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POSTAL RATE COMMISSION  
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*Before the*  
**UNITED STATES POSTAL RATE COMMISSION**

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

Docket No. **R2000-1**

**VOLUME 45**

DATE: **Wednesday, August 30, 2000**

PLACE: **Washington, D.C.**

PAGES: **19567 - 20165**

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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 XLV  
Wednesday, August 30, 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
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1	C O N T E N T S				
2	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
	JOHN HALDI				
3	BY MR. OLSON	19588			
	BY MR. MCKEEVER		19611		
4	MICHAEL MILLER				
	BY MR. TIDWELL	19638			
5	BY MR. HART		19693		
	BY MR. MAY		19709		
6	BY MR. HALL		19764		
	BY MR. COSTICH		19778/19898		
7	BY MR. VOLNER		19851/19898		
	BY MR. HENDEL		19870		
8	NANCY STAISEY				
	BY MR. TIDWELL	19913			
9	BY MR. MAY		19936		
	BY MR. VOLNER		19947		
10	BY MR. HENDEL		19970		
	ROY GORDON				
11	BY MR. MOORE	20006			
	BY MR. MAY		20021		
12	BY MR. HENDEL		20036		
	CARL DEGEN				
13	BY MR. KOETTING	20047			
	BY MR. WIGGINS		20063		
14	JAMES CLIFTON				
	BY MR. HART	20075			
15	BY MR. WIGGINS		20155		
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17	DOCUMENTS TRANSCRIBED INTO THE RECORD:				PAGE
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18	F. Scott Harding, PostCom-RT-1				19579
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19	UPS-XE-Haldi-RT-1				19623
	Rebuttal Testimony of Michael W. Miller, USPS-RT-15				19640
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1	EXHIBITS	IDENTIFIED	RECEIVED
2	NUMBER Written Rebuttal Testimony of F. Scott Harding, PostCom-RT-1	19579	19579
3	Rebuttal Testimony of John Halldi, APMU-RT-1	19589	19589
4	UPS-XE-Halldi-RT-1	19623	19623
5	Rebuttal Testimony of Michael W. Miller, USPS-RT-15	19640	19640
6	OCA/USPS-RT-15-XE-1	19807	19807
7	Rebuttal Testimony of Nancy Staisey, USPS-RT-16	19914	19914
8	PB-XE-1 and 2	19947	
9	Rebuttal Testimony of Roy Gordon, USPS-RT-17	20007	20007
10	Response of USPS Witness Degen to Order Number 1300	20049	20049
11	Written Supplemental Testimony of James A. Clifton, ABA/NAPM-ST-1 and ABA/NAPM-ST-2	20077	20077
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1           We now know this is not the case. We have been  
2 told that 2001 will have begun and been ongoing for  
3 approximately a month before the Board of Governors will see  
4 what passes for a formal budget for the Postal Service.

5           And we have been told that what the Governors will  
6 approve is, and I quote, "a net income goal and a set of  
7 planning parameters that support that net income goal. The  
8 Board is not supplied with and does not vote on the detailed  
9 operating plans.

10           The detailed operating plans have typically not  
11 been completed at the time the Board votes on the budget."  
12 Close quote. It appears this comment appears in two Postal  
13 Service pleadings on this topic.

14           Since detailed operating plans have typically not  
15 been completed at the time the Board votes on the budget,  
16 which is after the fiscal year has already begun, it is  
17 clear that such plans cannot be provided in response to  
18 OCA's discovery request.

19           OCA and all parties might argue the significance  
20 of these facts to the Commission as they relate to the  
21 weight that the Commission should give to statements of  
22 Witness Patelunas and perhaps other witnesses regarding  
23 whether testimony is consistent with the Fiscal 2001  
24 operating budget.

25           Does any party have a matter that they would like

1 to address today?

2 [No response.]

3 CHAIRMAN GLEIMAN: We have seven witnesses  
4 scheduled to present testimony today. I determined  
5 yesterday to make two adjustments to the schedule of the  
6 appearance of witnesses.

7 First, the only participant who has filed a  
8 written notice of intent to cross examine Witness Harding,  
9 the Association of Alternate Postal Systems, has indicated  
10 that they will have no cross for that witness.

11 Therefore, as is our practice, we will introduce  
12 this witnesses testimony first, before we receive testimony  
13 from those who are subject to cross examination.

14 Also, I determined that we will hear Witness right  
15 after that, as only one party has asked to cross examine  
16 him. Also, Witness Haldi was in the hearing room all day  
17 yesterday and into the evening. He was our last witness and  
18 did not get out of here until 8:30 last night.

19 We have a full day scheduled for today, and I just  
20 didn't think that in fairness that we could ask him to spend  
21 another full day and be our last witness again.

22 Thus, the order of appearance today is Harding,  
23 Haldi, Clifton, Miller, Stacey, Gordon, and Degen.

24 Does anyone wish to comment on the order that I  
25 just read that has Mr. Clifton Number 3?

1 [No response.]

2 CHAIRMAN GLEIMAN: Apparently not. Even when you  
3 ask leading questions, sometimes you don't get answers.

4 [Laughter.]

5 MR. HART: Mr. Chairman?

6 CHAIRMAN GLEIMAN: Mr. Hart?

7 MR. HART: Is now the time to talk about the order  
8 of Witness Clifton?

9 CHAIRMAN GLEIMAN: I think so.

10 MR. HART: Okay. My co-counsel just poked me in  
11 the ribs; I'm sorry.

12 Witness Clifton was scheduled, I believe, first  
13 today, originally. As a result of the August 25  
14 supplemental response of the Postal Service to POR 116, we  
15 have pending, a motion to strike that response.

16 My understanding is that as of the website last  
17 night, the Commission website, that motion is still pending.

18 If the motion is granted, we have no need to file  
19 any additional testimony, but if it is not granted, we would  
20 want to file responsive testimony to the August 25 Postal  
21 Service supplemental response to POR-116.

22 This was prepared late last night. We told the  
23 Postal Service about it late yesterday afternoon, delivered  
24 them a copy of what is four pages and some tables. This  
25 morning, apparently -- and Mr. Tidwell can explain, if

1 necessary -- but apparently the Postal Service witness who  
2 would review this testimony is Mr. Miller, who is scheduled  
3 early this morning himself, so he can't review it until  
4 later today.

5 And so the request was, which we would obviously  
6 accede to, is that Mr. Clifton be moved back later to give  
7 the Postal Service time to look at this stand-alone  
8 responsive testimony.

9 And so we would therefore ask that Mr. Clifton be  
10 moved to the back of the day.

11 CHAIRMAN GLEIMAN: Mr. Tidwell, is that okay with  
12 you, preferable?

13 MR. TIDWELL: Most preferable.

14 CHAIRMAN GLEIMAN: It is done.

15 MR. HART: Thank you.

16 CHAIRMAN GLEIMAN: We will hear Witness Clifton as  
17 our last witness today then.

18 That brings us back to Witness Harding. Mr.  
19 Volner, is your witness in the room, or would you prefer to  
20 do this by declaration?

21 MR. VOLNER: I would prefer to do it by  
22 declaration.

23 CHAIRMAN GLEIMAN: Well, let's declare away.

24 MR. VOLNER: Mr. Chairman, I am going to supply  
25 the Reporter with two copies of the testimony of S. Scott

1 Harding on Behalf of the Association for Postal Commerce.  
2 They're designated as PostCom-RT-1.

3 I need to inform the Commission that the  
4 declaration is in transit in the mails and we will submit it  
5 as soon as it is received. We weren't certain whether Mr.  
6 Harding was going to have to appear or not.

7 I would ask that the testimony be recorded and  
8 transcribed at this point in the record, and admitted into  
9 evidence.

10 CHAIRMAN GLEIMAN: Is there any objection?

11 [No response.]

12 CHAIRMAN GLEIMAN: Hearing none, Mr. Volner, if  
13 you would provide two copies to the Court Reporter, I will  
14 direct that Witness Harding's Rebuttal Testimony be  
15 transcribed into the record and entered into evidence.

16 [Written Rebuttal Testimony of F.  
17 Scott Harding, PostCom-RT-1, was  
18 received into evidence and  
19 transcribed into the record.]

20  
21  
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Postcom-RT-1

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

**POSTAL RATE AND FEE CHANGES, 2000**

**Docket No. R2000-1**

**REBUTTAL TESTIMONY OF S. SCOTT HARDING  
ON BEHALF OF THE ASSOCIATION FOR POSTAL COMMERCE**

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Dated: August 14, 2000

1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Scott Harding and I am Chairman/CEO of Newspaper  
3 Services of America (NSA). I am on the Board of Directors for the Audit Bureau  
4 of Circulation (ABC), a non-profit organization that works with Advertisers and  
5 publishers. Prior to founding NSA, I was with Sears, Roebuck and Co for 22  
6 years and spent several years managing Sears National Advertising Group.

7 NSA was founded in 1991 as a company dedicated to print media services  
8 to retail and national advertisers. Our mission is to provide our clients with the  
9 most efficient and effective print media buy. We negotiate with over 7800  
10 suppliers including newspapers, TMC, Advo, Penny Savers and others. Our  
11 client base includes the largest retailers, i.e. Sears and Kmart to specialty  
12 retailers such as Home Depot. Included also is BMW, Toys R Us, and Walgreens  
13 and many regional advertisers. We currently are responsible for over \$3 billion of  
14 media and production and placed over 19 billion insertions into newspapers. Our  
15 focus is not that the advertiser spend their money with newspapers, but that  
16 advertisers invest their advertising dollars appropriately. Our interest is that our  
17 clients are competitive in the market place and improve sales.

18

19 **PURPOSE**

20 The following is in rebuttal to Mr. William Tye's testimony for the NAA.  
21 The purpose of my testimony is to present an objective opinion on the impact of  
22 the proposed ECR pound rate and newspaper print distribution. And, specifically,  
23 to dispel Mr. Tye's testimony of a "significant shift of advertising from newspapers

1 to ECR mail over the last five years" and the purported harm to newspapers as a  
2 result of the ECR rate.

3

4 **TESTIMONY**

5 Let me begin by stating that over 90% of the print media we place is with  
6 newspapers. So my intent today is to present facts from the advertisers  
7 perspective. All advertisers are faced with the question of what is the best  
8 method to reach customers. The media of choice is based on several factors  
9 including budget, marketing direction, customer and store locations and customer  
10 profile of media usage. Newspapers currently provide mass distribution and  
11 further enhance distribution by reaching non-subscribers through TMC programs.

12

13 **MEDIA PLANNING FROM THE CLIENT'S PERSPECTIVE**

14 The use of the various media options (broadcast, out of home, direct mail,  
15 newspaper, mass mailing, etc.) is directed by the marketing communications  
16 objectives of the individual client. Each utilizes the available media options they  
17 feel most likely to achieve their business objectives at an efficient cost.

18 The costs of each of these media options are weighed against the ability  
19 of the individual medium to reach the Client's targeted customers most effectively  
20 and efficiently with the appropriate message. Most Clients utilize a mix of the  
21 available media as each medium offers different core advantages. Thus, the  
22 decision-making process for most clients once they have determined that print  
23 presents a viable option for them includes many elements.

1 Creative/Message Issues

2           What kind of print message is most appropriate? Are preprints -- free  
3 standing inserts or FSIs -- needed to communicate the breadth of assortment  
4 and price information? Mass merchants often utilize FSIs as they meet this  
5 objective at an efficient cost. As discussed below, FSIs are used with all print  
6 media distribution channel.

7

8 Distribution/Carrier Issues

9           Most Clients have already established media objectives and standards. It  
10 is our job to help identify the most effective and efficient media options that  
11 address the Client's objectives.

12           The nature of the Client's business is the most impactfull element of their  
13 media objectives. Some formats (hardware, drug stores, food stores) draw  
14 customers from a limited geographic area. Often they limit their print media  
15 coverage objectives to 3 to 5 miles from their location. These formats are also  
16 more likely to seek high coverage within this limited geographic area; sometimes  
17 seeking "saturation" levels.

18           Other client formats (such as Discounter/General Merchandise/  
19 Department Stores) require larger geographic markets to reach their business  
20 objectives. Generally speaking, these clients seek higher coverage areas closer  
21 to their stores and accept lower coverage levels in the outer reaches of the  
22 market area they have defined for an individual store, usually based on  
23 measured customer response.

1

## 2 UTILIZING A COMBINATION OF PRINT MEDIA DISTRIBUTION OPTIONS

3 We consider all print media distribution options (newspaper inserts,  
4 newspaper TMC products, Mass mailing carriers, alternate distribution carriers)  
5 that are consistent with the Client's stated media objectives when completing our  
6 media analysis and delivering our recommendations to our Client.

7 We frequently include a mix of the print options in our recommendations,  
8 as multiple media are often needed to reach our Client's objectives. The  
9 utilization of the mix of print media options for our Clients has remained relatively  
10 stable over the past 5 years.

11

## 12 MARKETPLACE/COMPETITIVE ISSUES

13 We believe that the public interest is best served by the availability of  
14 viable media options for Client's to utilize based on their unique business formats  
15 and marketing communications objectives.

16 Competitive pricing is one element of the decision making process  
17 impacting the utilization of one option as opposed to another alternative. The  
18 current costing scenario places clients that utilize larger, heavier preprints at a  
19 disadvantage as they seek options to most newspaper insertion costs. While  
20 most clients may still chose to utilize newspapers as their primary advertising  
21 carrier, they find it expensive to supplement the newspaper's distribution shortfall  
22 with a mailed product alternative.

1           Newspapers have begun offering a Total Market Coverage (TMC) product  
2 in some markets. The TMC typically reaches non-subscriber households within  
3 portions of their market to achieve a "saturation" distribution. TMCs are generally  
4 distributed one time per week and utilize either alternate delivery or the USPS to  
5 deliver their product. In most cases the advertising is not accompanied by  
6 extensive "editorial" content. The TMC product is a direct competitor to other  
7 mass mailing and alternate distribution options.

8           Because the TMC is developed by the individual newspaper, the  
9 availability of their TMC may not coincide with the coverage objectives of our  
10 client.

11

## 12 **CONCLUSION**

13           We support all activities that offer our clients affordable, efficient print  
14 media options and endorse efforts on the part of anyone to make the "playing  
15 field" more competitive.

16           We do not agree with Mr. Tye's statement of a "significant shift of preprint  
17 advertising over the past 5 years." As I have stated, our experience has shown  
18 that the mix of distribution options has remained relatively stable. This means  
19 that if advertisers use heavier and larger preprints, they typically are distributed  
20 via newspapers.

21           While we are client advocates and remain objective to all print  
22 alternatives, we feel that advertisers are best served by a market place of  
23 choices. We believe a reduced pound rate will give the retail industry a

1 competitive choice. Retailers are in a highly competitive market and extremely  
2 cost conscious, any action to reduce costs will give far reaching benefits to all  
3 consumers.

4         We encourage alternative methods of distribution, and believe that the  
5 proposed lower rate will not divert advertising from newspapers, but provides a  
6 competitive alternative of media. We support all activities that offer our clients  
7 affordable, efficient print media options and endorse efforts on the part of anyone  
8 to make the "playing field" more competitive.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the rules of practice.

---

Ian D. Volner

1 MR. VOLNER: Thank you, Mr. Chairman.

2 CHAIRMAN GLEIMAN: Thank you.

3 Mr. Olson.

4 MR. OLSON: Good morning, Mr. Chairman. The  
5 Association of Priority Mail Users would call Dr. John Haldi  
6 to the stand.

7 Whereupon,

8 JOHN HALDI,

9 a witness, having been recalled for examination and, having  
10 been previously duly sworn, was examined and testified  
11 further as follows:

12 CHAIRMAN GLEIMAN: Dr. Haldi is already under oath  
13 in these proceedings. There is no need to swear him in, so  
14 you may proceed with his testimony.

15 DIRECT EXAMINATION

16 BY MR. OLSON:

17 Q Dr. Haldi, I would like to hand you two copies of  
18 what is called the Rebuttal Testimony of Dr. John Haldi  
19 Concerning Priority Mail on Behalf of the Association of  
20 Priority Mail Users, Inc., which is abbreviated as  
21 APMU-RT-1, and I ask you if that was prepared by you or  
22 under your direction, and whether you adopt that as your  
23 testimony in this docket?

24 A Yes, I did prepare it, and, yes, I do adopt this  
25 as my testimony.

1           MR. OLSON: Mr. Chairman, we would move the  
2 admission of this testimony into evidence.

3           CHAIRMAN GLEIMAN: Is there an objection?

4           [No response.]

5           CHAIRMAN GLEIMAN: Hearing none, if you would  
6 please provide two copies to the court reporter, I will  
7 direct that the rebuttal testimony of Witness Haldi be  
8 transcribed into the record and received into evidence.

9   [Rebuttal Testimony of John Haldi,  
10   APMU-RT-1, was received into  
11   evidence and transcribed into the  
12   record.]

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APMU-RT-1

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

POSTAL RATE AND FEE CHANGES, 2000 )

Docket No. R2000-1

Rebuttal Testimony of

DR. JOHN HALDI

Concerning

PRIORITY MAIL

on Behalf of

ASSOCIATION OF PRIORITY MAIL USERS, INC.

William J. Olson  
John S. Miles  
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Counsel for Association of  
Priority Mail Users, Inc.

August 14, 2000

APMU-RT-1

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1 service reliability and quicker turnaround time that the dedicated air  
2 networks provide compared to the commercial air system." Tr.  
3 32/15996.

4 It costs more to transport mail via these two networks than it  
5 would cost using the commercial air system. The extra costs are referred  
6 to as the "network premium." The network premium is attributed solely  
7 to Express Mail, because (i) the networks would not exist but for the  
8 overnight delivery requirement, and (ii) without the networks, the Postal  
9 Service could not offer Express Mail service.<sup>1</sup>

10 Witness Neels (UPS-T-3) contends that the network premium  
11 should be attributed to both Express and Priority Mail. His contention  
12 rests essentially on two arguments: (i) the volume of Priority Mail carried  
13 on the two networks exceeds the volume of Express Mail, and (ii) smaller  
14 aircraft could readily accommodate all Express Mail, even allowing for  
15 day-to-day variations in volume. His testimony cites the aircraft shown  
16 in Table 1 as having sufficient capacity (measured in terms of cubic feet)  
17 to meet network requirements for Express Mail.

---

<sup>1</sup> Witness Neels admits that in order to provide overnight service "between points sufficiently distant, an overnight air network would be needed." Tr. 32/16078.

1

2

**Table 1**

3

**Aircraft Suggested as Appropriate  
for the Eagle and Western Air Networks  
by UPS Witness Neels**

4

5

6

7

Aircraft Type	Make/ Model	Capacity (Cubic Feet)
Turboprop	Metro III	625
Turboprop	Beechcraft 1900	819
Jet	DC-9-15	2,808
Jet	727-100	4,850
Jet	727-200	6,735

8

9

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Source: Tr. 32/16002-3.

16

Witness Neels rests his case on the somewhat general statement

17

that:

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19

20

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22

[s]maller aircraft are generally less expensive to operate than larger aircraft. This is consistent both with common sense and with economic rationality. It would be unreasonable for an operator to spend more for an aircraft that provides less useable cargo space. Tr. 22/16001.

23

24

**A. Larger Aircraft Are Subject to Significant Economies of Scale, as well as Greater Range**

25

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28

Witness Neels' arguments for changing the method of attributing the network costs are seriously flawed in a number of important respects. First, he endeavors to underplay the fact that the overnight hub-and-spoke networks exist solely for the overnight product, Express

1 Mail. Second, he makes no effort to ascertain whether the turboprop  
2 aircraft shown in Table 1 have the speed or range necessary to achieve  
3 operational requirements.<sup>2</sup> Third, and most important, in his myopic  
4 focus on increasing the costs attributed to Priority Mail, he makes no  
5 effort to investigate whether larger size aircraft are economically rational,  
6 given the following facts:

- 7 • The networks must operate to meet the service standards of  
8 Express Mail.
- 9  
10 • The incremental cost of additional capacity on larger  
11 aircraft can be quite low; i.e., larger aircraft provide  
12 operators with substantial economies of scale.
- 13  
14 • In the absence of the networks, class of mail other  
15 than Express Mail would utilize the commercial air  
16 system.
- 17  
18 • Charges for usage of the commercial air system have  
19 no fixed component, no economies of scale, and are  
20 fully avoidable.
- 21  
22 • Dedicated air networks provide greater service  
23 reliability.

24 With respect to whether it is economically rational for the Postal  
25 Service to operate larger aircraft, witness Neels was asked to provide data  
26 and make specific comparisons of the incremental cost and incremental  
27 capacity for the different aircraft types which he discusses in his  
28 testimony. Tr. 32/16064-5. In lieu of a direct response, he referred to

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<sup>2</sup> Witness Neels admits that "[g]iven a sufficiently long haul and a sufficiently slow aircraft, it might not be possible for the aircraft to arrive in time for the next day's dispatch." Tr. 32/16082.

1 the data in UPS-LR-5, which were provided in response to a different  
2 interrogatory. He subsequently admitted that there is not enough  
3 information in UPS-LR-5 to allow one to come to very firm conclusions  
4 based only on the information contained in that library reference.  
5 Tr. 32/16103. Such little useful information as can be gleaned from  
6 UPS-LR-5 indicates that a 727-200, with a capacity of about 6,735 cubic  
7 feet, has a total cost per block hour of \$2,927.30, while a smaller 727-  
8 100, with a capacity of about 4,850 cubic feet, has a total cost per block  
9 hour of \$4,813.50. In this particular comparison, witness Neels' data  
10 show that the larger plane actually costs less. In terms of the cost for  
11 capacity, the difference is truly remarkable. The hourly cost for a cubic  
12 foot of capacity in the 727-200 is \$0.435 and for the 727-100 it is  
13 \$0.992. In this instance, the larger aircraft thus has a lower cost of  
14 capacity (about 56 percent lower) than the smaller aircraft. Inasmuch as  
15 data of this type are critical to an evaluation of Postal Service rationality  
16 and witness Neels' contention that the network should be downsized for  
17 Express Mail, I have obtained some additional data on the relevant costs  
18 of operating different size cargo aircraft.

19 The basic data are shown in Table 2. The approximate cargo  
20 capacity of each aircraft, in terms of pounds, is shown in column 1. The  
21 aircraft shown are listed from smallest to largest in terms of capacity,

1 measured in terms of weight.<sup>3</sup> Moving from one aircraft to the next, the  
2 incremental capacity is shown in column 2. The min-max range of ACMI  
3 per hour is shown in columns 3-4, where ACMI stands for Aircraft, Crew,  
4 Maintenance, and Insurance. ACMI is an all-inclusive cost, except for  
5 fuel, which is shown in columns 5-6. The total hourly cost is shown in  
6 columns 7-8. A min-max range is shown in each instance to allow for  
7 variation in factors such as weather, altitude, length of haul, etc., as  
8 discussed by witness Neels (Tr. 32/16002). From columns 7-8 it can be  
9 readily observed that, as witness Neels asserts, larger aircraft do indeed  
10 cost more to operate than smaller aircraft. The hourly cost of a 747, for  
11 example, is between six and seven times that of a Piper. This "common  
12 sense" observation is not surprising, nor does it represent an analysis of  
13 what constitutes economic rationality. By way of introduction to what  
14 follows, in Table 2 please note that the capacity of a 747 is about 100  
15 times greater than that of a Piper.

---

<sup>3</sup> The capacity figures are approximate, for reasons cited by witness Neels. Because the maximum weight that an aircraft can carry varies with weather, altitude, length of haul, fuel requirements, and (in the cases of 727's) structural considerations, no single figure for maximum weight carried can be cited for any aircraft type, or even for any aircraft. Tr. 32/16002.

1

2

Table 2

3

## Cost of Operating Aircraft of Different Sizes and Cargo Capacity

Aircraft	Cargo Capacity	Incremental Capacity	ACMI (\$ per hour)		Fuel (\$ per hour)		Total Cost (\$ per hour)	
	(lbs)	(lbs)	(min)	(max)	(min)	(max)	(min)	(max)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Piper	2,000	2,000	800	1,000	300	400	1,100	1,400
Beach 402	3,500	1,500	1,800	2,000	500	600	2,300	2,600
Short 330	5,000	1,500	3,000	3,200	1,000	1,300	4,000	4,500
Cessna 580	15,000	10,000	2,500	3,500	750	1,000	3,250	4,500
737 (100)	25,000	10,000	1,800	2,500	1,300	2,000	3,100	4,500
727 (200)	40,000	15,000	3,500	3,800	1,400	2,000	4,900	5,800
A300 (cargo)	80,000	40,000	3,000	2,800	1,600	2,100	4,800	4,900
L1011 (cargo)	125,000	45,000	4,500	5,000	2,000	2,600	6,500	7,600
747 (cargo)	200,000	75,000	5,000	6,500	2,000	2,500	7,000	9,000

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Table 3 is designed to give some insight into the cost of **additional** capacity above that of the smaller aircraft shown. For convenience, the capacity data in columns 1 and 2 are reproduced from the corresponding columns in Table 2. The **average** hourly cost for a thousand pounds of capacity is shown in columns 3-4 of Table 3.<sup>4</sup> It can be observed readily from these two columns that the cost of capacity declines sharply as aircraft size increases, reflecting substantial economies of scale. The **incremental** cost per hour is shown in columns 5-6 of Table 3. Computation of incremental cost corresponds to the computation of

<sup>4</sup> Columns 3-4 in Table 3 result from dividing columns 7-8 in Table 2, respectively, by cargo capacity (in thousands of pounds) shown in column 1.

1 incremental weight.<sup>5</sup> The two final columns, 7-8, relate the incremental  
2 cost to the incremental capacity. What these two columns show is that  
3 with larger jet aircraft the hourly cost of incremental capacity is quite  
4 low, up to the largest aircraft available. In other words, a little extra  
5 money buys a lot of extra capacity. To illustrate, moving from a Cessna  
6 580 to a 727-200 more than doubles capacity, from 15,000 to 40,000  
7 pounds; for an extra capacity of 25,000 pounds (a 167 percent increase)  
8 the hourly cost goes up by only \$1,650 (in the minimum column, an  
9 increase of 51 percent) to \$1,300 per hour (in the maximum column, an  
10 increase of 29 percent).

11           What the data in Table 3 show, then, is that the Postal Service can  
12 obtain a considerable amount of extra network capacity for a  
13 comparatively small increase in cost; *i.e.*, the aircraft offer substantial  
14 economies of a scale. Moreover, as witness Neels admits, this network  
15 capacity has a "greater service reliability and quicker turnaround time ...  
16 compared to the commercial system." Tr. 32/15996.

---

<sup>5</sup> To illustrate, the estimated minimum total cost of an L1011 is \$6,500 per hour, and the minimum total cost of a 747 is \$7,000 per hour. The minimum incremental cost is thus \$500 per hour.

1

2

Table 3

3

**Analysis of the Cost of Cargo Capacity  
for Aircraft of Different Sizes**

4

Aircraft	Cargo Capacity (lbs) (1)	Incremental Capacity (lbs) (2)	Cost/hour per M Lbs. Capacity		Total Incremental Cost Per Hour		Incremental Cost Per M Lbs Capacity Per Hour	
			(min) (3)	(max) (4)	(min) (5)	(max) (6)	(min) (7)	(max) (8)
Piper	2,000	2,000	550	700	1,100	1,400	550	700
Beach 402	3,500	1,500	657	743	1,200	1,200	800	800
Short 330	5,000	1,500	800	900	1,700	1,900	1,133	1,267
Cessna 580	15,000	10,000	217	300	-750	0	-75	0
737 (100)	25,000	10,000	124	180	-150	0	-15	0
727 (200)	40,000	15,000	123	145	1,800	1,300	120	87
A300 (cargo)	80,000	40,000	58	61	-300	-900	-8	-23
L1011 (cargo)	125,000	45,000	52	61	1,900	2,700	42	60
747 (cargo)	200,000	75,000	35	45	500	1,400	7	19

21

**B. The Networks Are Not "Sized" for Priority Mail Just Because  
the Postal Service Uses Larger Aircraft with a Low Incremental  
Cost for Incremental Capacity**

22

23

24

Without imputing any extra value that the Postal Service obtains

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from the greater service reliability, the *incremental cost* of additional

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capacity may be less than the variable cost of using the commercial air

27

system for the incremental volume. Under this condition, and given that

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the network must be operated for Express Mail, the economically rational

29

decision is to procure larger aircraft, provided that the incremental

30

capacity can be utilized by other classes of mail that would otherwise use

31

the commercial air system (*e.g.*, Priority Mail and First-Class Mail).

32

These other classes of mail that require air transport present the Postal

1 Service with economies of scope.<sup>6</sup> Since Express Mail preempts all other  
2 classes of mail, when utilization of larger aircraft does not increase the  
3 cost charged to Express Mail over what would be incurred with smaller  
4 aircraft, the availability of larger aircraft provides the Postal Service with  
5 additional reserve capacity to handle Express Mail on those days that  
6 happen to have large volumes and to permit future growth, and  
7 frequently to achieve more rapid transportation.

8 For economy, the key objective is each night to stuff the network  
9 aircraft as full as possible with mail than needs to be flown. By imputing  
10 to all this "filler" mail what would be the cost to transport it on  
11 commercial airlines, as is done presently, the net result can be to reduce  
12 the cost of the required network for Express Mail below what it otherwise  
13 would be if smaller aircraft with comparatively high costs for each unit of  
14 capacity were used. Under these conditions, one should expect to  
15 observe large amounts of First-Class Mail and Priority Mail on network  
16 aircraft. Such an observation does not, however, mean that the network  
17 was in any way "sized" for the filler mail. Witness Neels does make much  
18 ado about the fact that the volume of Priority Mail on the two dedicated  
19 air networks exceeds the volume of Express Mail. Tr. 32/15998-9. What

---

<sup>6</sup> When economies of scale and scope are present, the economics are fundamentally different than implied by witness Neels, and contrary to witness Neels' assertion the inquiry does not naturally turn to consideration of the smallest aircraft that could be used to transport only Express Mail.

1 he overlooks, however, is that the volume of Priority Mail moving on the  
2 two networks is but a small portion of the total Priority Mail that moves  
3 by air. Were the networks to be truly sized for Priority Mail, many  
4 multiples of the current capacity would be required.<sup>7</sup>

5           The Commission made the correct decision in Docket No. R97-1.  
6 Witness Neels' proposal to revert to the pre-Docket No. R97-1  
7 methodology for attributing network premium costs is an unconvincing  
8 argument without reasonable support.

---

<sup>7</sup> The fact that the dedicated air networks have not been sized for Priority Mail may be part of the explanation why Priority Mail's two-day performance and three-day performance are so spotty. In this regard, see my direct testimony, APMU-T-1, Tr. 25/11496-584.

1           **III. THE INCREASE IN PRIORITY MAIL RATES RECOMMENDED BY**  
2                           **WITNESS SAPPINGTON WILL REDUCE PRIORITY MAIL**  
3                           **VOLUME AND MARKET SHARE AND, OVER THE**  
4                           **LONGER TERM, COULD REDUCE ITS**  
5                           **CONTRIBUTION TO INSTITUTIONAL COST**

6           **A. UPS Rate Proposals Would Have Priority Mail Lose Volume**  
7                           **and Market Share**

8           UPS witness Sappington proposes an unprecedented 40.3 percent  
9           rate increase for Priority Mail. By UPS's own reckoning, a rate increase  
10          of this magnitude would result in 2001 TYAR Priority Mail volume falling  
11          to 1,070 million pieces. Tr. 31/15326. That volume would be 104  
12          million pieces below actual BY 1998 volume, and 287 million below  
13          estimated TYBR volume. Since the market for expedited 2-day delivery of  
14          packages is projected to continue growing, an absolute decline in the  
15          volume of Priority Mail would mean an even greater decline in market  
16          share.

17          The UPS extrapolates its projected volume for Priority Mail using  
18          ratios based on witness Musgrave's volume forecasts, which are, in turn,  
19          based on the elasticities estimated by USPS witness Musgrave, who  
20          develops his econometric models using historic data that have never  
21          reflected anything even remotely close to a 40.3 percent increase in rates.  
22          Considerable uncertainty therefore exists concerning applicability of the  
23          estimated elasticity to such a rate increase, because it is so far removed  
24          from historical experience. Consequently, it is quite possible that even

1 UPS's order of magnitude estimates seriously underestimate the decline  
2 in Priority Mail volume that would result from a 40.3 percent increase in  
3 rates.

4 **B. A Marked Decline in Market Share Could Seriously**  
5 **Undermine the Ability of Priority Mail to Make**  
6 **Significant Contributions to Institutional Cost**

7 A marked decline in volume and market share would have serious  
8 long-term implications. The immediate impact, obviously, would be to  
9 erode the market position of Priority Mail. In turn, that likely also could  
10 erode the ability of Priority Mail to continue making substantial annual  
11 contributions to the Postal Service's institutional cost (as occurred with  
12 Express Mail). This is a matter which deserves serious consideration by  
13 the Commission. Even witness Sappington agrees. When asked whether  
14 the Commission should set rates sufficiently high so as to deliberately  
15 reduce the total contribution which Priority Mail makes to institutional  
16 cost, his response was an unequivocal "No." Tr. 31/15212-3.

17 **C. The Sharp Increase in Unit Cost Warrants**  
18 **Mitigation of Any Rate Increase**

19 As a result of the PMPC contract with Emery, Priority Mail has  
20 experienced unusually large increases in unit cost that are  
21 disproportionately high in relation to (i) the other subclasses of mail, and  
22 (ii) cost increases experienced by Priority Mail in prior years. Witness  
23 Sappington agrees that:

1 [a]n average annual increase of 11.5% [in unit cost]  
2 represents a larger percentage increase than an average  
3 annual increase of 8.1%. The 11.5% annual increase also  
4 represents a larger nominal increase in the present context,  
5 since unit attributable costs were higher in R97-1 than in  
6 R94-1. [Tr. 31/15342.]

7 The network for handling Priority Mail is in the process of evolution  
8 and significant change, as the Postal Service seeks to find a way to  
9 provide higher quality service at reasonable cost. The contract could be  
10 terminated at any time. Under the circumstances, the cost increases due  
11 to the Emery contract should be mitigated by the Commission, as it has  
12 done in the past, so as not to impose a disproportionate rate increase on  
13 Priority Mail. Witness Sappington concurs:

14 I agree that it can be appropriate to mitigate some portion of  
15 substantial cost increases, particularly if those cost  
16 increases are thought to represent temporary deviations  
17 from historic and future cost growth rates. [Tr. 31/15317.]

18 **D. Priority Mail Rates Are Increasing**  
19 **Faster than Competitors' Rates**

20 Major competitors such as FedEx and UPS are known to have  
21 negotiated rates with many shippers, especially those who generate  
22 significant volumes. They will not divulge the rates themselves, and the  
23 contracts are said to require that their customers not divulge the rates  
24 either.<sup>8</sup> The assiduous effort by the few major private sector providers to  
25 keep their negotiated prices secret is indicative of oligopolistic

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<sup>8</sup> PSA-T-1, p. 11, Tr. 29/14133.

1 competition. It is not a hallmark of open, competitive markets. In  
2 consequence of this situation, Postal Service witnesses responsible for  
3 developing forecasts and estimates of elasticity do not have reliable data  
4 on what many major shippers are actually paying for delivery service.  
5 The Commission, likewise, must deal with highly imperfect information  
6 regarding the rates actually charged by competitors.

7 With respect to this secretiveness by Priority Mail competitors,  
8 witness Sappington observes that “[i]f competing suppliers disagree with  
9 the assessments offered by Postal Service witnesses, they can supply any  
10 evidence they may have to support their points of view.” Tr. 31/15310.  
11 No such evidence has been forthcoming.

12 Limited information can be gleaned from interrogatory responses  
13 by UPS in this docket. Revenue and volume data for UPS deferred  
14 service are shown here in Table 4. According to UPS, “[t]he ‘Deferred’  
15 category includes UPS Second-Day Air and Three-Day Select volumes  
16 and revenues, a portion of which moves by ground transportation.” Tr.  
17 \_\_\_/\_\_\_\_. PSA/UPS-8.

1

2

Table 4

3

UPS Deferred Delivery Service  
Revenues and Volumes  
1995 - 1999

4

5

6

(1)

(2)

(3)

(4)

7

Revenue  
Per Piece

8

9

Revenue  
(\$, mill.)

Volume  
(000)

Revenue  
Per Piece

Percentage  
Increase

10

Year

11

1995

2,041

181,148

11.27

n.a.

12

1996

2,207

193,802

11.39

1.1%

13

1997

2,314

195,063

11.86

4.1%

14

1998

2,464

198,882

12.39

4.5%

15

1999

2,694

216,408

12.45

0.5%

16

Source: Response to PSA/UPS-8. Tr. \_\_\_/\_\_\_.

17

18

The average UPS revenue per piece for each year has been

19

computed and is shown in column 3 of Table 4. The year-to-year

20

increase in the average revenue per piece is shown in column 4. Over

21

the years shown, the average revenue per piece increased by a total of

22

10.5 percent, which reflects a compound annual increase of 2.5 percent.

23

During the same period, volume increased by a total of 19.5 percent,

24

which reflects a compound annual growth of 4.5 percent. The average

25

revenue per piece reflects (i) rates charged, (ii) average weight, and (iii)

26

the mix of packages using Second-Day Air and Three-Day Select Service.

27

Consequently, changes in the average revenue per piece can reflect

1 changes in factors other than the rates actually charged for a particular  
2 service, and the data in Table 4 must be interpreted with this caveat in  
3 mind.

4 In Docket No. R97-1, the Commission recommended a 5.6 percent  
5 increase in rates for Priority Mail, and now in this docket the Postal  
6 Service has requested an increase that averages 15 percent. USPS-T-34,  
7 pp. 6-8. The current rates are expected to remain in effect for another  
8 two years. If the Commission were to recommend the Postal Service's  
9 proposed rates, and assuming that those the rates also remain in effect  
10 for two years, Priority Mail would suffer a total increase over the four  
11 years of about 21 percent. This represents a 4.9 percent compound rate  
12 of increase, which is far greater than the 2.5 percent compound increase  
13 in the average revenue per piece for UPS Deferred Service. Thus, even  
14 under the Postal Service's proposal, the competitiveness of Priority Mail  
15 rates is gradually but surely being eroded. It would erode much further  
16 and faster under the UPS proposed rates.

17 **E. Priority Mail Service Is Less Reliable Than First-Class Mail**

18 Witness Sappington agrees that reliability is an important  
19 component of value of service. Mailers want speed and reliability,  
20 especially when they pay a premium (*e.g.*, as do those who chose to use  
21 Priority Mail for pieces that weigh less than 13 ounces). As explained by  
22 witness Sappington:

1 the term "reliability" of a mail service refers to the variation  
2 in delivery time between a given origin and a given  
3 destination. Formally, reliability might be measured as the  
4 inverse of the variance in delivery times.... [footnote omitted.]  
5 A more reliable service, then, would be one that exhibits a  
6 lower variance in delivery times.

7 Customers might value a small variance in delivery  
8 times because of the greater certainty it provides as to when  
9 a piece of mail is likely to arrive at its destination. Such  
10 greater certainty can be valuable for planning purposes.  
11 [Tr. 31/15334-5.]

12 Performance data that would enable a formal computation of the  
13 variance in delivery times of First-Class Mail and Priority Mail  
14 unfortunately are not available. However, ODIS data report the volume  
15 of Priority Mail with a one-day service standard to be approximately 190  
16 million pieces, or roughly 21.5 percent of total Priority Mail volume.  
17 Tr. 21/8564. Priority Mail and First-Class Mail have the same number of  
18 ZIP code pairs with an overnight delivery standard, and Priority Mail fails  
19 to meet its overnight delivery standard more often than does First-Class  
20 Mail. This portion of Priority Mail almost surely has a higher variance in  
21 delivery times than First-Class Mail. And since Priority Mail fails to meet  
22 its two- and three-day standard more often than does First-Class Mail, it  
23 seems likely that such Priority Mail also has a higher variance in delivery  
24 times — *i.e.*, is less reliable than First-Class Mail.

1 CHAIRMAN GLEIMAN: One party has requested oral  
2 cross-examination of Witness Haldi, United Parcel Service.  
3 Is there anyone else who wishes to cross-examine this  
4 witness?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, Mr. McKeever, you may  
7 proceed when you are ready.

8 MR. McKEEVER: Thank you, Mr. Chairman.

9 CROSS-EXAMINATION

10 BY MR. McKEEVER:

11 Q Dr. Haldi, could you turn to page 12 of your  
12 testimony, please?

13 A Yes.

14 Q There on lines 15 and 16, you refer to an even  
15 greater decline in Priority Mail's market share, is that  
16 correct?

17 A That is correct.

18 Q Now, in your direct testimony at transcript page  
19 25 -- at Transcript Volume 25, page 11539, that is at  
20 APMU-T-1 at page 41, you relied on information which you  
21 believe to be from the Colography Group to support your  
22 claim that Priority Mail's market share in terms of pieces  
23 is declining, is that correct?

24 A That's correct.

25 MR. McKEEVER: Mr. Chairman, with your permission,

1 I would like to approach the witness and provide him and his  
2 counsel with a report dated August 3, 2000, from the  
3 Colography Group, on Priority Mail's market share, which I  
4 have marked as UPS-XE-Haldi-RT-1.

5 CHAIRMAN GLEIMAN: Please proceed.

6 MR. COOPER: Mr. Chairman, I will just let you  
7 know from the outset that I intend to object to reference to  
8 any report by the Colography Group. We don't have anybody  
9 from Colography here to testify as to its authenticity,  
10 validity, et cetera.

11 MR. OLSON: Mr. Chairman, I, too, would like to  
12 object to that. We went through this the last time around  
13 where the witness was asked to read from a web site, and  
14 there is, apart from evidence -- apart from testimony as to  
15 authentication or Dr. Haldi's ability to authenticate this  
16 document, we would object to its use in cross-examination.

17 MR. MCKEEVER: Mr. Chairman.

18 CHAIRMAN GLEIMAN: Go ahead, Mr. McKeever.

19 MR. MCKEEVER: Mr. Olson, is correct, we did go  
20 through this last time, and the Chair made a ruling on it  
21 afterwards in response to a motion to strike by Mr. Olson,  
22 and ruled that a press release from the Colography Group was  
23 a proper subject for cross-examination. As we indicated in  
24 our response to that motion, certain documents are  
25 self-authenticating, and a document on the letterhead like

1 this, we believe is, although that is separate and apart  
2 from its use as a cross-examination document.

3 MR. OLSON: Mr. Chairman, if I might say, Mr.  
4 McKeever argued to the Commission at that time that this  
5 document was available on the web site of the Colography  
6 Group, and that was the basis on which he said it was  
7 self-authenticating. This document does not appear to be --  
8 I don't think being on a web site authenticates a document,  
9 but, certainly, this document is not from the Colography  
10 Group web site and, therefore, what I think the reason for  
11 the Commission's ruling was does not apply. And it doesn't  
12 serve anyone well, I think, if unauthenticated documents are  
13 used in this way.

14 CHAIRMAN GLEIMAN: I am going to allow the  
15 cross-examination to proceed. And during the course of the  
16 cross-examination, I will give some thought to the arguments  
17 that you gentlemen have made in the context of my earlier  
18 ruling, which Mr. McKeever just mentioned. And when a  
19 motion is made, if one is made with respect to either  
20 transcribing and/or entering into evidence, then I will  
21 rule.

22 Obviously, if I rule not to allow it into evidence  
23 and not to be transcribed, then the cross-examination  
24 related thereto would be given proper weight.

25 MR. MCKEEVER: Then, Mr. Chairman, I will reserve

1 any further comment until any such ruling is requested.

2 CHAIRMAN GLEIMAN: I would ask you, though, before  
3 you start to identify the document specifically.

4 MR. MCKEEVER: Yes, Mr. Chairman, I will. The  
5 document, which I have marked as UPS-XE-Haldi-RT-1 is dated  
6 August 3, 2000, is addressed to United Parcel Service, and  
7 indicates on the first page that the subject of it is the  
8 results of the UPS Priority Mail market share analysis. And  
9 it states on the first page that attached to it is a data  
10 table containing the results of the project referred to as  
11 the UPS Priority Mail market share analysis.

12 I will just indicate one other thing based on the  
13 first page of the document, and that is the second paragraph  
14 of the document indicates that it includes annual shipments,  
15 weight and revenue for the U.S. Postal Service's Priority  
16 Mail product and the percent market share that Priority Mail  
17 represents of all deferred air packages, shipments that  
18 weigh less than 70 pounds, for the calendar period 1994  
19 through 1999, inclusive, and then the second page is the  
20 table referred to.

21 CHAIRMAN GLEIMAN: I am a bit confused at this  
22 point, because the document, if I was listening carefully,  
23 as I should have been, I thought that you said that the  
24 second paragraph identified information that was included in  
25 the attachment related to the USPS Priority Mail.

1 MR. MCKEEVER: That's correct. It says -- that's  
2 correct. The second -- oh, I am -- well, U.S. Postal  
3 Service, yes, I'm sorry. The second paragraph says that it  
4 reflects annual shipments, weight and revenue for the U.S.  
5 Postal Service's Priority Mail product and the percent  
6 market share that Priority Mail represents.

7 CHAIRMAN GLEIMAN: I was a bit confused because of  
8 the lead in the paragraph which talks about the UPS Priority  
9 Mail market share analysis, and I appreciate you reiterating  
10 the sentence you were reading from. I now understand better  
11 what the document is.

12 MR. MCKEEVER: I believe it is indicated that way  
13 because the analysis was requested by UPS.

14 CHAIRMAN GLEIMAN: You can proceed.

15 BY MR. MCKEEVER:

16 Q Dr. Haldi, could you take a look at that report  
17 and let me know when you have finished.

18 MR. OLSON: Mr. Chairman, if I might just ask as  
19 part of responding to your inquiry about identifying the  
20 document, was counsel going to explain how this came into  
21 his possession?

22 MR. MCKEEVER: I would be happy to do that, Mr.  
23 Chairman. We requested it.

24 CHAIRMAN GLEIMAN: Well, why don't we just keep  
25 going on with this. Describe how it came into your

1 possession.

2 MR. McLAUGHLIN: We requested the Colograpy Group  
3 to provide us with their analysis of Postal Service Priority  
4 Mail market share and the Colography Group responded with  
5 this document.

6 THE WITNESS: Well, I have examined what is here  
7 to examine.

8 BY MR. McLAUGHLIN:

9 Q Okay. Now according to the numbers in that  
10 report, I am referring now to the table, Dr. Haldi, Priority  
11 Mail's market share in terms of pieces is a little bit lower  
12 but essentially unchanged over the last three years, 1997,  
13 1998 and 1999, is that correct?

14 A I assume by market share you are referring to the  
15 second line, which shows percentages.

16 Q That is correct.

17 A And percentages always derive from a numerator and  
18 a denominator. Now I assume that the numerator of the  
19 percentage or the number shown on the top line -- I don't  
20 know what -- I could, you know, if I had a calculator I  
21 could figure out what the numerator must have been in order  
22 to derive the percentages shown on the second line.

23 Q Do you mean the denominator?

24 A The denominator I mean, yes.

25 Q Go ahead.

1           A     The denominator is obviously bigger than the  
2 numerator. I don't know what is included in the  
3 denominator. For example, I don't know if the denominator  
4 includes UPS three day select service or if it is limited to  
5 UPS two day service, as an example.

6           Q     Well, could you refer to the first page of the  
7 document, please?

8           A     Yes. It said -- I looked at the third paragraph.  
9 It said deferred air is defined as all point of sale  
10 shipments that are tendered on an air waybill.

11                  Well, first of all, Priority Mail is not tendered  
12 on an air waybill normally. A lot of it is stuck in  
13 collection boxes, and with postage on it, and I don't know  
14 that the UPS three day select is tendered on an air waybill.  
15 I don't know enough about UPS systems to know that.

16           Q     You don't have any doubt that priority mail  
17 figures are included in the denominator, do you?

18           A     I would assume that they are since they are in the  
19 numerator.

20           Q     Right.

21           A     Yes.

22           Q     I did do the calculation, by the way, that you  
23 indicated you would do.

24                  I applied the percentage to the Priority Mail  
25 number and came up with a result of 1,729,549,000 for 1999.

1           Now am I correct though that if you look at those  
2 percentages, percent of total deferred, the second line of  
3 data in the table, that for 1997, 1998 and 1999 they are  
4 essentially the same -- 70 percent, 70.3 percent, and 69.7  
5 percent? In the same ball park?

6           A     Yes. I wouldn't feel that they were really  
7 statistically different given probably the vagaries of  
8 collecting these data.

9           Q     Okay, and the 1999 number, 69.7 percent, for  
10 pieces is actually higher in 1999 than it was in 1996, is  
11 that correct?

12          A     Again by some small amount, yes.

13          Q     And the 1999 number is higher than the 1995  
14 number?

15          A     Yes.

16          Q     By about 2.4 percentage points?

17          A     That would appear to be about the difference, yes.

18          Q     And in fact the 1999 number is higher than the  
19 1994 number, is that correct?

20          A     By a small amount, yes -- some -- whatever it  
21 is -- about a percent.

22          Q     Okay. Now let's take a look at the revenue  
23 columns on the bottom, the revenue numbers on the bottom.

24                   Am I correct that in terms of revenue Priority  
25 Mail's market share in 1999 was the highest than it has been

1 in any of the past six years represented on this chart?

2 A On this chart -- again I don't know what is  
3 included or excluded from the totals -- but the percentages  
4 here speak for themselves pretty well.

5 MR. McKEEVER: Mr. Chairman, I move to transcribe  
6 into the record and to admit into evidence the cross  
7 examination exhibit UPS-XE-Haldi-RT-1, and I am prepared to  
8 provide two copies to the court reporter.

9 MR. OLSON: Mr. Chairman, may I renew my  
10 objection.

11 This is a document which counsel said was  
12 requested by UPS during the pendency of this litigation.  
13 The date that it was provided to UPS on the document was  
14 August 3, 2000.

15 If parties are going to be allowed to have  
16 consultants create documents during the pendency of  
17 litigation so that they can then be worked into the record  
18 not by way of rebuttal testimony or supplemental testimony,  
19 and Mr. McKeever had the opportunity to use those vehicles  
20 to get whatever evidence he wanted into the record, but as  
21 he now is allowed to hire consultants to come up with  
22 documents and have no real meaningful cross examination of  
23 Witness Haldi as to his testimony but rather an effort to  
24 get these numbers read into the record by the witness, and  
25 now to move it into evidence I think seriously would damage

1 the record in this docket, violate basic principles of  
2 administrative law, and we would very strongly object to  
3 this effort to back door evidence into the record at the  
4 last moment.

5 MR. McKEEVER: Mr. Chairman, the Colography Group  
6 is not a consultant to UPS. We made a phone call and asked  
7 them for a report that was available and they provided it,  
8 number one, but I think that is irrelevant.

9 Dr. Haldi has put market share numbers in his  
10 testimony with no -- as a matter of fact less substantiation  
11 that is provided in connection with this exhibit.

12 This exhibit at least describes what the numbers  
13 are, but Dr. Haldi has used market share numbers which he  
14 took from the Postal Service. I am not laying this at Dr.  
15 Haldi's door, but they are numbers that the Postal Service  
16 provided him which we all understand are from the Colography  
17 Group, the very same organization.

18 I think it would be odd to permit that testimony  
19 to be in the record and not permit into the record a report  
20 by the same organization that supposedly provided those  
21 numbers.

22 Incidentally, I will point out I didn't go through  
23 a list of these questions because we can do it on brief, but  
24 the numbers in this report are different than the  
25 unsupported ones that were provided by the Postal Service.

1           One more comment, and that is we believed, we  
2 argued rather, in response to Mr. Olson's motion to strike  
3 the press release that the Federal Rules of Evidence clearly  
4 provide for self-authenticating documents and in particular  
5 documents on letterheads like this, reports of this sort.

6           Now we can brief that again if Mr. Olson wishes,  
7 but I believe the issue has really already been decided.

8           CHAIRMAN GLEIMAN: Mr. Cooper, you stated your  
9 objections earlier. Would you like to make your argument  
10 now before I rule?

11           MR. COOPER: Thank you, Mr. Chairman. I would  
12 join Mr. Olson in his objection. Whereas, the numbers that  
13 the Postal Service has provided in this case have been  
14 presented in a timely fashion with an opportunity for  
15 follow-up interrogatories and other means of  
16 cross-examination, there is simply no means by which any  
17 party to this case can question the source of these numbers.

18           Furthermore, the Commission's rules, procedural  
19 rules, provide that any cross-examination exhibit shall be  
20 provided in advance of hearing, so at least the parties can  
21 prepare for the cross-examination. That rule was flagrantly  
22 violated in this case, and I don't think the Commission  
23 should countenance that.

24           MR. MCKEEVER: Mr. Chairman, may I respond?

25           CHAIRMAN GLEIMAN: You sure may.

1           MR. McKEEVER: Mr. Cooper said that rule has been  
2 flagrantly violated. There has been a tendency to use some  
3 pretty strong adjectives late in this case, and I would  
4 suggest that if Mr. Cooper looked at the rule, he would see  
5 that it provides that cross-examination exhibits providing  
6 for complex numerical examples requiring calculations, et  
7 cetera, are to be provided in advance.

8           There has been a lot of rebuttal testimony  
9 provided in this case where there has been no opportunity  
10 for discovery at all as to the source of the numbers. So,  
11 again, I don't think that is a distinction here.

12           I do think that we should have the best evidence  
13 in this record, and the best evidence is of what the  
14 Colography Group believes the market share is is its own  
15 statement, not unsupported statements in other testimony as  
16 to this is what they say.

17           MR. OLSON: Mr. Chairman, at the risk of incurring  
18 your ire, just one sentence.

19           CHAIRMAN GLEIMAN: It is early in the morning,  
20 that only happens after 8:00 or 9:00 at night.

21           MR. OLSON: But the counsel has talked about  
22 self-authenticating documents, a report identified as the  
23 UPS Priority Mail market share analysis, which says -- it  
24 cites a source for some of the numbers in here presumably,  
25 but it was prepared for UPS. It is not a document of

1 independent significance, it was prepared for them.

2 CHAIRMAN GLEIMAN: Well, in point of fact, Dr.  
3 Haldi did rely on data that was provided by Colography, and  
4 if these numbers from that group are not to be accepted,  
5 then I guess we can't accept any numbers from that group,  
6 and, of course, I think that would be moving very far in the  
7 wrong direction.

8 I think that while Mr. Cooper is right that the  
9 rule says that you are supposed to provide cross-examination  
10 exhibits in advance, the Commission over the years, not only  
11 in this proceeding but over the years has been fairly  
12 lenient, and, as a matter of fact, just the other day was  
13 willing to accept from several Intervenors,  
14 cross-examination exhibits that were far more complicated  
15 and required considerably more in the way of on the stand,  
16 on the spot calculation than is required of the witness with  
17 respect to this cross-examination exhibit.

18 Mr. McKeever, I am going to allow this  
19 cross-examination exhibit to be transcribed into the record  
20 and entered into evidence. However, I would like you to  
21 submit for the Commission, so that we can better understand  
22 the numbers on page 2, and the derivation of the entire  
23 document, the work order that UPS sent to the Colography  
24 Group to obtain this document.

25 [Cross-Examination Exhibit No.

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UPS-XE-Haldi-RT-1 was received into  
evidence and transcribed into the  
record.]

The Colography Group, Inc.

COST • LOGISTICS • GEOGRAPHY

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August 3, 2000

TRANSMITTED VIA FAX AND FIRST CLASS MAIL

United Parcel Service  
55 Glenlake Parkway  
Building 1, Floor 7  
Atlanta, GA 30328

**Subject: Results Of The UPS Priority Mail Market Share Analysis**

Gentlemen:

Attached please find a data table containing the results of the project referred to as the **UPS Priority Mail Market Share Analysis**.

The **UPS Priority Mail Market Share Analysis** includes annual shipments, weight and revenue for the U.S. Postal Service's Priority Mail product and the percent market share that Priority Mail represents of all deferred air packages (shipments that weigh less than 70 pounds) for the calendar period 1994 through 1999 inclusive.

For the purposes of this analysis, deferred air is defined as all point-of-sale shipments that are tendered on an air waybill and are delivered in 2 or more business days.

The source for this analysis is The Colography Group's **U.S. Expedited Traffic And Yield Analysis By Competitor And Market Segment Reports**. These studies provide quarterly and annual Colography Group estimates of shipments, weight, revenue, per-pound yield, average weight per shipment and percent carrier share results for each of the leading U.S. carriers.

We trust that the enclosed satisfies your requirements; if we have in anyway misunderstood your instructions, or if you have any questions concerning this analysis, please call (678) 385-2500 or e-mail me at [wtliddicoet@colography.com](mailto:wtliddicoet@colography.com).

Regards,



William Liddicoet  
Manager, Applied Research  
& Analytical Services

The Colography Group, Inc.  
**UPS PRIORITY MAIL MARKET SHARE ANALYSIS**  
**U.S. POSTAL SERVICE PRIORITY MAIL GROWTH AND MARKET SHARE**  
**FOR U.S. DOMESTIC AIR PACKAGE SHIPMENTS THAT WEIGH LESS THAN 70 POUNDS**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Shipments (000)</b>						
Priority Mail	795,661	881,258	965,801	1,096,611	1,189,041	1,205,496
Percent Of Total Deferred	68.6%	67.3%	69.0%	70.0%	70.3%	69.7%
<b>Pounds (000)</b>						
Priority Mail	1,373,719	1,510,629	1,624,573	1,889,027	2,014,102	2,239,760
Percent Of Total Deferred	30.5%	29.0%	29.2%	27.2%	26.0%	27.4%
<b>Revenue (USD 000)</b>						
Priority Mail	2,738,755	3,145,123	3,433,019	3,951,688	4,249,360	4,685,284
Percent Of Total Deferred	43.0%	43.7%	44.9%	45.0%	44.6%	45.3%

**Source:** The Colography Group's *U.S. Expedited Traffic And Yield Analysis By Competitor And Market Segments Reports*

1 MR. McKEEVER: Mr. Chairman, we will do that if  
2 one exists, but my understanding is that this was at the  
3 response of a telephone request. We just picked up the  
4 telephone, asked them for information on Priority Mail  
5 market share and this is what was provided.

6 However, I will report back to you, and if there  
7 is a work order, we will certainly provide it.

8 CHAIRMAN GLEIMAN: If there is not a written work  
9 order, then I would like to have some memorandum to the  
10 effect of when the phone conversation transpired and exactly  
11 what the context of the discussion was so that we may have  
12 that as a matter of record.

13 MR. McKEEVER: We will provide that.

14 CHAIRMAN GLEIMAN: Now, having ruled, let me say  
15 that if the parties want to request reconsideration, they  
16 may do so. I would ask that if they choose to do so, they  
17 do so by the end of the week, and then replies will be due  
18 by next Wednesday.

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

20 BY MR. McKEEVER:

21 Q Dr. Haldi, I am correct that the market share  
22 numbers for shipments in that document, UPS-XE-Haldi-RT-1,  
23 differ from those shown in Table 8 of your direct testimony,  
24 isn't that correct?

25 A I don't have my direct testimony with me. If you

1 could get me a copy of that to refer to it.

2 MR. McKEEVER: Just one moment.

3 [Pause.]

4 BY MR. McKEEVER:

5 Q Now, Dr. Haldi, I have just given you a copy of  
6 transcript page 11539, which is page 41 of APMU-T-1, your  
7 direct testimony in this case. Now, am I correct that Table  
8 8 in your testimony for 1997 shows a Priority Mail market  
9 share for pieces of 62.7 percent, whereas, --

10 A Yes, that is what it shows.

11 Q Whereas, the Colography Group report shows 70  
12 percent for 1997?

13 A Those are the data in this UPS report, yes.

14 Q And for 1998, your table shows a slight decline  
15 from 1997 to 62.4 percent, while the Colography report shows  
16 a slight increase to 70.3 percent?

17 A Yeah, those are the numbers. I just want to  
18 comment again that the -- I have no idea what they have  
19 counted in the total market here, in either report, I might  
20 say.

21 Now, the Postal Service has three simple products,  
22 Express, Priority, and Parcel Post. Parcel Post moves by  
23 surface, Express is supposed to be overnight and Priority is  
24 in between.

25 My understanding of UPS product lineup and FedEx

1 lineups are that they have a broader spectrum of  
2 possibilities. I believe FedEx has one product they will  
3 promise delivery by 8:00 a.m. Their normal next day service  
4 is 10:30, then they have a deferred afternoon delivery.  
5 Then they have a second day product. UPS has, I don't know,  
6 they have a three day select, they have a two day, a one  
7 day, I don't know what else they have.

8 So you have a broader spectrum, and I don't know  
9 where they have sliced the spectrum in terms of putting  
10 which products into which market share when they computed  
11 these percentages, in either case, for both the Postal --  
12 whatever they supplied the Postal Service and what they have  
13 supplied you with. We are dealing with an obviously  
14 inconsistent picture here that could only be resolved by  
15 something that shows what they have counted where.

16 Q Well, I think you did answer my question. You  
17 don't have any more idea what underlies the numbers in your  
18 testimony than the numbers in this report, is that correct,  
19 is that what you are saying?

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

21 Q But you do at least have a description in the case  
22 of the report of generally what is included in the cover  
23 page, is that correct?

24 A You mean the cover page of your letter?

25 Q Of the exhibit. No, it is not our -- it is the

1 Colography letter.

2 A The Colography letter to UPS?

3 Q Yes.

4 A Yes.

5 MR. McKEEVER: Mr. Chairman, I will provide two  
6 copies of the document to the reporter at this point with  
7 your permission.

8 CHAIRMAN GLEIMAN: Certainly.

9 BY MR. McKEEVER:

10 Q Now, on page 16 of your testimony, you present a  
11 table showing UPS revenues and volumes for UPS's second-day  
12 air product and its three-day Select product; is that  
13 correct?

14 A Yes, that's correct, I believe.

15 Q In 1999, the UPS volume for both of those  
16 products, second-day air and three-day Select was 216.4  
17 million pieces?

18 A Unless I made a transcribing error, that was what  
19 was in the response to the interrogatory cited at the  
20 bottom.

21 Q No, that was transcribed correctly.

22 A Okay.

23 Q That's compared to a Priority Mail volume for 1999  
24 of almost 1.2 billion pieces; is that correct, 1.189,  
25 according to the -- go ahead.

1 A Yes.

2 Q So, Priority Mail volume is 5.5 times the UPS  
3 volume that's presented there; is that correct?

4 A That would appear to be correct, yes. I might  
5 point out -- are you going on?

6 The revenue figures for UPS were \$2.7 billion,  
7 almost, and Priority Mail figures were \$4.6 billion, so  
8 Priority Mail --

9 Q Two billion dollars more revenue?

10 A By revenues, it was less than twice the amount,  
11 rather -- whereas the volume pieces were six times the  
12 amount.

13 Q Understood, but the Priority Mail revenue is still  
14 \$2 billion more than the UPS revenue for those products?

15 A That's correct.

16 Q Thank you. Now, you note on page 17 of your  
17 testimony at lines 7 and 8, that, quote, "The current rates  
18 for Priority Mail we're talking about here are expected to  
19 remain in effect for another two years;" do you see that?

20 A Yes.

21 Q You don't mean the current rates there; do you?  
22 You mean the rates coming out of this proceeding; is that  
23 correct?

24 A Yes, that should have said the expected rates or  
25 whatever you want to call them.

1 Q Okay.

2 Now, I think you agreed with me when we were last  
3 together, on transcript page 11723, that UPS normally  
4 increases its rates every year; is that correct?

5 A I don't keep up with UPS that closely, but I  
6 believe that to be the case.

7 Q Do you remember that UPS last increased -- or it  
8 had its last regular rate increase in February of this year;  
9 do you know that?

10 A I don't know that for a fact. I'll accept your  
11 word on it.

12 Q Are you aware that UPS just recently adopted a  
13 fuel surcharge of 1.25 percent?

14 A I did see that in the trade press, yes.

15 Q Okay, so if we're right on the February rate  
16 increase for UPS, then that's two rate increases for UPS in  
17 the last few months; is that correct?

18 A That would be correct, yes.

19 Q On page 17 and 18 of your testimony, Dr. Haldi,  
20 you assert that Priority Mail service is less reliable than  
21 that for First Class Mail; is that correct?

22 A That's my impression, yes.

23 Q Again, when we were last together, you testified  
24 on transcript page 11762 and 63 that data on the delivery of  
25 Priority Mail pieces that are not delivered on time was not

1 available; that there was no data; is that correct; do you  
2 recall that?

3 A I have not seen any systematic data available on  
4 that; that's correct.

5 Q As a result, you related some of what you  
6 characterize as anecdotal evidence of Priority Mail  
7 performance in the tail; do you recall that?

8 A Yes.

9 Q Now, you did state on page 12 of your testimony on  
10 behalf of Amazon.com, presented yesterday, at line 10, that,  
11 quote, "Such anecdotal feedback can be completely  
12 misleading." Is that correct?

13 A That's correct.

14 Q Dr. Haldi, I'd like to, with the Chair's  
15 permission, show you a copy of the response of the Postal  
16 Service to APMU Interrogatories T34-8(a) and (c). Mr.  
17 Chairman, may I present that to counsel and to this witness?

18 CHAIRMAN GLEIMAN: Certainly.

19 [Pause.]

20 BY MR. McKEEVER:

21 Q Am I correct, Dr. Haldi, that the data on the  
22 fourth page of that document does, in fact, indicate how  
23 long it takes Priority Mail that is late to arrive at its  
24 destination using PETE data, PETE, P-E-T-E, all in caps?

25 A I --

1 Q Pardon me?

2 A Just give me a chance to read it, please.

3 Q Sure, sure, take your time.

4 [Pause.]

5 A Yes, it has -- doesn't go completely out to the  
6 tail, but gives you up to five days late.

7 Q Which in the case of a product with a two-day  
8 standard service would be seven days?

9 A Right.

10 Q And the page immediately before that contains EXFC  
11 for First Class service performance data; is that correct?

12 A Yes. Yes, that's correct.

13 Q Now, I compared the PETE data to EXFC data, where  
14 there was data for both subjects, in other words, not  
15 including the EXFC data for the service standard of three  
16 days which exists for the EXFC data but not for the PETE  
17 data; is that correct?

18 A Yes, okay.

19 Q I compared that, and with respect to 1998, there  
20 would be a total of 48 blocks of data here that one could  
21 compare.

22 And Priority Mail did the same or better than  
23 First Class mail in 23 of those blocks.

24 And I did the same for 1999, and out of 48 blocks  
25 in 1999, Priority Mail did the same or better in 27 of those

1 48 blocks.

2 Can you take a look at the data? I'm not asking  
3 you to confirm those exact numbers, but see if that appears  
4 to be right?

5 [Pause.]

6 A As you say there is a total of 96 comparisons here  
7 so I will accept subject to check the numbers you just gave  
8 me, but I was relying in my analysis there on the definition  
9 of variability or reliability rather than Witness Sappington  
10 offered which really is a statistical computation of the  
11 variance, so that while one may be slightly off in one  
12 respect -- some of the squared deviations basically is what  
13 the variance is that he defines.

14 I mean you have got some very big deviations and  
15 then you square those. I am just looking at a few of the  
16 numbers here. Let me just give you a couple of examples of  
17 what I mean.

18 Take 98 first quarter, First Class was on time  
19 92.86 percent of the time with a one day service standard,  
20 just the first numbers. Priority Mail was on time 84.85  
21 percent. If you take the squared deviation of those  
22 numbers, the difference being very large, the squaring it  
23 makes it much larger. It gives you heavier weighting.

24 Some of these differences may be quite small when  
25 you are just up and above and below because you get out to

1 the tail, I can see the differences both get quite small --  
2 four days late for 1998; First Class was 99.65; four days  
3 late for PETE it was 99.80, so in that case Priority Mail  
4 was higher or better than First Class in the sense that  
5 fewer pieces were four days late, but the difference being  
6 pretty marginal in this case -- 99.65 versus 99.80.

7 I was essentially in my head doing a rough  
8 variation. I didn't calculate either.

9 Q Okay, but we do have data at least that permits us  
10 to compare First Class mail that is late and Priority Mail  
11 that is late, is that correct?

12 A That is correct. You could probably just, if you  
13 said each one represents a million pieces and multiply these  
14 out, you could actually do some calculations to give you  
15 some sample variances.

16 Q And just one last question just to remind us -- am  
17 I correct that in the two day service standard there are  
18 some 600,000 additional zip codes where Priority Mail has a  
19 two day service standard and First Class mail does not have  
20 a two day service standard?

21 A I don't remember the exact number but there's a  
22 large number of zip code pairs, much larger number of zip  
23 code pairs with two day standard for Priority Mail than  
24 First Class mail, yes.

25 MR. McKEEVER: That's all I have, Mr. Chairman.

1 CHAIRMAN GLEIMAN: Is there any follow-up?

2 [No response.]

3 CHAIRMAN GLEIMAN: Would you like some time to  
4 prepare for redirect?

5 MR. OLSON: Just a minute.

6 CHAIRMAN GLEIMAN: Certainly.

7 [Pause.]

8 MR. OLSON: Mr. Chairman, we have no questions.

9 CHAIRMAN GLEIMAN: That being the case, Dr. Haldi,  
10 that completes your testimony here today. I think it  
11 completes your testimony for these proceedings, assuming we  
12 don't get forced for some reason or another into another  
13 round of hearings somewhere downstream.

14 We appreciate your appearance here today and your  
15 other appearances, your contributions to our record, we  
16 thank you, and you are excused.

17 [Witness excused.]

18 MR. OLSON: And Mr. Chairman, thank you for your  
19 courtesy in scheduling and Mr. McKeever as well.

20 CHAIRMAN GLEIMAN: Mr. Tidwell, I believe that you  
21 have the next witness.

22 MR. TIDWELL: The Postal Service calls Michael  
23 Miller to the stand.

24 CHAIRMAN GLEIMAN: And Mr. Miller is already under  
25 oath in this proceeding, so when you are ready to move his

1 testimony, you may.

2           Whereupon,

3                           MICHAEL W. MILLER,

4 a witness having been previously duly sworn, was further  
5 examined and testified as follows:

6                           REBUTTAL DIRECT TESTIMONY

7           BY MR. TIDWELL:

8           Q     Mr. Miller, you have before you two copies of a  
9 document which is entitled, "The Rebuttal Testimony of  
10 Michael Miller on behalf of the United States Postal  
11 Service" and it has been designated for purposes of this  
12 proceeding as USPS-RT-15.

13                   Was that document prepared by you or under your  
14 supervision?

15           A     Yes, it was.

16           Q     If you were to provide the contents of that  
17 document as your oral testimony today, would the testimony  
18 be the same?

19           A     Yes, it would, and I would like to point out that  
20 it includes errata that were filed on Monday, the 28th of  
21 August and in addition there are two typographical errors I  
22 would like to point out that have been changed in Table 1 on  
23 page 2.

24                   In the USPS Savings column the auto five-digit  
25 value should be changed from 8.48 cents to 7.48 cents.

1 MR. HART: Would you repeat that? Mr. Miller, I'm  
2 sorry, I didn't hear that, that last correction. Could you  
3 repeat that?

4 THE WITNESS: In Table 1 on page 2, the auto  
5 five-digit value should be changed from 8.48 cents to 7.48  
6 cents, and the auto carrier route value should be changed  
7 from 8.2 cents to 7.82 cents.

8 MR. HART: May I ask, Mr. Tidwell, is that just a  
9 clerical correction or is that as a result of the August  
10 28 --

11 CHAIRMAN GLEIMAN: You have to speak into the  
12 microphone.

13 MR. TIDWELL: Typographical error.

14 BY MR. TIDWELL:

15 Q With those changes, that would be your testimony  
16 today?

17 A Yes, it would.

18 MR. TIDWELL: Mr. Chairman, the Postal Service  
19 moves into evidence USPS-RT-15.

20 CHAIRMAN GLEIMAN: Is there an objection?

21 Hearing none, counsel if you would please provide  
22 two copies of the corrected rebuttal testimony of Witness  
23 Miller to the Court Reporter, I will direct that the  
24 testimony be transcribed into the record and received into  
25 evidence.

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[Rebuttal Testimony of Michael W.  
Miller, USPS-RT-15, was received  
into evidence and transcribed into  
the record.]

**USPS-RT-15**

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

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**POSTAL RATE AND FEE CHANGES, 2000 :**

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**Docket No. R2000-1**

**REBUTTAL TESTIMONY  
OF  
MICHAEL W. MILLER  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE**

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**REBUTTAL TESTIMONY  
OF  
MICHAEL W. MILLER**

**AUTOBIOGRAPHICAL SKETCH**

My name is Michael W. Miller. I am an Economist in Special Studies at the United States Postal Service. Special Studies is part of Cost and Rate Case Development at Headquarters.

In this docket, I testified as a direct witness (USPS-T-24) concerning the total *mail processing unit costs and worksharing related savings* for First-Class Mail presort letters, First-Class Mail presort cards, Standard Mail (A) Regular presort letters, and Standard Mail (A) Nonprofit presort letters. In addition, my testimony included the cost study supporting the First-Class Mail nonstandard surcharge.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2

3 This testimony offers rebuttal evidence concerning several proposals submitted  
4 by First-Class Mail (FCM) intervenors.

5 Section II contests the First-Class presort worksharing related savings  
6 calculations submitted by the Major Mailers Association (MMA) and the American  
7 Bankers Association/National Association of Presort Mailers (ABA&NAPM). The Postal  
8 Service believes that their savings calculations are overstated.

9 Section III rebuts the many proposals that seek to further de-average First-Class  
10 Mail (FCM) single-piece rates beyond the discount currently offered for Qualified  
11 Business Reply Mail (QBRM). These proposals include: the Courtesy Envelope Mail  
12 (CEM) discount presented by the Office of the Consumer Advocate (OCA); the "P" rate  
13 discount recommended by ABA&NAPM; the metered mail discount offered by Pitney  
14 Bowes; and the Personal Computer (PC) Postage discounts suggested by E-Stamp  
15 and Stamps.com. The Postal Service believes that these discount proposals should be  
16 rejected.

17 Section IV disputes the OCA's recommendation that the nonstandard surcharge  
18 be eliminated for low aspect ratio First-Class nonstandard single-piece letters. The  
19 Postal Service believes that the nonstandard surcharge requirements should be  
20 maintained in their current form.

1 **II. THE FIRST-CLASS PRESORT LETTER INTERVENOR PROPOSALS**  
 2 **OVERSTATE THE WORKSHARING RELATED SAVINGS AND SHOULD BE**  
 3 **REJECTED.**  
 4

5 In this docket, two intervenors have submitted testimony concerning the First-  
 6 Class Mail (FCM) presort letters worksharing discounts: the Major Mailers Association  
 7 (MMA) and the American Bankers Association and National Association of Presort  
 8 Mailers (ABA&NAPM). Both the MMA and ABA&NAPM proposals have revised the  
 9 First-Class presort worksharing related savings estimates calculated in my direct  
 10 testimony (USPS-T-24). As a consequence, they also suggest larger discounts than  
 11 those proposed by witness Fronk (USPS-T-33). The worksharing related savings  
 12 estimates and proposed discounts are summarized below in Table 1.

13  
 14 **TABLE 1: FIRST-CLASS PRESORT LETTERS**  
 15 **WORKSHARING RELATED SAVINGS AND PROPOSED DISCOUNTS**  
 16

First-Class Presort Letters Rate Category	USPS Savings	USPS Discount	MMA Savings	MMA Discount	ABA& NAPM Savings	ABA& NAPM Discount
Nonauto	0.09	2.00	2.45	2.00	N/A	N/A
Auto Basic	5.18	6.00	6.91	6.20	6.58	6.60
Auto 3-Digit	6.19	6.90	8.43	7.40	7.66	7.80
Auto 5-Digit	7.48	8.70	10.30	9.20	9.03	9.50
Auto Carrier Route	7.82	9.20	10.77	9.70	N/A	N/A

17  
 18 **A. THE MMA AND THE ABA&NAPM WORKSHARING RELATED SAVINGS**  
 19 **ESTIMATES RELY ON A METERED MAIL LETTERS (MML) BENCHMARK**  
 20

21 Witness Bentley (MMA-T-1) has testified on behalf of the MMA. He claims to  
 22 have "simply followed the Commission's Docket No. R97-1 cost methodology to the  
 23 extent possible"<sup>1</sup> when developing his worksharing related savings estimates.  
 24 However, while he uses the Docket No. R97-1 "Commission approved" volume  
 25 variability factors and "Commission approved" cost pool classifications, he rejects the

<sup>1</sup> Docket No. R2000-1. Tr. 26/12289 at 20-21.

1 "Commission approved" Bulk Metered Mail (BMM) letters benchmark in favor of his own  
 2 Metered Mail Letters (MML) benchmark. In addition, his position that BMM letters do  
 3 not exist has not been substantiated by any current field observations.<sup>2</sup>

4 Witness Clifton (ABA&NAPM-T-1) has testified on behalf of the ABA&NAPM.  
 5 Unlike witness Bentley, witness Clifton's analysis utilizes the Postal Service volume  
 6 variability cost methodology. However, he has also rejected the BMM letter benchmark  
 7 in favor of the MML benchmark. While skeptical that BMM letters exist,<sup>3</sup> witness  
 8 Clifton's position has not been substantiated by any current field observations.<sup>4</sup>

9

10 **B. BULK METERED MAIL (BMM) DOES EXIST AND IS THE PROPER**  
 11 **BENCHMARK**

12

13 In Docket No. R97-1, Bulk Metered Mail (BMM) was used as the benchmark for  
 14 the First-Class nonautomation and automation basic presort letters rate categories.

15 This benchmark was subsequently supported and relied upon by the Commission.<sup>5</sup>

16 In the current docket, BMM letters is the benchmark I have used to support the  
 17 worksharing related savings estimates for the First-Class nonautomation and  
 18 automation basic presort letters rate categories.<sup>6</sup> Both witnesses Bentley and Clifton  
 19 feel that this benchmark is no longer appropriate and have gone so far as to question  
 20 the very existence of BMM letters.<sup>7</sup>

21

22 **1. The "Meter Bypass" Volume Is Slightly Larger Than The "Meter**  
 23 **Belt" Volume**

24

25 The Management Operating Data System (MODS) data can be used to verify the  
 26 existence of BMM letters. In addition, I have verified the existence of BMM letters with  
 27 field personnel.

<sup>2</sup> Docket No. R2000-1, Tr. 26/12365.

<sup>3</sup> Docket No. R2000-1, Tr. 26/12420 at 14-15.

<sup>4</sup> Docket No. R2000-1, Tr. 26/12597.

<sup>5</sup> PRC Op. R97-1, paragraph 5089.

<sup>6</sup> Docket No. R2000-1, USPS-T-24, page 12, lines 2-4.

<sup>7</sup> See Docket No. R2000-1, Tr. 26/12349 and Tr.26/12418 at 18-19, respectively.

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1 The majority of the metered mail stream is weighed into two MODS operation  
 2 numbers: 020 and 020B.<sup>8</sup> Operation 020 represents the mail processed on the "meter  
 3 belt." The meter mail bundles that are culled out of the single-piece mail stream are  
 4 typically processed in this operation. The bundles are sorted based on destination  
 5 and/or are unbundled and placed into trays for further processing. The 020B operation  
 6 is used to weigh the metered mail that enters postal facilities in trays. Since this mail  
 7 enters postal facilities in trays, it "bypasses" meter belt processing and proceeds  
 8 directly to automated letter sorting equipment. The Fiscal Year 1999 mail volumes for  
 9 these two operations are shown below in Table 2.

10  
 11 **TABLE 2: FY 1999 METERED MAIL VOLUMES**

12

13 <u>MODS OP. No.</u>	14 <u>Operation</u>	15 <u>Volume</u>	16 <u>Percent</u>
14 020	Meter Belt	14,247,194,500	49.26%
15 020B	Meter Belt Bypass (BMM)	14,674,771,500	50.74%
		28,921,966,000	100.00%

17

18 **2. The BMM Letters Cost Estimate Could Be Somewhat Overstated**

19

20 The data in Table 2 clearly show that BMM letters exist. Roughly half of all  
 21 metered mail is weighed into the MODS system as 020 "bypass" mail, while the other  
 22 half are metered bundles processed in the 020 meter belt operation. Given that nearly  
 23 half of the metered mail volume is processed on the meter belt, it goes without saying  
 24 that the costs related to bundle sorting would be imbedded in a metered letters cost  
 25 estimate.

26 As I pointed out in my direct testimony,<sup>9</sup> the BMM letters cost estimate reflects  
 27 the costs for all metered letters, with the exception that the "1Cancmmp" cost pool is  
 28 set to zero. As a result, some cost pools that contain bundle sorting activities (e.g.,  
 29 "Pouching" and "1OpPref") are probably higher in magnitude than they would otherwise  
 30 be, had it been possible to isolate a BMM letters cost estimate using the CRA. Given  
 31 that these cost pools were classified as "worksharing related fixed," the net result could  
 32 be that the worksharing related savings estimates calculated for the First-Class

<sup>8</sup> Some individual metered letters are processed by the Advanced Facer Canceled System (AFCS).

<sup>9</sup> Docket No. R2000-1, USPS-T-24, page 12, lines 16-27.

1 nonautomation and automation basic presort letters rate categories could be somewhat  
 2 overstated. This point should be given due consideration when evaluating the  
 3 worksharing related savings estimates calculated in this docket.

4

5 **III. THE FIRST-CLASS SINGLE-PIECE DISCOUNT PROPOSALS SHOULD BE**  
 6 **REJECTED**

7

8 In the current docket, five intervenors have submitted discount proposals that  
 9 affect the *First-Class single-piece rate category*: the Office of the Consumer Advocate  
 10 (OCA), the American Bankers Association and National Association of Presort Mailers  
 11 (ABA&NAPM), Pitney Bowes, E-Stamp, and Stamps.com.

12 In addition to my testimony, three other Postal Service witnesses are rebutting  
 13 various elements of the proposals submitted by the First-Class single-piece intervenors.  
 14 Witness O'Hara (USPS-RT-19) discusses the policy implications of de-averaging the  
 15 First-Class single-piece rate category, witness Staisey (USPS-RT-16) critiques the  
 16 market research studies submitted by the intervenors, and witness Gordon (USPS-RT-  
 17 17) discusses issues concerning the Personal Computer (PC) Postage discount  
 18 proposals.

19 The Postal Service believes that all five proposals should be rejected at this time.

20

21 **A. THE OCA'S CEM RATE: HISTORY REPEATING ITSELF**

22

23 Office of the Consumer Advocate witness Gerarden states that, "the CEM  
 24 concept always has been a fairly modest concept of sharing the benefits of automation  
 25 compatible mail with the public."<sup>10</sup> In fact, all First-Class Mail (FCM) users have directly  
 26 benefited from the letter automation programs that have been implemented by the  
 27 Postal Service. Automation has helped the Postal Service contain its processing and  
 28 distribution costs, which has benefited First-Class Mailers in the form of lower rates. In  
 29 addition, the CEM concept is anything but "modest." A two-stamp system would  
 30 drastically complicate the way that the general public uses the nation's mail.

<sup>10</sup> Docket No. R2000-1. Tr. 29/13631 at 15-17.

1 The Office of the Consumer Advocate (OCA) has previously proposed a  
 2 Courtesy Envelope Mail (CEM) discount on four separate occasions beginning with the  
 3 initial proposal filed in Docket No. R87-1.

4 **Docket No. R87-1:** The OCA first proposed a 5-cent CEM discount<sup>11</sup> based on a  
 5 calculated cost savings of 8.7 cents.<sup>12</sup> The Postal Service opposed CEM. After  
 6 evaluating the OCA's proposal, the Commission did not recommend a specific CEM  
 7 rate. It did, however, recommend a Domestic Mail Classification Schedule (DMCS)  
 8 language change that would have created a CEM "shell" classification that would have  
 9 afforded separate rate treatment in a subsequent proceeding.<sup>13</sup> The Governors of the  
 10 Postal Service rejected that recommendation.<sup>14</sup>

11 **Docket No. R90-1:** In Docket No. R90-1, the OCA proposed a 3-cent CEM  
 12 discount<sup>15</sup> based on a cost savings measurement of 11.4 cents.<sup>16</sup> Again, the Postal  
 13 Service opposed this proposal. The Commission ultimately rejected the OCA's proposal  
 14 in favor of its own Public Automation Rate (PAR) concept.<sup>17</sup>

15 **Docket No. MC95-1:** In Docket No. MC95-1, the OCA proposed a 12-cent CEM  
 16 discount<sup>18</sup> based on a cost savings measurement of 13.4 cents.<sup>19</sup> For a third time, the  
 17 Postal Service opposed this proposal. After evaluating the OCA's proposal, the  
 18 Commission recommended a CEM shell classification, but did not recommend a  
 19 specific rate.<sup>20</sup> The Governors rejected the PRC recommendation.<sup>21</sup>

20 **Docket No. R97-1:** In Docket No. R97-1, the OCA proposed a 3-cent discount<sup>22</sup>  
 21 based on a calculated cost avoidance of 4.0 cents.<sup>23</sup> The Postal Service again rebutted

<sup>11</sup> Docket No. R87-1, Tr. 20/14968.

<sup>12</sup> Docket No. R87-1, Tr. 20/14792.

<sup>13</sup> PRC Op. R87-1, paragraph 5038.

<sup>14</sup> Decision of the Governors on Docket No. R87-1.

<sup>15</sup> Docket No. R90-1, Tr. 30/15638.

<sup>16</sup> Docket No. R90-1, Tr. 30/15638.

<sup>17</sup> PRC Op. R90-1, paragraph 5177.

<sup>18</sup> Docket No. MC95-1, Tr. 23/10425.

<sup>19</sup> Docket No. MC95-1, Tr. 23/10334.

<sup>20</sup> PRC Op. MC95-1, paragraph 5082.

<sup>21</sup> Decision of the Governors on Docket No. MC95-1.

<sup>22</sup> Docket No. R97-1, Tr. 21/10685.

<sup>23</sup> Docket No. R97-1, USPS-T-23, page 11, line 4.

1 that proposal. After evaluating the OCA's proposal, the Commission recommended a  
2 shell classification.<sup>24</sup> The Governors ultimately rejected that recommendation.<sup>25</sup>

3 Docket No. R97-1 was the fourth time that a CEM discount was proposed, and  
4 the fourth time that it was rejected. These proposals are summarized below in Table 3.

5  
6 **TABLE 3: CEM HISTORY**

7

8	<u>Docket No.</u>	<u>Cost Savings</u>	<u>Proposed Discount</u>	<u>PRC Op. &amp; Rec.</u>	<u>Governor's Decision</u>
9	R87-1	8.7 cents	5.0 cents	Shell Class.	Reject
10	R90-1	11.4 cents	3.0 cents	Reject	N/A
11	MC95-1	13.4 cents	12.0 cents	Shell Class.	Reject
12	R97-1	4.0 cents	3.0 cents	Shell Class.	Reject
13					

14  
15 **Docket No. R2000-1:** In the current docket, the OCA has again proposed a CEM  
16 discount - for the fifth time. Witness Willette testifies on behalf of the OCA. While  
17 witness Willette claims that the CEM proposals have "evolved" over time, I would  
18 submit that there is virtually no difference between the Docket No. R2000-1 proposal  
19 and the Docket No. R97-1 proposal. The one exception is the inclusion of understated  
20 education costs.

21 The Postal Service maintains the same position that it did in Docket Nos. R87-1,  
22 R90-1, MC95-1, and R97-1. The CEM proposal should be rejected.

23  
24 **1. CEM Would Complicate The Nation's Mail System**

25  
26 A second major First-Class single-piece letter stamp would complicate the  
27 nation's mail system for everyone, particularly households. These complications  
28 include:

<sup>24</sup> PRC Op. R97-1, paragraph 5168.

<sup>25</sup> Decision of the Governors on R97-1.

- 1           • The fact that it will be difficult to develop a standardized CEM mail piece  
2           design, given the variation that currently exists among CRM mail pieces.  
3  
4           • The fact that all mailers will probably not voluntarily modify their designs  
5           which, in turn, would segment the current CRM mail stream into two mail  
6           streams that exhibit the same cost characteristics.  
7  
8           • The fact that varied CEM mail piece designs and noncompliance on the part  
9           of some reply envelope providers will result in confusion for single-piece  
10          mailers.  
11  
12          • The fact that current stamp distribution methods, such as vending machines  
13          and consignment outlets, will not accommodate two stamps. The placement  
14          of multiple stamps in one booklet will not be a viable alternative because the  
15          Postal Service has no way to reliably forecast consumer demand for each  
16          stamp denomination. In addition, some parties will undoubtedly want to  
17          purchase only one of the two denominations. Therefore, it is possible that  
18          the Postal Service would have to manufacture and distribute three separate  
19          types of stamp booklets: regular stamps, CEM stamps, and a combination of  
20          regular/CEM stamps.  
21  
22          • The fact that it will be necessary to print a greater total number of stamps - in  
23          multiple denominations - than would otherwise have been required.  
24  
25          • The fact that some single-piece mail users will have to make more frequent  
26          trips to their preferred stamp distribution outlets and/or change their preferred  
27          outlet.  
28  
29          • The fact that it may someday be necessary to use multiple "make up" stamps  
30          during the time when new rates are implemented.  
31  
32          • The fact that it will be a difficult and costly proposition for the Postal Service  
33          to monitor and enforce the proper usage of both stamps.  
34

35           Witness Willette fails to address these CEM "realities" in her testimony, despite  
36           the fact that the OCA has been aware of these issues for some time. Nevertheless, the  
37           implementation of this proposal will complicate the nation's mail system - for everyone.

