

POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:

EXPERIMENTAL SUSPENSION
OF FEE FOR MANUAL DELIVERY
CONFIRMATION

)
)
) Docket No. R2001-2
) MC2001-2
)

VOLUME #2

Date: October 23, 2001
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POSTAL RATE COMMISSION

In the Matter of:)	
)	
EXPERIMENTAL SUSPENSION)	Docket No. R2001-2
OF FEE FOR MANUAL DELIVERY)	MC2001-2
CONFIRMATION		

Room 300
 Postal Rate Commission
 1333 H Street, N.W.
 Washington, D.C.

Volume 2
 Tuesday, October 23, 2001

The above-entitled matter came on for hearing pursuant to notice, at 11:03 a.m.

BEFORE:

HON. GEORGE A. OMAS, VICE-CHAIRMAN
 HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
 HON. RUTH Y. GOLDWAY, COMMISSIONER
 HON. W.H. "TREY" LEBLANC, COMMISSIONER

APPEARANCES:

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C O N T E N T S

WITNESSES APPEARING:
DONALD J. O'HARA

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RE CROSS</u>	<u>VOIR DIRE</u>
Donald J. O'Hara	--	--	--	--	--
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P R O C E E D I N G S

(11:03 a.m.)

1
2
3 COMMISSIONER COVINGTON: Good morning to everyone
4 that's assembled here. Today we begin our hearing to
5 receive testimony of the Postal Service in support of its
6 request in Docket Nos. R2001-2 and MC2001-2 for
7 recommendation of an experimental fee suspension for manual
8 delivery confirmation services.

9 At this time I would like to ask if there are any
10 participants who have an issue we should discuss before we
11 proceed.

12 (No response.)

13 COMMISSIONER COVINGTON: Nothing from you, Mr.
14 Heselton? Mr. Tidwell?

15 MR. HESELTON: Commissioner Covington, I'd like to
16 point out that the Postal Service this morning filed three
17 documents, one of them being an appendix to the testimony of
18 Witness O'Hara as a consequence of PRC Order 1327.

19 The Postal Service indicated in its response to
20 the opposition of the United Parcel Service motion for
21 waiver of certain provisions of Rule 54 that it would file
22 an appendix to Witness O'Hara's testimony that had him
23 address the requirements and the conformance of his
24 testimony with Section 3622 of the Postal Reorganization
25 Act, the rate making section.

1 In addition to that document, the Postal Service
2 filed interrogatory responses to UPS Interrogatory Nos. 35
3 through 42 and another response to UPS Interrogatory Nos. 45
4 and 47 through 52.

5 COMMISSIONER COVINGTON: Okay. Mr. McKeever?

6 MR. MCKEEVER: Mr. Commissioner, I would just
7 request if the Postal Service intends to introduce into
8 evidence today the appendix that was filed this morning as
9 part of the direct testimony of Dr. O'Hara or not?

10 MR. HESELTON: Commissioner Covington, I have
11 attached that appendix to the copy of testimony from Mr.
12 O'Hara that I intended to show the witness, so we do intend
13 to include it along with the testimony as pre-filed.

14 COMMISSIONER COVINGTON: Is that satisfactory, Mr.
15 McKeever?

16 MR. MCKEEVER: I did have a brief opportunity, Mr.
17 Commissioner, to review the testimony, and we will not
18 object to its admission at this time.

19 COMMISSIONER COVINGTON: Thank you.

20 The Postal Service has filed the testimony of one
21 witness, who I am assuming is Mr. Donald J. O'Hara, in
22 support of its proposal in this case. A considerable number
23 of interrogatories were directed to Mr. O'Hara between
24 Wednesday, October 17, and the deadline for discovery, which
25 had been set for Friday, October 19.

1 In my Ruling No. 2 establishing the procedural
2 schedule in this case, I directed that written answers to
3 discovery submitted by the close of business on October 17
4 were to be filed with the Commission and served on counsel
5 by 12:00 noon on yesterday. I also ruled that answers to
6 discovery submitted on October 18 and 19 were to be
7 available at the beginning of the hearing today.

8 As we understand, late yesterday afternoon the
9 United States Postal Service submitted responses to a set of
10 interrogatories filed by UPS on October 17, 2001, together
11 with a motion for their late acceptance because they did not
12 arrive by noon on that date. The motion states that copies
13 of the response were transmitted to counsel for UPS by
14 facsimile and e-mail.

15 Mr. McKeever, are you going to be prepared to
16 conduct cross-examination today on the responses that were
17 received yesterday afternoon, or would you prefer to defer
18 cross-examination until tomorrow?

19 MR. MCKEEVER: Mr. Chairman, we will attempt to do
20 cross-examination today, but I would like the opportunity to
21 revisit that subject at the end of day today.

22 I'm unclear I guess which interrogatory numbers
23 we're talking about. If it's the ones that were served
24 yesterday, I guess they're the ones that go through
25 Interrogatory 34 or 35?

1 COMMISSIONER COVINGTON: I'm assuming you're
2 talking about Interrogatories 35 to 42. Is that right, Mr.
3 Heselton?

4 MR. HESELTON: Let me check my records here.

5 MR. O'HARA: Yesterday was I believe through 34.

6 MR. HESELTON: Yesterday we filed responses to 26
7 through 34.

8 MR. MCKEEVER: Mr. Commissioner, we are prepared
9 to proceed with respect to this interrogatory answers today.

10 COMMISSIONER COVINGTON: Okay. Thank you, Mr.
11 McKeever. Very well.

12 Mr. Heselton, are the responses to all other
13 outstanding discovery requests available for use and review
14 by participants today?

