is not knowable to me. But I will say
3 without hesitation that there will be a product that seeks
4 to meet those customer needs, whether it is this one or some
5 other one down the road.

6 Q There is a product out there on the market today
7 that provides some of the services at least that Mailing
8 Online will provide, is there not?

9 A There are probably more than one.

10 Q Are you familiar with the Pitney-Bowes product?

11 A In general terms. I have never used it and
12 haven't really looked at it, but I know that they have one.

13 Q So that the world will not be an absolutely poorer
14 place in terms of Internet hybrid mail service if the Postal
15 Service doesn't provide Mailing Online?

16 MR. HOLLIES: Objection. Having established that
17 this is beyond the competence of the witness and beyond the
18 scope of his testimony, counsel is proceeding to inquire
19 further and I object.

20 MR. WIGGINS: I am trying to understand the extent
21 of his knowledge, Mr. Presiding Officer.

22 COMMISSIONER LeBLANC: Mr. Plunkett, I am little
23 unclear of the extent of your knowledge right now.

24 THE WITNESS: Me, too.

25 COMMISSIONER LeBLANC: So I am going to overrule

1819

1 the objection. Try to answer to the best of your ability at
2 this particular point. Don't get into the legal
3 technicalities. Just stick with the technical aspects that
4 you have talked about because you have talked about
5 technical issues here. You have talked about a lot of
6 things, so stick with that.

7 THE WITNESS: I mean if you are asking do I think
8 that the world would be a poorer place absent Mailing
9 Online, well, I mean I don't want to get too dramatic but I
10 think it would be. Mailing Online seeks to serve a
11 different set of customers with different needs than the
12 product that Pitney Bowes offers.

13 Now if those customers did not have Mailing
14 Online, some of them might turn out to be satisfied by
15 Pitney Bowes' product or some competing product, but my
16 belief is that a significant number would not be and would
17 therefore be worse off.

18 COMMISSIONER LeBLANC: Mr. Wiggins, I think that
19 is a fair answer and we need to move it on now.

20 MR. WIGGINS: Absolutely, Mr. Presiding Officer.

21 BY MR. WIGGINS:

22 Q You explained in an answer to an earlier question
23 of mine or perhaps it was Ms. Dreifuss's question how one
24 would calculate the overall contribution of Mailing Online
25 to the Postal Service, do you recall that?

1 A Uh-huh. Yes, I do. Sorry.

2 Q That calculation is vitally dependent on the
3 volume of Mailing Online usage, isn't it?

4 A Well, it is affected by it, certainly.

5 Q Well, if volume were significantly smaller than
6 what is projected, the contribution would be significantly
7 less, isn't that right?

8 A Well, in absolute terms, yes.

9 Q And there is some point that we could calculate at
10 which the volume would not be sufficient to defray the \$11
11 million in fixed information service costs, isn't that
12 right?

13 A Well, of course.

14 Q Theoretically.

15 A Sure.

16 Q Yes, and do you have -- are you confident that the
17 volumes will not fall to that level?

18 A Yes.

19 Q And what is the basis for that confidence?

20 A Well, the only quantifiable or verifiable basis I
21 have is the work done by Witness Rothschild that formed the
22 basis for the volume and revenue projections in this case.

23 I have not seen anything that would make me think
24 those are overly optimistic or overly pessimistic and until
25 we have had some experience in the experiment I would be

1821

1 reluctant to question those estimates.

2 Q Do you know whether the price points used in Ms.
3 Rothschild's survey were the same as or very closely similar
4 to the price points at which the service is being offered
5 today?

6 MR. HOLLIES: Objection. We are straying rather
7 far from the scope of this witness's testimony. Witness
8 Rothschild's estimates and their validity were the subject
9 of previous hearings. Witness Rothschild is not here today,
10 is not scheduled to be here today.

11 Moreover, Witness Rothschild's estimates in no
12 sense played a part in the material filed by this witness on
13 January 14, which is the subject of these hearings.

14 MR. WIGGINS: I asked only whether he was -- he
15 had knowledge, Mr. Presiding Officer. He said he relied
16 on -- the only basis for his confidence in volume is Ms.
17 Rothschild, and I am just asking him if he is familiar with
18 one aspect of her survey. It's a yes or no question.

19 COMMISSIONER LeBLANC: In your response you did
20 reference Ms. Rothschild's testimony that you are -- excuse
21 me, not her testimony but -- yes, her testimony that you
22 relied on it, did you not?

23 THE WITNESS: In my verbal response?

24 COMMISSIONER LeBLANC: Yes.

25 THE WITNESS: Yes, I did.

1 COMMISSIONER LeBLANC: So in my opinion, let's
2 answer this either with a yes or a no at this point and
3 we'll move this on.

4 THE WITNESS: Could you repeat the question?

5 MR. WIGGINS: Sure.

6 COMMISSIONER LeBLANC: Do you want it read back or
7 can you repeat it?

8 MR. WIGGINS: I can say it. I can't promise it
9 will be exactly the same but it will be close.

10 BY MR. WIGGINS:

11 Q Are you aware of the fact that the price points
12 used in the Rothschild survey were different from the prices
13 at which the service is being offered today?

14 A Well, I mean there are possibly a number of
15 reasons for that. . I mean Witness Rothschild was asked to
16 estimate an average price. What we have right now is one
17 printer. Ultimately we will have on the order of 20
18 printers and that one is unlikely to be representative of
19 the average when we have a nationwide service, so I don't
20 know that Witness Rothschild's price points are -- I don't
21 know that the existing prices we are using in the market
22 test are a valid point of comparison with Witness
23 Rothschild's price points.

24 Q But it's the prices that you are using in the
25 market test^e and will be using if you have your way in the

1 experiment that will determine volume, isn't that right?

2 A That's right, but when we are into the experiment
3 we will have between 10 and 15 printers and that one printer
4 we have now will be a relatively small subset of the
5 printing work that will be done for Mailing Online during
6 the experiment, and again, it is not clear to me that the
7 single printer that we have now is more representative of
8 what the average will be than Witness Rothschild's price
9 points, so I would not change my opinion based on experience
10 with a single printer until we have gone farther into the
11 experiment and contracted with some other providers.

12 Q In your answer, and I am again looking at OCA
13 Number 52 to you -- do you have that?

14 A Yes, I do.

15 Q In subpart (c)(ii) -- up at the top of page 7 of
16 7 --

17 A Yes.

18 Q -- you say "Your fee proposal marks up printer
19 costs, which are similar to marginal costs." Can you
20 explain that to me? What do you mean by that?

21 A Well, the printer costs stipulate an exact per
22 unit charge to the Postal Service for every type of document
23 that they will be called upon to print, so at the margin
24 that is exactly what one of those units costs the Postal
25 Service, so they are therefore the marginal costs of

1 providing the service.

2 Q And variable information system costs -- I take it
3 you are saying which are roughly equivalent to average
4 marginal costs?

5 A Right.

6 Q Explain to me your understanding of the difference
7 between marginal costs and average marginal costs?

8 A If I had it to do over again, I would probably
9 just say average costs but I mean essentially information
10 systems costs are variable but they are not variable on a
11 per unit basis so to estimate what the per unit variable
12 information systems costs are we project what those
13 information systems costs will be and divide by the
14 projected volume and in this case impressions, and from that
15 produce an average variable information systems cost per
16 unit.

17 Q When you say that variable information systems
18 costs do not vary by unit, can you explain your thinking on
19 that for me?

20 A Sure. If a customer orders 100 pieces of Mailing
21 Online volume, they will pay the printer a specific
22 amount -- let's call it "x." If that same customer instead
23 ordered 200 pieces through Mailing Online, they would pay
24 the printer "2x" -- those costs vary directly in proportion
25 with volume. Well, that 100 piece change in that customer's

1 order probably has no measurable impact on the information
2 systems costs that accrue to the Postal Service in that
3 case.

4 However, for the purposes of pricing the product,
5 we have estimated what on average the information costs
6 associated with a Mailing Online impression will be and have
7 structured the fee proposal based on that average.

8 Does that help to clarify?

9 Q Well, I am not sure I fully understand it. Yes,
10 clarifies your thinking. I am not sure I agree with you.

11 The movement from 100 to 200 pieces causes, for
12 example, doesn't it the requirement of more computer storage
13 capacity? If it is a nonmerge piece, you are going to have
14 to store in the mind of your machine 200 documents rather
15 than 100 documents, are you not?

16 A I don't believe that is the case, but I am not an
17 expert on how the system works technically.

18 You said an additional 100 pieces of a nonmerged
19 document?

20 Q That's correct.

21 A No. I don't believe you store -- I don't believe
22 you store twice as many copies, but I am not certain. I
23 mean its a single document that would get printed 200 times
24 instead of 100 times.

25 Q No, no. By nonmerged I mean that instead of

1 having a mailing list file and a document file you have only
2 a document file.

3 A Well, you have to have a mailing list file

4 Q Is that your understanding?

5 A I believe that is the case.

6 Q In an answer provided by Witness Seckar to an OCA
7 Interrogatory T2-20, he was asked whether the unit
8 attributable information system cost for MOL including
9 startup costs would be .0041 dollars, or .41 cents.

10 MR. HOLLIES: Excuse me. Could you tell me which
11 one that is again please?

12 MR. WIGGINS: Yes. It's T2-20.

13 MR. HOLLIES: Propounded by?

14 MR. WIGGINS: The OCA.

15 MR. HOLLIES: Thank you.

16 MR. WIGGINS: And the question sort of asks
17 shouldn't that be the amount that is recovered per
18 impression. He answered: Moreover, this presentation of
19 costs is not meant to suggest that one pricing method or
20 another should be undertaken. Such a decision is better
21 made by Witness Plunkett.

22 BY MR. WIGGINS:

23 Q What do you think, Witness Plunkett? Would it be
24 better to charge .41 cents per impression than the .1 cent
25 that is the formal proposal of the Postal Service?

1 I know you can't change the proposal, but would it
2 be economically better?

3 A No, it would be worse.

4 Q Why is that?

5 A Well, for the reasons I've presented in my revised
6 responses. In this case, again those are one-time in effect
7 startup costs to the Service, and I've spent a good portion
8 of the last hour explaining why I don't think it's
9 appropriate in this case to mark those up.

10 Q I'm sorry. Maybe I didn't make myself clear. I'm
11 not talking about marking them up. I'm talking about
12 changing the per-impression cost. You've advocated --

13 A If you do that, given our pricing proposal, you
14 would be marking them up.

15 Q Your testimony is that the .1-cent-per-impression
16 fee -- you still advocate that, don't you?

17 A That's the proposal; yes.

18 Q Do you advocate it?

19 A Yes, that's our proposal.

20 Q Okay. And that is meant to cover the fixed
21 information system cost; correct?

22 A It's meant to provide sufficient revenue to
23 recover all the costs associated with Mailing Online; yes.

24 Q Well, no, no. The .1 cents doesn't recover all
25 the costs associated with Mailing Online. It recovers a

1 particular category of cost, does it not?

2 A It represents a particular category of costs, but
3 that per-unit charge in addition -- in combination with the
4 other portions of the fee, for lack of a better term -- is
5 intended to provide sufficient revenue to recover all the
6 costs associated with Mailing Online.

7 Q Isn't it your testimony that that is designed to
8 recover the fixed information service cost?

9 A Could you repeat that?

10 Q Sure. Isn't it your testimony that the
11 .1-cent-per-impression fee is meant to recover fixed
12 information system cost?

13 A No, it's not.

14 Q It's just -- what's the purpose for that .1 cents?
15 Where did you find that number?

16 A In Witness Seckar's original testimony, he
17 estimated the per-impression variable information systems
18 costs to be I believe six 100ths of a cent. In my fee
19 proposal I was seeking a way to include those costs in the
20 fee. Since we were basing our fees on the printer costs
21 times a markup, I determined the best way to do that was to
22 include a per-impression charge on top of the printer
23 charges. To conform with existing convention, I rounded
24 Witness Seckar's six 100ths of a cent up to one-tenth of a
25 cent and assessed one-tenth of a cent per-impression charge

1 in calculating the fees for the service.

2 Q I'm sorry. I misspoke --

3 A But they were not intended to recover fixed
4 information costs per se.

5 Q I'm sorry. I misspoke, and I -- if I confused
6 you, I apologize. I said "fixed," and I meant "variable."
7 Is the .1 cents in the proposal intended to cover variable
8 information system costs?

9 A In effect, yes. I'm not sure I would describe it
10 in that way, but, I mean, that's the general effect of
11 having that fee in there.

12 Q And you say that you got there by looking at
13 Witness Seckar's calculation of the cost of variable
14 information systems at .06 cents per impression.

15 A .006.

16 Q .006 dollars --

17 A You're right.

18 Q .6 cents; correct?

19 A Yes, you're right.

20 Q .6 cents.

21 A That's right.

22 Q Six-tenths of a cent. And is that still the best
23 available estimate of those costs?

24 A Well, Witness Seckar revised those estimates in a
25 recent filing.

1830

1 MR. HOLLIES: Excuse me, Mr. Presiding Officer,
2 but before we further confuse the record, perhaps it would
3 be noting -- be worth noting that it was six 100ths of a
4 cent.

5 MR. WIGGINS: That's correct. I misspoke. And
6 what is --

7 COMMISSIONER LeBLANC: Excuse me, Mr. Wiggins.
8 Mr. Reporter, are you clear on that as far as the
9 record's concerned?

10 THE REPORTER: Yes, sir.

11 COMMISSIONER LeBLANC: Thank you.

12 Sorry, Mr. Wiggins, go ahead.

13 MR. WIGGINS: The testimony is very clear on it,
14 Mr. Presiding Officer, even though I prodded it.

15 BY MR. WIGGINS:

16 Q And what is the current best estimate of those
17 costs to your understanding?

18 A I believe it's 21 one-hundredths of a cent.

19 Q And that is for the variable component of
20 information service cost.

21 A I believe that's the number.

22 Q Do you have a number for all information service
23 cost?

24 A I think I saw one in an interrogatory propounded
25 to someone else, but I don't remember what that was.

1831

1 Q But you remain persuaded that one-tenth of a cent
2 remains the best fee to be associated with the 25-percent
3 markup of printer costs in order to derive customer costs of
4 Mailing Online participation; is that right?

5 A Well, I -- excuse me for a minute.

6 Again, I mean, I'll go back to what I've said
7 before, I mean, the proposal was for a tenth of a cent. I
8 have not seen anything yet that causes me to say we should
9 change that proposal.

10 Q Thank you, Mr. Plunkett.

11 MR. WIGGINS: I have no further questions, Mr.
12 Presiding Officer.

13 COMMISSIONER LeBLANC: Is there any followup, Ms.
14 Dreifuss?

15 MR. WIGGINS: She actually hasn't gone yet.

16 MS. DREIFUSS: I don't want to go ahead of Mr.
17 Bush.

18 COMMISSIONER LeBLANC: Mr. Bush?

19 MR. BUSH: I have nothing, Mr. Presiding Officer.

20 MS. DREIFUSS: I do have one --

21 COMMISSIONER LeBLANC: I am glad I have a loud
22 voice. Go ahead, Ms. Dreifuss.

23 MS. DREIFUSS: Thank you.

24 FURTHER CROSS EXAMINATION

25 BY MS. DREIFUSS:

**RESPONSE OF POSTAL SERVICE WITNESS LIM TO
INTERROGATORY OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-ST9-11. Please refer to your testimony at page 4 and 5, lines 25-26 and 1-3, respectively.

- a. Please confirm that time is an important element of costs of the Mailing Online help desk. If you do not confirm, please explain.
- b. Please explain the rationale for excluding the duration of calls received by the Mailing Online help desk as an element of the "cost driver" for Mailing Online help desk costs.
- c. Please confirm that the number and duration of calls to the Mailing Online help desk should form the "cost driver" for the Mailing Online help desk. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed that time is appropriately considered as an element of costs.
- b. Data generally are not available on the duration of calls, let alone data indicating the duration of MOL-related calls. It is my understanding that such data would be "difficult to collect and costly to compile." (Reply brief of USPS Regarding MOL Market Test, at 13.) Moreover, I understand that the Commission did "not require the duration of calls to be recorded, especially in light of the relative size of the costs." (PRC Op., MC98-1 (Market Test), at 50.) Therefore, I used the assumption that the duration of calls did not vary based on call type. This assumption was used in determining the cost driver for help desk costs.
- c. Confirmed. The number and duration of calls was used to form the "cost driver" for the help desk with the assumption that call duration does not vary based on type.

**RESPONSE OF POSTAL SERVICE WITNESS LIM TO
INTERROGATORY OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-ST9-12. Please refer to your testimony at page 10, lines 10-13, where it states that "MOL users . . . are therefore assumed to cause personnel, hardware, and software costs," and Exhibit E, "MOL/POL Help Desk."

- a. In Exhibit E, please identify the hardware costs of the MOL/POL help desk.
- b. Please confirm that there are telecommunication costs associated with the MOL/POL help desk. If you do not confirm, please explain.
- c. Please list the "personnel, hardware, and software costs," and the associated amounts, of the MOL/POL help desk that
 - i. are affected by the duration of calls to the Mailing Online help desk; and,
 - ii. are not affected by the duration of calls to the Mailing Online help desk.

RESPONSE:

- a. Hardware and software costs are included in Exhibit E, Item 18. Although the exact separation of software and hardware cost is not specified in the data collected, the general cost of the hardware would amount to approximately \$430,000.
- b. Confirmed. I have now updated my testimony to reflect all such telecommunications costs, specifically Tables 1 and 2, and Exhibits E and G. The appropriate revised pages are attached to this response.
- c. Since I assume that all calls have the same duration, I did not conduct the exercise of breaking the personnel, hardware and software costs into those affected and those not affected by ^{the} call ~~the~~ duration.

ATTACHMENT TO RESPONSE
TO OCA/USPS-ST9-12
Page 1 of 4

Revised 2/2/99

Table 1
Summary of Total Cost

Item	Systems Dev. & Imp.	Admin Mgmt & Maint	Help Desk	Print Shop	Hardware	Software	Telecom & Networking	Personnel	Services	Total
1	Table 5, Line 4	\$2,959,346	\$0	\$0	\$0	\$1,219,789	\$1,702,256	\$0	\$0,420,991	\$12,302,382
2	Table 5, Line 8	\$0	\$0	\$0	\$0	\$350,000	\$0	\$1,880,000	\$3,917,568	\$6,147,568
3	Table 6, Line 11	\$0	\$0	\$0	\$0	\$32,424	\$0	\$530,000	\$1,539,957	\$2,102,381
4	Table 6, Line 14	\$152,828	\$0	\$0	\$0	\$0	\$51,264	\$0	\$1,800,050	\$2,003,940
		\$3,112,174	\$0	\$0	\$0	\$1,502,213	\$1,753,520	\$2,410,000	\$13,678,556	\$22,856,272

ATTACHMENT TO RESPONSE
TO OCA/USPS-ST9-12
Page 2 of 4

Revised 2/2/99

Table 2.
Summary of One-Time & Variable Costs

Description	Notes	Variable			
		One Time Cost	Program Year 1999	Program Year 2000	Total
Systems Dev. & Imp.	Exhibit G, Line 16	\$10,397,982	\$952,200	\$952,200	\$12,302,382
Administrative Mgmt & Maintenance	Exhibit G, Line 24	\$350,000	\$2,919,364	\$2,878,205	\$8,147,568
Help Desk	Exhibit G, Line 30	\$320,784	\$766,000	\$1,015,597	\$2,102,381
Print Sites	Exhibit G, Line 36	\$51,284	\$790,030	\$1,162,646	\$2,003,940
Total		\$11,120,030	\$5,427,594	\$6,008,648	\$22,556,272

ATTACHMENT TO RESPON
TO OCA/USPS-ST9-12
Page 3 of 4

USPS -ST-9, Docket No. MC...
Page 1 of 1
Revised 2/2/98

Exhibit G
Derivation of One-Time and Variable Costs

Item	Description	Notes	One Time Cost		Variable		Total
			Program Year 1999	Program Year 2000	Program Year 1999	Program Year 2000	
1	Systems Dev. & Imp.						
2	MOL						
3	Hardware	Exhibit A, Line 30	\$1,912,547	\$0	\$0	\$0	\$1,912,547
4	Software	Exhibit A, Line 48	\$1,215,881	\$0	\$0	\$0	\$1,215,881
5	Telecom. & Networking	Exhibit A, Line 59	\$244,256	\$0	\$0	\$0	\$244,256
6	Services						
7	Certification & Accreditation	Exhibit A, Line 61 divided by 2 years	\$0	\$232,200	\$232,200	\$0	\$464,400
8	Enhancements - SIW	Exhibit A, Line 62	\$600,000	\$0	\$0	\$0	\$600,000
9	MOL Application Development	Exhibit A, Line 63	\$5,120,671	\$0	\$0	\$0	\$5,120,671
10	MOL Application Test and Doc.	Exhibit A, Line 64	\$75,920	\$0	\$0	\$0	\$75,920
11	MOL/POL						
12	Hardware	Exhibit B, Line 32	\$1,046,799	\$0	\$0	\$0	\$1,046,799
13	Software	Exhibit B, Line 37	\$3,898	\$0	\$0	\$0	\$3,898
14	Telecom. & Networking	(f)	\$16,000	\$720,000	\$720,000	\$0	\$1,456,000
15	Services	Exhibit B, Line 47	\$160,000	\$0	\$0	\$0	\$160,000
			\$10,397,982	\$942,200	\$952,200	\$0	\$12,302,382
17	Administrative Mgmt & Maintenance						
18	MOL						
19	Software	Exhibit C, Line 3	\$350,000	\$0	\$0	\$0	\$350,000
20	Personnel	Exhibit C, Line 6 divided by 2 years	\$0	\$940,000	\$940,000	\$0	\$1,880,000
21	Services	(f)	\$0	\$1,956,186	\$1,915,037	\$0	\$3,871,233
22	MOL/POL						
23	Services	Exhibit D, Line 6 divided by 2 years	\$0	\$23,166	\$23,166	\$0	\$46,332
			\$350,000	\$2,919,364	\$2,878,203	\$0	\$6,147,667
25	Help Desk						
26	MOL/POL						
27	Software	Exhibit E, Line 9	\$32,424	\$0	\$0	\$0	\$32,424
28	Personnel	Exhibit E, Line 15 divided by 2 years	\$0	\$265,000	\$265,000	\$0	\$530,000
29	Services	(f)	\$286,380	\$501,000	\$750,597	\$0	\$1,537,977
			\$320,784	\$766,000	\$1,015,597	\$0	\$2,102,381
31	Print Sites						
32	MOL						
33	Hardware	(h)	\$0	\$89,780	\$82,646	\$0	\$152,626
34	Telecom. & Networking	Exhibit F, Line 20	\$51,264	\$0	\$0	\$0	\$51,264
35	Services	(f)	\$0	\$700,250	\$1,099,600	\$0	\$1,600,050
			\$51,264	\$790,030	\$1,102,646	\$0	\$2,001,940
Subtotal			\$11,120,030	\$5,427,594	\$6,008,648	\$0	\$22,556,272

USPS-ST-9, Docket No. A
Page 1 of 1
Revised 2/2/99

ATTACHMENT TO RESPONSE
TO OCA/USPS-ST9-12
Page 4 of 4

Exhibit E
MOL/POL Help Desk

Description	Manufacturer	Notes	Help Desk ^A	Total Quantity ^B	Unit Cost ^C	Estimated Cost ^D	
1 Software							
2 Microsoft Publisher	Microsoft		14	14	\$90	\$1,260	
3 MS Office 97 Professional, Ed. Prof. U	Microsoft		14	14	\$104	\$1,456	
4 Quark V. 4.0	Quark		14	14	\$752	\$10,528	
5 PageMaker V. 6.5 w/nt5/NT	PageMaker		14	14	\$525	\$7,350	
6 Corel Ventura V.8.0	Corel		14	14	\$469	\$6,566	
7 Corel WordPerfect Suite Prof. 8.0	Corel		14	14	\$378	\$5,294	
Software Subtotal							\$32,424
Ratio Applied Subtotal							\$32,424
10 Personnel							
11 Help Desk Mgr	USPS	(e)	1	1	\$200,000	\$200,000	
Ratio Applied Subtotal							\$40,000
13 Technical Help Desk	USPS	(f)	1	1	\$480,000	\$480,000	
Ratio Applied Subtotal							\$90,000
Personnel Subtotal							\$530,000
16 Services							
17 Help Desk on-going cost	Compaq		1	1	\$6,016,462	\$6,016,462	
18 Help Desk one time	Compaq		1	1	\$1,441,600	\$1,441,600	
19 Help Desk Telecommunication Cost	Compaq		1	1	\$241,523	\$241,523	
Services Subtotal							\$7,099,785
Ratio Applied Subtotal							\$1,539,937
Total							\$2,102,381

2003

25

Q In your answer to Pitney-Bowes Interrogatory

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2004

1 Number 1 to you, we asked about the ratios that appear in
2 your testimony and in your tables to allocate costs that are
3 shared between MOL and not MOL; correct?

4 A Yes.

5 Q And you tell me, I say explain those numbers, and
6 you say, "Read my testimony, dummy. I've already done
7 that." Right?

8 A Uh --

9 Q You were more --

10 A Yes, I do --

11 Q You were more decorous by far than that, Mr. Lim.
12 And you tell me to start looking at page 4, and I see,
13 beginning at the bottom of page 4 and continuing over to
14 page 5, your explanation of how you come to the 20-percent
15 number for Helpdesk. And you say it's based on calls.
16 That's the number of calls, correct?

17 A That is correct.

18 Q Without regard to call duration, because you said
19 in answer to a question from the OCA that you didn't have
20 information on call duration.

21 A That's correct.

22 Q It would have been superior, wouldn't it? If
23 you'd had that information you would have used it?

24 A That is correct.

25 Q Okay.

2005

1 MR. WIGGINS: If I might approach the witness, Mr.
2 Presiding Officer, I would like for him to look at these
3 papers.

4 [Pause.]

5 BY MR. WIGGINS:

6 Q Let me ask you first, what did you look at to
7 determine call volumes? What information was available to
8 you?

9 A There was some study that was done on the -- by
10 Price Waterhouse, Coopers, on the number of calls that were
11 received currently during the market test. In looking at
12 allocating these costs, I had to find the best cost driver
13 that I had at that time to allocate the costs, and the best
14 available information that I had were these numbers that I
15 received from a study that was actually done by Price
16 Waterhouse, Coopers.

17 Q And you told me that it was based on actual
18 experience during some portion of the market test?

19 A Yes. I believe I have the date, from November the
20 7th to December the 25th.

21 Q Right. Now, what I have handed to you are copies
22 of three pages from three separate biweekly reports from the
23 Postal Service, and I have crudely labeled them up at the
24 top as Accounting Period 3, Weeks 1 and 2; Accounting Period
25 3, Weeks 3 and 4; and Accounting Period 4, Weeks 1 and 2.

2006

1 Those are the intervals that corresponded most closely, and
2 what the Postal Service has given all of us, with the time
3 period during which you studied costs. You will see that in
4 the righthand -- the middle column, rather, in each of these
5 appendices, which are variously called Appendix 3.1 in the
6 first period, and then Appendix 3 in the second two.

7 Does the number of calls that you see here seem
8 consistent to you with the number -- not the total number,
9 but 20 percent of the number of calls that you saw in the
10 Price Waterhouse study?

11 A I would have to verify that.

12 Q Well, in the first two-week period, for example,
13 we see that there were 22 MOL related calls, which would
14 mean during that period you see a hundred calls all told.
15 Does that seem about right to you?

16 A I'm sorry. Could you specify where those numbers
17 came from again?

18 Q Sure. Look at the first page of what I have given
19 you, which says AP 3, Weeks 1 and 2.

20 A Okay.

21 Q Down at the bottom of that little table there is a
22 cell that says number of calls, and then there is a number
23 below that. Do you have that?

24 A Yes, 22.

25 Q And it says 22.

2007

1 A Yes.

2 Q Now, I read this as saying there were 22 MOL
3 related calls during that two-week period, which mean, if
4 your percentage is right, 20 percent, there were just in
5 excess of a hundred total calls. And I am asking you
6 whether, you know, your recollection of what you saw from
7 the Price Waterhouse study was in that order of magnitude.

8 A Yes. I was -- I don't have -- I wasn't presented
9 the information in this form, as you have presented me here
10 today. And I am not sure if -- just looking at that
11 information that you have presented, that this is what it is
12 saying, that 22 is just for MOL. For the title, it says
13 Customer Helpdesk Calls, and I wasn't sure if this is just
14 for MOL or everything else, or something else. But I can
15 verify these numbers and verify if these were these the
16 numbers that I did use.

17 MR. WIGGINS: I would appreciate that, Mr.
18 Presiding Officer.

19 COMMISSIONER LeBLANC: Is there a specific
20 timetable we are looking at here, Mr. Wiggins? Is a couple,
21 two, three -- Monday, all right with you, too, seven days?

22 MR. WIGGINS: That is just fine, yes.

23 COMMISSIONER LeBLANC: Is that going to be a
24 problem for you, Mr. Lim?

25 THE WITNESS: No. No, it won't be a problem.

2008

21 COMMISSIONER GOLDWAY: Thank you. I want to
22 follow-up on the issue of these Helpdesk phone calls. I am
23 a bit confused because it did seem to me in your earlier
24 testimony you said that you did not rely on any of the
25 market test operational performances to base your

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2009

1 projections of what costs would be. Is that right, did I
2 understand you correctly?

3 THE WITNESS: I would just like to clarify. I
4 believe it was pertaining to the costs of, and costs related
5 to the -- during the market test. And these were numbers,
6 not cost numbers, but studies that were done on the current
7 operation of the Helpdesk during the market test. Again,
8 based --

9 COMMISSIONER GOLDWAY: So, you did say -- you did
10 use the market test data to determine that 20 percent of
11 future Helpdesk calls should be charged to this program, to
12 the MOL?

13 THE WITNESS: That is correct, the data was used.

14 COMMISSIONER GOLDWAY: But you didn't look at the
15 market test to see what percentage of the rest of the system
16 was being used for MOL versus the other operation, Shipping
17 Online or Post Office Online, to determine what percentages
18 might be used in the future in terms of volume, or
19 maintenance, or other kinds of operational issues? You just
20 used it for the Helpdesk?

21 THE WITNESS: That is correct.

22 COMMISSIONER GOLDWAY: You didn't look at the cost
23 of the equipment for the market test in terms of what was
24 planned and what was expended to determine what might be the
25 current -- a realistic pattern for costs versus real

2010

1 expenditures in the experimental test, did you?

2 THE WITNESS: I did not look at costs for the
3 market test.

4 COMMISSIONER GOLDWAY: Did you even include the
5 costs of the expenditures for the market test when you
6 estimated the costs for the experimental test? In other
7 words, this first contract that the OCA mentioned, or any of
8 the expenditures that were made on market test equipment
9 that are going to be phased out when this system
10 architecture is all up and running. Did you include any of
11 those costs?

12 THE WITNESS: No, I did not. My understanding was
13 that the experiment phase architecture components would, in
14 essence, replace whatever is existing there.

15 COMMISSIONER GOLDWAY: So any of the one time
16 costs to set up the program, from your point of view, don't
17 include the market test part?

18 THE WITNESS: No, they are just specific to the
19 experiment.

2014

14 Mr. Lim, just a followup on what Commissioner
15 Goldway was asking you. Do you know whether those costs,
16 those Helpdesk ongoing costs, the situation, are they
17 directly -- do they vary with the volume? Are they incurred
18 regardless of the number of MOL mail pieces? Or do you
19 know?

20 THE WITNESS: I do not know.

MASA-T-1

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

MAILING ONLINE SERVICE

Docket No. MC98-1

ERRATA FOR
 REPLACEMENT DIRECT TESTIMONY
 OF
 C. SCOTT SCHUH

On Behalf Of
 MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL

This is an errata to replace the cover page of Replacement Direct Testimony of C. Scott Schuh filed on February 9, 1999.

Communications with respect to this document may be sent to:

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Counsel for Mail Advertising Service
 Association International

Due Date: February 11, 1999

TABLE OF CONTENTS

1			
2			
3			
4			
5			<u>Page</u>
6			
7	I.	PURPOSE OF THE TESTIMONY	2
8			
9	II.	USPS AS A COMPETITOR	2
10			
11	III.	THE MARKET TARGETED BY MAILING ONLINE	4
12			
13	IV.	USPS'S UNFAIR COMPETITIVE ADVANTAGES	5
14			
15	A.	Access to Superior Advertising and Promotional Activities	5
16	B.	Access to Sensitive Business Information	6
17	C.	Postage Rate Structure	7
18	D.	USPS Pricing Assumptions	8
19	E.	USPS Pricing Structure	8
20	F.	Exemption from State Sales Tax	9
21			
22	V.	CONCLUSION	9

LIST OF EXHIBITS

<u>ITEM</u>	<u>TITLE</u>
(A)	USPS Mailing Online Business Partner Statistics
(B)	Lloyd Schuh Company Pricing Comparison on USPS Detailed Calculation of Costs - Example 1

1 I. Purpose of Testimony

2 I have become familiar with United States Postal Service ("USPS") plans to offer
3 a new service, Mailing Online. Mailing Online will permit direct mail end users to submit
4 data to USPS over the Internet, after which USPS contractors will produce and
5 assemble the mailings and USPS will deliver them through the mail stream. I am
6 extremely concerned about USPS's attempt to compete with my company and the
7 many others like it, and I know that many MASA members share this concern. The
8 purpose of my testimony is to describe the ways in which Mailing Online will interfere
9 with fair competition, and the resulting effect that Mailing Online will have on private
10 companies like mine.

11 II. USPS as a Competitor

12 For as many years as I have been in the business, we have depended on USPS
13 to provide the essential final step necessary for us to serve our clients: the delivery of
14 the mail. While USPS's services have been essential for us, our efforts have at the
15 same time conferred substantial benefits on USPS.

16 My company provides its clients a full range of mailing and related services, from
17 data processing and production services to delivery to USPS for placement in the mail
18 stream. In performing those services, we act as a non-commissioned sales agent for
19 USPS. We obtain business through the substantial efforts of five sales people and
20 myself. We generate in excess of one million dollars annually in postage expenses for
21 our clients through their use of stamps, metered postage, and permit accounts for their
22 direct mail programs.

1 At Schuh, and at other companies in our business, we make every effort to
2 maintain a cooperative working relationship with USPS. Among other things, we deliver
3 mail to USPS in accordance with its requirements, we provide information USPS
4 requires for its operations, and we exchange suggestions concerning ways to improve
5 our respective operations.

6 USPS has, until recently, fully embraced this cooperative approach. It promoted
7 in recent years a "Business Partners" program through which USPS sought to enhance
8 its ability to offer services and programs to the private mailing industry, creating a
9 "partnership" of sorts between USPS and the industry. USPS employees participate
10 with lettershops, others who provide mailing services, and end users in Postal
11 Customer Councils, which are designed to facilitate communication concerning matters
12 of mutual interest. In these and other respects, USPS has recognized the value of
13 fostering a positive relationship with the companies that support it.

14 Mailing Online is a radical departure from this approach. USPS, on whom our
15 industry depends for mail delivery, now proposes to compete with us on an uneven
16 playing field that favors USPS in many respects. The mere fact that USPS is now a
17 competitor would in any other circumstance cause us to discontinue our relationship; if
18 it were possible, I would engage a different delivery service to see that our mail reaches
19 its final destination. Of course, since USPS has a monopoly, there are no other mail
20 delivery services to which we can turn.

1 Online during the two year experiment period will come from existing users of direct
2 mail. This represents a shifting of millions of dollars of revenue from mailing service
3 companies to USPS. These Mailing Online customers will be current clients of my
4 company and others that service this market. While these accounts and their mailings
5 may be "small" for USPS, they are the bread and butter of my business.

6 I have personally spoken with many mailers who share my concerns about this
7 program. I recently requested information from mailers concerning the percentage of
8 their jobs that are under 5,000 and the percentage of their total revenues that comes
9 from such jobs. I have attached as Exhibit A a summary of the responses I received,
10 from 14 mailers, together with the corresponding information for Schuh. For the group
11 as a whole, an average of 58% of their jobs accounting for 35% of their total revenue
12 are small mailings

13 **IV. USPS's Unfair Competitive Advantages**

14 In competing for these direct mail customers, USPS enjoys many competitive
15 advantages that are a direct result of its monopoly. These advantages are discussed
16 below.

17 **A. Access to Superior Advertising and Promotional Activities**

18 Because of its sheer size, USPS is able to advertise on a scale that companies
19 like mine cannot even contemplate. It runs periodic national television advertising
20 campaigns; takes out full page ads in newspapers, some of them prominent national
21 papers; sends notices to users of the mails, who are potential users of Mailing Online;
22 and conducts a variety of expensive promotional campaigns. USPS will have the ability

1 to engage in such advertising and promotional activity for Mailing Online, and to
2 incorporate promotion of Mailing Online in ads and promotions for other products.

3 It is simply impossible for my company to compete effectively with a competitor
4 who, by virtue of its national monopoly and resulting size, can advertise on such a
5 grand scale. While my company markets aggressively, it uses such means as direct
6 mail, yellow pages, trade shows and business publications. In 1998 we mailed a series
7 of eight self-promotions to 4,500 customers and prospects in Arkansas. Our target list
8 consisted of numerous small and mid-size companies we felt were either direct mail
9 users or potential users, including companies on our client database. We choose these
10 means of promotion because they are targeted and cost-effective. Our marketing
11 budget is limited, and we cannot support television, radio or newspaper advertising of
12 the sort available to USPS.

13 **B. Access to Sensitive Business Information**

14 USPS's ability to compete is further enhanced by its access to invaluable
15 competitive information. USPS knows the identity of each permit holder and collects
16 data reflecting their usage patterns, such as the type of direct mail they use, the typical
17 quantities and the frequency of use. Moreover, each time we place a mailing in the
18 mailstream using our own permit we are required to complete a form 3602, which
19 identifies the end user. With this information, USPS can assemble the same sort of
20 information for end users without permits.

21 Such information is not available to private businesses. I recently requested a
22 copy of the mailing list of my local Postal Customer Council chapter, in which I am an
23 active participant. Although this list would not have included the sort of data concerning

1 usage patterns that is available to USPS, it would nevertheless have been a valuable
2 marketing tool. The USPS representative on the Postal Customer Council, who
3 maintains a copy of this list on a USPS computer system, advised me that the list could
4 not be shared, due to headquarters directives. He further stated his belief that no
5 private customer of any Postal Customer Council across the country could receive
6 access to this list.

7 USPS appears to be increasing its efforts to maintain such information. For the
8 last few months the USPS mail acceptance clerk in our facilities has been logging the
9 name and address information of our end users in the USPS proprietary database
10 system. USPS is therefore accumulating in a readily usable form information
11 concerning the valued clients that mail on our company's postal permits. It would be a
12 simple matter for USPS to send a direct mail solicitation for Mailing Online to my
13 company's accounts offering printing and production rates as well as postage costs that
14 are below our costs.

15 C. Postage Rate Structure

16 The proposed charges for the postage portion of Mailing Online confer several
17 benefits to Mailing Online customers that are not available to the rest of us. USPS
18 proposes to make available to all Mailing Online customers basic presort automation
19 rates, irrespective of the size of their mailings. For all other users of the mails, there is
20 a 200 piece minimum for Standard "A" mailings and a 500 piece minimum for First
21 Class mailings to obtain such discounts.

1 **D. USPS Pricing Assumptions**

2 A significant part of the cost of any job we perform, excluding postage, is the
3 cost of the labor associated with our interaction with our client. When we receive data
4 files from a client, it is invariably necessary to interact with the client regarding problems
5 in the data, the review of proofs, and a broad range of other production and design
6 issues. The effort required for a small job is often as great as for a large job, and the
7 effect of these efforts on the cost per piece is therefore greatest for small jobs.

8 It appears to me from USPS's pricing of four typical mailings, which I discuss
9 below, that USPS has priced Mailing Online as if data will be received in a consistent
10 and highly accurate form and there will be little need for direct interaction with the
11 customer. Once again, in my experience it is entirely unrealistic to disregard the real
12 cost of providing service to the customer. Questions frequently arise concerning
13 matters ranging from layout and content to the appropriate prefixes to be used in the
14 salutation of letters. A help desk that is not directly involved in production will simply
15 not be able to address the many issues that do arise.

16 **E. USPS Pricing Structure**

17 I have reviewed USPS's sample Mailing Online prices for four examples,
18 provided in the updated response of witness Plunkett to OCA/USPS-T5-28 using
19 USPS's actual printer contract prices. Attached as Exhibit B is a spreadsheet for
20 Example 1, reflecting my company's costs per piece based on 1,000, 2,500 and 5,000
21 pieces. My company's selling costs, excluding postage, run from 50% above Mailing
22 Online on larger quantities to 250% above Mailing Online on small quantities. Mailing

1 Online pricing structure is so far below my costs, let alone my prices, that it would be
2 impossible for me to compete with USPS if prices were calculated as proposed.

3 **F. Exemption from State Sales Tax**

4 One of USPS's most obvious advantages is its exemption from state and local
5 sales taxes. In Arkansas, I am required to collect a state and county tax from my clients
6 of 6.25% of the non-labor portion of each order, which includes paper, printing and
7 direct addressing, a substantial portion of many mailing projects.

8 The mere fact that USPS is exempt from state sales tax therefore gives it what
9 would be a substantial cost advantage even if all other costs were equal. USPS plans
10 to undercut my costs in other respects, and the sales tax exemption merely
11 exacerbates an already insurmountable pricing structure.

12 **V. Conclusion**

13 My firm welcomes competition from other private sector companies facing the
14 same business challenges as we face, and seeking to make a return on investment for
15 their shareholders. If a non-monopolistic, private sector company with which I do
16 business chose to compete with me, I would have the opportunity to go elsewhere in
17 order to avoid supporting my competitor's efforts through the revenue I generate for the
18 competitor. Under USPS's current system, the efforts of my company and hundreds of
19 others like mine generate substantial revenue to feed the monopolistic services of what
20 could become our ex-partner and new competitor. Yet we have no realistic alternatives
21 to USPS to get our mail delivered.

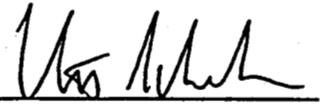
22 The proposed Mailing Online service, if approved, threatens to drive a stake
23 through the heart of my business, and will have a similar impact on many others. The

1 service that my company and my industry provides is outstanding and the costs are fair.
2 USPS, if it becomes our competitor, will have the ability to leverage its monopoly on
3 mail service into many unfair competitive advantages. It will exacerbate the problem by
4 pricing its service at a level that does not take into account all of the costs it will incur,
5 shifting those costs to other customers. The inevitable result will be that my company
6 and many others will lose significant portions of our business to USPS, which until now
7 we viewed as our business "partner" rather than our business "predator." The mailing
8 industry will be dramatically effected and business relationships shattered if Mailing
9 Online is allowed to go forward.

DECLARATION

I, C. Scott Schuh, declare under penalty of perjury that foregoing testimony is true and correct, to the best of my knowledge, information and belief.

Dated: 2/6/99



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Replacement Direct
Testimony of C. Scott Schuh was served upon all participants of record in this
proceeding in accordance with Section 12 of the Rules of Practice and POR No. MC98-
1/4 this 9th day of February, 1999.



Normal L. Eisen

USPS MAILING ONLINE BUSINESS PARTNER STATISTICS

COMPANY NAME	STATE	% JOBS UNDER 5,000	% TOTAL REVENUE
Colorado Data Mail	CO	52%	23%
Mailmedia, Inc.	WA	59%	24%
The Mail Room	CO	0-40%	15-20%
Publisher's Mail Service, Inc.	WI	45%	16.5%
Lone Oak Mailing Services ¹	MN	80%	65%
First Class Direct, Inc.	CO	80%	35%
Quality Letter Service, Inc.	NY	70%	45%
Mailtech Enterprises, Inc.	IL	12%	2%
K/P Corporation	CA	N/R	20-25%
The Lloyd Schuh Company	AR	60%	30%
Confidential ²	CA	74%	35%
Advertising Mail Corporation	TX	42%	34%
Post Haste Mailing Services	CA	79%	35%
Burke's Mail Service	NE	100%	100%
Hopkins Mailing Services	IL	24%	N/R
Average Percentages		58%	35%

¹ This respondent's provided the percentage of its jobs that are under 6,000 pieces.

² One respondent asked that its name be kept confidential if possible. If necessary, its name can be provided to the Commission

Lloyd Schuh Company Pricing Comparison on USPS Detailed Calculation of Costs for Exhibit A - Example 1
 2 Page, 8.5x11, Simplex, Black & White, First-Class

	Impression Costs A	Paper Costs B	Envelope Costs C	Folding & Insertion D	Information Systems E	Subtotal F	Contribution G	Fee H	Postage I	Total Postage & Fee J
USPS	\$ 0.0306	\$ 0.0094	\$ 0.0150	\$ 0.0336	\$ 0.0016	\$ 0.0892	\$ 0.0248	\$ 0.1240	\$ 0.2700	\$ 0.3940
LSC - 1,000	\$ 0.0870	\$ 0.0300	\$ 0.0250	\$ 0.0780	\$ 0.0985	\$ 0.3175	N/A	\$ 0.3175	\$ 0.2700	\$ 0.5875
LSC - 2,500	\$ 0.0640	\$ 0.0250	\$ 0.0210	\$ 0.0580	\$ 0.0870	\$ 0.2350	N/A	\$ 0.2350	\$ 0.2700	\$ 0.5050
LSC - 6,000	\$ 0.0580	\$ 0.0200	\$ 0.0190	\$ 0.0510	\$ 0.0570	\$ 0.2050	N/A	\$ 0.2050	\$ 0.2700	\$ 0.4750

Percent LSC Fee higher than USPS Fee (H) for 1,000 mailing 258%

Percent LSC Fee higher than USPS Fee (H) for 2,500 mailing 190%

Percent LSC Fee higher than USPS Fee (H) for 6,000 mailing 165%

Production notations:

- Print two 8.5 x 11 sheets black ink one side on 20# white stock
- Provide #10 white non-window stock with no print copy
- Load client file from email, standardize, & postal code
- Presort client file for lowest possible automation rates
- Fold each 8.5 x 11 sheet to letter size (tr-fold)
- Insert into #10 envelope, seal (assumes permit indicia pre-printed)
- Inkjet address #10 envelope and prepare for USPS entry

Cost assumptions

- Presort rate assumes 100% postal qualification and no residual mail pieces
- Assumes high speed inkjet addressing service
- Assumes letter copy above is generic with no In-letter personalization or variables
- Information Systems above include customer file preparation and inkjet address output

MAR 9 '99 15:15 FROM 4183328444 TO ZUCK-6TH
 03/09/99 12:33 THE LLOYD SCHUH COMPANY, INC. + 14186590436481
 MAR 9 '99 14:32 FROM 4183328444 TO 15813726578

PAGE. 002/003
 PAGE. 004/005

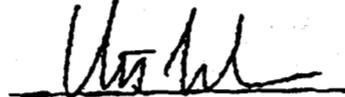
BEFORE THE
 POSTAL RATE COMMISSION
 WASHINGTON, D.C. 20268-0001

MAILING ONLINE SERVICE

Docket No. MC98-1

DECLARATION OF C. SCOTT SCHUH
 REGARDING TESTIMONY

I, C. Scott Schuh, declare under penalty of perjury that the testimony attached as Exhibit A (MASA-T-1) is a copy of my direct testimony, and that it was prepared by me or under my direction and control. If I were to testify orally before the Postal Rate Commission, my testimony would be the same. There are no errors or errata in my testimony.


 C. Scott Schuh

Date: 3/9/99

2067

1 COMMISSIONER LeBLANC: Mr. Bush, do you have a
2 declaration applicable to the designated written cross
3 examination of Witness Schuh?

4 MR. BUSH: Yes, I do, Mr. Presiding Officer.

5 COMMISSIONER LeBLANC: Could you hand the reporter
6 two copies of the corrected written cross examination of
7 Witness Schuh and I direct that it be transcribed at this
8 point along with the applicable declaration and that it be
9 received into evidence.

10 THE REPORTER: And copied in?

11 COMMISSIONER LeBLANC: Yes, please.

12 [Designation of Written
13 Cross-Examination and Declaration
14 of C. Scott Schuh were received
15 into evidence and transcribed into
16 the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Mailing Online Service

Docket No. MC98-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL
WITNESS C. SCOTT SCHUH
(MASA-T1)

Party

Office of the Consumer Advocate

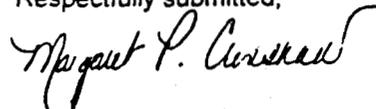
United States Postal Service

Interrogatories

USPS/MASA-T1-1-5

USPS/MASA-T1-6

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL
WITNESS C. SCOTT SCHUH (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

- USPS/MASA-T1-1
- USPS/MASA-T1-2
- USPS/MASA-T1-3
- USPS/MASA-T1-4
- USPS/MASA-T1-5
- USPS/MASA-T1-6

Designating Parties:

- OCA
- OCA
- OCA
- OCA
- OCA
- USPS

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

USPS/MASA-T1-1. Do your company's capabilities include varying each copy of a document to contained [sic] personalized information (e.g., mail merge)?

USPS/MASA-T1-1 Response:

Yes.

USPS/MASA-T1-2. Please refer to your discussion at page 3 of your testimony concerning your company's relationship with the Postal Service.

- (a) Please cite specific examples of any change you feel has taken place.**
- (b) Please specifically address whether the Postal Service has stopped or curtailed its efforts you mention, including the "Business Partners" program and participation in Postal Customer Councils.**

USPS/MASA-T1-2 Response:

(a) Mailing Online is not yet available in my area. Nevertheless, there have been a number of developments, which may be a result of Mailing Online or may simply reflect the Postal Service's changing attitude, that show the Postal Service's increasing willingness to compete rather than cooperate with our industry. As I described at page 7 of my testimony, USPS is now logging information concerning actual end users who mail Standard A mail under my company's mailing permit. To my knowledge, this has never been done before. In addition, I was not given access to the Postal Customer Council chapter mailing list recently, although I had been given access to this list the year before. I am also aware of the Postal Service's welcome kit program, as part of which the Postal Service, through a contractor, sells advertising and uses a mailing list that is not available to private companies. On my end, as a result of the possible implementation and expansion of Mailing Online, I find it necessary to consider more carefully and to be more guarded in responding to USPS requests for information in light of the potential competitive use of the information.

(b) See response to part (a). In addition, it appears that USPS has either stopped or reduced its support of the Business Partners program, at least in my area. There used to be a directory published by USPS of participants in the program, and USPS actively promoted the program. During the period USPS has been developing Mailing Online, I have not seen a directory or any Business Partners promotion of any kind in the area I serve. I am not aware of any activity during the past year in connection with the Business Partners program.

USPS/MASA-T1-3. Does your company prepare materials for its customers that are disseminated other than by the Postal Service?

USPS/MASA-T1-3 Response:

Yes, for a few clients. We do not disseminate materials by carriers other than USPS if they can be sent using First Class or Standard A mail.

USPS/MASA-T1-4. On page 4 of your testimony you refer to the "basic production criteria" for Mailing Online. Please define specifically what you mean by these criteria and explain whether they include digital printing and desktop software for document production.

USPS/MASA-T1-4 Response:

My reference to "jobs of 5,000 pieces or fewer that met the basic production criteria for the Mailing Online program" was intended to refer to all mailings of the specified number of pieces that could have been prepared through Mailing Online. I did not mean to limit such mailings to those that were prepared using digital printing or desktop software, but rather to mailings that could have been prepared by Mailing Online using its production capabilities.

USPS/MASA-T1-5. You state that the 62 percent of Mailing Online volume that is estimated to come from existing users of direct mail will come from "current clients of my company and others that service this market."

- (a) On what basis do you believe that the mailers of this 62 percent are current clients of your company and similar companies?
- (b) Please refer to the testimony of witnesses Wilcox and Campanelli, filed on behalf of the Postal Service, where they indicate that before Mailing Online, they prepared and mailed direct mailings themselves. How do you reconcile their testimony with your statement that direct mailing which migrates to Mailing Online will come from your company or similar companies?

USPS/MASA-T1-5 Response:

- (a) I do not believe that the entire portion of Mailing Online that comes from existing users of direct mail will come from current clients of my company and similar companies. This business will come from current and potential clients of my company and other similar companies.
- (b) These witnesses are perfect prospects for companies like mine. The services they were performing for themselves are some of the very services that we perform for our clients.

USPS/MASA-T1-6. Please refer to your testimony at page 5, regarding the information you solicited from other firms concerning the percentage of their jobs that are less than 5,000 pieces.

- (a) Are all of these pieces mailed? If not, what percentage is mailed?
- (b) Do you project that all of this volume will shift to Mailing Online? If not, what percentage do you believe will shift and what is the basis for your estimate?
- (c) Do you believe volume will shift to Mailing Online in cases where the basic automation postage rate charged by Mailing Online is higher than the deeper discounts available to you and your customers? How does this affect your estimate provided in part (b) above?

USPS/MASA-T1-6 RESPONSE:

- (a) Yes.
- (b) No. I have not attempted to project the percentage of this volume that will shift to Mailing Online, but I believe that if the program is effectively promoted and operated, the percentage will be significant.
- (c) I do not believe that any postage savings I might be able to offer customers in some cases will affect the volume shift to Mailing Online. Any savings I might conceivably be able to obtain in postage rates through deeper discounts will be exceeded by the substantially lower fees charged by USPS.

MAR 9 '99 15:15
03/09/99 12:33

FROM 4183328444
THE LLOYD SCHUH COMPANY, INC. + 14106598435481

TO ZUCK-6TH

PAGE. 003/003
NO. 302

MAR 9 '99 14:33

FROM 4183328444

TO 15813726578

PAGE. 005/005

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

MAILING ONLINE SERVICE

Docket No. MC98-1

DECLARATION OF C. SCOTT SCHUH
REGARDING INTERROGATORY ANSWERS

I, C. Scott Schuh, declare under penalty of perjury that the Response Of Mail Advertising Service Association International Witness Schuh to Interrogatories Of the United States Postal Service (USPSMASA-T1-1-6), attached as Exhibit A, is a copy of my answers to interrogatories, and that it was prepared by me or under my direction and control. If I were to testify orally before the Postal Rate Commission, my answers to those interrogatories would be the same. There are no errors or errata in my interrogatory answers.

Date:

3/9/99


C. Scott Schuh

MAR 9 '99 14:37

5813726578

*** TOTAL PAGE. 005 ***

PAGE. 003

*** TOTAL PAGE. 003 ***

TABLE OF CONTENTS

1			
2			
3			
4			
5			<u>Page</u>
6			
7	I.	PURPOSE OF THE TESTIMONY	2
8			
9	II.	THE IMPORTANCE OF MAILING ONLINE'S	
10		TARGET MARKET TO MY COMPANY	2
11			
12	III.	USPS'S COMPETITIVE ADVANTAGES	3
13			
14	A.	Postage Costs	3
15	B.	Advertising	4
16	C.	Customer Support	5
17	D.	The Importance of Smaller Mailings	6
18	E.	The Loss of Business Referred by USPS	6
19	F.	Potential Damage to the Industry if Mailing Online Fails	7
20			
21	IV.	CONCLUSION	8

1

Replacement Direct Testimony

2

Of

3

Richard L. Jurgena

4

5 My name is Richard L. Jurgena. I am President and owner of Mail Advertising
6 Services, Inc. ("Mail Advertising") in Rockville, Maryland. Mail Advertising is a direct
7 mail production company that offers services including maintenance of mailing lists,
8 conversion of lists from multiple formats, personalization of letters, labeling of
9 envelopes and other mail-related functions. We do not provide printing services, as
10 many of our best customers are printers. The company has 15 full-time and 6 or 7 part-
11 time employees. We have a 13,000 square foot plant at our headquarters in Rockville
12 and a 5,000 square foot plant in Frederick, Maryland. Our annual sales are
13 approximately \$900,000.

14 I have been in the direct mail business since 1970, when I became an employee
15 of Mail Advertising. I purchased the company in 1976, and have been its President
16 since then. In addition to having spent the past 29 years in the business, I am active in
17 Mail Advertising Service Association ("MASA"), and Mail Advertising is a member of
18 MASA. I served on the MASA Board of Directors from 1990 through 1994. Mail
19 Advertising also belongs to the Direct Marketing Association of Washington and the
20 Chambers of Commerce of Montgomery and Frederick Counties, Maryland.

1 **I. Purpose of Testimony**

2 Over the years, I have regularly followed developments in the industry that may
3 affect my company, including in particular developments in products and services
4 offered by the United States Postal Service ("USPS"). I have followed USPS's recent
5 attempts to introduce a new Mailing Online service, and this service is of great concern
6 to me. The purpose of my testimony is to describe the impact Mailing Online will have
7 on my business and the unfairness of USPS's proposal to compete with us.

8 **II. The Importance of Mailing Online's Target Market to My Company**

9 I understand that Mailing Online is intended to target relatively small mailings of
10 5,000 or fewer pieces. The nature of Mail Advertising's business is such that mailings
11 of that approximate size are critical to our business.

12 The average size of our jobs is approximately 7,000 to 8,000 pieces. In a typical
13 year, approximately 65 percent of our jobs are under 5,000 pieces. We recently
14 completed a 329 piece job for a large and important customer. The potential loss of
15 such jobs would be of considerable concern, both because we would lose the revenue
16 from those jobs and because our relationships with customers who provide us
17 substantial other business would be jeopardized.

18 What is of even greater concern to me is that we frequently handle larger jobs
19 that are by design split into multiple jobs of fewer than 5,000 pieces to test different
20 approaches or to time solicitations in accordance with events occurring at different
21 times in different areas. A job we just completed is a good example. Microsoft hired us
22 to produce a 50,000 piece mailing consisting of five drops over a period of 45 days.
23 Each drop was split into two parts, one sent in the form of an envelope and letter and

1 the other delivered in the form of a self-mailer, in order to compare these different forms
2 of mailing. Thus, although one might describe the job as a 50,000 piece job, it actually
3 consisted of 10 mailings totaling 50,000 pieces. Jobs of this sort are a large part of our
4 business. I would estimate that approximately 30 percent of our revenues come from
5 jobs that are either under 5,000 pieces or divided into mailings under 5,000 pieces.

6 **III. USPS's Competitive Advantages**

7 **A. Postage Costs**

8 First and foremost among USPS's advantages in competing with Mail
9 Advertising is the preferential pricing it will provide to its own Mailing Online customers.
10 The Postal Service requires 200 pieces in a mailing in order to provide an automation
11 discount. USPS, on the other hand, proposes to give all of its Mailing Online customers
12 automation discounts, no matter how small their mailings. The effect of this pricing
13 structure will be to provide Mailing Online customers less expensive postage rates for
14 all mailings under these quantities.

15 The only reason USPS can give itself, but not others, preferential pricing is
16 because it has no competition in the delivery of the mail. It sets the rates, subject to
17 regulatory approval, and the effect of Mailing Online, if it is permitted, will be to give
18 lower rates to users of Mailing Online than to others who use mail service firms.
19 Because there is no alternative means of mail delivery, we will have no choice but to
20 attempt to compete with Mailing Online notwithstanding the higher postage costs we will
21 incur.

22 I believe that this lower postage rate alone will be sufficient to cause us to lose a
23 significant portion of our business. Many of our customers for mailings that are under

1 5,000 pieces are large and sophisticated corporations. While USPS says that it is
2 attempting to target small offices and home offices, these large corporations often send
3 small mailings, and they have sufficient sophistication and technical ability to provide
4 their mailings directly to USPS electronically without difficulty. If USPS will accept their
5 mail directly at lower postage rates than are available if we produce their mail, it will be
6 difficult for us to persuade them to continue using our services.

7 B. Advertising

8 USPS's ability to advertise on a large scale is yet another advantage it has. My
9 company advertises by sending newsletters that include inserts promoting our services
10 to our current customers and prospects. We do not have the resources to run ads on
11 national television, or even on local television, or to advertise extensively in the print
12 media. Our funds are limited, and we rely on targeted direct mail advertising of the sort
13 we provide our customers. While I believe that this form of advertising is the most cost-
14 effective, its reach is limited to prospects we are able to identify.

15 USPS has immeasurably greater resources than we do, and it has the additional
16 advantage of being able to promote Mailing Online in tandem with other products at no
17 incremental cost. Mailing Online will be a new service for USPS, and it can only
18 succeed if potential customers become aware of it. USPS's ability to advertise
19 extensively, which is a result of its monopoly over the delivery of mail and its resulting
20 size and other advertising needs, will permit it to create the visibility that is essential to
21 the success of Mailing Online.

1 **C. Customer Support**

2 Mailing Online is designed on the premise that most of the interaction between
3 USPS and the customer can occur over the Internet. From my experience in the
4 industry, I believe that far more customer interaction will be necessary than USPS
5 seems to believe. It is not practical for a customer to submit data over the Internet,
6 USPS to distribute it to the appropriate contract printers, and the printers to print the
7 mailings and address labels, prepare them for mailing, and deliver them to a BMC, all
8 with little or no direct interaction. Address lists invariably include addresses with cities
9 that do not match states, zip codes that are wrong, and other such problems. Our
10 typical practice is to identify bad addresses using USPS-approved software and notify
11 the customer that these items can only be mailed first class and probably will not be
12 delivered. It is also frequently necessary to communicate with the customer about other
13 matters, such as whether the addresses are upper or lower case, the use of prefixes,
14 and other questions and problems that arise. The need for such guidance will be
15 particularly acute in Mailing Online if, as USPS projects, the users are in large part
16 small offices and home offices that have not used direct mail previously.

17 Particularly in light of the projected prices for Mailing Online, I believe USPS has
18 underestimated these costs associated with Mailing Online. While USPS may well be
19 able to adapt to needs that exceed its expectations, it will incur additional costs that are
20 not reflected in its prices. Its proposed prices are unfairly low, and will make it
21 impossible for us to compete with Mailing Online.

1 **D. The Importance of Small Mailings**

2 USPS minimizes the significance of mailings under 5,000 pieces. I can state
3 unequivocally that such mailings are not insignificant to my company. We rely on them,
4 and if we were to lose them the consequences would be severe. Only in the context of
5 an entity the size of USPS are such mailings of minimal significance -- and if that is truly
6 the case, I do not understand why USPS insists on proceeding with Mailing Online.

7 **E. The Loss of Business Referred by USPS**

8 Yet another casualty of Mailing Online will be a stark change in our relationship
9 with USPS, and with that change a corresponding loss of business. USPS has in
10 recent years presented itself as a partner of the direct mail industry. Every year USPS
11 holds a course to teach members of the industry about various aspects of its products
12 and pricing. I have attended these courses for each of the last three years. On each
13 occasion USPS has made an effort to provide information that facilitates our ability to
14 carry out our business, and we have in turn attempted to work with USPS. Likewise, I
15 have readily provided to USPS information concerning my customers, including
16 telephone numbers that lead directly to the contacts for direct mail advertising, although
17 I would never make a customer list available to a competitor.

18 The competition with USPS that will accompany Mailing Online can only interfere
19 with this relationship. We will no longer be willing to provide to USPS information that
20 will allow it to construct our customer list, and we will have to make every effort to limit
21 the information we provide, to the extent we can do so without preventing delivery of
22 the mail. I am concerned about USPS's competitive use of the information we have

1 already provided. More generally, our cooperative relationship with USPS can only
2 deteriorate when they begin to take business from us.

3 In addition, because USPS is the only provider of mail delivery service, it
4 receives inquiries from potential clients who want to send direct mailings in a particular
5 area. In Maryland, USPS has responded to these inquiries by providing a list of its
6 "business partners" in the area -- companies like mine, which have worked together
7 with USPS to further our mutual interests. These referrals have been a source of
8 considerable business over the years. Just as USPS does not send Express Mail
9 customers to Federal Express, it is inevitable that, once Mailing Online is available,
10 USPS will respond to inquiries by referring potential customers to Mailing Online. It is
11 only because of its monopoly on mail delivery that USPS receives these inquiries in the
12 first instance, and Mailing Online will cost us the business associated with them.

13 **F. Potential Damage to the Industry if Mailing Online Fails**

14 I have discussed above my concerns about the impact on our business if Mailing
15 Online is successful. It is also possible that, notwithstanding USPS's enormous
16 advantages, it will be unable to provide even a minimally acceptable level of service,
17 and Mailing Online will be unable to retain customers. The failure of Mailing Online
18 would also cause serious damage to the industry.

19 We are constantly attempting to protect the image and reputation of the industry,
20 and to educate our customers and potential customers about the value of direct mail as
21 compared with other methods of advertising. Some of the customers of Mailing Online
22 will be using direct mail for the first time; others will be prior users, but in some
23 instances they too will be relatively new to direct mail. If Mailing Online is unable to

1 provide the quality of service that the private sector provides, these potential customers
2 – who might otherwise have contacted my company or another like it for their first direct
3 mailing – may well conclude that other advertising methods are superior to direct mail.
4 I have no doubt that Mailing Online will attract significant numbers of my customers and
5 potential customers. If Mailing Online is successful, it will retain those customers; if it
6 fails, they may be lost forever to direct mailing.

7 **IV. Conclusion**

8 USPS does well for all of us when it provides economical and efficient mail
9 delivery services. I rely on those services every day in my business, and I do
10 everything I can to facilitate USPS's efforts.

11 At the same time, USPS's position as the sole provider of such services confer
12 on it enormous competitive advantages in other areas. If USPS is permitted to become
13 my competitor rather than my partner, I have grave concerns about the impact on my
14 business. I respectfully submit that the USPS's proposed Mailing Online program will
15 spell the end of fair competition in the direct mail business.

DECLARATION

I, Richard Jurgena, declare under penalty of perjury that foregoing testimony is true and correct, to the best of my knowledge, information and belief.

Dated: 2/8/99

A handwritten signature in cursive script, appearing to read "Richard Jurgena", written over a horizontal line.

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

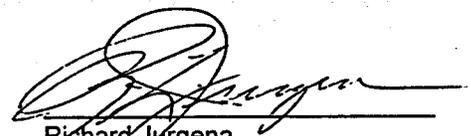
MAILING ONLINE SERVICE)
_____)

Docket No. MC98-1

DECLARATION OF RICHARD JURGENA
REGARDING TESTIMONY

I, Richard Jurgena, declare under penalty of perjury that the testimony attached as Exhibit A (MASA-T-2) is a copy of my direct testimony, and that it was prepared by me or under my direction and control. If I were to testify orally before the Postal Rate Commission, my testimony would be the same. There are no errors or errata in my testimony.

Date: March 8, 1999



Richard Jurgena

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

USPS/MASA-T2-1. Please refer to your testimony at page 2, where you state that your firm "recently completed a 329 piece job for a large and important customer." Please describe in detail the nature of that job, including, but not limited to: the size of the pieces; the nature of the pieces, including the use of color and the paper or stock type; the type of printing or other process used to produce the pieces; and the specific work your firm performed.

USPS/MASA-T2-1 Response:

The nature of this particular job for this customer was the printing and mailing of 329 personalized letters. Specifically, we printed personalized letters in black on 8 1/2 by 11 inch white customer-provided letterhead. The letterhead contained the customer's logo and typical letterhead information printed in black. The customer provided an electronic copy of an address list, as well as a faxed copy of the list with annotations by hand to indicate to which of the addresses on the list the letter should be mailed. Our employees then sorted the selected addresses alphabetically by company and split them in half. The letters were printed on a laser printer and half of the addresses were printed by inkjet printer in black ink on white envelopes that matched the customer's letterhead. The corresponding letters were inserted in these envelopes and the envelopes were sealed and sent by First Class Mail. For the other half of the addresses, we prepared UPS shipping documents using the customer's account and sent the letters in UPS second day air letter packs. On approximately four subsequent occasions, the customer sent by e-mail several additional addresses to which we sent personalized letters.

USPS/MASA-T2-3. Are any of your customers' mailpieces entered at discounted postage rates? If so, what discount levels are used and what proportion of pieces your firm prepares are entered at each discount rate? If not, at what rates is your customers' mail entered?

USPS/MASA-T2-3 Response:

Some of our customers' mailpieces are entered at discounted postage rates. The discount levels range from the single piece basic rates (i.e., no discount) to carrier route/DDU, and include all or most discounted rates in between. I do not know the proportion of the pieces we prepare that are entered at each discount rate.

USPS/MASA-T2-4. Would you, or your customers, be willing to forgo possible higher discounts for which your mailings might qualify if entered into the mail in the traditional way, in return to access to the mail categories (including waiver of the volume minimums) now applicable to Mailing Online?

USPS/MASA-T2-4 Response:

The portion of the question beginning with "in return" is ambiguous; I assume that you intend to ask whether my company or my customers would be willing to forego possible higher discounts in order to use Mailing Online. I believe that some of my customers would be willing to forego possible higher discounts to use Mailing Online. My company would not use Mailing Online as long as it is in direct competition with us.

USPS/MASA-T2-5. At page 4 you state that many of your customers are large corporations that "often send small mailings, and they have sufficient sophistication and technical ability to provide their mailings directly to USPS electronically without difficulty." Do these customers' mailpieces typically qualify for discounts deeper than automation basic? If so, would such customers be prepared to forgo the deeper discounts for which they generally qualify to use Mailing Online?

USPS/MASA-T2-5 Response:

The quoted testimony at page 4 referred to many of our customers "for mailings that are under 5,000 pieces." These customers' mailings that are under 5,000 pieces occasionally, but infrequently, qualify for discounts deeper than automation basic. I believe that some of my customers would forego deeper discounts, in the infrequent instances when they are available, to use Mailing Online.

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

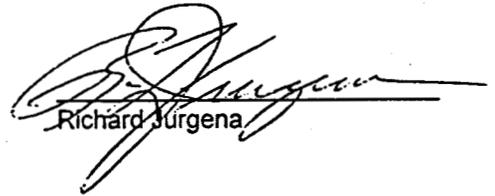
MAILING ONLINE SERVICE)
)
)
)

Docket No. MC98-1

DECLARATION OF RICHARD JURGENA
REGARDING INTERROGATORY ANSWERS

I, Richard Jurgena, declare under penalty of perjury that the Response Of Mail Advertising Service Association International Witness Jurgena to Interrogatories Of the United States Postal Service (USPS/MASA-T2-1-8), attached as Exhibit A, is a copy of my answers to interrogatories, and that it was prepared by me or under my direction and control. If I were to testify orally before the Postal Rate Commission, my answers to these interrogatories would be the same. There are no errors or errata in my interrogatory answers.

Date: March 8, 1998


Richard Jurgena

MASA/PB-T-1

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

MAILING ONLINE SERVICE

Docket No. MC98-1

DIRECT TESTIMONY
OF
ROGER C. PRESCOTT
Executive Vice President
L. E. Peabody & Associates, Inc.

On Behalf Of
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL
PITNEY BOWES, INC.

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Counsel for Pitney Bowes, Inc.