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## 2. The CEM Revenue Loss Would Have To Be Recovered

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The CEM proposal would result in a revenue loss to the Postal Service. Witness Willette has stated that this loss could reach \$300 million if every CRM mail piece

1 converted to CEM.<sup>26</sup> However, this estimate fails to address the fact that there will be  
 2 revenue losses associated with non-CEM letters if consumers use the CEM stamp in  
 3 error. Depending on the percentage of short paid mail, these revenue losses could  
 4 range from \$11 million to \$76 million dollars.<sup>27</sup> While it is true that some overpaid mail  
 5 pieces would offset these losses, the extent to which this might occur is unknown. Any  
 6 CEM-related revenue losses would have to be recovered somewhere.

7 Despite the fact that this proposal has endured five rate cases and thirteen  
 8 years, witness Willette has yet to develop a comprehensive plan as to how this discount  
 9 should be funded.<sup>28</sup> No evidence has been offered which shows that a CEM discount  
 10 would inhibit electronic diversion.<sup>29</sup> In addition, CEM would not create any new cost  
 11 benefits that would, in any way, offset the corresponding revenue loss. In fact, the  
 12 Postal Service would incur additional costs in order to implement and maintain a two-  
 13 stamp system. These additional costs would also have to be recovered.

14

15 **3. CEM Would Force The Postal Service To Incur Substantial**  
 16 **Additional Costs**

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18 Were CEM to be implemented, the Postal Service would incur substantial  
 19 additional costs that it would not normally incur. Some costs are easier to quantify than  
 20 others. Additional costs would be incurred for education, window service, and revenue  
 21 protection as shown below in Table 4.

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**TABLE 4:  
 QUANTIFIABLE CEM-RELATED COSTS (MILLIONS)**

<u>Description</u>	<u>Initial Costs</u>	<u>Annual Costs</u>
Education	\$ 33	
Window Service	---	\$ 19
Revenue Protection	---	\$ 70 - \$248
<b>Total</b>	<b>\$ 33</b>	<b>\$ 89 - \$267</b>

<sup>26</sup> Docket No. R2000-1, Tr. 23/10742 at 13-14.  
<sup>27</sup> See Attachment USPS-RT-15B.  
<sup>28</sup> Docket No. R2000-1, Tr. 23/10775.  
<sup>29</sup> Docket No. R2000-1, Tr. 23/10769.

1           **Education:** Witness Willette underestimates education costs by including a  
 2 figure that covers a direct mailing only.<sup>30</sup> Such an effort would not adequately reinforce  
 3 consumer behavior; consumers do not always read the direct mail that they receive. A  
 4 comprehensive education campaign would be required. The Postal Service estimates  
 5 that it would be necessary to spend approximately \$33 million to implement a  
 6 multimedia campaign designed specifically to explain CEM to the general public.<sup>31</sup>

7           In Docket No. R90-1, OCA witness Thomas acknowledged that the Postal  
 8 Service would have to educate the public about CEM.<sup>32</sup> The Postal Service agrees with  
 9 that assessment. CEM would involve a radical change in the nature of heretofore  
 10 routine postal transactions and would require each consumer to be acutely aware of  
 11 when to, and when not to, apply CEM postage. The Postal Service would need to use  
 12 television, radio, and newspaper advertisements (\$21 million) to educate the public  
 13 about CEM.<sup>33</sup> As a compliment to that campaign, at least one CEM-specific direct  
 14 mailing (\$9 million) would need to be sent to every household and business in the  
 15 United States. Finally, CEM-specific brochures (\$3 million) would need to be  
 16 prominently displayed in postal retail lobbies. These costs would not be incurred in the  
 17 absence of CEM.

18           The education process would also involve additional costs that cannot easily be  
 19 quantified. For example, some time would have to be spent explaining CEM to the  
 20 postal workforce. All employees would have to know how CEM works and be able to  
 21 answer customer inquiries. It would be especially important for employees who  
 22 maintain regular customer contact (e.g., carriers and window service clerks) to be able  
 23 to answer CEM questions. In addition, employee training regarding the identification  
 24 and treatment of short paid mail would need to be reinforced substantially. Informal  
 25 training on the workroom floor is currently provided using "stand up talks" that  
 26 supervisors sometimes give to employees at the beginning of their shifts. Initially, these  
 27 established "information sharing" sessions would be used for training. If problems were

<sup>30</sup> Docket No. R2000-1, Tr. 23/10738 at 9-10.

<sup>31</sup> See Attachment USPS-RT-15A.

<sup>32</sup> Docket No. R90-1, Tr. 30/15355-15358.

<sup>33</sup> See Attachment USPS-RT-15A.

1 detected, however, a more intensive approach would have to be used and formal  
2 training would be required, generating additional system-wide expenses.

3 To some degree, the magnitude of internal training and all other education  
4 efforts would be directly related to the success of the implementation plan. First, an  
5 implementation date would have to be determined. Second, all qualifying CEM pieces  
6 would have to be marked properly by the implementation date. Any non-compliance  
7 would hamper education efforts.

8 As I indicated earlier, it is doubtful that all CRM would convert to CEM. In that  
9 case, it would always be difficult for carriers and/or window service clerks to explain to  
10 customers why a CEM stamp could be placed on a properly marked prebarcoded, FIM  
11 "A" mail piece, but could not be placed on a similar unmarked mail piece. The  
12 explanation that mail pieces must be properly marked would be the technically correct  
13 answer, but a technically correct answer may not undo the damage caused by negative  
14 customer perceptions.

15 **Window Service:** The addition of a second basic single-piece First-Class Mail  
16 stamp for letters would increase the number of stamp sales transactions performed by  
17 postal window clerks. Window service costs would subsequently increase. These  
18 costs are estimated to be \$19 million.<sup>34</sup>

19 Past market research has indicated that household consumers would need to  
20 make additional trips to the post office in a CEM environment. In Docket No. MC95-1,  
21 Library Reference MCR-88, 42.6% of the survey respondents indicated that additional  
22 trips would be required. More trips to the Post Office would translate into increased  
23 window service costs.

24 In assessing the impact that CEM would have on window service operations, it is  
25 also necessary to discuss costs that cannot easily be quantified. One such cost would  
26 involve the possible diversion of stamps sales transactions from alternative sources  
27 such as consignment outlets and ATMs to postal retail outlets. Many households  
28 currently purchase stamps through these alternative sources and would have to make  
29 additional trips to the post office, to the extent their stamp demands were not satisfied  
30 alternatively. Additional work hours would be required to handle transactions that come

1 back to post offices. Each additional window service stamp transaction would cost the  
2 Postal Service 46 cents.<sup>35</sup>

3 In addition, some stamp sales transactions would be diverted back to postal  
4 service window clerks from vending machines. Approximately 24% of the Postal  
5 Service's total vending machines are Booklet Vending Machines (BVM).<sup>36</sup> These  
6 machines offer one item -- stamp booklets. They cannot hold more than one type of  
7 booklet. Some retail lobbies contain more than one BVM and could theoretically carry  
8 both stamps. Other lobbies could not. A booklet with a mix of both stamps would not  
9 solve this problem because different consumers have different stamp requirements.

10 Lobbies with one BVM could only offer one type of stamp. Therefore, some  
11 customers who might have purchased their stamps using vending machines would end  
12 up purchasing stamps through a window clerk. This system would become further  
13 complicated at times (e.g., the December holidays) when large volumes of greeting  
14 cards would be sent by household consumers. BVMs that usually stocked CEM stamps  
15 would probably be changed to stock the full-rated single-piece stamp during these  
16 seasonal periods. As a result, the planning associated with stamps sales would  
17 become more complicated under CEM.

18 Finally, window service costs would also be affected by customer inquiries  
19 related to CEM (i.e., "when do I use each stamp?"). This fact would be especially  
20 obvious during CEM implementation. Each independent CEM inquiry transaction would  
21 cost the Postal Service 79 cents.<sup>37</sup> Each CEM inquiry transaction that was part of  
22 another transaction (e.g., stamp sales) would cost the Postal Service 42 cents.<sup>38</sup>

23 Overall, the implementation of the CEM proposal would increase window service  
24 transaction costs. These costs would decrease somewhat in the long term. Initially,  
25 however, the CEM proposal could have a dramatic impact on window service  
26 operations as consumers adjusted to the new system.

27 **Revenue Protection:** With the current one-stamp system, it is uncommon for  
28 the public to underpay postage for one-ounce letters. If CEM were implemented, that

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<sup>34</sup> Docket No. R2000-1. Tr. 21/9122.

<sup>35</sup> Docket No. R2000-1. Tr. 21/9122.

<sup>36</sup> Docket No. R97-1, Tr. 33/17467 at 22-23.

<sup>37</sup> Docket No. R2000-1. Tr. 21/9123.

1 situation would change. The opportunity for confusion would be great and the  
2 percentage of short paid mail would increase substantially. The exact magnitude of  
3 that increase, however, is not known. As a result, I have calculated revenue protection  
4 costs (Attachment USPS-RT-15B) for various short paid mail percentage scenarios.<sup>39</sup>  
5 These costs would be significant. For example, if the short paid mail percentage  
6 increased from the current 1.13 percent to 2 percent, the Postal Service would incur  
7 costs on the order of \$70 million annually. To minimize these costs, the Postal Service  
8 would concentrate its detection efforts at the point of entry to the postal system - the  
9 originating P&DC.

10 For purposes of CEM enforcement, this method would be preferred over the  
11 reliance on carriers to identify short paid mail. In today's Delivery Point Sequencing  
12 (DPS) environment, carriers would not have an opportunity to inspect many mail pieces  
13 until they are out on the street. At that point, they would be riffling through multiple  
14 bundles as they walked between delivery points, organizing the mail for the next  
15 address. Their attention would be primarily focused on the address, not on the stamp.  
16 This would be especially true for substitute carriers who are delivering mail for another  
17 carrier's permanent route.

18 By concentrating identification efforts at originating operations, the Postal  
19 Service could attempt to minimize the mail processing costs and service problems  
20 related to short paid mail. Therefore, the best place to detect short paid mail would be  
21 when it enters these facilities as "collection" mail.

22 Collection mail is "dumped" from hampers onto conveyor belts that cull mail and  
23 ultimately feed Advanced Facer Canceler Systems (AFCS). In an ideal environment,  
24 the AFCS would be used to trap short paid mail. However, no technical solution is  
25 possible, given the current equipment configurations.<sup>40</sup>

26 Since short paid mail cannot be captured using automation, it is estimated that  
27 two level 6 clerks would be required at each originating plant to sample and record mail  
28 after it has been sorted by the AFCS. This additional staffing would cost \$40 million

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<sup>38</sup> Docket No. R2000-1. Tr. 21/9124.

<sup>39</sup> A short paid percentage of 7.35% was used as a ceiling in this analysis, as it was in Docket No. R97-1. This figure represented the percentage of additional ounce First-Class letters that were underpaid, since that situation also involved the usage of two different stamp denominations.

1 annually, regardless of the magnitude of the increase in the short paid mail  
2 percentage.<sup>41</sup>

3 The revenue protection clerks would perform two functions. First, they would  
4 identify the extent to which short paid mail was a problem in a CEM environment. They  
5 would sample mail from the different AFCS machines and record the volume of short  
6 paid mail. These data would be collected nationwide to determine the extent to which  
7 the public understands CEM. The Postal Service would evaluate the results, attempt to  
8 reinforce proper usage (e.g., send a second direct mailing to households and  
9 businesses), and develop an enforcement plan. If short paid mail proved to be a major  
10 problem, the revenue protection strategy might have to be re-evaluated and additional  
11 staffing could be required at the originating plants, as well as at other plants. If  
12 additional staffing were required, revenue protection costs would increase.

13 The revenue protection clerks would also perform a second function as an  
14 integral part of the enforcement plan. Depending on the scope of the problem, these  
15 clerks might be retained to isolate and identify mail that contained inadequate postage.  
16 They would be the most likely means for capturing short paid mail. As it would not be  
17 possible for these clerks to sample every canceled mail piece, this method would not  
18 result in all short paid mail being found. Only a portion of short paid mail would be  
19 captured. For the 2 percent short paid example, the annual costs for returning this mail  
20 would be \$29 million.<sup>42</sup>

21 After being identified, short paid mail would be forwarded to a postage due unit.  
22 The postage due clerks would rate the mail piece and forward it to a manual outgoing  
23 primary operation (030). The 030 clerks would then sort the mail to the ZIP Code level  
24 before it would be sent back to the delivery unit.<sup>43</sup> At the delivery unit, accountable  
25 clerks would process the mail before the carrier picked it up for return to sender.  
26 Following delivery, the carrier would return the funds and clear the paperwork with the  
27 accountable clerk.

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<sup>40</sup> Docket No. R97-1. Tr. 33/17512-17514.

<sup>41</sup> See Attachment USPS-RT-15B.

<sup>42</sup> See Attachment USPS-RT-15B.

<sup>43</sup> For purposes of cost determination, it was assumed that the vast majority of mail being returned would fall within the local service area of the originating plant. In some cases, that might not be true and additional handlings would be required.

1           The summary table in Attachment USPS-RT-15B shows that the costs of  
2 identifying and returning short paid mail always outweigh the corresponding revenue  
3 losses. Accepting these revenue losses would not be an adequate solution. The  
4 Postal Service would have to spend the money to reinforce proper CEM usage.<sup>44</sup>

5           The great unknown in a "CEM world" is the extent to which the general public  
6 would correctly use two stamps. The OCA cites data that show the public tends to  
7 overpay postage as a means to infer that the same result would occur with CEM.<sup>45</sup>  
8 However, this is not necessarily the case.

9           In GFY 1999, 240 million mail pieces were short paid by 1 cent.<sup>46</sup> These short  
10 payments were likely due to the rate increase. It is surprising that so many pieces were  
11 short paid, given the fact that general public should be familiar with this process. In  
12 addition, the short payment problems associated with rate increases are temporary as  
13 consumers exhaust their stamp supplies. On the other hand, CEM short payment  
14 problems would likely be chronic. In the current system, with one basic rate and  
15 corresponding stamp denomination, underpayment of postage for First-Class single-  
16 piece letters weighing less than one ounce is uncommon. In a "two-stamp" CEM  
17 environment, misapplication of postage would occur with much greater frequency.

18           **Other Costs:** In addition to the costs related to education, window service, and  
19 revenue protection, the Postal Service would incur other costs which are not as easily  
20 quantified. As an example, households and businesses could use 34-cent stamps only,  
21 31-cent stamps only, 34-/31-cent stamps, or 31-/3-cent stamps. The mix of stamps that  
22 the public would ultimately use is not known. The Postal Service would have to ensure  
23 that sufficient quantities of 34-, 31-, and 3-cent stamps were available at the time CEM  
24 were to be implemented. The amount of stamps produced in advance of CEM  
25 implementation would be greater than the amount normally produced. Therefore,  
26 additional costs related to inventories, planning, and distribution would be incurred.

27           It would be expected that these costs would eventually be eliminated as the  
28 Postal Service adjusted to stamp demand, but that might not necessarily be the case if

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<sup>44</sup> OCA witness Thomas agreed that reinforcement was necessary (Docket No. R90-1, Tr. 30/15357-15358).

<sup>45</sup> Docket No. R2000-1, Tr. 23/10799 at 21-24.

<sup>46</sup> Docket No. R2000-1, Response to OCA/USPS-69.

1 a large percentage of consignment outlets chose to offer only one stamp. In that  
 2 situation, the inventories in postal Stamp Distribution Centers (SDC) could ultimately  
 3 increase. In addition, the average cost per stamp could increase if the Postal Service  
 4 required smaller batches of more stamp types, as stamp costs are driven by production  
 5 volumes.

6 In the past, the OCA has ignored the Postal Service's claims that CEM would  
 7 result in additional education, window service, and revenue protection costs. The belief  
 8 that a major change could be made to the current system with no impact on costs  
 9 defies logic. Additional costs would be incurred. In order to implement and maintain  
 10 CEM, I have shown that the Postal Service could spend in the range of \$122 - \$300  
 11 million. These costs would have to be recovered in addition to the revenue loss  
 12 associated with CEM. It would not make financial sense for the Postal Service to spend  
 13 that amount to realign a maximum of \$300 million worth of postage costs.<sup>47</sup>

#### 14 15 **4. CEM Would Not Fairly And Equitable Distribute Postage Costs**

16  
17 As stated in past dockets, the CEM proposal is "distinctly one-sided."<sup>48</sup> If the  
 18 OCA were truly interested in de-averaging First-Class single-piece rates, their proposal  
 19 would include a rate for high cost mail pieces, such as handwritten letters, and a  
 20 second rate for low cost mail pieces, such as CRM. No such proposal has been  
 21 submitted. In fact, the single-piece mail stream seems to follow three distinct cost  
 22 breakdowns for the following letter mail types: handwritten letters, machine  
 23 printed/typewritten/metered letters, and prebarcoded letters.<sup>49</sup> Given this fact, the one-  
 24 sided de-averaging that CEM represents is clearly not fair and equitable.

25 CEM would also create inequities that do not currently exist. In Docket No. R97-  
 26 1, it was shown that if CEM were implemented 37- percent of the public were not likely

<sup>47</sup> In all likelihood, the amount of postage costs would be much lower because all CRM would not convert to CEM, and some consumers would choose to pay one average rate (Docket No. R2000-1, Tr. 23/10775).

<sup>48</sup> Decision of the Governors of the United States Postal Service on the Recommended Decisions of the Postal Rate Commission on Courtesy Envelope Mail and Bulk Parcel Post, Docket No. MC95-1 at 5 (March 4, 1996).

<sup>49</sup> Docket No. R97-1, Tr. 33/17479.

1 to purchase both the basic rate and CEM stamps.<sup>50</sup> CEM would therefore create a  
2 situation where these households could be perceived as paying more than their fair  
3 share of postage.

4 In addition, there would be revenue losses and CEM-related costs that must be  
5 recovered. If those costs were not recovered through the single-piece rates, other  
6 entities could end up paying to fund CEM. Ironically, it could end up being the same  
7 businesses that have provided the reply envelopes to households. It is assumed,  
8 however, that businesses would pass any additional costs they incur on to consumers  
9 in order to maintain their financial position.

10

## 11 **5. The Postal Service Continues To Oppose The CEM Rate**

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13 The Postal Service opposes the CEM proposal presented in the current docket,  
14 just as it opposed the proposals submitted in Docket Nos. R87-1, R90-1, MC95-1, and  
15 R97-1. This proposal would unnecessarily complicate the nation's mail system, would  
16 result in a revenue loss that would have to be recovered, would result in additional  
17 costs to the Postal Service that would also have to be recovered, and would not fairly  
18 and equitably distribute postage costs.

19

### 20 **B. THE ABA&NAPM'S "P" RATE: A "RISKY VENTURE"**

21

22 A close relative of CEM can be found in witness Clifton's "P" rate proposal, which  
23 he himself describes as a "risky venture."<sup>51</sup> What the "P" rate proposal lacks in rate  
24 litigation history, it more than compensates for in terms of poor planning. In reviewing  
25 this proposal, the question is not so much how the presort industry would process  
26 letters and cards that contain "P" rate stamps. The real question is whether the presort  
27 industry could process this mail at all.

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<sup>50</sup> Docket No. R97-1, Tr. 35/19058-19172.

<sup>51</sup> Docket No. R2000-1, Tr. 26/12684 at 20.

REVISED 8/28/2000

1                   **1. The "P" Rate Proposal Also Results In A "Two Stamp Problem"**  
 2

3           The "P" rate proposal involves an alternative (lower) basic rate for single-piece  
 4 *First-Class Mail entered into postal facilities, for the sender, by an intermediary presort*  
 5 *bureau or MLOCR-qualified mailer. Witness Clifton has recommended that the "P"*  
 6 *stamp be offered at a 2-cent discounted rate. The CEM issues concerning revenue*  
 7 *losses and additional education, window service, and revenue protection costs would*  
 8 *therefore apply to the "P" rate proposal as well. In fact, these problems would be*  
 9 *further complicated were both the CEM and "P" rate proposals implemented because*  
 10 *the Postal Service would have to contend with three alternative basic rate First-Class*  
 11 *Mail stamps.*<sup>52</sup>  
 12

13                   **2. It Has Not Been Demonstrated That The Presort Industry Could**  
 14 **Handle The Additional First-Class Single-Piece Mail Volume**  
 15

16           NAPM witness MacHarg could not provide a system-wide presort industry  
 17 equipment inventory.<sup>53</sup> As a result, there is no evidence demonstrating that the industry  
 18 could handle the additional mail that could potentially migrate to the "P" rate, were this  
 19 proposal approved.

20           In addition, presort bureaus/MLOCR qualified mailers do not currently house  
 21 cancellation equipment, such as the AFCS.<sup>54</sup> Since "P" rate mail pieces contain  
 22 stamps, they would have to be cancelled. Witness MacHarg feels that the MLOCRs  
 23 that are currently used by the presort industry could be modified with a second printer to  
 24 accomplish this task. *It is not clear that presort industry equipment is equipped with this*  
 25 *modification to any significant degree. Even if it were, a modified MLOCR could not*  
 26 *automatically adjust the cancellation height to accommodate the wide variety of mail*  
 27 *piece heights that would be found in the single-piece mail stream. Witness MacHarg*  
 28 *states that the mail pieces would have to be culled by height prior to*

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<sup>52</sup> Witness Willette proposes a 3-cent CEM discount while witness Clifton proposes a 2-cent "P" rate discount. In addition, it is unclear precisely how both discounts would co-exist.

<sup>53</sup> Docket No. R2000-1, Tr. 26/12168-12170.

<sup>54</sup> Docket No. R2000-1, Tr. 26/12166.

1 being cancelled on a modified MLOCR.<sup>55</sup> This labor-intensive process seems unlikely  
2 to occur. As a result, it seems likely that many presort bureaus/MLOCR qualified  
3 mailers would have to choose between purchasing cancellation equipment, or not  
4 processing "P" rate mail at all.

5 Another issue that is unclear is the extent to which the presort industry has  
6 access to Remote Computer Read (RCR)/Remote Bar Code Sorter (RBCS)  
7 processing.<sup>56</sup> I am informed by postal engineers that roughly 50% of the presort  
8 bureaus/MLOCR qualified mailers use RCR technology. In contrast, the Postal Service  
9 has virtually 100% RCR/RBCS coverage. Despite the fact that the RCR coverage in  
10 the presort industry is much lower, witness Clifton attempts to use Postal Service RCR  
11 improvements to support the "P" rate.<sup>57</sup> Indeed, RCR has improved the amount of mail  
12 that can be finalized electronically, without keying. However, if large volumes of  
13 handwritten mail were to migrate to the presort industry, the Postal Service could still  
14 receive a large percentage of this mail with no "worksharing" having been performed.

15 As it is, postal mail processing plants occasionally divert handwritten mail to less  
16 efficient processing alternatives during the holiday mailing season when equipment  
17 capacity has been exceeded. Assuming widespread use of the "P" rate, the presort  
18 industry would likely have the same experiences and could end up "passing on"  
19 unresolved handwritten mail to the Postal Service. Again, the senders of these mail  
20 pieces would have received a discount, irrespective of whether "worksharing" activities  
21 were performed.

22 The ABA&NAPM has clearly not developed a formal plan demonstrating that the  
23 presort industry could process single-piece mail. There is no "P" rate volume forecast  
24 and the current equipment inventory is not known.

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<sup>55</sup> Docket No. R2000-1, Tr. 26/12186 at 15-19.

<sup>56</sup> Docket No. R2000-1, Tr. 26/12169.

<sup>57</sup> Docket No. R2000-1, Tr. 26/12435 at 16-19.

1                                   **3. The Discount Has No Cost Savings Basis**  
 2

3           Witness Clifton's proposed 2-cent discount recommendation is not based on any  
 4 cost savings estimate.<sup>58</sup> Instead, he has relied on informal discussions held with NAPM  
 5 executives regarding the profit they "could withstand going into this risky venture."<sup>59</sup>  
 6 Consequently, it is difficult to evaluate the specific discount suggested in this proposal.

7  
 8                                   **4. The Postal Service Opposes The "P" Rate**  
 9

10           The Postal Service opposes the "P" rate proposal just as it has opposed, and  
 11 continues to oppose, other "two-stamp" proposals. Were the "P" rate proposal  
 12 implemented, it would result in additional costs and revenue losses to the Postal  
 13 Service. These additional costs and revenue losses would have to be recovered  
 14 somewhere. However, it is difficult to estimate the Test Year (TY) financial impact that  
 15 this proposal would have on the Postal Service because there is no volume estimate for  
 16 "P" rate mail. In fact, witness Clifton has stated that he doesn't think his "P" rate  
 17 proposal could be implemented by the Test Year.<sup>60</sup> To say the least, the "P" rate  
 18 proposal appears premature at this time.

19  
 20                                   **C. THE PITNEY BOWES METERED MAIL RATE: DE-AVERAGING THAT**  
 21                                   **CROSSES "THE LINE"**  
 22

23           On behalf of Pitney Bowes, witness Haldi has proposed a 1-cent discount for  
 24 "metered" cards, letters, flats and Irregular Parcels and Pieces (IPPs).<sup>61</sup> The term  
 25 "metered" is defined to include stand-alone dedicated postage evidencing devices, like  
 26 traditional postage meters, as well as Personal Computer (PC) postage application  
 27 methods, like Pitney Bowes "ClickStamp."<sup>62</sup> The 1-cent discount is based on an  
 28 estimated 2.3-cent cost savings that reflects avoided stamp manufacturing and  
 29 distribution costs.<sup>63</sup>

<sup>58</sup> Docket No. R2000-1, Tr. 26/12603.

<sup>59</sup> Docket No. R2000-1, Tr. 26/12684.

<sup>60</sup> Docket No. R2000-1, Tr. 26/12682 at 19-20.

<sup>61</sup> Docket No. R2000-1, Tr. 29/13893 at 9-10.

<sup>62</sup> Docket No. R2000-1, Tr. 29/13893.

<sup>63</sup> Docket No. R2000-1, Tr. 29/13901 at 23.

1                   **1. Postage Meters Were Developed To Save Mail Clerk Costs - For**  
2                   **Postal Service Customers**  
3

4                   In his testimony, witness Haldi describes postage meters as "the earliest form of  
5 organized worksharing."<sup>64</sup> It is true that postage meters were invented as a means to  
6 save mail clerk costs. However, the postage meter was originally designed to save mail  
7 clerk costs for Postal Service customers, not for the Postal Service itself.

8                   At the turn of the century, Arthur Pitney had already begun experimenting with a  
9 variety of ways to apply postage stamps to letters using machines. His idea was  
10 primarily based on his observations that mail operations at the wallpapering firm at  
11 which he worked were quite slow. Mail clerks laboriously applied postage stamps to  
12 hundreds of mail pieces every day. In addition, store employees often pilfered these  
13 stamps. In his search for a workable solution, Mr. Pitney felt that the idea of a postage  
14 meter had merit. His goal then became one of eliminating the time consuming activities  
15 associated with buying, licking, and sticking stamps.<sup>65</sup>

16                   Several Congressmen initially resisted the application of postage meter/permit  
17 technology to First-Class Mail. They were primarily concerned about the danger of  
18 fraud.<sup>66</sup> However, Mr. Pitney's new business partner, Walter Bowes, ultimately  
19 overcame this resistance. Congress enacted a law on April 24, 1920 stating that:

20                   Under such regulations as the Postmaster General may establish for the  
21 collection of the lawful revenue and for facilitating the handling of such  
22 matter in the mails, it shall be lawful to accept for transmission in the  
23 mails, without postage stamps affixed, any first-class matter, provided the  
24 postage has been fully prepaid thereon at the rate required by law.<sup>67</sup>  
25  
26

27                   On November 16, 1920, the first metered mail was dispatched through the  
28 Stamford, Connecticut Post Office by the representatives of the Pitney-Bowes Postage  
29 Meter Company.<sup>68</sup>

30                   Since the early years of postage meters, the Postal Service has continued to  
31 implement new stamp manufacturing, application, and distribution methods. Today,

<sup>64</sup> Docket No. R2000-1, Tr. 29/13896-13897.

<sup>65</sup> Cahn, William. The Story of Pitney-Bowes. Harper and Brothers, 1961, pages 4-5.

<sup>66</sup> Id. at 47.

<sup>67</sup> Id. at 50.

1 customers can purchase regular or self-adhesive stamps at Postal Service retail outlets,  
 2 in vending machines, in ATM's, at consignment outlets, through Stamps On-Line, and  
 3 through Stamps-By-Mail. Some customers also have the option to apply postage using  
 4 alternative means. Postage meters, permit indicia, and PC postage products can all be  
 5 used to apply postage without using stamps. The Postal Service offers these many  
 6 options in order to make access to the nation's mail system simple and convenient.  
 7 Each of these methods has different costs and benefits to the Postal Service and the  
 8 customers who use them. Some might argue that each is a form of "worksharing"  
 9 which should be reflected in the rate schedule.

10  
 11 **2. Witness Haldi Presents No Compelling Basis For Redefining**  
 12 **Worksharing Cost Avoidance**

13  
 14 In Docket No. R77-1, the Postal Service cost avoidance estimate for First-Class  
 15 presort mail included costs related to stamp procurement. In response to this  
 16 methodology, the Commission stated:

17  
 18 Finally, to include stamp procurement and mail collection costs not  
 19 incurred by presorted mail in an estimate of avoided costs, as witness  
 20 Eden has done, is not consistent with the cost avoidance concept.  
 21 If presorted first-class mail were not presorted, it would still be metered or  
 22 imprinted and deposited in bulk. Therefore, these cost effects are present  
 23 regardless of presorting and are not properly included as avoided costs.<sup>68</sup>

24  
 25 Similarly, if a metered mail discount were not implemented, these mail pieces  
 26 would still continue to be metered because this is the most convenient and cost-  
 27 effective postage application method for some mailers. Witness Haldi has provided no  
 28 compelling basis for redefining "worksharing" so that it includes stamp-related costs.

29  
 30 **3. It Is Unclear Where The Line Should Be Drawn**

31  
 32 Witness Haldi proposes that this discount only extend to single-piece First-Class  
 33 Mail on which postage is affixed by PC Postage applications or meters. His rationale is  
 34 that this mail "avoids" stamp manufacturing and distribution costs. However, the same

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<sup>68</sup> Id. at 56.

<sup>69</sup> PRC Op. R77-1, page 258-259.

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1 could be said of other mail that also uses stamp alternatives. Were these alternatives  
2 not available, stamps would likely be used. The following mail pieces could also be  
3 characterized as "avoiding" stamp manufacturing and distribution costs: First-Class  
4 workshared mail and Standard Mail (A) workshared mail.

5

6 If a meter discount were extended to other mail that "avoids" stamp  
7 manufacturing and distribution costs, the revenue loss could be substantial. The  
8 potential loss calculated below in Table 5 includes the Test Year (TY) revenue loss  
9 calculated for the current metered mail volume by witness Haldi.<sup>70</sup> In addition, it also  
10 includes revenue losses for PC Postage, First-Class workshared mail, and Standard  
11 Mail (A) workshared mail. This potential  
12 \$1.690 billion revenue loss can be thought of as a maximum because some of these  
13 mailers, such as *Standard Mail (A) Non Profit mailers*, also use stamps to some degree.  
14 The logical place to shift the burden of this loss would be to those mail pieces that use  
15 stamps to pay postage.

16

17

#### 4. The Postal Service Opposes The Metered Mail Rate

18

19 Mailers currently apply postage using meters because this is the most  
20 convenient, cost-effective postage solution for them. The various methods that can be  
21 used to obtain and apply postage exhibit a wide variety of costs, whether these  
22 methods involve stamps or not. In addition, there are many other mail pieces, other  
23 than metered mail, that also avoid stamp manufacturing and distribution costs. If those  
24 mail pieces also qualified for this discount, the revenue loss would be substantial. This  
25 loss would likely have to be recovered from mailers that use stamps. As a result, the  
26 Postal Service opposes the metered mail rate proposed by Pitney Bowes.

---

<sup>70</sup> Docket No. R2000-1, Tr. 29/13910 at 16.

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1                   **TABLE 5: POTENTIAL TY REVENUE LOSS FOR A 1-CENT "METERED**  
 2                   **MAIL" DISCOUNT**

3			
4	<u>Product Description</u>	<u>Volume</u>	<u>Revenue Loss</u>
5		<u>(Millions)</u>	<u>(Millions)</u>
6			
7	1. Existing Metered Mail	24,501	\$ 245
8	2. PC Postage Mail	4,000	40
9	3. First-Class Presort Letters	47,049	470
10	4. First-Class Presort Cards	2,734	27
11	5. Standard Mail (A) Regular	42,784	428
12	6. Standard Mail (A) ECR	33,631	336
13	7. Standard Mail (A) Non Profit	11,511	115
14	8. Standard Mail (A) NP ECR	<u>2,907</u>	<u>29</u>
15			
16	<b>Total</b>	<b>169,117</b>	<b>\$ 1,690</b>

17

18

19                   Volume Source:

- 20
- 21                   1. Docket No. R2000-1, Tr. 29/13937 at 19.
- 22                   2. Docket No. R2000-1, Tr. 23/10584 at 20-23.
- 23                   3. Docket No. R2000-1, USPS-T-6, Table 3A.
- 24                   4. Docket No. R2000-1, USPS-T-6, Table 5B.
- 25                   5. Docket No. R2000-1, USPS-T-6, Table 11A.
- 26                   6. Docket No. R2000-1, USPS-T-6, Table 12A.
- 27                   7. Docket No. R2000-1, USPS-T-6, Table 13A.
- 28                   8. Docket No. R2000-1, USPS-T-6, Table 14A.

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1           **D. THE ESTAMP AND STAMP.COM PC POSTAGE RATES:**  
 2           **DISCOUNTS AHEAD OF THEIR TIME**

3  
 4           In August 1999, the Postal Service permitted private vendors to begin selling  
 5 postage on the internet, which could be accessed by Personal Computer (PC).

6  
 7                           **1. Proposed PC Postage Discounts Would Offset Usage Fees**

8  
 9           One vendor, E-Stamp Incorporated, offers an "open system" PC Postage  
 10 product.<sup>71</sup> E-Stamp customers must purchase a \$49.99 "starter kit" that contains a  
 11 software CD, an "electronic vault" that attaches to a computer port and printer,<sup>72</sup> an  
 12 address matching CD, and sample labels. The address cleansing process requires the  
 13 use of the address matching CD. Each postage purchase is subject to a 10%  
 14 "convenience fee," with minimum and maximum fee charges of \$4.99 and \$24.99,  
 15 respectively.

16           Another vendor, Stamps.com, also offers an "open system" PC Postage product.  
 17 The required software can be downloaded over the internet. As a result, the address  
 18 cleansing process is performed *on-line*. Stamps.com offers a "simple plan" and a  
 19 "power plan." Under the simple plan, each postage purchase is subject to a 10%  
 20 "service fee" with a minimum fee charge of \$1.99. Under the power plan, subscribers  
 21 are charged a flat monthly fee of \$15.99 and can print an unlimited amount of postage.

22           In this docket, both E-Stamp and Stamps.com propose discounts for open  
 23 system PC postage products. E-Stamp witness Jones proposes a 4-cent discount for  
 24 letters when the address, barcode, and indicium are printed directly on the envelope.<sup>73</sup>  
 25 Witness Jones states that "Unless a discount is offered, PC Postage will not be able to  
 26 attract enough customers to convert in order to establish this form of postage'  
 27 evidencing as a mainstream postage solution."<sup>74</sup>

<sup>71</sup> Docket No. R2000-1, Tr. 29/13646 at 6-8. "Open system" PC postage products are those that undergo an "address cleansing" procedure that results in an approved delivery address and POSTNET delivery point barcode.

<sup>72</sup> The electronic vault allows the user to print postage without being connected to the internet.

<sup>73</sup> Docket No. R2000-1, Tr. 29/13651 at 3-7. E-Stamp does not propose a discount for letters when the address, barcode, and indicium are printed on labels affixed to the envelope.

<sup>74</sup> Docket No. R2000-1, Tr. 29/13648 at 9-11.

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1 Stamps.com witness Heselton proposes two separate discounts: a 4-cent  
 2 discount for letters when the address, barcode, and indicium are printed directly on the  
 3 envelope, and a 3-cent discount for letters when the address, barcode and indicium are  
 4 printed on labels.<sup>75</sup> Unlike witness Jones, witness Heselton does not imply that the fate  
 5 of PC Postage is dependent upon a discounted rate. In fact, for some mail pieces  
 6 witness Heselton "doubts very much that most single-piece mailers would go through  
 7 those steps, or even some portion of them, to save 4 cents on postage."<sup>76</sup>

8 The fact that both E-Stamp and Stamps.com propose 4-cent discounts may be  
 9 coincidental. However, it does not appear to be coincidental that the proposed  
 10 discounts would offset the 10% fees that both organizations charge their customers.<sup>77</sup>  
 11 As witness Jones stated, "The preferred model would be a net cost of zero to the PC  
 12 Postage user - using the reduction in postage to fully offset the cost of the PC Postage  
 13 vendor service."<sup>78</sup>

## 14 2. The Worksharing Related Savings Estimates Are Overstated

15 The discounts proposed by E-Stamp and Stamps.com are based on the  
 16 worksharing related savings estimates calculated by witness Prescott (E-Stamp-T-2)  
 17 and witness Heselton (Stamps.com-T-1), respectively. The methodologies used by  
 18 both witnesses have overstated the savings for PC Postage letters.

19 **E-Stamp:** Witness Prescott's estimates are particularly problematic. He  
 20 calculates two separate estimates using methodologies that are slightly different.

21 The first savings estimate of 6.15 cents uses mail processing unit cost data for  
 22 the First-Class presort letters rate categories. This estimate is calculated to be the mail  
 23 processing unit cost difference between "nonautomation presort letters" and  
 24 "automation non-carrier route presort letters."<sup>79</sup> The first CRA category is a rate  
 25 category in itself, while the latter category contains the aggregate costs for the  
 26 automation basic presort, 3-digit presort, and 5-digit presort letters rate categories.  
 27  
 28

<sup>75</sup> Docket No. R2000-1, Tr. 23/10482 at 5-9.

<sup>76</sup> Docket No. R2000-1, Tr. 23/10506.

<sup>77</sup> A 4-cent discount would offset the 10% fee of 3.3 cents that would be assessed against a First-Class single-piece first-ounce mail piece that required 33 cents in postage.

<sup>78</sup> Docket No. R2000-1, Tr. 29/13687.

<sup>79</sup> Docket No. R2000-1, Tr. 29/13762, Table 1.

1 Nonautomation presort mail pieces can weigh up to 13 ounces, while automation  
2 presort letters are limited to 3.3 ounces. In addition, the mail characteristics data show  
3 that roughly 25% of nonautomation presort letters are processed manually.<sup>80</sup> In  
4 contrast, automation presort letters must be machinable by definition. Finally, the level  
5 of presortation between these two categories is vastly different. Nonautomation presort  
6 letters are presorted to either 3 or 5 digits 70% of the time, while automation presort  
7 letters are presorted to either 3 or 5 digits 86% of the time.<sup>81</sup>

8 Witness Prescott attempts to adjust for these differences by further subtracting a  
9 "cost difference related to presort" from the savings measure described above. The  
10 "cost difference related to presort" is calculated to be the mail processing unit cost  
11 difference between "BMM letters" and "nonautomation presort letters."<sup>82</sup> Again, the mail  
12 characteristics for these two mail types are vastly different. Nearly 25% of  
13 nonautomation presort letters are processed manually while the vast majority of  
14 metered mail is machinable.

15 Witness Prescott's second savings estimate of 5.024 cents relies upon mail  
16 processing and delivery unit cost data found in my direct testimony (USPS-T-24). The  
17 estimate is calculated to be the mail processing and delivery unit cost difference  
18 between "nonautomation presort letters" and "automation basic presort letters."<sup>83</sup>  
19 Witness Prescott again attempts to adjust this figure for cost differences related to  
20 presortation. He calculates a "cost difference related to presortation" by subtracting the  
21 mail processing and delivery unit costs for nonautomation presort letters from the  
22 corresponding costs for Bulk Metered Mail (BMM) letters. For the reasons discussed  
23 above, the approach used to calculate the second savings estimate is just as flawed as  
24 the approach used to calculate the first.

25 A more appropriate approach would have been to determine a benchmark cost  
26 for the mail most likely to convert to PC Postage and then estimate the postal mail  
27 processing cost avoidance as a result of such conversion. Witness Prescott has not

<sup>80</sup> Docket No. R2000-1, USPS-T-24, Appendix I, page I-38.

<sup>81</sup> Docket No. R2000-1, USPS-T-24, Appendix I, page I-38.

<sup>82</sup> Docket No. R2000-1, Tr. 29/13672, Table 1.

<sup>83</sup> Docket No. R2000-1, Tr. 29/13763, Table 2.

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1  
2  
3  
4  
5  
6  
7  
8  
9  
10

### 3. Mail Processing Operations Are Not Currently Configured To Capture PC Postage Barcode Savings

11 A savings estimate that would have used a machine printed benchmark would  
12 have yielded little to no savings because postal mail processing operations are not  
13 currently configured to capture PC postage savings. This fact is not likely to change  
14 because the automation outgoing primary operation is used to process reply mail.

15 PC Postage letters contain a FIM "D" marking and are sorted to the "machine  
16 printed/imprint" bins (5 and 6) on the Advanced Facer Canceler System (AFCS).  
17 Stamps.com witness Kuhr has stated that 13% of the total QA envelopes received have  
18 FIM markings that do not fall within specification.<sup>91</sup> If a given FIM "D" marking does not  
19 meet DMM specifications, the PC Postage letter will still be sorted to bin 5 or 6 on the  
20 AFCS. This mail piece would ultimately pass through the AFCS "enricher" module and  
21 would be interpreted as having a "machine printed/imprint" address. Since machine  
22 printed mail is also sorted to bins 5 and 6, the FIM "D" marking has little impact on how  
23 the mail piece is sorted on the AFCS, as the operation is currently configured.

24 The mail from bins 5 and 6 is routed to a Multi Line Optical Character Reader  
25 Input Sub System (MLOCR-ISS) for subsequent processing. The MLOCR-ISS will  
26 either read the barcode (if present) or it will scan the address block in order to  
27 determine the proper barcode. In the latter case, the MLOCR-ISS will apply a barcode  
28 in the lower right hand corner of the mail piece if it is able to successfully "resolve" the  
29 mail piece. Given that PC Postage letter addresses are machine printed and have  
30 been "cleansed," it is likely that the MLOCR-ISS will either read the barcodes or

---

<sup>91</sup> Docket No. R2000-1, Tr. 23/10351.

1 successfully apply barcodes to the mail pieces so that Remote Computer Read  
2 (RCR)/Remote Bar Code System (RBCS) processing would not be required. The PC  
3 Postage letters would then likely be routed to the outgoing secondary operation.

4 Machine printed mail pieces would have also been processed on the MLOCR-  
5 ISS and would have likely been "resolved." Therefore, there would have been little to  
6 no savings had a machine printed benchmark been used. This fact would not change if  
7 PC Postage letters were routed directly from the AFCS to the outgoing primary  
8 operation. In that situation, the mail would still pass through an extra processing step.  
9 The PC Postage mail pieces would, in all likelihood, be sorted to a "residue" bin and  
10 routed to the outgoing secondary operation. This is the same result that would have  
11 occurred had the mail piece been processed on the MLOCR-ISS.

#### 12 **4. The Postal Service Opposes PC Postage Discounts At This Time**

13  
14

15 The first PC Postage vendors were approved in August 1999. The Postal Service  
16 is optimistic about the future development of PC Postage alternatives. However, there  
17 is a lot of uncertainty associated with these products at this time. The worksharing  
18 related savings for PC Postage letters is clearly not of the magnitude estimated by  
19 either witness Prescott or witness Heselton. In addition, mail processing operations are  
20 currently not set up to capture any savings that might occur as a result of PC Postage  
21 mail pieces being prebarcoded. As a result, the Postal Service feels that it is premature  
22 to consider a discount to PC Postage letters at this time.

#### 23 24 **IV. THE NONSTANDARD SURCHARGE SHOULD BE MAINTAINED FOR LOW** 25 **ASPECT RATIO LETTERS** 26

27 The nonstandard surcharge was first proposed by the Postal Service, and  
28 subsequently approved by the Commission, in Docket No. MC73-1. In that docket, a  
29 surcharge was proposed for First-Class Mail (FCM) pieces weighing less than one  
30 ounce with dimensions that had any of the following characteristics: (1) length greater  
31 than 11.500", (2) height greater than 6.125", (3) thickness greater than 0.250", (4)  
32 aspect ratio (length/height) that did not fall between 1:1.300 and 1:2.500. In his  
33 testimony, Postal Service witness Winston emphasized that:

1 The objectives of this surcharge proposal are to avoid the added costs  
 2 incurred in handling certain nonstandard mail pieces (by encouraging the  
 3 use of standard-size mail pieces) and to receive adequate compensation  
 4 for the added costs of handling those items which remain nonstandard  
 5 (through revenues from surcharges).

6  
 7 Though a surcharge on oversize mail has not been implemented in this  
 8 country, it is fairly common in the postal systems of the world. Belgium,  
 9 Germany, and Japan are among the nations which maintain a rate  
 10 differential between standard-size mail and mail which does not meet  
 11 prescribed standards.<sup>92</sup>

#### 12 13 A. THE LINE MUST BE DRAWN SOMEWHERE

14  
 15 The nonstandard surcharge still exists today. Many countries continue to  
 16 maintain length, height, and thickness standards for letter-shaped mail. In fact, the  
 17 United States maintains relatively relaxed standards as shown below in Table 6.

18  
 19 **TABLE 6: INTERNATIONAL POSTAL STANDARDS**  
 20 **MAXIMUM DIMENSIONS (INCHES)**

21 22 <u>Organization</u>	<u>Length</u>	<u>Height</u>	<u>Thickness</u>
23 USPS (Standard Letter)	11.500	6.125	0.250
24 Canada Post (Standard Letter)	9.646	5.906	0.197
25 Australia Post (Small Letter)	9.449	5.118	0.197
26 New Zealand Post (Medium Letter)	9.252	4.724	0.197
27 Universal Postal Union (Standard Letter)	9.252	4.724	0.197

28  
 29 In my direct testimony (USPS-T-24) in this docket, I explained how the Postal  
 30 Service's letter mail processing equipment has been designed around our standard size  
 31 letter definition. I used the AFCS as an example. The AFCS can cull out mail pieces  
 32 that exceed length, height, and thickness requirements. The AFCS cannot cull out mail  
 33 pieces that do not meet aspect ratio requirements.

34 In Docket No. MC73-1, witness Winston also discussed the aspect ratio  
 35 requirement as it related to the nonstandard surcharge proposal:

36  
 37 The aspect-ratio requirement is something the manufacturers can "design  
 38 around," as they have in the past. The current standard of the Universal

<sup>92</sup> Docket No. MC73-1, Direct Testimony of Stuart J. Winston (no witness number used), page 48, lines 2-7 and 11-15.

1 Postal Union is more stringent than we propose (1:1.414 rather than  
2 1:1.3).<sup>93</sup>

3  
4 The Universal Postal Union (UPU) still maintains the same 1:1.414 aspect ratio  
5 standard today that it did 25 years ago.<sup>94</sup> Other postal administrations, such as  
6 Australia Post, have also adopted this standard.

7 In Docket No. MC73-1, the Postal Service conducted a field study to support its  
8 proposal, rather than simply adopting the UPU standard. The study was performed by  
9 Tracor Jitco, Inc., and was entitled "Standardization Recommendations: Development  
10 and Study of the Characteristics of Letter Mail."<sup>95</sup> This study analyzed the machinability  
11 of letters given various mail piece characteristics for various equipment types.<sup>96</sup> It also  
12 discussed the problems associated with standardization:

13  
14 From the outset, it is the general consensus of postal mechanization  
15 engineers and others in similar design fields that the problems of handling  
16 by the manufacturer or mailer are not those encountered by the Postal  
17 Service; the prime uniqueness with respect to Postal Service being the  
18 very wide variance in mail characteristics which are distributed more or  
19 less randomly throughout the mailstream. It simply is not economical to  
20 attempt to mechanize the handling of all mail; the line must be drawn  
21 somewhere.<sup>97</sup>

22  
23 Indeed, the line must be drawn somewhere. In Docket No. MC73-1,  
24 Postal Service witness Faught addressed this issue in specific terms:

25  
26 As envelopes move away from a square configuration, or aspect ratio of  
27 1:1, significant improvement in processing first occurs after about 1:1.4 to  
28 1:1.5. However, because of the significant effect that a minimum ratio of  
29 1 to 1.4 would have on our customers, the minimum aspect ratio has been  
30 judgmentally relaxed to 1 to 1.3.<sup>98</sup>

<sup>93</sup> Docket No. MC73-1, Direct Testimony of Stuart J. Winston, page 51, lines 1-5.

<sup>94</sup> Universal Postal Union, Manual of the Universal Postal Convention, Berne, Switzerland, 1995, Article RE 902, "Standardized Items."

<sup>95</sup> Docket No. MC73-1, USPS Library References L-10 and L-10A.

<sup>96</sup> This equipment included Optical Character Readers (OCR), Multi Position Letters Sorting Machines (MPLSM), and MK II cancellation machines.

<sup>97</sup> Docket No. MC73-1, USPS Library Reference L-10, page 8.

<sup>98</sup> Docket No. MC73-1, Direct Testimony of Harold F. Faught (no witness number used), page 62, lines 14-21.

1 As a result, all Postal Service standard-size letter dimension requirements,  
2 including the aspect ratio, are currently more relaxed than the international standards  
3 maintained by the Universal Postal Union and other postal administrations.

4  
5 **B. THE NONSTANDARD SURCHARGE IS STILL WARRANTED FOR**  
6 **LOW ASPECT RATIO MAIL**  
7

8 In his testimony, OCA witness Callow claims that the nonstandard surcharge is  
9 no longer warranted for "low" aspect ratio letters.<sup>99</sup> He defines those mail pieces to  
10 have aspect ratios from 1:1 to 1:1.3. His assertion that the surcharge should be  
11 eliminated for these mail pieces relies on two primary arguments: (1) today's mail  
12 processing technology can successfully process low aspect ratio letters, and (2) there is  
13 no cost basis to support a surcharge for low aspect ratio mail pieces.

14  
15 **1. "Barcodability" Does Not Equal "Machinability."**  
16

17 Witness Callow states, "it might be fair to deduce that the Postal Service's  
18 automated mail processing equipment has some toleration for mailpieces that are  
19 nonstandard by virtue of their aspect ratio."<sup>100</sup> Indeed, this is true.

20 In fact, it was also true in the Tracor Jitco study that supported the Docket No.  
21 MC73-1 proposal. A graph that plots aspect ratio against the accept rate for a specific  
22 piece of equipment is not going to resemble a "step function." We should not expect to  
23 find accept rates for letters with aspect ratios of 1.299 equal to 0%, while finding accept  
24 rates for letters with aspect ratios of 1.300 equal to 100%. As the Tracor Jitco study  
25 stated, "the line must be drawn somewhere."

26 Witness Callow's reliance on the argument that improved letter mail processing  
27 technologies should support his proposal confuses the concept of "barcodability" with  
28 the concept of "machinability." The fact that today's equipment is better able to apply a  
29 barcode to a letter does not mean that it is better able to process a nonstandard letter.

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<sup>99</sup> Docket No. R2000-1, Tr. 22/10147 at 12.

<sup>100</sup> Docket No. R2000-1, Tr.22/10211.

1 In fact, this assertion does not make logical sense. In a mechanized letter mail  
2 processing environment, the following tasks were performed. A postal employee  
3 loaded letters onto the Letter Sorting Machine (LSM) ledge, the vacuum arm retrieved a  
4 letter from the ledge and placed it in front of a keyer, and the keyer entered the  
5 appropriate data on an LSM keyboard at a machine-driven pace of 60 letters per  
6 minute. The machine then sorted that letter based on the data that were entered by the  
7 keyer. Finally, employees "swept" the letters into the proper trays.

8 In today's automated environment, letters receive much less attention from  
9 postal employees as they are processed through machines using throughputs  
10 significantly higher than those associated with the LSM. While an individual feeding  
11 mechanism for the LSM moved letters at a rate of 3,600 pieces per hour (60 pcs per  
12 min x 60 min per hr), today's equipment feeds letters at a much higher rate. While  
13 overseeing Delivery Bar Code Sorter (DBCS) acceptance tests in the field, I  
14 consistently observed machines that processed mail in the 40,000-45,000 pieces per  
15 hour range.<sup>101</sup> In addition, the DBCS contains three levels of belts that twist and turn in  
16 a manner not found on the LSM. If low aspect ratio letters were a problem in a low-  
17 speed mechanized environment, why would they possibly be easier to process in a  
18 high-speed automated environment? Witness Callow's unsupported claim defies all  
19 logic.

20 I will again draw upon my field experiences to make another point. These  
21 experiences occurred at a time when I was coordinating the deployment of automation  
22 equipment at the San Diego plant in the early 1990's. These equipment deployments  
23 occurred slowly over time. The Postal Service did not, and could not, simply shut down  
24 a plant for a few days, remove all equipment, and then completely automate its  
25 operations. It was a gradual process where each piece of equipment was deployed,  
26 accepted, and tested - one piece at a time. As a result, there was a wide variety of  
27 equipment types present in plants - all at once - during the transition from  
28 mechanization to automation.

29 This equipment was often used to process the same mail streams as the "flows"  
30 were changed over time. This was only possible because the Postal Service did

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<sup>101</sup> Machine throughputs should not be confused with productivities.

1 maintain a consistent standard-size letter definition through the years. For example,  
2 many sites received the AFCS before the Remote Bar Code System (RBCS). That  
3 technology allowed handwritten mail to be isolated so that it could be sent directly to the  
4 LSM. As a result, it no longer had to be isolated as "rejects" on the Multi Line Optical  
5 Character Reader (MLOCR) before being routed to an LSM. Once the RBCS system  
6 was deployed, the handwritten letter mail flow was again changed so that it was routed  
7 back to the MLOCR for image lifting.

8 Incoming secondary processing can be used as another example. Letters for a  
9 given 5-digit ZIP Code were typically isolated on an incoming primary operation  
10 performed on a Mail Processing Bar Code Sorter (MPBCS). These letters were then  
11 sorted to carrier route in an incoming secondary operation performed on the same  
12 machine later during Tour I. Once a DBCS was deployed, tested, and accepted, these  
13 same letters could instead be routed to the DBCS for two-pass Delivery Point  
14 Sequencing (DPS).

15 At one time, the San Diego plant contained AFCSs, M-36 cancelers, Micromark  
16 Cancelers, MK II cancelers, MLOCRs, Single Line Optical Character Readers (SLOCR),  
17 Electrocom MPBCSs, Bell and Howell MPBCSs, DBCSs, and LSMs - all at once.  
18 These processing changes occurred gradually. Yet, as each change was made, the  
19 system did not break down due to variance among equipment specifications. Why?  
20 Because this equipment was designed to accommodate standard size letters as they  
21 are now defined, and have always been defined. In fact, the original Tracor Jitco study  
22 in Docket No. MC73-1 included LSMs, early versions of the OCR, and cancellation  
23 machines in its analysis. These machines were forerunners of our current equipment  
24 and undoubtedly existed simultaneously in plants with subsequent models over time.

25 There is no basis for witness Callow's statement that "Advances in the  
26 technology of mail processing...have made the surcharge obsolete with respect to low  
27 aspect ratio mail."<sup>102</sup>

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<sup>102</sup> Docket No. R2000-1, Tr. 22/10147 at 13-14.

1                   **2. Additional Costs Are Incurred When The Cost Difference Is Greater**  
 2                   **Than Zero.**  
 3

4                   In my direct testimony, I discussed the many limitations associated with  
 5 developing cost estimates for nonstandard mail pieces. Whenever possible, I used  
 6 conservative inputs. The resulting cost estimates for First-Class single-piece and  
 7 presort mail pieces were still significantly higher than the current surcharges, which  
 8 witness Fronk (USPS-T-33) proposed should be maintained. The only input that I used  
 9 which was not conservative was the assumption that nonstandard letters would be  
 10 processed manually. Witness Callow attempts to use this fact as a means to justify his  
 11 proposal in this case.

12                  As stated previously, some nonstandard letters with low aspect ratios will be  
 13 processed, at least partially, through the mail processing network without any problems.  
 14 This was also the case in the original Tracor Jitco study that was used to support the  
 15 Docket No. MC73-1 request, which the Commission approved. Once again, the issue  
 16 is one of where the line should be drawn. What is an "acceptable" accept rate for low  
 17 aspect ratio letters - 95%, 85%, 75%, something less?

18                  In this docket, witness Callow chooses to revise the cost study using probabilities  
 19 that he admits were not derived from a "real world" study.<sup>103</sup> In addition, I pointed out  
 20 why the assumption that a mail piece would be successfully faced 50% of the time on  
 21 the AFCS was overly simplistic.<sup>104</sup> Witness Callow ignores those remarks and uses a  
 22 50% probability as his starting point.

23                  Witness Callow testifies that, "there is no cost basis to apply the nonstandard  
 24 surcharge to low aspect ratio letter mail."<sup>105</sup> However, he admits that every single cost  
 25 cell in his analysis found in Table 17 of his testimony contains costs that are greater  
 26 than the average single-piece letter mail processing unit cost of 12.296 cents.<sup>106</sup>

27 Additional costs are incurred when the cost difference is greater than zero.

28                  In fact, when witness Callow's "adjusted" manual mail processing cost of 18.600  
 29 cents is entered into the nonstandard surcharge formula, the additional weighted costs

<sup>103</sup> Docket No. R2000-1. Tr. 22/10218.

<sup>104</sup> Docket No. R2000-1. Tr. 7/3131-3132.

<sup>105</sup> Docket No. R2000-1, Tr. 22/10153 at 1-2.

<sup>106</sup> Docket No. R2000-1. Tr. 22/10217.

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1 by shape for nonstandard single-piece mail are 22.414 cents, a figure that is still  
2 substantially larger than the 11-cent rate that witness Fronk proposes should be  
3 maintained.<sup>107</sup>

4 Finally, if one assumes that witness Callow's proposal to eliminate the  
5 nonstandard surcharge also applies to "low" aspect ratio presort letters, it should be  
6 observed that he has provided no cost evidence specific to presort in his testimony.

7

8 **C. THE NONSTANDARD SURCHARGE REQUIREMENTS SHOULD BE**  
9 **MAINTAINED IN THEIR CURRENT FORM**

10

11 The Postal Service has deployed more complex letter mail processing equipment  
12 during the past decade. Contrary to witness Callow's claims, the current generation of  
13 letter sorting equipment has not made the nonstandard surcharge obsolete for low  
14 aspect ratio letters. If anything, these requirements may be more important now than  
15 they have ever been, due to complex equipment designs and high machine  
16 throughputs. In addition, witness Callow's cost analysis clearly shows that low aspect  
17 ratio nonstandard letters do, indeed, incur additional costs when compared to an  
18 average single-piece letter. As a result, the Postal Service feels that the nonstandard  
19 surcharge requirements should be maintained in their current form.

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<sup>107</sup> See Attachment USPS-RT-15C.

**ATTACHMENT USPS-RT-15A  
CEM EDUCATION COSTS**

<b>A. TELEVISION, RADIO, AND NEWSPAPER ADVERTISING</b>			(1) \$20,585,260
<b>Network Television</b>		\$12,730,130	
Prime/Prime News	\$10,168,100		
Evening News	\$1,475,630		
EMI	\$1,086,400		
<b>Network Radio</b>		\$3,363,730	
R.O.S.			
<b>Newspapers</b>		\$4,491,400	
Top 25 Markets			

**B. DIRECT MAILING**

(2)	(3)	(4)	(5)
<u>Number of Delivery Pts</u>	<u>Total Printing Cost</u>	<u>Postage Cost Per Piece</u>	<u>Total Cost</u>
132,152,177	\$2,500,000	\$0.051	\$9,239,761

**C. POINT-OF-PURCHASE BROCHURES**

(6)	(7)	(8)	(9)
<u>Number of P.O.'s, Stations and Branches</u>	<u>Printing Cost Per Brochure</u>	<u>Avg Qty Per Retail Unit</u>	<u>Total Cost</u>
38,169	\$0.04	2,000	\$3,259,633

**TOTAL EDUCATION COSTS**

**\$33,084,654**

- (1) 1997 Cohn and Wolfe Estimate Adjusted To 2000 Dollars Using Bureau of Labor and Statistics Inflation Calculator
- (2) Tr. 21/9106
- (3) Revised response of USPS to OCA/USPS-8 (filed 2/10/00; designated 8/16/00).
- (4) Tr. 21/9118
- (5) [(2) \* (4)] + (3)

- (6) FY 1999 USPS Annual Report
- (7) Young Rubican Estimate Adjusted to 2000 Dollars Using Bureau of Labor and Statistics Inflation Calculator
- (8) USPS Estimate
- (9) (6) \* (7) \* (8)

**ATTACHMENT USPS-RT-15B  
CEM REVENUE PROTECTION COST SUMMARY**

(1)	(2)	(3)	(4)	(5)	(6)
% Short Paid	Revenue Clerk Costs	Postage Due Costs	Total Annual Costs	Total Possible Short Paid Volume	Maximum Revenue Loss
2.00%	\$40,473,516	\$29,051,630	\$69,525,146	354,827,983	\$10,644,839
3.00%	\$40,473,516	\$62,444,308	\$102,917,825	762,676,240	\$22,880,287
4.00%	\$40,473,516	\$95,836,986	\$136,310,503	1,170,524,497	\$35,115,735
5.00%	\$40,473,516	\$129,229,665	\$169,703,181	1,578,372,753	\$47,351,183
7.35%	\$40,473,516	\$207,702,458	\$248,175,975	2,536,816,156	\$76,104,485

- (1) Estimated Percent Shortpaid. 7.35% = FY96 RPW % short paid for FCM weighing over 1 ounce.
- (2) From Individual Cost Sheets
- (3) From Individual Cost Sheets
- (4) (2) + (3)
- (5) From Individual Cost Sheets
- (6) (5) \* \$0.03

**ATTACHMENT USPS-RT-15B  
CEM REVENUE PROTECTION COSTS**

(1) 2.00% SHORT PAID

**A. REVENUE PROTECTION CLERKS**

(2) <u>No. Of Plants</u>	(3) <u>Average Clerks/Plant</u>	(4) <u>Wage Rate</u>	(5) <u>Piggyback Factor</u>	(6) <u>Annual Cost</u>
259	2	\$28.24	1.33	\$40,473,516

**B. POSTAGE DUE COLLECTION**

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	354,827,983
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	21,006,524

<u>Operation Description</u>	(13) <u>Pieces Per Hour</u>	(14) <u>Wage Rate</u>	(15) <u>Cents Per Piece</u>	(16) <u>Piggyback Factor</u>	(17) <u>Cents Per Piece</u>	(18) <u>Annual Cost</u>	(19) <u>(20)</u>
Outgoing Postage Due Unit	(13) 244	\$28.24	11.5800	1.33	15.4015		
Outgoing Primary (Operation 030)	(14) 661	\$28.24	4.2729	1.33	5.6830		
Destinating Postage Due Unit	(15) 69	\$28.24	40.6714	1.33	54.0929		
Carrier Costs	(16) 64	\$29.56	46.4123	1.36	<u>63.1208</u>		
					\$1.3830		(21)
					<b>Annual Cost</b>	\$29,051,630	(22)

- (1) Estimated Short Paid Percentage
- (2) AFCS Plants
- (3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)
- 1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
- (4) LR-I-106
- (5) LR-I-81
- (6) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (4) \* (5)
- (7) Handwritten/Machine Printed Volume [item (7)] from page 9
- (8) FY 1999 RPW
- (9) (7) \* [(1) - (8)]
- (10) MODS FY 97 Op. 029 (Riffle) Productivity
- (11) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (10)
- (12) (11) \* [(1) - (8)]

- (13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.  
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
- (14) USPS-T-24, Appendix I, page I-43
- (15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.  
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
- (16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.  
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
- (17) LR-I-106/LR-I-127
- (18) (17) \* 100 / (13-16)
- (19) LR-I-81
- (20) (18) \* (19)
- (21) SUM [(20)]
- (22) (21) \* (12)

**ATTACHMENT USPS-RT-15B  
CEM REVENUE PROTECTION COSTS**

(1) 3.00% SHORT PAID

**A. REVENUE PROTECTION CLERKS**

(2) <u>No. Of Plants</u>	(3) <u>Average Clerks/Plant</u>	(4) <u>Wage Rate</u>	(5) <u>Piggyback Factor</u>	(6) <u>Annual Cost</u>
259	2	\$28.24	1.33	\$40,473,516

**B. POSTAGE DUE COLLECTION**

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	762,676,240
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	45,151,955

<u>Operation Description</u>		(17) <u>Pieces Per Hour</u>	(18) <u>Wage Rate</u>	(19) <u>Piggyback Factor</u>	(20) <u>Cents Per Piece</u>	
Outgoing Postage Due Unit	(13)	244	\$28.24	1.33	15.4015	
Outgoing Primary (Operation 030)	(14)	661	\$28.24	1.33	5.6830	
Destinating Postage Due Unit	(15)	69	\$28.24	1.33	54.0929	
Carrier Costs	(16)	64	\$29.56	1.36	<u>63.1208</u>	(21)
					\$1.3830	
				<b>Annual Cost</b>	<b>\$62,444,308</b>	<b>(22)</b>

- (1) Estimated Short Paid Percentage
- (2) AFCS Plants
- (3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)  
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
- (4) LR-I-106
- (5) LR-I-81
- (6) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (4) \* (5)
- (7) Handwritten/Machine Printed Volume [item (7)] from page 9
- (8) FY 1999 RPW
- (9) (7) \* [(1) - (8)]
- (10) MODS FY 97 Op. 029 (Riffle) Productivity
- (11) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (10)
- (12) (11) \* [(1) - (8)]

- (13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.  
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
- (14) USPS-T-24, Appendix I, page I-43
- (15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.  
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
- (16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.  
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
- (17) LR-I-106/LR-I-127
- (18) (17) \* 100 / (13-16)
- (19) LR-I-81
- (20) (18) \* (19)
- (21) SUM [(20)]
- (22) (21) \* (12)

**ATTACHMENT USPS-RT-15B  
CEM REVENUE PROTECTION COSTS**

(1) 4.00% SHORT PAID

**A. REVENUE PROTECTION CLERKS**

(2) <u>No. Of Plants</u>	(3) <u>Average Clerks/Plant</u>	(4) <u>Wage Rate</u>	(5) <u>Piggyback Factor</u>	(6) <u>Annual Cost</u>
259	2	\$28.24	1.33	\$40,473,516

**B. POSTAGE DUE COLLECTION**

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	1,170,524,497
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	69,297,385

<u>Operation Description</u>	<u>Pieces Per Hour</u>	(17) <u>Wage Rate</u>	(18) <u>Cents Per Piece</u>	(19) <u>Piggyback Factor</u>	(20) <u>Cents Per Piece</u>	
Outgoing Postage Due Unit (13)	244	\$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030) (14)	661	\$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit (15)	69	\$28.24	40.6714	1.33	54.0929	
Carrier Costs (16)	64	\$29.56	46.4123	1.36	63.1208	(21)
					\$1.3830	
				<b>Annual Cost</b>	<b>\$95,836,986</b>	<b>(22)</b>

- (1) Estimated Short Paid Percentage
- (2) AFCS Plants
- (3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)  
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
- (4) LR-I-106
- (5) LR-I-81
- (6) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (4) \* (5)
- (7) Handwritten/Machine Printed Volume [item (7)] from page 9
- (8) FY 1999 RPW
- (9) (7) \* [(1) - (8)]
- (10) MODS FY 97 Op. 029 (Riffle) Productivity
- (11) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (10)
- (12) (11) \* [(1) - (8)]

- (13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.  
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
- (14) USPS-T-24, Appendix I, page I-43
- (15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.  
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
- (16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.  
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
- (17) LR-I-106/LR-I-127
- (18) (17) \* 100 / (13-16)
- (19) LR-I-81
- (20) (18) \* (19)
- (21) SUM [(20)]
- (22) (21) \* (12)

**ATTACHMENT USPS-RT-15B  
CEM REVENUE PROTECTION COSTS**

(1) 5.00% SHORT PAID

**A. REVENUE PROTECTION CLERKS**

(2) <u>No. Of Plants</u>	(3) <u>Average Clerks/Plant</u>	(4) <u>Wage Rate</u>	(5) <u>Piggyback Factor</u>	(6) <u>Annual Cost</u>
259	2	\$28.24	1.33	\$40,473,516

**B. POSTAGE DUE COLLECTION**

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	1,578,372,753
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	93,442,816

<u>Operation Description</u>	<u>Pieces Per Hour</u>	(17) <u>Wage Rate</u>	(18) <u>Cents Per Piece</u>	(19) <u>Piggyback Factor</u>	(20) <u>Cents Per Piece</u>	
Outgoing Postage Due Unit (13)	244	\$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030) (14)	661	\$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit (15)	69	\$28.24	40.6714	1.33	54.0929	
Carrier Costs (16)	64	\$29.56	46.4123	1.36	<u>63.1208</u>	
					\$1.3830	(21)
				<b>Annual Cost</b>	<b>\$129,229,665</b>	<b>(22)</b>

- (1) Estimated Short Paid Percentage
- (2) AFCS Plants
- (3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)  
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
- (4) LR-I-106
- (5) LR-I-81
- (6) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (4) \* (5)
- (7) Handwritten/Machine Printed Volume [item (7)] from page 9
- (8) FY 1999 RPW
- (9) (7) \* [(1) - (8)]
- (10) MODS FY 97 Op. 029 (Riffe) Productivity
- (11) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (10)
- (12) (11) \* [(1) - (8)]

- (13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.  
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
- (14) USPS-T-24, Appendix I, page I-43
- (15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.  
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
- (16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.  
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
- (17) LR-I-106/LR-I-127
- (18) (17) \* 100 / (13-16)
- (19) LR-I-81
- (20) (18) \* (19)
- (21) SUM [(20)]
- (22) (21) \* (12)

**ATTACHMENT USPS-RT-15B  
CEM REVENUE PROTECTION COSTS**

(1) 7.35% SHORT PAID

**A. REVENUE PROTECTION CLERKS**

(2) No. Of Plants	(3) Average Clerks/Plant	(4) Wage Rate	(5) Piggyback Factor	(6) Annual Cost
259	2	\$28.24	1.33	\$40,473,516

**B. POSTAGE DUE COLLECTION**

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	2,536,816,156
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	150,184,577

Operation Description	(13) Pieces Per Hour	(17) Wage Rate	(18) Cents Per Piece	(19) Piggyback Factor	(20) Cents Per Piece	(21)
Outgoing Postage Due Unit	(13) 244	\$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030)	(14) 661	\$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit	(15) 69	\$28.24	40.6714	1.33	54.0929	
Carrier Costs	(16) 64	\$29.56	46.4123	1.36	63.1208	
					\$1.3830	(21)
				Annual Cost	\$207,702,458	(22)

- (1) Estimated Short Paid Percentage
- (2) AFCS Plants
- (3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)  
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
- (4) LR-I-106
- (5) LR-I-81
- (6) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (4) \* (5)
- (7) Handwritten/Machine Printed Volume [item (7)] from page 9
- (8) FY 1999 RPW
- (9) (7) \* [(1) - (8)]
- (10) MODS FY 97 Op. 029 (Riffle) Productivity
- (11) (2) \* (3) \* (8 hrs/day) \* (5 days/wk) \* (52 wks/yr) \* (10)
- (12) (11) \* [(1) - (8)]

- (13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.  
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
- (14) USPS-T-24, Appendix I, page I-43
- (15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.  
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
- (16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.  
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
- (17) LR-I-106/LR-I-127
- (18) (17) \* 100 / (13-16)
- (19) LR-I-81
- (20) (18) \* (19)
- (21) SUM [(20) ]
- (22) (21) \* (12)

**ATTACHMENT USPS-RT-15B  
 FY 1997 FIRST-CLASS ODIS SINGLE-PIECE VOLUMES  
 (Source: Response to OCA/USPS-121)**

<u>Mail Type</u>	<u>% Total</u>	<u>(1) FY 1997 ODIS SUBTOTAL</u>
CRM Letters	16.84%	8,419,096,000
Other Letters	57.30%	28,643,100,000
Handwritten Letters	25.86%	12,928,400,000
<b>Total FC SP Letters</b>	<b>100.00%</b>	<b>49,990,596,000</b>
<b>Total FC SP Letters, Flats, IPPS</b>		<b>54,240,238,000</b>
<b>% Letters</b>		<b>92.17%</b>

**ATTACHMENT USPS-RT-15B  
TY 2001 FIRST-CLASS SINGLE-PIECE VOLUME ESTIMATES**

TY Letters, Flats, IPP's =  
53,213,828,000 (1)

TY Letters =  
49,044,603,697 (2)

	(3)	(4)
<u>Mail Type</u>	<u>% Total</u>	<u>TEST YR SUBTOTAL</u>
CRM	16.84%	8,259,778,035
Other	57.30%	28,101,075,013
Handwritten	25.86%	12,683,750,649
<b>TOTAL FC Single Piece</b>	<b>100.00%</b>	<b>49,044,603,697 (5)</b>
<b>Total Handwritten and Machine Printed Mail Volume</b>		<b>40,784,825,662 (7)</b>

- (1) USPS-T-6, Table 2A
- (2) [FY 1997 % LETTERS (From Page 8) \* (1)]
- (3) (4) / (5)
- (4) [FY 1997 Mail Type % (From Page 8)] x (2)
- (5) Sum [(4)]
- (6) Machine Printed Volume + Handwritten Volume

**ATTACHMENT USPS-RT-15C  
FIRST-CLASS NONSTANDARD SURCHARGE COSTS: SINGLE-PIECE**

**A. INPUTS**

**1. AVERAGE TEST YEAR MAIL PROCESSING UNIT COSTS (CRA)**

<u>Shape</u>	<u>First-Class Single Piece (Cents)</u>
Letters	12.296
Flats	38.105

**2. VOLUMES BY SHAPE**

<u>Shape</u>	<u>First-Class Single Piece FY 98 Volume</u>	<u>First-Class Single Piece FY 98 Percent</u>
Letters	64,552,853	17.41%
Flats	287,299,988	77.47%
Parcels	18,994,784	5.12%
	370,847,625	100.00%

**3. LETTER MAIL PROCESSING UNIT COST**

<u>Shape</u>	<u>First-Class Single Piece (Cents)</u>
Letters	18.600

**B. RESULTS**

**Formula:**  
 (Manual Model SP Letters - CRA SP Letters) \* (% SP Letters)  
 + (CRA SP Flats - CRA SP Letters) \* (% SP Flats)  
 + (CRA SP Flats - CRA SP Letters) \* (% SP Parcels)  
**Additional Nonstandard Single Piece Letter Costs**

<u>First-Class Single Piece (Cents)</u>	<u>% Total Cost</u>
1.097	4.90%
19.995	89.21%
1.322	5.90%
22.414	100.00%

1 CHAIRMAN GLEIMAN: Six parties have requested oral  
2 cross examination: American Bankers Association jointly  
3 with the National Association of Presort Mailers; E-Stamp  
4 Corporation; Major Mailers Association; the Office of the  
5 Consumer Advocate; Pitney-Bowes, Inc.; and Stamps.com, Inc.

6 Is there any other party who wishes to cross  
7 examine this witness?

8 CHAIRMAN GLEIMAN: If not, then Mr. Hart, Mr.  
9 Warden, whichever of you is first.

10 MR. HART: I think me this morning. Thank you,  
11 Mr. Chairman.

12 For the record, Henry Hart, representing National  
13 Association of Presort Mailers.

14 CROSS EXAMINATION

15 BY MR. HART:

16 Q Good morning, Mr. Miller.

17 A Good morning.

18 Q Could you please turn to page 3 of your rebuttal  
19 testimony 15 and look specifically at lines 7 and 8? And  
20 there you say that -- you speak about Clifton's  
21 interrogatory response and you say, while skeptical that  
22 both metered mail letters exist, Witness Clifton's position  
23 has not been substantiated by any current field  
24 observations. Is that correct?

25 A Yes.

1           Q     And you cite his response at footnote 4. You cite  
2 to the transcript, and as I read that transcript, it's an  
3 interrogatory response of ADA and NAPA Witness Clifton to  
4 USPS interrogatory number 7. The question was, please list  
5 all postal facilities in which you've observed any metered  
6 letters and/or bulk metered letters. And the response, as I  
7 read from the transcript, the interrogatory response of Dr.  
8 Clifton was, I have observed several facilities which have  
9 one or more mailboxes labelled meter-only, notably the Shady  
10 Grove Station in Maryland and the facility in Merrifield in  
11 Northern Virginia. I have seen single-piece metered mail  
12 entered in these boxes. The boxes will not fit trays, et  
13 cetera, et cetera, et cetera.

14                     Why do you think this is not a current field  
15 observation?

16                     [Pause.]

17                     Would you like a copy of the interrogatory  
18 response? Would that --

19           A     No, I have it with me, I'm reading it.

20                     [Pause.]

21                     THE WITNESS: Well, I think in his response, he  
22 says that collection boxes would not fit letter trays.  
23 That's a pretty obvious point, so to me, if I were  
24 investigating whether bulk meter mail letters really  
25 existed, I would have probably pursued investigating other

1 facilities, other parts of the facility. I wouldn't have  
2 concentrated on collection boxes.

3 He says, does he not, on occasion, I have asked  
4 USPS employees taking mail from both boxes during hourly  
5 collections when I happened to be there whether any  
6 businesses submit larger volumes of first-class metered mail  
7 in trays. Nobody has replied that they have ever seen such  
8 mail.

9 Q Why is that not a current field observation?

10 A Well, first of all, he didn't observe it himself.  
11 Second of all, he's asking people that are focused on  
12 collection box activities.

13 Q Does he not say that he has seen single-piece but  
14 not bulk metered mail being entered in these facilities?

15 A No, he actually says that he has seen single piece  
16 and banded metered letters.

17 Q And the boxes will not fit trays. Don't you infer  
18 from that that you can't get -- that he hasn't seen any bulk  
19 metered mail in trays being delivered?

20 A I'd say, as I said, that's an obvious point, that  
21 letter trays are not going to fit in collection boxes. I  
22 wouldn't have focused an observation of -- in order to  
23 determine whether bulk metered mail letters exist, I  
24 wouldn't have been observing collection boxes.

25 Q So you say that Witness Clifton did not make

1 current field observations. Then at the same page, line 26,  
2 you say, I have verified the existence of BMM letters with  
3 field personnel.

4 Now, are you talking there about something over  
5 and above what you discuss at page 4, which is this analysis  
6 of operations 020 and <sup>0206</sup>02B?

7 A Yes.

8 Q And this verification, that sounds to me like it's  
9 the same hearsay that you're talking about Dr. Clifton, but  
10 for you, it's a current field observation; for him, it's  
11 not. You agree with that characterization of your response.

12 A No.

13 Q Why not?

14 A Well, in verifying that bulk metered mail letters  
15 exist in the field, I did three things. I first called up  
16 people that I had worked with in the field, other industrial  
17 engineers who worked at plants. When this issue first came  
18 up and I realized that there was some point of contention  
19 whether bulk metered mail letters exist -- in my opinion, I  
20 always thought it was the meter bypass mail that I described  
21 in table 2 -- and in talking to other engineers that worked  
22 in the field, they also concurred with what I had thought  
23 myself.

24 After verifying that this existed with them and at  
25 other plants they had worked at, I then sent out an e-mail

1 survey to about 158 in-plant support managers, and at this  
2 point, I've gotten 98 of them back, asking them what metered  
3 mail bypass was, how they defined it, how it was entered,  
4 what kind of mail it was, what sort of rate it paid, and it  
5 became obvious from those responses that there is such a  
6 thing as bulk metered mail letters.

7           The third thing I did was I went to one of the  
8 larger plants that has a large outgoing mail operation and  
9 metered -- trays of metered letters entered the plant in  
10 three ways. It was either dropped off by businesses to  
11 local delivery units and then brought in with the collection  
12 mail; it was brought in at that plant at one of the bays in  
13 the dock directly by businesses; or it was residual mail  
14 from large presort mailers, it was trayed and paid the full  
15 single piece rate. And that's what they called 020 bypass  
16 mail, and this is pretty consistent with what I got in the  
17 responses to the 98 e-mails from other plants.

18           Q     So you were told by the personnel just the way  
19 Clifton was told by the personnel? You just liked what you  
20 heard better.

21           A     Well, from the 98 plants, but I also watched -- I  
22 also was at a plant and I watched several entry points in  
23 the plant, including the back dock and the bulk mail entry  
24 unit.

25           Q     You say at page 4, at the top of the page of your

1 testimony, the majority of the metered mail stream is  
2 weighed into two MODS operation number, 020 and 020B.

3 What do you mean by weighed, w-e-i-g-h-e-d,  
4 weighed into them? What did you mean by that?

5 A These are MODS operations, they're not like MODS  
6 operations related to the ~~A~~FCS, for example. The volumes  
7 that you'll <sup>see</sup> ~~be~~ on the MODS are direct machine counts, and  
8 these two MODS' operations are actually what they call  
9 workload credit operations where there is a -- they weigh  
10 the mail in and then there is a conversion rate that  
11 converts it to pieces from the MODS report.

12 Q So they weigh it in order to effectively guess the  
13 count? They don't physically count the pieces. The reason  
14 why they're weighing the mail is to infer from that weight  
15 what they'll assume is an average weight per piece, and  
16 that's how they get the count?

17 A I don't know if I'd say they guess the count. The  
18 conversion factors that they use a -- they conduct studies  
19 to determine what those should be.

20 Q But it's not like you have a belt that's  
21 physically counting every piece of mail, right?

22 A It's not an actual piece count, no.

23 Q It's an estimate.

24 A Yes.

25 Q Thank you.

1           The number you come up with in your table 2 of  
2 meter belt bypass mail, and that's the mail that you're  
3 going to assert in your testimony, 14.67 billion pieces of  
4 mail, over 50 percent of metered mail you're saying is being  
5 delivered to the Postal Service in trays.

6           A     Yes.

7           Q     Weren't you -- didn't you find that to be a  
8 staggering number? Weren't you surprised when you found out  
9 the number was that high?

10          A     I think the point I was trying to make in showing  
11 these mail volumes is that the mail that's weighed in that  
12 bypasses cancellation mail prep operations is roughly equal  
13 to the metered -- the mail volume that's processed on the  
14 meter belt.

15                 Some of this mail -- by saying in parentheses that  
16 this is where the BMM is, some of this mail is not actually  
17 what we would probably be defining as BMM.

18                 First of all, there's -- a small percent of this  
19 mail is flats. In addition, some of the plants that I got  
20 responses to have agreements with the delivery units where  
21 their delivery units will take the metered bundles out of  
22 their collection boxes and tray it up and send it into the  
23 plant with collection mail.

24          Q     A delivery unit --

25          A     So some of that will be weighed in as metered

1 bypass. But what is bulk metered mail, like the things I  
2 have seen, the mail that plants responding have said is  
3 dropped off by businesses at their plants, that mail would  
4 be in the meter bypass mail volume.

5 Q When you say -- I think you used the words  
6 delivery unit, some of this mail is delivered by a delivery  
7 unit? Is that correct? Is that what you said?

8 A I'm not sure that's exactly what I said. It  
9 wasn't what I meant.

10 Q What did you mean?

11 A Some of the mail that gets weighed in as metered  
12 bypass mail is going to be metered bundles that businesses  
13 maybe placed into collection boxes and the plant has  
14 agreements with the delivery units that they will --

15 Q I'm sorry. Delivery unit. What do you mean by  
16 delivery unit?

17 A Oh. I'm sorry. Associate offices or city  
18 stations. Your neighborhood post office.

19 Q The Postal Service. Thank you.

20 A Yes.

21 Q Okay. I just want to make sure we understand  
22 that.

23 A Yes.

24 Q The Postal Service is delivering this mail, the  
25 Postal Service is traying this mail.

1 A Some of this mail is trayed by --

2 Q And you have no idea how much is trayed by the  
3 Postal Service.

4 A I don't have the exact --

5 Q What you've been telling the Commission in your  
6 testimony is delivered by businesses, now you're saying it's  
7 by the Postal Service.

8 A I'm not saying it's -- I'm saying that the mail  
9 that's in the metered bypass operation is part mail that is  
10 dropped off by businesses at either delivery units or the  
11 dock, that is metered in full trays, paying the full single  
12 piece rate, some amount of it is flat, some of it is metered  
13 bundles that are trayed up by delivery units and then sent  
14 to the plant. But this is not done at every single plant.  
15 There's some variation.

16 Q But you didn't say that in your written testimony,  
17 did you? You didn't give the Commission one hint that this  
18 was coming from the Postal Service, did you? That any of  
19 this mail was coming from the Postal Service.

20 A I didn't address that in my testimony.

21 Q No. So you're --

22 A The primary point of my testimony is that bulk  
23 mail -- bulk metered mail letters do exist.

24 Q Well, but the implication in your testimony was  
25 that there was 14.6 billion pieces being delivered to the

1 Postal Service from businesses, and now you tell us that,  
2 no, some of that and, for all we know, most of it, comes  
3 from the Postal Service. So it's traying its mail at the  
4 association offices and delivering it. So in your testimony  
5 -- ah-ha -- at line 6, when you say the metered mail enters  
6 postal facilities in trays, but the trays are prepared in  
7 large part by the Postal Service, not businesses, right?

8 A The percent of mail that is trayed by delivery  
9 units or is dropped off by businesses is not really known.

10 Q Thank you.

11 Do you know whether some of that mail may also be  
12 standard mail?

13 A Yes, there is a portion of that mail that could be  
14 standard mail.

15 Q Do you have any idea what percentage of it might  
16 be standard mail?

17 A No.

18 Q Do you know what cost pools your operations 020B  
19 and 020 fall into?

20 A Yes. Those are mapped to the 1CANCMPP cost pool,  
21 or MMP cost pool.

22 Q Okay. Thank you, Mr. Miller. Could we turn now  
23 to page 17 of your testimony concerning the P rate, ABA and  
24 NAPM's P rate proposal? Do you have that in front of you?

25 A Yes.

1           Q     The title of that discussion is "Risky Venture,"  
2     and you state throughout it, including in the lines 22 and  
3     23 of page 17, that Witness Clifton's P rate proposal, which  
4     he, himself, describes as a risky venture. Don't you  
5     recognize that when he refers to it as a risky venture, that  
6     he is referring to it as risky for the presort bureaus and  
7     not for the Postal Service?

8           A     I think that is true, but I also think it is a  
9     risky venture for the Postal Service. I thought it was a  
10    good description of this proposal.

11          Q     And that is perfectly fair, and you have the  
12    perfect right to make that observation, but I am just making  
13    a clarification.

14          A     Yes, that's true.

15          Q     You are not in any way suggesting that Clifton  
16    said that it was risky for the Postal Service?

17          A     No.

18          Q     Thank you. Okay. Presort bureaus have taken  
19    risks before, haven't they, in growing the workshare  
20    program, investments in equipment, investments in plant, in  
21    the last 15 years?

22          A     I would imagine that is true, but I don't think I  
23    would be the best person to answer that question.

24          Q     Don't you think, based on the history of the  
25    success of the workshare program, that there might be a lot

1 of benefit to the Postal Service in allowing presort bureaus  
2 the opportunity to take some risk to expand the workshare  
3 program?

4 A I'm sorry, could you repeat that question?

5 Q Don't you think that in the history of the presort  
6 bureau industry in the growth of the workshare program, that  
7 it might well be worth the Postal Service's while in  
8 allowing the presort bureaus to take risk with the P rate  
9 proposal in order to expand the workshare program?

10 A Not upon reading the testimony that was filed to  
11 support that proposal.

12 Q Page 18, line 7 of your testimony, 6 and 7, you  
13 say that, speaking to the P rate proposal, you say that the  
14 CEM issues concerning revenue losses and additional  
15 education, window service and revenue protection costs  
16 would, therefore, apply to the P rate proposal as well.  
17 What do you mean by revenue protection costs?

18 A In terms of the CEM, I began talking about those  
19 issues on page 12 and, basically, with any two stamp system,  
20 there are going to be some costs incurred in order for the  
21 Postal Service to evaluate whether people are using the  
22 stamps properly.

23 Q Are you talking about the potential loss of  
24 revenue if this P stamp is delivered as workshare mail,  
25 Automated Basic, Automated 3 digit or 5 digit, instead of at

1 33 or 34 cents?

2 A Well, in this case, most of it would probably be  
3 people using the P rate stamp when they shouldn't have been  
4 using it. For example, putting it on mail pieces they drop  
5 in Postal collection boxes.

6 Q Okay. But you recognize that if they drop it in,  
7 under this proposal, if they drop it in a P box, and the  
8 presort bureau is unable to upgrade it, the presort bureau  
9 is going to pay the short postage on that? That is part of  
10 the risk they will take.

11 A Was that in a specific place in Witness Clifton's  
12 testimony? I don't recall reading that.

13 Q I think it -- well, certainly, we will go back and  
14 look at it, and we will address that in brief. It is  
15 certainly implied the mail has to be delivered as Automated  
16 Basic 3 digit or 5 digit, it is qualifying workshare mail,  
17 and they will pay at those discounted rates for it, and they  
18 will effectively absorb the 2 cents under the proposal. If  
19 they have to deliver it at regular rate mail, they are going  
20 to pay it.