15 MR. HESELTON: There were some interrogatories,
16 which are primarily requests for data and more along the
17 line of institutional interrogatories, that we were not able
18 to get prepared for this morning. Specifically, they are
19 Questions 43, 44, 46 and 53 through 56. We're still
20 preparing. We're still gathering the data requested for
21 those responses.

22 COMMISSIONER COVINGTON: Okay. Very well.

23 Mr. McKeever, in light of that what says you?

24 MR. MCKEEVER: Mr. Chairman, it's difficult to
25 respond without seeing the answers or knowing when they are

1 going to be filed. My suggestion would be that when they
2 are filed we then report back to the Commission within a day
3 or two to let the Commission know whether we request the
4 opportunity to conduct cross-examination with respect to
5 them or not.

6 Our hope would be that the answers, especially
7 since they're dated, are such that maybe we would not
8 require cross and instead to the extent that we want to
9 designate them into the record as written cross so that the
10 record is complete that we would be able to do that in
11 paper, or maybe at the hearing when the UPS witness
12 testifies we could stipulate them in.

13 I guess to boil all that down, my suggestion would
14 be that we be given an opportunity of two days after the
15 answers are filed in order to then inform the Commission
16 whether we want cross-examination with respect to them and
17 that we have an opportunity to enter them into the record as
18 additional written cross-examination at some future date if
19 we do not want cross-examination with respect to them.

20 COMMISSIONER COVINGTON: Okay. In light of that,
21 Mr. Heselton, when would or when will the United States
22 Postal Service get those answers filed?

23 MR. HESELTON: Commissioner, I don't have an
24 answer to that question at this point. I think to several
25 of the questions we're on the verge of having the data

1 required.

2 I don't expect that responses to the others are
3 going to take too much longer, but I can't indicate a
4 precise time, only that I would expect certainly by the end
5 of the week at the very latest that we would have the data
6 required for the last response.

7 COMMISSIONER COVINGTON: Mr. McKeever?

8 MR. MCKEEVER: The only comment I have with
9 respect to that, Mr. Commissioner, is I'm concerned about
10 the impact of this on the filing of our direct testimony,
11 which is now scheduled for Monday, October 29.

12 We will endeavor to do everything we can to
13 expedite the proceeding in accordance with the Commission's
14 wishes. However, if we're not receiving some data until the
15 end of this week, it may not be possible for us to submit
16 direct testimony based on that data on the 29th, in which
17 case we may, and I want to emphasize the may because I don't
18 want to prejudge it. I guess we have to see the answers,
19 but we may be in a position where we have no choice but to
20 request some short additional extension of the deadline for
21 us to file our direct testimony so that we can take that
22 data into account when we present our testimony.

23 This is in the nature I guess of a red flag rather
24 than a specific request until we see when the Postal Service
25 files its answers. The sooner it files it, then the better

1 able we might be to meet the original deadline or the
2 existing deadline of October 29, but the later they file it
3 I think it would prejudice our case if we were to be
4 required to file our direct testimony, you know, within a
5 day or so, a working day or so, of the time that data is
6 made available by the Postal Service.

7 COMMISSIONER COVINGTON: Okay, Mr. McKeever.

8 Mr. Heselton, in taking that under consideration I
9 would like to state that what we will probably try to do, in
10 light of the fact that it appears that we will be here for a
11 good part of the day, we'll try to get an update at the
12 close of today's hearing where we're at with what it is that
13 we just discussed, and I'll try to rule on a schedule then
14 as it relates to further proceedings. Is that acceptable?

15 MR. HESELTON: Yes, Mr. Commissioner. Thank you.

16 MR. MCKEEVER: Yes, Mr. Commissioner.

17 COMMISSIONER COVINGTON: Okay. Very well. As I
18 provided in Ruling No. 2, if counsel for parties wishing to
19 conduct oral cross-examination of Mr. Donald J. O'Hara
20 believe it is necessary to take some time to review
21 responses received by this morning that the hearings can
22 continue tomorrow, which would be October 24.

23 If there are no other matters at this time, and
24 I'm assuming counsel are ready, let us proceed. Mr.
25 Heselton, will you call your witness, please?

1 MR. HESELTON: Yes. The Postal Service calls
2 Donald J. O'Hara to the stand.

3 COMMISSIONER COVINGTON: Okay. Having seen Mr.
4 Donald J. O'Hara, Mr. O'Hara, at this time I would like to
5 ask you to stand.

6 Whereupon,

7 DONALD J. O'HARA

8 having been duly sworn, was called as a witness
9 and was examined and testified as follows:

10 COMMISSIONER COVINGTON: Thank you.

11 MR. HESELTON: Commissioner Covington?

12 COMMISSIONER COVINGTON: Mr. Heselton?

13 MR. HESELTON: Counsel for the Postal Service has
14 handed the witness two copies of a document entitled
15 Testimony of Donald J. O'Hara on behalf of the United States
16 Postal Service and designated in this proceeding as
17 USPS-T-1.

18 (The document referred to was
19 marked for identification as
20 Exhibit No. USPS-T-1.)

21 MR. HESELTON: Attached as an appendix to that
22 pre-filed testimony is a document titled Appendix to
23 Testimony of Donald J. O'Hara, USPS-T-1, that I alluded to
24 earlier.

25 Mr. O'Hara, if you were to provide oral testimony

1 on that document before you, would your testimony be the
2 same today as indicated in the document?

3 THE WITNESS: Yes, it would.

4 MR. HESELTON: And has this document been prepared
5 by you or under your direction and control?

6 THE WITNESS: Yes, it has.

7 MR. HESELTON: Commissioner Covington, I move the
8 entry of USPS-T-1 into evidence in this case.

9 COMMISSIONER COVINGTON: Mr. McKeever, are there
10 any objections?

11 MR. MCKEEVER: No objection, Mr. Commissioner.

12 COMMISSIONER COVINGTON: Hearing none, I will
13 direct counsel to provide the reporter with two copies of
14 the testimony of Mr. Donald J. O'Hara and that that
15 testimony will be received into evidence. However, as is
16 our practice here at the Commission, it will not be
17 transcribed.