Due Date: February 8, 1999

- i -

TABLE OF CONTENTS

	<u>Page</u>
I. PURPOSE OF THE TESTIMONY	2
II. IDENTIFICATION OF MASA AND PB	4
III. SUMMARY AND CONCLUSIONS	5
IV. USPS' ESTIMATES OF THE MAILING ONLINE BUSINESS	7
V. COMPETITIVE IMPACTS OF VERTICAL INTEGRATION	11
A. Definition of Vertical Integration	11
B. Problems with Vertical Integration	13
1. Advantages for the USPS	14
2. Advantages for the USPS Selected Printers	16
C. Past PRC Treatment of USPS'	16
Integration with Competitive Services	16
D. Conclusion	18
VI. ISSUES ON RATES AND COSTS FOR MAILING ONLINE	19
A. Revised Cost Mark-Up	19
1. Precedent for Other Postal Services	21
2. Fixed Rates for 2 Years	22
3. Uncertainty on Volume	23
4. Other USPS Services	24
5. Maximizing Contribution	24
6. Summary	26
B. Revenue "Leakage"	26
C. Information Systems Costs	29
D. Mailing Online Target Market	30
E. Treatment of Advertising Costs	31
F. Identification of Attributable Costs	33
G. Summary	34

LIST OF EXHIBITS

<u>ITEM</u>	<u>TITLE</u>
(1)	(2)

Appendix A

Statement of Qualifications

USPS/MASA-T2-3. Are any of your customers' mailpieces entered at discounted postage rates? If so, what discount levels are used and what proportion of pieces your firm prepares are entered at each discount rate? If not, at what rates is your customers' mail entered?

USPS/MASA-T2-3 Response:

Some of our customers' mailpieces are entered at discounted postage rates. The discount levels range from the single piece basic rates (i.e., no discount) to carrier route/DDU, and include all or most discounted rates in between. I do not know the proportion of the pieces we prepare that are entered at each discount rate.

USPS/MASA-T2-4. Would you, or your customers, be willing to forgo possible higher discounts for which your mailings might qualify if entered into the mail in the traditional way, in return to access to the mail categories (including waiver of the volume minimums) now applicable to Mailing Online?

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The portion of the question beginning with "in return" is ambiguous; I assume that you intend to ask whether my company or my customers would be willing to forego possible higher discounts in order to use Mailing Online. I believe that some of my customers would be willing to forego possible higher discounts to use Mailing Online. My company would not use Mailing Online as long as it is in direct competition with us.

USPS/MASA-T2-5. At page 4 you state that many of your customers are large corporations that "often send small mailings, and they have sufficient sophistication and technical ability to provide their mailings directly to USPS electronically without difficulty." Do these customers' mailpieces typically qualify for discounts deeper than automation basic? If so, would such customers be prepared to forgo the deeper discounts for which they generally qualify to use Mailing Online?

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The quoted testimony at page 4 referred to many of our customers "for mailings that are under 5,000 pieces." These customers' mailings that are under 5,000 pieces occasionally, but infrequently, qualify for discounts deeper than automation basic. I believe that some of my customers would forego deeper discounts, in the infrequent instances when they are available, to use Mailing Online.

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

MAILING ONLINE SERVICE

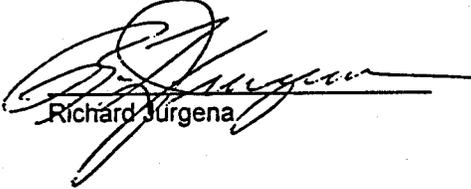
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I, Richard Jurgena, declare under penalty of perjury that the Response Of Mail Advertising Service Association International Witness Jurgena to Interrogatories Of the United States Postal Service (USPS/MASA-T2-1-8), attached as Exhibit A, is a copy of my answers to interrogatories, and that it was prepared by me or under my direction and control. If I were to testify orally before the Postal Rate Commission, my answers to these interrogatories would be the same. There are no errors or errata in my interrogatory answers.

Date:

March 8, 1999


Richard Jurgena

MASA/PB-T-1

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

MAILING ONLINE SERVICE

Docket No. MC98-1

DIRECT TESTIMONY
OF
ROGER C. PRESCOTT
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On Behalf Of
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TABLE OF CONTENTS

	<u>Page</u>
I. PURPOSE OF THE TESTIMONY	2
II. IDENTIFICATION OF MASA AND PB	4
III. SUMMARY AND CONCLUSIONS	5
IV. USPS' ESTIMATES OF THE MAILING ONLINE BUSINESS	7
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A. Definition of Vertical Integration	11
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<u>ITEM</u>	<u>TITLE</u>
(1)	(2)
Appendix A	Statement of Qualifications

-3-

MASA/PB-T-1

1 competition. My testimony also addresses certain issues related to the level of costs associated
2 with the Mailing Online service. My analysis and comments regarding Mailing Online are
3 summarized under the following topics:

4 II. Identification of MASA and PB

5 III. Summary and Conclusions

6 IV. USPS' Estimates of the Mailing Online Business

7 V. Competitive Impacts of Vertical Integration

8 VI. Issues on Rates and Costs for Mailing Online

- 1 4. In Packaging Service,^{1/} Pack and Send^{2/} and E-COM^{3/}, the PRC found that competition
2 must be protected if the USPS expands into competitive areas of business;
- 3 5. If the Mailing Online service is to be continued into the market experimental phase, the
4 mark-up of printing costs should be increased from 25 percent to a range between 47
5 percent and 60 percent in order to provide assurance against harm to competition and to
6 be comparable with other services provided by the USPS;
- 7 6. Because Mailing Online mail will receive the discount postage rates for automation mail
8 and because the USPS' data projects that some current First-Class mail will migrate to
9 Standard (A) mail when moving to Mailing Online, a "revenue leakage" will occur. The
10 revenue leakage will cost the USPS \$43.1 million in revenues during the experimental
11 phase.
- 12 7. The USPS is not limited to 5,000 pieces per job or to the SOHO market and the target
13 market is potentially much larger than the USPS has asserted.
- 14 8. The charges assessed for information systems costs should be increased from 0.1 cents per
15 impression to 0.41 cents per impression. In addition, all appropriate attributable costs
16 should be recognized for Mailing Online, including advertising costs and any credit card
17 service fees.

^{1/} PRC Docket No. MC97-5, Provisional Packaging Service, Opinion and Recommended Decision, March 31, 1998 (Packaging Service).

^{2/} PRC Docket No. C96-1, Complaint of Coalition Against Unfair USPS Competition, Order No. 1145, December 16, 1996 ("Pack and Send").

^{3/} PRC Docket No. R83-1, E-COM Rate and Classification Changes, 1983, Opinion and Recommended Decision, February 24, 1984 ("E-COM").

1 **IV. USPS' ESTIMATES OF THE MAILING ONLINE BUSINESS**

2 The USPS' direct testimony, supplemental testimony and responses to interrogatories,
3 presented its estimate of the level of business for Mailing Online over the 1999 through 2003 time
4 period. These projections identify the volumes (e.g., pages, impressions, mail pieces), printing
5 costs (including information systems costs) and revenues. The years 1999 and 2000 are considered
6 the experimental phase by the USPS. Although the USPS utilized 1999 as the start-up year for
7 the two year experimental phase, USPS' Witness Plunkett recognized that the data "reflect the
8 Year 1 and Year 2 market..." (OCA/USPS-T5-4). For purposes of my testimony I have also
9 assumed that Mailing Online begins in 1999.

10 Table 1 below separates the basic characteristics of the Mailing Online operations, costs and
11 revenues as presented by the USPS into two time periods. First, Table 1 summarizes the USPS'
12 projected data for the initial 2 years of the Mailing Online program, i.e., the experimental phase.
13 Second, Table 1 summarizes the USPS' projected data for the subsequent 3 years (2001 through
14 2003).

Revised March 10, 1999

-8-

MASA/PB-T-1

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<u>Item</u>	Experimental Phase		<u>Total</u>
(1)	1999-2000 (2)	2001-2003 (3)	(4)
1. Volumes			
a. Number of pieces ^{1/}	811.7	3,249.8	4,061.5
b. Number of pages ^{1/}	3,391.2	13,577.6	16,968.8
c. Number of Impressions ^{2/}	5,505.1	22,041.0	27,546.1
2. Aggregate costs ^{2/}	\$194.7	\$645.7	\$840.4
3. USPS Mark-up ^{3/}	<u>48.7</u>	<u>161.4</u>	<u>210.1</u>
4. USPS Mailing Online Revenues (L2 + L3)	\$243.4	\$807.1	\$1,050.5

^{1/} Attachment to response to OCA/USPS-T5-10 and PB/USPS-T5-5, revised February 4, 1999.
^{2/} USPS-T2, Exhibit A, page 10 of 28.
^{3/} 1999-2000 from Attachment to Response to PB/USPS-T5-5. 2001-2003 from Attachment to Response to OCA/USPS-T5-16. Costs for all years include the USPS' variable information systems costs and the costs for 2001-2003 exclude inserter costs.

20 As shown in Table 1 above, the USPS has projected that during the experimental phase Mailing
 21 Online will generate 811.7 million pieces of mail reflecting 3.4 billion pages with 5.5 billion
 22 impressions. For the experimental phase, the printing costs, including the USPS information
 23 systems cost, are projected to equal \$194.7 million and generate \$243.4 million in revenues. For
 24 the entire 5 year projected period, the USPS projects 4.1 billion pieces of mail reflecting 17.0
 25 billion pages and 27.5 billion impressions. The first 5 years of Mailing Online are projected to
 26 generate \$840.4 million in costs and \$1,050.5 million in revenues.

1 In order to place the USPS' proposed Mailing Online operation into perspective, I have
 2 developed Table 2 below which compares the Mailing Online projected pieces and revenues for
 3 1999 with the volumes and revenues for some of the USPS' other services. The data for Mailing
 4 Online reflects the 1999 portion of the data in Column (2) of Table 1 above. The Table 2 data for
 5 the other services is based on the revenue and volume data in Appendix G to the PRC's R97-1
 6 decision.

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Item (1)	Amount (millions)	
	Volume (2)	Revenues (3)
1. Mailing Online - 1999 ^{1/}	295.7	\$90.0
<u>Other Services</u> ^{2/}		
2. Mailgrams	4.8	\$4.7
3. Standard Mail (B) - Library Rate	29.9	\$49.4
4. Special Services		
a. Insurance	30.2	68.3
b. C.O.D.	3.9	19.0
c. Bulk Parcel Return Service	4.8	8.4
d. Packaging Service	2.5	43.1
^{1/} Attachment to Response to PB/USPS-T5-5.		
^{2/} R97-1 decision, Appendix G.		

24 Table 2 shows that the USPS' Mailing Online represents the pursuit of a major new line of
 25 business for the USPS. The annual number of pieces of mail and annual revenues for Mailing
 26 Online represent a substantially larger business than currently exists for other services such as

-10-

MASA/PB-T-1

1 mailgrams, library rate mail and several special services. In other words, although the USPS
2 states that it is targeting the limited SOHO market, in reality, Mailing Online is a wide-reaching
3 endeavor that represents a major line of business for the USPS.

4 Mailing Online is intended to serve current USPS customers as well as attract new customers.
5 As developed by the USPS, 62 percent of Mailing Online pieces represent existing mail that
6 would have used the USPS without Mailing Online.^{4/} Mailing Online is diverting business from
7 private competitive firms to the USPS' subcontractor. Assuming that the subcontractor costs
8 charged by the USPS are at competitive price levels (Table 1, Line 2), this diversion from private
9 business equals approximately \$121 million^{5/} during the experimental phase and \$521 million^{6/}
10 during the five year period from 1999 to 2003. The magnitude of such a diversion to a limited
11 number of USPS' selected printing companies^{7/} and the potential economic impact on the
12 competitive market for mail preparation services should be taken into consideration prior to
13 proceeding with the experimental phase of Mailing Online.

^{4/} See USPS Witness Plunkett (USPS-T-5), Exhibit D, USPS Witness Rothschild (USPS-T-4), page 33 and Library Reference LR-1, page 38.

^{5/} Table 1, Line 2, Column (2) x .62.

^{6/} Table 1, Line 2, Column (4) x .62.

^{7/} The USPS proposal anticipates 25 print shops would be utilized to perform the production of Mailing Online mail (USPS-T-1, page 2).

1 **V. COMPETITIVE IMPACTS OF VERTICAL INTEGRATION**

2 The USPS' stated intentions for Mailing Online is to provide the SOHO market access to an
3 easy way to create and deliver mail. The USPS has stated that it does not intend for Mailing
4 Online "to replicate a traditional lettershop" and "wish(es) to avoid direct competition with
5 lettershops" (MASA/USPS-T1-15). However, the merger of the USPS' mail delivery function and
6 the actual creation of the mail creates problems for the competitive markets served by MASA and
7 PB.

8 The USPS' proposed Mailing Online service is designed to extend the USPS' mail delivery
9 service backward in the production process to include the creation of the mail. In economic terms,
10 this is called vertical integration. My comments on the impact of the USPS' proposed vertical
11 integration on competitive printing markets are discussed under the following topics:

- 12 A. Definition of Vertical Integration
13 B. Problems with Vertical Integration
14 C. Past PRC Treatment of USPS' Integration with Competitive Services
15 D. Conclusion

16 **A. DEFINITION OF VERTICAL INTEGRATION**

17 Currently, mail is produced by lettershops or private companies (a competitive industry) and
18 given to the USPS (a monopoly service) for ultimate delivery to the recipient. Although the
19 USPS' pricing structure may provide incentives for the mailer to prepare the mail in a certain way
20 (e.g., rates based on shape or worksharing discounts), the USPS currently has no control over the

-12-

MASA/PB-T-1

1 actual production of the document that is mailed. In other words, the function of producing the
2 mail and the function of delivering the mail are separate.

3 When two (or more) functions in the stages of production are merged together under the
4 control of one company, vertical integration occurs. In generic economic terms, vertical
5 integration:

6 Refers to a firm whose activities extend over more than one successive stage of
7 the production process of transforming raw materials into final goods. Vertical
8 integration can be partitioned into two types: backward integration, where a firm
9 extends itself into a previous stage of the production process and forward
10 integration, where a firm moves into a succeeding stage of activity.^{8/}

11 Backward vertical integration allows a firm at a later stage of production "to incorporate its
12 source of supply..."^{9/}. For Mailing Online, the USPS is integrating backward by controlling the
13 printing stage of the production process through the use of USPS computer software and contract
14 printing services.

15 Specifically, the USPS is developing and paying for the computer hardware and software that
16 the customer utilizes. The Mailing Online customer enters the document to be produced and the
17 list of addresses through the USPS' internet website. Then, the customer submits his payment
18 to the USPS. After receipt of the document and mailing list, the USPS' computer software will
19 distribute the mailing to the appropriate printing company (or companies) that the USPS has

^{8/} The Dictionary of Modern Economics. Revised Edition, David W. Pearce, General Editor, The MIT Press, 1983.

^{9/} Production and operations management. A life cycle approach, Richard B. Chase and Nicholas J. Aquilano, Richard D. Irwin, Inc., 1977.

1 selected as a subcontractor. The printing subcontractor(s) then produces the mail and provides the
2 finished document to the USPS for delivery to the recipient.

3 The two services (production and mail delivery) are clearly formed into one operation because
4 the USPS software and printing contractor(s) must be utilized. Once the product submitted by the
5 customer is printed, it must be mailed and delivered by the USPS, thus, integrating the services
6 provided by the USPS.

7 **B. PROBLEMS WITH**
8 **VERTICAL INTEGRATION**

9 Vertical integration of the production process, in a competitive environment, does not
10 necessarily lead to a decrease in competition. Problems, however, arise when a monopoly
11 function is combined with a competitive function. The following quote summarizes the overall
12 problem when a monopoly vertically integrates:

13 Of course vertical integration loses its innocence if there is an appreciable degree
14 of market control at even one stage of the production process. It becomes a
15 possible weapon for the exclusion of new rivals by increasing the capital
16 requirements for entry into the combined integrated production processes, or it
17 becomes a possible vehicle of price discrimination. In these cases new vertical
18 mergers are not desirable...(footnote omitted) (emphasis added)^{10/}

19 Vertical integration involving a monopoly service can lead to competitors being foreclosed
20 from participation in a market. For the foreclosure to diminish competition, "one or both levels
21 involved must possess some degree of market power"^{11/}. The competitive problem with vertical

^{10/} The Organization of Industry, George J. Stigler, The University of Chicago Press, 1983, page 303.

^{11/} Economics of Regulation and Antitrust, 2nd Edition, W. Kip Viscusi, John M. Vernon and Joseph E. Harrington, Jr., The MIT Press, 1996 ("Regulation and Antitrust"), page 229.

1 integration and the foreclosure created can also be problematic if it "permit(s) an extension of that
2 market power to the other level" (Regulation and Antitrust, page 234).

3 I discuss the specific problems of vertical integration related to Mailing Online under the
4 following two topics:

- 5 1. Advantages for the USPS; and,
- 6 2. Advantages for the USPS Selected Printers.

7 1. Advantages for the USPS

8 The integration of the USPS with the services of the selected printing contractor(s) produces
9 several advantages over mail produced by the competitors of Mailing Online. These advantages
10 are present in both informational gains of the USPS and price benefits realized by the USPS.

11 Currently, the USPS has incentives to assist print lettershops and other mail preparation
12 companies in obtaining mail jobs. If a potential SOHO customer is searching for a company to
13 provide mail production services, the USPS has an incentive to help the SOHO customer, if asked.
14 After Mailing Online is operational, the USPS will have a financial incentive to steer the customer
15 to its own mail production service under the USPS' control.

16 Next, the USPS will be in position to gain valuable access regarding mailing habits and
17 distributive networks for the address information gained from customers who submit jobs to
18 Mailing Online. This information will allow the USPS to better target its advertising for Mailing

1 Online or produce its own mailings to solicit business from either SOHO customers or the
2 recipients of Mailing Online mail^{12/}.

3 Under the USPS' proposed Mailing Online Service, the USPS has two additional advantages
4 over other competitors. First, the USPS' proposed postage rates for the experimental phase will
5 reflect the automation discounts even if volumes are not sufficient to qualify for these discounts
6 under current requirements. Because some competitors with Mailing Online printers will not be
7 eligible for discounts, these competitors will be at a price disadvantage. Second, Mailing Online
8 will not charge sales tax and the USPS does not pay corporate income taxes. Thus, the USPS may
9 be able to offer lower prices than its competitors who are subject to sales and income taxes.

10 **2. Advantages for the**
11 **USPS' Selected Printers**

12 The USPS intends to sign contracts with selected printers, initially targeted at up to 25
13 locations, who will be responsible for the production of the Mailing Online documents. These
14 printers are expected, under the USPS' projected operation, to produce over 100,000 pages per
15 day. Thus, a small number of selected printers will have or make the investment in capacity
16 needed to meet the requirements for Mailing Online. The USPS has recognized that "this capacity
17 is also likely to generate new revenue by benefiting their [the Mailing Online printers] ability to
18 satisfy latent and emerging demand from their own or other customers" (MASA/USPS-T1-19(b)).
19 This expansion of business can provide the selected printer with an advantage when the USPS

^{12/} The USPS' periodic survey called the Household Diary Study allows the USPS to gather information on mail received. However, this information does not provide the same marketing opportunities as the Mailing Online data.

1 decides to rebid the initial printing contracts. This issue is another element of the vertical
2 integration problem as shown below:

3 Thus even though there may have been large numbers of qualified bidders at the
4 outset, if the winner of the original bid thereafter enjoys a sunk cost advantage,
5 parity bidding at contract renewal intervals cannot be presumed. Instead, such
6 transactions undergo a "fundamental transformation". What had been an *ex ante*
7 large numbers bidding condition thus becomes a small numbers supply condition
8 thereafter. This transformation is the main factor that is responsible for the
9 decision to remove transactions from markets and organize them internally.^{13/}

10 Finally, the USPS proposes to select printing subcontractors that are geographically dispersed.
11 This prevents true competition for the subcontractors. In other words, the second lowest bid in
12 one geographic area would not receive any USPS business for Mailing Online because a higher
13 bid, in a different geographic area, was selected by the USPS. This is another advantage for the
14 USPS' subcontractors.

15 C. PAST PRC TREATMENT OF
16 USPS' INTEGRATION
17 WITH COMPETITIVE SERVICES

18 Mailing Online is not the USPS' first attempt to enter into a service found in a competitive
19 market. The PRC in the past has instituted protections to make sure that the USPS' entry into a
20 new line of business does not decrease the level of competition. For example, in E-COM, the
21 PRC stated that "it has a responsibility is for preserving or promoting competition" (E-COM, page
22 10). In Packaging Service, the PRC "recommended changes [that] will result in a more level
23 playing field for competition between the Postal Service and private stores" (Packaging Service,

^{13/} The New Palgrave. A Dictionary of Economics, Edited by John Eatwell, Murray Milgate and Peter Newman,
Volume 4, page 810.

1 page 3).^{14/} The PRC's logic employed in the E-COM, Packaging Service and Pack and Send
2 proceedings is relevant to the approach that the PRC should follow with Mailing Online.

3 In E-COM, the USPS proposed to print and mail electronic telegrams. Initially, the USPS
4 proposed to subcontract the data processing operation to Western Union Telegraph Co. but, this
5 was changed later to allow qualified common carrier access to the system (E-COM, pages 4-5).
6 Interveners (including MASA) argued that the USPS' proposed E-COM service would compete
7 with the telecommunication and message preparation industries. The PRC found that the USPS
8 was involved in a competitive product, granted greater access to use the product and instituted a
9 higher coverage ratio (i.e., increased the rates) than proposed by the USPS. The PRC then found
10 its "responsibility is to recommend rates that will prevent such injury..." (E-COM, page 22) and
11 to protect competition.

12 In Packaging Service, the PRC found that the USPS' service consisted "of two components:
13 the sales/acceptance transaction and the packaging operation". (Packaging Service, page 4).
14 This service is postal in nature because the service is performed by USPS employees at USPS
15 facilities. In that proceeding, the PRC evaluated the appropriate costs for the USPS' service and
16 potential for competitive harm. The coverage ratio proposed by the USPS was found to be
17 "inappropriate" and a higher coverage ratio was recommended for two reasons (Packaging
18 Service, page 25-26). First, the higher coverage ratio (based on the estimated costs) provided a
19 contingency in the event that the actual costs are higher. Second, the higher coverage ratio
20 "leveled the playing field" with USPS' competitors.

^{14/} As noted in the PRC decision at page 3, the Packaging Service proceeding is the "successor" to Pack and Send.

1 In Pack and Send, the PRC found that the USPS' service of providing the mailing container
2 and packing service "constitutes mail preparation for a fee" (Pack and Send, page 15). In that
3 proceeding, like Mailing Online, the USPS participated in the creation of the article to be mailed.
4 In Pack and Send, the PRC also found a high correlation between the production of the article to
5 be mailed and the USPS receipt of postage fees for the mail (Pack and Send, page 19). This
6 parallels the USPS' proposal for Mailing Online where the USPS receives postage fees after the
7 mail is created under a USPS contract^{15/}. Ultimately, the PRC concluded that "the level of [USPS]
8 fees have the potential for causing a significant impact on competing stores in the private sector..."
9 (Pack and Send, page 19). The same conclusion is applicable to Mailing Online.

10 D. CONCLUSION

11 Mailing Online service proposed by the USPS will extend its monopoly power backward into
12 the production process. Specifically, the USPS' proposal:

- 13 1. Vertically integrates a competitive service with a monopoly service which can be anti-
14 competitive unless safeguards are instituted;
- 15 2. Provides competitive advantages to the USPS and its selected printers that include: gains
16 in market information, price advantages due to volume discounts on postage rates,
17 potential price advantages due to exemption from sales and income taxes, bidding
18 advantages for the incumbent selected printers, and geographic advantages to selected
19 printers; and,
- 20 3. Contradicts past PRC proceedings which support the protection of competition when the
21 USPS ventures into competitive services.

^{15/} The coverage ratio and contribution discussed here related to Mailing Online do not consider that the USPS also receives a contribution from the postage rates charged for Mailing Online products.

-19-

MASA/PB-T-1

- 1 For these reasons, the PRC should rigorously examine the terms and conditions on which the
- 2 USPS proposes to offer Mailing Online in order to safeguard as fully as possible against the
- 3 realization of the anti-competitive potential of Mailing Online.

1 **VI. ISSUES ON RATES AND COSTS FOR MAILING ONLINE**

2 In the event the USPS proceeds with the experimental phase, several modifications should be
3 made to the Mailing Online rate structure to assure that no competitive harm is caused by the
4 USPS' proposed service during the two-year experimental phase. The specific modifications
5 involve revising the 25 percent mark-up ratio, treatment for revenue "leakage" in the postage rates,
6 revision to recovering the information systems costs, addition of advertising costs to the rates
7 charged customers and the identification of all USPS attributable costs. In addition, I critique the
8 USPS' assertion that the target market is limited to SOHO customers with 5,000 piece mailings.
9 My suggestions and comments on these issues are discussed under the following topics:

- 10 A. Revised Cost Mark-Up
11 B. Revenue "Leakage"
12 C. Information Systems Costs
13 D. Mailing Online Target Market
14 E. Treatment of Advertising Costs
15 F. Identification of Attributable Costs
16 G. Summary

17 **A. REVISED COST MARK-UP**

18 The USPS has proposed that the price structure for Mailing Online, exclusive of postage
19 costs, should equal printing costs (including a factor of 0.1 cents per impression to recover

1 variable information systems costs) marked-up by 25 percent.^{16/} According to the USPS' Witness
2 Plunkett, the 25 percent mark-up "is reasonable and appropriate". Witness Plunkett further claims
3 that several factors favored "a moderate cost coverage at this time" (USPS-T-5, page 18). The
4 reasons cited by Witness Plunkett to support his arbitrary position include: 1) the price sensitivity
5 of the target customers; 2) the experimental phase is only 2 years; 3) the introduction of new
6 volumes to First-Class and Standard (A) mail; and, 4) the USPS' costs will be lower because of
7 the ability to enter at destination entry. None of Witness Plunkett's reasons support the proposed
8 25 percent mark-up for the experimental phase. A higher mark-up is warranted for several
9 reasons.

10 **1. Precedent for Other Postal Services**

11 Several past and current precedents can be reviewed to assist in determining the appropriate
12 coverage ratio (or mark-up) for Mailing Online. The coverage ratios for the services provided by
13 the USPS for money orders, insurance and packaging are three examples shown below:

14 The USPS currently provides money orders to customers as a service that is outside of the
15 delivery of mail. This service competes with other companies. In R97-1, the PRC found that a
16 coverage ratio of 147 percent (i.e., a mark-up of 47 percent) was warranted. This level of
17 coverage was instituted, in part, to recognize the modest means of the purchasers of money orders
18 (R97-1 Decision, page 595). This reasoning supports a significantly higher mark-up than
19 currently proposed by Witness Plunkett.

^{16/} The 25 percent mark-up represents a coverage ratio of 125 percent.

-22-

MASA/PB-T-1

1 If requested, insurance against the loss or damage of articles of mail (up to a value of \$5,000)
2 is available to USPS customers. In R97-1, the USPS' Witness Plunkett suggested that the
3 proposed "154 percent cost coverage guards against improper competition..." and that "...the
4 proposed fee schedule is fair and equitable for customers, competitors, and the Postal Service,
5 alike" (USPS-T-40, page 7). The same arguments can be made here that a 154 percent coverage
6 ratio for Mailing Online would be fair to the USPS and its competitors.

7 Similarly, in R97-1 the PRC set rates for its packaging service for non-breakable and fragile
8 items shipped via the USPS with a mark-up ratio equalling 55 percent (R97-1 Decision, Appendix
9 G). In Pack and Send where the USPS first requested rates for the packaging service, the USPS
10 proposed a mark-up of 60 percent (Pack and Send, page 20).

11 **2. Fixed Rates for 2 Years**

12 The USPS has stated that the Mailing Online rates would be fixed for 2 years during the
13 experimental phase. For the rates to be set at the USPS proposed level, the PRC must be
14 confident that no competitive harm will occur. Rates in effect for two years (based on a mark-up
15 of 25 percent) may well be sufficient to drive away any current or potential competition. No
16 evidence has been provided to show that individual small lettershops, large printers or other
17 services such as PB's DirectNET will be able to compete successfully with Mailing Online. In
18 light of the \$121 million in revenues that the USPS will be drawing away from current printing
19 companies during the experimental phase of Mailing Online, caution should be exercised and a
20 higher coverage ratio included in the prices charged by the USPS.

1 **3. Uncertainty on Volume**

2 The USPS believes that it will produce 812 million pieces of mail and 5,505 million
3 impressions during the experimental phase of Mailing Online. However, the market research is
4 not definitive and the market test phase of Mailing Online which began in November 1998 has
5 shown extremely low volumes. In order to maximize the possibility that the USPS' start-up costs
6 are recovered,^{17/} Mailing Online should receive the highest mark-up possible.

7 Even considering only the information systems costs incurred of \$22.5 million, the USPS
8 must produce large volumes to cover the costs incurred. If these costs are not covered, then other
9 USPS services must recover the costs. The average mark-up equals 0.88 cents per impression^{18/}.
10 When the 0.1 cent per page additive charged by the USPS is included, the average contribution
11 to recover the USPS' costs equals 0.98 cents per impression. In order to recover the information
12 systems costs of \$22.5 million as shown in the USPS' supplemented testimony during the
13 experimental phase, the USPS will need a volume of 2.3 billion impressions^{19/}. Based on the
14 projected ratio of impressions per page of 1.62, the USPS will need 1.4 billion pages to cover the
15 information systems costs.^{20/}

16 To date, the Mailing Online market test provides no indication that the expanded experimental
17 phase can approach the volumes projected by the USPS. In the twelve weeks of reported data for

^{17/} These costs included \$22.5 million in information systems costs for the experimental phase.

^{18/} Table 1, Line 3 revenue for the mark-up of \$48.7 million divided by Table 1, Line 1c, impressions of 5,505 million.

^{19/} \$22.5 million divided by 0.98 cents per impressions.

^{20/} 2,296 million impressions divided by the ratio of impressions to pages from Table 1, Line 1c ÷ L1b (5,505 million ÷ 3,391.2).

1 the market test,^{21/} Mailing Online had 116 transactions producing 16,666 pages with total revenues
2 (including both printing and postage costs) of \$6,119.01. Mailing Online averaged only 144
3 pieces per transaction. In addition, all 16,666 pieces were mailed First Class, thus, preventing
4 the market test from providing any data regarding Mailing Online products shipped with Standard
5 (A) rates. This indicates a level of uncertainty for the future volumes for Mailing Online. A
6 higher mark-up would help insure that the initial costs are recovered.

7 4. Other USPS Services

8 A recent United States General Accounting Office ("GAO") study addressed the profitability
9 of some of the USPS' new products^{22/}. The GAO reviewed the profitability of 19 new USPS
10 products for the 1995 through 1997 time period. The GAO concluded that 18 of the 19 products
11 lost money over the time period studied and the total loss equalled \$84.7 million (New Products,
12 page 19). The potential loss of money or failure to recover money invested in new products
13 further supports a higher mark-up that will recover the costs incurred by the USPS more quickly.

14 5. Maximizing Contribution

15 The USPS has not shown that the Mailing Online contribution is maximized with a 25 percent
16 mark-up. USPS' Witness Rothschild speculates that volume will decrease by 31 percent if the
17 mark-up is increased from 25 percent to 50 percent.^{23/} In Table 3 below, I estimate the USPS'
18 contribution from the mark-up during the experimental phase if the mark-up is increased to 50
19 percent and Witness Rothschild's speculation regarding volume decreases is realized.

^{21/} Data has been reported through APS, Week 2.

^{22/} GAO, U.S. Postal Service. Development and Inventory of New Products, November 1998 ("New Products").

^{23/} USPS-T-4, Table 15 and Table 16.

-25-

MASA/PB-T-1

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Table 3
Estimate of USPS Contribution from
Mark-Up Based on Revised
Mark-Up Ratio -- 1999 to 2000

	Item (1)	Source (2)	Mark-Up Ratio	
			25% (3)	50% (4)
5	1. Volume - millions	^{1/}	811.7	560.6
6	2. Aggregate Costs (millions)	^{2/}	\$194.7	\$134.5
7	3. Mark-Up Percent	Given	<u>0.25</u>	<u>0.50</u>
8	4. USPS Contribution - millions	Line 2 x Line 3	\$48.7	\$67.3

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14

^{1/} Rothschild, USPS-T-4, Table 15 and Table 16.
^{2/} Column (3) equals Table 1 above, Line 2. Column (4) equals Column (3) x [Line 1, Column (4) ÷ Line 1, Column (3)].

15 As shown in Table 3 above, under Witness Rothschild's scenario volume is decreased from
16 812 million pieces to 561 million pieces when the mark-up is increased from 25 percent to 50
17 percent. The decrease in volume also decreases the aggregate costs for printing from \$194.7
18 million to \$134.5 million.^{24/} However, if the mark-up is increased from 25 percent to 50 percent,
19 the USPS' contribution from the mark-up increases from \$49 million to \$67 million. This further
20 supports the position that the mark-up can be increased above the USPS' proposal and still provide
21 adequate contribution to the USPS.

^{24/} This reflects the assumption that all costs are variable with volume changes. If some costs do not vary with volume, the contribution at the 50 percent mark-up would increase.

1 **6. Summary**

2 As shown above, the 25 percent mark-up should be increased. The appropriate mark-up
3 should range from 47 percent to 60 percent. This increase will prove beneficial to the USPS and
4 protect competition.

5 **B. REVENUE "LEAKAGE"**

6 The USPS believes that Mailing Online will service existing customers as well as attract new
7 customers. From the standpoint of revenues from postage, the discounts provided to Mailing
8 Online will decrease the revenues for the 62 percent of Mailing Online mail that would have used
9 the USPS even if Mailing Online did not exist. Thus, 38 percent of Mailing Online business is
10 new or incremental business which will increase postage revenues.^{25/} In evaluating the revenues
11 for postage realized, USPS' Witness Plunkett stated that:

12 [t]he overall impact of Mailing Online on postage revenue includes this revenue
13 from new pieces, but must account for revenue leakage as a result of making
14 discounted rates available to Mailing Online customers. (Witness Plunkett, page
15 7) (emphasis added).

16 Witness Plunkett's Exhibit D calculated the amount of this revenue "leakage" associated with the
17 existing mail (i.e., the 62 percent). As shown in his Exhibit D, the revenue "leakage" due to the
18 application of automation rates for existing mail equals \$14.1 million in 1999 and \$20.4 million
19 in 2000^{26/}. The total revenue leakage equals \$34.5 million.

^{25/} This was recognized in USPS Witness Rothschild's response to MASA's interrogatory MASA/USPS-T4-4.
^{26/} My analysis is based on the totals shown in Witness Plunkett's Exhibit D.

-27-

MASA/PB-T-1

1 In addition to the revenue "leakage" associated with current mail receiving the automation
2 discount as referred to by Witness Plunkett, a second type of revenue "leakage" also occurs.
3 USPS' Witness Rothschild acknowledges that some existing First-Class mail will migrate to
4 Standard (A) mail when converting to Mailing Online.^{27/} Because Standard (A) rates are less than
5 First-Class mail, postal revenues will also be lost from this migration.^{28/}

6 Table 4 below summarizes the USPS' lost revenues during the experiment phase of Mailing
7 Online because of the type of revenue "leakage" due to migration of mail from First-Class to
8 Standard (A).

^{27/} Tr 6/1294-1295.

^{28/} The contribution for Standard (A) Regular mail is less than First-Class mail, thus the overall contribution to cover institutional costs also decrease.

-28-

MASA/PB-T-1

Table 4 <u>Summary of Revenue Leakage Due to Migration</u>				
Item (1)	Source (2)	1999 (3)	2000 (4)	Total (5)
<u>Difference in Revenue Per Piece</u>				
1. First-Class				
a. Aggregate Revenue	1/	\$33,170	\$63,745	\$96,915
b. Aggregate Pieces	1/	<u>91,899</u>	<u>160,388</u>	<u>252,287</u>
c. Revenue Per Piece	L1a ÷ L1b	xxx	xxx	\$0.384
2. Standard (A)				
a. Aggregate Revenue	1/	\$36,784	\$63,305	\$100,089
b. Aggregate Pieces	1/	<u>204,263</u>	<u>356,494</u>	<u>560,757</u>
c. Revenue Per Piece	L2a ÷ L2b	xxx	xxx	\$0.178
3. Difference Between First-Class and Standard (A) -- Per Piece	L1c - L2c	xxx	xxx	\$0.206
<u>Number of Pieces Migrating</u>				
4. Percent of Existing Mail of Total Mail	2/	xxx	xxx	0.62
5. No. of Existing Pieces in First-Class	L1b x L4	xxx	xxx	156,418
6. Percent of Mail that Migrates	2/	xxx	xxx	<u>.267</u>
7. Total Pieces Migrating - millions	L5 x L6	xxx	xxx	41,769
<u>Revenue "Leakage"</u>				
8. Revenue "Leakage" due to Migration - millions	L3 x L7	xxx	xxx	\$8.603
1/	As shown in USPS-T5-5, Exhibit D.			
2/	MASA/USPS-T4-4.			
2/	PB cross examination exhibit based on LR-2, PB/USPS-T4-CX-1, [(aggregate pieces developed by the study after Mailing Online by 4.086 billion, TR6/1306, divided by existing pieces developed by the study of 5.573 billion, TR6/1309) minus 1].			

31 Witness Plunkett identifies an average difference in rates per piece between First-Class and
32 Standard (A) of 20.6 cents per piece (Table 4, Line 3). Based on Witness Rothschild's data, 41.8

1 million pieces will migrate (Table 4, Line 7). The USPS will lose an additional \$8.6 million in
 2 revenue "leakage" due to migration (Table 4, Line 8).

3 Table 5 below summarizes the total revenue "leakage".

4
5

6 7	Item (1)	Source (2)	Amount (millions) (3)
8	1. Revenue "Leakage" due to automation rates	Text	\$34.5
9	2. Revenue "Leakage" due to migration	Table 4, Line 8	<u>8.6</u>
10	3. Total	L1 + L2	\$43.1

11 The total revenue leakage applicable to Mailing Online equals \$43.1 million. The issue of revenue
 12 leakage is important because the revenue lost adversely affects the contribution to institutional
 13 costs. Without some offset to the prices charged Mailing Online customers, the currently mailed
 14 portion of Mailing Online (i.e., the 62 percent) will cause a burden on institutional costs. If, as
 15 shown by Witness Plunkett, new mail enters the mailstream because of the use of Mailing Online
 16 (i.e., the 38 percent new mail calculated by USPS) then overall USPS revenues will increase.
 17 However, if the new mail volumes do not materialize, then the USPS will be financially worse off
 18 after the Mailing Online program begins.

19 **C. INFORMATION SYSTEMS COSTS**

20 The USPS has proposed that the information systems costs be recovered from a charge of 0.1
 21 cents per impression based on the USPS' original calculation of information systems costs. In the

Revised - - March 10, 1999

-30-

MASA/PB-T-1

1 supplemental testimony of USPS' Witness Lim, information systems costs were increased to \$11.1
2 million for one time costs and \$11.4 million for variable costs, or a total of \$22.5 million (USPS-
3 ST-9, page 2). After the USPS' supplemental testimony on January 14, 1999, the USPS' charge
4 for variable information systems costs (0.1 cents per impression) increased to 0.21 cents per
5 impression as shown in Library Reference LR-28. In response to PB's interrogatories, USPS'
6 Witness Plunkett stated that 0.21 cents per impression "could be used" in lieu of the 0.1 cents per
7 piece (PB/USPS-T5-6).

8 Contrary to the USPS' position, the total information systems costs should be charged to
9 Mailing Online. This produces a cost of 0.41 cents per impression.^{29/} Witness Plunkett
10 recognized that the one time information systems costs should not be treated as institutional costs
11 and that Witness Seckar's cost estimates recovered the costs over the first two years of Mailing
12 Online (OCA/USPS-T5-10). Therefore, in order to recover the costs as suggested by Witness
13 Plunkett, the full 0.41 cents per impression should be charged for Mailing Online.

14 **D. MAILING ONLINE TARGET MARKET**

15 The USPS' Mailing Online service is intended to address the market for SOHO mail with less
16 than 5,000 pieces per job. The USPS has claimed that the use of digital printing for Mailing
17 Online products cannot efficiently be used for jobs over 5,000 pieces (OCA/USPS-T-1, page 9).
18 The USPS' Witness Hamm also stated that "5,000 pieces is currently typical of the upper range"
19 (MASA/USPS-T6-9). Contrary to the USPS' position, Mailing Online need not be limited to the
20 SOHO market of short runs of 5,000 pieces or less.

^{29/} \$22.5 million ÷ 5,505 million impressions (Table 1, Line 1c).

Revised -- March 10, 1999

-31-

MASA/PB-T-1

1 As noted by the USPS' Witness Hamm, "[o]ne of the keys to digital printing is the ability to
2 personalize the documents" (MASA/USPS-T6-9). The flexibility of digital printing to allow
3 customization and personalization also, according to Witness Hamm, "produces higher response
4 rates" (OCA/USPS-T6-4). Therefore, a customer could choose Mailing Online to utilize this
5 service even if alternative printing methods were less costly. Furthermore, the USPS has
6 acknowledged that the future technological improvements in digital printing occur rapidly (USPS-
7 T1, page 12). Even if the USPS is restricted to the SOHO market, the advantages of the
8 technology and future improvements may well create broader opportunities for the USPS in the
9 future. Any broadening of the market served by Mailing Online will create additional pressures
10 on competition.

11 **E. TREATMENT OF ADVERTISING COSTS**

12 The advertising for Mailing Online will be encompassed in the advertising for the USPS' Post
13 Office Online ("POL"). The USPS' advertising for POL is intended to utilize several advertising
14 media and has a sizeable budget^{30/}. POL is comprised of Mailing Online and another service
15 related to Express Mail and Priority Mail called Shipping Online.^{31/} For Mailing Online, the USPS
16 will utilize "targeted advertising in various media as well as on the internet itself"^{32/}. The USPS'
17 Witness Garvey also called the marketing effort "dynamic" and tied changes to the marketing
18 effort, in part, to Mailing Online (MASA/USPS-T3-2).

^{30/} The USPS' marketing plan is incorporated into Library Reference LR-16. Because this document was filed as confidential, I have not identified any specific components of the cost of advertising or the form of the advertising.

^{31/} A summary of POL is shown in Witness Wilcox's interrogatory response OCA/USPS-T7-6.

^{32/} Witness Garvey's revised response to Presiding Officer's Information Request No. 2, Question 4(c).

1 In response to an interrogatory from the Office of Consumer Advocate ("OCA"), Witness
2 Garvey claims "there will be no advertising specific only to Mailing Online..." (OCA/USPS-T1-
3 29). He claims that Mailing Online advertisements will be part of existing programs and if
4 Mailing Online did not exist, the USPS would still incur the advertising costs. For purposes of
5 allocating advertising costs, Witness Garvey's position on advertising misses the point.

6 Mailing Online will benefit from the advertising developed for POL. While no advertising
7 costs may be incremental to Mailing Online^{33/}, no reason exists for Mailing Online not to share
8 in the costs because Mailing Online benefits from the POL cost paid by the USPS.

9 The advertising for POL is designed to attract customers to use the USPS' Mailing Online and
10 Shipping Online services. A potential customer who responds to the USPS' advertisements is not
11 tied to a specific revenue level or size of the transaction that occurs (i.e., number of pieces).
12 Therefore, the advertising is designed to attract transactions and the advertising costs should be
13 allocated on that basis. A transaction would include:

- 14 1. The placing of an order with Mailing Online or Shipping Online;
- 15 2. Use of the help desk for Mailing Online and Shipping Online;
- 16 3. Use of POL website to track Shipping Online packages; and,
- 17 4. Ordering supplies.^{34/}

^{33/} Realistically, in order to design an advertisement including Mailing Online, some of the cost of the design and dissemination of the advertisement is associated with Mailing Online.

^{34/} The functions of POL are graphically shown in OCA/USPS-T7-6.

1 In order to distribute the advertising costs, the number of transactions related to the 4 items
2 discussed above should be tallied. Then, the costs distributed to Mailing Online based on its
3 percentage of the total transactions.

4 **F. IDENTIFICATION OF ATTRIBUTABLE COSTS**

5 In order to avoid burdening other mailers (or subclasses of mail) with the recovery of Mailing
6 Online costs, Mailing Online costs should recover all attributable costs applicable to this function.
7 While institutional costs are incurred by the USPS and unrelated to any type of USPS service,
8 attributable costs are those costs that are distributed to a class, subclass or special service.
9 Attributable costs for a component can, in some cases, be related to more than one class of service
10 (e.g., First-Class and Standard (A)). In R90-1, the USPS recognized that attributable costs include
11 variable costs.^{35/}

12 The USPS has recognized that approximately one-half of the information systems costs (\$11.4
13 million^{36/}) are variable costs. However, all of the information systems costs including the one time
14 costs are tied directly to Mailing Online and should be considered attributable costs. In addition,
15 the advertising costs discussed above should also be considered attributable. To treat these costs
16 otherwise would make the recovery of these costs dependent upon other USPS services or classes
17 of mail. The USPS' Witness Plunkett recognized that "the fixed informational systems costs will
18 not become institutional" (OCA/USPS-T5-52).

^{35/} R90-1, USPS-T-13, page 5.

^{36/} Witness Lim, USPS-ST-9, page 2.

1 In addition to the above, Mailing Online should also recover any specific costs incurred from
2 its operation. This includes credit card service charges which currently are not included in any
3 of the costs (or a reduction in revenues) shown by the USPS' witnesses. The USPS was asked to
4 identify the service charges that USPS will incur resulting from the credit cards utilized by SOHO
5 customers to pay for the Mailing Online jobs submitted. (PB/USPS-T1-1 and PB/USPS-T1-4).
6 USPS has stated that it will pay not more than 3% for bank card service charges.^{27/} This means
7 that based on the USPS projection of revenues for the experimental phase of \$243.4 million (Table
8 1, Line 4), the USPS will pay up to \$7.3 million for bank card service charges (\$243.4 million
9 x 3 percent). These charges, which reduce the USPS' contribution from the mark-up, should be
10 included as attributable costs for Mailing Online.

11 **G. SUMMARY**

12 In summary, the USPS' proposal for the experimental phase for Mailing Online should be
13 modified in several respects to properly reflect the revenues required and costs associated with
14 Mailing Online. These adjustments include:

- 15 1. Increasing the cost mark-up to a range of 47 percent to 60 percent;
- 16 2. Recognize the revenue leakage in postage received by USPS of \$43.1 million;
- 17 3. Recognize that the USPS is not limited to 5,000 pieces per job or solely to the targeted
18 SOHO market;
- 19 4. Increase the charge to recover information systems costs to 0.41 cents per impression;
- 20 5. Distribute advertising costs between Mailing Online and Shipping Online based on the
21 number of transactions for each service; and,

^{27/} The USPS stipulated to this maximum amount at the hearing on February 5, 1999.

-35-

MASA/PB-T-1

- 1
 - 2
6. Recognize all other appropriate attributable costs that are incurred by the USPS for Mailing Online.

STATEMENT OF QUALIFICATIONS

My name is Roger C. Prescott, I am Executive Vice President and an economist with the economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, Virginia 22314.

I am a graduate of the University of Maine from which I obtained a Bachelor's degree in Economics. Since June 1978 I have been employed by L. E. Peabody & Associates, Inc.

I have previously participated in various Postal Rate Commission ("PRC") proceedings. In Docket No. R90-1, Postal Rate And Fee Changes, 1990, I developed and presented evidence to the PRC which critiqued and restated the direct testimony of the United States Postal Service ("USPS") as it related to the development of the proposed rate structure on behalf of third class business mailers. I submitted rebuttal testimony in PRC Docket No. MC95-1, Mail Classification Schedule, 1995 Classification Reform I, regarding recommendations of intervenors in response to the USPS' proposed reclassification of Third Class Bulk Rate Regular ("TCBRR") rate structure. I also submitted rebuttal testimony in Docket No. 97-1, Postal Rate and Fee Changes, 1997 regarding the development of rates for Standard (A) mail.

The firm of L. E. Peabody & Associates, Inc., specializes in solving economic, marketing and transportation problems. As an economic consultant, I have participated in the direction and organization of economic studies and prepared reports for railroads, shippers, for shipper associations and for state governments and other public bodies dealing with transportation and related economic problems. Examples of studies which I have participated in organizing and directing include traffic, operational and cost analyses in connection with the transcontinental

Appendix A
Page 2 of 3

movement of major commodity groups. I have also been involved with analyzing multiple car movements, unit train operations, divisions of through rail rates and switching operations throughout the United States. The nature of these studies enabled me to become familiar with the operating and accounting procedures utilized by railroads in the normal course of business.

In the course of my work, I have become familiar with the various formulas employed by the Interstate Commerce Commission ("ICC") (now the Surface Transportation Board ("STB")) in the development of variable costs for common carriers with particular emphasis on the basis and use of Rail Form A and its successor, the Uniform Railroad Costing System ("URCS"). In addition, I have participated in the development and analysis of costs for various short-line railroads.

Over the course of the past twenty years, I have participated in the development of cost of service analyses for the movement of coal over the major eastern, southern and western coal-hauling railroads. I have conducted on-site studies of switching, detention and line-haul activities relating to the handling of coal. I developed the carrier's variable cost of handling various commodities, including coal, in numerous proceedings before the ICC/STB. As part of the variable cost evidence I have developed and presented to the ICC/STB, I have calculated line specific maintenance of way costs based on the Speed Factored Gross Ton ("SFGT") formula.

In October 1993, I presented the history and use of the SFGT formula at a conference attended by shippers, railroads, association members and Commission staff. The conference, titled "Maintaining Railway Track-Determining Cost and Allocating Resources," examined the methodologies used to determine maintenance of way costs over freight and passenger rail lines.

Appendix A
Page 3 of 3

I have developed and presented evidence to the ICC/STB related to maximum rates, and "Long-Cannon" factors in several proceedings. I have also submitted evidence on numerous occasions in Ex Parte No. 290 (Sub-No. 2), Railroad Cost Recovery Procedures related to the proper determination of the Rail Cost Adjustment Factor.

In the two recent Western rail mergers, Finance Docket No. 32549, Burlington Northern, et al. -- Control and Merger -- Santa Fe Pacific Corporation, et al. and Finance Docket No. 32760, Union Pacific Corporation, et al. -- Control and Merger -- Southern Pacific Rail Corporation et al., I reviewed the railroads' applications including their supporting traffic, cost and operating data and provided detailed evidence supporting requests for conditions designed to maintain the competitive rail environment that existed before the proposed mergers.

**RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL/PITNEY BOWES
WITNESS PRESCOTT TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/MASA/PB-T1-1. Please refer to your testimony at page 10, lines 5-13.

- (a) Please define "mail preparation services."
- (b) Please define the "competitive market for mail preparation services."
- (c) Please confirm that some of the 62 percent of business diverted from "private competitive firms to the USPS' subcontractors" could be diverted from firms that prepare mail in-house as an adjunct to major business activities, such as insurance company policy statements. If you do not confirm, please explain.
- (d) Please provide any studies, reports or other evidence showing the proportion of the \$121 million of business during the experiment diverted from firms that prepare mail in-house.

OCA/MASA/PB-T1-1 Response:

- (a) The phrase "Mail preparation services" in my testimony refers to the physical production of documents to be mailed including any or all of the following: composition, printing, stapling, enveloping, selection of recipients, addressing, sorting, and placement of postage on the mailable item.
- (b) The phrase "competitive market for mail preparation services" in my testimony refers to those private companies that could compete for any of the services provided by Mailing Online.
- (c) Confirmed.
- (d) My analysis was based on data presented by the USPS. I am unaware of any data presented by the USPS that identifies the proportion of mail diverted from firms that prepare mail in-house.

**RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL/PITNEY BOWES
WITNESS PRESCOTT TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE**

USPS/MASAPB-T1-1. On page 4, lines through 6, you state that:

Many of MASA's members are letter shops, print shops and other mail preparation companies of varying sizes that could compete for the printing and production of the type of mail to utilize Mailing Online.

Please confirm that some MASA members could compete to become a Mailing Online printer under contract to the Postal Service. If you do not confirm, please explain.

USPS/MASAPB-T1-1 Response:

Confirmed.

-2-

USPS/MASAPB-T1-2. Please provide the source of the Aggregate Costs figures in your Table 1, on page 8 of your testimony. The listed source of Exhibit USPS-2A, page 10 provides only volume numbers.

USPS/MASAPB-T1-2 Response:

The Aggregate Cost figures are developed from the sources shown in footnote 3. The reference to footnote 2 on Line 2 of Table 1 should be changed to footnote 3.

-3-

USPS/MASAPB-T1-3. Please refer to your Table 2, on page 9 of your testimony. Please confirm that Mailing Online revenues of \$90 million would be less than 0.2 percent of total Postal Service revenues of about \$60 billion. If you do not confirm, please explain.

USPS/MASAPB-T1-3 Response:

Confirmed.

-4-

USPS/MASAPB-T1-4. On page 10, lines 7 to 10, you estimate a diversion from private business of \$121 million during the Mailing Online experiment. Please confirm that the \$121 million estimate assumes that all existing mail which uses Mailing Online is currently using the mail preparation services of private businesses. If you do not confirm, please explain why. If you do confirm, please explain the basis for this assumption.

USPS/MASAPB-T1-4 Response:

Confirmed. Existing mail that uses Mailing Online is currently prepared either by a company that provides mail preparation services or in-house by a private business that is a potential customer of the companies that provide mail preparation services.

-5-

USPS/MASAPB-T1-5. On page 10, lines 11 to 12, you refer to the "potential economic impact on the competitive market for mail preparation services".

- (a) How do you define the "competitive market for mail preparation services?" Please specify how it corresponds to the approximately 670 companies that belong to MASA?
- (b) Please provide an estimate of the total amount spent per year on private mail preparation services. Please indicate whether your response is limited to MASA members.

USPS/MASAPB-T1-5 Response:

- (a) The phrase "competitive market for mail preparation services" is defined in my response to OCA/MASA/PB-T1-1. The 670 companies that are members of MASA consist of part, but not all, of the competitive market for mail preparation services.
- (b) The total amount spent per year on private mail preparation services was not needed for my analysis and, therefore, I have not developed that value.

-6-

USPS/MASAPB-T1-6. Please refer to page 12, line 3 of your testimony, where you state "when two (or more) functions in the stages of production are merged together under the control of one company, vertical integration occurs."

- (a) Please confirm that private printing companies will supply MOL services under contract to the Postal Service, rather than being merged with the Postal Service. If you do not confirm, please explain.
- (b) By the use of the word "control", do you mean that the Postal Service will forbid Mailing Online contractors from obtaining other printing and mailing business on their own? Please explain any affirmative response.

USPS/MASAPB-T1-6 Response:

- (a) Not confirmed. Because the private printing companies are under contract to the USPS and all of the Mailing Online jobs come through the USPS, the printing and mail production function is merged through vertical integration with the USPS' mail delivery function.
- (b) No.

-7-

USPS/MASAPB-T1-7. Please refer to page 15, lines 7-9 of your testimony, where you argue that:

Mailing Online will not charge sales tax and the USPS does not pay corporate income taxes. Thus, the USPS may be able to offer lower prices than its competitors who are subject to sales and income taxes.

- (a) Please confirm that the Postal Service's fee proposal for Mailing Online calls for marking up the costs of private printers. If you do not confirm, please explain.
- (b) Please confirm that these private contractors are subject to sales and corporate income taxes. If you do not confirm, please explain.
- (c) Would you agree that in preparing bids for provision of MOL services, potential printing contractors would include sales and corporate income taxes in estimating their costs? Please explain any negative answer.
- (d) Do you believe that any sales taxes currently apply to the sale of products and services over the Internet? Please explain any affirmative answer.

USPS/MASAPB-T1-7 Response:

- (a) Not confirmed. The USPS will mark-up the price charged by the private printer contracting with the USPS.
- (b) Not confirmed. Whether or not the private contractor pays sales or corporate income tax is a function of several factors, including the tax regulations of the state where the printer is located, the profitability of the company and, with respect to sales, the nature of purchasing entity.
- (c) Not necessarily, as discussed in my response to part (b).
- (d) Yes. For example, the popular website called Amazon.com that sells books, music and videos states that "Washington State and Nevada State laws require that we charge a sales tax on the full amount of the order."

-9-

USPS/MASAPB-T1-9. Please refer to Table 4 on page 28 of your testimony. In estimating the amount of revenue leakage due to migration of volume from First-Class Mail to Standard Mail (A), did you consider cost savings resulting from this migration? Please explain any affirmative response.

USPS/MASAPB-T1-9 Response:

No. Table 4 only calculates revenues. However, as noted in footnote 28 on page 27 of my testimony, the contribution for Standard (A) Regular mail is less than First Class Mail.

-10-

USPS/MASAPB-T1-10. Please refer to page 32, line 6 of your testimony, where you state that "Mailing Online will benefit from the advertising developed for POL."

- (a) In your view, does the fact that a product benefits from an expenditure justify distributing at least part of that expenditure to the product. Please explain your answer.
- (b) To the extent that Mailing Online makes it easier to use First-Class Mail and Standard Mail (A), and increases First-Class Mail and Standard Mail (A) volumes, will First-Class Mail and Standard Mail (A) "benefit from" the advertising of POL? Please explain any negative response.

USPS/MASAPB-T1-10 Response:

- (a) In my testimony I used the word "benefit" to mean an expenditure intended to increase demand for Mailing Online. The fact that a product benefits in the sense of experiencing increased demand as a result of an expenditure justifies distributing at least some part of the expenditure, however large or small, to the product.
- (b) Yes.

-11-

USPS/MASAPB-T1-11. Please fully define the term "incremental" as you use it on page 32, line 7 of your testimony.

USPS/MASAPB-T1-11 Response:

The sentence in my testimony states that "...while no advertising costs may be incremental to Mailing Online, no reason exists for Mailing Online not to share in the costs...." (footnote omitted).

The term incremental refers to any specific advertising costs that would not have been incurred but for the addition of the Mailing Online service.

-12-

USPS/MASAPB-T1-12. Please refer to page 32, line 9 through page 33, line 3 of your testimony. Please assume that POL offers two services, MOL and POL [sic], and that over a given time period there are 60 MOL transactions and 40 SOL transactions, as you defined transaction in this section of your testimony. Please further assume that over that same period, advertising costs for POL total \$100. Please confirm that the distribution approach described on page 33, lines 1 to 3 would distribute \$60 of advertising costs to MOL and \$40 to SOL. If you do not confirm, please explain.

USPS/MASAPB-T1-12 Response:

Confirmed.

-13-

USPS/MASAPB-T1-13. Please refer to your testimony at page 24, lines 15 to 16, where you claim that the Postal Service "has not shown that the Mailing Online contribution is maximized with a 25 percent mark-up."

- (a) Do you consider contribution maximization to be a relevant criterion in establishment of rates and fees under the Postal Reorganization Act? Please explain your answer.
- (b) Please confirm that the aggregate cost figure of \$194.7 million you use in your Table 4 excludes those costs characterized as "fixed" by the Postal Service. If you do not confirm, please explain.
- (c) Please confirm that your Table 4 assumes that aggregate costs drop in proportion to the drop in volume when moving from a 25 percent to a 50 percent mark-up ratio. If you do not confirm, please explain.
- (d) Please reconcile your assumption about the relationship between volumes and aggregate costs with the evidence that high-cost options, such as documents over 10 pages, 11 x 17 inch documents, and spot color documents, decrease disproportionately when moving from a 25 percent to a 50 percent markup. See Tables 15 and 16 of witness Rothschild's testimony (USPS-T-4), and Tables 1, 2, and 3 of witness Seckar's testimony (USPS-T-2).

USPS/MASAPB-T1-13 Response:

- (a) No. Maximization of contribution is not a criterion of the Postal Reorganization Act.
- (b) Confirmed, if the correct reference in the question is to Table 3 of my testimony.
- (c) Confirmed, if the correct reference in the question is to Table 3 of my testimony.
- (d) The change in costs in Table 3 was based on the average costs for simplicity. The data required to perform the analysis shown in witness Seckar's exhibit, and utilized by the USPS' witness Plunkett, are not available in the USPS' data for projected volumes with the 50 percent mark-up.

**RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL/PITNEY BOWES
WITNESS PRESCOTT TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE**

USPS/MASAPB-T1-14. Please refer to your testimony at page 23, lines 5 to 15, and footnote 17. On line 5 you refer to "USPS start-up costs", and in footnote 17 you state that "[t]hese costs included \$22.5 million in information systems costs for the experimental phase."

- (a) Please confirm that the information systems costs of \$22.5 million consists of \$11.1 million of "one-time" costs, and \$11.4 million of "variable" costs, as presented by witness Seckar at Tr. 8/1882. If you do not confirm, please explain.
- (b) Please confirm that witnesses Seckar and Lim consider the \$11.1 million of "one-time" costs to be "start-up" costs for Mailing Online. See Tr. 5/1050-51 (witness Seckar considers information systems fixed costs to be "one-time start up costs for the experimental period"); Tr. 8/1913 (Witness Lim states that he "share[s] Witness Seckar's views that one-time costs are essentially the start-up costs for MOL."). If you do not confirm, please explain.
- (c) Do you consider the \$11.4 million of "variable" information systems costs to be start-up costs for Mailing Online? Please explain any affirmative response.
- (d) Do you consider the \$11.4 million of "variable" information systems costs to be fixed costs regardless of the volume of Mailing Online? Please explain any affirmative response.
- (e) On page 23, line 9 of your testimony, you state that "[t]he average mark-up equals 0.88 cents per impression." Please confirm that the mark-up for Mailing Online is based on all printing costs, including paper, envelope, and insertion costs, as well as impression costs. If you do not confirm, please explain.

USPS/MASAPB-T1-14 Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) I have not made an assessment as to whether or not the "variable" information systems costs should be considered start-up costs. However, the \$11.4 million quantified by the USPS' Witness Lim is a cost incurred by Mailing Online volume during the proposed experimental phase and should be recovered by Mailing Online.

-2-

(d) No.

(e) Not confirmed. The mark-up for Mailing Online is based on the printing prices charged by the USPS' subcontractor and the USPS' charge for information systems.

**RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL/PITNEY BOWES
WITNESS PRESCOTT TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE**

USPS/MASAPB-T1-15. On page 23, lines 5 to 6, you state that "In order to maximize the possibility that the USPS' start-up costs are recovered, Mailing Online should receive the highest mark-up possible." On page 24, lines 5 to 6, you state that a "higher mark-up would help insure that the initial costs are recovered."

- (a) Would you support a higher mark-up even if it resulted in decreased contribution for Mailing Online, because of lost volume?
- (b) Please confirm that, compared to the Postal Service's proposal, you are proposing to both increase the costs attributed to Mailing Online, and increase the cost coverage for Mailing Online.
- (c) Are you confident that these changes, in conjunction with each other, will not decrease volume so much that contribution would be reduced? Please explain your response.

USPS/MASAPB-T1-15 Response:

- (a) Yes.
- (b) Confirmed.
- (c) Based on the data available, I am unable to determine the impact to contribution. The extent to which contribution may change is a function of both volume and the mark-up ratio. Even if contribution is reduced, the mark-up should be increased during the experimental phase in order to avoid competitive harm to MASA members, Pitney Bowes, Inc. and similarly situated businesses.

-2-

USPS/MASAPB-T1-16. Please refer to page 30, line 9 of your testimony. Please confirm that the cost of 0.41 cents is per impression, rather than per piece. If you do not confirm, please explain.

USPS/MASAPB-T1-16 Response:

Confirmed.

-3-

USPS/MASAPB-T1-17. Please refer to page 31, lines 17 to 18 of your testimony. Please confirm that you intended to refer to witness Garvey, rather than witness Stirewalt.

USPS/MASAPB-T1-17 Response:

Confirmed.

-5-

USPS/MASAPB-T1-19. Please refer to your response to OCA/MASA/PB-T1-1(b), where you define the competitive market for mail preparation services as "those private companies that could compete for any of the services provided by Mailing Online." Does this market include firms that prepare mail in-house as an adjunct to major business activities, such as insurance companies preparing policy statements for mailing? Please explain.

USPS/MASAPB-T1-19 Response:

It might. If Mailing Online solicits business for mail preparation services provided in-house then the USPS is competing in the market to obtain that business.

-6-

USPS/MASAPB-T1-20. Please refer to your response to USPS/MASAPB-T1-10, where you state that "the fact that a product benefits in the sense of experiencing increased demand as a result of an expenditure justifies distributing at least some part of the expenditure, however large or small, to the product."

Consider a hypothetical in which the Postal Service designs and runs advertisements promoting Priority Mail. These advertisements address Priority Mail only, and make no mention of other Postal Service products. Assume, however, that the advertisements are effective in raising the image of the Postal Service in the public's mind, and that this improved image in turn leads to increased purchases of other products, such as First-Class letter mail and various special services. Please confirm that, consistent with your response to USPS/MASAPB-T1-10, these other products that benefitted from this advertising should be assigned a portion of its costs. If you do not confirm, please explain.

USPS/MASAPB-T1-20 Response:

Not confirmed. Attributable or variable costs are associated with a product (or products) because a quantifiable causative relationship is shown between the cost and the product. The hypothetical does not provide sufficient information to determine whether an increase in volume related to improved image due to Priority Mail advertising represents a quantifiable causative relationship because of the numerous other factors that could have impacted volumes.

**RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL/PITNEY BOWES
WITNESS PRESCOTT TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE**

USPS/MASAPB-T1-21. Please refer to your testimony at page 15, lines 12 to 13.

- (a) Do you understand the Postal Service plans to be limited to one printing company per location?
- (b) Could the Postal Service requirements set forth in its printer statement of work (USPS-LR-11) be accommodated by a group of printers within a geographic area? Why or why not?

USPS/MASAPB-T1-21 Response:

- (a) No. The USPS states that the "commercial print sites will be geographically situated according to demand..." (USPS-T1, page 2). If demand warranted, more than one printing company could be at a given location.
- (b) The use of a group of printers within a geographic area is possible, however, the USPS has stated that it "presume[s] that a single printer will receive all volume for a given area" (OCA/USPS-T1-5).

-2-

USPS/MASAPB-T1-22. On page 16 of your testimony you include a quotation from *A Dictionary of Economics*, which states in part, "if the winner of the original bid thereafter enjoys a sunk cost advantage, parity bidding at contract renewal intervals cannot be presumed."

- (a) What is your understanding of how this applies to Mailing Online?
- (b) What "sunk cost advantage" would inhere to original bid winners? Please explain fully.
- (c) What is your understanding of the pace of change in the printing industry today?
- (d) How long does printing equipment last?
- (e) What is the expected lifespan of the print-on-demand equipment necessary for Mailing Online?
- (f) If equipment necessary for a successful bidder to perform printing and related services for Mailing Online is available on a lease basis, with no up front capital cost reduction fee, would that bidder have a "sunk cost advantage" during subsequent bidding cycles? Please explain fully.

USPS/MASAPB-T1-22 Response:

- (a) When contracts are rebid, the USPS' current subcontractor may have an advantage over other potential bidders equal to its sunk cost.
- (b) The sunk cost advantage includes the acquisition of equipment and facilities plus the operational expertise that are already in place for the original bidder.
- (c) If the term in the question "the pace of change in the printing industry" refers to technological innovation for printing, then the changes will depend on numerous factors including the type of printing, the willingness of the industry to change, and the incentives provided by customers, governments and companies that supply goods to the printing industry.
- (d)-(e) The useful life of printing equipment depends on numerous factors including the type of equipment, the level of utilization, maintenance and technological change.
- (f) The bidder may have a sunk cost advantage depending on the operational experience of the incumbent bidder and the ability of other bidders to obtain the same lease terms as the successful bidder.

-3-

USPS/MASAPB-T1-23. On page 16, line 11 of your testimony, you use the term "true competition". Please define this term and provide an appropriate reference supporting your definition.

- (a) Does "true competition" apply at the national, state and other levels to the same extent? Please explain your response.
- (b) What role, if any, does the necessity for printing contractors to meet performance deadlines that require entry of Mailing Online pieces to specific, geographically dispersed postal facilities play in your analysis of "true competition".
- (c) Do you believe that a printer bidding to become a Mailing Online contractor could have its physical plant located in New Mexico yet meet the performance deadlines in Florida?
 - i. If so, how could the printer expect to be competitive given the need to account for substantial transportation costs that printers in Florida would not need to incur?
 - ii. If not, how do you reconcile this with the statement, also on page 16 of your testimony, that "the second lowest bid in one geographic area would not receive any USPS business for Mailing Online because a higher bid, in a different geographic area, was selected by the USPS"?
- (d) What is your background and experience in government procurement regulations. Please explain in detail.

USPS/MASAPB-T1-23 Response:

The reasons that the USPS' proposed Mailing Online line service "prevents true competition for the subcontractors" are explained in my text, namely that the USPS' requirement that the winning bidder(s) be geographically dispersed presents a barrier to competition for other bidders. This condition results in a constraints on competition that otherwise would not occur in the market.

- (a)-(c) For purposes of the text referenced in this interrogatory, the competition discussed relates to the geographic areas which the USPS is utilizing to choose its anticipated 25 subcontractors. The geographic locations for the printing contractors is driven by the

-4-

USPS' design of Mailing Online. Therefore, the USPS has placed limitations on the ability of some companies to compete for Mailing Online contracts.

In a competitive environment, the potential bidder evaluates the revenues, costs and profits associated with entering the market. Each component of cost, including transportation, to supply the regional service would be evaluated. A potential bidder with a plant in New Mexico might have problems with performance deadlines in Florida but the ability to compete would be evaluated by the printer in New Mexico. The printer in New Mexico might be able to overcome problems with performance deadlines with added transportation costs, which might result in the New Mexico printer still providing service at a lower cost than other printers closer to the ultimate destination.

- (d) Since 1956, L.E. Peabody & Associates, Inc. submit bids for consulting services to state, local and federal governments. As part of assisting with the preparation of bids and administration of contracts, I am generally familiar with the regulations required for the contracts relevant to our company. For purposes of this proceeding I have reviewed the contract between the USPS and Vestcom International Inc. shown in USPS-LR-11 but my testimony does not attempt to address the competitive environment in which this contract was negotiated.

-5-

USPS/MASAPB-T1-24. On page 15 of your testimony you state, "a small number of printers will have or make the investment in capacity needed to meet the requirements for Mailing Online."

- (a) Do you mean that only successful Mailing Online bidders will have that incentive, or will unsuccessful or non-bidders have such an incentive. Please address the chapter that appears at Tr. 6/1489-1503 as part of your response.
- (b) In qualitative or quantitative terms, or both, what proportion of the entire capacity of the print-on-demand industry do you believe Mailing Online contractors will generate purely to provide Mailing Online services?
- (c) In qualitative or quantitative terms, or both, what proportion of the print-on-demand industry capacity do you believe Mailing Online contractors will generate to provide service other than for Mailing Online?

USPS/MASAPB-T1-24 Response:

- (a) Bidders that are not successful in obtaining a contract for the production of Mailing Online documents will not have any incentive to make investments in capacity related to Mailing Online. As noted in Attachment No. 1 to Presiding Officer's Information Request No. 2, Question No. 5, digital printing offers several advantages. (Tr. 6/1500-1502). These advantages are independent of the USPS providing the Mailing Online service.
- (b)-(c) For my analysis, the entire capacity of the print-on-demand industry is not required. However, my testimony does calculate the diversion of business from current printing businesses to Mailing Online to range between \$121 million for the first 2 years and \$521 million over the 5 year period is shown by the USPS.

-6-

USPS/MASAPB-T1-25. Please confirm that the equipment required to prepare documents in accordance with the Mailing Online specifications is widely available.

USPS/MASAPB-T1-25 Response:

Confirmed.