21 Certainly, I don't think it is fair to infer from  
22 that testimony that it is expected that presort bureaus can  
23 deliver single piece P stamp mail to the Postal Service and  
24 expect the Postal Service to accept.

25 A Well, once again, I don't recall reading that in

1 Witness Clifton's proposal, but as the system currently  
2 stands, presort houses often do deliver residual mail that  
3 is paid at the full single piece rate. I would think that  
4 would only -- there would only be more of a problem if you  
5 started tracking single piece mail when there is more  
6 handwritten mail and mail that is less likely to be resolved  
7 on systems like RBCS and RCR.

8 Q You say more of a problem. Isn't that the Postal  
9 Service -- well, strike that. You say at page 18 of your  
10 testimony, you argue that presort bureaus and MLOCR  
11 qualified mailers do not currently house the necessary  
12 cancellation equipment such as AFCS in order to cancel this.  
13 Do you believe that presort bureaus are unwilling to invest  
14 in equipment necessary to succeed in the program?

15 A I don't believe I ever said that. I believe that  
16 Witness ~~McCarden~~ <sup>MacHarg</sup>, when he was cross-examined, stated that  
17 rather than purchase cancellation machines, they would try  
18 to modify OCRs to cancel mail pieces.

19 Q But you don't have the confidence, or you are not  
20 willing to allow the presort industry to take the risk to  
21 invest in the equipment, be it AFCSs or modifications of  
22 existing equipment, to figure out a way to expand the pool  
23 of workshare mail and help the Postal Service solve its  
24 problems with single piece mail?

25 A I am not saying that wouldn't happen. I just --

1 in the original testimony, I don't recall ever getting an  
2 indication that that is what would happen.

3 Q You state at page 19, line 22, that ABA and NAPM  
4 has clearly not developed a formal plan demonstrating that  
5 presort industry could process single-piece mail.

6 Is your view just let the Government, let the  
7 Postal Service do it all and don't let private industry take  
8 any risks?

9 A That's not my view at all, but there are also  
10 risks to the Postal Service. To the extent that presort  
11 mailers and MLOCR qualified mailers might not be able to  
12 handle it.

13 Q And what is that risk to the Postal Service if  
14 they can't?

15 A Receiving mail that received a discounted rate  
16 that might not have been resolved; receiving mail at times  
17 that maybe equipment isn't at maximum capacity on the  
18 outgoing window.

19 Q I'm sorry, you think you'll get P-stamp mail at  
20 their windows?

21 A No, during the originating operating window, when  
22 they start processing the mail, from the point they start  
23 processing mail, to the point that they have to have it  
24 finished to meet their operating plan.

25 Q You mean, the mail they get from the presort

1 bureaus that the presort bureaus have not been able to  
2 upgrade; is that it?

3 A Yes.

4 Q And you think that mail delivered by them in bulk  
5 by a presort bureau would be more troublesome than delivered  
6 individually in collection boxes to the Postal Service?

7 A Well, as the system currently is, I think the  
8 whole system has been set up to accommodate the arrival  
9 profile of single-piece mail, and the amount of equipment  
10 that's at any given plant isn't something that happened  
11 accidentally.

12 It took years of planning, using a <sup>multiple</sup> ~~multiple~~ of  
13 mail processing statistics for the single-piece mail stream,  
14 entry times, and similar information.

15 Q You've pointed out what you perceive as risks,  
16 from your perspective, to the Postal Service of this  
17 program.

18 Would you agree that there is also substantial  
19 upside and potential to this program if it succeeds, in the  
20 form of converting a lot of what is now handwritten and  
21 single-piece mail, to workshared, automated mail for the  
22 Postal Service?

23 A It's possible that there could be some benefit,  
24 but the thing that is difficult to evaluate about the P-rate  
25 is, there's no current equipment inventory or mail volume

1 forecast. It's really hard to determine what, exactly,  
2 would happen.

3 Q It's the invisible hand, right; it's capitalism?

4 Suppose the Postal Service is budgets and  
5 management? It makes you uncomfortable?

6 A What makes me uncomfortable?

7 Q Leaving this venture, the fact that it depends on  
8 what independent business entrepreneurs and risk-takers and  
9 innovators can figure out what to do to make it happen.  
10 You'd rather have a big Postal Service budget to manage  
11 this?

12 A No, not at all. What makes me uncomfortable is,  
13 as an industrial engineer, the total lack of capacity  
14 planning and equipment planning.

15 And I haven't seen anything along those lines in  
16 Witness Clifton's testimony.

17 Q One more question, if I may: This is not a  
18 state-owned and operated, centrally planned economy in this  
19 country; is it?

20 A No.

21 Q Thank you.

22 MR. HART: Thank you, that's all I have.

23 CHAIRMAN GLEIMAN: E-Stamp Corporation?

24 CROSS EXAMINATION

25 BY MR. MAY:

1 Q Good morning, Mr. Miller.

2 A Good morning.

3 Q I'd like you to refer to page 29 of your rebuttal  
4 testimony, specifically lines 12 and 13.

5 [Pause.]

6 You there state that PC Postage, compared to,  
7 quote, "machine-printed", quote, letters, would show little  
8 to no savings because Postal mail processing operations are  
9 not currently configured to capture PC Postage savings; do  
10 you see that?

11 A Yes.

12 Q First of all, please explain what you mean by  
13 machine-printed.

14 A I'm referring to any address that's imprinted on a  
15 laser printer or typewritten or on any kind of computer  
16 printer that doesn't have a bar code.

17 Q Well, in other words, almost anything except  
18 handwriting? Is there any other way to get an address?

19 Don't you either have to hand-write it or  
20 machine-print it? Is there any other way?

21 A Well, actually, I think I said machine-printed  
22 addresses that don't have bar codes.

23 That's what I was referring to, so you could have  
24 machine-printed addresses with bar codes, machine-printed  
25 addresses without bar codes, or handwritten addresses, for

1 the most part.

2 Q So, basically you're saying everything except  
3 handwritten, that PC Postage is better than anything that's  
4 not handwritten?

5 A I'm sorry, could you repeat that question?

6 Q You say that PC Postage, compared to  
7 machine-printed letters, show little to no savings.

8 I'm just saying that when you say machine-printed,  
9 you mean not handwritten, so you're saying that with the  
10 exception of handwritten letters, PC Postage shows no  
11 savings compared to any other kind of addressed letters; is  
12 that what you're saying?

13 A Actually, when I was referring to machine-printed,  
14 once again I was saying that there are basically three  
15 separate types of addressing, and in my opinion, that kind  
16 of mimics how the AFCS separates the mail.

17 You have machine-printed addresses that are  
18 pre-bar-coded that go to Bins 1 and 2; you have the  
19 handwritten mail that goes to Bins 3 and 4, and you have  
20 what I was calling machine-printed or imprint addresses that  
21 goes to Bins 5 and 6.

22 Q But you're talking about every form of  
23 machine-printed letter there; are you not?

24 A Well --

25 Q You didn't qualify machine-printed, you said all

1 machine-printed letters.

2 A Well, what I was referring to is the mail that  
3 goes to Bins 5 and 6 on the AFCS, which, if you look at the  
4 AFCS Handbook in Library Reference I-154, it will say  
5 machine-printed/imprint, I believe. That's what I meant.

6 Q Now, you further state that the reason you say  
7 that there's no more savings for PC Postage, you say your  
8 operations aren't configured currently to capture PC Postage  
9 savings; is that right?

10 A Yes.

11 Q You further state that this situation is not  
12 likely to change, quote, "because the automation outgoing  
13 primary operation is used to process reply mail."

14 Are you saying that despite the volume of delivery  
15 point barcoded PC Postage mail, no matter what the volume,  
16 the Postal Service would still not reconfigure its  
17 processing operations in order to take advantage of the  
18 potential cost avoidances from barcoded PC Postage?

19 A Are you talking about a specific volume?

20 Q Well, your testimony was that this is unlikely to  
21 change. You say this situation, quote, "is not likely to  
22 change."

23 Well, I mean does that mean forever? Does that  
24 mean it doesn't matter how much volume of PC Postage there  
25 is? You say it is not likely to change. What does that

1 mean?

2 [Pause.]

3 THE WITNESS: I think a lot in this case, there  
4 have been some interrogatories about why ~~FIMS~~<sup>FIMS</sup> for PC Postage  
5 isn't routed to Bins 1 and 2 with FIM A and C for  
6 prebarcoded courtesy reply mail and business reply mail and  
7 that is what I was really addressing is that even if you --  
8 I think I mention later that even if you did route it to  
9 that bin it would likely be sorted to a residue bin in that  
10 operation and then sent to the outgoing secondary or  
11 incoming primary operation, which is basically the same  
12 thing that would happen in the current situation where it is  
13 routed to an OCR.

14 In terms of volume, mail volume does dictate for  
15 the most part what the Postal Service does on its given  
16 operations, but there are currently I think 10 billion or so  
17 courtesy reply mail and business reply mail mail pieces and  
18 I think Witness Gordon discusses the volume of PC Postage.

19 If there were to be a significant increase in that  
20 volume then the Postal Service would have to do something or  
21 would at least re-evaluate it.

22 BY MR. MAY:

23 Q Okay, Mr. Miller, I am going to show you a copy,  
24 excerpts from a Postal Bulletin issue. You are familiar  
25 with the Postal Bulletin?

1 A Yes.

2 Q And you read it, I suppose, don't you?

3 A On occasion.

4 MR. MAY: Well, Mr. Chairman, I am going to  
5 distribute this to you all.

6 CHAIRMAN GLEIMAN: Please proceed.

7 [Pause.]

8 BY MR. MAY:

9 Q This is the Postal Bulletin PB22004, dated August  
10 12th, 1999, is it not?

11 A Yes.

12 MR. MAY: I would ask, Mr. Chairman, that the  
13 Commission take official notice of this document.

14 CHAIRMAN GLEIMAN: We are doing so.

15 MR. MAY: Thanks.

16 CHAIRMAN GLEIMAN: Hopefully nobody will ask us to  
17 authenticate it.

18 BY MR. MAY:

19 Q Now if you would direct your attention to page 9  
20 of this Bulletin, and in the left-hand column around the  
21 middle of the page would you confirm that there it states,  
22 quote, "PC Postage products provide time savings, increased  
23 efficiency, reduced costs, and enhanced security for both  
24 customers and the Postal Service."

25 Do you agree or disagree with that statement in

1 the Postal Bulletin, Mr. Miller?

2 A I'm sorry, where was this at?

3 Q It's in the middle of the left-hand column.

4 [Pause.]

5 THE WITNESS: I can't really agree or disagree  
6 with that statement because I don't really know whomever  
7 wrote this what their time savings, increased efficiency,  
8 reduced costs were being compared to.

9 BY MR. MAY:

10 Q You don't have an opinion?

11 A Well, it depends on what you are comparing it to.

12 Q Well, I am not comparing it to anybody. This is  
13 an official Postal document.

14 In other words you are saying you don't know what  
15 the Postal Service --

16 A I don't know what they --

17 Q -- meant when it said this?

18 You don't know what increased efficiency means,  
19 eh? Do you know what that means?

20 You don't know what reduced costs means?

21 A All I am saying is it is tough to evaluate what  
22 they were referring to unless I knew what their comparison  
23 was.

24 Q Well, doesn't it say that PC Postage reduces  
25 costs? Presumably does it not mean that it reduces the

1 costs that the Postal Service would otherwise have incurred  
2 in the absence of PC Postage?

3 Isn't that what it obviously means?

4 I am not asking you how much, but isn't that what  
5 it says?

6 MR. TIDWELL: Mr. Chairman, this witness has  
7 indicated that he is not familiar with the document. It so  
8 happens, however, that the -- one of our witnesses who is up  
9 here later today is more familiar with the document and his  
10 operation actually generated the document.

11 It may be more appropriate to direct questions to  
12 him as to the meaning of this particular paragraph.

13 MR. MAY: Oh, I intend to ask that witness a lot  
14 of questions also, Mr. Chairman.

15 CHAIRMAN GLEIMAN: I would like to know, just so I  
16 am clear on it, which witness that is that --

17 MR. TIDWELL: Oh, that would be Witness Gordon.

18 CHAIRMAN GLEIMAN: Okay, thank you.

19 MR. MAY: But this witness is talking about costs,  
20 says this doesn't save any costs.

21 That is his testimony and here is a Postal  
22 Bulletin document telling the world that it reduces costs.

23 This witness says he doesn't know what that means.

24 CHAIRMAN GLEIMAN: Well, you can continue to  
25 question him about that, and I will look forward to seeing

1 that statement again in your brief.

2 BY MR. MAY:

3 Q Any clues? You still have no enlightenment over  
4 whether you can agree or disagree with this statement in the  
5 Postal Bulletin?

6 A Well, I haven't really commented in my testimony  
7 on this Postal Bulletin. What I did say is if you use a  
8 machine printed benchmark, as the Postal Service operations  
9 are currently configured, there is little to no savings. I  
10 can say that.

11 Q You have said that. That is your testimony.

12 A Yes.

13 Q And I am asking you to compare your testimony with  
14 this official Postal Bulletin document which says the  
15 contrary. You either disagree or agree.

16 A I can't compare it, I don't know -- I don't know  
17 what the point was they were trying to make, whomever wrote  
18 this.

19 Q Well, look at page 10 of that Postal document.  
20 Now, in the first column up on the left, on the left, about  
21 a third of the way down, there is the following statement,  
22 quote, "Mail bearing the information based indicia is  
23 handled the same as metered mail. It does not receive any  
24 special handling and requires no change in the operations  
25 procedures." Do you agree with that?

1 A That statement I don't completely agree with.

2 Q Well, would you please explain?

3 A Well, the concept of metered mail has to do with  
4 how postage is applied and you could have a metered strip  
5 applied to a handwritten mail piece, what I have called the  
6 machine printed or imprint mail piece, or a pre-barcoded  
7 mail piece, and those mail pieces do not travel the same  
8 path in the Postal mail processing network.

9 Q Well, if anything, then you are saying that PC  
10 postage mail would be more efficient to handle than some  
11 kinds of metered mail?

12 A That's true if you compared it to handwritten  
13 metered mail.

14 Q Well, that is -- but you are the one who raised  
15 the issue of handwritten metered mail, are you not? Well,  
16 let me ask you this, would you agree that, quite apart from  
17 the address cleansing and barcoding that is on the open  
18 system PC postage product that we are talking about here,  
19 that quite apart from that, the fact that the PC postage,  
20 the printing of the postage itself, results in the same cost  
21 savings as other single piece metered mail, single piece  
22 entered metered mail?

23 A Are you referring to a specific cost savings?

24 Q Well, would they not both be handled in the same  
25 way and have the same cost incurrence?

1           A     I'm sorry, you just said that metered mail in  
2 general would be processed the same way as PC postage mail?

3           Q     No, I am asking you if, whether or not, if you  
4 have PC printed postage on the envelope and nothing else,  
5 would that not have the same cost incurrence as a piece of  
6 metered mail, single entered metered mail? Not bulk entered  
7 metered mail, but single piece entered metered mail.

8           A     I am not sure I understand what you mean by costs,  
9 what costs are you talking about? Processing costs?

10          Q     Those are the things that you say the Postal  
11 Service incurs costs to handle, to process mail. I mean if  
12 a piece of single piece metered mail is handled the same way  
13 as a piece of single piece PC postage mail, that the postage  
14 is imprinted on the envelope by PC postage product, as  
15 opposed to being put on by a meter, but, otherwise, the  
16 addressing is the same, are those two pieces of mail not  
17 going to have the same cost incurrence for mail processing?

18          A     But you did say that the address is applied in the  
19 same manner?

20          Q     The same manner.

21          A     So they are both machine printed types of  
22 addresses?

23          Q     Either that or they are both handwritten,  
24 whichever you want, but the addressing is the same. The  
25 envelope is the same, the addressing is the same. The only

1 difference is that one has got a meter postage on it and the  
2 other one has got PC postage on it.

3 A I think that is what I basically said in my  
4 testimony, is that if a machine ~~im~~printed mail piece is  
5 going to be processed in the same manner that PC postage is.

6 Q Well, of course, we have just posited the question  
7 to you that said, all that we are saying is that the  
8 addressing is the same on both. It could be handwritten or  
9 machine printed, but they are the same on both.

10 A That hypothetical isn't even possible, I don't  
11 think. Can you put a handwritten address on a PC postage  
12 mail piece?

13 Q Not under your present rules, but, sure,  
14 mechanically, it can be -- you could configure it so it can  
15 mechanically be done. As a matter of fact, you are aware, I  
16 assume, that PC postage can be printed on a label, and the  
17 problem is currently, as I believe you understand, PC  
18 postage, this is not the case. PC postage products now  
19 cannot print the postage without printing also the address,  
20 cleansed address and the delivery point barcode, right? I  
21 was simply trying to get you to focus on the kind of postage  
22 that is on it, and what that has to do with the processing  
23 of the piece of mail.

24 Well, let me go on with this. Now, if you take  
25 this piece of mail, and the PC postage, and you add a

1 correct address to it, as PC postage does, and you add a  
2 delivery point barcode, I want to ask you why that does not  
3 achieve for the Postal Service the same efficiencies that a  
4 piece of Basic Presort mail accomplishes, except for the  
5 savings from the fact that it is presorted?

6 A Are you referring to the specific analysis that  
7 Witness Prescott did?

8 Q Well, now, so far, Mr. Miller, you have asked me  
9 more questions than I have asked you, and it is really not  
10 supposed to be that way.

11 [Laughter.]

12 THE WITNESS: I am just trying to follow what you  
13 are asking me.

14 MR. MAY: I understand.

15 CHAIRMAN GLEIMAN: I would have thought that you  
16 would have liked to have testified, Mr. May. The record  
17 would undoubtedly be better.

18 MR. MAY: I am really itching. If I can answer my  
19 own question, we would do this a lot more quickly.

20 [Laughter.]

21 BY MR. MAY:

22 Q Well, Mr. Miller, let's try to move this along.  
23 When you state that the Postal Service is currently not set  
24 up to capture any savings, that is your quote on page 30,  
25 just for clarification, do you intend to include barcoded PC

1 postage letters, not just other kinds like a PostNet type?  
2 You mean the open system, you intended to include E-Stamped  
3 and Stamps.com product in that statement, is that correct?

4 A Yes.

5 Q And does that mean that you simply haven't  
6 analyzed whatever cost savings there may be, or rather that  
7 you simply believe that they actually don't generate these  
8 efficiencies for the Postal Service?

9 A Well, I think I was basing it more on the path  
10 that they both traveled through the mail processing system.  
11 Where they are sorted to bins 5 and 6, they will be  
12 processed on an OCR ISS. Machine printed mail pieces in  
13 general are very -- there is a high likelihood that they are  
14 going to be resolved by that machine, and they don't have a  
15 barcode, and even though a PC postage mail piece does have a  
16 barcode, there is a high likelihood it will be processed on  
17 that machine as well.

18 Q Now, do you have your original testimony with you?  
19 If you don't, I will have --

20 A Yes, I do.

21 MR. MAY: For the convenience of the Commission, I  
22 will pass out the relevant page.

23 CHAIRMAN GLEIMAN: We appreciate that.

24 BY MR. MAY:

25 Q Do you have it?

1 A Yes, I do.

2 Q Now, of course, this testimony is already in the  
3 record, in the transcript. I would like you to refer to  
4 page 18 of your direct testimony, your Table 1. Now, in  
5 that table, is it not the case that you show that  
6 non-automation presort letters are 5.183 cents more  
7 expensive to process than automation Basic letters, and that  
8 is simply subtracting the 5.154 cents for automation letters  
9 from the 10.33 for non-automation letters and that gives you  
10 a result of 5.183 cents difference, do you see that, in your  
11 table?

12 A Actually, I am going to need to have that table  
13 because I don't have the updated version. Thank you.

14 Q To repeat the question, your table shows that  
15 non-automation letters, those being presorted, but  
16 non-automation, cost 5.183 cents more than automation Basic  
17 letters, do you see that?

18 A Yes. That isn't something I actually calculated  
19 in this table.

20 Q I know. But if you subtract one from the  
21 other, --

22 A Yes.

23 Q Yes, that is what we have. Now, isn't it not the  
24 case that this measures the approximate savings that is  
25 almost exclusively attributable to the fact that the

1 automation Basic presort letters are barcoded and  
2 automatable, whereas, the non-automation letters are not?

3 A No.

4 Q Well, both are sorted, are they not?

5 A Sorted to what level?

6 Q Well, the non-automation letters are sorted to all  
7 levels, I believe, and I will ask you about that later on.  
8 The automation Basic letters, I believe you will agree, are  
9 not sorted to 3 and 5 digits, are they? They are Basic  
10 sorted, that is what Basic means, isn't that right?

11 A Well, I think the reason I answered no is I stated  
12 on page 27 that the problem with comparing, making this sort  
13 of comparison is that the mail characteristics for  
14 non-automation presort letters are greatly different than  
15 those for automation letters.

16 Q Well, but in addition to the level of presorting,  
17 we will get into what these other characteristics are, I  
18 think you have said elsewhere that, among other things, that  
19 the non-automation letters are what? Well, you go ahead and  
20 tell us what you think the differences are.

21 A Well, if you look at the mail characteristics  
22 study that was completed in Docket Number R97-1, roughly 25  
23 percent of non-automation letters are processed manually  
24 completely through the system, whereas, automation Basic  
25 letters, by definition, are going to have to be machineable

1 and automation compatible.

2 Q So they would be, what, 100 percent machineable?

3 A 100 percent machineable.

4 Q Versus 75 percent. Isn't it another way of saying  
5 that 25 percent have to be handled manually? Doesn't that also  
6 mean that 75 percent are handled by machine?

7 A Yes.

8 Q In your testimony you call that, quote, "vastly  
9 different," do you not?

10 A Yes.

11 Q Do you really think 75 percent versus 100 is,  
12 quote, "vastly different"? It is on page 27 of your  
13 testimony.

14 MR. TIDWELL: Line 5.

15 [Pause.]

16 THE WITNESS: Well, actually, if you look at my  
17 direct testimony, Appendix 1, I do have some manual letter  
18 models, and if you look at the manual presort model, on  
19 Appendix 1, page I-36, the costs for that mail piece were  
20 9.675 cents versus the automation Basic model costs on page  
21 I-24 of 4.093 cents. To me, that is vastly different, over  
22 5 cents of a cost difference.

23 So to the extent that a fairly high percent of  
24 non-automation letters are processed manually, it could have  
25 a big impact on the costs for the aggregate rate category.

1 BY MR. MAY:

2 Q Well, the difference in this category in costs, we  
3 have just established is 5.1 cents, right? Between  
4 non-automation and automation Basic. Now, how much of that  
5 difference is accounted for -- it is your Table 1, Mr.  
6 Miller. We just went through this.

7 A Yes, and I did not rely on that comparison for  
8 anything in my direct testimony.

9 Q I just asked you to confirm that that is the  
10 difference in the costs between the two.

11 A I think I did that.

12 Q Now, that is the difference in the costs. Are you  
13 trying to suggest that that entire difference is due to not  
14 the fact that automation Basic is barcoded and automatable,  
15 but rather because of different mail characteristics?

16 A A lot of that difference could be because of that.

17 Q Well, then it might just be a little, if you don't  
18 know.

19 [Pause.]

20 Isn't that correct?

21 A I think I said I don't know how much of that cost  
22 would be due to no characteristics.

23 Q And then I said that that means there could be --  
24 it could just as well then be a little.

25 A Or it could be a lot; we don't know.

1 Q It could be either, right?

2 A Could be either.

3 Q Now, if you will direct your attention to pages 26  
4 and 27 of your testimony, where on those pages you criticize  
5 E-Stamp Witness Prescott's calculations of cost savings due  
6 to PC Postage, and compared to other forms of mail that PC  
7 Postage might have been, had not it been a PC Postage  
8 product.

9 And you have a criticism of the two methodologies  
10 that he uses. The first methodology that Mr. Prescott  
11 employed that you criticize, was his calculation of a cost  
12 savings of 6.15 cents per piece, the difference between what  
13 you call non-automation presort letters and, quote,  
14 "automation non-carrier route presort letters;" do you see  
15 that?

16 A Yes.

17 Q Now, would you confirm that Witness Prescott based  
18 these calculations on Library Reference LRI-81?

19 A The data that he used to make those calculations,  
20 I believe, did come from Library Reference LRI-81.

21 Q Yes.

22 And as a matter of fact, when Mr. Prescott was on  
23 the stand, he was cross examined by the American Bankers  
24 using that Library Reference as a cross examination exhibit.

25 I would like to hand you a portion of this Library

1 Reference from which Mr. Prescott's data is taken.

2 MR. MAY: And I will distribute a copy as well to  
3 the Commission.

4 [Pause.]

5 BY MR. MAY:

6 Q Now, by the way, this Library References labels  
7 these two categories of mail as presort automated letters  
8 and presort non-automated letters, not as you label it,  
9 automation, non-carrier route presort letters; do you see  
10 that?

11 A Yes.

12 Q Now, you have criticized the comparison of these  
13 two categories in order to derive a cost difference for PC  
14 Postage because you say that, quote, that while  
15 non-automation presort letters, that category, you say, well  
16 that is an actual CRA category. Presort automated letters  
17 contains the aggregate costs for automation basic,  
18 three-digit, and five-digit presort letters, in other words,  
19 it combines three rate categories; isn't that correct?

20 A Yes.

21 Q And you say that the level of presortation between  
22 these two categories is -- and again, this word that you  
23 like, quote, vastly, close quote, different because  
24 non-automation presort letters are presorted to either three  
25 or five digits, 70 percent of the time, while automation

1 presort letters are presorted to either three or five  
2 digits, 86 percent of the time.

3 Now, would you please explain why 70 percent is,  
4 quote, vastly, close quote, different than 86 percent?

5 That's what you mean when you say vast?

6 [Pause.]

7 A I think that is a big difference when you're  
8 talking about how it affects the cost.

9 Q Well, if that's what you think vast is, that's all  
10 we were trying to get in the record.

11 So that's all you mean by vast, is something, the  
12 difference between 70 percent and 86 percent, that's vast?

13 That's what you mean when you use the word, vast?

14 A In the sense that it would affect the cost.

15 Q And do you have any idea, if you believe that that  
16 cost difference would be any more than minimal, have you  
17 quantified it?

18 A I didn't attempt to quantify it.

19 Q So, again, you don't know whether the cost  
20 difference would be vast, which, of course, by the way, you  
21 were -- you used the term, vast.

22 It might not have to be very much difference; is  
23 that right, for it to be vast, the way you use the word,  
24 vast?

25 A It could result in a big difference. It depends.

1 Q Or a very slight difference, couldn't it?

2 A It could.

3 Q Thank you.

4 A For that particular characteristic.

5 Q Well, I know, but the point is that you have  
6 criticized his comparison of these two because you say they  
7 are vastly different, and yet you have conceded that the  
8 cost consequences of this difference, 70 percent versus 86  
9 percent, may not have anything more than a slight effect on  
10 the cost differences, or it might have a lot. You don't  
11 know.

12 A I didn't attempt to quantify it.

13 Q And you have also criticized the comparison  
14 because you say that non-automation presort letter mail goes  
15 up to 13 ounces, while automation presort letter mail is  
16 limited to 3.3 ounces, correct?

17 That's your other criticism; is it not?

18 A I did say that, yes, that the weight limits are  
19 different.

20 Q Yes. Now, what percent of non-automation presort  
21 mail weighs more than 3.3 ounces?

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

23 Q I see. So that might be inconsequential is well;  
24 is that right?

25 A I don't know the answer.

1           Q     You have said that Mr. Prescott erred because he  
2 used two different rate -- two categories of mail that were  
3 vastly different. Now, we find out that the two reasons you  
4 have criticized them for comparing these two -- in neither  
5 case are you able to testify that the differences as far as  
6 they affect cost would be anything more than slight. They  
7 might be great, but can't say whether they would even have  
8 anything more than a slight difference; isn't that the case?

9           A     I haven't attempted to quantify it.

10          Q     Now, on page 27, you criticize Mr. Prescott's  
11 adjustment where he tries to account for the value of  
12 presorting so that he can subtract that value from this cost  
13 difference because, of course, PC postage products are in  
14 the main not presorted. Theoretically they could be handed  
15 in presorted, but in all events, most of the time they are  
16 not.

17                   So does not Mr. Prescott try to adjust for that by  
18 reducing the cost difference he calculated so that he  
19 eliminates the value of presorting in his comparison? And  
20 you have criticized him for doing that, have you not?

21          A     Yes.

22          Q     In that effort, what he did was to calculate the  
23 difference between BMM letters, bulk metered mail letters,  
24 and, quote, "non-automated presort letters," and you say  
25 that BMM letters and non-automation letters are, quote,

1 "vastly different" because nearly 25 percent of  
2 non-automation presort letters are processed manually, while  
3 the vast majority of metered mail is machinable.

4 I think we had just previously gone through this,  
5 and you have already said, yes, you think that's a vast  
6 difference when one category is only -- is only processed by  
7 machine 75 percent of the time whereas the other category of  
8 mail, non-automation presort letters, are processed, quote,  
9 the -- whereas the, quote, vast majority of metered mail is  
10 machinable.

11 Do you see that? This is again on page 27.

12 A Yes.

13 Q Now, again that means that non-automation presort  
14 letters, they only have 75 percent machineable, correct? If  
15 25 percent is manual, then the other 75 percent is  
16 machinable.

17 A Yes.

18 Q Thank you.

19 And whereas you say the vast majority of metered  
20 mail is machinable.

21 Now, your use of the word "vast," what do you mean  
22 by vast majority? What is that percentage in this case?

23 A Well, I think if you look at the study from Docket  
24 Number R97-1, I think the reject rate going to manual  
25 operations on some automated equipment for the metered mail

1 was less than 2 percent.

2 Q Well, all right. Is it your testimony, then, that  
3 bulk metered mail is 98 percent machinable?

4 A I think that -- I would accept that.

5 Q And so -- and that's -- so versus 75 percent  
6 machinability for automated -- for presort non-automated  
7 mail; is that correct?

8 A That's correct.

9 Q And since he was comparing the two, you thought  
10 that was an improper comparison because the one category had  
11 a higher degree of what you call vastly greater amount of  
12 machinability than the other, whereas, in fact, it's 18  
13 percent more; is that -- or rather, excuse me, 23 percent  
14 more; isn't that correct?

15 A I think I already explained how big of a  
16 difference it can make in the cost, but I would also like to  
17 point out that there was a response to a question from  
18 Commissioner LeBlanc that basically asked why there would be  
19 virtually no cost difference between bulk metered mail  
20 letters and non-automation presort, and a lot of the  
21 differences were due to mail characteristics.

22 So in other words, if you're using that to sort of  
23 gage -- to try to determine a presort adjustment, you can  
24 deduct the other number by -- you're going to have a lot of  
25 other factors that are influencing that cost difference.

1 Q Well, actually I'm trying to track your testimony  
2 here, and if you will bear with me and just -- let me ask  
3 you, would this be equally true of single piece entered  
4 metered mail as distinguished from bulk metered mail, bulk  
5 entered metered mail? They are two different things, are  
6 they not?

7 A Yes.

8 Q And the benchmark that you have used in your  
9 tables, your benchmark, was bulk entered meter mail,  
10 correct?

11 A Yes.

12 Q And that's because a lot of the people who -- they  
13 don't have presorted mail, but they have metered mail and  
14 they enter a hundred, maybe more, at a time, not presorted;  
15 isn't that correct?

16 So I'm -- but there is also the instance of the  
17 single piece entered metered mail. For example, my office  
18 mail that my secretary meters and may send out today, that's  
19 a single piece entered piece of metered mail.

20 Now, my question is, is this equal -- is your 98  
21 percent factor of machinability true in the case of single  
22 piece entered metered mail?

23 A Well, actually I believe that data was just for  
24 metered mail in general, so it would probably -- it would  
25 apply to both.

1 Q Well, are you trying to suggest that single piece  
2 entered metered mail has a 90 percent machinability?

3 A Did you say 90 percent or --

4 Q I mean 98 percent machinability.

5 A I'm saying that the data that was collected in the  
6 library reference that I pointed to was for all metered  
7 letters. So it would have been like an average value for  
8 metered mail and -- or bulk metered mail and single piece  
9 metered mail.

10 Q But I am not asking you about that. I am asking  
11 you whether or not you're in a position to testify that --  
12 as you have about bulk metered entered mail or all metered  
13 mail, can you testify today that in the case of single piece  
14 entered metered mail, it has any higher degree of  
15 machinability than the 75 percent machinability of  
16 non-automation presort mail? Can you testify to that as a  
17 fact today?

18 A I don't think I said that was something I studied.  
19 I just said the 2 percent was for all metered letters. I  
20 don't have it disaggregated by single piece metered letters  
21 and bulk metered mail letters.

22 Q Well, because that's what I want to ask you about  
23 next. The point is, you don't know. I mean, for example --

24 A No, I haven't studied it.

25 Q -- if I hand-write ten letters today and

1 hand-address them, give them to my secretary, she puts a  
2 meter on them, because all our mail is metered, none of  
3 those are machineable, are they?

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

5 Q Yes. If I hand-address ten letters today and give  
6 them to my secretary and she takes them down and meters  
7 them, which is how we do postage and most offices do, drops  
8 them in the mail, they are now single piece metered --  
9 single piece entered metered mail, correct?

10 A Yes.

11 Q And none of them are machineable, are they?

12 A Well, it depends --

13 Q Every one handwritten.

14 A It depends. I think you're confusing the term  
15 machineable with the term automation compatible. They are  
16 machineable in the sense they can be put on a -- I mean,  
17 they might be machineable in the sense that they can be put  
18 on a postal mail-processing piece of equipment. When I said  
19 that the non-automation was 25 percent non-machineable, that  
20 means it gets processed manually completely through the  
21 system.

22 Q But why does it get processed manually completely  
23 through the system any more so than my handwritten letters,  
24 single entered, is going to get processed manually through  
25 the system? Explain why one would be more likely to be

1 manually processed than my handwritten letter.

2 A Well, in the mail characteristics study, the mail  
3 that's entered that is processed manually, it's processed  
4 manually because it can't be placed on a machine for  
5 whatever reason.

6 Q Well, --

7 A It could be the dimension, it could be -- now  
8 since January, you can actually specify on your label you  
9 don't want it processed on automation. But before, the data  
10 we collected, for whatever reason, 25 percent of it was  
11 processed manually through the entire system.

12 Q But do you have any reason to suppose that my  
13 handwritten letter using, you know, any kind of envelope I  
14 want as long as it's non-standard is going to have a higher  
15 machinability rate, as you use machinability, than the  
16 non-automation presort letters?

17 A I'm sorry, did you say that you use non-standard  
18 envelopes?

19 Q No, I said I might be any size of them, but I  
20 would presumably not use a non-standard.

21 A So you're using standard envelopes?

22 Q Which is what -- isn't that what non-automation  
23 presort letters are using?

24 A If you use standard-size letters, I would see no  
25 reason why they would not be machineable. If you look at

1 the mail characteristics study that was completed in Docket  
2 Number R97-1, 25 percent of non-automation presort letters  
3 were non-machineable.

4 Q Yes. And I'm asking --

5 A There could be a wide variety of reasons. It  
6 could have to do with the dimensions in the mail piece. I  
7 don't know the specific answer to --

8 Q Well, the point is, you simply -- I guess the  
9 bottom line is you simply do not know the machinability rate  
10 for single piece entered metered mail.

11 A I think I have said I don't know the disaggregate  
12 rates for metered single piece letters versus bulk metered  
13 mail letters.

14 Q Now, if you'll turn to Mr. Prescott's testimony at  
15 pages 8 and 9, and for the convenience of the Commission, I  
16 will distribute that. You have that?

17 A Yes.

18 Q Now, if you will look at Mr. Prescott's table 1 on  
19 page 8, under item 4, he says single piece bulk metered  
20 mail, and he has a cost per piece of 10.47 cents; is that  
21 correct?

22 A Yes.

23 Q But that's bulk entered metered mail, right, not  
24 single piece entered.

25 A That's what the cost is for.

1 Q Yes. Bulk metered mail, right?

2 Now, according to library reference I-81, which  
3 you have before you, first-class single-piece metered  
4 letters, single-piece entered, have mail processing costs of  
5 10.7 cents. Do you see that?

6 A Yes.

7 Q That's 3/10ths of a cent more per piece than bulk  
8 entered bulk metered mail; isn't that correct?

9 A Yes.

10 Q So that if Mr. Prescott had compared the mail  
11 processing costs of single piece entered metered mail with  
12 presorted non-automation metered mail, then the cost  
13 difference between those two categories, one piece being  
14 sorted, the other not sorted, would be .43 cents per piece,  
15 would it not, as opposed to the .13 cents that Mr. Prescott  
16 has on his table 1.

17 A It would, but that's not what's in his table.

18 Q Well, I know that, but I'm just saying, if he had  
19 used the single piece entered metered mail rather than the  
20 bulk entered, he would then have found a cost difference  
21 related to presortation of .43 cents and not .13 cents, and  
22 would you agree that had he done that, then that would have  
23 reduced Mr. Prescott's cost savings from automation down  
24 from 6.15 cents to 5.72 cents, correct? He would show less  
25 of a cost savings for PC postage mail; is that correct? I'm

1 not asking you to agree that he's correct at all, but that  
2 would be the result --

3 A If you perform that calculation, that's what would  
4 happen, but I wouldn't agree that that cost had anything to  
5 do with presort.

6 Q Well, I didn't ask you that yet.

7 A Well, that's what that line says, is the cost for  
8 presort.

9 Q Well, I know, but I didn't ask you whether you  
10 agreed with it. You have already testified that you don't,  
11 okay? So if you just follow the questions.

12 Now, would not the use of the cost difference  
13 between presort non-automation and single piece entered  
14 metered mail remove your objection that the comparisons are  
15 between categories where manual sortation is vastly higher  
16 for one than the other since you have admitted you don't  
17 know whether there is a higher degree of sortation -- a  
18 higher degree of manual sortation in the case of single  
19 piece entered?

20 A Would it remove my objection to the calculation?

21 Q That particular objection you made. That was one  
22 of the reasons you objected to his comparison.

23 A No, it wouldn't.

24 Q Why doesn't it eliminate that particular  
25 objection?

1           A     As I said, the 2 percent figure in terms of the  
2 amount of metered letters that are processed manually is an  
3 average for bulk meter mail letters and single piece letters  
4 and so you would have to apply it. Since that is the only  
5 data available I would have to apply it to both categories

6           Q     But you have admitted that you cannot testify and  
7 that you do not know whether in fact single entered metered  
8 mail has a higher manual, higher or lesser manual sortation  
9 rate. You have testified you cannot say whether it did or  
10 did not because you don't know.

11          A     I said I don't know the disaggregated value --

12          Q     That is what I am saying.

13          A     -- yes, that's true.

14          Q     So if that were the comparison he made, you  
15 wouldn't be able to level that criticism at that comparison  
16 because you don't know what the answer is.

17          A     Actually I would still have that criticism because  
18 the metered mail letters, single piece costs are for all  
19 metered letters whether they are bulk meter mail letters or  
20 not so that 2 percent average figure would technically apply  
21 to that specific cost.

22          Q     No, I beg your pardon. I have -- you just  
23 conceded that in the I-81 I handed you there is a separate  
24 cost for single entered metered mail and not bulk mail --  
25 single entered metered mail.

1 A That is not what that cost is for.

2 Q What is that for then?

3 A That cost is -- when they say single piece, that  
4 is the rate category, so it is all metered letters that are  
5 single piece, in the single piece category.

6 Q Entered not as bulk.

7 A No, it is for all metered letters, period, and  
8 actually our bulk meter mail letters benchmark that I have  
9 repeatedly said on my testimony interrogatories is really  
10 the cost for all single piece metered letters with one cost  
11 pool set to zero, so actually that 2 percent figure would  
12 apply to the costs that you were referring to, the 10.77  
13 cents.

14 Q Well, then is this simply mislabelled in your  
15 Library -- the Postal Service's Library Reference?

16 A It is not mislabelled. Single piece is the rate  
17 category that bulk meter mail letters and all metered  
18 letters for First Class would be entered in, with the  
19 exception that I guess some presort mail would be metered.

20 Q Well, there are two categories there, are there  
21 not? There is bulk metered and you have the Library  
22 Reference in front of you.

23 A Yes, I am very familiar with this, and there's --  
24 the only difference between those two costs of 10.77 cents  
25 and 10.47 cents is that one cost pool was set to zero,

1 because that is the best way that we had to estimate bulk  
2 meter mail letters' cost.

3 Q Well, now look at this, line 2 says FC single  
4 piece metered letters -- see that?

5 A Yes.

6 Q And above it, it says single piece bulk entered  
7 metered letters.

8 Now are you trying to tell me that single piece  
9 metered letters, those costs are the same costs as for bulk  
10 entered metered letters?

11 A What I am saying is that the First Class single  
12 piece metered letters costs are the costs they developed  
13 using the IOCS tallies for metered letters that were  
14 designated as being single piece, so it would be all metered  
15 letters whether they were bulk metered mail letters or not,  
16 if they were individual pieces or bundles.

17 In order to develop a bulk metered mail letters  
18 estimate, you cannot use IOCS or the CRA to specifically  
19 isolate that, so as an estimate we used the single piece  
20 metered letters cost of 10.77 cents and we set the  
21 cancellation of meter mail prep cost pool to zero, and that  
22 is the only difference there is between those two figures.

23 Q Now how did you calculate the three-tenths of a  
24 cent difference between --

25 A That is the value that was in the cancellation

1 meter mail prep cost pool, and by assuming that bulk meter  
2 mail letters are entered in trays by businesses or whatever,  
3 how they enter the facility, we were saying by setting that  
4 to zero that it bypasses that operation and so that is the  
5 estimate we used.

6 It is the same estimate that was used in Docket  
7 Number R97-1.

8 Q And your testimony is that the manual versus  
9 machinable rate is derived for the entire cost pool of  
10 single piece letters -- single piece metered letters?

11 A It was just for all metered letters no matter  
12 what --

13 Q No matter how, in other words --

14 A -- whether they were entered in bulk or whether  
15 they were entered as individual pieces and then trayed or  
16 whether they were entered as bundles and then unbundled and  
17 trayed. It would have been all metered letters.

18 Q So -- but it is just for one portion of the mail  
19 processing that you say there is this difference?

20 I mean you are not trying to suggest that the  
21 Postal Service's cost avoidance due from someone enters in  
22 bulk 100 letters in bulk in a tray so that you don't have to  
23 pick them up or anything, they are handed to you in bulk,  
24 and that is how they are entered, that the total, sum total  
25 difference in the cost of that and my handwritten metered

1 letter which is dropped in a collection box, that the  
2 difference is three-tenths of a cent?

3 That's your testimony?

4 A That's the best methodology we could come up with  
5 to develop that estimate and really if you throw a metered  
6 letter in a collection box the only operation it is going to  
7 go through before it gets into a tray is cancellations,  
8 which is the operation we set to zero.

9 Q Well, I mean there indeed are other things that  
10 have to be done. Somebody has to pick it up. Somebody has  
11 to bring it to the post office. All that has to be done,  
12 doesn't it?

13 A Well, that's true, but these are mail processing  
14 costs.

15 Q I know. That's what I asked you to say. It is  
16 just this one phase of that operation --

17 A That's true.

18 Q It's only the mail processing cost differences you  
19 are trying to measure?

20 A Yes, correct.

21 Q And so -- and you believe that, I mean that is  
22 your testimony that this percentage in difference in  
23 machinability, the 75 percent versus 98 percent, is so vast  
24 it would absolutely skew all the numbers if you were to  
25 compare, make a comparison?

1           A     I haven't performed such an analysis but I think I  
2 already said that there is a big difference. It was five  
3 cents between a manual letter model cost and the automation  
4 basic letter model cost.

5           Q     I know, but that isn't what -- that is not what I  
6 asked you.

7                     What I asked you was whether or not you could  
8 isolate a cost difference because -- due to the fact that  
9 these were different machineable rates, and you told me that  
10 no, you couldn't, that in fact it could be great or it could  
11 be slight, you didn't know.

12          A     I hadn't done that analysis. I hadn't undertaken  
13 such an analysis.

14          Q     You don't know, do you?

15          A     I don't know the answer.

16          Q     All right. Now I would like to take you to Mr.  
17 Prescott's alternative method for estimating the savings  
18 cost for barcoded PC mail, which is on page 9 of his  
19 testimony, which you have before you.

20                     On page 27 of your testimony you say he used mail  
21 processing and delivery unit cost data that was found in  
22 your direct testimony, do you see that?

23          A     Yes.

24          Q     And as you state there, this estimate was  
25 calculated to be the mail processing and delivery unit cost

1 differences, not just mail processing, but mail processing  
2 and delivery unit cost differences between non-automation  
3 presort letters and automation Basic presort letters. You  
4 then go to say, "For the reasons discussed above, the  
5 approach to calculate the second savings estimate is just as  
6 flawed as the approach used to calculate the first."

7           Please tell us what, "the reasons discussed above"  
8 are.

9           A     The differences between automation presort letters  
10 and non-automation presort letters. That a greater percent  
11 is processed manually, that there are different weight  
12 limitations, that there is bundle sorting for non-automation  
13 presort letters. There are a lot of differences between  
14 those two types of mail.

15           Q     Well, now we are not talking -- but now we are  
16 comparing non-automation presort letters and automation  
17 Basic. Before we were comparing Bulk Metered Mail. I am  
18 not talking about that. We are talking here about a  
19 comparison of non-automation presort letters and automation  
20 Basic presort letters. Now, it is --

21           A     That is not true. On Table 1 it compares  
22 non-automation presort letters to automation non-carrier  
23 route presort letters. And he does the same thing in Table  
24 2 with the exception it is just one automation rate  
25 category, it is not the combined cost for three of them.

1 Q His first comparison is to non-automation presort  
2 letters and to automation Basic presort letters, is that not  
3 the case in Table 2? That is what we are talking about.

4 A But you said in Table 1 he was comparing it to  
5 both meter mail letters, and that is not true. He compares  
6 the non-automation to automation letters, it is the same sort  
7 of comparison.

8 Q Well, in step 1, yes.

9 A Yes.

10 Q Now, let us take this particular comparison.  
11 Isn't it the case that automation Basic presort letters do  
12 not include sortation at the 3 or 5 digit level?

13 A That's true.

14 Q Now, non-automation presort letters do contain 3  
15 and 5 digit sort, correct? In fact, I believe that was one  
16 of the points you made out is that --

17 A Yes, that is true.

18 Q Now, if indeed the non-automation presort level  
19 did not have 3 or 5 digit sorts in it, then it would be even  
20 more expensive, would it not? I am not saying how much, but  
21 it would be more costly if it didn't have that higher level  
22 of presortation?

23 A Yes.

24 Q And, therefore, if you were to remove that level  
25 of presortation, by increasing the costs of that, you would

1 actually show a greater cost difference between presort  
2 level, between non-automation presort and Basic presort.  
3 So, in other words, the higher -- is it not the case that  
4 the higher degree of presorting in the non-automation  
5 presort category actually masks the full value of automation  
6 because --

7 A I don't think that is true because I have already  
8 stated there are other issues with using non-automation and  
9 comparing that as a benchmark to automation letters.

10 Q Well, but the point is, and you have conceded that  
11 non-automation presort is more highly presorted than basic  
12 automation is. And so, whereas, if they had the same degree  
13 of presortation, and you were trying to then isolate, well,  
14 what are the other differences, what were the costs, then  
15 you would be able to assign what the differences were.  
16 Well, one is automated, barcoded and all that, and whatever  
17 these other characteristics are, you see. But it does tend  
18 to mask the true dimensions of the cost difference due to  
19 factors other than presortation because the one is more  
20 highly presorted than the other, does it not?

21 A Well, if you look at the mail characteristics,  
22 roughly half of the manually entered -- or the manually  
23 processed volumes in non-automation presort were sorted to 3  
24 and 5 digits, and the fact that they are sorted manually, I  
25 just don't think that is a valid point of comparison to

1 compare that to automation Basic letters. They may be  
2 sorted to 3 and 5 digits, but they are still processed  
3 manually, which involves a much greater cost.

4 Q Well, but the fact of the matter is that the fact  
5 that they are sorted to a greater degree does, does it not,  
6 help reduce the costs of automation -- of non-presort -- of  
7 non-automation presort?

8 A Well, if the non-automation letters were not  
9 sorted to 3 and 5 digits, the unit costs would have been  
10 higher.

11 Q That is what I am saying. Therefore, to the  
12 extent that you are trying to isolate what the value of  
13 automation is, that whatever the value is, it would be  
14 greater, it would be shown to be greater than Mr. Prescott  
15 has assessed it if there were less, not more presortation in  
16 the category that he is comparing it with? In other words,  
17 it doesn't prejudice his results, the fact that one is  
18 presorted more heavily than the other. There may be other  
19 faults, but that, would you not agree, does not prejudice  
20 his results?

21 A If you use Witness Prescott's methodology, which I  
22 have already stated why I don't agree with it, and the costs  
23 for non-automation presort, or the level of presortation for  
24 non-automation presort did not exist, and the costs were  
25 higher, then the savings would be higher.

1           Q     Now, after criticizing both of Mr. Prescott's  
2 approaches that he used, you state on page 27, "a more  
3 appropriate approach would have been to determine a  
4 benchmark cost for the mail mostly likely to convert to PC  
5 postage and then estimate the Postal mail processing cost  
6 avoidance as a result of such conversion. Witness Prescott  
7 has not completed such an analysis. As a result, he has  
8 improperly estimated the PC postage worksharing related  
9 savings."

10                   Are you saying that information is available in  
11 Postal records that would permit a reasonable estimate to be  
12 made of the costs of the mail most likely to convert to PC  
13 barcoded products? Are you saying that that data exists?

14           A     I don't think I said that.

15           Q     Well, you have criticized Prescott for not doing  
16 it in the right way. I am asking you, do you have the data  
17 that would have permitted him to do it?

18           A     I don't think there is any data on the record that  
19 would --

20           Q     No, I am saying, over at the Post Office, do you  
21 guys over there, in that vast vault and treasure house of  
22 information, lost in various nooks and crannies, is it there  
23 somewhere?

24           A     There is some data that could probably be used for  
25 some parts of that analysis, but I don't think you'd have

1 all the data you need.

2 Specifically, I don't think anybody has studied  
3 the costs related to PC Postage, so you wouldn't have any  
4 means to develop that sort of cost model.

5 Q Well, I'm going to show you your answer, your  
6 revised response to E-Stamp Interrogatory 24-2.

7 And 24-2 asked you for some basic information on  
8 handwritten First Class letters and all that.

9 And your response -- and I'll pass a copy out for  
10 everyone.

11 MR. MAY: It is in the record, Mr. Chairman.

12 [Pause.]

13 BY MR. MAY:

14 Q Now, you see here, Mr. Miller, your answer goes on  
15 at some length here, does it not, explaining all of what  
16 would have to be done just to get some bits and pieces of  
17 what you say should be done to do this correctly; does it  
18 not?

19 A Yes.

20 Q And it goes on about how many days and weeks it  
21 would take you to do this particular function. This is you,  
22 the Postal Service, to do this, not a private party, but  
23 you, the Postal Service person.

24 If you were to do this great expense, time, and  
25 possibly you wouldn't have the job done then; would you?

1 A I'm not sure what you asked.

2 Q Well, you said that Mr. Prescott has improperly  
3 calculated the cost differences to determine the value of  
4 the cost savings from PC Postage products.

5 And you -- I'm asking you, well, what would be  
6 necessary to do it the proper way?

7 Was -- was it possible, given the answer you have  
8 put into E-Stamp's Question 2 you have in your hand -- would  
9 it have been possible for Mr. Prescott to do it, quote,  
10 properly?

11 A That would be a question for Witness Prescott to  
12 answer.

13 Q No, it would not, Mr. Miller. The question is  
14 being asked to you, and it's being asked to you in light of  
15 this answer which you have made here which says that you do  
16 not know this, you do not know that, and it would take you  
17 so much time and expense to even get little bits and pieces  
18 of this, all of which you have said are necessary in order  
19 to do this correctly, i.e., to find out what the costs are  
20 of the candidate mail that would convert, among other  
21 things.

22 Isn't that what you've said there?

23 A I think it's a list of things that would have to  
24 be done to develop an estimate, in my opinion.

25 Q You mean that you would have to do?

1 A That the person that supported a proposal would  
2 have to do.

3 Q Well, could any private party do it?

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

5 Q Now, just a few more questions. If look at page  
6 29, line 13, you state there that mail processing operations  
7 are not likely to change.

8 If that is true, do you see any reason why PC  
9 Postage open system products should continue to be required  
10 to produce machine-printed addresses which have been  
11 cleansed against the ~~AMS CD~~ <sup>AMS CD</sup> to print delivery point post net  
12 bar codes, if these mail pieces are creating little or no  
13 savings for the Postal Service?

14 Why do they have to keep doing it?

15 A I think that's a question that Witness Gordon  
16 would probably be better off answering. I think a lot of  
17 his testimony dealt with security, if I recall correctly, in  
18 terms of how PC Postage products have evolved to what they  
19 are today.

20 My only comment was that when you look at the way  
21 the system's currently configured, there's little to no  
22 savings except for the bar code.

23 Q Now you further say on page 29, lines 21 and 22,  
24 quote, since machine-printed mail is also sorted to Bins 5  
25 and 6, the FIM-D has little impact on how the mail piece is

1 sorted on the AFCS as the operation is currently configured.

2 And you further say that if the FIM-D does not  
3 meet DMM specs, then the PC Postage mail piece will still be  
4 sorted to Bin 5 and 6. Is that what you say there?

5 A Yes.

6 Q If there were no FIM used at all, would that mail  
7 still be sorted to Bins 5 and 6?

8 A As the system is currently configured, it would.

9 Q Then is there any reason for PC Postage products  
10 to have to print an FIM, if the intended bins for PC Postage  
11 mail pieces are Bin 5 and 6 anyway?

12 A I don't think I'm really the one to answer that  
13 question. I mean, it depends on what long-term plans are.

14 I don't really know why they require that.

15 Q No, you're the operations person. This is a  
16 question to you. You're the one who said that these things  
17 end up in that Bin no matter whether there is a FIM on it or  
18 not.

19 And, therefore, it seems to me that you as the  
20 person who is in charge of these operations where this mail  
21 goes, and how it goes there, should be responsible for  
22 telling someone, forget it, we don't need a FIM.

23 Do you know how much it costs them to put FIM  
24 markings on these envelopes?

25 A No, I don't.

1 Q Are you aware that a lot of printers just say  
2 forget it; we will not print FIMs. They can't print on the  
3 edge.

4 Do you have any knowledge of that?

5 A No.

6 Q Do you have any knowledge of whether you would  
7 recommend to somebody that they get rid of the FIM because  
8 it's a needless burden on the PC Postage product users?

9 A I wasn't here to speak as an operations policy  
10 witness. I'm evaluating -- I'm explaining why, given the  
11 current configuration of the equipment, there would be  
12 little to no cost difference.

13 Q Now, you implied there is no savings at the  
14 present time because of the way you process the mail, and  
15 that you therefore -- it's one of the reasons you're opposed  
16 to a discount; isn't that right?

17 A Yes.

18 Q Okay. Does the Postal Service save money by  
19 having PC Postage vendors handle all customer refund  
20 requests for PC Postage?

21 A I don't know. I haven't evaluated that.

22 Q Does the Postal Service save money by not having  
23 to print, transport, and distribute stamps when PC Postage  
24 is used in place of stamps?

25 A I don't know the answer to that, either, because

1 some mail pieces might have been metered before, so it may  
2 have had no impact on stamp costs. It's something I haven't  
3 evaluated.

4 Q Well, are you able to tell us whether if the  
5 candidate pieces that converted had stamps on them, do those  
6 save money for the Postal Service?

7 A It would result in some sort of savings to the  
8 Postal Service, but I have no idea how much that would be.

9 Q Does the Post Office save money with PC Postage by  
10 reducing fraud?

11 A I haven't studied that, either.

12 Q Does the Postal Service save money by having fewer  
13 returned mail pieces due to non-deliverable addresses?

14 A I haven't studied that, either, and I think we  
15 actually asked Witness Hazelton -- was that who we asked  
16 that question of on the stand about whether any study had  
17 been done before and after to see if the percent of return  
18 of forwarded mail had decreased, and I don't think anybody  
19 else has studied that, either, from what I recall.

20 Q Does the Postal Service gain revenue from new  
21 business that you get because of the PC Postage product?

22 A I would think they would gain revenue from any new  
23 business.

24 Q Does the Postal Service gain revenue from the sale  
25 and licensing of ~~AMS6Ds~~<sup>AMS CDs</sup>, which are required for PC Postage

1 vendors to use in their products at a cost of \$6.67, two to  
2 three times a year?

3 MR. TIDWELL: Mr. Chairman, this well outside the  
4 scope of this rebuttal testimony of this witness.

5 MR. MAY: It is not. Mr. Chairman, this witness  
6 testified that he is opposed to a discount because PC  
7 Postage has little or no savings to the Postal Service at  
8 this time; that's his testimony.

9 MR. TIDWELL: And he's talking about mail  
10 processing savings, and he doesn't discuss CD ROM sales or  
11 any of those technical aspects of the program that may  
12 generate revenue.

13 MR. MAY: He did not so limit his statement, Mr.  
14 Chairman.

15 CHAIRMAN GLEIMAN: I'm going to all the cross  
16 examination to continue on. It's moving so nice and quickly  
17 now.

18 [Laughter.]

19 BY MR. MAY:

20 Q Are you aware that the vendor has to pay \$16,000  
21 to the Postal Service to get a license to be a vendor?

22 A I don't know anything about how much they pay.

23 Q Okay, is the Post Office charging vendors for the  
24 use of digital certificates issued by the USPS Certificate  
25 Authority? It cost them \$8 a customer. Do you know

1 anything about that?

2 A I don't know anything about it.

3 Q Does the Postal Office make money from a fee  
4 charged to vendors when a customer is signed up through a  
5 Post Office retail office, like at \$30 a customer?

6 Do you know anything about that?

7 A I'm sorry, could you repeat that last one?

8 Q Yes. When a postage vendor gets a customer,  
9 because the customer signed up for it at a retail Post  
10 Office, does the Post Office get a commission like \$30 a  
11 customer?

12 A I don't know anything about that.

13 Q You don't know anything about that, either.

14 Would you say mail pieces produced by PC postage  
15 open system products costs the Postal Service less than mail  
16 pieces that use regular stamps, just as a generic question?

17 A What kind of costs are you referring to?

18 Q Any costs that you have, any costs the post office  
19 incurs.

20 A I'd have to -- I don't know the answer to that  
21 question.

22 Q Well, let me phrase it a different way. Would  
23 there be any increase in costs to the Postal Service if PC  
24 postage open system products did not perform address  
25 cleansing, create delivery point post-net bar codes, and

1 imprint FIM D on their envelopes? Suppose they didn't do  
2 any of that, would that cause an increase in the cost of the  
3 Postal Service?

4 A I think a lot of what you were saying there is if  
5 it basically reverted back to a machine-printed mail piece.  
6 That's what the point of my testimony was, is there would be  
7 little to no savings associated with a lot of those  
8 characteristics the way the system is currently configured.

9 Q So it wouldn't cost you anything, right, if they  
10 did that? That's what your testimony is, it wouldn't cost  
11 them anything?

12 A It wouldn't cost who anything?

13 Q Wouldn't cost the Postal Service any more. Is  
14 that what you're saying?

15 A I think what I was saying was that, as I said  
16 repeatedly, the cost differences between a machine-printed  
17 mail piece and PC postage mail piece as the system is  
18 currently configured would result in little to no savings.

19 Q Well, if the postage vendors can avoid doing all  
20 those things and it won't cost you any more money, isn't it  
21 preposterous for you to impose the severe costly burdens on  
22 PC postage vendors when, if you're correct in your  
23 testimony, the Postal Service is getting no benefit from it?  
24 Now, you can answer that question, can't you?

25 A Well, my testimony is only geared towards the mail

1 processing savings, and as I said before, I think Witness  
2 Gordon is probably better qualified to answer your questions  
3 in terms of how the PC postage products have evolved to  
4 their current state.

5 MR. MAY: That's all, Mr. Chairman.

6 CHAIRMAN GLEIMAN: Thank you, Mr. May.

7 We're going to take a ten-minute early-afternoon  
8 break. When we come back at 25 after the hour, we're going  
9 to go for another hour to an hour and a half, and then we're  
10 going to break sometime between 1:30 and 2:00 for lunch.

11 MR. TIDWELL: Mr. Chairman, may we confer about  
12 the schedule? I can understand working on this pace if we  
13 had a series of witnesses here, but I'm sort of leery about  
14 having the witness take a break and go for another hour and  
15 a half, two hours.

16 I was hoping we might be able to break it up a  
17 little bit more than that. Granted, I'm as eager as anyone  
18 to wrap the day up.

19 CHAIRMAN GLEIMAN: I'm not sure I understand.  
20 What I'm saying is we're taking a ten-minute break now,  
21 we're going to come back, we're going to continue with cross  
22 examination. The next party to cross examine is Major  
23 Mailers. We're going to go for an hour to an hour and a  
24 half after that, okay, depending on when is an appropriate  
25 time to either -- you know, when Major Mailers finishes or

1 there is an appropriate point to break in Major Mailers'  
2 cross examination, at that point, we'll take some time off  
3 for lunch.

4 I know that we have some other considerations with  
5 this witness and we'll have to deal with those later in the  
6 day.

7 I'm not sure I understand what your point --

8 MR. TIDWELL: I wasn't referencing the issue  
9 related to later testimony; it was --

10 CHAIRMAN GLEIMAN: Listen, it's a ten-minute break  
11 starting now, except for me and Mr. Tidwell while we figure  
12 this out.

13 [Laughter.]

14 CHAIRMAN GLEIMAN: We're still on the record,  
15 we're going to come back at 25 after the hour and continue,  
16 everybody else. Mr. Tidwell and I will continue to try and  
17 sort out whatever it is that seems to be the problem. I  
18 thought I was reasonably clear, but maybe not.

19 We're still on the record.

20 Mr. Tidwell, do you understand or do I --

21 MR. TIDWELL: I understand, Mr. Chairman. I was  
22 just concerned about the burden on the witness going for as  
23 long as he will go without a lunch break.

24 CHAIRMAN GLEIMAN: Well, he's going to get a lunch  
25 break. He's got ten minutes now, he can go do what he wants

1 in ten minutes, including eat lunch quickly. It's no  
2 different than the burden that I'm placing on myself and you  
3 and the court reporter, and I know that it's more difficult  
4 for a witness than it is for me or you, but not so  
5 necessarily for the court reporter. He'll get a chance to  
6 eat his lunch when we break sometime between 1:30 and 2.

7 MR. TIDWELL: And all I wanted was an opportunity  
8 to check on his status and confirm that everything is okay  
9 before committing, and --

10 CHAIRMAN GLEIMAN: It's not a matter of you  
11 committing; that's what we're going to do, okay?

12 MR. TIDWELL: Well, that's clear, but I just  
13 wanted an opportunity --

14 CHAIRMAN GLEIMAN: Okay. It's pretty clear what  
15 we're going to do, then. There's only a matter of when the  
16 lunch break is going to come, whether it's going to come at  
17 1:30 or 2, but it's going to -- those are the extremes. It  
18 may be somewhere in the middle.

19 So see you in a few minutes.

20 [Recess.]

21 CHAIRMAN GLEIMAN: Mr. Hall, before you begin, let  
22 me say that I just issued a ruling on the joint motion to  
23 strike some of the Postal Service revisions in response to  
24 ruling -- and I can't remember -- I think it was 116.

25 MR .HALL: Correct.

1           CHAIRMAN GLEIMAN: That relates to the earlier  
2 exchange this morning regarding Witness Clifton and his  
3 original or revisions to rebuttal testimony, and I want you  
4 to know that I have denied the motion to strike, which means  
5 I suspect that when we get to that point in time, you will  
6 be presenting Mr. Clifton's, Witness Clifton's revisions; is  
7 that correct?

8           MR .HALL: That's my understanding of what was in  
9 play earlier today.

10           CHAIRMAN GLEIMAN: And hopefully, because Mr.  
11 Miller is also in play with respect to the Clifton  
12 testimony, he will have had a chance to leave the stand,  
13 recover, review the revised material, and reappear at the  
14 side of his trusty Postal Service counsel when it becomes  
15 time for them to cross-examine Witness Clifton later  
16 tonight.

17           So I just wanted to mention that.

18           Mr. Hall, with that, if you wish to proceed, you  
19 may.

20           MR .HALL: Thank you.

21                           CROSS EXAMINATION

22           BY MR. HALL:

23           Q     Good morning, Mr. Miller. My name is Mike Hall,  
24 I'm going to be asking you some questions on behalf of the  
25 Major Mailers Association.

1 I have reviewed corrections that you have made in  
2 your testimony and I listened to additional corrections you  
3 made today, but I would like to see if those are really all  
4 the corrections you have.

5 Would you look at page 2 of your testimony,  
6 specifically the table 1, the MMA savings for non-auto. Do  
7 you see that?

8 A Yes, I do.

9 Q Is that supposed to be 2.45 cents, according to  
10 you?

11 [Pause.]

12 Perhaps we could cut through this. Would you  
13 accept subject to check that the correct number should be  
14 .245 cents?

15 A Yes, I would.

16 Q I would now like to hand you a copy of an  
17 interrogatory response from the Postal Service of an  
18 interrogatory that was originally directed to you.

19 The document I have handed you, Mr. Miller, is  
20 Major Mailers interrogatory MMA/USPS-T24-3. Do you recall  
21 getting that interrogatory?

22 MR .HALL: While the witness is looking at it, let  
23 me say that it's already in the record at -- the relevant  
24 portions -- at transcript page 8903.

25 THE WITNESS: Yes, I recall receiving this.

1 BY MR. HALL:

2 Q Do you see there that we are asking you several  
3 questions about BMM?

4 A Yes.

5 Q Do you see that one of the questions that we asked  
6 you about BMM was what volume of first-class letters was  
7 entered as BMM during the base year? If you look at  
8 sub-part D.

9 A Yes.

10 Q And do you see -- well, first, do I take it that  
11 you redirected this to the Postal Service as an institution  
12 because you didn't know the answer?

13 A I think that was the reason, in addition to the  
14 fact that I hadn't really talked about the mail  
15 characteristics of BMM in my testimony. But I definitely  
16 didn't know the answer to these questions.

17 Q Now, when you did send this off to the  
18 institution, do you recall who sent it to?

19 A No, I don't.

20 Q Did you instruct them to call up engineers that  
21 you knew at various plants throughout the country to use as  
22 a source for getting a response to this interrogatory?

23 A I don't know if I could have really suggested that  
24 because I doubt that any engineers in plants that I know  
25 throughout the country would have had responses to these

1 questions.

2 Q Well, isn't that one of the things that you told  
3 Mr. Hart that you did to verify the existence of BMM that  
4 you report in your rebuttal testimony?

5 A Yes, that's true, but I don't see a question on  
6 here that says does BMM exist. This is prior, I would  
7 believe, to you filing your case where Witness Bentley  
8 stated that he doubted that BMM letters still exist.

9 Q Well, does it look like we're asking for  
10 information about BMM? We've already crossed that bridge,  
11 haven't we?

12 A Yes. You've asked --

13 Q And we asked specifically for the volumes in the  
14 base year.

15 A Yes.

16 Q Now in your rebuttal testimony, you finally come  
17 forward and give us what purport to be volumes for Fiscal  
18 Year '99, correct?

19 A They are volumes for the 020 and 020 bypass MODS  
20 operations numbers.

21 Q Okay. Well, anyway, you didn't instruct whoever  
22 it was you handed this off to back in -- by the way, this  
23 was filed on February 7 and the response came back February  
24 22. I'm going to testify to that.

25 But when you sent this out to somebody, you didn't

1 say send out a bunch of e-mails, did you, so that we can get  
2 the answer to this?

3 A Well, once again, the task that I went through to  
4 verify the very existence of BMM, I don't know if that would  
5 have been something that I would have instructed somebody  
6 had they asked me what they should do to get these answers  
7 because I don't know anybody in the field who would have had  
8 the specific answers for the bulk metered mail letters as a  
9 whole.

10 Q Well, you're familiar with the discovery process,  
11 aren't you, having answered questions?

12 A If there was something I was confused about I  
13 would talk to one of the lawyers in the legal department.

14 Q If you had responded with a number on February 22  
15 when the Postal Service responded, quote, "The Postal  
16 Service does not collect and maintain volume data specific  
17 to bulk metered mail, BMM letters" then people could have  
18 asked you additional questions about that or asked the  
19 Postal Service, couldn't they have?

20 A I'm sorry, could you repeat that question?

21 Q If you had provided or the Postal Service had  
22 provided a specific number, as you are now doing in your  
23 rebuttal testimony, then people could have submitted  
24 follow-up questions to you, couldn't they have?

25 A Well, I think when I was answering question for

1 the ABA and NAPM I indicated that there are some mail  
2 volumes other than bulk metered mail letters that fall into  
3 the ~~02~~<sup>020</sup> and 020 bypass but bulk metered mail letters would be  
4 in the 020 bypass total volume, so that wouldn't have been a  
5 volume specific to bulk metered mail letters.

6 Q Okay, so that is the distinction there, the word  
7 "specific" -- so in other words, that is why we didn't get  
8 the information that you are now providing in your rebuttal  
9 testimony.

10 A Well, the question actually asks --

11 Q Back in February.

12 A -- what was the average volume per BMM mailing  
13 during the base year and what volume of First Class letters  
14 was entered as BMM during the base year.

15 I don't know that we would have specific numbers  
16 for BMM by itself.

17 Q Right. Now you had some conversation with Mr. May  
18 about one cost pool that was set to zero in your analysis,  
19 is that right?

20 A Yes.

21 Q Is that the ~~1 CANCANSMP~~<sup>1 CANCMMMP</sup> cost pool?

22 A Yes.

23 Q And if it were set -- it was originally recorded  
24 .30 and that represented mail preparation -- mail  
25 acceptance, for example, culling, facing, cancelling

1 activities for --

2 A Those were the tasks it represents. It's .3 in  
3 the volume variability methodology supported by the Postal  
4 Service but I believe Witness Bentley used the PRC version,  
5 so it would have been, I think it was .5 cents.

6 Q Well, okay, but sticking with your version for the  
7 time being --

8 A From my version it was .3 cents.

9 Q .3 cents, and if you had used the .3 that would  
10 have been a metered mail benchmark, is that right?

11 A Had I added it back in?

12 Q Yes.

13 A Yes.

14 Q Okay. Now I was playing around with your analysis  
15 here, and am I correct that if I substituted -- by the way,  
16 the 1CANCMPP cost pool is Cost Pool 21? Is that right?

17 A Yes, in my analysis it is.

18 Q If I set that cost pool in I believe the  
19 electronic version of your analysis Library Reference 162 to  
20 .30, do you know what the effect of doing that would be on  
21 your work share cost savings as shown on page 1 of that  
22 Library Reference?

23 A Well, if you add .3 cents into the benchmark that  
24 isn't there in my analysis it would obviously for  
25 nonautomation presort letters and automation basic presort

1 letters -- no, I'm sorry. You were talking in my analysis?

2 Q Yes.

3 [Pause.]

4 THE WITNESS: In my analysis it wouldn't have had  
5 any impact because I classified that cost pool as not work  
6 share, unrelated.

7 BY MR. HALL:

8 Q Right, so in other words it didn't matter what  
9 benchmark you used, did it?

10 I could have substituted in there the cost of a  
11 Whopper?

12 A In my analysis it wouldn't have had any impact.

13 Q Right.

14 [Pause.]

15 BY MR. HALL:

16 Q Mr. Miller, do you know how the Postal Service  
17 requires workshare mailers to present their mail?

18 [Pause.]

19 BY MR. HALL:

20 Q Let me be more specific. They are required to  
21 present them in trays, isn't that correct?

22 A For letters and cards, that is correct.

23 Q And they are required to sleeve the trays, aren't  
24 they?

25 A That's correct.

1 Q And they are required to band the trays, aren't  
2 they?

3 A That is correct.

4 Q And they are required to label the trays?

5 A That is correct.

6 Q And they are required to sort the trays?

7 MR. TIDWELL: Mr. Chairman, the Postal Service  
8 objects to this line of questioning. It goes well outside  
9 the scope of the rebuttal testimony on the issue of First  
10 Class workshare.

11 The witness's rebuttal is focused entirely on the  
12 question of the existence of bulk metered mail. Now we are  
13 getting into questions relating to mail prep requirements  
14 which are well beyond the scope of his testimony here today.

15 MR. HALL: Well, among other things, the witness  
16 has criticized Mr. Bentley for not using bulk metered mail  
17 as a benchmark and departing from what he characterizes as  
18 the Commission approved methodology.

19 I just have gone through with the witness and he  
20 has confirmed that in fact it didn't matter what benchmark  
21 he used under his methodology it would still -- he could  
22 have used single piece mail, he could have used, as I said,  
23 a Whopper. That was absolutely irrelevant and now I am  
24 going through with him various items that are in fact  
25 included in mail preparation which he left out of his

1 analysis or set to zero.

2 MR. TIDWELL: I don't recall the witness saying  
3 that it was irrelevant. I think it was the witness saying  
4 that because of his methodology --

5 MR. HALL: I didn't --

6 MR. TIDWELL: -- it had no impact whether he used  
7 the bulk metered mail benchmark or single piece benchmark  
8 because of the cost -- the .3 cent cost that was just  
9 discussed, but now we are getting into the whole notion of  
10 what are the mail preparation requirements for workshared  
11 mail, which is well beyond the very narrow scope of the very  
12 narrow issue this witness has addressed with respect to  
13 workshare in his testimony.

14 CHAIRMAN GLEIMAN: I'm not exactly sure where Mr.  
15 Hall is going. He may be able to establish with these  
16 questions, some cost differentiation, and I'm going to allow  
17 him to continue for awhile, at least until I'm ready to  
18 break for lunch.

19 [Discussion off the record.]

20 BY MR. HALL:

21 Q So, where were we, Mr. Miller? Have we gotten up  
22 to pallets yet?

23 In appropriate circumstances where mail volumes  
24 are large, workshare mailers are required to palletize their  
25 mail; aren't they?

1           A     I'm not really sure what the specific palletizing  
2 requirements would be.

3           Q     And then you wouldn't know if they are required to  
4 stretch-wrap the pallets?

5           A     No, I'm not really aware of what the specific  
6 requirements are for pallets.

7           Q     You wouldn't know whether they were required to  
8 sort the pallets?

9           A     No, I would not.

10          Q     And you wouldn't know whether they were required  
11 to Ag Tag the pallets or place DNR tags on them?

12          A     No.

13          Q     Do you know what a DNR tag is?

14          A     Yes.

15          Q     What is it?

16                [Pause.]

17          A     Actually, I'm thinking of the <sup>AG</sup>Ag Tag that's  
18 required. I wouldn't want to answer that question. I'm not  
19 really an expert on mail prep requirements.

20          Q     Okay.

21                Now, why do you think the mail -- the Postal  
22 Service requires workshare mailers to do these things, at  
23 least the ones that you have recognized that they require  
24 them to do?

25          A     I don't think that's something I address in my

1 testimony. I'm just not an expert on mail prep. You need  
2 to have somebody else up here answering those questions.

3 Q So you have no idea why the Postal Service --

4 A I don't know how any of these requirements have  
5 evolved to their current state.

6 Q Okay.

7 Would it seem logical to conclude that the Postal  
8 Service does so because it saves money by doing so, by  
9 having the workshare mailers do that work?

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

11 Q Well, if mail is just presented as you claim BMM  
12 is presented in trays -- those -- when you were talking  
13 about local delivery units, you were talking about the mail  
14 being handed to window service clerks, right?

15 A No, actually, from what the responses that I've  
16 got in that survey from the 98 plants that responded, the  
17 ones that indicated that some of the mail was dropped off by  
18 businesses to local delivery units was dropped off at the  
19 dock.

20 Q I was talking about when you were talking about  
21 city Post Offices, retail Post Offices. That's where some  
22 of the --

23 A I don't recall talking about city retail Post  
24 Offices.

25 Q I guess the record will reflect that. In any

1 event, if the mail is just dropped off in trays as you claim  
2 BMM is dropped off, then somebody else is going to have to  
3 sleeve it, band it, and perform other activities; aren't  
4 they?

5 [Pause.]

6 A It depends.

7 Q Well, if the mailer doesn't do it, it's got to be  
8 the Postal Service personnel; isn't that correct?

9 A Well, it depends on where those mail pieces are  
10 processed. Some could go right to a piece of equipment and  
11 be finalized, ready to go out to a delivery unit, and then  
12 they wouldn't have to be sleeved or banded at all.

13 It would depend on if it's non-local mail, really.

14 Q Well, if it's required to be banded by a workshare  
15 mailer, wouldn't somebody else have to band it?

16 Isn't that what we're talking about, comparable  
17 situations?

18 A You're talking about bulk, metered mail?

19 Q I'm talking about bulk metered mail, yes.

20 A Well, bulk metered mail already has postage  
21 applied. It would probably go, since it doesn't have a bar  
22 code, it would go to an optical character reader.

23 Q I'm not asking where it goes to; I'm asking about  
24 its preparation.

25 A And I said that some of these mail pieces could be

1 finalized in one operation, be placed in a tray, and then go  
2 right to a delivery unit and it wouldn't be sleeved, banded,  
3 and strapped at all. It depends on where the mail piece is  
4 going.

5 Q Well, there must be a reason that workshare mail  
6 is sleeved; isn't there?

7 A As I said --

8 Q It must be going somewhere --

9 A I'm not the one that's best qualified to answer  
10 why the mail prep requirements are the way they currently  
11 are.

12 Q Okay, I think we've explored that.

13 MR. HALL: Those are all the questions I have.

14 CHAIRMAN GLEIMAN: Thank you. Next on the list is  
15 the Office of the Consumer Advocate.

16 MR. COSTICH: Thank you, Mr. Chairman. You won't  
17 let me beg for lunch now.

18 CHAIRMAN GLEIMAN: I'll let you beg for whatever  
19 you want. What I'm willing to give is another issue.

20 I'm sure that if you want to move down the list  
21 and let someone else move up and do their cross now, it  
22 appears to me there are a couple of people poised at the  
23 counsels' table ready to do that.

24 MR. COSTICH: No, that won't help my appetite.

25 CHAIRMAN GLEIMAN: I'm not sure whether the cross

1 examination will help your appetite either, but we'll see.

2 CROSS EXAMINATION

3 BY MR. COSTICH:

4 Q Good afternoon, Mr. Miller.

5 A Good afternoon.

6 Q I'd like to follow up on a few questions that  
7 counsel for E-Stamp asked you.

8 Do you recall a discussion about the purpose of  
9 the FIM mark on the PC Postage pieces?

10 A Yes, I do.

11 Q Is it correct that an AFCS would not be able to  
12 face or cancel a piece unless it has the FIM mark or some  
13 sort of tagging that would let the AFC know where the  
14 postage indicia is?

15 A That is true for PC Postage mail pieces, and I had  
16 that pointed out to me during the break.

17 Q Well, then I won't ask any more questions on that  
18 subject.

19 CHAIRMAN GLEIMAN: I got all excited there for a  
20 minute until you added that subject.

21 [Laughter.]

22 BY MR. COSTICH:

23 Q Could you look at page 8 of your testimony?

24 Starting at the top of that page, you have a list  
25 of complications flowing from adoption of a courtesy

1 envelope mail classification; is that correct?

2 A Yes.

3 Q Are these items intended to represent costs  
4 associated with CEM?

5 A Some of them could involve costs, but I haven't  
6 attempt to quantify any of them.

7 Q Well, if you could look at the first one, you say  
8 it would be difficult to develop a standardized CEM mail  
9 piece design. What kind of standardization are you  
10 referring to here?

11 A The first item I would mainly include in that, to  
12 point out that the lack of a standardized CEM design could  
13 cause problems and confusion with households and consumers.

14 Q Now, is that the same as the third item in that  
15 list?

16 A They are somewhat related, but it is not  
17 completely the same. The third one has to do with  
18 compliance of whatever design would be finalized for CEM.  
19 It has to do with what mailers would actually comply or not.

20 Q All right. Let's go back to the first one. When  
21 you speak of variation among current courtesy reply pieces,  
22 what is varying?

23 A Barcode locations, whether envelopes have windows,  
24 the location of the windows, whether windows are used around  
25 a barcode itself without being in the address block. I

1 think I discussed a lot of these in rebuttal testimony in  
2 Docket Number R97-1. It was I think in Appendix A.

3 Q These designs that you just referred to, are they  
4 currently permitted in mailings claiming automation  
5 discounts?

6 A I'm sorry. Could you repeat that?

7 Q The mail piece designs that you just referred to,  
8 barcode location, windows, windows only for the barcode, are  
9 these various types of designs currently permitted in  
10 mailings claiming the automation discounts?

11 A Well, pre-barcoded reply envelopes are required,  
12 if you use a reply envelope, to be enclosed in an automated  
13 rate mailing, an outgoing mailing.

14 Q The envelope itself has to bear the barcode?

15 A No, the variation could exist. You could have  
16 barcoded inserts or -- the barcode itself does not have to  
17 be on the envelope.

18 Q If they are permitted now in automation mailings,  
19 why would there need to be any standardization for CEM?

20 A Well, the way the Postal Service has dealt with  
21 this variation is to build it into their current equipment.  
22 However, CEM was not a factor in the system as it is  
23 currently -- as it currently stands. And when I say  
24 standardized design, I am referring to some way that people  
25 know that this is a mail piece that qualifies for the

1 discounted rate. And my whole point is that that is going  
2 to be very difficult, because there is so much variation  
3 that is already embedded in the courtesy reply mailstream.

4 Q Was it suggested in R97-1 that a little note up  
5 the righthand corner where the stamp goes, telling the  
6 customer that the piece was eligible for the CEM rate?

7 A I think that was mentioned, and I think my  
8 response to that in that docket was that if you place a  
9 stamp over that marking, then Postal employees will not be  
10 able to tell if that mail piece qualified.

11 Q So the standardization that you are talking about,  
12 your testimony now is standardization for the benefit of the  
13 Postal Service?

14 A Well, for the benefit of the Postal Service and  
15 anybody that chose to use these envelopes, or the entire  
16 general public, really, because my whole point is that it is  
17 going to be different to have a standardized design where  
18 everybody immediately knows that is what that mail piece  
19 should be, that it qualifies for the discounted rate.

20 Q You couldn't just require that all mailers use big  
21 purple ink that says "Discount!" somewhere on the envelope?

22 A Well, now you are getting down more to the third  
23 point where it has to do -- we have asked Witness Willette  
24 repeatedly, should this be voluntary or mandatory  
25 compliance? And from what I have seen in this proposal, the

1 end result is likely to be that some mailers would modify  
2 their mail pieces to whatever design, assuming it were  
3 implemented, that would be approved, and then others  
4 wouldn't. And then I think you are just asking for more  
5 confusion as to why some of these reply mail pieces receive  
6 a discount and others don't.

7 Q Let's get back to the point of difficulty for  
8 Postal personnel identifying whether the particular piece  
9 qualified for the discount. The FIM itself will not  
10 indicate that?

11 A I don't think a separate FIM type was mentioned in  
12 any CEM proposal I have ever read. It would be the same FIM  
13 type that courtesy reply mail currently has.

14 Q And any courtesy reply envelope that bears that  
15 FIM is considered automation compatible, is that why the FIM  
16 is there?

17 A Well, the FIM is actually there so it can be used  
18 to make sort decisions on the AFCS.

19 Q Yes. Sort it to the pre-barcoded bins as opposed  
20 to the preprinted bins?

21 A Yes, that's correct. That's correct.

22 Q So, again, I am having a hard time understanding  
23 why simply the presence of that FIM would not establish that  
24 the piece was entitled to the discount.

25 A Are you talking about Postal employees being able

1 to recognize this?

2 Q Yes.

3 A I guess it is possible that it could be used but I  
4 don't know if something like that is going to be much help  
5 in terms of the people who are actually applying the  
6 postage.

7 Q Well, I believe we discussed that earlier, that at  
8 least in R97 it was suggested that some sort of note to the  
9 customer in the upper right-hand corner could indicate that.

10 [Pause.]

11 THE WITNESS: Are you asking me that or --

12 BY MR. COSTICH:

13 Q Yes.

14 A I think I did say that was possible but -- I  
15 suppose that is possible, yes.

16 Q What I would like to establish is that that is all  
17 that is necessary in terms of redesign.

18 If an envelope is changed, a currently mailed  
19 automation-compatible courtesy reply envelope is sent to a  
20 customer it has something up there in the corner like the  
21 Postal Service won't deliver this unless you put the stamp  
22 on it, right?

23 A You are talking about the way it currently <sup>is</sup> it?

24 Q Yes.

25 A There are lots of different messages that are in

1 the address block.

2 Q But if for purposes of qualifying for the CEM  
3 discount the Postal Service required that the message say  
4 this envelope qualifies for CEM discount, wouldn't that be  
5 all that would be necessary in terms of changing the design  
6 of existing courtesy reply envelopes?

7 [Pause.]

8 THE WITNESS: Quite honestly, I would have to give  
9 this some more thought.

10 BY MR. COSTICH:

11 Q Well, this isn't a new suggestion to you, is it,  
12 Mr. Miller?

13 A Well, the concept that you would just change the  
14 address block and then have people rely on the FIMs  
15 internally, that is a new suggestion.

16 Q When you said "change the address block" I didn't  
17 suggest that. What were you --

18 A Well, I mean when you were talking about the whole  
19 system as a whole.

20 Q Well, let's get back to what I thought I was  
21 asking.

22 We take courtesy reply envelopes that are  
23 currently being sent to customers. They are automation  
24 compatible right now because they have to be.

25 In terms of changing the design of those envelopes

1 I am suggesting the only design you would need to change,  
2 the only reason you would want to change the design would be  
3 to inform the customer that the envelope is eligible for the  
4 discounted stamp.

5 I believe you acknowledge that it has been  
6 suggested before in prior cases that that could be done by  
7 putting a message in the place where the stamp goes, so I am  
8 again back to asking why you say it would be difficult to  
9 develop standardized CEM mail piece design.

10 A Well, I think as I said I would feel more  
11 comfortable if I had time to give this some thought, because  
12 once again even if you put a standardized message in the  
13 block it is not a standardized mail piece design like, for  
14 example, business reply mail.

15 Q Well, then we are back to the question of what it  
16 is that needs to be standardized here and why.

17 I thought the two things you stated first were the  
18 customer needed to know that it was eligible for the  
19 discount and Postal employees needed to be able to tell that  
20 a piece was eligible for the discount.

21 I thought we agreed that the FIM would do the job  
22 of informing Postal employees that the piece was automation  
23 compatible and I thought we agreed that the message up there  
24 where the stamp goes would be sufficient to inform  
25 customers.

1           Now what else needs to be done in terms of mail  
2 piece design?

3           [Pause.]

4           THE WITNESS: As I was saying, based on your  
5 proposal, I mean there are some other issues related to  
6 reply envelopes that people do get that don't have barcodes  
7 or -- I just, as I was saying, I mean this wasn't something  
8 that was in the original proposal and I would just need to  
9 get -- I would feel more comfortable having time to give  
10 this more thought.

11           BY MR. COSTICH:

12           Q     I believe you have a table on the prior page of  
13 your testimony, is that correct?

14           A     Yes.

15           Q     Have you seen a table like that in some other  
16 document?

17           A     I'm sorry?

18           Q     Have you seen a table very similar to that in some  
19 other document?

20           A     I am not really sure.

21           Q     But the table lists prior CEM proposals, correct?

22           A     Yes.

23           Q     Didn't at least one of these proposals contain the  
24 FIM requirement and the message in the stamp location?

25           A     I think we already said that at least one did.

1 Q So I am still having trouble understanding why you  
2 say this wasn't in the original proposal and you need to  
3 think about it.

4 A Well, I am talking about the whole, looking at the  
5 whole mail piece from both the aspect of the user and the  
6 Postal Service. The concept of using the FIM mark for  
7 detecting postage problems is something that I hadn't looked  
8 at before. That is all I was saying.

9 Q But we do agree that the existence of that FIM  
10 mark indicates automation compatibility, correct?

11 A Well, I think I said that technically it is used  
12 for sort decisions on the AFCS.

13 Q Yes, to sort pieces to the automation compatible  
14 bin, right?

15 A Exactly.

16 Q If we look at the second bulleted point you have  
17 on page 8, as I understand it, you are saying that the  
18 existence of CEM would cause the creation of two separate  
19 mailstreams where now there is one, is that correct?

20 A That is correct.

21 Q And what exactly is the problem with having these  
22 two separate mailstreams?

23 A Well, my point was, to the extent that not all  
24 courtesy reply mail envelope mailers that send them to their  
25 customers, to the extent that they don't modify their

1 designs voluntarily.

2 Q All right. Now, we are back to point 1. There  
3 would be some requirement to let customers --

4 A Well, that hasn't been determined. I mean that is  
5 actually one question we tried to ask through  
6 interrogatories, is whether this -- the OCA saw this  
7 proposal as being a mandatory or voluntary sort of  
8 compliance.