18 (The document referred to,
19 previously identified as
20 Exhibit No. USPS-T-1, was
21 received in evidence.)

22 COMMISSIONER COVINGTON: Mr. O'Hara, have you had
23 an opportunity to examine the packet of designated written
24 cross-examination that was made available to you in the
25 hearing room this morning?

1 THE WITNESS: Yes, I have.

2 COMMISSIONER COVINGTON: And if the questions
3 contained in that packet were posed to you orally today,
4 would your answers be the same as those you previously
5 provided in writing?

6 THE WITNESS: Yes, they would.

7 COMMISSIONER COVINGTON: Are there any corrections
8 or additions you would like to make to those answers at this
9 time?

10 THE WITNESS: None.

11 COMMISSIONER COVINGTON: Counsel, would you please
12 provide two copies of the corrected designated written
13 cross-examination of Witness O'Hara to the reporter? That
14 material is received into evidence, and it is to be
15 transcribed into the record.

16 (The document referred to,
17 previously identified as
18 Exhibit No. USPS-T-1, was
19 received in evidence.)

20 //

21 //

22 //

23 //

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

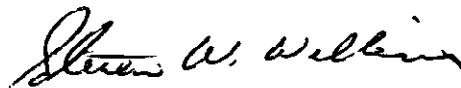
Experimental Suspension of Fee for
Manual Delivery Confirmation Category

Docket No. R2001-2
Docket No. MC2001-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS DONALD J. O'HARA
(USPS-T-1)

<u>Party</u>	<u>Interrogatories</u>
Office of the Consumer Advocate	OCA/USPS-T1-1-5
United Parcel Service	UPS/USPS-T1-1-5, 7-11

Respectfully submitted,



Steven W. Williams
Acting Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS DONALD J. O'HARA (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

OCA/USPS-T1-1
OCA/USPS-T1-2
OCA/USPS-T1-3
OCA/USPS-T1-4
OCA/USPS-T1-5
UPS/USPS-T1-1
UPS/USPS-T1-2
UPS/USPS-T1-3
UPS/USPS-T1-4
UPS/USPS-T1-5
UPS/USPS-T1-7
UPS/USPS-T1-8
UPS/USPS-T1-9
UPS/USPS-T1-10
UPS/USPS-T1-11

Designating Parties

OCA
OCA
OCA
OCA
OCA
UPS
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**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-1. Please confirm that Postal Service now provides a means for members of the public to generate and print a Delivery Confirmation label for a Priority Mail package at http://www.usps.com/cgi-bin/api/shipping_label.cgi. Also confirm that if the Priority Mail/Delivery Confirmation label is printed and affixed in the manner specified (i.e., printed on a laser quality printer and adhered properly) that the Delivery Confirmation service will be provided to the mailer free of charge.

RESPONSE: Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-2. Please refer to your testimony at page 7, l. 17 – 23. Is it correct that you assume a volume level for the period of the experiment equal to that of FY 2000, i.e., 2.8 million pieces of window-entered Priority Mail?

- a. If not, please explain.
- b. If so, then why did you not assume some further shift of volume from the peak mailing week (the week before Christmas) into the period of the experiment? Please explain fully.
- c. Is not one of the experiment's purposes to cause such a shift? Please explain fully any negative answer.
- d. If the experiment is successful, and accomplishes a shift of volume from the peak mailing week to the experimental period, then would not the volume estimated at 2.8 million pieces be higher? Please explain fully any negative answer.
- e. If the volume shift described above does occur, then isn't it correct that the total revenue loss of \$1.3 million that you estimate would be higher? Please explain fully any negative answer.

RESPONSE: Confirmed.

- a. Not applicable.
- b. I had no basis for arriving at a quantitative estimate of the extent of any such shift; one purpose of the experiment is to learn about customer response to limited-time offers such as this. Also, as noted on p.10, lines 5-10 of my testimony, no cost savings from such shifts are included in the estimated financial impact of the experiment.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed, but such shifts would also create opportunities for cost savings that would tend to offset the additional loss in revenue.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-3 At page 8 of your testimony, you state that you have judgmentally estimated the cost of producing and distributing display items to be \$150,000. Please explain the reasoning process you followed and the assumptions you made to arrive at that figure.

RESPONSE: I consulted with members of the Pricing and Classification Implementation office to learn what the best basis for estimating this cost would be. They suggested that the cost of producing and distributing similar material for the July 1, 2001 rate implementation would provide the best basis for projecting costs for the experiment. They recommended this both because the cost data would be recent and because they would want to produce and distribute approximately the same type and quantity of material, perhaps with somewhat smaller quantities but with additional use of color, which would come to approximately the same total. Of the \$150,000, about \$120,000 would be spent on production and the remainder on distribution.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-4. Please refer to USPS-LR-MC2001-2, WP p. 1. Please cite the source for all figures set forth on this page.

RESPONSE: Column C data come from summing the data in cells B11-B26 on page 3 of my workpaper for the days indicated, and multiplying by 100/70 to adjust for the fact that the data on page 3 are for POS sites only, which cover about 70% of revenue at all retail locations. These data in turn come from a special tabulation of POS transaction data prepared at my request.

Column D data come from the weekly data in cells E15-E17 on page 4 of my workpaper. These data in turn come from a special tabulation of POS transaction data prepared at my request.

Column E is the product of columns C and D.

Column F data come from an internal summary of week-by-week ratios of manual Delivery Confirmation pieces for which a destination scan is recorded pieces for which there is a matching entry scan from POS or IRT terminals, less one. The pieces for which no entry scan is recorded are assumed to have been entered through non-window channels as described on page 4, lines 12-17, of my testimony.