-7-

USPS/MASAPB-T1-26. Do you contend that Mailing Online will lead to the development of proprietary printing technology that will constitute an entry barrier for would-be Mailing Online printers? Please explain fully any affirmative response.

USPS/MASAPB-T1-26 Response:

The impact on printing technology due to Mailing Online is not known to me, but it is certainly conceivable that technology changes could produce entry barriers .

-8-

USPS/MASAPB-T1.27. Please refer to your testimony at page 15, lines 7 to 9, where you state that "the USPS may be able to offer lower prices than its competitors who are subject to sales and income taxes."

- (a) Prior to filing your testimony, did you read the testimonies of witness Tayman, USPS-T-9, in Docket No. R97-1, or the Commission's Opinion in Docket No. R97-1, at pages 21 to 23, concerning the Postal Service's need to recover prior years' losses?
- (b) Confirm that a private firm subject to federal income taxation can carry forward its net operating losses for the past 15 years and apply them against profits earned in subsequent years. If not confirmed, please explain.
- (c) Confirm that a firm subject to federal income taxation can carry back operating losses and offset them against profits earned in previous years. If so, what are the general rules governing the extent to which a private firm subject to federal income taxation may do so? If not confirmed, please explain.
- (d) Assume for this subpart that the Postal Service were subject to federal income taxation since its inception.
 - i. Do you believe the Postal Service would have incurred tax liability for any of the years of its existence since 1971? If so, please state the fiscal year(s) in which you believe the Postal Service would have incurred tax liability, what income you believe would be subject to taxation, and the total tax liability. For each year in which you believe that the Postal Service would have incurred tax liability, please also state whether such liability would have been subject to any refunds due to carry back losses. Please show all calculations, and provide sources for your figures.
 - ii. Assume that the Postal Service does not retire its entire Prior Years' Loss by the end of the experimental period. Do you believe that the Postal Service would pay federal income taxes during the experimental period? If so, please explain why the Postal Service would have any taxable net income.

USPS/MASAPB-T1-27 Response:

- (a) No.
- (b)-(d) I have not analyzed the impact of carry forward, carry back or recovery of prior years' losses based on the USPS being subject to income tax because that calculation is not required for my testimony. The calculation of the hypothetical taxes that the USPS would have paid (and any potential impact on postal rates) would require an in-

-9-

depth study of the USPS' accounting data. Any attempt to calculate the income taxes that the USPS would have paid requires data not available such as the proportion of the USPS' net income attributable to each state or locality and the consideration that the USPS' decisions for investment acquisition might change if the USPS' was a taxable entity.

2175

1 COMMISSIONER LeBLANC: Does any participant have
2 additional written cross examination for Witness Prescott?

3 MR. RUBIN: Yes. The Postal Service does.

4 COMMISSIONER LeBLANC: Mr. Rubin.

5 CROSS EXAMINATION

6 BY MR. RUBIN:

7 Q Mr. Prescott, we are providing you with two copies
8 of your response to Postal Service Interrogatory T1-28.
9 Have you been able to review those responses?

10 A Yes.

11 Q And if you were to testify orally here today,
12 would those responses be the same?

13 A Yes, they would.

14 Q Then I would ask that those responses be entered
15 into the record.

16 COMMISSIONER LeBLANC: Any objections?

17 MR. WIGGINS: None.

18 COMMISSIONER LeBLANC: So ruled.

19 [Designation of Additional Written
20 Cross-Examination of Roger C.
21 Prescott was received into evidence
22 and transcribed into the record.]
23
24
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**RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL/PITNEY BOWES
WITNESS PRESCOTT TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE**

USPS/MASAPB-T1-28. Please refer to page 32, line 12 to page 33, line 3 of your testimony, where you state that the advertising costs for PostOffice Online should be distributed based on the percentage of transactions for PostOffice Online, Mailing Online, and Shipping Online. Consider a hypothetical in which POL provides only two services, Shipping Online (SOL) and Mailing Online (MOL). During year 1, SOL had 25 transactions, and MOL had 50 transactions. During year 2, SOL has 50 transactions and MOL has 50 transactions. Based on your approach, which of the following methods should be used to distribute the advertising cost to SOL and MOL, for each of the scenarios (a), (b), (c), and (d) presented below?

- (1) 25/75 to SOL, and 50/75 to MOL, based on year 1 transactions?
- (2) 50/100 to SOL, and 50/100 to MOL, based on year 2 transactions?
- (3) all to SOL, based on the changes in transactions from year 1 to year 2 for SOL and MOL, respectively?
- (4) Another alternative?

Please explain your choice.

- (a) During year 1 the Postal Service spent \$1 million on a POL advertising campaign conducted during year 1;
- (b) During year 1 the Postal Service spent \$1 million on a POL advertising campaign that was conducted half during year 1 and half during year 2, at no additional expense in year 2.
- (c) During year 1 the Postal Service spent \$600,000 on POL advertising conducted during year 1, and during year 2 the Postal Service spent \$400,000 on POL advertising conducted during year 2.
- (d) During year 2 the Postal Service spent \$1 million on POL advertising conducted during year 2.

-2-

USPS/MASAPB-T1-28 Response

I assume based on the example that the \$1 million for advertising for the two services is determined to be the attributable advertising costs, then the distribution of advertising costs between the two services in each hypothetical example is as follows:

- (a) 25/75 to SOL and 50/75 to MOL;
- (b) 25/75 to SOL and 50/75 to MOL, although it appears illogical that the USPS would prepay for services to be incurred in a subsequent time period;
- (c) For the \$600,000 spent in year 1, 25/75 to SOL and 50/75 to MOL. For the \$400,000 spent in year 2, 50/100 to SOL and 50/100 to MOL; and,
- (d) 50/100 to SOL and 50/100 to MOL.

OCA-T-100
Docket No. MC98-1

DIRECT TESTIMONY

OF

JAMES F. CALLOW

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

FEBRUARY 8, 1999

TABLE OF CONTENTS

STATEMENT OF QUALIFICATIONS.....	1
I. PURPOSE AND SCOPE OF TESTIMONY.....	3
II. ESTABLISHMENT OF A REBATE SYSTEM PERMITS ASSESSMENT OF A SPECIFIC POSTAGE CHARGE FOR EACH MAILING ONLINE MAILING	5
III. PRICING FORMULAS CAN REDUCE THE RISK OF NET REVENUE LOSS ASSOCIATED WITH NEW POSTAL SERVICES	11
IV. IT IS BOTH DESIRABLE AND FEASIBLE TO CALCULATE A UNIQUE POSTAGE CHARGE FOR EACH MAILING ONLINE MAILING	19
A. Setting Postage Charges For Mailing Online On The Basis Of Actual Experience Eliminates Both Guesswork And Any Anti- Competitive Effect Of Waiving Minimum Volume Requirements For Automation Basic Rates	19
B. It Is Possible To Develop A Pricing Formula To Calculate Postage For Mailing Online That Will Initially Generate The Postal Service's Proposed Discount Rate And Then Adjusts Postage To Reflect Actual Presorting Experience Over The Course Of The Experiment.....	23
1. At the Beginning of the Experiment, Postage Charges for Mailing Online Would Be Based on the Assumed Ability of the Postal Service to Batch Jobs for the Purpose of Presorting	31
2. If Batching Experience with Mailing Online During the Experiment Verifies Original Assumptions, the Postage Pricing Formula Would Automatically Generate Charges Based Upon the Original Assumptions.....	32
3. If Batching Experience with Mailing Online During the Experiment Differs from Original Assumptions, the Postage Pricing Formula Would Automatically Adjust Charges to Experience	33
4. Batching Experience with Mailing Online Late in the Experiment Would Carry More Weight in Postage Calculations Than Experience Early in the Experiment.....	35
V. CONCLUSION	37

1 DIRECT TESTIMONY OF
2 JAMES F. CALLOW
3 STATEMENT OF QUALIFICATIONS
4

5 My name is James F. Callow. I am a Postal Rate and Classification
6 Specialist. I have been employed by the Postal Rate Commission since June 1993,
7 and since February 1995 in the Office of the Consumer Advocate (OCA).

8 I have testified before the Commission in Docket Nos. R97-1, MC96-3, and
9 MC95-1. In Docket No. R97-1, I proposed a restructuring of post office box fee
10 groups to better reflect costs of providing box service in high and low cost offices.
11 My testimony in Docket No. MC96-3 opposed the Postal Service's non-resident
12 surcharge on post office boxholders, and proposed alternative box fees designed to
13 equalize inter-group cost coverages and reduce the disparity in cost coverages by
14 box size. My testimony in the MC95-1 proceeding summarized the comments of
15 persons expressing views to the Commission and the Office of the Consumer
16 Advocate on postal rates and services.

17 As a Special Assistant to former Commissioner H. Edward Quick, I
18 participated in Docket Nos. R94-1, MC93-2 and MC93-1. In Docket No. R94-1, I
19 was assigned responsibility for substantive subject areas considered by the
20 Commission in its Opinion and Recommended Decision. Specifically, I analyzed
21 quantitative testimony of the Postal Service with respect to the estimation of
22 workers' compensation costs and evaluated rate design proposals of the Postal
23 Service and other parties related to special postal services.

1 Prior to joining the Commission, I held positions on the legislative staff of a
2 US Senator and a Member of Congress from Michigan, and served as an aide to the
3 Governor of the State of Michigan in Washington.

4 I am an accountant by training. In 1985, I earned an MS degree in
5 accounting from Georgetown University. My course work included cost accounting
6 and auditing. In 1977, I obtained my BA degree from the University of Michigan-
7 Dearborn with a double major in political science and history and a minor in
8 economics.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 This testimony addresses the postage charges for Mailing Online, a new
3 service offering. In the absence of experience-based cost or volume data, the
4 Postal Service proposes Automation Basic discount rates (within class and shape)
5 for all Mailing Online mailpieces. The Commission, in its opinion on the market test,
6 suggests customer rebates of otherwise applicable postage rates where daily
7 "batching" of the mailpieces results in greater depths of sort. The Commission's
8 suggestion is in response to the anti-competitive effects of waiving the minimum
9 volume requirements for Automation Basic rates requested by the Postal Service.

10 I support establishment of a rebate system for Mailing Online to eliminate any
11 anti-competitive effects and promote fairness and equity. However, if the
12 Commission accepts the Postal Service's view that implementation of a rebate
13 system is problematic, I propose an alternative to the Postal Service's Automation
14 Basic rates. I propose that customers pay either (1) rates for which their mailpieces
15 would qualify if entered as hardcopy directly with the Postal Service or (2) rates
16 reflecting the greater depths of sort resulting from Postal Service batching and
17 presorting during the experiment, whichever is lower. Rates based upon the Postal
18 Service's experience would be phased in gradually, with rates entirely experience-
19 based at the end of the experiment.

20 The calculation of postage charges can utilize a computer-implemented
21 pricing formula similar to the Postal Service's pricing formula for Mailing Online pre-
22 mailing service fees. My proposed pricing formula relies on volume data from the

1 experiment showing the extent of batching and presortation achieved by the Postal
2 Service. The data would be collected in tabular form by job type, and regularly
3 updated by the Mailing Online system, to derive experience-based rates. Tables
4 containing the experience-based rates would be periodically referenced by
5 computer, and incorporated into the proposed pricing formula. The computer-
6 implemented pricing formula would calculate a firm fixed postage charge for each
7 mailing at the time the Mailing Online transaction is confirmed.

1 II. ESTABLISHMENT OF A REBATE SYSTEM PERMITS ASSESSMENT OF A
2 SPECIFIC POSTAGE CHARGE FOR EACH MAILING ONLINE MAILING

3 In its "Opinion and Recommended Decision on Market Test" for Mailing
4 Online, the Commission asks

5 whether it would be feasible . . . to charge currently applicable
6 mailstream rates to Mailing Online mailings that are initially under the
7 current threshold volume requirements for automation discounts, and
8 then make an appropriate rebate to their account after batches are
9 ultimately formed.

10
11 PRC Op. MC98-1 at 27.

12 The Commission suggests the rebate system in response to what it views as
13 a "potentially serious flaw in [the Mailing Online] rate design."¹ Under the Postal
14 Service's proposal, an assumed single average discount rate, Automation Basic
15 (within class and shape), would apply to all mailings prepared using Mailing Online.²
16 However, not all mailings are expected to meet the minimum volume requirements
17 for Automation Basic rates. At least with respect to "small-volume" mailings, the
18 exemption of Mailing Online mailings from the minimum volume requirements
19 permits the Postal Service to compete on preferential terms.³

¹ PRC Op. MC98-1 at 35.

² As a new service offering, there is no data over an extended time period with which to confidently estimate Mailing Online volumes. Consequently, the Postal Service assumes that "[Automation Basic rates] are expected to be more representative than any other existing rate of the type of mailpiece that will be produced through Mailing Online." Tr. 5/1137 (Plunkett, OCA/USPS-T5-41(b)).

³ PRC Op. MC98-1 at 35. "By exempting Mailing Online mailings from the threshold volume eligibility requirements that apply to its competitors, the Postal Service will be able to compete for at least the small-volume portion of the market on preferential terms."

1 The Commission declined to recommend an alternative to this "unilateral
2 preference" during the market test.⁴ However, the Commission requested
3 comments on the competitive effects of exempting Mailing Online mailings from the
4 minimum volume requirements in Notice of Inquiry No. 1.⁵ Moreover, the
5 Commission's Notice specifically requested comments on the feasibility of the
6 rebate system raised in its opinion.⁶

7 The establishment of a system to provide rebates for each Mailing Online
8 customer approaches the economic ideal in terms of product pricing. In theory,
9 economic efficiency of the first order can best be obtained if all postal customers
10 pay unique rates based on the marginal costs of their respective mailpieces.⁷ In
11 practice, this is generally difficult. Customer-specific costs are unknown, or the
12 costs of administering a customer-specific rate schedule could prove prohibitive.

⁴ Id. "The Commission declines to require a specific alternative to this unilateral preference during the market test . . ."

⁵ Notice of Inquiry No. 1 Concerning Proposed Mailing Online Experiment, (herein "NOI"), October 16, 1998, at 2. In Issue No. 1, the Commission requested that participants supplement "the record concerning the justification for, and the competitive effects of, the requested waiver . . ."

⁶ Id. at 3. "Participants are requested to comment on the feasibility and desirability of such [a rebate] alternative, and to suggest any other alternatives to the use of this waiver that they consider feasible and desirable."

⁷ PRC Op. R94-1, Appendix F, at 2. "For firms in competitive markets, marginal cost prices are considered to be economically efficient prices. It is widely accepted in the field of economics that marginal cost prices lead to the most efficient allocation of the society's resources (*i.e.*, economic efficiency)."

1 Postal ratemaking has generally dealt with such complications through
2 varying degrees of rate averaging.⁸ However, in the case of Mailing Online, the
3 Postal Service proposes an assumed single average discount rate (within class and
4 shape) in place of five different rates.⁹ An alternative that approaches the ideal is
5 the Commission's suggested rebate of the otherwise applicable postage charges.

6 For Mailing Online, a rebate system removes any competitive advantage on
7 the part of the Postal Service vis-à-vis competitors for small-volume mailings. In
8 general, under a rebate system, each customer pays a postage rate for which their
9 mailpieces qualify when submitted, and then receives a rebate where daily batching
10 of mailpieces produces lower presort discount rates. Consequently, there is no
11 need to waive the minimum volume requirements otherwise applicable to Mailing
12 Online mailings for any presort rates. In terms of pricing, at least, a rebate system
13 places the Postal Service and competitors (or possible new entrants) on an equal
14 footing in the market for small-volume mailings.

⁸ PRC Op. MC95-1, para 3063. "Averaging is an integral part of postal ratemaking. It is neither possible nor wise to try to establish separate rates for every piece of mail."

⁹ In the absence of the proposed waiver of the minimum volume requirements for automation basic rates, there are five rates for which Mailing Online mailpieces could qualify. The five rates (and their abbreviations) are: 1) 5-Digit Automation (5B) for First-Class Mail letters/cards and Standard Mail letters; 2) 3-Digit Automation (3B) for First-Class Mail letters/cards and Standard Mail letters; 3) 3/5-Digit Automation (3/5B) for First-Class Mail flats and Standard Mail flats; 4) Basic Automation Presort (BB) for First-Class Mail letters/cards and flats, and Standard Mail letters and flats, and; 5) Single Piece (SP) for First-Class Mail letters/cards and flats, and Standard Mail letters and flats. Tr. 2/251 (Garvey, POIR No. 1, Question 1). The abbreviations are found on USPS Qualification Reports. See Section P012.2.3 and Section P710.3.3., DMM 52, July 1, 1997.

1 A rebate system also promotes fairness and equity. Because customers pay
2 postage charges for which their mailpieces qualify, all customers are treated the
3 same with respect to the minimum volume requirements for presort discounts,
4 whether they use Mailing Online, a competitor's "hybrid" mail service, or by
5 comparison to hardcopy mail entered directly with the Postal Service.

6 The Postal Service views establishment of a rebate system as unacceptable
7 on grounds of feasibility and contrary to the goals of convenience and simplicity for
8 Mailing Online customers.¹⁰ According to the Postal Service, a rebate system would
9 present "formidable challenges."¹¹ A rebate system would require customers with
10 mailings below the current volume minimums to pay single-piece rates for First-
11 Class Mail and be denied access to Standard Mail rates,¹² since the actual presort
12 level is unknown until daily batching and presortation are performed.¹³
13 Subsequently, "[e]ach customer's qualifying mailpieces must then be individually

¹⁰ Tr. 6/1427 (Garvey, NOI No. 1, Issue 2). "The Postal Service views [a rebate] approach as unacceptable both because of the immense technical complexity implicit in such a design and because it is contrary to the goal of simplicity (finalizing a transaction during a single Web-site visit)." See also Tr. 5/1123 (Plunkett, NOI No. 1, Issue 1). "[A rebate] alternative thus is not consistent with the goals of convenience and simplicity."

¹¹ Tr. 6/1413 (Garvey, OCA/USPS-T5-43(b)-(c)). "Customer accounting, data gathering and data storage all present formidable challenges."

¹² Tr. 5/1123 (Plunkett, NOI No. 1, Issue 1). "Under such a system, customers whose mailings are under the threshold volume would be charged single-piece rates for First-Class Mail, and denied access to Standard Mail rates at the time the transaction is confirmed."

¹³ Tr. 6/1520 (Garvey). "The batching and presorting of the customers' jobs occurs at the end of the day, basically, and that can be many hours after the customer has logged on and submitted their job."

1 evaluated for rebating/crediting purposes, and those credits must be gathered and a
2 transaction performed to adjust every affected customer's account."¹⁴ While such
3 tasks might not be that difficult with a single print site and limited volumes, the
4 Postal Service maintains that complexity grows as the number of print sites
5 increases.¹⁵

6 The Postal Service also considers a rebate system "incompatible" with its
7 strategy of "simplicity and ease of use."¹⁶ Mailing Online is designed to permit
8 customers to complete transactions quickly and efficiently, in a single session.¹⁷
9 Each aspect of the Mailing Online transaction—"electronic document and list
10 submission with real-time verification, online document proofing, menu-driven
11 finishing options and firm final cost quotes and real-time payment processing are
12 part of a strategy to create a simple, straightforward service"¹⁸ Essential to the

¹⁴ Tr. 6/1412-13 (Garvey, OCA/USPS-T5-43((b)-(c))).

¹⁵ Tr. 6/1427-28 (Garvey, NOI No. 1, Issue 2). "While the determination of appropriate discounts with batching via just one print location and limited volumes may not be that difficult, as volume increases during the experiment and the number of print locations expands, the difficulties of tracking and matching each piece's origin to its ultimate qualifying rate would multiply the complexity many times over."

¹⁶ Tr. 6/1428 (Garvey, NOI No. 1, Issue 2). "[T]he inherent complexity of such a transactional model is incompatible with the PostOffice Online's overall strategy of simplicity and ease of use."

¹⁷ Id. (Garvey, NOI No. 1, Issue 2). "The Mailing Online interface is designed to be highly structured and automated so that the user's experience is completed quickly, efficiently and in a single session."

¹⁸ Id. (Garvey, NOI No. 1, Issue 2).

1 strategy of convenience and simplicity is a firm fixed postage charge, which, the
2 Postal Service maintains, is precluded by a rebate system.¹⁹

3 The benefits of establishing a rebate system—eliminating anti-competitive
4 effects and promoting fairness and equity—are significant.²⁰ Nevertheless, the
5 Commission may find the Postal Service's views compelling. As a result, I propose
6 an alternative in the form of a computer-implemented postage pricing formula that
7 achieves most of the benefits of a rebate system and addresses many of the Postal
8 Service's concerns. The alternative I propose is not offered in opposition to the
9 establishment of a rebate system. A rebate system is the best (most efficient)
10 approach. My proposal is second best.

¹⁹ Tr. 5/1122 (Plunkett, NOI No. 1, Issue 1). "The Postal Service has determined to charge a firm fixed price at the time the transaction is confirmed . . . [in order] to provide customers a convenient and simple means of inducting mail into the postal system." See *a/so* Tr. 6/1520-21 (Garvey). "The batching and presorting of the customers' jobs occurs at the end of the day So what depth of sort we might achieve and what possible Postal rate we could offer customers based upon that commingling and combining is not known until possibly long after they have logged off and gone away."

²⁰ Additional evidence appears necessary to support a waiver of the minimum volume requirements for automation basic rates, or alternatives thereto, including a rebate system. See Presiding Officer's Ruling Granting OCA Motion To Compel, December 30, 1998. In its ruling, the Commission stated that it had specifically requested "more evidence on the issue of whether the objectives of the waivers proposed by the Postal Service could be achieved in other ways, such as a rebate system for Mailing Online mail that meets existing requirements for bulk discounts. ("Issue No. 2" in the Notice of Inquiry). The Postal Service's responses to Issues No. 1 and No. 2 in the Notice have substantially improved the record, but they are frequently overly general and conclusory. Responses to the OCA's interrogatories would help fill the critical need for more specific information on the need for, the impact of, and alternatives to, the unilateral waivers of discount eligibility requirements that the Postal Service seeks." *Id.* at 2.

1 III. PRICING FORMULAS CAN REDUCE THE RISK OF NET REVENUE LOSS
2 ASSOCIATED WITH NEW POSTAL SERVICES

3 Setting prices for new postal services is complicated by the lack of cost or
4 demand information. Even established services have some uncertainty associated
5 with their costs and volumes. This uncertainty arises both from the use of statistical
6 sampling for cost and volume estimation and from the need to forecast costs and
7 volumes for future time periods. However, at least with respect to established
8 services, there is a body of data reflecting actual usage. With new services, there is
9 no cost or volume experience to rely upon when setting prices.

10 Postal rates and fees for any service are supposed to cover costs.
11 Uncertainty with respect to costs can be compensated for by establishing a higher
12 margin between unit costs and the rates and fees than might otherwise be
13 necessary in the absence of such uncertainty. In the case of postal subclasses,
14 compensation for uncertainty often takes the form of a higher mark-up or cost
15 coverage.²¹ For worksharing rate categories, especially new ones, compensation
16 often takes the form of discounts that reflect "passthroughs" at less than the
17 estimated unit costs avoided.²²

²¹ See PRC Op. MC97-5 at 51. "While the Service has persuaded us that its estimates of the costs of packaging service are generally reasonable, a coverage of 117 percent provides little protection against the contingency that costs may prove to be higher, or increase, during the provisional service period."

²² See PRC Op. R90-1, para. 5946. "The guiding principles of the Commission's longstanding approach to presort passthrough have been . . . gradually increasing levels of passthrough, as improved cost estimates became available." *Accord* PRC Op. R94-1, para. 5317. "The Commission has set

1 For the proposed Mailing Online service, the Postal Service has devised an
2 ingenious mechanism for dealing with the uncertainty associated with unit cost
3 estimates for the pre-mailing services of a Mailing Online job. The pre-mailing
4 services (e.g., printing and finishing options, such as folding, stapling, tape binding
5 and the application of tabs to self-mailers, and inserting, as well as the provision of
6 paper and envelopes) are performed under fixed-price contracts with commercial
7 printers.²³ The unit costs of the pre-mailing services are thus known with certainty.²⁴
8 However, different jobs submitted by customers will consume these services in
9 varying and, at present, unpredictable proportions.²⁵ Some jobs will require printing
10 on both sides of the paper; others on only one side. Some jobs will be one page;
11 others several pages. Some jobs will use 8.5x11 paper; others 8.5x14 or 11x17.
12 Some jobs will be black and white; others will use spot color.

discounts to reflect less than 100 percent passthrough of cost avoidance because of uncertainty about cost estimates."

²³ The first such fixed-price contract was entered into on August 19, 1998. See USPS-LR-11/MC98-1. An expected total of 25 contracts is to be awarded by the Postal Service by the end of 2001. Tr. 2/162 (Garvey, OCA/USPS-T1-4(a)). "Confirmed" that the Postal Service intends to issue 25 separate solicitations for bids for the 25 commercial print sites expected to be in operation during 2001.

²⁴ USPS-LR-11/MC98-1, "Part 1 - Schedule, 1.1 Items and Prices," as amended. See also Tr. 5/1176-77 (Plunkett). "[Mailing Online] is a somewhat unique product relative to other Postal products in that the vast majority of the costs are, for all intents and purposes, known and certain insofar as they are enumerated in contracts between the Postal Service and third party vendors."

²⁵ Tr. 5/1103 (Plunkett, OCA/USPS-T5-35(f)-(i)). "While the [Rothschild] survey permits reasonable inferences regarding general parameters, it does not allow informed construction of precise estimates of volumes within subclass/job-type/page-count categories as contemplated in this interrogatory." See also Tr. 2/617 (Plunkett, OCA/USPS-T5-28(b)). "[T]he market research presented in USPS-LR-1/MC98-1 provides no guidance regarding which finishing options customers might prefer."

1 Given the large number of paper, printing and finishing options available with
2 Mailing Online, predicting the options chosen for an "average" job is a formidable
3 task.²⁶ An "average" job is likely to have substantial variation. It is also extremely
4 difficult to predict the frequency of each possible job type, and then determine a
5 weighted average cost per job type. Moreover, charging the same weighted
6 average cost plus mark-up for all Mailing Online jobs would have the highly
7 undesirable effect of encouraging customers to submit high-cost jobs while deterring
8 low-cost jobs.²⁷

9 The Postal Service proposes that the pre-mailing service costs, and
10 consequently fees for pre-mailing services, for each Mailing Online job be calculated
11 separately, based upon the specific customer-chosen options for each job.²⁸ Thus,
12 the pre-mailing fee for each job is the specially calculated cost plus 0.1 cents²⁹ per

²⁶ The Postal Service calculates that there are approximately 3,000 different possible job options for customers to choose from. See Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)). There are "a total of 62 job-type batches. The page-count can be equal to or less than 48. Therefore the possible page-count/job-type batches equals $62 \times 48 [\cong] 3000$."

²⁷ Tr. 5/1134 (Plunkett, OCA/USPS-T5-39). "Confirmed" that charging a national average price (i.e., weighted average cost plus mark-up) for all Mailing Online jobs would have the effect of encouraging customers to submit high-cost jobs and deterring low-cost jobs.

²⁸ Tr. 5/1135 (OCA/USPS-T5-40(a)). "Confirmed" that the cost of pre-mailing services for each Mailing Online job will be calculated separately, based on the specific paper, printing and finishing options and distribution preferences chosen by the customer for the job.

²⁹ Based upon more recent estimates, the per impression information system cost is 0.21 cents. Tr. 8/1787 (Plunkett, PB/USPS-T5-6). "[U]sing the new information provided by witnesses Lim and Seckar, a per impression cost of 0.21 cents could be used."

1 impression (for telecommunications and information systems costs) times a cost
2 coverage of 125 percent.³⁰ Consequently, the fee schedule for Mailing Online is not
3 a single price (or even a single price per page) for every job. Nor is the schedule
4 3,000 to 75,000 separate fees—i.e., the estimated 3,000 separate prices for each
5 possible job type multiplied by up to 25 commercial printers with different contract
6 costs. Rather, the fee schedule is, in effect, a formula or set of instructions within
7 computers for calculating pre-mailing fees based upon the characteristics of each
8 job.³¹

9 While the proposed Mailing Online fee schedule exists as a single paragraph
10 in the DMCS,³² in actuality it represents nearly 75,000 different fees for pre-mailing

³⁰ Request of the United States Postal Service for a Recommended Decision on a Market Test Classification and Fee Schedule, and a Recommended Decision on an Experimental Classification and Fee Schedule Mailing Online Service (herein "Request"), Revised August 5, 1998, Attachment B2 at 1, "Fee Schedule 981, Mailing Online."

Fees are calculated by multiplying the Mailing Online cost coverage of 125 percent times the sum of printer contractual costs for the particular mailing and 0.1 cents per impression for other Postal Service costs.

³¹ Tr. 5/1135 (Plunkett, OCA/USPS-T5-40(b)). "Confirmed" that the "fee schedule" for Mailing Online constitutes a formula or set of instructions to calculate the pre-mailing fees based on the characteristics of the job. See *also* Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on the Market Test of Mailing Online Service, Docket No. MC98-1 (herein "Governors Decision"), October 16, 1998 at 4. "The Commission recommended a novel, 'floating' fee schedule, which, in place of particular fees, displays the formula (discussed above) by which the fees are calculated based on the prices set forth in the contract between the Postal Service and the printer, rather than fixed fees for the particular contract currently in place."

³² See Request Attachment B2 at 1, "Fee Schedule 981, Mailing Online," *supra* note 30.

1 services when all 25 print sites are operational.³³ If the Postal Service adds a single
2 new option—i.e., creates two choices where none exists—the number of fees
3 doubles to 150,000 (2 x 75,000). Adding a single new print site introduces nearly
4 3,000 new fees. By proposing a pricing formula rather than completely enumerating
5 all possible fees, the Postal Service manages to make a highly complex fee
6 schedule appear simple.

7 The appearance of fee-schedule simplicity can be maintained for Mailing
8 Online because fee calculation is performed by computers.³⁴ No Mailing Online
9 customer or Postal Service employee need calculate the fee for a particular job.³⁵
10 No customer ever sees the fee calculations. The customer simply submits a
11 proposed job to the Postal Service's computers, and the computers reply with fees
12 for pre-mailing services and a postage charge.³⁶

13 The effect of formula-based pricing is to carry cost-based pricing to a new
14 level. Each Mailing Online mailpiece is charged a price for pre-mailing services

³³ Tr. 5/1141 (Plunkett, OCA/USPS-T1-64(d)). "Confirmed as an approximation, though I would caution that prior to activation of all 25 sites the available features of Mailing Online may change in such a way as to change the number of possible combinations."

³⁴ Tr. 6/1409 (Garvey, OCA/USPS-T5-40(c)). "Confirmed that the fees quoted are calculated by computer at the San Mateo data center."

³⁵ Tr. 7/1713-14 (Garvey). "[Customers] are able to pick off of pick lists on that web page the selections that they want and while they are doing so, they see a [price] response on the screen to the selections that they have chosen It is a totally automated and instantaneous process."

³⁶ Tr. 6/1409 (Garvey, OCA/USPS-T5-40(c)). "Customers receive a two-part quote, premailing fees and postage costs, which are then totaled for payment processing."

1 based upon the unit production cost of that piece. Each individual Mailing Online
2 job covers its own costs and makes a 25 percent contribution to institutional costs.³⁷
3 Consequently, problems associated with traditional rate averaging are reduced
4 tremendously. There is a reduced likelihood of internal cross-subsidization.³⁸
5 Moreover, incentives for uneconomic "cherry picking" among competing providers of
6 service are eliminated.³⁹ No competing provider is able to consistently offer a lower
7 price unless the competitor has lower costs or is willing to accept less than a 25
8 percent profit margin.⁴⁰

9 Given the obvious economic efficiency and apparent simplicity of a computer-
10 implemented pricing formula for pre-mailing service fees, why not apply the same
11 approach to calculating presort discount rates for Mailing Online? The Postal
12 Service proposes Automation Basic rates for all First-Class Mail, and Automation

³⁷ USPS-T-5 at 18. "The [25 percent] markup would be applied to the actual pre-mailing costs of each customer's transaction This markup guarantees that Mailing Online will cover its attributable costs and provide a contribution to cover institutional costs."

³⁸ Tr. 5/1130-31 (Plunkett, NOI No. 1, Issue 6). "[N]early all of the costs of Mailing Online are incurred on a unit basis [citation omitted], thus reducing the likelihood of cross subsidization."

³⁹ USPS-T-5 at 3. "In the absence of a markup over geographically variable costs, the Postal Service will be forced to use an average national price. In areas where prevailing prices are low relative to the Postal Service fee, price sensitive customers might use other providers . . ."

⁴⁰ Tr. 5/1128 (Plunkett, NOI No. 1, Issue 1). "It is conceivable that a potential competitor . . . may be able to purchase printing capacity from printers who can more easily use existing equipment and space. This may thereby enable such a competitor to achieve lower costs than Mailing Online. Alternatively, . . . [a digital printer] business might enjoy a cost advantage because it would presumably charge a rate comparable to what contractors could charge the Postal Service while the Postal Service's fees would be 25 percent higher."

1 Basic Destination BMC rates for all Standard A mail⁴¹—regardless of whether the
2 Mailing Online mailing qualifies for lesser or greater discounts.⁴² In the alternative to
3 the proposed discount rates for all mailings, the Postal Service apparently fears that
4 it would be unable to offer Mailing Online customers the convenience and simplicity
5 of a definite postage charge at the time the transaction is confirmed.⁴³
6 Consequently, the Postal Service believes its has only two options: (1) a highly
7 averaged single discount rate (within class and shape) for all mail,⁴⁴ or (2) a

⁴¹ For purposes of the experiment, the Postal Service has effectively abandoned its request for Automation Basic DBMC rates for Standard A mail.

CHAIRMAN GLEIMAN: Okay. So one could reasonably assume that if the Commission did not recommend that discount, that postal management when it presented the recommended decision of the Commission on the experimental case to the Governors would not make a cause celebre out of this fact that the Commission chose not to recommend this [DBMC] discount.

THE WITNESS [Plunkett]: I think that's a fair conclusion.

Tr. 5/1164. The Postal Service's action follows the Commission's decision not to exempt Mailing Online from the DBMC discount requirements during the market test. See PRC Op. MC98-1 at 29.

⁴² USPS-T-5 at 11-12. "[I]n some cases a printer's daily volume, especially early in the experiment, may not exceed the 500-piece minimum volume established for the automation rates If Mailing Online volume exceeds expectation, or is in any way concentrated in a particular area, it is conceivable that printers will be presented with volumes large enough to qualify for larger discounts than those offered via Mailing Online. In the event that this happens, the predetermined rates, *i.e.*, automation basic for First-Class and automation DBMC for Standard Mail would still apply."

⁴³ Tr. 5/1122 (Plunkett, NOI No. 1, Issue 1). "The Postal Service has determined to charge a firm fixed price at the time the transaction is confirmed . . . [in order] to provide customers a convenient and simple means of inducting mail into the postal system."

⁴⁴ Tr. 6/1429 (Garvey, NOI No. 1, Issue 3). "[T]he Postal Service [is] . . . thus committing to a single average rate category (within class and shape) for all volume received and mailed. The use of an average rate is also critical to completion of a transaction in a single Web-site visit"

1 contingent rate that might change after daily batching determines the depth of sort.⁴⁵
2 The Postal Service imagines a cascade of problems resulting from option two and
3 thus proposes option one.⁴⁶

4 A postage pricing formula offers a third option for calculating Mailing Online
5 postage charges, should the Commission accept the Postal Service's views with
6 respect to a contingent discount rate. Formula-based pricing virtually eliminates
7 crude discount averaging. Formula-based pricing preserves convenience and
8 simplicity for Mailing Online customers in the form of a certain price up front.
9 Through the high-speed data-processing capabilities of computers, the Postal
10 Service could implement a postage pricing formula that incorporates Postal Service
11 batching and presorting during the experiment to calculate postage charges instead
12 of assuming one presort discount rate for all Mailing Online mailings.

⁴⁵ Tr. 5/1140-41 (Plunkett, OCA/USPS-T1-64(c)). "All the parameters necessary for the operation of the algorithm used to calculate [pre-mailing] fees can be known at the time that a customer presents a document for acceptance. The same is not true of postage rates if rates are based on the depth of sort that a customer's mailing attains as a result of document batching." See also Tr. 6/1521 (Garvey). "Technically speaking, it would be possible to charge many different rates . . . to the customer online. The problem with that is we don't know what . . . ultimate rate they should be charged until . . . perhaps long after they are gone."

⁴⁶ Tr. 6/1410 (Garvey, OCA/USPS-T5-41(d)). "Confirmed. These sentences [from the Commission's Opinion and Recommended Decision on Market Test, PRC Op. MC98-1 at 13-14] reflect issues that guided the Postal Service's decisions regarding the structure of Mailing Online service."

1 IV. IT IS BOTH DESIRABLE AND FEASIBLE TO CALCULATE A UNIQUE
2 POSTAGE CHARGE FOR EACH MAILING ONLINE MAILING

3 In the case of Mailing Online, it is not only desirable but feasible to assess
4 postage charges specific to each customer's mailing. The Postal Service's method
5 of determining pre-mailing service fees for Mailing Online suggests how a unique
6 postage charge for each customer's mailing could be calculated.

7 The use of high-speed computer data processing allows the Postal Service to
8 propose and the Commission to recommend a "novel, 'floating' fee schedule" for
9 pre-mailing services during the Market Test.⁴⁷ Computers allow the Postal Service
10 to manage approximately 75,000 prices of 25 commercial printers for nearly 3,000
11 different printing options, and to accommodate changes in contract prices and
12 printing options without further regulatory proceedings.⁴⁸ Similarly, such computer
13 capabilities make it feasible to calculate a unique postage charge for each Mailing
14 Online mailing.

15 A. Setting Postage Charges For Mailing Online On The Basis Of Actual
16 Experience Eliminates Both Guesswork And Any Anti-Competitive
17 Effect Of Waiving Minimum Volume Requirements For Automation
18 Basic Rates

19 The Postal Service's experience batching and presorting Mailing Online
20 mailpieces should be the basis for setting postal charges during the experiment.

⁴⁷ Governors Decision, at 4, *supra* note 31.

⁴⁸ *Id.* "As the Commission noted, this [floating fee schedule] allows for the flexibility needed to accommodate the potential use of multiple printing contractors and to accommodate changes in individual contracts without further proceedings."

1 Using volume data from the Mailing Online experiment, I propose a computer-
2 implemented pricing formula similar to that which exists for pre-mailing fees.

3 My pricing formula calculates Mailing Online postage charges based upon the
4 batching and presortation experience of the Postal Service. At the outset of the
5 Mailing Online experiment, the Postal Service's assumed single average discount
6 rate (e.g., Automation Basic for First-Class, or Automation Basic for Standard A)
7 would apply to all mailpieces. Thereafter, the Postal Service's experience batching
8 and presorting mailpieces would gradually be reflected in the postage charge.
9 Volume data on the level of presortation for each job type would be collected in
10 tables. The accumulated presort-level volume data by job type implies a weighted
11 average rate for that job type. This experience-based weighted average rate would
12 periodically be incorporated into the pricing formula, along with the Postal Service's
13 assumed single average discount rate. Subsequent mailings of a given job type
14 result in customers paying postage charges reflecting, in part, the Postal Service's
15 batching and presorting experience.⁴⁹ If, as the Postal Service assumes, the
16 proposed Automation Basic rates "are appropriate given the characteristics of the
17 mail pieces produced by Mailing Online,"⁵⁰ then the discount rates calculated under
18 my pricing formula would be the same as those proposed by the Postal Service. If
19 the Postal Service can batch mailpieces and presort those batches more deeply

⁴⁹ Alternatively, customers pay postage charges for which their mailings (of a given job type) qualify if entered as hardcopy directly with the Postal Service, if that charge is lower than the pricing formula calculation.

⁵⁰ USPS-T-5 at 11.

1 than necessary to qualify for the proposed discount rates, my pricing formula would
2 calculate lower discount rates. At the conclusion of the Mailing Online experiment,
3 the pricing formula produces postage charges that are entirely based on experience.

4 The pricing formula I propose strikes a balance between simplicity with
5 competitive advantage for the Postal Service, on the one hand, and greater
6 complexity with fairness for both customers and competitors, on the other. In the
7 case of Mailing Online, as proposed, postage calculations are simplified by offering
8 all customers the same discount rate—Automation Basic (within class and shape)—
9 at the time the Mailing Online transaction is confirmed. However, such simplification
10 has a price. The Postal Service reserves a competitive advantage for Mailing
11 Online by exempting small-volume mailings from the minimum volume requirements
12 for Automation Basic rates otherwise applicable to such mailings, and still applicable
13 to the mailings of competitive service providers.

14 My pricing formula eliminates any competitive advantage on the part of the
15 Postal Service and thereby promotes fairness. Mailing Online customers pay
16 postage charges for which their mailings qualify when submitted, or rates calculated
17 by the pricing formula reflecting the Postal Service's batching and presorting
18 experience during the experiment, whichever is lower. Consequently, my proposal
19 obviates the need to waive the minimum volume requirements otherwise applicable
20 to Mailing Online mailings. My proposal also eliminates anti-competitive effects
21 caused by adopting the proposed waiver. Competitors and potential new entrants
22 are not disadvantaged, as no preference is accorded to the Postal Service versus a
23 competitor in the market for small-volume mailings.

1 My pricing formula preserves simplicity for Mailing Online customers in the
2 form of a firm fixed postage charge when the Mailing Online transaction is
3 confirmed, but adds some complexity for the Postal Service. The pricing formula
4 calculates a postage charge using experience-based weighted average rates by job
5 type derived from volume data from prior time periods during the experiment and
6 applied in subsequent periods. Consequently, a firm fixed postage charge can be
7 offered when mailings are submitted, since the experience-based rates used in the
8 formula are known and will be unaffected by daily batching. Simplicity for customers
9 is thereby preserved.

10 Nevertheless, the pricing formula introduces some complexity for the Postal
11 Service. In general, the determination of postage charges is more involved, since
12 customers are offered rates for which their mailings qualify when submitted or rates
13 calculated by the pricing formula, whichever is lower. Moreover, because the pricing
14 formula relies on volume data, that data must be collected by presort level for each
15 job type by class. Limited rate averaging by job type over specified time periods is
16 introduced in order to derive the experience-based weighted average rates used in
17 the formula. However, relative to a rebate system, the pricing formula avoids the
18 complications associated with evaluating and adjusting customer accounts
19 envisioned by the Postal Service.⁵¹

⁵¹ See Tr. 6/1412-13 (Garvey, OCA/USPS-T5-43(b)-(c)). See also note 14, *supra*.

1 Finally, my pricing proposal permits verification of the Postal Service's
2 assumption that Automation Basic is the most appropriate discount rate for all
3 Mailing Online mailings. The Postal Service predicts large volumes of mail will
4 permit high densities and levels of presortation beyond those required for the
5 proposed Automation Basic discount rate.⁵² Accordingly, the Postal Service intends
6 to test this hypothesis during the Mailing Online experiment.⁵³ My proposal also
7 tests this hypothesis using available Mailing Online data, but goes one step further.
8 In keeping with the notion of an "experiment," I propose to test a computer-
9 implement postage pricing formula, using data from the experiment to derive
10 experience-based weighted average rates, to calculate postage charges on an
11 ongoing basis.

12 B. It Is Possible To Develop A Pricing Formula To Calculate Postage For
13 Mailing Online That Will Initially Generate The Postal Service's
14 Proposed Discount Rate And Then Adjusts Postage To Reflect Actual
15 Presorting Experience Over The Course Of The Experiment

16 The pricing formula I propose calculates postage charges for each Mailing
17 Online mailing. The formula is intended to guide the development of an algorithm to
18 be incorporated in Mailing Online software.⁵⁴

⁵² Tr. 2/158 (Garvey, MASA/USPS-T5-10(b)). "[W]e predict that large volumes of locally destinating mail will flow through the MOL system and allow high densities and levels of sort beyond those required of the requested basic automation rate."

⁵³ Id. (Garvey, MASA/USPS-T5-10(b)). "We will test this hypothesis during the market test and experimental service periods."

⁵⁴ Tr. 5/1140 (Plunkett, OCA/USPS-T1-64(a)-(b)). "[T]he act of incorporating [the pre-mailing fee] formulae into the Mailing Online software gives rise to an algorithmic formulation."

Revised 3-3-99

1 Two practical results are obtained from this pricing formula. First, it ensures
2 that all Mailing Online mailpieces, at a minimum, receive the discount rates for which
3 the mailings would qualify if entered as hardcopy directly with the Postal Service.
4 Second, the formula automatically adjusts postage charges to reflect the actual
5 batching experience of the Postal Service during the course of the experiment.

6 My pricing formula produces a blended discount rate consisting of the
7 proposed Automation Basic discount rate and an experience-based weighted
8 average rate based upon Postal Service volume data from batching and presorting.
9 During the first period of the experiment, the postage rate is the same for all
10 mailings—the assumed single average (i.e., Automation Basic) discount rate
11 proposed by the Postal Service. Cumulative depth of sort data is collected for each
12 possible job-type/page-count category.⁵⁵ At the end of the period, a weighted
13 average rate for each job-type/page-count category is calculated based on the
14 actual depth of sort achieved for that category.⁵⁶ During the second and

⁵⁵ The Postal Service states that there are 62 Mailing Online job-types, and a maximum of 48 pages for each job-type, resulting in nearly 3,000 job-type/page-count "batches." Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)). However, during the operation of Mailing Online, not all job-type/page-count combinations are likely to be "commingled" or "batched," Tr. 7/1721-22 (Garvey); that is, "aggregated into a single file." Tr. 2/194 (Garvey, OCA/USPS-T1-19(a)(ii)). The Postal Service identifies "commingled batches," as well as "separate batches," which consist of mailpieces that have not been batched at all. Tr. 6/1353 (Garvey, OCA/USPS-T1-45(b)). I use the term "job-type/page-count category" to describe the nearly 3,000 job-type/page-count combinations prior to batching, since all job-type/page-count volume data is relevant to my proposal, whether a result of batching or not. By contrast, I reserve the term "job-type/page-count batch" or "batch" to mean a single file of like mailpieces (i.e., the same job-type/page-count) that have been batched.

⁵⁶ "Depth of sort" and "level of presort" are defined as "a vector of integers whose elements are the volumes of a mailing that qualified for the various available

Revised 3-3-99

1 subsequent periods, each customer is offered the lesser of its "stand-alone" rate or
2 a blended discount rate consisting of the assumed single average discount rate and
3 the experienced-based weighted average rate for the submitted job type. The
4 specific blended discount rate offered is adjusted by a weighting factor applied to
5 each formula component during each period. The weighting factor increases
6 gradually as the experiment progresses, resulting in more "weight" assigned to the
7 discount derived from Postal Service experience and successively less "weight" to
8 the assumed single average discount rate. At the conclusion of the experiment,
9 postage charges are entirely experience-based.

10 The derivation of an experience-based weighted average rate is
11 commonplace in the determination of postage charges, and a familiar process to the
12 Postal Service. In the case of hardcopy mail entered directly with the Postal
13 Service, where a mailing exceeds the minimum volume requirements, it will qualify
14 for some or all of the various presort discounts available. The mailer's total postage
15 charge, then, is the sum of the presort discount rates times the number of
16 mailpieces that qualify at each presort level. In effect, the mailer's total postage
17 charge for the mailing is nothing more than an experience-based weighted average
18 discount rate specific to the mailing.

19 In the case of Mailing Online, the derivation of the experience-based
20 weighted average rate requires the collection of volume data showing the extent of

presort discounts (as shown on a Qualification Report), the order of the elements being from greatest discount to no discount." See Tr. 8/1773 (Plunkett, OCA/USPS-T5-51(d)).

- 1 batching and presortation achieved by the Postal Service during the experiment.
- 2 Table I presents a simplified rendering of the data necessary by presort level for
- 3 nine possible job-type/page-count categories.⁵⁷ In the fully operational Mailing
- 4 Online experiment, the theoretical maximum number of tables for First Class would
- 5 be 2,976 (48 x 62),⁵⁸ one for each job-type/page-count category estimated by the
- 6 Postal Service.

⁵⁷ The presort levels applicable to Mailing Online are denoted by the abbreviations 5B, 3B, 3/5B BB, and SP in Table I. See *supra* note 9.

⁵⁸ See Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)). However, witness Garvey maintains that, "A fundamental design objective of the MOL system is to combine all jobs to the greatest extent possible . . . [a]lthough differences in processing categories and handling characteristics are likely to prevent complete combination of all jobs for the foreseeable future . . ." Tr. 6/1400. Some features likely to "prevent complete combination" include batching letters and flats, First-Class and Standard A letters, and mailpieces with different service levels (i.e., next-day service and two-to-five day service). Tr. 6/1600-01. According to witness Plunkett, the realization of this fundamental design objective would make most of the job-type information unnecessary for purposes of determining depth of sort. Tr. 8/1774 (Plunkett, OCA/USPS-T5-51(a)-(c)). Under such circumstances, the theoretical maximum number of data tables estimated for my proposal would be reduced to four: First-Class Mail letters and flats, and Standard A Mail letters and flats.

Revised 3-3-99

Table I
MAILING ONLINE "LOOK-UP" TABLES FOR FIRST CLASS MAIL CONTAINING PERIODIC AND CUMULATIVE VOLUME DATA BY JOB TYPE BY PAGE COUNT BY PRESORT LEVEL

Table I.A.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 1			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.B.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 1			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.BJ.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 1			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.A.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 2			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.B.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 2			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.BJ.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 2			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.A.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 48			
Volumes			
Presort Level	Rates (Cents)	Period * <i>n</i>	All Prior Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

Table I.B.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 48			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

Table I.BJ.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 48			
Volumes			
Presort Level	Rates (Cents)	Period <i>n</i>	All Prior Periods
<2lb Priority Mail	320.0		
Weighted Average Rate			

1 The presort-level volume data is collected by job-type/page-count category
 2 each period. At the end of each period, the volume data is summed with data from
 3 prior periods for each job-type/page-count category. The cumulative presort-level
 4 volume data by job-type/page-count category implies a particular experience-based
 5 weighted average rate. For example, suppose that data collected during period one
 6 revealed the volume and proportions by presort level for job-type A/page-count 1, as
 7 shown in Table II. The implied experience-based weighted average rate used in
 8 period two would be 27.6 cents $((0.25 \cdot 24.3) + (0.25 \cdot 26.1) + (0 \cdot 20.3) + (0.25 \cdot$
 9 $27) + (0.25 \cdot 33))$. Table II shows the derivation of the experience-based weighted
 10 average rate in the last column.

11

Table II
DERIVATION OF EXPERIENCE-BASED
WEIGHTED AVERAGE RATE

Job-Type A/Page-Count 1				
Presort Level	Volume	Percent of Total	Rates (cents)	Weighted Average Rate (cents)
5B	500	0.25	24.3	6.075
3B	500	0.25	26.1	6.525
3/5B	0	0	20.3	0
BB	500	0.25	27.0	6.750
SP	500	0.25	33.0	8.250
Total	2,000	1		27.600

12

13 The presort-level volume data used to derive the experience-based weighted
 14 average rates requires two data sets. Both sets consist of volume data on the
 15 association of presort level with job-type/page-count characteristics, as shown in

Revised 3-3-99

1 Table I.⁵⁹ The first set consists of Mailing Online volume data by presort level during
 2 the current period for each job-type/page-count category (the "Period *n*" volume
 3 column). The second set consists of the cumulative volume data for each job-
 4 type/page-count category as presorted for all periods other than the current period
 5 (the "All Prior Periods" volume column). The cumulative volume data and rate
 6 information are used to derive the experience-based weighted average rates shown
 7 in each "look-up" table. The experienced-based rates are used in the formula to
 8 calculate the blended discount rates in the current period.

9 Consequently, for each job-type/page-count category, if *x* represents the
 10 experience-based weighted average rate, and *y* the assumed single average
 11 discount rate proposed by the Postal Service, the blended discount rate (*D*) for any
 12 mailing of the job-type/page-count category is

13

$$14 \quad D = xw + y(1-w)$$

Equation 1

15

⁵⁹ The Mailing Online system will produce the presort-level volume data to derive the experience-based weighted average rate for each job-type/page-count category. As currently configured, the Postal Service's processing center computer will require job-type, page-count, address list ZIP+4 Codes and print site ZIP Code tables to permit distribution to print sites, batching, and the presortation of batches. Tr. 8/1774 (Plunkett, OCA/USPS-T5-51(a)-(c)). Moreover, the Mailing Online system is currently being modified to enable a Mail.dat reporting option. (Garvey, OCA/USPS-T1-72(c)(i)). This option would permit reporting on the association of mailing statements on presort qualification with batch information. Id. "With the eventual advent of the Mail.dat utility, depth of sort information for non-qualifying mailings will also become available." Tr. 8/1770 (Plunkett, OCA/USPS-T5-48(a)-(c)).

1 where w represents the weighting factor computed each period.

2 The weighting factor (w), applied to the experienced-based average rate in
3 each period, is derived as follows:⁶⁰

$$4 \quad w = \frac{\sum_{i=1}^n (i-1)}{\sum_{i=1}^N i} \quad \text{Equation 2}$$

5 where N represents the total number of periods, and n represents the current period.

6 Conversely, the weight applied to the assumed average discount is $(1 - w)$.

7 If the experience-based average rates are recalculated every quarter during
8 the experiment,⁶¹ $N = 8$, and for the first quarter, $n = 1$. The numerator then equals
9 0, reflecting the fact that there is no accumulated experience in the first quarter, and
10 the denominator equals 36, i.e., the sum of the digits representing each quarter ($1 +$
11 $2 + 3 + 4 + 5 + 6 + 7 + 8$). Thus, in the first quarter, the weighting factor (w) applied
12 to the experienced-based average rate is 0 ($0/36$), and the weight applied to the
13 assumed single average discount rate is 1 ($1 - 0$). In the fifth quarter, i.e. at the
14 beginning of the second year of the experiment, $n = 5$, and the numerator becomes

⁶⁰ This formula-derived weighting factor will be recognized by those familiar with the Sum-of-the-Years'-Digits (SYD) method of accelerated depreciation for real property. The SYD method uses a decreasing fraction in each succeeding period times the cost of the property to calculate the depreciation. The formula presented here is simply the accumulated "sum-of-the-years' digits" method in reverse; that is, an increasing fraction in each succeeding period. The formula thereby gives more of the "depreciation" (i.e., weight for experience) to later periods than to earlier periods.

⁶¹ An adjustment every quarter is assumed for illustrative purposes. The exact value of N could range from two to continuous. A continuous adjustment would, of course, require modification of the formula presented here.

1 10, resulting in a weighting factor of 10/36 being applied to the experienced-based
 2 average rate, and a weight of 26/36 ($1 - (10/36)$) applied to the assumed single
 3 average discount rate. By the last quarter, $n = 8$, and the weighting factor applied to
 4 the experienced-based average rate is 28/36.⁶² Table III shows the weighting
 5 factors derived from Equation 2 that are applied to the experience-based average
 6 rate each quarter.

Table III
DERIVATION OF WEIGHTING FACTORS
APPLICABLE TO EXPERIENCE-BASED AVERAGE
RATES

Quarters	Equation 2		Factors
	Numerator	Denominator	
1	0	36	0/36
2	1	36	1/36
3	3	36	3/36
4	6	36	6/36
5	10	36	10/36
6	15	36	15/36
7	21	36	21/36
8	28	36	28/36

7 1. At the Beginning of the Experiment, Postage Charges for
 8 Mailing Online Would Be Based on the Assumed Ability of the
 9 Postal Service to Batch Jobs for the Purpose of Presorting

10 At the beginning of the experiment, the pricing formula I propose "accepts"
 11 the Postal Service's assumed ability to batch jobs for the purpose of presorting.
 12 Moreover, the formula "accepts" the Postal Service's assumed single average
 13 discount rate for purposes of determining postage charges for Mailing Online

⁶² In the "ninth" quarter, i.e., the beginning of the third year of operation of Mailing Online, and every quarter thereafter, the weighting factor applied to the experience-based weighted average rate is 1 (36/36).

1 customers. Consequently, for the first quarter of the experiment, Mailing Online
2 customers are offered the assumed single average discount rate, Automation Basic
3 (within class and shape), as proposed by the Postal Service. And the proposed
4 pricing formula generates the same postage charge as the Postal Service proposes
5 to offer. For example, the First-Class Automation Basic rate is 27 cents. The
6 discount rate calculated by the pricing formula is also 27 cents ($x(0) + 27(1-0)$).

7 During the first quarter, and all subsequent quarters, data on volumes
8 actually presorted by the Postal Service are collected, accumulated, and tabulated
9 for each job-type/page-count category. The data collected serves two purposes. It
10 serves to verify the Postal Service's assumption as to whether Automation Basic is
11 truly reflective of the characteristics of Mailing Online mailpieces. It also permits
12 derivation of the experience-based weighted average rate for each job-type/page-
13 count category used in the formula to calculate postage charges during the
14 experiment.

15 2. If Batching Experience with Mailing Online During the
16 Experiment Verifies Original Assumptions, the Postage Pricing
17 Formula Would Automatically Generate Charges Based Upon
18 the Original Assumptions

19 The Postal Service claims that Automation Basic is the appropriate discount
20 rate for Mailing Online service. At full implementation, the Postal Service expects to
21 obtain sufficient volumes to permit batching and presorting at least to the

1 automation basic level.⁶³ Under such circumstances, the pricing formula also
 2 generates discount rates consistent with that assumption. For example, suppose
 3 the experience-based weighted average rate derived from data during the first two
 4 quarters for a certain job-type/page-count category is 27 cents, the same as the
 5 First-Class Automation Basic rate proposed by the Postal Service. Then the
 6 blended discount rate in the third quarter calculated by the pricing formula is also 27
 7 cents ($27(3/36) + 27(1-(3/36))$).

8 3. If Batching Experience with Mailing Online During the
 9 Experiment Differs from Original Assumptions, the Postage
 10 Pricing Formula Would Automatically Adjust Charges to
 11 Experience

12 One of the desirable characteristics of the Postal Service's formula for
 13 calculating Mailing Online pre-mailing fees is that fees automatically adjust as the
 14 Postal Service experiences changes in contractor printing costs. Contract costs for
 15 the various printing and finishing options, as well as ZIP Codes areas, associated
 16 with each printer are stored in "look-up" tables in the Postal Service's computer.⁶⁴
 17 As new print sites are added, new services offered, or costs of existing services

⁶³ Tr. 2/572 (Plunkett, MASA/USPS-T2-3(c)). "[A]t full implementation, Mailing Online is expected to generate tens of thousands of pieces per printer per day on average. Thus it is expected that Mailing Online pieces will meet the aforementioned qualifications." See also Tr. 5/1127 (Plunkett, NOI No. 1, Issue 1). "In fact, we expect that in most instances, the mail may be presorted more finely and dropshipped more deeply into the system than is necessary to qualify for the proposed discounts."

⁶⁴ Tr. 6/1384 (Garvey, OCA/USPS-T1-59(b)). "According to the developer . . . The current system uses a print site table that defines the characteristics of the print site. This combined with the [ZIP C]ode of the addressee determines the print site destination for a mail piece."

1 change during the course of the experiment, these tables are updated.⁶⁵ To
2 calculate the pre-mailing fees for a particular Mailing Online job, the computer first
3 uses addressee ZIP Codes to determine to which print site(s) the job will be sent.⁶⁶
4 The computer automatically references prices in the "look-up" tables associated with
5 the relevant print sites. A different pre-mailing fee is then calculated for each group
6 of mailpieces going to different print sites.

7 Just as the pre-mailing fees of Mailing Online adjust to actual contractor costs
8 at new (and existing) print sites, so too will the pricing formula I propose adjust
9 postage charges for Mailing Online mailings based upon actual experience.
10 Cumulative data on the Postal Service's experience batching and presorting the
11 various job-type/page-count categories from all prior quarters permits derivation of
12 an experience-based weighted average rate for each category. This rate
13 information is stored in "look-up" tables for each job-type/page-count category, as
14 shown in Table I. The computer-implemented pricing formula references the "look-
15 up" tables, and combines the relevant experience-based weighted average rate with
16 the Postal Service's assumed single average discount rate to calculate the blended
17 postage charge offered to Mailing Online customers.

18 Continuing the previous example, the calculations are as before. However,
19 for the first two quarters, assume instead an experience-based weighted average
20 rate of 26.1 cents (i.e., a First-Class Automation 3-Digit Presort). The formula

⁶⁵ Tr. 6/1385 (Garvey, OCA/USPS-T1-59(d)). "[T]he print site table would . . . simply be modified to reflect the addition or deletion of specialized capabilities."

⁶⁶ Tr. 6/1384 (Garvey, OCA/USPS-T1-59(b)).

1 produces a blended discount rate in quarter three of 26.925 cents ($26.1(3/36) +$
2 $27(1-(3/36)))$. Over time, the experience-based weighted average rate is expected
3 to change. As a result, assume that the experience-based weighted average rate
4 with four quarters of data is now 24.3 cents (i.e., First-Class 5-Digit Presort). The
5 blended discount rate in quarter five is 26.25 cents ($24.3(10/36) + 27(1-(10/36)))$.

6 The change in the blended discount rate from quarter three to quarter five
7 illustrates the two components affecting the calculation of postage charges. The
8 first is the gradual increase in the weighting factor as the experiment progresses.⁶⁷
9 The second is the change in the experience-based weighted average rates resulting
10 from Postal Service batching and presorting. Both components could work in
11 tandem to produce ever lower discount rates, as shown in the two preceding
12 examples. Or they could work at cross purposes, with discount rates remaining
13 constant or even increasing during the experiment.

14 4. Batching Experience with Mailing Online Late in the Experiment
15 Would Carry More Weight in Postage Calculations Than
16 Experience Early in the Experiment

17 The Postal Service recognizes that as the experiment progresses, mailings
18 submitted in a "more mature environment" are likely to be more representative of
19 "permanent" job types than mailings submitted earlier in the development of Mailing
20 Online.⁶⁸ As the Postal Service states, "[c]ommon sense suggests . . . that

⁶⁷ See Table III for the derivation of the weighting factors, *supra* IV.B.

⁶⁸ Tr. 6/1363 (Garvey, OCA/USPS-T1-52(b)). "I can agree that jobs submitted in a more mature environment should be more similar to permanent jobs than those from earlier in the market test."

1 individual users' respective and collective experiences would mature over time to
2 provide a clearer picture of demand and common job characteristics.⁶⁹

3 These same expectations are relevant to implementation of my postage
4 pricing formula. During the latter stage of the experiment, more complete data on
5 "demand and common job characteristics" will be available upon which to base
6 postage calculations. For example, as the experiment progresses, the cumulative
7 volume data will weigh more heavily in the calculation of postage charges under the
8 pricing formula. This is a consequence of the larger weighting factor applied to the
9 experience-based weighted average rate. To see this, suppose the experience-
10 based weighted average rate remains, as in the previous example, at 24.3 cents.
11 However, in quarter eight, the weighting factor increases to 28/36. Consequently,
12 the formula produces a blended discount rate of 24.90 cents ($24.3(28/36) + 27(1-$
13 $(28/36))$).

⁶⁹ Id.

1 V. CONCLUSION

2 I support establishment of a rebate system for Mailing Online because it is
3 the best approach. In the alternative, I propose a computer-implemented postage
4 pricing formula that incorporates Postal Service batching and presorting during the
5 experiment to calculate postage charges. The alternative I propose achieves most
6 of the benefits of a rebate system, while addressing many of the Postal Service's
7 concerns regarding implementation of such a system. The formula eliminates the
8 anti-competitive effects of waiving the minimum volume requirements for Automation
9 Basic rates proposed by the Postal Service. At the same time it preserves
10 convenience and simplicity for Mailing Online customers in the form of a firm fixed
11 postage charge at the time the Mailing Online transaction is confirmed.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9

MASA/OCA-T100-1. Would your pricing proposal require USPS to incur additional costs for MOL in the following categories listed below? Explain the reasons for each of your answers.

- (a) Designing software to implement the pricing proposal;
- (b) Acquiring hardware to implement the pricing proposal;
- (c) Maintaining hardware for implementation of the pricing proposal;
- (d) Maintaining and updating software used to implement the pricing proposal;
- (e) Loss of revenue as a result of lower postage rates than under the USPS proposal in some or all instances.

A. (a) Implementation of my proposal would require some code modification by the Postal Service's system developer. Code modification would be concentrated in two principal areas. First, under my proposal, Mailing Online customers would pay rates for which their mailpieces would qualify if entered as hardcopy directly with the Postal Service. This proposal would require the Postal Service to presort mailings at the time they are submitted. At present, the Postal Service creates separate batches for each print site before presortation. Tr. 6/1600 (Garvey). There is no technical barrier to modifying the code to switch the order of presortation. The Postal Service confirms that it would be "technically possible" and "physically feasible" to charge a Mailing Online customer a postage rate for which the customer's mailing would have qualified if submitted in hardcopy. Tr. 7/1669 (Garvey); see also Tr. 6/1411 (Garvey, OCA/USPS-T5-42(b)).

Second, my pricing formula uses experience-based weighted average rates. The derivation of experience-based weighted average rates requires the use of presort-level volume data by job-type/page-count category. The Postal Service states that the

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

next major release of the Mailing Online software will collect volume data by "batch type" (i.e., job-type/page-count) by presort level. Tr. 8/1771 (Plunkett, OCA/USPS-T5-49). To the extent the volume data is not collected in "look-up" tables, the following code modification would be required: (1) collect each quarter the presort-level volume data by job-type/page-count category in "look-up" tables, see OCA-T-100 at 25-26, lines 19-20, and 1-6, respectively, (2) calculate experience-based weighted average rates for each job-type/page-count category from all quarterly presort-level volume data at the end of each quarter, see OCA-T-100 at 28-29, lines 1-15, and 1-8, respectively, and (3) program the processing center computer to reference the experience-based weighted average rates from the job-type/page-count categories relevant to customer mailings in order to calculate the blended discount rate. See OCA-T-100 at 34, lines 10-17.

(b) It appears that the Postal Service would not need to incur additional costs to acquire hardware in order to implement my proposal. The Postal Service claims it has over estimated the capacity for (and costs of) Mailing Online. Tr. 3/510 (Stirewalt).

(c) It appears the Postal Service would not incur any additional hardware maintenance costs. The hardware used to implement my proposal would be the same hardware relied upon by the Postal Service to implement Mailing Online. Since the necessary hardware is already in place (or planned for placement) to operate the Mailing Online service, no special or additional maintenance as a consequence of implementation of my proposal would be required.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

(d) Once the job-type/page-count "look-up" tables are established under my proposal, no code maintenance would be required. However, to the extent new job-types are introduced to the Mailing Online "menu," there would be maintenance with respect to the addition of "look-up" tables. The introduction of new job-types would also require maintenance with respect to the addition of those new features to the pre-mailing service print site "look-up" tables. See OCA-T-100 at 33-34, lines 12-17, and 1-6, respectively. The amount of maintenance required for new job-type "look-up" tables would be comparable to the maintenance required to add new job-types to pre-mailing service fee print site tables.

(e) There could be a small loss of revenue, or a large gain in revenue. Based upon biweekly reports of the market test filed through February 25, 1999, only two mailings could have reduced revenues by qualifying for deeper discounts than Automation Basic. A rate reduction of 0.9 cents and 2.7 cents would have been available for 956 and 177 pieces, respectively—a revenue reduction of about 14 dollars. More importantly, however, the prospect of deeper discounts for qualifying mailings under my proposal may attract greater volumes. The result would be new net revenue contributions to the Postal Service.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-2. Have you determined or estimated any of the costs of implementing your pricing proposal in any of the categories listed below? If so, describe what you have done to determine or estimate the costs and the results. If not, explain why you have not done so.

- (a) Designing software to implement the pricing proposal;**
- (b) Acquiring hardware to implement the pricing proposal;**
- (c) Maintaining hardware for implementation of the pricing proposal;**
- (d) Maintaining and updating software used to implement the pricing proposal;**
- (e) Loss of revenue as a result of lower postage rates than under the USPS proposal in some or all instances.**

A. (a) No. Implementing my proposal involves three simple tasks: 1) accessing the presorting program that is already part of the Mailing Online system, 2) accessing volume data that is already being collected, and 3) performing simple arithmetic (i.e., the calculation of the blended discount rate via Equation 1). Modification of the code for each of these tasks should take no more than a few minutes. See OCA/USPS-T1-72(a)-(c). Nevertheless, determining whether the code modification would involve additional costs that can be estimated requires knowledge of the method of determining payments to the system developer (i.e., a general fixed-price contract, a job-specific payment, an hourly rate, etc.) for work performed. This information is not known to me.

(b) No. I have not estimated any hardware acquisition costs specific to the implementation of my proposal because no additional hardware will be necessary. See my response to MASA/OCA-T100-1(b).

(c) No. I have not estimated any hardware maintenance costs specific to the implementation of my proposal because no additional or special maintenance will be required. See my response to MASA/OCA-T100-1(c).

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

(d) No. See my response to MASA/OCA-T100-1(d). The incremental cost of maintaining the code would be negligible, if any.

(e) See my response to MASA/OCA-T100-1(e). Moreover, volume data at the level of detail necessary to estimate any changes in revenue under my proposal are not available. The Postal Service provided no volume estimates by presort level. See Tr. 6/1360 (Garvey, OCA/USPS-T1-49(b)(iii)). Nor does the Postal Service's market research "allow informed construction of precise estimates of volumes within subclass/job-type/page-count categories." Tr. 5/1103 (Plunkett, OCA/USPS-T5-35(f)-(i)). See also Tr. 2/617 (Plunkett, OCA/USPS-T5-28(b)). This information—presort-level volume data by job-type/page-count category—is necessary to determine any changes in revenue, either positive or negative.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-3. Confirm that your proposal would require MOL rates to be recalculated to reflect the additional costs incurred in implementing your proposal.

A. Unable to confirm. I do not understand the phrase "MOL rates to be recalculated" as used in this context. There are Mailing Online pre-mailing service fees. Pre-mailing service fees offered to customers are determined by formula whose elements are contract printing costs, information system costs, and a 25 percent mark-up. If my proposal increases Mailing Online information system costs related to software design and maintenance, the increase would be too small to affect the pre-mailing fee formula.

There are also postage rates. I do not propose to change the single-piece or presort discount rates recommended by the Commission and approved by the Governors pursuant to Docket No. R97-1. Under my proposal, Mailing Online customers would pay postage charges based upon those rates. Mailing Online customers would pay postage charges for which their mailings would qualify under current rates if entered as hardcopy directly with the Postal Service, or postage charges consisting of a blended discount rate calculated by the pricing formula, whichever is lower.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-4. Referring to page 20 line 15 through page 21 line 2 of your testimony, have you estimated or projected the effect your pricing proposal would have on the postage rates available for Mailing Online, either as a whole or for any particular class or job type? If so, provide your estimates or projections and explain how you arrived at them. If not, why not?

A. No. See my response to MASA/OCA-T100-3.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-5. Would your proposal delay the implementation of the MOL experimental service in order to allow development of systems necessary to implement the proposal? If so, how long would the delay last? Explain the basis for your response.

A. Implementation of my proposal would require modest code modification.

However, it should not take long to complete such work and should not delay the experimental service. See my response to MASA/OCA-T100-2(a).

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-6. Confirm that the USPS pricing proposal gives a competitive advantage to MOL as compared with competitive service providers by exempting small-volume mailings from the minimum volume requirements for Automation Basic rates.

