

ORIGINAL
Official Transcript of Proceedings

Before the
UNITED STATES POSTAL RATE COMMISSION

In the Matter of: **POSTAL RATE AND FEE CHANGE**

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Docket No. **R2000-1**

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ANN RILEY & ASSOCIATES, LTD.
1025 Connecticut Avenue, N.W., Suite 1014
Washington, D.C. 20036
(202) 642-0834

BEFORE THE
POSTAL RATE COMMISSION

- - - - -X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
- - - - -X

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

Volume XXXVI
Friday, August 4, 2000

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

BEFORE:

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

1 APPEARANCES:

2 On behalf of the National Association of Letter
3 Carriers, AFL-CIO:
4 KEITH SECULAR, ESQ.
Cohen, Weiss & Simon
330 W. 42nd Street
New York, NY 10036

5 On behalf of the Newspaper Association of America:
6 ROBERT J. BRINKMANN, ESQ.
Newspaper Association of America
429 14th Street, NW
7 Washington, DC 20045

8 WILLIAM B. BAKER, ESQ.
9 Wiley, Rein & Fielding
1776 K Street, NW, Suite 1100
Washington, DC 20006

10 On behalf of the National Association of Presort
11 Mailers:
HENRY A. HART, ESQ.
12 Reed, Smith, Shaw & McClay, LLP
1301 L Street, NW
13 East Tower, Suite 1100
Washington, DC 20005

14 On behalf of the Classroom Publishers Association:
15 STEPHEN F. OWEN, JR., ESQ.
5335 Wisconsin Avenue, NW
16 Suite 920
Washington, DC 20015

17 On behalf of OCA-PRC:
18 KENNETH E. RICHARDSON, ESQ.
EMMETT RAND COSTICH, ESQ.
19 SHELLEY S. DREIFUSS, ESQ.
TED P. GERARDEN, DIRECTOR
20 Office of the Consumer Advocate
Public Rate Commission
21 1333 H Street, NW
Washington, DC 20005

22 On behalf of Hallmark Cards, Incorporated:
23 DAVID F. STOVER, ESQ.
SHELDON BIERMAN, ESQ.
24 2970 S. Columbus Street, Suite 1B
Arlington, VA 22206

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1025 Connecticut Avenue, NW, Suite 1014
Washington, D.C. 20036
(202) 842-0034

1 APPEARANCES: (continued)

2 On behalf of ADVO, Incorporated; and the
3 Saturation Mail Coalition:

4 JOHN M. BURZIO, ESQ.
5 THOMAS W. McLAUGHLIN, ESQ.
6 Burzio & McLaughlin
7 1054 31st Street, NW, Suite 540
8 Washington, DC 20007

9 On behalf of the American Postal Workers Union,
10 AFL-CIO:

11 SUSAN L. CATLER, ESQ.
12 O'Donnell, Schwartz & Anderson, P.C.
13 1300 L Street, NW, Suite 1200
14 Washington, DC 20005

15 On behalf of the American Bankers Association:
16 IRVING D. WARDEN, ESQ.
17 1120 Connecticut Avenue, NW
18 Washington, DC 20036

19 On behalf of the Amazon.com:
20 WILLIAM B. BAKER, ESQ.
21 Wiley, Rein & Fielding
22 1776 K Street, NW, Suite 1100
23 Washington, DC 20006

24 WILLIAM J. OLSON, ESQ.
25 JOHN S. MILES, ESQ.
William J. Olson, PC
8180 Greensboro Drive, Suite 1070
McLean, VA 22102

On behalf of the Association of American
Publishers:
MARK PELESH, ESQ.
JOHN PRZYPYSZNY, ESQ.
Drinker, Biddle & Reath, LLP
1500 K Street, NW, Suite 1100
Washington, DC 20005

On behalf of the Alliance of Nonprofit Mailers;
American Library Association:
DAVID M. LEVY, ESQ.
CHRISTOPHER T. SHENK, ESQ.
Sidley & Austin
1722 Eye Street, NW
Washington, DC 20006

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1025 Connecticut Avenue, NW, Suite 1014
Washington, D.C. 20036
(202) 842-0034

1 APPEARANCES: (continued)

2 On behalf of the McGraw-Hill Companies,
3 Incorporated:

4 TIMOTHY W. BERGIN, ESQ.
5 Squire, Sanders & Dempsey, LLP
6 P.O. Box 407
7 Washington, DC 20044

8 On behalf of the American Business Press:
9 DAVID STRAUS, ESQ.

10 MERCIA ARNOLD, ESQ.
11 Thompson, Coburn
12 700 14th Street, NW, Suite 900
13 Washington, DC 20005

14 On behalf of the Florida Gift Fruit Shippers
15 Association:

16 MAXWELL W. WELLS, JR., ESQ.
17 Maxwell W. Wells, Jr., PA
18 14 E. Washington Street, Suite 600
19 Orlando, FL 32802

20 On behalf of the Association for Postal Commerce;
21 Pitney-Bowes and the Recording Industry
22 Association; R.R. Donnelly & Sons Company:

23 IAN D. VOLNER, ESQ.
24 FRANK WIGGINS, ESQ.
25 HEATHER McDOWELL, ESQ.
Venable, Baetjer, Howard & Civiletti
1201 New York Avenue
Washington, D.C. 20005

On behalf of the Direct Marketing Association:

DANA T. ACKERLY, ESQ.
GERARD N. MAGLIOCCA, ESQ.
Covington & Burling
1201 Pennsylvania Avenue, NW
Washington, D.C. 20004

On behalf of Time Warner, Inc.:

JOHN M. BURZIO, ESQ.
TIMOTHY L. KEEGAN, ESQ.
Burzio & McLaughlin
1054 31st Street, NW, Suite 540
Washington, DC 20007

24

25

1 APPEARANCES: (continued)

2 On behalf of ValPak Direct Marketing Systems,
3 Inc.; ValPak Dealers Association, Inc.; Carol
4 Wright Promotions, Inc.; Association of Priority
5 Mail Users, Inc.; District Photo, Inc.; Cox
6 Sampling; and Mystic Color Lab:
7 WILLIAM J. OLSON, ESQ.
8 JOHN S. MILES, ESQ.
9 William J. Olson, PC
10 8180 Greensboro Drive, Suite 1070
11 McLean, VA 22102

12 On behalf of the United Parcel Service:
13 JOHN E. McKEEVER, ESQ.
14 WILLIAM J. PINAMONT, ESQ.
15 Piper, Marbury, Rudnick & Wolfe, LLP
16 3400 Two Logan Square
17 18th & Arch Streets
18 Philadelphia, PA 19103

19 On behalf of the Dow Jones & Company, Inc.:
20 MICHAEL F. McBRIDE, ESQ.
21 BRUCE W. NEELY, ESQ.
22 JOSEPH FAGAN, ESQ.
23 LeBoeuf, Lamb, Greene & McCrae, LLP
24 1875 Connecticut Avenue, NW, Suite 1200
25 Washington, DC 20009

On behalf of the Parcel Shippers Association; and
E-Stamp Corporation:
TIMOTHY J. MAY, ESQ.
Patton Boggs, LLP
2550 M Street, NW
Washington, D.C. 20037

On behalf of Stamps.com:
DAVID P. HENDEL, ESQ.
Wickwire Gavin, P.C.
8100 Boone Boulevard, Suite 700
Vienna, VA 22182

On behalf of the National Newspaper Association;
and the Professional Football Publication
Association:
TONDA F. RUSH, ESQ.
King & Ballow
6054 N. 21st Street
Arlington, VA 22205

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1025 Connecticut Avenue, NW, Suite 1014
Washington, D.C. 20036
(202) 842-0034

1 APPEARANCES: (continued)

2 On behalf of Key Span Energy; Long Island Power
3 Authority; and Major Mailers Association:
4 MICHAEL W. HALL, ESQ.

5 34693 Bloomfield Avenue
6 Round Hill, VA 20141

7 On behalf of the Mail Advertising Services
8 Association International; and Smart Mail, Inc.:
9 GRAEME W. BUSH, ESQ.

10 Zuckerman, Spader, Goldstein, Taylor & Kolken, LLP
11 1201 Connecticut Avenue, NW
12 Washington, DC 20036

13 On behalf of the Coalition for Religious Press
14 Associations:

15 JOHN STAPERT, ESQ.
16 1215 17th Street, NW
17 Washington, D.C. 20036

18 STEPHEN FELDMAN, ESQ.
19 Law Offices of Stephen M. Feldman
20 601 Pennsylvania Avenue, NW
21 Building SJE 900
22 Washington, D.C. 20004

23 On behalf of the Magazine Publishers of America:
24 JAMES CREGAN, ESQ.

25 ANNE NOBLE, ESQ.
Magazine Publishers of America
Suite 610
1211 Connecticut Avenue, NW
Washington, D.C. 20036

JAMES PIERCE MYERS, ESQ.
1617 Courtland Rd.
Alexandria, VA 22306

On behalf of the Mail Order Association of
America:

DAVID TODD, ESQ.
Patton Boggs L.L.P
2550 M Street, NW
Washington, D.C.

On behalf of Continuity Shippers Association:

AARON C. HOROWITZ, ESQ.
Cosmetique
200 Corporate Woods Parkway
Vernon Hills, Illinois 60061

1 APPEARANCES: (continued)

2 On behalf of the Greeting Card Association:

3 ALAN R. SWENDIMAN, ESQ.

4 Jackson & Campbell, P.C.

5 1120 Twentieth Street, NW

6 Suite 300 South

7 Washington, D.C. 20036-3427

8 On behalf of USPS:

9 MARK W. RO, ESQ.

10 United States Postal Service

11 475 L'Enfant Plaza, SW

12 Washington, D.C. 20260-1127

13 On behalf of AISOP:

14 DONNA HANBERY, ESQ.

15 Hanbery, Neumeyer & Carney, P.A.

16 3725 Multitfood's Tower

17 Minneapolis, MN 55402

18

19

20

21

22

23

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C O N T E N T S

WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
JAMES F. CALLOW				
BY MR. GERARDEN	16876			
BY MR. TIDWELL		16901		

DOCUMENTS TRANSCRIBED INTO THE RECORD:	PAGE
Rebuttal Testimony of James F. Callow, OCA-RT-1	16878
USPS-XE-OCA-RT1-1	16918

E X H I B I T S

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
Rebuttal Testimony of James F. Callow, OCA-RT-1	16878	16878
USPS-XE-OCA-RT1-1	16914	

P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning. This is a hearing in Docket R2000-1 considering the Postal Service's Request for Rates and Fee Changes. Today we are here to receive rebuttal testimony on Notice of Inquiry Number 3.