Column G is the product of column E and (1+the entry in column F).

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-5. Please refer to USPS-LR-MC2001-2, WP p.2. Please explain fully the meaning of footnotes 2 and 3 and display all calculations reflecting the statements made in footnotes 2 and 3. Include specific citations to USPS-RT-21.

RESPONSE: For footnote 2, the unit costs were calculated by modifying witness Davis' original spreadsheet in USPS-LR-I-108 Section B (filename "del con input cost data.xls), Input Sheet B-1: Activity Transaction Times, cells D-9-D15 as described in his testimony USPS-RT-21, pages 4-6. This results, on Worksheet B-6, *Volume Variable Cost Summary, in a Priority Mail Electronic Delivery Confirmation* cost of \$0.078 (cell C15, unchanged), and of *Priority Mail Manual Delivery Confirmation* cost of \$0.424 (cell D15). The difference between these is \$0.346; this is used in cell G8 of my Workpaper p.2 as the unit cost of TYAR *Manual Delivery Confirmation* usage covered by the \$0.40 fee, which is then used in cell E8 to calculate TYAR costs for *Priority Mail Manual Delivery Confirmation* and cell E15 to calculate the cost of existing usage during the period of the experiment.

For footnote three, the full *Priority Mail Manual Delivery Confirmation* cost of \$0.424 is used to calculate the cost of additional usage arising as a result of the experiment in cell E27.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-1. Refer to page 2, lines 9-11, of your testimony.

(a) Provide all available data and supporting studies for the contention that 30% of retail revenue for manual delivery confirmation is received at sites that do not have Point of Service ("POS") terminals.

(b) Provide all available data and supporting studies for the assumption that 30% of Priority Mail retail revenue is received at sites that do not have POS terminals.

(c) Confirm that it is assumed that 30% of Priority Mail retail revenue during the first 16 days of December 2001 will be received at sites that do not have POS terminals. If confirmed, provide all data and supporting studies for this assumption. If not confirmed, explain in detail.

RESPONSE:

(a)-(b) As stated in the cited portion of my testimony, the "approximately 30%" figure refers to retail revenue in total, not to revenue for individual products and services. I received this figure from the Retail Department and I understand that it is based on a comparison of revenue received at POS sites to the grand total revenue received at all retail sites.

(c) Confirmed. I used this figure because some adjustment for transactions occurring at non-POS sites was clearly needed and I believed that this overall figure could reasonably be applied to these particular services in this particular time period.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-2. Refer to page 2, lines 13-19, and page 4, lines 10-21, of your testimony.

(a) Confirm that the "third Priority Mail entry channel" representing Priority Mail pieces picked up by the Postal Service or deposited in collection boxes is not considered "retail-entered" mail. If not confirmed, explain in detail.

(b) Confirm that the Postal Service assumes that, absent the proposed pricing experiment, customers will purchase manual delivery confirmation service for 0.19 pieces of pickup/collection Priority Mail during the December 1 to December 16, 2001, period for every window-entered Priority Mail piece purchasing delivery confirmation service. If not confirmed, explain in detail.

(c) Confirm that the Postal Service assumes that there will be no increase in the number of pickup/collection Priority Mail pieces selecting manual Delivery Confirmation service during the proposed pricing experiment even though the service would be offered for free during the December 1 to December 16, 2001 period. If confirmed, provide an explanation for this assumption. If not confirmed, explain in detail.

(d) Provide all available data regarding the annual, accounting period, and weekly volume of pickup/collection Priority Mail for the FY2000-2001 period.

RESPONSE:

(a) Confirmed, although I believe the term "window-entered," which is used elsewhere in my testimony (e.g., line 18, page 7), is somewhat better than "retail-entered."

(b) Confirmed.

(c) Confirmed. I believe this assumption is reasonable because mailers who use this third channel to enter Priority Mail with Manual Delivery Confirmation are already familiar with Delivery Confirmation and have developed usage patterns that they are not likely to alter dramatically in response to this limited-time offer.

(d) As far as I have been able to determine, the Postal Service does not collect data on the pickup/collection volume of Priority Mail. For quarterly or annual time frames, it might be possible to estimate this volume as a residual by subtracting estimated volume entered through the other two channels from RPW volume.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-3. Refer to page 2 of your workpaper.

- (a) Confirm that the net cost to the Postal Service of the proposed pricing experiment includes:**
 - (i) \$150,000 for the cost of informing customers. If not confirmed, explain in detail.**
 - (ii) \$8,083,717 for the cost of the additional Priority Mail manual delivery confirmation that would take place. If not confirmed, explain in detail.**
 - (iii) \$1,332,998 for the revenue that would have been received for Priority Mail manual delivery confirmation if the proposed pricing experiment did not take place. If not confirmed, explain in detail.**
- (b) Confirm that the total cost to the Postal Service of the proposed pricing experiment is \$9,566,715 (\$150,000 + \$8,083,717 + \$1,332,998). If not confirmed, explain in detail.**
- (c) Provide any quantitative analysis or studies that show that the benefits of the proposed pricing experiment exceed or are likely to exceed \$9,566,715.**

RESPONSE:

(a)-(b) Confirmed.

(c) No quantitative analysis has been performed. As noted in my testimony (page 10, lines 2-19) the potential benefits depend on the extent to which customers shift their holiday mailing patterns and the extent to which they increase their future usage of Delivery Confirmation. The Postal Service believes that actually conducting the proposed experiment would provide the best way to obtain this type of information. As noted in my testimony (page 7, lines 1-4), if customers do shift their holiday mailing patterns significantly, a permanent classification modeled on the experiment might well be warranted. The one-time costs of the experiment would then have led to continuing benefits year after year, while the on-going cost and revenue effects of the "without charge" period would be fully recognized and incorporated in the test-year cost-coverage determinations that occur in an omnibus rate case.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-4. Refer to page 2 of your workpaper.