A. Confirmed. See OCA-T-100, footnote 3, quoting PRC Op. MC98-1 at 35.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-7. With respect to your pricing proposal:

- (a) Confirm that the proposal waives the minimum volume requirements for Automation Basic rates during the first quarter of the experimental period;**
- (b) Confirm that beginning in the second quarter the first quarter rates, which are based on a waiver of the minimum volume requirements to Automation Basic rates, will be one of the two factors affecting MOL rates; and**
- (c) State whether your proposal would eliminate the competitive advantage given to MOL in the USPS proposal through the waiver of minimum volume requirements.**
- (d) Explain the basis of your answers, with particular reference to the role played by the assumed single average discount rate in determining rates under your proposal.**

A. (a) Confirmed. During the first quarter, the minimum volume requirements to qualify for Automation Basic rates will be waived for mailings with volumes below the minimum volume requirements. Under the proposed pricing formula, customers submitting such mailings would pay Automation Basic rates. If a customer submits a mailing with volumes in excess of the minimum volume requirements, the customer would pay rates for which the mailpieces would qualify if entered in hardcopy directly with the Postal Service.

(b) Partially confirmed. Refer to Equation 1 on page 29. There are two rate components— x , representing the experience-based weighted average rate, and y , the assumed single average discount rate—and a weighting factor, w , affecting the calculation of the blended discount rate offered to Mailing Online customers. During the second quarter, the pricing formula (i.e., Equation 1) will use experience-based weighted average rates (x) derived from the first quarter presort-level volume data of submitted mailings. The experience-based weighted average rates used in the formula

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

may or may not be based upon mailings where the minimum volume requirements have been waived. For example, the experience-based weighted average rate for a particular job-type/page-count category may be derived entirely from mailings that exceed the minimum volume requirements. Alternatively, the experience-based weighted average rate for that job-type/page-count category may be derived from mailings where only some of the mailings exceed the minimum volume requirements. It is also possible that the experience-based weighted average rate for the particular job-type/page-count category may be derived solely from mailings that did not meet the minimum volume requirements.

In this latter case, the experience-based weighted average rate used in the pricing formula during the second quarter would be the single piece rate. The result for a customer mailing the particular job-type/page count category is a blended postage rate that is greater than the Automation Basic rate proposed by the Postal Service.

(c) Yes. At the end of the Mailing Online experiment, the weighting factor (w) applied to the experience-based weighted average rate equals 1 ($36/36$), and the weight applied to the assumed single average discount rate equals 0 ($1-(36/36)$). See OCA-T-100, footnote 62. Moreover, the experience-based weighted average rate would be derived from presort-level volume data collected during the entire experiment. Should the Mailing Online experiment be extended, customers would continue to pay postage rates for which their mailpieces would qualify if entered as hardcopy directly with the Postal Service, or the historic experience-based weighted average rates

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

derived at the end of the experiment.

**(d) See OCA-T-100 at pages 29-31, lines 9-14, lines 1-14, and lines 1-6,
respectively.**

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-8. Referring to page 25 lines 1-3 of your testimony, explain why under your proposal "each customer would be offered the *greater* of its 'stand-alone' rate or a blended discount rate" (emphasis added).

A. The emphasized word, *greater*, should be changed to "lesser." An appropriate erratum will be filed. The entire, corrected sentence should read, "During the second and subsequent periods, each customer is offered the lesser of its 'stand-alone' rate or a blended discount rate consisting of the assumed single average discount rate and the experience-based weighted average rate for the submitted job type."

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9**

MASA/OCA-T100-9. Under your proposal:

(a) Would any MOL customer pay a higher postage rate for any mailing than would be available to it if its mailing were delivered to USPS in hard copy, separately from any other mailings? If so, explain in what circumstances an MOL customer would pay a higher rate and why. If not, explain why not.

(b) Would any MOL customer pay a lower postage rate for any mailing than would be available to it if its mailing were delivered to USPS in hard copy, separately from any other mailings? If so, explain in what circumstances an MOL customer would pay a lower rate and why. If not, explain why not.

A. (a) No. Under my proposal, a Mailing Online customer would pay (1) a rate for which his/her mailpieces would qualify if entered as hardcopy directly with the Postal Service or (2) a rate reflecting the greater depths of sort resulting from Postal Service batching and presorting during the experiment, whichever is lower.

(b) Yes. A customer could pay a lower rate for any Mailing Online mailing under the following circumstances: where, in any quarter, the postage pricing formula (i.e., Equation 1) produces a blended discount rate lower than would be available to that mailing if entered in hardcopy directly with the Postal Service.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-1. Have you analyzed whether any increase in computing capacity (i.e., program size, memory requirements and/or increased processing time) will be required of the MOL design in order to apply your pricing formula?

(a) If you have and an increase in capacity appears to be required, what will the cost consequences of adoption of your proposed pricing formula be?

(b) If you have not, why not?

A. (a) - (b) See my response MASA/OCA-T100-1(b), and MASA/OCA-T100-2(b).

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-2. Please confirm that your references to the "competitive advantage on the part of the Postal Service" and the extent to which your pricing proposal eliminates that advantage (e.g., OCA-T100 at 21, lines 14-15) refers only to a Postal Service advantage related to postage rates and not other advantages that the Postal Service might have because of, for example, vertical integration of the Mailing Online service with postal services over which the USPS has a statutory monopoly.

A. Confirmed. My comments are confined to the elimination of competitive advantage with respect to postage pricing. I did not consider the extent to which other sources of advantage could affect competitors.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-3. With reference to your Table 1, please confirm that each of the subsidiary tables presented at page 27 of your testimony lists rates for the first ounce of First-Class mail with the exception of the 3/5B lines which have rates for Standard A flats.

A. Confirmed. An appropriate errata will be filed. See my response to PB/OCA-T100-8 for a discussion of rates in Table 1.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-4. How many total job-type/page-count and presort level tables would be required to reflect all of the rates that might result from your postal pricing proposal?

(a) Please show how you calculated your answer to this interrogatory and provide any work papers associated with that calculation.

A. (a) The number of "look-up" tables and experience-based weighted average rates can be considered synonymous. As a result, there would be 2,976 (48 x 62) "look-up" tables for each job-type/page-count category in First-Class, and 2,976 (48 x 62) "look-up" tables for each job-type/page-count category in Standard A—a total of 5,952 (2,976 x 2) tables. In practice, however, the total number of "look-up" tables could be reduced by collapsing tables with the same rate columns. See my response to PB/OCA-T100-8. Even with collapsed tables, the total number of experience-based weighted average rates referenced by the pricing formula would be 5,952.

The total number of experience-based weighted average rates calculated here—5,952—assumes no change in the number of job-type/page-count categories proposed by the Postal Service. If the Postal Service is successful designing software to batch most job-types, the absolute number of experience-based weighted average rates could ultimately be reduced to four: First-Class Mail letters and flats, and Standard A Mail letters and flats. See OCA-T-100, footnote 58.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-5. Would each of these job-type/page-count tables have to be updated quarterly to calculate the quarterly rate revisions that you recommend?

A. No. At the end of each quarter, the Postal Service's processing center computer would automatically calculate (in a matter of seconds) a new experience-based weighted average rate only for those job-type/page count tables for which new presort-level volume data had been collected during the quarter.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-6. Have you made an estimate of the costs associated with whatever updating would be required to implement your recommended quarterly changes in job-type, page-count rates?

- (a) If so, what is that estimate?**
- (b) If not, why not?**

A. (a) - (b) No. See my response to MASA/OCA-T100-2(d).

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-7. Do you recommend that destination entry discounts as well as presort level discounts should be included in the calculation of "experience-based weighted average rates" OCA-T100 at 28, lines 13-14?

(a) If so, would this require more job-type/page-count categories than contained in your answer to interrogatory PB/OCA-T100-5?

(b) If not, why not?

A. (a) - (b) No. It is my understanding that, for purposes of the experiment, the Postal Service has effectively abandoned its request for Automation Basic DBMC rates for Standard A mail. See Tr. 5/1164. For that reason, I did not consider whether or how destination entry discounts should be used in the derivation of experience-based weighted average rates.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-8. For First-Class mail, would each incremental ounce of weight require a separate lookup table for each of the categories of that mail?

A. No. There will be a "look-up" table for each job-type/page-count category.

Moreover, there will usually be several job-type/page-count tables within each incremental ounce of weight. The number of job-type/page-count tables within each ounce is determined by the paper size and number of pages in a mailpiece.

Each mailpiece in a mailing will belong to a particular (and the same) job-type/page-count category (i.e., "look-up" tables). The job-type/page-count determines how each mailpiece will appear and its weight and shape. Job type specifies the printing and finishing options, as well as paper size. Page count specifies the number of pages.

With respect to paper size, there are 30 possible letter-size (8.5x11) job types, and 30 possible legal-size (8.5x14) job types. Tr. 6/1353 (Garvey, OCA/USPS-T1-45(f)). There are also two possible newsletter-size (11x17) job types. Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)).

With respect to page count, each 8.5x11 sheet of paper weighs 0.2 ounces; each 8.5x14 sheet of paper weighs 0.254; and, each 11x17 sheet of paper weighs 0.4 ounces. Similarly, a No. 10 (letter-size) envelope weighs 0.2 ounces, and a flat-size (9x12) envelope weighs 0.4 ounces. Tr. 5/1098-1100 (Plunkett, OCA/USPS-T5-29-31).

Accordingly, Table 1 might be organized as follows: Job types A-AD would consist of letter-size job types, 1 through 48 pages. Job types AE-BH would consist of

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

legal-size job types, 1 through 48 pages. Job types BI and BJ would consist of newsletter-size job types, 1 through 48 pages.

The per piece First-Class Mail rates for letter-size, legal-size and newsletter-size job types by page count are shown in Attachment 1. Within the letter-size job types A-AD, the First-Class first-ounce single-piece, Automation Basic Presort, 3-Digit Presort, and 5-Digit Presort rates would apply to mailpieces with 1 to 4 pages weighing 1.0 ounce or less (0.2 oz. per page times 4 pages plus a 0.2 oz. No. 10 envelope). The First-Class first-ounce single-piece, Automation Basic Presort, 3-Digit Presort, 5-Digit Presort and the additional ounce rates would apply to mailpieces with 5 pages weighing 1.2 ounces. Tr. 5/1101 (Plunkett, OCA/USPS-T5-32(a)). For mailpieces with 6 to 8 pages weighing between 1.2 and 2.0 ounces (0.2 oz. per page times 8 pages plus a 0.4 oz. flat-size envelope), the First-Class flats single-piece, Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable. Similarly, for mailpieces with 9-13, 14-18, 19-23, 24-28, 29-33, 34-38, 39-43, and 44-48 pages (each group of 5 pages plus a flat-size envelope representing ounce increments 3 through 10), the First-Class flats single-piece, Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable.

Within the legal-size job types, AE-BH, the First-Class first-ounce, Automation Basic Presort, 3-Digit Presort, and 5-Digit Presort rates would apply to mailpieces with 1 to 3 pages weighing 1.0 ounce or less (0.254 oz. per page times 3 pages plus a 0.2 oz. No. 10 envelope). The First-Class first-ounce, Automation Basic Presort, 3-Digit

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

Presort, 5-Digit Presort and the additional ounce rates would apply to mailpieces with 4 pages weighing 1.216 ounces. Tr. 5/1101 (Plunkett, OCA/USPS-T5-32(b)). For mailpieces with 5-6 pages weighing between 1.216 and 1.924 ounces (0.254 oz. per page times 6 pages plus a 0.4 oz. flat-size envelope), the First-Class flats Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable. Similarly, for mailpieces with 7-10, 11-14, 15-18, 19-22, 23-25, 26-29, 30-33, 34-37, 38-41, 42-45, and 46-48 pages (each group of pages plus a flat-size envelope falling within ounce increments 3 through 13), the First-Class flats Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable.

Within newsletter-size job types BI and BJ, the First-Class first-ounce, Automation Basic Presort, 3-Digit Presort, 5-Digit Presort rates would apply to mailpieces with 1 to 2 pages weighing 1.0 ounces or less (0.4 oz. per page times 2 pages plus a 0.2 No. 10 envelope). The First-Class first-ounce, Automation Basic Presort, 3-Digit Presort, 5-Digit Presort and the additional ounce rates would apply to mailpieces with 3 to 4 pages weighing 1.6 to 2.0 ounces. Tr. 5/1101 (Plunkett, OCA/USPS-T5-32(c)). For mailpieces with 5-6, 7-9, 10-11, 12-14, 15-16, 17-19, 20-21, 22-24, 25-26, 27-29, and 30-31 pages (each group of pages plus a flat-size envelope falling within ounce increments 3 through 13), the First-Class flats Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable. For mailpieces with 32-34, 35-36, 37-39, 40-41, 42-44, 45-56, and 47-48 pages (each group of pages plus a flat-size envelope falling within ounce increments 14 through 20),

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

the under two-pound Priority Mail rate would apply.

Attachment 1 simply calculates the per piece First-Class Mail rates for letter-size, legal-size and newsletter-size job types by page count. The rates in Attachment 1 appear in the "look-up" tables. Under my proposal, these rates, when combined with presort-level volume data collected quarterly by job-type/page-count, are used to derive experience-based weighted average rates at the end of each quarter. The experience-based weighted average rates, located in the "look-up" tables, become an input to the postage pricing formula (i.e., Equation 1).

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

Attachment 1 to PB/OCA-T100-8 Page 1 of 2
FIRST-CLASS MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES1/
Rates per Piece (Including Additional Ounce Rate)

Job-Type/Page Count			Ounces	Additional Ounce Rate:	Rates (cents)
A-AD/1-48	AE-BH/1-48	BI-BJ/1-48		22.0	
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	<=	Presort Level	Rates (cents)
Letters (Pages)	Letters (Pages)	Letters (Pages)		Letters	
1-4	1-3	1-2	1	5B 3B BB SP	24.3 26.1 27.0 33.0
5	4		2	5B 3B BB SP	46.3 48.1 49.0 55.0
Flats (Pages)	Flats (Pages)	Flats (Pages)		Flats	
6-8	5-6	3-4	2	3/5B BB SP	49.0 52.0 55.0
9-13	7-10	5-6	3	3/5B BB SP	71.0 74.0 77.0
14-18	11-14	7-9	4	3/5B BB SP	93.0 96.0 99.0
19-23	15-18	10-11	5	3/5B BB SP	115.0 118.0 121.0
24-28	19-22	12-14	6	3/5B BB SP	137.0 140.0 143.0
29-33	23-25	15-16	7	3/5B BB SP	159.0 162.0 165.0

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

Attachment 1 to PB/OCA-T100-8 (continued)

Page 2 of 2

Job-Type/Page Count			Ounces	Additional Ounce Rate:	Rates (cents)
A-AD/1-48	AE-BH/1-48	BI-BJ/1-48			
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	<=	Presort Level	Flats
Flats (Pages)	Flats (Pages)	Flats (Pages)			
34-38	26-29	17-19	8	3/5B BB SP	22.0 181.0 184.0 187.0
39-43	30-33	20-21	9	3/5B BB SP	203.0 206.0 209.0
44-48	34-37	22-24	10	3/5B BB SP	225.0 228.0 231.0
	38-41	25-26	11	3/5B BB SP	247.0 250.0 253.0
	42-45	27-29	12	3/5B BB SP	269.0 272.0 275.0
	46-48	30-31	13	3/5B BB SP	291.0 294.0 297.0
		32-48	<2lb	Priority Mail	320.0

Notes:

1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

PB/OCA-T100-9. How would you create lookup tables for Standard A flat size mail to which the pound rate applies?

A. The job-type/page-count "look-up" tables for Standard A letter and flat size mail would appear similar to those in Table I of my testimony. See OCA-T-100 at 27. The number of subsidiary tables and the presort levels in each table would be the same. However, the column of rates would be different.

The "look-up" tables for Standard A letters and flats could be organized in the same manner as the tables for First Class Mail. Job types A-AD, AE-BH and BI-BJ would consist of letter-size, legal-size and newsletter-size job types, respectively. There would be 1 through 48 pages for each job type.

The Standard A Mail rates for letter-size, legal-size and newsletter-size job types by page count, above and below the breakpoint, are shown in Attachments 1 and 2. For letter-size mailpieces with 1 to 5 pages, legal-size mailpieces with 1 to 4 pages, and newsletter-size mailpieces with 1 to 2 pages, the Standard A minimum per piece rate for Automation Basic, 3-Digit and 5-Digit letters would apply. For letter-size mailpieces with 6 to 14 pages, legal-size mailpieces with 5 to 11 pages, and newsletter-size mailpieces with 3 to 7 pages, the Standard A minimum per piece rate for Automation Basic, and 3/5-Digit flats would apply. A 14 page letter-size mailpiece, 11 page legal-size mailpiece and a 7 page newsletter-size mailpiece all weigh 3.2 ounces or less. The single piece First-Class rate, and additional ounce rate (where applicable), could be paid by some mailpieces.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

For letter-size job types A-AD with page counts 15-48, legal-size job types AE-BH with page counts 12-48, and newsletter-size job types BI-BJ with page counts 8-48, the Standard A Automation Basic flat and 3/5-Digit flat rates would be set based upon the weight (number of pages and envelope) of the mailpiece and the per piece rate. However, there are exceptions. In the case of newsletter-size mailpieces, the under one-pound Priority Mail rate would apply to a single piece mailing weighing more than 13 ounces but less than 16 ounces. In addition, Standard B rates would apply to newsletter-size mailpieces weighing 16 ounces or more; that is, newsletter-size mailpieces consisting of 39 to 48 pages.

Attachments 1 and 2 simply calculate all the Standard A rates that appear in the job-type/page-count "look-up" tables. Attachment 1 shows the minimum piece rates for job types A-AD, letter-size letters and flats, with page counts 1-14; job types AE-BH, legal-size letters and flats, with page counts 1-11; and, job types BI and BJ, newsletter-size letters and flats, with page counts 1-7. Attachment 2 shows the rates for pound rated pieces for letter-size, legal-size and newsletter-size job types by page count and weight. All pound rated pieces are flats.

The Standard A mail rates in Attachments 1 and 2 would be used in the same manner as the First Class mail rates found in Attachment 1. See my response to PB/OCA-T100-8. Under my proposal, these rates, when combined with presort-level volume data collected quarterly by job-type/page-count, are used to derive experience-based weighted average rates at the end of each quarter. The experience-based

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

weighted average rates, located in the "look-up" tables, become an input to the postage pricing formula (i.e., Equation 1).

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

Revised 3-3-99

Page 1 of 8

**Attachment 2 to PB/OCA-T00-9
STANDARD (A) MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES¹
Rates for Pound Rated Pieces (for pieces weighing more than 3.2985 ounces)**

Job-Type/Page Count		Weight per Piece (oz.)			Automation Flats				
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Natr. Size 4/
15	12	8	3.4	3.448	3.6	3/5B BB SP	20.7 24.9 99.0	20.9 25.1 99.0	21.5 25.7 99.0
16	13	9	3.6	3.702	4	3/5B BB SP	21.5 25.7 99.0	22.0 26.2 99.0	23.2 27.4 99.0
17	14	10	3.8	3.956	4.4	3/5B BB SP	22.4 26.6 99.0	23.0 27.2 99.0	24.9 29.1 121.0
18	15	11	4	4.21	4.8	3/5B BB SP	23.2 27.4 99.0	24.1 28.3 121.0	26.6 30.8 121.0
19	16	12	4.2	4.464	5.2	3/5B BB SP	24.1 28.3 121.0	25.2 29.4 121.0	28.3 32.5 143.0

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10**

Revised 3-3-99

Attachment 2 to PB/OCA-T00-9 Page 2 of 8

Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats						
A-AD/15-48 Letter-Size (8.5x11) Flats (Pages)	AE-BH/12-48 Legal-Size (8.5x14) Flats (Pages)	BI-BJ/8-48 Newsleter-Size (11x17) Flats (Pages)	Letter-Size 0.2	Legal-Size 0.254	Newsleter- Size 0.4	Basic Flat:	10.5 Rates (cents)	3/5-Digit Flat:	6.3 Rates (cents)	10.5 Rates (cents)	3/5-Digit Flat:	6.3 Rates (cents)
			Flat Envelope (9x12)			Presort Level	Ltr size 2/ Ltr size 2/	Lgl. Size 3/ Lgl. Size 3/	Rsitr. Size 4/ Rsitr. Size 4/			
20	17	13	4.4	4.718	5.6	3/5B	24.9	26.3	30.0	29.1	30.5	34.2
						BB	121.0	121.0	143.0			
21	18	14	4.6	4.972	6	3/5B	25.8	27.3	31.7	30.0	31.5	35.9
						BB	121.0	121.0	143.0			
22	19	15	4.8	5.226	6.4	3/5B	26.6	28.4	33.4	30.8	32.6	37.6
						BB	121.0	143.0	165.0			
23	20	16	5	5.48	6.8	3/5B	27.5	29.5	35.1	31.7	33.7	39.3
						BB	121.0	143.0	165.0			
24	21	17	5.2	5.734	7.2	3/5B	28.3	30.6	36.8	32.5	34.8	41.0
						BB	143.0	143.0	187.0			
25	22	18	5.4	5.988	7.6	3/5B	29.1	31.6	38.5	33.3	35.8	42.7
						BB	143.0	143.0	187.0			
						SP						

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

Revised 3-3-99

Page 3 of 8

Attachment 2 to PB/OCA-T00-9

Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats				
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3	
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)	
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)				Ltr size 2/	Lgl. Size 3/	Naltr. Size 4/	
26	23	19	5.6	6.242	8	3/5B	30.0	32.7	40.2	
						BB	34.2	38.9	44.4	
						SP	143.0	165.0	187.0	
27	24	20	5.8	6.496	8.4	3/5B	30.8	33.8	41.8	
						BB	35.0	38.0	46.0	
						SP	143.0	165.0	209.0	
28	25	21	6	6.75	8.8	3/5B	31.7	34.9	43.5	
						BB	35.9	39.1	47.7	
						SP	143.0	165.0	209.0	
29	26	22	6.2	7.004	9.2	3/5B	32.5	35.9	45.2	
						BB	36.7	40.1	49.4	
						SP	165.0	187.0	231.0	
30	27	23	6.4	7.258	9.6	3/5B	33.4	37.0	46.9	
						BB	37.6	41.2	51.1	
						SP	165.0	187.0	231.0	
31	28	24	6.6	7.512	10	3/5B	34.2	38.1	48.6	
						BB	38.4	42.3	52.8	
						SP	165.0	187.0	231.0	

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

Revised 3-3-99

Attachment 2 to PB/OCA-T00-9 Page 4 of 8

A-AD/15-48 Letter-Size (8.5x11) Flats (Pages)	Job-Type/Page Count		Weight per Piece (oz.)		Basic Flat: Presort Level	Automation Flats			
	AE-BH/12-48 Legal-Size (8.5x14) Flats (Pages)	BI-BJ/8-48 Newsleter-Size (11x17) Flats (Pages)	Letter-Size 0.2 Flat Envelope (9x12)	Legal-Size 0.254		Newsleter- Size 0.4	10.5 Rates (cents)	3/5-Digit Flat: Rates (cents)	6.3 Rates (cents)
32	29	25	6.8	7.766	3/5B BB SP	Ltr size 2/ 35.1 39.3 165.0	Lgl. Size 3/ 39.2 43.4 187.0	Natlr. Size 4/ 50.3 54.5 253.0	
33	30	26	7	8.02	3/5B BB SP	35.9 40.1 165.0	40.2 44.4 209.0	52.0 56.2 253.0	
34	31	27	7.2	8.274	3/5B BB SP	36.8 41.0 187.0	41.3 45.5 209.0	53.7 57.9 275.0	
35	32	28	7.4	8.528	3/5B BB SP	37.6 41.8 187.0	42.4 46.8 209.0	55.4 59.6 275.0	
36	33	29	7.6	8.782	3/5B BB SP	38.5 42.7 187.0	43.5 47.7 209.0	57.1 61.3 275.0	
37	34	30	7.8	9.036	3/5B BB SP	39.3 43.5 187.0	44.5 48.7 231.0	58.8 63.0 297.0	

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

Revised 3-3-99

Attachment 2 to PB/OCA-T00-9 Page 5 of 8

Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Neitr. Size 4/
38	35	31	8	9.29	12.8	3/5B	40.2	45.6	60.5
						BB	44.4	49.8	64.7
						SP	187.0	231.0	297.0
39	36	32	8.2	9.544	13.2	3/5B	41.0	46.7	62.2
						BB	45.2	50.9	66.4
						SP*	209.0	231.0	320.0
40	37	33	8.4	9.798	13.6	3/5B	41.8	47.8	63.8
						BB	46.0	52.0	68.0
						SP*	209.0	231.0	320.0
41	38	34	8.6	10.052	14	3/5B	42.7	48.8	65.5
						BB	46.9	53.0	69.7
						SP*	209.0	253.0	320.0
42	39	35	8.8	10.306	14.4	3/5B	43.5	49.9	67.2
						BB	47.7	54.1	71.4
						SP*	209.0	253.0	320.0
43	40	36	9	10.56	14.8	3/5B	44.4	51.0	68.9
						BB	48.6	55.2	73.1
						SP*	209.0	253.0	320.0

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

Revised 3-3-99

Attachment 2 to PB/OCA-T00-9 Page 6 of 8

Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Neitr. Size 4/
44	41	37	9.2	10.814	15.2	3/5B	45.2	52.1	70.6
						BB	49.4	56.3	74.8
						SP*	209.0	253.0	320.0
45	42	38	9.4	11.068	15.6	3/5B	46.1	53.1	72.3
						BB	50.3	57.3	76.5
						SP*	209.0	275.0	320.0
46	43	39	9.6	11.322	16	3/5B	46.9	54.2	Standard
						BB	51.1	58.4	(B)
						SP	209.0	275.0	Rates
47	44	40	9.8	11.576	16.4	3/5B	47.8	55.3	Standard
						BB	52.0	59.5	(B)
						SP	209.0	275.0	Rates
48	45	41	10	11.83	16.8	3/5B	48.6	56.4	Standard
						BB	52.8	60.6	(B)
						SP	231.0	275.0	Rates
	46	42	--	12.084	17.2	3/5B	--	57.4	Standard
						BB	--	61.6	(B)
						SP	--	297.0	Rates

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

Revised 3-3-99

Attachment 2 to PB/OCA-T00-9 Page 7 of 8

Job-Type/Page Count			Weight per Piece (oz.)				Automation Flats				
A-AD/15-48 Letter-Size (8.5x11) Flats (Pages)	AE-BH/12-48 Legal-Size (8.5x14) Flats (Pages)	BI-BJ/8-48 Newsletter-Size (11x17) Flats (Pages)	Letter-Size 0.2	Legal-Size 0.254	Newsletter-Size 0.4	Basic Flat: Presort Level	10.5 Rates (cents) Ltr size 2/	3/5-Digit Flat: Rates (cents)	6.3 Rates (cents)	3/	4/
			Flat Envelope (9x12)							Neitr. Size	
	47	43	--	12.338	17.6	3/5B BB SP	-- -- --	58.5 62.7 297.0	Standard (B) Rates	Standard (B) Rates	Standard (B) Rates
	48	44	--	12.592	18	3/5B BB SP	-- -- --	59.6 63.8 297.0	Standard (B) Rates	Standard (B) Rates	Standard (B) Rates
		45	--	--	18.4	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates	Standard (B) Rates	Standard (B) Rates
		46	--	--	18.8	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates	Standard (B) Rates	Standard (B) Rates
		47	--	--	19.2	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates	Standard (B) Rates	Standard (B) Rates
		48	--	--	19.6	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates	Standard (B) Rates	Standard (B) Rates

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

Revised 3-3-99

Page 8 of 8

Attachment 2 to PB/OCA-T00-9

- Under 1 lb. Priority Mail rates for mailpieces weighing more than 13 ounces but less than 16 ounces.

Notes:

- 1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.
- 2/ Calculation: piece rate + ((Letter-size ounces/16 ounces) * 67.7 cents)
- 3/ Calculation: piece rate + ((Legal-size ounces/16 ounces) * 67.7 cents)
- 4/ Calculation: piece rate + ((newsletter-size ounces/16 ounces) * 67.7 cents)

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

PB/OCA-T100-10. Would each printing site charge the same postage rate without regard to the characteristics of mail at that site?

(a) If so, would further de-averaging to calculate individual postage rates for each site be more equitable to the mailers whose mail entered the postage stream from a particular site?

A. Yes. Presently, in the case of First-Class mail, postage rates paid are not based on the location of entry. The same would be true for Standard A mail—assuming no destination entry discounts. I do not propose to change these features of the current rate schedule. Nor do I propose DBMC rates for Mailing Online. Under my proposal, Mailing Online mailpieces of the same job-type/page-count entered at the same time would pay the same postage rates regardless of the location of the print site.

(a) No. This is not my proposal. My proposal is designed to remove the penalty for customers submitting mailings through Mailing Online; that is, the inability of customers to obtain deeper discount rates where their mailpieces would qualify if entered in hardcopy directly with the Postal Service.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-1. Please refer to your statement on page 7, lines 6-7, "For Mailing Online, a rebate system removes any competitive advantage on the part of the Postal Service vis-a-vis competitors for small-volume mailings."

(a) Please identify each Postal Service competitor to whom you refer, regardless of whether each is a small part of a larger firm, a single firm, a group of firms or an industry.

(b) For each competitor identified in response to part (a), please identify all factors upon which you rely in concluding that they constitute competitors.

A. (a) - (b) In preparing my testimony, I was not referring to any particular Postal Service competitor. I do not consider it necessary to identify any competitors (existing or otherwise) to conclude that the proposed waiver of the minimum volume requirements for Automation Basic rates would create an advantage for the Postal Service in the small-volume portion of the "hybrid" mail market. Consequently, I did not rely on any "factors" with respect to any particular competitor. Rather, I relied on the Commission's finding that, "[b]y exempting Mailing Online mailings from the threshold volume eligibility requirements that apply to its competitors, the Postal Service will be able to compete for at least the small-volume portion of the market on preferential terms." PRC Op. MC98-1 at 35.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-2.

(a) Under your pricing formula, what existing mail category would be used to classify a batch consisting of a single mailpiece that the customer intends to enter as Standard (A) Mail?

(b) Would your answer to part (a) change if instead of a batch consisting of a single mailpiece, it consisted of:

- i. 100 pieces?**
- ii. 201 pieces?**
- iii. 350 pieces?**
- iv. 501 pieces?**

A. (a) I understand this question to be asking how the rate for a single mailpiece of Standard A Mail would be determined. In general, a customer submitting a single Standard A mailpiece to Mailing Online would pay either (1) the rate for which that mailpiece would qualify if entered as hardcopy directly with the Postal Service or (2) a blended discount rate reflecting the greater depths of sort resulting from Postal Service batching and presorting during the experiment, whichever is lower. In the first quarter, since there would be no experience-based volume data, the single Standard A mailpiece would pay the Standard A Automation Basic rate. In the second quarter, when an experience-based weighted average rate could be derived from first quarter presort-level volume data, the customer would pay the lower of the "stand-alone" rate (i.e., the First-Class single-piece rate) or a blended discount rate consisting of the proposed Automation Basic discount rate and the experience-based weighted average rate.

(b) No.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-3. If a customer wishes to enter 100 pieces as Standard (A) Mail, how would the Mailing Online postage rate be determined using your pricing formula?

(a) To what extent, if any, is your answer based upon consideration of the service standard preferred by a Mailing Online customer?

(b) To what extent, if any, is your answer dependent upon the degree of batching attained by the Mailing Online system? Please explain your response fully.

A. As posed, this question cannot be answered with the specificity it deserves.

There is insufficient information in the question to determine the postage rate under my proposal. For example, the number of pages in the mailpiece would determine its weight and shape, both affecting the rate.

The determination of the rate to be paid by a customer submitting 100 pieces of Standard A Mail (or any amount of Standard A or First-Class Mail) involves three steps. First, the rate for which the mailpieces would qualify if entered as hardcopy directly with the Postal Service must be determined. Second, a blended discount rate is calculated by the postage pricing formula (i.e., Equation 1). Third, a comparison of the two rates is made, with the lower rate offered to the customer. To further discussion, the following examples are provided.

Example 1: Assume the 100 mailpieces of Standard A Mail belong in Job-Type A and each mailpiece is one page (i.e., Page Count 1). Job-Type A consists of letter-size (8.5x11) mailpieces. Assume further that the 100 mailpieces are submitted to Mailing Online during the first quarter of the experiment.

Since the 100 piece mailing falls below the minimum volume requirement for Standard A Mail, the mailing would qualify as "if entered as hardcopy" for the First-

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

Class first-ounce single-piece rate (33 cents). Under my proposal, the blended discount rate must also be calculated for comparison to determine the lowest rate offered to the customer. The postage pricing formula uses the proposed Standard A Automation Basic rate (18.3 cents) and the experience-based weighted average rate. However, there is no "experience" in the first quarter with which to derive a weighted average rate. Consequently, the blended discount rate calculated by the pricing formula would be 18.3 cents ($x(0) + 18.3(1-0)$), the Standard A Automation Basic rate proposed by the Postal Service.

Example 2: Assume the same facts as Example 1, except that the 100 mailpieces are submitted to Mailing Online during the second quarter of the experiment. Assume further that, during the first quarter, Job-Type A/Page-Count 1 was a very common job type, and all (100 percent) of the mailpieces were presorted to the 5-Digit level. At the end of the first quarter, there would be an experience-based weighted average rate of 16 cents (1.00×16 cents) in the Job-Type A/Page-Count 1 "look-up" table.

The rate for the 100 mailpieces as "if entered as hardcopy" would again be the First-Class first-ounce single-piece rate (33 cents). The postage pricing formula would then calculate the blended discount rate to compare with the "hardcopy" rate. In the second quarter, the blended discount rate for the 100 mailpieces would be 18.2 cents ($16(1/36) + 18.3(1-(1/36))$). This rate would be offered to the customer.

Example 3: Assume the same facts as Example 1, except that each of the 100

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

Revised 3-3-99

mailpieces is 18 pages and weighs four ounces. Each mailpiece is a flat. Again, assume the mailpieces are submitted during the first quarter of the experiment.

The rate as "if entered as hardcopy" must first be determined. Since the 100 piece mailing falls below the minimum volume requirement for Standard A Mail, the First-Class four-ounce single-piece rate (99 cents) would apply. Then the blended discount rate must be calculated for comparison to determine the lowest rate offered to the customer. The pricing formula uses the proposed Standard A Automation Basic rate (27.4 cents) and the experience-based weighted average rate. However, there is no "experience" in the first quarter with which to derive a weighted average rate. Consequently, the blended discount rate would be $27.4 \text{ cents} (x(0) + 27.4(1-0))$, the Standard A Automation Basic rate for a four ounce flat proposed by the Postal Service.

Example 4: Assume the same facts as Example 3, except that the 100 mailpieces are submitted to Mailing Online during the second quarter of the experiment. Also assume that, during the first quarter, Job-Type A/Page-Count 18 was a very common job type, and all (100 percent) of the mailpieces were presorted to the 3/5-Digit level. At the end of the first quarter, there would be an experience-based weighted average rate of 23.2 cents ($1.00 \times 23.2 \text{ cents}$) in the Job-Type A/Page-Count 18 "look-up" table.

The rate for the 100 mailpieces as "if entered as hardcopy" would again be the First-Class four-ounce single-piece rate (99 cents). The postage pricing formula would then calculate the blended discount rate to compare with the "hardcopy" rate. In the second quarter, the blended discount rate for the 100 mailpieces would be 27.3 cents

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

Revised 3-3-99

(23.2(1/36) + 27.4(1-(1/36))). This rate would be offered to the customer.

(a) The Postal Service has proposed service standards (i.e., cut-off times, print site processing times, etc.) for Mailing Online mailings. Those same service standards would be applicable to customer mailings under my proposal. I do not propose to change those service standards.

(b) My postage pricing formula uses experience-based weighted average rates to calculate a blended discount rate. Experience-based weighted average rates are derived from presort-level volume data collected during the experiment. Presort-level volume data is collected from mailings where the Postal Service has batched mailpieces. To the extent the Postal Service can batch mailpieces and presort those batches more deeply than necessary to qualify for the proposed Automation Basic discount rates, the experience-based weighted average rates used in the pricing formula will reflect the deeper discount rates achieved.

The other source of presort-level volume data is mailings which have qualified for rates as if entered in hard copy directly with the Postal Service. Volume data from these mailings will also be reflected in the derivation of the experience-based weighted average rates and, in turn, through the pricing formula.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-4.

(a) Please confirm that the Postal Service's proposed use of the basic automation presort categories requires both waiver of volume minimums and forbearance from still deeper discounts.

(b) Would your pricing approach involve a waiver of the volume minimums, at least during the first period when automation basic rates apply? Please explain.

(c) Does your pricing formula diminish the impact of the waiver of volume minimums as the weight of actual experience overcomes the starting points. Please explain your response fully.

(d) Please confirm that your pricing formula would eliminate the forbearance from deeper discounts.

(e) Would elimination of the forbearance from deeper discounts constitute a competitive advantage, or competitive disadvantage, for Postal Service competitors. Please explain your answer fully.

(f) If elimination of the forbearance from deeper discounts constitutes a competitive advantage for the Postal Service, how do you reconcile this conclusion with your assertion that "setting postage charges for Mailing Online on the basis of actual experience eliminates ... any anti-competitive effect of waiving minimum volume requirements" Please explain your answer fully.

A. (a) Confirmed.

(b) Yes. See my response to MASA/OCA-T100-7(a).

(c) Yes. See OCA-T-100 at 29-31, lines 9-14, lines 1-14, and lines 1-6, respectively.

(d) Confirmed.

(e) - (f) Neither. Eliminating the competitive advantage available only to the Postal Service, as proposed in Mailing Online, and permitting the Postal Service to offer deeper presort discounts, as I have proposed, creates a "level playing field," at least in terms of postal pricing. Under my proposal, the Postal Service would no longer be able to offer Automation Basic rates to small-volume mailings that did not qualify. Neither could competitors. Similarly under my proposal, the Postal Service would be

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

able to offer discounts greater than Automation Basic. So would competitors.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-5. Please refer to your statement on page 16, lines 6-8: "No competing provider is able to consistently offer a lower price unless the competitor has lower costs or is willing to accept less than a 25 percent profit margin" [footnote omitted].

(a) Please confirm that the Postal Service is using contractors to provide printing services for Mailing Online.

(b) Please confirm that any such contractors hoping to make a profit on their Mailing Online print jobs must build a profit margin into the price with which they bid on a Mailing Online contract.

(c) Please confirm that, as a result of the need to build a printer's profit margin into contract prices, the total mark-up on the printer's costs (as opposed to contract prices) is greater than 25 percent.

(d) Please confirm that at least some potential Mailing Online competitors (e.g., Pitney Bowes or some MASA members) should be able to provide printing services from an internal rather than an external source.

(e) Please confirm that a Mailing Online competitor may be able to realize profits greater than 25 percent while still keeping pre-mailing prices below the proposed Mailing Online fees.

A. (a) Confirmed.

(b) - (c) Not confirmed. I have no knowledge of what might motivate a printing contractor when fashioning its bid.

(d) Confirmed.

(e) Confirmed.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-6.

(a) Please confirm that the Postal Service fees and postage for Mailing Online pieces, as proposed, mean that the price of the first mailpiece (within shape, weight and print characteristic groups) is the same as the 500th, or 5000th.

(i) Please confirm that under the Postal Service pricing proposal, a job submitted on day ten of the experiment would be priced the same as it would be if submitted on day 100 (assuming no change in underlying printer contracts).

(ii) Please confirm that under your pricing formula, a job submitted on day ten of the experiment would not be priced the same as it would be if submitted on day 100 (assuming no change in underlying printer contracts).

(b) Please confirm that the Postal Service justifies its approach, in part, by the flat rate pricing typical of digital printing. See, e.g., Tr. 2/147; Tr. 7/1668, 1701, 1727.

(c) Please confirm that your pricing formula for Mailing Online postage does not preserve this characteristic of flat rates over time (assuming no change in underlying printer contracts).

(d) Of two otherwise identical Mailing Online jobs, one consisting of 20 pieces and one consisting of 2000, would respective job sizes have any impact on per-piece handling costs? Please explain your answer fully.

A. (a) Confirmed.

(i) Confirmed.

(ii) Not confirmed. The determination of postage under my proposal would be the same for the duration of the experiment. Customers would pay the lesser of their "stand alone" rate or the blended discount rate calculated via the postage pricing formula. However, the blended discount rate may or may not change over time with changes in the experience-based weighted average rate and the increase in the weighting factor. See OCA-T-100 at 35, lines 6-13.

(b) Confirmed.

(c) Confirmed. Under my proposal, the pricing formula was specifically designed to adjust postage rates to reflect the batching and presorting experience of

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

the Postal Service during the experiment, so as to eliminate the Postal Service's competitive advantage in the small-volume portion of the "hybrid" mail market over time.

(d) It depends on whether the Mailing Online job types can be merged before printing. If merged, pieces from either mailing should have the same processing costs. If not merged, the larger mailing could have lower costs by generating full trays. This would be true under my proposal as well as under the Postal Service's proposal.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-7.

(a) Please confirm that it would theoretically be possible to establish one or more rate categories unique to Mailing Online.

(b) Please confirm that your pricing formula for Mailing Online postage would likely end up charging customers postage rates that do not correspond exactly with any existing mail categories.

(c) Please explain whether you believe your proposal, if adopted, would constitute the establishment of one or more rate categories unique to Mailing Online. Identify all factors that you rely upon in formulating your opinion. If you considered any factors only to reject reliance upon them, please identify those and explain your reasons for rejecting them.

(d) Please confirm that rate categories unique for Mailing Online could conceivably be established in this Commission proceeding, or in a later one.

(e) Please compare and contrast the respective pluses and minuses of establishing unique mail categories for Mailing Online in this proceeding as opposed to any request for a permanent Mailing Online service.

A. (a) Confirmed. This is not my proposal.

(b) It is true that the blended discount rate calculated under my pricing formula would not correspond to any rate that exists at present. Since this is an experimental case, I am proposing an experimental pricing formula to calculate a blended discount rate.

(c) I did not consider whether, or to what extent, my pricing formula would constitute one or more rate categories. I am proposing an experimental pricing formula to calculate a blended discount rate in the context of an experimental case.

(d) Although this question appears to require a legal conclusion, I believe the Commission has the authority to recommend changes in rates and classifications during this proceeding, or subsequent proceedings.

(e) I gave no consideration to the establishment of Mailing Online as a

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

permanent classification.

**ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8**

USPS/OCA-T100-8.

(a) Under your pricing formula for Mailing Online postage, could one outcome be use of saturation rate categories for some pieces? Please explain your answer fully.

(b) Would use of saturation rate categories be a competitive advantage or disadvantage for the Postal Service or any other providers?

A. (a) No. Under the Postal Service's proposal, saturation rate categories are not available for Mailing Online mailpieces. The same is true under my proposal. I propose that customers pay "rates for which their mailpieces would qualify *if* entered as hardcopy directly with the Postal Service." (emphasis added) See OCA-T100 at 3, lines 14-15. However, customers are submitting their mailings through Mailing Online and, as a consequence, they will not qualify for saturation rates.

(b) The inability to offer saturation rates would appear to place the Postal Service at a competitive disadvantage.

2300

1 it or Mr. Rubin or one of you all will, but let's move on.
2 Let's let the Postal Service begin first then.

3 MR. HOLLIES: Thank you, Mr. Presiding Officer.

4 CROSS EXAMINATION

5 BY MR. HOLLIES:

6 Q Good morning, Mr. Callow.

7 A Good morning.

8 Q Would you please turn to your response to
9 USPS/OCA-T-100-8?

10 A I have it.

11 Q In part A of that interrogatory, you indicate that
12 saturation rates would not be available under your proposal;
13 is that correct?

14 A That's correct.

15 Q Your proposal involves a formula to calculate
16 postage charges for Mailing Online customers that gradually
17 increases the importance of experience and decreases the
18 importance of the starting rates; is that right?

19 A That's correct.

20 Q And as stated in the portion of your testimony
21 referred to in the response, customers would pay the lower
22 of what their job would qualify for as hard copy or the
23 blended rate; is that correct?

24 A Correct.

25 Q Okay. And by the end of the experiment, that

2301

1 change in weighting would mean that rates were fully
2 determined by experience; right?

3 A Yes, in terms of the formula.

4 Q If we assume that a given mailing would qualify
5 for saturation rates when presented in hard copy, under your
6 proposal, they would still pay saturation rates, would they
7 not?

8 A I don't understand this question. Saturation
9 rates are not available for Mailing Online. It's not
10 something I considered, because my proposal deals with
11 automation-compatible mail, and saturation rates as I
12 understand it occur in another subclass.

13 Q Thank you.

14 A There might be some confusion with the way that
15 quoted phrase was stated. I think a more complete
16 exposition would be that customers pay rates for which their
17 automation-compatible mail pieces would qualify if entered
18 as hard copy directly with the Postal Service. I never
19 intended to propose the introduction of any other
20 subclasses.

21 Q I appreciate that. Thank you.

22 Let's turn away from what a mailing would qualify
23 for if presented in hard copy and turn back to the formula
24 side of the rate alternatives in your proposal, and let's
25 add in a few assumptions. First, assume that we are at the

1 end of the experiment so that the experience factor has a
2 weight of 1 and the startup factor has declined to a weight
3 of zero. Are you with me so far?

4 A Okay. Go ahead.

5 Q At this point the postage rate would be based
6 entirely on experience; right?

7 A Correct.

8 Q And those mail categories and rate cells which
9 experience larger volume would likely generate greater
10 discounts; right?

11 A I'm sorry, could you repeat that again?

12 Q Sure. Basically if a lot of volume comes in in a
13 particular mail category or rate cell, that would, based on
14 the experience factor in your formula, ultimately lead to
15 greater discounts for that category or rate cell of mail;
16 correct?

17 A Yes. The experience-based weighted average rate
18 would reflect that fact, that there were deeper discounts.

19 Q And the experienced-based weighted average rate is
20 used in the pricing formula.

21 A It's the x in the pricing formula.

22 Q Now let's make some assumptions about what mail
23 categories have been used over the course of the experiment.
24 Assume that at the beginning of the experiment Mailing
25 Online volume consists of pieces that if submitted as hard

2303

1 copy would qualify for various rate categories across both
2 Standard A mail and First Class mail. Now this would be
3 consistent with the Postal Service goal of providing access
4 to automation rates for smaller mailers; is that right?

5 A If you had hard-copy mail -- if you had mail
6 received the mail would be collected in the lookup tables by
7 presort level, and you would calculate a weighted average
8 rate. I'm not certain I'm answering your question, but --

9 Q I guess I'm pointing here to how the mix of mail
10 categories might change over time from the outset of the
11 experiment.

12 A Okay.

13 Q To later on. Can you comment on that?

14 A Yes. Our -- the way we've designed the formula is
15 that mail would be collected quarterly, and at the end of
16 the quarter you would calculate a weighted average rate. At
17 this point in time we don't know what the presort levels
18 would be that are used to calculate the weighted average
19 rates. You could have a lookup table, a job type page count
20 lookup table, where all the mail that came in was very small
21 and would show up only in the single-piece category. You
22 could have -- or in single-piece presort level. It's not a
23 presort level, but at that point. You could have another
24 category of mail that was on another job type page count
25 category that was used extensively, and therefore the Postal

2304

1 Service was able to batch or that large quantities of mail
2 came in, for example, the five-digit level. That would be
3 reflected in the presort -- or in the experience-based
4 weighted average rate.

5 If that were true throughout the experiment, at
6 the end of the experiment that would be the, if you will,
7 the x or the experience-based rate used in the formula, and
8 because of the weight, it would -- the weight would be 1.
9 And the weight applied to the automation basic rate would be
10 zero.

11 Q So if we look at a single job type page count
12 class of job, and over time we look at how the discount
13 varies for that -- let's make it a very popular example.
14 The discount would increase over time; correct?

15 This is now prior to the end of the experiment.
16 This is when both weights are in play.

17 A If you assume that beginning in say the first
18 quarter all the experience-based weighted average rate was
19 let's say five digit and it remained at five digit through
20 the experiment, the weighting factor would continually
21 ratchet up and make more and more weight apply to that.

22 I guess -- I think this gets at something in my
23 testimony maybe if you'd be willing we could point to it.

24 Table 3 on page 31, and in the last column, the
25 factors, those fractions show the weights that are applied

2305

1 to the Equation 1 on the bottom of page 29. And as those
2 factors, those fractions increase, more weight is applied to
3 the experience based weighted average rate, and less applied
4 to the automation basic rate proposed by the Postal Service.

5 Q Okay. So, to take your example, if the starting
6 point is automation basic and the end point is five
7 digit, --

8 A Yes.

9 Q -- that means over time the discount would
10 increase, right?

11 A Yes.

12 MR. HOLLIES: Thank you. I have no further
13 questions at this point.

14 COMMISSIONER LeBLANC: I see Mr. Bush is not here,
15 so we have the new man on the block. If you will introduce
16 yourself for the reporter, please, and you may begin.

17 MR. HIMELES: Thank you, Mr. Presiding Officer.
18 Martin Himeles, Mr. Bush's partner from Zuckerman Spader on
19 behalf of the Mail Advertising Services Association.

20 CROSS-EXAMINATION

21 BY MR. HIMELES:

22 Q Good morning, Mr. Callow.

23 A Good morning.

24 Q Mr. Callow, I want to first ask you some questions
25 about the number of different job type page count categories

2306

1 that exist under your proposal. First, on page 24 of your
2 testimony, you indicate that, based on the testimony of
3 Witness Garvey, the total number of job type page count
4 categories would be 62 Mailing Online job types times 48
5 different page possibilities, for a total of about 3,000, is
6 that right?

7 A That's correct.

8 Q And am I also correct that that would -- those
9 3,000 would exist for both First Class and Standard A?

10 A Correct.

11 Q So that would be a total of roughly 6,000, is that
12 right?

13 A Slightly less, yes. Slightly less than 6,000,
14 that's correct.

15 Q Slightly less. In fact, if I have done the
16 multiplication right, it is 2,976, rather than 3,000, and it
17 would be that number multiplied by 2, which is just under
18 6,000, correct?

19 A That's correct.

20 Q Now, for each of those 6,000 different job type
21 page count categories, and I am referring to them as 6,000,
22 treating the 3,000 in Standard A and in First Class as being
23 different, during each period your proposal would require a
24 separate determination of the weighted average, is that
25 correct?

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1 A We need to be clear. Only if there were new data
2 entered during the quarter would there be a calculation of a
3 new weighted average rate. If there were no new data, there
4 would be no need to calculate.

5 Q So, in other words, if a quarter goes by in which
6 there are no mailings within a particular job type page
7 count, then there is nothing to calculate, is there?

8 A That's correct.

9 Q But there would still be a requirement to change
10 the weighting of experience for the new quarter, isn't that
11 right?

12 A Yes, it should be automatic, the Postal Service's
13 computer should simply calculate, provided there is new data
14 to calculate.

15 Q Okay. But if there is no new data, would it not
16 still be necessary to calculate a new weighted average which
17 would be based on the same underlying data but different
18 weightings for experience and for the starting rate?

19 A I guess I am not quite sure I understand your
20 question. Let me -- there was a question on this, and I
21 can't quite pinpoint it here now, but maybe this will help.
22 If we turn to page 27 of my testimony, which is Table 1 and
23 contains nine examples in First Class of the job type page
24 count lookup tables, the third column is period end. During
25 the quarter, data would be entered in that column. At the

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1 end of the quarter, you would calculate -- that data would
2 basically move over to the all prior periods column and you
3 would calculate a weighted average rate.

4 And if I understand your question correctly, if
5 there were no data, zeroes would move over to the all prior
6 periods column, at which point, if there existed a weighted
7 average rate from a prior period, that weighted average rate
8 would still be there, there would be no change in that
9 weighted average rate.

10 Q Okay. Perhaps it is my terminology that has
11 created some confusion. The weighted average rate is one of
12 the factors that is used in calculating the blended discount
13 rate, is that correct?

14 A For clarity, I call it a component only because I
15 called the W the weighting factor, and that is visible in
16 the formula, or the equation which is on page 29. So for my
17 own purposes, I call the X and the Y components and the W a
18 factor, a weighting factor.

19 Q Okay. But the blended discount rate would be the
20 rate that would be available except in -- that would be
21 available to the Postal Service, is that correct?

22 A The blended discount rate?

23 Q Yes.

24 A Yes.

25 Q And is it not also the case that during -- at the

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1 end of each quarter, that blended discount rate would have
2 to be recalculated, even if there were no new data, based on
3 the increased weight for experience and the decreased weight
4 for the assumed simple average?

5 A Yes, the W would change, but that changes
6 regularly by quarter.

7 Q Yes.

8 A And experience based weighted average rates change
9 by quarter to the extent there is new data for those
10 experience based weighted average rates.

11 Q Okay. So for each quarter, there would be a
12 fairly simple calculation to be made in job type page count
13 categories in which there is no new data, based on the
14 change in the weighting, and a more complicated calculation
15 to be made in job count -- job type page count categories in
16 which there is new data, is that fair?

17 A I guess I would say it is a very simple
18 calculation by each table and the computer would take care
19 of it almost instantaneously, I would think, because you
20 simply calculate weights and apply them to the rates, and
21 you get a weighted average rate. To the extent you have
22 four numbers instead of, you know, no change, I guess you
23 could call it complicated, or more complicated, but I don't
24 think the computer would cause much difficulty -- it would
25 cause much difficulty for the computer.

2310

1 Q Okay. I want to come back to that point. But let
2 me ask you this, how does your formula treat non-merge mail
3 pieces?

4 A The same as merge documents.

5 COMMISSIONER LeBLANC: Mr. Himeles, I am sorry to
6 bother you. You have to pull that mike a little closer or
7 something for us. Thank you very much.

8 MR. HIMELES: I'm sorry, Mr. Presiding Officer.

9 BY MR. HIMELES:

10 Q As you understand it, Mr. Callow, are non-merged
11 mail pieces batched?

12 A They are intended to be batched. They are not
13 batched as of yet. The Postal Service, based upon the data
14 we've seen, has not been able to batch those.

15 Q Okay. And in your testimony, on page 24, when you
16 refer to the 3,000 job-type page counts at footnote 55, you
17 cite to Witness Garvey's testimony at OCA/USPS-T1-45(f)?

18 A Correct.

19 Q Do you have that in front of you?

20 A The footnote or the citation?

21 Q The citation. If not, I have a copy that I can --

22 A I believe I have it here someplace.

23 Q Okay.

24 A I guess I have the relevant table where he
25 calculates the number of job-type page count categories.

2311

1 Maybe it would be easier --

2 MR. HIMELES: Mr. Presiding Officer, may I tender
3 to the witness a copy of OCA/USPS-T1-45?

4 COMMISSIONER LeBLANC: Please. It might be
5 helpful if you could give the OCA counsel a copy so they
6 could make sure they're on the same sheet of music here.

7 MR. HIMELES: Certainly, Mr. Presiding Officer.

8 COMMISSIONER LeBLANC: Thank you.

9 THE WITNESS: Thanks.

10 BY MR. HIMELES:

11 Q Now, Mr. Callow, if you look at the answer of
12 Witness Garvey to part (f) of that interrogatory, that is
13 the calculation that you were referencing in your footnote.
14 Is that correct?

15 A Correct.

16 Q Now, if you'll look at his response to sub-part
17 (b), he indicates, does he not, that all non-merged jobs are
18 treated as separate batches.

19 A Correct.

20 Q And he indicates generally that current and future
21 system development is focused on improved functionality,
22 including the capability to combine all like documents into
23 commingled batches?

24 A Correct.

25 Q But as of this time, the data that you have seen

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1 from the market test indicates that non-merged jobs are
2 still being treated as separate batches. Is that right?

3 A Yes.

4 Q And you don't know, I take it, when, if at all,
5 the software will reach the point of having the capability
6 to batch non-merged jobs.

7 A I have no idea.

8 Q And if, during the experiment, at the time it
9 begins or throughout the course of the experiment,
10 non-merged jobs are still not being batched, how would they
11 be treated in your proposal?

12 A There would be no difference between merged or
13 non-merged under my proposal. The data used, collected in
14 the job-type page count categories come from qualification
15 reports, and those qualification reports, whether they
16 reflect non-merged or merged batches, would simply get
17 entered into the look-up tables, and then the weighted
18 average rate would be calculated.

19 Q Okay. Let me see if I understand that.

20 If -- let's assume that we have a one-page mailing
21 that is non-merge and is of common job type. Let's say it's
22 all black, letter-size. Would that be included in the
23 job-type page count category for all black letters that are
24 one page?

25 A Correct.

2313

1 Q And now, all black letters that are of the merged
2 variety -- let's assume that there was a high quantity of --
3 a large quantity of those -- strike that. Let's assume that
4 we're in quarter five, and so the rate that your formula
5 would be calculating, the blended discount rate, would
6 include experience from the first four quarters, correct?

7 A Correct.

8 Q And let's assume that, during the first four
9 quarters, there was a substantial volume of one-page merge
10 mail pieces in that category, and as a result, five-digit
11 discount -- five-digit zip code discount rates were
12 available, okay?

13 A Okay.

14 Q Now, if you have a non-merge mailing, would that
15 receive the same rate as the merge mailings in that job-type
16 page count category?

17 A It would be calculated the same, yes.

18 Q Okay. And so -- just to make it more specific, if
19 we're talking about first-class mail, then the discount for
20 five-digit -- the discounted rate for five-digit is 24.3
21 cents for a one-ounce mailing?

22 A Yes.

23 Q And of course, the single-piece rate is 33 cents.

24 Now, let's suppose that, in quarter five, there is
25 a mailing of a one-page non-merge mail piece and the

2314

1 quantity is 400. That would, if it were mailed in hard
2 copy, qualify only for a 33-cent single-piece rate. Is that
3 correct?

4 A Correct.

5 Q And that's because the quantity -- the minimum
6 quantity requirement of 500 pieces has not been satisfied.
7 Is that right?

8 A Correct.

9 Q Now, in mailing on-line, unless and until the
10 software reaches the point at which it can batch that
11 mailing with others, the actual rate that would apply in the
12 absence of your formula -- let me rephrase that.

13 If a member of MASA were to take that mailing and
14 attempt to get the best possible postage rate for it, the
15 best that he could do would be 33 cents. Is that right?

16 A Yes.

17 Q And as I understand your testimony a minute ago,
18 on these facts, under mailing on-line, the Postal Service
19 would charge 24.3 cents? Is that right, for that mailing?

20 A The Postal Service? No. They would charge
21 automation basic rate, 27.

22 Q When I say the Postal Service, I mean if your
23 formula were adopted.

24 A I see. Okay.

25 Q So, am I right that, if your formula were adopted,

1 it would be 24.3 cents?

2 MR. COSTICH: Mr. Presiding Officer, could I just
3 get a clarification as to which quarter we're in?

4 MR. HIMELES: The fifth quarter. I'm assuming
5 that we're --

6 COMMISSIONER LeBLANC: Excuse me, sir.
7 Is that what you need?

8 MR. COSTICH: Yes.

9 COMMISSIONER LeBLANC: Thank you.

10 THE WITNESS: I guess I want to back up a little
11 bit. You're talking about 400 pieces of a common job type,
12 one ounce, one page, black, fifth quarter, and what -- I
13 guess I'm missing one piece of information, at least one.
14 What would be the experience-based weighted average rate?

15 MR. HIMELES: Okay. I'm sorry. Let me rephrase
16 the question.

17 BY MR. HIMELES:

18 Q Under your proposal, there would be a
19 determination of a blended discount rate which would give a
20 weighting to the 24.3-cent rate, which is five-digit
21 automation, and a weighting to the automation basic rate,
22 which is 27 cents. Is that right?

23 A Yes.

24 Q And the relative weighting of those -- the
25 weighted average of those two numbers would give you a

1 blended discount rate. Is that correct?

2 A Correct.

3 Q And that would be the rate that would be available
4 under your formula. Is that right?

5 A I guess this is where I'm hung up. How did you
6 decide that it was five-digit?

7 Q Well, I've asked you to assume that all mailings
8 in this job type have been -- have qualified for five-digit
9 -- all mailings that are merge mailings.

10 A In all prior quarters.

11 Q Yes.

12 A Yes. Okay. So, yes, if all mailings from the
13 prior four quarters were at the five-digit rate, the
14 weighted average rate would be 24.3. That would be the
15 experience-based weighted average rate, which would then be
16 entered into the formula and used to calculate the weighted
17 -- the blended discount rate.

18 Q And looking at page 31 of your testimony, well --
19 strike that.

20 So the rate would be somewhere between 24.3 cents
21 and 27 cents, correct?

22 A Correct.

23 Q Now in the case of a merged mailing, the reason
24 that you suggest the rate ought to be between 24.3 cents and
25 27 cents is because experience indicates that it has

2317

1 typically been batched with other mailings and therefore
2 qualified for a greater discount than automation basic, is
3 that right?

4 A Yes.

5 Q In the case of a nonmerged mailing, that would not
6 be the case, would it? In other words a nonmerged mailing
7 as things stand now would not have been batched and as a
8 result it would not have qualified in the absence of a
9 waiver of the minimum quantity requirement for any rate
10 below 33 cents, is that right?

11 A I guess the non -- I am sorry, the mail merged
12 documents -- those would be entered at single piece, as I
13 understand it.

14 Q When you say they would be entered as single
15 piece, you mean in the absence of a waiver of the volume
16 discount?

17 A Yes.

18 Q But your formula is as we have discussed -- it
19 would enter them as somewhere between 24.3 and 27 cents, is
20 that right?

21 A Well, again, those -- I guess we need to back up a
22 little bit. Even those batched mail merged documents, they
23 would enter -- well -- one at a time, if you will into the
24 look-up tables along with all other data to calculate the
25 weighted average rate but I guess if I understand you

1 correctly if everything that came into the particular
2 look-up table was only mail merged then they would come in
3 as a single piece rate as I understand it.

4 Q I'm afraid you lost me on that.

5 First of all, when you say mail merged -- do you
6 mean nonmerged?

7 A Yes.

8 Q Okay, because nonmerge mail pieces are not batched
9 at this point and merged mail pieces are batched, correct?

10 A Correct.

11 Q And what we are talking about here is a merged
12 document would be one in which data is merged into the
13 document and therefore it is personalized --

14 A Yes.

15 Q -- whereas a nonmerged --

16 A -- yes --

17 Q -- would be 400 people getting 400 pieces, one
18 page documents, that are exactly the same?

19 A Right.

20 Q Now to see if we can get to the bottom line on
21 this issue, am I correct that a nonmerge mail piece would
22 receive the benefit of a rate that is well below the single
23 piece rate for which it would qualify in the absence of the
24 waiver of the volume minimum?

25 A Could you repeat that again?

2319

1 Q I'll try. Am I correct that under your proposal
2 in the fifth quarter and based on the facts, the assumptions
3 that we have discussed a nonmerge mail piece would receive
4 the benefit of a lower rate, somewhere between 24.3 and 27
5 cents, than it would qualify for in the absence of a waiver
6 of the volume minimum?

7 A Yes.

8 Q Okay, and is it true that this would provide a
9 competitive advantage on nonmerge pieces to the Postal
10 Service as compared with members of MASA?

11 A Well, okay. I would like to refer to an
12 interrogatory response on this.

13 I guess this gets at a question MASA had asked,
14 7(c). The experience-based -- I'm sorry -- "the formula
15 will not eliminate the proposed automation basic rate from
16 most small volume mailers until the end of the
17 experiment" -- and I guess what that means is small volume
18 mailer will continue to get something close to the
19 automation basic rate that the Postal Service proposed and
20 this is a result of the weighting factor in the formula.

21 I guess this is visible in again Table 3 where for
22 example in the fourth quarter only one-sixth -- there is a
23 one-sixth weight applied to the experience-based weighted
24 average rate and a five-sixths weight applied to the
25 automation basic rate.

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1 What we tried to do was balance and test some
2 assumptions on the part of the Postal Service. The Postal
3 Service assumed that -- if the Postal Service's assumption
4 is correct that automation basic is in effect the weighted
5 average rate for Mailing Online, then our -- this formula
6 would calculate those.

7 If the Postal Service is not correct then our --
8 or the formula would generate a rate different from what the
9 Postal Service assumed, but the fact is that until the end
10 of the experiment small volume mailers will get close to the
11 automation basic rate.

12 Q Okay. I want to talk about that more in a couple
13 of minutes, and let me just follow up on your last point
14 though.

15 Until the end of the experimental period, then is
16 it your testimony that there will be a competitive advantage
17 for the Postal Service or for Mailing Online as compared
18 with members of MASA?

19 A It was an attempt to eliminate the competitive
20 advantage over time. There will be, as I said, there will
21 be -- the rate calculated will continue to move further and
22 further away from the automation basic rate until the end of
23 the experiment, so as I said at the beginning the rate will
24 be very close to the automation basic rate but it will move
25 away from the automation basic rate until the end of the

1 experiment.

2 Q Okay, and so is the answer to my question yes,
3 that in the beginning there will be a competitive advantage
4 for the Postal Service as a result -- under your formula as
5 a result of the use of the automation basic rate and over
6 time that competitive advantage will diminish but it will
7 not disappear until the end of the experimental period?

8 A Yes. It was as an experiment, given that it is an
9 experimental case we tried to eliminate it over time, so
10 yes, the answer is it begins at automation basic and phases
11 away

12 Q Okay. Now let's go back through to nonmerge
13 documents. In the case of a nonmerge document at the end of
14 the experimental period the rate would be determined solely
15 based on experience, is that correct?

16 A Yes, the weighted average rate would be in the
17 formula and given a weight of one.

18 Q Okay, now let's assume that all merge documents
19 which have been batched have been at five-digit rates during
20 the course of the experimental period, okay? I take it you
21 would agree that it is possible given the common nature of
22 this sort of mailing that they would have -- in fact that
23 nonmerged -- I'm sorry -- that mailings of this sort would
24 average better than five-digit zip code discount?

25 Strike that. Let me rephrase that.

1 I guess what I'm asking you is does that strike
2 you as an unrealistic assumption?

3 A That you could get five -- a five-digit rate for
4 mail, that you could have a pre-sort -- a weighted average
5 rate of a five -- a five-digit?

6 Q For a common mailing type.

7 A It could happen, sure.

8 Q Okay.

9 Now, that means that, at the end of the mailing --
10 I'm sorry -- at the end of the experimental period, for
11 first-class mailings of this type, the rate that would be
12 available to them under your proposal would be 24.3 cents,
13 correct?

14 A Yes.

15 Q Okay.

16 Now, if a customer, at the end of the experimental
17 period, comes in with a non-merged document, and assuming
18 the Postal Service still has not come up with a way to batch
19 these non-merged documents, that customer, under your
20 proposal, would receive the 24.3-cent rate, even though, if
21 there were no waiver of the quantity minimums, his mailing
22 would be sent a single 400-piece batch, which would qualify
23 only for the 33-cent rate. Is that correct?

24 A That would be the experience-based rate over time,
25 and the assumption is that, if you were able to get -- if

2323

1 the job type -- if the look-up table or the job-type page
2 count were so common, over two years to get a five-digit --
3 to have a weighted-average rate of five-digit and that you
4 had one mailing come in at the end that were less -- that
5 were below the minimum, that that would be -- you could --
6 that mailing would get -- the blended discount rate would be
7 calculated as the five-digit rate, but I guess it -- what
8 I'm saying is that two years worth of experience shows that,
9 for all but one job, in effect, you had five-digit.

10 So, for one mailing, yes, those people would get
11 the better rate, but the experience shows that, on balance,
12 you know, virtually 100 percent of the time, certainly the
13 experience 100 percent of the time of the experiment has
14 been, no, it's a five-digit level.

15 Q Well, let's assume that, over the course of the
16 experiment, half of the one-page letters that are mailed are
17 merged and qualify for the five-digit automation discount
18 and the other half are non-merged.

19 At the end of the experiment -- let me complete
20 that and say they're non-merged and they're under 500 pieces
21 and, therefore, they qualify only for the single-piece rate
22 of 33 cents.

23 At the end of the experiment, what would -- how
24 would your proposal determine the rate that applies to that
25 job-type page count category?

2324

1 A If half are merged at -- if half -- let me back
2 up.

3 If, at the end of the experiment, half the data
4 collected were at the five-digit level and half were at the
5 single-piece rate, in effect, you would calculate a weighted
6 average rate half -- .5 times 24.3, .5 times 33 -- that
7 would give you the weighted average rate, and that would be
8 the rate that would be used in the formula.

9 Q Okay. So, that would give you something like 29
10 cents, roughly 28 or 29 cents.

11 A Somewhere -- yes.

12 Q And that would be the rate that would apply to
13 non-merged mailings, all 50 percent of the mailings that are
14 non-merged, even though they are not batched. Is that
15 right?

16 A No. The data is collected to calculate that
17 weighted average rate. Then whatever mailing came in after
18 that, the formula would calculate the blended discount rate
19 using that weighted average rate.

20 Q I'm sorry. My question was not clear.

21 After -- at the end of the experimental period,
22 every non-merged piece that came in would -- even though it
23 would qualify for only the 33-cent single-piece rate if it
24 were -- since it's not batched, would benefit from the
25 28-to-29-cent rate your proposal calculated, correct?

2325

1 A Yes.

2 Q Okay. And in that respect, doesn't the waiver of
3 the volume minimum continue at the end of the experimental
4 period to give a benefit to the Postal Service?

5 A That would be the experience of the experiment.

6 So, I guess that would be -- the experience based
7 rate would be the one that would apply.

8 Q And by applying the experience based rate, isn't
9 it true that there would be mailings at the end of the
10 experimental period that would be under the volume minimum
11 but would qualify for a lower rate than the single piece
12 rate that is otherwise available?

13 A There would be mailings, but, again, if you are
14 talking about two years' worth of data that give you this
15 experience based weighted average rate, that -- it seems to
16 me that, in effect, two years' worth of data shows that -- I
17 guess, in your example, it reflects the half merge, half
18 non-merge, I guess that's what I would say.

19 Q Okay. Let me move on to a related subject, and
20 that is your proposal is that the customer of Mailing Online
21 would be charged the lower of the rate determined using your
22 proposal and the rate for which that customer's mailing
23 would qualify if it were entered directly with the Postal
24 Service in hard copy, is that right?

25 A As if it were entered in hard copy, yes.

1 Q Okay. Now, I think in response to one of our
2 interrogatories, you indicated that there are some cases in
3 which the customer would pay a rate lower than -- strike
4 that, let me rephrase that.

5 Under that formula, if the actual hard copy rate
6 is higher than the weighted average, then the customer would
7 be charged the weighted average, correct?

8 A I'm sorry. If the hard copy rate were higher than
9 the blended discount rate?

10 Q Than the blended discount rate. I apologize.
11 Yes.

12 A The customer would get the blended discount rate.

13 Q Okay. And if the actual hard copy rate were lower
14 than the blended discount rate, then the customer would get
15 the actual hard copy rate, is that correct?

16 A Yes.

17 Q And, so, you are determining an average but
18 applying it only to customers that benefit from it, is that
19 correct?

20 A I don't -- I am not -- I don't understand.

21 Q Well, let me ask you this. One way of doing this
22 would be to use your formula, determine the blended discount
23 rate, and apply that to everyone, correct?

24 A Yes.

25 Q Theoretically, one could design a system that way,

1 is that right?