Does any participant have a matter that they would like to raise before we begin this morning?

[No response.]

CHAIRMAN GLEIMAN: If not, Mr. Gerarden, would you like to introduce your first witness?

MR. GERARDEN: Yes, thank you, Mr. Chairman. The OCA calls James Callow.

CHAIRMAN GLEIMAN: Mr. Callow, you are already under oath in this proceeding, so there is no need to swear you in.

Whereupon,

JAMES F. CALLOW,
a witness, having been recalled for examination and, having been previously duly sworn, was examined and testified further as follows:

CHAIRMAN GLEIMAN: Counsel, you can proceed with the rebuttal testimony of this witness.

MR. GERARDEN: Thank you.

DIRECT EXAMINATION

1 BY MR. GERARDEN:

2 Q Mr. Callow, would you give your full name for the
3 record, please?

4 A James F. Callow.

5 Q And are you the same James Callow who testified
6 previously for the OCA in this proceeding?

7 A Yes, I am.

8 Q Do you have before you, Mr. Callow, two copies of
9 a document identified as OCA-RT-1?

10 A Yes, I do.

11 Q And could you identify that document for the
12 record, please?

13 A This is the rebuttal testimony of James F. Callow
14 on behalf of the Office of Consumer Advocate.

15 Q Was that testimony prepared by you or under your
16 supervision?

17 A Yes.

18 Q Mr. Callow, on August 1st, the OCA filed certain
19 corrections to OCA-RT-1. Have you incorporated those
20 corrections in the two copies that are before you?

21 A Yes, those are included in these two copies.

22 Q Do you have any further corrections to make today?

23 A Just two small typographical errors. On page 5,
24 line 5, at the end, it should read "For forecasting of the"
25 -- "the" should be at the end of the line. And on page 15,

1 on line 14, it should read "additional ounces" -- an "s" at
2 the end of "ounce," and those are the only two corrections I
3 have.

4 Q Mr. Callow, if you were to testify today,
5 including the corrections that you have noticed both on
6 August 1st and here on the stand, would this be your
7 testimony?

8 A Yes, it would.

9 MR. GERARDEN: Mr. Chairman, I would like to
10 provide two copies of OCA-RT-1, as corrected, to the
11 reporter and ask that it be entered into evidence.

12 CHAIRMAN GLEIMAN: Is there an objection?

13 [No response.]

14 CHAIRMAN GLEIMAN: Hearing none, if you would
15 provide those copies to the court reporter, I will direct
16 that the testimony be transcribed into the record and
17 received into evidence.

18 [Rebuttal Testimony of James F.
19 Callow, OCA-RT-1, was received into
20 evidence and transcribed into the
21 record.]

22

23

24

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OCA-RT-1
Docket No. R2000-1

REBUTTAL TESTIMONY

OF

JAMES F. CALLOW

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

JULY 27, 2000

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EXHIBIT OCA-RT-1A

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
JAMES F. CALLOW

1 I. STATEMENT OF QUALIFICATIONS

2 My name is James F. Callow. I am a Postal Rate and Classification Specialist. I
3 have been employed by the Postal Rate Commission since June 1993, and since
4 February 1995 in the Office of the Consumer Advocate (OCA). A more complete
5 statement of qualifications is provided in my testimony, OCA-T-6, submitted earlier in
6 this proceeding.¹

¹ See Tr. 22/10099-10100.

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 This testimony addresses Postal Service forecasting of the number of additional
3 ounces per piece for single-piece First-Class Letter Mail in the test year. In this
4 proceeding, the Postal Service has proposed two methodologies for forecasting the
5 number of additional ounces per piece: the "as-filed" methodology, presented at the
6 time of its original request, and the "revised" methodology, introduced several months
7 thereafter. The "as-filed" methodology results in a forecast showing an increase in the
8 number of additional ounces per piece between the base year and the test year,
9 consistent with the long-term trend of an increase in the number of additional ounces
10 per piece. The "revised" methodology produces a forecast showing that the number of
11 additional ounces per piece remains the same between the base year and the test year.

12 I propose that the Commission adopt the "as-filed" methodology for forecasting
13 the number of additional ounces per piece in the test year. The "revised" methodology
14 fails to reflect the historical trend of an increasing number of additional ounces per
15 piece, and average weight per piece, for single-piece First-Class Letter Mail.

16 The "revised" methodology appeared at the same time the Postal Service made
17 a necessary correction to account for the omission of the net overpayment of First-
18 Class postage in its revenue calculation. Correcting that error increased total net
19 revenue for single-piece First-Class Letter Mail by \$192.3 million. By contrast, the
20 "revised" methodology reduced net revenue for single-piece First-Class Letter Mail by
21 \$172.2 million. The "revised" methodology thus served to offset nearly all of the
22 increase in net revenue for single-piece letters from the error correction.

1 Assuming the Commission adopts the "as-filed" methodology, I also propose that
2 the \$192.3 million in net revenue from postage overpayment be used for the benefit of
3 single-piece mailers, as most of this net revenue is the result of postage overpayments
4 by single-piece mailers. This error correction is further justification for maintaining the
5 single-piece First-Class Letter rate at 33 cents, as proposed in the direct case of the
6 Office of Consumer Advocate.

1 III. THE COMMISSION SHOULD RELY ON THE "AS-FILED" METHODOLOGY TO
2 FORECAST THE NUMBER OF ADDITIONAL OUNCES OF SINGLE-PIECE
3 LETTER MAIL

4 In this proceeding, the Postal Service has presented two conflicting
5 methodologies to forecast the number of additional ounces associated with single-piece
6 First-Class Letter Mail in the test year. The first (herein, the "as-filed") methodology
7 recognizes the decade-long trend of an increasing number of additional ounces per
8 piece for single-piece First-Class Letters as the basis for forecasting additional ounces.²
9 The second (herein, "revised") methodology considers a short recent period showing a
10 small change in the number of additional ounces per piece as indicative of a reversal of
11 the long-term trend, and the basis for forecasting no increase in the number of
12 additional ounces in the test year.

13 The "revised" methodology appeared in response to an institutional discovery
14 request seeking clarification as to the inclusion, or lack thereof, of the net overpayment
15 of First-Class postage in the Postal Service's test year revenue requirement.³ In that
16 response, the Postal Service acknowledged that it had failed to include the net
17 overpayment of First-Class postage in its revenue calculation. Correcting that error
18 increased total net revenue for First-Class Mail by \$219.4 million.⁴ However, the
19 "revised" methodology, introduced at the same time, reduced net revenue for single-

² See the testimony of witness Thress, USPS-T-7, Workpaper 4, and USPS-LR-I-122.

³ Tr. 21/9178. Response of the U.S. Postal Service to OCA/USPS-106(d).

⁴ See Notice of Inquiry, No. 3, First-Class Revenue Adjustment Factor (RAF) and Additional Ounce Method Change, June 30, 2000, Table 1, at 2. Of the total increase in the net revenue for First-Class Mail of \$219.4 million, \$192.3 million is related to single-piece letters. *Id.*

1 piece First-Class Letter Mail by \$172.2 million. In effect, introduction of the "revised"
2 methodology served to offset all but \$47.2 million of the revenue resulting from the error
3 correction.⁵ The Postal Service proposes to add the \$47.2 million to the net revenues
4 of First-Class Mail in the test year.

5 The Commission should adopt the "as-filed" methodology for forecasting of *THE*
6 *number of additional ounces per piece* in the test year. The "revised" methodology fails
7 to recognize the long-term trend showing an increasing number of additional ounces
8 per piece, and average weight per piece, for single-piece First-Class Letter Mail.

9 A. The "As-Filed" Methodology Properly Reflects the Increasing Long-Term
10 Trend in the Number of Additional Ounces per Piece, and Average Weight
11 per Piece, for Single-Piece Letters

12 The "as-filed" methodology recognizes the long-standing trend of the increasing
13 number of additional ounces, and average weight per piece, in forecasting additional
14 ounces.⁶ The "as-filed" methodology results in a forecast showing an increase in the
15 number of additional ounces per piece between the base year and the test year, and is
16 obtained in a three step process. First, the base year ratio of additional ounces per
17 piece for both presort letters and the First-Class Letters subclass as a whole is
18 calculated. Next, the base year ratios are applied to the test year volumes of presort

⁵ *Id.*

⁶ Witness Fronk characterizes the "as-filed" methodology as "a departure from the method the Commission itself has used in past rate cases." See Tr. 34/16533-34. According to witness Fronk, it is the "revised" methodology that represents a return to the traditional approach used by the Commission in the past five rate cases. See Tr. 34/16566. An exception noted by witness Fronk, however, is the Commission's opinion and recommended decision Docket No. MC95-1, where the Commission used a method for forecasting the number of additional ounces similar to the "as-filed" methodology. See Tr. 34/16537.