9 Q All right. Let's hypothesize that it is mandatory  
10 for the envelope to bear a message stating that that  
11 envelope is eligible for the discount. Are there going to  
12 be two separate mailstreams under that hypothesis?

13 A Well, once again, then that gets back to the whole  
14 issue of evaluating the use of FIM by Postal employees in  
15 conjunction with the address block, and that is something I  
16 hadn't evaluated. I mean these first three are going to  
17 somewhat related to that.

18 Q All right. Let's hypothesize that the Postal  
19 Service changes the requirements for reply pieces that go  
20 into envelopes claiming the automation discounts to require  
21 the message in the stamp block, this piece is eligible for a  
22 discount, or something similar. Under that scenario, are  
23 there two different mailstreams?

24 A Well, from the standpoint that if you were able to  
25 come up with a design that was standardized on all mail

1 pieces and people could recognize, then there would only be  
2 one mailstream.

3 Q Now, if it is voluntary for mailers claiming the  
4 automation discount whether they put that message in the  
5 stamp location, is that the situation where you have two  
6 separate mailstreams?

7 A Well, it depends on the specific envelope design  
8 that you come up with, but it is possible that there could  
9 be two mailstreams to the extent that people decide not to  
10 comply or are unable to comply.

11 Q And what would the differences in these  
12 mailstreams be?

13 A That one were allowed to use the CEM rate and one  
14 were not.

15 Q And why does that create a problem for the Postal  
16 Service?

17 A Well, I think as we have said repeatedly, it would  
18 cause confusion in terms of when people are allowed to use  
19 this stamp, and it could affect mail pieces that aren't in  
20 the courtesy reply mailstream.

21 Q Well, let's set the confusion issue aside for a  
22 second. We have hypothesized the existence of these two  
23 separate mailstreams consisting of perfectly good automation  
24 compatible envelopes. Pieces in one stream had the message  
25 in the corner that said you can put a discount stamp on

1 here, and the other pieces didn't have that message. Now,  
2 why does that create a problem for the Postal Service?

3 A Well, it is sort of difficult to set confusion  
4 aside, I mean that has pretty much been our central issue  
5 with two stamp type proposals.

6 Q Well, you talk about two mailstreams in this  
7 second point, correct?

8 A Yes.

9 Q Maybe I misunderstood the point you were trying to  
10 make here. I understood that was creating an operational  
11 problem for the Postal Service in terms of mail processing.  
12 Now, is that what you are saying?

13 A I'm sorry. Could you repeat that?

14 Q Does the existence of these two mailstreams, that  
15 you are talking about in the second bulleted point, create  
16 operational problems for the Postal Service in terms of mail  
17 processing?

18 A No, it would be more an issue of some mail pieces  
19 had been marked that they comply and some don't, and how  
20 much are you going to try to enforce that the correct  
21 postage is used when something is not properly marked.

22 Q In terms of properly marked, we are talking about  
23 the message that says it is eligible for a discount.

24 A Yes.

25 Q But as I understand these two mailstreams, the

1 only difference is the presence or absence of that message.

2 Is that what you are --

3 A Well, as I said on that, I guess, line 6, they  
4 would exhibit the same cost characteristics.

5 Q Okay. And if they exhibit the same cost  
6 characteristics, why does the Postal Service care whether  
7 the envelope had printed on it, this is eligible for a  
8 discount?

9 A Well, once again, it is back to the confusion  
10 issue of how much are you going to enforce this situation,  
11 how much are you going to enforce consumer behavior in  
12 general, if people are using the stamp on non-CRM mail  
13 pieces.

14 Q Well, we haven't gotten to non-CRM mail pieces  
15 yet. We are just talking about CRM pieces that are  
16 automation compatible, meet all the Postal Service's  
17 requirements. The only difference between the two  
18 mailstreams that we are talking about here is the presence  
19 or absence of the notification to the customer that the  
20 piece is eligible for a discount. Now, does the Postal  
21 Service really care if someone takes a piece that doesn't  
22 have that message, but is otherwise the same, exhibits the  
23 same cost characteristics, as you say, and puts the CEM rate  
24 stamp on it?

25 A Well, I would look at confusion in terms of the

1 aggregate behavior of people using the entire single piece  
2 mailstream. I wouldn't look at segmented confusion just  
3 among CRM and try to isolate it.

4 Q Maybe you could expand on -- I take it you are  
5 talking about some big picture view of the problem?

6 A Well, you are talking about a two stamp system  
7 versus a one stamp system, and to the extent people have  
8 problems knowing when to use both stamps for any mail piece,  
9 that is an issue. It doesn't -- we don't look at it in  
10 terms of, well, do they just have a problem with courtesy  
11 reply mail? What I was saying is the confusion was the  
12 central issue.

13 Q All right. So now we are talking about two  
14 separate mailstreams where one is automation compatible and  
15 maybe one isn't, is that what you mean?

16 A Yes.

17 Q This is what you're getting at in the third  
18 bulleted item on page 8?

19 A Yes.

20 Q When you use the word, confusion in that  
21 statement, is that a cost?

22 A It could be, to the extent that people use the  
23 stamps incorrectly, and then the Postal Service employees  
24 return it for extra postage, or evaluating the situation in  
25 terms of how effective our education program has been.

1           It could result in additional cost, but I haven't  
2       tried to quantify it.

3           Q     You're not talking about confusion for customers,  
4       causing them anxiety or something, and that's some sort of  
5       social cost?

6           A     No, I was just talking about confusion in the  
7       sense that they don't know when to use each stamp.

8           Q     Well, that's not a problem for the Postal Service  
9       until the customer does use one stamp or the other, right?

10          A     That's true.

11          Q     So, when you're talking about confusion, you're  
12       talking about -- you're really talking about customers who  
13       mistakenly use a CEM stamp when they shouldn't; is that it?

14          A     Yes.

15          Q     And that results in underpayment of postage?

16          A     Yes.

17          Q     Could you look at the fourth bulleted point that  
18       starts on line 12, I think?

19                 You say that some stamp distribution methods won't  
20       accommodate two separate stamps; is that correct?

21          A     Yes.

22          Q     And these outlets, you give examples of  
23       consignment outlets sort of like grocery stores; is that  
24       what you're referring to there?

25          A     Yes.

1 Q Are there other examples of consignment outlets,  
2 besides the grocery store?

3 A Yes.

4 Q Could you give me some?

5 A Perhaps consignment outlet wasn't the best term.  
6 I meant any non-Postal distribution channel like ATMs,  
7 grocery stores.

8 Q And these outlets exist now, correct?

9 A Yes.

10 Q And they don't offer stamps for additional ounces  
11 now, correct?

12 A I'm not really sure of the extent to which any of  
13 these alternative outlets might offer additional stamps.

14 My understanding is that for the most part, they'd  
15 prefer one stamp.

16 Q Okay, let's just focus on those, the ones that  
17 only want to give out one stamp then. They're not giving  
18 out -- they're not selling non-standard surcharge stamps,  
19 right?

20 A That would be true.

21 Q In fact, there isn't one, right?

22 A That would be true.

23 Q And they wouldn't be selling postcard stamps?

24 A If they only sold one stamp, I would imagine  
25 they're selling the 33-cent, first ounce, single-piece rate

1 stamp.

2 Q Okay, you also refer to vending machines here as  
3 being unable to accommodate two stamps.

4 When I go into the Post Office, I see vending  
5 machines that have got so many different stamp denominations  
6 in them and so many different numbers of different stamp  
7 denominations that I can't keep them all straight.

8 What kind of machines are you referring to here?

9 A The word, some, in front of vending machines,  
10 might have been more appropriate. I was referring to  
11 booklet vending machines.

12 They are roughly 25 percent of our vending  
13 machines, and those are the types of machines that only have  
14 one type of booklet of stamps.

15 Q And these are in Post Office lobbies?

16 A Yes.

17 Q We're not talking about the ones you run into in  
18 the cigar store, or do you even run into those anymore?

19 A I don't smoke.

20 Q Does the Postal Service receive complaints from  
21 customers because they can't buy postcard stamps or  
22 additional ounce stamps at these consignment outlets or get  
23 them from Post Office vending machines?

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

25 Q But you do expect those kinds of complaints if

1 there's a CEM stamp?

2 A I don't know the extent to which people would file  
3 formal complaints or not, but I would imagine that many  
4 people would be unhappy if their primary distribution  
5 channel was unavailable for that discounted stamp when they  
6 wanted that stamp.

7 Q But there aren't any unhappy customers who might  
8 want postcard stamps from their favorite outlet?

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

10 Q But you are projecting some sort of unhappiness if  
11 there were a CEM stamp; is that correct?

12 A To the extent that people might want to use it and  
13 it's not available to them if they usually purchase stamps  
14 at a consignment outlet and are unable to get the CEM stamp,  
15 I could see where some people might be upset.

16 Q And that brings me back to postcards again.  
17 People use postcards, but apparently there's no significant  
18 feedback that you're aware of saying that customers are  
19 really unhappy because they can't buy postcard stamps at the  
20 Giant.

21 A Well, I said that I don't know the answer to that  
22 question, but the volume of postcards compared to courtesy  
23 reply mail, there's a pretty big difference.

24 Q Postcards have their own subclass, correct?

25 A I believe cards is its own subclass.

1 Q But you don't want CEM to even have a rate  
2 category; is that correct?

3 A I think, given what I say in my testimony, that  
4 would be correct.

5 Q Even though the volume of CEM far exceeds the  
6 volume of cards?

7 A But when you say you don't want it to have a rate  
8 category, you're talking about me rebutting the CEM proposal  
9 in general.

10 So I guess if I'm rebutting it, I would obviously  
11 not want us to have a rate category labeled CEM.

12 Q Even though there's a lot more courtesy reply  
13 envelopes out there than postcards?

14 A I don't think that point had really anything to do  
15 with my rebuttal testimony.

16 Q So you haven't thought about the fact that  
17 postcards has its own subclass and it's smaller in volume  
18 terms than courtesy reply envelopes?

19 A I hadn't looked into that.

20 Q Could you look at the fifth bulleted point on page  
21 8, I think that is at line 22? You are saying that the  
22 Postal Service would have to print a larger number of stamps  
23 in total than it does now, is that correct?

24 A Yes.

25 Q Could you expand on that? What causes the total

1 number of stamps to increase when you have to print another  
2 denomination?

3 A I think, as I said on page 15, that consumers  
4 could -- with the rates as we propose them, to be 34 cents  
5 for the full single piece first ounce rate, could use a  
6 mixture of 34 cents <sup>stamps</sup> 31 cent stamps and 3 cent stamps. And  
7 the extent to which they might want each specific stamp is  
8 unknown. I think Witness Willette even said she didn't  
9 think everyone would use CEM.

10 So we have no way of forecasting how many people  
11 would or wouldn't use it. It is likely that we would have  
12 to make more stamps to make sure that everyone's needs were  
13 accommodated.

14 Q Okay. So there is extra uncertainty as to demand  
15 for specific denominations and, therefore, you have to have  
16 more of each denomination?

17 A Yes.

18 Q How much would that cost the Postal Service?

19 A I haven't attempted to quantify the specific  
20 amount.

21 Q How many extra stamps would have to be printed?

22 A I haven't attempted to quantify that either.

23 Q Would you look at the next bulleted point, line  
24 25?

25 A Yes.

1 Q It says some single piece mail users will have to  
2 make more frequent trips to their preferred stamp  
3 distribution outlet. Who is going to compel these folks to  
4 make more frequent trips or go to a different outlet?

5 A I don't think anyone would force them to.

6 Q Well, you say, will have to. I interpret that to  
7 mean --

8 A Well, it is related somewhat to what I said in the  
9 previous bullet where some stamp distribution methods would  
10 not have more than one stamp. So to the extent that people  
11 are going to want to buy CEM stamps, they are probably going  
12 to have to make more trips to get those stamps.

13 Q So if they want to save the 3 cents, they will  
14 have to make an extra trip or a different trip, is that  
15 correct?

16 A Well, that's true. But, in addition, I believe  
17 there was a study in the past that also said that -- asked  
18 people if they would have to make more frequent trips to the  
19 Post Office and they said they would.

20 Q If they wanted to buy or use the discounted stamp,  
21 correct?

22 A I don't think they specifically asked them that.  
23 They just asked if this proposal with having two stamps  
24 would require additional trips to the Post Office.

25 Q So you are suggesting that the Postal Service --

1 hypothesize this, the Postal Service offers CEM. Customers  
2 have a choice as to whether they want to use it or not. A  
3 customer who doesn't want to use it nevertheless ends up  
4 making more frequent trips to the Post Office?

5 A I don't know if you could interpret the data in  
6 that manner.

7 Q I would hope not, but I guess there could be some  
8 folks like that out there. The folks who are going to be  
9 making the more frequent trips or going to a different  
10 location are the folks who want the discounted stamp, right?

11 A I think the question asked them, if there was a  
12 two stamp system, would you require additional trips to the  
13 Post Office? I suppose to the extent -- people's responses  
14 were based on to the extent that they might take advantage  
15 of CEM, it would require additional trips.

16 Q The seventh bulleted point that starts on line 29  
17 discusses different denominations of makeup stamps, is that  
18 right?

19 A Yes.

20 Q What exactly is the problem here with multiple  
21 denominations of makeup stamps?

22 A To the extent that two stamps are required rather  
23 than just one, if the proposed rate increase for CEM in a  
24 future rate case were not the same as the residual single  
25 piece rate.

1 Q Then presumably folks are going to be buying 2  
2 cents and 1 cent, or whatever?

3 A Yes.

4 Q So who is suffering as a result of this? Who is  
5 incurring costs? What exactly is so bad about that?

6 A Well, once again, it is just more -- I think the  
7 whole point of this section was that this is much more  
8 complicated than the current system, and having two  
9 denominations of makeup stamps, you also have the situation  
10 where people use them in error. It could affect how many  
11 stamps we have to make.

12 Q Okay. That is a cost to the Postal Service,  
13 right?

14 A Yes.

15 Q But I take it you haven't quantified that?

16 A No.

17 Q In terms of customers, is there some sort of  
18 inconvenience cost or anxiety cost that you are referring to  
19 here?

20 A Not specifically, no.

21 Q Your last point, that starts at line 32, refers to  
22 costly monitoring of proper usage, is that correct?

23 A Yes.

24 Q And you refer to proper usage of both stamps.  
25 Now, by both, I assume you mean the full single piece first

1 ounce rate and the CEM rate?

2 A Yes.

3 Q When you say proper usage, are you referring to  
4 both underpayment and overpayment?

5 A Well, I guess, to enforce the proper usage of  
6 stamps, overpayment is kind of a difficult issue to assess  
7 because some people overpay for convenience sake alone. For  
8 example, the people that don't want more than one stamp, it  
9 is likely they would just purchase one stamp, and so I don't  
10 know how much benefit is going to come from trying to  
11 enforce that people don't have to overpay when many of them  
12 probably do just because they prefer the convenience of a  
13 one stamp system.

14 I was specifically referring to underpayment or  
15 using the CEM stamp where it shouldn't be, in place of a  
16 full rate single piece stamp.

17 Q On the very last line of page 8, you refer to a  
18 revenue loss of \$300 million, is that correct?

19 A Yes.

20 Q And this is 3 cents times 10 billion pieces?

21 A I believe that is what it was in Witness  
22 Willette's testimony.

23 Q Now, right off the bat, shouldn't we cut that in  
24 half because not everybody is going to use a CEM stamp on  
25 the eligible pieces?

1           A     Well, that is the revenue loss that would be a  
2 maximum for courtesy reply mail by itself but who knows if  
3 people use the stamps in error for non-courtesy reply mail  
4 pieces. That is one of the great unknowns of this proposal.

5           Q     But that is not even counted in the \$300 million  
6 that you have got here, is it?

7           A     Well, it's Witness Willette's figure. I don't  
8 believe she counted that in there.

9           Q     All she is doing is multiplying 3 cents times the  
10 maximum for --

11          A     -- the courtesy reply mail pieces.

12               MR. COSTICH: Mr. Chairman, at this point I would  
13 like to show the witness a page from a Library Reference in  
14 a prior case.

15               CHAIRMAN GLEIMAN: Please proceed.

16               [Pause.]

17               BY MR. COSTICH:

18           Q     What I have shown the witness is the first page of  
19 a Library Reference from Docket Number MC95-1. The Library  
20 Reference number is MCR-88.

21               Have you seen that Library Reference before, Mr.  
22 Miller?

23           A     I believe I have.

24           Q     Have you referred to it in this testimony?

25           A     Yes, on page 11, line 21 -- 20 to 21.

1 Q So can I infer from that that you have seen it  
2 before?

3 A Yes.

4 Q In the next to the last paragraph of the page that  
5 I gave you, there is a sentence that reads, "Just over half  
6 (54 percent) said they are very or somewhat likely to use  
7 it" -- referring to the discounted CEM stamp -- "while just  
8 over half" -- no -- "just under half (46 percent) said they  
9 are very or somewhat unlikely to use it."

10 Had you noticed that sentence before?

11 A I believe in what I referenced in this Library  
12 Reference was actually on page 18.

13 Q So that is the only page you looked at?

14 A I looked through it, I didn't -- but the only  
15 thing I am referencing in my testimony is page 18.

16 Q Well, I am still looking at the 300 million at the  
17 bottom of page <sup>8, line</sup> 42 and getting back to the question of if we  
18 want to estimate a likely revenue loss to the Postal  
19 Service, shouldn't we cut that in half, right off the bat.

20 A Actually, the desirability of this proposal from  
21 the point of the user is something that is addressed in  
22 Witness O'Hara's testimony but I believe that one major  
23 point we had in the last rate case is that likelihood to use  
24 if the proposal were implemented is not the same as whether  
25 people really want <sup>de</sup> the averaged rates, and I think that is

1 something that O'Hara, Witness O'Hara, is probably better  
2 able to answer.

3 Q Well, I am still back at the issue of or the  
4 question of how many folks are actually going to use this as  
5 opposed to the assumption that every single piece is going  
6 to bear the discounted rate.

7 A Well, I think I have mentioned that this is a  
8 maximum revenue loss associated with people that use the  
9 stamp on a courtesy reply mail envelope and whether -- what  
10 the actual amount would be I don't think is known.

11 Q Are you saying that there is a good likelihood  
12 that there will be 10 billion pieces of CEM if there were a  
13 3 cent discount?

14 A No, I haven't said that at all. I said the  
15 maximum would be 300 million and I haven't tried to -- I  
16 just took that from Witness Willette's testimony. I haven't  
17 tried to qualify what an actual revenue loss would be.

18 Q Okay. Well, should we treat all the other numbers  
19 in your attachments the same way? They aren't numbers that  
20 you say will --

21 A As maximums?

22 Q -- will actually happen.

23 A Well, I think a lot of them I addressed in terms  
24 of ranges because there's a lot of unknowns with CEM, a lot  
25 of uncertainty.

1 Q But you don't put a range on this 300 million.

2 A Once again on page 16, line 13, I said that it  
3 would -- to realign a maximum of \$300 million worth of  
4 postage costs, so that is what I am referring to. As I  
5 said, it was a maximum related to courtesy reply mail  
6 pieces.

7 Q Well, are you saying that there is an implicit  
8 zero to 300 million range there that we should use when we  
9 are looking at your other ranges?

10 A That's true.

11 Q But we could get a point estimate from the  
12 document I handed you that says 54 percent likely or very  
13 likely to use CEM?

14 A Well, once again I haven't really used this  
15 Library Reference as a means to develop a specific revenue  
16 loss and that is why I said it was a maximum. I would have  
17 to look into that more.

18 Q Well, I am just trying to put this 300 million on  
19 an equal footing with your other numbers where you do have  
20 ranges and I think you mentioned this was --

21 A Just a range of zero to 300 million --

22 Q Okay.

23 A And the unknown is where it would be.

24 CHAIRMAN GLEIMAN: I think that while I am  
25 reluctant ever to interrupt the flow of someone's cross

1 examination that this would be a good point to break and let  
2 Mr. Tidwell make sure that his witness gets some sustenance,  
3 so we will come back at a quarter to 3:00.

4 MR. COSTICH: May I mark this document for  
5 identification and have it transcribed?

6 CHAIRMAN GLEIMAN: Oh, certainly.

7 MR. COSTICH: Can I mark it as  
8 OCA/USPS-RT-15-XE-1.

9 CHAIRMAN GLEIMAN: Sounds pretty reasonable to me.

10 MR. COSTICH: I will do that and hand two copies  
11 to the reporter.

12 CHAIRMAN GLEIMAN: To be transcribed into the  
13 record.

14 MR. COSTICH: To be transcribed, yes

15 CHAIRMAN GLEIMAN: It is so ordered.

16 [Cross-Examination Exhibit  
17 OCA/USPS-RT-15-XE-1 was marked for  
18 identification and transcribed into  
19 the record.]

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OCA/USPS-RT15-XE-



UNITED STATES POSTAL SERVICE  
475 L'ENFANT PLAZA SW  
WASHINGTON DC 20260-6300  
FAX (202) 268-5193

January 16, 1991

MARKETING DEPARTMENT

MEMORANDUM FOR MR. STRASSER, MR. WARGO, MR. MORISON, MR. HESELTON,  
MS. ROBINSON, MR. DEWEERDT

SUBJECT: Consumer Reaction To PRC Proposed First-Class Rate Structure

To evaluate reactions among the general public to the two-tiered First-Class mail rate structure proposed by the Postal Rate Commission, telephone interviews were conducted with a nationwide random sample of 638 households. In summary, the general public is split in its preference for a 29¢ First-Class rate rather than a 30¢ rate, and also split in its opinion of the two-tier (29¢-27¢) First-Class rate, with a majority believing it will be inconvenient to use, purchase and keep two kinds of First-Class stamps, and roughly half saying they are unlikely to take advantage of the 27¢ rate.

A large majority of those interviewed (82%) were aware of an impending rate increase. Two-thirds (66%) of those aware correctly recalled the proposed 29¢ rate, but less than 5 percent mentioned the proposed 27¢ rate or the two-tiered pricing structure. Approximately four in ten (42%) believed that the Postal Service recommended the new First-Class rates while one quarter (26%) believed that the Postal Rate Commission made the recommendation and another quarter (24%) did not know who made the recommendation.

Respondents were equally divided in their preference for the "lower, odd number" 29¢ rate (38%) versus the "higher, round number" 30¢ rate (37%), with fully one quarter (25%) undecided. The need for two kinds of First-Class stamps was considered by a majority to be very or somewhat inconvenient in terms of usage (68%), purchase (72%) and keeping a supply on hand (70%). Just under half (43%) think they will have to make more trips to buy stamps, and exactly half (50%) think they will need to buy more stamps each trip to keep a supply on hand. Probably as a result of this perceived inconvenience, the respondents were divided about whether they would use the 27¢ stamp. Just over half (54%) said they are very or somewhat likely to use it, while just under half (46%) said they are very or somewhat unlikely to use it. Despite the inconvenience, the former group appears committed. Even when it is hypothesized that the savings from using the 27¢ cent stamp may not amount to more than \$5.00 per year, most of those likely users (91%) maintain their intentions to use it.

The attached report from National Analysts summarizes the findings in more detail. If you have any questions on the research, please feel free to contact either Bob Smith (ext. 2251) or Don Byrne (ext. 2652) of the Market Research Division.

Greg Whiteman, Director  
Office of Market Research  
and Systems Management

Attachments

cc: Messrs. Byrne, Smith



1 CHAIRMAN GLEIMAN: See you in an hour.

2 [Whereupon, at 1:43 p.m., the hearing recessed, to  
3 reconvene at 2:45 p.m., this same day.]

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AFTERNOON SESSION

[2:50 p.m.]

CHAIRMAN GLEIMAN: Mr. Costich?

MR. COSTICH: Thank you, Mr. Chairman. Of course, now I have to complain that I'm going to fall asleep.

[Laughter.]

MR. TIDWELL: Wake me up before you do.

CHAIRMAN GLEIMAN: Nobody told you to eat a turkey sandwich with lots of tryptophan in it. That was your choice.

[Laughter.]

Whereupon,

MICHAEL W. MILLER,

a witness, having been previously called for examination, and, having been previously duly sworn, resumed the stand, continued to be examined and continued to testify as follows:

CROSS EXAMINATION [Resuming]

BY MR. COSTICH:

Q Mr. Miller, could you look at page 9 of your testimony?

[Pause.]

At lines 2 through 4, you refer to revenue losses associated with non-CEM letters; is that correct?

A Yes.

1 Q This is the result of customers mistakenly  
2 applying the discount stamp to letters that aren't eligible;  
3 is that correct?

4 A It would be the result of applying the CEM stamp  
5 to a mail piece that did not qualify.

6 Q And you have an estimate of between \$11 million  
7 and \$76 million; is that correct?

8 A Yes.

9 Q Wouldn't it be more realistic to make that range  
10 zero to 11?

11 A The range I calculated was 11 to 76, based on  
12 various percentages of short-paid mail.

13 Q This is in your Attachment 15(b); is that correct?

14 [Pause.]

15 A Yes.

16 Q Could you take a look at that?

17 A Do you have a specific page number?

18 Q Oh, I'm sorry, the first page.

19 A The first page?

20 [Pause.]

21 Q Do you have that?

22 A Yes.

23 Q In Column 1, you show various hypothetical  
24 percentages, short-paid; is that correct?

25 A Yes.

1 Q Could you elaborate on how you chose those  
2 percentages?

3 A I started with the current percentage of  
4 short-paid, First Class, single-piece letters that you'll  
5 see on the following seven pages.

6 And that was taken out of Library Reference  
7 LRI-312, and the value was 1.13 percent.

8 And then I just used various percentages between  
9 1.13 percent and 7.35 percent, which was a figure calculated  
10 in the last rate case that had to do with the percent of  
11 short-paid additional ounce mail pieces.

12 And I used that because that involved a second  
13 stamp.

14 Q Wouldn't it have been more appropriate to include  
15 the 1.13 percent in your Column 1?

16 A No, what I was actually doing was, in each of  
17 those subsequent scenarios looking at what the percent of  
18 short-paid mail would be, which is what I have listed in  
19 Column 1, and I'm calculating the difference in that amount  
20 of mail that's short-paid, versus what the current figure is  
21 of 1.13, so I'm subtracting that out in each case.

22 Q So if you had included 1.13 in Column 1, you'd  
23 have had a zero maximum revenue loss over in Column 6?

24 A That's what the result would have been.

25 Q And I'm -- that's why I asked you if zero

1 shouldn't have been the lower range. I mean, there's a  
2 possibility that there won't be any short-paid mail; isn't  
3 there?

4 A Well, I believe that actually what you said was  
5 that zero to 11 million, which is the figure for two percent  
6 --

7 Q Right. We'll get to that in a minute, but  
8 concentrating on the lower bound, shouldn't we include zero  
9 as the lower bound?

10 A It's possible.

11 Q The 1.13 percent that you use, that's for 1999?

12 A Yes.

13 Q Was there a rate change in 1999?

14 A Yes, there was.

15 Q Does there tend to be extra short-paid mail at the  
16 time of a rate change?

17 [Pause.]

18 A I haven't specifically studied that in terms of  
19 looking at multiple years where the rates change, but I can  
20 say that in that fiscal year 1999, 240 million piece were  
21 short-paid by one cent, as I had specified on page 15.

22 And given that this system for rate changes has  
23 been in effect for several rate cases now, it's surprising  
24 to me that that many mail pieces were short-paid.

25 And to me that's an indication that short payment

1 can be a problem, because a rate change at that time where  
2 the rate is different is temporary, whereas CEM is going to  
3 be permanent.

4 Q So you're saying that when rate -- when there are  
5 rate changes for the first ounce, single-piece rate, there  
6 tends to be a temporary surge in short-paid mail?

7 A I'm not saying that in general. I haven't studied  
8 that specifically, but I can say that in FY 99 there were  
9 several million pieces that were short-paid by one cent.

10 Q Do you know what the percent short-paid was for  
11 1998?

12 A I didn't specifically calculate that.

13 Q Do you have the numbers?

14 A I don't have them with me. They would be in  
15 Library Reference 312.

16 Q Is the 1.13 percent all First Class, single-piece?

17 A It was just First Class, single-piece letters.

18 Q All weights?

19 A Yes.

20 Q So that 7.35 percent that applies to additional  
21 ounce pieces, is averaged in, is part of that 1.13 percent?

22 A Actually, the 7.35 percent is a figure that was  
23 calculated in the last rate case. In the interest of time  
24 -- I didn't have time to get an updated figure -- so I'm  
25 really not sure if that is somehow embedded in that or not.

1 MR. COSTICH: Mr. Chairman, could I ask that the  
2 Postal Service supply the percent short-paid for 1998, and  
3 the percent short-paid for both 1998 and 1999, for  
4 under-one-ounce pieces of single-piece?

5 CHAIRMAN GLEIMAN: You may ask. Let's find out  
6 how quickly they can get it.

7 I would think that information would be available.

8 MR. TIDWELL: That's a safe assumption.

9 CHAIRMAN GLEIMAN: Mr. Miller, is that a  
10 reasonable assumption; you have no idea?

11 THE WITNESS: Well, we get this information from  
12 the people that estimate volumes. I'd have to ask them. I  
13 assume that somehow they can slice the data that way, but  
14 I'm not really sure.

15 CHAIRMAN GLEIMAN: Well --

16 MR. TIDWELL: Counsel will be back here tomorrow.  
17 Perhaps counsel can endeavor, between now and then, to  
18 provide some sort of status report.

19 CHAIRMAN GLEIMAN: At the rate we're going,  
20 there's not going to be any between now and then.

21 [Laughter.]

22 CHAIRMAN GLEIMAN: I have a suspicion that you may  
23 want to ask one of your colleagues to assist you on that  
24 one. If you get back, or someone could get back to us by  
25 tomorrow and let us know if that information is available,

1 and, if so, when we might see it. And if it is not  
2 available, let us know that.

3 MR. TIDWELL: We will do that.

4 CHAIRMAN GLEIMAN: Thank you, sir.

5 MR. COSTICH: Thank you, Mr. Chairman.

6 BY MR. COSTICH:

7 Q Mr. Miller, could you look at Column 5 on that  
8 page 1 of Attachment 15-B? This column is labeled "Total  
9 Possible Short Paid Volume," correct?

10 A Yes.

11 Q And this volume represents the difference between  
12 the assumed percentages in Column 1 and 1.13 percent?

13 A Yes, multiplied times the volume figure.

14 Q For the first row in Column 5, is that 364  
15 million?

16 A 354 million?

17 Q Could you read the whole number? My copy is  
18 blurred.

19 A 354,827,983 pieces.

20 Q And that would present almost a doubling of short  
21 paid mail?

22 A It would represent the difference between 2  
23 percent and 1.13 percent.

24 Q Somewhere a little short of 100 percent change?

25 A It would be the difference between 2 percent and

1 1.13 percent.

2 Q That is why I asked earlier whether the range that  
3 we are looking at here shouldn't be zero to 11 million.  
4 Just by using a 2 percent short paid percentage, you have  
5 almost doubled the volume of short paid mail.

6 A Well, I think as I said in my direct testimony,  
7 that this is one of the great unknowns about this proposal  
8 is the extent that the public is going to use this stamp  
9 when it is proper to do so. And as I said, the upper limit,  
10 that 7.35 percent was a figure that had to do with the short  
11 paid -- the percentage of short paid mail related to the  
12 additional ounce rate, which also involves a second stamp.

13 Q Well, a lot of that short paid mail is likely  
14 pieces that weight just over an ounce?

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

16 Q But you don't think it is sufficient to double the  
17 current amount of short paid mail to come up with an  
18 estimate of the consequences of CEM?

19 A Not if it is not based on any empirical evidence,  
20 that is why I used a range.

21 Q And of course, there never will be any empirical  
22 evidence, will there?

23 A I haven't see any.

24 Q And unless CEM is adopted in some form, there  
25 won't be any, correct?

1           A     I don't know if that is necessarily true. I  
2 suppose someone could try to isolate an exact figure, but I  
3 haven't seen any evidence where someone tried to do that.

4           Q     There haven't been any questions about that on any  
5 of the surveys that the Postal Service has conducted?

6           A     Could you be specific about what survey you are  
7 referring to?

8           Q     Okay. One is the one that we have discussed  
9 earlier from MC 95-1. Do you recall whether there were any  
10 questions?

11          A     Well, as I said, I referenced one number in page  
12 18 of that Library Reference. Off the top of my head, I am  
13 not sure exactly what was all in that.

14          Q     And the other one was Dr. <sup>Ellard's</sup> ~~Elliot's~~ study in the  
15 last case, do you recall that?

16          A     I don't believe any questions were asked in that  
17 study in terms of whether people would improperly use the  
18 postage. I don't know how you would gauge that in a market  
19 research study.

20          Q     Could you look at page 16?

21          A     I have it.

22          Q     At lines 17 through 20, you say if the OCA were  
23 truly interested in deaveraging First Class single piece  
24 rates, their proposal would include a rate for high cost  
25 mail pieces, do you see that?

1 A Yes.

2 Q And then you say, such as handwritten letters. Do  
3 you consider handwritten letters high cost mail pieces?

4 A Well, generally speaking, in terms of the method  
5 of addressing a mail piece, they are the highest cost mail  
6 pieces in the single piece letters mailstream.

7 Q Have you seen Witness Daniel's weight study?

8 A I am not really familiar with that study.

9 Q Do you recall being asked to supply an exhibit  
10 concerning the non-standard surcharge using Witness Daniel's  
11 cost estimates for 1 ounce pieces by shape?

12 A Yes, I am in that instance, but I just asked for  
13 the actual data that I needed. I am not familiar with her  
14 study as her entire testimony and what was included.

15 Q If we restrict ourselves to 1 ounce pieces, are  
16 there data from that study that you used in responding to  
17 that request about non-standard surcharge costs that would  
18 indicate that there are some kinds of pieces that are more  
19 expensive than handwritten letter-shaped pieces?

20 A I'm not so sure that is true because I am talking  
21 about letters only. There were costs in there for mail  
22 pieces that were flat or parcel shaped that weighed less  
23 than an ounce that were much <sup>more</sup> than single piece letters, but  
24 I was previously only talking about letters.

25 Q Well, I am not seeing the reference to letters,

1 what I see is deaveraging First Class single piece rates.  
2 It is page 16, line 18.

3 A When I made that statement I was referring to  
4 letters.

5 Q Well, let's think for a minute about First Class  
6 single piece as a whole. If one were interested in  
7 deaveraging First Class single piece letters and parcels,  
8 wouldn't the highest cost pieces be the parcel shaped  
9 pieces?

10 A Yes.

11 Q And wouldn't the next highest cost pieces be the  
12 flat shaped pieces?

13 A Yes, and I believe they pay different rates than  
14 letters do. I should say --

15 Q The same rate schedule applies, doesn't it?

16 A I should say standard letters. But the thing  
17 about parcels and flats is they are more likely to weigh  
18 more, so they would cost more.

19 Q Okay.

20 A And in addition, they go through different mail  
21 processing technologies.

22 Q Let's restrict our look to 1 ounce, under 1 ounce  
23 pieces. Isn't it the case that under 1 ounce parcels and  
24 flats cost much, much more than under 1 ounce letters?

25 A That's true.

1 Q Wouldn't it be more accurate for you to say that  
2 if the OCA were truly interested in deaveraging First Class  
3 single piece rates, then the OCA would start with parcels  
4 and flats?

5 A Actually, based on what I said, were that I was  
6 referring to letters. It would have been more accurate to  
7 say, if the OCA were truly interested in deaveraging First  
8 Class single piece letter rates, and then the sentence would  
9 continue.

10 Q Well, if we really want to be precise here,  
11 shouldn't we say letter shaped rates?

12 A That's true.

13 Q I am just suggesting that single piece letters is  
14 a shorthand --

15 A No, that's true. Sometimes letters is a shorthand  
16 for flats, letters and IPPs.

17 Q All right. Let's restrict ourselves to letter  
18 shaped pieces. Let's restrict ourselves to under 1 ounce  
19 letter shaped pieces. How much more does it cost the Postal  
20 Service to process a handwritten piece, as opposed to a  
21 typewritten piece?

22 A I haven't specifically conducted a study that  
23 would have those figures.

24 Q It is not very much, is it?

25 A I am not really sure, to tell you the truth.

1 Q Well, you can think it through, can't you, given  
2 that you have used a lot of these models, the mail  
3 processing models?

4 A Well, it depends on what you are saying is a lot.  
5 I mean what I said is that -- I think I have already said  
6 that, based on the manner in which you address a letter,  
7 that handwritten mail is going to be the highest cost mail  
8 in the letters, in the First Class single piece letters  
9 mailstream. It is the highest cost mail, it doesn't matter  
10 how much higher those costs are.

11 Q If the costs --

12 A If the costs are what my statement was is what I  
13 am saying.

14 Q Well, let's put the statement the way you  
15 intended. We are only talking about letter shaped pieces.  
16 The difference in processing costs is what, no more than a  
17 penny-and-a-half, isn't it, the difference between doing it  
18 through the remote barcode system and running it straight  
19 through an OCR?

20 A Well, I think that we have actually made this  
21 point, I made that point in the last rate case, that all of  
22 our automation efforts have been, for the most part, they  
23 were initially geared towards single piece letters, and the  
24 end result is that the costs for those three mail types are  
25 converging. So something like CEM, in this day and age,

1 makes less and less sense.

2 Q But QBRM makes lots of sense?

3 A QBRM, the difference between QBRM and CEM is that  
4 it doesn't cause the problems that are related to two stamps  
5 that you are going to find with CEM or the P rate, or a  
6 similar multiple stamp proposal.

7 Q But can we agree that the cost differences are  
8 similar?

9 A Well, I believe Witness Willette relied on the  
10 QBRM cost savings in her discount recommendation.

11 Q Do you disagree with that reliance?

12 A I don't believe I really addressed the cost study  
13 in my testimony at all. I would have to look into it  
14 further. The cost study for QBRM in the last rate case was  
15 in my testimony, but it was on a more limited scope, just  
16 having to do with placing a barcode on a handwritten letter,  
17 and I am not really sure off the top of my head what Witness  
18 Campbell did in this case, because I know he made some  
19 modifications.

20 Q Could you look at your Attachment 15-A?

21 A I have it.

22 Q This is entitled "CEM Education Costs," is that  
23 correct?

24 A Yes.

25 Q And ultimately you come up with total education

1 costs of 33 million and something?

2 A Yes.

3 Q Is this a one time cost or an annual cost  
4 associated with CEM?

5 A It would be a one time cost to the extent that  
6 people are properly using the stamps after the education  
7 efforts. But if there were problems, then, obviously, we  
8 would have to spend more money to reinforce behavior.

9 Q And the Commission has already provided the Postal  
10 Service with this \$33 million?

11 A I believe it was an element in the recommendation  
12 from the last case.

13 Q When you say an element in the recommendation, is  
14 there a statement in the Commission's opinion to the effect  
15 that they are providing for the \$33 million for CEM  
16 education expenses?

17 A Well, there is, but I really don't have any  
18 first-hand knowledge about how you get from that sort of  
19 result to our budgeting process and to what happens after  
20 the fact. I wouldn't really know.

21 It was in the recommendation for the last rate  
22 case.

23 Q But you have included that \$33 million again?

24 A I have included the cost estimate in terms of how  
25 we would educate the public and what we thought would be the

1 best means to do so.

2 Q Would you look again at page 1 of Attachment 15B.

3 A I have it.

4 Q In Column 2 you have revenue clerk costs. Do you  
5 see that?

6 A Yes.

7 Q And that is \$40 million and something?

8 A Yes.

9 Q Regardless of how much short paid mail there might  
10 be?

11 A Based on the way this estimate was developed, yes.

12 Q Then you have postage due costs in Column 3, is  
13 that correct?

14 A Yes.

15 Q And how are those developed?

16 A Well, the costs for the clerks that are in Column  
17 2, whatever mail they are able to isolate, these are the  
18 costs that would be required to return short paid mail back  
19 to the sender.

20 Q Are these based on a cost per piece?

21 A Which costs?

22 Q The costs in Column 3 costs.

23 A Yes.

24 Q In Column 4 you sum these two costs, is that  
25 correct?

1 A Yes.

2 Q So if short paid mail increases from 1.13 percent  
3 to 2 percent, the Postal Service is going to incur annual  
4 costs of something over \$69 million?

5 A Yes. To evaluate the impact of the initial  
6 education efforts and also to reinforce proper behavior and  
7 check for short paid mail because our machines can't do it  
8 automatically.

9 Q Perhaps I am reading the exhibit incorrectly but  
10 as I understand it, the number in Column 6 represents the  
11 maximum revenue loss that would be incurred at the various  
12 percentages of short paid mail. Column 4 represents the  
13 enforcement costs that the Postal Service will incur to  
14 prevent that maximum revenue loss. Is that correct?

15 [Pause.]

16 THE WITNESS: Yes.

17 BY MR. COSTICH:

18 Q You'll excuse my puzzlement, I hope. Why would  
19 the Postal Service spend almost \$70 million in order to get  
20 back a little over \$10 million?

21 A I think that is one of our points, that it is not  
22 worth spending this money. We'd have to enforce the proper  
23 behavior and it is just not financially sound to have to  
24 spend this much money for a proposal that even Witness  
25 Willette says that most -- well, not most people but some

1 people will not use.

2 Q Well, I am still puzzled. If we assume that short  
3 paid mail almost doubles so you get 2 percent short paid  
4 mail as a result of CEM, the most you would lose, as I  
5 understand this, is a little over \$10 million.

6 Why would the Postal Service incur any of these  
7 other costs -- revenue clerk costs, postage due costs --

8 A Well, I think as I said they would have to  
9 reinforce the proper behavior and your question assumes that  
10 we know how much mail is going to be short paid from the  
11 beginning, which we don't, so we would spend the money in  
12 Column 4 to reinforce proper behavior and the revenue loss  
13 is calculated separately in Column 6.

14 Q But every number in Column 4 is much greater than  
15 the number in Column 6.

16 Why would you spend any of that money when you get  
17 back less?

18 A I don't think it is an acceptable alternative just  
19 to take a revenue loss for consumers using stamps in error.  
20 That is another one of our points is that this unnecessarily  
21 complicates the system, and it is --

22 Q Mr. Miller, the Postal Service is not going to do  
23 this, is it?

24 A What are you referring to? Spending this money?

25 Q Spending \$70 million to get ten, spending \$103

1 million to get 22. It makes absolutely no financial sense,  
2 does it?

3 A We agree this proposal makes no sense and the  
4 money that it would be required to spend to enforce the  
5 proper behavior is not worth, realigning the postage costs  
6 that are a maximum of ~~\$300,000~~<sup>\$300 million</sup> and less than that given that  
7 Witness Willette herself has said not everyone will use it.

8 Q Could you look at page 16 again?

9 A I have it.

10 Q Okay. Starting at line 10 you say, "I have shown  
11 that the Postal Service could spend in the range of \$122 to  
12 300 million. These costs would have to be recovered in  
13 addition to the revenue loss associated with CEM. It would  
14 not make financial sense for the Postal Service to spend  
15 that amount to realign a maximum of \$300 million worth of  
16 postage costs."

17 Did I read that correctly?

18 A Yes.

19 Q When you say \$300 million worth of postage costs,  
20 are you referring to the difference in costs between CEM and  
21 other First Class single piece letters?

22 A No. It is the cost difference between CRM paid at  
23 the full rate and CRM with a 3 cent discount, which is  
24 basically the amount of costs you would be realigning.

25 Q If we were to assume hypothetically that a CEM

1 piece costs 28 cents less than the other kinds of First  
2 Class letters, your maximum of 300 million becomes 2.8  
3 billion, correct?

4 A Twenty-eight cents multiplied by 10 billion  
5 pieces; is that what you're asking me? That's 2.8 billion.

6 Q Would it make sense for the Postal Service to  
7 spend \$122 to \$300 billion to realign that kind of a cost  
8 differential?

9 A I don't see how that's related to CEM.

10 Q You've never seen the suggestion that CEM costs  
11 somewhere between 28 and 29 cents less than other First  
12 Class single-piece letters?

13 A I've seen that before in a Library Reference, but  
14 I don't think that had anything to do with anybody that is a  
15 cost witness in this case. It's not something that I  
16 personally believe.

17 Q Do you remember the firm that performed that study  
18 that's in the Library reference?

19 A I think it was Christianson Associates.

20 Q Yes.

21 Are there any employees of Christianson and  
22 Associates appearing as witnesses in this case?

23 A Yes, there are. I guess when I said cost witness,  
24 I meant someone more along the lines of myself that's  
25 evaluating the cost avoidance related to worksharing.

1 Q Well, if the Postal Service is willing to put up  
2 some folks from Christianson Associates as witnesses, I take  
3 it that the Postal Service considers Christianson Associates  
4 a competent consultant; is that correct?

5 MR. TIDWELL: Objection, Mr. Vice Chairman. I  
6 don't think that it's within the scope of this witness's  
7 testimony to discuss the management's opinions of the  
8 various consultants that are hired by the Postal Service to  
9 perform various tasks.

10 MR. COSTICH: Well, Commissioner LeBlanc, this  
11 witness has presented costs that he claims are associated  
12 with adopting CEM, and he also -- he claims that those costs  
13 aren't worth incurring to change or adjust a \$300 million  
14 cost difference.

15 But if that cost difference is \$2.8 billion, and  
16 if competent consultants have suggested that that is,  
17 indeed, the cost difference, then this witness's suggestions  
18 about how much cost is worth incurring to adjust that cost  
19 difference, become very relevant and definitely within the  
20 scope of his testimony.

21 MR. TIDWELL: If I can respond, Mr. Chairman, the  
22 cost difference that's described by counsel for the OCA has  
23 nothing to do with the issue of whether or not CEM should be  
24 adopted.

25 COMMISSIONER LeBLANC: Well, the witness tried to

1 answer it, and we'll go ahead and repeat it, Mr. Costich.  
2 Let him try to answer it one more time and we'll move on.

3 MR. COSTICH: I'm going to have to ask that the  
4 question be read back.

5 COMMISSIONER LeBLANC: Mr. Reporter, please?

6 [Whereupon, the Reporter read back the record as  
7 requested.]

8 COMMISSIONER LeBLANC: Mr. Costich, that is a  
9 little bit far-fetched but we will go ahead and let him  
10 answer it at this point and then you can move it on.

11 THE WITNESS: Personally I have never worked with  
12 Christenson Associates on any project. They have never been  
13 consulted on something that supported my specific testimony  
14 so I can't really comment on that, but in terms of the  
15 figure that was in the Library Reference where I believe it  
16 mentioned 28 cent contribution if you just look at delivery  
17 unit costs, which tend to be four or five cents apiece for  
18 single piece I believe it was, that would mean there are no  
19 other costs besides delivery.

20 To me that just doesn't make sense. I don't know  
21 what analysis that figure was based on but my own personal  
22 opinion is it is not correct.

23 BY MR. COSTICH:

24 Q When you speak of delivery costs for the most part  
25 courtesy reply envelopes are delivered in bulk, are they

1 not?

2 A Well, that's true but this is a sketchy area  
3 because there are also costs related to collections for  
4 these mail pieces that are difficult to estimate and have  
5 really never been estimated.

6 Yes, that was an average figure but even if it was  
7 only a part of that you would still have all the mail  
8 processing costs that would have to be incurred and just  
9 from the models I have ever completed the thought that a ~~20~~<sup>28</sup>  
10 cent contribution out of a 32 cent rate should be applied to  
11 courtesy reply mail, I just don't personally believe that is  
12 accurate.

13 Q Well, you mentioned mail processing costs. If I  
14 mail my Pepco bill here in downtown D.C. how many sorts is  
15 it going to go through?

16 A It depends on how their sort plans are structured.  
17 I haven't really looked at the sort plans in Washington,  
18 D.C.

19 Q Okay. Let's assume hypothetically that Pepco has  
20 a unique 5-digit zip code for its bill payments. Is that  
21 going to go through more than one sort?

22 A I'm sorry, could you repeat that question?

23 Q Let's assume that Pepco has a unique 5-digit zip  
24 code for its bill payments. If I mail my Pepco bill here in  
25 downtown D.C. is it going to go through more than one sort?

1 A One sort on what piece of equipment?

2 Q Well, what is the first piece of equipment it is  
3 going to hit?

4 A AFCS.

5 Q So it will go through the AFCS. What is the unit  
6 cost for that?

7 A I'm sorry, we don't have AFCS operation in my cost  
8 models.

9 Q Pretty low, isn't it?

10 A So I don't have that -- I'm sorry?

11 Q It's pretty low, isn't it?

12 A I am not really sure what it is.

13 Q Well, what is the throughput of an AFCS?

14 A Well, the throughput of an AFCS is not the same as  
15 the productivity, which is what would be used to measure the  
16 costs and I just don't have that information right with me.

17 Q In your testimony on nonstandard surcharge, you  
18 discussed various equipment speeds. You mentioned --

19 A Yes.

20 Q -- equipment that can operate up to 45,000 pieces  
21 per hour, is that correct?

22 A I have seen that happen in acceptance tests.  
23 Generally speaking, from what I have seen in acceptance  
24 tests <sup>on a</sup> ~~at~~ DBCS they tend to adjust that downward to some  
25 extent because it affects the number of jams but they can

1 process mail at that throughput.

2 Q Can an AFCS run at that rate?

3 A I am not sure what the throughput is on an AFCS.

4 Q Is it in the tens of thousands per hour?

5 A I would think so.

6 Q And how many employees staff the AFCS?

7 A Well, one person would generally staff the machine  
8 but you have several people that would be charged to that  
9 operation that are dumping hampers into the conveyer system.

10 In fact, that operation tends to have a lot of  
11 allied labor associated with it.

12 Q But you can't come up with any estimate in terms  
13 of cents per piece for running pieces through that  
14 operation?

15 A I don't have that now.

16 Q What equipment would a CRM piece hit after the  
17 AFCS?

18 A Well, it depends on the type of CRM mail piece, if  
19 it is local. It depends on what the specific mail piece is.

20 Q Well, if it is prebarcoded and the AFCS picks that  
21 out, where is it going to go next?

22 A It is going to go to the outgoing primary  
23 operation.

24 Q And what is the unit cost of that operation?

25 A .981 cents.

1 Q Almost a penny?

2 A Yes.

3 Q So if the only cost we can identify with any  
4 certainty is a penny and if we hypothesize that the piece I  
5 am talking about, my Pepco bill, gets finalized in one sort,  
6 you have still got another three cents of costs that you can  
7 blow somewhere else and still come up with the Christenson  
8 Associates number, right?

9 A Well, your question would assume that all CRM  
10 pieces are Pepco bills and that is not the case. Some of  
11 them are going to have transportation costs, and be  
12 nonlocal, and be sent to residue bins and go through  
13 multiple operations in addition to the AFCS.

14 As I said, there are collection costs associated  
15 with them that technically are part of what we call delivery  
16 even though it is on the originating end.

17 Q Those collection costs are very small in terms of  
18 unit attributable costs, aren't they?

19 A I don't think from what I have ever seen -- I have  
20 talked to people about collection costs related to the  
21 delivery before, and they have made estimates but those  
22 estimates were solely based on costs related to taking mail  
23 from collection boxes and in actuality some mail, if you  
24 have ever walked a route with a carrier, they still pick up  
25 mail from each household, and so technically some of the

1 walking time should also be attributed to the originating  
2 mail, but I don't think anybody has done an in-depth study.

3 Q Well, walking time isn't attributable, is it?

4 A I am not really sure. I am not a delivery cost  
5 expert.

6 Q What this all boils down to is the proportions of  
7 mail that get finalized in one sort or maybe two sorts,  
8 right?

9 A Those aren't the only options for CRM.

10 Q How many more sorts -- what is the maximum number  
11 of sorts you think a qualifying CRM piece would go through,  
12 putting aside rejects or problem pieces, just --

13 A I guess you could just run down the list of  
14 automated operations and say that would be the maximum.

15 Q So you have got an outgoing primary, maybe --

16 A You have the AFCS operation, the outgoing primary,  
17 outgoing secondary, managed mail program, incoming SCF,  
18 incoming primary. That would be six.

19 Q Does the Postal Service have a program whereby  
20 certain bins on the outgoing primary <sup>BCS</sup> ~~BCS~~ sortation are  
21 dedicated to certain national mailers?

22 A I believe that was in institutional interrogatory  
23 response but I can't recall the exact -- I believe it was a  
24 response for Carlson, Mr. Carlson. I can't remember the  
25 specifics of the response.

1 Q Pieces sorted to those bins would have been  
2 finalized at that point, correct?

3 A At what point?

4 Q After that outgoing primary sort, pieces sorted  
5 into those dedicated bins would be finalized, correct?

6 A I am not really sure. I mean I don't know enough  
7 about what the specific mailers are that are getting that  
8 mail.

9 In some instances perhaps they are performing  
10 additional sorts based on the four-digit add-on code. I  
11 don't know. I haven't researched that area.

12 Q Can we agree that at least for CEM pieces that are  
13 finalized in one sort, their cost is less than 4 cents?

14 A I haven't tried to specifically study that. I  
15 don't really know.

16 Q Well, --

17 A It would be less than if it had more sorts.

18 Q And we know that the one sort costs a little less  
19 than a penny, right?

20 A Well, first of all, that is a non-CRA adjusted  
21 cost, so it was simply a model cost. I just don't feel  
22 comfortable making these comparisons on something I haven't  
23 specifically studied.

24 Q Could you look at page 31 of your testimony?

25 A I have it.

1 Q We have changed subjects here. This section of  
2 your testimony concerns the non-standard surcharge, correct?

3 A Yes.

4 Q At the bottom of page 31, starting around line 34  
5 and running on over to page 32, you discuss some of the  
6 history of the aspect ratio standard, is that correct?

7 A Yes.

8 Q You refer to a Universal Postal Union standard  
9 that is more stringent than the Postal Service's, do you see  
10 that?

11 A Yes.

12 Q Do you know where the Universal Postal Union got  
13 the aspect ratio of 1.414?

14 A No, I do not.

15 Q Do you know when they adopted it?

16 A I am not sure of the exact date, but based on the  
17 fact that it was mentioned in the testimony in <sup>MC13-1</sup>MC-73, at  
18 least 27 years.

19 Q Do you know if the Universal Postal Union has  
20 reevaluated it since then?

21 A No, I do not.

22 Q The Postal Service chose the 1.3 aspect ratio in  
23 1973?

24 A Yes.

25 Q Has the Postal Service reevaluated it since?

1 A Are you asking me if any studies have been done?

2 Q Yes.

3 A I believe I answered in interrogatories in my  
4 direct testimony that none had.

5 Q Do you know what the original basis for choosing  
6 the 1.3 minimum aspect ratio was?

7 A I believe that requirement was based on the  
8 results from both an engineering study and a marketing study  
9 in Docket Number MC 73-1.

10 Q In terms of the engineering study, what did that  
11 show?

12 A Well, in Library Reference L-10 of that docket,  
13 they recommended an aspect ratio of 1.5.

14 Q And what was the basis for that?

15 A It was an evaluation of what they called  
16 mal-processing on various mail processing equipment, and the  
17 extent to which different mail piece characteristics  
18 affected the percent that was mal-processed.

19 Q What types of equipment were studied?

20 A Cancellation machines, letter sorting machines,  
21 the first edition of the optical character readers. I think  
22 they also used several support type equipment that I am not  
23 even sure what it is.

24 Q The OCR that you referred to is no longer in use?

25 A I don't think the specific version they used is in

1 use any longer. I would imagine it was the forerunner of  
2 our current equipment.

3 Q It would have been a single line OCR reader?

4 A Yes, I believe that is true.

5 Q And what exactly went wrong with low aspect ratio  
6 pieces on that OCR?

7 A A lot of what is included in my rebuttal testimony  
8 was basically trying to answer the question of where this  
9 originated, which it was my understanding the OCA wanted to  
10 know. I didn't try to reevaluate the results. All I am  
11 saying is the engineering study itself recommended a 1.5  
12 aspect ratio for letters, and I believe I quoted Witness  
13 ~~Frank~~ <sup>Faught</sup> when he said it was judgmentally relaxed to 1.3 and  
14 that was because a marketing study showed that it would  
15 impact some mailers.

16 Q Am I remembering your initial testimony in this  
17 docket correctly as saying that the problem with low aspect  
18 ratio pieces is that they tumble on the equipment?

19 A Yes, I guess the word "tumble," in essence, should  
20 be interpreted as the mail piece would not be properly  
21 aligned.

22 Q By that, do you mean that the piece somehow got up  
23 on a point of a corner instead of sitting on a flat edge?

24 A Well, for example, on an OCR or a barcode sorter,  
25 it would faced differently than the rest of the mail pieces

1 are, where the address would not be aligned in the same  
2 manner.

3 Q The address would be on the right side of the  
4 envelope, but it would be tilted, is that what you are  
5 saying?

6 A Well, I don't know if I was trying to get specific  
7 about what exactly is going to happen in any given moment.  
8 The point is that the equipment on the AFCS, as those mail  
9 pieces are fed through, they are aligned on their long edge,  
10 and some mail pieces are not going to be aligned properly if  
11 they do not meet the aspect ratio requirement.

12 Q Which piece of equipment were you --

13 A The AFCS.

14 Q AFCS?

15 A Yes.

16 Q Sorry, I just wasn't hearing it. All right.  
17 Witness Callow assumed that 50 percent of square pieces  
18 would get aligned properly on the AFCS, is that correct?

19 A I believe that was the starting point of his  
20 analysis.

21 Q And you disagree with that, correct?

22 A Well, I haven't specifically studied it, but I  
23 just think that there are many subcomponents to the AFCS,  
24 and to assume that just randomly that it is going to be  
25 properly faced half the time was probably over-simplistic.

1 Q Square letters have four sides, right, four edges?

2 A That's true.

3 Q And if a piece goes through the AFCS on two of  
4 those edges, it is going to get faced correctly?

5 A Well, you are talking about systems that are  
6 looking for indicia marks and other sorts of characteristics  
7 for the mail piece, and just to say that randomly, 50  
8 percent of the time a mail piece is going to be properly  
9 faced, to me, just seemed like it was overly-simplistic.

10 Q Well, can we agree that the piece is going to  
11 enter the relevant part of the AFCS on one of its four  
12 sides?

13 A That's true.

14 Q And if the side it's on, the edge it's on is such  
15 that the AFCS does not detect an indicia, the piece will be  
16 flipped; is that correct?

17 A I believe that's true.

18 Q And this is true for any piece that goes through  
19 the AFCS?

20 A If it doesn't detect some sort of marking indicia  
21 or postage stamp, it would flip it and try to find it on the  
22 other side.

23 Q And for rectangular pieces, if there is indicia  
24 there, it's going to be found, correct?

25 A It should be. I haven't really studied this to

1 see the percent of time that there might be problems where  
2 it doesn't pick up an indicia or something's out of position  
3 on the mail piece.

4 Q But that wouldn't be related to the shape of the  
5 piece; it would be a problem with the equipment, correct?

6 A Or the location of a specific item on the mail  
7 piece.

8 Q Could you elaborate on that?

9 A Well, like if the stamp wasn't in the usual  
10 location or metered strips were misaligned or something like  
11 that.

12 Q Okay. But that doesn't have anything to do with  
13 the shape of the piece, either, right? I mean, that's  
14 something that could happen whether the piece is square or  
15 rectangular.

16 A Could happen on any mail piece.

17 Q You have criticized Witness Callow for not  
18 performing a real-world study; is that correct? Page 36,  
19 lines 18 and 19.

20 A I pointed that out, yes.

21 Q In your initial testimony in this docket, did you  
22 perform a real-world study of non-standard pieces?

23 A No, but I'm not proposing that we relax a standard  
24 to exclude low aspect ratio mail pieces.

25 Q The Postal Service is proposing to continue the

1 non-standard surcharge, correct?

2 A Yes, despite the fact that the costs are much  
3 higher than the current surcharges.

4 Q And that's --

5 A With a conservative analysis.

6 Q But not a real-world analysis, correct?

7 A In the case of low aspect -- or non-standard  
8 letter-shaped mail, that would be true.

9 Q Well, it's true with respect to under-one-ounce  
10 flat-shaped pieces, under-one-ounce parcel-shaped pieces as  
11 well, isn't it?

12 A Well, although I used conservative inputs which  
13 weren't the cause for the mail pieces that were flat-shaped  
14 and parcel-shaped that weighed less than one ounce, you  
15 could have used that data, but you would have resulted in a  
16 much higher surcharge than what I had calculated. But you  
17 had the actual data for those mail pieces weighing less than  
18 an ounce whereas you don't have -- and by definition, those  
19 will always be non-standard, but for non-standard  
20 letter-shaped mail, you don't have the cost for letters that  
21 violate the aspect ratio that weigh less than one ounce,  
22 that you can derive these in the CRA.

23 Q You got your costs for that kind of mail from  
24 assuming that it's processed manually at every step?

25 A I did make that assumption, yes.

1 Q You did?

2 A Yes.

3 Q So how does your study respond better to the  
4 Commission's request for an analysis than Witness Callow's  
5 study?

6 A Well, even if you substitute Witness Callow's --  
7 I'm not sure what he termed it, but the more likely cost for  
8 non-standard letters, letter-shaped mail, as I have done in  
9 attachment C, the weighted cost for first-class single-piece  
10 still is substantially higher than the current surcharge.

11 Q And that's for all shapes, correct?

12 A Yes.

13 Q If we just look at letters again, and you can also  
14 look at page 36 down the bottom I guess is a good place,  
15 starting around line 23, you say that when you look at  
16 Witness Callow's table 17, every cost that he came up with  
17 is greater than the average cost per piece for single-piece  
18 letters; is that correct?

19 A Yes, that's true.

20 Q And the lowest cost that Witness Callow came up  
21 with was 12.783 cents; is that correct?

22 A I don't think I have that table with me, but I  
23 think he pointed out that he thought -- I think he used 18.6  
24 as a likely cost, which is substantially higher than 12.296,  
25 which was the average cost for single-piece letters, and

1 regardless of that fact, his analysis clearly shows that  
2 these letters, even with the many assumptions he has made,  
3 incur additional costs.

4 Q And those costs are all substantially less than  
5 the 11-cent surcharge the Postal Service proposes to --

6 A I don't believe he proposed deaveraging the  
7 non-standard surcharge by shape. I think he just proposed  
8 eliminating the requirement that low aspect ratio letters be  
9 charged the surcharge.

10 Q Let's back up a second here.

11 You refer to Witness Callow's table 17 as having  
12 various estimates of mail processing costs for low aspect  
13 ratio pieces, correct?

14 A Yes, that's true.

15 Q And every one of those estimates is higher than  
16 the 12.296 cents that you have as the average cost for  
17 single-piece letters; is that correct?

18 A Yes, that's true.

19 Q All right. The only question I'm trying to ask  
20 you is the difference between Witness Callow's table 17  
21 numbers and your 12.296 cents is always significantly less  
22 than 11 cents, correct?

23 A Unfortunately, I don't have table 17 with me.

24 Q If you'll accept my representation that the  
25 largest number in table 17 is 21.644 cents, that difference

1 is about 9 cents, correct? And that's less than 11 cents,  
2 correct?

3 A That's true.

4 Q So at least in this case of low aspect ratio  
5 pieces, the Postal Service proposes to overcharge them by at  
6 least two cents.

7 A Well, once again, as I said, I don't believe  
8 Witness Callow proposed deaveraging the surcharge by shape,  
9 but even though -- subject to check, if the maximum cost  
10 difference is nine cents, it's still much greater than zero.

11 Q Okay.

12 A Every single cost cell as he validated in response  
13 to an interrogatory is greater than zero.

14 Q Please accept that the lowest number in table 17  
15 is 12.783 cents. That's about a half a cent different from  
16 your average cost, correct?

17 A That's true, but I think he also used that 18.6  
18 figure, which is roughly six cents higher than the average  
19 single-piece letter's cost.

20 Q But it's still five cents less than the  
21 eleven-cent surcharge, correct?

22 A That's true, but I don't think he recommended  
23 deaveraging the rates based on shape.

24 He's proposing eliminating any additional  
25 surcharge for nonstandard letters that violate -- or that

1 are low aspect ratio letters, when his analysis clearly  
2 shows ~~an incurred~~ additional cost.

3 Q Does the Postal Service return low aspect ratio  
4 pieces for additional postage?

5 A I haven't really conducted a study to determine  
6 the extent to which they might or might not do that.

7 Q In your initial testimony in this docket, did you  
8 refer to Witness Haldi's testimony in R97-1?

9 A I believe I did.

10 Q Witness Haldi mailed ten square letters; is that  
11 correct?

12 A I believe that's correct.

13 Q And none of them was returned for additional  
14 postage?

15 A I don't recall reading about that, however, that's  
16 ten mail pieces which Witness Callow himself, even though he  
17 tried to use part of that to support his testimony, also  
18 said that it wasn't statistically valid.

19 But for that sample size of ten, I'll accept,  
20 subject to check, that none of them were returned. However,  
21 one of them was never received and a second one was not  
22 processed through automation.

23 Q Is that the best evidence we've got as to whether  
24 the Postal Service returns square pieces for additional  
25 postage?

1           A     I don't know the answer to that question. I know  
2 that I haven't conducted a study to try to determine the  
3 extent to which they do return those mail pieces or do not.

4           Q     In your CEM rebuttal -- you don't need to turn  
5 back, at least I don't think so.

6                     You demonstrate significant costs associated with  
7 identifying short-paid pieces; is that correct?

8           A     That's correct.

9           Q     Would similar significant costs be associated with  
10 identifying short-paid square non-standard pieces?

11          A     To the extent that the Postal Service decided to  
12 enforce the non-standard surcharge, there would be  
13 additional costs. I haven't attempted to quantify that.

14                     MR. COSTICH: No further questions, Mr. Chairman.

15                     CHAIRMAN GLEIMAN: I have two really brief  
16 announcements before we move on to our next party who is  
17 going to cross examine, and that would be Pitney Bowes.

18                             The first is that shortly there will be a coffee  
19 pot over in the corner there so that folks who have to say  
20 around late this evening will be able to get some high-test  
21 and maybe keep them moving along.

22                             The other is that tomorrow we're going to be  
23 receiving testimony from witnesses sponsored by the Postal  
24 Service, the Office of the Consumer Advocate, and United  
25 Parcel Service whose testimony responds to NOI-4 and

1 Presiding Officer's Information Request Number 19.

2 Generally, these witnesses discuss models used by  
3 the Postal Service's Witness Bozzo to estimate the  
4 variability of mail processing costs.

5 The Commission has found some articles that may be  
6 relevant to these issues. We expect to ask some questions  
7 premised on these articles, and, therefore, I'm going to  
8 distribute to counsel, the Postal Service, the Office of  
9 Consumer Advocate, and United Parcel Service, copies of  
10 these articles.

11 The first is a chapter from the Handbook on  
12 Econometrics, Chapter 25 that deals with economic data  
13 issues.

14 I'm going to distribute the whole chapter,  
15 although the Commission's questions will relate to materials  
16 in Section 6 involving missing variables and incomplete  
17 models, in particular, the first four pages of that section.

18 I have extra copies of those four pages, or will  
19 have extra copies of those four pages, if someone wants them  
20 for later on this evening. I know that it will make great  
21 reading for those of you who get to go home early.

22 The second is an article from a technical journal  
23 entitled Error in the Variable Bias in Nonlinear Contexts.  
24 I also will have extra copies of this article for anybody  
25 who's an insomniac.

1 I just want to make sure that the counsel for the  
2 Postal Service, OCA, and United Parcel Service, make sure  
3 that they get copies of the material from me during our next  
4 break, okay?

5 Mr. Volner?

6 MR. VOLNER: Thank you, Mr. Chairman.

7 CROSS EXAMINATION

8 BY MR. VOLNER:

9 Q Mr. Miller, my name is Ian Volner, and I will be  
10 cross examining you, hopefully briefly, on behalf of Pitney  
11 Bowes.

12 I'd like to start by asking you to turn to page 20  
13 of your testimony.

14 A I have it.

15 Q And I'm just going to take you through a very  
16 quick drill, because I think you've got it accurate, but  
17 since there are so many discount proposals on the table, I  
18 want to make sure that we're all talking from the same page.

19 Is it fair to say that what Pitney Bowes has  
20 proposed is a one-cent discount for single-piece metered, in  
21 quotes, mail, First Class Mail?

22 And the reason I used the quotes around metered is  
23 that it covers both traditional, stand-alone meters, and IPI  
24 technology. Is that a fair characterization of the proposal  
25 that Pitney Bowes has made?

1 A That's my understanding, yes.

2 Q Okay.

3 Is it also fair to say that this discount is not  
4 based upon any projection of savings, real or imagined, from  
5 mail processing?

6 A I believe that's true.

7 Q And it's not based upon any savings, real or  
8 imagined, from sortation, from drop entry, or from  
9 transportation?

10 A Bulk mail entry or transportation?

11 Q Or transportation.

12 A I believe that's true.

13 Q And it's not based upon, since you raised it, any  
14 cost difference that might emerge if metered mail is  
15 presented to the Postal Service in the form that you have  
16 been referring to and that has been referred to extensively  
17 throughout this case as bulk metered mail?

18 A I'm sorry, but you were saying that there's no  
19 cost difference based on that as a benchmark?

20 Q The discount is not based upon such cost  
21 differences that may exist in the manner in which metered  
22 mail or meter technology mail is presented to the Postal  
23 Service?

24 A Well, I think you already asked me if it was based  
25 on mail processing, and our use of the bulk metered mail

1 benchmark is geared towards mail processing costs, so I  
2 guess I would say it's not based on that.

3 Q And, in fact, the discount is based upon measured  
4 costs that are avoided in the manufacture, distribution, and  
5 sale of stamps; isn't that the entirety of the basis of the  
6 discount?

7 A I believe that's true, yes.

8 Q Let's turn to page 21 of your testimony at lines 6  
9 and 7. In the paragraphs that follow, you've given us a  
10 very interesting history which I didn't know all of about  
11 the origins of the meter, but what I wanted to ask you about  
12 was, in line 6 and 7, you say the postage meter was  
13 originally designed to save mail clerk costs for Postal  
14 Service customers, not the Postal Service itself.

15 Now, I take it you don't mean that to be a  
16 universal position -- that is, if a function performed by a  
17 mailer benefits the mailer but also benefits the Postal  
18 Service, it is not automatically categorically, in your  
19 view, disqualified for a discount, is it?

20 A I'm not sure I followed that, but that statement  
21 was related to -- I believe it was talking about the  
22 original design of the postage meter and Arthur Pitney's  
23 original idea came from observing mail operations at the  
24 company at which he worked.

25 Q Right. But isn't it true that meters and IBI

1 technology, for that matter, provide benefits to customers  
2 today?

3 A I would imagine to the people that are using this  
4 technology, it's the most convenient and cost-effective  
5 means for them to apply postage.

6 Q And in your view, does that disqualify it for a  
7 discount if it also produces cost savings to the Postal  
8 Service?

9 A I don't believe I said that in my testimony.

10 Q Good.

11 Just so we're absolutely clear about this, a  
12 work-sharing function performed by a mailer that benefits  
13 the mailer and also benefits the Postal Service can qualify  
14 for a discount, correct?

15 A That's correct.

16 Q Okay. Let's turn to page 22 of your testimony,  
17 please, at lines 6 -- I guess it's actually 5 through 7.

18 You say the Postal Service offers these many  
19 options in the manner of acquiring postage to make access to  
20 the nation's mail system simple and convenient.

21 When you were talking about the many options, were  
22 you talking about the various non-postage-stamp options or  
23 were you including the various means by which the Postal  
24 Service distributes stamps as well?

25 A Actually, I think I meant both --

1 Q Both.

2 A -- stamps and non-stamps.

3 Q Now, with respect to stamps, the various methods  
4 that the Postal Service uses might indeed produce  
5 differences in cost to the Postal Service. That's your  
6 testimony, isn't it?

7 A Yes.

8 Q Have you attempted to quantify those differences?

9 A No.

10 Q And if, in fact, I purchase -- let's suppose  
11 hypothetically that there was a very substantial difference  
12 between the purchase of stamps at a consignment outlet and  
13 at a postal retail outlet, and let's say I purchase my  
14 stamps at a consignment outlet, at the Giant Store.

15 When the piece enters the postal system, it would  
16 not be apparent on the face of the piece, would it, where I  
17 purchased the stamp?

18 A I believe that's true.

19 Q Okay. Good.

20 Now, since you haven't quantified it, how do we  
21 know how significant those savings might or might not be?  
22 Or rather than savings, how --

23 A If they haven't been quantified, you wouldn't have  
24 any way to know.

25 Q Okay. Well, indulge me in the following

1 hypothetical. Suppose we determined or the Postal Service  
2 determined that the savings through consignment sale as  
3 opposed to sale at retail outlets was 1 mil per piece.  
4 Given the difficulty in finding out whether the proper  
5 postage was applied, you would say, wouldn't you, that  
6 that's not worth offering a discount for?

7 A I'm sorry, I didn't really follow that question at  
8 all.

9 Q In my hypothetical, the two stamp outlet  
10 distribution systems produce a difference in cost of 1 mil.

11 A What's 1 mil?

12 Q Less than a hundredth of a cent.

13 A Okay.

14 Q Or a hundredth of a cent or less.

15 In that circumstance, I could understand your  
16 testifying or are you testifying that it wouldn't be worth  
17 making a separate rate category or offering a discount for a  
18 hundredth of a cent?

19 A I don't think I testified to that at all. I just  
20 testified that there is a wide variety of postage  
21 application methods that exhibit different costs.

22 Q But without knowing the range of costs by postage  
23 payment options, how do we know whether those wide variety  
24 of methods produce sufficient cost difference to warrant  
25 consideration of a discount?

1           A     I think I said if you haven't quantified them, you  
2 wouldn't know how to treat those costs.

3           Q     But we have quantified the difference between  
4 metering technology and stamps, haven't we, in single-piece  
5 first-class?

6           A     You have quantified a savings, it's based on  
7 avoided stamp manufacturing and distribution costs.

8           Q     Okay. Good.

9                     Well, then, let's turn to page 22, lines 11  
10 through 28 of your testimony. You are discussing some -- a  
11 Commission decision based upon some testimony submitted in  
12 the 1977 rate case?

13          A     Yes, that's correct.

14          Q     Just out of curiosity, Witness Eden was testifying  
15 for the Postal Service in this case?

16          A     Yes, that's true.

17          Q     And let's make sure we understand the theoretical  
18 predicates here correctly.

19                     Would you say that a discount should be causally  
20 linked to the behavior of the mailer that you're really  
21 trying to encourage or to discourage?

22          A     I think there would be other factors involved like  
23 the costs that are avoided. That would serve as a basis for  
24 a discount.

25          Q     Yes, but I'm talking about at the highest level of

1 abstraction. Let me give you the concrete example. You  
2 would not give a discount for presortation if what you were  
3 trying to encourage was drop entry of mail, would you?

4 A I believe that's true.

5 Q Okay. Good.

6 Now, if I read this passage correctly, is it fair  
7 to say that what Witness Eden was attempting to do was in  
8 setting the discount level for presortation to include costs  
9 that might also be avoided because a certain percentage or a  
10 significant percentage of that mail had a particular method  
11 of postage payment attached to it.

12 A I think part of his cost basis for his discount  
13 was avoided stamp, manufacturing and distribution costs.

14 Q All right. But avoided stamp manufacturing and  
15 distribution costs are not causally linked to presortation,  
16 are they? They are linked to the method by which you apply  
17 postage, aren't they?

18 A That's true, but there to some extent is a link  
19 between the postage application methods used and the fact  
20 that it's work-shared mail.

21 Q Well, but didn't we agree earlier that Dr. Haldi's  
22 testimony in this case is based solely on avoided stamp  
23 manufacture and distribution costs.

24 A That's true.

25 Q Then there is a causal link between the price

1 signal that a one-cent metering technology discount would  
2 provide and the costs that the Postal Service incurs in the  
3 manufacture, distribution and sale of stamps, isn't there?

4 A I'm not sure I'm really following what you're  
5 asking me.

6 Q Well, let me try it a slightly different way.

7 Take a look at line 25 of your testimony on page  
8 22.

9 A I have it.

10 Q You say if a metered mail discount were not  
11 implemented, these mail pieces would still continue to be  
12 metered because this is the most convenient and  
13 cost-effective postage application method for some mailers.

14 A That's true.

15 Q Now, are you saying that that's the basis for  
16 denying the discount or for the Postal Service's opposition  
17 to the discount, that mailers would continue, as some  
18 mailers now are, to apply metering technology?

19 A Well, I think I was using sort of an analogous  
20 comparison to what was mentioned in that recommendation  
21 where they were talking about what the mail would have  
22 converted to had it not been presented as presort mail in  
23 bulk.

24 Q Didn't we agree that Witness Eden was trying to  
25 establish the level of a presort discount? Are you

1 suggesting that Mr. Haldi is doing the same thing that Mr.  
2 Eden did?

3 A No, I'm not saying that.

4 Q Good.

5 Your concluding sentence in that passage says,  
6 Witness Haldi has provided no compelling basis for  
7 redefining work-sharing so that it includes stamp-related  
8 costs.

9 Are you suggesting that the cost that the Postal  
10 Service avoids in the manufacture, distribution and sale of  
11 stamps when a mailer uses a meter is not work-sharing? Does  
12 the discount have to be based upon work-sharing in sortation  
13 or transportation in order to qualify?

14 A I guess it depends on how you define work-sharing.  
15 Once again, if you're talking about what mailer is going to  
16 convert if you offer a discount, what I was saying in making  
17 that analogy is just that metered mail is likely to remain  
18 metered mail.

19 Q But there is a certain quantum of stamped mail in  
20 the system today, isn't there?

21 A Yes, that's true.

22 Q And if you offered a discount, might not some of  
23 that convert? I don't want to get into the testimony of  
24 your successor witness, but did you assume that no mail will  
25 convert in making the statement that metered mail will

1 remain metered mail? Convert, that is, from stamps to  
2 metering technology.

3 A In general, yes. I don't recall anything in  
4 Witness Haldi's testimony that showed that a sizeable  
5 portion would convert.

6 Q Well, I think we'll let Mr. Haldi's testimony  
7 speak for itself and go on to my last point.

8 Let's turn to page 23 of your testimony. In the  
9 last section under heading four -- I'm sorry. Let's go to  
10 line 6 and 7 on page 23.

11 A I have it.

12 Q You say -- now, what we're talking about here is  
13 your concern that if the meter discount were -- metering  
14 technology discount were given to first-class single-piece  
15 mail as we have proposed, that some theory would compel it  
16 to be extended to other classes or subclasses of mail? Is  
17 that the thrust of your testimony here?

18 A I'm saying that there are other types of postage  
19 payment methods that would also avoid stamp manufacturing  
20 and distribution costs.

21 Q Why did you put the word "avoids" in quote on line  
22 6?

23 A I think just to tie it to the concept of cost  
24 avoidance since I didn't mention that whole phrase.

25 Q I see. Okay. So it's not meant to mean anything

1 other than that.

2 A No.

3 Q Now, let me ask the question. You say that there  
4 are other postage payment methods other than metering  
5 technology that avoid costs to the Postal Service, and the  
6 most obvious one would be -- well, it couldn't be stamps,  
7 could it?

8 A Well, depends on what you're comparing it to.  
9 There could be some methods of purchasing stamps that save  
10 costs compared to other methods of purchasing stamps.

11 Q That's true, but we went through that a few  
12 minutes ago, didn't we? We don't know whether those methods  
13 produce differences in costs that are cognizable, do we?

14 A No, that's true, but I was just saying that there  
15 could be.

16 Q And we also don't know what the -- how the Postal  
17 Service would administer such a multi-stamp project, do we?

18 A No.

19 Q But we do know that the Postal Service for some  
20 subclasses uses things other than stamps and meters. Is  
21 that what you were talking about on lines 6 and 7?

22 A Yes.

23 Q Good.

24 Let's turn to table 5 for a moment, which appears  
25 on the next page of your testimony. I'm interested in --

1 well, you've got categories 5, 6 -- 6, 7, 8 and 9 deal with  
2 periodicals.

3 A Actually that has been updated.

4 MR. TIDWELL: Yes. You muse looking at the  
5 unrevised version of the testimony. There were errata filed  
6 on Monday which knocked out all the periodicals.

7 MR. VOLNER: Oh. Good. That makes it a lot  
8 easier.

9 BY MR. VOLNER:

10 Q Why were periodicals knocked out?

11 [Pause.]

12 Mr. <sup>Miller</sup> ~~Witness~~, you did the errata, I presume. Isn't  
13 it the case that you knocked out periodicals because  
14 periodicals cannot by rule use stamps, cannot by rule use  
15 conventional PERMIT imprint, and cannot by rule use meters?  
16 Isn't that why you knocked them out?

17 A That's why I took it out, yes.

18 Q Good.

19 Now, isn't it also the case that because of the  
20 somewhat peculiar status of periodicals in the postage  
21 payment system, that there is literally or virtually  
22 literally no attributable costs associated with the  
23 manufacture, distribution and sale of stamps assigned to  
24 that subclass, or those subclasses?

25 A For periodicals?

1 Q Yes.

2 A I am not really sure, but that is why we took it  
3 out of the table.

4 Q Good. Now let's talk about business reply mail  
5 for a moment.

6 A That has also been taken out of the table.

7 Q That has also been taken out of the table?  
8 Excellent. Let's try and understand why business reply mail  
9 was taken out of the table.

10 Isn't it the case that in business reply mail  
11 whether it has got a Q in front of it or not, the way you  
12 pay postage is to you pay only on the pieces that come back  
13 to the mailer, is that correct?

14 A That's correct.

15 Q And can you tell me how, assume with me that there  
16 is no formal DMM rule that says you can't use a meter or you  
17 can't use stamps, but how would you do that?

18 If I put the postage on before the piece went into  
19 the envelope to the consumer, I would have paid postage on a  
20 fair number of pieces that never came back to me, right?

21 A I'm sorry, I didn't follow that.

22 Q Do we agree that in the case of business reply  
23 mail I only pay on -- I pay postage on the pieces that come  
24 back?

25 A Yes.

1 Q If I pay postage before the piece comes back to  
2 me, I would overpay postage unless I got 100 percent return,  
3 and if I got 100 percent return I guess I wouldn't be  
4 sitting here, would I?

5 [Laughter.]

6 THE WITNESS: Yes.

7 BY MR. VOLNER:

8 Q Okay. Now doesn't that mean, to try to cut it to  
9 the chase that really the only practical way to pay postage  
10 only on the pieces that come back is to use permit imprint  
11 or the business reply version of permit imprint?

12 A You are just talking about business reply mail?

13 Q Yes.

14 A That's true.

15 Q Excellent. Is that why you knocked out business  
16 reply mail from this table?

17 A Well, actually when I first made this table my  
18 point of putting these different mail types in was saying if  
19 there were not these alternatives that you are mentioning,  
20 and they had to use stamps, that was my initial point but  
21 then people pointed out the issues that you brought up and  
22 then we took it out.

23 Q Well, let's ask one last foolish question here.

24 What did you do with Standard A regular and the  
25 other Standard A subclasses in revising the table?

1 A They are still there.

2 Q Did you attempt to determine how much of the  
3 attributable cost of manufacturing, distributing and selling  
4 stamps is allocated to Standard A? Any of the subclasses?

5 A No, I didn't attempt to determine that.

6 Q Well, let's suppose hypothetically that if we have  
7 that number, we could probably get it, couldn't we?

8 Could we get it?

9 A I am not really sure.

10 Q Suppose hypothetically that we found that it was  
11 less than a tenth of a cent per piece given the nature of  
12 that subclass, the volumes and so forth.

13 Do you think that there would be some postal  
14 policy compulsion to nonetheless create a discount for  
15 metered mail when the amount of postage, the cost of postage  
16 if you will, in the subclass is already nonexistent?

17 A Could you repeat that?

18 Q If there is no cost of manufacturing, distributing  
19 and selling postage stamps attributed to a subclass, why  
20 would there be any reason to consider the possibility of a  
21 discount for that subclass based on the use of an alternate  
22 postage technology?

23 A Well, once again, when I first constructed this  
24 table, I was just pointing out there are lots of mail types  
25 that could claim to avoid stamp costs and actually in the

1 case of Standard A or what used to be Third Class that was  
2 actually the first mail type that was approved for permit  
3 use as an alternative to stamps and that was just my whole  
4 point.

5 I wasn't really evaluating it in terms of where  
6 costs are actually attributed at this point.

7 Q So what we are supposed to say is that all of  
8 these other subclasses that might benefit from this discount  
9 either already avoid the cost or wouldn't be able to migrate  
10 to metering technology, is that correct? Either avoid the  
11 cost of manufacturing, producing and distributing stamps or  
12 because of Postal Service regulations would not be able to  
13 migrate?

14 A They avoid the costs that they wouldn't avoid were  
15 permit postage payment technology not available.

16 Q They avoid the costs that they would not be able  
17 to avoid but for the existence of the permit technology, but  
18 the permit technology is there, isn't it?

19 A Yes.

20 Q So they don't incur the cost of manufacturing,  
21 distributing and selling stamps now, do they?

22 A Well, as I said, I haven't really undertaken an  
23 analysis to determine where all the stamp costs have been  
24 attributed.

25 Q So that we really don't have any idea at all what

1 the revenue loss in millions would be, as shown on your  
2 Table 5, other than the revenue loss from the subclass to  
3 which and the category within the subclass to which the  
4 Pitney-Bowes metering technology discount applies, is that  
5 correct?

6 A Basically what I was saying in that table is just  
7 that that is what the revenue loss would be if a one cent  
8 discount were extended to all those mail pieces that use  
9 stamp alternatives.

10 Q Well, let me take it through with you one more  
11 time and get done here.

12 Let's take a look at your column for Standard Mail  
13 A regular. You have got 42 billion pieces and you simply  
14 multiply that number, that is the volume, by one cent.

15 A Yes.

16 Q Okay. Now suppose that there is some stamp cost  
17 allocated to Standard A regular but it turns out that on a  
18 per piece basis it is two-tenths of a cent. That is the  
19 cost --

20 A For the stamps?

21 Q Yes. Suppose it is two-tenths of a cent. Are you  
22 suggesting that this Commission would be sufficiently  
23 deranged or that my client would be sufficiently -- I don't  
24 know what the word is -- to propose a discount that exceeded  
25 the cost savings by five times?

1           A     I wasn't saying that at all. All I was saying ~~was~~  
2 ~~that if this discount~~ was that if this discount were  
3 extended to these mail pieces that use --

4           Q     And if it was one cent.

5           A     -- stamp alternatives -- yes, and if it was one  
6 cent. That is all I am saying.

7           Q     And what you are saying is you don't have any idea  
8 what the costs are that would be avoided in these subclasses  
9 if they could avoid the costs at all?

10          A     I think I have said I didn't really look at the  
11 attributable costs. I was just saying if they reverted  
12 back, basically if they reverted back to stamps --

13          Q     Hypothetically reverted back.

14          A     Yes. Exactly.

15               MR. VOLNER: I have no further questions, Mr.  
16 Chairman.

17               CHAIRMAN GLEIMAN: Mr. Hendel, Stamps-dot-com.

18               MR. TIDWELL: Mr. Chairman, the Postal Service was  
19 wondering if we could take a five minute break.

20               CHAIRMAN GLEIMAN: We sure can.

21               [Recess.]

22               CHAIRMAN GLEIMAN: Mr. Hendel, whenever you're  
23 ready.

24               MR. HENDEL: Thank you, Mr. Chairman. My name is  
25 David Hendel, representing Stamps.com.

## 1 CROSS EXAMINATION

2 BY MR. HENDEL:

3 Q Good afternoon, Mr. Miller.

4 A Good afternoon.

5 Q I will the last Intervenor who will be bashing you  
6 today.7 You're certainly to be commended for your  
8 fortitude.9 CHAIRMAN GLEIMAN: There's always a chance that  
10 there could be followup, so it's not clear that you'll be  
11 last.

12 BY MR. MAY:

13 Q And I've looked at your testimony, and your  
14 testimony has examined the four single-piece discount  
15 proposals that were submitted in this rate case.16 And you obviously spent a great deal of time  
17 looking at them, and as you categorized them, you said that  
18 the CEM proposal was history repeating itself.19 The P-rate was a risky venture. Pitney Bowes was  
20 a de-averaging that crosses the line, but for Stamps.com and  
21 E-Stamp, you just said it's discounts ahead of their time,  
22 in summing it up.23 So could I draw from that that of these four  
24 proposals, the Stamps.com/E-Stamp proposal is the least  
25 objectionable of the four proposals?

1 A I would say that's true.

2 Q I'd like to turn to page 11, lines 22 to 23. Your  
3 testimony says that more trips to the Post Office would  
4 translate into increased window service costs.

5 And then on the top of page 12, lines 1 through 2,  
6 each additional window service stamp transaction would cost  
7 the Postal Service 46 cents.

8 So, I take it from that that the more window  
9 service stamp transactions that you have, the greater the  
10 cost to the Postal Service?

11 [Pause.]

12 A That's true.

13 Q And you've actually been able to determine the  
14 average cost of that, and the average cost is 46 cents per  
15 window service stamp transaction?

16 A That's true, I actually think that was in an  
17 institutional interrogatory response.

18 Q Now, if increased window service stamp  
19 transactions increase Postal Service costs, then isn't it  
20 true that reduced window service stamp transactions reduce  
21 USPS costs?

22 [Pause.]

23 A I would say that in general terms, that's true.

24 Q And that's one of the reasons why the Postal  
25 Service has stamp vending machines and it has arrangements

1 with grocery stores, because the most expensive way of  
2 selling stamps is through the window service; is that  
3 correct?