2 A Yes.

3 Q Another way of doing it would be to charge
4 everyone the rate to which they would be entitled if their
5 mailing had been entered as hard copy, correct?

6 A Yes.

7 Q And what you have done is designed a proposal that
8 charges the lower of those two rates to everyone, correct?

9 A Yes.

10 Q And would the result of that -- let's look at all
11 mailings, let's look at the end of the experimental period,
12 where there is no weighting. You would continue that
13 either/or approach, the lower of the blended discount rate
14 and the --

15 A Hard copy rate.

16 Q -- hard copy rate?

17 A Yes.

18 Q Okay. So, during the first month after the
19 experimental period, if, let's say, half of the mailings
20 come in -- let me just use some numbers just for the sake of
21 -- arbitrary numbers for the sake of the question. Let me
22 ask you to assume that for a particular job type page count,
23 the blended discount rate is 26 cents. Let's assume we are
24 talking about a one page mail piece. Okay. And let's
25 assume that the blended discount rate is 26 cents. Okay?

1 A Okay.

2 Q And let's assume that half of the mailings that
3 come in during the next month in that job type page count
4 category qualify for lower rates, five digit, carrier route
5 -- five digit or carrier route, okay?

6 A Carrier route wouldn't apply.

7 Q Okay. I'm sorry, that's right. Let me restate
8 the example so that we can -- so that I can see if we can
9 understand this. Let me ask you to assume that the blended
10 discount rate is 27 cents, okay. And let's assume that half
11 of the mailings that come in during the next month qualify
12 either for three digit or five digit. Okay?

13 A Okay.

14 Q And three digit is 26.1, five digit is 24.3,
15 correct?

16 A Correct.

17 Q So those half would be charged 26.1 or 24.3,
18 correct?

19 A Those that were over the minimum. Right. Because
20 if they are in excess of the minimum volume requirements,
21 they would get the hard copy rate.

22 Q Okay. And let's assume that the other half do not
23 qualify for a rate lower than 27 cents, either because they
24 do not qualify for the minimum or -- well, let's assume it
25 is because they don't qualify for the minimum, okay. Then

2329

1 those would, in the absence of your proposal -- strike that.
2 They would, if they were mailed through anything other than
3 Mailing Online, qualify for only 33 cents, is that correct?

4 A Yes.

5 Q But because your blended discount rate is 27
6 cents, they would get the 27 cents, is that right?

7 A Yes. And that is, again, based on two years'
8 worth of experience showing that those mailings are -- I
9 guess where I am having somewhat a problem with your
10 hypotheticals is we get two years' worth of data that allow
11 a very deep weighted average rate and then the total -- the
12 example totally changes so that somehow the experience that
13 the subsequent time periods are so different from the two
14 years' worth of experience, so that in your one example, you
15 get a five digit level for the entire two years, and then
16 you get one which is inconsistent with that.

17 Q Okay. Let me see if I --

18 A And, so, somehow that invalidates the entire
19 proposal. I guess I would disagree with that. Two years'
20 worth of experience aren't for nothing. They show
21 experience over time of how customers actually use Mailing
22 Online. One customer comes in below the minimum and gets
23 the benefit. Okay. I would say that that doesn't
24 invalidate two years' worth of data, it shows that one
25 person came in and happened to get a better rate. And I

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1 guess that is where I am having trouble with the change from
2 what we are claiming to be the experience based weighted
3 average rate that is very deep, and then now assume that
4 this one person comes in and they benefit from the fact that
5 the experience over time is this very deep discount. And I
6 guess my answer is that doesn't invalidate the two years'
7 worth of data.

8 Q Okay. That is a flaw in my hypothetical, so let
9 me see if I can correct that. Let me ask you to assume that
10 the two years' worth of experience -- let me do some quick
11 math. The two years' worth of experience gives you a
12 blended discount rate of 28.8 cents. Now, if I have done
13 some math quickly in my head correctly, that would be the
14 mid-point between 24.3 cents, which is the five digit rate,
15 and 33 cents, which is the single piece rate.

16 A Okay.

17 Q Okay. Now, let's assume that during the first
18 month after the experimental period, half of the pieces that
19 come in, half of the mailings that come in would qualify if
20 they were entered in hard copy for the five digit rate,
21 which is 24.3 cents, and the other half would qualify for
22 the single piece rate because they don't meet the volume
23 minimum, so they would be at 33 cents. Okay.

24 A Okay.

25 Q Now, first of all, in that hypothetical, is that

2331

1 one month consistent with the two years' of history?

2 A It would be.

3 Q Okay. So does that address the concern that you
4 just expressed?

5 A Yes.

6 Q Okay. Now, those that are -- half of the mailings
7 that qualify for the five digit, they would not be charged
8 28.6 cents, which is the rate that would be determined based
9 on historical experience, they would be charged 24.3 cents,
10 instead, correct?

11 A Correct.

12 Q And the half that do not qualify for anything
13 below single piece, at 33 cents, they would all be charged
14 28.6 cents, is that right?

15 A Based upon experience, that would be the -- that
16 would split the difference, yes.

17 Q And that means that although -- well, strike that.
18 That means that the average for all of those mail pieces
19 during that one month period, the average rate that is
20 charged would be the mid-point between 24.3 and 28.6, is
21 that right?

22 A No, it would be the mid-point between 24.3 and 33
23 -- oh, I'm sorry, you're right. Between what they actually
24 paid, calculated by the discount -- the formula, and what
25 the hard copy rate paid. It would be, if I heard you

2332

1 correct, between 24.3 and 28.8, I think that is what you
2 said.

3 Q Yes. I thought it was 28.6 was the number we were
4 assuming.

5 A Okay. My mistake, I heard wrong.

6 Q Okay. And, so -- and that average --

7 MR. HOLLIES: Excuse me, Mr. Presiding Officer, if
8 counsel could be asked to speak into the microphone, we
9 would, I think, all benefit from that.

10 COMMISSIONER LeBLANC: I think you may be right.
11 Excuse me, Mr Himeles, not to interrupt you here, how much
12 more time do you need? I am not trying to rush you at all.
13 I am just trying to think --

14 MR. HIMELES: No, I understand. I think I
15 probably have another hour, Mr. Presiding Officer. I am
16 very close, though, to the end of this particular
17 hypothetical.

18 COMMISSIONER LeBLANC: Given that scenario, I
19 think if it is okay with everybody, we will go ahead and
20 take a 10 minute break right now and we will come back at
21 five minutes to the hour. We will be off the record, Mr.
22 Reporter.

23 [Recess.]

24 COMMISSIONER LeBLANC: You all can be seated. Mr.
25 Himeles.

1 MR. HIMELES: Yes. Thank you, Mr. Presiding
2 Officer.

3 BY MR. HIMELES:

4 Q Mr. Callow, just to pick up with the scenario we
5 were discussing when we recessed, I think we were assuming
6 that 28.6 cents was the blended discount rate based on two
7 years of experience, correct?

8 A Correct.

9 Q And during the month following the end of the
10 experimental period, half of the mail pieces in this job
11 type page count category would qualify for 24.3 cents,
12 correct?

13 A Correct.

14 Q And the other half would be under the volume
15 minimum and therefore if they were entered as hard copy they
16 would qualify only for 33 cents, correct?

17 A Correct.

18 Q But that half would be charged 28.6 cents,
19 correct?

20 A Correct.

21 Q And so is it not true that the average rate that
22 would be charged of all of those mailings, for all of those
23 mailings which represent an accurate -- which are consistent
24 with prior history would be the average of 24.3 and 28.6,
25 which would be roughly 26.4?

1 A Correct.

2 Q And so by charging the lower of the historical
3 average and the hard copy rate, you in effect bring about a
4 result so that if history repeats itself you will charge on
5 average a rate that is below the historical average,
6 correct?

7 A If you take into account all the mail pieces, both
8 those that pay the hard copy rate and those that got the
9 blended discount rate. The average of the two would be
10 between those two rates.

11 Q And is it accurate to say that leaving aside the
12 question of whether use of the historical average along
13 would give the Postal Service a competitive advantage, using
14 the lower of the hard copy rate or the historical average
15 has the effect of giving the Postal Service a competitive
16 advantage over members of MASA?

17 A Why would we leave aside the historical rate? I
18 mean the historical rate is what we calculated.

19 Q All right, let me rephrase the question.

20 What I meant to say is leaving aside a system in
21 which there were only a historical rate and you did not have
22 an option of charging a lower rate when a particular mailing
23 qualified for it, but let me rephrase the question.

24 Because your proposal charges the lower of the
25 historical average or the hard copy rate, doesn't it have

1 the effect of on average -- strike that.

2 Doesn't it have the effect of giving in this
3 hypothetical a competitive advantage to the Postal Service
4 as compared with members of MASA?

5 A Under your hypothetical, only those, that half
6 that paid the blended -- in effect the blended discount rate
7 benefited because the other half paid what they would have
8 gotten hard copy.

9 Q And isn't it the case that the reverse would never
10 be true under your proposal, that is it would never be true
11 that any customer of Mailing Online would pay more than the
12 historical rate?

13 A No. Those who had more than the minimums would be
14 able to get the rate as if they entered it in hard copy.

15 Q And those that didn't would have the benefit of
16 the historical average, correct?

17 A Correct.

18 Q Okay, so when you said no, the answer is yes, it
19 is true that your proposal would never create a situation in
20 which people paid more than the historical average?

21 Let me rephrase the question. Is it not the case
22 that under your proposal there would be circumstances in
23 which customers of Mailing Online would pay less than the
24 historical average but never a circumstance in which they
25 would pay more than the historical average after the

1 experimental period?

2 A I guess the way I would answer that is they pay
3 the historical rate or they pay the rate they would have
4 gotten hard copy.

5 Q Okay, and does that not give a competitive
6 advantage to the Postal Service as compared with members of
7 MASA?

8 A For those mailings that can't -- for those who get
9 the blended discount rate, that would be different than what
10 they could have gotten single piece -- or either what they
11 could have got if they had entered it in hard copy, so --

12 Q Different and lower?

13 A And lower.

14 Q Okay -- and isn't it also true that -- strike
15 that.

16 Let me ask you, Mr. Callow, do you have any
17 experience or training in computer programming?

18 A No.

19 Q Do you have any experience or training in
20 information systems, more broadly?

21 A No.

22 Q Do you know in what programming language the
23 Mailing Online software, what language or languages it has
24 been coded?

25 A I've seen some of the code but I don't recall the

2337

1 code being identified, so the answer is no.

2 Q Okay, and I take it you would not be able to look
3 at it and recognize it as one language or another?

4 A No.

5 Q Now you were asked some questions by MASA and by
6 Pitney Bowes in interrogatories concerning costs associated
7 with the implementation of your proposal, is that right?

8 A Yes.

9 Q Let me direct your attention to MASA OCA T100-1
10 and in particular subparts (a) and (d). Let's start with
11 (d).

12 The question that you were asked in (d) was what
13 the -- whether your pricing proposal would require the
14 Postal Service to incur additional costs for Mailing Online
15 to maintain and update software used to implement the
16 pricing proposal, correct?

17 A Correct.

18 Q And the response that you gave described the
19 maintenance and then said the amount of maintenance required
20 for new job type look-up tables would be comparable to the
21 maintenance required to add new job types to premailing
22 service fee print site tables, correct?

23 A Correct.

24 Q And would it be accurate to say that you
25 characterized the effort involved in maintenance as minimal?

2338

1 A Correct.

2 Q Now do you have sufficient knowledge, do you feel
3 that you have sufficient knowledge of computer programming
4 to be doing anything more than guessing or speculating in
5 answering that question?

6 A Yes, based upon the record and my comments, my
7 understanding of what is required is drawn from the record.
8 Witness Garvey indicated that the Mailing Online system has
9 flexibility and expandability built into it, and I assume
10 that if my proposal were recommended and adopted that -- and
11 that is on the premailing service aside, that similar
12 flexibility and expandability would be included for the
13 determination of postage, and that might be for example, the
14 Service has indicated that there might be additional -- as
15 my response states -- there might be new menu items for
16 Mailing Online.

17 The Postal Service might create, for example,
18 blank look-up tables that would simply have to be filled in
19 with the proper job type and page count. They would have to
20 do something similar, as I understand it, on the premailing
21 service. They would have to enter -- make changes to the
22 premailing service print site look-up tabs to indicate that
23 this new service was available.

24 Q So, you can identify what would have to be done,
25 but can you tell us what the software coding would be that

2339

1 would be required to accomplish those tasks?

2 A No. I can identify what types of work would have
3 to be done, but I can't write lines of code.

4 Q Okay.

5 Now, you recall earlier I asked you some questions
6 about non-merged mail pieces. If you had been asked or if
7 you were asked whether it would be a difficult task to
8 design software to batch non-merged as well as merged mail
9 pieces, would you have any reason to think it would be
10 difficult?

11 A I don't know. I don't know it would be more
12 difficult or less difficult.

13 Q Okay.

14 Well, in any case, for reasons that -- I take it
15 you don't know the reason why the Postal Service hasn't yet
16 been able to do that.

17 A No. I don't think they've told us either.

18 Q Okay. I don't ask the question in a critical way.
19 And do you know whether there would be any software
20 incompatibilities or difficulties that might arise in
21 designing software that would implement your pricing
22 proposal?

23 A I think -- the answer is that what I am proposing,
24 I believe, is fairly straightforward. You have to create
25 look-up tables. You then have to have the -- calculate a

1 weighted average rate and then have the pricing formula
2 reference that weighted average rate.

3 It seems to me that's not a particularly difficult
4 task, but I don't have software experience that, you know,
5 would say this is what you have to do.

6 Q Okay. And take a look, if you would, at your
7 answer to interrogatory number two, MASA/OCA-T100-2.

8 A What sub-part?

9 Q Sub-part A. And you were there asked whether you
10 had determined or estimated any of the costs of implementing
11 your pricing proposal and, in particular, sub-part A asks
12 about designing software to implement the pricing proposal,
13 correct?

14 A Correct.

15 Q And after describing the tasks that would need to
16 be accomplished, you said modification of the code for each
17 of these tasks should take no more than a few minutes,
18 correct?

19 A Correct.

20 Q Do you know that to be true?

21 A Based upon Witness Garvey's response, that's my
22 understanding.

23 Q Okay. Well, did Witness Garvey say anything about
24 what effort was involved in software coding, as opposed to
25 whether it could be done, as opposed to whether, generally,

1 the software was flexible?

2 A He did say things about the software being
3 flexible.

4 He said that code modification -- once you
5 established it, that code modification wasn't necessary,
6 that you simply had to -- I'm forgetting the exact term of
7 art right now, but you simply had to add or delete -- you
8 had to make certain entries in the print-site look-up tables
9 and it was accomplished, that code modification was not
10 required in order to add new items once the system was set
11 up.

12 Q I'm sorry. Are you finished?

13 A Yes, I am.

14 Q I didn't hear the last word.

15 Do you know how long the coding took to establish
16 print-site look-up tables?

17 A The original coding?

18 Q Yes.

19 A No.

20 Q And as the program stands now, there are no
21 job-type page count look-up tables, are there?

22 A That's correct.

23 Q And in fact, there's no formula used to determine
24 pricing. Is that correct?

25 A That's correct. Yes, as I propose it, there is no

1 formula.

2 Q Right. And so, is there anything in Mr. Garvey's
3 testimony that directly addresses the question of the cost
4 -- of the cost involved in creating job-type page count
5 look-up tables?

6 A No.

7 Q Is there anything that directly addresses the cost
8 involved in designing software that would implement a
9 pricing formula?

10 A No.

11 Q And is there anything that addresses -- is there
12 anything in Mr. Garvey's testimony that addresses the amount
13 of time that would be required to implement a pricing
14 formula?

15 A No. What we have is, if you will, a -- comparable
16 information about pre-mailing services.

17 Q About the cost and time of designing software to
18 price pre-mailing services?

19 A About the time, not the cost.

20 Q Okay.

21 A And that's related to changes to page count -- or
22 to print-site tables.

23 Q Do you recall that, before Witness Lim -- are you
24 familiar with the testimony of Witnesses Stirewalt and Lim,
25 just generally?

2343

1 A Generally. I mean I know they both worked on
2 information systems costs.

3 Q Okay. And do you recall that the initial estimate
4 or the initial report -- initially, there was a \$6 million
5 figure for information systems, and it later increased to
6 \$22 million. Do you recall that?

7 A Just general ballpark, yes.

8 Q Okay. And can you tell us with any degree of
9 certainty that a substantial increase would not ultimately
10 be required as a result of structural changes in the code
11 that your proposal might require or incompatibility that
12 your proposal might have with other software components?

13 Can you tell us with any degree of certainty that
14 those things would not cause there to be a greater cost than
15 your interrogatory answers indicate you believe?

16 A I guess I want to be clear. There's not going to
17 -- the costs that you refer to were the total costs of
18 setting up the mailing on-line system from ground zero.
19 What I am suggesting, the work that I'm suggesting that
20 needs to be done is far less than that, and therefore, the
21 costs of my work would be, I believe, substantially less
22 than the figures you've cited.

23 Q Well, I didn't mean to ask you whether there would
24 be a \$16 million increase as a result of your proposal, but
25 my question is, can you tell us with any degree of certainty

1 that there would not be a significant cost in implementing
2 your proposal with respect to software?

3 A Well, define significant.

4 Q In seven figures, in the millions of dollars.

5 A I wouldn't think so.

6 Q But can you tell us with any degree of certainty
7 that that's not the case?

8 A I don't have any figures either way.

9 Q Okay. So, to know that, wouldn't we really need
10 to ask a -- someone who's involved in the coding or familiar
11 with the code?

12 A No, because we know -- what we know about the
13 time involved in making some of the changes is very, very
14 small, very small amount of time, and if -- the amount of
15 time to make the changes is very small. Therefore, the
16 costs would be very small.

17 Q Can you tell us with any degree of certainty how
18 much time -- how much delay there would be, if any, in order
19 to implement your proposal?

20 A There would be no delay.

21 Q And is that something that you're completely
22 confident of?

23 A Yes. And the reason is the Postal Service is
24 currently preparing the latest version of Mailing Online
25 software that will be implemented in May -- or in mid-1999.

2345

1 That is not software that is operating in a production
2 environment. The changes could be made prior to
3 introduction of this. There's plenty of time to implement
4 this before mid-'99.

5 Q Have you ever known of a circumstance in which a
6 software release was -- came out substantially later than
7 was projected?

8 A I don't follow commercial software that closely.

9 Q Did you read anything about the publicity that
10 Microsoft got when Windows 95 was substantially delayed?
11 Does that ring a bell?

12 A No.

13 Q Okay. And can you tell us with any degree of
14 certainty that your proposal would not cause complications
15 that would delay the release of the new Mailing Online
16 software?

17 A Again, given the small amount of changes that I
18 think need to be made, I think it would be unlikely there
19 would be any problem.

20 Q Let's go back to the diminishing effect of the
21 volume exemptions over time. And let me first ask you,
22 during the first quarter you would -- your proposal provides
23 that since there is no experience yet, all customers of
24 Mailing Online would be charged the Automation Basic rate.
25 Is that right?

1 A Correct, in the first quarter.

2 Q And that is true irrespective of the size of those
3 mailings?

4 A Yes. We start with the assumption of the Postal
5 Service's, and so that's why we start with Automation Basic.

6 Q Okay. And in starting with that assumption you
7 could have either started with that assumption across the
8 board or started with that assumption without waiving the
9 volume minimums for mailings. Theoretically that would be
10 possible; correct?

11 A Well, you only get the Automation Basic if the
12 volume minimums are waived.

13 Q Well --

14 A Under the Postal Service proposal.

15 Q I suppose my point is that you could -- could you
16 not design a proposal in which during the first quarter you
17 charge the Automation Basic rate only to customers who
18 exceed the volume minimums?

19 A You could, but our proposal was to test the Postal
20 Service's assumption that Automation Basic is the
21 appropriate rate or in effect the weighted average rate of
22 Mailing Online. So we started with that assumption.

23 Q Okay. Well, in any case, you would agree I take
24 it that during the first quarter those exemptions are part
25 of your proposal and give a competitive advantage during

2347

1 that quarter to the Postal Service as compared with MASA
2 members. Correct?

3 A It's an experiment. We are attempting to test
4 that assumption of the Postal Service and for that quarter
5 and until the end of the experiment there will be customers
6 who get close to the Automation Basic rate until the end.

7 Q Well, in addition to being an experiment, isn't
8 the experimental period, assuming that there is one, also
9 the beginning of the ramping up of Mailing Online?

10 A Yes.

11 Q Okay. And if a MASA member were to design and
12 begin to implement a program like Mailing Online involving
13 Internet submission of electronic copies of documents to be
14 introduced into the mail stream, the MASA member -- would
15 the MASA member have access to Automation Basic rates for
16 mailings that didn't meet the volume minimums?

17 A No.

18 Q And would it not be easier for the Postal Service
19 to enter this market and to increase its volume by virtue of
20 the fact that it can charge these rates that are lower than
21 the rates that a MASA member would have to charge?

22 A The rates would be different, so that would be
23 something the Postal Service would use; yes.

24 Q You're familiar with the term "barriers to entry"?

25 A Vaguely.

2348

1 Q Okay. Well, if one were to start in this business
2 from scratch the way for instance Pitney Bowes did in its
3 Direct Net program, one of the difficulties would be
4 attracting customers during the early period before there
5 are sufficient volumes to support lower postage rates; is
6 that fair?

7 A I'm sorry, could you repeat that?

8 Q Well, let me break it down. One of the reasons
9 customers would come to a service like this would be price;
10 is that correct?

11 A It would be one reason; yes.

12 Q Okay. And there are other reasons as well; right?

13 And is it not the case that when the service opens
14 its doors, its virtual doors, on day 1, if the service is
15 not run by the Postal Service, it will have to pay postage
16 rates that are higher than the rates that the Postal Service
17 would or the customers of the Postal Service would be paying
18 for Mailing Online under your proposal.

19 A On day 1; yes.

20 Q Okay. And in fact that would continue throughout
21 the experimental period; correct?

22 A Yes.

23 Q And let's just look at your chart on page 31 that
24 has the weighting factors.

25 A Um-hum.

2349

1 Q And during the first quarter the Automation Basic
2 rate is given a weight of 1, or 100 percent; correct?

3 A Yes.

4 Q And again that's an Automation Basic rate that
5 relies on an exemption from the volume minimums; correct?

6 A Correct.

7 Q And the weight during the second quarter that is
8 given to that portion of the -- or to that factor is 35/36;
9 is that correct?

10 A Correct.

11 Q And that's, if my math is correct, 97.2 percent.
12 Does that sound about right?

13 A Subject to check; yes.

14 Q Okay. And then in the third quarter the weight
15 given to the automation discount -- the Automation Basic
16 rate with the waiver of the volume minimums is 33/36; is
17 that correct?

18 A Correct.

19 Q And that's, if my math is correct, 91.6 percent.

20 A Subject to check; yes.

21 Q Okay. And during the fourth quarter the weight
22 given to the Automation Basic with waiver of the volume
23 minimums is 30/36; is that correct?

24 A Yes.

25 Q And that, if my math is correct again, is 83.3

- 1 percent; is that right?
- 2 A Subject to check.
- 3 Q And during the fifth quarter the rate that is
4 given to the Automation Basic component in determining the
5 weighted average is 26/36; is that correct?
- 6 A Correct.
- 7 Q And that's 72.2 percent; correct?
- 8 A Subject to check.
- 9 Q Okay. And then during the sixth quarter the
10 weight is 21/36; is that correct?
- 11 A Correct.
- 12 Q That's 58.3 percent, subject to check?
- 13 A Subject to check.
- 14 Q And then during the seventh quarter for the first
15 time it drops below 50 percent to 15/36; is that correct?
- 16 A Correct.
- 17 Q And even without checking, would you agree with me
18 that that's the first time that the weight of the Automation
19 Basic with volume exemptions goes below 50 percent in your
20 formula?
- 21 A Correct.
- 22 Q And so the design of your formula has the effect
23 of starting out by increasing the weight of experience at a
24 very slow rate and then gradually increasing the weight of
25 experience at a faster rate; is that right?

2351

1 A Correct. Correct.

2 Q And that means that it's not until for the first
3 year-and-a-half of the two-year period the weight that is
4 given to the Automation Basic rate is over 50 percent and in
5 most instances well over 50 percent; is that right?

6 A Correct.

7 Q Okay. And even in the last period, it's still
8 given a weight of 836? Is that right?

9 A Yes.

10 Q And subject to check, that's about 22.2 percent?
11 Is that right?

12 A Subject to check, yes.

13 Q Okay. And so, throughout -- in addition to other
14 factors and their effects on competition that we've
15 discussed, throughout this period, throughout the
16 experimental period, there is the factor -- strike that.

17 You're familiar with and I think you cited in your
18 testimony the Commission's conclusion with which, as I
19 understood it, you agreed that the waiver of the volume
20 exemptions would have an anti-competitive effect, are you
21 not?

22 A Yes.

23 Q Okay. And you did -- am I correct that you did
24 agree with that in your proposal?

25 A Yes.

2352

1 Q Okay. And that remains the case as to the
2 component that accounts for more than 50 percent of your
3 rate for a year-and-a-half in your proposal. Is that right?

4 A That's -- that is a result of the weighting, yes.

5 Q Now, isn't it fair to say that that would make it
6 easier for the Postal Service to attract a sufficient
7 customer base to build mailing on-line and to have it be
8 successful than it would be for a member of MASA or for
9 Pitney Bowes, who could not take advantage of these volume
10 exemptions?

11 A Well, that seems to me a leap. It depends what
12 other efforts -- the price -- the difference in price is one
13 factor, but Postal Service may not advertise or advertise
14 very little or -- there are a number -- a host of other
15 things that may draw people to another Postal Service
16 competitor. So, that would be my answer.

17 Q Well, I wasn't going to bring it up, but as far as
18 advertising goes, which -- who has a greater ability to
19 advertise, in your view, the Postal Service or a small
20 letter shop?

21 A Well, the Postal Service would have more
22 resources, to the extent they want to devote it to mailing
23 on-line.

24 Q And does the Postal Service have the ability to
25 send notices to recipients of mail?

- 1 A Yes.
- 2 Q And do those notices sometimes describe new
3 products that are available?
- 4 A I don't know. I haven't seen any.
- 5 Q Let me just go to one last area, Mr. Callow.
- 6 A Uh-huh.
- 7 Q I want to ask you to assume that you have a
8 business that sends out every month a mailing that is sent
9 first-class, sent to 400 people, and it's always the same
10 number of pages -- let's say a newsletter, okay?
- 11 A Okay.
- 12 Q Now, under your proposal, the price that -- the
13 postage rate that that business pays if it uses mailing
14 on-line would be the same for the first three months,
15 correct?
- 16 A Yes.
- 17 Q And then, in the fourth month, it would change,
18 correct?
- 19 A Correct.
- 20 Q And then it would be the -- I'm sorry. Go ahead.
- 21 A That's correct. It would --
- 22 Q And then it would be the same in months five and
23 six, correct? The same as it was in month four, that is.
- 24 A Yes.
- 25 Q And then, in the seventh month, it would change,

1 correct?

2 A Yes.

3 Q And this would continue over the course of the
4 experimental period, correct?

5 A Yes.

6 Q Now, from the perspective of the customer, is it
7 accurate to say that the change in the postage rate -- first
8 of all, let's say from month nine to month 10, when there is
9 a change in the rate, that change could go down or it could
10 go up. Is that right?

11 A Correct.

12 Q And isn't it accurate to say that, from the
13 perspective of the customer, as opposed to the Postal
14 Service, that change is fortuitous.

15 A That the rate goes down?

16 Q Well, whether it goes down or up. The customer,
17 in other words, hasn't done anything to bring that about in
18 the way of changing the mailing, correct?

19 A That's correct.

20 Q In designing your proposal, did you take into
21 account any concern or any possibility of customers of
22 mailing on-line being unhappy about or concerned by periodic
23 changes that appear to them to be random in the postage
24 rates?

25 A In terms of explaining it to the customers, the

2355

1 answer for the customer would be that you're paying the
2 lowest rate for which your mailing qualified under mailing
3 on-line.

4 The rates would change based upon the weighting
5 factor and the calculation of the experience-based weighted
6 average rate.

7 So, as you say, it could go up or down, but the
8 explanation would be, you know, this is the lowest rate,
9 you're paying the lowest rate possible under mailing on-line
10 service.

11 Q In the case of first-class mail, for example, when
12 the rate increases, first of all that's after a proceeding
13 before this Commission, correct?

14 A Yes.

15 Q And secondly, the Postal Service makes that widely
16 known. Is that correct?

17 A Yes.

18 Q And when a customer inquires, the Postal Service
19 is in a position to say we've increased the rates and they
20 can explain that the rates haven't increased for X number of
21 years and so forth, correct?

22 A Yes.

23 Q Are you aware of any other circumstance in which
24 rates increase -- postal rates increase as a result of a
25 formula rather than as a result of a -- of the approval by

2356

1 this Commission of a rate increase?

2 A Pre-mailing service fees.

3 Q Are you aware of any other circumstances in which
4 they increase as a result -- did I say as a result of a
5 formula?

6 A Yes.

7 Q Okay. And how are they -- on pre-mailing service
8 fees, tell me what you're referring to.

9 A The Postal Service would set up a new print site,
10 would be a new contractor, contractor would have new prices.
11 The customer would pay a different rate if his mailing
12 happened to go through that print site.

13 Q Okay.

14 When you say pre-mailing service fees, you're
15 talking about --

16 A -- printing, finishing.

17 Q On mailing on-line. In mailing on-line.

18 A Yes.

19 Q Okay. All right. I understand what you're
20 saying.

21 Now, my question, though -- that -- pre-mailing
22 service fees are not postage. Is that correct?

23 A They're not postage, correct.

24 Q Okay.

25 With respect to postage, are you aware of any

2357

1 other circumstance in which the postage is determined not as
2 a result of a proceeding before this Commission but by
3 formula?

4 A Not that I'm aware of.

5 Q Okay.

6 A I think part of the answer to customers is this is
7 an experimental service and that we are going to be
8 adjusting rates to reflect the experimental nature of the
9 service.

10 Q Okay.

11 Now, your proposal would continue after the
12 experiment, wouldn't it?

13 A Possibly.

14 Q That's at least what you support, isn't it?

15 A I hadn't thought that far, but if, you know, it
16 went, say, past the eighth quarter, sure.

17 Q Okay. And then experience would be given the
18 entire -- given 100 percent of the weight. Is that right?

19 A Yes.

20 Q And so, after that period, after the experiment,
21 then you wouldn't be able to respond in the way you've just
22 suggested, would you?

23 A No, but the experience would change -- would
24 likely change again.

25 Q And when the experience changed, then the rate

2358

1 charged to a customer mailing the same mailing every month
2 might go up in three months and then down in three months
3 and it would periodically vary. Is that right?

4 A Not after the experiment, because you'd have two
5 years worth of experience-based rates that would be in
6 effect until, you know, probably the next proceeding that
7 covered mailing on-line.

8 Q Okay. So, you would propose -- all right.

9 But in any case, do you believe customers of
10 mailing on-line would get explanations that would be
11 sufficient for them to understand the way in which your
12 formula works?

13 A If -- I would assume -- I would expect that, if
14 they asked, they would get the information they needed, yes,
15 but under mailing on-line, they're only going to get the
16 price they're going to pay for pre-mailing fees or for their
17 pre-mailing services, and they're going to get the price of
18 postage, which is then summed.

19 So, to the extent -- I'm not certain that, in and
20 of itself, is sufficient information to trigger an interest
21 in how the formula would be calculated, since the
22 pre-mailing service fees are also calculated by a formula,
23 but I would expect that, if someone said show me exactly how
24 these numbers were arrived at, that the Postal Service would
25 be able to do that.

2359

1 Q Let me ask you to assume that two customers of
2 mailing on-line right next-door to each other each send out
3 a mailing that is, again, 400 pieces sent by first-class
4 mail, one of them sends the mailing on the last day of the
5 fifth quarter and the other one sends the mailing -- sends
6 his mailing the day after, which would be the first day of
7 the sixth quarter.

8 Would they be charged the same rate?

9 A No.

10 Q And that's because the rate change would have --
11 or the experience data would have been incorporated in the
12 formula and changes would have resulted from that?

13 A And from the change in the weighting factor.

14 Q And the change in the weighting factor. And did
15 you consider in designing your proposal whether the
16 different treatment of customers who mail -- different
17 customers who mail identical mailings within days of each
18 other was fair treatment of customers of the Postal Service?

19 A I didn't --

20 Q Well, what -- I'm sorry. Go ahead.

21 A I guess what I would say is I didn't specifically
22 consider that instance. Rather, as I said, I would expect
23 that, to the extent that people asked, they would be told
24 it's an experimental service, that we'll have fees changing
25 throughout.

2360

1 Q Are you familiar with the factors, the statutory
2 factors, that this Commission is required to consider in
3 evaluating postal rates?

4 A Yes.

5 Q And the first of those factors is that the
6 schedule should be fair and equitable, is that correct?

7 A Yes.

8 Q And have you considered in developing your
9 proposal whether it is fair and equitable for two customers
10 in the circumstances I have just asked you about, sending
11 the same mailing a day apart to pay different rates?

12 A Well, I guess what I would say is I didn't
13 consider that because the rates I am proposing don't change.
14 That is, the rates on which the formula calculates the rates
15 calculated under the pricing formula are based on the rates
16 that this Commission has recommended and the Board of
17 Governors have adopted so there is no change in those rates.
18 I simply calculate a blended discount rate.

19 Q Well, the discount that is available to a
20 particular -- the discounts that are available change from
21 period to period, although the formula doesn't change.
22 Isn't that true?

23 A I'm sorry, could you say that again?

24 Q Well, let me just ask it this way. Isn't it true
25 that from one quarter to another the rates change, although

1 the formula does not?

2 A Under my proposal?

3 Q Yes.

4 A Yes.

5 Q Okay, so -- and I take it you are not a lawyer.

6 You haven't considered whether it is legally permissible for
7 the Commission to approve a formula which provides for
8 changing rates?

9 A I am not a lawyer. No, I don't know the answer to
10 that.

11 Q Have you considered -- one of the factors in the
12 statute is simplicity of structure for the entire schedule,
13 is that right?

14 A Yes.

15 Q And have you considered if your proposal is
16 consistent with simplicity of structure?

17 A As I said, since I did not change the rates
18 recommended by this Commission I did not consider those
19 factors.

20 Q Let me direct your attention to page 21 of your
21 proposal, lines 18 through 21.

22 A Okay.

23 Q Now there are two sentences there. The first is,
24 "Consequently my proposal obviates the need to waive the
25 minimum volume requirements otherwise applicable to Mailing

1 Online mailings" -- is that right?

2 A Correct.

3 Q And isn't it true though that your proposal
4 incorporates a waiver of minimum volume requirements for the
5 entire experimental period?

6 A Correct.

7 Q And the second sentence says, "My proposal also
8 eliminates anti-competitive effects caused by adopting the
9 proposed waiver, is that correct?"

10 A Correct.

11 Q And those anti-competitive effects remain and are
12 given a weight of more than 50 percent of the rate for the
13 first half of the two year period, is that right -- actually
14 for the first six quarters of the two year period, is that
15 correct?

16 A They diminish over time to the point where 50
17 percent is in the sixth quarter.

18 Q Is it accurate to say that your proposal does not
19 eliminate those anti-competitive effects at any time during
20 the experimental period?

21 A This statement refers to or my intent was to refer
22 to the -- that it eliminates the anti-competitive effects by
23 the end of the experiment when weighted average rates would
24 apply or would be used in the formula.

25 Q Okay. Isn't it also true that your proposal

2363

1 continues to have other anti-competitive effects even at the
2 end of the experimental period?

3 A No, because it is based on experience-based rates.

4 Q Well, let me go back, without belaboring the
5 point, to the example we discussed in which the
6 experienced-based rate is 28.6 percent -- I am sorry, 28.6
7 cents for a single piece First Class letter.

8 Do you recall our discussion of that?

9 A Yes.

10 Q And at the end of the experiment during the next
11 month 24.3 cents -- I'm sorry. At the end of the
12 experiment, during the next month half of the people who
13 mail through Mailing Online letters in this job type page
14 count category would qualify for five-digit automation rates
15 and the other half are under the volume discount and
16 therefore -- I'm sorry, are under the volume minimum and
17 therefore they would qualify for 33 cents in the absence of
18 Mailing Online?

19 A Okay, yes. Under your hypothetical, those
20 mailings would benefit.

21 Q Okay, they would benefit and so in circumstances
22 like those isn't it accurate to say that even after the end
23 of the experiment or at the end of the experimental period
24 your proposal continues to have an anti-competitive effect
25 as a result of the volume minimums?

2364

1 A Those experience-based rates would be the formula
2 so if the experience showed that they were lower, yes.

3 Q I am not sure I understood your answer.

4 A Okay. The experience-based rates at the end of
5 the period if that average is lower than the rate the mailer
6 would have got in hard copy in your example, 400 pieces,
7 then that rate would be the rate that would get used in the
8 formula and become the blended discount rate.

9 Q Okay, but let me ask this question. Isn't it true
10 that under your proposal the average rate charged by Mailing
11 Online for any job type page count category would be less
12 than the blended discount rate based on experience?

13 A I'm sorry, could you repeat that?

14 Q Under your proposal --

15 A Yes --

16 Q -- wouldn't the average rate charged to the
17 customers of Mailing Online in each or in any job type page
18 count category be less than the rate that would be dictated
19 by historical experience?

20 A For those pieces that exceed the minimum volume
21 requirements, they would get the hard copy rate.

22 Q And in addition to circumstances where the volume
23 requirements come into play, isn't it true that there would
24 be other circumstances where the average rate charged by
25 Mailing Online would be less than the rate that would be

2365

1 dictated by experience?

2 A If I understand you correctly, what you are saying
3 is that you could have a mailing that if entered in hard
4 copy would pay a rate higher than the blended discount rate,
5 or conversely the blended discount rate would be lower than
6 what that mailing could have got in hard copy.

7 Q No. Let me break this down. I thought we
8 could -- let me break this down and see if we can wrap up.

9 In any job type page count category, whether there
10 is a volume minimum issue or not, if someone is above the
11 average, is above the rate that is dictated by historical
12 experience, then they pay only the average, correct?

13 A No. If a mailing has an excess of the minimum
14 volume requirements they pay what they get in hard copy.

15 Q Well, that is not someone who is above the
16 average.

17 My question was if somebody's hard copy rate -- I
18 didn't express it clearly. If somebody's hard copy rate is
19 greater than the blended discount rate determined based on
20 experience --

21 A Yes.

22 Q -- then they get the benefit of the
23 experience-based rate, right?

24 A Correct.

25 Q And if someone's hard copy rate is lower than the

1 historical rate, then they are not tethered to the
2 historical rate. They get the lower hard copy rate,
3 correct?

4 A Correct.

5 Q And doesn't that mean that the average rate that
6 your proposal would charge customers of Mailing Online would
7 inevitably be lower than the historical average?

8 A For all mail pieces.

9 Q For all mail pieces --

10 A Correct.

11 Q -- so you are not simply taking a historical
12 average and using it to determine what to charge everyone,
13 correct?

14 A Yes -- the historical or the experience-based
15 weighted average rate is only used for those -- let me
16 rephrase that.

17 Where the experience-based weighted -- where the
18 blended discount rate is less than what someone might pay in
19 hard copy, that is what they would get, the blended discount
20 rate.

21 Q Okay, and in your testimony, did you not indicate
22 that you thought that the best solution would be to use
23 rebates?

24 A No -- oh, yes.

25 Q Okay.

2367

1 A That's correct.

2 Q And you developed your proposal because of the
3 Postal Service's concerns that a rebate system would be
4 unworkable? Correct?

5 A That is what they claimed, yes.

6 Q Okay. If there were a rebate system, people who
7 were above any average that existed would pay a rate that
8 was above the average. They would pay the actual hard copy
9 rate, is that correct?

10 A Under a rebate system?

11 Q Yes.

12 A They would pay exactly what they would -- they
13 would pay the rate -- they would pay the hard copy rate.

14 Q Okay, but in your system, you -- rather than
15 taking people above the historical average and charging them
16 the historical average and taking people below the
17 historical average and charging them the historical average,
18 which would leave you in an analogous position to rebates,
19 you took only the people above and brought them down, is
20 that fair to say?

21 A I see what you are saying. Yes. Under your
22 hypothetical, that is correct.

23 MR. HIMELES: Thank you. I have no further
24 questions, Mr. Presiding Officer.

25 COMMISSIONER LeBLANC: Mr. Wiggins, as far as

1 timeframe here, what are we looking at?

2 MR. WIGGINS: Very brief, Mr. Presiding Officer,
3 15 minutes perhaps.

4 COMMISSIONER LeBLANC: Fine. With that, we will
5 go ahead and push on then because we may have a long
6 afternoon with the arguments. We will see. But go ahead
7 and proceed, please.

8 MR. WIGGINS: Thank you.

9 COMMISSIONER LeBLANC: Excuse me one second. Are
10 you doing all right, Mr. Callow, over there? You have been
11 up for --

12 THE WITNESS: I am fine.

13 COMMISSIONER LeBLANC: All right. Go ahead, Mr.
14 Wiggins.

15 MR. WIGGINS: Thank you.

16 CROSS-EXAMINATION

17 BY MR. WIGGINS:

18 Q Mr. Callow, I am Frank Wiggins, here for Pitney
19 Bowes. Pitney Bowes, we may not come out precisely where
20 you have on all of these issues, but I would like you to
21 know that Pitney Bowes, as a competitor with the Postal
22 Service, really appreciates the fact that the OCA has
23 focused on trying to eliminate competitive disadvantage. I
24 mean that sincerely.

25 A Thank you.

2369

1 Q Do you recall that you filed a revised answer to
2 our Interrogatory Number 9 to you?

3 A Yes, I did.

4 Q And in the course of the pleading accompanying
5 that revision, you recite that, with regard to the revisions
6 to Attachment 2, and I am now reading, "The rate shown in
7 the heading of the attachment for basic flat is changed from
8 24.5 to 10.5 and for 3/5 digit flat, it is changed 2.3 to
9 6.3." Rather substantial alterations. Can you recite, just
10 so the record is clear about this, what gave rise to those
11 changes?

12 A Yes. I inadvertently used the letter rate at the
13 point you cited in the table.

14 Q Rather than the piece plus per pound rate, is that
15 correct?

16 A For flats.

17 Q Yes, exactly.

18 A Correct.

19 Q Thank you.

20 A That's why I had to make the revision.

21 Q Sure. Harkening back to the issue of competitive
22 advantage, we asked you, in Pitney Bowes Interrogatory
23 Number 2 to you, if you have that handy.

24 A Yes, I do.

25 Q We asked you what the focus of your interest in

2370

1 eliminating competitive, or potential competitive advantage
2 was, and you say, and I am now reading from your answer, "My
3 comments are confined to the elimination of competitive
4 advantage with respect to postage pricing. I did not
5 consider the extent to which other sources of advantage
6 could effect competitors." Do you have any view at all, Mr.
7 Callow, as to whether there might exist such other sources
8 of advantage?

9 A I guess what I would like to do is amplify a
10 little bit. My proposal is designed to eliminate, if you
11 will, unfair competitive advantage. It seemed to me, and
12 the Commission seemed to -- the Commission recognized it in
13 its market test opinion, that the Postal Service had
14 designed a competitive advantage into its proposal in terms
15 of pricing, and that that was unfair. There are other
16 sources of competitive advantage, but they are not
17 necessarily unfair. Size, name recognition are, you know,
18 some obvious examples.

19 Q Are you testifying, Mr. Callow, that you have
20 examined all of the other sources of competitive advantage
21 that you could think of and determined that none of them is
22 unfair?

23 A No. As I stated in my answer, my comments are
24 confined to postage pricing, unfair competitive advantage in
25 postage pricing, and that is the extent of my testimony.

2371

1 Q Good, I appreciate that. Could you have a look at
2 MASA's Interrogatory Number 1 to you and your answer to it,
3 please?

4 A I have it.

5 Q About a little less than halfway down, the answer
6 to subpart (a), you say, "This proposal would require the
7 Postal Service to presort mailings at the time they are
8 submitted." And you are referring there to your pricing
9 proposal, correct?

10 A Correct.

11 Q Okay. You go on to say, "At present, the Postal
12 Service creates separate batches for each print site before
13 presortation. There is no technical barrier to modifying
14 the code" -- and these are the words I would like to
15 concentrate on -- "to switch the order of presortation."
16 Isn't it really the case, Mr. Callow, that you are not just
17 switching the order of presortation, you are interposing an
18 additional presortation over that which would be required by
19 the Postal Service, aren't you?

20 A No. Right now the Postal Service batches, then
21 presorts. We are saying presort, then batch.

22 Q But isn't there required an additional
23 presortation in order to get the stuff to the right print
24 site?

25 A No. Whether you batch first or whether you

2372

1 presort first is irrelevant. The Postal Service defined
2 print sites by ZIP codes, and obviously presortation is
3 achieved by ZIP codes. So at the point you presort, you
4 know that it's going to go to a particular print site. And
5 conversely, if you batch, it will go to a particular print
6 site, and then you presort. The effect is the same.

7 Q When you use the word "batch," could one
8 substitute, without disrupting your meaning, the word
9 "commingle"?

10 A Not necessarily.

11 Q Okay. Let's go through this slowly, because I'm
12 not sure that I understand the Postal Service proposal, much
13 less your alteration to it here. Pieces of mail come
14 roaring electronically into San Mateo; is that right?

15 A Yes.

16 Q Okay. And those pieces of mail, and let's think
17 only about pieces of mail that are merged mail.

18 A Okay.

19 Q You recall your discussion with Mr. Himeles about
20 the difference?

21 A Yes.

22 Q Okay. Only merged mail is roaring into San Mateo.

23 A Okay.

24 Q And by your proposal it has to be presorted by
25 customer; correct?

1 A Correct.

2 Q So that you can figure out what the historical
3 rate might be. So that you --

4 A What the hard-copy rate might be.

5 Q The hard-copy rate. Okay. I'm sorry. So that
6 you can do your lesser of --

7 A Yes.

8 Q Calculation. Right?

9 A Correct.

10 Q Okay. So it has to be organized by customer.

11 A Correct.

12 Q Okay? Then, however, it's going to be melded with
13 other mail -- with mail pieces from other customers.

14 Correct?

15 A No. If the mail comes in and the -- well --

16 Q Don't we want to have -- in order to create a
17 commingled batch, don't we want to have all of the pieces
18 going to a single ZIP code, for example, put together,
19 commingled, without regard to the identity of the customer?

20 A No. I -- the mail piece comes in to -- or the
21 mailing comes in to San Mateo.

22 Q Right.

23 A It then gets immediately presorted, and the
24 hard-copy rates determined.

25 Q Under your proposal.

1 A Under my proposal.

2 Q Correct.

3 A Then that mailing is of a particular job type page
4 count. Okay?

5 Q Yes.

6 A At that point the Postal Service computer
7 references the existing job type page count lookup table for
8 the weighted average rate. It takes that rate, that
9 weighted average rate, and calculates the blended discount
10 rate. Whichever is lower, the customer gets the lower of
11 the two rates.

12 Q Understood. And the only presortation that has
13 occurred at this time is a presortation of that single
14 mailing identified with a single customer; is that correct?

15 A Correct.

16 Q Okay. And then what happens?

17 A And the customer gets the lower of the two.

18 Q I understand. But what's the next step? After
19 having determined the rate, what's the next -- where does
20 the mail go from there and what if anything happens to it in
21 terms of sortation?

22 A There is no more sortation necessary. It goes --
23 well, it's sorted -- it's presorted in hard copy, okay? And
24 then the presortation which took place for hard copy would
25 send it to the proper print site.

1 Q And when you say presortation that took place for
2 hard copy, you mean hard-copy pricing.

3 A Yes.

4 Q Okay. And it then goes to the print site not
5 associated with the mail of any other mailer; is that
6 correct?

7 A Correct.

8 Q And do you appreciate that that is what happens
9 under the Postal Service's proposal as well?

10 A At the present time that's what happens, because
11 they haven't been able to batch.

12 Q Well, no, no. For -- that's not correct, is it?

13 A I haven't seen any data where they've been able to
14 batch.

15 Q Have you examined all of the weekly and biweekly
16 reports?

17 A Biweekly reports I have. The qualification
18 statements?

19 Q Yes, exactly. I recall seeing some very recently
20 in which you will see merged mail. And it's my
21 understanding from the Postal Service that where they have
22 merged mail, they also commingle. Do you have a different
23 understanding from mine?

24 A My recollection of looking at --

25 Q Well, no, we can all look back at the physical

1 documents. I'm just -- conceptually do you have an
2 understanding different from mine that if the Postal Service
3 has been able to report to us --

4 A Okay.

5 Q Because of the increases in sophistication in the
6 software. In recent times that they've had some merged
7 mailings that those mailings are also commingled.

8 A They could; yes.

9 Q Okay.

10 A I assume that's where they're headed.

11 Q Sure. At least in the future --

12 A Yes.

13 Q It's your understanding that that's the way it's
14 going to happen.

15 A Yes.

16 Q And where does the commingling physically occur?
17 Does that occur in San Mateo?

18 A That's my understanding.

19 Q Okay. So that as things are today or at least as
20 we anticipate them to be in the future, the Postal Service
21 will commingle mail from different mailers at San Mateo.

22 A Correct.

23 Q That would require a merge in addition, or a
24 presort in addition to the one that you recommend in order
25 to determine the hard-copy pricing structure; correct?

- 1 A I don't know.
- 2 Q That's fair enough. Do you have -- in answer to
3 our interrogatory number 4 to you, do you have that handy?
- 4 A Yes.
- 5 Q It's the subpart (a) that I am going to ask you
6 about.
- 7 A Yes, I have it.
- 8 Q We asked you how many lookup tables, to use your
9 words, would be required to carry out your pricing
10 stratagem.
- 11 A I am sorry, did you say --
- 12 Q Pitney Bowes Number 4 to you.
- 13 A I'm sorry, I --
- 14 Q You forgot who I was already?
- 15 A No, no.
- 16 Q I sometimes do.
- 17 A All right, I have it.
- 18 Q Okay. In subpart -- you are responding in subpart
19 (a) to our question, how many lookup tables, right?
- 20 A Correct.
- 21 Q And you multiply 48 times 62 to get a number.
- 22 A Correct.
- 23 Q You talked a little bit with Mr. Himeles about
24 that calculation.
- 25 A Yes.

- 1 Q You took that number 62 from Mr. Garvey's
2 testimony, or interrogatory response, did you not?
- 3 A Correct.
- 4 Q You didn't separately calculate that?
- 5 A No, I did not.
- 6 Q Okay. But you think Mr. Garvey got it right?
- 7 A Yes.
- 8 Q So there are 62 different categories, you multiply
9 by 48 because there can be 48 different page counts, is that
10 right?
- 11 A Correct.
- 12 Q Do you know whether that number 62 includes a
13 variation depending upon whether the mail piece is letter or
14 flat shaped?
- 15 A The page count determines whether it is letter or
16 flat because -- and maybe if you are willing, if we turn to
17 Pitney Bowes Number 8.
- 18 Q Yes.
- 19 A Okay. And on the second page of that response.
- 20 Q Okay.
- 21 A About halfway down.
- 22 Q Right.
- 23 A And this is for First Class mail.
- 24 Q Correct.
- 25 A Before the citation, you can see that the

2379

1 additional ounce rate would apply to mail pieces with five
2 pages. Okay. Those five or fewer are letter, six or more
3 are flats. And so it is the page count that determines the
4 letter/flat distinction under the Postal Service Mailing
5 Online proposal.

6 Q So that if a mailer wanted to present a mail piece
7 of fewer than five pages, and this is letter size
8 regulational stuff, right, as a flat for some reason, he
9 couldn't do that under Mailing Online, is that correct?

10 A That is my understanding according to Witness
11 Plunkett's response.

12 Q So that one doesn't need to add, for purposes of
13 rate calculation, still another factor of two to the number
14 62, is that correct?

15 A That is my understanding, yes.

16 Q And is that reflected in some fashion in your
17 answer to our Number 9? And the difference between
18 Interrogatory 8 and Interrogatory 9 is that the first of
19 them, 8, which you just directed me to, is talking about
20 First Class mail and Number 9 is talking about Standard A
21 mail, right?

22 A That's correct. The same distinctions apply, five
23 or fewer under Standard A go letter, six or more go flats.

24 Q Though, as one would see in looking Attachment 2
25 to your answer there, --

1 A Yes.

2 Q -- one has a considerable range of rate cells, if
3 you would, correct?

4 A Correct.

5 Q And you said, in talking with Mr. Himeles, that
6 you thought that the quarterly redetermination of your
7 weighted rates would occur, and I think these are your
8 words, "instantaneously, I would think," do you recall that?

9 A Yes. Yes.

10 Q And you were mindful of how many of these lookup
11 tables would be required when you made that conclusion,
12 "instantaneously, I would think"?

13 A Yes.

14 Q Do you have any basis for that conclusion other
15 than -- you testified that you weren't really a computer
16 nerd, but do you have a reason, other than just instinctual,
17 to reach that conclusion?

18 A Well, I guess I want to back up a little bit. The
19 last paragraph of my response to Number 9 makes clear that
20 these are the rates that show up in the lookup tables.
21 Okay. These are the actual calculation that someone would
22 get in hard copy if -- let me, I don't want to confuse.
23 These rates show up in the lookup tables.

24 Q Understood.

25 A Okay. They are not -- they don't change. They

2381

1 are going to be in the lookup tables according to whether it
2 is a letter size or flat size, whether it is a letter, legal
3 or newsletter. So those rates are going to be in the lookup
4 tables. The only -- I guess the calculation I was referring
5 to is that, at the end of the quarter, if there is new data
6 entered during the quarter, the calculation should take
7 place instantaneously.

8 Q But there will be one of those calculations for
9 each lookup table so long as data have changed, is that
10 correct?

11 A Yes.

12 Q And as you carefully noted in a response to Mr.
13 Himeles, during the experimental period, at least, the data
14 are always going to change because the weighting factor
15 changes, is that correct, as well?

16 A No. We are confusing two items. In the lookup
17 tables, that data will change quarterly -- I'm sorry. If
18 there is new data each quarter, you will get a new weighted
19 average rate.

20 Q Yes.

21 A Okay.

22 Q And that requires a calculation, correct?

23 A Yes.

24 Q Okay.

25 A But only for those tables that have new data. The

2382

1 change in the blended discount rate is affected by what I
2 call the weighting factor.

3 Q Right.

4 A Which is the W in the formula.

5 Q Yes.

6 A And that is -- all the weighting factors are shown
7 in Table 3. And so the blended discount rate would change
8 because of the weighting factor, even if there were no
9 change in the weighted average rate, experience based
10 weighted average rate that the formula took from the lookup
11 table.

12 Q I must have expressed myself poorly because we are
13 of a mind.

14 A Okay.

15 Q I understood that myself.

16 A All right.

17 MR. WIGGINS: And Mr. Presiding Officer, I have no
18 further questions.

19 COMMISSIONER LeBLANC: Is there any follow-up
20 cross?

21 MR. HOLLIES: Yes, I have a few questions.

22 COMMISSIONER LeBLANC: Mr. Hollies.

23

24

FOLLOW-UP CROSS EXAMINATION

25

BY MR. HOLLIES:

2383

1 Q You discussed with Mr. Himeles the existence of
2 postage charged on the basis of a formula. Are you aware of
3 the so-called weighted fee whereby mailers pay postage for
4 returned pieces based on a formula calculated to represent
5 the ratio of pieces forwarded to pieces returned?

6 A Now that you mentioned it, yes. There was a
7 proceeding on that recently.

8 Q So, does that suggest that a change to the
9 previous answer might be appropriate?

10 A Yes. That one escaped my notice.

11 Q Questions by Mr. Himeles to you maintained an
12 assumption that no more batching than accomplished today
13 would remain true throughout the experiment and so did your
14 responses. Is that right?

15 A Correct.

16 Q Do you understand that to be the Postal Service's
17 plan?

18 A No. My understanding is that the Postal Service
19 not only intends to batch but if their ultimate design comes
20 to fruition, that we could conceivably have only four
21 categories, if you will, first-class letters and flats,
22 Standard A letters and flats.

23 Q Again, during cross examination by Mr. Himeles,
24 you agreed that your formula can provide a competitive
25 advantage to the Postal Service compared to MASA.

2384

1 If all the jobs in a job-type page count category
2 are at five-digit pre-sort, doesn't the inclusion of the
3 higher automation basic rate in your formula provide a
4 competitive disadvantage to the Postal Service?

5 A I'm sorry. Could you repeat that?

6 Q I think I'll move on instead. Thanks.

7 A Okay.

8 Q You agreed that a MASA member would have to enter
9 a 400-piece mailing at the single-piece rate. Would that be
10 so if the MASA member batched that mailing with other
11 similar mailings to get above the volume minimum?

12 A No.

13 Q You've agreed that a rebate system would have
14 customers pay the hard-copy rate. When you talked about the
15 hard-copy rate, were you referring to the rate that the
16 mailing would qualify for absent any batching?

17 A No. It assumes -- if the Postal Service is unable
18 to batch, then it would be the rate at which the mailing
19 qualified when it was submitted. If the Postal Service is
20 able to match, then the rebate would be based upon the
21 batched mailing.

22 For example, you could have a piece -- you could
23 have a mailing come in on its own below the minimum volume
24 requirement but -- and pay the single-piece rate, but if
25 combined with one or more mailings to exceed the minimum

2385

1 volume requirement, you would have achieved a pre-sort level
2 and then that rate would be the rebate.

3 MR. HOLLIES: That's all I have. Thank you.

4 COMMISSIONER LeBLANC: Is there any further
5 followup?

6 MR. HIMELES: No, Mr. Presiding Officer.

7 COMMISSIONER LeBLANC: Mr. Wiggins?

8 MR. WIGGINS: No.

9 COMMISSIONER LeBLANC: Any questions from the
10 bench?

11 Commissioner Goldway?

12 COMMISSIONER GOLDWAY: I want to explore with you
13 the discussion of the benefits versus the difficulties of
14 the rebate system. I think I certainly asked this question
15 before.

16 Could you describe for me your view of the
17 difficulties that the Postal Service says it would have in
18 implementing a rebate system, and do you find them
19 reasonable?

20 THE WITNESS: I guess, in answer to the first part
21 of your question, if you'd turn to page 8 of my testimony,
22 beginning at line 6, I discuss what I believe to be the
23 Postal Service's concerns with the rebate system.

24 I guess, in answer to the second part of your
25 question, I don't think they've made the case that they

2386

1 can't do this, but I don't have the information that makes
2 me certain that that's the case. That's based upon, you
3 know, in effect, what we don't have.

4 COMMISSIONER GOLDWAY: I had occasion to visit
5 with the founder of Stamps.com when I was in California last
6 week.

7 They're one of the firms doing a beta test on a
8 new system to purchase postage on the internet, and then I
9 was subsequently informed by another one of the developers
10 of the product that they are -- they have either already
11 been awarded or are about to be awarded a contract by the
12 Postal Service to integrate this new postage purchasing
13 system into Post Office On-Line.

14 Now, I believe what that means is that there would
15 be a Stamps.com account for anyone who was a user of Post
16 Office On-Line, and they would always have postage available
17 to them already purchased and in the bank.

18 Now, I know this product isn't available today,
19 but if you understand it as I do, don't you think that such
20 a system would substantially reduce any of the problems they
21 would have about rebates because the money would already be
22 in the bank, the people would already understand they had
23 set aside a certain amount of that for mail and might not
24 actually have to spend it all in the process of ordering for
25 mailing on-line?

2387

1 THE WITNESS: My sense is that that would
2 facilitate a rebate system, since there would be an account
3 set up, I believe with the Postal Service, that would --
4 that, in effect, wouldn't have to go through maybe a credit
5 card or some other payment system but would be, in effect,
6 internal to the Postal Service, and I seem to recall the
7 Postal Service considering something like that. At least,
8 that was on their radar.

9 COMMISSIONER GOLDWAY: Thank you.

10 COMMISSIONER LeBLANC: Commissioner Covington?

11 COMMISSIONER COVINGTON: Thank you, Mr. Presiding
12 Officer.

13 Mr. Callow, I had just two brief questions, and I
14 would hope that you could kind of clarify something that's a
15 little unclear in my mind.

16 During the Commission's notice, back when they
17 more or less agreed to let the Postal Service proceed with
18 the market test, I think they specifically requested
19 comments on the feasibility of the rebate system that was
20 raised in that opinion, and is it safe for me to assume that
21 you feel that the rebate system is the best approach?

22 THE WITNESS: Yes, from an economic standpoint,
23 customers pay the rates for which their mail pieces
24 ultimately qualify, and that includes batching.

25 COMMISSIONER COVINGTON: Okay.

2388

1 Now, Mr. Callow, what is an ideal batch, and how
2 would one compensate for a lack of volume?

3 THE WITNESS: If there is no batching -- let me
4 back up. If a mailing is below the minimum volume
5 requirements, it would pay single-piece. If it is -- and
6 that assumes there is no batching.

7 If it's greater than the minimum volume
8 requirement, it would pay the rate for which it qualifies,
9 again assuming there is no batching.

10 At the point you introduce the ability to, if you
11 will, commingle or batch or merge -- scratch merge --
12 commingle different mailings, you increase the potential
13 that those customers will get a better rate than they would
14 have qualified on their own.

15 And I hope I've answered your question.

16 COMMISSIONER COVINGTON: Okay. So, in other
17 words, it's safe to assume that the overall intent of your
18 proposal is really to help the small mailer.

19 THE WITNESS: Yes. We want -- I believe mailing
20 on-line is a good service, and with these -- either a rebate
21 system or something as I have proposed, it addresses what I
22 felt was a problem in terms of a competitive advantage in
23 pricing for the Postal Service.

24 COMMISSIONER COVINGTON: Okay. Any advice for a
25 mailer who isn't or who does not meet threshold volumes when

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1 it come to mailing on-line?

2 THE WITNESS: If the Postal Service's -- if a
3 rebate system is in place and they're below the minimum
4 volume requirements, they're going to pay the equivalent of
5 hard-copy rates or they would pay a hard-copy rate.

6 There is a convenience factor, I would believe,
7 and that may be enough to cause people to say I don't have
8 to go down to the Postal Service to deliver my mail or take
9 it to a printer. Therefore, I'm willing to pay the same
10 rates for the convenience.

11 If it's something like my proposal, that
12 convenience remains, but they would get more beneficial
13 rates.

14 COMMISSIONER COVINGTON: Okay. Thanks, Mr.
15 Callow.

16 I have nothing further, Mr. Presiding Officer.

17 COMMISSIONER LeBLANC: Mr. Callow, I've got just
18 one question. In response to our notice of inquiry number
19 one, issue one, the Postal Service observes that automation
20 basic mail is typically entered in quantities below the
21 threshold required to qualify for bulk mail discounts
22 because it is typically the residue of the pre-sorted
23 mailing.

24 Now, you touched on this a little bit earlier.

25 Now the Postal Service contends that the reason

2390

1 for restricting eligibility for the automation basic rate to
2 mailings that are above the threshold quantity is to reduce
3 the transaction cost of accepting mail, small mailings at
4 the bulk mail acceptance unit. Are you with me so far.

5 THE WITNESS: I think so. Please continue.

6 COMMISSIONER LeBLANC: Now the Postal Service
7 argues that the Mailing Online hard copy mail is unlikely to
8 be entered as numerous small mailings. That is my
9 interpretation. Now these observations by the Postal
10 Service suggest that the unit cost of Mailing Online
11 mailings that are below the threshold when submitted by the
12 customer are not much different than the unit cost of the
13 automation basic mail that is currently submitted in hard
14 copy form.

15 I hope I haven't lost you, but I want to make sure
16 you got this --

17 THE WITNESS: Okay so far.

18 COMMISSIONER LeBLANC: So if that is true, should
19 the automation basic rate be a rate floor for Mailing Online
20 mailings and should the Mailing Online mailings of a
21 particular job type receive whatever deeper discounts
22 history indicates they should probably have earned after
23 batching?

24 THE WITNESS: I would not agree that it should be
25 a floor. The way my proposal is designed is that over time

2391

1 the historic -- you would have experienced-based data or
2 historical data that would show a particular job type page
3 count category had only small mailings.

4 For example, 48 page newsletters might be an
5 example and there might be others. Those would have an
6 experience-based weighted average rate of single piece and
7 if that were true for the duration of the experiment under
8 my proposal they would get -- that would be the blended
9 discount rate at the end of the experiment.

10 I hope that has been responsive.

11 COMMISSIONER LeBLANC: Yes and no. What about the
12 deeper discounts after batching?

13 THE WITNESS: Well, the batching affects my
14 proposal in terms of the more batching the Postal Service is
15 able to do for a particular job-type page count category and
16 I guess when I use batching I am saying taking mailings from
17 two different customers and combining them that as I
18 indicated the potential is to get deeper discounts and the
19 more the Postal Service can put one, put two, three, five,
20 you know -- 100 mailings together, small mailings, they get
21 deeper and deeper discounts that would be reflected in the
22 experience-based weighted average rates, and that gets used
23 in the pricing formula.

24 That is how batching affects my proposal.

25 COMMISSIONER LeBLANC: Okay. Thank you.

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

OCA/USPS-T1-72. Please refer to your response to interrogatory OCA/USPS-T1-48.

- a. In your response to part a. of that interrogatory you state, "The mailing statement is indeed transmitted by the system along with the print files as my testimony indicates; however no provision was made for the statement to be stored and/or forwarded anywhere else." Please explain why it would take longer than ten minutes to modify the computer code for the MOL system so that electronic mailing statements could be "stored and/or forwarded" elsewhere. Please provide a copy of the computer code that creates and forwards mailing statements to print sites.
- b. In part c. of your response to that interrogatory you state, "The Mail.dat opportunity was discovered during phone conversations with Postalsoft company representatives and was subsequently communicated to the MOL system developer by phone."
 - i. Is the MOL system developer currently implementing the "Mail.dat opportunity"? If not, why not?
 - ii. As of November 12, 1998, how many hours has the system developer devoted to implementing the "Mail.dat opportunity"?
 - iii. Please explain why it would take longer than ten minutes to modify the computer code for the MOL system so as to implement the "Mail.dat opportunity."
 - iv. Please provide a copy of the computer code that needs to be modified to implement the "Mail.dat opportunity."
- c. In part d. of your response to that interrogatory you state, "The request for investigation of an option to associate mailing statements with batch numbers was communicated to the MOL system developer by telephone."
 - i. Is the MOL system developer currently implementing the "option to associate mailing statements with batch numbers"? If not, why not?
 - ii. As of November 12, 1998, how many hours has the system developer devoted to implementing the "option to associate mailing statements with batch numbers"?
 - iii. Please explain why it would take longer than ten minutes to modify the computer code for the MOL system so as to implement the "option to associate mailing statements with batch numbers"?
 - iv. Please provide a copy of the computer code that needs to be modified to implement the "option to associate mailing statements with batch numbers"?

RESPONSE:

- a) The physical implementation of this capability does not take more than a few minutes; however, the current version of the MOL software is

MC98-1

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

presently operating in a production environment. Under established operating procedures all changes to the system must be scheduled for testing, documented, tested and then scheduled for implementation, and finally implemented. The process of testing and implementation has been scheduled to start November 30, 1998 and finish by December 6, 1998.

- i. Yes.
- ii. Approximately 3 hours.
- iii. See my response to USPS/OCA T1-72(a).
- iv. No coding changes are required. The change is to the Postalsoft template files. All output files created by Postalsoft are automatically associated with the batch and sent to the print site.

c)

- i. Yes.
- ii. Less than one hour.
- iii. See my response to USPS/OCA T1-72(a).
- iv. No code needs to be modified.

MC98-1

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LIM
TO QUESTION POSED BY PITNEY BOWES
AT THE HEARING ON FEBRUARY 5, 1999**

QUESTION (Tr. 8/2007):

Does the number of calls that you see here [in the PricewaterhouseCoopers biweekly reports] seem consistent to you with the number – not the total number, but 20 percent of the number of calls that you saw in the Price Waterhouse study [you used]?

RESPONSE:

Yes. The numbers in the biweekly reports are consistent with the numbers that underlie the 20 percent figure I used in my testimony. That figure resulted from dividing the total number of MOL calls, as shown in Tr. 8/2024-26 (22+3+19) by the total number of POL, SOL, and MOL calls (82+44+105, for each of the reports), or $44/231 = 19.0$ percent. The comparable figures through January 22, 1999 are $87/433 = 20.0$ percent.

It is my understanding that the total number of MOL, SOL, and POL calls to the help desk will be reported in subsequent biweekly reports. In addition, I am informed that, as requested by Chairman Gleiman (Tr. 8/1852-53), future weekly reports will provide a cumulative count of users that does not count a particular user more than once for repeated uses of Mailing Online.

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

OCA/USPS-14. In response to Issue 2 of NOI No. 1 (concerning the feasibility and desirability of dispensing presort discounts through an automated rebate system), Postal Service witness Garvey stated, "[T]he difficulties of tracking and matching *each piece's* origin to its ultimate qualifying rate would multiply the complexity many times over." Tr. 6/1505 (emphasis added).

- a. Please define "origin" as used here.
- b. Please confirm that all pieces of a particular MOL mailing remain in a single batch (whether combined with other mailings or not) prior to presorting. That is, pieces from one mailing will not end up in more than one batch prior to presorting. If you do not confirm, please explain, provide an example of the "splitting" of an MOL mailing among batches, and provide an estimate of the frequency of this phenomenon.
- c. Please confirm that the postage charge for a batch (whether consisting of one or several separate mailings) is the same whether calculated before or after distribution to print sites. That is, since print sites are defined by ZIP Codes, no presort bundles, trays, containers, etc. would be "broken" by distributing to print sites. If you do not confirm, please explain, provide an example of the "breaking" of presort by distributing batches to print sites, and provide an estimate of the frequency of this phenomenon.
- d. Please confirm that the total postage bill, the total number of pieces, and the average postage charge per piece can be determined for each job-type/page-count batch. If you do not confirm, please explain, provide an example of a batch for which this information cannot be determined, and provide an estimate of the frequency of this phenomenon.
- e. Please explain why it would be complex or difficult to determine the postage charge for an MOL mailing by multiplying the number of pieces in the mailing by the average postage charge per piece for the batch with which the mailing was combined.
- f. Please explain in greater detail why it would be complex or difficult to rebate the difference between the ex ante and ex post postage charges (ignoring accounting regulations, which are the subject of another interrogatory).

RESPONSE:

- a. Origin refers to the location of the original submitter of the files from which the mailpiece was created.
- b. Not confirmed. The MOL process is designed to route individual documents among multiple print sites based upon the ultimate delivery destination. Candidate batches are formed on a print site basis prior to,

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

and without regard to, presortation processing. Thus, single customer mailings containing multiple documents routed to different print sites will contribute to multiple batches which are then themselves presorted according to the batch content at the time of cutoff and batching. This "splitting" will occur whenever mailings contain documents for more than one print site delivery area; no estimates are available of the frequency of this phenomenon.