1 letters and total First-Class Letter Mail. Finally, the number of additional ounces per
2 piece for single-piece letters is calculated for the test year as the difference between
3 total additional ounces and presort additional ounces.⁷

4 1. The long-term trend for single-piece letters reveals an increase in
5 the number of additional ounces per piece

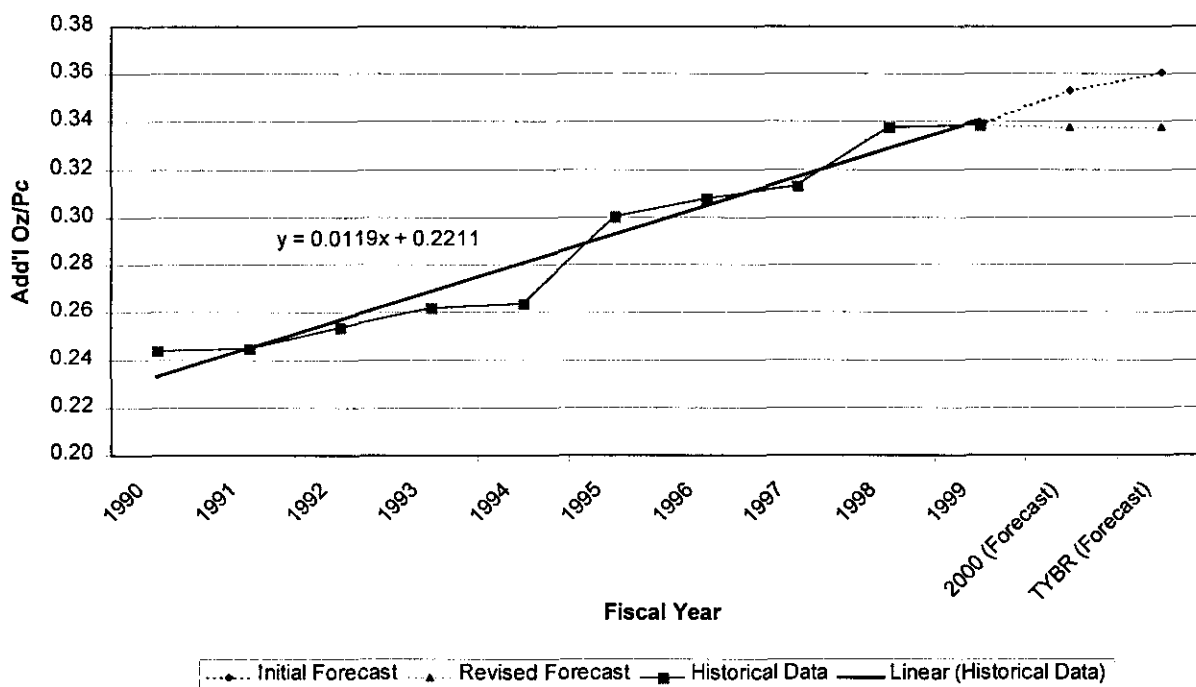
6 The number of additional ounces per piece for single-piece letters has increased
7 continually during the past 10 years. Figure 1 presents the historical data for the
8 number of additional ounces per piece for single-piece letters during the period FY
9 1990 through FY 1999, and the "as-filed" and "revised" forecasts of the Postal Service
10 through the test year.⁸ A linear trend line is drawn through the historical data.

11 In every year during the 10 year period of analysis, the number of additional
12 ounces per piece has increased. Consequently, the trend in the number of additional
13 ounces per piece is rising. This rising trend in the number of additional ounces per
14 piece is properly reflected in the "as-filed" forecast of the Postal Service, shown in
15 Figure 1.

⁷ For a presentation of the Postal Service's "as-filed" methodology, see USPS-T-7, Workpaper 4, and LR-I-122.

⁸ Figure 1 duplicates Attachment 4 in the Commission's Notice Of Inquiry No. 3, with the addition of a linear trend line through the historical data.

**Figure 1. Additional Ounces per Piece
First-Class Single-Piece, 0-11 Ounces**

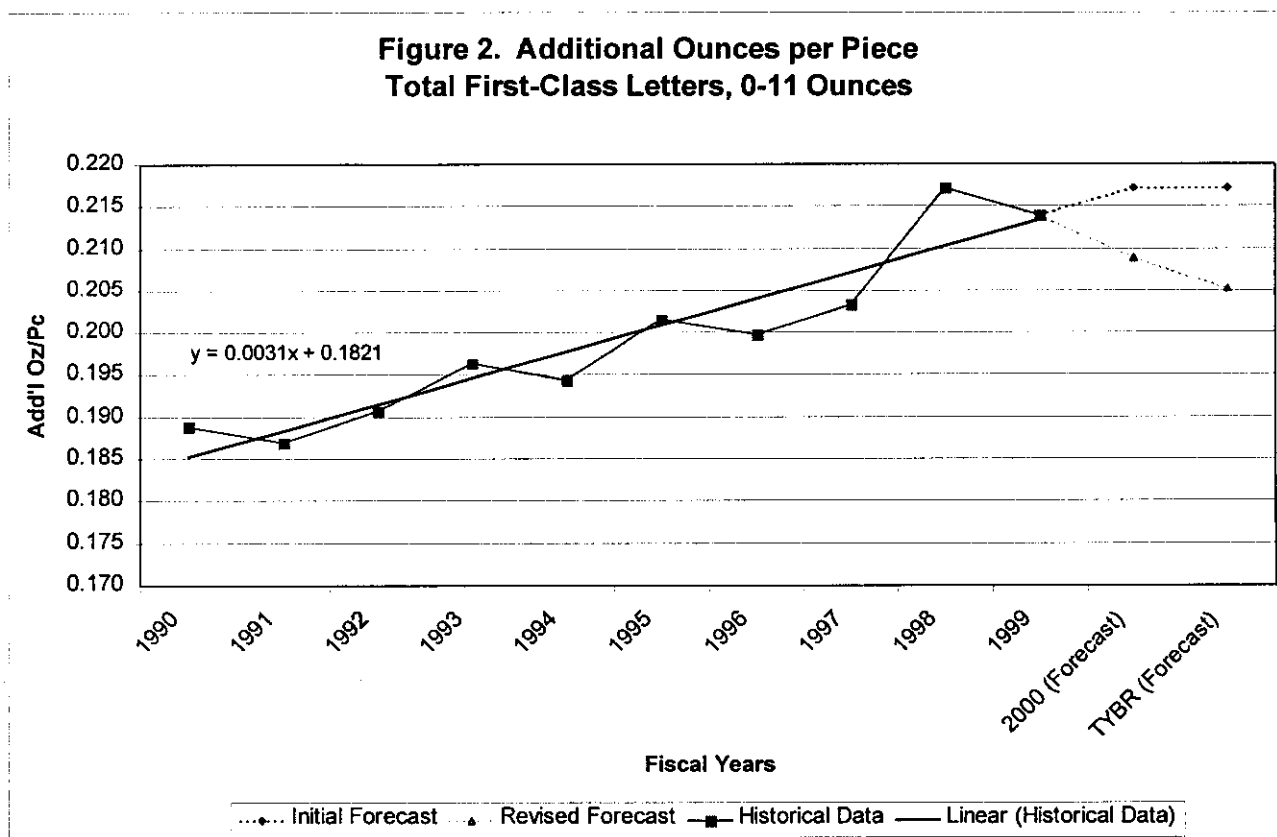


1 A similar trend is apparent for total First-Class Letter Mail. Figure 2 presents the
 2 historical data for the number of additional ounces per piece for total First-Class Letter
 3 Mail during the same 10 year period, FY 1990 thorough FY 1999.⁹ The "as-filed" and
 4 "revised" forecasts of the Postal Service through the test year are also presented.
 5 Again, a linear trend line is drawn through the historical data.

6 The number of additional ounces per piece for total First-Class Letter Mail has
 7 increased over the past 10 years, despite several years during which the number of
 8 additional ounces per piece declined. This increase during the entire period is revealed

⁹ Figure 2 duplicates Attachment 5 in the Commission's Notice Of Inquiry No. 3, with the addition of a linear trend line through the historical data.

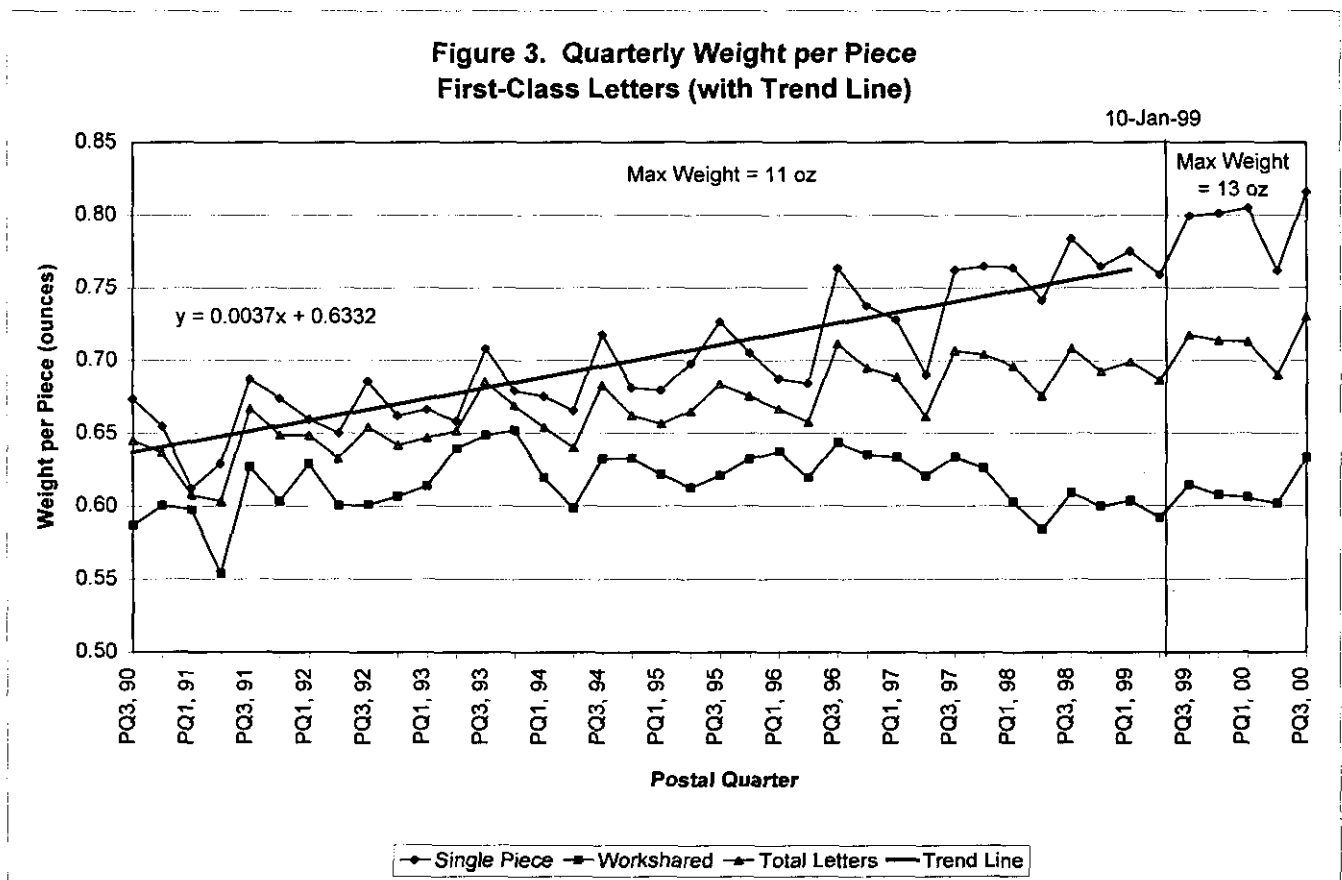
- 1 in the linear trend line through the historical data shown in Figure 2. The Postal
 2 Service's "as-filed" forecast also properly reflects this rising trend.