4 A That's true.

5 Q So, if you can reduce window service stamp  
6 transactions, you're saving the Postal Service 46 each stamp  
7 transaction you're saving -- window service stamp  
8 transaction that you're saving?

9 [Pause.]

10 A That's true.

11 Q Turning to page 13 -- I'm going to skip that and  
12 go to page 15, and line 9, and you identify that in 1999,  
13 there were 240 pieces of mail that were short-paid by just  
14 one cent.

15 And I think you concluded that that's either all  
16 or almost due to the fact of a rate change by one cent?

17 A That's true.

18 Q Now, with PC Postage, when there is a rate change,  
19 the PC Postage vendors are required to revise their software  
20 so that the rate tables comply with the rate change; is that  
21 correct?

22 A I think that would be a question that's probably  
23 more suited for Witness Gordon in terms of what changes need  
24 to be made by the vendors and their systems. I wouldn't  
25 really know.

1 Q Do you think the PC Postage vendors are allowed to  
2 offer postage at old rate case prices?

3 A No, I'm not saying that. I'm saying that I'm not  
4 familiar with what it takes to change the rates in the PC  
5 Postage systems.

6 Q All right, fair enough.

7 Let's assume that PC Postage providers are  
8 required to offer up-to-date rates, and that when there is  
9 -- when the rate change is effective, that the PC Postage  
10 provider must also change its rate tables so that it's  
11 software deals with the new rates.

12 Let's assume that, okay?

13 A Okay.

14 Q If that were true, you wouldn't have any of this  
15 short-paid mail?

16 A You wouldn't have any of that as it relates to the  
17 rate change, assuming that the tables were changed at the  
18 point in time that they should be.

19 Q All right, so you wouldn't have any short-paid PC  
20 Postage mail?

21 A Not in terms of the amount that's incremental due  
22 to the rate change.

23 Q And you had 240 million pieces of it in 1999?

24 A Yes.

25 Q Now, you've examined Stamps.com's proposal and

1 E-Stamp's proposal, and would you agree that the discount  
2 proposal that both companies have offered do not rely on  
3 savings from reduced costs of stamp acquisition,  
4 distribution, procurement?

5 It's strictly based on mail processing  
6 characteristics?

7 A That's true.

8 Q So, to the extent that there actually are savings  
9 to the Postal Service from reduced stamp procurement,  
10 distribution, and sales, that's gravy for these proposals?

11 A Are you talking in a ratemaking context?

12 Q No, no, I'm talking about --

13 A Or just in the avoided costs.

14 Q With respect to the proposals, what they're  
15 relying on. I understand that you disagree with them, but  
16 to the extent that there are any such savings from reduced  
17 stamp procurement, reduced stamp sales, distribution, those  
18 are savings that neither E-Stamp nor Stamps.com have put  
19 into their proposals?

20 A That's true.

21 Q And that would be additional savings that these  
22 companies have not requested and have not requested a  
23 discount for.

24 A I don't believe that was part of E-Stamp's or  
25 Stamps.com's proposal.

1 Q Let's turn to page 24.

2 Table 5. Under product description, Number 2, PC  
3 Postage mail, there is a volume projection of 4 billion  
4 pieces for the test year. Am I reading that right?

5 A I'm sorry. What page is this?

6 Q Okay. I'm sorry. Did I say page 25?

7 A Yeah.

8 Q 24.

9 A 24. Table 5.

10 Q And is Number 2 under product description, PC  
11 Postage mail. Is it showing a volume projection of 4  
12 billion pieces for the test year?

13 A I didn't really attempt to evaluate that estimate,  
14 but I believe it came from Witness Heisler's research.

15 Q Do you believe that to be a reasonable volume  
16 projection for PC Postage in the test year?

17 A No, as I said, I haven't really evaluated whether  
18 it is accurate or not. I believe Witness Gordon has  
19 information in his testimony about volumes.

20 Q But it is reasonable enough for you to include in  
21 a table that you prepared?

22 A Well, I used that particular figure because it was  
23 a Pitney Bowes witness, and that is the part of my testimony  
24 that that table was addressing.

25 Q Do you know if that is First Class pieces only or

1 includes other classes of mail?

2 A I am not really sure, to tell you the truth.

3 Q Do you know how FIM-C mail is processed by the  
4 Postal Service?

5 A Yes.

6 Q How is it processed?

7 A In terms of once it enters a facility?

8 Q Yes. Let me set stage for you, then you can just  
9 say yes or no. FIM-C mail is QBRM mail, there is a FIM-C  
10 code, is that correct?

11 A Yes, that is correct.

12 Q And FIM-C QBRM mail is single piece entry,  
13 correct?

14 A That's correct.

15 Q So it could be in collection boxes and the Postal  
16 Service will collect it?

17 A That's correct.

18 Q Eventually it will get to an AFCS and then the  
19 AFCS will recognize the FIM-C code, is that correct?

20 A That's correct.

21 Q Now tell me what happens.

22 A Once it recognizes that FIM-C code, it would sort  
23 it to Bins 1 or 2.

24 Q And that generates some savings for the Postal  
25 Service, doesn't it, over Regular mail that is not sorted to

1 those bins?

2 A I don't know if it results in any savings as it  
3 pertains to the cancellation operation.

4 Q No, not with respect to cancellation, but with  
5 respect to mail processing, if something qualifies as FIM-C,  
6 that mail piece is saving the Postal Service some money in  
7 mail processing?

8 A I believe Witness Campbell did address that in his  
9 testimony.

10 Q And the answer is yes?

11 A Yes.

12 Q And, in fact, those savings are the savings that  
13 the Postal Service has proposed for their QBRM discount in  
14 this proceeding?

15 A I believe that is true, yes.

16 Q Do you know any reason that would prevent the  
17 Postal Service from taking PC Postage and making it FIM-C  
18 mail instead of FIM-D?

19 A I think that has been addressed in previous  
20 interrogatory responses, that the mail that is sorted to  
21 Bins 1 and 2 on the AFCS is routed to an outgoing primary  
22 operation which <sup>is</sup> ~~are~~ structured to accommodate reply mail.  
23 And PC Postage mail is not necessarily any sort of reply  
24 mail.

25 Q No, but it has the same addressing, the same

1 PostNet barcode. What if you just change the FIM from a C  
2 to D -- or from a D to a C for PC Postage?

3 A I believe I talk about that on page 30 when I was  
4 saying that because the sort plans for the outgoing primary  
5 are currently structured for reply mail, the PC Postage, if  
6 it were routed to those bins, would likely go to a residue  
7 bin. And then if it was non-local mail, it would go to an  
8 outgoing secondary. If it was local mail, it would go to an  
9 incoming primary type operation.

10 And basically, that is the same thing that would  
11 happen if it was routed to Bins 5 and 6, as it is now, and  
12 then it went to an OCR and would likely go to a residue bin  
13 and then go to the next operation based on whether it is  
14 local or non-local.

15 Q But I am not asking you that question. Listen  
16 very closely. PC Postage now has a FIM-D, that is how it is  
17 currently. Let's suppose an imaginary world, in this  
18 imaginary world, PC Postage bears a FIM-C. It is the  
19 identical FIM-C as QBRM. It is not going to Bins 5 and 6  
20 anymore, is it? Where is it going now?

21 A Well, as the system currently configured, it would  
22 go to Bins 1 or 2.

23 Q It goes to Bins 1 and 2. And it has got the exact  
24 same addressing requirements as QBRM mail, doesn't it, it  
25 has got a PostNet barcode?

1 A That's true.

2 Q So it could be processed just like QBRM could?

3 A That is not true because the sort plans that QBRM  
4 and CRM are routed to are distinctly structured to  
5 accommodate that type of mail. So to the extent that PC  
6 Postage is not any sort of reply mail, it is likely going to  
7 go to a residue bin, as I said, and then go through an extra  
8 processing step.

9 Q You are not answering my question again.

10 It doesn't have a FIM-D, it has a FIM-C that is  
11 going to Bins 0 and 1, correct? That is where FIM-C goes?

12 A Exactly.

13 Q And it goes in those bins, and it has got the same  
14 characteristics as QBRM. It has got the PostNet barcode,  
15 that is a QBRM, correct?

16 A That's true.

17 Q It can be processed exactly the same way as QBRM.

18 A I believe I have said two times now that it would  
19 not be processed the same way in the outgoing primary if it  
20 were sorted to Bins 1 and 2, because that operation is not  
21 structured to process PC Postage, it is structured to  
22 process QBRM and courtesy reply mail.

23 Q But what I am asking you is if you just change the  
24 FIM from D to C, it would be the same as QBRM?

25 A It would go to the same operation, but it wouldn't

1 undergo the same processing?

2 Q It would go to Bins 0 and 1, what happens at those  
3 bins?

4 A They go to the same operation, that is what I just  
5 said.

6 Q Okay. And so that is where QBRM is going,  
7 correct?

8 A That is where it is going, and then it would go to  
9 the outgoing primary.

10 Q And QBRM is saving money by going there, correct?

11 A If you are talking about the QBRM savings  
12 calculation that Witness Campbell calculated, I don't know  
13 if I would say so much that it saves money by going to that  
14 operation; it saves money compared to the benchmark that  
15 Witness Campbell used.

16 Q I'm glad you brought that up. Let's talk about  
17 the benchmark.

18 Now, in determining the benchmark to use, and let  
19 me I guess draw you to your testimony on this, which is page  
20 28 -- I think it maybe starts at the bottom of 27, actually.  
21 And on page 27, lines 25 through 27, you say that in  
22 determining the benchmark to use for calculating cost  
23 avoidance, the best approach is to determine the type of  
24 mail that most likely would have converted.

25 A That's true.

1 Q Okay. Now, is that an approach that should only  
2 apply to fees or postage? That's just a -- it's a kind of  
3 generic theory.

4 A I think it applies in more than one situation.

5 Q All right. So let's apply it to QBRM. Do you  
6 know what the benchmark the Postal Service uses for QBRM is?

7 A Handwritten mail.

8 Q Okay. So the Postal Service is saying, I want to  
9 calculate the cost difference between QBRM and handwritten  
10 mail, and it comes up with some calculations, and it  
11 determines that because it's used the benchmark of  
12 handwritten mail, it's saying that the most likely pieces to  
13 convert would be handwritten mail. I'm not going to get  
14 machine-printed pieces converted to QBRM; I'm getting  
15 handwritten mail converted to QBRM.

16 A They're saying that if a QBRM recipient did not  
17 provide that mail piece to its customers, it would receive a  
18 handwritten mail piece.

19 Q Well, let's just --

20 A That's the benchmark they use.

21 Q Let's just go to your testimony. I don't want to  
22 confuse you. Page 28, line 16. If QBRM recipients did not  
23 provide these mail pieces to their customers, those  
24 customers would likely have to address a mail piece by hand  
25 for use of non-mail alternative.

1           So you're saying that if there wasn't QBRM, this  
2 mail would be hand-addressed mail.

3           A     Well, I didn't say that, I didn't do that estimate  
4 in this rate case.

5           Q     Do you disagree with that? It's in your  
6 testimony.

7           A     No.

8           Q     You don't disagree with it?

9           A     No.

10          Q     Do you support it?

11          A     Yes.

12          Q     Now, you're aware of some of the requirements for  
13 QBRM mail. For example, for QBRM mail, the mailer has to  
14 provide an envelope, a return envelope; is that true?

15          A     Or a card.

16          Q     Or a card. And an envelope costs a couple  
17 pennies, say; is that true? No more than --

18          A     I don't know what an envelope cost would be.

19          Q     You have no idea?

20          A     I haven't studied that. I haven't studied that.

21          Q     Well, we can -- we know the Postal Service sells  
22 stamped envelopes for a couple pennies more than the stamp,  
23 correct?

24          A     I'm not really familiar with that testimony.

25          Q     All right. Well, let's just posit that the

1 envelope only costs a few pennies at most. The mailer must  
2 also -- for QBRM, he's got to have a USPS approved address,  
3 he's got to have a post-net bar code, he's got to have a FIM  
4 code, and he has to agree, he's got to say, I'm going to pay  
5 the postage on any mail that comes back, true?

6 A That's true.

7 Q And he's also got to agree to pay the accounting  
8 fee for that and a permit fee, correct?

9 A That's true.

10 Q Now, the envelopes, I'm positing to you they only  
11 cost a few pennies, but the return postage is substantial,  
12 it's 30 cents or more per piece, true?

13 A That's true.

14 Q It's probably ten times the amount of the envelope  
15 that he had to pay for postage if you assume that --

16 A Yes, <sup>if</sup> the costs are a few cents, yes.

17 Q Okay. Now, it's also -- I think it's been  
18 established previously that the overwhelming majority of  
19 QBRM users are either large businesses or organizations.  
20 Would you agree with that characterization?

21 A I would imagine that's true in general terms.

22 Q You'd have to go through a whole process -- an  
23 individual wouldn't use it; you have to go through a whole  
24 long process and individuals --

25 A If you were talking individuals --

1 Q It's not going to be individuals.

2 A That's probably true.

3 Q And the reason the mailers use QBRM is because  
4 they want to make it as easy as possible for their  
5 recipients to reply to them. That's why they're willing to  
6 pay for the postage of the return mail. Would you agree  
7 with that?

8 A You'd have to ask QBRM mailers why they are using  
9 that product.

10 Q Don't you think that's the likely reason they're  
11 using it?

12 A I wouldn't really know the answer to that  
13 question.

14 Q Well, wouldn't it be fair to say that if they're  
15 willing to pay --

16 A If they're willing to pay that, there must be some  
17 reason why they're using that service.

18 Q Okay. Now, let's suppose that for some reason,  
19 QBRM is no longer an allowed rate category, it doesn't  
20 exist, okay? Do you think the mailer is going to say, gee,  
21 QBRM no longer exists, here's what I'm going to do, I'm not  
22 going to put an envelope in my solicitations or mail pieces,  
23 I'm going to let the consumer scrounge around and find a  
24 mail piece, an envelope, and I'm going to let him scratch in  
25 my address. Since QBRM is not available, that's what I'm

1 going to do. Is that a likely scenario?

2 A I think it could be, yes. ~~Otherwise, they might~~  
3 ~~use something that is a mail alternative.~~ Otherwise, they  
4 might use something that's a non-mail alternative like a  
5 1-800 number that they advertise since a lot of this mail is  
6 solicitations asking for, for example, magazine  
7 subscriptions or the like.

8 Q Okay. Wouldn't the most likely thing be, if he's  
9 going to be the mail to get a return response, he's going to  
10 -- the mailer is going to include a return envelope that is  
11 addressed, typed, printed address, back to the mailer?  
12 Isn't that the most likely thing the mailer is going to do?

13 A I don't know that.

14 Q What would your assumption be?

15 A I think I already said if they were using mail  
16 they could use, they could rely on people to respond to  
17 different advertisements or they could use 1-800 numbers or  
18 nonmail alternatives.

19 I have certainly never gotten a magazine where  
20 several CRM mail pieces fell out of it asking me to  
21 subscribe. I would think there is something specific and  
22 unique about BRM the way it is currently structured. It is  
23 one of the few things that has a standardized design.

24 Once again, qualified business reply mail  
25 recipients are probably better able to answer these

1 questions about when they use it, why they use it.

2 Q You have got in your testimony, you have made an  
3 assumption in your testimony on page 28, lines 16 through  
4 17. You said if QBRM recipients did not provide these mail  
5 pieces, Readers Digest in its solicitation, if they couldn't  
6 use QBRM they are not going to enclose an envelope anymore.  
7 They are just going to let me, the individual, be left to my  
8 own devices. Maybe I can find an envelope and scratch out  
9 their address somewhere.

10 That is what you are saying is likely to happen.

11 A I said if they didn't provide that mail piece they  
12 would likely have to use a handwritten mail piece.

13 Q Right -- not that they would enclose the same  
14 envelope without the FIM marking and without the return  
15 postage will be paid. They would enclose no envelope at all  
16 suddenly. That is what you are saying.

17 A Is that a question? That is what I said is that  
18 if they didn't provide that mail piece customers would have  
19 to use some handwritten mail piece or some nonmail  
20 alternative.

21 Q Now on page 28, lines 14 and 15, I won't go  
22 through this with you. It's been gone through in the  
23 morning -- your definition of "vastly" -- but I do, I am  
24 somewhat flattered that in page 14 through 15 when you talk  
25 about Heselton's discussion, a comparison of QBRM and PC

1 Postage, he is only somewhat erroneous. He is not vastly  
2 erroneous.

3 MR. TIDWELL: He gets that comp as a former Postal  
4 employee.

5 [Laughter.]

6 CHAIRMAN GLEIMAN: We don't take judicial notice  
7 of those things.

8 [Laughter.]

9 BY MR. HENDEL:

10 Q Has the Postal Service conducted any studies of  
11 what percent of people who become PC Postage users formerly  
12 used handwritten addressing techniques?

13 A The Postal Service to my knowledge hasn't  
14 conducted such a study. I believe that sort of information  
15 was in Witness Heselton's testimony.

16 Q The Postal Service did not conduct any studies in  
17 terms of the QBRM benchmark either, did they?

18 A I don't know the answer to that question. Not to  
19 my knowledge.

20 Q You don't know of any studies the Postal Service  
21 performed to determine the appropriate QBRM benchmark, is  
22 that correct?

23 A I don't personally know of any studies.

24 Q Are you aware of the Library Reference that  
25 Stamps.com filed from the <sup>Lawton</sup> ~~Laughton~~ Survey of Stamps.com

1 users concerning their former addressing techniques?

2 A I am aware of that specific Library Reference or I  
3 remember hearing about it but I am not really sure what was  
4 in it.

5 Q Would it surprise you if that study showed that  
6 around 40 percent of users, Stamps.com customers, formerly  
7 used handwritten addressing?

8 A No.

9 Q Why wouldn't that surprise you?

10 A Because I would have no reason to have any other  
11 opinion if it was a study someone conducted in the absence  
12 of any other study.

13 Q Are you aware of PC Postage during its early  
14 phases ever bearing a FIM "C" instead of a FIM "D"?

15 A I am not aware of that.

16 Q On page 29 in your testimony where you talk about  
17 Postal operations not currently configured to capture PC  
18 Postage barcode savings, are you aware that each Postal  
19 processing plant sets up its own method of mail processing  
20 operations based on the equipment that it has, the mail flow  
21 and other characteristics of that plant? Is that correct?

22 A I guess if you are asking me if there is variation  
23 in the methods used in the field, to some extent there is.

24 Q There is no national processing standards?

25 A I don't know if I would say it in those terms.

1 Q There is variance.

2 A In some cases there is variance among the plants.

3 Q Now did you contact every Postal processing  
4 operation to determine how they were processing the FIM "D"?

5 A No, I didn't do that. What I did do was talk to  
6 personnel in operations and engineering to find out what the  
7 operations policy was and to find out what engineering  
8 changes were made specifically to the AFCS to determine how  
9 that mail was processed.

10 Q How many Postal processing plant managers or  
11 representatives did you talk to?

12 A I didn't talk to plant managers to determine that.

13 Q None?

14 A I didn't talk to plant managers to determine that.

15 Q So it is possible that some plants are processing  
16 FIM "D" mail to Bins 0 and 1 right now?

17 A My understanding is it is not the current  
18 operations policy to do so but there could be some plants.

19 Q Well, you have already testified there is  
20 variance. It depends on the Postal processing setup, the  
21 mail equipment they have, the mail flow and other variables.  
22 it is possible they are doing it right now.

23 A It's possible.

24 Q You don't know?

25 A I believe what I said was I checked to see what

1 the policies were in the equipment configuration that had  
2 been made by Engineering but I did not contact the plants,  
3 so I would not know what specific plants are doing to the  
4 extent that anyone is not following the current operations  
5 policy.

6 Q I would like to turn your attention to page 29,  
7 top of page 29. Let me give you some backup for this.

8 MR. TIDWELL: Pardon me, counsel. When you say  
9 top of page 29, what lines?

10 MR. HENDEL: Lines 1 through 6.

11 MR. TIDWELL: I take it you are referring to --  
12 you are referencing a copy of the testimony as unrevised?

13 MR. HENDEL: Yes. I am referring to a portion  
14 that talks about undeliverable as addressed costs.

15 MR. TIDWELL: It doesn't talk about that anymore.  
16 Lines 1 through 6 are gone.

17 MR. HENDEL: Oh. As Mr. Volner would say,  
18 "Excellent."

19 [Laughter.]

20 BY MR. HENDEL:

21 Q Then Mr. Volner, his next question would be, well,  
22 why did you do that?

23 A Because of comments I had first made in there,  
24 I've been dealing so much with the First Class mailers in  
25 regard to UAA studies, that some of the comments I made, I

1 felt were more appropriate to them, and so I took it out,  
2 because it wasn't something that --

3 I had been dealing with that issue so many times  
4 it sort of just came out, and it didn't really apply to  
5 single-piece.

6 Q All right, so just to conclude this, you're aware  
7 that Mr. Hazelton's testimony was that there was 1.14 cents  
8 of savings due to the address-cleansing feature of PC  
9 Postage which, when it cleans that delivery line --

10 And that Mr. Hazelton's testimony went through  
11 that and said, well, since that's cleaning up the delivery  
12 line, there are going to be fewer return to sender, and he  
13 went through an analysis and figured it out.

14 And he said, well, that is 1.14 cents per piece,  
15 and I just want to make sure that your testimony -- your  
16 rebuttal testimony does not address that point that Mr.  
17 Hazelton was making?

18 A It doesn't address that point.

19 Q Do you know of any other testimony that the Postal  
20 Service has submitted in rebuttal that addresses that point?

21 A Not to my knowledge.

22 [Pause.]

23 Q Turning your attention again to page 29, starting  
24 at line 24, is the MLOCR able to resolve all machine printed  
25 imprint addresses, 100 percent of them?

1 A No.

2 Q What percent is it able to do?

3 [Pause.]

4 A Well, the OCR itself, according to the accept and  
5 upgrade rate study that was performed in Docket Number  
6 R97-1, roughly 77 percent of that mail would be resolved  
7 with the bar code on the ISS itself.

8 Q So, 23 percent of machine imprint addresses could  
9 not be resolved by the MOLCR; is that correct?

10 A That's correct.

11 Q And that would go then to the RCR?

12 A That's correct, and there, with the case of  
13 machine-printed mail, it would likely be resolved.

14 Q Now, is any PC Postage going to be going to the  
15 RCR? I believe that in your testimony you said that it's  
16 going to be going to the OCR, and there it would be either  
17 recognized as having a bar code or be -- I think it's right  
18 here in 29 and 30. You can review it.

19 [Pause.]

20 A That's one question I'm not really completely sure  
21 about, because my understanding is that the OCR has a  
22 pre-bar-code detector that recognizes the bar code in the  
23 lower right-hand corner.

24 And originally, when I used to work in the field,  
25 it did not have a ~~wide~~<sup>wide</sup> area bar code reader.

1           And in talking to other people, my understanding  
2           is that now somehow when they've made some modifications to  
3           the OCRs, that somehow it has that capability, but since it  
4           scans for the address from the lower right-hand corner to  
5           the upper left-hand corner, I'm not sure how the ability to  
6           read an address bar code corresponds to the way it scans the  
7           address, so I really don't know if unread mail would go to  
8           the RCR or not.

9           Q     I'd ask you to review your testimony between page  
10          29, starting on line 29, and going to page 30, ending on line  
11          2, and ask you after you read that, do you believe that's  
12          correct.

13          A     I'm sorry, what line?

14          Q     Page 29, line 29, starting, "Given that PC Postage  
15          letter addresses are machine printed..." starting there, and  
16          finishing up that sentence on the next page.

17                   [Pause.]

18          A     And you asked me?

19          Q     Do you believe that's still correct, that  
20          testimony?

21                   [Pause.]

22          A     From my understanding, it is that it's correct. I  
23          guess the term would be likely. I mean, machine printed  
24          being resolved 77 percent of the time, to me, is also fairly  
25          likely that it's going to be resolved.

1 But I don't know the specifics of --

2 Q Okay, if that's correct, though, it means that PC  
3 Postage mail is not going to the RCR; is that true?

4 A If it somehow is able to apply a bar code itself,  
5 or if it's somehow able to read the bar code in the address  
6 block, but as I said, I'm kind of somewhat sketchy on how  
7 the OCR interacts with that specific address.

8 Q Would you expect PC Postage mail to go to the RCR?

9 A For the most part, no.

10 Q And RCR is a processing step that has an extra  
11 cost to the Postal Service?

12 A Yes, that's true.

13 Q So if you're not going to the RCR, you're saving  
14 processing costs?

15 A That's true.

16 Q To the extent that PC Postage is not going to the  
17 RCR, it's saving the Postal Service processing costs?

18 A To the extent that it does not go there, yes.

19 Q On page 30, line 16, you note that the Postal  
20 Service is optimistic about the future development of PC  
21 Postage alternatives.

22 What, exactly, is the Postal Service optimistic  
23 about?

24 A That this is a method for applying postage that  
25 people will ultimately embrace in the long-term.

1 Q I am going to now give you my final line of  
2 questions. You would agree the Postal Service is not in the  
3 business of implementing burdensome and unnecessary mail  
4 preparation requirements, would you agree with that  
5 statement?

6 A I would hope and I am not a mail preparation  
7 expert.

8 Q You would agree, at least for the most part, that  
9 the Postal Service requires a certain type of addressing or  
10 mail preparation procedure, there is a reason behind it?

11 A I would think so, yes.

12 Q Now, for PC postage open system, which we have  
13 been talking about and E-Stamps has been talking about, the  
14 Postal Service requires that each address be cleansed,  
15 checked against the AMS database, modified if necessary, 11  
16 digit PostNet barcode be attached, a FIM code be applied,  
17 and this clearly imposes some burden on the mailer, is that  
18 right?

19 A Burden on the person sending the mail piece?

20 Q Yes. Somebody has got to actually physically send  
21 it for checking, he just doesn't type it in and that is  
22 that. He has to --

23 A Are you talking about the address cleansing  
24 portion?

25 Q Yes, the address cleansing. It requires some

1 burden on the mailer? Just so you know the process, he  
2 sends -- he types in the address, sends it to the software,  
3 waits for the software to get back to him. The software  
4 says, well, there is these five options, choose one. He has  
5 to choose one or he has to -- it says that none of those  
6 work, think of another address. That is some burden, that  
7 is more than just typing the address, can we agree on that?

8 A That is more than just typing in an address.

9 Q And the Postal Service wouldn't require the PC  
10 postage user to do that unless there was some reason for  
11 that?

12 A Well, I think once again that the way in which PC  
13 postage has evolved to its current form is something better  
14 answered by Witness Gordon than myself.

15 Q Well, I am just asking you, though. I mean,  
16 believe me, I am going to ask Gordon. But I am asking you,  
17 and you are the one who gave your opinion on the discount,  
18 so I think it is appropriate to ask you. The Postal Service  
19 doesn't require unnecessary mail preparation and address  
20 cleansing requirements, do they?

21 A I would think they wouldn't.

22 Q So if there was no savings to the Postal Service  
23 in doing it, they wouldn't require the mailer to do it?

24 A Well, I believe a lot of what I recall reading in  
25 Witness Gordon's testimony had to do with security, which is

1 kind of a separate issue from what you are discussing.

2 Q Okay. I will stop you right there. Is address  
3 cleansing related in any possible way to security?

4 A I don't really know the answer to that question,  
5 how it evolved to that point.

6 Q Are you familiar with PC closed system? Let me  
7 explain to you what that is. Maybe it will --

8 A No, I understand. That is the one that does not  
9 require -- does not have the barcode or address cleansing?

10 Q PC closed system does not require any address  
11 cleansing, is that correct?

12 A That is my understanding.

13 Q And yet it uses an IBI indicia, is that correct?

14 A That is my understanding.

15 Q So the address cleansing feature of IBI is not a  
16 security requirement, can we deduce that?

17 A Once again, I just don't know what that feature is  
18 part of the current system. I wouldn't be the person to  
19 answer how it got to that point.

20 MR. HENDEL: No further questions.

21 CHAIRMAN GLEIMAN: Is there any follow-up? Mr.  
22 Volner, was that a no?

23 MR. VOLNER: Yes, Mr. Chairman.

24 CHAIRMAN GLEIMAN: Yes, that was a no?

25 MR. VOLNER: No, it was a yes, and I am sorry to

1     burden you, but I do have one question because I didn't  
2     understand.

3             CHAIRMAN GLEIMAN:  It is no burden to me.

4                             CROSS-EXAMINATION

5             BY MR. VOLNER:

6             Q     In this most recent cross-examination by  
7     Stamps.com, there was a conversation about PC postage  
8     volumes, did I understand you to say that you used Witness  
9     Heisler's volumetric numbers?

10            A     I believe that is where that estimate came from.

11            MR. VOLNER:  I have no further questions.

12            CHAIRMAN GLEIMAN:  OCA.

13            MR. COSTICH:  Thank you, Mr. Chairman.

14                             CROSS-EXAMINATION

15            BY MR. COSTICH:

16            Q     Mr. Miller, in your discussion with counsel for  
17     Stamps.com, there was some discussion of whether PC postage  
18     pieces would be sorted the same way as QBRM pieces, do you  
19     recall that?

20            A     Yes.

21            Q     And counsel asked you to hypothesize that the PC  
22     postage pieces were sorted to Bins 1 and 2 on the AFCS, do  
23     you recall that?

24            A     Yes, I do.

25            Q     And did I understand you to say that even in that

1 situation, there would be differences in processing between  
2 the PC postage piece and a QBRM or CRM piece?

3 A That's true.

4 Q Now, let me see if I can understand why that is.  
5 When pieces are taken from Bins 1 and 2, they go to a BCS,  
6 is that correct?

7 A Yes, that is correct.

8 Q And you said they go through an outgoing primary  
9 operation, is that correct?

10 A That's correct.

11 Q Is there a different sort plan on that outgoing  
12 primary operation for Bins 1 and 2 than there is for, say,  
13 Bins 5 and 6?

14 A Well, Bins 5 and 6 wouldn't be going to an  
15 outgoing primary barcode sorter operation.

16 Q Right, I'm sorry.

17 A The sort plan would be structured, as we have said  
18 in the interrogatories, as well as my rebuttal testimony,  
19 the sort plan for the outgoing primary is structured to  
20 process reply mail, and it has holdouts for major firms and  
21 that sort of thing. And so, in all likelihood, a PC postage  
22 mail piece would go to that operation and go to a residue  
23 bin and then go to either an outgoing secondary, if it is  
24 non-local mail, or an incoming primary if it is local mail.

25 Q When you say holdout bins, what are you referring

1 to?

2 A I'm sorry, holdout bins? I think I said residue  
3 bin.

4 Q Prior to that, you said that the sort plan for the  
5 BCS is designed for QBRM and CRM.

6 A Yes.

7 Q And I thought I heard you say that there are --

8 A Oh, I'm sorry, I said firm holdouts, I think.

9 Q Okay. What is a firm holdout?

10 A A bin for a specific company that might have a 5  
11 digit unique zip code.

12 Q And that mail in those bins is finalized at that  
13 point, is that correct?

14 A For some of that mail -- well, for anything that  
15 had a firm holdout on that operation, it would be.

16 Q Any idea what portion of bins is for firm holdouts  
17 on the BCS outgoing primary?

18 A I am not really sure what the answer to that  
19 question would be.

20 Q Do you know what the range in number of bins on  
21 the BCSs would be?

22 A I would assume you could say an average of 174  
23 bins, but the thing is, from my recollection of outgoing  
24 primary is it is structured to isolate firm direct holdouts,  
25 but also it is structured to often maximize local

1 processing. So you might have like a lot of the local zip  
2 codes and that sort of thing on that operation.

3 I'm not really sure what the percent of total bins  
4 that actually had <sup>firm</sup>~~from~~ direct holdouts would be. I'm sure  
5 it varies by facility.

6 Q Is there other bar-coded mail that goes through  
7 the ECS outgoing primary, other than QBRM and CRM?

8 A There could be.

9 Q What would be the source of that mail?

10 A It could be mail that's coming from <sup>MIDCR-ISS</sup>~~MFO-CRIS~~ that  
11 is going to a specific zip code or three-digit zip code that  
12 is on the outgoing primary, and then a specific plant might  
13 have the remaining three-digit zip code splits on a second  
14 bar code sorter that they're calling the outgoing secondary.

15 To some extent, when I did the density study that  
16 supported my direct testimony, there was quite a bit of  
17 variation of how people are structuring different sort  
18 plants, but for the most part, the outgoing primary was used  
19 for reply mail and heavily oriented towards local zip codes  
20 and such.

21 MR. COSTICH: Thank you, I have no further  
22 questions.

23 CHAIRMAN GLEIMAN: Any further followup?

24 [No response.]

25 CHAIRMAN GLEIMAN: Commissioner Goldway?

1           COMMISSIONER GOLDWAY: I'm sorry to extend this,  
2 but I did have a few questions.

3           As I understand it from the discussion you had  
4 with regard to E-Stamp and Stamps.com, that it's difficult  
5 to sort out the mail that is presented in that format from  
6 the regular stream of mail that's processed through the  
7 machines.

8           And it's not easily distinguished from other mail,  
9 therefore, the cost savings are hard to measure and justify.

10          So there's, as I understand the discussion that  
11 went on through most of the morning, there is one mail  
12 stream, and it is not easy to distinguish the mail.

13          Yet as soon as we started talking about CEM mail,  
14 suddenly there were two mail streams, and it was very easy  
15 to distinguish between the different kinds of mail that you  
16 would see in a mail stream and you would be able to be  
17 concerned about different postage.

18          Now, isn't it true that the 20-cent postcard goes  
19 through the same mail stream as the 34-cent envelope at this  
20 time in your system?

21          THE WITNESS: That's true.

22          COMMISSIONER GOLDWAY: So there aren't really two  
23 mail streams? This is a concept that you've developed that  
24 somehow -- because they would be two kinds of stamps that  
25 there would be two different mail streams, but there really

1 aren't two mail streams. That's a word that doesn't make  
2 sense in terms of describing how the mail functions.

3 The same mail that has a 55-cent stamp on it, goes  
4 through the same stream as the mail that has a 33-cent stamp  
5 at the moment, right?

6 THE WITNESS: [No audible response.]

7 COMMISSIONER GOLDWAY: When the mail is going  
8 through this mail stream, how do the Postal employees know  
9 that the envelope that has a 33-cent stamp on it has the  
10 right amount of postage, versus the one that has a 55-cent  
11 stamp on it?

12 THE WITNESS: As the system currently is?

13 COMMISSIONER GOLDWAY: Yes.

14 THE WITNESS: In all likelihood, since most of the  
15 letter operations have been automated, the point where that  
16 would be detected would be when the carrier receives it.

17 COMMISSIONER GOLDWAY: When the carrier receives  
18 it, okay.

19 So, if we had a CEM that had the FIM mark on it,  
20 and the carrier received it and he saw that it didn't have  
21 the FIM mark on it and had a 31-cent stamp instead of the  
22 34, that's the same exact system that they now use to  
23 identify whether something has been underpaid for the second  
24 ounce as would be used if we needed to get three cents more  
25 on a CEM mail, right? No new processes, no new training,

1 just look for that one mark on the envelope, weight -- it's  
2 the same process, right, if we were to put the CEM?

3 I don't know where you get tens of millions of  
4 dollars of training when all you need is to ask the same  
5 mailman who's picking up his mail and looking and seeing  
6 whether it needs 22 cents more on a stamp, on an envelope,  
7 versus, you know, seeing that it needs three cents more,  
8 because you don't have this little mark on the envelope.

9 THE WITNESS: Well, I think part of the costs that  
10 I described in my testimony were to reinforce behavior at  
11 the beginning of this process where we're asking the public  
12 to use two stamps when they are currently using one.

13 And we're talking a volume that's much greater  
14 than any other.

15 COMMISSIONER GOLDWAY: Well, we ask the public now  
16 to use two stamps when they have two ounces versus one ounce  
17 of mail? And how much two-ounce mail do we have versus  
18 one-ounce mail?

19 THE WITNESS: I'm not really sure what that volume  
20 is.

21 COMMISSIONER GOLDWAY: I can't imagine that the  
22 comparable volume is that much less than CEM mail, and we're  
23 asking people to use two stamps in a two-stamp system.

24 And we're asking them to use 20 cents, right, on  
25 postage, for the postcards?

1 THE WITNESS: That's true, but when you're going  
2 from a one-stamp system to a two-stamp system, it doesn't  
3 just affect the 10 billion pieces of courtesy reply mail.  
4 You're talking about the 54 or whatever billion pieces of  
5 single-piece mail there are in total, to the extent that  
6 people incorrectly use the stamps.

7 COMMISSIONER GOLDWAY: Well, how many people  
8 incorrectly use stamps now and incorrectly put 33-cent  
9 stamps on instead of 55-cent stamps?

10 THE WITNESS: I don't know the answer to that  
11 question off the top of my head.

12 COMMISSIONER GOLDWAY: My understanding is that  
13 it's far fewer than those people who incorrectly put on an  
14 extra 13 cents or 11 cents and put on a second 33-cent  
15 stamp, rather than going out and buying that 22-cent stamp  
16 and saving themselves 11 cents. More people put on a second  
17 33-cent stamp.

18 When we look at the revenue figures that we get  
19 here, there's more overpays for First Class than there is  
20 underpayment; is that correct?

21 THE WITNESS: From what I have seen, I would agree  
22 with that, too, and I would think that that in itself  
23 indicates to some extent that people like the convenience  
24 associated with just --

25 COMMISSIONER GOLDWAY: So the likelihood that

1 people are going to go and buy this 31-cent stamp and  
2 underpay, based on current patterns of behavior, is not  
3 demonstrated in the current mail stream that we see; is it?

4 THE WITNESS: [No audible response.]

5 COMMISSIONER GOLDWAY: The reverse is true.  
6 People overpay for convenience.

7 THE WITNESS: Well, actually, if you look in the  
8 data that I cited from Docket Number R97-1, the percent of  
9 mail that is underpaid related to additional ounces is much  
10 higher than single-piece letters as a whole.

11 It's like seven percent versus one percent, and  
12 that's why I used that specific instance.

13 COMMISSIONER GOLDWAY: Seven percent of the second  
14 ounce is underpaid?

15 THE WITNESS: Well, that was a Docket Number R97  
16 figure. I didn't have the time to get it updated in time to  
17 file my testimony.

18 COMMISSIONER GOLDWAY: So we might say that seven  
19 percent of the CEM mail might be -- or of the First Class  
20 mail might be underpaid, based on that figure, if we said  
21 that was the pattern, as opposed to all these people who  
22 overpay?

23 THE WITNESS: That could be the net result, but I  
24 don't think that does a lot to enforce the correct usage of  
25 postage stamps.

1           COMMISSIONER GOLDWAY: Here is another question.  
2       When the business mailers started getting complaints from  
3       the Postal Service that the Postal Service would no longer  
4       deliver mail without stamps on it, deliver bills, courtesy  
5       reply envelopes without stamps -- that used to be a standard  
6       thing that people did. They would send back their bills  
7       without stamps at all and the companies would pay the  
8       postage or they wouldn't pay the postage and the post office  
9       would deliver it for free, and so all of a sudden -- I don't  
10      know, I am old enough, 20 years ago or whenever it was they  
11      started putting this little thing in the courtesy reply  
12      envelope that said this mail will not be delivered without a  
13      stamp.

14                I want to know now how many people still don't put  
15      a stamp on it. Do you know?

16                THE WITNESS: I don't know the answer to that  
17      question.

18                COMMISSIONER GOLDWAY: A lot?

19                THE WITNESS: I have no idea.

20                COMMISSIONER GOLDWAY: Well, wouldn't that be a  
21      more accurate measurement of people's behavior with regard  
22      to underpayment than your projection that all 50 million  
23      pieces of mail or 50 billion pieces of mail are at risk?

24                Wouldn't that be a better measurement of whether  
25      the public is going to be confused about a different stamp.

1 They have been given directions that's put on the CEM, "Put  
2 a 31-cent stamp on this and this only."

3 THE WITNESS: I don't know if I would agree that  
4 not putting the stamp on a mail piece that you should have a  
5 stamp on is the same as having to know when to use one of  
6 two stamps, but I haven't studied this in the context that  
7 it applies to my testimony.

8 COMMISSIONER GOLDWAY: Are you aware that the USPS  
9 has announced a new program at a recent NSYNC concert event  
10 regarding changing the use of postage? Have you read about  
11 this new program?

12 THE WITNESS: No, I haven't read about that.

13 COMMISSIONER GOLDWAY: At the recent NSYNC  
14 concerts in New York City the USPS debuted its new  
15 micropayment program which allows stamps to be used as legal  
16 tender for the payment of low priced non-postal goods and  
17 services. The Postal Service sees the program as an  
18 opportunity for companies that offer low price premiums to  
19 use micropayment which allows customers to affix stamps as  
20 payment rather than write a check for two or three dollars.

21 THE WITNESS: I have never heard anything about  
22 that.

23 COMMISSIONER GOLDWAY: So you are concerned about  
24 customers being confused about a 31 cent stamp versus a 34  
25 cent stamp but the Postal Service is not confused that the

1 customers are now going to be using stamps as legal tender  
2 and using stamps on a postcard to send in in exchange for  
3 merchandise?

4 THE WITNESS: Once again, I don't know anything  
5 about --

6 COMMISSIONER GOLDWAY: You weren't aware of this  
7 program --

8 THE WITNESS: I am not aware of it at all.

9 COMMISSIONER GOLDWAY: -- when you were writing  
10 your testimony?

11 THE WITNESS: No. No.

12 COMMISSIONER GOLDWAY: Thank you. That's all.  
13 Thank you.

14 CHAIRMAN GLEIMAN: What did you guys say you did  
15 with \$30 million we gave you for education the last time?

16 MR. TIDWELL: We hired NSYNC to do some promotion  
17 for us.

18 [Laughter.]

19 CHAIRMAN GLEIMAN: That is just so it is NSYNC,  
20 not "in sync" -- I know this because I watched their concert  
21 on HBO.

22 You don't know what happened to the \$30 million  
23 the last time?

24 THE WITNESS: I don't know what the process is  
25 once you make a recommendation how it gets into the budget,

1 what happens after the fact, but I do know we made about  
2 \$263 million last year, so I would assume if there was  
3 something in there that we didn't spend maybe it was there.  
4 I don't know.

5 CHAIRMAN GLEIMAN: So we can ask for that \$30  
6 million back and use it again in this case?

7 You say in your testimony there is no evidence  
8 that CEM would slow the diversion of electronic bill paying,  
9 of hard copy into electronic bill paying.

10 Do you know if there is any evidence that CEM  
11 would not slow the diversion? Have you studied that?

12 THE WITNESS: No.

13 CHAIRMAN GLEIMAN: If using today's rates and the  
14 three cent differential that has been laid on the table by  
15 OCA in its direct testimony, do you think it is in the  
16 interests of -- the Postal Service would be better off  
17 having someone put a 30 cent stamp on a courtesy reply  
18 envelope that having Check Free give the Postal Service 10  
19 cents for each piece of what used to be courtesy reply mail  
20 that may have carried a 30 cent stamp but which will now be  
21 run through the eBillpay system?

22 I mean that is a net minus of 20 by my math, 20  
23 times 10 billion pieces is a lot of money.

24 THE WITNESS: I am not really prepared to answer  
25 that question. I am not really familiar with eBillpay.

1 CHAIRMAN GLEIMAN: Are you familiar with any of  
2 the electronic bill payment systems?

3 THE WITNESS: I pay all my bills using the United  
4 States Postal Service.

5 [Laughter.]

6 MR. TIDWELL: God bless him.

7 CHAIRMAN GLEIMAN: That could work two ways. You  
8 could use the Postal Service's eBillpay product, you know.  
9 That is not clear to me that that means you put stamps on  
10 envelopes the way I do most of the time.

11 I have no further questions.

12 Any other questions from the bench?

13 [No response.]

14 CHAIRMAN GLEIMAN: If not, counsel would you like  
15 some time for -- follow-up questions from the bench?

16 [No response.]

17 CHAIRMAN GLEIMAN: I don't want to deny anybody an  
18 opportunity to stay later.

19 Counsel, would you like some time? An hour or  
20 two?

21 [Laughter.]

22 MR. TIDWELL: Could we take 20 minutes?

23 CHAIRMAN GLEIMAN: You bet. We will come back at  
24 ten after the hour.

25 [Recess.]

## EVENING SESSION

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[6:12 p.m.]

CHAIRMAN GLEIMAN: Mr. Tidwell.

MR. TIDWELL: Mr. Chairman, the Postal Service has no redirect.

CHAIRMAN GLEIMAN: Mr. Miller, that completes your testimony here today. We appreciate your appearance and your contributions to the record. We thank you and you are excused. And I hope you enjoy reviewing other testimony so that you can help your counsel out a little later on this evening.

[Witness excused.]

CHAIRMAN GLEIMAN: We are almost halfway home.

[Laughter.]

MR. TIDWELL: The Postal Service has an quick announcement. We have available here in the hearing room, copies of the response of Postal Service Witness Degen to Order Number 1300 that was filed today. Mr. Koetting, I think is the contact person for parties who are wishing to obtain copies of that document.

CHAIRMAN GLEIMAN: Mr. Tidwell, you have the next witness, I take it.

MR. TIDWELL: Mr. Chairman, the Postal Service calls Dr. Nancy Staisey to the stand.  
Whereupon,

1 NANCY STAISEY,  
2 a witness, having been called for examination and, having  
3 been first duly sworn, was examined and testified as  
4 follows:

5 CHAIRMAN GLEIMAN: Counsel, you can proceed when  
6 you are ready.

7 DIRECT EXAMINATION

8 BY MR. TIDWELL:

9 Q Dr. Staisey, before you are two copies of a  
10 document entitled "The Rebuttal Testimony of Nancy Staisey  
11 on Behalf of the United States Postal Service." That  
12 document has been designated for purposes of this proceeding  
13 as USPS-RT-16. Was that document prepared by you or under  
14 your supervision?

15 A Yes.

16 Q If you were to provide the contents of that  
17 document as testimony orally today, would it be the same?

18 A In addition to the errata that were filed on  
19 August 17th, I have three additional minor edits, or errors  
20 to correct. In the table of contents, in the title to  
21 Section 3, I have corrected the spelling of Witness Lawton's  
22 name, replacing the "s" with a "t". Next, on page 6, line  
23 13, I intended the word "relevant" to be italicized.  
24 Finally, on page 11, line 7, the word "in" should be  
25 replaced with the word "of," so that the phrase reads

1 "coefficients of variation."

2 Q And those are all the changes you have, and those  
3 are incorporated in the copies that you have in your hand?

4 A Yes.

5 MR. TIDWELL: Mr. Chairman, with those changes,  
6 the Postal Service would move into evidence the rebuttal  
7 testimony of Dr. Staisey.

8 CHAIRMAN GLEIMAN: Is there objection?

9 [No response.]

10 CHAIRMAN GLEIMAN: Hearing none, if counsel would  
11 provide two copies of the corrected rebuttal testimony of  
12 Witness Staisey to the court reporter, I will direct that  
13 the testimony be transcribed into the record and received  
14 into evidence.

15 [Rebuttal Testimony of Nancy  
16 Staisey, USPS-RT-16, was received  
17 into evidence and transcribed into  
18 the record.]

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USPS-RT-16

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

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POSTAL RATE AND FEE CHANGES, 2000

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Docket No. R2000-1

REBUTTAL TESTIMONY  
OF  
NANCY STAISEY  
ON BEHALF OF  
THE UNITED STATES POSTAL SERVICE

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1 REBUTTAL TESTIMONY  
2 OF  
3 NANCY STAISEY  
4  
5

6 **AUTOBIOGRAPHICAL SKETCH**

7 My name is Nancy Staisey. I am a Partner in the PricewaterhouseCoopers  
8 (PwC) Management Consulting Practice in Arlington, VA.

9 I am the leader of PwC's Global Postal Industry Team and am the client  
10 service partner for the firm's projects with the U.S. Postal Service. I have more  
11 than 15 years of management consulting experience, including market research,  
12 performance measurement, strategic change assignments with public sector  
13 clients, strategic reviews, benchmarking, and best practice research. I have  
14 worked with clients in the mail, package, and freight sector in several countries,  
15 including the United States, Canada, South Africa, Ireland, Netherlands, and  
16 Singapore.

17 During my tenure at PricewaterhouseCoopers, I founded and was  
18 responsible for our Canadian Survey Research Centre. As the partner  
19 responsible for our survey research practice in Canada, I directed the  
20 development, implementation and analysis of numerous market research  
21 surveys. I also consulted extensively on survey design issues. I provided expert  
22 advice on questionnaire design for a wide range of surveys from the Canadian  
23 Census to market research surveys on new products and services.

1 I have consulted on new product development, mail operations, and  
2 quality of service measurement issues in the postal industry. I have taught  
3 statistics and research methods at the university graduate school level.

4 I attended Northwestern University, where I received a B.A. in Psychology  
5 in 1973. Following my undergraduate education I completed my M.A. in  
6 Psychology with distinction at Carleton University in 1980 and also received my  
7 Ph.D. in Psychology from Carleton University in 1984, focusing in Applied  
8 Research Techniques and Statistics.

9

10

11 **I. PURPOSE AND OVERVIEW OF TESTIMONY**

12 The purpose of my rebuttal testimony is to respond to three intervenor  
13 market research testimonies filed in this proceeding: witness Heisler's testimony  
14 on behalf of Pitney Bowes (Tr. 23/10582 et. seq.); witness Lawton's testimony on  
15 behalf of Stamps.com (Tr. 23/10359 et. seq.); and witness Boggs' testimony on  
16 behalf of E-Stamp Corporation and Stamps.com (Tr. 29/13814 et. seq.). These  
17 three testimonies, independently presented, attempt to demonstrate a sizable PC  
18 Postage and metered mail market. In the case of witness Heisler, the testimony  
19 attempts to size the market with discounts offered to mailers under certain  
20 conditions.

21 After reviewing the testimonies of witness Heisler, witness Lawton, and  
22 witness Boggs, I find that all three market research studies suffer from similar  
23 shortcomings. None of the studies provides a reliable and valid estimate of the

1 PC postage and metered mail market size. As a result of these deficiencies, it is  
2 my opinion that these studies should not be relied upon by the Postal Rate  
3 Commission.

4       When evaluating market research, one must be attentive to potential  
5 questionnaire bias and methodological flaws. My testimony will focus on  
6 providing evidence of questionnaire bias as well as methodological issues in the  
7 three direct testimonies mentioned above. Questionnaire bias refers to the nature  
8 or content of survey questions that may mistakenly or inappropriately "be worded  
9 in such a way as to lead the respondent into the answer" (Hague & Jackson,  
10 Market Research at 134). Methodological flaws refer to unclear or inappropriate  
11 steps taken in survey design or in analyzing data, leading to survey results that  
12 are not valid and reliable estimates for generalizing to the target population.

13       The remainder of my testimony is divided into four sections. Section II  
14 describes in detail the shortcomings of witness Heisler's testimony in providing  
15 an unbiased and methodologically accurate sizing of the relevant PC  
16 postage/meter market. Sections III and IV detail similar shortcomings of witness  
17 Lawton's and witness Boggs' testimonies, respectively, through their market  
18 research. Section V summarizes my analysis of the three testimonies and their  
19 failure to accurately size the PC postage and metered mail market.

20

21

1     **II.     CRITIQUE OF TESTIMONY: WITNESS HEISLER**

2             In his market research, witness Heisler measures household and non-  
3 household customer reactions to possible discounts for certain single piece First-  
4 Class Mail which is metered (note: hereafter, "metered mail" refers to both mail  
5 metered by a postage meter and by a PC postage product). He claims that the  
6 results of his study indicate a substantial market interest in PC postage and  
7 postage meters when a one-cent discount on First-Class Mail postage is  
8 associated with the use of these products (Tr. 23/10584). Through careful  
9 scrutiny of his research, I believe witness Heisler's conclusions are misleading  
10 due to flaws present in his questionnaire and in the methodological analysis of  
11 the survey responses. Furthermore, although witness Heisler claims to  
12 demonstrate a sizable interest in PC postage and metered mail, he fails to *size a*  
13 *relevant* PC postage and metered mail market.

14

15     **A. Questionnaire Bias**

16             In order to accurately measure the level of interest of a respondent pool in  
17 the adoption of a new product, basic information regarding this new product  
18 should be provided. Respondents need to be able to make an informed decision  
19 by being presented key and relevant information about the product in a factual  
20 and neutral manner. For example, let us assume that I go to a bookstore to  
21 purchase a book. As I am paying for the book, I am offered a book club  
22 membership which would provide me with a 10% discount on all future books  
23 purchased. My initial reaction might be very positive. Yet, upon further inquiry I

1 find out that there is also an obligatory \$20 subscription fee in order to become a  
2 member. My reaction to the offer might then be somewhat different. I know I  
3 would do a quick calculation of how many books I would have to buy to reach the  
4 point of net gain from the discounts after taking into consideration the  
5 subscription fee. If I further discovered that the discount came as a refund and  
6 required me to complete a mail form after each book purchase to receive the  
7 discount, my reaction and likelihood of signing up might again be affected. The  
8 point I am attempting to illustrate is that only once I have been presented with the  
9 factual details of the benefits and burdens of the product, will I be able to make  
10 an informed decision to become a member.

11 Specifically, in regards to metered mail, all the basic factual and neutral  
12 information concerning this new postage meter or PC postage product need be  
13 provided in order to accurately measure the interest of a respondent in metered  
14 mail. This allows the respondent to make an informed decision concerning their  
15 likelihood of adopting metered mail.

16 Witness Heisler provides a description of the postage meter and PC  
17 postage product to both household and non-household respondents, prior to  
18 attempting to gauge their likelihood of use (Tr. 23/10589/10592). However, I note  
19 multiple sources of bias in the description of the product which lead to an  
20 oversizing of the metered postage market.

1           **1. Benefits described in the concept statement may not accrue to the**  
2           **respondent**

3           When performing a survey to create an estimate of the population interest  
4 in a new product, it is necessary to provide an accurate description of the product  
5 to respondents. In witness Heisler's concept statement to non-household  
6 respondents, he claims that mail metered by a PC postage product and by a  
7 postage meter "projects a **more** professional business image" [emphasis added]  
8 (Tr. 23/10592). Depending on the respondent's current mailing approach,  
9 metered mail may or may not contribute to a "more" professional image. Due to  
10 this bias in the concept statement, the respondents may provide answers to the  
11 questionnaire which result in an over-sizing of the interest in metered mail in the  
12 non-household sector.

13           **2. Biased wording is used in the product description of PC postage**

14           In the product description presented to household respondents, witness  
15 Heisler creates a hypothetical PC postage product with a "monthly access fee of  
16 **just \$5**, plus the regular cost of first-class postage" [emphasis added] (Tr.  
17 23/10589). Although witness Heisler does admit to providing a hypothetical  
18 product compared to existing PC postage products available on the market  
19 today, the addition of the word "just" when presenting the respondent with the  
20 monthly access fee, leads the respondent to regard the \$5 as a small fee, when  
21 in reality, depending on a mailer's monthly mail volume, a \$5 fee may result in  
22 negative net savings for the mailer. By using terminology which may  
23 misrepresent the relative value, a respondent may be more likely to say he or

1 she will subscribe to the product, resulting in an overestimate of the likelihood of  
2 adopting PC postage.

3 **3. Failure to describe additional burdens of the PC postage product**

4 Providing survey respondents with a product description that accurately  
5 describes the benefits and burdens of the use of a new product, will allow for  
6 accurate measurements of interest in the product. Witness Heisler fails to inform  
7 his respondents of key aspects of purchasing postage over the Internet. There  
8 are additional burdens associated with the subscription of PC postage that exist  
9 beyond the cost of a monthly fee. For example, the PC postage product  
10 description does not inform respondents of the necessary connection with the  
11 Internet in order to print postage. For household respondents and non-household  
12 respondents, a connection with the Internet may create a burden if the  
13 respondent has a limited number of phone lines or if the respondent pays its  
14 Internet Service Provider (ISP) by the minute. Similar to the analogy of the book  
15 club membership I illustrated earlier, by not providing a well-balanced description  
16 of the benefits and burdens of the product, the respondent can only provide  
17 responses based on the available product characteristics, leading to biased  
18 conclusions that a sizable interest exists in postage purchased over the Internet.

19 **4. Net savings not evident to respondent**

20 After asking respondents to report their likeliness to subscribe to Internet  
21 postage (following the presentation of the product description), the survey  
22 conducted by witness Heisler presents another product scenario to those who did  
23 not report that they are "extremely likely" to subscribe to metered postage (Tr.

1 23/10590-92). Those not reporting that they were extremely likely to subscribe  
2 are asked to report their likelihood of subscribing to metered postage, if a per  
3 piece discount of one cent on First Class Mail postage is provided (Id.). In this  
4 follow-up question, no mention is made of a lease fee of \$20 per month or an  
5 access fee of \$5 per month. Although the responses suggest that this discount  
6 would result in a higher rate of subscription, the respondents have not been  
7 provided with net savings that would result from their subscription to metered  
8 postage based on the amount of mail the respondent would use per month  
9 (assuming a hypothetical monthly access fee of \$5/month for PC postage or  
10 lease fee of \$20/month for a postage meter). Again, as in the case of subscribing  
11 to the book club membership, this questionnaire does not present all necessary  
12 pieces of information to allow the respondent to make a well-informed response.  
13 Witness Heisler is potentially oversizing the market interest in PC postage due to  
14 the bias in his failure to inform the respondents with net savings information.

15

## 16 **B. Methodological Flaws**

### 17 ***1. Small sample sizes lead to large variance in data analysis***

18 Witness Heisler's survey research results are based on small sample  
19 sizes, and more importantly on a small number of positive respondents, from  
20 which he makes estimates for the pieces of mail affected by PC postage in  
21 households and non-households. To illustrate, consider witness Heisler's results  
22 from his questionnaire to non-household respondents with 25 employees or less,  
23 when there is no discount to First-Class Mail using PC postage. He estimates

1 that 216 million pieces per year would shift to PC postage. These results are  
2 calculated from a sample size of 93 respondents, where only 4 provided positive  
3 responses (Tr. 23/10599). In another example, witness Heisler concludes, from 2  
4 positive responses, that 6.8 million pieces would shift in the non-household  
5 sector (26-50 employees) for the scenario where there is no discount on First-  
6 Class mail printed by a meter (Tr. 23/10602). Normally, a small sample size  
7 leads to large coefficients of variation, an important criteria when evaluating  
8 statistical results. Given the small sample sizes in the household and non-  
9 household studies, we would expect the coefficients of variation to be high.  
10 Witness Heisler, however, does not provide coefficients of variation when asked  
11 to do so in USPS/PB-T3-10 (Tr. 23/10622). Instead he provides upper and lower  
12 bounds, which have no statistical meaning. Since the true coefficients of variation  
13 are not provided, one cannot test directly the hypothesis that the small sample  
14 sizes lead to large coefficients of variation. However, one can look at the upper  
15 and lower bounds provided in USPS/PB-T3-10 and see that these numbers are  
16 very large. These two examples demonstrate that the results of the number of  
17 pieces potentially affected by PC postage or postage meters are based on  
18 sample sizes that are too small to provide meaningful results from the number of  
19 positive responses.

20 ***2. Response rate not provided***

21 Throughout his study, witness Heisler does not explicitly state the  
22 response rate associated with the Household and Non-Household Surveys. In  
23 market research studies, one would normally expect to have the response rate

1 available in order to assess the degree to which the survey results are  
2 representative of the population surveyed. Since witness Heisler has not  
3 provided this rate, I call into question the validity of his survey results.

4

5

6 **III. CRITIQUE OF TESTIMONY: WITNESS LAWTON**

7 In her market research, witness Lawton provides a description of how the  
8 use of one PC Postage enabler (Stamps.com) has affected how customers  
9 process their outgoing mail (Tr. 23/10364). She claims that the results from her  
10 study indicate that Stamps.com customers are using postal services in a way that  
11 is more efficient and cost-effective as well as gaining a greater awareness of  
12 USPS services. Together with her finding that an estimated one million fewer  
13 visits to the Post Office are made each month due to Stamps.com, witness  
14 Lawton concludes that the use of this PC postage product has the potential to  
15 significantly cut costs for the USPS while increasing patronage (Tr. 23/10377).  
16 Through a close scrutiny of her market study, I believe that bias in the survey  
17 questionnaire and flaws in the methodology lead to invalid conclusions. Witness  
18 Lawton, herself, has identified several shortcomings in her study (Tr. 23/10365-  
19 66). Witness Lawton does attempt to gauge the impact of PC postage, yet, like  
20 witness Heisler, fails to size the market in a valid and reliable manner.

21

1 **A. Questionnaire Bias**

2 ***1. Retrospective survey design leads to poor recall***

3 Witness Lawton clearly explains in her testimony that the design of her  
4 study was intentionally retrospective (Tr. 23/10365). In a market research study,  
5 a retrospective survey requires careful analysis since, as witness Lawton has  
6 correctly stated, retrospective data are “always at risk for response error due to  
7 poor recall.” (Id.). While witness Lawton is aware of this potential bias in her  
8 study design, her conclusion that “it is obvious that Stamps.com has completely  
9 changed how customers run their postal processes” (Tr. 23/10377) is not  
10 appropriate given the high risk of response error due to poor recall of the  
11 respondents.

12 ***2. Phrasing of questions restrict the respondent***

13 In the phrasing of the survey questions, Witness Lawton encourages her  
14 respondents to focus on the improvements in their awareness and behavior due  
15 to using Stamps.com’s product. As a result she does not allow the respondents  
16 the opportunity to record all possible and relevant answers to a specific question.  
17 Witness Lawton begins her survey with two questions regarding the effect of  
18 Stamps.com on Post Office visits. The first question asks respondents to respond  
19 (yes or no) if fewer trips were made to the Post Office due to the respondent’s  
20 use of Stamps.com (Tr. 23/10368). It is followed by a question asking  
21 respondents answering “yes” to quantify the number of fewer trips made  
22 (Stamps.com-LR-2 at 1). No allowance is made for respondents to report an  
23 increase in the number of visits to the Post Office. By only measuring a reduction

1 in trips and not allowing for measurement of a increase in trips, the survey is  
2 biased towards overestimating the net negative change in the number of Post  
3 Office trips made.

4 In addition, in this line of questioning, witness Lawton, does not apply  
5 commonly used approaches to avoid confusion in retrospective reporting and to  
6 facilitate accurate recall. First, the time frame to be considered in reporting the  
7 number of trips and a change in the number of visits is not clearly specified. This  
8 may lead to confusion and measurement error in reporting a change in the  
9 number of trips. The survey also does not first ask the respondent to quantify the  
10 number of visits to the Post Office in the month (or months) before and the month  
11 (or months) after beginning using Stamps.com. This is an approach which can  
12 facilitate more accurate recall. To draw any meaningful results from the first two  
13 questions regarding behavioral change in a respondent's visits to the Post Office,  
14 witness Lawton needs to clearly specify a time frame and provide a relative  
15 comparison of trips made per month before and after beginning use of  
16 Stamps.com. Failing to provide this comparison results in responses that may not  
17 provide meaningful conclusions about the behavior pattern of an individual  
18 regarding the processing of mail.

19 ***3. Respondent confusion due to lack of time-specific reference***

20 In asking respondents about their behavior regarding postage and  
21 addressing prior to using Stamps.com, witness Lawton's questionnaire confuses  
22 some respondents as to the time orientation of the questions. Although witness  
23 Lawton acknowledges this confusion, her conclusion that the orientation error

1 “underestimates the way in which Stamps.com has improved address quality  
2 from the respondent’s previous addressing methods” (Tr. 23/10366) is  
3 methodologically inappropriate, since a conclusion based on confusion on the  
4 part of the respondents should not be used as sound evidence to support the  
5 effect of the ways Stamps.com has improved customer postage and addressing  
6 behavior.

7

## 8 **B. Methodological Flaws**

### 9 ***1. Measurement error due to lack of clarity in questions***

10 Within her survey, witness Lawton asks several questions regarding  
11 frequencies of behavior (e.g. “How many fewer trips to the Post Office do you  
12 make?”; Stamps.com-LR-2 at 1). According to witness Lawton, respondents  
13 answered in a variety of ways, some stating a range, others stating discrete  
14 numbers, and others providing verbatim comments. This is not surprising given  
15 the lack of clarity in the instructions of the survey. What if, for example, in  
16 regards to the question above, three respondents answer using the following  
17 language, “20% to 50% fewer trips”; “Quite a few trips less”; and “I save myself a  
18 couple of trips a week”. How are these responses reconciled with one another  
19 and in relation to other responses? Although witness Lawton states that she  
20 reconciles the various answers provided (Tr. 23/10365), I believe that it is  
21 methodologically inappropriate to draw survey research conclusions from remedy  
22 procedures taken by witness Lawton when there is much room for statistical  
23 measurement reporting error.

1           **2. Low response rate**

2           In order to present valid conclusions from a market research survey that  
3 are an appropriate estimate of the population's interest in a new product, the  
4 response rate in a study needs to suggest that the respondents are providing  
5 information that is indicative of the population at large. The response rate of this  
6 e-mail survey, as stated by witness Lawton (Tr. 23/10367) is 20.4 (20.4 percent  
7 provide completed surveys). Although she claims that this rate is "typical" for a  
8 customer invitation to an online survey, this low response rate, when conducting  
9 market research, indicates that a very large majority of the randomly selected  
10 Stamps.com customers were *non-respondents* (a potential 79.6% non-response  
11 bias). This non-respondent population may have provided significantly different  
12 responses from those who did respond. This low response rate does not allow for  
13 reliable conclusions to be made that are indicative of the entire Stamps.com  
14 population.

15

16

17           **IV. CRITIQUE OF TESTIMONY: WITNESS BOGGS**

18           In his market research, witness Boggs examines the current use of  
19 different postal solutions by small businesses and the opportunity associated with  
20 new PC and Internet postage products and services. He concludes not only that  
21 there exists a significant interest among small businesses in PC and Internet  
22 postage products and a sizable market for PC postage solutions, but also claims  
23 that PC postage solutions will help the USPS move mail more efficiently (Tr.

1 29/13857). By closely examining witness Boggs' testimony, I believe that his  
2 market research suffers from numerous flaws that prevent his analysis from  
3 providing valid and appropriate support to demonstrate a sizable interest in the  
4 PC postage market.

5

#### 6 **A. Questionnaire Bias**

##### 7 ***1. Lack of a comprehensive concept statement***

8 In order to accurately demonstrate an interest in a new product, a  
9 questionnaire must provide the necessary information to allow for an informed  
10 response to be made. In his questionnaire, witness Boggs presents the idea of  
11 PC postage as an alternative to the traditional postage meter to his respondents  
12 (Tr. 29/13852-53), attempting to gauge the interest of small businesses in this  
13 new product. Witness Boggs, however fails to provide the respondents with a  
14 comprehensive description of the PC postage concept (i.e. how the PC postage  
15 product actually works, specific characteristics, benefits/burdens). By not  
16 presenting this description, the responses provided by the sample of small  
17 businesses regarding their *interest* level in PC postage are not made with a  
18 complete understanding of the product. This bias in witness Boggs' survey may  
19 lead to erroneous conclusions about the true interest of small businesses in PC  
20 postage.

21 Specifically, this survey ignores providing small business respondents with  
22 pricing information when seeking the interest level in the PC postage product.  
23 Since no details are provided about the cost burdens associated with printing

1 postage from the Internet (whether an Internet connection when printing postage  
2 is required or not), these small businesses are not properly educated about the  
3 PC postage concept and are therefore providing responses resulting from a  
4 questionnaire bias. The conclusions made from this survey about the interest  
5 level in the PC postage market are not valid or reliable.

6

7 **B. Methodological Flaws**

8 ***1. Low response rate***

9 In order to present valid conclusions from a market research survey that  
10 are an appropriate estimate of the population's interest in a new product, the  
11 response rate in a study needs to suggest that the respondents are providing  
12 information that is indicative of the population at large. The response rate of this  
13 survey, as stated by witness Boggs (Tr. 29/13834) is 16.5 percent. Since a very  
14 large majority of the randomly selected small businesses are non-respondents (a  
15 potential 83.5% non-response bias), this non-respondent population may have  
16 provided significantly different responses from those who did respond. This low  
17 response rate does not allow for conclusions to be made that are indicative of the  
18 small business population.

19

20

1 **C. Other Issues**

2 **1. *Reliance on expert opinion in market research***

3 In market research studies, conclusions about the behavior of  
4 respondents as well as interest expressed in a new product must be supported  
5 by the analysis of the respondent data. Upon close inspection of his testimony,  
6 witness Boggs appears to come to several conclusions by relying on expert  
7 opinion and professional judgement. For example, at Tr. 29/13848, witness  
8 Boggs writes, "IDC [International Data Corporation] believes that PC postage will  
9 come to represent over 10% of total postage spending by small businesses and  
10 income-generating home offices." Although this conclusion appears to be  
11 supported by Table 10 Tr. 29/13849), a number of key assumptions are made by  
12 IDC based on past history or its own judgment to arrive at this result (Tr.  
13 29/13873-74). In a testimony centered on market research studies, witness  
14 Boggs inappropriately relies on expert opinion to arrive at conclusions regarding  
15 PC postage and its implications in the small business sector.

16

17

18 **V. SUMMARY AND CONCLUSIONS**

19 After closely scrutinizing the testimonies of witness Heisler, witness  
20 Lawton, and witness Boggs, I believe that my testimony has demonstrated that  
21 these three market research studies suffer similar shortcomings due to  
22 questionnaire bias and methodological flaws. By providing results that are  
23 therefore neither reliable nor valid, these studies do not accurately size the

- 1 relevant PC postage and metered mail market. As a result, I strongly discourage
- 2 the use of these three market research studies as an input to the decision-
- 3 making process concerning a discount on First-Class single piece rates when
- 4 metered and PC postage are used.

1           CHAIRMAN GLEIMAN: Three parties have requested  
2 oral cross-examination. Just so you will know why I paused  
3 for a moment, I know there are three names on the paper, but  
4 it says two. And I know it has been a long day, but I had  
5 to make a choice here. I will let all three parties who  
6 wanted to cross-examine, E-Stamp, Pitney Bowes and  
7 Stamps.com.

8           Does anybody else wish to cross-examine?

9           [No response.]

10          CHAIRMAN GLEIMAN: If not, then, Mr. May, you may  
11 begin.

12   CROSS-EXAMINATION

13          BY MR. MAY:

14          Q     Ms. Staisey, if you will direct your attention to  
15 pages 17 through 19 of your testimony where you criticize  
16 the testimony of E-Stamp and Stamps.com Witness Boggs. On  
17 those pages you have generally criticized Mr. Boggs on the  
18 grounds of questionnaire bias, methodological flaws and  
19 several other issues, notably the reliance on expert opinion  
20 in market research, is that not so?

21          A     Yes.

22          Q     Now, you state that Witness Boggs failed to supply  
23 his respondents with a comprehensive concept statement about  
24 PC Postage. Now, while a more complete description of both  
25 costs and benefits would have resulted in an assessment less

1 likely to change as respondents learned more about the  
2 technology, is it not incorrect to characterize Mr. Boggs  
3 results as invalid or unreliable since they are indicators  
4 statistically of small business interests in PC Postage,  
5 given the level of the information that was provided to  
6 them?

7 A I consider it invalid to use indicators of  
8 interest to conclude on a size of the market.

9 Q But it wasn't invalid for him to use his survey to  
10 find the indication of interest, was it?

11 A He was determining an indication of interest in a  
12 generic description of a product that is not relevant to the  
13 actual product that is under consideration here.

14 Q Well, I don't know what you mean by relevant. I  
15 mean it was not completely described to the respondents, is  
16 that what you mean?

17 A Key aspects of it weren't described. Issues such  
18 as whether -- issues such as the requirement to have a  
19 printer, things like that, that would be very relevant to  
20 someone making an informed statement of their level of  
21 interest.

22 Q Now, while it is true, as you say, that additional  
23 information about the costs and the burdens of PC Postage  
24 would tend to lower the interest levels that were expressed,  
25 presumably?

1 A Presumably.

2 Q Isn't it equally true that additional information  
3 on the benefits and advantages of PC Postage products would  
4 tend to raise interest levels of those that were expressed?

5 A I can't say what direction additional information  
6 would lead in terms of a determination of interest. I  
7 would, though, say that when we are looking at expressions  
8 of interest, interest can mean many things. I can say I am  
9 interested in a product simply because I would like to have  
10 more information on it. It does not necessarily mean that I  
11 am interested or that I have -- sorry. It does not  
12 necessarily mean that I have a likelihood of adopting or  
13 using that product.

14 Q Well, but nevertheless, you do know whether there  
15 is interest out there from the basis of this survey, do you  
16 not?

17 A One can determine -- sorry. One can conclude that  
18 there is a level of interest in the generic description that  
19 was provided. However, the survey suffers from other issues  
20 that affect the conclusions that can be drawn from it.

21 Q Well, I am going to ask you about those. Now, you  
22 then talk about methodological flaws and you say that the  
23 low response rate "does not allow for conclusions to be made  
24 that are indicative of the small business population."

25 Isn't it the case that conclusions can be made as

1 a practical matter, despite the low response rate, so long  
2 as those conclusions are in keeping with a low response  
3 rate, and the level of questioning that was associated with  
4 the survey? I mean you have to keep it all in perspective.  
5 But it isn't true that you can make some conclusions even  
6 with a low response rate? Because your testimony is that  
7 you cannot -- it does not allow for conclusions, period.

8 A The response rate in this situation is so low it  
9 is 16.5 percent. It is a significant barrier to drawing  
10 conclusions on the study. It means that there are -- you  
11 have more than 80 percent of the potential respondents who  
12 haven't answered and the study does not report any  
13 information on the degree to which respondents were like or  
14 unlike the non-respondents.

15 So, no, I cannot conclude from a 16 percent  
16 response rate, in the absence of information on  
17 non-respondent bias, that the results are representative of  
18 the population that is being studied.

19 Q How big a response would you require?

20 A That's a difficult question to answer, and  
21 unfortunately the study doesn't provide the information that  
22 would be necessary to provide an answer to that.

23 Q So you don't know?

24 A Pardon?

25 Q You don't know?

1           A     The study -- I haven't been provided with the  
2 information that would enable me to give you an answer to  
3 that question.

4           Q     Now, on page 19, you fault Mr. Boggs because you  
5 say he inappropriately relies on expert opinion to arrive at  
6 conclusions regarding PC Postage and its implications in the  
7 small business sector.

8                     Isn't it the case that reliance on both past  
9 history and professional judgment are critical in estimating  
10 the pace and magnitude of the development of a new market?

11          A     In looking at the assumptions that Mr. Boggs has  
12 made in providing projections, I guess I have two comments  
13 in terms of your question:

14                     One is that, yes, it's appropriate to look at  
15 history, and in many of these situations, one needs to make  
16 some assumptions.

17                     I, in my professional judgment, first of all,  
18 disagree with the assumptions that are made, but secondly,  
19 in many ways, I think, more importantly, we have the  
20 opportunity in looking at the Boggs testimony to actually  
21 compare the projections that were made against the actuals  
22 that we have to date in terms of the Year 2000.

23                     And my understanding is that the testimony of Mr.  
24 Gordon will provide information that shows that the  
25 projections that were made in the Boggs testimony haven't

1 been borne out.

2 In fact, the difference is quite significant. Mr.  
3 Boggs projects a market of \$292.8 million in the Year 2000.

4 Mr. Gordon will be providing testimony that  
5 identifies -- that states that through Accounting Period 11,  
6 the value generated has been \$29.8 million.

7 So, not only do I believe that the assumptions  
8 that have been made are inappropriate, I think the results  
9 of those assumptions have been proven, in the near term, at  
10 least, not to be borne out by the numbers.

11 Q Well, hindsight is 20/20; isn't it?

12 A I must say that I drew my conclusions and prepared  
13 my testimony before I had the opportunity to read Mr.  
14 Gordon's numbers.

15 Q I thought you had. But can I just summarize your  
16 testimony in this way:

17 In other words, Mrs. Staisey, it is your  
18 professional opinion that Mr. Boggs should not have used his  
19 professional opinion?

20 A No, I don't think that's a fair summary.

21 Q Well, what is it? I mean, isn't that what you're  
22 saying? You're saying it is your professional judgment that  
23 he should not have used expert opinion and judgment in  
24 making his forecasts? Isn't that what you said?

25 A I think it's fair to use professional opinion. I

1 think when we use professional opinion, we need to back it  
2 up with some evidence or information.

3 And when I look at the information that's been  
4 used by Mr. Boggs -- and let me to refer you to the  
5 assumptions that are being made -- one of the assumptions  
6 that he makes is -- let me just find the exact reference  
7 here.

8 [Pause.]

9 Just give me a moment and I'll find it.

10 [Pause.]

11 A frequent assumption that he makes -- I'm having  
12 difficulty finding the reference here at the moment -- is  
13 that spending on PC Postage and equipment will mirror  
14 spending on other communication technologies.

15 And I think there's -- I can find no justification  
16 for that assumption. When we talk about professional  
17 opinion, it's not based on history or any experience, I  
18 think first of all you end up with projections that are  
19 much, much more volatile and are at much, much higher risk  
20 that they will be wrong, and, in fact, in the short term,  
21 this one has been wrong.

22 Q Well, you understand that this survey was not  
23 commissioned by E-Stamp and Stamps.com; you do understand  
24 that, do you not?

25 A I have no knowledge of who commissioned the

1 survey.

2 Q I mean, this was done -- you do not know?

3 A Who commissioned it?

4 Q I mean, you read the testimony and you -- I  
5 believe the testimony makes that clear.

6 A I'd have to look it over again.

7 Q Now you are familiar with Mr. Boggs's credentials?

8 A Yes, I am.

9 Q Do you have any reason to question his competence?

10 A I'm not questioning his credentials. I am  
11 questioning the judgment and the results that are presented  
12 here.

13 Q I know, but isn't it the case that your testimony  
14 itself is nothing other than the expression of your expert  
15 opinion and your professional judgment in which you say you  
16 disagree with his exercise of his opinion and his  
17 professional judgment?

18 We're not talking about facts here; are we?

19 A I think we are talking about some facts here.

20 Q What fact is there in your testimony that does not  
21 rely on your interpretation and your statement of your  
22 professional judgment and opinion?

23 What facts are we talking about?

24 A My testimony covers two portions -- Mr. Boggs has  
25 done two things in his testimony.

1           One is, he's conducted a survey, and I have  
2 critiqued that survey. The second thing he's done is that  
3 he's used information and a series of assumptions to make a  
4 series of projections, and I've critiqued that.

5           Q     You've critiqued it by offering your professional  
6 opinion about what he has done.

7                     What facts have you adduced?

8           A     You know, when I look at a 16.5 percent response  
9 rate, I think that's a fact.

10          Q     It's a fact, but you're --

11          A     The fact --

12          Q     It's your opinion --

13          A     But the fact --

14                     MR. TIDWELL: Mr. Chairman, can he allow the  
15 witness to answer the question.

16                     CHAIRMAN GLEIMAN: Excuse me, one minute, folks.  
17 Two people at one time is difficult, and three people is  
18 impossible.

19                     Mr. May, please let the witness answer the  
20 questions; witness, please try and respond promptly to Mr.  
21 May's questions so that he knows when he can offer his next  
22 question up.

23                     BY MR. MAY:

24          Q     You were saying that you believe that it is a fact  
25 that the 16.5 percent was the response. And I'm putting it

1 to you that that, indeed, is a fact, but it is your opinion  
2 and not a fact that that's an inadequate response.

3 Isn't that true?

4 A I believe that that would be a generally-held  
5 opinion by anyone with expertise in survey research.

6 Q Well, does Mr. Boggs share your opinion, do you  
7 think, since he, I think you've admitted, has expertise in  
8 research?

9 A Mr. Boggs has not provided an opinion in his  
10 testimony as to the 16.5 percent response rate, nor has he  
11 provided information on an analysis of the bias involved in  
12 that.

13 MR. MAY: I have nothing else, Mr. Chairman.

14 CHAIRMAN GLEIMAN: Mr. Volner?

15 MR. VOLNER: Good evening, Dr. Staisey. My name  
16 is Ian Volner and I will be cross examining you on behalf of  
17 Pitney Bowes.

18 Mr. Chairman, in order to expedite this cross  
19 examination, I have prepared two cross examination exhibits  
20 which I have given to counsel to the Postal Service. They  
21 are not likely to be controversial and I am not going to ask  
22 that they be admitted into evidence, but I do think it will  
23 simplify the cross.

24 What they consist of is contained in a Library  
25 Reference that Pitney Bowes submitted and it is the Consumer

1 Postage Discount Study Questionnaire and then the Business  
2 Postage Discount Study Questionnaire, so if I may, I would  
3 like to hand two copies of these cross examination exhibits  
4 to the reporter.

5 CHAIRMAN GLEIMAN: You most certainly may.

6 MR. VOLNER: Thank you.

7 CROSS EXAMINATION

8 CHAIRMAN GLEIMAN: And if there are some other  
9 copies that you can share with the rest of us who are  
10 interested in what is going on in the hearing room we would  
11 appreciate that too.

12 MR. VOLNER: I have a certain number of copies.  
13 Does the witness have it?

14 THE WITNESS: Yes, I do.

15 CHAIRMAN GLEIMAN: Even just a couple for the  
16 bench would be most appreciated.

17 MR. VOLNER: That's what I am about to do.

18 CHAIRMAN GLEIMAN: And if you are short, I promise  
19 to hand my copy to the court reporter at the appropriate  
20 time.

21 MR. VOLNER: No, I am not that short.

22 [Pause.]

23 MR. VOLNER: Mr. Chairman, I have handed to the  
24 reporter two copies each of what I have marked as Pitney  
25 Bowes Cross Examination Exhibit 1, which is the Consumer

1 version of the questionnaire and the second one is Cross  
2 Examination Exhibit 2, which is the business, and I am  
3 supplying the bench with copies.

4 CHAIRMAN GLEIMAN: Thank you, Mr. Volner.

5 [Cross-Examination Exhibits PB-XE-1  
6 and 2 were marked for  
7 identification.]

8 CHAIRMAN GLEIMAN: Well, there is a question and  
9 everyone may have an interest in it, and that is what time  
10 do we have to get our cars out of the garage.

11 I have always been told that you have got to go  
12 down and collect your keys by about 7 o'clock.

13 You don't have to move your car out of the garage.  
14 If you have your keys with you, you are fine. If you don't  
15 have your keys with you, it is best to try and get down  
16 there by 7 o'clock and what we will do is when Mr. Volner  
17 finishes his cross examination if it is before then, we will  
18 break for a brief time and let everybody go down who has to  
19 and then pick back up again.

20 Someone told me we are safe until 10 o'clock but I  
21 would rather be three hours extra-safe than sorry, so Mr.  
22 Volner.

23 MR. VOLNER: Thank you, Mr. Chairman. I will try  
24 desperately to get this done before 7 o'clock.

25 BY MR. VOLMER:

1 Q Before we get into the questionnaire document, let  
2 me ask a preliminary question and I would ask that you  
3 refer, Dr. Staisey, to page 6, lines 12 and 13, of your  
4 testimony.

5 A Yes.

6 Q Now when you say size, a relevant PC Postage and  
7 metered mail market, I take it we are not talking about the  
8 universe of people who might use meters or might use PC  
9 Postage but rather the volume that would emerge from  
10 migration to those technologies?

11 A Yes.

12 Q Now let's make sure that we understand how Dr.  
13 Heisler developed what you have now defined as the relevant  
14 market, which is volume.

15 He did not make any assumptions, did he, about --  
16 independent assumptions about the number of pieces that a  
17 respondent who stated that they were extremely likely to  
18 migrate if a discount were offered, he didn't make any  
19 assumptions about their volumes. He used their volumes on a  
20 weighted average basis, is that correct?

21 A Yes.

22 Q Okay, and he did the same thing when he was doing  
23 meters as well?

24 A Yes.

25 Q And in determining --

1           A     I should say that is my understanding. The actual  
2 document doesn't state that explicitly. I have assumed that  
3 from the way in which the mail volumes fluctuate when  
4 different numbers of respondents are brought into the  
5 calculations.

6           Q     Well, I think we will let Dr. Heisler's testimony  
7 speak for itself.

8                     Let's turn then to page 9 of your testimony at  
9 lines 9 and 10 and this is a part of your critique of the  
10 questionnaire which we are going to -- or the bias in the  
11 questionnaire that we are going to talk about for a few  
12 moments.

13                     At lines 9 and 10 you say for example the ~~Piece B~~<sup>PC</sup>  
14 postage product description does not inform respondent of  
15 the necessary connection with the Internet in order to print  
16 postage, and you suggest that that is a failure to describe  
17 adequately the burdens that the PC product would impose upon  
18 a respondent.

19           A     Yes.

20           Q     Is that correct? Would you turn to what I have  
21 marked as Pitney Bowes Cross Examination Exhibit 1 and I  
22 would ask you on the second page to refer to Question S6.

23           A     Yes.

24           Q     And do you agree that question S6, the first part  
25 of it, says "Do you currently have access to a computer in

1 your household?" and if the answer is no, the instruction,  
2 as I read it and I trust you do too, says, "Demographics"  
3 and then "Terminate".

4 Now that would mean that if the person answering  
5 the phone call did not have a computer, they would not be  
6 included among the respondents, is that correct?

7 A Yes.

8 Q All right. Now let's take a look at S6A, which  
9 says that "Do you have Internet access from that computer?"  
10 and it is the same construct, isn't it?

11 If they say yes, you continue. If they say no,  
12 "Demographics" and then "Terminate".

13 Now then as a part of the qualification to be  
14 interviewed, the consumer had to have a computer, had to  
15 have Internet access, is that correct?

16 A Yes.

17 Q And also in S6B had to have the computer connected  
18 to an inkjet or laser printer, isn't that also correct?

19 A Yes.

20 Q Now since the qualified interviewees, if you will,  
21 the candidates to be interviewed all had to meet those three  
22 conditions, why do you believe it was necessary as a matter  
23 of a complete product burden description to separate and  
24 specifically restate in the concept which comes after they  
25 are qualified that there are costs associated with Internet

1 access, there are costs associated printers and there are  
2 costs associated with computers?

3 A The costs associated with Internet access and with  
4 printing go up when you begin to use that equipment in ways  
5 in which you are not currently using it, so that is one  
6 factor.

7 The second factor in terms of the burden is the  
8 fact that you actually, that you have to in some cases keep  
9 the Internet line open and be using that line has several  
10 impacts that I would consider burdens.

11 In my own home I have a computer, I have Internet  
12 access, and I have a laserjet printer. If I look at the  
13 hour right now, I would assume that I have some children who  
14 are currently using those pieces of equipment and if I asked  
15 them to get off of it because I needed to print my postage,  
16 they certainly would consider it a burden at that time, so  
17 one of the aspects of the burden of this or one of the  
18 aspects that isn't being defined for respondents in the  
19 survey is the way in which you actually use it and that  
20 information may have an impact on the willingness to adopt  
21 this technology.

22 Q Well, first let me ask this question. Is it your  
23 view that all Internet access is variable cost?

24 A No.

25 Q Good.

1           Second, what you're saying is that I would have to  
2 -- in order to adequately complete the concept, I would have  
3 to say more than one way to do it is electronically via the  
4 Internet using standard word processing programs and an  
5 inkjet or laser printer. I would have to say, now remember,  
6 since you already have this stuff, you must remember that  
7 the cost of the printer that you've already acquired should  
8 be taken into account and that the cost of access or the  
9 potential inconvenience to some other potential user of the  
10 PC should be taken into account. Is that what you're  
11 saying?

12           A     What I'm saying is that you should -- one should  
13 provide critical information that is required for the  
14 respondent to make an informed rating of their likelihood of  
15 adoption, and that critical pieces of information that would  
16 affect their likelihood of adoption were not provided.

17           Q     And you're saying that you would have to provide  
18 critical information even though you have disqualified  
19 people who already have the technology in place and  
20 presumably have some minimal understanding of what it  
21 entails.

22           A     I can't make any assumptions of their  
23 understanding of what it entails. The respondents in this  
24 survey, the fact that they own a computer -- the fact that  
25 they have a computer in the house, that they have Internet

1 access doesn't lead me to make any assumptions about their  
2 overall knowledge of that equipment in terms of the  
3 individual who is responding to the survey.

4 Q And in fact, if you take that position, then I  
5 would need to know for each individual respondent their  
6 level of understanding in order to frame the critical  
7 information that would have to go into the concept  
8 statement?

9 A No, that's not what I'm saying.

10 Q Well, if you live in some parts of the country,  
11 Internet access is one cost; if you live in other parts of  
12 the country, Internet access is yet another cost.

13 If I'm running my business out of my home, I may  
14 or may not go through AOL, I may go through a file service  
15 that does other functions for me.

16 Wouldn't I need to get all of that critical  
17 information into the concept statement in order to make the  
18 concept statement valid, in your professional opinion?

19 A No. In my professional opinion, the concept  
20 statement should include a clear description of what the  
21 product is and how it's used. The respondent can then, if  
22 sufficient information has been provided, the respondent can  
23 then apply that information to their situation.

24 Q And you're saying that you need to put that  
25 information in even when the respondent has been determined

1 to already understand the type of technology that needs to  
2 be installed in order to take advantage of either of these  
3 offerings, and, in fact, if he doesn't, he or she doesn't  
4 have the technology, he is disqualified from further  
5 interview? Is that correct?