(a) Confirm that the TY2001 revenue for Priority Mail manual delivery confirmation service is expected to be \$20,888,507 in the absence of the proposed pricing experiment. If not confirmed, explain in detail.

(b) Confirm that this TY2001 revenue is comprised of the 40-cent fee for Priority Mail manual delivery confirmation multiplied by the TY2001 Priority Mail manual delivery confirmation volume of 52,221,268. If not confirmed, explain in detail.

(c) Confirm that the TY2001 costs for Priority Mail manual delivery confirmation service are expected to be \$18,068,559 in the absence of the proposed pricing experiment. If not confirmed, explain in detail.

(d) Confirm that these TY2001 costs of \$18,068,559 are comprised of 34.6 cents per piece for the non-electronic cost of manual delivery confirmation multiplied by the TY2001 Priority Mail manual delivery confirmation volume of 52,221,269. If not confirmed, explain in detail.

(e) Confirm that Priority Mail manual delivery confirmation service would provide \$2,819,948 of contribution to TY2001 institutional costs (\$20,888,507 - \$18,068,559) in the absence of the proposed pricing experiment. If not confirmed, explain in detail.

(f) Confirm that the TY2001 revenues for Priority Mail manual delivery confirmation service would be reduced by \$1,332,998 (from \$20,888,507 to \$19,555,510) under the proposed pricing experiment, as a result of waiving the 40-cent fee for the 3,332,494 pieces of Priority Mail that would have used the service if the proposed pricing experiment did not take place. If not confirmed, explain in detail.

(g) Confirm that the non-electronic cost of the additional usage of Priority Mail manual delivery confirmation during the term of the proposed pricing experiment is 18,069,868 pieces multiplied by 34.6 cents per piece, or \$6,598,174. If not confirmed, explain in detail.

(h) Confirm that if the TY2001 costs for Priority Mail manual delivery confirmation service under the proposed pricing experiment include the 34.6 cents per piece non-electronic charge for all Priority Mail pieces receiving manual delivery confirmation during the test year, the total TY2001 costs would be \$18,068,559 plus \$6,598,174, or \$24,666,733. If not confirmed, explain in detail.

(i) Confirm that the contribution to TY2001 institutional costs for the Priority Mail manual delivery confirmation service would be negative \$5,111,223 (\$19,555,510 minus \$24,666,733) under the proposed pricing experiment if the TY2001 revenues and costs for Priority Mail manual delivery confirmation service include all of the TY2001 revenues and all of the TY2001 non-electronic costs associated with the service. If not confirmed, explain in detail.

RESPONSE:

(a) - (g) Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

RESPONSE TO UPS/USPS-T1-4 (continued):

(h) - (i) I confirm the arithmetic, but I do not accept the premise that Delivery Confirmation costs and contribution should be developed in this fashion. My view of how the costs and revenue consequences of the experiment should be treated is explained in my testimony from page 8 line 17 through page 9 line 22, and reflected in Panel C on page 2 of my work paper. With this treatment, the contribution on Manual Delivery Confirmation with the proposed experiment would be \$19,555,510 less \$16,990,516 = \$2,564,994.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-5. Refer to page 2 of your workpaper.

(a) Confirm that the 34.6 cents per piece non-electronic cost for Priority Mail manual delivery confirmation was obtained from Table 1 of the testimony of Postal Service witness Davis, USPS-T-30, at 7, in Docket No. R2000-1. If not confirmed, explain in detail.

(b) Confirm that in Docket No. R2000-1, Postal Service witness Mayo (USPS-T-39), at 56 n.29, applied a contingency to the 34.6 cents per piece non-electronic cost for Priority Mail manual delivery confirmation to obtain a cost of 36 cents per piece, including contingency, for Priority Mail manual delivery confirmation. If not confirmed, explain in detail.

(c) Explain why a contingency is not applied to the 34.6 cents per piece figure in the TY2001 calculations on page 2 of your workpaper.

RESPONSE:

(a) Not confirmed; see my response to OCA/USPS-T1-4.

(b) Confirmed.

(c) A contingency should have been applied.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-7. Refer to page 4 of your workpaper.

(a) Confirm that 4.2 million pieces of Priority Mail were retail-entered in the POS system in the week November 25 to December 1, 2000, and that 700,000 of these pieces had delivery confirmation. If not confirmed, explain in detail.

(b) Confirm that these figures would be multiplied by a factor of (100/70) to obtain the total amount of retail Priority Mail during the week. If not confirmed, explain in detail.

(c) Confirm that the Postal Service assumes that Priority Mail retail customers that would ordinarily select Delivery Confirmation in the days just prior to the pricing experiment will not wait to mail Priority Mail pieces until December 1, 2001, despite the fact that they would receive a 40 cent per piece "discount" if they waited until December 1, 2001, or later. If confirmed, explain the justification for this assumption. If not confirmed, explain in detail.

(d) Confirm that the Postal Service assumes that Priority Mail retail customers who would mail these pieces in the days just prior to the pricing experiment, and who do not ordinarily select Delivery Confirmation will not wait until December 1, 2001, or later to mail Priority Mail pieces, despite receiving an additional service for free if they wait to mail until December 1, 2001. If confirmed, explain the rationale for this assumption. If not confirmed, explain in detail.

RESPONSE:

(a)-(b) Confirmed.