- 3 2. The long-term trend for single-piece letters reveals an increasing
 4 average weight per piece

5 The increasing long-term trend in the number of additional ounces per piece is
 6 consistent with the increase in the average weight per piece for single-piece letters
 7 during the past 10 years. Figure 3 shows the average weight per piece for single-piece,
 8 workshared and total letters from postal quarter (PQ) 3 of 1990 through postal quarter 3

1 of 2000.¹⁰ A linear trend line is drawn through the data for single-piece letters for the
 2 period PQ3, 1990 through PQ1, 1999. This trend line corresponds to the period when
 3 the maximum weight for single-piece letters was 11 ounces. The historical trend of an
 4 increasing average weight per piece for single-piece letters is apparent from a visual
 5 inspection of single-piece letters, where the values for PQ3 in all but two years are
 6 higher than the preceding years. The trend is also evident from the slope of the linear
 7 trend line in Figure 3.



¹⁰ Figure 3 was entered into evidence as OCA cross-examination exhibit, OCA-XE-NOI3-1. See Tr. 34/16594. Figure 3 duplicates Attachment 2 in the Commission's Notice Of Inquiry No. 3, with the addition of a linear trend line through the data for single-piece letters.

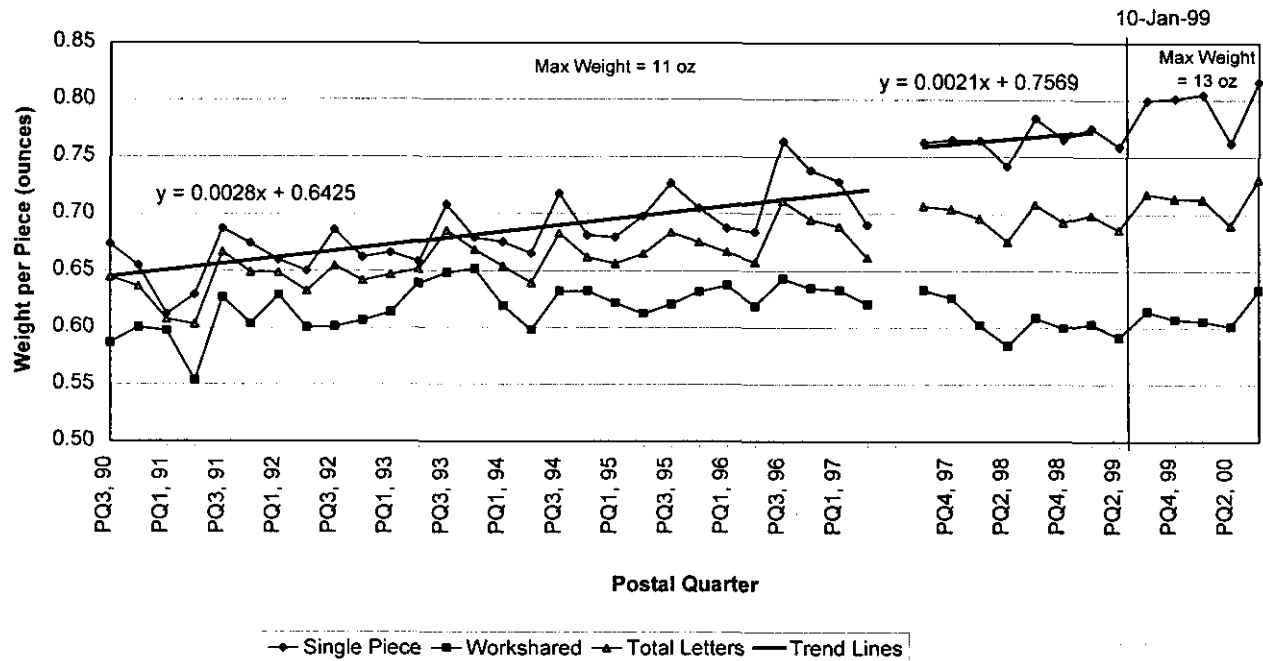
1 Figure 4 displays the same data presented in Figure 3.¹¹ However, the weight
2 per piece data are segregated into two groups, with data in PQ3, 1990 through PQ2,
3 1997 in one group and data in PQ3, 1997 through PQ1, 1999 in a second group.
4 Separating the data between PQ2 and PQ3—the midpoint of 1997—recognizes the
5 fairly sharp increase in the number of additional ounces per piece between 1997 and
6 1998,¹² and permits a comparable analysis of the weight per piece data with the number
7 of additional ounces per piece.

8 Figure 4 shows that, while the trend in the average weight per piece for single-
9 piece letters rises more rapidly in the period prior to PQ3, 1997, there nevertheless
10 continues to be a positive, but smaller, increase from PQ3, 1997 through PQ1, 1999.
11 The change in the trend is revealed by the change in the equation of the slope of the
12 trend line.

¹¹ Figure 4 is changed slightly from the graph entered into evidence as OCA cross-examination exhibit, OCA-XE-NOI3-2. See Tr. 34/16598. The cross-examination exhibit separates the data between PQ2 and PQ3 of 1996 to recognize the sharp increase in the average weight per piece in PQ3.

¹² See Notice of Inquiry, No. 3, First-Class Revenue Adjustment Factor (RAF) and Additional Ounce Method Change, June 30, 2000, Attachment 4.

**Figure 4. Quarterly Weight per Piece
First-Class Letters (with Trend Lines)**



1 3. An increasing average weight per piece for single-piece letters
 2 creates an increase in the number of additional ounces per piece
 3 for single-piece letters

4 In his response to Notice of Inquiry No. 3, witness Fronk states that "it is the
 5 trend in additional ounces per piece . . . rather than average weight per piece, that is
 6 more directly related to revenue."¹³ Witness Fronk supports his statement by
 7 example:¹⁴

¹³ Tr. 34/16542. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000.

¹⁴ *Id.*

1 . . . for a given volume, the average weight of single-piece mail weighing
2 less than 1 ounce could hypothetically increase from 0.5 ounces to 0.7
3 ounces and the average weight of pieces weighing between 1 and 2
4 ounces could increase from 1.6 to 1.9 ounces. This would increase the
5 average weight of the single-piece mail stream, but leave revenue
6 unchanged since a first-ounce stamp would still cover the postage for a
7 0.7 ounce piece and an additional ounce stamp would still cover the
8 postage of the second ounce.

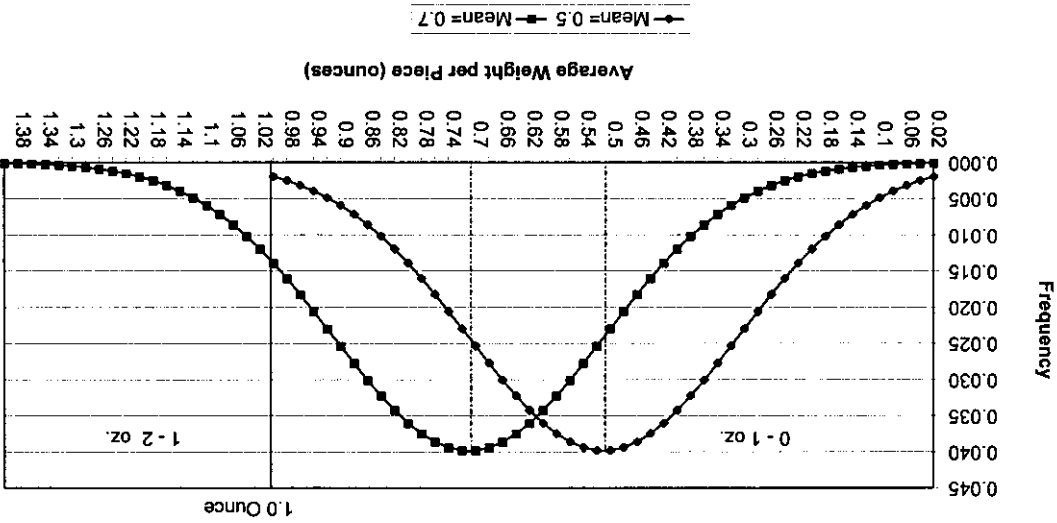
9 Witness Fronk's statement, while true, attempts to separate the relationship
10 between an increase in the average weight per piece and an increase in the number of
11 additional ounces per piece. His example, hypothesizing an increase in the average
12 weight of pieces within the same weight step, ignores the fact that an increase in the
13 average weight per piece in one weight step can just as well increase the number of
14 additional ounce pieces in next weight step. Another example, presented below,
15 illustrates a different relationship between the average weight per piece and number of
16 additional ounces per piece.