6 A There is nothing in the survey that would indicate  
7 that the respondents have understood that that technology  
8 was required in order to use the product. The fact that  
9 someone in a survey is asked a series of questions doesn't  
10 necessarily mean that they need those pieces of equipment.  
11 Question D-11 asks the respondents whether they have a DVD  
12 player, a mini-DVD player, a mini-DVD recorder, and to my  
13 knowledge, none of those pieces of equipment are needed.

14 So there are many questions in this survey -- it  
15 doesn't necessarily mean that those questions apply to the  
16 product concept.

17 Q Question D-11 is the demographic questions; is  
18 that correct?

19 A Question D-11 is a question at the end of the  
20 survey.

21 Q Which means it's the demographics, correct?

22 A Not necessarily.

23 Q Not necessarily.

24 A I would say the most usual description of  
25 demographics would be age, gender, income, education, et

1 cetera. Mini-DVD player ownership is not a usual  
2 description in terms of demographics.

3 Q Well, let's start with the heading on page 4 of  
4 that same survey, headed Demographics, underscored and in  
5 bold.

6 We're almost finished. I have a few more  
7 questions for classification purposes.

8 D-6: Please stop me when I say the category in  
9 which your age falls. Now, isn't D-11 a part of that same  
10 line?

11 A D-11 is part of that section.

12 Q Okay. Thank you.

13 Then let us go to another topic for a moment. On  
14 page 9, under -- beginning at line 19, you say that the net  
15 cost -- net savings are not evident to the respondent.

16 Now, I need to ask you first a general question  
17 here. Did you understand Dr. Heisler's testimony when he  
18 said that in dealing with business respondents, the concepts  
19 were mutually exclusive? That is, he used the metering --  
20 the meter concept for some and he used the PC concept for  
21 others.

22 A Yes.

23 Q Okay. Good.

24 So when on page 10 you talk about the lease fee of  
25 \$20 per month or an access fee of \$5 per month, you're

1 talking about two different sets of respondents and two  
2 different concepts.

3 A Respondents who were presented with the metering  
4 option would have been -- would have heard of a lease fee of  
5 \$20.

6 Q Okay.

7 A Respondents who were presented with a PC postage  
8 option would have been -- would have heard of the access fee  
9 of \$5 per month.

10 Q Excellent.

11 Then let's turn to cross examination exhibit  
12 number 2 for a moment. When you say that the net costs were  
13 not evident, you're dealing with what you refer to, I  
14 believe, as the follow-up question; is that correct?

15 A I have used the word follow-up question to refer  
16 to question Q-2.

17 Q Okay.

18 A Let me just read. Yes, to refer to question Q-2  
19 on page 5.

20 Q Excellent.

21 A I described it as follow-up because there was an  
22 intervening question, Q1A --

23 Q Right.

24 A -- before this question was asked.

25 Q And Q1A was addressed to whom? Only to those who

1 said something other than not at all likely?

2 A Q1A was addressed to those who responded on a  
3 scale of one to five, one being not at all likely, five  
4 being extremely likely. Q1A was given to anyone who gave a  
5 rating on that scale. The only respondents who were not  
6 asked Q1A were those who said I don't know or who refused to  
7 answer the question.

8 Q All right. Let's -- that's correct. Let's  
9 understand the construct of this, and unfortunately, in  
10 another part of my life, I had more experience with  
11 telemarketing scripts than was good for my health.

12 First the survey questionnaire, the service  
13 representative states the applicable concept; is that  
14 correct? And then proceeds to question Q1.

15 Now, we don't have any doubt, do we, that in  
16 question Q1, the question of fee, \$20 or, if you're using  
17 concept 2, \$5, has been explicitly stated to them.

18 A Yes.

19 Q And then we have Question Q1A which asks why you  
20 made that sort of a response, and then we proceed where?  
21 Immediately to question 2, right?

22 A Yes.

23 Q And question 2 says: Please use the same  
24 five-point scale where five means you would be extremely  
25 likely and one means you would not be likely at all to do

1 so.

2 What do you think that "same" referred to? Wasn't  
3 it the same five-point scale as in question 1?

4 A It is the same five-point scale. That same  
5 five-point scale can be used to respond to a variety of  
6 concepts that could be presented to the respondent in the  
7 survey.

8 Q So your hypothesis, then, is that I would have --  
9 in order to make sure, for those respondents who taken to  
10 question 2, I would have to restate the fee associated with  
11 -- in order to make sure that they had not forgotten in the  
12 interval that there was a fee involved here?

13 A Picture yourself for a moment as the respondent to  
14 this survey. First, a concept is described to you. The  
15 next thing that happens is you're provided a bit more  
16 information and told of an access fee or a -- sorry -- an  
17 access fee or a lease fee. And you're asked then, what's  
18 your likelihood of subscribing to this service? And it's on  
19 a five-point scale, and you give an answer.

20 Q Right.

21 A And I might say, my likelihood is three. And it's  
22 kind of, you know, I don't really know. The next question  
23 that's asked of the respondent then is, what is it about the  
24 plan that caused you to rate it a three? And as a  
25 respondent, I'd give a description why. I might say, well,

1 I'm not -- you know, the fee seemed a little bit high to me.  
2 The next question I would be asked is, if the U.S. Postal  
3 Service offered a one-cent discount on each piece of  
4 first-class mail to users of, again, it's either the postage  
5 meters or Internet postage, then I'm asked again what's the  
6 likelihood.

7 If I don't say extremely likely, I'm then  
8 presented with a two-cent discount. If I still am not  
9 likely, I'm asked what level of discount is required for me  
10 to adopt it.

11 So as we move through the survey, I'm getting  
12 further and further away in time from when I was told of an  
13 access fee or a lease fee, and the respondent is never told  
14 that under these other options, the option of a discount,  
15 that there would still be an access fee or a lease fee.

16 Q So that the danger is that having been first been  
17 told about the fee, and \$20 is a number that's likely to  
18 stick on your head, and for a consumer, \$5 is likely to  
19 stick in your head, the danger is that when you get to that  
20 category, you are not extremely likely in the first round or  
21 were less than likely in the first round, that they might  
22 have forgotten by the time it got to the second question?

23 A The danger is that one is described a concept and  
24 described a pricing approach. For those who have not said  
25 they're extremely likely, they then ask, what is it about

1 the plan that caused you to rate it a -- whatever the rating  
2 was. They then give an answer. They're then asked, what if  
3 I gave you a one-cent discount, and they could interpret  
4 this as a new pricing plan, a new option, a new way of doing  
5 it. They then give a rating. They're then asked, what if I  
6 gave you a two-cent discount. They then give a rating.  
7 They're then asked, what if I -- sorry -- what is the  
8 discount -- at what per-piece discount would you be willing  
9 to use it?

10 So yes, the danger here is that respondents have  
11 not understood that the lease fee or the access fee  
12 continued to apply under these other pricing scenarios that  
13 they're being asked to respond to.

14 Q Did you derive from Dr. Heisler's testimony the  
15 intended duration of this survey? This survey was done by  
16 telephone, correct?

17 A Yes.

18 Q And did you derive from his testimony the intended  
19 duration of the survey?

20 A I believe there was a planned duration of it, but  
21 there's no information provided on the actual duration.

22 Q Do you understand what the planned duration was,  
23 or can you tell us?

24 A I believe it's 15 minutes, but I would have to  
25 check the testimony.

1 Q Well, would you accept subject to check that the  
2 testimony says ten minutes.

3 A Pardon?

4 Q That the testimony says ten minutes, will you  
5 accept that subject to check?

6 A My understanding is that what's reported in the  
7 testimony is the planned time, and if you tell me it's ten  
8 minutes --

9 Q Good.

10 Now, you criticized Dr. Heisler for failing to  
11 restate the fees every time he asked -- tested the  
12 sensitivity. Isn't it your -- doesn't it necessarily follow  
13 that he should have restated the whole concept? They might  
14 have forgotten that, too, mightn't they have?

15 A The flow of the questionnaire is that a concept is  
16 described and then a series of different pricing scenarios  
17 are presented, and in each of those scenarios, he hasn't  
18 provided the full pricing information.

19 Q He also hasn't provided the full concept, has he?

20 A No, he hasn't repeated the concept repeatedly, but  
21 --

22 Q Do you think that necessary?

23 A Because it's all referring back to the same single  
24 concept and my understanding is he hasn't changed the  
25 concept whereas he has changed the pricing.

1 Q He has changed the pricing of what?

2 A Pardon?

3 Q What pricing has he changed?

4 A From the respondent perspective, it would appear  
5 that he has changed from an access fee and a lease fee to a  
6 discount.

7 Q Well, let's go back to question 1 for a moment.  
8 It does say, "plus the regular cost of first-class postage,"  
9 and then it says in parentheses, "if necessary, 33 cents for  
10 a regular first-class letter." In other words, if the  
11 respondent said, gee, better tell me how much postage, the  
12 answer -- you supply that information, don't you?

13 A Yes.

14 Q So that the only thing that he has changed in  
15 question 2 and all the other questions is changing the  
16 amount of postage, which they either knew or asked about; is  
17 that correct?

18 A He has provided one description of pricing that  
19 includes the fees as well as postage. He has been provided  
20 questions around an offering that would involve a one-cent  
21 discount, two-cent discount, or asked what discount it would  
22 take without any reference to the fees.

23 Q Let's go on to my last topic. On page 11, at  
24 lines 21 to 23 of your testimony, you say that throughout  
25 his study, Witness Heisler does not explicitly state the

1 response rate associated with the household and  
2 non-household surveys. Now, my first question is, what do  
3 you mean by response rate in that context?

4 A The number of respondents who completed the survey  
5 as a ratio to the number of respondents who were sampled or  
6 selected -- who were sampled to be presented with the option  
7 of completing the survey.

8 Q So that the response rate is based solely on the  
9 respondents who qualified, that is were eligible to be  
10 interviewed, is that correct?

11 A The response --

12 Q As you have just defined it. In doing --

13 A No.

14 Q No?

15 A No, that isn't the way I have defined it.

16 Q It is the total number of calls that I made?

17 A It is the ratio of those who have responded to  
18 those who were selected to be -- it is the ratio of those  
19 who have responded to those who were selected to have the  
20 option to respond.

21 Q I don't understand what you mean by option to  
22 respond.

23 A Typically, you have a sample and you will make a  
24 series of calls. At times you may hit someone who is never  
25 home.

1 Q And if I hit someone who is not home, they never  
2 had the option to respond at all?

3 A I'm sorry. Let me correct myself.

4 Q Good.

5 A When I say who were selected as part of the  
6 sample, I shouldn't have said the option to respond in that  
7 way.

8 Q Who were selected.

9 A Yes.

10 Q That means that they had to be two things, they  
11 had to be there when the call came in?

12 A No.

13 Q No?

14 A No. Typically, when you are talking about  
15 response rate, you have selected a sample and this is a  
16 telephone interview. You make a series of calls. You have  
17 those who have completed the interview out of those who were  
18 selected in the sample, and that ratio is the response rate.

19 Q And you follow that -- did you understand that the  
20 decision was made to do 200 interviews of consumers and a  
21 total of approximately 400 interviews of businesses, one for  
22 each of the two concepts?

23 A Yes.

24 Q And nonetheless, your position is that the  
25 response rate that you would have used ignores the fact that

1 they kept going until they go to 200?

2 A That is a completion rate. I could set as a  
3 completion rate a hundred completes or interviews. And if I  
4 had to take a sample of -- let me exaggerate here, if I had  
5 to take a sample of 3,000 in order that get that hundred, I  
6 can't then assume that the hundred who happened to complete  
7 that survey are representative of the 3,000 I selected.

8 Q You have on page 11, said he does not explicitly  
9 state the response rate.

10 A Yes.

11 Q It is derivable from his data, isn't it, the total  
12 number of calls that were made?

13 A I do not believe so.

14 Q Well, let me ask one other question, let us  
15 suppose that I needed to make a thousand -- when you said,  
16 typically, you distinguish between response rate and  
17 completion rate, how do you factor in the fact that we were  
18 attempting to do here was to define a population that was  
19 definitionally qualified, that is to say, the response rate  
20 might have been very low because we found very few people  
21 who were definitionally qualified, that is, had a computer  
22 in the case of the consumer population, had an inkjet  
23 printer in the case of the consumer population, and had  
24 Internet access in the case of the consumer population?

25 A Let me correct -- I did not distinguish between a

1 response rate and a completion rate, I distinguished between  
2 the number of completes and a response rate. The number of  
3 completes is simply the number of interviews you have  
4 completed. The response rate is a ratio.

5 Q And if you have a high rate of number of completes  
6 to number of people who qualified, you still take the  
7 position that that may not be representative of the  
8 population that you are trying to identify in the first  
9 place?

10 A Could you repeat the question? I didn't  
11 understand the beginning of it.

12 Q You are trying to identify a population that meets  
13 certain characteristics. They have to have more than \$10  
14 per month in mail. They, in the case of the consumers, have  
15 to have a computer. They have to have Internet access and  
16 they have to have a particular type of printer. Once you  
17 add those qualifications, it may take a larger number of  
18 calls in order to get an acceptable complete that it would  
19 if you didn't have the qualifiers, wouldn't it?

20 A The challenge here is that you don't have the  
21 information on whether the person qualifies until, by  
22 definition, they have begun the survey. Typically, when you  
23 are looking at a response rate, you have a population, you  
24 have taken a sample from it, and then you attempt to contact  
25 and complete the survey with the sample that you have

1 selected. And you would take the ratio of those that have  
2 completed it to the sample selected, and that would be your  
3 response rate.

4 If it is a high response rate, and if respondents  
5 are typical of the population, you can make -- you can draw  
6 conclusions from your sample about the full population. In  
7 the approach that was taken here, we don't have information  
8 explicitly on the response rate. We don't have information  
9 explicitly on the percentage of the sample who would have  
10 qualified.

11 Q Whom we couldn't reach?

12 A That's right.

13 Q Okay. But we do have information, don't we, on  
14 the percentage of people who responded favorably, and  
15 unfavorably, based upon the number who qualified, that  
16 information we do have, don't we? Explicitly.

17 A There was no -- there is a possibility, you do  
18 sometimes have people who begin a survey and don't complete  
19 it. I should say that is a very low number typically, and  
20 no information is provided on that.

21 The real concern in terms of response rate, and in  
22 terms of sample size, was the very small numbers of  
23 respondents that are being used to project a market size,  
24 and it is a market size in terms of pieces of mail. And in  
25 this situation, you have extremely small numbers of people,

1 in some cases four people, four respondents being used to  
2 make a projection of millions of pieces of mail.

3 Q Four respondents in one illustration. We let Dr.  
4 Heisler's testimony speak for itself on the number of  
5 respondents in others. But four out of how many who  
6 qualified?

7 A The issue, in most cases the out of how many  
8 varies, and when we look at the actual~~y~~ numbers that are  
9 being used to make these projections, if I just look  
10 through, 13 respondents, 19 respondents, 4 respondents, 21  
11 respondents, 27, zero, 26 and 30.

12 ~~Thirty~~ In each of these cases, these sample  
13 sizes are so small and one is using their reported volume of  
14 mail to make the projections.

15 As I look through, I can see the number of pieces  
16 per year bouncing around a great deal, and typically that  
17 happens when you have such a small sample size.

18 So, in some cases, when he's taking a weighted  
19 average of pieces, with a small number of respondents who  
20 fit into the same category, it can vary from a thousand  
21 pieces a year to 2,250 pieces a year, 2,5000 to 4,700.

22 That kind of variability you see when you have  
23 really, really small sample sizes, and by any standard, you  
24 know, making a projection of millions of pieces of mail, or  
25 in one case, 3.4 billion pieces of mail from the responses

1 of 26 people, just involves such a high error rate that I  
2 have to say it's mind-boggling.

3 Q And I have to ask you then this one last question:  
4 What size of a sample would you deem acceptable?  
5 How many households should they have surveyed?

6 A You can calculate that. I could calculate that if  
7 I had additional information.

8 And the factors that you'd typically consider when  
9 you say what sample size is an acceptable sample size, one  
10 looks at things like the variability in the population, the  
11 risk of getting a wrong answer, and the characteristics of  
12 that population.

13 I can tell you, looking at this and seeing the  
14 variability that you're seeing in the mail volumes, that  
15 this sample size is too low, too small.

16 Q The sample size in terms of the number of  
17 completed interviews?

18 A Pardon?

19 Q The sample size in terms of the number of  
20 completed interviews, or the sample size in terms of the  
21 population that was surveyed to get to 200 and then 400  
22 completed interviews?

23 A You start out with a sample size, and then when in  
24 a survey you begin to kind of slice it and dice it into  
25 smaller and smaller cells, the sample size for a given

1 projection or analysis that you're doing becomes the sample  
2 size that's in that cell.

3 So, you're absolutely right that if you're going  
4 to make a projection or a decision based on a cell, you need  
5 to be looking at the sample size that fit into that cell.

6 Q One last question on another line: Have you ever  
7 looked at Postal Service -- you testified that you had done  
8 a lot of market survey research in terms of intent.

9 Have you looked at any of the Postal Service's  
10 market surveys in recent cases in preparing your testimony  
11 here today?

12 A No, I did not.

13 Q So you have no idea about the sample sizes they  
14 have been using?

15 A I did not look at specific other research in  
16 preparing my testimony. I do have a general awareness of  
17 sample sizes that are used generally in market research.

18 MR. VOLNER: I have no further questions, Mr.  
19 Chairman.

20 CHAIRMAN GLEIMAN: Mr. Hendel?

21 MR. HENDEL: Thank you.

22 CROSS EXAMINATION

23 BY MR. HENDEL:

24 Q Good evening, Dr. Staisey.

25 A Good evening.

1 Q My name is David Hendel and I'm representing  
2 Stamps.com.

3 Have you conducted any of your own surveys on the  
4 subject area that Ms. Lawton conducted?

5 A By that, you mean PC Postage?

6 Q Yes.

7 A No.

8 Q When were you first contacted by the Postal  
9 Service to give testimony on the Lawton Survey?

10 A Approximately a month ago. I'd have to check my  
11 palm pilot to get the exact date. Would you like me to do  
12 that?

13 Q That's good enough for me.

14 A Okay.

15 Q How long would it have taken you to conduct a  
16 survey? If the Postal Service said to you, we're really  
17 interested in these questions; we want our own survey; could  
18 you conduct --

19 Let me back up. Do you conduct surveys as well,  
20 or do you just critique them?

21 A I have conducted a large number of surveys and  
22 previously was responsible for our survey center in Canada.

23 Q Conducted thousands of surveys?

24 A Hundreds.

25 Q Hundreds of surveys?

1           A     It probably is approaching a thousand. I wouldn't  
2 necessary say thousands; I would have to do my own mental  
3 calculations.

4           Q     So if the Postal Service had said to you, Dr.  
5 Staisey, this is very interesting to us and we want you to  
6 do a survey for us on some of these same topic areas. I'm  
7 talking about the Lawton survey only.

8                     Would you have been able to do it in a month?

9           A     Yes.

10          Q     But you weren't asked to do that; were you?

11          A     To conduct a survey?

12          Q     Right.

13          A     No.

14          Q     The Postal Service didn't want those results; did  
15 they?

16          A     I was not asked to conduct a survey.

17          Q     No, they just want you to critique the survey  
18 results that were submitted, but they don't want to know,  
19 independently; do they?

20                     MR. TIDWELL: I'm going to object, Mr. Chairman.  
21 I don't know if this witness is in a position to know what  
22 the Postal Service wants, outside the scope of the subject  
23 matter that was --

24                     MR. HENDEL: I withdraw the question; the point  
25 has been made.

1 MR. TIDWELL: I guess I can read the transcript  
2 and ponder what the point may have been.

3 BY MR. HENDEL:

4 Q Have you ever -- do you know what a retrospective  
5 survey is?

6 A Yes.

7 Q Have you ever been connected with one?

8 A Yes, I've been connected with both retrospective  
9 surveys, and on many surveys, one asks some retrospective  
10 questions as well as a variety of other types of questions.

11 Q How many surveys have you been connected with that  
12 had retrospective questions in them?

13 A A large number. When you say surveys, I guess  
14 part of it depends on how you are counting surveys. I was  
15 involved in a series of surveys that we conducted that were  
16 repeated surveys, so you are conducting the same survey  
17 every two to three months and two of our major syndicated  
18 surveys that we conducted included retrospective questions  
19 and were conducted repeatedly over a period of approximately  
20 10 years.

21 Q So if we consider each separate report that you  
22 would issue a separate survey, would you say you have  
23 conducted hundreds of surveys that have retrospective  
24 questions?

25 A I have conducted a large number. I would have

1 difficulty saying the exact number.

2 Q Over 100?

3 A Close.

4 Q And these are surveys that clients have paid you  
5 to conduct?

6 A Yes.

7 Q And that they have found value in?

8 A Yes.

9 Q And that you have represented to them have value?

10 A Yes.

11 Q So the fact that Ms. Lawton's survey was  
12 retrospective, that doesn't make it valueless, does it?

13 A No, it doesn't. It does increase the risks and  
14 the difficulties involved in the survey and in the  
15 retrospective surveys that I have conducted I have typically  
16 included, used a variety of techniques to ensure more  
17 accurate reporting in a retrospective -- on retrospective  
18 questions.

19 Q Now Ms. Lawton noted very frankly that she had  
20 done a retrospective survey and that there is always the  
21 possibility of error due to poor recall in a retrospective  
22 study. She noted that in her testimony. Did you see that?

23 A Yes.

24 Q And yet she still determined that she felt it was  
25 reliable. Did you see that?

1 A Yes, I did.

2 Q Now you have a different professional opinion  
3 about that?

4 A Yes, I do.

5 Q But it was her professional opinion -- she took  
6 that into account and it was her professional opinion it was  
7 still reliable.

8 A But it's interesting that she viewed it as  
9 reliable given the number of respondents who showed  
10 confusion.

11 Q We will get into that, but she came to a different  
12 opinion than you did on the reliability of this  
13 retrospective study?

14 A There are two issues here.

15 One is reliability and that has a particular  
16 meaning in a statistical sense, and the other is validity.

17 Q Is your testimony that her survey is invalid?

18 A Yes.

19 Q And so stated in your testimony as invalid? Do  
20 you use those words?

21 A Yes.

22 Q Other than surveys that you have been connected  
23 with, you probably see other surveys not your own, is that  
24 true?

25 A Yes.

1 Q And I imagine you can always critique them and  
2 improve them in some way?

3 A Yes.

4 Q Have you used PC Postage yourself?

5 A No.

6 Q Do you know what an online survey is?

7 A Yes.

8 Q Have you been connected with any?

9 A I have not personally done any online surveys, but  
10 our survey center has.

11 Q PriceWaterhouse has -- conducts online surveys?

12 A Pardon?

13 Q Your surveys -- what do you mean by your survey  
14 center?

15 A PriceWaterhouseCoopers conducts some online  
16 surveys.

17 Q Do they do those for clients?

18 A Yes.

19 Q And the clients perceive some value in the online  
20 surveys?

21 A Yes.

22 Q And PriceWaterhouseCoopers believes there's value  
23 to them as well?

24 A Yes. Typically when we look at the value of the  
25 survey, it has less to do with the mechanism that has been

1 used and has more to do with the methodology, the  
2 questionnaire and the analysis.

3 Q Getting off of this topic for one second, about  
4 how many mail pieces do you get a day at your home?

5 A I haven't counted recently. I don't know.

6 Q Can you estimate?

7 A I should say I am a frequent catalog shopper and  
8 as a result get a large number of catalogs, many duplicate  
9 catalogs.

10 It would be hard for me to estimate.

11 Q You can't estimate the number of pieces of mail  
12 you get at home per day?

13 A It would be very difficult for me because there is  
14 such a strong seasonality component to it. I get many, many  
15 more obviously in November when you are kind of building up  
16 to the holiday season, and many fewer and in the summer.

17 Q Getting back to the retrospective survey, you  
18 understand why it was done in this case? Ms. Lawton was  
19 trying to determine of our Stamps.com customers, or those  
20 people who are currently customers we want to know certain  
21 things.

22 In fact, we want to know what they were doing  
23 before they were a Stamps.com customer. You understand,  
24 that was part of the survey?

25 A Yes.

1 Q Can you accomplish that in a method other than a  
2 retrospective survey?

3 A You can accomplish that. You can accomplish  
4 that -- the answer to that is yes, you could.

5 Q How would you do that?

6 A You could do that by tracking a series of people  
7 and it's very difficult. It is not a likelihood but if you  
8 are asking me could you do it, you could. You could track a  
9 series of people who you think <sup>could become customers</sup> and identify those who then  
10 become Stamps.com customers and look at their behavior  
11 before and then their behavior after.

12 Q If you could identify people who are going to  
13 become Stamps.com customers before they actually were  
14 Stamps.com customers, you would not be conducting surveys.  
15 You would be playing the stockmarket.

16 A Actually there are many surveys that track a  
17 population -- or track a sample of people and keep track of  
18 them over time and identify a whole series of changes in  
19 their behavior.

20 It has been a technique that has been used in  
21 terms of Internet adoption, a lot of different things.

22 The smaller the number of customers or adopters,  
23 the more difficult it is to do it in that kind of survey.

24 Q And those surveys are subject to their own flaws,  
25 correct?

1           A     Any survey can have a flaw. I think the point of  
2 my testimony is the seriousness of the flaws in this survey,  
3 not the fact that there might be a critique.

4           Q     Given that we were trying to find out what our  
5 Stamps.com customers did before they were Stamps.com  
6 customers, it is reasonable to do a retrospective survey.  
7 That is a reasonable way of determining that.

8           A     I have taken -- I don't believe that my testimony  
9 in any way says that a retrospective survey should never be  
10 done or is not a reasonable approach. I have only stated  
11 that it is an approach that is fraught with more difficulty  
12 and, certainly, if the objective is to find out what  
13 Stamps.com customers were doing before they were Stamps.com  
14 customers, I would want to be sure in the survey that I was  
15 clear enough in my questioning that they understood that I  
16 was asking them about the before and not the after.

17          Q     Let me ask you a question again.

18          A     And that wasn't the case.

19          Q     Was it a reasonable approach, if Stamps.com is  
20 trying to find out what its customers did before they were  
21 Stamps.com customers, was it reasonable to do a  
22 retrospective survey to accomplish that?

23          A     I think I have answered this question. I think it  
24 is reasonable to do a retrospective survey, but it is a  
25 technique that is fraught with problems, and requires that

1 one take extra care in terms of ensuring that you help  
2 people understand that you are asking them a question about  
3 a before period.

4 Typically, when you are doing a retrospective  
5 survey, you want to be clear on the timeframe that you are  
6 asking them about. And so, typically, in a retrospective  
7 survey, you would define that time period, which the Lawton  
8 questionnaire does not do, and you would ensure that you  
9 remind someone of what time period you are asking them  
10 about. You clearly distinguish between the before and the  
11 after, which, again, it didn't do effectively because you  
12 had a large number of respondents who responded to before  
13 questions with answers that could only be given in an after  
14 period of time, that is, they responded that they used  
15 Stamps.com inexplicably before they began using Stamps.com.

16 COMMISSIONER LeBLANC: Mr. Hendel, may I -- I am  
17 sorry to interrupt you, but I want to understand one thing.

18 You said, in response to Mr. Hendel, one of the  
19 things that was a problem was the seriousness of flaws.

20 THE WITNESS: Yes.

21 COMMISSIONER LeBLANC: In the last two weeks, we  
22 have heard nothing but one economist tell us that it is one  
23 way and another economist tell us it is another way. Life  
24 is interpretation. So is it interpretation on the flaws of  
25 you versus somebody else, or is it an actual like an

1 accounting process, where these are accepted accounting  
2 principles? Are these accepted economic principles that you  
3 are talking about here, or is it interpretation?

4 THE WITNESS: These flaws really come down to  
5 basic common sense flaws. So when you look at the flaws in  
6 this survey, one of the flaws was that you had people  
7 answering questions about how they processed their mail  
8 before they began using Stamps.com, and their answer were  
9 that they used Stamps.com. Now, that obviously doesn't make  
10 sense. So that is a serious flaw. You know people have  
11 misunderstood the questions.

12 A second flaw in the survey was they were asked,  
13 there are a series of questions about the impacts on the  
14 number of trips they make to the Post Office, and the only  
15 options they had were to report a decrease in the number of  
16 trips. They didn't have the opportunity to reply, I  
17 increased the number of trips. So they haven't calculated a  
18 net change in the number of trips, they have only asked  
19 people who decreased, how much they decreased by, and then  
20 said the impact of Stamps.com is to decrease trips by this  
21 amount.

22 You know, when I look through the survey, those  
23 types of flaws, I don't have to make reference to, you know,  
24 statistics or to anything, these are very basic.

25 COMMISSIONER LeBLANC: It is basic in your

1 opinion?

2 THE WITNESS: In my opinion, they are basic. In  
3 my opinion, it is a basic flaw when you have a large number  
4 of respondents who misinterpret a question and give a  
5 nonsensical reply, yeah.

6 COMMISSIONER LeBLANC: Thank you.

7 Thank you, Mr. Hendel. I am sorry for the  
8 interruption.

9 BY MR. HENDEL:

10 Q And we are going to get to that point, big time,  
11 okay. But I would ask you to just pay attention to the  
12 question I ask, and I am going to go through all those areas  
13 that we talked -- that you talked about in response to my  
14 very short question, and we will get there.

15 Now, I want to turn to some of the specific  
16 questions, and this is in your testimony, page 13. Ms.  
17 Lawton asked the respondents if they made fewer trips to the  
18 Post Office due to their use of Stamps.com. Now, did this  
19 question didn't -- this particular question didn't ask how  
20 many fewer, it just said, did you make fewer? Are you aware  
21 of that question?

22 A Yes.

23 Q Do you find that a confusing question?

24 A No.

25 Q And the fact that she said, did you make fewer

1 trips, if someone hadn't made fewer trips, would they have  
2 been kind of persuaded to say, oh, yes, I did, because she  
3 said fewer?

4 A The question itself is not confusing, but the  
5 question does not provide a timeframe in which to report.  
6 If I ask someone, are drinking less coffee, the first thing  
7 they would ask me is, do you mean today, over the last week,  
8 over the last month, over what time period?

9 Q Okay.

10 A So the question itself is not a confusing  
11 question, but the fact that there is no timeframe specified  
12 makes it a less valuable or useful question in terms of  
13 response.

14 Q How long do you think Stamps.com was in operation  
15 when these questions were asked?

16 A My understanding is that in order to respond to  
17 the questionnaire, you had to have to have used Stamps.com  
18 for, I believe it was at least a month.

19 Q Were you aware that Stamps.com was not authorized  
20 to begin commercial service till August of 1999; were you  
21 aware of that fact?

22 A Yes.

23 Q So the earliest possible date someone could have  
24 begun was August, 1999.

25 A The actual time that the service began is not

1 relevant to the comment I'm making; it's the fact that the  
2 question doesn't give a timeframe.

3 Q Okay, now, this question did not give a timeframe,  
4 and it said, are you making fewer trips to the Post Office?

5 Are the answers to that question unreliable  
6 because she did not give a timeframe?

7 A The question was, has Stamps.com reduced the  
8 number of trips you have to make to the Post Office, yes,  
9 no? And then if so, approximately how many fewer trips per  
10 month to the Post Office do you make?

11 Q I want to stick to that first question. In your  
12 professional opinion, are the results unreliable for that  
13 question?

14 A Yes, because no timeframe has been given.

15 Q So, in your professional opinion, the question,  
16 have you made fewer trips to the Post Office because of  
17 Stamps.com, that question is completely and wholly  
18 unreliable because she didn't say for the last month, two  
19 months, three months, or year?

20 That makes it completely unreliable; we must throw  
21 it out; that's your professional opinion today before this  
22 Commission?

23 A My professional opinion is that in the absence of  
24 specifying a timeframe, it reduces the usefulness of the  
25 question in making judgments about the impact.

1 I think it's a well known fact that behavior does  
2 vary over time, and to get an accurate measure of the impact  
3 on the rate of any type of behavior, a typical approach that  
4 was used in survey research is to specify a timeframe.

5 Q Okay, I didn't ask you, did it reduce it's  
6 usefulness. That was not the question.

7 Does it make it unreliable and invalid?

8 A In terms of reliability, it certainly would affect  
9 the reliability. Reliability refers to the ability to get  
10 the same results if you redid the survey again or typically  
11 over time.

12 And when you haven't specified something like a  
13 timeframe in that, it certainly does reduce the reliability.

14 Q I didn't ask you if it reduces it. Does it make  
15 it unreliable or invalid?

16 MR. TIDWELL: Mr. Chairman, the Postal Service is  
17 going to object to the fourth asking of the question.  
18 Counsel has gotten the answer three times, and I don't know  
19 that --

20 CHAIRMAN GLEIMAN: Well, let's let him get it one  
21 more time real fast, and then he can ask the next question.

22 THE WITNESS: It reduces the -- reliability is  
23 something that is kind of on a continuous scale. And it  
24 reduces the reliability; it makes it less reliable, and  
25 that's --

1           CHAIRMAN GLEIMAN: Mr. Hendel, can I interrupt for  
2 a moment, because now I'm confused.

3           I have a little postcard in my hand. I've gotten  
4 them periodically. They come from some folks called the  
5 United States Postal Service.

6           It says, Dear Postal Customer: Your opinions are  
7 important to the United States Postal Service. I have my  
8 doubts about whether they really think my opinions are all  
9 that important, but it asked me to respond to a customer  
10 satisfaction survey.

11           Do you know offhand whether the questions in the  
12 customer satisfaction survey have a timeframe associated  
13 with them?

14           THE WITNESS: I don't know, offhand. I know that  
15 the Postal Service does do --

16           CHAIRMAN GLEIMAN: Let me ask you a question: If  
17 they don't have a timeframe and they just ask me if I'm  
18 happy or unhappy with Postal services and give me a choice  
19 of very unhappy to very happy and three little dots in  
20 between, then I take it that the question is not -- my  
21 responses are not valid and not useful to the Postal Service  
22 because they haven't asked me in the context of the  
23 timeframe; that's correct?

24           THE WITNESS: No, not necessarily.

25           CHAIRMAN GLEIMAN: Okay, thank you. I just wanted

1 to make sure I understand.

2 THE WITNESS: The distinctions between a question  
3 of overall level -- measurement of overall satisfaction and  
4 a change in actual behavior.

5 CHAIRMAN GLEIMAN: So if it asked me whether my  
6 behavior has changed as a consequence of the Postal Service  
7 having made a change, and it doesn't tell me what timeframe  
8 of change it's talking about, then it's invalid?

9 THE WITNESS: If it asked you how many times did  
10 you go to the Post Office, and it didn't say over the last  
11 week, over the last month, or over the last year, that would  
12 be a question that would have very, very low reliability.

13 CHAIRMAN GLEIMAN: I can't begin to tell you the  
14 number of invalid surveys I've gotten. Forget the Postal  
15 Service -- at home, in the mail, and over the telephone,  
16 it's just mind-boggling, how invalid and unreliable the  
17 entire survey industry is that I've been exposed to. And  
18 I'm not even talking about what I've seen from the Postal  
19 Service in this hearing room in a number of cases, including  
20 those that involved folks who work for Price Waterhouse,  
21 Coopers.

22 I apologize for the interruption. I don't know  
23 whether you got your fourth response to the same question or  
24 not, but --

25 MR. HENDEL: I think I've made my point with those

1 questions.

2 BY MR. HENDEL:

3 Q Now, on this question she asked about if there are  
4 fewer trips made to the Post Office due to use of  
5 Stamps.com, the results, 84 percent said yes; is that  
6 correct?

7 A Yes.

8 Q Now, you mentioned all the flaws you found in this  
9 thing, and your critiques on it.

10 And taking that all into account, if someone were  
11 to ask you, if Chairman Gleiman were to ask you, well,  
12 taking all those flaws into account, is it reasonable for me  
13 to infer, based on that, that, in fact, Stamps.com has  
14 resulted in fewer trips to the Postal Service for the  
15 majority of the users of Stamps.com; would that be a fair  
16 assumption for them to make or not?

17 A The majority of the people responding to the  
18 survey say that they've reduced the number of trips they've  
19 made to the Post Office.

20 Q Not the majority, 84 percent. Isn't that  
21 astoundingly high?

22 A I can't comment on whether it's astounding or not.

23 Q Isn't that very high?

24 A 84 percent is a high number.

25 Q So, if the Commission asked you, is it fair for us

1 to conclude that use of Stamps.com does result in fewer  
2 trips to the Post Office by Stamps.com customers, what would  
3 you tell the Commission?

4 A If I were looking at this -- as I look at this  
5 research, I have serious concerns that the respondents  
6 haven't been clear on what the timeframe is, and that you  
7 may be reporting a -- sorry, you may be measuring the period  
8 of time after initial use -- sorry, initial adoption of  
9 Stamps.com, that may or may not continue over time.

10 If I were to make -- if I were going to make an  
11 important decision based on a survey, I would want the  
12 wording and the timeframe to be a little bit different.

13 However, I do -- you know, when you look at the  
14 survey results, you have a large number of people after --  
15 in the month after initial adoption of Stamps.com, saying  
16 that they make fewer trips to the Post Office.

17 Q Would you tell the Commission you'd be just as  
18 safe in relying on a coin flip on this question, or is it  
19 more reliable to rely on the Lawton survey for this  
20 question, or would it be more reliable to rely on a coin  
21 flip, in your professional opinion?

22 A As I understand the question, in my professional  
23 opinion, would I rely on a coin flip or a survey that is  
24 --has reduced reliability, it would still be the survey.

25 Q This survey?

1 A Pardon?

2 Q This survey that we're talking about.

3 A I didn't know I had a choice of another. If I had  
4 a choice of another, there are many others that I might  
5 design or choose.

6 Q Well, that's good.

7 All right. Now, let's talk the second part of  
8 this question, which goes to the 84 percent who said, yes,  
9 because of this, I'm making fewer trips.

10 Now, there was a follow-up on this, and you have  
11 taken Ms. Lawton to task because she didn't do a follow-up  
12 on people who said, no, I haven't made fewer trips, and you  
13 have criticized her, and that's a major flaw in the study,  
14 correct?

15 A Typically if you're going to measure a change in  
16 behavior, the fair and unbiased way of measuring it is to  
17 measure changes in both directions and to then calculate a  
18 net change in it.

19 Q Okay. I want your professional opinion. Is her  
20 failure to follow up on the no's no, it didn't reduce my  
21 trips to the post office, is that a major flaw in her study,  
22 yes or no?

23 A Yes.

24 Q Okay. Now, please explain to me how the use of  
25 Stamps.com could cause a user to make more trips to the post

1 office?

2 A What you're doing is you're measuring a change in  
3 the number of trips to the post office and you're entirely  
4 ascribing a change in that to the use of Stamps.com. I  
5 might have begun using Stamps.com in November and that might  
6 be a month where I as a small business have a lot of  
7 packages going out. And in the month of November, I might  
8 make more trips to the post office than I do in the whole  
9 rest of the year, and it may have nothing -- the number of  
10 trips I make to the post office may have nothing to do with  
11 whether I used Stamps.com or I don't.

12 So, you know, when you look at this, I can't  
13 answer your question in terms simply of assuming that all  
14 trips to the -- that my frequency of trips to the post  
15 office are entirely determined by whether I use or don't use  
16 Stamps.com.

17 Q No, I want to know how could it possibly be that a  
18 Stamps.com user would have more trips to the post office  
19 because the Stamps.com user is using Stamps.com. I want to  
20 know how that is possible, because if it's not possible,  
21 there's no point in asking; is that correct? Or do you  
22 believe we should ask questions that have impossible  
23 results?

24 A I don't believe that most of the people responding  
25 to this question would have been thinking purely in causal

1 terms, and I think when you're looking at this, if I  
2 understand how the question was going to be used, which was  
3 the impact that Stamps.com has on any changes in the  
4 behavior of people in terms of going to the post office,  
5 that you need to measure that behavior overall, you know,  
6 how many times do you go to the post office, and it can go  
7 up or it can go down, and it needs to be measured in both  
8 directions.

9 Q So to sum up, you cannot tell me a single reason  
10 why the use of Stamps.com would cause the Stamps.com user to  
11 go to the post office more frequently? You cannot tell me a  
12 reason?

13 A I'm a very creative person and I think I could  
14 come up with some reasons. One reason might be you become  
15 much more effective in using your mailing list and you  
16 generate a lot more business and that business leads you to  
17 take more packages into the post office.

18 Q Ah-ha.

19 A And so --

20 Q Let's stay with that one.

21 A So I actually do end up making more trips.

22 Q Great. Let's stay with that one.

23 A That's one scenario, yes.

24 Q Let's stay with that one. That would be because  
25 you're using more postal services.

1 A Yes.

2 Q Okay.

3 A In that scenario, yes.

4 Q Okay. Give me an example that doesn't relate to  
5 using more postal services.

6 A I think you have the wrong witness for this. Let  
7 me come up with -- I mean, I could come up with a wild  
8 scenario.

9 Q Okay. Other than wild --

10 A Do you want me to do that? I can --

11 Q No. Other than wild, unlikely scenarios, can you  
12 come up with any reasonable, realistic scenarios in which a  
13 Stamps.com user would use the Postal Service more simply  
14 because they're using Stamps.com?

15 A I think I came up with some -- the last scenario I  
16 gave you was one in which they used the Postal Service more  
17 because --

18 Q Yes. Other than that one, which is because now  
19 they're using the Postal Service more, other than that one.

20 A I cannot easily think of a reasonable scenario  
21 where people would go to the post office more. You're  
22 asking me to think of a scenario where people would go to  
23 the post office more but not be using the services there, so  
24 no, I can't do that. I mean, most people go to the post  
25 office to use the services, I assume.

1 Q Okay. Turning to page 15 in your testimony, and  
2 this is where you're commenting on where Witness Lawton  
3 tried to determine -- or tried to estimate how many fewer  
4 trips Stamps.com customers made because of their use of  
5 Stamps.com. This is where she followed up on that question.  
6 People who said, yes, I did make fewer trips, she followed  
7 up on those people and said, how many fewer? And she came  
8 up with a number of about a million per month, I think was  
9 her number, million a month fewer trips. You take her to  
10 task because some of the responses were like 20 percent to  
11 50 percent fewer, quite a few trips less, I saved myself a  
12 couple of trips -- they weren't exact statistical amounts,  
13 it wasn't two times a week or five times a month, and you  
14 take her to task for that, correct?

15 A Yes.

16 Q Okay. And she says, well, she recognized that and  
17 she said, I reconciled the data, correct?

18 A I'm not sure how you can reconcile data such as  
19 quite a few trips less or 20 to 50 percent fewer trips and  
20 end up with a number of -- a precise number of one million.

21 Q Okay. Now, you are an expert in surveys. You've  
22 conducted hundreds of surveys. If you were presented with  
23 this problem where you've gotten -- we've received over  
24 2,000 responses. Some of those responses do not -- they  
25 say, yes, but you can't figure out how many from some of

1 them. Others give you exact numbers -- two times a week,  
2 two times a month, right?

3 You're an expert in this area. Client says to  
4 you, you know, I know you can't do it for all of them  
5 because some people didn't tell you. Can you think of any  
6 possible way to get a number for that client?

7 A The typical approach that would be used is you  
8 would use the respondents who actually gave numbers, but you  
9 would then look at what the sample size was on that, you'd  
10 have a much wider margin of error around that report.

11 The other thing that I would do is I would look at  
12 the demographics on people who gave an exact response versus  
13 those who gave a vague response to see if I was still  
14 justified in saying that those who gave an exact number  
15 were, in fact, representative of the population.

16 Q All right. So what you would --

17 A And if they weren't, I wouldn't report it.

18 Q All right. So typically what you would do in that  
19 situation -- it's not an unusual situation -- is you would  
20 say, okay, the ones I can't figure out, I'll throw those out  
21 and I'll deal with the ones I have left? Isn't that what  
22 you would typically do in that situation?

23 A Yes, but we're not told exactly how many were left  
24 and we're not told what the margin of error is, so in the  
25 absence of that information, it's very difficult to say

1 whether the one million projection is a reasonable  
2 projection or is fraught with a large margin of error.

3 Q Well, I have to correct you on that. Have you not  
4 seen the library reference where she filed the responses for  
5 every single respondent? Have you not seen that?

6 A Yes, I have.

7 Q Didn't it say for every single respondent the  
8 answer to this question?

9 A No, it did not give the number of the respondents  
10 who gave a numeric response as opposed to a vague response.

11 Q It didn't give the number; it gave the response.  
12 So if you wanted to, you could have done what she did, which  
13 is go through it and say, well, this one didn't give a  
14 numeric response, and thrown that out. You could have done  
15 that if you wanted to. Was there anything stopping you from  
16 doing that? You had the data available, you could have done  
17 it.

18 A I did not see data that would enable me to do  
19 that, no, I did not.

20 Q All right. Let me posit to you that on file at  
21 the Postal Rate Commission is a library reference that has  
22 the complete data of every question Lawton asked. Accept  
23 that as a given. Including the answer to this question, how  
24 many trips fewer. If that's true, could you have taken that  
25 and determined how many people gave a specific numeric

1 response and how many people didn't? Could you have done  
2 that if you wanted to?

3 A I would have to look at it and see. The  
4 information that I looked at was coded data as opposed to  
5 raw data.

6 Q I'm positing to you the raw data is on file at the  
7 Postal Rate Commission.

8 A Okay.

9 Q If that was, could you have then looked at the raw  
10 data and determined which ones gave numeric responses and  
11 which didn't?

12 A I'd have to look at it, but if it were recorded  
13 exactly, I would be able to.

14 Q And if it was there, you could have done that?

15 A If it were recorded appropriately.

16 Q And that would be -- this would be a flaw in your  
17 testimony today if that was available and you didn't do  
18 that.

19 A Pardon?

20 Q This would be a flaw in your testimony today.  
21 That's something you could have done but you didn't do.

22 A It would -- I'm not sure how it's a flaw in my  
23 testimony. My testimony, if you can refer me to a line  
24 number, I'm not sure where I've said that --

25 Q In fact, let me ask you this. How do you know

1 that some of the respondents said -- and this is page 15 of  
2 your testimony, line 17 -- how do you know some of them said  
3 20 percent to 50 percent fewer trips, or quite a few trips  
4 less? How did you know that if you didn't look at the raw  
5 data?

6 A Lines 15 through 17 on page 15 say, <sup>W</sup>What if, for  
7 example.

8 Q Okay. So you don't get that from the raw data;  
9 you just --

10 A That was not taken from the raw data; that was  
11 taken from the -- they were concrete examples of  
12 descriptions that were provided in the Lawton testimony.

13 Q All right. So you didn't look at any of Lawton's  
14 raw data at all for any of the survey questions?

15 A I looked at the data that was on file and I looked  
16 at what I saw were summary data.

17 Q So you didn't see the raw data?

18 A I did not see raw data.

19 Q Ms. Lawton did, presumably.

20 A Oh, I would assume she saw raw data, but I can't  
21 answer what she saw or didn't see.

22 Q Okay. Turning to page 16, the response rate, do  
23 you know how many people responded? Was it over 2400  
24 completed responses?

25 A Page 21 of the Lawton testimony, line 16: We

1 received a total of 1,043 questionnaires by the cut-off  
2 date.

3 Q Do you see page 9, line 8 in Ms. Lawton's  
4 testimony?

5 A I'm sorry, I'm in the wrong section. Let me just  
6 -- I gave you the wrong number. Excuse me.

7 2,432.

8 Q Okay. So she got 2,432 completed surveys from  
9 Stamps.com customers. There are 187,000 Stamps.com  
10 customers in March of 2000, so forget about a survey for a  
11 second, that's -- she got results from over one percent of  
12 all the Stamps.com users; is that true?

13 A I don't have the current figures on the number of  
14 Stamps.com users, but I'll take your word for it.

15 Q If you accept that 187 --

16 A Yes.

17 Q She's got one percent of all the users. We're not  
18 talking about something like the Heisler survey where they  
19 had a couple hundred respondents; we're talking about 2,400  
20 respondents here; is that right?

21 A Uh-huh.

22 Q Are you aware of what the response rate typically  
23 is on an online survey?

24 A The response rate on online surveys vary a great  
25 deal and it varies based on the population that's being

1 surveyed, the number of repeat attempts to get a complete,  
2 and the types of incentives that are provided.

3 Q All right. Ms. Lawton said she got a 20.4 percent  
4 response rate, and Ms. Lawton says that this is typical for  
5 an online survey. Do you doubt that?

6 A As I say, there's a wide variation in response  
7 rates. We've typically gotten higher response rates than  
8 20.4.

9 Q Have you gotten lower ones as well?

10 A You know, when I read this, I was thinking of  
11 this, if I could think of a time when we got a lower  
12 response rate, and I had difficulty coming up with any  
13 specific survey that I've had a lower response rate on.

14 Q So do you believe that Ms. Lawton is incorrect,  
15 this is not a typical response rate for an online survey?

16 A I don't think -- I am not aware of any published  
17 data on what the typical response rate is. I can only  
18 answer in terms of my own experience, and that's what I've  
19 answered in terms of.

20 The critical thing here, though, is, you know,  
21 having 2,432 completed surveys when you have a lot of people  
22 confused, you know, kind of -- more confusion isn't  
23 necessarily better.

24 Q What I'm trying to establish -- let's stick to the  
25 question, which is the response rate. The response rate

1 falls within normal response rates for this type of survey;  
2 isn't that correct? It falls within the normal range of  
3 response rates?

4 A I couldn't say that, no. I can't say that.

5 Q You can't say that.

6 A I can't say that that's true.

7 Q Ms. Lawton said that.

8 A Ms. Lawton has said that, yes.

9 Q I want to ask you the question that you've been  
10 dying to talk about, which is the issue of the problem that  
11 Ms. Lawton discovered and talked about with respect to the  
12 timing on the questions about how this may have -- how the  
13 use of Stamps.com may have changed respondents' addressing  
14 techniques.

15 Just to summarize, and you can correct me if you  
16 think I'm wrong, what happened here was Ms. Lawton asked  
17 questions about, prior to Stamps.com, did you use a Zip  
18 Code, did you use a post-net bar code, did you use a FIM  
19 code, and she got certain rates. And then she followed up  
20 those -- if they said yes, she followed those questions up  
21 and she said, okay, if you used a bar code, what software  
22 did you use to do it? And what she found was that the most  
23 popular -- the second most popular response to that question  
24 was, I used Stamps.com.

25 So she -- is this your understanding of the

1 survey?

2 A In one situation, it was the second most popular  
3 response; in the other, it was the most popular response.

4 Q But far and away, of the possible responses, it  
5 was right up there, this confusion; is that correct?

6 A Yes.

7 Q And then Witness Lawton recognized that and  
8 discussed it in her report; is that correct?

9 A Yes, she did.

10 Q And she says, well, obviously they didn't  
11 understand the timing on this question, but if that is true,  
12 the only possible effect is that they're understating the  
13 first question I asked them, which is, did you barcode  
14 before Stamps.com, because if they tell me on the follow-up  
15 yes, I did barcode before Stamps.com and I used Stamps.com,  
16 obviously they misunderstood the timeframe of that question.

17 So the result understates the change in the  
18 behavior of these respondents?

19 A That is what Witness Lawton has said. I don't  
20 agree that you can assume that it understates it and I don't  
21 agree for this reason. If you look at the second most  
22 popular response in one situation and the most frequent  
23 response in another, it was that Microsoft Word was being  
24 used.

25 Now I have no reason to assume that early adopters

1 of Stamps.com were necessarily using nothing before they  
2 began using it. They very well could have been using  
3 Microsoft Word and in fact from both an intuitive and a  
4 professional opinion typically early adopters of new  
5 technology are early adopters <sup>of</sup> multiple technologies so  
6 one could assume or one could hypothesize that early  
7 adopters of Stamps.com might have been more likely to be  
8 using more sophisticated addressing technology already.

9 Certainly Microsoft Word and WordPerfect, which  
10 are the two other most frequently used software, are widely  
11 available and are widely used.

12 Q One last inquiry for you. It says on page 3 that  
13 you are the leader of PriceWaterhouseCoopers' global postal  
14 industry team and a client service partner for the firm's  
15 projects with the Postal Service.

16 Could you elaborate on what you do with the Postal  
17 Service?

18 A I am the client relationship partner for the  
19 Postal Service. It doesn't mean I am the partner on every  
20 project.

21 I am responsible within our firm for our industry  
22 practice in the mail package and freight industry and I am  
23 responsible within our firm for our relationships with the  
24 Postal Service.

25 Q Serving as a consultant for the Postal Service?

1 A Yes.

2 MR. HENDEL: No further questions.

3 CHAIRMAN GLEIMAN: Is there any follow-up?

4 [No response.]

5 CHAIRMAN GLEIMAN: Questions from the bench?

6 Commissioner Goldway?

7 COMMISSIONER GOLDWAY: I just have one question.

8 Are you familiar with the survey that was done to

9 determine the interest in Mailing Online?

10 THE WITNESS: No, I am not.

11 COMMISSIONER GOLDWAY: Thank you.

12 CHAIRMAN GLEIMAN: And I thank you.

13 [Laughter.]

14 CHAIRMAN GLEIMAN: Now I don't have to ask that

15 one.

16 For whatever it's worth, the person that did that

17 survey also attended Northwestern University. It doesn't

18 work for PriceWaterhouseCoopers though.

19 If there's nothing further, then that brings us to

20 redirect.

21 Would you like some time? Three minutes? Okay,

22 three minutes is it.

23 [Pause.]

24 CHAIRMAN GLEIMAN: Yes, Mr. Tidwell?

25 MR. TIDWELL: Yes, Mr. Chairman, there is no

1 redirect.

2 CHAIRMAN GLEIMAN: That being the case, Dr.  
3 Staisey, that completes your testimony here today.

4 We appreciate your appearance, your contributions  
5 to the record. We thank you and you are excused.

6 [Witness excused.]

7 CHAIRMAN GLEIMAN: Our next witness is Postal  
8 Service Witness -- another Postal Service witness and I  
9 guess Mr. Moore, you have got this witness.

10 What I would like to do, since we have been  
11 sitting here for a couple of hours, is maybe take ten and  
12 let everybody get up and stretch their legs a little bit,  
13 walk around. I don't know if there is any coffee left over  
14 there or not. It is likely to run out.

15 If you are a coffee drinker, you may want to go  
16 get some before it does and we will be back in ten and we  
17 will pick up there.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Mr. Moore, you can introduce  
20 your witness when you are ready.

21 MR. MOORE: Yes, Mr. Chairman. The Postal Service  
22 calls Roy Gordon.

23 Whereupon,

24 ROY GORDON,

25 a witness, having been called for examination and, having

1 been first duly sworn, was examined and testified as  
2 follows:

3 CHAIRMAN GLEIMAN: Counsel, you can proceed to  
4 introduce his testimony.

5 DIRECT EXAMINATION

6 MR. MOORE:

7 Q Mr. Gordon, I have handed you two copies of what  
8 is entitled "Rebuttal Testimony of Roy Gordon on Behalf of  
9 the United States Postal Service," designated USPS-RT-17.  
10 Take a moment to look over your testimony.

11 A Yes.

12 Q Okay. And did you prepare or supervise the  
13 preparation of those documents?

14 A Yes.

15 Q And do those documents contain the errata that was  
16 filed by the Postal Service on August 28?

17 A Yes, they do.

18 Q And for the record, would you state those changes?

19 A There were changes to my bio, and on page 3, line  
20 8 and 17.

21 Q Okay. And what were the exact changes, if you  
22 could state those?

23 A Yes.

24 My bio was changed from 17 to 20 years of service.

25 Q Okay.

1           A     Page 3, line 9, total is changed to First Class.  
2     Page 3, line 18, following number 321,000, delete the word  
3     "postage." And then 6, line 12, 13653 is changed to  
4     29/13693.

5           Q     Okay. And with those noted changes, if you were  
6     to give your testimony orally today, would it be the same?

7           A     Yes, it would.

8           MR. MOORE: Mr. Chairman, at this time the Postal  
9     Service moves that Mr. Gordon's testimony be admitted into  
10    evidence.

11           CHAIRMAN GLEIMAN: Is there an objection?

12                   [No response.]

13           CHAIRMAN GLEIMAN: Hearing none, if counsel would  
14    provide two copies of the revised, corrected rebuttal  
15    testimony of Witness Gordon to the court reporter, the  
16    testimony will be transcribed into the record and entered  
17    into evidence.

18                                   [Rebuttal Testimony of Roy Gordon,  
19                                   USPS-RT-17, was received into  
20                                   evidence and transcribed into the  
21                                   record.]

22  
23  
24  
25

USPS-RT-17

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY  
OF  
ROY GORDON  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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Revised 8/28/00

**AUTOBIOGRAPHICAL SKETCH**

1  
2  
3           My name is Roy Gordon; I am currently the Manager of the Information  
4 Based Indicia Program (IBIP) at United States Postal Service headquarters.  
5 I have served in this capacity since 1995.

6           My primary responsibility is ensuring the security of postage revenues from  
7 products that produce Information Based Indicia (IBI). This goal is accomplished  
8 by developing performance criteria that establish security levels that the products  
9 must meet or exceed, publishing regulations regarding the development and use  
10 of the products, and testing and evaluating proposed products against the  
11 performance criteria and regulations.

12           The balance of my twenty year career with the Postal Service has been  
dedicated to automating multiple data intensive functions. These automation  
14 efforts have ranged from automating mail acceptance processes and postage  
15 meter licensing to developing electronic payment systems. Some of the systems  
16 I helped to develop include the Publisher's Electronic Payment System (PEPS),  
17 the Mailer's Electronic Payment Program System (MEPPS), and Bulk Mail  
18 Acceptance and Accounting Reporting System (BARRS). Additionally, I have  
19 worked to develop systems methodology to assist in streamlining business mail  
20 acceptance activities including System Certification Stage 3 and managing the  
21 second- and third-class Non-Profit Mailer database systems.

1

**I. PURPOSE OF TESTIMONY**

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The first purpose of my testimony is to provide a brief history of the Information Based Indicia Program. The second purpose is to report actual aggregate FY2000 to-date PC Postage customer and revenue data which the Commission can use in evaluating the FY 2000 estimates of PC Postage revenue presented in the testimony of E-Stamp & Stamps.com witness Boggs. Finally, I respond to the testimonies of E-Stamp witness Jones and Stamps.com witness Kuhr which imply that there would be no significant barriers to implementation of PC-Postage based rate discounts before the conclusion of the test year (FY 2001) in this case.

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**II. HISTORY OF PROGRAM**

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It may be helpful to review why the Information Based Indicia Program (IBIP) was initially pursued by the Postal Service. Advances in technology readily available to the average consumer such as scanners, color printers and desktop publishing software were making the Postal Service increasingly susceptible to revenue losses from counterfeit meter impressions.

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In response to these threats, the Postal Service began to explore the feasibility of infusing technology into the traditional postage meter industry. These efforts led to the formation of IBIP in 1995. Consequently, IBIP is primarily related to revenue security. It seeks to encourage the development and

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evaluation of new, more secure forms of postage evidencing systems that produce IBI such as PC Postage products.

Unlike the traditional meter impression, each IBI is unique. An IBI incorporates a two-dimensional barcode containing, among other information, certain "security critical" data elements. These security critical data elements -- the device identification, ascending and descending register values, postage amount and digital signature -- ensure the uniqueness of each indicia.

In addition to providing an enhanced ability to detect counterfeit postage, the postage evidencing systems that produce IBI, such as PC Postage products, are required to achieve a much higher level of security against tampering than traditional postage meters. The performance criteria for these systems require them to be "tamper resistant" as opposed to "tamper evident;" thus eliminating the need for physical inspection of systems.

From this brief history of the program, it is evident that our focus to-date has been on security. We have developed processes and procedures to ensure that products developed by private companies, such as E-Stamp and Stamps.com, meet our security requirements. Any changes to these products, such as incorporation of the proposed IBI discounts, would be subject to these processes and procedures.

1  
2 **III. PC POSTAGE USE PROJECTIONS SHOULD BE EVALUATED**  
3 **IN LIGHT OF ACTUAL USE**  
4

5 The testimony of E-Stamp & Stamps.com witness Boggs (at Tr. 29/13849)  
6 includes PC Postage revenue projections for FY 2000 and beyond. Witness  
7 Boggs estimates that total First-Class PC Postage spending will be \$292.8 million  
8 for calendar year 2000. The rebuttal testimony of Postal Service witness Staisey  
9 (USPS-RT-16) critiques the manner in which those estimates were developed. It  
10 is not the purpose of my testimony to offer an opinion about the manner in which  
11 witness Boggs' estimates were derived or their credibility. However, I think that  
12 whatever conclusions the Commission may draw about his estimates should be  
13 informed by reference to actual year-to-date PC Postage revenue.  
14

15 As part of IBIP, the Postal Service maintains a database which measures  
16 postage revenue of PC Postage users. The latest data show that a total of nearly  
17 321,000 customers, using PC Postage products developed by six different  
18 vendors, have generated \$29.8 million in postage revenue, cumulatively for Fiscal  
19 Year 2000 to-date (through Accounting Period 11). I estimate that approximately  
20 57.3 percent of this is First-Class Mail revenue.  
21

22  
23 **IV. IBI DISCOUNT RATE IMPLEMENTATION CONCERNS**

24 Determining whether to support the establishment of new mail  
25 classifications and rates for new categories of mail is a matter beyond the scope  
26 of the responsibility of those of us who manage IBIP. Accordingly, we defer to  
27 others within the Postal Service on that question. However, if a determination  
28 were made internally to pursue IBI-based discounts, the IBIP team would be

1 consulted on technical implementation issues. Implementing an IBI discount  
2 would be a fairly complex process. IBI software is complex and is not designed  
3 for a single class of mail or rate category. All modifications designed to affect a  
4 single category of mail have to be scrutinized to ensure that there are no  
5 unintended consequences which affect other classes or categories. Because of  
6 the unique character of each PC Postage vendor's software, modifications are not  
7 uniform, either in substance or in the time it takes for them to be developed. Our  
8 experience informs us that if, hypothetically, an affirmative decision were made by  
9 the Governors in response to a recommendation by the Commission in this case  
10 -- it would most likely require a period of six to twelve months beyond the  
11 Governors' decision to implement. To ensure the discount is appropriately  
12 implemented the Postal Service would need to develop the necessary  
13 performance criteria, allow for provider software development, test and evaluate  
14 products submitted by the providers, and conduct an employee awareness  
15 campaign. These are areas that I am directly responsible for and can speak to  
16 from experience. I do not believe that the intervenor testimonies filed in this  
17 proceeding adequately address what would be required to implement any  
18 discount.

19 As discussed in the testimony of Witness Kuhr (Tr. 23/10301-02), "the  
20 primary document defining the parameters of the [IBI] program is called the  
21 *Performance Criteria for Information-Based Indicia and Security Architecture for*  
22 *Open IBI Evidencing Systems, (PCIBI-O).*" The PCIBI-O is a document published

1 by the Postal Service that details the criteria for development of PC Postage  
2 products to ensure their security and inter-operability with Postal Service  
3 infrastructure.

4 This document is written to provide guidance on "what" the products must  
5 do, but not "how" the providers go about doing it. Let us assume that a discount  
6 as proposed by E-Stamp witness Jones was approved. Software would need to  
7 be modified to reflect a new rate category and it would be necessary to modify  
8 IBI transaction log files. In addition, the PCIBI-O would include a statement like  
9 the following:

10 PC Postage products may allow customers to produce postage at a  
11 discount rate when the IBI is printed directly onto an envelope with a FIM D  
12 and POSTNET barcode that meets the automation processing  
13 requirements defined in the Domestic Mail Manual.  
14

15 The controls to be placed in the software, the "how," would vary based on each PC  
16 Postage vendor's product. The approaches will vary due to software design as  
17 well as intellectual property rights.

18 Changes to the PCIBI-O are normally made through the Federal Register  
19 process to provide the opportunity for public comment. To allow sufficient time to  
20 receive and respond to public comments, an update to this document may take up  
21 to three months to complete.

22 E-Stamp witness Jones casually discusses the features that could be  
23 incorporated into their PC Postage software to implement an IBI discount rate. He  
24 testifies:

1           Because of the nature of the PC Postage Open Systems products,  
2           discounts for this category can be enforced through the product  
3           software and customers will not have the ability to apply the  
4           discount indiscriminately.

5

6           Tr. 29/13652, at lines 2-4. Further down the same page at lines 8-10, he states:

7           Existing and future software products can programmatically  
8           determine that all of the automation capability selections have been  
9           made in the user interface and that the address has been matched  
10          against the database.

11

12          Finally, at Tr. 29/13653, lines 12-15, he claims:

13          All of the above can be done with only minor modifications to what is  
14          already in place with the Postal Service and with each vendor. The  
15          necessary level of effort would be inconsequential compared to the  
16          benefit to all parties if these discounts are approved.

17

18          Although I believe that the software could be modified to enforce the application of  
19          any discount, I do not believe these changes represent only "minor modifications."

20          Witness Jones' testimony makes it seem that PC Postage software can be quickly  
21          modified to incorporate the necessary features to adequately control the  
22          application of an IBI discount by the customer. Based on our experience with  
23          current PC Postage providers, software modifications can take anywhere from  
24          three to nine months. A recent example of a change in our performance criteria  
25          made at the request of the providers helps illustrate this time frame.

26          PC Postage providers and customers have expressed concerns about the  
27          completeness and accuracy of the Address Matching System (AMS) CD ROM.

28          Witness Jones summarizes these concerns in his testimony as follows:

29          Another difficulty with address cleansing, and a source of numerous  
30          customer complaints against the USPS address-matching CD-ROM,  
31          is that it is not current or completely accurate. Because Open

1 System PC Postage products will not allow a mail piece to be  
2 created unless an exact match against the Postal Service database  
3 can be made, customers find that they can no longer create mail  
4 pieces to every address on their current mailing lists, even if they  
5 know with certainty that some of those addresses are correct. This  
6 is also creating a barrier to customer acceptance.  
7

8 Tr. 29/13647, lines 6-12. In response to these concerns, the Postal Service issued  
9 a new Address Matching System (AMS) Application Programming Interface (API)  
10 User Guide in March 2000. Witness Kuhr described this new version in his  
11 testimony:

12 The latest version of the AMS programming tools (APIs) provided by  
13 the Postal Service gives Stamps.com the ability to recognize unique  
14 ZIP codes (e.g., a ZIP assigned to a single building or campus). If  
15 an address contains a unique ZIP code, the AMS will ignore the  
16 street address if one was not submitted. The city, state and ZIP will  
17 be verified and the verified address is returned to the customer.  
18 This is an added convenience to our customers because many  
19 government agencies and private companies do not use street  
20 addresses, and thus cannot be found in the AMS database.  
21 However, it also ensures that the mailpiece is still automation  
22 compatible because of cleansing of the city, state and ZIP.  
23

24 Tr. 23/10321, lines 8-16. The feature described by witness Kuhr provides  
25 the customer with the ability to produce postage even if there is not an  
26 exact match against the AMS CD ROM. All that is required is that the city,  
27 state and ZIP Code match. This feature provides a solution for the  
28 customer complaints noted by witness Jones.

29 Although witness Jones claimed that the difficulty with the AMS CD ROM  
30 was "creating a barrier to customer acceptance" of PC Postage, it is noteworthy  
31 that, to-date, only one of the authorized PC Postage product service providers has  
32 submitted software that incorporates the API modification. That software was

1 submitted for testing to the Postal Service in early June 2000 (approximately 3  
2 months after the issuance of the new version of the AMS API). After two  
3 subsequent submissions due to problems with the prior submissions, the software  
4 was approved by the Postal Service in mid-July.

5 On average the Postal Service required six business days to test each  
6 submission. I believe this time frame is fairly representative of our experience with  
7 software modifications by the current PC Postage produce service providers.  
8 After development by the provider, a new product is submitted to the Postal  
9 Service for test and evaluation. The product is tested by the Postal Service to  
10 ensure it meets the security requirements presented in the PCIBI-O. Subsequent  
11 modifications to the product are subject to the same test and evaluation  
12 procedures to ensure they continue to meet our security requirements. The test  
13 process is normally completed in less than ten business days.

14 E-Stamp witness Jones claims:

15 Because of the nature of PC Postage Open System products, discounts for  
16 this category can be enforced through the product software and customers  
17 will not have the ability to apply the discount indiscriminately.  
18

19 Tr. 29/13652, lines 2-4. This statement implies that the enforcement and  
20 administration of the proposed discount could be completely controlled through  
21 technology. However, it has already been confirmed that the use of a scale is  
22 not mandatory with PC Postage and the IBI is usually applied to an empty  
23 envelope or onto a label. Tr. 23/10344-45; Tr. 29/13686. Given these factors, IBI  
24 postage (discounted or otherwise) could be applied to a mail piece that exceeds

1 the shape, size, weight and thickness parameters which determine application of  
2 different rates. This is a matter that cannot be controlled through software.

3 Enforcement and administration of any proposed IBI discount would be  
4 performed like any other form of postage evidencing. Unless it were determined  
5 that extraordinary measures needed to be implemented, I assume that  
6 underpayment of postage on IBIP mail (discounted or otherwise) would continue  
7 to be monitored like it is today for stamped mail. With the present rate schedule,  
8 the Postal Service primarily relies on its carriers to identify mail pieces with  
9 insufficient postage. Therefore, a critical element for effective implementation of  
10 a proposed IBI discount would likely be a Postal Service employee awareness  
11 program. Such a program could not be effectively initiated until PC Postage  
12 vendor software modifications were either completed or substantially completed.  
13 This is because much of the technical information and detailed mailpiece  
14 characteristics descriptions communicated to employees would depend on the  
15 outcome of those modifications. With hundreds of thousands of mail processing  
16 and delivery employees nationwide, it would be a tremendous undertaking to train  
17 employees to distinguish between "regular" and "discount-eligible" IBI mail, given  
18 their general unfamiliarity with IBI mail today. The use of Postal Service  
19 publications such as the Postal Bulletin and stand-up talks by supervisors would  
20 need to be utilized. In order to keep the message from getting lost in a blizzard of  
21 other information and to ensure that it was most effectively delivered, the

1       communications would need to be timed with the introduction of discount IBI mail  
2       pieces in the mail stream.

3

4                   **V. CONCLUSION**

5               I raise these issues not to discourage further examination of the question  
6       of IBI-based postage rates, but to point out that implementation of changes in  
7       software is not a simple matter. Meanwhile, I look forward to working with all of  
8       our PC Postage vendors to develop the technology to its fullest potential.

1 CHAIRMAN GLEIMAN: Two parties. We are moving in  
2 the right direction. Only two parties have requested oral  
3 cross-examination of this witness, Stamps.com -- excuse me,  
4 E-Stamp Corporation and Stamps.com, Inc.

5 Is there any other party who wishes to  
6 cross-examine?

7 [No response.]

8 CHAIRMAN GLEIMAN: If not, then, Mr. May, you may  
9 begin.

10 CROSS-EXAMINATION

11 BY MR. MAY:

12 Q Mr. Gordon, just preliminarily, when you changed  
13 your bio to add three years more experience with the Post  
14 Office, was that because of your involvement in the rate  
15 case this last year? It seemed like three years but it was  
16 really only one.

17 [Laughter.]

18 THE WITNESS: I think so. Some of that may have  
19 been today.

20 [Laughter.]

21 BY MR. MAY:

22 Q If you would look at page 4 of your testimony, you  
23 there state that E-Stamp and Stamps.com have not adequately  
24 addressed the difficulties of implementing a discount. Is  
25 it your testimony that because it is difficult and lengthy

1 to implement, a discount should not be adopted, even though  
2 it were to save the Postal Service money?

3 A I don't believe my testimony suggests that a  
4 discount should not be adopted. I believe my testimony  
5 suggests that, indeed, there would be some things that would  
6 have to occur to modify these products to be consistent with  
7 the type of discounts that are discussed in some of these  
8 proposals.

9 Q But it is not impossible to do, though, is it?

10 A Well, I don't think anything is impossible to do,  
11 sir.

12 Q Well, I mean to the extent that it is difficult to  
13 implement the discount that we propose, in accordance with  
14 performance criteria that would need to be written by the  
15 Postal Service, probably your operation, isn't it the case  
16 that a great deal of the difficulty would be a direct result  
17 of the complexity of the specifications written into the  
18 performance criteria by the Postal Service?

19 A I think the challenge would be in interpreting  
20 whatever final recommendations certainly came from this  
21 Commission, final decisions by the Board of Governors,  
22 interpreting the subsequent Postal rate structure that would  
23 result from that, whatever Domestic Mail Manual requirements  
24 were associated with a particular discount, taking those,  
25 transferring that knowledge into a set of performance

1 criteria to be distributed equally and fairly amongst the  
2 vendors.

3 That process typically involves a public comment  
4 period for the industry to provide comment back. Typically,  
5 extensions are asked by the industry as part of that  
6 process. And then effectively changing the products to meet  
7 that performance criteria.

8 Q Well, you are not saying that the Postal Service  
9 wouldn't have time to get all that done, are you?

10 A Well, I am suggesting is, once the decision was  
11 communicated, whatever version or flavor of some of these  
12 proposals here, that that process would then start taking  
13 place, yes.

14 Q And indeed, I guess it is kind of a legal  
15 question, but just to make sure you don't have a  
16 misunderstanding about it, you are aware that it is the  
17 Governors who decide when each part of the rate decision is  
18 implemented? You understand that?

19 A That is my understanding, yes.

20 Q And therefore, --

21 MR. TIDWELL: Excuse me. I think it is the Board  
22 of Governors.

23 MR. MAY: Excuse me, the Governors. The  
24 Governors.

25 BY MR. MAY:

1 Q That is you do have that understand, right?

2 A Yes.

3 Q So then it isn't your testimony that all of this  
4 complexity and difficulty with implementation is a reason  
5 for not -- a reason for the Commission not to recommend a  
6 discount, that is not it at all?

7 A No.

8 Q On page 4, you state that proper implementation of  
9 the discount would require that you conduct an employee  
10 awareness campaign, and note that you are the person who  
11 would be directly responsible for such a campaign. And on  
12 page 9, you say that it would be a tremendous undertaking to  
13 train so many employees, given their general unfamiliarity  
14 with IBI mail today. Do you see that?

15 A Okay.

16 Q What is it that the Postal Service has done so far  
17 to train employees and to promote PC Postage internally  
18 within the Postal Service since you say you are the one who  
19 is directly responsible for that activity?

20 A To date we have employed a variety of  
21 communication mechanisms, which include things such as  
22 posters for work room facilities, by showing what an IBI  
23 would look like, various contents of it. You know,  
24 certainly vehicles, I think earlier someone introduced, or  
25 yourself, you introduced a piece of evidence, a Postal

1 Bulletin, which we use to notify our employees what one of  
2 these particular items would look like.

3 I think the challenge of this type of  
4 communication campaign is the frequency under which the  
5 employees might actually see one of these pieces, and that  
6 is typically the challenge that I have faced.

7 Q I am just wondering why, since you are the person  
8 responsible for this education, why you, -- as you have  
9 testified, there is such, as you say, general unfamiliarity  
10 with IBI among Postal employees. That is your testimony,  
11 and yet you are the one who is responsible for kind of doing  
12 -- changing that, aren't you?

13 A It requires, indeed, a continuous effort, and I  
14 would attribute it back to the total number of mail pieces  
15 in the mailstream relative to the other types of postage  
16 evidence.

17 Q How many other Postal employees, in addition to  
18 yourself, have they given you to help conduct this  
19 educational program in the Postal Service?

20 A Specifically, in my organizational unit I have two  
21 Postal employees and approximately seven contract employees.

22 I have one individual that works principally on  
23 communications efforts and that individual works with other  
24 people in the organization, so -- I mean our corporate  
25 relations --

1 Q And do you have a budget for this?

2 A Specifically for communications?

3 Q Yes.

4 A No, that would be a part of the overall operations  
5 cost.

6 Q Then on page 9 you state that use of the Postal  
7 Service publications such as the Postal Bulletin, and you  
8 just mentioned that --

9 A Yes.

10 Q -- and stand-up talks by supervisors would be  
11 utilized to train employees about PC Postage.

12 How many stand-up talks by supervisors have been  
13 conducted around the country with these hundreds of  
14 thousands of employees, as you say, hundreds of thousands of  
15 Postal employees who have to become educated.

16 How many of those talks have you had?

17 A I would not be able to speculate on how many times  
18 supervisors have elected to discuss this subject in a  
19 stand-up talk.

20 Q I am going to show you a copy of the Postal  
21 Bulletin and it is Postal Bulletin 22004, and the Commission  
22 has a copy of this Postal Bulletin and we were asking Mr.  
23 Miller about it this morning.

24 I don't know if you happen to have a copy at hand?

25 A Yes, I do.

1 Q I have a copy for you if you don't.

2 A Yes, sir.

3 Q As a matter of fact, Mr. Miller actually fingered  
4 you as probably the author of this Postal Bulletin. Is he  
5 correct?

6 A This -- yes. This article is derivative from my  
7 office, yes.

8 Q Now would this be one such education effort, this  
9 Postal Bulletin, when you are talking about that would be  
10 one of the ways you would educate people, the Postal  
11 Bulletin?

12 A Yes.

13 Q In the post office.

14 Well, I would like to just direct your attention  
15 to a couple of items in those pages, on page 9, and there's  
16 just a few isolated quotes.

17 You say, "PC Postage products provide time  
18 savings, increased efficiency, reduced costs and enhanced  
19 security for both customers and the Postal Service."

20 Later on, that same page you have got, "So home  
21 market is computer savvy and demands convenience. If we can  
22 make it easier for them to get postage using the convenience  
23 of their personal computers, they will be more likely to use  
24 the Postal Service than one of our competitors for their  
25 delivery needs."

1           As a matter of fact, that is why Mr. -- the UPS  
2 lawyer is still waiting around, because he is worried about  
3 this.

4           Okay. The easier -- another quote -- "The easier  
5 PC Postage is to use the more customers are likely to use  
6 it.

7           The more they use it, the more revenue we gain.  
8 It is a good business proposition for all parties involved."

9           And just one more, on page 11, "The Postal Service  
10 receives the money from the postage and from new business.  
11 As customers and small and home based businesses find the  
12 new service more convenient than shipping with the  
13 competition."

14           Now what I want to ask you is in light of all  
15 these advantages to the Postal Service, which the Postal  
16 Bulletin presumably which you authored has advertised to its  
17 employees --

18           A     Yes.

19           Q     Wouldn't it make sense to grant a discount to gain  
20 even more users of PC Postage products and thereby gain even  
21 more revenue for the Postal Service and keep more of the  
22 business away from your competitors?

23                     Wouldn't that make sense?

24           MR. MOORE: Well, Mr. Chairman, I am going to  
25 object to this line of question.

1           This is entirely outside of Mr. Gordon's line of  
2 testimony here and he is not an expert on Postal ratemaking.  
3 He is here strictly to talk about the technology problems  
4 with implementing PC Postage.

5           MR. MAY: Mr. Chairman, Mr. Miller this morning  
6 offered his colleague up for these questions and kept  
7 deflecting a number of our questions, saying that this is  
8 the gentleman that we should ask these question of, and I  
9 think it is within his scope.

10           He is the Postal person, top Postal person, on  
11 this product program.

12           MR. MOORE: On technology issues alone, but not on  
13 Postal ratemaking. That is not Mr. Gordon's line of  
14 expertise.

15           CHAIRMAN GLEIMAN: Mr. Moore, as much as I would  
16 like to rule in your favor, and might be inclined to do so,  
17 not only because of the hour because as a general rule I  
18 would agree with you, the problem is that we did have a  
19 witness earlier today who deferred to Mr. Gordon on a number  
20 of questions, a number of issues in a number of different  
21 areas related to PC Postage and unless we are prepared to  
22 call Mr. Miller back to the stand and perhaps have him sit  
23 right next to Mr. Gordon so that they can duke it out and  
24 decide which one of them is going to answer the questions,  
25 somebody is going to have answer them, and, you know, Mr.

1 Gordon is sitting there, so let's see if we can get an  
2 answer from him.

3 If he can't answer, he will tell us, I'm sure.  
4 It's happened before, not with this witness but with others.

5 BY MR. MAY:

6 Q I am really not trying to get some complicated  
7 ratemaking policies, just as a practical you are in charge  
8 of a program at the Postal Service. You would like to see  
9 it succeed?

10 A Yes.

11 Q And I am simply asking since you want it to  
12 succeed, do you believe -- and you have been operating with  
13 this -- do you believe that to get all these advantages that  
14 you, yourself have described in the Postal Bulletin, it  
15 would make sense to goose this operation a little bit by  
16 making it more attractive to postal customers by giving them  
17 a discount.

18 Does that make sense?

19 A Well, certainly, to respond to you, I do have to  
20 qualify my responses within the context of my --

21 Q Of course.

22 A -- experience, which is focused on security of  
23 these products. I am certainly not an expert in the  
24 ratemaking process.

25 I think there's a whole lot of other folks that do

1 that and I think as my written testimony suggests, you know,  
2 I am certainly not trying to dissuade folks from looking at  
3 this. You know, I have -- even as part of the launch which  
4 this communication was in parallel with, we enjoyed  
5 testimony provided by your client's, some of your client's  
6 customers as well as others in this room that suggest that  
7 when they use these products, at least for them, that they  
8 were making less trips to the post office.

9 I take those people on their word. To the extent  
10 that that results in the capturable cost savings, then we  
11 get back to the ratemaking folks.

12 Q Well, now, has the Postal Service conducted an  
13 advertising and awareness program to the public about PC  
14 Postage such as it has to advertise other products like  
15 eBillpay and Stamps Online?

16 Have you had any advertising -- you, the post  
17 office -- of this product?

18 A The awareness activities that I have participated  
19 in have been a series of public events, public speaking,  
20 certainly a whole bunch of interviews by the media,  
21 sometimes at the request of the vendors, sometimes on their  
22 own initiative.

23 I do not have myself an advertising budget for  
24 commercials.

25 Q Has the Postal Service spent one penny on

1 promoting PC Postage to your knowledge?

2 A I would have to answer yes to one penny.

3 Certainly they developed a subbrand identification for the  
4 category. There was some cost associated with that and  
5 there have been some efforts with that.

6 Q Has the Postal Service spent as much to promote PC  
7 Postage as it spent to oppose a PC Postage discount in this  
8 case?

9 A I have no idea.

10 Q In your opinion, again as the manager of this  
11 program, do you believe that acceptance of PC Postage would  
12 be enhanced, the acceptance with the public would be  
13 enhanced if it were a little cheaper; that is, if there was  
14 a discount offered?

15 Do you believe that would happen?

16 A I believe there's a bunch of drivers, if you will,  
17 that drive adoption for these products. Certainly that  
18 could be one of them.

19 Q Now, I'm not going to ask you whether you support  
20 one discount now, because, indeed, your employer has  
21 testified that you don't.

22 But let me ask you this: Do you feel that the  
23 Postal Service should support a discount for PC Postage  
24 products at some future time?

25 A I believe that my summary certainly presents my

1 attitude for that, as far as my written summary.

2 Q You would agree, wouldn't you, that the  
3 specifications and requirements for PC Postage products are  
4 more complex than the specs and requirements of any other  
5 form of postage evidence?

6 A I can't comment on them relative to any other form  
7 of postage evidence. I do believe that the performance  
8 criteria represents one of the most rigorous sets of  
9 criteria applied to this type of industry.

10 Q Do you know of any other form of postage  
11 evidencing that requires a mail piece to have a delivery  
12 point, post net bar code, requires the address to be  
13 cleansed, requires an FIM when printed directly onto an  
14 envelope for First Class Mail, and does not offer any  
15 opportunity for a discount for utilizing these  
16 automation-compatible cost-saving steps; do you know of  
17 anything else?

18 A Do I know of any other --

19 Q Postal evidencing, any other form that requires  
20 all of this and doesn't offer any incentive to the customer  
21 for doing it?

22 A There may be. I'm not aware of it.

23 Q Now, this is just one final question and I want  
24 you to think about this because you may or may not know it:

25 In your opinion, does the Postal Service want

1 these PC vendors to fail, so that it, the Postal Service,  
2 can take over, operate, and sell PC Postage products itself?

3 MR. MOORE: Objection, that question is totally  
4 irrelevant and has nothing to do with the scope of Mr.  
5 Gordon's testimony.

6 MR. MAY: Mr. Chairman, he is in charge of this  
7 program at the Postal Service, and he knows what support he  
8 has gotten; he knows what he hasn't gotten.

9 I'm asking him a question of whether or not the  
10 Postal Service has set this program up to fail for the  
11 purpose of taking it over themselves? He either has an  
12 opinion or knows or he doesn't know.

13 CHAIRMAN GLEIMAN: Well, he either has an opinion,  
14 or knows, or doesn't know. So let's find out.

15 BY MR. MAY:

16 Q Mr. Gordon?

17 A If I understand the question, I am aware of no  
18 strategy. My goals and objectives, starting with this  
19 program, were to introduce a more convenient of postage  
20 evidence with enhanced security characteristics.

21 As a result of that, we now have over 300,000  
22 customers, I believe, about half a dozen products, either  
23 authorized or test and many more in the pipeline.

24 So I believe certainly on my part and that of my  
25 organization, our mission is to effectively manage this

1 program, and manage it to succeed.

2 Q Isn't it the case that you or people working with  
3 you have consistently tried to get the vendors to grant them  
4 full licenses in all of their technology, repeatedly tried  
5 to get them to grant licenses to the Postal Service for all  
6 of their technology, PC Postage technology; isn't that the  
7 case?

8 A I am aware of discussions, or, if you will,  
9 negotiations -- I'm not sure of the legal term -- between  
10 the United States Postal Service and the vendors regarding  
11 intellectual property.

12 I am not familiar with where -- what stage or  
13 specifics are occurring on that level. I am not directly  
14 managing that activity.

15 Q If the Postal Service doesn't intend to run these  
16 programs themselves, why do they need these licenses and why  
17 do they want them?

18 A I can only speculate.

19 Q Well, okay, that's what most of the record in this  
20 hearing is about.

21 [Laughter.]

22 THE WITNESS: My guess would be that, you know,  
23 there would be some type of concern regarding the Postal  
24 Service violating someone's intellectual property, and have  
25 some liability, but, again, I can only speculate on that.

1 MR. MAY: That's all, Mr. Chairman. Thank you,  
2 Mr. Gordon.

3 CHAIRMAN GLEIMAN: Mr. Hendel?

4 CROSS EXAMINATION

5 BY MR. HENDEL:

6 Q Good evening, Mr. Gordon. Thank you for being  
7 here with us throughout the day and so late tonight. I'm  
8 sure you didn't think you'd be here at 8:30 p.m.

9 A This is a learning experience.

10 Q I'll be as brief as I can be. This is a pickup  
11 question from the Miller testimony this afternoon.

12 Are you aware of PC Postage ever bearing a FIM-C  
13 instead of a FIM-D?

14 A I believe at times during the beta test activity,  
15 there may have been an instruction to put a FIM-C on it, not  
16 once national launch of the products.

17 Q So during the beta testing, these products were  
18 bearing a FIM-C?

19 A During the course of beta testing, I believe these  
20 products at different times had either a C or a D, depending  
21 upon the communications that I received from Engineering.

22 Q And the FIM-C is the same as what's on a QBRM  
23 piece; is that right?

24 A That, in particular, I'm not --

25 Q Do you know any reason why it was mandated to go

1 to a FIM-D instead of the FIM-C?

2 A For my purpose of interest, either one of them  
3 performs the function that I'm trying to effect, and that is  
4 to provide a vehicle to face the mail. So for my purpose,  
5 either one achieves the same thing.

6 Q The change didn't come from your office?

7 A It was probably communicated from my office as an  
8 instruction from engineering.

9 Q Okay. But you weren't behind the change?

10 A No.

11 Q No. I want to talk just a little bit in your  
12 testimony where you talk about the implementation -- if  
13 there were a discount, the implementation and how that would  
14 work.

15 A Uh-huh.

16 Q You talked with all the PC postage vendors and you  
17 know that the vendors are very anxious to have this  
18 discount. I'm sure you figured that out today if you didn't  
19 know that before.

20 If the Commission decided to recommend a discount,  
21 do you think the PC postage vendors would be kind of  
22 dragging their feet to do a software change to get this in  
23 effect, or would they be going around the clock 24 hours a  
24 day to get it done as soon as possible?

25 A I can only answer that based upon behavior I've

1 seen in the past as far as other types of changes that were  
2 requested by the industry as a result of them being  
3 perceived as an adoption barrier.

4 Our last performance criteria published in March  
5 contained information that would allow for things such as  
6 address override, which was a key adoption vehicle as  
7 communicated by the industry.

8 As a result of that, if I look at the length of  
9 time it has taken the industry to respond, in the case of  
10 one vendor, I believe, after two or three iterations of  
11 their product, they were able to incorporate that in about a  
12 90-day timeframe.

13 I have a second vendor who has indicated that  
14 October is their target, and all of the vendors in some  
15 timeframe from October through the twelve months have  
16 indicated.

17 And again, this being something that was very  
18 strongly identified as a barrier to adoption and certainly a  
19 quicker response to that than some of the other things that  
20 I have seen.

21 Q So your estimate of it might take a couple months  
22 or whatever, that was based on the one you talk about where  
23 there was an AMS override issue.

24 A Yes.

25 Q But I think you would agree that a discount -- if

1 these vendors could offer a discount to their customers,  
2 they would probably view this in a different light than that  
3 modification.

4 A The only challenge I have with your statement is  
5 that I believe it makes the assumption that that is the  
6 primary driver for -- or only driver for adoption.