- c. Confirmed that under the rules of the market test and as requested for the experiment, the postage rate – the basic automation rate – would be the same regardless of batching or distribution. However, if customers' jobs were to be subject to regular presort requirements, actual postage charges for individual pieces would be highly likely to vary throughout the day as greater presort level concentrations were attained within some batches, and not others. This is a result of the strictly geographical routing and batching routines performed by the MOL system that maximize effective distribution of individual documents regardless of probable presort density.
- d. Confirmed that, as requested by the Postal Service for MOL, the total postage charge, the total number of pieces, and the per-piece postage charges for a MOL customer's job can be determined at the time it is submitted. The reference to "job type/page count batch" is not clear. See also the response to part (e).

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

- e. Batching does not occur until 2:00 PM and batch sortation is performed subsequent to the batching process. Thus presort levels and associated postage rates could not be known at the time jobs are submitted by customers. Using an average piece rate for the batch might be possible, but any averaging would necessarily occur after the customer's transaction was complete, making such a procedure both complex and difficult for the customer to understand.
- f. The use of a rebate system presumes the existence of a method for providing the rebated amount to a user. In the case of MOL, credit cards are currently the only method of payment. It is conceivable that a postage rebate could be calculated and credited to the user's credit card account once their mailing is distributed among print sites, batched and presorted to determine discount levels; however, such rebate amounts would often be very small and thus not cost effective for payment processing. In the future other payment methods are planned and any proposed rebate methodology would require compatibility with these forms of payment as well. The combined difficulties of multiple payment methods, multiple postage discounts and multiple print site batches would make tracking and processing rebates among multiple users a complex process from both systems design and administration perspectives. Such complexity would, moreover, contradict the Postal Service's goal of providing simplicity and ease of use for MOL customers.

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

OCA/USPS-15. In response to a question from Commissioner Goldway (concerning the ability of the Postal Service to provide an ex post postage charge to MOL customers), Postal Service witness Garvey stated, "The problem is that we have a requirement to have payment for postage in hand when we take the mail" Tr. 6/1521.

- a. Please identify the "requirement" to which witness Garvey referred.
- b. Please provide a copy of any document setting forth the "requirement" to which witness Garvey referred.
- c. Is the Postal Service legally precluded from exempting MOL from the "requirement" to which witness Garvey referred? If so, please explain.
- d. Are there reasons other than legal preclusion that would discourage the Postal Service from exempting MOL from the "requirement" to which witness Garvey referred? If so, please explain.

RESPONSE:

- a-b. See *gen'ly*, DMCS § 3030, and Domestic Mail Manual § P011.
- c. A Commission case would be needed to exempt MOL from the requirement to have postage paid when the Postal Service accepts the mail. See, e.g., the Postal Service's response to OCA/USPS-T1-20, filed August 10, 1998 (illustrating some legal complexities in when matter becomes mail). The Postal Service has not determined its legal position on whether postage must be paid when the customer submits his or her job.
- d. Yes. See the responses to OCA/USPS-14 and 23 for why the Postal Service does not want a rebate system. Also, today the Postal Service avoids the cost and liability of a substantial "bad debts" line item for postage. From a business perspective continuing to avoid these costs is a compelling rationale to continue requiring postage payment at the time of mailing.

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

OCA/USPS-16. Please refer to the "USPS Qualification Report," appearing at Tr. 6/1423, and to MOL Weekly Report, AP2, Week 4, Tables 2 and 3, filed December 3, 1998.

- a. Please confirm that the Qualification Report reflects an actual mailing. If you do not confirm, please explain.
- b. - - Please confirm that the Qualification Report is dated October 31, 1998. If you do not confirm, please explain.
- c. Please confirm that the Qualification Report was for a one-piece mailing. If you do not confirm, please explain.
- d. Please confirm that Tables 2 and 3 show a two-page mailing and a three-page mailing for October 31. Please confirm that these Tables do not explicitly show the numbers of pieces in individual mailings. Please explain how the volumes of individual mailings can be determined from the Weekly Reports.
- e. Please confirm that the Qualification Report is postmarked November 2, 1998. If you do not confirm, please explain.
- f. Please confirm that Tables 2 and 3 show no mailings of any kind on November 2, 1998. If you do not confirm, please explain.
- g. Please confirm that Tables 2 and 3 show that one mailing consisting of one piece was recorded on November 3, 1998. If you do not confirm, please explain.
- h. Do the October 31 Qualification Report data appear in Tables 2 and 3 under November 3? Do the October 31 Qualification Report data appear anywhere in the Weekly Reports filed December 3?
- i. How does one match Qualification Report data to MOL Weekly Reports?
- j. Do the dates used for column headings in the Weekly Reports refer to date of job submission, date of transmission to printer, date of printing, date of acceptance into mail processing, or some other date? Is the reference consistent across dates? Please explain.
- k. Does a "date" run from midnight to midnight eastern time? If not, please define the time period covered by a "date."
- l. Please confirm that transactions submitted on either side of the 2:00 cutoff time (e.g., at 1:00 and at 3:00) are reported as occurring on the same date, even though such transactions will not be transmitted to the printer on the same date. If you do not confirm, please describe how the 2:00 cutoff time affects transactions as they appear in the MOL Weekly Reports.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

MC98-1

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

- c. Confirmed.
- d. Confirmed. However, volumes of individual mailings generally cannot be determined from the Weekly Reports, which aggregate mailings either by day or by week. Therefore, one can determine the volumes of respective customer submissions from the Weekly Reports only when just one mailing occurs during the pertinent time period. If both October 31 mailings had instead been black and white, one would be unable to determine whether one job was four pages and the other one, or whether one job was three pages and the other two.
- e. Confirmed that the Qualification Report is date stamped November 2, 1998.
- f. Confirmed.
- g. Confirmed.
- h. The job reflected in the qualification report reproduced in the transcript (Tr. 6/1423) was a test job produced internally, not one stemming from a customer. This is consistent with the description of the qualification report as a "sample". Tr. 6/1419. Since the purpose of the market test is evaluation of customer preferences and demand, the Weekly Reports only reflect customer jobs.
- i. That cross-walk cannot be accomplished with the data currently being provided to the Commission or via discovery. See also, the response to interrogatory OCA/USPS-17(h).

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

- j. Dates for the column headings refer to dates when jobs were submitted and paid for by the customer. These references are consistent across dates.**
- k. Confirmed. A day spans midnight to midnight, eastern time.**
- l. Confirmed. To maintain consistency in the database, midnight to midnight times are used notwithstanding the cutoff time for transmissions to the printer.**

MC98-1

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

OCA/USPS-23. Please refer to the report of the system developer (Tracor) found at Tr. 6/1382.

- a. The report states, "The system could determine for each batch site where a user's mail was destined and the number of pieces that qualify for automation rates. This *approach* is fraught with at least three major shortcomings." [Emphasis added.] Since the system's capability to track the destination and number of qualifying mailpieces is separate from the uses to which such information could be put, please describe in detail the "approach" referred to in the quote.
- b. The Tracor report identifies as a "shortcoming" "[t]he system resources required to determine these discounts." Please identify the discounts referenced in the quote.
- c. The Tracor report states, "This procedure would also adversely affect the amount of time required to complete the daily batch process for all submitted jobs."
 - i. Please describe in detail the "procedure" referred to in the quote.
 - ii. What is the current average amount of time required to complete the daily batch process for all submitted jobs during the market test?
 - iii. What is the estimated amount of time required to complete the daily batch process for all submitted jobs during each year of the experiment as proposed by the Postal Service?
 - iv. Please provide the increase in time required to complete the daily batch process for all submitted jobs as a result of the "procedure" referred to in the quote.
- d. The Tracor report states, "The developer's estimate is that the amount of physical time required to complete this process would increase by a factor of 2 to 3 times." Please confirm that the "amount of physical time required to complete this process" refers to the estimated time of the developer in establishing the approach described in response to part (a) of this interrogatory. If you do not confirm, please describe in detail the -- "process" referred to in the quote.

RESPONSE:

- a. The term "approach" refers to the procedure described in OCA/USPS-T1-57, part (h), as it might be applied to a rebate system. Implicit in the developer's response is the understanding that just because the elemental ability to collect and retain extensive data may exist and be made possible by the system design, common sense and rational

MC98-1

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

evaluation should be the determinants in deciding what process best applies to any particular solution. The batching and sorting processes are currently performed independently of job submission, thus affording maximum flexibility in the timing and process relationship of these events. To use the procedure referred to in OCA/USPS-T1-57, part (h), in conjunction with a rebate system would require the rebate calculation process to occur simultaneously with batching and presorting, thus requiring immediate use of system resources while precluding the capabilities of subsequently rerouting or reconfiguring batches.

b. The referenced discounts would be those presort or automation discounts that would otherwise be made available to customers in lieu of the present MOL design.

c.

- i. The cited response refers to the procedure posited in the question, OCA/USPS-T1-57, (h).
- ii. The system developer estimates this time as five minutes.
- iii. No reasonable estimate can be made at this time.
- iv. The system developer estimates the time increase as 10-15 minutes.

d. Unable to confirm. No in-depth study of this approach (which was not adopted by the Postal Service) has been conducted. Notwithstanding, the Postal Service understands the "factor of 2 to 3 times" as referring to processing time.

MC98-1

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

OCA/USPS-24. Please refer to Postal Service witness Plunkett's response to Notice of Inquiry No.1, Issue 1, at Tr. 5/1125, where he states:

The existing automation basic categories are most often applied to the residuum of larger mailings wherein most pieces qualify for deeper discounts. In such cases, the number of pieces to which the automation basic rate is applied may be well below the threshold minimums.

- a. Does the phrase, "residuum of larger mailings," mean that *all* pieces that do not "qualify for deeper discounts" receive the automation basic discount? If not, under what circumstances would residual pieces of a mailing otherwise qualifying for deeper discounts pay single-piece rates?
- b. Please assume a mailing consisting of 1,000 pieces, with 500 presorted to 5-digit and 400 presorted to 3-digit. Would the remaining 100 pieces receive the Automation Basic discount? How would the depth of sort for this mailing appear on a Qualification Report for Mailing Online? For a mailing submitted in hard copy?
- c. Please confirm that because the above 1,000-piece mailing exceeds the minimum volume requirements for Automation Basic, and "most of the pieces qualify for deeper discounts," the residuum of 100 mailpieces would always qualify for the Automation Basic discount if submitted in hard copy. If you do not confirm, please explain.
- d. Please assume a mailing consisting of 1,000 pieces, with 900 presorted to carrier route. Would the remaining 100 pieces automatically receive the Automation Basic discount? How would the depth of sort for this mailing appear on a Qualification Report for Mailing Online? For a mailing submitted in hard copy?
- e. Please confirm that because the above 1,000-piece mailing exceeds the minimum volume requirements for Automation Basic, and "most of the pieces - qualify for deeper discounts," the residuum of 100 pieces would always qualify for the Automation Basic discount if submitted in hard copy. If you do not confirm, please explain.

OCA/USPS-24 Response:

- a. Confirmed. See also DMM §§ E140 (First-Class Mail) and E640 (Standard Mail).
- b. Yes. A mailing of this kind presented in hard copy would show 500 pieces presorted to 5-digits and paying the corresponding rate, 400 pieces presorted to 3-digits and paying the corresponding rate, with the remaining 100 pieces paying the Automation

MC98-1

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

Basic rate. If the same mailing were sent through the Mailing Online system, the qualification report would show the same levels of presort, but the Automation Basic rate would be applied to all of the presort levels. The exact rates would of course depend upon the class of mail, the weight of the mailpieces, and any relevant worksharing discounts.

- c. Confirmed, though strictly speaking minimum volume requirements apply to automation rates in general, rather than just to Automation Basic rates. See also DMM §§ E140 (First-Class Mail) and E640 (Standard Mail).
- d. Yes. The qualification report for this mailing, assuming that the mailing was in all other respects eligible for (First-Class letter size) automation rates, would show 900 pieces qualifying for the 5-digit discount, and 100 pieces qualifying for Automation Basic rates. As with the example used in part (b), the only difference appearing on the Mailing Online qualification report is that the Automation Basic rates are applied to all presort levels. For a hard copy mailing, the qualification report would show 900 pieces to carrier route and 100 to Automation Basic.
- e. Confirmed, though as noted above minimum volume requirements apply generally to automation rates.

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

OCA/USPS-37. In a response (filed February 12, 1999) to a question posed at the February 5 hearing at Tr. 8/1987-88, the Postal Service indicated that it may have excluded operational and market test costs for Mailing Online.

- a. Please state whether this is the Postal Service's position.
- b. If this is the position of the Postal Service, please describe in detail the specific criteria applied in separating operational and market test costs and/or expenditures from those of the Mailing Online experiment.

RESPONSE:

This statement is not the Postal Service's position, and mischaracterizes the February 12 response. Witness Lim's methodology required identification of information systems costs for the Mailing Online experiment, so he did not need to separate out operational and market test costs. Those costs simply were never included in witness Lim's analysis.

Witness Seckar, however, does present costs for the operations and market tests in his Exhibit A, Table 14, line 29. The systems developer costs, which are less than \$1.2 million, include costs for the operations test, such as information systems and printer costs, and the market test. Witness Seckar included the system developer costs in his initial testimony because that testimony was intended to apply to both the market test and the experiment. When witness Seckar updated his costs to reflect witness Lim's supplemental testimony, he omitted the system developer costs because they were not undertaken for the experiment.

The best estimate isolating market test costs will be those costs reported to the Commission as part of the market test data collection process. While the reporting effort has so far produced less information than hoped, the problems in data collection are being resolved so that the flow of information should be improving substantially.

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

OCA/USPS-38. USPS-LR-29/MC98-1 ("LR 29") is entitled "Compaq Contract, Delivery Orders and Task Orders for PostOffice Online." However, throughout the library reference, the contractor is identified as Digital Equipment Corporation. In addition, witness Lim's Exh. A, items 61-64, refers to Marconi as the manufacturer responsible for software enhancements, MOL application development, and MOL testing and documentation. Please explain the apparent discrepancies.

RESPONSE:

Compaq took over Digital Equipment Corporation after the contract was initiated.

Marconi is a subcontractor to Compaq. While the respective relationships among these three firms have varied during the contractual period, this has not affected the contract.

The salient point is that UPSP-LR-29/MC98-1 relates to a single master contract (No. 102590-98-B-0351).

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO QUESTIONS RAISED DURING FEBRUARY 5, 1999 HEARING**

QUESTION: Chairman Gleiman asked the Postal Service to provide information for the record indicating when Standard (A) Mail first became available via Mailing Online. Tr. 8/1851-52.

RESPONSE:

Standard (A) Mail first became available via Mailing Online on December 20, 1998. The change coincided with the first software upgrade (POL Version 2.1) applied to the PostOffice Online system after its October 30, 1998 launch.

**REVISED RESPONSE OF UNITED STATES POSTAL SERVICE
TO QUESTION POSED DURING THE HEARING
ON FEBRUARY 5, 1999**

QUESTION (Tr. 8/1983-86, 2011-12)

Please provide a copy of the Compaq contract pursuant to which Compaq [and its predecessors] provides Mailing Online and PostOffice Online development and services to the Postal Service. Please provide a copy of the contract pursuant to which the help desk is operated.

RESPONSE:

The single contract responsive to these requests is being filed as USPS-LR-29/MC98-1, *Compaq Contract, Delivery Orders and Task Orders for PostOffice Online*. Material filed includes the original contract, its modifications, and respective task and delivery orders. (There is no functional distinction between task and delivery orders.) In keeping with usual postal practice before the Commission, hourly rates for specific labor categories have been redacted.

Revised February 24, 1999

1

2 COMMISSIONER LeBLANC: Is your witness now ready
3 for cross examination?

4 MR. RUBIN: Yes, he is.

5 COMMISSIONER LeBLANC: Three participants have
6 requested oral cross examination of Witness Takis: the Mail
7 Advertising Service Association International; Office of the
8 Consumer Advocate; and Pitney Bowes.

9 It is my understanding that it is part of the
10 counsel's agreement that the Office of Consumer Advocate
11 will go first, Pitney Bowes will go second, and MASA will go
12 third. Is that correct?

13 MR. BUSH: That is correct, Mr. Presiding Officer.

14 COMMISSIONER LeBLANC: Okay. Then I believe Mr.
15 Costich, you were going to lead off for us, please, sir.

16 MR. COSTICH: Thank you, Mr. Presiding Officer.

17 CROSS EXAMINATION

18 BY MR. COSTICH:

19 Q Good morning, Mr. Takis.

20 A Good morning.

21 Q Could you turn to page 4 of your testimony?

22 A Yes. I have it here.

23 Q And if you could look at lines 5 and 6, here you
24 say, "Causality is the key consideration for the development
25 of product cost." Is that correct?

1 A I'm sorry, which lines again?

2 Q Lines 5 and 6.

3 A Yes, I have it there.

4 Q Could you provide the Commission with a definition
5 of cost causality?

6 A Well, actually that is a very good question. That
7 can be answered by looking at the exhibit which is found
8 right above those lines.

9 There are two major types of causality that I am
10 talking about here in my testimony and they answer two
11 different questions.

12 The first question is when you are looking at a
13 particular component like a transportation component or mail
14 processing or something like that the first question to ask
15 is are changes in the costs associated with that component
16 caused by marginal changes in volume within that particular
17 component. If the answer to that question is yes, then
18 under Postal Service and Commission parlance, that is
19 considered a volume variable cost.

20 The second type of question that one would ask in
21 terms of causality is if they are not volume variable costs,
22 then are those costs caused by the provision of the entire
23 product, and if that is the case, then the product -- or
24 those particular costs within that component are what is
25 know as product-specific or in past Commission terminology

1 they are called specific fixed costs, and so those are the
2 two types of causality that I am talking about here.

3 Q Right. If I heard you correctly, you used the
4 word "cause" or "causation" in describing the definition of
5 cost causality. Do you have a definition that is more like
6 a definition that would be used in a formal mathematical or
7 logical proof?

8 A What you want to get away from is a mathematical
9 sense of the word there because, as I argue later in my
10 testimony, you don't want to mistake correlation for
11 causality there, but I am not quite sure where you are
12 going. Perhaps you could restate the question slightly
13 differently.

14 Q Okay. You have got a B.A. and an M.A. in
15 Economics, right?

16 A That's correct.

17 Q And you have done work on a Ph.D.?

18 A That's correct.

19 Q So you have been exposed to formal proofs in
20 economics?

21 A That's correct.

22 Q Now do you understand a definition to be an
23 equivalency relationship?

24 A Could you restate that? Do I understand that a
25 definition is a equivalency?

1 Q Yes.

2 A I am not familiar with what you are trying to get
3 at there.

4 Q Okay. A definition of cost causality might start
5 out something like "cost causation occurs if and only if"
6 and then something else.

7 A I think that's -- okay, now I see where you are
8 going.

9 It is very similar to what I just said before.
10 Again there's two types of causality that I am talking
11 about. One is volume variability, where changes in cost are
12 caused by or are created by small changes or marginal
13 changes in volume in a particular cost component.

14 The other type of causality I am talking about is
15 when we are talking about product specific costs or specific
16 fixed costs and those costs are caused or created by the
17 entire provision of a particular product or service.

18 So in a sense, that is what I mean by causality
19 and what I don't mean by causality is correlation, in which
20 case we have -- we may have some mathematical relationship.
21 There may be some type of mathematical relationship between
22 a cost and a volume change or the provision of a total
23 product but it is not caused by that volume change.

24 Q Are you familiar with the phrase "necessary and
25 sufficient conditions"?

1 A Yes, I am.

2 Q Is that another way to define something?

3 A Using the terms necessary and sufficient to define
4 what? I am --

5 Q In the case of cost causality to say "necessary
6 and sufficient conditions for cost causality are" and then
7 list conditions.

8 A Perhaps you can try out a definition on me. I
9 don't -- I could imagine a scenario where one could use the
10 words necessary and sufficient in a definition of cost
11 causality, but I have not provided one here today.

12 Q Yes. That is my problem. I can't come up with a
13 list like that either, but maybe we can give it a try.

14 A I think perhaps again if I could go back to my
15 answer before, what I am arguing here is that the
16 fundamental problem I had with the OCA submission in this
17 case about the allocation of advertising costs to the
18 Mailing Online service is that as I talk about for many
19 pages within my testimony is that it fails the causality
20 test.

21 It does not -- to me at least, it does not pass
22 the test of causality, which is critical to the Commission's
23 and the Postal Service's development of costs over the last
24 several decades, and what I mean by that is that it tries to
25 turn on its ^{head} the causality argument.

1 I think, if I can correctly paraphrase what the
2 OCA and to a certain extent Witness Prescott are saying, is
3 that they are looking at the situation where changes in
4 advertising cost may cause changes in volume if the
5 advertising is successful, but that is not the type of
6 causality that the Postal Service and the Commission uses in
7 developing its volume variable and product specific costs.

8 It looks at exactly the reverse of type of
9 causality, which is where ~~do~~ changes in cost, ~~where are~~
10 caused by changes in volume, so what I am saying there is
11 that the notion that the OCA has put forth in its submission
12 turns Commission precedent and Postal Service precedent in
13 the development of its costs on its head. It is not
14 causality as we talk about them in developing postal product
15 costs.

16 Q Well, let's restrict ourselves to necessary
17 conditions for cost causality to exist. One necessary
18 condition for cause causation would be a correlation between
19 changes in subclass volume and changes in cost, is that
20 right?

21 A Could you be more specific? If you are talking
22 about volume -- are you talking about volume variable costs
23 and not product specific costs or the specific fixed costs?

24 Q Well, in the case of product specific costs we are
25 talking about the entire volume of the subclass, right?

1 A The change in the entire volume, that's correct.

2 Q But isn't it correct that cost and volume are
3 thought of as moving together in the same direction but not
4 necessarily in proportion?

5 A Again I don't -- I don't mean to be difficult. I
6 just don't quite understand your question.

7 If you are trying to say a necessary condition is
8 that there is some correlation between cost and volume, I
9 would agree with that statement for the case of volume
10 variable costs but it is not a sufficient condition. I
11 think that is where you are headed.

12 Q That is where we're headed.

13 A For cost causality, as I have defined it and the
14 Commission -- my reading of how the Commission has defined
15 it in the past.

16 Q If there is a causal connection I can expect to
17 see correlation; is that correct?

18 A I can't think of an example of the top of my head
19 where that's not the case, but it certainly -- there may be
20 that type of situation. For example, the Eagle network
21 example that I give in my testimony, the premium costs
22 associated with the Eagle network, the overnight
23 transportation network that the Postal Service uses to
24 transport Express Mail, my understanding is that there may
25 not be a correlation between changes in volume at the margin

2674

1 and changes in those costs, but certainly if Express Mail
2 were to go away, the entire product known as Express Mail
3 were to be eliminated, then those premium costs would be
4 eliminated as well.

5 So in that situation, I can't point to a
6 mathematical or statistical relationship between changes in
7 volume or changes in the entire incremental volume of
8 Express Mail and changes in those costs, because it's a
9 hypothetical in that situation. So I guess I've talked
10 myself into disagreeing with your supposition.

11 Q Well, in the case of the Express Mail premium
12 costs, or other product-specific costs, it's an all-or-none
13 type of correlation, if you will. If you have the product
14 going, then you're going to have, in the case of Express
15 Mail, these premium --

16 A I would quibble with your use of the word
17 "correlation," and that's what I'm trying to say. It's
18 something much more -- it's much more deep than just simply
19 correlation. There's a causation there.

20 Q Well, that's --

21 A Let me finish my answer. And it's something that
22 we don't see. We're not going to go back and look at the
23 Postal Service's CRA, for example, and changes in mail
24 volume and see those types of relationships because it's a
25 hypothetical situation.

2675

1 Q Okay. I understand your distinction. But what
2 I'm working toward here is some way of understanding or
3 defining causation that isn't self-referential, that doesn't
4 use the word "causation" in the definition.

5 A I think I -- in my discussion a few moments ago, I
6 think I used a different word. I'd have to go back and look
7 at what the specific words were, but "stems from" --

8 Q Created by.

9 A Is created by, there's various synonyms that could
10 be used there.

11 Q Generated -- yes, I've come across all of those in
12 trying to work up a definition as well.

13 If we can stick to volume-variable costs then and
14 continue to talk about correlation, if one were to
15 hypothesize the existence of a causal relationship and then
16 be unable to find correlation, one could conclude that there
17 was no causal relationship; is that correct?

18 A Can you restate the question again, please?

19 Q Sure. If we take as a working hypothesis that
20 there is in fact a causal relationship at work between some
21 volume and some cost, and then we were to go out and attempt
22 to actually find correlation, and we couldn't, could we then
23 conclude that there was no causal relationship at work in
24 that situation?

25 A In the particular case of volume-variable cost?

1 Q Yes.

2 A I'm not so sure I would agree with that. I am
3 trying to think of a counter-example. Certainly I would
4 agree with the statement that -- let's take for example the
5 case of surface transportation within the Postal Service,
6 which is an example of a type of cost component where we do
7 develop volume-variable costs, or the Postal Service does
8 develop volume-variable costs.

9 What we see in Witness Bradley's testimony in the
10 past docket is that he hypothesized that there was a causal
11 relationship between changes in cubic foot miles -- or
12 changes in volume and changes in cubic foot miles and then
13 changes in particular costs. And so he then went back and
14 looked at that based on statistical analysis and econometric
15 analyses and found that yes, there was that type of
16 statistical relationship there. So that's an example of I
17 think what you're talking about.

18 Q Well, not quite. What I'm talking about is the
19 situation where you don't find that statistical
20 relationship. It seems to me that if correlation is in fact
21 a necessary condition for causality, then if you don't find
22 correlation, it's just a matter of logic that --

23 A If I were an analyst looking at, let's say again
24 for example transportation costs within the Postal Service
25 or any other one and I hypothesized that there was a causal

2677

1 relationship there, and I went and did my econometric
2 studies or statistical studies or what have you and I didn't
3 find it there, it would give me pause. I would reexamine my
4 hypothesis certainly.

5 Q Well, isn't that basically the way things work in
6 economics and in other sciences? One submits a hypothesis
7 that can then be falsified some way or another?

8 A Generally. I don't pretend to be a physical
9 scientist, but that's generally the scientific method, yes.

10 Q And if one can in fact falsify a necessary
11 condition for a hypothesis to be true, one has disproved the
12 hypothesis definitively.

13 A Given the particular paradigm and parameters that
14 you're looking at, I would tend to agree with that
15 statement, yes.

16 Q On the other hand, if you can't falsify the
17 condition, if you, in our case, hypothesize causation, go
18 out, run the correlation, find that you have correlation,
19 that doesn't prove anything. Right? It's consistent with
20 your hypothesis, but it doesn't prove it.

21 A Say that again? So if I had a hypothesis -- let's
22 use the example that I used before. If I had a hypothesis
23 that changes in mail volume cause changes in transportation
24 costs in this particular example I'm talking about, and I
25 went back and looked at the evidence, the statistical

1 evidence, and I did find a strong correlation there, or as
2 Professor Bradley did in R-97, he used econometric models to
3 do that, it doesn't prove categorically, but it certainly
4 proves to me that I'm on the right track, that I have a good
5 relationship. And I think that's what the entire Postal
6 Service costing system and the Commission's approach to this
7 type of costing has been built on in the past.

8 Q When you talk about spurious correlation, are you
9 referring to a situation in which you hypothesize causation,
10 you go out, look, you find correlation between cost and
11 volume, but for some reason you're convinced that there's
12 really no causation at work?

13 A Well, could you refer me to where I talk about
14 spurious correlation, please?

15 Q Let's see. Try page 8, note 7.

16 A Exactly. What I am trying to get at on page 8,
17 Footnote 7, is that the Postal Service simply does not go
18 out and -- again, let's take transportation as an example.

19 It simply doesn't go out and start trying to run a
20 lot of different correlation analyses and try to just
21 essentially willy-nilly come up with some statistical
22 relationship and pass that off as causality. It takes a
23 very careful look at the operational considerations that are
24 going on within the transportation network. It understands
25 really what those cost drivers are within the transportation

1 network, and then develops a hypothesis of how that
2 causation will work.

3 It then goes out and tests that empirically and
4 either confirms or rejects hypotheses based on that, but it
5 is not simply trying to go find some type of spurious
6 correlation of some type of relationship that is not based
7 on causality.

8 Q Well, again I think we are using the term that we
9 are attempting to define, but --

10 A "Spurious" here I would use in the term -- and I
11 think this was your original question -- as not based on
12 causality.

13 Q You are describing a situation where you simply go
14 out and run regressions without even thinking about how
15 likely it is that you are going to find a relationship and
16 then when you find one you say "Aha -- there must be
17 causality at work here" -- is that --

18 A I think that is the first that an economist learns
19 in Economics 101, that you don't do that type of approach,
20 that's correct.

21 Q All right, but what about a situation where you do
22 think about it for awhile. You say I hypothesize causation
23 here. I go out. I find a correlation.

24 In that situation how do I distinguish spurious
25 correlation from correlation that really means causality?

1 A Well, you are never going to be 100 percent
2 certain that you have actually got it right, but the
3 critical issue there is that you have to do your job
4 upfront. You have to think long and hard about the
5 operational considerations, which way the causality is going
6 to play out. It is not simply just a case where a cost
7 analyst can just take two columns of numbers and start doing
8 statistical analyses on them. He or she has to think long
9 and hard about which way that causality is going to occur
10 and why the causality is occurring and various other factors
11 as well and that is what the Postal Service tries to do, and
12 frankly that is that is what the Commission does as well
13 when it thinks about and analyzes the validity of the
14 various costing studies that are presented before it.

15 Q Could you look at page 14 of you your testimony?

16 A Certainly.

17 Q Line 4 through 6. Here you say, "It is clear that
18 changes in advertising costs are not caused by subsequent
19 changes in volume and therefore cannot properly be treated
20 as volume variable" -- is that correct?

21 A That is correct, and I think that gets back to my
22 point before is that again the definition of volume variable
23 costs or marginal costs is as the case -- an economist would
24 call them is that changes in costs are caused by marginal
25 changes in volume. That is the definition that the Postal

1 Service and the Commission has used for many decades.

2 What is happening here is the OCA and Witness
3 Prescott again, to a certain extent, would have you believe
4 that costs are creating changes in volume or changes in
5 transactions as the case -- in this particular incident
6 case. That is not the definition of volume variable cost
7 and I just want to be very, very clear about that.

8 There is a causal relationship going on there if
9 the advertising is successful, which I talk about a couple
10 case. It may not be successful and you may not have any
11 correlation whatsoever mathematically, but that causation is
12 reversed from the way that an economist or the Commission
13 has thought about cost causality in the past.

14 It is an example of correlation in that sense.

15 Q When you use the word subsequent -- where you say
16 "costs are not caused by subsequent changes in volume" -- do
17 you mean later in time? Is that what subsequent means?

18 A One could apply that. What I essentially mean
19 there, however, is that affirm or the Postal Service or
20 whoever, creates an advertising cost, creates an
21 advertisement thereby incurring a cost, and then there may
22 be a change in volume associated with that.

23 It could occur five years down the road. It could
24 occur tomorrow. It could occur that day. I didn't mean any
25 specific timeframe there, but I meant to think about it from

2682

1 that view of causality, which is a change in advertising
2 costs create a change in volume. That is not what volume
3 variable costs are and that is not what the Commission uses.

4 Q But you did have in mind some time in the
5 future -- not necessarily tomorrow but somewhere down the
6 line?

7 A No specific time.

8 Q So you are saying that a volume change that occurs
9 in one time period can't be the cause of a change in cost in
10 a prior period. Is that the point you are trying to make?

11 A Could you say that again, please?

12 Q A volume change that occurs in one time period
13 cannot cause a change in cost in a prior period.

14 A I would have to think long and hard about the
15 logic of how -- well -- again, I am not being difficult.

16 Could you state it just one more time? I want to
17 be absolutely sure what you are saying.

18 Q Sure. A volume change that occurs in one time
19 period cannot cause a change in cost in a prior time period.

20 A I don't think I am saying that necessarily here.

21 What I am saying here is very simple. I don't
22 want to make this rocket science here. What I am saying is
23 that in the case of these advertising costs, they are
24 incurred and presumably, not necessarily, presumably volume
25 is going to change at the end of the day or at some time

1 period in the future.

2 That causality ways that a cost is incurred and
3 then a volume change may or may not occur as a result of
4 that.

5 What the Postal Service does in its costing
6 methodology and the Commission does in its costing
7 methodology, it says that a volume change takes place and
8 then a cost change takes place as a result of that. That is
9 the direction of causality that marginal costing is based on
10 within the economics profession. It is the basis for which
11 the Postal Service develops its costs and it is the basis
12 for which the Commission attributes cost. It is fundamental
13 to what the Postal Service and the Commission do.

14 This notion of causality that the OCA and again
15 Witness Prescott to a certain extent are proposing turns
16 that on its ear.

17 Q What I am trying to nail down here is are you
18 saying that the arrow of causality, if we can talk of it
19 that way, is like the arrow of time -- it only points in one
20 direction and that is into the future?

21 A No. I am not saying that at all. You are reading
22 way too much into it.

23 Q Well, then I am trying to understand ^{what} it is you are
24 saying about advertising costs in this particular sentence
25 that makes them not properly treated as volume variable.

2684

1 A I'm sorry, I stand corrected. In this particular
2 sentence, that is what I am saying. In general, I don't
3 necessarily agree with your supposition.

4 Okay. Again this is -- it's -- I am not trying to
5 play games here with my sentence. It is meant to be a very
6 simple statement.

7 Q So you are not espousing a general principle here.
8 You are just saying in the case of advertising it is
9 advertising first, volume later, and that is always the
10 case?

11 A But -- no. You just -- you took my sentence one
12 step further. I didn't say it's always the case.

13 Q I mean with respect to advertising.

14 A Well, no. That is not the case either. As I
15 talked about before -- or -- I'm sorry -- in subsequent
16 paragraphs, lines 8 through 22 on this page in particular,
17 there may be situations where a company will undertake an
18 advertising expense and won't see any change in volume as a
19 result of that, and that might be their plan.

20 I think I talk about an example of my firm, Price
21 Waterhouse Coopers. It is undertaking and advertising
22 campaign right now to promote brand awareness. It is not
23 undertaken to subsequently drive changes in volumes or at
24 least directly drive changes in volumes there.

25 There's lots of different uses for advertising. I

1 think you are trying to pin me down into too narrow a view
2 of advertising.

3 Q Well, again, let's get back to the proposition
4 that you are trying to dispute, namely that volume causes
5 advertising costs.

6 Your sentence seems to say that because the change
7 in volume occurs later in time than^a the expenditure on
8 advertising -- there is no causal relationship in the sense
9 of volume causing cost.

10 A Can you give me a moment to think about it.

11 Again, as I said before, I am not trying to create
12 a real temporal problem here in this sentence. I am not
13 trying to make this more complicated than it is. In fact,
14 you could delete the word "subsequent" and my thoughts would
15 be the same.

16 What I am trying to say is that advertising costs
17 are not caused by changes in volume. Changes in advertising
18 costs are caused by changes in volume.

19 Q That's just an assertion, isn't it?

20 A Yes, it is an assertion. It's a relatively
21 logical assertion and it's no -- I think it's a better
22 assertion than what the OCA and Witness Prescott have put
23 forth.

24 Q Well, in the sentence that I quoted at lines 4
25 through 6, it seems that the only word that allows you to

1 say "and therefore cannot properly be treated as volume
2 variable" is the word "subsequent."

3 A No, again -- I will let you make that case, but I
4 don't agree with it. I think -- again I am going back to
5 the definition of what marginal costs really are, and that
6 is changes in cost are caused by changes in volumes. That
7 is the definition. That is the economist's definition.

8 You can talk about long-run marginal costs. You
9 can talk about long-run marginal costs. You can talk about
10 short-run marginal costs. You can even in many cases talk
11 about instantaneous changes in marginal costs. There is no
12 time point on that.

13 The temporal issue is not relevant to what I am
14 trying to say here. What I am trying to say is that the OCA
15 and Witness Prescott have turned this relationship on its
16 head.

17 Q And I am still trying to determine what the
18 relationship is without simply using the word "cause" --
19 let's try a different example.

20 Would you agree that a capital expenditure
21 incurred now can be said to be caused by volume in the
22 future?

23 A In some cases it could well be, because, for
24 example, when a company or -- I'll use the generic case.
25 When a company is a startup company for example it may go

1 out and purchase capital equipment in anticipation of volume
2 in the future.

3 Q Well, doesn't the Postal Service do that as well
4 if it anticipates that five years from now volume is going
5 to be a lot greater for a particular category? It may
6 decide to purchase more equipment or start the purchasing
7 process now because it will take five years to get it
8 ready --

9 A One would hope the Postal Service would plan
10 optimally. That is correct.

11 That's the nature of business planning. Any good
12 business would do that, that's correct.

13 Q When a firm makes a capital expenditure in the
14 expectation of volume, sales, revenue, profits in the future,
15 there is an accounting mechanism for matching that capital
16 expenditure with the expected benefits, is there not?

17 A Could you restate that, please?

18 Q Yes. If a firm makes a capital expenditure now in
19 the expectation of future benefits, future sales, ultimately
20 generating future profits, there is an accounting mechanism
21 called depreciation. It is used to match the capital
22 expenditure with the profits that it generates, is that
23 correct?

24 A That's correct, but I could also envision cases
25 where a company -- you know, a business would bring on extra

2688

1 capacity that is not capital and would not get depreciated,
2 for example, labor.

3 A company may staff up, hire additional workers in
4 anticipation of increases in volume, and those expenses
5 wouldn't be depreciated.

6 Q As an economist wouldn't you say that the cause of
7 those expenditures is in fact volumes in the future?

8 A What is happening, and this is a very good
9 example, what is happening in this situation is that I as a
10 businessman, let's say, am anticipating that there is going
11 to be additional volume in my business in the future, and
12 therefore I am going to have a capital expense or an
13 increased labor expense or what have you to meet that change
14 in volume, okay? And it might be a capital expense and I
15 might depreciate it or it might be an expense which I don't
16 depreciate but I am in that situation -- my thinking on this
17 or my addition to that capacity is being driven by a change
18 in volume, an expected change in volume in the future.

19 That is not why the Postal Service is making an
20 advertising expense today. It is not saying that, gee,
21 Mailing Online, I might have some volume in the future,
22 therefore I better advertise for it today. That makes
23 absolutely no sense whatsoever.

24 What it does is it says I want to have volume in
25 the future and therefore I spend the advertising today. I

1 think your example again is turned on its head.

2 Q So the answer to my question is yes?

3 A I don't remember your question, I'm sorry.

4 Q If a firm -- I believe this arose out of your
5 example -- a firm adding labor, staffing up in the
6 expectation of the need for that labor in the future --

7 A Yes. We talked to that example, yes.

8 Q And my question was as an economist wouldn't you
9 consider that a cost caused by an event in the future?

10 A Yes, I would, and I also said why that is
11 different from this advertising example today, just to still
12 making the record clear.

13 Q But we do agree that expectations about future
14 events can cause behavioral changes in the present?

15 A Absolutely.

16 Again, so the record is clear, that is not what I
17 believe is happening in this case.

18 Q Could you look at page 14 of your testimony?

19 You are there, right?

20 A Yes.

21 Q Lines 14 through 17. Here you list some reasons
22 why a firm might engage in advertising, correct?

23 A Yes, and I think as I said on line 10, I am not an
24 expert in advertising nor do I purport to be. However, just
25 a layman's interpretation -- I could many different reasons

1 why a firm might engage in advertising, and it is not
2 necessarily to drive directly changes in the volume.

3 Q Well, let's look at these reasons that you do have
4 here. The first one is induced purchases by a new customer,
5 is that correct?

6 A Right, and I can stand corrected if you choose to
7 do so, but I think that is what the OCA said was the cause
8 of advertising expenditures in its brief, but what I am
9 trying to say here is that the OCA's supposition is very
10 narrow. There's a lot of other reasons why a firm might
11 engage in advertising as well.

12 Q So your next reason is induce new purchases by an
13 existing customer?

14 A Certainly.

15 Q Right. In these cases there is a direct
16 relationship between cost and volume, correct?

17 A Yes, and it is the exact opposite of what -- of
18 the volume variability analysis that I have talked about
19 before, yes.

20 Q But the relationship is there, correct?

21 A Uh-huh.

22 THE REPORTER: The relationship is there, yes or
23 no?

24 THE WITNESS: Sorry? Could you -- which
25 relationship are you referring? I'm sorry I --

1 BY MR. COSTICH:

2 Q These first two reasons that you list for a firm
3 engaging in advertising, induced purchases by a new customer
4 or induced new purchases or more purchases by an existing
5 customer, in those cases there is a direct relationship
6 between cost and volume?

7 A If the first were to incur an advertising expense
8 to induce purchases by a new customer or to induce new
9 purchases by an existing customer, there is a relationship
10 there. That is correct.

11 Q The third reason --

12 A It is not necessarily the causal relationship upon
13 which postal costs are based.

14 Q The third reason you list for advertising is to
15 increase brand awareness among new and existing customers,
16 right?

17 A Certainly.

18 Q And the fourth reason you list is to increase
19 customer loyalty?

20 A Right -- and as I said before, again I am not an
21 expert in advertising. I didn't go back and consult any
22 advertising techster or people that are experts in
23 advertising. There may be 20 more reasons. I am not sure.

24 Q Well, just focusing on the third and the fourth
25 that you have got here, could you explain the difference

2692

1 between increasing customer loyalty and increasing brand
2 awareness among existing customers?

3 A I can give you another good example. Again the
4 advertising that I am most familiar with is the advertising
5 that my company, Price Waterhouse Coopers, is undergoing
6 even as we speak.

7 As you probably know, we just went through a
8 merger. Price Waterhouse merged with Coopers & Lybrand,
9 thereby creating a new brand. Over the last several weeks
10 and months we have been trying heavily to promote that brand
11 awareness among the public, to get them to think of Price
12 Waterhouse Coopers as a brand.

13 That may be different from trying to increase
14 customer loyalty, trying to make sure that our clients are
15 happy clients and will continue to come back to us. That
16 may not necessarily be what we are trying to do in that
17 advertising.

18 I think it is pretty clear that there can be a
19 distinction between those two.

20 Q When you talk about --

21 A For example -- could I give one more example?

22 Q Sure.

23 A For example, imagine a car company that is
24 advertising its products. It may be the case that the car
25 company advertises its entire product line and says, for

2693

1 example, you know, GM products are the best products in the
2 world and we are trying to increase the brand awareness of
3 GM, and however then it has specific targeted advertising to
4 its existing customers, people that own GM cars. I may get
5 a mailer because I own a GM car that says your service
6 record of GM cars is outstanding, various things like that,
7 so I could see a company taking two different approaches to
8 advertising to do those two different things.

9 Q In the case of specific product advertising
10 intended to increase customer loyalty, the purpose there is
11 to increase the probability that the customer will be a
12 repeat customer?

13 A Perhaps. It could be other things as well.

14 Q Can you give me an example?

15 A It could be to create more word of mouth
16 advertising too. If I am an existing customer and I am
17 loyal to that company I may tell my friends about it too.

18 Q So again, the ultimate end of that kind of
19 advertising is to increase sales, correct?

20 A In that particular case the ultimate end may be to
21 increase sales way down the road indirectly but that is not
22 always what advertising is.

23 Again, go back to my example of Price Waterhouse
24 Coopers. Our advertisements, which unfortunately I don't
25 have a copy of here with me today, but our advertisements

2694

1 are not just meant to increase sales. It's also to promote
2 Price Waterhouse Coopers as a fun and interesting place to
3 work. It is trying to promote our people to show potential
4 customers, potential recruits, various other folks that we
5 are a good company so it is not -- advertising is not always
6 targeted to increase sales.

7 Q You don't think being able to say we have got the
8 best employees ultimately doesn't increase sales?

9 A Oh, it certainly helps but it is also, that
10 advertising is also meant for a recruiting tool, to try to
11 attract those best employees as well.

12 That's a very -- very indirect link to sales, as I
13 can attest.

14 Q Well, I guess we can argue about whether it is
15 indirect. It seems to me that the whole reason for having
16 good employees is to produce the product, whatever it might
17 be.

18 A I will let you make that case then.

19 I can attest -- I can tell you here that this
20 advertising I am talking about is meant to not only attract
21 potential customers but also to attract employees and to
22 increase our brand awareness. Lots of different reasons.

23 Q You mentioned that there was a name change that
24 seemed to generate some extra advertising.

25 Did I understand you correctly on that?

1 A That's correct.

2 Q Why would you need to do extra advertising because
3 of a name change?

4 A Well, it appears self-evident to me that if before
5 a merger I was operating in the marketplace as Price
6 Waterhouse and then separately Coopers & Lybrand, I would
7 need to promote the fact that now my new name, my
8 organization's name is Price Waterhouse Coopers so that
9 people wouldn't get confused with old names and
10 nomenclature.

11 Q Well, would one reason to prevent confusion be to
12 retain existing customers of the two former companies?

13 A It could well be, certainly, among other things.

14 Q Can we hypothesize that in the absence of that
15 advertising there would be a reduction in the number of
16 customers at Price Waterhouse Coopers?

17 A No, we cannot hypothesize that.

18 Q And why is that?

19 A Because I could also hypothesize a situation where
20 our customers are so happy with the services that we provide
21 they would never look elsewhere, no matter what we
22 advertise.

23 Q Well, is that the situation with Price Waterhouse
24 Coopers, that all their customers of the former two
25 companies are so happy that you don't need to let them know ,

2696

1 that now there is a different company running the show?

2 A I would certainly hope so but that may not be the
3 case -- but again, that is not the entire reason why this
4 advertising campaign has been put forth.

5 Q But it is a reason.

6 A It is a very broad-based -- I mean we are sitting
7 here talking about Price Waterhouse Coopers's advertising
8 campaign. It is a very broad-based campaign meant to
9 increase our brand awareness.

10 What I am trying to get at is again a very narrow
11 discussion in my testimony, and that is that the OCA
12 purports that the reason that advertising expenditures are
13 incurred is to, if I remember correctly, it's to induce
14 purchases by a new customer or something very similar to
15 that.

16 I am simply trying to point out that there are
17 many other reasons why advertising can be used by companies
18 such as the Postal Service and they don't always have to
19 relate to changes in volume. That is my fundamental point
20 here. It is very narrow.

21 Q Well, the hypothesis I would like to put to you,
22 Mr. Takis, is that in the case of Price Waterhouse Coopers
23 one possibility that has been considered by the folks who
24 design advertising campaigns is that some customers will be
25 lost in the future because they didn't know of the name

1 change that the advertising is specifically, at least for
2 one reason for that advertising, is to retain those
3 customers that one fears will be lost if there is no
4 advertising done.

5 A That is certainly a possibility, among others.

6 Q You discuss incremental costs at some points in
7 your testimony, is that correct?

8 A That is correct.

9 Q Your view is that advertising costs for POL,
10 PostOffice Online, are incremental costs of the group of
11 products sold through the POL channel, is that correct?

12 A That is correct, and maybe I could just make sure
13 that we are all on the same page of what I mean by that.

14 In the Postal Service's costing methodology that
15 it put forth in Docket Number R97-1, in fact it was in my
16 testimony, it treated several advertising expenditures as
17 product specific to an entire product line. Those costs
18 should be included in incremental costs associated with
19 those particular product lines.

20 They are not volume variable. They are product
21 specific or specific fixed, as the Commission has used in
22 the past.

23 Q Could you look at page 18, lines 13 through 15.

24 A Yes. I have that here.

25 Q Here you are stating that no advertising costs are

1 incremental to Mailing Online alone, is that correct?

2 A That is the conclusion of my testimony, yes.

3 Q Now at these lines what you say is, "The Postal
4 Service has stated that there are no plans for advertising
5 MOL only and if MOL did not exist, the advertising plan for
6 POL would not be affected." Is that --

7 A That is my understanding of the advertising plans
8 for the Postal Service.

9 Q Okay. What is the basis for your understanding?

10 A It is -- I have cited a specific transcript
11 reference here which -- I would have to get back to you. I
12 am not exactly sure where that came from.

13 It might have been from a Postal Service
14 interrogatory response there, but I have also had
15 discussions with Witness Garvey on this issue.

16 Q Okay. Would it help if I showed you a copy of the
17 transcript page you're citing there?

18 A It would be very helpful. Thank you.

19 COMMISSIONER LeBLANC: Mr. Costich, so we can keep
20 the record clear, do you have some copies for the bench?

21 MR. COSTICH: Yes.

22 COMMISSIONER LeBLANC: Thank you.

23 Mr. Rubin, have you had a chance to take a look at
24 it? Are you all right with this?

25 MR. RUBIN: Yes, this is fine.

1 COMMISSIONER LeBLANC: Thank you.

2 BY MR. COSTICH:

3 Q As an economist, as an analyst, do you think it's
4 plausible that the Postal Service is not going to advertise
5 MOL specifically?

6 A Absolutely. I don't -- the first part of your
7 question is "as an economist." I don't know that why being
8 an economist would make me any more or less knowledgeable
9 about how the Postal Service is going about doing its
10 advertising. But my understanding is that this is the case,
11 what the Postal Service has said here is going to be the
12 case with Mailing Online.

13 Q The Postal Service is going to offer a product
14 available through PostOffice Online and never tell anybody
15 about it.

16 A That's not what -- I don't think that's what
17 they're saying here in this information. They're saying
18 that they're not going to advertise Mailing Online
19 separately from advertising the entire channel which is
20 known as PostOffice Online. I think that's -- this is
21 actually touching on a very interesting and important point,
22 is that my understanding of the advertising associated with
23 PostOffice Online is really to advertise a channel. It's
24 another way that a postal customer can get to purchase
25 Postal Service products, much the same way as a retail

2700

1 outlet might be.

2 This PostOffice Online is a separate channel, so
3 it's going to be advertising a number of different products,
4 not just Mailing Online or the services that end up being
5 part of Mailing Online, which my understanding is Standard A
6 and First Class mail, but it's also meant to advertise other
7 products which will be sold through that channel such as
8 Express Mail or Priority Mail.

9 Q Well, do you have an understanding of whether
10 these products are mentioned in the advertising for ^{POL} policy?

11 A Yes, I do.

12 Q And are they?

13 A I didn't -- while I certainly trust the Postal
14 Service's response here, I also wanted to kind of see for
15 myself what the advertising looked like. I didn't want to
16 just sit in an ivory tower and opine on what the
17 advertisements meant. So I actually kind of took a look at
18 some of the printouts and the direct-mail ads that were
19 associated with PostOffice Online, and in fact it's very
20 interesting, it never mentions the word, or at least the
21 ones that I saw, there may be other ones out there, but the
22 ones that I saw don't mention Mailing Online specifically,
23 they mention Priority Mail and Express Mail.

24 What they're really trying to do, or at least the
25 way I read it as, this advertising is trying to promote the

2701

1 channel, this electronic channel, which will allow customers
2 to access these various products like Express Mail, Priority
3 Mail, Standard A, First Class Mail, the various products
4 that are under Mailing Online and Shipping Online.

5 Q But in your examination of the ads, the only
6 products you saw specifically mentioned were Express Mail
7 and Priority Mail?

8 A With regards to specific references to existing
9 postal products, again, that is the case, but it was also
10 generally discussing the concept of Mailing Online too, the
11 ability of a customer to come in and create a mailing, send
12 it to the Postal Service, have it printed, and then sent
13 out. He was talking about that as well. And presumably the
14 mail pieces that are created as a result of that are First
15 Class and Standard A, although I didn't see those referenced
16 in the advertisement.

17 Q So the advertising really does address Mailing
18 Online without giving it a name; is that correct?

19 A It addresses the concept of Mailing Online, but
20 again, it -- as I look at that advertising, and again, I'm
21 just a layman when I'm analyzing advertising, it hits me as
22 it's trying to advertise the channel. It's trying to say
23 hey, the Postal Service has this new interesting neat way to
24 allow you to interface with us better, and you can come into
25 PostOffice Online via the Internet and send a package, send

, 2702

1 a Priority Mail package or send an Express Mail package. Or
2 point and click and send out your own mailing, which would
3 involve First Class mail and Standard A mail. I read it as
4 advertising a channel, and it just so happens that Mailing
5 Online is one of the products that it's talking about in
6 here. Again, without matching the words Mailing Online.

7 And that indicates to me that these costs, the
8 Postal Service's trying to advertise a channel which
9 promotes a number of different products, Standard A, First
10 Class Mail, Priority Mail, Express Mail, and those -- and
11 any one particular one of those products should not bear the
12 costs associated with the Mailing Online -- or, sorry, the
13 PostOffice Online advertising.

14 Rather, it should be -- those costs should be
15 included in the incremental cost for the group of products,
16 Priority Mail, Standard A Mail, First Class Mail, and
17 Express Mail, and whatever other types of products that
18 PostOffice Online is trying to advertise.

19 Q Well, let's go back to that transcript page that
20 you cited. Could you read the question that appears under
21 Part B? Read it out loud, please.

22 A The actual interrogatory itself?

23 Q Yes, the question.

24 A Please identify and provide the costs associated
25 with informing potential customers or advertising the

1 availability of Mailing Online service during the expanded
2 or market test period.

3 Q And the first line of the response says there will
4 be no advertising specific only to Mailing Online. Correct?

5 A That's correct.

6 Q Any advertising of the Mailing Online service will
7 be part of more comprehensive advertisements promoting the
8 use of existing Postal Service products, et cetera. Is that
9 correct?

10 A That's what it says; yes.

11 Q And then the last sentence says: Accordingly,
12 there are no advertising costs directly associated with
13 Mailing Online and no such costs are identified by Witnesses
14 Seckar and Stirewalt. Correct?

15 A Again, and if I could again paraphrase what I think
16 the Postal Service is saying here, and what I just said
17 again, maybe slightly differently, is that the advertising
18 costs here to promote PostOffice Online are meant to promote
19 the entire channel of PostOffice Online, and through that
20 channel, Express Mail, Priority Mail, First Class Mail,
21 Standard A Mail, Mailing Online, Shipping Online.

22 There's going to be a number of different products
23 that are going to come through that channel. But it is not
24 correct from an economist's standpoint or from the
25 Commission's precedent standpoint to take those costs and

2704

1 assign them to any particular product within that channel,
2 because they're not caused by that particular product. And
3 again we're going back to the fundamental root of Postal
4 Service and Commission costing is they're not caused by that
5 particular -- the advertising costs are not caused by any
6 particular product within that channel. Those costs are
7 caused by the entire stable or the entire group of products
8 which are being sold through PostOffice Online. Very
9 important issue here.

10 Q Did you notice that the question only asked about
11 the market test?

12 A That's the nature of the question.

13 Q Do you have any knowledge of the Postal Service's
14 plans for advertising MOL during the experiment?

15 A Other than what's presented here? No. My
16 understanding is that there are no plans to advertise
17 Mailing Online specifically.

18 Q During the experiment.

19 A That's my understanding. That's what I've been
20 told.

21 Q The cited transcript page wouldn't support that
22 statement; correct?

23 A Well, actually in this case I'll have a broad
24 definition of -- I'll tell you what I know, and you can
25 infer what you'd like from that. My understanding is that

2705

1 the Postal Service has no plans right now to advertise
2 Mailing Online specifically.

3 Q No plans --

4 A Now I don't know whether that's during the
5 experiment phase, the test phase, the actual national
6 rollout, or whatever, but that's what I've been -- that's my
7 understanding. Perhaps this is a question better suited for
8 Witness Garvey.

9 Q Well, is that the basis for your understanding
10 beyond what is in the transcript?

11 A I'm sorry?

12 Q Is Witness Garvey the basis for your understanding
13 of the advertising plans?

14 A Yes, but I say primarily, my understanding comes
15 from this transcript reference, but I've had brief
16 conversations with Witness Garvey.

17 Q Okay. But you do understand that the transcript
18 page only discusses the market test.

19 A I'll let you make that case. It appears on the
20 surface.

21 Q But you do understand there will be no advertising
22 for MOL as far into the future as you can see?

23 A Again, that's my understanding based on brief
24 conversations; yes.

25 Q Conversations --

1 A I can't tell you what I don't know, and that's
2 what I know.

3 Q But your conversations were with Witness Garvey?

4 A Yes.

5 Q Anyone else?

6 A The conversations I've had on this issue are with
7 Witness Garvey -- I'm just trying to recollect if I've ever
8 had a conversation about this particular issue with any
9 other Postal Service employee other than the attorneys as
10 I've tried to develop this testimony. I can't recall that
11 off the top of my head; no.

12 Q The statement that you seem to rely on from the
13 transcript is that if MOL didn't exist, there would be no
14 change in advertising expenditures for POL; is that correct?

15 A That's correct, and the importance of that
16 statement is as follows, and it's really the way that the
17 Postal Service has generally tried to think about
18 incremental costs, and it's thought about it in the past
19 Docket R97-1, is that one way to think about incremental
20 costs is to think about it that if a particular product or
21 service were to go away, what would be the resulting change
22 in those costs? And that's one way to think about
23 incremental costs.

24 Q Well, if advertising costs for POL would not
25 change with the elimination of MOL, would you agree that the

1 entire advertising cost must be incremental to Shipping
2 Online?

3 A Absolutely not. What I'm saying here is that the
4 provision of any particular product, be it Mailing Online,
5 be it Standard A, First Class Mail, Express Mail, or
6 Priority Mail, if those products individually were to go
7 away, my understanding is that the advertising costs
8 associated with POL would not change. And therefore there's
9 no specific fix or product-specific costs associated with
10 those advertising costs associated with any particular
11 product sold through that channel of POL.

12 However, when you look at the entire group of
13 products that we're talking about here, if the entire group
14 were to go away, then there would be no need for advertising
15 POL, and therefore you would want to treat those costs,
16 these advertising costs, as part of the incremental-cost
17 test for the entire group of products under POL, but not any
18 one particular product under POL. That's my testimony.

19 Q Well, if there's no Mailing Online, all that's
20 left is Shipping Online, right?

21 A My understanding is that if there's no Mailing
22 Online, there is still a channel called POL.

23 Q And all it's selling is Shipping Online; right?

24 A Yes, and within Shopping Online there is all sorts
25 of different services: Express Mail, Priority Mail,

1 Delivery Confirmation, various other things.

2 Again, the reason why I come to this conclusion is
3 that I'm thinking about this and I think the Postal Service
4 is thinking about this as advertising a channel, much the
5 same way as a retail network might look for the Postal
6 Service.

7 Actually, that's a good example. Let me go into
8 that for a moment. I think you can think of the retail
9 network, the window-service network that the Postal Service
10 operates, as a channel. It's one way, one convenient way,
11 for customers to come in to the Postal Service and buy
12 stamps, send a parcel, buy an Express Mail package, what
13 have you. There are -- in much the same way PostOffice
14 Online is another convenient way for a customer to come in
15 to the post office and buy a number of different services,
16 be it Express Mail, Standard A Mail, Priority Mail, what
17 have you.

18 Within window-service costing there are certainly
19 volume-variable costs which are associated with particular
20 products. When a customer comes in and buys a stamp, a
21 portion of that time that the clerk uses is assigned to
22 First Class Mail. However, there are also a bunch of
23 institutional costs which are there to support the entire
24 channel of the window-service unit, but are not meant to
25 support any one particular product within that particular

1 channel, meaning the retail unit.

2 So therefore if I was going to do an
3 incremental-cost test on the window-service function, I
4 would certainly include those volume-variable costs which
5 are associated with the particular products and services
6 that are incurred at the window. But then there's this
7 group of institutional costs that are also incurred at the
8 window to promote all the products that the window-service
9 unit sells, and I would not include those costs in any
10 particular incremental-cost test for First Class Mail or
11 Express Mail or Priority Mail, but I would include it in the
12 incremental-cost test for all the services that are being
13 provided at the window. Again, very similar type of
14 argument here with PostOffice Online.

15 I do not believe again because of the causality
16 arguments that I make in my testimony that the advertising
17 costs associated with POL should be included in the
18 incremental costs of Mailing Online. However, I do believe
19 that the advertising costs associated with POL should be
20 included in the incremental costs of the group of products
21 together that are under PostOffice Online -- or sold through
22 that channel.

23 COMMISSIONER LeBLANC: Mr. Costich, excuse me for
24 interrupting you. It may be about time to take a midmorning
25 break here. Do you have any feel for your time? Are you in

1 that particular channel.

2 Does that answer you question?

3 Q Yes. Would you agree that advertising space or
4 advertising time equates to money?

5 A Unless it is free advertising, I would agree to
6 that statement.

7 Q Would you agree that if Mailing Online were
8 eliminated as a product that the space or time used to
9 discuss MOL could also be eliminated from ads?

10 A It could well be, but that is not my understanding
11 of what the Postal Service would do if Mailing Online were
12 to be eliminated and I think that is stated pretty clearly
13 here in the exhibit that you showed me, transcript reference
14 881.

15 Q Do you have any knowledge --

16 A Let me finish that thought. I'm sorry. The
17 thought there is that the Postal Service would not change
18 its advertising campaign significantly or it wouldn't change
19 the costs that were incurred there if Mailing Online were to
20 be eliminated.

21 Q Well, does it sound plausible to you that the
22 Postal Service would continue to advertise or describe a
23 service like MOL if MOL didn't exist?

24 A Certainly not if MOL did not exist, but that does
25 not mean that the Postal Service would not advertise a

2715

1 channel known as PostOffice Online.

2 Again, what is trying to do is say to customers,
3 very succinctly say, come look at us. We have a new channel
4 for which you can access our products and services. I think
5 that is the point of the ads and again it is just based on
6 my looking at those ads but it certainly comports with what
7 the Postal Service is saying here. If that is really the
8 purpose of the ads is saying, hey, we have this channel and
9 you can access the Mailing Online type of product, again
10 without mentioning Mailing Online in particular, you can
11 access Priority Mail or Express Mail or delivery
12 confirmation or what have you, if any one of those
13 particular products were to go away then I don't think the
14 Postal Service would necessarily change its advertising
15 strategy or change the way it promotes those products if you
16 are adverting a channel.

17 Now if you have an ad that is out there for
18 example for Express Mail -- you know, it says come use our
19 product, Express Mail -- if that product were to go away,
20 then those products -- you might change that. I will leave
21 it at that. Thank you.

22 Q I believe you testified before the break that the
23 ads you have seen do describe the service that we call MOL.
24 Is that correct?

25 A Again, as part of a number of different services

2716

1 that the Postal Service provides, that is correct.

2 Q And I believe you agreed a minute ago that
3 advertising space or advertising time equates to money, is
4 that right?

5 A Yes. I think what I am trying to say also and the
6 Postal Service has said very directly here is that if
7 Mailing Online were to go away, it would not change the
8 expenditures that the Postal Service makes to promote the
9 channel PostOffice Online.

10 Q So they would continue to occupy the same amount
11 of space in print ads and continue to occupy the same amount
12 of time on broadcast ads, is that your understanding?

13 A That would be the logical conclusion of what they
14 have said in this interrogatory response, and it makes
15 perfect sense. Again, if you are there to advertise a
16 channel, you will take the same amount of print ad space
17 whether you have maybe 10 products or 5 products or
18 whatever. That is what they are trying to say in this
19 interrogatory response.

20 Q So if MOL has gone away, then now they have space
21 or time available to do something else with, is that your
22 understanding?

23 A Perhaps, and my testimony here today is that the
24 Postal Service has said, and I have to take them at face
25 value, that they are truthful in this response, that they

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1 would not change their advertising expenses as a result of
2 that.

3 Q Are you familiar with the concept of opportunity
4 cost?

5 A Absolutely.

6 Q Can we agree that when MOL occupies space in
7 advertising that becomes freed up when MOL goes away, that
8 the value of that space was an incremental cost of MOL?

9 A I would be extremely wary about any approach that
10 tried to say take an ad -- let's say, for example, a print
11 ad, and it had ten words of it on it that was talking about
12 Mailing Online, and 100 words that was talking about Express
13 Mail, Priority Mail, and what have you -- I would be
14 extremely worried about using some type of arbitrary
15 allocation mechanism like the number of words or the square
16 inches on the page or what have you to allocate those
17 individual costs that are on that ad to individual products
18 within that ad. Because again you're going to -- the only
19 thing you can do is use some arbitrary allocation mechanism.

20 What you need to do is think about the way that
21 expenses occur, and as I've said many times here today, in
22 my testimony, and the Postal Service has said in the record,
23 that if Mailing Online were to go away, they would not
24 change the way that they advertise for PostOffice Online.

25 Q Well, they'd wipe out those nine or ten words that

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1 you just mentioned, wouldn't they? They would remove them
2 from the ads, right?

3 A One would think so; yes.

4 Q And then they've got some space that has some
5 value, doesn't it?

6 A Perhaps they'd fill it with other advertisements.
7 Perhaps they would leave it blank. Perhaps they'd
8 reconfigure the rest of the advertising to do something
9 else. I don't know, and I'd have to take what they'd do at
10 face value here.

11 Q A moment ago you indicated that you're familiar
12 with the concept of opportunity cost?

13 A Yes, I am.

14 Q Could you define opportunity cost for the
15 Commission?

16 A Well, I think that economist's textbook version is
17 the value of a forgone alternative. In the case -- I'll
18 leave it at that.

19 Q And isn't that what we're talking about? When
20 advertising for MOL goes away, one now has a resource that
21 one formerly was consuming to promote MOL and one can now do
22 something else with it.

23 A But again I think you need to think about the way
24 that advertisement is developed in general. If you have a
25 print ad, let's say, that consists of a piece of paper,

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1 there's going to be blank spaces on that piece of paper.
2 You don't necessarily want to fill all of the blank spaces
3 on that piece of paper, because then you're oversaturizing
4 the viewer of that print ad or something like that. It's
5 not necessarily the case that just simply because you take
6 out a set of words out of an advertisement that you would
7 necessarily want to replace it with another product or what
8 have you.

9 Again, I think we're going a little bit far afield
10 here. The purpose of this advertising is to advertise the
11 channel, and if you take a look at it, that's what it's
12 trying to do. It's saying hey, we have this neat new way of
13 coming to the Postal Service. You can come and purchase a
14 wide array of different products through this channel. And
15 therefore the Postal Service has said that if Mailing Online
16 were to go away, it wouldn't change the way it advertises
17 that channel. That tells me that there are no incremental
18 costs associated with Mailing Online. That's my testimony
19 today.

20 Q Ads that describe Mailing Online consume
21 resources; is that correct?

22 A But they don't necessarily cause those resources.

23 Q If MOL goes away, those resources are freed up;
24 correct?

25 A Only if they are caused by that resource. And

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1 what I'm trying to tell you here today is that these
2 advertising costs are not caused by the presence of Mailing
3 Online, they're caused by the channel which is known as
4 PostOffice Online. It's very simple. The Postal Service is
5 trying to advertise a channel, not any particular product
6 within that channel. If that were the case, if they were
7 trying to advertise products, then we may have a different
8 conclusion here. But that's not what they're trying to do
9 here.

10 Q And your basis for your understanding is the
11 transcript page that you've cited?

12 A And also looking at the advertisements which I've
13 seen, the ones at least that I've seen, and discussions with
14 the Postal Service.

15 Q I have no further questions, Mr. Presiding
16 Officer.

17 COMMISSIONER LeBLANC: Thank you, Mr. Costich.
18 I believe according to the agreement, it's now Mr.
19 Wiggins. Yes. Mr. Wiggins.

20 MR. WIGGINS: Thank you, Mr. Presiding Officer.

21 CROSS EXAMINATION

22 BY MR. WIGGINS:

23 Q Mr. Takis, I'm Frank Wiggins. I'm here for
24 Pitney-Bowes.

25 Put out of your mind, or at least put out of my

2732

1 that period, you might increase the rates that you charged
2 to your client, your whole population of clients, might not
3 you?

4 A One might, but one also might treat them in a
5 similar way to the -- Price Waterhouse Coopers has not used
6 the term "institutional costs," but one might also have them
7 be borne by all lines of service and products.

8 Q Say how that would work.

9 A Well, let me go -- let me move back to an example
10 that -- a Postal Service example. The Postal Service may
11 incur advertising, and, again, I am not an expert in the
12 Postal Service advertising campaigns, but the Postal Service
13 may incur advertising to promote the Postal Service in
14 general, all the products associated with the Postal
15 Service.

16 Maybe at Christmas time the Postal Service puts
17 out ads that talk about delivering all mail pieces on time
18 and making sure that it gets done. That advertising is not
19 specific to any one particular product but is meant to
20 promote all products that the Postal Service offers. Those
21 costs would be properly included as overall institutional
22 costs and would not be assigned to any one particular
23 product or attributed to any one particular product that the
24 Postal Service offers. I believe. Again, I am not an
25 expert in the actual way they do cost attribution for that

1 right now.

2 Q But let's think about your firm's advertising
3 campaign. It can't have been contemplated, or at least not
4 in detail, until the merger that you have talked about was
5 in prospect, or maybe even concluded, is that right?

6 A The exact advertising campaign to promote the
7 Price Waterhouse Coopers brand?

8 Q Well, an unexpected advertising campaign that
9 costs money that you didn't previously have in your
10 advertising budget. Let's think about it that way.

11 A But both predecessor firms, I am sure, although I
12 am -- well, both predecessor firms, I would hazard to guess,
13 would have advertising budgets that they would use to
14 promote the brand awareness. I know that Price Waterhouse
15 did, my legacy firm.

16 Q So just suppose with me a new advertising campaign
17 that comes out of the merger, that exceeds the combined
18 advertising budgets of the two firms when they were
19 separate. You increase your advertising budget to reflect
20 the fact of the merger probably relatively short-term.
21 Okay. Suppose that.

22 A I will suppose that. I am not sure if that
23 occurred in our case.

24 Q I am not asking whether it occurred. If you are
25 going to pay for that advertising, you can take it out of

2743

1 A No. Just about a minute and a half ago I said
2 that I have not looked at these server costs and these
3 various costs to which Mr. Wiggins is talking about, so I
4 can't tell you my view on the proper way to allocate those
5 particular costs.

6 I will say, however, that if you use the simple
7 notion of cost causality that I have outlined in my
8 testimony, and I have applied it here to advertising costs,
9 if you apply that same notion to these other types of costs
10 that you are talking about you won't go far wrong. That is
11 very consistent with the way that the Postal Service has
12 developed costs in past rate cases and it is consistent with
13 the way the Commission has opined on those costs in past
14 decisions.

15 COMMISSIONER LeBLANC: Mr. Wiggins, I think he has
16 answered the question.

17 MR. WIGGINS: I do believe that he has, and I will
18 go on.

19 COMMISSIONER LeBLANC: Thank you.

20 BY MR. WIGGINS:

21 Q If there are in your simple model, which I don't
22 find so easy to apply -- but it is simple in concept, I'll
23 give you that -- of cost causation if I could represent to
24 you some costs that are caused in the sense that you use the
25 word by PostOffice Online those costs should be attributed

1 to PostOffice Online, should they not?

2 A Again, attributed is a term of art which I would
3 like to stay away from in my response to this.

4 Q Let me say it a different way then. PostOffice
5 Online should pay for those costs.

6 A Sorry, the products which are sold through the
7 PostOffice Online channel should cover the costs that are
8 associated with PostOffice Online if it is not possible to
9 allocate them to individual products under that channel and
10 they are not shared by other things like periodicals or
11 something like that.

12 Q I am asking a slightly different question,
13 probably inartfully. Why not allocate those costs to
14 PostOffice Online itself?

15 A I am not sure what those costs are.

16 Q Whatever they are. We are talking about the
17 simple concept now. We don't have to clutter our mind with
18 details.

19 A Well, I don't have enough details to answer the
20 question, I'm sorry. The concept is very simple here. It
21 is very much based on a causality argument that I have
22 talked about before.