17 For a given volume of single-piece letter mail, the average weight per piece
18 within any given weight step is the sum of the weight of each piece divided by the
19 number of pieces in that weight step. To derive the average weight per piece, there is,
20 in effect, a distribution of pieces by weight around the average. As the average weight
21 per piece increases, the distribution of pieces around the average shifts to the right,
22 resulting in an increasing number of pieces crossing into the next higher weight step.

23 Figure 5 visually displays hypothetical data based on the example of witness
24 Fronk. It shows the effect on the number of additional ounces per piece in the first and
25 second ounce weight step when the average weight per piece in the first ounce is
26 increased from 0.5 to 0.7 ounces. The increase in the number of additional ounces in

1 the second ounce weight step is indicated by the area under the graph, "Mean=0.7," to
 2 the right of the "1.0 Ounce" line shown in Figure 5.

Figure 5. Increasing Average Weight per Piece Creates New Additional Ounces



3 Consequently, all other things being equal, an increase in the average weight per piece
 4 increases the number of additional ounces in the next higher weight step, resulting in
 5 additional revenue.

B. The "Revised" Methodology Ignores the Increasing Long-Term Trend in
 Additional Ounces and Results in an Unrealistic Forecast

8 The "revised" methodology, like the "as-filed" methodology, is based upon an
 9 assumption about the future trend of the number of additional ounces per piece. Under
 10 the "revised" methodology, however, it is assumed that the number of additional ounces
 11 per piece in the historical 0-1 ounce weight range for single-piece letters will remain

1 the same between the base year and the test year. In forecasting the number of
2 additional ounces, the ratio of the number of additional ounces per piece for single-
3 piece letters in the base year is applied to the test year single-piece letter volume.

4 This approach ignores the long-term trend of an increase in the number of
5 additional ounces, and the average weight per piece, for single-piece letter mail. It also
6 ignores the continuing, but smaller, rise in the number of additional ounces per piece in
7 more recent years.

8 1. The forecast for the number of additional ounces through the test
9 year is not supported by the long-term trend

10 Witness Fronk acknowledges that the "as-filed" methodology "may appear to be
11 more consistent with the long-term trend in additional ounces."¹⁵ Nevertheless, it is
12 claimed that the "revised" methodology should be adopted because "newly available
13 1999 data . . . indicate that the additional ounces per piece in th[e] 0-11 ounce weight
14 range have remained almost constant between 1998 and 1999."¹⁶

15 As noted previously, the number of additional ounces per piece for single-piece
16 letter mail has exhibited positive growth every year since 1990. Witness Fronk's
17 "revised" methodology incorporates negative growth for 2000, and zero growth for
18 2001. Not only is this inconsistent with the historical trend of the past 10 years, but it
19 ignores witness Fronk's own finding of positive, but smaller, growth in the number of

¹⁵ Tr. 34/16533. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000.

¹⁶ Tr. 21/9180-81. Witness Fronk, in his response to NOI No. 3, maintains that "data in 1999 and 2000 confirm that no change in the long-standing traditional method [e.g., the "revised" methodology] is necessary or appropriate." Tr. 34/16537 (emphasis added).

1 additional ounces per piece in 1999, and in the "hybrid" year 1999/2000. Table 1
2 shows the continuing growth in the number of additional ounces per piece as
3 determined by witness Fronk.¹⁷

4 Table 1
5

ADDITIONAL OUNCES PER PIECE, 1998, 1999, AND COMBINED 1999/2000			
	1998	1999	1999/2000
Single-Piece Letters	0.3378	0.3387	0.3396

6
7 This continuing positive, but smaller, growth in the number of additional ounces per
8 piece is consistent with the historical trend, which shows periods of smaller positive
9 growth followed by periods of more substantial growth.¹⁸

10 Moreover, with respect to total First-Class Letters, witness Fronk's use of the
11 "revised" methodology results in a forecast of two years of negative growth in the
12 number of additional ounces per piece. Since 1990, there have never been two
13 consecutive years during which growth has been negative.

14 2. The more recent data on the number of additional ounce^s per piece
15 are insufficient to predict a reversal of the long-term trend

16 It is premature to predict a reversal (or leveling-off) of the decade-long trend
17 toward an increasing number of additional ounces per piece for single-piece First-Class

¹⁷ Tr. 34/16538-39. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000. It should be noted that the positive, but smaller, growth in the number of additional ounces per piece occurs using data that reflects only "physical" additional ounces. See Tr. 34/16537.

¹⁸ For example, between 1990 and 1991, the annual percentage change in the number of additional ounces per piece was 0.2 percent. A similar change of 0.6 percent occurred between 1993 and 1994. See Notice of Inquiry, No. 3, First-Class Revenue Adjustment Factor (RAF) and Additional Ounce Method Change, June 30, 2000, Attachment 3.

1 Letter Mail. Witness Fronk maintains that the additional ounce data for 1998, 1999 and
2 three quarters in 2000 lend support for use of the "revised" methodology for forecasting
3 the number of additional ounces per piece. However, the two years of 1998 and 1999
4 is much too limited a time period to claim an end of the long-term trend, particularly
5 while the additional ounce data for 2000 is incomplete. Moreover, estimates of the
6 number of additional ounces per piece are derived from sampling.¹⁹ The recent lower
7 rate of growth in the number of additional ounces per piece may be nothing more than
8 sampling error. For these reasons, the absence of a clear break from the long-term
9 trend over a sufficient period of time makes the "revised" methodology a departure from
10 the empirical reality of the past decade.

¹⁹ Tr. 34/16582.

1 IV. THE "REVISED" METHODOLOGY SHOULD BE CONSIDERED ON ITS OWN
2 MERITS, SEPARATE FROM THE NECESSARY CORRECTION OF
3 REVENUES TO ACCOUNT FOR OVERPAYMENT OF POSTAGE

4 The question of whether to use the "as-filed" methodology or the "revised"
5 methodology for forecasting the number of additional ounces per piece in the test year
6 is independent of witness Fronk's error correction, involving application of the revenue
7 adjustment factors "inadvertently omitted" from his test year revenue calculations.²⁰
8 Application of the revenue adjustment factors is a necessary change to reconcile
9 revenues obtained from the billing determinants with postage revenue from the
10 Revenue, Pieces, and Weight report; that is, to account for the net overpayment of
11 single-piece First-Class postage.

12 Witness Fronk considers the correction to include the net overpayment of First-
13 Class postage in the revenue calculation, and the change in the forecasting
14 methodology, to be "inseparable," going so far as to describe both as "errors."²¹ I
15 disagree. Unlike application of the revenue adjustment factors, the "revised"
16 methodology does more than rectify an omission or make a simple error correction.
17 Rather, it represents a new methodology, introduced late in the course of this
18 proceeding, that the Postal Service believes is "better" than the methodology proposed
19 in its original filing. There is no necessary connection between correction of the net

²⁰ Tr. 34/16535. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000.

²¹ Tr. 34/16557.

1 overpayment of postage and the change in the forecasting methodology now proposed
2 by the Postal Service.²²

3 Witness Fronk's introduction of the "revised" methodology for forecasting the
4 number of additional ounces per piece for single-piece letter mail, without the Postal
5 Service withdrawing or repudiating the "as-filed" methodology, presents the
6 Commission with a choice. Consequently, the Commission should evaluate both
7 methodologies on their merits, to determine the one that most accurately reflects the
8 underlying reality of changes in the number of additional ounces. For the reasons given
9 previously, the "as-filed" methodology reflects the long-term trend of an increase in the
10 number of additional ounces per piece, and is the appropriate method for forecasting
11 the number of additional ounces per piece in the test year.

12 V. THE SINGLE-PIECE REVENUE RESULTING FROM APPLICATION OF THE
13 REVENUE ADJUSTMENT FACTORS, AND THE "AS-FILED" METHODOLOGY,
14 SHOULD BE USED FOR THE BENEFIT OF SINGLE-PIECE MAILERS

15 The Postal Service's introduction of the "revised" methodology reduces the net
16 revenue of single-piece First-Class Letter Mail by \$172.2 million in the test year.
17 Witness Fronk's error correction increases the net revenue of single-piece First-Class
18 Letter Mail by \$192.3 million.²³ As discussed previously, the "revised" methodology

²² The Postal Service contends that the "revised" methodology "is likely to do a better job . . . [of] reflect[ing] the empirical reality of nearly three years (1998 through PQ3 2000) immediately preceding 2001" than the "as-filed" methodology. Tr. 34/16533. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000. For the reasons discussed earlier, this is not the case. The clear, longer-term trend is the more rational basis for forecasting the number of additional ounces in the test year.

²³ See Notice of Inquiry, No. 3, First-Class Revenue Adjustment Factor (RAF) and Additional Ounce Method Change, June 30, 2000, Table 1, at 2.

1 thus served to offset nearly all of the identified increase in net revenue of single-piece
2 letters occasioned by witness Fronk's error correction.

3 Assuming that the Commission adopts the "as-filed" methodology, the resulting
4 \$192.3 million increase in the net revenue of single-piece letters should be used for the
5 benefit of single-piece mailers. The identified increase in net revenue is a consequence
6 of the behavior of single-piece mailers. According to witness Fronk, much of the
7 unexplained revenue is "most likely explained by single-piece mailers using first-ounce
8 stamps for additional ounce postage."²⁴

9 The net revenue resulting from the error correction therefore should be used for
10 the benefit of mailers paying single-piece First-Class Mail rates. The high and rising
11 cost coverage for First-Class Letter Mail will be exacerbated if no rate adjustment is
12 made. And the effect of the postage overpayment on reducing single-piece rates would
13 be significant. It amounts to more than 0.36 cents per piece, a figure exceeding one-
14 third of the rate increase sought for the first-ounce of First-Class Letter Mail.²⁵
15 Maintaining the single-piece First-Class Letter rate at 33 cents is such a rate adjustment
16 proposed in the direct case of the Office of Consumer Advocate that would benefit
17 single-piece mailers.