(c) - (d) Confirmed. Although Chart 2 in my testimony does suggest that the holiday package-mailing season starts the week of November 25, most of the Priority Mail entered during this week appears to represent "baseline" users of Priority Mail. The average weekly volume for entire period from September 9 to December 1 (cited in part (b) of UPS/USPS-T1-9) is 3.1 million, so of the 4.2 million pieces mailed during the week of November 25, only 1.1 million are likely to be non-baseline holiday packages. The baseline users have chosen Priority Mail in large part because it provides relatively quick delivery and I doubt that many mailers of the baseline volume would delay mailing even a single day to obtain Delivery Confirmation without charge. Thus, I think it is a reasonable simplification to assume no volume shift from the week of November 25 into the experimental period.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-8. Refer to page 4 of your workpaper.

(a) Confirm that the percentage of pieces of retail-entered Priority Mail for which the customer purchased delivery confirmation averaged 20.0% over the four most recent available FY2001 accounting periods starting May 19, 2001. If not confirmed, explain in detail.

(b) Confirm that the percentage of pieces of retail-entered Priority Mail for which the customer purchased delivery confirmation averaged 17.2% during the first three FY2001 accounting periods from September 9, 2000, through December 1, 2000. If not confirmed, explain in detail.

(c) Confirm that the portion of retail-entered Priority Mail for which the customer selected delivery confirmation has risen approximately 1.8 percentage points since the first few months of FY2001. If not confirmed, explain in detail.

(d) Refer to page 3 of your workpaper. Confirm that the Postal Service uses the retail-entered delivery confirmation percentages from December 2 to December 17, 2000, to derive the amount of delivery confirmation that would take place from December 1, 2001, to December 16, 2001, if the proposed pricing experiment did not take place. If confirmed, explain why no adjustment was made for the increased percentage of retail-entered Priority Mail delivery confirmation that has taken place since the beginning of FY2001. If not confirmed, explain in detail.

(e) Provide the same data contained on page 4 of your workpaper, Weekly POS Data on Priority Mail and Manual Delivery Confirmation, for FY2000.

RESPONSE:

(a)-(b) Confirmed.

(c) Not confirmed. Assuming this part of the question refers to the periods mentioned in parts (a) and (b), $20 \text{ minus } 17.2 = 2.8$, not 1.8

(d) Confirmed. As shown in Chart 2 and discussed on page 3, lines 5-9 of my testimony, the bulk of window-entered Priority Mail during the proposed experimental period appears to come from infrequent users. In contrast, volume in the accounting periods used to derive the 2.8 percentage point increase appears to come from individuals and businesses that use Priority Mail more-or-less steadily throughout the year. Increased Manual Delivery Confirmation usage by the latter does not necessarily imply increased usage by infrequent Priority Mail users. Thus, I believe that it is a reasonable simplification to assume that the percentage of Delivery Confirmation usage

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
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during the experimental period would be the same as in the corresponding period last year.

(e) Comparable data for FY 2000 are not available.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-9. Refer to page 4 of your workpaper.

(a) Confirm that POS Priority Mail has averaged 3.42 million per week over the four consecutive FY2001 accounting periods starting May 19, 2001. If not confirmed, explain in detail.

(b) Confirm that POS Priority Mail averaged 3.09 million per week during the first three FY2001 accounting periods from September 9, 2000, through December 1, 2000. If not confirmed, explain in detail.

(c) Confirm that POS Priority Mail volume has risen approximately 330,000 per week, or about 11%, since the first few months of FY2001. If not confirmed, explain in detail.

(d) Confirm that this POS Priority Mail figure would be multiplied by a factor of (100/70) to obtain the increase in retail Priority Mail. If not confirmed, explain in detail.

(e) Confirm that, on page 3 of your workpaper, the Postal Service uses POS Priority Mail volumes from December 2 to December 17, 2000 (multiplied by a factor of 100/70) to derive the retail-entered Priority Mail that would take place from December 1, 2001, to December 16, 2001, if the proposed pricing experiment did not take place. If confirmed, explain why no adjustment was made for the increased volume of retail-entered Priority Mail that has taken place since the beginning of FY2001. If not confirmed, explain in detail.

RESPONSE:

(a) - (c) Confirmed.

(d) - (e) Not confirmed. The apparent increase in retail-entered Priority Mail during FY 2001 on page 4 of my workpaper may simply reflect an expansion in the number of POS sites for which data are included in the tabulations provided to me. If so, the percentage of revenue recorded at POS sites may have increased and the magnitude of the necessary adjustment for non-POS sites correspondingly decreased. See also the explanation of what the 70% figure represents in my response to UPS/USPS-T1-1.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-10. Refer to page 1 of your workpaper.

(a) Confirm that the Postal Service assumes that 19,069,868 additional pieces of Priority Mail will receive manual delivery confirmation service during the December 1 to December 16, 2001, period, or approximately 1.2 million pieces per day, counting Sundays. If not confirmed, explain in detail.

(b) Confirm that, absent the proposed experiment, manual Delivery Confirmation volume would be expected to be 3,332,494, or about 200,000 pieces per day during this same period. If not confirmed, explain in detail.

(c) Provide all supporting studies and analyses that evaluate the Postal Service's ability to handle an increase in manual Priority Mail delivery confirmation of nearly 6 times normal volume without incurring increased unit costs for the service (e.g., from the incurrence of overtime).

RESPONSE:

(a) Confirmed; this is 100% of the projected candidate volume.

(b) Confirmed.

(c) No such studies have been undertaken. I have simply used test-year unit costs, which represent an average over the entire year. While the projected weekly Delivery Confirmation usage during the experiment represents a very large increase over average weekly usage, the additional workhours required by this increased usage are small when compared to baseline total workhours by window clerks and city and rural carriers. Thus, I believe that the assumption of constant unit cost is reasonable.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-11. Confirm that each retail Priority Mail piece that would have been mailed after December 16, 2001, but instead is mailed during the proposed pricing experiment, will incur an additional cost of 42.4 cents per piece (7.8 cents for electronic services plus 34.6 cents for manual services) for delivery confirmation without the Postal Service receiving any offsetting additional revenue. If confirmed, explain what studies have been conducted to show that any benefits to the Postal Service of earlier mailing will offset this additional cost. If not confirmed, explain in detail.