23 If you have a group of products and we could talk
24 about them as being a group of products being sold through
25 PostOffice Online or any other channel, for that matter, or

2745

1 any number of different groups of products within the Postal
2 Service, if you have a group of products and you have a cost
3 that is associated with the provision of all those groups,
4 every single one of those products as a group, then those
5 costs should be included in the incremental cost as for that
6 group of products.

7 However, if those costs are not caused by any one
8 particular type of product within that group of products,
9 then they should not be attributed to any one -- sorry --
10 allocated to any one particular product within that group of
11 products.

12 The example I used before, the window service
13 unit, is a good example. One can look at the window service
14 unit and say it sells a number of different products. It
15 sells First Class stamps. You can buy a parcel. You can a
16 zone-rated Parcel Post. You can send Express Mail. You can
17 do any number of different products and services through the
18 window service, and there are volume variable costs which
19 are allocated to those particular service in the window
20 service operation.

21 However, there are also these institutional costs
22 which are a part of the window service operation which are
23 not associated with any one particular product in particular
24 but should be included -- those overall costs should be
25 included in the group incremental cost test of all the

1 products that are sold through the window service unit, and
2 that may be First Class mail, Priority Mail, Express Mail,
3 money orders, various different products within that overall
4 umbrella.

5 Q Are you through?

6 A Yes.

7 Q You talk in Section 5 of your testimony, beginning
8 on page 24, about vertical integration issues, and that is a
9 topic that a witness sponsored in part by Pitney Bowes
10 addressed -- Roger Prescott.

11 A Witness Prescott, that's right.

12 Q Do you disagree with Mr. Prescott's sort of
13 threshold notion that there are vices, economic vices,
14 associated with vertical integration that combines a
15 monopoly -- a product in which a firm has monopoly power,
16 with other products in which the firm has not formally
17 participated? Is that generally bad?

18 A What I disagree with in Witness Prescott's
19 testimony is the fact that he presents a number, a long
20 laundry list of potential harms associated with this
21 vertical integration problem that he cites in this
22 particular case, and yet he doesn't support his long laundry
23 list of those potential harms.

24 In fact, in many cases when he says that there
25 could be a potential harm, as I talk about in my testimony,

2747

1 I say well, if you just think about it for two more minutes
2 you can come up with a potential benefit as well, so what I
3 disagree with Witness Prescott is his unsubstantiated
4 points -- are his unsubstantiated points.

5 Q Your table of contents under vertical integration
6 issues, as is the first subpart (a), potential harms against
7 actual harms, and you take Mr. Prescott to task there for
8 not having the power to demonstrate that the harms that he
9 says are potential will actually eventuate. Is that a fair
10 summary?

11 A Yes.

12 Q "Potential Harms Against Actual Harms" you call
13 that section.

14 A That's correct.

15 Q And let's skip over (b). We will talk about that
16 in just a moment.

17 You come on down in subpart (5) (c) and talk about
18 potential benefits. Now oughtn't you to be subject to the
19 same criticism that you levy at Mr. Prescott for dwelling in
20 the potential rather than the actual world?

21 A No, because I make no pretense of having analyzed
22 this in a lot of detail.

23 As I stated before, I have not analyzed the
24 effects of the market -- of the Postal Service's contract in
25 this market. I have not done a vast empirical study. What

2748

1 I am saying is that Witness Prescott has not done that
2 either, and he is simply throwing up a lot of potential
3 items out there without thinking about the potential
4 benefits or the other side of the coin.

5 My job -- or I see my testimony here to point out
6 to the Commission that for the potential harms that Witness
7 Prescott throws out there may be potential benefits or
8 essentially there is another side to the story that Witness
9 Prescott is leaving out.

10 I have not taken it upon myself to analyze this
11 market exhaustively.

12 Q So in the terms of John Rawls you are operating
13 behind the veil of ignorance? That is not a question.

14 Do you have Witness Prescott's testimony with you?
15 If you don't have it real handy, I can just show you the
16 small part of it that I am going to ask you about.

17 A That would be better, I think.

18 COMMISSIONER LeBLANC: Mr. Wiggins, do you have a
19 cite to that?

20 MR. WIGGINS: Yes, sir.

21 COMMISSIONER LeBLANC: So counsel can follow.

22 MR. WIGGINS: I certainly do. It is transcript
23 page 2117. It is beginning at page 13 as numbered
24 internally to Prescott's testimony.

25 THE WITNESS: I am sorry, Mr. Wiggins, the example

1 don't always provide a specific transcript reference, if
2 that is your question.

3 Q Okay. Turn back to page 25 of your testimony if
4 you no longer have that.

5 A I do have it here.

6 Q Beginning at line 16 -- well, beginning at line
7 15, "In fact, Witness Prescott presents only half the story
8 since he fails to consider the competing services may be
9 able to receive additional discounts based on finer
10 presort."

11 A Right. The issue there is that Mr. Prescott makes
12 an assertion that the Postal Service will have a competitive
13 advantage over other providers of similar types of services
14 because they will have to go to the Postal Service and meet
15 the 500 piece minimum requirement required for -- I believe
16 it is for automation basic is the rate category there.

17 However, Witness Prescott fails to think about
18 cases where the mailer would meet more than that -- the
19 competitor, potential competitor would meet more than that
20 level of presort and that level of volume to meet even
21 deeper discounts. So what I am saying here is that a
22 competitor could enter 5,000 pieces of mail that qualifies
23 for a much finer level presort rate than what Witness
24 Prescott says here, and that is a competitive disadvantage,
25 because the Postal Service is only proposing an automation

1 basic rate.

2 Q So the argument that Mr. Prescott does make is
3 accurate, but there might be offsets, is that your
4 testimony?

5 A That is generally my testimony throughout his
6 testimony, that he puts forth a series -- numerous, and I
7 talk about at least four of them here, of potential harms
8 that the Postal Service, or potential competitive advantages
9 the Postal Service has, or potential harms on the printing
10 industry, or the ultimate mailer. And what I am saying is
11 that he doesn't provide any evidence to support that, and I
12 am simply trying to provide the Commission with some
13 thoughts on the other side of the coin to balance out those
14 unsubstantiated arguments.

15 Q You haven't investigated the likelihood of a
16 competing service being able to receive additional
17 discounts, I take it?

18 A No, nor has Witness Prescott, at least according
19 to my reading of his testimony.

20 Q You can't quantify the actual benefit that might
21 accrue to competitors?

22 A Nor do I purport to.

23 MR. WIGGINS: I have nothing further, Mr.
24 Presiding Officer, and I am sorry I overran myself a little
25 bit there. The witness is trying awfully hard to be

10 Q Now I'd like to take you back to the
11 advertising-cost issue for just I hope a brief moment, and
12 everybody seems to have spent a lot of time on the
13 variable-cost issue. I'd like to ask you a question about
14 your example on the Eagle network.

15 A Yes, sir.

16 Q Okay. As I understand that, you used -- first of
17 all, you've used that as an example of specific fixed costs;
18 correct?

19 A The actual term that I used is product-specific
20 costs. To what page are you referring, please?

21 Q Well, I'm not referring you to any page yet, but
22 it happens to be at page 6 --

23 A Okay.

24 Q If you want to refer to it for your own use. And
25 that product-specific cost is also equivalent to what the

2758

1 Rate Commission has used as specific fixed costs, is it not?

2 A Not -- in this particular case, yes, it is, but
3 it's not exactly equivalent to that.

4 Q Okay. For purposes of our discussion here, it's
5 close enough.

6 A It's fine. It's close enough.

7 Q Okay. And as I understand it, you have said that
8 the Eagle network, the cost of the Eagle network is
9 allocable or attributable -- I don't know that you want to
10 use that term "attributable" -- but to Express Mail, because
11 it was created so that Express Mail could have next-day
12 delivery.

13 A Not exactly. What I am saying is that the premium
14 cost associated with the Eagle mail network, the cost over
15 and above what it would cost to fly an Express Mail piece or
16 First Class Mail piece or what have you, on commercial air
17 networks, those premium costs are allocable or however you
18 want to say it to Express Mail because they're caused by
19 Express Mail, and they're not caused by any other product.

20 Q Okay. And the reason is so that Express Mail can
21 achieve next-day delivery. The reason that you allocate 100
22 percent of the premium cost to Express Mail is because you
23 need this network in order to get next-day delivery.

24 A Another way to think about it is that if Express
25 Mail were to go away, the Eagle network would not be needed

1 to transport First Class or Priority Mail, which is also
2 found on the Eagle network.

3 Q And those particular categories, First Class and
4 Priority Mail, may use the Eagle network, but they're, if
5 you will, incidental beneficiaries of that network.

6 A They do use the Eagle network, but they do not
7 cause the fact that the Eagle network exists.

8 Q But they benefit from it.

9 A Well, they may or may not benefit from it. I have
10 not done an analysis of whether First Class Mail benefits
11 from being on the Eagle network. I don't know. But they
12 certainly don't cause the fact that the Eagle network is in
13 existence.

14 Q Okay. Well, let's just stick with what you agreed
15 to, that they do use it.

16 A Yes.

17 Q Okay. And I'd like you to consider the following
18 situation, that on the Eagle network there is excess
19 capacity, and on day 1 the only premium product that's going
20 is Express Mail. So 100 percent of the premium costs under
21 your analysis of this is allocable to Express Mail.

22 Are you with me so far?

23 A I'm with you.

24 Q Okay. And then on day 2 another product is
25 offered which requires the same next-day delivery, but it's

2760

1 not Express Mail, and we don't have to figure out what it
2 is, it's a new product. Maybe it's a parcel. I don't know
3 what it is. And that product is going to start using the
4 Eagle network as well and use up that excess capacity. But
5 it won't cause any further expenditures.

6 How would you allocate, if at all, on day 2, the
7 premium cost of the Eagle network in that scenario?

8 A I think I understand your question. Let me
9 paraphrase it to make sure that I'm right with you.

10 Q Sure.

11 A You're saying that on day 1 we have a product
12 called Express Mail or some extra product that needs the
13 Eagle network. The Postal Service goes out and builds the
14 Eagle network and it's there and it exists.

15 Q The situation we have today essentially.

16 A Okay. Then you're saying hypothetically a new
17 product comes in after that.

18 Q After that.

19 A And could you continue on and --

20 Q And it doesn't cause any increase in expense in
21 the Eagle network. What happens is that that product can
22 achieve all of its delivery standards and other product
23 characteristics by simply using up the excess capacity
24 perhaps as the capacity that's now being used by First Class
25 Mail or priority mail. They get bumped off. This new

2761

1 product is now on board. Same exact expense as --

2 A So therefore the total expenses incurred by the
3 Postal Service have not changed.

4 Q Have not changed. There's no volume variability
5 at all, in other words.

6 A I think I know where you're going here. You've
7 asked a question that unfortunately is just way too complex
8 to answer in this proceeding, and let me tell you why.

9 Initially if you bought that capacity in period 1,
10 let's call it, or day 1, as you've termed it, you should
11 have an optimal level of capacity to plan for your volume
12 growth, let's say for that day 1.

13 Am I characterizing the way that you've set up the
14 question accurately?

15 Q Well, unless you just need to have a certain
16 amount of capacity in order to get the product there, and
17 you're going to have to have more capacity than you really
18 expect to be able to use.

19 A If that capacity is optimally planned, there may
20 be excess capacity in the network to handle unforeseen
21 fluctuations in demand, so when you characterize it as
22 "excess" capacity, there may be an optimal level of excess
23 capacity in the system already planned. So let's say for
24 example that you have an optimal amount of capacity planned
25 in the network, and on day 2 you start introducing this new

2762

1 product which needs that type of service as well, you would
2 actually have to go out and increase capacity in that type
3 of situation.

4 Q Well, now you're trying to change my hypothetical.
5 Can we just stick with my hypothetical, where you don't
6 increase the capacity, you simply use the capacity, the
7 existing capacity, and you now have a new product, so you
8 have this capacity that's one cost that was wholly allocated
9 to Express Mail? Now you've got two products that are using
10 the same service without increasing the cost. How do you
11 allocate it, if at all, between the two products?

12 A I would not want to opine on that today, because I
13 don't know enough about the way that capacity was planned.
14 There's a lot of different decisions that would need to go
15 into my decision making on it. But again I will go back to
16 something I said before. If you use the concept of cost
17 causality, what costs are being caused by a particular
18 product or service, then you're not going to stray too far
19 from the right answer.

20 Q Yes. I guess what I'm having trouble with is I'm
21 trying to understand how your concept of cost causality
22 works in this specific situation, and if you're telling me
23 you can't really tell me right now, that's fine. But --

24 A Because the hypothetical is actually quite complex
25 when you start thinking about planned additions to capacity

2763

1 and things like that to meet -- previously planned volume
2 and the new volume and things like that. It's a little more
3 difficult.

4 Q Let's shift the hypothetical over to PostOffice
5 Online. You have PostOffice Online.

6 A Thank you.

7 Q But I'm going to change this to a hypothetical.
8 And PostOffice Online starts out with Shipping Online and
9 nothing else. And it goes perking along for a couple of
10 years of Shipping Online and 100 percent, I assume under
11 your analysis, 100 percent of the advertising costs of
12 PostOffice Online in that scenario would be allocable to
13 Shipping Online.

14 A I don't believe Shipping Online is a product. I
15 think it would be the products that are sold under
16 PostOffice Online or under the name Shipping Online. I
17 think it includes Express Mail, Priority Mail, and maybe
18 others which I'm not familiar with now.

19 Q All right. Well, let me simplify the example even
20 further. Let's assume that Shipping Online is a product,
21 just to make life simple for us here, and that it has a
22 specific charge, whether you want to call it a rate or a
23 fee. Then the advertising expenses associated with
24 PostOffice Online in that scenario would be allocable under
25 your analysis to Shipping Online, would it not?

1 A If it is not shared by other products and
2 services --

3 Q Right.

4 A Which the Postal Service offers, then it should be
5 allocable to that -- to Shipping Online. It may be
6 allocable to Shipping Online as a whole and not the
7 individual products and services --

8 Q Right.

9 A Underneath Shipping Online.

10 Q Okay.

11 A If you remember what we were talking about before.

12 Q Let's assume that that's the way it works, and
13 then after a couple of years of perking along like that, we
14 add Mailing Online. And as I understand your testimony, at
15 that point -- well, let me not ask -- let me not tell you
16 how I understand your testimony. At that point, what
17 happens to the advertising costs? Assuming that it's the
18 same budget. They're not going to expand it and start doing
19 specific advertising for Mailing Online.

20 A This is an excellent example of what I was trying
21 to talk about before, is that because the Postal Service is
22 trying to advertise the channel of PostOffice Online in this
23 situation, when you add into the mix, into the PostOffice
24 Online, Mailing Online, and it doesn't cause you to change
25 your costs or change the way that you do advertising, the

2765

1 introduction of Mailing Online into that channel does not
2 cause any new additional costs, and therefore Mailing Online
3 should not bear directly or specifically any costs
4 associated with that advertising.

5 Q What happens to Shipping Online? Does Shipping
6 Online still eat all of the advertising costs?

7 A Now -- at this type of situation, now you've got
8 multiple products within that, but you had that before as
9 well when I was talking about the various products sold
10 under Shipping Online.

11 Q But we simplified the hypothetical so that
12 Shipping Online was itself a product and it was taking all
13 of the burden of the advertising costs. And you're saying
14 that when you add Mailing Online and you don't increase
15 advertising as a result, that Mailing Online doesn't have
16 any of the advertising expense allocated to it. And I take
17 it also that Shipping Online would all of a sudden not have
18 any of the advertising expense.

19 A Let me be very clear what you'd want to do in a
20 situation where you've got -- where you're adding products
21 to a group such as what you're talking about. What you want
22 to do is you want to make sure that in your incremental-cost
23 test for that particular group of products, which now
24 comprises in your hypothetical Shipping Online and Mailing
25 Online underneath that, you want to make sure that the

1 incremental-cost test includes those costs in its basis,
2 make sure that the revenues associated with those group of
3 products, Shipping Online in your hypothetical and Mailing
4 Online in your hypothetical, cover all of the costs
5 including these group incremental costs associated with
6 that.

7 Q Let me ask you to take a look at page 23 of your
8 testimony.

9 A Let me finish my thought.

10 Q I'm sorry, I didn't mean to --

11 A I'm sorry --

12 Q Didn't know you weren't through.

13 A That you would not want to allocate those costs to
14 any one particular item within that, because they're not
15 caused by that particular product.

16 Q All right. Now, take a look at page 23 of your
17 testimony, if you will, and specifically lines 8 through 12.

18 A I have that section here.

19 Q Okay. And I think this is the section where you
20 refer to this concept of insuring that revenues for the
21 whole group of POL products or sold through the channel
22 anyway cover all costs including the advertising costs. And
23 actually let's just read that specifically into the record.
24 It says: The Postal Service should ensure that the
25 revenues, including postage, for the group of products sold

2767

1 through the policy channel cover all costs including POL
2 advertising costs, but the revenues of any particular
3 product sold through the POL channel should not necessarily
4 have to cover any arbitrarily allocated POL advertising
5 costs.

6 And I guess my first question to you is, what is
7 the source of this requirement that you're referring to here
8 that the Postal Service should ensure that revenues for the
9 group of products cover all costs?

10 A The source of that is multifaceted. It is mostly
11 expounded in Dr. John Panzar's testimony in front of the
12 Postal Rate Commission in R97-1, but he expounded the
13 general principles of an incremental cost test and what the
14 proper pricing base should be for economically efficient
15 pricing.

16 Q Okay. And so the mechanism for ensuring that the
17 costs cover -- I'm sorry, the revenues cover the costs in
18 the way that you're referring to in lines 8 through 12 is
19 what? Through the markup?

20 A It's through the incremental-cost test, and what
21 that means is that in this particular example, you would
22 take the total revenues associated with the group of
23 products that are sold through the POL channel and compare
24 that to the total incremental costs, not volume variable,
25 but incremental costs, associated with that group as a

1 whole.

2 Q Okay. And have you --

3 A It's through the incremental-cost test that you
4 would ensure that. And the important reason why you want to
5 do that incremental-cost test is to ensure that none -- no
6 other postal products are cross-subsidizing these particular
7 products. The incremental-cost test is a cross-subsidy
8 test.

9 Q And if you're doing this particular analysis -- to
10 go back to Mr. Wiggins' question of where does the money
11 come from -- the money that will ensure that this
12 requirement is met comes from a combination of attributable
13 costs and whatever the overhead burden is that's allocated
14 to the specific products in this group of products.

15 Is that right?

16 A Again, you're getting into semantics associated
17 with attributable and what is attributable and what is not
18 attributable. I can tell you what those costs should be.
19 They should be all the volume-variable costs associated with
20 the particular products as well as the product-specific
21 costs associated with the group of products. And that may
22 not necessarily be equal to the sum of product-specific
23 costs associated with each individual product.

24 Q I see. So this particular equation doesn't
25 include institutional or overhead costs at all. You're

2769

1 trying to just get to the cost base, which is then marked up
2 through the Panzar analysis that you're referring to?

3 A No, not at all. The --

4 Q Well, then I misunderstood your last answer.
5 Maybe you could tell it to me again.

6 A I want to set aside for a moment the issue of what
7 is marked up for pricing purposes, what constitutes
8 attributable cost, because there is debate amongst the
9 Postal Service and the Commission on that.

10 What I'm saying is very specific here, for the
11 incremental-cost test, you want to include all the
12 incremental costs associated with a group of products. That
13 may include volume-variable costs and product-specific costs
14 associated with the group of products.

15 Q All right. And I take it that it is accurate to
16 say that you haven't done that incremental-cost analysis in
17 your testimony here.

18 A That is correct.

2772

1 determine whether or not any particular product under that
2 overall channel were causing any of the particular
3 expenditures that were being made. So I would have to look
4 at that issue. So, I guess, in answer to your question, I
5 am not sure if it would change my analysis. What I am sure
6 is that I would have to go look back at the causality
7 arguments that I have presented before.

8 Q Okay. Now, you also spent a lot of time in your
9 testimony talking about the reasons for advertising
10 campaigns, and, in response to some questions from Mr.
11 Costich, you said that there really could be some reasons,
12 and there are apparently reasons for the Price Waterhouse
13 Coopers' brand name advertising that are independent of
14 generating business, and you referred specifically to
15 attracting employees.

16 A That could be one issue. What I am trying to get
17 at there is that there could be brand awareness and various
18 other things that I talk about in my testimony and before.

19 Q Well, you would agree, though, that brand
20 awareness in and of itself has -- it may not be as specific
21 as other types of targeted advertising, but its ultimate
22 objective is to increase sales, isn't it?

23 A Right. But I would have a very difficult time,
24 and analyst who could purport to do this, I would view as
25 suspect, of trying to make a causal link between advertising

2773

1 -- sorry, volume growth in any one particular product and
2 that advertising, if it is truly brand awareness
3 advertising, in a multi-product firm.

4 Q So your problem in allocating in that situation is
5 that you don't see any analytical way to tie the advertising
6 expense to any particular volume with all the different
7 products that might or might not increase volume as a result
8 of the campaign?

9 A What I would say is, is there a causal way to do
10 that?

11 Q Right.

12 A And certainly, in no circumstances, would I think
13 of it as the equivalent of volume variable cost or marginal
14 cost.

15 Q Okay. Let me go back to your testimony about one
16 purpose might be to a non-sales based purpose to -- would be
17 to hire or to attract employees. You don't have any reason
18 to believe that the ad campaign for Mailing Online is to
19 attract employees, do you?

20 A I have no reason to believe that. That's correct.

21 MR. BUSH: I have nothing further, Mr. Presiding
22 Officer.

23 COMMISSIONER LeBLANC: Is there any follow-up? I
24 believe we have a few questions from the bench. We started
25 on my right last time, we will move down to my left.

1 Commissioner Omas.

2 COMMISSIONER OMAS: I just have one question. You
3 know, you keep talking, and I know this has probably been
4 asked before, but if the PostOffice Online advertising costs
5 are reduced because Mailing Online has operational problems,
6 are not those cost reductions product-specific to MOL?
7 Like, you know, because of volume problems, they are not
8 doing L.A. and New York.

9 THE WITNESS: They may be associated with Mailing
10 Online, but I don't really have a good feeling for how they
11 should be allocated to Mailing Online.

12 COMMISSIONER OMAS: Well, wouldn't that be causal?
13 I mean that --

14 THE WITNESS: Well, I think, in general, what I am
15 trying to say is that, yes, it may be true that the
16 advertising costs associated with POL are caused by the
17 group of products which compromise -- sorry, which are sold
18 through the POL channel. As I said before, that includes
19 Mailing Online products of Standard A and First Class Mail,
20 and as well as, I think we talked about it before, the
21 Shipping Online products such as Express Mail and Priority
22 Mail and Delivery Confirmation. But it may not -- they are
23 not caused by any one particular product within that overall
24 channel. So, therefore, there is no good basis for
25 allocating those costs to any one particular product or

1 service.

2 COMMISSIONER OMAS: But you are not -- you have
3 pulled back your advertising because of volumes. Wouldn't
4 that necessarily be attributable to MOL? You keep talking
5 about causality. Isn't it the volume has caused your
6 advertising budget to be drawn back? So wouldn't that be --

7 THE WITNESS: It is a good question, which I
8 really haven't thought of, of a case where a product would
9 cause a reduction in the amount of advertising cost. I
10 think this is a particular problem that may or may not be
11 associated with MOL specifically. The hypothetical -- it
12 might be generally a problem with POL, I don't know exactly
13 how that -- what that problem was or what related that to
14 it. But it may not have been a specific MOL problem, it
15 might have been a problem of the entire POL system, I just
16 don't know.

17 COMMISSIONER OMAS: Thank you.

18 COMMISSIONER LeBLANC: Commissioner Covington, do
19 you have any questions?

20 COMMISSIONER COVINGTON: Yes, Mr. Presiding
21 Officer, I do.

22 Mr. Takis, I was noticing on page 24 of your
23 rebuttal testimony, you basically offered some thoughts and
24 views as it related to Witness Prescott's statement about
25 vertical integration and, I guess, overall, the supposed

1 THE WITNESS: And particularly those within this
2 small office, home office market.

3 COMMISSIONER COVINGTON: Thank you, Mr. Takis.

4 COMMISSIONER LeBLANC: Commissioner Goldway.

5 COMMISSIONER GOLDWAY: Yes. Thank you. I
6 actually think your description of the PostOffice Online as
7 another form of window at the Post Office is interesting and
8 intriguing. I wish the Postal Service had presented that
9 concept earlier on, because it does change to some degree
10 one's thinking about the costs associated with the entire
11 program.

12 But I still think that we struggle with what
13 portions of certain costs are, in fact, caused by different
14 products. And you agree that at least some of these costs
15 should be directly allocated to those products, if you can
16 prove that they are caused by them. Is that your --

17 THE WITNESS: Absolutely. If you can prove
18 causality, then they should be allocated.

19 COMMISSIONER GOLDWAY: Okay. And here we are
20 talking about advertising, and I was shown -- I think the
21 Chairman, Commissioner LeBlanc has this material here which,
22 I don't know if you saw, but it is a public relations
23 packet, and it has a separate sheet for each product, one of
24 which is for Mailing Online.

25 So in my simple mind, it would seem to me that at

2779

1 the very least, the cost for printing this sheet, as opposed
2 to all of the other sheets, since I don't know how many
3 thousands and thousands of copies, would have to be
4 something you would say, in terms of advertising, is
5 specifically related to Mailing Online.

6 I mean you couldn't say that, well, just because
7 they are going to have PostOffice Online advertising all
8 together, that this cost for printing this piece doesn't
9 directly belong to the Mailing Online cost.

10 THE WITNESS: I think I understand where you are
11 going, but I think I was speaking with Mr. Costich before
12 about this, but I am not sure exactly who I was speaking to
13 about it. What I am trying to get at there is that, yes,
14 there may be specific parts of an advertisement, like a
15 print ad or the brochure that you are talking about there,
16 which may refer to Mailing Online, and I think -- I did not
17 see specific advertisement which you are holding, but I have
18 seen other ones like it, or, really, the prints ads and the
19 direct mailing ads.

20 And, certainly, within those advertisements,
21 there's parts of it that talk about the Mailing Online
22 service in particular, as there is also sections that talk
23 about selling more Express Mail and Priority Mail through
24 Shipping Online. But what I am trying to get at is that,
25 really, the only way to allocate those costs is through some

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2780

1 arbitrary mechanism like the number of pages or the number
2 of words, or the actual space associated with it.

3 There is no real good mechanism for doing that.
4 And the reason why there is no good mechanism for doing that
5 is because there is no real causality when you are looking
6 at the overall ad campaign as a whole for PostOffice Online.

7 So what I was trying to get at in my previous
8 discussion was, when you are looking at these shared costs
9 which are shared across a group of different services,
10 unless you can develop a real good causal link, you
11 shouldn't allocate those costs directly to any one
12 particular product.

13 COMMISSIONER GOLDWAY: But you don't think that if
14 you had a mailing -- a publication kit that you were
15 presenting, and if you took away Mailing Online, you would,
16 in fact, have a smaller expenditure because you weren't
17 printing as many? Wouldn't the cost of that printing be
18 directly related to Mailing Online?

19 THE WITNESS: I agree with you 100 percent, if
20 that were to be the case. But as I have said before, the
21 Postal Service has said that it wouldn't change the way that
22 it presents its advertising, other than changing around the
23 words or taking out a piece of paper, as you are talking
24 about there. It wouldn't change the overall nature of the
25 advertising expenditure.

2781

1 COMMISSIONER GOLDWAY: Well, I mean I don't know
2 quite how fine to tune the costs here, but it seems to me
3 that that is a clear cost. The other area where I think --
4 I have some questions, I know Commissioner Omas had
5 questions that related to Witness Garvey. But there is this
6 notion that Mailing Online is a part of the PostOffice
7 Online that is being phased in across the country.

8 And a network for printers is being built that's
9 separate from the window service of PostOffice Online, which
10 is a channel --

11 THE WITNESS: Right.

12 COMMISSIONER GOLDWAY: Through the Internet. But
13 there are actual real printers in different parts of the
14 country that are going to have to be hooked up. And the
15 advertising campaign as I understand it is a regional
16 campaign which builds on this notion of real printers in
17 real places being hooked up at different times, so I would
18 think that the costs to the extent you can distinguish them
19 between a regional campaign in these regional markets and
20 the timing of that versus some sort of generalized
21 nationwide campaign, that those costs that are directly
22 attributable to the regional qualifications and
23 characteristics of Mailing Online have to be part of Mailing
24 Online's costs.

25 THE WITNESS: I think I understand where you're

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1 coming from, and I don't know the way the Postal Service is
2 rolling this out across regions. But I would be a little
3 bit concerned about that type of approach, in that the
4 advertising that may be going out to those regions is not
5 simply or may not simply be advertising Mailing Online, it
6 may also be advertising the various other products
7 associated with PostOffice Online. And again --

8 COMMISSIONER GOLDWAY: That's true.

9 THE WITNESS: And again acting as an overall
10 channel for it. So the timing of it may coincide with the
11 rolling out of Mailing Online to those particular regions,
12 but the nature of the advertising may not be different. And
13 I don't know the nature of that advertising, how it's going
14 to be rolled out across the country. But I would just
15 caution, if it is that way, I would caution the Commission
16 to think about it in those terms.

17 COMMISSIONER GOLDWAY: Okay. I don't have any
18 more questions at the moment. Thank you.

19 THE WITNESS: Thank you.

16 COMMISSIONER LeBLANC: Let me change gears
17 slightly on you and pick up on what Commissioner Goldway was
18 talking about in this brochure that was picked up at one of
19 the trade shows here. There are one, two, three different
20 sheets in here. One deals, headline, Mailing Online, Q&A,
21 PostOffice Online, one click and it sorts all the other
22 clicks. Shipping Online, Post ECS 30-day trial. Basically
23 four, because one on both sides.

24 Now if you take the Mailing Online sheet out, am I
25 to understand you to say then that this is not specifically

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1 part of this package? Is that what you're saying?

2 THE WITNESS: I don't quite understand your
3 question. I think it is part of that package, or it is if
4 it's in there.

5 COMMISSIONER LeBLANC: So if this package contains
6 one page then that is devoted strictly to Mailing Online,
7 are not the costs of that page product-specific to Mailing
8 Online?

9 THE WITNESS: Not necessarily, again, because if
10 that page were not there, the question is, would the Postal
11 Service have changed its advertising expenses? Would it
12 have included another page in there to advertise the
13 PostOffice Online in general? I don't know the answer to
14 that particular question.

15 If, Commissioner LeBlanc, if it were the case that
16 if that page were not there, and the Postal Service were to
17 decrease its advertising expenditures as a result, then I
18 would think of that cost as product-specific to that
19 particular product. But in this particular instance when
20 we're looking at the entire campaign of PostOffice Online, I
21 have to -- again I have to rely on what I've been told and
22 my general interpretation of having looked at the print
23 advertising and the analogy to a kind of a window or a
24 conduit to get to people.

25 What the Postal Service is telling me is that they

2786

1 would not change their advertising expenditures in that
2 situation, and therefore they wouldn't be associated with --
3 sorry, they should not be allocated to any one particular
4 product.

5 COMMISSIONER LeBLANC: But now we're talking two
6 different -- well, possibly two different issues here.
7 You've got general advertising costs and you've got a
8 cost-specific or specific costs. Now you seem to be lumping
9 the two together, right? Is that -- that's in essence what
10 you're doing. I mean, as I appreciate what you just said.
11 Now correct me if I'm wrong.

12 THE WITNESS: Well, I think the Postal Service
13 thinks of this advertising as POL advertising, so it
14 includes all the various medium that we're talking about
15 here.

16 COMMISSIONER LeBLANC: So, correct me if I'm
17 wrong, then you are saying that even though this sheet is in
18 the package because of Mailing Online, and you're also
19 saying that this cost could be avoided if Mailing Online was
20 eliminated -- in effect that's what you're saying -- should
21 not the cost to that production of one page be considered
22 product-specific?

23 THE WITNESS: I agree, if that cost could be
24 avoided if Mailing Online were not to be offered, then
25 absolutely I agree with you 100 percent that those costs

2787

1 should be allocated to Mailing Online. However, I don't
2 know. I don't know that's the case. And in general in
3 these print ads that we're talking about here, I don't know
4 that those costs would be avoided.

5 You also indicated -- I haven't had a chance to
6 look at that package --

7 COMMISSIONER LeBLANC: I'd be more than happy to
8 let you look at it. That would --

9 THE WITNESS: If you wouldn't mind, I'd like to
10 for a moment.

11 The other thing about this package is it also --
12 it's talking about Post ECS, which I don't know if that's
13 offered under PostOffice Online. Perhaps Witness Garvey
14 tomorrow would be able to tell you on that. But I guess --
15 it's hard for me to kind of take a look at a package and
16 tell you what's motivating that package or what's causing
17 the costs associated with that package.

18 For example, if, you know, if you were to take out
19 that one sheet that talks about Mailing Online, would it be
20 replaced with general advertising about the PostOffice
21 Online channel? I don't know. I can only go with what the
22 Postal Service has told me and purported in front of the
23 Commission.

1 anachronistic. It bears repeating that the Postal Service proposed Automation Basic
2 rates as a proxy that simplifies a filing that already breaks new ground. While rates
3 have nonetheless received considerable attention in this case, the goals of the
4 experiment would not be advanced by adoption of witness Callow's proposed rate
5 setting mechanism. The Postal Service does expect to consider the unique merits of his
6 approach during the experiment if plans for filing a request for permanent Mailing
7 Online service mature.

8 There is an additional, more pragmatic, reason for rejecting witness Callow's
9 proposal. The Postal Service recently announced a moratorium on information system
10 development activity in order to insure readiness for Y2k. The Moratorium is currently
11 in effect and is proposed to remain in effect through March of 2000 (see exhibit USPS-
12 RT-1A). As it stands now, implementation of system expansion for experimental
13 Mailing Online, dubbed version 3.0, is scheduled for a slightly delayed installation in
14 September. Accordingly, Postal management is exploring means of reconciling the Y2k
15 moratorium with the need to implement experimental Mailing Online service. While I
16 have not studied how long it would take to implement changes of the kind that witness
17 Callow proposes, his assertion that they require a mere few minutes of coding time
18 (based on an interpretation of my response to OCA/USPS-T1-72) is mistaken. Making
19 even modest changes to a production system requires a non-trivial effort. Incorporation
20 of a system using thousands of lookup tables into the Mailing Online system is simply
21 not feasible given our current timetable, and would likely result in a delay of the service
22 until some time later than March, 2000.

19 Q Good morning. Can I ask you to turn to page 5 of
20 your testimony, your rebuttal testimony, that is?

21 A I have it.

22 Q I would like to direct your attention to lines 5
23 and 6 where you say that our experience thus far bears out
24 the expectation that Witness Rothschild's volume projections
25 provide the most accurate projections of volume for the

1 experiment. Do you see that language?

2 A Yes, I do.

3 Q Are there any other volume projections?

4 A Certainly there are other volume projections that
5 people may have made on their own. They are ones that you
6 could extrapolate from current market test volumes. There
7 are lots of volume projections depending upon who you ask.

8 Q Well, when you say it is the most accurate -- or
9 they are the most accurate projections, that, in the way I
10 understand English, means you are comparing them to some
11 other projections. What other projections were you
12 comparing them to?

13 A I think in this instance, since the title of this
14 section is Market Test Volume, that the implication here is
15 that were you to take market test volumes and try and draw
16 conclusions about volumes for the experiment, you would be
17 more accurate to use the projections of Witness Rothschild.

18 Q But if I understand the sentence, you are saying
19 that your experience bears out Rothschild's projections as
20 the most accurate projections, and the experience, the only
21 experience you have so far is the market test volume, isn't
22 it?

23 A That is correct.

24 Q And the market test volume, if I am reading the
25 biweekly reports correctly, is about 40,000 pieces so far,

1 roughly?

2 A Roughly, yes.

3 Q And the projections that Rothschild made, and
4 which were adopted by Witness Plunkett, are on the order of
5 295 million for the first year, isn't that right?

6 A Subject to check, yes.

7 Q So can you explain to me why that experience, the
8 experience of 40,000 dollars -- excuse me, 40,000 in volume
9 so far during the market test bears out a projection of 295
10 million?

11 A Well, our experience thus far with the market test
12 has shown that, because of problems with the system and
13 because people are unfamiliar with the service, and a lot of
14 the volume that we are getting is no more than test volume,
15 that -- well, simply put, our experience shows that what we
16 are seeing so far is not representative of what we believe
17 the real service will reflect.

18 Q Okay. But the experience doesn't tell you
19 anything one way or another about whether the projections
20 are accurate then, does it?

21 A Our experience is a combination of both what we
22 see in the statistics, in addition to our conversations with
23 users, our learnings from the Help Desk, what people are
24 telling us about what they are doing and what they are
25 experiencing with the service, so it is more than just a

1 statistical analysis.

2 Q Okay. What about what people are telling you
3 bears out Rothschild's projections?

4 A What people told us in Witness Rothschild's
5 projections in the market studies that we did there was that
6 they would have a certain utility for the service at a
7 certain volume. What they are telling us in the market
8 test, our experience there, is that they are telling us the
9 same things, that they would like to use the service, that
10 they think it is a novel and compelling idea, but that, due
11 to system problems, they are unable to use it either
12 satisfactorily or they just haven't figured out how they are
13 going to integrate it into their business flow yet.

14 Q Have you done anything to evaluate the comments
15 that you have been getting during the market test in a
16 systematic way?

17 A We are currently involved in doing that, yes.

18 Q But you haven't done it yet?

19 A Not in a -- you used the word "systematic."

20 Q Well, let me you what I mean by that. You would
21 agree with me that Witness Rothschild at least attempted to
22 collect information along -- of the same nature, that is,
23 comments from potential users in a manner that she felt were
24 reliable for purposes of factoring it into her projections?
25 If you don't agree with it, tell me.

2838

1 A No, it is not that I don't agree. It is -- there
2 are two phases to Witness Rothschild's research. The first
3 one was a qualitative phase in which we listened extensively
4 to what the prospective customers were saying, and the
5 second one was, of course, the quantitative. And, yes, I
6 would certainly say that the latter part of that had the
7 characteristics of which you speak.

8 In analyzing what we are seeing today, what I have
9 asked be done is that a categorization be made of customer
10 comments so that we can more quantitatively, rather than
11 qualitatively, evaluate the comments that we are currently
12 getting both at the Help Desk and by e-mail messages, that
13 sort of thing.

14 Q So would it be fair to characterize what you have
15 been testifying here that the comments that you have been
16 getting through the Help Desk and otherwise bear out the
17 proposition that Mailing Online, at least as it is supposed
18 to be, would be an attractive product, or an attractive
19 service?

20 A That is correct.

21 Q Okay. But you haven't done anything in collecting
22 those comments to determine whether they support any
23 particular volume level or projection, have you?

24 A That is correct.

25 Q So other than this qualitative experience that you

1 have and the actual volumes that you have gotten in the
2 market test to date, what other experience do you have that
3 bears on the reliability of Rothschild's volume projections?

4 A The knowledge that what Witness Rothschild asked
5 in here quantitative research reflected the true
6 capabilities that we believe the system will achieve and
7 reflected thusly in the answers that were given by people
8 that were asked those questions, their belief of what the
9 true usage of the system with those capabilities would be.

10 Q Now you say that the capabilities that the system
11 will achieve. You are -- I take it from that you mean what
12 you hope it will achieve once the new version of the
13 software is put in place in September or whenever it is put
14 in place?

15 A That would be a fair assumption, yes.

16 Q So the system right now isn't operating
17 consistently with what Witness Rothschild told people when
18 she was soliciting comments during her market research
19 study?

20 A That is true.

6 Q Now if I correctly understood a message I received
7 yesterday I believe from Mr. Rubin, although it may have
8 been from Mr. Reiter -- I have actually forgotten at this
9 point -- the additional -- there have been additional
10 advertising expenses over and above those reflected on the
11 AP 6 report, at least the last AP 6 report we got, to the
12 tune of approximately 2.3 million additional advertising
13 dollars.

14 Is that -- is my understanding correct?

15 A That there is an unreported \$2.3 million? Yes.

16 Q Okay, and that is in addition to the two, roughly
17 2.1 million, a little less than 2.1 million that was
18 reflected in the AP 6 report?

19 A That is correct.

20 Q So we are up to about \$4.4 million in total
21 advertising and marketing expenditures to date?

22 A Yes.

7 Q Mr. Garvey, I want to ask you what things were
8 tracked in evaluating the effectiveness of the advertising
9 and marketing campaign. One is you did track customer
10 registration. I think you've already told me that.

11 A The number of registered customers? Yes.

12 Q Yes. And you also tracked the usage of services
13 by the customers who were registered?

14 A Yes, and that's been reported in the reports that
15 we filed.

16 Q All right. And you've tracked -- we have the
17 volumes and the revenues of First Class and Standard A
18 mailings which came through MOL; correct?

19 A Correct.

20 Q And you also -- although I don't know that we have
21 this, maybe we do and I'm unaware of it, but you have
22 tracked the volume and the revenue from Priority Mail and
23 Express Mail that came through POL.

24 A Yes.

25 Q Okay. And you've done some kind of -- I don't

1 know how you do this, but you've tracked the impact of the
2 various types of media that you used on, I guess, all of
3 these different factors that we just went over.

4 A That is correct.

5 Q Okay. And have you reached any conclusions as a
6 result of tracking that data about which media are the most
7 effective?

8 A Yes, we have.

9 Q Could you tell us what the conclusions are?

10 A I'm glad that you asked. Yes, I'll be glad to
11 tell you.

12 Q I can tell you were eager for me to ask that
13 question, which means I probably shouldn't have asked it,
14 but I did anyway.

15 A I was. No, it's my pleasure to say that direct
16 mail was actually the most effective method of contacting
17 and getting the customers to come the site. The direct mail
18 drop that we did in January and February is what filled up
19 our rolls.

20 Q Okay. And what about other media? Were the other
21 media totally ineffective, or was there a range of
22 effectiveness of the other media that you used?

23 A I guess that would be a subjective measure of
24 effectiveness, but in terms of cost-effectiveness, the other
25 methods were not nearly as cost-effective as direct mail Web

1 banners, which are the two methods that we intend to go
2 forward with, by the way, during the experiment and beyond.

3 Q Okay. So you've already made that decision in
4 terms of what marketing and advertising media you'll use
5 going forward.

6 A At this advanced stage of decision making, yes,
7 that would be the sensible choice to make, we think.

8 Q And just out of curiosity, where do you get your
9 mailing list for the direct mail campaign?

10 A I believe that we've filed that information
11 already in previous responses.

12 Q Well, can you just tell me quickly where it is?
13 What's the source of the mailing list?

14 A There were two sources of lists. One was an
15 internal list that we maintain having to do with existing
16 postal customers, and the other was rented lists.

17 Q Okay. And I take it that the cost of the rented
18 list is part of the advertising and marketing costs that
19 have been reported.

20 A Yes, it is.

21 Q All right. Let me move on briefly to another
22 subject, which is the printer contract. As I read these
23 reports, you've spent -- I'm not sure that I brought the
24 right report with me, so I can't look at it or show it to
25 you, but you've spent about 7,000, a little over \$7,000 on

2858

1 printer costs to date? Does that -- is that consistent with
2 your memory?

3 A Subject to check, yes. I don't know the exact
4 number either.

5 Q And the contract that you've entered into with the
6 printer has a minimum of \$325,000. That's how much the
7 Postal Service pays no matter what, isn't that right?

8 A That is correct; yes.

9 Q Okay. And is it also correct that the contract
10 term is up sometime in the August area, the end of August?

11 A The term was 13 months, so, yes, I think it's
12 August or September.

6 Q All right. Let's just leave it at that.

7 All right, let me ask you to look at page 7 of
8 your testimony. Now in the full paragraph on this page,
9 you're among other things discussing your concept of the
10 market for Mailing Online; is that right?

11 A That is correct.

12 Q Okay. And you say that it consists of small
13 business owners, many of whom either no longer use or never
14 have used traditional mail preparation services.

15 A That is what I say; yes.

16 Q All right. Now you don't know actually -- you
17 haven't done anything in the market test to determine how
18 many of the market-test users have never used traditional
19 mail preparation services; right?

20 A Have I personally done anything?

21 Q Has the Postal Service done anything? Have they
22 collected data from the current users during the market test
23 of Mailing Online to determine whether they had historically
24 used traditional mail preparation services?

25 A Not that I know of.

1 Q All right. So your statement here is really
2 simply your estimate that this is the way it's going to
3 happen; right?

4 A Well, yes, of course it's my testimony, and I
5 indicate in here that it's my view, but my view comes from
6 both a wealth of personal experience in dealing with these
7 folks and from discussing with people who have called me on
8 the phone or who I've talked to at trade shows who are
9 involved in this same kind of business.

10 Q And you've talked to among other people Mr.
11 Campanelli and Ms. Wilcox.

12 A That's true, among others.

13 Q Okay. You I take it however don't dispute the
14 testimony of Witness Schuh and Witness Jurgena that a
15 substantial portion of the business done by their letter
16 shops is comprised of people who are doing mailings at less
17 than 5,000 pieces.

18 A I can't contest their testimony; no.

19 Q And you would also agree that those people are --
20 or those customers of Mr. Jurgena and Mr. Schuh are at least
21 within the universe of potential customers for Mailing
22 Online as you've defined that potential customer universe.

23 A If you use volume as the only measure of
24 qualification; yes.

25 Q Now it's certainly one measure of qualification as

1 you've defined it, isn't it?

2 A That is true.

3 Q Mr. Garvey, you gave some testimony a little
4 earlier about the use in your direct mail campaign of an
5 internal Postal Service list and I want to ask you what the
6 source is for the names that are on that list.

7 A I don't know precisely what the source is. It is
8 referred, I think internally the list is referred to as the
9 DDD list.

10 Q I'm sorry, the what?

11 A The DDD --

12 Q DDD -- three Ds?

13 A Yes.

14 Q Do you know what that stands for?

15 A I'm sorry, I do not, but it is customers, as I
16 understand it, that have requested supplies for using with
17 mailing labels or envelopes or Express Mail supplies, things
18 like that, as well as customers who have requested other
19 things from the Postal Service in the way of marketing
20 materials.

21 I don't know precisely that, but that is the limit
22 of my understanding.

23 Q Do you know what the size of that list is?

24 A I'm sorry, I do not.

25 Q But if I understand what you are saying, it is a

2873

1 list that is essentially generated as a result of customer
2 inquiries or requests of some sort or another?

3 A That is my understanding of it, yes.

4 Q And the customer that we are talking about here is
5 the actual ultimate mailer?

6 A Who we would like to be a mailer, yes.

7 Q Who you would like to be a mailer.

8 A Yes.

17 Q OCA transmitted to your attorney a cross
18 examination exhibit. There are actually two different
19 versions of this exhibit. Are you aware of that, Mr.
20 Garvey?

21 A Yes, I am.

22 MS. DREIFUSS: Why don't I identify the exhibit
23 before I begin to ask questions about it. OCA has labelled
24 this OCA-RT-1-XE1, and it is titled, "OCA Cross Examination
25 Exhibit for Witness Garvey -- Estimation of PostOffice

1 Online Nationwide Advertising Budget for Two Year
2 Experimental Period."

3 BY MS. DREIFUSS:

4 Q You just stated a moment ago you have seen both
5 version of that?

6 A Yes I have.

7 MS. DREIFUSS: For the convenience of anybody
8 listening, I have placed copies of our cross examination
9 exhibit on the wooden table there in the corner and I have
10 also distributed copies to all the Commissioners prior to
11 the commencement of the hearing.

12 It would probably be useful to identify this
13 exhibit and place it in the transcript at this time for the
14 convenience of readers of the transcript.

15 Would that be acceptable, Mr. Presiding Officer?

16 COMMISSIONER LeBLANC: Any objection, Mr. Hollies?

17 MR. HOLLIES: I take it the request is to
18 transcribe a copy of a cross examination exhibit into the
19 transcript but not to admit it into evidence, is that
20 correct?

21 COMMISSIONER LeBLANC: That is my understanding.
22 Is that right, Ms. Dreifuss?

23 MS. DREIFUSS: At the present time that is all I
24 am asking is just for the moment, just to transcribe it.

25 MR. HOLLIES: I have no objection to

2907

1 transcription.

2 COMMISSIONER LeBLANC: Hearing no objection, so
3 moved.

4 MS. DREIFUSS: With your permission I will hand
5 two copies of it to the Reporter.

6 COMMISSIONER LeBLANC: I was just going to say we
7 need two copies, please, Ms. Dreifuss.

8 [Cross Examination Exhibit
9 OCA-RT-1-XE1 was marked for
10 identification and transcribed into
11 the record.]
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**OCA-RT1-XE1: OCA Cross Examination Exhibit for Witness Garvey
(Estimate of PostOffice Online Nationwide Advertising Budget
for 2-Year Experimental Period)**

Total population of U.S.¹ 270,253,500

<u>5 Marketing Areas involved in Mailing Online Market Test</u>	<u>Population of Statistical Area</u>
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New York (Rand McNally Major Trading Area) ²	26,950,500
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Total New England County Metropolitan Areas ³ (Encompasses 2 marketing areas: Boston and Hartford)	11,364,700
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Philadelphia (Rand McNally Major Trading Area) ⁴	9,203,000
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Tampa-St. Petersburg-Orlando (Rand McNally Major Trading Area) ⁵	6,256,800
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<u>TOTAL POPULATION MARKETING AREAS</u>	<u>53,775,000</u>
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$270,253,500/53,775,000 = 5.03$ (rounds to 5)

Estimate of national advertising budget for PostOffice Online over 2-year experimental period:

$5 \times \$258,824^6$ per week $\times 104$ weeks = \$134,588,480

Advertising budget for one year = \$134,588,480/2 = \$67,294,240

¹ Rand McNally Commercial Atlas & Marketing Guide (1999 ed.) at 40. Based on January 1, 1998, population estimates.

² Id.

³ Id. at 59. (This is an overestimate of the population involved in the market test as it includes Providence, Warwick, and Pawtucket, RI, areas not participating in the market test.)

⁴ Id. at 40.

⁵ Id. at 40. (This is an overestimate of the population involved in the market test as it includes Orlando, FL, an area not participating in the market test).

⁶ The total advertising expenditure for the market test to date for PostOffice Online is \$4.4 million, covering a period of 17 weeks. This yields a weekly average expenditure of \$258,823.53 (rounds to \$258,824).

1 BY MS. DREIFUSS:

2 Q I alluded to the fact that there were two versions
3 of this cross examination exhibit.

4 The first one used a different starting point for
5 the calculation of the weekly advertising expenditures for
6 PostOffice Online. If you look at Footnote 6 of this cross
7 examination exhibit, you will see that the most recent
8 version contains the statement that, "The total advertising
9 expenditure for the market test to date for PostOffice
10 Online is \$4.4 million, covering a period of 17 weeks."

11 Do you see that?

12 A Yes, I do.

13 Q When we first submitted the cross examination
14 exhibit to counsel we weren't using a figure of \$4.4
15 million, we were using a figure of approximately \$2 million,
16 a little over \$2 million. Is that your recollection?

17 A Yes.

18 Q And we stated in the notice attached to the filing
19 of this cross examination exhibit on March 29th that counsel
20 for the Postal Service contacted OCA on March 19th and
21 informed us that the correct figure for advertising and
22 marketing costs for APs 2 through 6 is \$4.4 million, not the
23 little over \$2 million that was initially reported in the
24 accounting period, data reports filed on March 19th --

25 MR. HOLLIES: Objection to the question because it

1 misstates the facts. There was no contact on March 19.
2 There was a contact on March 26.

3 MS. DREIFUSS: I'm sorry. I probably had too many
4 phrases linked together for that to be accurate.

5 BY MS. DREIFUSS:

6 Q The Postal Service filed accounting period data
7 reports -- in fact, revised accounting period data reports
8 on March 19th, 1999, is that correct?

9 A Yes.

10 Q And those accounting period reports at that time
11 reported a little over \$2 million for advertising and
12 marketing costs, is that correct?

13 A Yes.

14 Q Were you aware that counsel for the Postal Service
15 contacted OCA on the afternoon of March 26th and informed us
16 that the correct figure was \$4.4 million, not a little over
17 \$2 million?

18 A I believe that my understanding of the contact was
19 that they disclosed an additional amount in addition to what
20 had already been reported, yes.

21 Q You just used the pronoun "they" -- who is the
22 "they" that disclosed that, that an additional \$2.4
23 million -- oh, I'm sorry, additional \$2.3 million?

24 A Counsel for the Postal Service, as you indicated
25 in your question.

2911

1 Q Do you know, do you have any idea what gave rise
2 to the need to correct the figure initially reported?

3 A Yes, I do, and as I indicated in my remarks to
4 Chairman Gleiman, it was a misunderstanding on the part of
5 the reporter and recorder as to what had been reported as
6 opposed to recorded.

7 I think, quite simply put, the misunderstanding
8 was that there was some thought on the part of the reporter
9 that Library Reference 16 had been put forth in the nature
10 of a report as opposed to a reference document, and
11 consequently there was an under-reporting problem because of
12 that misunderstanding.

13 CHAIRMAN GLEIMAN: Ms. Dreifuss, excuse me. In
14 light of the earlier objection about the facts in evidence,
15 I just want to make clear that apparently in the response
16 that you just received that there is an error in the facts.
17 I think that the witness gave that information to Presiding
18 Officer LeBlanc and not to Chairman Gleiman in response to
19 some exchange earlier on.

20 I don't think I can make an objection from the
21 bench to an answer, so I just wanted to clarify for the
22 record.

23 MS. DREIFUSS: If it were my mistake, I apologize.

24 CHAIRMAN GLEIMAN: No, it was not your mistake. I
25 think it was Witness Garvey and I can understand how he can

1 confuse the two of us.

2 MS. DREIFUSS: I will apologize for him too, then.

3 THE WITNESS: I regret the error.

4 COMMISSIONER LeBLANC: I have been compared with a
5 lot better and a lot worse -- just joking.

6 BY MS. DREIFUSS:

7 Q Who is the reporter of the advertising cost
8 information?

9 A I used the term "reporter" broadly. There are a
10 variety of individuals involved in the reporting of it but
11 it comes out of our Advertising Department.

12 Q Who is the "recorder" of the advertising cost
13 information?

14 A The Price Waterhouse Coopers individuals who are
15 making up the reports.

16 Q Do you know what form the report from the reporter
17 to the recorder took? I think this is almost rhyming, but
18 was it in written form, do you know?

19 A At what point? Well, let me say I do not know. I
20 assume that they used a variety of methods including
21 writing, electronic and telephone, perhaps.

22 Q Are these cost figures being reported to you at
23 roughly the same time they are being reported to the
24 recorder?

25 A Frankly, I get my information from the reports

2913

1 that are given to the Commission. It seems to be a good
2 method of my finding out and, as I mentioned, the ultimate
3 responsibility lies on the Advertising Department to keep
4 track of these things and periodically I will look at them
5 from that perspective but in terms of getting the
6 information for my purposes it makes sense for me to utilize
7 the same tools that the Commission does to look at the
8 information.

9 Q So you are not essentially being copied on these
10 reports, that when the information is sent from the
11 advertising officials to the recorder, you are not being
12 given a copy of that information, is that correct?

13 A Not as a matter of course, no.

14 Q Are you interested in obtaining that information
15 on a regular basis or you don't feel you need it?

16 A Well, I am interested in knowing the information
17 and, as I mentioned, it makes sense to me to see it in the
18 same context as the Commission sees it. For other purposes
19 I would be interested in seeing it presented in other ways,
20 in other contexts.

21 Q When you first -- did you have a chance to look
22 at the little over \$2 million advertising cost figure that
23 was reported in the March 19th set of data reports?

24 Did you ever have a chance to look at that little
25 over \$2 million figure -- let me back up for a minute.

1 You are getting your information on advertising
2 costs primarily from the accounting period data reports, is
3 that correct?

4 A Yes, that's correct.

5 Q Did you make note of that \$2 million figure at
6 around the same time or just after the revised accounting
7 period data reports were provided to the Commission on March
8 19th?

9 A I can't say that I made note of it at that moment
10 in time, but, yes, I was aware of that report.

11 Q Did that figure strike you as an accurate one, or
12 you really just didn't have any sense of what it ought to
13 be?

14 A Well, I know what the ultimate number at the end
15 of the reporting period should be or the neighborhood that
16 it should be, because of our plans on advertising
17 expenditures. Due to the fact that things are reported as
18 incurred expenses or paid expenses or something like that,
19 as we discussed at the technical conference, an interim
20 number may not always be -- it may not always stand out to
21 me as being incorrect or potentially a problem because it is
22 not at the end of the period.

23 Q So you had a pretty good sense that \$4.4 million
24 would be about right for the advertising costs to date, is
25 that correct?

2915

1 A No. What I said was that I would have a sense of,
2 at the end of the market test, what the number, our total
3 number of advertising or the total cost of advertising that
4 we reported should be.

5 Q Did you feel that \$4.4 million would be the
6 correct or approximately the correct final figure for
7 advertising costs?

8 A For the final report of the market test --

9 Q Yes.

10 A -- you mean the total market test costs?

11 Q Yes, for advertising.

12 A I would say it is closer to my expectation than
13 \$2.2.

14 Q Do you know how Postal Service counsel became
15 aware that there was an under-reporting as of AP 6 and then
16 decided it was appropriate to contact me and let me know it
17 was really \$4.4 million? Do you understand what generated
18 that need to make a revision to the advertising cost figure?

19 A Well, yes, I do, as a matter of fact. It came
20 about as a discussion of this issue of incurred or paid or
21 how it was that we were accumulating the costs that we were
22 reporting over a period of time and an evaluation of I guess
23 what many of us viewed at the time as being apples to
24 oranges at that time disclosed that there was a disconnect
25 between the reporter and the recorder which became necessary

1 to remedy.

2 Q Okay. At any rate, the current correct figure
3 cited by OCA in Footnote 6 would be \$4.4 million for the
4 total advertising expenditure for the market test to date
5 for PostOffice Online, is that correct?

6 A That's correct, yes.

7 Q You have seen that footnote that OCA divided the
8 \$4.4 million by the 17 weeks of the market test running from
9 AP 2 through the end of AP 6 -- do you see that?

10 A Yes, I do.

11 Q Does the 17 weeks seem the correct number of weeks
12 for that period of time?

13 A Yes.

14 Q That yielded an average advertising cost per week
15 of \$258,824. That is in the next to the last line of the
16 cross examination exhibit. Do you see that?

17 A Yes. I do.

18 Q Does the math seem correct?

19 A Yes. Subject to check.

20 Q Thank you. OCA multiplied that by a proportional
21 figure that we developed further up in the cross examination
22 exhibit..

23 OCA started with a total U.S. population of
24 270,253,500 -- do you see that?

25 A I do, yes.

1 Q And it came from, according to our cross
2 examination exhibit, it came from the Rand McNally
3 Commercial Atlas & Marketing Guide, 1999 Edition, at page
4 40. Do you see that?

5 A Yes, I do.

6 Q Did you or anybody at the Postal Service check
7 that cite to see if we had reported the population figure
8 correctly?

9 A No, I did not personally.

10 Q Okay, but you are willing to accept it, subject to
11 check?

12 A Yes, give or take a few million.

13 Q Okay. Then further down we have listed the five
14 marketing areas involved in the Mailing Online market test.
15 Do you see that?

16 A Yes, I see that.

17 Q We consider New York one of the five marketing
18 areas. Is New York one of the five marketing areas for
19 Mailing Online?

20 A Yes, it is.

21 Q And just below that, we have combined two
22 marketing areas, Boston and Hartford into the total New
23 England County Metropolitan Areas -- do you see that?

24 A Yes, I do see that.

25 Q And it is true that Boston and Hartford are two

2918

1 additional marketing areas for the Mailing Online market
2 test, is that correct?

3 A That is correct.

4 Q And below that, we have listed Philadelphia as one
5 of the marketing areas, do you see that?

6 A I do, yes.

7 Q And that is also included in the market test.
8 Finally we have listed Tampa-St. Petersburg-Orlando as a
9 major -- well, this is Rand McNally's terminology -- major
10 trading area.

11 Is that also part of the market test?

12 A The Tampa area is, yes.

13 Q Oh, I see, so St. Petersburg and Orlando are not
14 actually part of the market test, is that correct?

15 A Well, it is what I know as the Sun Coast District
16 and it is Tampa and some surrounding areas. How they relate
17 to St. Petersburg and Orlando I don't know, but it --

18 Q We said in our footnote that we may have
19 overestimated the population participating in the market
20 test. Does that sound right to you that we may have
21 overestimated a bit?

22 A Yes.

23 Q And similarly, going back to the total New England
24 County Metropolitan Area figures, that figure of 11,364,700
25 includes Providence, Warwick, and Pawtucket, Rhode Island

1 areas and I will ask you to accept that, subject to check.

2 Do you know if Providence, Warwick and Pawtucket,
3 Rhode Island are participating in the market test?

4 A I do not. I'm sorry.

5 Q So you don't know whether we have over-estimated
6 or not in that market?

7 A In that particular area, no, I do not know.

8 Q The five marketing areas, the population of these
9 five marketing areas was obtained from the Rand-McNally
10 Commercial Atlas and Marketing Guide that I mentioned a
11 moment ago, and we summed them to a total population
12 participating in the market test of 53,775,000. Do you see
13 that?

14 A Yes, I do.

15 Q Does that strike you as a fairly good
16 approximation of the population in those market areas that
17 are participating in the market test?

18 A With the provision that there has been some
19 over-estimating in certain areas, yes.

20 Q Okay. So it might be a slight over-estimate of
21 the participating population?

22 A That is correct.

23 Q Just below our line for total population marketing
24 areas, we divided the total U.S. population by our estimate
25 of the population participating in the market test, and we

1 got a figure of approximately 5, do you see that?

2 A Yes, I do.

3 Q To the extent that we have over-estimated the
4 total population for the marketing areas, probably that
5 figure, the number 5 is a little bit too small. If we had
6 used a smaller number in the denominator, that figure would
7 be a little bit larger than 5, wouldn't it?

8 A Yes.

9 Q Okay. Also, in determining our estimate for the
10 total advertising budget for Mailing Online over the two
11 year experimental period, we used 104 weeks as a multiplier.
12 That would be right, wouldn't it, there would be 104 weeks
13 over a two year experimental period, wouldn't there?

14 A That is correct, yes.

15 Q Okay. So, finally, we multiplied these three
16 figures together, 5 times a weekly expenditure times 104
17 weeks, and we got a total advertising estimate for the two
18 year experiment of 134,588,480, is that correct?

19 A Yes, that is what it says here.

20 Q Okay. You probably don't have any quibble over
21 the use of 104 weeks, do you?

22 A Two years would equal 104 weeks, yes.

23 Q And I don't think you have any quibble over our
24 multiplier of 5, is that correct?

25 A As a rough number, no.

1 Q Okay. Do you have any quibble with our estimate
2 that you will be spending roughly \$258,824 per week during
3 the experiment?

4 A I would say that to use that number would be very
5 much an exercise in apples and oranges, as I referred a
6 moment ago. The market test, as we have indicated very
7 strongly in previous responses, was designed to do testing.
8 The expenditures that we made on advertising during that
9 time were excessive in that same sense that if you were
10 trying to come up with a recipe for a cake, you would come
11 up with lots of cakes that you would end up throwing out
12 before you came up with the one that you would submit for
13 the prize.

14 With the advertising that we have done during the
15 market test for Mailing Online, we have discovered that some
16 things don't work as well as we might have predicted. We
17 have discovered that other things are too expensive, not as
18 cost effective as other things. And, consequently, as we
19 have discussed in prior questions, our advertising will be
20 much different during the experiment and this number will
21 not -- you would not be able to use this number for those
22 reasons.

23 As a matter of fact, if you take just the direct
24 mail and web banner advertising expenses that we have
25 incurred during this test, they represent less than 20

1 percent of total expenses.

2 The other factor that is important to keep in mind
3 is that as this channel, as we discussed yesterday, grows in
4 importance in communicating and relating to our customers, a
5 lot of activities will take place around the Postal Service,
6 where you will see a URL on the side of a truck as it goes
7 down the street, and it will refer you to usps.com. That is
8 a form of corporate advertising that will benefit the
9 PostOffice Online and will reduce our need to do targeted
10 advertising specific to the PostOffice Online.

11 Q Let's look at the \$4.4 million figure. I think
12 that is probably going to be the source of our disagreement.
13 When I divided that by 17 weeks, that is how I got the
14 weekly expenditure of -- well, I will round it, let's say we
15 are talking about roughly \$260,000 per week. Probably your
16 major disagreement is going to be with whether the \$4.4
17 million, and all that was incurred to generate that figure,
18 whether you will really be incurring expenses of that size
19 during the experiment, is that correct? Or is that too long
20 a question, should I break it down a bit?

21 A If I understand your question, I can categorically
22 say that our expenses during the experiment will not be of
23 this size in relation to our total expenditures.

24 Q You won't be spending roughly \$260,000 per week on
25 advertising, you don't believe, is that correct?

2923

1 A We don't have a firm plan in place, but I would be
2 extremely surprised to see anyone suggest that we would
3 spent that amount.

4 Q Do you think you might spend more than that per
5 week?

6 A As I have stated, I think we will spend a fractionn
7 of that.

8 Q And what is your best guess about what the
9 fraction is?

10 A Well, as I mentioned, the two forms of advertising
11 that we intend to go forward with represent less than 20
12 percent of what we have spent during the market test. So if
13 you were to -- or if I were to hazard a guess, less than 20
14 percent, at most 20 percent would be what I could say now.
15 But that also is affected by the fact that I mentioned the
16 channel advertising for Internet in general, trying to get
17 people to come to our web site, will migrate throughout
18 Postal advertising, you will start to see that URL
19 everywhere.

20 Q You mentioned a moment ago that you might start
21 painting the URL for PostOffice Online on the side of a
22 Postal truck, is that correct? Did you say that a moment
23 ago?

24 A Well, there is another large shipping company that
25 has done that, that seems to have succeeded well with it, so

1 I would assume that we might try it as well.

2 Q If you were to do that, there would be some costs
3 associated with modifying your trucks in that manner,
4 wouldn't there be?

5 A You have to assume that painting something on a
6 truck is going to cost something, yes. Let me clarify that
7 I know of no concrete plans to do that. I know that in
8 discussions about broadening the channel awareness of
9 usps.com, that has been one idea that has been discussed,
10 but I use that as an example of how it will become -- it
11 will begin to penetrate all of the communications that we
12 do.

13 Q You mentioned a moment ago that you experimented
14 with various forms of advertising during the market test,
15 and that is understandable. It certainly makes sense to
16 work with a smaller population and see what was effective.
17 And, generally, you found that television advertising and
18 ads in print media were not terribly effective, wasn't that
19 your testimony a little while ago?

20 A They were not as effective as other methods, and
21 they were definitely not as cost effective, in terms of the
22 response rate, as other methods.

23 Q You found that direct mail was a fairly cost
24 effective tool, didn't you?

25 A Absolutely, yes.

1 Q Is it possible then that, over the course of the
2 experiment, you might do more direct mail advertising even
3 than you did during the market test? That is, whatever --
4 let's look at it perhaps as a percentage of the total
5 population of the market areas, and let's just -- I will
6 just throw out a figure. Let's say you were sending out
7 direct mailings to 5 percent of the total population of the
8 marketing areas that I have listed here. It is possible
9 that you might send out -- you might try to mail to an even
10 greater percentage of the population of the marketing area
11 during the market test -- I'm sorry, during the experiment
12 than you did during the market test, because it was a cost
13 effective tool, isn't that correct?

14 A I am sorry, can you restate the question, please?

15 Q Yeah, that was very long. I will break it down.
16 Let's assume, hypothetically, that you -- and this is purely
17 a hypothetical. I certainly don't know what percentage of
18 the population you sent direct mail to. Let me ask you, do
19 you know what percent of the population received direct mail
20 during the market test?

21 A What percent of the population of the market test
22 area?

23 Q Yes.

24 A No, I am sorry, I don't.

25 Q Okay. So neither of us knows. But let's say,

1 just for the sake of this conversation that it was 5 percent
2 of the total population of a marketing area. Can you accept
3 that as a hypothetical?

4 A As a hypothetical, certainly.

5 Q Okay. And you found that direct marketing, direct
6 mail marketing was an effective tool, that is correct, isn't
7 it?

8 A That is correct, yes.

9 Q So it is possible that you might send out direct
10 mail pieces to 10 percent of the population during the
11 experiment, as opposed to the 5 percent that you were trying
12 to reach during the market test, isn't that a possibility?

13 A Certainly, I could conjecture that we would send
14 out pieces to 10. I could also conjecture 20 or 30. When
15 you are conjecturing such things, it is open territory.

16 Q Do you know of any absolute limit that has been
17 imposed on PostOffice Online advertising expenditures over
18 the period of the experiment?

19 A I don't personally know of a limit that was
20 imposed, but I know that, as I have previously stated, the
21 advertising department and the manager of that department
22 has budget allocation responsibilities. I have been told
23 that the advertising budget for next year will, in fact, be
24 reduced, as a matter of fact. So, no, I don't know that any
25 was imposed, but I assume that one would have been as the

1 normal course of business.

2 Q Do you know if there is a budget for PostOffice
3 Online advertising in next year's budget?

4 A There is a Postal Service advertising budget. I
5 do not know, nor do I believe that there is a breakout
6 amount at this point that has been tagged for PostOffice
7 Online.

8 Q So at this time there isn't any formal and
9 official restriction on the amount of advertising that may
10 be expended in advertising PostOffice Online, is that
11 correct?

12 A There is one that is imposed by good business
13 sense, but, no, there is no, as far as I know, policy
14 decision that has been made on that.

15 Q What would be the good business sense or judgment
16 that you had in mind a moment ago when you used that phrase?

17 A Well, as any business, you don't spend more on
18 advertising than you think that it is worth. You have to
19 judge the effectiveness of the advertising that you are
20 doing in relation to the cost and your objectives of doing
21 that advertising.

22 Q If you found that you were attracting registrants
23 to PostOffice Online at about the same rate during the
24 experiment that were attracted during the market test, do
25 you think it might be necessary to increase your advertising

1 expenditures to get the kind of usage that you were hoping
2 for when you first introduced the PostOffice Online concept?

3 A I can only give a qualitative answer to that and
4 say that I think that the response that we've gotten from
5 the advertising that we've done has been quite successful,
6 in my eyes, that we've gotten a lot of response and
7 awareness, and as the Internet grows in importance in
8 people's activities and daily lives, I think that the
9 Internet itself and the communications on that channel
10 alone, which are independent of advertising that we do, will
11 drive more people to learn about it. And as I mentioned,
12 the channel thinking that the Postal Service is doing around
13 getting people to come to the USPS.com site will increase
14 that even more -- increase that awareness of people's
15 understanding of what we're doing on the Internet.

16 I'd refer back here to some remarks that were made
17 yesterday about the PostOffice Online being the equivalent
18 of a retail unit. I think that's a very good analogy, and
19 I'm sorry that we didn't discuss it at greater length
20 sooner.

21 The way that we've thought about putting together
22 the PostOffice Online is that the Postal Service has a
23 corporate presence on the Internet already, and people come
24 there to look up ZIP codes and to do other things that they
25 would normally do with the Postal Service maybe on the

1 telephone or looking in the front of a telephone directory
2 for ZIP codes, things like that.