²⁴ Tr. 34/16536. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000.

²⁵ Based upon the Postal Service's single-piece letter volume in the test year after rates (\$192.3 million / 52,877.658 million). See USPS-T-6 (Tolley), Table 1, at 2.

1 VI. CONCLUSION

2 The "as-filed" methodology properly reflects the decade-long trend of an increase
3 in the number of additional ounces per piece for single-piece letter mail. Consequently,
4 the Commission should adopt the "as-filed" methodology for forecasting the number of
5 additional ounces per piece in the test year. By contrast, the "revised" methodology
6 ignores the increasing long-term trend in the number of additional ounces per piece and
7 results in an unrealistic forecast in the test year.

8 The increase in net revenue for single-piece First-Class Letter Mail resulting from
9 the necessary correction in the net overpayment of postage, in conjunction with the "as-
10 filed" methodology, should be used for the benefit of single-piece mailers.

1 CHAIRMAN GLEIMAN: One participant has requested
2 oral cross-examination of Witness Callow, the United States
3 Postal Service. Is there anyone else who wishes to
4 cross-examine this witness?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, then, Mr. Tidwell, you
7 may begin when you are ready.

8 MR. TIDWELL: Good morning, Mr. Chairman.

9 CROSS-EXAMINATION

10 BY MR. TIDWELL:

11 Q Good morning, Mr Callow.

12 A Good morning.

13 Q I would like to start by turning your attention to
14 page 7 of your testimony.

15 A I have it.

16 Q Okay. There you present Figure 1 which shows
17 additional ounces per piece for single piece First Class
18 mail, zero to 11 ounces. Now, Figure 1 duplicates
19 Attachment 4 in the Commission's NOI Number 3, with the
20 addition of a linear trend line through the historical data,
21 isn't that the case?

22 A That's correct.

23 Q And in developing your Figure 1, you accepted the
24 historical additional ounce per piece data as is, correct?

25 A Yes.

1 Q So you didn't do any sort of analysis as to why
2 the data points are as they are?

3 A No.

4 Q I mean, for example, you didn't attempt to analyze
5 what accounted for the sharp increase between 1994 and 1995?

6 A No.

7 Q Or the sharp increase between 1997 and 1998?

8 A No.

9 Q I take it you are familiar with Witness Fronk's
10 response to NOI Number 3?

11 A Yes.

12 Q Do you recall his discussion on pages 10 to 13
13 regarding the impact of classification reform on the
14 additional ounce trend that you show in Figure 1?

15 A Yes.

16 Q Did you attempt to account for this one time
17 impact of classification reform in developing Figure 1?

18 A No.

19 Q Why not?

20 A I think the point I was trying to make here is
21 that even if you exclude those jumps, if you will, or those
22 sharp increases, you still have a rising trend. So I did
23 not look at those, I did not attempt to explain those sharp
24 increases between '94 and '95, and '97 and '98. It was
25 clear to me that there was still a rising trend even without

1 those increases. The trend line may have changed, but it
2 would nevertheless be rising.

3 Q In that same section of this NOI testimony, pages
4 10 to 13, Witness Fronk also discussed the 1997 change from
5 measuring additional ounces on a revenue basis to measuring
6 additional ounces on a physical basis, do you recall that?

7 A I do.

8 Q And did you attempt to account for this
9 methodology change in developing your Figure 1?

10 A No.

11 Q Why not?

12 A I didn't see any need to, I had the historical
13 data in front of me. I knew of the change in the
14 methodology. I didn't see any reason to depart from that.

15 Q At page 14 of his response to NOI Number 3,
16 Witness Fronk discussed the change in RPW sampling
17 methodology implemented between Quarter 2 '95 and Quarter 2
18 '97, and this change in methodology increased the average
19 weight of single piece and the number of additional ounces
20 per piece, do you recall that?

21 A Yes.

22 Q Did you attempt to account for that change in
23 developing your Figure 1?

24 A No.

25 Q Why not?

1 A For the same reason.

2 Q Also on page 13 of his response to NOI Number 3,
3 Witness Fronk testified that the increase in additional
4 ounces per piece between 1994 and '95 is partly explained by
5 the implementation of Docket Number R94-1 rates, do you
6 recall that?

7 A Yes.

8 Q And did you attempt to factor that into the
9 development of Figure 1?

10 A No.

11 Q Why not?

12 A For the same reason given.

13 Q In performing statistical analysis such as the
14 regression analysis that resulted in the trend line shown in
15 your Figure 1, is it typical to simply use the data as is,
16 or is it more typical to attempt to understand and take into
17 account how historical events may be affecting the data?

18 A Well, I think I knew, I mean it was clear there
19 were increases in those years, but, as I said before, even
20 without those increases that you see between '94 and '94,
21 and '97 and '98, there is still a rising trend in the number
22 of additional ounces.

23 Q Well, let's keep our attention on page 7 for the
24 moment. At lines 6 through 8, you state that the number of
25 additional ounces per piece for total First Class letter

1 mail has increased over the past 10 years, despite several
2 years during which the number of additional ounces per piece
3 declined. And I would like to ask you a little bit about
4 that. In forecasting additional ounces for the test year in
5 this case, which is Fiscal Year 2001, which do you think are
6 more relevant, the data associated with 1990 or the data
7 associated with 1998?

8 A I think the data associated with 1990 through
9 1999. It is the trend that is important. I would not -- I
10 don't think it is appropriate to exclude or to pick one
11 year, it is the trend we are interested in.

12 Q Because in your view there is nothing more telling
13 about one year's data as compared to another?

14 A No, I think it's the trend in the number of
15 additional ounces that is important.

16 Q Well, speaking of trends, in forecasting
17 additional ounces for the test year in this case, which time
18 period do you think is more relevant, the nearly three years
19 from 1998 through Quarter Three of 2000, or some earlier
20 three-year period, say, 1995 through 1997?

21 A I think my answer would be the same. I think it's
22 the long-term trend. I think that as you get closer, you
23 run the risk of making a decision on a short period of time
24 that may not be representative of the long-term trend.

25 Q Let's take a look at page 13 of your testimony.

1 A I have it.

2 Q Okay, let's focus on Figure 5 here for a little
3 bit. I just want to make sure I understand, you know, what
4 Figure 5 here is representing.

5 I mean, there's no data system or study from which
6 these numbers are derived; is that right?

7 A That's correct.

8 Q I mean, the distribution of average weight per
9 piece shown in the table is purely hypothetical? I mean,
10 you just made the numbers up?

11 A As did Witness Fronk; that's correct.

12 Q Well, he made these numbers up?

13 A No, he made up the example in his testimony, in
14 his response to the Commission's NOI.

15 Q Okay.

16 A Do you want the transcript cite?

17 Q No, I've got the transcript.

18 A Okay.

19 Q But I just wanted to clarify that the figure here
20 is just purely hypothetical?

21 A Correct.

22 Q Okay. I mean, so the real distribution of average
23 weight per piece could look quite different from what's
24 depicted here in Figure 5?

25 A It is unknown; that's correct.

1 Q At lines 3 to 5 on page 13, you state:
2 Consequently, all other things being equal, an increase in
3 the average weight per piece increases the number of
4 additional ounces in the next higher weight step, resulting
5 in additional revenue.

6 And I'd like to explore your phrase there, all
7 other things being equal. In First Class Mail, the next
8 higher weight step requires that a mailer pay an additional
9 22 cents in postage, correct?

10 A Correct.

11 Q Do you think that the current First Class Mail
12 pricing structure creates an incentive to include as much
13 matter in a mail piece as possible without going over the
14 weight limit to the next higher weight step?

15 A Could you repeat that, please?

16 Q When examining the current First Class Mail rate
17 structure, would you agree that the structure basically
18 incentivizes mailers to include as much matter as they can in a
19 mail piece as possible, without going over the weight limit
20 that would require them to pay additional postage?

21 A For some mailers. Presort mailers might have that
22 incentive; single-piece mailers, I don't think that's true.

23 Q You don't think it's true at all, or?

24 A I think that presort mailers have a much higher
25 incentive to do that, where, for a single-piece mailer,

1 that's much less likely to be a motivating factor.

2 Q And what do you base that on, your conclusion, on?

3 A I think the example that Witness Fronk gave in his
4 testimony was the example of the average weight per piece
5 increasing from .5, from half an ounce, to .7 ounces.

6 And that you could -- under his example, his
7 hypothetical example, there would be no additional ounces.

8 And their motivation is to put as much, if you
9 will, advertising material or other material, up to the
10 ounce limit, to maximize, you know, for lack of a better
11 term, their advertising dollar.

12 I don't think that's the case for single-piece
13 mailers. I think they have a piece of mail; they may know
14 that it weighs more than an ounce, let's say, to the extent
15 that they know that it needs additional postage, but they
16 don't put on an additional 33-cent stamp, as they are often
17 want to do.

18 They put on additional postage. They get it
19 weighed, and then we're, in effect -- in effect, it seems to
20 me, that we're suggesting that they might open their mail
21 piece, shove in more paper, or keep it open and shove in
22 more paper to get it up to as near to the next ounce limit
23 without going over as possible.

24 And I just don't think that's their motivation. I
25 think they have a mail piece; they know that it weighs more

1 than an ounce; it needs additional postage, and they put the
2 postage on to get it mailed.

3 Q And you've based this conclusion just on a study
4 you've conducted of the mailing patterns, mailing behavior
5 of single-piece mailers, and contrasted that?

6 A No, I think I'm -- that would be my belief on how
7 single-piece mailers would behave.

8 Q Under the current pricing structure, would you
9 expect the distribution of pieces -- referring to your
10 Figure 5, again -- under the current pricing structure,
11 would you expect the distribution of pieces to appear like
12 the bell curve that you show, or would you expect some
13 clustering of pieces, say, below one ounce or below two
14 ounces, as mailers try to deal with postage, the impact of
15 the additional ounce rate?