RESPONSE:

Confirmed for those pieces that would not have used Delivery Confirmation if mailed after December 16, 2001. With respect to studies of offsetting benefits, see my response to part (c) of UPS/USPS-T1-3.

1 COMMISSIONER COVINGTON: At this time I would like
2 to ask if there is any additional written cross-examination
3 for Witness Donald J. O'Hara?

4 MR. MCKEEVER: Yes, Mr. Commissioner, we do have
5 some.

6 COMMISSIONER COVINGTON: Mr. McKeever?

7 MR. MCKEEVER: May I approach the witness to
8 provide him with a copy?

9 COMMISSIONER COVINGTON: Yes, you may.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. UPS/USPS-T-1 (12
13 through 18, 20 through 23, 25
14 through 30, 33, 35 through 42,
15 45, 47 and 51).)

16 MR. MCKEEVER: Dr. O'Hara, I just provided you
17 with a copy of your responses to the following UPS
18 interrogatories designated as UPS/USPS-T-1 (12 through 18,
19 20 through 23, 25 through 30, 33, 35 through 42, 45, 47 and
20 51.) I hope the pack is complete. Some of these I just
21 received this morning.

22 THE WITNESS: Right.

23 MR. MCKEEVER: If you could take a minute, Dr.
24 O'Hara, to take a look at them, and then I would ask you if
25 those questions were to be asked of you today, would your

1 answers be the same?

2 THE WITNESS: Yes, they would.

3 MR. MCKEEVER: Mr. Commissioner, I move that the
4 additional written cross-examination of United Parcel
5 Service of Postal Service Witness O'Hara in the form of his
6 answers to Interrogatories UPS/USPS-T-1 (12 through 18, 20
7 through 23, 25 through 30, 33, 35 through 42, 45, 47 and
8 51), be admitted into evidence as additional written
9 cross-examination of Dr. O'Hara.

10 COMMISSIONER COVINGTON: All right, Mr. McKeever.
11 In light of this I will allow that written material to be
12 admitted into evidence, and I would direct that the reporter
13 also transcribe these documents.

14 (The document referred to,
15 previously identified as
16 Exhibit No. UPS/USPS-T-1 (12
17 through 18, 20 through 23, 25
18 through 30, 33, 35 through 42,
19 45, 47 and 51), was received
20 in evidence.)

21 //

22 //

23 //

24 //

25 //

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-12. Refer to page 14, lines 1-3, of your testimony, where you state that "[w]ith respect to the impact on competitors...the Postal Service...anticipates that the experiments impact would be minimal."

(a) Provide all empirical data upon which you rely that supports the assumption that the experiments impact will be minimal.

(b) Did the Postal Service consider the impact of the experiment on competitors in deciding whether to go forward with the experiment? If so, describe the factors which were considered and describe the relative weights the Postal Service assigned to each factor.

RESPONSE:

(a) In addition to the considerations discussed in my response to UPS/USPS-T1-13, I did consider whether witness Musgrave's Priority Mail volume forecasting model could be used to obtain even rough quantitative information on the potential for increased Priority volume as a result of the proposal. While the model would not have distinguished between expanded use of Priority Mail by existing USPS customers and increases due to volume shifts from competitors, the total volume increase would have provided some indication of the upper limit of the effect on competitors. I concluded, however, that because the model had been designed to provide quarterly forecasts of total (not just window-entered) Priority Mail for a period of several years in response to price changes that customers expect to remain in effect for at least several quarters, the specification of the model, as reflected for example in witness Musgrave's choice trail, could render it ill-suited to analyzing a temporary and brief (about one-sixth of one quarter) change in the fee of an ancillary service ordinarily associated with only a modest fraction of Priority Mail.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

(b) Yes; see my testimony at page 14, lines 3-8. As indicated there, the most important factor was that commercial shippers already have access to electronic Delivery Confirmation without charge if they choose to use Priority Mail instead of a competitor's service. As a result, the experiment would have no impact on position of Priority Mail relative to competitors' products in the commercial shipping market.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-13. Have you or anyone else in the Postal Service studied, investigated, or otherwise evaluated the potential volume shift from private delivery companies that may result from the proposed suspension of the fee for Manual Delivery Confirmation? If so:

- (a) Describe the studies in detail.
- (b) Describe the results of the studies.
- (c) Provide the studies and all reports or other documents generated as a result of those studies.

RESPONSE:

(a) – (c) No studies were conducted and no reports generated. As stated in my testimony (page 14, lines 1-8), the effect on competitors was evaluated and judged to be minimal based on the limited scope and duration of the experiment and on the established availability of electronic Delivery Confirmation without additional charge in conjunction with Priority Mail for commercial shippers.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-14. Have you or anyone else in the Postal Service studied, investigated, or otherwise evaluated the potential volume shift from Parcel Post that may result from the proposed suspension of the fee for Manual Delivery Confirmation for Priority Mail users? If so:

- (a) Describe the studies in detail.
- (b) Describe the results of the studies.
- (c) Provide the studies and all reports or other documents generated as a result of those studies.

RESPONSE:

(a) – (c) I considered the potential for Parcel Post volume shifting to Priority Mail as a result of the experiment, and concluded that while some shift would probably occur, the potential magnitude was small enough that it could reasonably be neglected in evaluating the financial and other impacts of the experiment. My reasoning was as follows. The great bulk of Parcel Post (about 80%) is mailed at workshared rates. The alternative of faster Priority Mail delivery combined with no-fee electronic Delivery Confirmation has been available to these shippers for some time and yet they have opted for rate/service combination provided by workshared Parcel Post. The experiment would not change the options available to these shippers, so there should be no shift to Priority from the 80% of Parcel Post that is workshared.