7 Certainly we've seen, you know, communicated to us  
8 by the industry a fairly long laundry list of what is  
9 perceived to be barriers to adoption, and I'm not sure that  
10 the discount in itself would eliminate some of these other  
11 barriers. I mean, if it would, it be great for me, I  
12 wouldn't have to worry about some of the other stuff.

13 So would it? Would it be the silver bullet for  
14 adoption? I suspect some good marketeers would have to do  
15 some study or provide some input on that.

16 Q Moving to a different area, the security issues  
17 that have to do with IBI, I take it you would agree that the  
18 address cleansing requirement in the PC postage open system,  
19 that's not related to security, is it?

20 A Yes.

21 Q It is related to security?

22 A Yes.

23 Q So why don't you -- but you don't require the  
24 address cleansing for PC postage close system; is that  
25 correct?

1 A That is correct.

2 Q There is no requirement for address cleansing PC  
3 postage close system?

4 A Different architecture. No, there isn't a  
5 requirement for it.

6 Q So you're saying that the customers have to go  
7 through the address cleansing for a security reason?

8 A What I'm suggesting is the process by which we  
9 determined to use the AMS CD-ROM was a process in attempting  
10 to achieve an audit capability on the mail piece to  
11 determine whether a particular type of fraud had been  
12 perpetrated relative to that type of product. And when I  
13 say relative to that type of product, a product which uses  
14 general purpose off-the-shelf Hewlett-Packard, Cannon, any  
15 type of commercial printer in order to print this type of  
16 evidence of postage.

17 That is a characteristic of two of the product  
18 types of PC postage products, a characteristic of what we  
19 call open systems stand-alone, which e.stamp's product would  
20 be representative of, and open system wide area network,  
21 which Stamps would be representative of.

22 Q I just don't understand. What I'm talking about  
23 is the address cleanser where you submit an address and you  
24 get back, you know, the perfect address or some suggestions  
25 -- there's five other ones that might be it and you have to

1 pick it. And, you know, if you use a traditional postage  
2 meter, there's absolutely no requirement for address  
3 cleansing at all, or for a stamp, there's no requirement for  
4 address checking.

5 I'm wondering how it could be possible that it's  
6 necessary for security in the PC postage world but it's not  
7 in the traditional meter world.

8 A Sure. Let me try to explain.

9 Vehicles of evidence of postage such as postage  
10 stamps rely on certain types of substrate attributes such as  
11 phosphor, you know, certain types of attributes such as that  
12 in the stamp itself, and that phosphor recognition on facing  
13 equipment.

14 When you look at postage metering devices, that  
15 type of device uses some type of stock design for that  
16 device. That particular stock in the case of a close system  
17 IBI device would -- the stock or label would include a  
18 technique that we call a watermark imbedded into that  
19 particular type of stock. Those types of attributes help  
20 identify potentially whether a counterfeit activity has  
21 occurred.

22 When you look at the product lines of open  
23 systems, one of our challenges in launching this technology  
24 was to work with the industry to find a method by which we  
25 could determine if we had a counterfeit suspect only with

1 the data on the mail piece, just like the other two  
2 situations. But when it was any business envelope printed  
3 with any black standard-ink printer, two elements core to  
4 what was part of the business plan in order to target a  
5 market for these particular types of products by the vendor,  
6 the method that we evolved to and evolved to, again, for  
7 this performance criteria proposed, public comment, et  
8 cetera, was to build a relationship between the address and  
9 the indicia itself for those situations where the only thing  
10 being used was a standard business envelope and a standard  
11 desktop printer.

12           Consequently, for this type of technology, the  
13 method by which we can determine whether we have a fraud  
14 suspect, or one of the methods, is if the address and that  
15 indicia don't match.

16           So with a standard printer, if the indicia  
17 originally created by Commissioner Goldway going to a  
18 specific destination and that information was retrieved by  
19 that AMS CD-ROM was to be counterfeited and sent to a  
20 different destination, then that post-net information and  
21 that indicia will not match. So solely based upon the  
22 information on the mail piece now, we have some type of  
23 indicator that there is a fraud suspect.

24           Again, when you take a look at other forms of  
25 evidence of postage, you fortunately can enjoy some other

1 techniques. In the case of postage stamps, phosphor and a  
2 variety of microprinting is done.

3 Q Well, I think I can short-stop this. Is the  
4 delivery line -- like 110 Main Street -- is that in the  
5 indicia, the IBI indicia?

6 A The delivery point bar code --

7 Q Okay. But is the delivery line?

8 A No. The delivery point bar code.

9 Q Delivery point bar code is. Just that.

10 A Yes.

11 Q Now, you could commit that same kind of fraud with  
12 an incorrect address, right, if you were off a little bit?  
13 You don't need the cleansing to stop or prevent. I mean, if  
14 you're going to be committing fraud, you could do it with an  
15 incorrect address or a correct address.

16 A I suspect if I'm determined to commit fraud,  
17 there's a variety of ways --

18 Q So the correcting the address is not -- I mean, I  
19 understand that there is a lot of fraud protections in PC  
20 postage. Would you agree there's more fraud protections in  
21 PC postage than any other type of postage indicia?

22 A If I have achieved the assignment that I was  
23 given, it was to develop a new form of evidence of postage  
24 with enhanced security.

25 Q But the fact that the particular delivery line may

1 be right or wrong is not affecting your security. If the  
2 customer put in a slightly flawed delivery line, that would  
3 just be evidenced in the IBI indicia through the Zip Code.

4 A Then there would have to be some type of mechanism  
5 that would accept that, replicate that, and put that in the  
6 indicia, yes.

7 Q The key security aspect is that each single piece  
8 has a unique identifier; is that correct?

9 A The key security aspect is each indicia in  
10 combination of the data that's in the indicia and the  
11 digital signature that tells us authentic.

12 Q And it has that -- regardless of whether the  
13 address is correct or not, it's going to have an individual  
14 -- you can tell this piece from another piece regardless  
15 whether the address is correct.

16 A I suspect you could achieve this by putting  
17 incorrect addresses in the indicia.

18 Q Thank you.

19 Just very briefly, on page 5, you discuss one of  
20 the things the Postal Service would have to do to implement  
21 the changes to change the PCIBI-O, and in page 5, lines 10  
22 through 14, you have put in, a statement like the following  
23 would have to be entered in the Federal Register. I guess  
24 my comment is, it looks like you've got a pretty good head  
25 start on this already.

1 A Okay. Which lines again, please?

2 Q Page 5, lines 10 through 14.

3 A Okay.

4 Q Would you agree you've got a good start on your  
5 Federal Register statement already?

6 A It would be my experience that the commercial  
7 vendors would require a little more detail out of me as far  
8 as direction.

9 Q And your testimony on page 8 is that with respect  
10 to the -- the Postal Service has to test the software. The  
11 Postal Service would only need about six to ten business  
12 days; is that what you're saying? Traditionally, that's  
13 what the Postal Service needs?

14 A That's what we've been able to achieve to date,  
15 yes.

16 Q And you wouldn't approve any of the software  
17 unless it correctly implemented the rate change; is that  
18 correct?

19 A I wouldn't intentionally, no.

20 MR. HENDEL: I have nothing further. Thank you  
21 very much.

22 THE WITNESS: Thank you.

23 CHAIRMAN GLEIMAN: Follow-up?

24 Questions from the bench?

25 Time for redirect.

1 MR. MOORE: Just a couple minutes.

2 CHAIRMAN GLEIMAN: Certainly.

3 [Recess.]

4 MR. MOORE: We have no redirect.

5 CHAIRMAN GLEIMAN: Excellent. We thank you, Mr.  
6 Gordon. We appreciate your contributions to the record, you  
7 appearance and your patience, and you are excused. Have a  
8 good evening, what is left of it.

9 THE WITNESS: Thank you.

10 [Witness excused.]

11 CHAIRMAN GLEIMAN: Our next witness today --  
12 tonight is here at the request of the Commission. Order  
13 Number 1300 directed the Postal Service to provide a witness  
14 competent to discuss issues related to Postal Service  
15 institutional responses concerning costs of processing  
16 Standard B Special Mail.

17 The Postal Service has indicated that Witness  
18 Degen would appear to respond to questions on this issue.  
19 Mr. Degen is already under oath in this proceeding.  
20 Whereupon,

21 CARL G. DEGEN,  
22 a witness, having been recalled for examination and, having  
23 been previously duly sworn, was examined and testified  
24 further as follows:

25 CHAIRMAN GLEIMAN: Counsel, I am not sure who is

1 running the show now over there. Mr. Koetting, you drew the  
2 short straw it looks like. You can proceed when you are  
3 ready. I understand there was some material filed this  
4 morning which you may want to offer up.

5 MR. KOETTING: Thank you, Mr. Chairman. Since  
6 this material was just filed today, it has been the hearing  
7 room, but I will give some copies to the bench in case they  
8 don't have any handy.

9 CHAIRMAN GLEIMAN: We appreciate that. It is in  
10 our computer, but our fingers aren't as nimble at this hour  
11 of the evening. We probably wouldn't be able to find it.

12 DIRECT EXAMINATION

13 BY MR. KOETTING:

14 Q Mr. Degen, I am handing you a copy of document  
15 entitled "Response of United States Postal Service Witness  
16 Degen to Order Number 1300," which is dated today, August  
17 30th, 2000. Are you familiar with this document?

18 A Yes, I am.

19 Q Was it prepared by you or under your supervision?

20 A Yes, it was.

21 Q Despite the fact that it came off the printer only  
22 hours ago, do you have any revisions to make to this  
23 document?

24 A Yes, I do.

25 Q Could you describe those, please?

1           A     On page 3, after the fourth checkmark, in the  
2 first line, it says, "The increased indirect tallies were  
3 spread across MODS offices" and then the number 47 percent  
4 appears in parentheses. That should be changed to a 36.  
5 And then it continues to say BMCs and then, in parentheses,  
6 it says 33 percent, that should be changed to 43 percent.  
7 Those are the only changes.

8           Q     And so are those changes marked in the copies for  
9 the reporter?

10          A     Yes, they are.

11          Q     And with those changes, if you were to testify  
12 orally, would this be your testimony?

13          A     Yes, it would.

14               MR. KOETTING: Mr. Chairman, given the fact that  
15 this is fairly late breaking news, we thought perhaps it  
16 might be appropriate for Mr. Degen to very briefly give an  
17 oral summary as to what his investigation revealed and what  
18 his recommendation is, and then parties with any questions  
19 could proceed.

20               CHAIRMAN GLEIMAN: Well, while it is late breaking  
21 news, it is also late, and unless we have a request from  
22 someone to have the witness provide that service, at this  
23 point I am prepared to forego your offer.

24               Is there anyone who would like to have Witness  
25 Degen summarize his statement that he filed today?

1 MR. WIGGINS: Mr. Chairman, I apologize for this,  
2 but I really do think that it would be helpful for the  
3 witness just briefly to take us through a little bit of the  
4 history here and to bring us up to the current state of his  
5 understanding.

6 CHAIRMAN GLEIMAN: I am not sure it will be  
7 helpful to the witness, but it might helpful to people who  
8 want to cross-examine the witness.

9 MR. WIGGINS: I was really thinking more about  
10 those people.

11 CHAIRMAN GLEIMAN: I had no idea. In that case,  
12 Mr. Degen, first, let us get this into the record.

13 MR. KOETTING: I would move that the written  
14 response dated today, August 30th, 2000, response of United  
15 States Postal Service Witness Degen to Order Number 1300, be  
16 admitted into evidence and transcribed.

17 CHAIRMAN GLEIMAN: Without objection, it is so  
18 ordered. Of course, given the odd nature of the proceeding  
19 at this point, we will reserve everyone's right to raise an  
20 objection after the fact if they wish to do so. But the  
21 material will be received into evidence and transcribed into  
22 the record.

23 [Response of USPS Witness Degen to  
24 Order Number 1300 was received into  
25 evidence and transcribed into the

record.]

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DEGEN  
TO ORDER NO. 1300

August 30, 2000

Special Standard-Mail Processing  
Analysis of the Increase in Direct Tally Costs, BY98-FY99

Witness Patelunas presented FY99 costs in response to Order No. 1294, and he was questioned about the increase for Standard B Special, particularly about the increase in mail processing costs (Tr. 53/16833). The Postal Service response to the question raised at the hearings indicated that "[t]he increase is due to primarily to an increase in Special Standard direct tallies."<sup>1</sup> The Postal Service response also speculated that the increase may have been due to improved identification of Special Standard direct tallies resulting from improved endorsement. The response also suggested sampling error or underlying cost changes as possible explanations.

My analyses indicates that the increase in Special Standard unit costs is broadly distributed across offices, pay periods, facility types, and costs pools, indicating improved identification or increased costs for which I have no specific explanation at this time. However, a portion of the anomalous cost increase was most likely due to some Standard A Regular tallies being recorded as Special Standard, which may have resulted from the change in marking for Standard A mail from "Bulk Rate" to "Presort Standard." This change will be mandatory beginning in January 10, 2001, but it became optional July 14, 1998 and was widely publicized as part of the January 10, 1999 rate implementation. (See Special Postal Bulletin 21984A, 11-12-98, page 13.)

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<sup>1</sup> Response of the United States Postal Service to Questions Raised at Hearings on August 3, 2000.

We have identified a group of tallies for which the IOCS data collector recorded the subclass as "Special Standard", but for which the only marking recorded was "Standard" or "Bulk." The tallies at issue generally represent pieces weighing less than one pound and many are flat shaped, which are common characteristics of Special Standard pieces. The absence of the word "Bulk" and the presence of "Standard," and the size and shape could have caused the data collector to record the pieces as Special Standard, even though they had been sent at Standard A rates. The small number of tallies makes it difficult to go back and learn anything after the fact from the data collectors because they take hundreds of readings, only one or two of which may be Special Standard.

This analysis has led us to believe that some Standard Mail A was recorded as Special Standard. We are unable to determine the exact extent of the problem. Some of the tallies at issue may, in fact, belong in Special Standard. If the Commission decides to use the FY99 costs, rather than the FY98 costs as proposed by the Postal Service, we recommend removing these tallies from Special Standard for FY99. The result is a reduction of the mail processing unit-cost increase over BY98, from 37 to 20 percent (see Table 6). The analysis we have performed so far is summarized below.

#### Summary of Analysis

- ✓ In FY98 there were 487 direct tallies in 173 offices. For FY99, these numbers were 790 and 230, respectively.

- ✓ The increases in direct mail processing tallies are spread broadly across offices (See Table 1).
- ✓ Nearly all pay periods of FY99 show increases in the number of direct mail processing tallies over FY98. The Increases are larger after pay period 2, when the new rates went into effect (see Table 2).
- ✓ Increases in volumes do not explain the increases in unit costs (see Table 3).
- ✓ The increase in direct tallies was spread across MODS offices (<sup>36</sup>47%), BMCs (<sup>43</sup>33%), and Non-MODS (20%).
- ✓ The increase was spread across cost pools within each of those of facility types (see table 4).
- ✓ Fourteen offices were contacted and possible causes in increased Special Standard tallies were explored. None could be identified.
- ✓ The tallies were analyzed for patterns of endorsement that could provide clues to the cause of the change. We identified a group of tallies coded as "Special Standard" in IOCS question 23b, but which did not show the "Special Standard" marking in question 23c. Rather, these tallies showed the "Standard" or "Bulk" marking in question 23c and no return or forwarding instructions. Over 70 percent of these tallies represent pieces weighing less than one pound and almost 40 percent are flat-shaped (see Table 5).

Table 1  
 Special Standard Mail Processing Costs  
 Direct Tallies Counts by Frequency per Office  
 BY98 - FY 99

Frequency of Tallies	Number of Offices		Number of Tallies	
	BY 98	FY 99	BY 98	FY 99
1	115	140	115	140
2	31	43	62	86
3	7	15	21	45
4	2	4	8	16
5 to 10	7	13	50	83
> 10	11	15	231	420
Total	173	230	487	790

Table 2

Special Standard Mail Processing Cost  
 Direct Tally Counts by Pay Period  
 BY 98 - FY 99

Pay Period	BY 98	FY 99	% Change
20	25	26	4%
21	17	22	26%
22	15	31	73%
23	19	31	49%
24	25	27	8%
25	12	26	77%
26	29	28	-4%
1	10	22	79%
2	18	19	5%
3	21	39	62%
4	16	37	84%
5	12	36	110%
6	27	45	51%
7	23	35	42%
8	19	28	39%
9	25	24	-4%
10	15	32	76%
11	24	40	51%
12	17	30	57%
13	10	26	96%
14	16	25	45%
15	23	29	23%
16	13	31	87%
17	13	30	84%
18	17	40	86%
19	26	31	18%
Total	487	790	48%

Table 3  
Special Standard Volumes  
BY 98 - FY 99

Source	1998	1999	% Change
RPW	191,093	200,404	4.8%
Carrier Cost	111,250	118,882	6.6%
PERMIT	55,660	60,422	8.2%
Single Piece	10,504	12,654	18.6%
Presorted	45,156	47,767	5.6%

Table 4  
 Special Standard - Mail Processing Costs  
 Direct Tally Dollar Weights (000) by Office Type & Cost Pool  
 BY98 - FY99

Pool	BY98	FY99	Change
<u>MODS 1&amp;2 Offices</u>			
manf	845	1,328	484
manp	1,539	1,303	-236
mecparc	70	255	185
spbs Oth	1,252	2,000	748
spbsPrio	63	284	221
fsm	1,577	3,131	1,554
LD43	2,324	3,429	1,106
1Platform	455	1,088	633
1OpPref	377	1,449	1,071
1OpBulk	254	818	564
1Pouching	352	630	278
Other	1,632	2,243	611
Total MODS 1&2	10,740	17,958	7,218
<u>BMCS</u>			
SSM	689	882	193
Allied Oth	3,594	5,500	1,906
PSM	8,101	12,665	4,564
SPB	677	1,589	912
NMO	552	1,565	1,013
Platform	1,351	1,290	-61
Total BMCS	14,964	23,491	8,527
<u>Non-MODS Offices</u>			
Manual	4,112	6,024	1,912
Allied	769	2,213	1,444
Other	213	879	666
Total Non-MODS	5,094	9,117	4,022
Grand Total	30,798	50,565	19,767

Table 5  
 Special Standard Mail Processing Cost  
 Excluded Direct Tallies by Weight and Shape  
 FY 99

	Weight <= 1lb	Weight > 1lb	Total by Shape
Flat	38	6	44
Parcel/IPP	48	27	75
Total by Weight	86	33	

Percentages

	Weight <= 1lb	Weight > 1lb	Total by Shape
Flat	32%	5%	37%
Parcel/IPP	40%	23%	63%
Total by Weight	72%	28%	

Table 6  
 Special Standard - Mail Processing Costs  
 Proposed Adjustment

	Original			Adjusted *	
	BY98	FY99	% Change	FY99	% Change
Mail Proc Cost (\$000)	80,866	116,164	44%	101,562	26%
Volume (000 Pieces)	191,093	200,404	5%	200,404	5%
Unit Cost (cents/pc)	42.3	58.0	37%	50.7	20%

\* Excludes tallies not endorsed "Special Standard" but endorsed "Bulk Rate" or "Standard Presort" with no return endorsement.

1           CHAIRMAN GLEIMAN: Mr. Degen, if you could give us  
2 the short version, we would appreciate it.

3           THE WITNESS: I will try to be very brief.

4           CHAIRMAN GLEIMAN: Perhaps we should have counsel  
5 ask all his questions first, without you responding to them  
6 individually, then you could give your short -- no, let's  
7 hear your summary.

8           THE WITNESS: The Postal Service asked me to look  
9 into the increase in direct mail tallies that was observed  
10 between FY '98 and FY '99. We have done so. We have  
11 identified a group of tallies for which we think there may  
12 have been some confusion on the part of the data collectors,  
13 and we are recommending that those tallies be removed from  
14 the Special Standard class, which has the effect of reducing  
15 Special Standard costs, mail processing costs to  
16 \$101,562,000. That is shown in my Table 6.

17           The impact of that on the growth rate from FY --  
18 sorry. I have been saying FY '98, I mean base year '98 to  
19 FY '99. The growth rate has been reduced from 37 percent to  
20 20 percent.

21           Beyond this correction, we have been able to  
22 identify no other anomalies in the Special Standard direct  
23 tallies. We find that the increases are very broadly  
24 distributed across pay period, office, facility type and  
25 MODS operation pool.

1           We have also been unable to really learn anything  
2 from the data collectors about these particular tallies  
3 because of the small number of them and their broad  
4 distribution across offices. A lot of these offices only  
5 have one or two tallies a year. We have contacted a number  
6 of offices but have been unable to learn any more about  
7 them.

8           I think that summarizes what we have done.

9           CHAIRMAN GLEIMAN: We thank you.

10           Counsel, before you begin your cross-examination,  
11 I have a request to make of the Postal Service/Mr. Degen,  
12 and that is, could we be provided with a version of USPS  
13 Library Reference 439, the IOCS data for FY 1999 that  
14 reflects, one, the revisions to Standard B Special rate and  
15 Standard A that you identify in your response to Order 1300  
16 filed today, and the revisions to First Class and Standard A  
17 automation and non-automation costs provided on August 25 in  
18 response to Presiding Officer's Ruling 116.

19           And if we could have this by close of business,  
20 September the 6th, we would be most appreciative, because  
21 that way, it may find its way into the record, which will  
22 close very shortly thereafter.

23           I'm going to hand your counsel a copy of what I  
24 just read, so that we get it all straight. My colleague is  
25 going to assist me in that regard. Thank you, Commissioner

1 LeBlanc.

2 Mr. Wiggins, I think you're the only party who has  
3 requested cross examination, or your client is the only  
4 party that has requested cross examination.

5 MR. WIGGINS: Thank you, Mr. Chairman.

6 CROSS EXAMINATION

7 BY MR. WIGGINS:

8 Q Mr. Degen, I'm here for the Association for Postal  
9 Commerce. You cite us on the first page of your testimony,  
10 to a special Postal Bulletin, which I think I've got the  
11 right part of, but I'd like to show it to you.

12 A Okay.

13 MR. WIGGINS: May I approach the witness, Mr.  
14 Chairman?

15 CHAIRMAN GLEIMAN: Yes, double-time.

16 [Pause.]

17 BY MR. WIGGINS:

18 Q Did I find the right piece of paper, Mr. Degen?

19 A Yes.

20 Q Could you please just mark along the margin, the  
21 portion of this document to which you refer at page 1 of  
22 your testimony?

23 A Yes, it would be the six lines below Heading C,  
24 Mail Preparation, in the lefthand column.

25 Q Could you just physically line down the part of

1 that that you're referring to?

2 A Yes.

3 Q Mr. Chairman, I think it might be helpful for that  
4 to entered into the record.

5 MR. KOETTING: No objection.

6 CHAIRMAN GLEIMAN: It is so ordered. We're  
7 transcribing that material into the record. He's got two  
8 copies, counsel.

9 [The one-page document referred to,  
10 Special Postal Bulletin 21984A,  
11 11-12-98, page 13, was transcribed  
12 into the record.]

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Pieces that meet the physical dimensions of both a flat and a machinable parcel, and that are prepared under the machinable parcel requirements (i.e., sacked or palletized to optional 5-digit, destination ASF (DBMC rate only), destination BMC, and mixed BMC destinations) are considered to be prepared as a parcel and are subject to the residual shape surcharge.

Pieces that meet the physical dimensions of both a parcel (DMM C050) and an automation flat (DMM C820) and are prepared to qualify for the automation flat rates (DMM E640 and M820) will not be subject to the residual shape surcharge. If such pieces are not prepared to qualify for the automation flat rates and do not meet the dimensions of a letter or a flat as defined in DMM C050, they will be subject to the residual shape surcharge. Matter prepared with detached address labels does not qualify for automation flat rates.

Some merchandise samples are required to be prepared with detached address labels under DMM A060.1.3 and therefore cannot be prepared to qualify as an automation flat. (These are Standard Mail (A) merchandise samples that are more than 5 inches wide (high) or more than 1/4 inch thick, or nonuniform in thickness, and are distributed in a single mailing to 25 percent or more of the addresses in any 5-digit ZIP Code area.) However, merchandise samples prepared with detached address labels will be subject to the residual shape surcharge only if the merchandise sample is parcel shaped (that is, does not meet either the letter dimensions in DMM C050.2.0 or the flat dimensions in DMM C050.3.0).

#### c. Mail Preparation

(1) *Bulk Rate Markings and Nomenclature.* Effective January 10, 2001, the basic rate marking requirements for regular rate mailings (including Enhanced Carrier Route) will be changed from "Bulk Rate" or "Blk. Rt." to "Presorted Standard" or "PRSRT STD." During the 2-year transition period, either the "Bulk Rate" or the "Presorted Standard" markings or their authorized abbreviations will be acceptable. For consistency, the DMM will use the term "Presorted Standard Mail (A)" or "Presorted Standard" when referring to the mailings and rates currently referred to as "nonautomation presort (3/5 and basic) Standard Mail (A)." At the mailer's option the "Presorted Standard" or "PRSRT STD" marking may be used instead of "Bulk Rate" effective July 14, 1998.

(2) *Markings for Standard Mail (A) Matter Paid at Standard Mail (B) Rates.* Effective January 10, 1999, mailings paid at Standard Mail (B) rates under the exception in DMM E612.4.6 must bear the appropriate Standard Mail (B) rate marking, not the applicable Standard Mail (A) rate marking. DMM E612.4.6 contains provisions that allow Standard Mail (A) matter weighing less than 16 ounces to pay Standard Mail (B) rates if those rates are lower than Standard Mail (A) rates and the matter and the mailing could qualify for the Standard Mail (B) rate *except for weight*. For example, if a mailer had flat-size printed matter pieces that met the qualifications for Bound Printed Matter in DMM E630 (until January 10, DMM E620) except that the pieces each weighed less than one pound, and if the applicable Bound Printed Matter Rates were less than the applicable Standard Mail (A) rates, the mailer could presort them as Standard Mail (A) flats and claim basic presorted Bound Printed Matter rates. Under this example, if the pieces weighed 14 ounces and the mailing was only for the local zone, the Bound Printed Matter rates would be lower than the Presorted Standard Mail (A) rates. Therefore, the mailer could claim local zone Bound Printed Matter rates if: 1) the pieces are presorted according to the Presorted Standard Mail (A) requirements to 5-digit, 3-digit, ADC, and Mixed ADC (which are similar to the presort requirements for presorted Bound Printed Matter), 2) the pieces are marked "Pre-sorted" or "Presorted Standard" and "Bound Printed Matter," and 3) documentation is submitted to substantiate that the pieces qualify for the local zone rate.

(3) *Elimination of Single-Piece Rates.* Currently, Standard Mail (A) single-piece rates apply to pieces that cannot meet the separate minimum volume requirement of 200 pieces for a Presorted Standard mailing either because the mailing job itself contains fewer than 200 pieces or because after preparing an Enhanced Carrier Route and/or automation mailing the pieces remaining in the mailing job are fewer than 200. Other instances where single-piece rates currently apply include mailers using MLOCRs to prepare the mail who may have pieces remaining in a mailing job that could not be matched to a 5-digit ZIP Code, or mailers who choose not to hand-sort handwritten pieces that could not be barcoded and sorted by an MLOCR.

1 BY MR. WIGGINS:

2 Q It's your testimony, I take it, Mr. Degen, that  
3 there was something wrong with the tallies for Special  
4 Standard for 1999, is that right?

5 A That's probably a little stronger than my  
6 testimony. My testimony is that we identified a group of  
7 tallies that bore a Special Standard or Bulk Rate marking,  
8 but for which the data collector classified them as Special  
9 Standard Subclass.

10 There were instances of this in '98, but there was  
11 significant growth in this kind of tally in 1999.

12 I can't say for sure that there's something wrong,  
13 but we identified circumstances that may explain some  
14 confusion, and that's why we're recommending the adjustment.

15 I was unable to quantify which, if any, of these  
16 tallies definitely belonged in or out of Special Standard,  
17 but we recommended taking them out because we thought it was  
18 the best thing to do, given the information we had  
19 available.

20 Q Given the uncertainty, you've made the best  
21 adjustment that you could; is that right?

22 A Yes.

23 Q Could you take me through -- I think you described  
24 the phenomenon at page 3 of your latest piece of testimony.

25 And there's a piece of it that I'm not sure I

1 understand that maybe you can help me with.

2 A Certainly.

3 Q I'm reading now down at the very bottom of page 3,  
4 rather these tallies showed the, quote, Standard, close  
5 quote or, quote, bulk, close quote, marking in Question  
6 23(c) and no return or forwarding instructions.

7 Correct me if my understanding of this is wrong,  
8 but my understanding is that Question 23(b), which you refer  
9 to in the immediately preceding sentence, calls on the tally  
10 recorder to characterize the class of mail; is that correct?

11 A That is correct.

12 Q And 23(c) instructs the tally taker to actually  
13 physically view markings on the piece of mail and to record  
14 those markings on the form; is that right?

15 A That's correct.

16 Q So step one is an evaluation, a subjective  
17 evaluation by Postal persons, and that's 23(b). And 23(c)  
18 is an act of physically copying, is that right?

19 A Well, it's not physically copying; it's a list of  
20 markings is provided and the data collector indicates which  
21 of those markings appears on the mail piece.

22 Q Checks one?

23 A Check -- well, checks one or more, whatever  
24 appears on the mail piece.

25 The other thing you said was that 23(b) should be

1 a subjective evaluation. The intent is that it be as  
2 objective as possible.

3 They are instructed to look at the markings when  
4 making that determination.

5 Q And the anomaly that you detected in the tallies  
6 arose from 23(c); is that correct?

7 A Well, 23(c), one would generally expect to find --  
8 when 23(b) indicates Special Standard, you would expect to  
9 find the marking on 23(c) for Special Standard.

10 The confusion, we're hypothesizing, may have  
11 occurred because Standard A mail had previously required a  
12 marking of bulk rate.

13 Beginning on July 14th, 1998, they began the  
14 transition to replacing bulk rate with Standard presort.

15 That won't become required until January 10th of  
16 2001. However, in January 10th of 1999 when the new rates  
17 were implemented, the change in that endorsement was again  
18 advertised. It was announced in the Postal Bulletin back in  
19 July. It was announced as part of the new rates in the  
20 beginning of January, 1999.

21 So what we are unable to tell from Question 23C is  
22 whether the data collector was looking at a marking that  
23 said Bulk or simply said Standard Presort, because those  
24 appear on the same line on Question 23C. We don't know  
25 which one they were looking at.

1           Our hypothesis is that there were more pieces that  
2 were using the Standard presort marking and since Special  
3 Standard is a category of Standard Mail, now that Standard  
4 encompasses what used to be Third and Fourth Class, and  
5 small pieces, especially recordings, books, videos, tend to  
6 be mailed at Special Fourth rates, we are hypothesizing that  
7 in these instances the data collector indicated in Question  
8 23B that these were Special Standard pieces even though they  
9 may have been mailed at Standard A regular rates.

10           Q     And it is that confusion that your adjustment is  
11 attempting to sort out?

12           A     That is correct.

13           Q     Okay. The last -- latest change in numbers, the  
14 one that you announced from the stand this evening on page  
15 3 --

16           A     Yes.

17           Q     -- can you explain that?

18           A     Certainly.

19           Q     Why did those numbers float around on us again?

20           A     Well, they didn't float around. I just had a  
21 mistake. When we compiled our original Table 4, we were  
22 using, we were identifying Special Standard tallies using  
23 23B only. We should have been using the activity code,  
24 which reflects some additional encirclement rules taking out  
25 anomalous cases.

1           That changed the numbers somewhat and the new  
2 numbers are shown here.

3           The basic thrust of the story, that it is a  
4 widespread cost increase across all office types, hasn't  
5 changed, just the percentage shares changed a little bit.

6           Q     So the numbers on Table 4 are correct but the  
7 percentages, that you have needed to be corrected, is that  
8 right?

9           A     Yes. I got the corrected table in but I didn't  
10 have the foresight to correct the text before we made a  
11 bunch of copies.

12          Q     Ms. Eggleston presented some evidence about  
13 Special Standard Mail processing as well, and I would like  
14 just to get your understanding of one element to the  
15 presentation that she made.

16                 There are two different versions of Attachment P  
17 to USPS-T-26, which is her testimony, one of which was her  
18 original testimony and it reflects a CRA proportional  
19 adjustment of 1.042.

20                 Now the CRA proportional adjustment is something  
21 that translates from her modelled cost to square up with CRA  
22 numbers, is that correct?

23           A     That would be a good guess. I don't really know  
24 much about the details of her model. I don't anything about  
25 the details of her model.

1           Q     When she did it again, updated with 1999 data, she  
2 makes the same presentation, except there she shows a CRA  
3 proportional adjustment very substantially larger. Instead  
4 of 1.0, it is 1.434.

5                     Do you have any understanding of 1.0, it is 1.434.

6           Q     Do you have any understanding of why the '99 data  
7 required a so much larger CRA proportional adjustment? Does  
8 that explain any part of this confusion?

9           A     I am not familiar with any of the inner workings  
10 of her model but what I have observed is even after this  
11 correction there has been a substantial increase in mail  
12 processing costs for Special Standard.

13                     The fact that her nonmodeled cost factor has  
14 increased probably also reflects the fact that there is  
15 something going on that her model has not taken into  
16 account.

17                     I doubt that she updated the productivities and  
18 preparation parameters, et cetera, that go into that model,  
19 so when you run a model like that with '98 parameters and  
20 '99 costs have changed substantially I would expect an  
21 increase in the nonmodeled cost factor.

22           Q     Do you know whether she employed the same model  
23 for both the '98 data and the '99 data?

24           A     No, I do not, but I doubt there was any time to do  
25 any special studies to update the parameters, so I would

1 expect that some of the basic elements were the same.

2 MR. WIGGINS: Mr. Chairman, I have no further  
3 questions.

4 CHAIRMAN GLEIMAN: Follow-up?

5 [No response.]

6 CHAIRMAN GLEIMAN: I have got a couple of quickies  
7 for you.

8 Has the improved endorsement also resulted in a  
9 similar increase in the RPW volumes reported for Special  
10 Standard?

11 THE WITNESS: No, it has not.

12 CHAIRMAN GLEIMAN: If not, does this suggest that  
13 a disconnect, that there is a disconnect between the  
14 reported costs and the reported volumes which causes you or  
15 the Postal Service to question the reliability of the  
16 increase in reported costs?

17 THE WITNESS: We certainly investigated the issue  
18 of volumes. We looked at the CBCIS results. We also looked  
19 at the carrier costing system results and those are  
20 reported -- I think it is my Table 3 -- to see that none of  
21 those systems were reporting additional volumes.

22 One of the early hypotheses of the Postal Service  
23 was that there is better mail piece identification with  
24 respect to Special Standard. The only difference really  
25 between IOCS tallies and RPW tallies is the instruction to

1 IOCS goes just a little farther.

2 It cites the Special Standard marking as an  
3 indicator of subclass, but it also mentions that things  
4 mailed at this rate include CDs, books, videos.

5 It is also the case that because RPW tests are the  
6 longer tests, they take several hours to complete, the more  
7 senior people are generally scheduled on those, so to the  
8 extent there was more confusion with the IOCS tallies, it  
9 may reflect the fact that these are somewhat less  
10 experienced.

11 CHAIRMAN GLEIMAN: Has the Postal Service added  
12 new processing equipment or changed any processing  
13 procedures that might have affected the cost of Special  
14 Standard mail more the cost of other classes?

15 THE WITNESS: I've not had an opportunity to  
16 investigate that firsthand in plants, but I've spoken at  
17 length with Linda Kingsley who was contacting BMC managers  
18 directly.

19 And as far as -- my understanding is that we  
20 haven't been able to identify any operational changes for  
21 Special Standard Mail.

22 CHAIRMAN GLEIMAN: Is there any followup?

23 [No response.]

24 CHAIRMAN GLEIMAN: If not, then, Mr. Koetting,  
25 would you like some time with your witness to prepare for

1 redirect?

2 MR. KOETTING: No, Mr. Chairman.

3 CHAIRMAN GLEIMAN: That means that you don't want  
4 to do redirect, or that you just don't want any time?

5 MR. KOETTING: There will be no redirect  
6 examination.

7 CHAIRMAN GLEIMAN: Well, thank you, Mr. Koetting,  
8 we appreciate that.

9 Mr. Degen, that being the case, that completes  
10 your testimony here today. I think that actually completes  
11 your testimony here, at least at this point, in these  
12 proceedings.

13 We appreciate your numerous appearances, including  
14 tonight, and your contributions to the record. We thank  
15 you, and you are excused.

16 THE WITNESS: Thank you very much, Mr. Chairman.

17 [Witness Degen excused.]

18 CHAIRMAN GLEIMAN: Our final witness of the night  
19 is Witness Clifton.

20 Mr. Hart, whenever you're ready -- Mr. Clifton is  
21 already under oath in these proceedings, so there is no need  
22 to swear him in.

23 MR. HART: Mr. Chairman, for the record, I am  
24 Henry Hart, representing the National Association of Presort  
25 Mailers and Herb Warden representing the American Bankers

1 Association.

2 Whereupon,

3

JAMES A. CLIFTON,

4 a witness, having been called for examination, and, having  
5 been previously duly sworn, was examined and testified as  
6 follows:

7

DIRECT EXAMINATION

8

BY MR. HART:

9 Q Mr. Clifton, I'm going to show you two copies of  
10 an August 23 revised and updated Supplementary Testimony of  
11 James A. Clifton on Behalf of American Bankers Association,  
12 National Association of Presort Mailers, ABA/NAPM-ST-1.

13 Am I correct, Dr. Clifton, that what you have  
14 before you was with the permission of the Commission, filed  
15 to replace your August 14 Supplementary Testimony, and that  
16 there are two differences between that August 23 testimony  
17 and the August 14 testimony?

18 I'll ask you to describe them, one being the  
19 Technical Appendices. That was not so much a difference,  
20 but that is being substituted for the August 14 testimony,  
21 except, one, the Technical Appendices?

22 A That's correct, Mr. Hart.

23 Q Is it correct that the Technical Appendices that  
24 you filed with the August 14 testimony are unchanged, and  
25 therefore we have attached them to that August 23 testimony?

1 A It's correct that they are unchanged, yes.

2 Q In addition, is there one page in there that is  
3 marked that is an errata?

4 A Page 15 is marked as an errata, that's correct.

5 Q And that was included in that document that we  
6 filed and served on all parties on August 23, including that  
7 page 15 marked errata; is that correct?

8 A Correct.

9 Q Thank you. And did you today file three errata  
10 pages, pages 2, 3, and Table A-1 to that August 23 ST-1  
11 testimony?

12 A Yes, I did.

13 Q And are those three errata pages that you will  
14 file today, are they included in that testimony, replacing  
15 the superseded pages?

16 A I've looked at two; two are there.

17 Q Three?

18 A Yes.

19 Q And A-1?

20 A Yes.

21 Q Okay.

22 MR. HART: Mr. Chairman, we did file today and  
23 serve on all the parties, those errata sheets.

24 BY MR. HART:

25 Q Lastly, I would show you two copies of a document

1 entitled Responsive Testimony to August 25, 2000 Postal  
2 Service Supplemental Response to POR-116 of James A. Clifton  
3 on behalf of ABA and NAPM marked ABA/NAPM-ST-2.

4 [Pause.]

5 If you were to testify today, would your testimony  
6 be any different than as set forth in those two documents I  
7 provided you with, which are the August 23, ST-1 and the  
8 August 30, ST-2?

9 A No, it would not.

10 Q Do you adopt that testimony in the August 23 ST-1  
11 and the August 30 ST-2 as your true and accurate testimony  
12 in this proceeding?

13 A Yes, I do.

14 MR. HART: Mr. Chairman, I would offer those two  
15 pieces of testimony in evidence in this proceeding, and with  
16 your permission, would provide the Reporter with two copies  
17 of both sets.

18 CHAIRMAN GLEIMAN: Is there any objection?

19 [No response.]

20 CHAIRMAN GLEIMAN: Hearing none, I'll direct that  
21 the Supplemental Testimony of Witness Clifton be introduced  
22 into evidence and transcribed into the record.

23 [Written Supplemental Testimony of  
24 James A. Clifton, ABA/NAPM-ST-1 and  
25 ABA/NAPM-ST-2 were received into

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evidence and transcribed into the  
record.]

ABA&NAPM-ST-1  
Revised 8/23/00

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

Docket No. R2000-1

\_\_\_\_\_)  
\_\_\_\_\_)  
POSTAL RATE, FEE AND CLASSIFICATION CHANGES, 2000)  
\_\_\_\_\_)  
\_\_\_\_\_)

REVISED AND UPDATED SUPPLEMENTARY TESTIMONY OF  
JAMES A. CLIFTON  
ON BEHALF OF  
AMERICAN BANKERS ASSOCIATION  
NATIONAL ASSOCIATION OF PRESORT MAILERS

August 23, 2000

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Page i  
Revised  
8/23/00

### SCOPE OF ABA&NAPM-ST-1, REVISED

Commission P.O.R. No. R-2000-1\127, dated August 18, 2000, provides the opportunity for ABA&NAPM to revise my supplemental testimony filed on August 14<sup>th</sup>, 2000, to respond to revised cost avoidance data submitted by the Postal Service pursuant to Commission P.O.R. No. R-2000-1\116. This revised testimony consists primarily of a new Section II., which replaces in its entirety Section II. in my original supplemental testimony.

For my revised Section II., I would like to have had the “redo” of the Postal Service’s analyses using “an IOCS methodology consistent with the FY 1998 approach” as discussed in its August 18<sup>th</sup> “Response of the United States Postal Service to Presiding Officer’s Ruling No. R2000-1\116”. However, in that response, the Postal Service said this “redo” will only be available “ideally” later this week.

The other changes are as follows. Table One in the supplemental testimony is unchanged but is now Table Four in the revised supplemental testimony. Some other table number headings have changed as a result. Exhibit A tables have changed as a result of the new cost avoidance data replacing the estimates in the August 14<sup>th</sup> supplemental testimony. Some very minor changes were made to Section IV., notably to the footnote accompanying Table Four. These were purely for clarification, and do not alter in any way the substance of that section.

Finally, Section V. is labeled as an errata page, not a revision per se. This section was drafted before receipt of an interrogatory response, which altered the scope of that section. The changes were inadvertently omitted from the final draft of August 14<sup>th</sup>, 2000.

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Revised

8/23/00

## EXECUTIVE SUMMARY

- Given increasing problems in this case with USPS measurements of cost avoidance in First Class Mail for presorting as distinct from prebarcoding, the best inference that can be drawn about cost avoidance for First Class workshared letters based on the Postal Service's supplementary filings is that they have not changed, or have increased marginally.
- Accordingly, there is nothing in the stream of supplementary filings made by the Postal Service through August 21, 2000 which justifies making any change to the recommended rates and discounts ABA&NAPM made in their direct case of May 22, 2000 (ABA&NAPM-T-1).
- ABA&NAPM's proposed P-rate is an appropriate way of controlling mail processing costs and extending the benefits of automation to the general public in the best and simplest manner possible. The Postal Service's "breakthrough productivity" initiatives contained in its Supplemental Testimony and targeted toward single piece mail are an inappropriate competitive response to this P-rate proposal.
- Absent biased cost reduction efforts and "breakthrough productivity" efforts which treat First Class workshared mail as an afterthought, balanced cost reduction and breakthrough productivity initiatives which target First Class workshared mail as well as single piece and Standard A Commercial mail can substantially reduce the test year deficiency accompanying the Postal Service's supplementary testimony. (See my Technical Appendix BCR.2 filed herewith.)
- While the sources of cost increases in the Postal Service's supplementary testimony appear to be across-the-board factors, in the roll forward model to test year 2001 they have added about \$300 million to First Class Mail costs and only about one-tenth as much to Standard A Commercial mail costs, indicating that these costs were not applied in an across-the-board manner.
- Nonetheless, to finance my proposed rates and discounts, in Technical Appendix BCR.2 I propose a smaller additional revenue requirement for Standard A Commercial subclasses than in my original testimony, accounting for the fact that the use of actual 1999 data lowers volume variable costs for Standard A Commercial regular mail.

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8/23/00

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**EXHIBIT, WORKPAPER AND TECHNICAL APPENDICES**

**Exhibit A**

Revised Cost Avoidance for First Class Workshared Mail  
based on All Cost Change Factors

**Workpaper 1**

Background Tables for Supplementary Testimony  
(unchanged from August 14, 2000)

**Technical Appendix BCR.1**

(unchanged from August 14, 2000)

**Technical Appendix BCR.2**

(unchanged from August 14, 2000)

Revised  
8/23/001 I. Purpose of Supplementary Testimony  
2

3 This testimony responds to the Postal Service's revisions of its case submitted pursuant to  
4 Commission Order No. 1294 (hereafter "1294 revisions"), and shows how they affect, or do  
5 not affect, areas of concern to ABA&NAPM: (1) cost avoidance for First Class workshared  
6 letters; (2) extra ounce costs for First Class presort letters; (3) equity and fairness with  
7 Standard A Commercial mail in a variety of areas.<sup>1</sup>

8  
9 The essential purpose of my testimony is to explain why no changes in the worksharing  
10 discounts and rates recommended in my initial testimony are warranted as a result of the 1294  
11 revisions made by the Postal Service. This supplementary testimony: (1) clarifies what the  
12 1294 revisions and supporting material say and do not say about cost avoidance; (2) rebuts  
13 and reworks what the 1294 revisions or supporting material say about "breakthrough  
14 productivity"; and (3) revises in one instance only the analysis in my direct testimony, that  
15 concerning the proposed financing of my rate and discount recommendations.

16  
17 The P-rate proposal in my direct testimony is unaffected by the Postal Service's 1294  
18 revisions. It remains the best and simplest method of allowing the general public to participate  
19 in worksharing savings. To the extent this concept has stimulated a Postal Service response in  
20 "breakthrough productivity" in the 1294 revisions for single piece mail, the P rate, indeed,  
21 demonstrates the value of competition generally for the Postal Service in controlling mail  
22 processing costs, if not the inappropriate and biased allocation of its cost reductions as  
23 discussed in Section IV. of this testimony.

24

---

<sup>1</sup> The term "1294 revisions" rather than "update" is used here to refer to the responses made to Commission Order No. 1294 because the word update conveys a sense of impartiality and objectivity in the exercise that I do not believe extends beyond the changes to the base year. In its Motion to Reconsider Order No. 1294 dated June 9, 2000, ABA&NAPM expressed a concern that other cost factors could be developed in a highly subjective, even biased way, and that very subjectivity and bias are revealed in USPS-ST-44 and supporting materials.

Revised  
8/23/00

Errata  
8/30/00

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3

4 II. Test Year Cost Avoidance for First Class Workshared Letters Is on Balance  
5 Unchanged, or Increased Slightly, as a Result of the Postal Service's 1294 Revisions  
6

7 A. The 1294 Revisions Essentially Re-Allocate Cost Avoidance at the Margin  
8 Among Rate Categories  
9

10 In Table One, below, I have calculated new cost avoidances using the same refined work-  
11 sharing related cost pool methodology I used in ABA&NAPM-T-1. For comparison purposes,  
12 I have also reproduced my original cost avoidance estimates as found in that direct testimony.  
13

14 Cost avoidance for a basic automation letter in First Class has increased by about ~~0.0011~~  
15 of a cent, ~~0.0011~~ cents compared to the Postal Service's original filing. Most of this change is  
16 due to falling mail processing costs for the basic automation category rather than any change  
17 in the (single piece) metered letter benchmark.<sup>2</sup> Cost avoidance for both the automation 3-  
18 digit presort and 5-digit presort rate categories has decreased by about one-tenth of a cent  
19 compared to the Postal Service's original filing, by ~~0.0009~~ cents for a 3-digit letter and by  
20 ~~0.0011~~ cents for a 5-digit letter.

21

22 Given what I consider to be growing problems with Postal Service cost avoidance measures  
23 for the presort part of worksharing activities, as discussed below in Section II. B., a more  
24 useful indication of the change in cost avoidance may be made by comparing the change in  
25 the (single piece) metered mail benchmark with the change in the CRA aggregate before the  
26 modeled cost methodology is applied to develop specific rate categories at varying levels of  
27 presortation. This can be done for mail processing. In the Postal Service's original filing using  
28 my refined methodology, the difference in unit mail processing costs in cents between a  
29 metered letter and automation non-carrier route presort letters was 10.601 – 4.005, or 6.596  
30 cents. In its revised filing using my refined methodology, the difference is 10.465 – 3.711, or  
31 6.754 cents. This indicates an increase in mail processing cost avoidance of 0.158 cents

<sup>2</sup> Thus, even if mail processing costs for various categories of First Class single piece mail are falling, they continue to fall faster for the prebarcoded mail, and it is a consideration of both factors, not just the former, on which the Commission must develop discounts based on cost avoidance.

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1  
2  
3 between the original and revised USPS cases for the three rate categories combined in Table  
4 One, before the application of the cost models. The change is being driven mainly by the  
5 automation rate categories, not by the (single piece) metered mail benchmark.

**Table One**

## ABA&amp;NAPM Original and Revised Cost Avoidance Estimates

	<u>MP</u>	<u>D</u>	<u>MP + D</u>	<u>Cost Avoidance</u>
<u>Original</u>				
First Class Letters				
Metered	10.601	5.479	16.080	-----
Basic Automation	5.186	4.319	9.505	6.575
3D Auto	4.224	4.196	8.420	1.085
5D Auto	3.053	3.997	7.050	1.370
<u>Revised</u>				
First Class Letters				
Metered	10.465	5.410	15.875	-----
Basic Automation	4.709	4.308	9.017	6.702
3D Auto	3.971	4.191	8.162	1.091
5D Auto	2.845	4.002	6.847	1.264

12  
13 Source: ABA&NAPM-T-1, Exhibit A, Tables A1, A2, and A3; and Workpaper 1, page 11;  
14 ABA&NAPM-ST-1, Exhibit A; USPS LR-I-95, Table 5

15  
16  
17 One could argue based on the discussion above that my discount and rate recommendations  
18 should be altered slightly, by increasing the discount for basic automation by **two tenths** of a  
19 cent, and reducing it by one-tenth of a cent for automation 3-digit presort and 5-digit presort  
20 letters. However, I do not propose to do so for reasons stated below in Section II. B. having to  
21 do with increasing problems in measuring the cost avoidance associated with presortation, as  
22 distinct from prebarcoding, for First Class Mail.

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1 My recommendations remain as follows: (1) 27.4 cent rate for a basic automation letter; (2)  
2 26.2 cent rate for a 3-digit presort automated letter; and (3) 24.5 cent rate for a 5-digit presort  
3 automated letter. Based on Table One cost avoidances, original and revised, they reflect  
4 discounts from the Service's 34 cent single piece rate proposal of 6.6 cents for a basic  
5 automation letter, an additional 1.2 cents for a 3-digit presort automated letter, and a further  
6 1.7 cents for a 5-digit presort automated letter.

7

8

9 B. As the 3,321% Change in Cost Avoidance for Non-Automation Presort in the  
10 1294 Revisions Indicates, Accuracy and Credibility in the Postal Service's  
11 Costing Methodologies and Models for the Presort Aspect of Worksharing in  
12 First Class Generally are Increasingly Suspect  
13

14 There appear to be so many problems raised in this case with cost, and cost avoidance,  
15 estimation in general for First Class nonautomation presort letters, that it is not clear how  
16 meaningful the Postal service's revised number is or what if any importance can be attached  
17 to it for purposes of re-estimating cost avoidances.<sup>3</sup> If we are to believe the Postal Service the  
18 value of presorting a nonautomation letter between the original and revised cases has fallen  
19 from about one-tenth of a cent to a negative three cents. This percentage change in the  
20 measure of cost avoidance is over 3,300.<sup>4</sup>

<sup>3</sup> See, for example, ABA&NAPM-T-1, page 5, lines 16-18. Indicative of the continuing confusion surrounding non-automation presort costs in this case is Commissioner Le Blanc's observation during oral cross examination of USPS witness Patelunas that the 1294 revision summary page for First Class letters worksharing discounts shows negative mail processing cost avoidance for non-automated presort letters. (Tr. at Vol. 35, page 16,802, line 23). This data is clearly flawed, as intimated by the Postal Service itself in its August 18<sup>th</sup> "Response of the United States Postal Service to Presiding Officer's Ruling No. R2000-1\116.

<sup>4</sup> The same erratic behavior between the USPS original and revised cases for non-automation presort costs carries over beyond First Class Mail, and worksharing cost avoidances therein, to Standard A Commercial Regular mail. Of course, since nonautomation presort, and not BMM, is the official benchmark for Standard A Commercial regular, the much higher revised costs of that benchmark show up as substantial increases of several cents in the cost avoidance for basic automation and automation 3-digit presort mail in Standard A Commercial Regular. It is just not credible to argue that on the one hand the cost avoidance for a First Class automation 3-digit presort letter has declined by almost a tenth of a cent between the USPS original and revised cases, while it has increased by almost four cents for its Standard A Commercial Regular counterpart, absent revised delivery cost data for the advertising mail.

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1 In my estimation, this problem is symptomatic of a broader modeling problem in costing the  
2 value of presortation in First Class as distinct from the value of barcoding. If we are to believe  
3 the USPS modeled costs using either the Miller cost pool methodology or my refined cost  
4 pool methodology, the value of presortation alone at whatever level for First Class Mail has  
5 dropped. It is now in substantially negative territory for non-automation presort, and has  
6 dropped by about a tenth of a cent for finer levels of presortation for automated mail, as  
7 discussed in Section II. A. above.

8  
9 Contrast this with what is being said and measured about the value of presortation for  
10 advertising mail. The cost avoidance comparisons here are not exact as the Postal Service has  
11 evidently not updated unit delivery costs for Standard A mail, but the issue of presortation  
12 pertains mainly to mail processing. For Standard A commercial Regular mail the value of  
13 presortation has unambiguously gone up between the original and revised cases. The cost  
14 avoidance for presorting such letters to 3/5 digits instead of the basic presort has risen from  
15 1.751 cents to 2.508 cents. How can cost avoidance for finer levels of presortation be  
16 increasing for Standard A commercial Regular mail, and falling for First Class workshared  
17 mail?<sup>5</sup>

18  
19 Given these apparent problems with the measurement of the value of presortation in First  
20 Class Mail across the board, and for automation rate categories in the Standard A commercial  
21 Regular modeled costs as well, I do not believe the increased cost avoidance apparent from  
22 the First Class CRA aggregate “automation non-carrier route presort” has been correctly  
23 distributed between basic automation letters and letters with finer degrees of presortation. For  
24 that reason, I have relied more heavily on my original measures of cost avoidance in setting  
25 my rate and discount recommendations above, rather than my revised measures.

---

<sup>5</sup> The revised data for Standard A commercial Regular mail in LR-I-467, dated 8/17/2000, do show reduced cost avoidance between automated letters presorted to 5 digits versus 3 digits. They also show increased cost avoidance of several cents for Standard A commercial Regular basic automation and automation 3-digit presort mail, largely because nonautomated presort costs that are the benchmarks have risen substantially between the original and revised cases, according to Postal Service data. In my judgment, this indicates similar problems with modeled costs for automation rate categories as those which I believe exist in First Class. These contradictions notwithstanding, the purest test of the change in cost avoidance for presortation as a distinct worksharing activity appears to me to be the one made in the text above, not in the caveats in this footnote.

Revised  
8/23/00

1 III. The 1294 Revisions Result in Cost Increases for First Class Mail Grossly in Excess of  
 2 Changes from the Use of Actual 1999 Data, Indicating that Other Cost Adjustment  
 3 Factors Were Subjectively Skewed Against First Class Mailers Since the Sources of  
 4 Such Other Cost Factors Are Across-the-Board  
 5

6 We do not know what the test year impact of changes in the base year is because the Postal  
 7 Service did not present its revised case in a way that would enable this to be known, but  
 8 ceteris paribus, the test year percentage changes should not be that different than those noted  
 9 in the first column of Table Two for base year 1999. In USPS-ST-44, witness Patelunas  
 10 summarizes "other cost change factors" beyond revision of the base year to reflect actual  
 11 FY99 CRA data that are incorporated into his roll forward model. The most striking aspect of  
 12 this discussion is that those factors which increase costs appear to be areas where costs should  
 13 increase across-the-board, and not cause material changes among relative costs between  
 14 subclasses as does the use of actual versus estimated FY1999 CRA data.<sup>6</sup>  
 15

16 If these across-the-board cost increases are in fact allocated across-the-board, the percentage  
 17 changes in column 3 of Table Two should approximate those in column 1. In fact, however,  
 18 the percentage changes are very different in column 3, indicating that other cost change  
 19 factors have not been allocated across-the-board in the 1294 revisions.  
 20

21 In particular, First Class Mail costs barely change as a result of the change in base year,  
 22 whereas the net impact of other cost change factors introduced into the test year 1294  
 23 revisions in toto is about a \$300 million increase. By contrast, for both commercial Standard  
 24 A subclasses combined, the change as a result of revising the base year is substantial,  
 25 lowering FY99 costs by -\$181.3 million. The net impact on Standard A Commercial  
 26 subclasses of other cost changes introduced into the test year 1294 revisions is about a \$30  
 27 million increase as the revised and original cases show a total cost difference of about -\$153.6  
 28 million, smaller than the impact of the revised base year alone. In summary, the impact of

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<sup>6</sup> These factors include higher inflation in non-personnel costs, notably energy prices, higher COLAs for bargaining units in FY2000, increases in the ECI which impact one labor agreement in TY2001. Mail volume changes, non-volume workload changes and additional workday effects appear to be marginal according to USPS-ST-44 at page 4.

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1 other cost change factors is to increase First Class Mail costs in the 1294 revisions by about  
2 ten times the amount that Standard A Commercial costs are increased.

3  
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**Table Two**

## USPS Changes to Costs from Base Year Changes and All Cost Factor Changes

	FY1999 USPS Estimate vs. Actual Data		TY2001 USPS Original vs. 1294 Revisions	
	<u>Percentage</u>	<u>\$ Millions</u>	<u>Percentage</u>	<u>\$ Millions</u>
	[1]	[2]	[3]	[4]
First Class Mail:				
Total Letters Subclass	+ 0.03%	+ \$4.6	+ 1.64%	+ \$301.4
Standard A Commercial:				
Regular Subclass	- 4.64%	- \$284.3	- 4.56%	- \$311.2
ECR Subclass	+ 4.62%	+ \$103.1	+ 6.37%	+ \$157.6
Total Commercial	NA	- \$181.3	- 1.65%	- \$153.6

9

10 Sources: Postal Rate Commission, NOI #2, Attachment 1, page 1 of 1; ABA&NAPM-ST-1,  
11 Workpaper 1, Table 2.

12  
13  
14

15 Several conclusions may be drawn. First, even allowing for the change in relative costs due to  
16 the use of actual 1999 data, the 1294 revisions do not impact costs across the board, as the  
17 source of other cost change factors suggests that they should; rather, First Class Mail bears the  
18 brunt of the increase in costs. Second, the impact of these other, more subjective cost change  
19 factors appears to be significantly greater than the impact of the "objective" change in base  
20 years alone between estimated versus actual 1999 data for three months. On balance, all the  
21 changes add about 1.64% to volume variable costs in First Class and cut about 1.65% to  
22 volume variable costs in Standard A Commercial.

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1 Beyond this, it is hard to believe that estimated versus actual 1999 costs could be this far off  
2 for the two Standard A Commercial subclasses. In the estimated data, nine months of actual  
3 CRA data was available and only three months remained to be estimated. For Standard A  
4 Commercial Regular, the error for those remaining three months was \$284 million, or 18.5%.<sup>7</sup>  
5

6 Because the Postal Service does not present its final adjustments in roll forward models by  
7 identifiable CRA cost segment, it is not fully possible to break down these overall changes by  
8 cost segment. Nonetheless, it is possible to compare the original and revised test year roll  
9 forward by cost segment. The conclusion is the same as that above when one compares all  
10 cost segments combined. While the other cost change factors that are inputted into the roll  
11 forward appear to be across-the-board, differences in cost by subclass do not seem to confirm  
12 this. Higher energy costs should, for example, lead to higher purchased transportation costs in  
13 the 1294 revisions. However, while First Class Mail costs go up on this account by \$93.7  
14 million, Standard A Commercial costs go down by \$24.3 million.  
15

16 Clearly, the impact of all other cost changes seems to fall disproportionately on the subclass  
17 subject to the statutory monopoly, First Class Mail. This is precisely the type of situation that  
18 ABA&NAPM was seeking to avoid when it urged the Commission in the ABA&NAPM  
19 Comments on the USPS Motion to Reconsider Order No. 1294 to not allow the Postal Service  
20 the opportunity to supplement the results of actual 1999 cost data with highly subjective cost  
21 change factors.  
22  
23

24 IV. Increased Cost Reduction Efforts from "Breakthrough Productivity" in the 1294  
25 Revisions are Laudable, but the Allocation of Them in the Roll Forward Exhibits a  
26 Clear Cut Bias Against First Class Workshared Mail  
27

28 Exhibit USPS-ST-44Z contains the "breakthrough productivity" cost reduction initiatives that  
29 total \$464.3 million on top of the \$653.9 million in cost reduction initiatives made in the  
30 original case. The \$1,118.2 million goal is for TY2001. The individual initiatives are broken

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<sup>7</sup> The percentage is calculated by taking one quarter of the estimated annual costs as the denominator, and the difference between actual and estimated annual costs as the numerator.

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1 down by types of personnel and non-personnel cost reductions. Most of the cost reductions  
2 are in mail processing and city carrier costs, and most are for either First Class Mail or  
3 Standard A Commercial mail, the major volume drivers of postal costs.

4

5 However, these cost reduction initiatives are not directed equally among or within the  
6 subclasses. Automation mail in First Class is clearly an after-thought in the Postal Service's  
7 mail processing cost reduction goals. Table Three shows the unit cost impact of these  
8 initiatives, in toto, combining the original and revised cases, as well as the "breakthrough  
9 productivity" initiatives of the 1294 revisions considered alone. In mail processing, the cost  
10 reductions are heavily skewed toward automation mail in Standard A Commercial Regular  
11 and non-automation mail in First Class.

12

13

14

**Table Three**

15

TY2001 Unit Cost Reduction Comparison: Original vs. 1294 Revisions  
Mail Processing and City Delivery Carriers  
(Cents per Piece)

16

17

18

19

	Total (Original + Revised Case)			1294 Revisions Only (Breakthrough Productivity)		
	C/S-3.1	C/S-6	C/S-7	C/S-3.1	C/S-6	C/S-7
First Class Mail						
Single-Piece Letters	-0.5280	-0.1398	-0.0112	-0.2211	-0.0476	-0.0069
Presort Letters and Parcels	-0.1404	-0.0806	-0.0104	-0.0461	-0.0130	-0.0062
Total Letters Subclass*	-0.3456	-0.1119	-0.0108	-0.1388	-0.0313	-0.0065
Standard A Commercial						
Regular Subclass	-0.3476	-0.0753	-0.0119	-0.1002	-0.0317	-0.0067

20

21 Source: ABA&NAPM-ST-1, Workpaper 1, Table 5 and 6. \* All shapes.

22

23

24

25 These cost reduction goals should not be confused with measurable progress made to date,  
26 which can be formally projected into the future in documented decision analysis reports, for

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1 example in tangible areas such as improved read rates for RCRs. In response to  
2 ABA&NAPM-ST-44-7, the Postal Service confirmed it had not made any changes between  
3 its original and revised cases in TY2001 RCR read rates. Rather these cost reductions in  
4 Exhibit USPS-ST-44Z are managerial goals inputted into the rate case from a 2001 operating  
5 budget which has not even been formally approved as of the date USPS-ST-44 was  
6 submitted.<sup>8</sup>

7

8 In the “breakthrough productivity” initiatives of its revised case, the second largest line item  
9 after the \$102.5 million cost reduction from improved manual letter productivity is \$51.4  
10 million for improved automation letter productivity. If that cost reduction initiative is heavily  
11 targeted toward Standard A Commercial Regular, perhaps it could explain the two-tenths of a  
12 cent gap between cost reduction efforts for Standard A Commercial Regular and automation  
13 mail in First Class evident in Table Three, -0.1404 cents per piece for automated First Class  
14 versus -0.3476 cents per piece for automated Standard A Commercial Regular. But that would  
15 not justify such a skewed focus in cost reduction efforts.

16

17 However, it is evident from Table Four herein below as well as Table Five herein below that  
18 the cost reduction efforts in Exhibit USPS-ST44Z “Improve Manual Letter Productivity”  
19 affect manual operation cost pools for automated letters, not just non-automated letters. The  
20 changes in MODS 14 MANL and NON MODS MANL are among the largest “direct cost”  
21 changes for any cost pool between the Service’s original case and the 1294 revisions. The  
22 changes in these cost pools are significant for First Class single piece and metered letters, in a  
23 range not unlike corresponding changes for automated letters in Standard A Commercial  
24 Regular.

25

26 However, as can be seen from Table Five these changes are much smaller for the two MANL  
27 cost pools in automated presort First Class letters. If they are manual operations that do not  
28 affect automated letters, they should not be affecting Standard A Commercial Regular  
29 automation mail. If they are manual operations that do affect automated letters, they should  
30 also be affecting automated First Class as they do Standard A Commercial Regular. In

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<sup>8</sup> See USPS response to ABA&NAPM/USPS-ST-44-27.

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1 Table Five, the change in direct costs between the original case and the 1294 revisions is  
 2 -0.22 cents for First Class automated letters and -0.89 cents for its Standard A Commercial  
 3 Regular counterpart, a difference of almost seven-tenths of a cent.

4

5

6

**Table Four**

7

8

Change in Mail Processing Cost Avoidance by Cost Pool  
 (Cents per Piece)

9  
10

ABA&NAPM Method Proportional		Change in Cost Avoidance*	ABA&NAPM Method Fixed		Change in Cost Avoidance*
MODS 11	BCS/	0.04	MODS 17	1BULKPR	0.00
MODS 11	OCR/	0.02	MODS 17	1OPBULK	0.00
MODS 13	SPBS OTH	0.01	MODS 17	1OPREF	-0.04
MODS 13	1SACKS_M	0.00	MODS 17	1PLATFRM	0.00
MODS 14	MANL	-0.09	MODS 17	1POUCHNG	0.01
MODS 15	LD15	0.05	MODS 17	1SACKS_H	0.00
MODS 17	1CANCMPP	0.00	MODS 18	1EEQMT	-0.01
MODS 18	REWRAP	0.00	MODS 19	INTL	0.01
MODS 41	LD41	0.02	MODS 49	LD49	-0.01
MODS 42	LD42	0.00	MODS 79	LD79	0.00
MODS 43	LD43	0.04	MODS 99	1SUPP_F1	0.00
MODS 44	LD44	0.03	NON MODS	ALLIED	0.01
MODS 99	1SUPP_F4	0.01			
NON MODS	AUTO/MEC	-0.03			
NON MODS	MANL	-0.07			
NON MODS	MISC	0.01			
TOTAL PROPORTIONAL		+ 0.04	TOTAL FIXED		- 0.03

11

12 Source: USPS-LR-I-415 for revised and USPS-LR-I-81 for original.

13 \* Change in Cost Avoidance = Cost Avoidance for USPS Revised Case – Cost Avoidance for  
14 USPS Original Case, automation non-carrier route presort.

15

Revised  
8/23/00**Table Five**Impact of All Cost Factor Changes on Unit Mail Processing Costs by Cost Pool  
(Cents per Piece)

		FC Presort Automated Letters			Standard A Letter Automated		
		Original	Revised	Change	Original	Revised	Change
BMCS	OTHR	0.00	0.00	0.00	0.08	0.05	-0.03
MODS 11	BCS/	0.61	0.57	-0.04	0.71	0.58	-0.13
MODS 14	MANL	0.23	0.20	-0.03	0.43	0.25	-0.18
MODS 15	LD15	0.07	0.07	0.00	0.07	0.04	-0.03
MODS 17	1OPBULK	0.04	0.04	0.00	0.14	0.11	-0.03
MODS 17	1OPREF	0.14	0.15	0.01	0.17	0.14	-0.03
MODS 17	1PLATFRM	0.18	0.17	-0.01	0.25	0.20	-0.05
MODS 17	1POUCHNG	0.09	0.08	-0.01	0.12	0.08	-0.04
MODS 43	LD43	0.10	0.08	-0.02	0.10	0.05	-0.05
NON MODS	ALLIED	0.13	0.11	-0.02	0.13	0.09	-0.04
NON MODS	MANL	0.28	0.24	-0.04	0.36	0.24	-0.12
Sub-Total		1.87	1.71	-0.16	2.56	1.83	-0.73
TOTAL		2.51	2.29	-0.22	3.19	2.30	-0.89

Source: USPS-LR-I-415 for revised and USPS-LR-I-81 for original.

In the overall cost reduction efforts in mail processing by cost pool, there is a pattern of bringing several "direct cost" cost pool unit costs for Standard A Commercial Regular down to their counterparts in First Class automation, where they are higher in the original case. But, there is no parallel effort to bring First Class automation unit costs in line with Standard A Commercial Regular unit costs where the latter are lower in the original case.

In summary, the cost reduction efforts are heavily skewed in this case. The Postal Service has offered no justification for this bias, but it certainly gives, *ceteris paribus*, the appearance that cost avoidance is unchanged or marginally shrinking for First Class workshared letters. However, these are entirely contrived reductions in cost avoidance, manufactured out of whole cloth so to speak. Such biased cost reductions harm the USPS worksharing program, which is a vital cog in the financial well-being of the Postal Service.

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1 As indicated in Table Six, the bias in cost reduction efforts may not be limited to mail  
 2 processing. While these changes in unit delivery costs reflect all changes between the original  
 3 case and 1294 revisions, we do know that a significant source of the change is the  
 4 breakthrough productivity initiative for city delivery costs in Exhibit USPS-ST-44Z,  
 5 “Improve SEI and Workhour Mgt”. The reductions in unit city delivery costs are greater for  
 6 Standard A Commercial Regular automation mail in each rate category than its counterpart in  
 7 First Class, and, oddly, the disparity grows the finer the level of presortation. In addition,  
 8 inexplicably, (BMM) benchmark unit delivery costs for non-automation presort in First Class  
 9 fall by more than automation categories, giving in my opinion the misleading appearance of  
 10 reduced cost avoidance on this account.<sup>9</sup>

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 12  
 13  
 14  
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 17

**Table Six**

Changes in Unit Delivery Costs in USPS Revised Case:  
 First Class Presort Versus Standard A Commercial Regular

	<u>Cents Per Piece</u>
First Class Presort	
Non-Automation Presort (BMM benchmark)	-0.094
Basic Automation	-0.031
3 Digit Presort Automated	-0.024
5 Digit Presort Automated	-0.014
Standard A Commercial Regular	
Basic Automation	-0.036
3 Digit Presort Automated	-0.040
5 Digit Presort Automated	-0.048

18  
 19

Source: USPS-L.R.-I-95, Table 5; USPS-L.R.-I-420, pt6.xls, Table 5.

<sup>9</sup> This adds to the list of costing anomalies for non-automation presort in this case, as detailed on page four including footnote 3.

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1 I do not believe that the Postal Service's bias in cost reduction efforts can go un-challenged.  
2 Therefore, I have incorporated in Technical Appendices BCR.1 and BCR.2 a more balanced  
3 approach to cost reduction initiatives, bringing several mail processing cost pools for First  
4 Class automation letter mail into correspondence with their (lower) counterparts in Standard  
5 A Regular automation letter mail, much as the Postal Service brought the latter into  
6 correspondence with the former for cost pools where Standard A unit costs were higher than  
7 their First Class counterparts. I define this reciprocal procedure as balanced cost reductions  
8 (BCR). The cost reductions in the test year total 0.2 cents per piece for First Class workshared  
9 mail and are broken down by cost pool in Exhibit A, Table A2.1.

10

11 I have not re-calculated cost avoidances by rate category based on the BCRs, as all such  
12 managerial goals are speculative. Clearly, some or all cost avoidances would be higher.  
13 Rather, as discussed in Section VI. Below, the BCRs for First Class workshared mail can  
14 make a contribution to reducing the test year deficiency in the 1294 revisions.

15

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Errata

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V. 1294 Revisions to the Cost-Weight Studies are Limited to First Class Single Piece Only, One Reason Why They are Subjectively Skewed Against First Class Mail

7 Inexplicably, in its 1294 revisions, the Postal Service updated direct costs for First Class  
8 single piece mail only in its cost and weight studies.<sup>10</sup> No updated direct cost data by cost and  
9 weight was submitted for Standard A Commercial mail. Why was only one cost-weight study  
10 updated by direct costs, when direct labor costs have clearly increased? This is very likely one  
11 reason, but only one reason, why the 1294 revisions show a \$300 million increase in costs for  
12 First Class, and only a \$30 million increase for the Standard A Commercial subclasses.

13

14 In the revised cost weight data for First Class single piece, because new piggyback data by  
15 cost segment was not incorporated, an aggregate piggyback compensation factor was added to  
16 the row labeled "other weight" (related costs). In response to ABA&NAPM/USPS-ST-44-3,  
17 the Postal Service states that this procedure is not comparable to adding piggybacks cost  
18 segment by cost segment, so the total unit costs by weight in LR-I-420 are not comparable to  
19 those in USPS witness Daniel's original cost weight studies in LR-I-91.<sup>11</sup>

20

21 The Postal Service evidently used this updated cost-weight data for final adjustments. The  
22 fact that this data was updated for First Class single piece only should help the Commission  
23 reject the \$300 million increase in volume variable costs for First Class mail that are in the  
24 1294 revisions. Obviously, if costs are updated for some subclasses but not others, there will  
25 be a change in relative costs as well as absolute costs.

26

---

<sup>10</sup> No revised data for First Class presort was submitted yet that is also a key cost factor for extra ounce mail.

<sup>11</sup> Further, what was submitted as a revised set of final adjustments is only comparable to LR-I-98, not LR-I-91.

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1 VI. A Fair and Balanced Emphasis on Cost Reduction Efforts Between Advertising Mail  
2 and Bills and Bank Statements and a Lesser Need for Contingencies in Light of Cost  
3 Factor “Updates” Eliminates the Revised Test Year Loss in This Case  
4

5 In Technical Appendix BCR.1, we present the 1294 revisions and our alternative direct case  
6 under balanced cost reduction assumptions. BCR.1 is otherwise identical in every respect to  
7 ABA&NAPM-T-1 Technical Appendix A.5, adopting our rate and discount recommendations  
8 as made in that testimony together with the cost coverage adjustments made in Standard A  
9 Commercial mail. Specifically, we assume here that USPS management treats First Class  
10 worksharing mailers fairly in the allocation of its efforts to reduce mail processing costs for  
11 automated letter mail, reducing those costs by 0.2 cents in the test year by bringing seven cost  
12 pools into alignment with their Standard A Commercial Regular automation mail  
13 counterparts, and one cost pool into alignment with its Standard A Commercial Regular non-  
14 automation counterpart.<sup>12</sup> This breakthrough productivity effort reduces the test year  
15 deficiency from \$266.4 million to \$178.9 million.

16

17 In Technical Appendix BCR.2, we present the USPS revised case and our alternative direct  
18 case under balanced cost reduction assumptions, a modestly lower contingency (i.e. 2%), and  
19 an adjustment in our cost coverage recommendation for Standard A Commercial mail that  
20 reflects lower volume variable costs for Regular than the original case. In its revised case, the  
21 Postal Service has in essence postured that its test year costs have gone up since the original  
22 rate filing. The test year deficiency has increased from a modest surplus of \$38 million to a  
23 loss of \$266 million. The clear (and erroneous) message being sent is “there is no room for  
24 the Commission to adjust our original rates and discounts recommendations other than  
25 increasing some rates and/or reducing some discounts.”

26

27 There is at least one area in the revised case where costs are artificially inflated across-the-  
28 board, the contingency. With all these cost adjustment factors being “updated” in late July just  
29 before the start of the test year on September 1st, it cannot be argued that the same 2.5%  
30 percentage contingency is now required that in the Postal Service’s view was required when

---

<sup>12</sup> See Exhibit A, Table A2.1 for a description of the affected cost pools.

Revised  
8/23/00

1 the case was initially prepared and filed. The use of updated cost factors near the start of the  
2 test year reduces the need for such a large contingency because the risks of costing errors in  
3 light of the updates which justify the contingency are now lower than when the case was filed  
4 in January.

5

6 Finally, Technical Appendix BCR.2 inputs a lower across the board rate increase for Standard  
7 A Regular Mail than my initial cost coverage adjustment for those subclasses. This reduction  
8 reflects that fact that the Postal Service's revised case shows lower volume variable costs than  
9 the original case for the two subclasses combined. This adjustment is made since it is the  
10 allocation of institutional cost burdens that is at issue in ABA&NAPM-T-1, not in the main  
11 the allocation of properly attributed volume variable costs, and since the drop in volume  
12 variable costs for Standard A Regular mail appears largely to be the result of the change in  
13 base years.

14

15 With a 2% contingency, the model run in BCR.2 produces a test year deficiency of zero. The  
16 0.5% reduction in the contingency in essence eliminates that remaining portion of the \$266  
17 million deficiency that my balanced cost reductions in BCR.1 do not, and reduces my original  
18 revenue requirement in ABA&NAPM-T-1 from Standard A Commercial mail by about \$139  
19 million.

20

21 On August 11, the Postal Service amended yet again its estimate of the test year deficiency in  
22 this case, beyond its original changes to the 1294 revisions. The Technical Appendices and  
23 above discussion do not incorporate adding the \$200 million field reserve to the test year  
24 deficiency. The same point can be made and the books balanced with a zero test year  
25 deficiency by adopting a more aggressive balanced cost reduction program for First Class  
26 workshared mail, and/or by reducing the contingency below 2%.

27

28 In summary, it is entirely feasible on grounds of test year finances to adjust the rates and  
29 discounts proposed by the Postal Service in its original case without worsening the test year  
30 deficiency. All that is required is a fair balance in cost reduction initiatives and a modest  
31 reduction in the contingency that is entirely warranted in light of more timely cost adjustment

Revised  
8/23/00

- 1 factors being inputted into the case just before the start of the test year. In its 1294 revisions
- 2 the Postal Service would have the Commission and intervenors believe otherwise. However,
- 3 the Commission can and should reject that point of view.

**Table A1**

**Rate Category Unit Cost Estimation Based on R2000-1 Methodology  
 And Cost Pool Classification Refinements  
 (Cents)**

Rate Category	Col 1 R2000-1 Model Costs	Col 2 BY99 Volume (000)	Col 3 Volume Weights	Col 4 Weighted Model Costs	Col 5 Refined Proportional Adjustment	Col 6 Refined Proportional Unit Costs	Col 7 Refined Fixed Unit Costs	Col 8 Refined Total Mail Processing Unit Costs
	1/	2/	3/	4/	5/	6/	7/	8/
Automation Basic Presort	4.189	5,022,276	0.135	0.567	0.860	3.601	1.198	4.799
Automation 3-Digit Presort	3.165	20,721,667	0.558	1.767	0.860	2.722	1.198	3.920
Automation 5-Digit Presort	1.755	7,699,788	0.207	0.364	0.860	1.509	1.198	2.707 *
Automation 5-Digit CSBCS	2.268	3,668,568	0.099	0.224	0.860	1.950	1.198	3.148 *
Total		37,112,299		2.923				
								* The Automation 5-Digit and 5-Digit CSBCS Volume Weighted Average Combined is 2.849
1/ Rate categories model costs are from Table A4. 2/ BY volumes are from the LR-I-420, Excel file LR20p2a.xls, page I-5 3/ Each volume in Col2 is divided by the total volume 4/ Each volume weight in Col3 is multiplied by the corresponding unit costs in Col1 5/ Obtained by dividing the worksharing related proportional refined total unit cost (2.513) from Col4 in Table A2 by the total weighted model cost (2.923) from Col4 above 6/ Proportional adjustment in Col5 multiplied R2000-1 model cost in Col1 7/ Fixed adjustment is the refined total unit cost for worksharing related (fixed) from Col5 in Table A2 8/ Sum of Col6 and Col7								

**Table A2**

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)**  
**Automation Non-Carrier Route Presort**  
**Refined R2000-1 Methodology**

Cost Pool No.	Source	Cost Pool Abbreviation	Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks	Col 2 R2000-1 Refined Worksharing Related (Proportional) Cost Pools	Col 3 R2000-1 Refined Worksharing Related (Fixed) Cost Pools	Col 4 R2000-1 Refined Worksharing Related (Proportional) Mail Processing Unit Costs	Col 5 R2000-1 Refined Worksharing Related (Fixed) Mail Processing Unit Costs	Col 6 R2000-1 Combined Refined Worksharing Related Mail Processing Unit Costs
			1/					
1	BMCS	NMO	0.000					
2	BMCS	OTHR	0.000					
3	BMCS	PLA	0.000					
4	BMCS	PSM	0.000					
5	BMCS	SPB	0.000					
6	BMCS	SSM	0.000					
7	MODS	BCS/	1.110	X		1.110		1.110
8	MODS	OCR/	0.079	X		0.079		0.079
9	MODS	FSM/	0.018					
10	MODS	LSM/	0.007	X		0.007		0.007
11	MODS	MECPARC	0.000					
12	MODS	SPBS OTH	0.004	X		0.004		0.004
13	MODS	SPBSPRIO	0.001					
14	MODS	1SACKS M	0.012	X		0.012		0.012
15	MODS	MANF	0.003					
16	MODS	MANL	0.270	X		0.270		0.270
17	MODS	MANP	0.001					
18	MODS	PRIORITY	0.002					
19	MODS	LD15	0.131	X		0.131		0.131
20	MODS	1BULKPR	0.004		X		0.004	0.004
21	MODS	1CANCMMMP	0.021	X		0.021		0.021
22	MODS	1OPBULK	0.067		X		0.067	0.067
23	MODS	1OPREF	0.232		X		0.232	0.232
24	MODS	1PLATFRM	0.277		X		0.277	0.277
25	MODS	1POUCHING	0.124		X		0.124	0.124
26	MODS	1SACKS H	0.041		X		0.041	0.041
27	MODS	1SCAN	0.013					
28	MODS	BUSREPLY	0.004					
29	MODS	EXPRESS	0.001					
30	MODS	MAILGRAM	0.000					
31	MODS	REGISTRY	0.001					
32	MODS	REWRAP	0.001	X		0.001		0.001
33	MODS	1EEQMT	0.008		X		0.008	0.008
34	MODS	INTL	0.003		X		0.003	0.003
35	MODS	LD41	0.048	X		0.048		0.048
36	MODS	LD42	0.000	X		0.000		0.000
37	MODS	LD43	0.114	X		0.114		0.114
38	MODS	LD44	0.053	X		0.053		0.053
39	MODS	LD48 EXP	0.000					
40	MODS	LD48 SSV	0.014					
41	MODS	LD49	0.218		X		0.218	0.218
42	MODS	LD79	0.019		X		0.019	0.019
43	MODS	1SUPP F1	0.037		X		0.037	0.037
44	MODS	1SUPP F4	0.069	X		0.069		0.069
45	NONMODS	ALLIED	0.168		X		0.168	0.168
46	NONMODS	AUTO/MECH	0.196	X		0.196		0.196
47	NONMODS	EXPRESS	0.000					
48	NONMODS	MANF	0.001					
49	NONMODS	MANL	0.319	X		0.319		0.319
50	NONMODS	MANP	0.000					
51	NONMODS	MISC	0.079	X		0.079		0.079
52	NONMODS	REGISTRY	0.001					
Refined Total Unit Cost			3.772			2.513	1.198	3.711

1/ Cost pools are from Col6 of Table 9 in WP1.

**Table A2.1**

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)  
 Automation Non-Carrier Route Presort  
 Refined R2000-1 Methodology**

Cost Pool No.	Source	Cost Pool Abbreviation	Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks	Col 2 Adjustments To CRA Mail Processing Unit Costs
			1/	2/
1	BMCS	NMO	0.000	
2	BMCS	OTHR	0.000	
3	BMCS	PLA	0.000	
4	BMCS	PSM	0.000	
5	BMCS	SPB	0.000	
6	BMCS	SSM	0.000	
7	MODS	BCS/	1.110	
8	MODS	OCR/	0.079	
9	MODS	FSM/	0.018	
10	MODS	LSM/	0.007	
11	MODS	MECPARC	0.000	
12	MODS	SPBS OTH	0.004	
13	MODS	SPBSPRIO	0.001	
14	MODS	1SACKS M	0.012	
15	MODS	MANF	0.003	
16	MODS	MANL	0.270	
17	MODS	MANP	0.001	
18	MODS	PRIORITY	0.002	
19	MODS	LD15	0.131	-0.030
20	MODS	1BULKPR	0.004	
21	MODS	1CANCMP	0.021	
22	MODS	1OPBULK	0.087	
23	MODS	1OPREF	0.232	-0.010
24	MODS	1PLATFRM	0.277	
25	MODS	1POUCHING	0.124	
26	MODS	1SACKS H	0.041	
27	MODS	1SCAN	0.013	
28	MODS	BUSREPLY	0.004	
29	MODS	EXPRESS	0.001	
30	MODS	MAILGRAM	0.000	
31	MODS	REGISTRY	0.001	
32	MODS	REWRAP	0.001	
33	MODS	1EEQMT	0.008	
34	MODS	INTL	0.003	
35	MODS	LD41	0.048	
36	MODS	LD42	0.000	
37	MODS	LD43	0.114	-0.030
38	MODS	LD44	0.053	-0.020
39	MODS	LD48 EXP	0.000	
40	MODS	LD48 SSV	0.014	
41	MODS	LD49	0.218	-0.040
42	MODS	LD79	0.019	
43	MODS	1SUPP F1	0.037	
44	MODS	1SUPP F4	0.069	-0.030
45	NONMODS	ALLIED	0.168	-0.020
46	NONMODS	AUTO/MECH	0.196	
47	NONMODS	EXPRESS	0.000	
48	NONMODS	MANF	0.001	
49	NONMODS	MANL	0.319	
50	NONMODS	MANP	0.000	
51	NONMODS	MISC	0.079	-0.020
52	NONMODS	REGISTRY	0.001	
Refined Total Unit Cost			<b>3.772</b>	<b>-0.200</b>

1/ Cost pools are from Col6 of Table 9 in WP1.

2/ Adjustments are based on "breakthrough productivity" which brings the unit costs into line with Standard (A) Regular Automation for 8 cost pools, except in the case of the case of MODS LD79 which is brought in line with Standard (A) Regular Nonautomation.

**Table A3**

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)  
Single Piece Metered Letters  
Refined R2000-1 Methodology**

Cost Pool			Col 1	Col 2	Col 3	Col 4	Col 5	Col 6
			Revised CRA Mail Processing Direct Costs with Original Piggybacks	R2000-1 Refined Worksharing Related (Proportional) Cost Pools	R2000-1 Refined Worksharing Related (Fixed) Cost Pools	R2000-1 Refined Worksharing Related (Proportional) Units Costs	R2000-1 Refined Worksharing Related (Fixed) Unit Costs	R2000-1 Combined Worksharing Related Unit Costs
No.	Source	Abbreviation						
			1/					
1	BMCS	NMO	0.000					
2	BMCS	OTHR	0.001					
3	BMCS	PLA	0.000					
4	BMCS	PSM	0.000					
5	BMCS	SPB	0.001					
6	BMCS	SSM	0.000					
7	MODS	BCS/	1.986	X		1.986		1.986
8	MODS	OCR/	0.630	X		0.630		0.630
9	MODS	FSM/	0.059					
10	MODS	LSM/	0.022	X		0.022		0.022
11	MODS	MECPARC	0.001					
12	MODS	SPBS OTH	0.012	X		0.012		0.012
13	MODS	SPBSPRIO	0.001					
14	MODS	1SACKS M	0.036	X		0.036		0.036
15	MODS	MANF	0.013					
16	MODS	MANL	1.545	X		1.545		1.545
17	MODS	MANP	0.002					
18	MODS	PRIORITY	0.005					
19	MODS	LD15	0.705	X		0.705		0.705
20	MODS	1BULKPR	0.008		X		0.008	0.008
21	MODS	1CANCMMPT	0.310	X		0.310		0.310
22	MODS	1OPBULK	0.161		X	0.161		0.161
23	MODS	1OPPREF	0.483		X	0.483		0.483
24	MODS	1PLATFRM	0.760		X	0.760		0.760
25	MODS	1POUCHING	0.349		X	0.349		0.349
26	MODS	1SACKS H	0.107		X	0.107		0.107
27	MODS	1SCAN	0.034					
28	MODS	BUSREPLY	0.011					
29	MODS	EXPRESS	0.005					
30	MODS	MAILGRAM	0.000					
31	MODS	REGISTRY	0.012					
32	MODS	REWRAP	0.010	X		0.010		0.010
33	MODS	1EEQMT	0.022		X		0.022	0.022
34	MODS	INTL	0.008		X		0.008	0.008
35	MODS	LD41	0.086	X		0.086		0.086
36	MODS	LD42	0.000	X		0.000		0.000
37	MODS	LD43	0.382	X		0.382		0.382
38	MODS	LD44	0.205	X		0.205		0.205
39	MODS	LD48 EXP	0.000					
40	MODS	LD48 SSV	0.021					
41	MODS	LD49	0.277		X		0.277	0.277
42	MODS	LD79	0.009		X		0.009	0.009
43	MODS	1SUPP F1	0.114		X		0.114	0.114
44	MODS	1SUPP F4	0.319	X		0.319		0.319
45	NONMO	ALLIED	0.434		X		0.434	0.434
46	NONMO	AUTO/MECH	0.354	X		0.354		0.354
47	NONMO	EXPRESS	0.000					
48	NONMO	MANF	0.003					
49	NONMO	MANL	0.941	X		0.941		0.941
50	NONMO	MANP	0.002					
51	NONMO	MISC	0.190	X		0.190		0.190
52	NONMO	REGISTRY	0.023					
<b>Total Unit Costs</b>			<b>10.659</b>			<b>9.593</b>	<b>0.872</b>	<b>10.465</b>

1/ Cost Pools are from Col3 of Table 9 in WP1.