16 A I think this curve or the distribution, if you
17 will, depicted in Figure 5, is more representative of how
18 single-piece mailers -- is more representative of additional
19 ounces for single-piece mailers.

20 Q Than?

21 A Than it would be for, say, presort mailers.

22 Q Would you agree that in First Class Mail, that
23 it's additional ounces that generate revenue, not additional
24 weight, per se?

25 A Yes. And this Figure 5 was an attempt to show

1 that, with a different distribution, you could create
2 additional ounces.

3 I think that Witness Fronk's example showed a
4 distribution which we don't know what it looks like, where
5 you could create no additional ounces, or no additional
6 ounces would be created.

7 And I suggest that that's -- that would depict the
8 behavior of presort mailers.

9 Q Do you would agree that what causes a piece to
10 have to pay more postage as it gets heavier, is not merely
11 whether it weighs more, but whether it weighs enough more to
12 move from one ounce increment to the next higher one?

13 A Yes. I just thought that Witness Fronk's example
14 attempted to neatly separate the relationship between weight
15 and additional ounces, and it's not as neat as that.

16 Q Which would you consider to be more important to
17 an understanding of additional ounce revenues, the trend in
18 additional ounces per piece, or the trend in average weight
19 per piece?

20 A Additional ounces.

21 Q Do you have NOI Number 3 in front of you?

22 A I can get it.

23 Q Okay.

24 A I have it.

25 Q I wanted to focus a little bit of attention on

1 Attachment 1. Do you have that?

2 A I do.

3 Q I want to focus on the line that is represented by
4 the triangles.

5 That line shows the average annual weight per
6 piece of all First Class letters, correct?

7 A Correct.

8 Q And Attachment 1 here shows the average weight per
9 piece for all single piece First Class mail increasing
10 between 1995 and 1996, correct?

11 A For single piece?

12 Q Yes.

13 A Yes.

14 Q I would like to have you turn now to your Figure
15 2, which is on page 8 of your testimony.

16 A I have it.

17 Q And that shows additional ounces per piece for all
18 First Class letters, correct?

19 A Correct.

20 Q And it shows the additional ounces per piece
21 declined between 1995 and 1996?

22 A Yes.

23 Q Even though average weight was increasing?

24 A Yes.

25 Q How would you account for this?

1 A I don't know.

2 Q The same thing happened between 1990 and 1991,
3 didn't it -- I mean Attachment 1 to the NOI shows that the
4 average weight per piece increases but Figure 2 shows that
5 additional ounces per piece are declining between 1990 and
6 1991, and I take it you have got no explanation for that?

7 A I don't.

8 Q Wouldn't you agree then that the pattern, that
9 this pattern indicates that increasing average weight per
10 piece doesn't necessarily imply increasing additional ounces
11 per piece?

12 A I think the two hypothetical examples, the one
13 that Witness Fronk presented and the one that I presented,
14 suggest that you could have that outcome.

15 Q Okay. I would like to now turn your attention to
16 your page 15, Table 1.

17 A I have it.

18 Q In your Footnote 17 you indicate that the source
19 of the data you present in Table 1 comes from pages 7 and 8
20 of Witness Fronk's response to NOI Number 3.

21 A Correct.

22 Q Do you happen to have his response with you?

23 A Yes.

24 Q Okay. I would like you to turn to page 7 of his
25 response.

1 A Okay, I have it.

2 Q I am going to focus on the third full paragraph,
3 the one that begins, "As described in my POIR response" --

4 A Okay.

5 Q And in that paragraph Witness Fronk provides the
6 three numbers that you cite in your Table 1 but in that
7 paragraph that I have just alluded to, he also discusses the
8 impact of the elimination of Standard A single piece that
9 occurred on January 10th, 1999, correct?

10 A Yes.

11 Q I take you are familiar with this change in the
12 classification schedule?

13 A Yes.

14 Q Could you -- in this paragraph 3 on page 7 of
15 Witness Fronk's response, I would like for you to read the
16 section beginning after the reference to OCA/USPS-106(d).

17 [Pause.]

18 BY MR. TIDWELL:

19 Q Okay. Why is it that in reference to the data
20 taken from page 7 of Witness Fronk's testimony and presented
21 in your Table 1 your testimony doesn't discuss Standard A
22 migration?

23 A I think I was just showing the increase in
24 additional ounces per piece over the time period.

25 Q Did you perform any analysis of Standard A

1 migration and the impact it may have had on the data in you
2 Table 1?

3 A I did not.

4 Q Would you agree that the migration of Standard A
5 mail pieces could explain the small weight changes shown in
6 your Table 1?

7 A It might. It could also -- that might explain it.

8 Q Do you happen to have with you the base year
9 billing determinants filed by the Postal Service in this
10 case, Library Reference 125?

11 A I do not.

12 MR. TIDWELL: Mr. Chairman, may I approach the
13 witness?

14 CHAIRMAN GLEIMAN: Most certainly.

15 [Pause.]

16 MR. TIDWELL: Mr. Chairman, what I have handed the
17 witness is a copy of two pages from Docket Number R2000-1,
18 Postal Service Library Reference I-125. It is the billing
19 determinants for Fiscal Year 1998.

20 I am going to ask the witness some questions about
21 the data that are reflected on two pages in the document,
22 and for purposes of that I would like to identify the
23 document as Postal Service Cross Examination Exhibit
24 OCA-RT1-1.

25 [Cross-Examination Exhibit

1 USPS-XE-OCA-RT1-1 was marked for
2 identification.]

3 BY MR. TIDWELL:

4 Q Mr. Callow, I would like you to start out by
5 taking a look at I guess it is the last page, which is Table
6 G1 from this Library Reference.

7 Would you confirm that it shows Standard A single
8 piece volumes for zero to 11 ounces for Government Fiscal
9 Year 1998?

10 A Yes.

11 Q Looking at the far right-hand column on that page,
12 when you get to the row All Other Ounce Increments and then
13 it gives the various ounce increments from up to one ounce
14 and up to 16 ounces, I am just going to focus on the up to
15 11 ounce range, and I would like for you to accept subject
16 to check that when I add up the additional ounces for the
17 Standard A single piece mail pieces from volume of Standard
18 A single piece mail that I get 134.5 million pieces.

19 MR. GERARDEN: Mr. Chairman, could counsel give
20 that number again, please?

21 MR. TIDWELL: 134.5 million.

22 BY MR. TIDWELL:

23 Q Could you accept that subject to check?

24 A Yes.

25 Q Would you also accept subject to check that if you

1 were to add up the cumulative additional ounces represented
2 on that page for 2 to 11 ounce pieces that you would get
3 172.4 million additional ounces?

4 A Yes.

5 Q Okay. Now let's take a look at Table A1 -- that
6 is the preceding page. I am going to focus on the far
7 right-hand column and the billing determinants row.

8 Over in the far right-hand column around the
9 middle of the page there is for FY '98 an estimate of
10 approximately 18.336 billion additional ounces in single
11 piece First Class mail.

12 Do you see that?

13 A I do.

14 Q And that that 18.336 billion additional ounces are
15 among 54.273 billion pieces of single piece First Class
16 mail?

17 A I see that.

18 Q Okay. Now let's assume that the 134 million
19 pieces of Standard A single piece that we just referenced on
20 Table G1 had been single piece First Class in 1998 instead
21 of single piece Standard A and making that assumption would
22 you agree that this would have increased the number of
23 additional ounces per piece for single piece First Class
24 mail?

25 A Yes.

1 Q It would have increased that number by 172 million
2 additional ounces for Standard A that we just referenced
3 earlier?

4 If we moved that 134 million pieces of Standard A
5 into First Class mail single piece and carried over with us
6 the accompanying 172 million additional ounces --

7 A I see that.

8 Q Okay. Now if we were to incorporate that 134
9 million piece figure, volume figure, into First Class single
10 piece and 172 million additional ounces into single piece
11 First Class mail, for purposes of your Table 1 wouldn't you
12 agree that we would get for Fiscal Year '98 a different
13 number than the 0.3378?

14 A Yes.

15 Q Would you accept subject to check that that number
16 would be 0.3402?

17 A Yes.

18 Q Okay, and so if the 1998 volume of Standard A
19 single piece had been First Class single piece and had been
20 incorporated in your Table 1, your Table 1 would show a
21 different conclusion? It would show a slight decline in the
22 number of additional ounces per piece from 0.3402 in 1998 to
23 0.3396 in the hybrid '99-2000 year, correct?

24 A Yes.

25 MR. TIDWELL: Mr. Chairman thinks it might be

1 convenient for the record if we entered these pages from
2 Library Reference 125 in the record at this point as a
3 cross-examination exhibit. It is a matter of record
4 already, I don't know if it is necessary to move it as
5 evidence at this time.

6 CHAIRMAN GLEIMAN: The cross-examination exhibit
7 will be transcribed into the record.

8 [Cross-Examination Exhibit No.