3 The PostOffice Online was designed to present them
4 with an opportunity to do transactions, and as people's
5 awareness of the Postal Service on the Internet as a whole
6 grows, they'll come to the main site looking for someplace
7 to conduct those transactions, and we will simply become a
8 place within USPS.com where people go when they want to buy
9 stamps or send mail or mail a package. So the advertising
10 specific to Mailing Online in my eyes will reduce or will
11 shrink as the channel awareness and the general encompassing
12 of Internet awareness in Postal Service advertising in
13 general grows.

14 Q Do you know what the time horizon would be for
15 that shrinkage that you've just described?

16 A Well, I know that the group that I'm now part of,
17 which is the Internet Business Group, has a manager for
18 integration of our existing activities on the Internet as
19 well as new activities such as PostOffice Online. Our group
20 and that manager are working actively today to accomplish
21 that, and I would assume that in the next fiscal year that
22 you will see that awareness that I'm talking about come
23 about, and that's when the shrinkage will occur.

2 Q Could you turn to page 6, please?

3 A All right.

4 Q At the bottom of page 6, lines 21 and 22, you say
5 that Mailing Online targets a more narrow and currently
6 ill-served group of customers.

7 Generally, the Postal Service wants to serve the
8 -- what's called the SOHO market, is that correct, with
9 Mailing Online?

10 A That's part of the market for Mailing Online, yes.

11 Q What would the rest of the market be if that's
12 only part?

13 A Well, SOHO defines a specific -- as I think of it,
14 a specific demographic group of small office and home office
15 users. There is another segment in our thinking that's the
16 small business. That's not necessarily small office or home
17 office, but is rather a small business.

18 Q Do you have any estimates of how many pieces per
19 mailing a SOHO customer is likely to generate?

20 A How many pieces of mail in an individual mailing
21 or --

22 Q Let's start with that, in a single mailing.

23 A This is a complex question and it would require
24 that you specify more clearly what kind of mailing you're
25 talking about. We have attempted in some of our inquires to

2955

1 our customers, some of the research that we're doing, to get
2 a handle on what kind of mailings they might use Mailing
3 Online for in the context of what they do. But I can't
4 think -- I don't believe I can give a specific answer to
5 your question about what a -- the size of a mailing that a
6 typical SOHO would do. That doesn't -- there's not an
7 answer to that question.

8 Q During the market test, do you think you're
9 getting mailings of roughly the number of pieces per mailing
10 that you anticipated before you launched the market test?

11 A No, I don't, and I think that anyone objectively
12 analyzing it would not find so, either. We found that there
13 are an awful lot of people -- and this is what we saw in the
14 previous test, too -- there are an awful lot of people who
15 are just testing the water, so to speak, sticking their toe
16 into the water, mailing one piece or six or eight pieces.

17 We subsequently see some of these same folks
18 coming back and mailing larger quantities, and I would say
19 that if you could somehow separate those toe-in-the-water
20 type mailings from the latter category, that you would find
21 the latter might represent something that you can analyze as
22 being a relative volume.

23 Q How about the very largest mailings you've had so
24 far, the largest number of pieces per mailing that you've
25 seen so far during the market test. Is that the level that

1 was anticipated prior to the commencement of the market
2 test?

3 A The system today has a limit, as you know, a
4 technical limit, because it's still running basically as an
5 enhanced prototype system. So we've restricted the users
6 and the number of pieces that they can mail, and I -- I
7 would say that the upper bounds of what we've seen so far
8 perhaps don't represent the upper bounds of what we will
9 eventually see, and it's hard to analyze the eventual
10 numbers, what we think will happen in the experiment in
11 light of what we have today.

12 Q So you are -- at the current time in the current
13 version of the Mailing Online software that you're using
14 now, you are restricting the number of pieces per mailing;
15 is that correct?

16 A Yes. Uh-huh.

17 Q What is the highest number of pieces per mailing
18 that you will permit?

19 A I think it's been previously put into the record
20 that it's 5,000.

21 Q Are you under the impression that you've had --
22 that there've been attempts to mail more than 5,000 pieces
23 in a single mailing and those efforts have had to be
24 refused?

25 A Not personally aware of that, no.

1 Q Do you know if you've had any mailings that have
2 reached the 5,000-piece limit?

3 A Yes.

4 Q Do you have any idea what percentage of the number
5 of mailings that would be that have approached that high
6 level?

7 A Not off the top of my head, but if you go through
8 the reports, you'll find mailings identified and you can do
9 the analysis yourself.

10 Q You said that you knew that -- whether or not
11 there had been attempts to mail 5,000 pieces or more, that
12 you knew of such attempts?

13 A I believe that I said I was not aware of such
14 attempts, not personally aware.

15 Q Do you have any idea what the average usage -- the
16 average number of pieces per year, per user was assumed by
17 the Postal Service prior to the commencement of the market
18 test? So in other words, that would be the total pieces per
19 year, per user.

20 MR. HOLLIES: Objection to the form of the
21 question. There's been no establishment by counsel that
22 there was any such assumption ever made.

23 MS. DREIFUSS: I can establish that, Commissioner
24 LeBlanc.

25 COMMISSIONER LeBLANC: I think you'd better, Ms.

1 Dreifus.

2 MS. DREIFUSS: Certainly.

3 BY MS. DREIFUSS:

4 Q Have you had a chance to review Witness
5 Rothschild's testimony and Library Reference at some point
6 in the past --

7 A It's been a while. Yes.

8 Q -- several months?

9 For your convenience and the convenience of the
10 Commissioners and your counsel, I do have some -- a couple
11 of pages that I've copied out of Witness Rothschild's
12 Library Reference -- this is LR-2, attached to her testimony
13 -- and some figures that I've worked up. If you don't have
14 any objection, Mr. Presiding Officer, I'll hand those copies
15 out now.

16 COMMISSIONER LeBLANC: That will be fine. Make
17 sure that you give Postal Service counsel as well.

18 MS. DREIFUSS: Certainly.

19 COMMISSIONER LeBLANC: Will we need a short break
20 for them to glance at it, Ms. Dreifus?

21 MS. DREIFUSS: If you want to give Mr. Garvey a
22 minute or two, I don't see --

23 COMMISSIONER LeBLANC: I think we better make sure
24 we have everybody on the same sheet of music -- Mr. Hollies
25 and Mr. Rubin and Mr. Garvey.

2959

1 MR. HOLLIES: In light of the fact this consists
2 of three pages with some fairly detailed numbers, it's a
3 little difficult to imagine being able to absorb this at one
4 glance.

5 COMMISSIONER LeBLANC: Ms. Dreifus, I do not want
6 to make or unmake your case for you, but to what detail will
7 you be getting into the pages?

8 MS. DREIFUSS: I could ask these questions subject
9 to check. That would be a possibility if Postal Service
10 counsel feels that it's a little too complicated to deal
11 with at this time.

12 COMMISSIONER LeBLANC: Would you rather do that or
13 we can take a five-minute break here and allow all parties
14 to take a look at it?

15 MS. DREIFUSS: A five-minute break I think would
16 be enough time.

17 COMMISSIONER LeBLANC: Mr. Hollies, would that be
18 all right with you, then?

19 MR. HOLLIES: We'll give five minutes a try and
20 see where we stand.

21 COMMISSIONER LeBLANC: Just glance at it. If
22 there's a problem, we'll do whatever we have to.

23 MS. DREIFUSS: Thank you.

24 COMMISSIONER LeBLANC: We'll be off the record for
25 five minutes.

1 [Recess.]

2 COMMISSIONER LeBLANC: Back on the record. Ms.
3 Dreifuss.

4 BY MS. DREIFUSS:

5 Q Two of the sheets that we have handed you come
6 from Library Reference 2 attached to Witness Rothschild's
7 testimony. Those would be Tables 15 and 19(b). And I think
8 you have had a moment to look those over, haven't you?

9 A Yes.

10 Q Then we have also provided a third sheet of paper
11 on which we have calculated the average number of pieces per
12 user per year. That would be the third line of figures. Do
13 you see those?

14 A Yes, I see that.

15 Q The total annual volume figures across the top
16 line, which we have labeled Mail Volume, come from Table 15
17 of Library Reference 2. Do you see that they come from
18 there?

19 A Yes, I see that.

20 Q And the number of users that we have been using to
21 divide the total pieces per year by comes from Table 19(b).
22 Do you see that?

23 A Yes, I see that.

24 Q And in making this division, we have calculated
25 that the average number of pieces per user per year will be

2961

1 a little over 49,000 pieces. Do you see that calculation?
2 Well, you don't see the calculation. Do you see the results
3 of that calculation?

4 A That would be the average per user line, yes.

5 Q Now, getting back to your testimony, you talk at
6 page 7 about at least part of the market for Mailing Online
7 will be, for example, at line 7, small business owners. Are
8 small business owners a large part of the Mailing Online
9 market?

10 A We expect them to be, yes.

11 Q Would you think that they would be generating a
12 little over 49,000 pieces per year?

13 MR. HOLLIES: Objection, lack of foundation to the
14 question. Counsel has just indicated that some unknown
15 person using some unknown method has engaged in calculating,
16 and that calculation assumes the comparability of numbers on
17 line 1, that is the MOL volume line, with the users on line
18 2. As a simple example, Witness Rothschild's projections
19 are based on a full-up environment, that is, one where 25
20 printers are in place, and it is on that basis she makes her
21 projections. And these numbers here do not appear
22 comparable.

23 So if we have a foundation established for what
24 has been done, I think we will have a proper line of
25 questioning, but at this time that foundation has not been

1 established.

2 COMMISSIONER LeBLANC: Ms. Dreifuss, do you care
3 to --

4 MR. HOLLIES: Adopters, for example, are not equal
5 to users.

6 COMMISSIONER LeBLANC: Ms. Dreifuss, if you want
7 the question in, I am afraid you are going to have to
8 rephrase it or build the foundation. Use a hypothetical,
9 you can do it subject to check, if they will allow it, that
10 is up to you.

11 MS. DREIFUSS: We do know that Witness Stirewalt,
12 earlier in the proceeding, used these figures of Witness
13 Rothschild. We find them at Attachment 1 to the Stirewalt
14 testimony. He seems to be using the same user figures that
15 we took out of Witness Rothschild's Library Reference 2,
16 and, in fact, he cites to that Library Reference and the
17 table that we are using.

18 Now, Witness Stirewalt also had determined a
19 number of addresses per mailing list, which I think he uses
20 as proxy for the number of pieces per mailing. So we see
21 that other Postal Service witnesses have been using these
22 figures, and I think it is legitimate to make a comparison
23 to market test users.

24 COMMISSIONER LeBLANC: Can you give us a cite as
25 to where you are talking about in there?

- 2963

1 MS. DREIFUSS: Yes, I am citing to Attachment 1 to
2 Witness Stirewalt's testimony. And I am willing to let the
3 Postal Service have a look at this if they would like to do
4 so.

5 COMMISSIONER LeBLANC: For clarification of the
6 record again, please let them take a look at it.

7 Have you had a chance, Mr. Garvey, to review that
8 table at all? Are you familiar with Witness Stirewalt's
9 testimony?

10 THE WITNESS: I am sure that I have seen it, I
11 have not reviewed it in recent memory.

12 COMMISSIONER LeBLANC: Would you be in a position
13 to comment on it? Because as I understand your comment, Ms.
14 Dreifuss, that is what you are asking him to do, is to have
15 some verification of these numbers. Now, if he is not in a
16 position to verify the numbers and/or where they have come
17 from, any more than to say he has seen the actual numbers
18 themselves, then at this point we may not have the
19 foundation.

20 MS. DREIFUSS: The problem is we see a
21 contradiction in Witness Garvey's statements about the type
22 of customer that they are targeting for Mailing Online and
23 the type of volume estimates that Witness Rothschild
24 generated in her turn. And, in fact, as we know, Witness
25 Garvey actually states with favor Witness Rothschild's

1 volume estimates. He says they are the best estimates we
2 have on the record. And, again, we believe there is --
3 there may be a contradiction between her estimates.

4 COMMISSIONER LeBLANC: The contradiction is
5 between the estimates or the actual --

6 MS. DREIFUSS: Well, the way her -- a natural
7 extension of her estimates. If we start with the total
8 volume figure, for example, for year 1 that we have
9 presented here, that is a total volume figure that she
10 estimated, and we divide that by the number of users, again,
11 that she has estimated, we get an average number of pieces
12 per year that we feel -- and I am sorry, let me take that
13 further, eventually that would give rise to the 812 million
14 piece figure that Mr. Garvey cites at page 6, line 15 of his
15 testimony. And we believe that that is inconsistent with
16 his statements about the target market for Mailing Online.

17 COMMISSIONER LeBLANC: So your concern is that his
18 derivation, if you will, where he gets these numbers from,
19 is actually wrong in itself?

20 MS. DREIFUSS: Well, we are just confused about
21 which market is being targeted. Is it a market that is
22 going to -- or a customer who is part of a market, and that
23 customer likely to be generating almost 50,000 pieces per
24 year, or is it really the kind of small volume, small
25 office, home office user that he cites in his testimony.

2965

1 MR. HOLLIES: Mr. Presiding Officer, the questions
2 appear to be focused on an argument about what OCA perceives
3 to be an inconsistency in approaches. That is something
4 that can be argued on brief. If, however, there are
5 questions specific to what Mr. Garvey has said, or even what
6 Mr. Garvey has relied upon by way of Witness Rothschild's
7 information, that would be fair game.

8 COMMISSIONER LeBLANC: Thank you.

9 BY MS. DREIFUSS:

10 Q When you talked about -- let me go to page 7 of
11 your testimony.

12 COMMISSIONER LeBLANC: Wait, Ms. Dreifuss. Make
13 sure I am with you here. So, are you going to try to repeat
14 this, is that where we are then, at this particular case?

15 MS. DREIFUSS: Well, maybe I will take a different
16 tack. I will ask him instead what it is he means in his
17 testimony, and then I will compare it to the estimates that
18 Witness Rothschild has made.

19 COMMISSIONER LeBLANC: I have no problems with
20 that.

21 BY MS. DREIFUSS:

22 Q Mr. Garvey, let's turn back to page 7 for a
23 moment. And I will just read three phrases from this page
24 to you. The first one I find at line 7, you talk about
25 small business owners, at line 9, you says their volumes are

2966

1 quite low. Further down on page 14, again, the first -- the
2 sentence that begins in the middle of that line, even at
3 lower volumes. You seem to be suggesting in your testimony
4 that you are targeting small business owners, low volume
5 mailers. And let me ask you, is that the market that you
6 are targeting for Mailing Online?

7 A I think I have answered that question many times
8 already and, as is apparent in what we are doing, that is
9 what we believe will be the largest pool of users of Mailing
10 Online service, yes.

11 Q Let me ask you to give just a ballpark range of
12 how many pieces either per mailing or per year you would
13 expect a small business owner to generate?

14 A Well, let me use a very practical example.
15 Witness Wilcox, the cafe owner who sends out a newsletter,
16 is sending out in the range I believe of 1500 newsletters a
17 month. If you add that up over the period of a year, you
18 get -- you can do the math, but in the neighborhood of
19 20,000 and that is a practical example.

20 Now other small businesses will do other amounts I
21 am certain and I would personally hope that they would find
22 the use of the mail so compelling that their mailings would
23 exceed 1500 pieces a month.

24 Q Are you targeting at all or will you target with
25 your advertising efforts businesses likely to generate

1 almost 50,000 pieces per year?

2 A I think we will target businesses that have a
3 practical use for Mailing Online service. We have
4 identified small businesses, small offices, and home office
5 users as being candidates who will have many more uses for
6 small quantity mailings than large businesses, we think.

7 Your question I believe is will we be targeting
8 people -- or customers who would be mailing 49,000 pieces a
9 year? If they have that quantity in small volume mailings,
10 yes, we will be targeting them, and I think in relative
11 terms 49,000 pieces a year is not a large quantity.

12 Q So in your opinion a business that mails 49,000
13 pieces per year should be considered a small business owner
14 or a low volume mailer. Is that your position?

15 A I think that there might be a correlation between
16 the number of pieces mailed by a business and the size of
17 their business, but it is not necessarily -- one doesn't
18 cause the other. We are getting into yesterday's discussion
19 again, but a very large business that has no use for mail
20 will not be a mailer at all. A very small business whose
21 business depends on mail will be a very large mailer, so
22 there is no direct correlation between the size of the
23 business and the number of pieces.

24 Q You mentioned a little earlier this afternoon that
25 right now the current version of Mailing Online software

1 can't handle more than 5,000 pieces at one time. That's
2 true -- you did say that earlier, right?

3 A I said that is the limit we placed because of our
4 technical concerns, yes.

5 Q Will that continue to be a limit throughout the
6 experiment?

7 A No, we don't expect that to be so at all.

8 Q Will there be any limit on the number of pieces
9 per mailing during the experiment?

10 A I can't say absolutely what we would not place a
11 limit. We don't know the technical limits of the system
12 that will be in place for the experiment because we haven't
13 seen it yet.

14 I would hope that we wouldn't have to place a
15 limit but if we have to for technical reasons, we will.

16 Q Focusing on line 9, your statement on line 9, page
17 7, there volumes are quite low -- what numbers did you have
18 in mind when you made that statement?

19 A I don't believe I had any specific numbers in mind
20 but the context of my statement here in the testimony has to
21 do with the effects on competition, and I think relative to
22 those organizations that would be concerned about the
23 competitive impact of Mailing Online, the relative volumes
24 that are going to be mailed by these customers talked about
25 here are quite low.

2969

1 Q So your position is that competition shouldn't be
2 too seriously affected if you attract businesses that mail
3 low volumes, is that true?

4 A In the context of what Mailing Online is capable
5 of doing, in association with the low volume, yes.

6 Q Do you feel that businesses that mail high volumes
7 if you were to attract a great deal of that business, that
8 that could harm competition?

9 A I haven't given that question a lot of thought but
10 I think that the other ameliorating factors about Mailing
11 Online, it's lack of sophistication that I have mentioned in
12 prior testimony, its flat rate pricing which is an economic
13 disincentive to large mailings and its lack of flexibility
14 in volume pricing or anything like that would lead me to
15 believe that the competitive threat posed to large volume
16 mail service providers would be minimal.

17 Q And it is minimal because you don't expect very
18 much of the high volume mailings, is that right?

19 A That's true, we don't expect high volume mailings.
20 Yes.

21 Q And 49,000 pieces per year -- what quality range
22 are we talking about, small, medium or large business?

23 A Can you restate that question?

24 Q Well, if a business were to mail roughly 49,000
25 pieces per year, would you consider it a small business, a

2970

1 medium sized business or a large business?

2 MR. HOLLIES: Objection. That question has been
3 asked and answered.

4 MS. DREIFUSS: I disagree, Mr. Presiding Officer.
5 I asked about small. I don't think I had ever asked
6 previously about medium and large. I hadn't given him those
7 choices before.

8 I would like him to think about it again with
9 those three terms in mind and not just the term "small."

10 MR. HOLLIES: A previous round of questions
11 elicited responses from the witnesses indicating that
12 business size correlates but not perfectly with mail volume.
13 This is another form of that same question.

14 COMMISSIONER LeBLANC: With all due respect, Mr.
15 Hollies, I am going to let him answer it as best he can to
16 complete the record. I understand what you are saying, but
17 it is not specifically the same. You just address it any
18 way you feel comfortable with, Mr. Garvey, and then we will
19 move on.

20 THE WITNESS: My answer is essentially the same as
21 it was previously and that is that I can draw no direct
22 correlation between the volume of a mailing and the size of
23 a business.

24 BY MS. DREIFUSS:

25 Q How about let's tag an adjective onto the mailing

2971

1 then -- I'm sorry, to a volume per year.

2 Is 49,000 pieces a small volume per year, medium
3 volume per year or large volume per year?

4 A In Postal Service terms our customer service reps
5 and marketing representatives, 49,000 wouldn't even touch
6 their radar.

7 Q Meaning?

8 A Meaning that to them is a very small mailer.

3080

1 There was testimony from Mr. Lim under examination
2 by Ms. Dreifuss about a contract with the Cordant -- I'm not
3 sure I'm spelling that right, but it's spelled C-o-r-d-a-n-t
4 -- Company. Are you familiar with that?

5 A Yes.

6 Q That was a contract for roughly \$760,000 for Net
7 Post design; is that right? Do you remember that?

8 A Yes.

9 Q Do I have the numbers right and the purpose right?

10 A Yes.

11 Q \$760,000 Net Post design.

12 A Yes.

13 Q Okay. And you paid Cordant that money, I assume.

14 A I didn't personally, but the Postal Service did,
15 yes.

16 Q Okay. And what was delivered in terms of this
17 continuum of development that we've just worked through?
18 What was delivered to the Postal Service for the \$760,000
19 paid to Cordant? Is that the operations test?

20 A The contract awarded to Cordant precedes the Post
21 Office Online inception. It was awarded to them to develop
22 a Net Post program, the specifications of which have been
23 filed and are part of the record, that approximated what
24 Mailing Online does as an application. They were involved
25 in the development of a prototype version of that software

3081

1 at the time that Post Office Online was conceived, and the
2 prototype version of that software became, through
3 modifications, the initial prototype version of Mailing
4 Online.

5 Cordant, by the way, was bought by a company named
6 Tracorp, which was bought by a company named Marconi. So
7 missions today of the company Marconi, which is today doing
8 the system development via subcontract with Compaq, is, in
9 fact, being done by many of the same team members that
10 worked for Cordant.

11 Q That's helpful to finally get that lineage. It's
12 almost Biblical. But it's good to know how they all hook
13 together.

14 So you spend the 760 for Cordant and you've got
15 the operations test, and let me make sure I understand this.
16 Also the beginnings of the market test, or did 2.0 require
17 additional expenditures? I thought I heard you say the 1.0
18 was basically a Cordant product; is that right?

19 A Yes, that is correct.

20 Q Okay. Now we need to get to 2.0. What more --
21 how bad are you going to pick my pocket this time? How much
22 does that cost?

23 A I'm not picking your pocket at all.

24 Q No, no, not mine.

25 A I understand.

3082

1 Q Let me do this in a different way. Witness -- and
2 I'm not intentionally being abrupt here, but trying to get
3 us the heck out of here -- Witness Seckar said in his
4 testimony that there were \$2,283,697 in fixed IS costs for
5 the market test and experimental periods. Does that sound
6 about right to you?

7 A I can't question the Witness Seckar's testimony,
8 but if you --

9 Q Well, do you think it's about what was spent? Do
10 you have a notion at all?

11 A For the market test?

12 Q Yes.

13 A Fixed IS cost for the market test?

14 Q Well, no, his testimony was that it was both the
15 market test -- it's 1999, 2000, is what he called it. He
16 did it by time period, but carefully noted in his testimony
17 that he didn't really know when any of this stuff was going
18 to happen, so he said, just call it two years.

19 Let me give you --

20 COMMISSIONER LeBLANC: Do you have a cite for
21 that, Mr. Wiggins? It might help just to clarify the record
22 if you have a cite.

23 MR. WIGGINS: It is either 14 or -- attachment 14
24 or 15. I don't remember. One's fixed and one is variable.

25 COMMISSIONER LeBLANC: Okay.

1 MR. WIGGINS: And I don't remember which is which.
2 I believe --

3 COMMISSIONER LeBLANC: And that's in Witness
4 Seckar's testimony?

5 MR. WIGGINS: Yes. It's an exhibit.

6 COMMISSIONER LeBLANC: Okay. I just want to make
7 sure, just for the clarification of the record.

8 MR. WIGGINS: And the other one, which is either
9 14 or 15, is variable cost, and that's \$3,601,139, coming to
10 a grand total of five-eight million bucks.

11 BY MR. WIGGINS:

12 Q Do you think that's about the right amount to
13 measure what the Postal Service spent to go from 1.0 to 2.0?

14 A No, I don't see the relationship.

15 Q What do you think the Postal Service was spending
16 that money for?

17 A Fixed IS cost and variable cost.

18 Q He called them fixed. When they were translated
19 into Lim speak, they were called start-up. I mean, you
20 can't walk directly between those two witness' testimony
21 because there just is a -- there's no match because Mr. Lim
22 put things together in a different fashion. But he
23 testified that -- he called those numbers -- and he's got
24 his own version of them, though his are for the experiment
25 only. He was real clear about that. He called them

1 start-up.

2 A I would have to say that since I'm not a costing
3 witness, I rely on the witness' testimony as filed.

4 Q You don't independently have any recall of roughly
5 how much money it cost the Postal Service to get from the
6 version 1 to the version 2 of Mailing Online software?

7 A No, I don't.

8 Q Okay. And what about getting to 3.0? Did you
9 have a sense of that?

10 A I am relying on Witness Lim's testimony for that.

11 Q It includes the Compaq contract?

12 A As far as I know Witness Lim's testimony includes
13 all components of development costs.

14 Q Witness Lim told us that there was going to be
15 \$22.5 million in information systems costs to get from the
16 market test to the experiment. Does that sound about right
17 to you, or do you have no notion other than what he
18 testified?

19 A I wouldn't question that number, no.

20 Q And we know that there are at least \$4.5 million
21 in advertising costs incurred to date, is that correct?

22 A No, that is not correct.

23 Q I thought --

24 A \$4.4 is the number that has been used.

25 Q Okay -- I was generous in rounding this time, Mr.

1 Garvey -- \$4.4 it is.

2 Now I add up these numbers -- the 760, the 22, the
3 3.2 million, the 3.6 million, the 22.5 million, the 4.5
4 million, and I land up comfortable over \$30 million invested
5 in this tinker toy and here is where we link ourselves back
6 with virtually no revenue.

7 Is that a fair assessment of the -- at least on
8 the revenue side -- the economic state of the state here?

9 A It is true, yes. There is virtually no revenue
10 today.

11 Q Now you tell me on page 8 of your testimony, very
12 particularly line 5, "I can see no substantial barrier to
13 any mail preparation services provider implementing an
14 online job submission solution for their customers."

15 Do you want to rethink that testimony?

16 MR. HOLLIES: Objection to the form of the
17 question. The cost summaries presented by counsel pertain
18 to PostOffice Online and the discussion he is referencing in
19 the testimony does not. That question lacks a proper
20 foundation.

21 MR. WIGGINS: I don't believe that the testimony
22 of Mr. Hollies is germane here. If that is the testimony of
23 the witness I am not sure that's true.

24 COMMISSIONER LeBLANC: Where is your foundation
25 for that one, Mr. Wiggins?

3086

1 MR. WIGGINS: I gave you all the numbers.

2 COMMISSIONER LeBLANC: You have used the numbers
3 as your foundation?

4 MR. WIGGINS: Yes.

5 COMMISSIONER LeBLANC: And then your question is?

6 MR. WIGGINS: My question is is it really right,
7 Mr. Garvey, that any mail preparation services provider is
8 in a position to invest \$30 million --

9 COMMISSIONER LeBLANC: He can answer -- he could
10 either answer it or he can't, based on his judgment.

11 MR. WIGGINS: To get where the Postal Service is
12 today, to overcome Mr. Hollies' objection.

13 THE WITNESS: I would doubt that there are many
14 mail services that have \$30 million to spend, but I would
15 also submit that there are no mail service providers that
16 have 270 million customers as does the Postal Service.

1 COMMISSIONER LeBLANC: It's like lifting weights,
2 Mr. Hollies.

3 Now, for the record, the Commission was concerned
4 that it might be difficult to distinguish between designated
5 numbered pages from the transcript in Docket Number MC98-1,
6 and the numbered pages in today's transcript. We have taken
7 care of most of this, I believe.

8 The reporting company has assured us that it will
9 copy material into today's transcript in such a way as to
10 assure that the designated material copied into today's
11 transcript will be readily distinguishable from regular
12 transcript pages.

13 The second portion of the designated materials are
14 subject to an objection. This material consists of
15 testimony from Postal Service Witness Stirewalt.

16 The Postal Service objected to portions of this
17 testimony designated by MASA. In the alternative, the
18 Postal Service submitted counterdesignations.

19 In an earlier ruling, I indicated that I would
20 hear oral argument on this issue at this morning's hearing,
21 so we'll hear first in this particular case, from MASA.

22 MR. HIMELES: Thank you, Mr. Presiding Officer.
23 Let me first say that we certainly have no objection to the
24 counterdesignations of the Postal Service, but the first,
25 the threshold question, is whether Witness Stirewalt's

1 testimony should be -- from the prior proceeding, should be
2 in this proceeding at all.

3 And there's no question as to its relevance, and I
4 don't understand the Postal Service to be objecting to its
5 relevance. In the objection of the Postal Service, the
6 Postal Service states its position as follows:

7 The only assistance Witness Stirewalt's responses
8 could shed on Witness Lim's testimony would be his cross
9 examination to test how and why Witness Lim chose his
10 particular approach.

11 And then they question whether the method that we
12 have used is procedurally proper; that is designating the
13 testimony from a prior proceeding, rather than cross
14 examination, either written or oral of Witness Lim.

15 And the short answer, I would suggest, is that
16 there is nothing in the Commission's rules, nor is there
17 anything in common sense or any fundamental notion of
18 fairness that suggests that evidence that is relevant and
19 that was offered in what is a separate proceeding from the
20 perspective of there being different dockets, but in all --
21 for all intents and purposes, a continuation of the same
22 proceeding, there's nothing that suggests that it cannot be
23 considered by the Commission.

24 The testimony of Witness Stirewalt that we have
25 designated, goes to a single issue that relates to cost, and

1 that is the cost of the Help Desk.

2 And what happened in the prior proceeding is that
3 Witness Stirewalt's testimony was offered. He proposed a
4 particular methodology of estimating the Help Desk-related
5 costs.

6 I think that the details of the methodology aren't
7 relevant to the Commission's -- the issue before the
8 Commission here, although I would certainly be happy to
9 address that.

10 He proposed a particular methodology. The market
11 test occurred, and when that methodology was compared to the
12 market test data, it reflected that his estimate was
13 extraordinarily low.

14 And so the Postal Service offered the testimony of
15 Witness Lim, which suggested a different methodology, but
16 not a methodology that was -- I should say, as one could
17 debate the question of whether Witness Lim's methodology was
18 superior or not.

19 And in this proceeding, they have continued to
20 rely on Witness Lim's methodology. Our belief is that
21 Witness Stirewalt's approach, first of all, sheds
22 considerable light -- and we will argue this on brief --
23 sheds considerable light on flaws in Witness Lim's
24 methodology.

25 And, secondly, that the mere fact that the Postal

1 Service has historically started at one level with respect
2 to cost estimates, then gone up to a higher level, and then
3 gone up to yet another level which is higher -- we were at
4 \$3 million and then we were at \$22 million, and now we are
5 where we are -- calls into question, the reliability of
6 their cost estimates.

7 If this were the prior proceeding, if there had
8 never been the break and the resumption as has occurred,
9 there would be no question that we could designate this
10 testimony. The Postal Service would argue that it's not
11 relevant; that they're taking a different approach.

12 We would argue that it is relevant, because it
13 shows that the new approach that they are taking is
14 susceptible to question and understates the cost.

15 And we would argue any other way that it is
16 relevant. They don't question the relevance; they simply
17 argue, as I understand it, that since we're now in a new
18 proceeding, they have to proceed by -- we have to proceed by
19 cross examining Witness Lim, and we are stuck with that and
20 we can't offer other evidence that is in the record.

21 Our point, Mr. Presiding Officer, is that this
22 witness -- this testimony is in the record from the prior
23 proceeding. It relates directly to the Help Desk cost
24 issue, which is an issue that is before the Commission.

25 And that issue already having been addressed by a

1 prior witness and being before the Commission, we don't have
2 to accept, and the Commission shouldn't require us to accept
3 Witness Lim's word for it, or to accept the Postal Service's
4 word for it, that Witness Lim has it right.

5 And so we're offering the testimony for that
6 purpose, and contend that it is as admissible in this
7 proceeding as it would have been in the prior proceeding.

8 COMMISSIONER LeBLANC: Thank you. Mr. Hollies, do
9 you care to comment?

10 MR. HOLLIES: First, the Stirewalt evidence, as
11 counsel has just pointed out to us, is twice-buried. In no
12 way does it bear -- it is relevant to the issues that the
13 Commission is considering in this case, for purposes of
14 costing-out Mailing Online.

15 Secondly, as counsel also states, it can be used
16 for purposes of, as he used the word, quote, "debate,"
17 unquote. Well, debate is in the nature of legal argument.

18 And counsel can just as well debate in his brief,
19 based on the existence of other material, whether it's in
20 the record or not.

21 He loses nothing in terms of being able to make
22 his legal argument. My point simply is that is not part of
23 the factual underpinnings in this case. It is not part of
24 what the Commission has been asked to rule upon and to the
25 extent it may have had value as evidence in this case, the

1 opportunity to make it such by propounding cross examination
2 of one form or another to Witness Lim has come and gone and
3 at this stage it is no more relevant, it is merely material
4 that would be suited, as counsel himself says, to legal
5 argument and that can be done every bit as effectively with
6 it not in the record.

7 It is material from a prior case, and we routinely
8 cite to materials from prior cases in our briefs.

9 COMMISSIONER LeBLANC: Since we are dealing with
10 designations and counter-designations, do you want to
11 counter their argument one more time here, and then I will
12 give Mr. Hollies one more before I rule.

13 MR. HIMELES: Okay. Thank you, Mr. Presiding
14 Officer.

15 First, let me say that debate can be characterized
16 as legal argument but it is legal argument as to the
17 significance of evidence, and the question is what is the
18 evidence in this case.

19 More fundamentally, I should point out that we
20 have in fact, we did in fact propound interrogatories on
21 these very issues to Witness Lim, but what the Postal
22 Service is suggesting is that having propounded
23 interrogatories, having received Witness Lim's responses,
24 which are inconsistent with the earlier testimony of Witness
25 Stirewalt, we are just stuck.

1 We have to offer the testimony of Witness Lim or
2 we have to address the testimony of Witness Lim based on our
3 arguments, based on -- accept his responses as given and
4 question them without relying on any other evidence.

5 The testimony of Witness Stirewalt is no less
6 relevant than it ever was. To suggest that it is no longer
7 relevant because now the Postal Service is taking a
8 different approach to the very same issue, Help Desk costs,
9 is to suggest that the Postal Service is the only party in
10 this proceeding that can determine the methodology that
11 ought to be used, and our offering of Witness Stirewalt's
12 testimony is intended to suggest that their approach is
13 incorrect and that is why we offer it.

14 Thank you, Mr. Presiding Officer.

15 COMMISSIONER LeBLANC: Thank you. Counter to
16 counter to counter here, Mr. Hollies.

17 MR. HOLLIES: I don't believe I have anything
18 really substantive to add. I rest on my argument.

19 COMMISSIONER LeBLANC: Thank you. Under the
20 circumstances, I think I will admit the designations and
21 counter-designations into the record, although I do
22 understand the Postal Service's position and I think it does
23 have merit to some degree, but the Commission is
24 sufficiently expert to give appropriate weight, I believe,
25 to this evidence.

1 Therefore, for the sake of completeness of the
2 record as we have tried to do here over and over again, I
3 will admit this. I will ask the counsel from MASA to
4 provide the contested designations and counter-designations
5 to the Reporter and they are to be transcribed and received
6 into the record, evidentiary record, at this point.

7 [Designation of Witness Stirewalt's
8 testimony from Prior Proceedings in
9 Compliance with Presiding Officer
10 Ruling MC2000-2/7 was received into
11 evidence and transcribed into the
12 record.]

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Mailing Online Service

Docket No. MC2000-2

DESIGNATION OF WITNESS STIREWALT'S TESTIMONY
FROM PRIOR PROCEEDINGS IN COMPLIANCE WITH
P.O. RULING MC2000-2/7

Mail Advertising Service Association

Tr. 4/713-717, 757-763; and Tr. 5/965-970

United States Postal Service

Tr. 4/849-50, 854-57; Tr. 5/959-60

Respectfully submitted,



Margaret P. Crenshaw
Secretary

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

OCA/USPS-T3-17. Please refer to USPS-LR-1/MC98-1, page 3, where it states,

**Postal Service personnel within the existing Postal Service
Information Systems Customer Support organization will handle the
technical help desk function for Mailing Online.**

**Please reconcile the statement quoted above with the following statement of
witness Garvey:**

**For the experimental Mailing Online service (MOL) all customer
support, education and training are to be handled through the
PostOffice Online Help Desk, a contracted telephone support
center. See response to OCA/USPS-T1-6.**

RESPONSE

The first quote concerns the technical help desk at the Postal Service's San Mateo information systems facility. Witness Garvey's statement concerns the PostOffice Online customer help desk, which is run by a contractor.

The contractor fields calls regarding PostOffice Online, and not just Mailing Online. In the event the contractor help desk fields an inquiry or reports a problem that appears to be related to the operation of the Web server, computer processing, or telecommunications, the contractor's help desk representative then calls the San Mateo information systems customer support number.

The operation of the information systems customer support group is referred to in my testimony as the "Technical Help Desk".

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

OCA/USPS-T3-18. Please refer to USPS-LR-1/MC98-1, page 3.

- a. Please explain the relationship between "the technical help desk function for Mailing Online" and the PostOffice Online Help Desk.
- b. Please confirm that the costs of the PostOffice Online Help Desk related to Mailing Online service are computed separately from the technical help desk function for Mailing Online. If you do not confirm, please explain.
- c. Please confirm that the costs of all customer support, education and training to be provided by the PostOffice Online Help Desk during the experiential [sic] Mailing Online service are included in Attachments 1 and 2 of your testimony. If you do not confirm, please provide the costs of all customer support, education and training. If you do confirm, please identify where the costs of all customer support, education and training are accounted for in Attachments 1 and 2.

RESPONSE

- a. Refer to my response to OCA/USPS-T3-17.
- b. Confirmed that PostOffice Online help desk costs are separate from technical help desk costs.
- c. Not confirmed. Customer support, education, and training are not included in my estimates. My involvement is limited to estimating information technology costs. It is my understanding that the costs of customer support, education, and training for the Mailing Online experiment have not been estimated because they are costs shared with other parts of PostOffice Online, but see my response to OCA/USPS-T3-21(c).

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

OCA/USPS-T3-22. Please refer to USPS-LR-1/MC98-1, Attachment 1, page 11, concerning the Technical Help Desk Resource Years, and Attachment 2, page 12, Technical Help Desk.

- a. In Attachment 2, page 12, Technical Help Desk, in the line "Workstations" for "FIXED COSTS, YR 1999," please confirm that the number 3 in the column, "No. of Units," means that there will be 3 help desk staff members allocated to Mailing Online service in FY 1999, since each help desk staff member requires a computer workstation. If you do not confirm, please explain.
- b. In Attachment 2, page 12, Technical Help Desk, in the line "Workstations" for "FIXED COSTS, YR 1999," please confirm that the number 3 in the column, "No. of Units," means that there will be 3 resource years allocated to Mailing Online service in FY 1999, since one unit equals one resource year. If you do not confirm, please explain.
- c. Please confirm that the number 3 in the column, "No. of Units," found in Attachment 2, page 12, Technical Help Desk, in the line "Workstations" for "FIXED COSTS, YR 1999," is the rounded 2.66 "Total Help Desk Resource Years" found in Attachment 1, page 11, Technical Help Desk Resource Years for "YR 1999 Estimate." If you do not confirm, please explain.
- d. In Attachment 2, page 12, Technical Help Desk, in the line "Workstations" for "ANNUAL COSTS, YR 1999," please confirm that the "Unit Cost" and "No. of Units" should be \$6,000 and 3, respectively. If you do not confirm, please explain.

RESPONSE

- a. Not confirmed. Refer to my response to OCA/USPS-T3-1, Cost Component Sources/Derivations Worksheet, page 1, concerning cost components HD1, HD2, HD3 and HD4 for an explanation of how the "no. of units" for HD 1 is derived. The current San Mateo technical help desk has a staff assigned to perform the functions described in my response to interrogatory MASA/USPS-T3-6 in support of all the systems operated at the San Mateo computer

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

OCA-T3-22, PAGE 2 OF 2

operations site. Individuals are not dedicated full-time in support of any one system, and my understanding is that this will continue to be the case. In my analysis, I determined the number of staff hours required to support Mailing Online, not the number of people.

- b. Refer to my response to part (a) above.
- c. Refer to my response to part (a) above.
- d. Not confirmed. The unit cost for workstations is \$2,000 as shown in Attachment 2, HD 1, and HD 15. Number of units for 1999 is shown under "FIXED COSTS YR 1999", not "ANNUAL COSTS YR 1999".

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

OCA/USPS-T3-23. Please refer to USPS-LR-1/MC98-1, Attachment 2, page 12, concerning the Technical Help Desk.

- a. In the line "Technical Help Desk Staff," for "ANNUAL COSTS, YR 1999," please confirm you are assuming 3 technical help desk employees will be allocated to Mailing Online service in FY 1999. If you do not confirm, please explain.
- b. In the line "Training for New Hires/Replacements," for "ANNUAL COSTS, YR 1999," please confirm you are assuming training for 2 new hires/replacements. If you do not confirm, please explain.
- c. In the line "Training for New Hires/Replacements," for "ANNUAL COSTS, YR 1999," please confirm that the "Unit Cost" and "No. of Units" should be \$3,000 and 3, respectively. If you do not confirm, please explain and identify where the training costs of \$1,000 for the third technical help desk employees is located in your workpapers.

RESPONSE

- a. Not confirmed. I estimated a total of three resource years would be required to support mailing Online. I did not estimate that three employees would be allocated. Refer to my response to OCA/USPS-T3-22(a) for more detail.
- b. Confirmed.
- c. Not confirmed. "Training for New Hires/Replacements," for "ANNUAL COSTS, YR 1999," (HD 5) "Unit Cost" and "No. of Units" are not \$3,000 and 3, respectively. Training for three Technical Help Desk staff members is estimated for "FIXED COSTS, YR 1999", with unit cost of \$1,000 and 3 units. The estimate for training two employees in 1999 shown under "ANNUAL COSTS, YR 1999" (HD 19) is based on the assumption that two staff members will leave and be replaced during 1999 by another two, who will need training.

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

OCA/USPS-T3-24. Please refer to your response to OCA/USPS-T3-1, page 1 of the "Cost Component Sources/Derivations Worksheet." In row 4, under the column "No. of Units Source/Derivation," it states

Attachment 1 Item 22 Technical Help Desk Resource Years; HD 13, HD 14 = Item #22, rounded to the nearest resource year. Due to the lack of empirical data regarding the amount of customer calls expected, one additional year was added.

For the "YR 1999 Estimate," item #22, Technical Help Desk Resource Years, is 1.33. For the "ANNUAL COSTS, YR 1999," HD 13 and HD 14 show 1 Technical Help Desk Manager and 3 Technical Help Desk Staff.

- a. Please identify the figure to which "one additional year was added."
- b. Please explain, and show in mathematical terms, how item #22 and HD 13 and HD 14 are related.

RESPONSE

- a. With the exception of 2001, at least one resource year was added to item #22 to produce a value for HD 14. Additional time was added to provide an estimate that would avoid understating costs.

	1999	2000	2001	2002	2003
Attachment 1, Item #22	1.33	1.80	2.57	3.26	3.02
Attachment 2, HD 14	3.00	3.00	3.00	5.00	5.00

- b. HD 14 is item 22 plus one rounded up, except for 2001, as shown in my response to part (a) above. There is no mathematical relationship between HD 13 and HD 14. A manager is assumed to be required to oversee the Technical Help Desk activity and is estimated as one resource in HD 13.

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

OCA/USPS-T3-57. Please refer to USPS-LR-1/MC98-1, Attachment 1, at page 11, section TECHNICAL HELP DESK RESOURCE YEARS, Help Desk Volumes/Durations, in the column YR 1999 Estimate.

- a. Please confirm that the figure, 2,991, is expressed in units of "hours." If you do not confirm, please show the derivation of the proper units.
- b. Please confirm that the figure, 1,794, is expressed in units of "hours." If you do not confirm, please show the derivation of the proper units.
- c. Please confirm that the figure, 4,785, is expressed in units of "hours." If you do not confirm, please show the derivation of the proper units.
- d. Please confirm that the figure, 2.66, is expressed in units of "resource year." If you do not confirm, please show the derivation of the correct units.
- e. Please confirm that the figure, 0.5, is a pure number with no associated units. If you do not confirm, please show the derivation of the proper units.
- f. Please confirm that the figure, 2,392, is expressed in units of "hours." If you do not confirm, please show the derivation of the proper units.
- g. Please confirm that the figure, 1.33, is expressed in units of "resource years." If you do not confirm, please show the derivation of the correct units.
- h. Please confirm that the figure referred to in part (f) of this interrogatory is not used in the calculation of the figure, 1.33, "resource years" or for any other purpose. If you do not confirm, please explain.

RESPONSE

- a. Confirmed that the figure, 2,991, represents the total first time call hours as indicated in Attachment 1: "Total First Time Call Hours."
- b. Confirmed that the figure, 1,794, represents the total number of hours representing on-going calls as indicated in Attachment 1: "Total On-going call hours."
- c. Confirmed that the figure, 4,785, represents the total number of call hours as indicated in Attachment 1: "Total call hours".
- d. Confirmed that the figure, 2.66, represents the number of help desk resource years as indicated in Attachment 1: "Total Help Desk Resource Years".
- e. Confirmed that the figure, 0.5, is a pure number with no associated units. This figure represents the percentage of customer calls requiring technical help as indicated in Attachment 1: "Percentage of customer calls requiring technical help".

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

- f. Confirmed that the figure, 2,392, represents the total number of hours taken by customer calls requiring technical assistance as indicated in Attachment 1: "Technical Help Desk Calls"
- g. Confirmed that the figure, 1.33, represents the total of resources, expressed in resource years, required to support customer calls requiring technical support as indicated in Attachment 1: "Technical Help Desk resource Years"
- h. Confirmed that the figure referred to in part (f) of this interrogatory is not used in the calculation of the figure, 1.33, "resource years". The figure was included to show the number of hours attributable to customer calls requiring technical support.

Response Of Postal Service Witness Stirewalt
To MASA Interrogatory

MASA/USPS-T3-5. Confirm that for the two year period during which the experimental classification for MOL is proposed to be in effect:

a) the total personnel cost estimated in the cost category Technical Help Desk is

1999	282,000
------	---------

2000	282,000
------	---------

b) the total number of users of MOL is estimated to be

1999	5,981
------	-------

2000	10,439
------	--------

c) "users" as used in LR-1, Attachment 1, does not include potential customers who make inquiry about MOL, but do not end up utilizing the service.

Explain why Technical Help Desk costs for 1999 and 2000 are the same while the number of users is expected to increase.

RESPONSE

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

I used a set of calculations to arrive at a total number of calls hours for years 1999 and 2000, described explicitly in Attachment 1, page 11, and elaborated upon in my responses to OCA/USPS-T3-14, OCA/USPS-T3-15, and OCA/USPS-T3-16. According to these calculations, the required Technical Help Desk staff resource years for 1999 and 2000 are 1.33 and 1.8, respectively. To be conservative, I included an estimate of 3 resource years for both 1999 and 2000. That is why the Technical Help Desk costs for both years are the same.

Response Of Postal Service Witness Stirewalt
To MASA Interrogatory

MASA/USPS-T3-6.

- (a) Confirm that the Postal Service estimates that it will be necessary to assign 4 employees to functions in the Technical Help Desk category during 1999 and 2000. If you are unable to confirm, explain fully.
- (b) Describe in detail all job functions to be performed in the Technical Help Desk cost category.
- (c) Confirm that personnel assigned to perform job functions in the Technical Help Desk cost category will not perform job functions in any other cost category. If you cannot confirm, explain fully.

RESPONSE

- a) Confirmed. Refer to Attachment 1, page 11, my responses to OCA/USPS-T3-14 and OCA/USPS-T3-15, OCA/USPS-T3-16, and MASA/USPS-T3-5 above.
- b) Technical Help Desk functions include: 1) Responding to information technology-related problems, 2) Documenting reported problems as "problem tickets," 3) Answering technical queries and/or referring technical queries to appropriate technical personnel both inside and outside the Mailing Online processing site, 4) Monitoring the status of "problem tickets," 5) Elevating problems to appropriate levels of management, 6) Monitoring and reporting the status of the Mailing Online technology components in terms of availability (to users), the number of outstanding problem tickets.
- c) Confirmed.

**Response Of Postal Service Witness Stirewalt
To MASA Interrogatory**

MASA/USPS-T3-7. For purposes of the interrogatory, reference is made to LR-1, Attachment 1, page 11, under the heading "Technical Help Desk Resource Years".

- (a) Define the following terms: (i) Help Desk resource Years, (ii) First time call Hours, and (iii) On-going call hours.
- (b) Confirm that the "Total Call Hours" line is derived as the sum of the Total First Time Call Hours and Total On-going Call Hours, and not the product of those two numbers as reflected in the source column. If you cannot confirm, explain fully.
- (c) Explain fully the way you have treated "Total Call Hours" and "Technical Help Desk Call Hours" for purposes of your cost estimates.
- (d) Explain fully the methodology you have used to estimate "Total On-going Call Hours". Include in your answer a full description of the "experience during operational test" relied upon in making your estimate.
- (e) With respect to the line "percentage of customer calls requiring technical help" describe fully the "experience during the pilot referred to in the source column. Explain fully what percentage is indicated by that experience and why you used a "lower" percentage

RESPONSE

- a. Help Desk Resource Years refers to the numbers of work years required to man the Technical Help Desk. As shown in Attachment 1, page 11, Help Desk Resource Years is calculated by dividing the Total Help Desk hours by 2, then divided by (an assumed) 1800-hour work year. First Time Call Hours refers to the number of hours required to handle customers' initial calls. As shown in Attachment 1, page 11, First Time Call Hours is calculated by multiplying the estimated duration of the first customer call by the number increase in customers over the previous year, multiplied by a "turn over" factor of 1.5. As explained in my response to OCA/USPS-T3-15-a, I refer to

Response Of Postal Service Witness Stirewalt
To MASA Interrogatory

the number of calls over any given period of time, excluding the initial call for any given customer, as "on-going". As shown in Attachment 1, page 11 On-Going Call Hours is calculated by multiplying the total number of customers by .1 hour estimated average duration for any given on-going call, and multiplying by 3 calls average per year.

- b. Confirmed.
- c. For estimating purposes, I assumed that the Technical Help Desk would be contacted for a percentage of customer calls related to the Mailing Online Service. As I explained in my response to OCA/USPS-T3-16(b), in my professional opinion, less than 50% of calls should require technical assistance. I therefore felt it was reasonable to assume that the estimated "Technical Help Desk Call Hours" should be one half of the "Total Call Hours".
- d. Refer to my response to "a" above for a description of how I arrived at a figure for "Total On-going Call Hours". Refer to my response to OCA/USPS-T3-15(b) for a full description of the "experience during operational test" relied upon in making my estimate.
- e. Refer to my response to OCA/USPS-T3-15(b) for a full description of the "experience during operational test" relied upon in making my estimate.

Response Of Postal Service Witness Stirewalt
To MASA Interrogatory

Refer to my response to (c) above for an explanation of how I arrived at a
50% percentage.

Response Of Postal Service Witness Stirewalt
To OCA Interrogatory

OCA/USPS-T3-14. Please refer to USPS-LR-1/MC98-1, Attachment 1, page 11, concerning the Technical Help Desk Resource Years.

- a. In the line "Total First Time Call Hours," please confirm that the factor 1.5 "to account for customer turn over" was obtained during the Mailing Online operational test period from
 - i. sampling data;
 - ii. time-series data, or;
 - iii. personal observation.If you do not confirm, please explain.
- b. In the line "Total First Time Call Hours," please confirm that the 0.5 hour "estimate for initial call" was estimated from experience during the Mailing Online operational test period from
 - i. sampling data;
 - ii. time-series data, or;
 - iii. personal observation.If you do not confirm, please explain.
- c. Please confirm that an increase in the 0.5 hour "estimate for initial call" would increase the estimated fixed costs to the Postal Service for Mailing Online service. If you do not confirm, please explain.
- d. Please identify where the figures in the line "Total First Time Call Hours" are used in Attachment 2: Detailed Cost Estimates of USPS-LR-1/MC98-1.

RESPONSE

- a. I assumed a 1.5 customer roll over factor because I felt it was reasonable to assume that some current customers may discontinue using Mailing Online and, conversely, that new customers should be expected to begin using Mailing Online. The 1.5 roll over factor did not come from the operational test. The only information I have from the operational test that has any bearing on Technical Help Desk Resource Years is anecdotal; new customers require one half hour with a Help Desk agent the first time they contact the Help Desk to review the functionality of Mailing Online.
- b. The 0.5 hour "estimate for initial call" is based on discussions with Help Desk agents after the first few weeks of the operational test.

**Response Of Postal Service Witness Stirewalt
To OCA Interrogatory**

- c. Confirmed. However, I strongly believe that the half-hour figure is already very conservative, so if it is an inaccurate estimate, it errs only on the high side.
- d. They are not used directly. Please refer to the Cost Component Sources/Derivations Worksheet included in my response to interrogatories OCA/USPS-T3-1-4 for a description of how Attachment 1 figures correspond to component unit costs and number of units shown in Attachment 2.

**Response Of Postal Service Witness Stirewalt
To OCA Interrogatory**

OCA/USPS-T3-15. Please refer to USPS-LR-1/MC98-1, Attachment 1, page 11, concerning the Technical Help Desk Resource Years.

- a. In the line "Total On-going calls hours," please define "on-going calls."
- b. In the line "Total On-going calls hours," please confirm that the 0.1 hour "estimate for on-going calls" was estimated from experience during the Mailing Online operational test period from
 - i. sampling data;
 - ii. time-series data, or;
 - iii. personal observation.

If you do not confirm, please explain.

- c. In the line "Total On-going calls hours," please confirm that the estimate of "3 calls average per year" was obtained during the Mailing Online operational test period from
 - i. sampling data;
 - ii. time-series data;
 - iii. personal observation, or;
 - iv. marketing survey.

If you do not confirm, please explain.

- d. Please confirm that an increase in the 0.1 hour "estimate for on-going calls" would increase the estimated fixed costs to the Postal Service for Mailing Online service. If you do not confirm, please explain.
- e. Please identify where the figures in the line "Total On-going call hours" are used in Attachment 2: Detailed Cost Estimates of USPS-LR-1/MC98-1.

RESPONSE

a. I refer to the number of calls over any given period of time, excluding the initial call for any given customer, as "on-going".

b. I assumed 0.1 hour for each "on-going" call based solely on professional experience and not based on any information made available to me regarding the Mailing Online operations test.

Response Of Postal Service Witness Stirewalt
To OCA Interrogatory

c. I assumed "3 calls average per year" based solely on professional experience and not based on any information made available to me regarding the Mailing Online operations test.

d. Confirmed.

e. Please refer to the Cost Component Sources/Derivations Worksheet included in my response to OCA interrogatories 1-4 for a description of how Attachment 1 figures correspond to component unit costs and number of units shown in Attachment 2.

Response Of Postal Service Witness Stirewalt
To OCA Interrogatory

OCA/USPS-T3-16. Please refer to USPS-LR-1/MC98-1, Attachment 1, page 11, concerning the Technical Help Desk Resource Years. In the line "Percentage of customer calls requiring technical help," it states that "Experience during the pilot indicates that this percentage is low, but 50% is assumed for capacity planning."

- a. Please provide the actual percentage of customer calls requiring technical help during the "pilot."
- b. Please provide the rationale for assuming only 50 percent of customer calls would require technical help.
- c. Please confirm that the "Percentage of customer calls requiring technical help" is used to estimate the fixed costs of the Mailing Online service. If you do not confirm, please explain.
- d. Please confirm that a percentage greater than 50 percent of customer calls requiring technical help would increase the estimated fixed costs to the Postal Service for Mailing Online service. If you do not confirm, please explain.

RESPONSE

- a. The breakdown of customer calls during the operations test for the period

March 9, 1998 to August 13, 1998 is as follows:

Call Type	Item Affected	Problem	Question	Request	Comment	Change/Enhancement	Total
Payment Adjustment	Credit-PO Mailing	5	4	17			26
Software	Access	2					2
Software	Adobe	4					4
Software	MS Excel	1	1				2
Software	MS Word	1	5				6
Software	Pagemaker		2				2
Software	Quark Xpress	1	1				2
Software	Tab Delimited	2	1				3
Software	WordPerfect		1				1
Job Status	Current	13	8	1	2		24
Job Status	Other	3	4			1	8
Job Ticket	Job Quote	6	4		1		11
Job Ticket	Print Options	4	6		1	1	12
Job Ticket	PDF View	14	1				15
Other	Other	14	9	3	8	5	39
Service Failure	Not to Order	9		1	2		12

**Response Of Postal Service Witness Stirewalt
To OCA Interrogatory**

Service Failure	Late Delivery	5			1		6
Service Failure	Orphaned Job	5			2	1	8
Service Failure	Print Quality	2	1		3		6
Upload	Document	33	14		3		50
Upload	Mailing List	28	10	2	3		43
Upload	Upload Failure	64	3		1		68
	Totals	216	75	24	27	8	350

If "software", and "upload" call types are categorized as technical assistance then 183 or 52% of a total of 350 calls would fall into the technical assistance category.

b. In my professional opinion, less than 50% of calls should require technical assistance. I therefore felt it was reasonable to assume 50% for estimating purposes.

c. Confirmed.

d. Confirmed.

- 763

1 COMMISSIONER LeBLANC: Thank you, Mr. Hollies.

2 Does any participant have additional written cross
3 examination for the witness at this time?

4 Excuse me one second. Mr. Reporter, do you have
5 enough -- do you have both copies? Thank you.

6 No other one.

7 At the prehearing conference, MASA, OCA and Pitney
8 Bowes indicated that they might cross examine this witness.
9 Does any other participant want to cross examine the witness
10 this morning?

11 Okay. I see that MASA is not here. We'll move on
12 with OCA again. We'll stay with the same order.

13 Mr. Costich.

14 MR. COSTICH: Thank you, Mr. Presiding Officer.

15 CROSS EXAMINATION

16 BY MR. COSTICH:

17 Q Good morning, Mr. Stirewalt.

18 A Good morning.

19 Q My name is Rand Costich, and I'll be asking you
20 questions on behalf of the OCA this morning.

21 Could you turn to your response to Interrogatory
22 OCA/USPS-T3-13.

23 A I have it.

24 Q In this response, you discuss the differences
25 between a mail merge job and a non-mail merge job; is that

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

OCA/USPS-T3-62. Please refer to USPS-LR-1/MC98-1, Attachment 1, at page 11, the "TECHNICAL HELP DESK RESOURCE YEARS, Help Desk Volumes/Durations."

- a. For 1999, please confirm that the number 2,991, "Total First Time Call Hours," is calculated by multiplying the "Total Number of Users" (5,981) by one-half hour (0.50). If you do not confirm, please explain.
- b. For 1999, please confirm that the number 1,794, "Total On-going call hours," is calculated by multiplying the "Total Number of Users" (5,981) by one-tenth hour (0.10) and the number of on-going calls per year (3). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

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

OCA/USPS-T3-63. Please refer to USPS-LR-1/MC98-1, Attachment 1, at page 11, the "TECHNICAL HELP DESK RESOURCE YEARS, Help Desk Volumes/Durations."

- a. Please confirm that the Mailing Online Technical Help Desk or the PostOffice Online Help Desk will receive four calls (1 initial call plus 3 "on-going" calls) from each Mailing Online customer. If you do not confirm, please explain.
- b. Please confirm that the duration of the calls referred to in part (a) of this interrogatory is 48 minutes (30 minutes for one initial call + (6 minutes * 3 "on-going" calls)). If you do not confirm, please explain.
- c. Please confirm that 50 percent of "Total call hours" will consist of customer inquiries responded to by the Mailing Online Technical Help Desk, and 50 percent will consist of inquiries responded to by the Post Office Online Help Desk. If you do not confirm, please explain.
- d. Please confirm that the duration of the calls referred to in part (a) of this interrogatory responded to by the Mailing Online Technical Help Desk is 24 minutes ((30 minutes for initial calls + 6 minutes for each "on-going" call) * 0.50). If you do not confirm, please explain.
- e. Please confirm that the average duration of each call referred to in part (a) of this interrogatory responded to by the Mailing Online Technical Help Desk is 6 minutes (24 minutes / 4 calls). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed that I estimated that each customer would initiate four calls to the PostOffice Online Help Desk per year.
- b. Confirmed.
- c. Not confirmed. I estimated that fifty percent of customer calls would generate an inquiry or problem report to the Technical Help Desk. Customers would not be in direct contact with Technical Help Desk staff. Since all customer calls would be to the PostOffice Online Help Desk, the PostOffice Online Help Desk would spend some amount of time for each customer call. First, total customer call hours was estimated. I used half of that amount as a reasonable estimate of Technical Help Desk work hours.
- d. Not confirmed. See my response to part (c) above. Customers do not make calls directly to the Technical Help Desk, and I did not estimate the average length of calls from the PostOffice Online Help Desk to the Technical Help Desk.
- e. Not confirmed. See my response to part (c) above. Customers do not make calls directly to the Technical Help Desk. I did not estimate the average duration of calls to the Technical Help Desk.

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

OCA/USPS-T3-64. Please refer to USPS-LR-1/MC98-1, Attachment 1, at page 6.

- a. Please confirm that, of the 12 "Average customer sessions per user per year," 4 will involve telephone inquiries concerning Mailing Online. If you do not confirm, please explain.
- b. Please confirm that one-third (4 / 12) of the "Average customer sessions per user per year" will involve telephone inquiries concerning Mailing Online. If you do not confirm, please explain.
- c. Please confirm that 23,924 ($71,772 \times 0.3333$) of the total annual number of Mailing Online transactions in 1999 will involve telephone inquiries concerning Mailing Online. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. Refer to my response to OCA/USPS-T3-31(c) regarding calls to the Technical Help Desk. I did not associate customer calls directly with the number of customer sessions, but rather to the number of customers. The four calls could be associated with one or more customer sessions.
- b. Not confirmed. Refer to my response to part (a) above.
- c. Not confirmed. Refer to my response to part (a) above.

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

OCA/USPS-T3-65. Please refer to your response to OCA/USPS-T3-31. Please confirm that the "cost driver" for the costs of the Mailing Online Technical Help Desk and the PostOffice Online Help Desk associated with Mailing Online is the estimated number and duration of calls. If you do not confirm, please explain.

RESPONSE:

The words "cost driver" do not appear in my response to OCA/USPS-T3-31. Confirmed that the estimated number and duration of customer calls to the PostOffice Online Help Desk are used in developing my cost estimates for human resources for the Technical Help Desk. See my response to OCA/USPS-T3-63(c).

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

OCA/USPS-T3-66. Please refer to USPS-LR-1/MC98-1, Attachment 2, at pages 12-13, concerning the "Technical Help Desk."

- a. For the "YR 1999," please confirm that the total variable costs of the technical help desk are \$282,000. If you do not confirm, please explain.
- b. For the "YR 1999," please confirm that the total variable costs of \$282,000 are incurred to respond to calls generating 2,392 "Technical Help Desk Call Hours." If you do not confirm, please explain.
- c. For the "YR 1999," please confirm that the variable cost per hour of the technical help desk is \$117.89 ($\$282,000 / 2,392$ hours). If you do not confirm, please explain.
- d. For the "YR 1999," please confirm that the variable cost per call of the technical help desk is \$11.79 ($\$117.89 / (60 \text{ minutes} / 6 \text{ minutes per call})$). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. The \$282,000 are required to provide additional staffing to a pre-existing postal Technical Help Desk to handle calls from the PostOffice Online Help Desk. A calculation of variable cost per hour of the Technical Help Desk cannot be determined by using figures from Mailing Online.
- d. Not confirmed. I did not determine an average call time for the Technical Help Desk. Even for the PostOffice Online Help Desk, as indicated in USPS-LR-1, Attachment 2, pages 12-13, I designate a duration of 30 minutes for the initial call from each customer, and 6 minutes for each of three follow-on calls. There is no average of six minutes per customer call.

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

OCA/USPS-T3-67. Please refer to your response to OCA/USPS-T3-17, which refers to the PostOffice Online Help Desk as being "run by a contractor." Please provide a copy of the contract for the PostOffice Online Help Desk.

RESPONSE:

There is no contract specific to the PostOffice Online Help Desk. Help desk support is part of the overall contract for integration of PostOffice Online. A pertinent section of and attachment to the contract (describing the Help Desk activities), plus the contract modification, delivery order, and delivery order modifications (indicating authorized payment amounts) for the PostOffice Online Help Desk are being filed in USPS-LR-14/MC98-1.

1 COMMISSIONER LeBLANC: Next I want to make sure
2 that everyone is clear that the designated direct testimony
3 of Witness Rothschild from Docket Number MC98-1 has already
4 been admitted into the record in this case, even though it
5 has not been transcribed. That is USPS-T-4 in Docket Number
6 MC98-1.

7 Finally, it is my understanding that parties are
8 developing a proposed stipulation and agreement, and I
9 understand that has been taken care of now, that utilizes
10 the language contained in the Postal Service response to
11 Notice of Inquiry Number 1 as a starting point.

12 Often responses to Notices of Inquiry are
13 incorporated into the evidentiary record and I believe this
14 has all been taken care of. Am I correct in that? I
15 believe, Mr. Reiter, you had this, and can you give us a
16 status report update as to where we stand at this particular
17 point to make sure we are all on the same sheet of music
18 here, please?

19 MR. REITER: Yes, I can.

20 COMMISSIONER LeBLANC: Can you speak up? I can't
21 quite hear you.

22 MR. REITER: Yes, I can.

23 COMMISSIONER LeBLANC: Thank you.

24 MR. REITER: I provided copies to the Commission
25 and the participants earlier this morning of documents that

1 we intend to file today.

2 One is a stipulation and agreement which, as you
3 point out, establishes agreement among some of the parties
4 on the language that we provided to the Commission in
5 response to the Notice of Inquiry.

6 Pitney Bowes and the Office of the Consumer
7 Advocate will be signing that as well. A change or two that
8 I need to make in the document, just slight typos and
9 mistakes in words, will necessitate me revising this
10 slightly and then we will file it this afternoon, but it
11 doesn't change the substance of the agreement.

12 COMMISSIONER LeBLANC: That was my question. The
13 substantive issues are still taken care of? It's mainly the
14 language at this particular point?

15 MR. REITER: Right. There is no disagreement on
16 that. That is taken care of.

17 COMMISSIONER LeBLANC: Just to make sure that the
18 record is clear, there's no objections from anybody in the
19 room today then? Okay.

20 Do you have something you want to say, Mr.
21 Wiggins?

22 [No response.]

23 COMMISSIONER LeBLANC: I'm sorry, Mr. Wiggins, go
24 ahead.

25 MR. HIMELES: I'm sorry, Mr. Presiding Officer, on

1 behalf of MASA let me just indicate that we don't object to
2 the offering of the stipulation. We are not a party to the
3 stipulation and certainly reserve our right to address the
4 substance of this issue in that respect.

5 COMMISSIONER LeBLANC: I understand, thank you
6 very much.

7 MR. REITER: And I would point out also that we
8 haven't had a chance yet to circulate this to any of the
9 other intervenors, which we will do in the event that some
10 of them may wish to either sign it or express no opinion and
11 leave it to brief.

12 COMMISSIONER LeBLANC: I was going to ask that,
13 because I noticed in what you presented to the bench here
14 there was no signature page on the back except for the
15 Postal Service.

16 MR. REITER: Right. I now have the ones from
17 Pitney Bowes and the OCA and I will be including those in
18 the package that I filed with the docket section this
19 afternoon.

20 COMMISSIONER LeBLANC: And if there is a problem,
21 you will get back with us in writing then?

22 MR. REITER: I sure will.

23 COMMISSIONER LeBLANC: Thank you.

24 Since this has already been filed and taken care
25 of in partiality and in some degree to completeness this

1 morning, I will change the currently established dates for
2 briefs then, which the attorney for MASA has talked about.

3 Initial briefs are due on or before March 8th and
4 reply briefs are due on or before March 15th.

5 Any problems, anybody?

6 MR. HIMELES: Mr. Presiding Officer, my partner
7 Mr. Bush, who as you know is the person most familiar with
8 this proceeding on behalf of MASA, will be on vacation from
9 March 2nd through March 9th.

10 I wonder if it is possible to accommodate his
11 schedule. I think originally these dates were a week later,
12 both dates, and that would certainly make matters much more
13 manageable from our perspective.

14 COMMISSIONER LeBLANC: His vacation is the 2nd
15 through the 9th he said?

16 MR. HIMELES: Yes, it is.

17 COMMISSIONER LeBLANC: And there is no way that
18 this can be done previous to that then, without some more
19 hardships on your case?

20 MR. HIMELES: Well, we certainly would find a way
21 to do as much of it as possible before his departure, but I
22 spoke to him yesterday when he was travelling and we
23 discussed this proceeding and he had a real concern about
24 completing our submission before his departure.

25 COMMISSIONER LeBLANC: Well, tell him to enjoy

1 himself, but make sure the briefs are excellent -- so we
2 will go back to the original dates then.

3 MR. HIMELES: Thank you very much, Mr. Presiding
4 Officer.

5 COMMISSIONER LeBLANC: Now for the Commission's
6 information here, can the Postal Service provide us an
7 update estimate of when the Postal Service will be able to
8 initiate Mailing Online service, assuming the Commission
9 were to recommend and the Governors were to approve the
10 proposed Mailing Online experiment?

11 I guess it is back to you, Mr. Hollies.

12 MR. HOLLIES: Yes. I wish I knew the answer to
13 that question myself.

14 I don't know because I am getting conflicting
15 information. If Plan A is the one that's operative, there
16 will be perhaps even a couple of months of slip.

17 But there's a Plan B in the works that would --

18 COMMISSIONER LeBLANC: Plan A being what?

19 MR. HOLLIES: We, the Postal Service, in the large
20 sense of the word, rather than in the Mailing Online sense
21 of the word, has a relationship with an outside consultancy.
22 They are the ones trying to build the USPS.com site.

23 There were some procurement and other issues that
24 caused some delay in getting that relationship established
25 and up and working. And it is now functional. So that's

1 Plan A.

2 However, the Business Manager of Mailing Online,
3 Mr. Plunkett, has initiated a Plan B which would provide a
4 bridge system that would enable us to go live sooner with
5 Mailing Online, and then merge it into the full-blown form
6 of USPS.com when it becomes available.

7 I do not know, beyond that, where things stand. I
8 think it wouldn't surprise me if -- let's see, the plan for
9 this case had been to try to get a decision from the
10 Commission by mid-April, to get to the May Board of
11 Governors meeting. I think that's still possible, and I
12 would think that we can still put the service up in the
13 middle of May.

14 But my confidence on that has slipped, and I think
15 it's possible that we won't be that quick.

16 COMMISSIONER LeBLANC: Okay, thank you very much.
17 Does any other participant wish to raise an issue for
18 consideration today?

19 [No response.]

20 COMMISSIONER LeBLANC: Good. That being the
21 situation, do any of my colleagues have any questions,
22 comments, suggestions, ideas, opinions or whatever?

23 [No response.]

24 COMMISSIONER LeBLANC: Good. Then in that
25 particular case, we can conclude today's hearing. Thank you

1 for your attention. This hearing is now adjourned. Thank
2 you very much. Off the record, Mr. Reporter.

3 [Whereupon, at 10:15 a.m., the hearing was
4 adjourned.]

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