**Table A4**

**Original and Revised  
 Model Costs (Cents)**

Rate Category	Model Cost (Cents)			
	Original with Piggybacks	Revised with no Piggybacks	Revised with Original Piggybacks	Revised with New Piggybacks
	1/	2/	3/	4/
FC Automation Basic	4.093	2.301	4.154	4.189
FC Automation 3 Digit	3.093	1.742	3.139	3.165
FC Automation Other	1.719	0.887	1.745	1.755
FC Automation 5 Digit CSBCS	2.206	1.321	2.238	2.268

1/ From LR-I-162, Excel file Appi.xls, pages I-24, I-26, I-28, & I-30.  
 2/ From LR-I-420, Excel file, LR420p2a.xls, pages I-24, I-26, I-28, & I-30.  
 3/ For each rate category, the original piggyback factors from LR-I-162, were applied to the revised direct costs sheet and the model costs were recalculated.  
 4/ From LR-I-467, Revised 8/21/00.

## Balanced Cost Reduction Model

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Balanced Cost Reduction Model

Alternative	Proposed	Alternative Proposal	Difference
First-Class Letters and Flats - Single Piece	168.4%	167.0%	-1.42%
First-Class Letters and Flats - Presort	260.7%	256.5%	-4.27%
First-Class Cards - Single Piece	111.0%	111.1%	0.02%
First-Class Cards - Private Presort	258.1%	258.1%	0.01%
Total First Class	191.8%	190.0%	-1.82%
Total Periodical	100.6%	100.6%	0.00%
Standard Single Piece	140.1%	149.7%	9.51%
Standard Regular	196.4%	201.5%	5.10%
Standard Regular and Enhanced Carrier Route	156.3%	164.7%	8.39%
Standard Nonprofit	113.3%	113.3%	0.00%
Standard Nonprofit Enhanced Carrier Route	131.3%	131.3%	0.00%
Total Standard A	150.4%	157.3%	6.93%
Total Standard B	108.0%	108.0%	0.00%
Priority Mail, Express Mail and Mailgrams	182.3%	182.3%	0.00%
Postal Penalty and Free-for-the-Blind	0.0%	0.0%	0.00%
International Mail	113.3%	113.3%	0.00%
Special Services	151.8%	151.8%	0.00%
Total Mail & Services	166.2%	167.2%	0.95%
Total	99.6%	99.7%	0.12%

Cost coverage for a mail type is the ratio of revenue (p. 9) to volume variable cost (p. 11) for the mail type.

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	<u>Alternate</u> <u>Proposal</u> Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece	0.340	0.340	0.000	0.0%
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.220	-0.010	-4.3%
First-Class PRM and QBRM Letters	0.310	0.310	0.000	0.0%
First-Class Letters and Flats - Workshared per Piece Rate				
Nonautomated Presort	0.320	0.320	0.000	0.0%
Automated Basic Letters	0.280	0.274	-0.006	-2.1%
Automated Basic Flats	0.310	0.310	0.000	0.0%
Automated 3-Digit Letters	0.271	0.262	-0.009	-3.3%
Automated 5-Digit Letters	0.253	0.245	-0.008	-3.2%
Automated 3/5-Digit Flats	0.277	0.277	0.000	0.0%
Automated Carrier-Route Letters	0.248	0.248	0.000	0.0%
First-Class Letters and Flats - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated Basic Flats	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated 3/5-Digit Flats	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.174	-0.056	-24.3%
First-Class Letters and Flats - Workshared Third Ounce	0.184	0.174	-0.010	-5.4%
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.220	-0.010	-4.3%
First-Class Stamped Cards	0.230	0.230	0.000	0.0%
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%
First-Class Private Cards				
Single Piece Cards	0.210	0.210	0.000	0.0%
Single Piece Cards at Letter Rates	0.340	0.340	0.000	0.0%
Nonautomated Presort Cards	0.190	0.190	0.000	0.0%
Automated Basic Cards	0.174	0.174	0.000	0.0%
Automated 3-Digit Cards	0.167	0.167	0.000	0.0%
Automated 5-Digit Cards	0.154	0.154	0.000	0.0%
Automated Carrier-Route Cards	0.149	0.149	0.000	0.0%
Standard Single Piece				
Standard Regular				
Nonautomated Basic Letters	0.242	0.248	0.006	2.6%
Nonautomated Basic Nonletters	0.311	0.317	0.006	2.0%
Nonautomated Presort Letters	0.225	0.238	0.013	5.6%
Nonautomated Presort Nonletters	0.258	0.271	0.013	4.9%
Automated Basic Letters	0.200	0.213	0.013	6.3%
Automated Basic Flats	0.267	0.280	0.013	4.7%
Automated 3-Digit Letters	0.193	0.212	0.019	9.8%
Automated 5-Digit Letters	0.172	0.191	0.019	11.1%
Automated 3/5-Digit Flats	0.231	0.250	0.019	8.2%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%
Standard Regular Enhanced Carrier Route				
Automated	0.163	0.169	0.006	3.9%
Basic Letters	0.175	0.181	0.006	3.6%
Basic Nonletters	0.175	0.181	0.006	3.6%
High-Density Letters	0.152	0.158	0.006	4.2%
High-Density Nonletters	0.154	0.160	0.006	4.1%
Saturation Letters	0.143	0.149	0.006	4.4%
Saturation Nonletters	0.148	0.154	0.006	4.3%

## Balanced Cost Reduction Model

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	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	---
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	---
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.037	0.037	0.000	0.0%

Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R2000-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R2000-1. Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 12.

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	<u>Alternate</u> <u>Proposal</u> Compared to Proposed R2000-1	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Single Piece Additional Ounces	0.230	0.220		-0.010	-4.3%
First-Class Letters - Workshared per Pound Rate					
Nonautomated Presort	0.000	0.000		0.000	---
Automated Basic Letters	0.000	0.000		0.000	---
Automated 3-Digit Letters	0.000	0.000		0.000	---
Automated 5-Digit Letters	0.000	0.000		0.000	---
Automated Carrier-Route Letters	0.000	0.000		0.000	---
First-Class Workshared					
Second Ounce	0.230	0.174		-0.056	-24.3%
Third Ounce	0.184	0.174		-0.010	-5.4%
Above Third Ounce	0.230	0.220		-0.010	-4.3%
Standard Regular Addition for Pound Rate		0.000		0.000	---
Standard Regular Additional Ounces					
Second Ounce	0.000	0.000		0.000	---
Third Ounce	0.000	0.000		0.000	---
Above Third Ounce	0.041	0.041		0.000	---
Standard Enhanced Carrier Route Addition for Pound Rate		0.000		0.000	---
Standard Enhanced Carrier Route					
Second Ounce	0.000	0.000		0.000	---
Third Ounce	0.000	0.000		0.000	---
Above Third Ounce	0.037	0.037		0.000	---

Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R2000-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R2000-1

-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.

## Balanced Cost Reduction Model

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	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
Total Revenues	69,378,429	69,009,640	-368,789	-0.5%
Total Revenue Requirement (Equals Total Costs)	69,644,860	69,188,571	-456,289	-0.7%
Surplus (Deficiency)	<b>(266.431)</b>	<b>(178.931)</b>	87.5	-32.8%

Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 11. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.

## Balanced Cost Reduction Model

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	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece Including QBRM	52,877.658	52,273.908	-603.750	-1.1%
First-Class Letters and Flats - Single Piece Additional Ounces	19,331.807	19,111.079	-220.728	-1.1%
First-Class PRM and QBRM Letters	388.063	383.632	-4.431	-1.1%
First-Class Letters and Flats - Workshared	46,979.736	48,160.191	1,180.454	2.5%
Nonautomated Presort	2,586.288	2,635.932	49.644	1.9%
Automated Basic Letters	5,620.726	5,757.090	136.364	2.4%
Automated Basic Flats	52.293	53.486	1.192	2.3%
Automated 3-Digit Letters	24,508.201	25,189.765	681.565	2.8%
Automated 5-Digit Letters	12,362.727	12,638.093	275.367	2.2%
Automated 3/5-Digit Flats	304.691	311.497	6.806	2.2%
Automated Carrier-Route Letters	1,544.810	1,574.326	29.516	1.9%
First-Class Letters and Flats - Workshared Ounces One to Two	1,681.963	1,724.226	42.263	2.5%
First-Class Letters and Flats - Workshared Ounces Two to Three	471.274	483.116	11.842	2.5%
First-Class Letters and Flats - Workshared Ounces Over Three	351.346	360.174	8.828	2.5%
First-Class Stamped Cards	415.873	415.873	0.000	0.0%
First-Class PRM and QBRM Cards	62.005	61.936	-0.069	-0.1%
First-Class Private Cards	5,025.078	5,013.495	-11.583	-0.2%
Single-Piece Cards including QBRM & Stamped	2,354.910	2,352.271	-2.639	-0.1%
Nonautomated Presort Cards	383.715	383.477	-0.238	-0.1%
Automated Basic Cards	548.060	545.904	-2.156	-0.4%
Automated 3-Digit Cards	939.713	935.619	-4.094	-0.4%
Automated 5-Digit Cards	661.035	658.608	-2.427	-0.4%
Automated Carrier-Route Cards	137.645	137.615	-0.029	0.0%
<b>Total First Class</b>	105,748.413	106,309.034	560.621	0.5%
<b>Total Periodical</b>	10,321.166	10,321.166	0.000	0.0%
Standard Single Piece				
Standard Regular	40,998.656	39,356.522	-1,642.134	-4.0%
Nonautomated Basic Letters	1,011.823	1,040.271	28.448	2.8%
Nonautomated Basic Nonletters	1,045.493	1,059.750	14.257	1.4%
Nonautomated Presort Letters	1,455.143	1,918.561	463.418	31.8%
Nonautomated Presort Nonletters	1,791.588	1,782.608	-8.980	-0.5%
Automated Basic Letters	4,120.244	3,943.902	-176.341	-4.3%
Automated Basic Flats	347.480	324.277	-23.203	-6.7%
Automated 3-Digit Letters	13,450.018	12,445.289	-1,004.729	-7.5%
Automated 5-Digit Letters	6,378.638	5,735.195	-643.443	-10.1%
Automated 3/5-Digit Flats	11,398.229	11,106.668	-291.561	-2.6%
Standard Regular - Second Ounce	21,688.159	20,819.475	-868.684	-4.0%
Standard Regular - Third Ounce	14,231.318	13,661.306	-570.012	-4.0%
Standard Regular - Ounces Above Third	43,681.757	41,932.156	-1,749.601	-4.0%
Standard Regular Enhanced Carrier Route	32,828.212	31,945.286	-882.926	-2.7%
Automated	1,851.903	1,789.317	-62.586	-3.4%
Basic Letters	5,449.490	5,274.423	-175.067	-3.2%
Basic Nonletters	11,794.849	11,588.040	-206.809	-1.8%
High-Density Letters	393.109	376.720	-16.389	-4.2%
High-Density Nonletters	1,479.259	1,445.772	-33.486	-2.3%
Saturation Letters	2,692.107	2,572.196	-119.910	-4.5%
Saturation Nonletters	9,167.496	8,898.817	-268.679	-2.9%
Standard Enhanced Carrier Route - Second Ounce	20,981.342	20,417.042	-564.300	-2.7%
Standard Enhanced Carrier Route - Third Ounce	15,424.743	15,009.890	-414.854	-2.7%
Standard Enhanced Carrier Route - Ounces Above Third	44,786.350	43,581.805	-1,204.544	-2.7%
Standard Regular and Enhanced Carrier Route	73,826.868	71,301.808	-2,525.060	-3.4%
Standard Nonprofit	11,425.579	11,425.579	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	2,851.875	2,851.875	0.000	0.0%
<b>Total Standard A</b>	88,104.322	85,579.262	-2,525.060	-2.9%

## Balanced Cost Reduction Model

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	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
<i>Total Standard B</i>	1,133.060	1,133.060	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,381.313	1,381.313	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	405.217	405.217	0.000	0.0%
<b>Total Domestic Mail</b>	207,093.490	205,129.052	-1,964.439	-0.9%
<b>International Mail</b>	1,032.013	1,032.013	0.000	0.0%
<b>Total Domestic and International Mail</b>	208,125.503	206,161.065	-1,964.439	-0.9%

Proposed R2000-1 volumes are obtained from the direct testimony of George S. Tolley USPS-T-6 . The Alternate volumes are estimated based on the inputs given to the Tolley's forecasting model accompanying his testimony

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	<u>Alternate</u> <u>Proposal</u> Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece Except QBRM	18,012.791	17,807.124	-205.667	-1.1%
First-Class Letters and Flats - Single Piece Additional Ounces	4,487.755	4,243.623	-244.133	-5.4%
First-Class PRM and QBRM Letters	121.421	120.034	-1.386	-1.1%
First-Class Single-Piece Letter Fees	167.072	167.072	0.000	0.0%
Nonstandard Pieces	52.825	52.825	0.000	0.0%
First-Class Letters and Flats - Workshared Total	13,250.227	13,113.915	-136.312	-1.0%
First-Class Letters and Flats - Workshared	12,650.896	12,606.427	-44.469	-0.4%
Nonautomated Presort	826.756	842.626	15.870	1.9%
Automated Basic Letters	1,570.409	1,574.041	3.631	0.2%
Automated Basic Flats	12.758	13.049	0.291	2.3%
Automated 3-Digit Letters	6,644.313	6,602.292	-42.020	-0.6%
Automated 5-Digit Letters	3,128.990	3,097.540	-31.449	-1.0%
Automated 3/5-Digit Flats	84.487	86.375	1.887	2.2%
Automated Carrier-Route Letters	383.182	390.504	7.321	1.9%
First-Class Letters and Flats - Workshared Ounces One to Two	387.360	300.410	-86.950	-22.4%
First-Class Letters and Flats - Workshared Ounces Two to Three	108.535	105.216	-3.320	-3.1%
First-Class Letters and Flats - Workshared Ounces Over Three	80.916	79.342	-1.573	-1.9%
First-Class Letters and Flats - Workshared Fees	22.520	22.520	0.000	0.0%
First-Class Stamped Cards	87.587	87.587	0.000	0.0%
First-Class PRM and QBRM Cards	11.193	11.181	-0.013	-0.1%
First-Class Private Cards	944.717	942.678	-2.039	-0.2%
Single-Piece Cards at Cards Rates	459.814	459.299	-0.515	-0.1%
Single-Piece Cards at Letter Rates	37.392	37.350	-0.042	-0.1%
Nonautomated Presort Cards	72.908	72.863	-0.045	-0.1%
Automated Basic Cards	95.362	94.987	-0.375	-0.4%
Automated 3-Digit Cards	156.932	156.248	-0.684	-0.4%
Automated 5-Digit Cards	101.799	101.426	-0.374	-0.4%
Automated Carrier-Route Cards	20.509	20.505	-0.004	0.0%
First-Class Single Piece Cards Fees	7.636	7.636	0.000	0.0%
First-Class Workshared Cards Fees	1.278	1.278	0.000	0.0%
<b>Total First Class</b>	<b>37,144.502</b>	<b>36,554.952</b>	<b>-589.550</b>	<b>-1.6%</b>
<b>Total Periodical</b>	<b>2,447.622</b>	<b>2,447.622</b>	<b>0.000</b>	<b>0.0%</b>
Standard Single Piece				
Standard Regular	9,126.996	9,356.200	229.205	2.5%
Nonautomated Basic Letters	244.861	258.337	13.476	5.5%
Nonautomated Basic Nonletters	244.721	253.112	8.391	3.4%
Nonautomated Presort Letters	311.289	433.542	122.253	39.3%
Nonautomated Presort Nonletters	286.353	298.913	12.560	4.4%
Automated Basic Letters	824.049	838.762	14.713	1.8%
Automated Basic Flats	68.472	66.932	-1.539	-2.2%
Automated 3-Digit Letters	2,461.089	2,501.541	40.452	1.6%
Automated 5-Digit Letters	1,033.214	1,031.662	-1.552	-0.2%
Automated 3/5-Digit Flats	1,694.874	1,787.428	92.554	5.5%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	1,804.603	1,732.322	-72.280	-4.0%
Fees, Residual Shape, and Adjustments	146.562	146.562	0.000	0.0%
Standard Regular Enhanced Carrier Route	5,164.832	5,156.388	-8.443	-0.2%
Automated	301.860	302.997	1.137	0.4%
Basic Letters	953.661	956.446	2.785	0.3%
Basic Nonletters	1,392.163	1,417.278	25.115	1.8%
High-Density Letters	41.970	41.897	-0.073	-0.2%
High-Density Nonletters	54.842	55.806	0.964	1.8%
Saturation Letters	263.192	262.612	-0.580	-0.2%
Saturation Nonletters	503.861	510.035	6.173	1.2%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Ounces Above Third	1,634.702	1,590.736	-43.966	-2.7%
Fees, Residual Shape, and Adjustments	19.764	19.764	0.000	0.0%
Standard Regular and Enhanced Carrier Route	14,291.827	14,512.588	220.761	1.5%

## Balanced Cost Reduction Model

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	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percen</u> <u>Difference</u>
Standard Nonprofit	1,544.246	1,544.246	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	262.328	262.328	0.000	0.0%
<i>Total Standard A</i>	16,098.401	16,319.162	220.761	1.4%
<i>Total Standard B</i>	2,147.597	2,147.597	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	6,679.061	6,679.061	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	0.000	0.000	0.000	—
<i>Total Domestic Mail</i>	64,517.185	64,148.395	-368.789	-0.6%
<i>International Mail</i>	1,778.913	1,778.913	0.000	0.0%
<i>Special Services</i>	2,347.559	2,347.559	0.000	0.0%
<i>Other Income</i>	687.847	687.847	0.000	0.0%
<i>Attributable Revenue</i>	69,331.504	68,962.715	-368.789	-0.5%
<i>Continuing Appropriations</i>	67.093	67.093	0.000	0.0%
<i>Investment Income</i>	-20.168	-20.168	0.000	0.0%
<b>Total Revenue</b>	69,378.429	69,009.640	-368.789	-0.5%

Revenue is revenue per piece or key rate multiplied by volume for First-Class and Standard A.. For other types of mails and other types of revenues (e.g. special services, other income) revenue is set at the levels shown in the response of witness Mayes (USPS-T-32) to POIR No. 16, revised 8-4-00.

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	<u>Alternate</u> <u>Proposal</u> Compared to Proposed R2000-1	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece	13,565.268	13,410.382	-154.886	-1.1%
First-Class Letters and Flats - Presort	5,081.634	5,112.999	31.365	0.6%
First-Class Cards - Single Piece	543.567	542.958	-0.609	-0.1%
First-Class Cards - Private Presort	173.866	173.284	-0.582	-0.3%
<b>Total First Class</b>	<b>19,364.335</b>	<b>19,239.622</b>	<b>-124.713</b>	<b>-0.6%</b>
<b>Total Periodical</b>	<b>2,431.920</b>	<b>2,431.920</b>	<b>0.000</b>	<b>0.0%</b>
Standard Single Piece				
Standard Regular	6,512.735	6,251.878	-260.857	-4.0%
Standard Regular Enhanced Carrier Route	2,629.439	2,558.719	-70.720	-2.7%
Standard Regular and Enhanced Carrier Route	9,142.174	8,810.597	-331.577	-3.6%
Standard Nonprofit	1,363.390	1,363.390	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	199.829	199.829	0.000	0.0%
<b>Total Standard A</b>	<b>10,705.393</b>	<b>10,373.816</b>	<b>-331.577</b>	<b>-3.1%</b>
<b>Total Standard B</b>	<b>1,987.663</b>	<b>1,987.663</b>	<b>0.000</b>	<b>0.0%</b>
<i>Priority Mail, Express Mail and Mailgrams</i>	3,663.310	3,663.310	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	31.833	31.833	0.000	0.0%
<b>Total Domestic Mail</b>	<b>38,184.454</b>	<b>37,728.165</b>	<b>-456.289</b>	<b>-1.2%</b>
<i>International Mail</i>	1,570.744	1,570.744	0.000	0.0%
<i>Special Services</i>	1,546.107	1,546.107	0.000	0.0%
<i>Other Variable Costs</i>	0.000	0.000	0.000	---
<b>Attributable Costs</b>	<b>41,301.305</b>	<b>40,845.016</b>	<b>-456.289</b>	<b>-1.1%</b>
<b>Total Other Costs</b>	<b>28,031.846</b>	<b>28,031.846</b>	<b>0.000</b>	<b>0.0%</b>
<i>Prior Years Loss Recovery</i>	311.709	311.709	0.000	0.0%
<b>Total Costs</b>	<b>69,644.860</b>	<b>69,188.571</b>	<b>-456.289</b>	<b>-0.7%</b>

  

Volume Variable Cost per Piece (Dollars per Piece)		
	<u>Proposed R2000-1</u>	<u>Alternate Proposal</u>
First-Class Letters and Flats - Single P	0.2565	0.2565
First-Class Letters and Flats - Presort	0.1082	0.1062
First-Class Cards - Single Piece	0.2308	0.2308
First-Class Cards - Private Presort	0.0651	0.0651
Standard Regular	0.1589	0.1589
Standard Regular Enhanced Carrier R	0.0801	0.0801

Costs are cost per piece multiplied by volume for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are set at the levels expected by the Postal Service in R2000-1 Proposed.

**Balanced Cost Reduction -0.00200**



Balanced Cost Reduction Model

	<u>Proposed R2000-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R2000-1</u>
	<u>1</u>	<u>Proposal</u>	<u>Difference</u>
First-Class Letters and Flats - Single Piece	0.3442	0.3442	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2200	-0.010
First-Class PRM and QBRM Letters	0.3100	0.3100	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3197	0.3197	0.000
Automated Basic Letters	0.2794	0.2734	-0.006
Automated Basic Flats	0.2440	0.2440	0.000
Automated 3-Digit Letters	0.2711	0.2621	-0.009
Automated 5-Digit Letters	0.2531	0.2451	-0.008
Automated 3/5-Digit Flats	0.2773	0.2773	0.000
Automated Carrier-Route Letters	0.2480	0.2480	0.000
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.1740	-0.056
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.2175	-0.013
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2200	-0.010
First-Class Stamped Cards	0.2106	0.2106	0.000
First-Class PRM and QBRM Cards	0.1805	0.1805	0.000
First-Class Private Cards			
Single Piece Cards at Cards Rates	0.2106	0.2106	0.000
Single Piece Cards at Letter Rates	0.3410	0.3410	0.000
Nonautomated Presort Cards	0.1900	0.1900	0.000
Automated Basic Cards	0.1740	0.1740	0.000
Automated 3-Digit Cards	0.1670	0.1670	0.000
Automated 5-Digit Cards	0.1540	0.1540	0.000
Automated Carrier-Route Cards	0.1490	0.1490	0.000
Standard Single Piece			
Standard Regular			
Nonautomated Basic Letters	0.2420	0.2483	0.006
Nonautomated Basic Nonletters	0.2341	0.2388	0.005
Nonautomated Presort Letters	0.2139	0.2260	0.012
Nonautomated Presort Nonletters	0.1598	0.1677	0.008
Automated Basic Letters	0.2000	0.2127	0.013
Automated Basic Flats	0.1971	0.2064	0.009
Automated 3-Digit Letters	0.1830	0.2010	0.018
Automated 5-Digit Letters	0.1620	0.1799	0.018
Automated 3/5-Digit Flats	0.1487	0.1609	0.012
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0413	0.0413	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1630	0.1693	0.006
Basic Letters	0.1750	0.1813	0.006
Basic Nonletters	0.1180	0.1223	0.004
High-Density Letters	0.1068	0.1112	0.004
High-Density Nonletters	0.0371	0.0386	0.002
Saturation Letters	0.0978	0.1021	0.004
Saturation Nonletters	0.0550	0.0573	0.002
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0365	0.0365	0.000
Standard Nonprofit	0.1351	0.1351	0.000
Standard Nonprofit Enhanced Carrier Route	0.0926	0.0926	0.000

Updated revenue per piece for Proposed R2000-1 is taken from Lr-I-436 FCM\_HybRev.xls and WPI\_Hyb.xls. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 15).

Balanced Cost Reduction Model

Additional Ounces as Percentage of First Ounces	Proposed R2000-1	Alternate Proposal
First-Class Single Piece	36.56%	36.56%
First-Class Workshared		
Second Ounce	3.58%	3.58%
Third Ounce	1.00%	1.00%
Ounces Above Third Ounce	0.75%	0.75%
Standard Regular		
Second Ounce	52.90%	52.90%
Third Ounce	34.71%	34.71%
Ounces Above Third Ounce	106.54%	106.54%
Standard Enhanced Carrier Route		
Second Ounce	63.91%	63.91%
Third Ounce	46.99%	46.99%
Ounces Above Third Ounce	136.43%	136.43%
Additional ounces charged for as a percentage of first ounces is obtained from R2000-1 LR-1-91 revised and LR-1-92		

Balanced Cost Reduction Model

	<u>Proposed R2000-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R2000-1 Difference</u>
First-Class Single Piece	1.012	1.012	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	1.000	1.000	0.000
First-Class PRM and QBRM Letters	1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.999	0.999	0.000
Automated Basic Letters	0.998	0.998	0.000
Automated Basic Flats	0.787	0.787	0.000
Automated 3-Digit Letters	1.000	1.000	0.000
Automated 5-Digit Letters	1.000	1.000	0.000
Automated 3/5-Digit Flats	1.000	1.000	0.000
Automated Carrier-Route Letters	1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.000	0.000	0.000
Automated Basic Letters	0.000	0.000	0.000
Automated Basic Flats	0.000	0.000	0.000
Automated 3-Digit Letters	0.000	0.000	0.000
Automated 5-Digit Letters	0.000	0.000	0.000
Automated 3/5-Digit Flats	0.000	0.000	0.000
Automated Carrier-Route Letters	0.000	0.000	0.000
First-Class Letters and Flats - Workshared Second Ounce	1.000	1.000	0.000
First-Class Letters and Flats - Workshared Third Ounce	1.250	1.250	0.000
First-Class Letters and Flats - Workshared Ounces Above 3	1.000	1.000	0.000
First-Class Stamped Cards	0.916	0.916	0.000
First-Class PRM and QBRM Cards	1.003	1.003	0.000
First-Class Private Cards			
Single Piece Cards	1.003	1.003	0.000
Nonautomated Presort	1.000	1.000	0.000
Automated Basic	1.000	1.000	0.000
Automated 3-Digit	1.000	1.000	0.000
Automated 5-Digit	1.000	1.000	0.000
Automated Carrier-Route	1.000	1.000	0.000
Standard Single Piece			
Standard Regular			
Nonautomated Basic Letters	1.000	1.000	0.000
Nonautomated Basic Nonletters	0.753	0.753	0.000
Nonautomated Presort Letters	0.951	0.951	0.000
Nonautomated Presort Nonletters	0.620	0.620	0.000
Automated Basic Letters	1.000	1.000	0.000
Automated Basic Flats	0.738	0.738	0.000
Automated 3-Digit Letters	0.948	0.948	0.000
Automated 5-Digit Letters	0.942	0.942	0.000
Automated 3/5-Digit Flats	0.644	0.644	0.000
Standard Regular - Second Ounce	1.000	1.000	0.000
Standard Regular - Third Ounce	1.000	1.000	0.000
Standard Regular - Ounces Above Third	1.000	1.000	0.000
Standard Regular Enhanced Carrier Route			
Automated	1.000	1.000	0.000
Basic Letters	1.000	1.000	0.000
Basic Nonletters	0.674	0.674	0.000
High-Density Letters	0.702	0.702	0.000
High-Density Nonletters	0.241	0.241	0.000
Saturation Letters	0.684	0.684	0.000
Saturation Nonletters	0.371	0.371	0.000
Standard Enhanced Carrier Route - Second Ounce	1.000	1.000	0.000
Standard Enhanced Carrier Route - Third Ounce	1.000	1.000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	1.000	1.000	0.000

The key rate to revenue adjustment is the ratio of the key rate per piece (p. 3) to revenue per piece (p. 13).

Balanced Cost Reduction Model

Alternative Proposal	Proposed R2000-1	Alternate Proposal	Difference
First-Class			
Nonautomated Presort Letters	0.020	0.020	0.000
Automated Basic Letters	0.060	0.066	0.006
Automated Basic Flats	0.030	0.030	0.000
Automated 3-Digit Letters	0.069	0.078	0.009
Automated 5-Digit Letters	0.087	0.095	0.008
Automated 3/5-Digit Flats	0.063	0.063	0.000
Automated Carrier-Route Letters	0.092	0.092	0.000
Second ounce	0.000	0.046	0.046
Third ounce	0.046	0.046	0.000
First Class Cards			
Nonautomated Presort	0.020	0.020	0.000
Automated Basic	0.036	0.036	0.000
Automated 3-Digit	0.043	0.043	0.000
Automated 5-Digit	0.056	0.056	0.000
Automated Carrier-Route	0.061	0.061	0.000
Standard Regular			
Nonautomated Presort Letters	0.017	0.011	-0.006
Nonautomated Presort Nonletters	0.053	0.047	-0.006
Automated Basic Letters	0.042	0.036	-0.006
Automated Basic Flats	0.044	0.038	-0.006
Automated 3-Digit Letters	0.032	0.026	-0.006
Automated 5-Digit Letters	0.053	0.047	-0.006
Automated 3/5-Digit Flats	0.027	0.021	-0.006
BMC Destination Entry Discount	0.017	0.011	-0.006
SCF Destination Entry Discount	0.022	0.016	-0.006
DDU Destination Entry	0.028	0.022	-0.006

Balanced Cost Reduction Model

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## Balanced Cost Reduction Model

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	<u>Proposed R2000-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R2000-1 Difference</u>
First-Class Letters and Flats - Single Piece	168.4%	167.8%	-0.60%
First-Class Letters and Flats - Presort	260.7%	257.7%	-3.01%
First-Class Cards - Single Piece	111.0%	111.6%	0.56%
First-Class Cards - Private Presort	258.1%	259.4%	1.28%
<i>Total First Class</i>	191.8%	190.9%	-0.90%
<i>Total Periodical</i>	100.6%	101.1%	0.49%
Standard Single Piece			
Standard Regular	140.1%	147.7%	7.60%
Standard Regular Enhanced Carrier Route	196.4%	201.1%	4.66%
Standard Regular and Enhanced Carrier Route	156.3%	163.2%	6.87%
Standard Nonprofit	113.3%	113.8%	0.56%
Standard Nonprofit Enhanced Carrier Route	131.3%	131.9%	0.64%
<i>Total Standard A</i>	150.4%	156.2%	5.79%
<i>Total Standard B</i>	108.0%	108.6%	0.53%
<i>Priority Mail, Express Mail and Mailgrams</i>	182.3%	183.2%	0.89%
<i>Postal Penalty and Free-for-the Blind</i>	0.0%	0.0%	0.00%
<i>International Mail</i>	113.3%	113.8%	0.56%
<i>Special Services</i>	151.8%	152.6%	0.74%
<i>Total Mail &amp; Services</i>	166.2%	167.5%	1.25%
<b>Total</b>	99.6%	100.0%	0.38%

Cost coverage for a mail type is the ratio of revenue (p. 9) to volume variable cost (p. 11) for the mail type.

## Balanced Cost Reduction Model

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	<u>Proposed</u> R2000-1	<u>Alternate</u> Proposal	<u>Alternate</u> Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece	0.340	0.340	0.000	0.0%
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.220	-0.010	-4.3%
First-Class PRM and QBRM Letters	0.310	0.310	0.000	0.0%
First-Class Letters and Flats - Workshared per Piece Rate				
Nonautomated Presort	0.320	0.320	0.000	0.0%
Automated Basic Letters	0.280	0.274	-0.006	-2.1%
Automated Basic Flats	0.310	0.310	0.000	0.0%
Automated 3-Digit Letters	0.271	0.262	-0.009	-3.3%
Automated 5-Digit Letters	0.253	0.245	-0.008	-3.2%
Automated 3/5-Digit Flats	0.277	0.277	0.000	0.0%
Automated Carrier-Route Letters	0.248	0.248	0.000	0.0%
First-Class Letters and Flats - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated Basic Flats	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated 3/5-Digit Flats	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.174	-0.056	-24.3%
First-Class Letters and Flats - Workshared Third Ounce	0.184	0.174	-0.010	-5.4%
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.220	-0.010	-4.3%
First-Class Stamped Cards	0.230	0.230	0.000	0.0%
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%
First-Class Private Cards				
Single Piece Cards	0.210	0.210	0.000	0.0%
Single Piece Cards at Letter Rates	0.340	0.340	0.000	0.0%
Nonautomated Presort Cards	0.190	0.190	0.000	0.0%
Automated Basic Cards	0.174	0.174	0.000	0.0%
Automated 3-Digit Cards	0.167	0.167	0.000	0.0%
Automated 5-Digit Cards	0.154	0.154	0.000	0.0%
Automated Carrier-Route Cards	0.149	0.149	0.000	0.0%
Standard Single Piece				
Standard Regular				
Nonautomated Basic Letters	0.242	0.247	0.005	1.9%
Nonautomated Basic Nonletters	0.311	0.316	0.005	1.5%
Nonautomated Presort Letters	0.225	0.234	0.009	4.1%
Nonautomated Presort Nonletters	0.258	0.267	0.009	3.5%
Automated Basic Letters	0.200	0.209	0.009	4.6%
Automated Basic Flats	0.267	0.276	0.009	3.4%
Automated 3-Digit Letters	0.193	0.207	0.014	7.1%
Automated 5-Digit Letters	0.172	0.186	0.014	8.0%
Automated 3/5-Digit Flats	0.231	0.245	0.014	5.9%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%
Standard Regular Enhanced Carrier Route				
Automated	0.163	0.168	0.005	2.8%
Basic Letters	0.175	0.180	0.005	2.6%
Basic Nonletters	0.175	0.180	0.005	2.6%
High-Density Letters	0.152	0.157	0.005	3.0%
High-Density Nonletters	0.154	0.159	0.005	3.0%
Saturation Letters	0.143	0.148	0.005	3.2%
Saturation Nonletters	0.148	0.153	0.005	3.1%

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	---
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	---
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.037	0.037	0.000	0.0%

Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R2000-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R2000-1. Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 12.

## Balanced Cost Reduction Model

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	<u>Proposed</u> R2000-1	<u>Alternate</u> <u>Proposal</u>	<u>Alternate</u> <u>Proposal</u> Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Single Piece Additional Ounces	0.230	0.220	-0.010	-4.3%
First-Class Letters - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Workshared				
Second Ounce	0.230	0.174	-0.056	-24.3%
Third Ounce	0.184	0.174	-0.010	-5.4%
Above Third Ounce	0.230	0.220	-0.010	-4.3%
Standard Regular Addition for Pound Rate		0.000	0.000	---
Standard Regular Additional Ounces				
Second Ounce	0.000	0.000	0.000	---
Third Ounce	0.000	0.000	0.000	---
Above Third Ounce	0.041	0.041	0.000	---
Standard Enhanced Carrier Route Addition for Pound Rate		0.000	0.000	---
Standard Enhanced Carrier Route				
Second Ounce	0.000	0.000	0.000	---
Third Ounce	0.000	0.000	0.000	---
Above Third Ounce	0.037	0.037	0.000	---

Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R2000-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R2000-1

-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
Total Revenues	69,378.429	68,933.336	-445.093	-0.6%
Total Revenue Requirement (Equals Total Costs)	69,644.860	68,933.336	-711.524	-1.0%
Surplus (Deficiency)	<b>(266.431)</b>	<b>0.000</b>	266.4	-100.0%

Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 11. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.

## Balanced Cost Reduction Model

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	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	<u>Alternate</u> <u>Proposal</u> Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece Including QBRM	52,877.658	52,273.908	-603.750	-1.1%
First-Class Letters and Flats - Single Piece Additional Ounces	19,331.807	19,111.079	-220.728	-1.1%
First-Class PRM and QBRM Letters	388.063	383.632	-4.431	-1.1%
First-Class Letters and Flats - Workshared	46,979.736	48,121.463	1,141.726	2.4%
Nonautomated Presort	2,586.288	2,633.800	47.512	1.8%
Automated Basic Letters	5,620.726	5,752.462	131.735	2.3%
Automated Basic Flats	52.293	53.443	1.149	2.2%
Automated 3-Digit Letters	24,508.201	25,169.518	661.318	2.7%
Automated 5-Digit Letters	12,362.727	12,627.932	265.206	2.1%
Automated 3/5-Digit Flats	304.691	311.247	6.556	2.2%
Automated Carrier-Route Letters	1,544.810	1,573.060	28.251	1.8%
First-Class Letters and Flats - Workshared Ounces One to Two	1,681.963	1,722.839	40.876	2.4%
First-Class Letters and Flats - Workshared Ounces Two to Three	471.274	482.727	11.453	2.4%
First-Class Letters and Flats - Workshared Ounces Over Three	351.346	359.884	8.539	2.4%
First-Class Stamped Cards	415.873	415.873	0.000	0.0%
First-Class PRM and QBRM Cards	62.005	61.936	-0.069	-0.1%
First-Class Private Cards	5,025.078	5,013.495	-11.583	-0.2%
Single-Piece Cards including QBRM & Stamped	2,354.910	2,352.271	-2.639	-0.1%
Nonautomated Presort Cards	383.715	383.477	-0.238	-0.1%
Automated Basic Cards	548.060	545.904	-2.156	-0.4%
Automated 3-Digit Cards	939.713	935.619	-4.094	-0.4%
Automated 5-Digit Cards	661.035	658.608	-2.427	-0.4%
Automated Carrier-Route Cards	137.645	137.615	-0.029	0.0%
<b>Total First Class</b>	<b>105,748.413</b>	<b>106,270.306</b>	<b>521.893</b>	<b>0.5%</b>
<b>Total Periodical</b>	<b>10,321.166</b>	<b>10,321.166</b>	<b>0.000</b>	<b>0.0%</b>
Standard Single Piece				
Standard Regular	40,998.656	39,772.973	-1,225.683	-3.0%
Nonautomated Basic Letters	1,011.823	1,031.640	19.816	2.0%
Nonautomated Basic Nonletters	1,045.493	1,055.343	9.850	0.9%
Nonautomated Presort Letters	1,455.143	1,791.033	335.890	23.1%
Nonautomated Presort Nonletters	1,791.588	1,784.052	-7.535	-0.4%
Automated Basic Letters	4,120.244	3,990.047	-130.196	-3.2%
Automated Basic Flats	347.480	330.498	-16.982	-4.9%
Automated 3-Digit Letters	13,450.018	12,706.753	-743.265	-5.5%
Automated 5-Digit Letters	6,378.638	5,902.627	-476.011	-7.5%
Automated 3/5-Digit Flats	11,398.229	11,180.979	-217.250	-1.9%
Standard Regular - Second Ounce	21,688.159	21,039.776	-648.382	-3.0%
Standard Regular - Third Ounce	14,231.318	13,805.863	-425.455	-3.0%
Standard Regular - Ounces Above Third	43,681.757	42,375.860	-1,305.896	-3.0%
Standard Regular Enhanced Carrier Route	32,828.212	32,183.785	-644.426	-2.0%
Automated	1,851.903	1,806.137	-45.766	-2.5%
Basic Letters	5,449.490	5,321.569	-127.922	-2.3%
Basic Nonletters	11,794.849	11,644.668	-150.181	-1.3%
High-Density Letters	393.109	381.085	-12.024	-3.1%
High-Density Nonletters	1,479.259	1,454.891	-24.368	-1.6%
Saturation Letters	2,692.107	2,604.027	-88.080	-3.3%
Saturation Nonletters	9,167.496	8,971.409	-196.087	-2.1%
Standard Enhanced Carrier Route - Second Ounce	20,981.342	20,569.473	-411.869	-2.0%
Standard Enhanced Carrier Route - Third Ounce	15,424.743	15,121.952	-302.792	-2.0%
Standard Enhanced Carrier Route - Ounces Above Third	44,786.350	43,907.182	-879.167	-2.0%
Standard Regular and Enhanced Carrier Route	73,826.868	71,956.758	-1,870.109	-2.5%
Standard Nonprofit	11,425.579	11,425.579	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	2,851.875	2,851.875	0.000	0.0%
<b>Total Standard A</b>	<b>88,104.322</b>	<b>86,234.213</b>	<b>-1,870.109</b>	<b>-2.1%</b>

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1	<u>Percent</u> <u>Difference</u>
<i>Total Standard B</i>	1,133.060	1,133.060	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,381.313	1,381.313	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	405.217	405.217	0.000	0.0%
<b>Total Domestic Mail</b>	207,093.490	205,745.274	-1,348.216	-0.7%
<b>International Mail</b>	1,032.013	1,032.013	0.000	0.0%
<b>Total Domestic and International Mail</b>	208,125.503	206,777.287	-1,348.216	-0.6%

Proposed R2000-1 volumes are obtained from the direct testimony of George S. Tolley USPS-T-6. The Alternate volumes are estimated based on the inputs given to the Tolley's forecasting model accompanying his testimony

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece Except QBRM	18,012.791	17,807.124	-205.667	-1.1%
First-Class Letters and Flats - Single Piece Additional Ounces	4,487.755	4,243.623	-244.133	-5.4%
First-Class PRM and QBRM Letters	121.421	120.034	-1.386	-1.1%
First-Class Single-Piece Letter Fees	167.072	167.072	0.000	0.0%
Nonstandard Pieces	52.825	52.825	0.000	0.0%
First-Class Letters and Flats - Workshared Total	13,250.227	13,103.387	-146.840	-1.1%
First-Class Letters and Flats - Workshared	12,650.896	12,596.289	-54.607	-0.4%
Nonautomated Presort	826.756	841.944	15.188	1.8%
Automated Basic Letters	1,570.409	1,572.775	2.366	0.2%
Automated Basic Flats	12.758	13.039	0.280	2.2%
Automated 3-Digit Letters	6,644.313	6,596.986	-47.327	-0.7%
Automated 5-Digit Letters	3,128.990	3,095.050	-33.940	-1.1%
Automated 3/5-Digit Flats	84.487	86.305	1.818	2.2%
Automated Carrier-Route Letters	383.182	390.190	7.007	1.8%
First-Class Letters and Flats - Workshared Ounces One to Two	387.360	300.168	-87.192	-22.5%
First-Class Letters and Flats - Workshared Ounces Two to Three	108.535	105.131	-3.404	-3.1%
First-Class Letters and Flats - Workshared Ounces Over Three	80.916	79.279	-1.637	-2.0%
First-Class Letters and Flats - Workshared Fees	22.520	22.520	0.000	0.0%
First-Class Stamped Cards	87.587	87.587	0.000	0.0%
First-Class PRM and QBRM Cards	11.193	11.181	-0.013	-0.1%
First-Class Private Cards	944.717	942.678	-2.039	-0.2%
Single-Piece Cards at Cards Rates	459.814	459.299	-0.515	-0.1%
Single-Piece Cards at Letter Rates	37.392	37.350	-0.042	-0.1%
Nonautomated Presort Cards	72.908	72.863	-0.045	-0.1%
Automated Basic Cards	95.362	94.987	-0.375	-0.4%
Automated 3-Digit Cards	156.932	156.248	-0.684	-0.4%
Automated 5-Digit Cards	101.799	101.426	-0.374	-0.4%
Automated Carrier-Route Cards	20.509	20.505	-0.004	0.0%
First-Class Single Piece Cards Fees	7.636	7.636	0.000	0.0%
First-Class Workshared Cards Fees	1.278	1.278	0.000	0.0%
<b>Total First Class</b>	<b>37,144.502</b>	<b>36,544.424</b>	<b>-600.079</b>	<b>-1.6%</b>
<b>Total Periodical</b>	<b>2,447.622</b>	<b>2,447.622</b>	<b>0.000</b>	<b>0.0%</b>
Standard Single Piece				
Standard Regular	9,126.996	9,288.625	161.629	1.8%
Nonautomated Basic Letters	244.861	254.368	9.507	3.9%
Nonautomated Basic Nonletters	244.721	250.654	5.933	2.4%
Nonautomated Presort Letters	311.289	398.698	87.409	28.1%
Nonautomated Presort Nonletters	286.353	295.244	8.891	3.1%
Automated Basic Letters	824.049	834.456	10.407	1.3%
Automated Basic Flats	68.472	67.353	-1.118	-1.6%
Automated 3-Digit Letters	2,461.089	2,490.148	29.059	1.2%
Automated 5-Digit Letters	1,033.214	1,032.273	-0.941	-0.1%
Automated 3/5-Digit Flats	1,694.874	1,761.183	66.308	3.9%
Standard Regular - Second Ounce	0.000	0.000	0.000	—
Standard Regular - Third Ounce	0.000	0.000	0.000	—
Standard Regular - Ounces Above Third Fees, Residual Shape, and Adjustments	1,804.603	1,750.653	-53.950	-3.0%
Standard Regular Enhanced Carrier Route	146.562	146.562	0.000	0.0%
Standard Regular Enhanced Carrier Route	5,164.832	5,158.188	-6.644	-0.1%
Automated	301.860	302.649	0.789	0.3%
Basic Letters	953.661	955.579	1.918	0.2%
Basic Nonletters	1,392.163	1,410.307	18.144	1.3%
High-Density Letters	41.970	41.909	-0.061	-0.1%
High-Density Nonletters	54.842	55.538	0.696	1.3%
Saturation Letters	263.192	262.711	-0.480	-0.2%
Saturation Nonletters	503.861	508.300	4.439	0.9%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Ounces Above Third Fees, Residual Shape, and Adjustments	1,634.702	1,602.612	-32.090	-2.0%
Standard Regular and Enhanced Carrier Route	19.764	19.764	0.000	0.0%
Standard Regular and Enhanced Carrier Route	14,291.827	14,446.813	154.986	1.1%

Balanced Cost Reduction Model

Alternate Proposal Compared to Proposed R2000-1	Proposed R2000-1	Alternate Proposal	Difference	Percent Difference
Standard Nonprofit	1,544,246	1,544,246	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	262,328	262,328	0.000	0.0%
Total Standard A	16,098,401	16,253,387	154,986	1.0%
Total Standard B	2,147,597	2,147,597	0.000	0.0%
Priority Mail, Express Mail and Mailgrams	6,679,061	6,679,061	0.000	0.0%
Postal Penalty and Free-for-the Blind	0.000	0.000	0.000	—
Total Domestic Mail	64,517,185	64,072,092	-445,093	-0.7%
International Mail	1,778,913	1,778,913	0.000	0.0%
Special Services	2,347,559	2,347,559	0.000	0.0%
Other Income	687,847	687,847	0.000	0.0%
Attributable Revenue	69,331,504	68,886,411	-445,093	-0.6%
Continuing Appropriations	67,093	67,093	0.000	0.0%
Investment Income	-20,168	-20,168	0.000	0.0%
Total Revenue	69,378,429	68,933,336	-445,093	-0.6%

Revenue is revenue per piece or key rate multiplied by volume for First-Class and Standard A. For other types of mails and other types of revenues (e.g. special services, other income) revenue is set at the levels shown in the response of witness Mayes (USPS-T-32) to POIR No. 16, revised 8-3-00.

Balanced Cost Reduction Model

	<u>Proposed</u> <u>R2000-1</u>	<u>Alternate</u> <u>Proposal</u>	Alternate Proposal Compared to Proposed R2000-1 <u>Difference</u>	<u>Percent</u> <u>Difference</u>
First-Class Letters and Flats - Single Piece	13,565.268	13,344.965	-220.303	-1.6%
First-Class Letters and Flats - Presort	5,081.634	5,083.966	2.332	0.0%
First-Class Cards - Single Piece	543.567	540.309	-3.258	-0.6%
First-Class Cards - Private Presort	173.866	172.438	-1.428	-0.8%
<b>Total First Class</b>	<b>19,364.335</b>	<b>19,141.679</b>	<b>-222.656</b>	<b>-1.1%</b>
<b>Total Periodical</b>	<b>2,431.920</b>	<b>2,420.057</b>	<b>-11.863</b>	<b>-0.5%</b>
Standard Single Piece				
Standard Regular	6,512.735	6,287.213	-225.522	-3.5%
Standard Regular Enhanced Carrier Route	2,629.439	2,565.248	-64.191	-2.4%
Standard Regular and Enhanced Carrier Route	9,142.174	8,809.278	-332.896	-3.6%
Standard Nonprofit	1,363.390	1,356.739	-6.651	-0.5%
Standard Nonprofit Enhanced Carrier Route	199.829	198.854	-0.975	-0.5%
<b>Total Standard A</b>	<b>10,705.393</b>	<b>10,408.054</b>	<b>-297.339</b>	<b>-2.8%</b>
<b>Total Standard B</b>	<b>1,987.663</b>	<b>1,977.967</b>	<b>-9.696</b>	<b>-0.5%</b>
<b>Priority Mail, Express Mail and Mailgrams</b>	<b>3,663.310</b>	<b>3,645.440</b>	<b>-17.870</b>	<b>-0.5%</b>
<b>Postal Penalty and Free-for-the Blind</b>	<b>31.833</b>	<b>31.678</b>	<b>-0.155</b>	<b>-0.5%</b>
<b>Total Domestic Mail</b>	<b>38,184.454</b>	<b>37,624.875</b>	<b>-559.579</b>	<b>-1.5%</b>
<b>International Mail</b>	<b>1,570.744</b>	<b>1,563.082</b>	<b>-7.662</b>	<b>-0.5%</b>
<b>Special Services</b>	<b>1,546.107</b>	<b>1,538.565</b>	<b>-7.542</b>	<b>-0.5%</b>
<b>Other Variable Costs</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>---</b>
<b>Attributable Costs</b>	<b>41,301.305</b>	<b>40,726.522</b>	<b>-574.783</b>	<b>-1.4%</b>
<b>Total Other Costs</b>	<b>28,031.846</b>	<b>27,895.105</b>	<b>-136.741</b>	<b>-0.5%</b>
<b>Prior Years Loss Recovery</b>	<b>311.709</b>	<b>311.709</b>	<b>0.000</b>	<b>0.0%</b>
<b>Total Costs</b>	<b>69,644.860</b>	<b>68,933.336</b>	<b>-711.524</b>	<b>-1.0%</b>

  

Volume Variable Cost per Piece (Dollars per Piece)			
	Proposed R2000-1	Alternate Proposal	
First-Class Letters and Flats - Single P	0.2565	0.2565	
First-Class Letters and Flats - Presort	0.1082	0.1062	
First-Class Cards - Single Piece	0.2308	0.2308	
First-Class Cards - Private Presort	0.0651	0.0651	
Standard Regular	0.1589	0.1589	
Standard Regular Enhanced Carrier R	0.0801	0.0801	
			Balanced Cost Reduction Contingency
			-0.00200
			2.0%

Costs are cost per piece multiplied by volume for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are set at the levels expected by the Postal Service in R2000-1 Proposed.



Balanced Cost Reduction Model

	<u>Proposed R2000-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R2000-1 Difference</u>
First-Class Letters and Flats - Single Piece	0.3442	0.3442	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2200	-0.010
First-Class PRM and QBRM Letters	0.3100	0.3100	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3197	0.3197	0.000
Automated Basic Letters	0.2794	0.2734	-0.006
Automated Basic Flats	0.2440	0.2440	0.000
Automated 3-Digit Letters	0.2711	0.2621	-0.009
Automated 5-Digit Letters	0.2531	0.2451	-0.008
Automated 3/5-Digit Flats	0.2773	0.2773	0.000
Automated Carrier-Route Letters	0.2480	0.2480	0.000
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.1740	-0.056
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.2175	-0.013
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2200	-0.010
First-Class Stamped Cards	0.2106	0.2106	0.000
First-Class PRM and QBRM Cards	0.1805	0.1805	0.000
First-Class Private Cards			
Single Piece Cards at Cards Rates	0.2106	0.2106	0.000
Single Piece Cards at Letter Rates	0.3410	0.3410	0.000
Nonautomated Presort Cards	0.1900	0.1900	0.000
Automated Basic Cards	0.1740	0.1740	0.000
Automated 3-Digit Cards	0.1670	0.1670	0.000
Automated 5-Digit Cards	0.1540	0.1540	0.000
Automated Carrier-Route Cards	0.1490	0.1490	0.000
Standard Single Piece			
Standard Regular			
Nonautomated Basic Letters	0.2420	0.2466	0.005
Nonautomated Basic Nonletters	0.2341	0.2375	0.003
Nonautomated Presort Letters	0.2139	0.2226	0.009
Nonautomated Presort Nonletters	0.1598	0.1655	0.006
Automated Basic Letters	0.2000	0.2091	0.009
Automated Basic Flats	0.1971	0.2038	0.007
Automated 3-Digit Letters	0.1830	0.1960	0.013
Automated 5-Digit Letters	0.1620	0.1749	0.013
Automated 3/5-Digit Flats	0.1487	0.1575	0.009
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0413	0.0413	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1630	0.1676	0.005
Basic Letters	0.1750	0.1796	0.005
Basic Nonletters	0.1180	0.1211	0.003
High-Density Letters	0.1068	0.1100	0.003
High-Density Nonletters	0.0371	0.0382	0.001
Saturation Letters	0.0978	0.1009	0.003
Saturation Nonletters	0.0550	0.0567	0.002
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0365	0.0365	0.000
Standard Nonprofit	0.1351	0.1351	0.000
Standard Nonprofit Enhanced Carrier Route	0.0926	0.0926	0.000

Updated revenue per piece for Proposed R2000-1 is taken from Lr-1436 FCM\_HybRev.xls and WPI\_Hyb.xls. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 15).

Balanced Cost Reduction Model

Proposed R2000- Alternate	↓ Proposal	Additional Ounces Charged for as a Percentage of First Ounces is Obtained from R2000-1 LR-1-91 revised 3/1/00 and LR-1-92
36.56%	36.58%	First-Class Single Piece
	3.58%	First-Class Workshared
	1.00%	Second Ounce
	0.75%	Third Ounce
	0.75%	Standard Regular
	52.90%	Standard Enhanced Carrier Route
	34.71%	Third Ounce
	106.54%	Standard Enhanced Carrier Route
	63.91%	Second Ounce
	46.99%	Third Ounce
	136.43%	Additional Ounces Charged for as a Percentage of First Ounces is Obtained from R2000-1 LR-1-91 revised 3/1/00 and LR-1-92



## Balanced Cost Reduction Model

ABA&NAPM-ST-1  
 Technical Appendix BCR.2  
 Page 16

	<u>Proposed R2000-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R2000-1 Difference</u>
<b>First-Class</b>			
Nonautomated Presort	0.020	0.020	0.000
Automated Basic Letters	0.060	0.066	0.006
Automated Basic Flats	0.030	0.030	0.000
Automated 3-Digit Letters	0.069	0.078	0.009
Automated 5-Digit Letters	0.087	0.095	0.008
Automated 3/5-Digit Flats	0.063	0.063	0.000
Automated Carrier-Route Letters	0.092	0.092	0.000
Second Ounce	0.000	0.046	0.046
Third Ounce	0.046	0.046	0.000
<b>First Class Cards</b>			
Nonautomated Presort	0.020	0.020	0.000
Automated Basic	0.036	0.036	0.000
Automated 3-Digit	0.043	0.043	0.000
Automated 5-Digit	0.056	0.056	0.000
Automated Carrier-Route	0.061	0.061	0.000
<b>Standard Regular</b>			
Nonautomated Presort Letters	0.017	0.012	-0.005
Nonautomated Presort Nonletters	0.053	0.048	-0.005
Automated Basic Letters	0.042	0.037	-0.005
Automated Basic Flats	0.044	0.039	-0.005
Automated 3-Digit Letters	0.032	0.027	-0.005
Automated 5-Digit Letters	0.053	0.048	-0.005
Automated 3/5-Digit Flats	0.027	0.022	-0.005
BMC Destination Entry Discount	0.017	0.012	-0.005
SCF Destination Entry Discount	0.022	0.017	-0.005
DDU Destination Entry	0.028	0.023	-0.005

ABA&NAPM-ST-2

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

Docket No. R2000-1

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POSTAL RATE, FEE AND CLASSIFICATION CHANGES, 2000)  
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RESPONSIVE TESTIMONY TO AUGUST 25, 2000, POSTAL SERVICE  
SUPPLEMENTAL RESPONSE TO POR 116  
OF  
JAMES A. CLIFTON  
ON BEHALF OF  
AMERICAN BANKERS ASSOCIATION  
NATIONAL ASSOCIATION OF PRESORT MAILERS

August 30, 2000

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**EXHIBIT**

**Exhibit A**

Refined Methodology Cost Avoidance  
for First Class Workshared Mail  
Based on LR-I-477

1 I. There are Many Questions and Concerns About the Postal Service's August 25<sup>th</sup>  
2 "Supplementary Response" to POR 116, But No Opportunity for Discovery or  
3 Oral Cross Examination  
4  
5

6 On August 25<sup>th</sup>, the Postal Service filed USPS LR-I-477 and 481, which include a re-  
7 estimation of mail processing cost avoidances for First Class workshared mail.  
8 ABA&NAPM filed a motion on August 28<sup>th</sup> to strike this information together with the  
9 Postal Service's accompanying supplementary response. Its preferred position is for  
10 reasons stated in the motion to not allow this information into evidence as part of the  
11 record.  
12

13 However, as of the evening of August 29, 2000, the Commission has not ruled on the  
14 ABA&NAPM motion. Therefore, I have prepared this responsive testimony to the Postal  
15 Service's supplementary response in the event the Commission rules that that evidence be  
16 allowed into the record. This testimony has been prepared without any discovery, without  
17 the benefit of any informal technical conferences, and without any oral cross examination  
18 on the library references mentioned above. As noted in the revised testimony of MMA  
19 witness Bentley dated 8/29/00, the Postal Service's supplementary response is full of  
20 problems. The absence of criticism in this responsive testimony should not be taken to  
21 mean I agree with it. Rather, I take it at face value, and make two key points in what  
22 follows.  
23

24 First, this is not the Postal Service's "final product" in a long line of revisions to its 1294  
25 revisions. Rather, this document creates a scenario where one must look at the range of  
26 cost avoidances between the revised version of LR-I-467 (dated August 21) and the  
27 August 25<sup>th</sup> numbers in LR-I-477. Second, when I take the mid-point of this **range**, my  
28 cost avoidances are similar to those I originally estimated on May 22<sup>nd</sup> in ABA&NAPM-  
29 T-1 before the start of the 1294 revisions process.  
30

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1  
2 II. The Postal Service's Preferred "Solution" to One Non-Automation Presort  
3 Cost Problem-- Robbing Peter to Pay Paul—is Arbitrary and Contradicts  
4 Its Own Confession of Ignorance on August 14<sup>th</sup>  
5  
6

7 On August 25, 2000, the Postal Service submitted its third revision to USPS witness  
8 Miller's Appendix I of USPS-T-24 since July 21<sup>st</sup>. The "Supplemental Response of the  
9 United States Postal Service to Presiding Officer's Ruling No. R2000-1\116" states that if  
10 the Service is "forced to rely on FY1999 data", the cost avoidances shown in LR-I-477 as  
11 filed with the supplemental response "are more appropriate for rate design purposes."  
12 The Postal Service further claims that in regard to the completion of LR-I-477,  
13 "[e]xamination of these materials reveals that the most noticeable shifts in FY 1999  
14 results relative to FY 1998, which were hypothesized in the earlier response to be the  
15 effects of the IOCS methodological change, in fact appear to be absent (in both the Postal  
16 Service and PRC versions) when the FY 1998 IOCS methodology is applied to the FY  
17 1999 analysis."  
18

19 The latter statement by the Postal Service is preposterous and the former statement on  
20 cost avoidance preferences is entirely arbitrary insofar as the record is concerned. The  
21 new cost avoidance measures, unlike any other evidence introduced throughout the 1294  
22 revisions process, introduce substantially lower estimates of cost avoidance for a First  
23 Class basic automation letter, and substantially higher estimates of cost avoidance for a  
24 First Class non-automation presort letter, one half cent lower for basic automation, one  
25 half cent higher for non-automation presort than the Postal Service's original case. For  
26 the Postal Service to claim as the bell is ringing mid-night on this rate case that major  
27 shifts in cost avoidance are "absent" in the new data shows a lot of "chutzpah".  
28

29 In its August 14<sup>th</sup> response to Commissioner LeBlanc's query at the August 3<sup>rd</sup> hearings,  
30 the Postal Service admitted at page 6 that it really could not judge whether the FY 1999  
31 IOCS methodology or the FY 1998 methodology produced more accurate results for  
32 allocating 9 digit barcodes between automation and nonautomation IOCS tallies.  
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We are unable to determine the potential magnitudes of either the understatement of the FY1998 Nonautomation costs or the overstatement of the FY 1999 Nonautomation costs as discussed below.

The same statement must now apply to the estimation of cost avoidances for automation rate categories, and the evidence on cost avoidance per the 1294 revisions can now only revert to a range of results rather than one set of point estimates, as the Postal Service would like us to believe. Importantly, the Commission must understand that the Postal Service's preference for one extreme end of this range is entirely arbitrary and is not supported in the least by what it stated in its August 14<sup>th</sup> response. By contrast, in Table One, below, I present the range of cost avoidances for my refined USPS methodology that follow from the 1294 revisions and the uncertainty created by the change in IOCS methodology.

III. The Midpoints of the Cost Avoidances from the Two IOCS Methods are Close to My Original Cost Avoidances, and My Rate and Discount Recommendations Remain Unchanged.

The evidence submitted on August 25<sup>th</sup> in USPS LR-I-477 does not persuade me to change my recommended rates and discounts in ABA&NAPM-T-1 for the following reasons. First, since there is no a priori reason to accept one end versus the other of this range, one can take the mid-point of 6.448 cents for cost avoidance for a basic automation letter as the starting point. Second, when I add to that balanced cost reductions of 0.2 cents, I arrive at cost avoidance of 6.648 cents, close to my original figure of 6.575 cents.<sup>1</sup>

Using the same midpoint method as for basic automation cost avoidance, I arrive at a cost avoidance of 1.056 cents for a 3-digit presort prebarcoded letter and a cost avoidance of

---

<sup>1</sup> As applied to modeled costs, the balanced cost reductions mainly impact the basic automation rate category cost avoidance.

1 1.332 cents for a 5-digit presort prebarcoded letter. These are close to my original  
 2 estimates in ABA&NAPM-T-1 of 1.085 cents and 1.370 cents, respectively.

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**Table One**

ABA&NAPM Cost Avoidance Ranges Per 1294 Revisions

	<u>MP</u>	<u>D</u>	<u>MP + D</u>	<u>Cost Avoidance</u>
<u>Lower Range:</u>				
<u>L.R. -I-477, 8/25/00</u>				
First Class Letters				
Metered	10.465	5.410	15.875	-----
Basic Automation	5.438	4.308	9.746	6.129
3D Auto	4.439	4.191	8.630	1.116
5D Auto	3.225	4.002	7.227	1.403
<u>Upper Range:</u>				
<u>L.R.-I- 467, 8/21/00</u>				
First Class Letters				
Metered	10.465	5.410	15.875	-----
Basic Automation	4.799	4.308	9.107	6.768
3D Auto	3.920	4.191	8.111	0.996
5D Auto	2.849	4.002	6.851	1.260

10

Source: Exhibit B, Exhibit A Revised with errata, ABA&NAPM-ST-1.

**Exhibit A**

**Table A1**

**Rate Category Unit Cost Estimation Based on R2000-1 Methodology  
And Cost Pool Classification Refinements  
(Cents)**

Rate Category	Col 1 R2000-1 Model Costs	Col 2 BY99 Volume (000)	Col 3 Volume Weights	Col 4 Weighted Model Costs	Col 5 Refined Proportional Adjustment	Col 6 Refined Proportional Unit Costs	Col 7 Refined Fixed Unit Costs	Col 8 Refined Total Mail Processing Unit Costs
	1/	2/	3/	4/	5/	6/	7/	8/
Automation Basic Presort	4.189	5,022,276	0.135	0.565	0.976	4.088	1.350	5.438
Automation 3-Digit Presort	3.165	20,721,667	0.558	1.766	0.976	3.089	1.350	4.439
Automation 5-Digit Presort	1.755	7,699,788	0.207	0.363	0.976	1.713	1.350	3.063 *
Automation 5-Digit CSBCS	2.268	3,668,568	0.099	0.224	0.976	2.214	1.350	3.564 *
<b>Total</b>		<b>37,112,299</b>		<b>2.918</b>				
								* The Automation 5-Digit and 5-Digit CSBCS Volume Weighted Average Combined is 3.225

1/ Rate categories model costs are from Table A4.  
 2/ BY volumes are from the LR-I-420, Excel file LR20p2a.xls, page I-5  
 3/ Each volume in Col2 is divided by the total volume  
 4/ Each volume weight in Col3 is multiplied by the corresponding unit costs in Col1  
 5/ Obtained by dividing the worksharing related proportional refined total unit cost (2.847) from Col4 in Table A2 by the total weighted model cost (2.918) from Col4 above  
 6/ Proportional adjustment in Col5 multiplied R2000-1 model cost in Col1  
 7/ Fixed adjustment is the refined total unit cost for worksharing related (fixed) from Col7 in Table A2  
 8/ Sum of Col6 and Col7

**Table A2**

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)  
Automation Non-Carrier Route Presort  
Refined R2000-1 Methodology**

Cost Pool No.	Source	Cost Pool Abbreviation	Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks	Col 2 R2000-1 Refined Worksharing Related (Proportional) Cost Pools	Col 3 R2000-1 Refined Worksharing Related (Fixed) Cost Pools	Col 4 R2000-1 Refined Worksharing Related (Proportional) Mail Processing Unit Costs	Col 5 R2000-1 Refined Worksharing Related (Fixed) Mail Processing Unit Costs	Col 6 R2000-1 Combined Refined Worksharing Related Mail Processing Unit Costs
			1/					
1	BMCS	NMO	0.000					
2	BMCS	OTHR	0.000					
3	BMCS	PLA	0.000					
4	BMCS	PSM	0.000					
5	BMCS	SPB	0.000					
6	BMCS	SSM	0.000					
7	MODS	BCS/	1.201	X		1.201		1.201
8	MODS	OCR/	0.087	X		0.087		0.087
9	MODS	FSM/	0.018					
10	MODS	LSM/	0.007	X		0.007		0.007
11	MODS	MECPARC	0.000					
12	MODS	SPBS OTH	0.004	X		0.004		0.004
13	MODS	SPBSPRIO	0.001					
14	MODS	1SACKS M	0.013	X		0.013		0.013
15	MODS	MANF	0.004					
16	MODS	MANL	0.305	X		0.305		0.305
17	MODS	MANP	0.001					
18	MODS	PRIORITY	0.002					
19	MODS	LD15	0.151	X		0.151		0.151
20	MODS	1BULKPR	0.007		X		0.007	0.007
21	MODS	1CANCMMP	0.026	X		0.026		0.026
22	MODS	1OPBULK	0.073		X		0.073	0.073
23	MODS	1OPREF	0.246		X		0.246	0.246
24	MODS	1PLATFRM	0.304		X		0.304	0.304
25	MODS	1POUCHING	0.139		X		0.139	0.139
26	MODS	1SACKS H	0.046		X		0.046	0.046
27	MODS	1SCAN	0.015					
28	MODS	BUSREPLY	0.004					
29	MODS	EXPRESS	0.001					
30	MODS	MAILGRAM	0.000					
31	MODS	REGISTRY	0.001					
32	MODS	REWRAP	0.002	X		0.002		0.002
33	MODS	1EEQMT	0.009		X		0.009	0.009
34	MODS	INTL	0.003		X		0.003	0.003
35	MODS	LD41	0.055	X		0.055		0.055
36	MODS	LD42	0.000	X		0.000		0.000
37	MODS	LD43	0.144	X		0.144		0.144
38	MODS	LD44	0.072	X		0.072		0.072
39	MODS	LD48 EXP	0.000					
40	MODS	LD48 SSV	0.014					
41	MODS	LD49	0.251		X		0.251	0.251
42	MODS	LD79	0.021		X		0.021	0.021
43	MODS	1SUPP F1	0.041		X		0.041	0.041
44	MODS	1SUPP F4	0.082	X		0.082		0.082
45	NONMODS	ALLIED	0.210		X		0.210	0.210
46	NONMODS	AUTO/MECH	0.210	X		0.210		0.210
47	NONMODS	EXPRESS	0.000					
48	NONMODS	MANF	0.001					
49	NONMODS	MANL	0.399	X		0.399		0.399
50	NONMODS	MANP	0.000					
51	NONMODS	MISC	0.089	X		0.089		0.089
52	NONMODS	REGISTRY	0.001					
<b>Refined Total Unit Cost</b>			<b>4.261</b>			<b>2.847</b>	<b>1.350</b>	<b>4.196</b>

1/ Cost pools are from Col6 of Table 9 in WP1.

Table A2.1

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)**  
**Automation Non-Carrier Route Presort**  
**Refined R2000-1 Methodology**

Cost Pool No.	Source	Cost Pool Abbreviation	Col 1	Col 2
			Revised CRA Mail Processing Direct Costs with Original Piggybacks	Adjustments To CRA Mail Processing Unit Costs
			1/	2/
1	BMCS	NMO	0.000	
2	BMCS	QTHR	0.000	
3	BMCS	PLA	0.000	
4	BMCS	PSM	0.000	
5	BMCS	SPB	0.000	
6	BMCS	SSM	0.000	
7	MODS	BCS/	1.201	
8	MODS	OCR/	0.087	
9	MODS	FSM/	0.018	
10	MODS	LSM/	0.007	
11	MODS	MECPARC	0.000	
12	MODS	SPBS OTH	0.004	
13	MODS	SPBSPRIO	0.001	
14	MODS	1SACKS M	0.013	
15	MODS	MANF	0.004	
16	MODS	MANL	0.305	
17	MODS	MANP	0.001	
18	MODS	PRIORITY	0.002	
19	MODS	LD15	0.151	-0.030
20	MODS	1BULKPR	0.007	
21	MODS	1CANCMMP	0.026	
22	MODS	1OPBULK	0.073	
23	MODS	1OPREF	0.246	-0.010
24	MODS	1PLATFRM	0.304	
25	MODS	1POUCHING	0.139	
26	MODS	1SACKS H	0.046	
27	MODS	1SCAN	0.015	
28	MODS	BUSREPLY	0.004	
29	MODS	EXPRESS	0.001	
30	MODS	MAILGRAM	0.000	
31	MODS	REGISTRY	0.001	
32	MODS	REWRAP	0.002	
33	MODS	1EEQMT	0.009	
34	MODS	INTL	0.003	
35	MODS	LD41	0.055	
36	MODS	LD42	0.000	
37	MODS	LD43	0.144	-0.030
38	MODS	LD44	0.072	-0.020
39	MODS	LD48 EXP	0.000	
40	MODS	LD48 SSV	0.014	
41	MODS	LD49	0.251	-0.040
42	MODS	LD79	0.021	
43	MODS	1SUPP F1	0.041	
44	MODS	1SUPP F4	0.082	-0.030
45	NONMODS	ALLIED	0.210	-0.020
46	NONMODS	AUTO/MECH	0.210	
47	NONMODS	EXPRESS	0.000	
48	NONMODS	MANF	0.001	
49	NONMODS	MANL	0.399	
50	NONMODS	MANP	0.000	
51	NONMODS	MISC	0.089	-0.020
52	NONMODS	REGISTRY	0.001	
Refined Total Unit Cost			<b>4.261</b>	<b>-0.200</b>

1/ Cost pools are from Col 6 of Table 9 in WP1.

2/ Adjustments are based on "breakthrough productivity" which brings the unit costs into line with Standard (A) Regular Automation for 8 cost pools, except in the case of the case of MODS LD79 which is brought in line with Standard (A) Regular Nonautomation.

**Table A3**

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)  
Single Piece Metered Letters  
Refined R2000-1 Methodology**

Cost Pool	Cost Pool	Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks	Col 2 R2000-1 Refined Worksharing Related (Proportional) Cost Pools	Col 3 R2000-1 Refined Worksharing Related (Fixed) Cost Pools	Col 4 R2000-1 Refined Worksharing Related (Proportional) Units Costs	Col 5 R2000-1 Refined Worksharing Related (Fixed) Unit Costs	Col 6 R2000-1 Combined Worksharing Related Unit Costs
No.	Source Abbreviation						
		1/					
1	BMCS NMO	0.000					
2	BMCS OTHR	0.001					
3	BMCS PLA	0.000					
4	BMCS PSM	0.000					
5	BMCS SPB	0.001					
6	BMCS SSM	0.000					
7	MODS BCS/	1.986	X		1.986		1.986
8	MODS OCR/	0.630	X		0.630		0.630
9	MODS FSM/	0.059					
10	MODS LSM/	0.022	X		0.022		0.022
11	MODS MECPARC	0.001					
12	MODS SPBS OTH	0.012	X		0.012		0.012
13	MODS SPBSPRIO	0.001					
14	MODS 1SACKS M	0.036	X		0.036		0.036
15	MODS MANF	0.013					
16	MODS MANL	1.545	X		1.545		1.545
17	MODS MANP	0.002					
18	MODS PRIORITY	0.005					
19	MODS LD15	0.705	X		0.705		0.705
20	MODS 1BULKPR	0.008		X		0.008	0.008
21	MODS 1CANCMMMP	0.310	X		0.310		0.310
22	MODS 1OPBULK	0.161		X	0.161		0.161
23	MODS 1OPPREF	0.483		X	0.483		0.483
24	MODS 1PLATFRM	0.760		X	0.760		0.760
25	MODS 1POUCHING	0.349		X	0.349		0.349
26	MODS 1SACKS H	0.107		X	0.107		0.107
27	MODS 1SCAN	0.034					
28	MODS BUSREPLY	0.011					
29	MODS EXPRESS	0.005					
30	MODS MAILGRAM	0.000					
31	MODS REGISTRY	0.012					
32	MODS REWRAP	0.010	X		0.010		0.010
33	MODS 1EEQMT	0.022		X		0.022	0.022
34	MODS INTL	0.008		X		0.008	0.008
35	MODS LD41	0.086	X		0.086		0.086
36	MODS LD42	0.000	X		0.000		0.000
37	MODS LD43	0.382	X		0.382		0.382
38	MODS LD44	0.205	X		0.205		0.205
39	MODS LD48 EXP	0.000					
40	MODS LD48 SSV	0.021					
41	MODS LD49	0.277		X		0.277	0.277
42	MODS LD79	0.009		X		0.009	0.009
43	MODS 1SUPP F1	0.114		X		0.114	0.114
44	MODS 1SUPP F4	0.319	X		0.319		0.319
45	NONMOALLIED	0.434		X		0.434	0.434
46	NONMOAUTO/MECH	0.354	X		0.354		0.354
47	NONMOEXPRESS	0.000					
48	NONMOMANF	0.003					
49	NONMOMANL	0.941	X		0.941		0.941
50	NONMOMANP	0.002					
51	NONMOMISC	0.190	X		0.190		0.190
52	NONMOMREGISTRY	0.023					
	<b>Total Unit Costs</b>	<b>10.659</b>			<b>9.593</b>	<b>0.872</b>	<b>10.465</b>

1/ Cost Pools are from Col3 of Table 9 in WP1.

**Table A4****Original and Revised  
Model Costs (Cents)**

Rate Category	Model Cost (Cents)			
	Original with Piggybacks	Revised with no Piggybacks	Revised with Original Piggybacks	Revised with New Piggybacks
	1/	2/	3/	4/
FC Automation Basic	4.093	2.301	4.154	4.189
FC Automation 3 Digit	3.093	1.742	3.139	3.165
FC Automation Other	1.719	0.887	1.745	1.755
FC Automation 5 Digit CSBCS	2.206	1.321	2.238	2.268

1/ From LR-I-162, Excel file Appi.xls, pages I-24, I-26, I-28, & I-30.  
2/ From LR-I-420, Excel file, LR420p2a.xls, pages I-24, I-26, I-28, & I-30.  
3/ For each rate category, the original piggyback factors from LR-I-162, were applied to the revised direct costs sheet and the model costs were recalculated.  
4/ From LR-I-467, Revised 8/21/00.

1 MR. HART: Thank you, Mr. Chairman. And with your  
2 permission, I would also ask if Mr. Warden could be the  
3 first chair for the rest of this examination of Mr. Clifton?

4 CHAIRMAN GLEIMAN: Most certainly.

5 MR. HART: Thank you.

6 CHAIRMAN GLEIMAN: Two parties have requested oral  
7 cross examination -- three parties, actually: Direct  
8 Marketing Association, Association of Postal Commerce, and  
9 the United States Postal Service. However, we were informed  
10 that DMA would not have any cross examination.

11 Before cross examination begins, please do not  
12 construe what I'm going to say as a reflection on either the  
13 witness or the cross examiners, and certainly not on the  
14 importance of the Supplemental Testimony, but chalk it up to  
15 the hour and the fact that we have a long and difficult day  
16 tomorrow.

17 I would make a request that you make an extra  
18 special effort, because I know that everyone always makes an  
19 effort to do so, to keep the cross examination and the  
20 responses as complete as possible, but also as crisp and  
21 brief as possible.

22 I can't promise you that it gets you any higher in  
23 heaven or gets you a better view when we look at the  
24 evidentiary record, but I personally would appreciate it,  
25 and I suspect my colleagues and others who have to be in the

1 hearing room at 8:30 tomorrow morning would also.

2 With that, unless there is someone else who wants  
3 to cross examine, Mr. Wiggins, you're on.

4 CROSS-EXAMINATION

5 BY MR. WIGGINS:

6 Q Dr. Clifton, at page 8 of your testimony, there  
7 appears a section heading that reads as follows, "Increased  
8 cost reduction efforts from 'breakthrough productivity' in  
9 the 12/94 revisions are laudable, but the allocation of them  
10 in the roll-forward exhibits a clear-cut bias against First  
11 Class workshared mail." And that is sort of central theme  
12 through at least this portion of your testimony, is it not?

13 A I have a difference page 8 apparently, Mr.  
14 Wiggins, but I think that is the gist of it.

15 Q It has most of those same words in it, does it  
16 not?

17 A Yes.

18 Q Okay. Good. So that is an articulation of what  
19 you perceive to be a problem. Now, the question is, how do  
20 you perfect the cure? What do you propose to do to resolve  
21 this problem that you have isolated for us?

22 A I don't propose to reduce any of the breakthrough  
23 productivity initiatives for Standard A mail or First Class  
24 single piece mail. I simply propose that the Postal Service  
25 make a balanced effort to include First Class workshared

1 mail and its productivity enhancements, what I call balanced  
2 cost reductions.

3 Q Let me make sure I have got it. The Postal  
4 Service has proposed to reduce certain rates -- certain  
5 charges in order to reflect their breakthrough productivity,  
6 correct? And you don't quarrel with that?

7 A I am not aware that they have proposed to reduce  
8 any rates. I am aware that they have proposed to reduce  
9 certain cost pools.

10 Q I am sorry, that is absolutely --

11 A Certain costs.

12 Q Yeah, I misspoke. That is absolutely correct.  
13 And you don't quarrel with the Postal Service's reduction of  
14 those cost pools, do you?

15 A No, I think in general it is worthwhile to reduce  
16 costs wherever you can.

17 Q Indeed, you propose in your testimony to reduce  
18 some additional costs, do you not?

19 A That's correct.

20 Q And those are reflected, for example, in Table A2,  
21 and I may have the wrong version of this, but --

22 A Table A2.1.

23 Q Okay. A2.1 shows the cost pools that you are  
24 proposing to reduce, is that right?

25 A Yes, sir.

1 Q And you are proposing a total reduction of .20  
2 cents, is that correct?

3 A Two-tenths of a cent.

4 Q Two-tenths of a cent.

5 A Yes, sir.

6 Q And those are split among, and let me just go  
7 through with you, Dr. Clifton, and you can help me to  
8 understand what these reductions represent in the real  
9 Postal world perhaps. Do you have that exhibit handy?

10 A I am looking for it.

11 MR. WIGGINS: Sure.

12 COMMISSIONER LeBLANC: Mr. Wiggins, if it would  
13 help to clear the record, what are you reading from  
14 specifically?

15 MR. WIGGINS: I am reading from ABA-NAPM-ST-2,  
16 Exhibit A, Table A2.1.

17 COMMISSIONER LeBLANC: Thank you.

18 BY MR. WIGGINS:

19 Q I'm sorry. Do I have the wrong version of here?

20 A No, these tables are identical in terms of the  
21 cost reductions.

22 Q Yeah, I thought as much. Yeah. The first one, I  
23 am just going down the list, is something called MODS LD15,  
24 for which you propose a reduction of .03 cents. Can you  
25 tell me what that is?

1           A     Not without my definitions. Mr. Miller has  
2 provided earlier in this proceeding the definitions of each  
3 of these cost pools. I do not have them with me tonight, so  
4 I can not provide that level of detail. I did look at that  
5 level of detail before I selected this.

6           Q     Can I ask you what, sort of at a higher level of  
7 generality, what the general selection precept was, what was  
8 the theory?

9           A     Sure. Certainly. I think it is clearly stated in  
10 the testimony, Mr. Wiggins. But the selection criterion  
11 was, as I observed the changes in cost pools between the  
12 Postal Service's original case and the 12/94 revisions, the  
13 cost reductions for Standard A that were made by cost pool  
14 were made on the basis of bringing down several of those  
15 cost pools to their First Class automation mail  
16 counterparts, but the Postal Service, in its cost reduction  
17 efforts, did not appear to do the reverse, to bring the unit  
18 costs for First Class workshared mail down to the Standard A  
19 counterparts, where they were higher in the initial case.

20                     It appears to me that that was the Postal  
21 Service's selection rule, because it is a very clear pattern  
22 in here, and we simply proposed to balance that out by doing  
23 for First Class what was done -- workshared what was done  
24 for Standard A workshared.

25           Q     So that when I look at something like LD15, which

1 is the first example, and you are proposing that that number  
2 be reduced by .03 cents, that proposal doesn't purport to be  
3 a reflection of a real historical economy, does it, Dr.  
4 Clifton?

5 A No, none of these cost reductions or breakthrough  
6 productivity initiatives are reflections of history. They  
7 were described as managerial goals in the Fiscal 2001  
8 Operating Budget.

9 Q And you are proposed some additional managerial  
10 goals for the Postal Service here, is that correct?

11 A Yes.

12 Q You are saying, Postal Service, go out and achieve  
13 these economies?

14 A Yes.

15 Q Do what you have to?

16 A Yes.

17 Q To achieve these economies. Otherwise, what  
18 happens?

19 A What happens otherwise is I think, again, I think  
20 stated clearly in my testimony, what happens otherwise is  
21 that the Postal Service's allocation of efforts and cost  
22 reductions is skewed towards Standard A mail and First Class  
23 single piece mail, and gives short shrift to First Class  
24 workshared mail. It seems to us that it is in the Postal  
25 Service's interest, as well as the interest of my clients,

1 to devote a fair share of cost reduction initiatives to  
2 First Class workshared mail, given the importance of that  
3 program to Postal finances, the high cost coverages, the  
4 high institutional cost contributions that First Class  
5 workshared mail makes. So we propose balanced cost  
6 reductions.

7

8 Q You've looked at the overall plan of the Postal  
9 Service and found that they come up wanting in application  
10 to First Class mail and you have said Postal Service, make  
11 some managerial adjustments over here too. Is that fair?

12 A Balance it out, yes.

13 Q And if the Postal Service, which doesn't really  
14 have a plan I take it, Dr. Clifton, for accomplishing these  
15 cost reductions, that you would impose on them -- they  
16 haven't thought about that?

17 A It is not clear that the Postal Service from  
18 testimony provided in connection with the 1294 revisions  
19 process, it is not clear that they have a managerial plan  
20 for any of these cost reductions, not just the ones I  
21 proposed. There are managerial goals and if a fiscal year  
22 2001 operating budget had been provided to the Commission,  
23 which we learned today it's not going to be because it  
24 doesn't exist, maybe we could have gotten some details of  
25 how they would plan to achieve these for First Class single

1 piece and Standard A regular.

2 If I had had that information I might have been  
3 able to be more responsive to you in terms of how to achieve  
4 these goals.

5 We are simply saying if you want to reduce costs  
6 for some kinds of workshared mail and in First Class single  
7 piece mail, you ought to give equal attention to First Class  
8 workshared mail.

9 Q And what happens, Dr. Clifton, if the Postal  
10 Service can't figure out how to accomplish these economies  
11 that you are proposing for it?

12 A Well, then you would not be able to achieve those  
13 cost reductions, but the same would be true for any of the  
14 cost reductions proposed.

15 Q And if you are not able to achieve those cost  
16 reductions you are not going to achieve break-even? You  
17 will lose money.

18 A What do you mean by break-even, Mr. Wiggins?

19 Q Well, there are certain economies posited in your  
20 testimony, right, Dr. Clifton?

21 A There are certain economies posited in my  
22 testimony, yes, that are used to effect, to achieve a test  
23 year balance --

24 Q Right.

25 A -- in overall postal financial

1 Q Exactly.

2 A I think that is where you are going.

3 Q Precisely right. That is what your, not your  
4 technical appendix but your break-even, your two break-even  
5 BRC-1 and BRC-2 -- what are they called?

6 A Those are the technical appendices.

7 Q Okay.

8 A That is where we used the --

9 Q That is where you take your analysis down to a  
10 rate level, correct?

11 A Yes.

12 Q Okay, and if you are not able to achieve the  
13 economies you propose, you are not going to achieve -- well,  
14 I think you just said it. You are not going to break even.  
15 You are not going to net out at where your technical  
16 appendices propose to take you, is that correct?

17 A Yes, with the caveat that that would be true for  
18 any of the cost reduction initiatives proposed in the 1294  
19 process, those for Standard A, those for First Class single  
20 piece, as well as the ones I propose.

21 Q Sure. No, no, I understand that. Say for all of  
22 us just very quickly the difference in the assumptions  
23 between the two different technical appendix presentations.

24 A The first one really just factors in the balanced  
25 cost reductions along with all the other 1294 revisions.

1           We had to go back and redo a lot of the model in  
2 terms of data inputs connected with the new roll-forwards.

3           We do not attempt in that exercise to achieve a  
4 test year balance in overall postal finances. We don't in  
5 that one propose to change the recommended cost coverage for  
6 Standard A mail, whereas in the second appendix we do try to  
7 balance the Postal Service's books in the test year.

8           Q     Did you accomplish that?

9           A     We accomplished that by a modest reduction in the  
10 contingency from 2.5 to 2 percent and we also factor in  
11 these cost reduction initiatives that I proposed by cost  
12 pool.

13          Q     And do you change the coverage of any class of  
14 mail?

15          A     It is kind of a statistical -- there is a twofold  
16 answer to your question. The Postal Service's 1294  
17 revisions changed cost coverages all over the place.

18                The Postal Service is on the record as saying that  
19 that shouldn't reflect anything but the 1294 process. It  
20 shouldn't reflect that they would necessarily change any of  
21 their rate recommendations.

22                That happens to us as well when we redo our  
23 models, but in addition because with the change in base year  
24 to fiscal '99 the volume variable costs for Standard A  
25 regular mail go down. As a result of that process I reduced

1 the cost coverage that I recommended in my original  
2 testimony for Standard A regular and ECR combined.

3 MR. WIGGINS: Mr. Chairman, I have no further  
4 questions.

5 CHAIRMAN GLEIMAN: Mr. Tidwell, is it true that  
6 you have no cross examination for this witness?

7 MR. TIDWELL: After th first hour of cross on the  
8 cover page of his supplemental testimony I will have  
9 nothing.

10 [Laughter.]

11 MR. TIDWELL: But to accommodate the Chairman I am  
12 going to forego that hour of cross.

13 CHAIRMAN GLEIMAN: And just do a half hour  
14 instead?

15 MR. TIDWELL: We have no questions.

16 CHAIRMAN GLEIMAN: Any follow-up?

17 [No response.]

18 CHAIRMAN GLEIMAN: Would you like some time to  
19 prepare your witness for redirect?

20 MR. WARDEN: Two minutes.

21 CHAIRMAN GLEIMAN: You got it.

22 [Recess.]

23 MR. WARDEN: Mr. Chairman, we have no redirect.

24 CHAIRMAN GLEIMAN: If you have no redirect then it  
25 appears, Dr. Clifton, that that completes your appearance

1 here today and your contributions to our record, at least at  
2 this point. Hopefully we won't have another round, not  
3 because we wouldn't want to hear from you. We just don't  
4 want to have another round.

5 You are excused and we thank you muchly.

6 [Witness excused.]

7 CHAIRMAN GLEIMAN: That concludes today's  
8 proceedings. We will convene tomorrow morning at 8:30, when  
9 we will receive testimony from Witnesses Strasser, Dowling,  
10 Bernheimer, O'Hara, Greene, Bozzo, Neels, and Smith.

11 Everyone should be careful -- what did the  
12 sergeant say on that old New York cop program? Be careful  
13 out there.

14 [Whereupon, at 9:32 p.m., the hearing was  
15 recessed, to be reconvened on Thursday, August 31st at 8:30  
16 a.m.]

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