9 USPS-XE-OCA-RT1-1 was transcribed
10 into the record.]

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Docket No. P 2000-1

USPS LR I-125

BILLING DETERMINANTS

FISCAL YEAR 1998

USPS-XE-DECA-RTI-1

FIRST-CLASS MAIL
Single-Piece Nonpresorted Letters, Flats & IPPs
FY 1998

A-1

	<u>Postal Quarter I</u>	<u>Postal Quarter II</u>	<u>Postal Quarter III</u>	<u>Postal Quarter IV</u>	<u>GFY Total</u>
<u>1. RPW DATA (000)</u>					
Revenues <u>1/</u>	5,067,346	5,266,886	5,070,463	6,263,122	21,807,405
Pieces	12,613,478	13,341,965	12,442,942	15,537,818	54,273,024
Pounds	602,399	618,531	609,649	743,008	2,589,862
<u>2. Rates (cents)</u>					
First Ounce	32.0	32.0	32.0	32.0	
Additional Ounces	23.0	23.0	23.0	23.0	
Nonstandard Surcharge	11.0	11.0	11.0	11.0	
<u>3. Billing Determinants (000)</u>					
First Ounces <u>2/</u>	12,613,469	13,341,906	12,442,923	15,537,633	54,272,717
Additional Ounces <u>3/</u>	4,282,086	4,113,147	4,479,115	5,335,276	18,335,848
Total Units	16,895,555	17,455,053	16,922,037	20,872,908	72,608,565
Nonstandard Pieces	83,651	84,263	89,921	109,473	370,848
<u>4. Postage Revenue per Piece (cents)</u>	40.17	39.48	40.75	40.31	40.18
<u>5. Units as Percentage of Pieces</u>					
Additional Ounces	33.9485%	30.8288%	35.9973%	34.3378%	33.7847%
Nonstandard Pieces	0.6632%	0.6316%	0.7227%	0.7046%	0.6833%
<u>6. Revenue Adjustment</u>					
Calculated Revenue <u>4/</u>	5,030,392	5,224,703	5,021,823	6,211,198	21,625,308
Revenue Adjustment Factor <u>4/</u>	1.007346	1.008074	1.009690	1.008360	1.008421

1/ Includes nonstandard surcharge. Postage revenue only -- excludes fees.

2/ Same as pieces in 1 above, except absentee ballots omitted because they do not generate revenue.

3/ Prior to 1997, additional ounces were computed using a formula which attributed residual revenue to additional ounces. The approach here is to develop a "physical" measure of additional ounces by using the weight distribution of pieces from the domestic probability sample and applying it to the RPW number of pieces. Like other classes of mail, a revenue adjustment factor is then calculated to account for unexplained revenue.

4/ Calculated revenue = (First Oz. * .32) + (Add'l Oz. * .23) + (Nonstd. Pieces * .11). Rev. Adjust. Factor is RPW Rev./Calculated Rev.

**Standard Mail (A)
Single Piece
GFY 1998**

G-1

<u>RPW Data (000)</u>	<u>Total</u>	
Revenues	\$ 123,858,550	
Pieces	150,276,222	
Pounds	28,032,075	
		Sum of Postage Units (000)
<u>Postage Unit</u>	<u>Revenue per piece</u>	
Keys and Identification Devices		
First Two Ounces	0.99	338
Each Additional Two Ounces	0.55	65
All Other (ounce increments)		
Up to 1.0	0.32	80,920
2.0	0.55	21,708
3.0	0.78	7,549
4.0	1.01	6,173
5.0	1.24	4,490
6.0	1.47	3,164
7.0	1.70	2,097
8.0	1.93	1,988
9.0	2.16	2,414
10.0	2.39	2,009
11.0	2.62	1,942
12.0	2.90	4,183
13.0	2.90	4,174
14.0	2.95	3,106
15.0	2.95	2,328
16.0	2.95	1,696
Total Single Pieces (without keys and identification devices)		149,939
Nonstandard Pieces	0.11 surcharge	1,065
Letters		101,117
Flats		27,144
IPPs 2/		20,949

1/ Distribution based on special weight study. Revenue calculated on this distribution is
103.692% of RPW revenue. Revenue Adjustment Factor 0.964396

2/ Includes Keys and Identification Devices. Nonstandard pieces not included in these volumes by shape.

1 MR. GERARDEN: Just for clarification, this is
2 from a Category 2 Library Reference, counsel.

3 MR. TIDWELL: That's correct.

4 CHAIRMAN GLEIMAN: In which case, it should
5 already be in evidence.

6 BY MR. TIDWELL:

7 Q I would like to turn your attention to page 16 of
8 your testimony.

9 A I have it.

10 Q Okay. I am going to focus on lines 5 through 8.
11 At lines 5 through 8, you state that estimates of the number
12 of additional ounces per piece are derived from sampling,
13 and the recent lower rate of growth in the number of
14 additional ounces per piece may be nothing more than
15 sampling error. Wasn't it true that the data presented in
16 Figures 1 through 4 of your testimony are derived from RPW
17 sample data?

18 A I believe there was a change in methodology
19 partway through that year, or partway through that data set,
20 but the answer is yes.

21 Q So all of the data presented in Figures 1 through
22 4 would also be subject to sampling error to some degree, is
23 that correct?

24 A It could be.

25 Q Well, then it is possible that the higher rate of

1 growth in the number of additional ounces per piece in the
2 past is a result of sampling error?

3 A It could be.

4 Q Okay. In your opinion, is the ability of the
5 as-filed method to forecast additional ounces in the Year
6 2000 To Date important to assessing whether to use the
7 as-filed method in the test year?

8 A I'm sorry, could you repeat that?

9 Q Is the ability of the as-filed method to forecast
10 additional ounces in the Year 2000 To Date, is it important
11 to assessing whether to use the as-filed method in the test
12 year?

13 A I must be missing something in this question. I
14 am having trouble understanding it.

15 MR. TIDWELL: May I have a minute, Mr. Chairman?

16 CHAIRMAN GLEIMAN: Certainly.

17 [Discussion off the record.]

18 BY MR. TIDWELL:

19 Q Mr. Callow, earlier we talked about the trend
20 depicted in Figure 1 and how you accepted the data as-is
21 without taking into account the factors discussed by Witness
22 Fronk, and one of the factors discussed by Witness Fronk was
23 classification reform. And you testified how important the
24 overall trend was since 1990, not just the more recent 1998
25 to 2000 period. How do you know what the trend line would

1 look like if you haven't accounted for reclass or the change
2 in additional ounce method from revenue to physical ounces,
3 or any of the other changes that Witness Fronk discusses? I
4 mean how can you tell us what the trend line would look like
5 without taking those factors into account?

6 A Well, I think, as I said, when we looked at Figure
7 1, there were two sharp increases in '94 and '95, and in '97
8 to '98, and that even with the explanations, you still had a
9 rising trend.

10 MR. TIDWELL: That is all we have, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Is there any follow-up?

12 [No response.]

13 CHAIRMAN GLEIMAN: I have a couple of questions,
14 Mr. Callow. A little bit ago, Mr. Tidwell asked you a
15 hypothetical using two tables from USPS Library Reference
16 125. You don't need to get that out.

17 THE WITNESS: Okay.

18 CHAIRMAN GLEIMAN: As I understand it, he was
19 asking you what the trend line would look like if you took
20 all the base year single piece Standard A mail extra ounces
21 and lumped them in with First Class. Let me try for some
22 real not hypothetical information to flesh out the record a
23 little bit. In looking at your testimony, Figures 3 and 4,
24 you have a trend line and a regression equation based on
25 First Class letters, weight per piece by quarter. If I

1 understand the charts correctly, it appears that the
2 equations and the trend lines are based on data that goes
3 only through the first quarter of Fiscal Year '99, is that
4 correct?

5 THE WITNESS: That is correct.

6 CHAIRMAN GLEIMAN: If that is the case, could you
7 please provide the Commission with versions of Figures 3 and
8 4 where the regression equations and trend lines are based
9 on data through Postal Quarter 3 of 2000, which I believe is
10 now available?

11 THE WITNESS: Yes.

12 CHAIRMAN GLEIMAN: Also, in your testimony you
13 present Figures 1 and 2 which show additional ounces per
14 piece over the past 10 years for single piece and total
15 First Class letters, respectively. These also have
16 regression equations and trend lines based on historical
17 data, and, again, my reading of it is that the trend lines
18 stop in FY '99 where the historical data, at least as of
19 that point ends.

20 THE WITNESS: Are you referring -- I'm sorry. Are
21 you referring --

22 CHAIRMAN GLEIMAN: Figures 1 and 2.

23 THE WITNESS: Thank you. Yes, they stop at '99,
24 that's correct, Mr. Chairman.

25 CHAIRMAN GLEIMAN: If this historical trend were

1 projected forward in each figure, how would its prediction
2 of additional ounces per piece compare with the initial and
3 revised forecasts?

4 THE WITNESS: I believe projecting the trend line
5 through, it would still show a rising trend as compared to
6 the Postal Service's methodology.

7 CHAIRMAN GLEIMAN: Well, if you could please give
8 that some additional thought, and when you provide the
9 updated Figures 3 and 4, also let us know whether your
10 initial reaction to my question on Figures 1 and 2 holds
11 true.

12 THE WITNESS: Okay.

13 CHAIRMAN GLEIMAN: I have no further questions.
14 Is there any follow-up questions from the bench?

15 [No response.]

16 CHAIRMAN GLEIMAN: If not, then, Mr. Gerarden,
17 would you like some time to prepare for redirect?

18 MR. GERARDEN: Just a few minutes, please.

19 CHAIRMAN GLEIMAN: Certainly, we will give you
20 five.

21 MR. GERARDEN: That would be fine.

22 CHAIRMAN GLEIMAN: Thank you.

23 [Recess.]

24 CHAIRMAN GLEIMAN: Mr. Gerarden, you can proceed.

25 MR. GERARDEN: Thank you, Mr. Chairman. The OCA

1 has no redirect.

2 CHAIRMAN GLEIMAN: If there is no redirect, then,
3 Mr. Callow, that completes your testimony here today. We
4 appreciate your appearance yet again and your contributions
5 to the record. We thank you and you are excused.

6 THE WITNESS: Thank you.

7 [Witness excused.]

8 CHAIRMAN GLEIMAN: Does anybody have any matters
9 that they would like to raise before we conclude today's
10 hearing?

11 [No response.]

12 CHAIRMAN GLEIMAN: If not, then today's hearing is
13 concluded. We will reconvene on August the 22nd at 9:30
14 a.m., as announced in Presiding Officer's Ruling 108, at
15 which time we will receive testimony from United Parcel
16 Service concerning Parcel Post volume statistics developed
17 by the RPW system.

18 I thank you. You all have a nice afternoon and
19 pleasant weekend.

20 [Whereupon, at 10:19 a.m., the hearing was
21 recessed, to reconvene at 9:30 a.m., Tuesday, August 22,
22 2000.]

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