The experiment would change the options available to single-piece package mailers who would choose to use Parcel Post absent the experiment. However, the volume of window-entered Parcel Post is only about one-sixth the volume of window-entered Priority. Within window-entered Parcel Post, the experiment would be most likely to induce shifts to Priority Mail by mailers who value Delivery Confirmation enough to purchase it at the current fee, which is only about 5% of window-entered Parcel Post at present. Thus, although some

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

shift from window-entered Parcel Post to Priority can be expected, it is likely to be sufficiently limited that it can reasonably be neglected.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-15. Refer to page 8 of your testimony, where you discuss methods the Postal Service intends to use to inform customers about the limited-time offer of free delivery confirmation.

(a) Describe the window cards and other displays to which you refer on page 8, line 6, of your testimony.

(b) For each window card or display, state the costs involved in producing and displaying it, on a per-piece and total aggregate basis, and identify the class or classes of mail to which that cost is attributed under the experiment.

(c) Provide a copy of each window card or display.

(d) Regarding the press coverage to which you refer on page 8, line 3, of your testimony, describe the press coverage the Postal Service intends to use, the cost of that press coverage, and whether that cost is included in the cost for delivery confirmation contained in your testimony and workpapers. Provide a copy of all press releases developed regarding the proposed fee suspension.

(e) With respect to the local postmaster customary holiday communications with their communities to which you refer on page 8, lines 13-14, of your testimony, describe these customary communications. Identify the costs of these communications, and state whether any of these costs are included in the cost for delivery confirmation service contained in your testimony and workpapers.

(f) Refer to page 2 of your workpaper, in which you identify a "cost of informing customers" of \$150,000. Describe in detail the components of that cost, the products or services purchased or to be purchased by the Postal Service that are included in that cost, and how the figure was calculated.

RESPONSE:

(a) & (c) The window cards and other displays are still under development; no copies are available.

(b) Costs for individual items are not available; the estimated aggregate cost is \$150,000. In page 2 of my workpaper, one-half of this cost is attributed to Delivery Confirmation and one-half to Priority Mail, as explained on page 9, lines 13-18 of my testimony.

(d) & (e) No costs for press coverage or local postmaster holiday communications are included in my workpaper; it is my understanding that the costs of such activities are generally treated as institutional. The only press release thus far is that announcing the filing, a copy of which is attached. Postal

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

Bulletin 22036, pages 1 through 15, also attached, contains examples of materials developed to facilitate local postmaster holiday communications.

(f) The \$150,000 "cost of informing customers" in my workpaper is the estimated cost of the window cards and other display items referred to in parts (a) - (c) of this interrogatory. For information on how this estimated cost was developed, please see my response to OCA/USPS-T1-3.

POSTAL BULLETIN

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AZEEZALY S. JAFFER
VICE PRESIDENT, PUBLIC AFFAIRS AND COMMUNICATIONS



October 20, 2000

POSTMASTERS

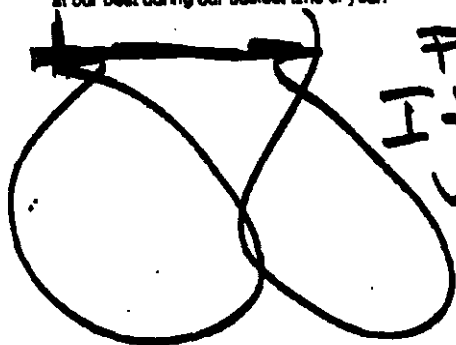
SUBJECT: Holiday 2000 Publicity Kit for Postmasters

The U.S. Postal Service is ready for the "Holidays." This year we are basing our holiday theme around the Universal Studios movie, *Dr. Seuss' How the Grinch Stole Christmas*. The Postal Service will use the joyful spirit of the Whoville characters to promote our smart shipping solutions for busy customers this season.

In this year's publicity kit you will find important mailing information you can share with your customers. The emphasis will be on the convenience we provide as the one-stop shop for all the delivery needs of hurried holiday shoppers. We have provided fill-in news releases on mailing tips, extended hours, correct addressing, alternative locations to buy stamps, and unique gift ideas.

The kit also includes ideas for generating positive publicity for your office. This is the time of year that reporters will be coming to you for mailing information and human-interest stories. It's a good time to promote the caring activities of your employees. We are also joining with Universal and other companies in promoting the First Book charity, as part of our long-standing commitment to literacy.

You can always turn to your area Public Affairs and Communications office for more information and advice on planning your holiday season promotions. They will be happy to help you show us at our best during our busiest time of year.



P.S. As always -
I truly appreciate
your continued
support &
commitment!
Thank you
A

475 L Street, P.O. Box 37
Washington, DC 20000-0037

Holiday 2000 Publicity Kit for Postmasters continues on page 3.



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The *Postal Bulletin* is also available on the World Wide Web at <http://www.usps.com/cpim/ftp/bulletin/pb.htm> for customers and at <http://blue.usps.gov> for employees.

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Ordering Information: Following is the list of postal stock numbers (PSNs) to use when ordering copies of the *Postal Bulletin* from the MDCs:

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PB 22034: 7690-04-000-5641	PB 22020: 7690-04-000-3999
PB 22033: 7690-04-000-5640	PB 22019: 7690-04-000-3998
PB 22032: 7690-04-000-5639	PB 22018: 7690-04-000-3997
PB 22031: 7690-04-000-5638	PB 22017: 7690-04-000-3996
PB 22030: 7690-04-000-5637	PB 22016: 7690-04-000-3995
PB 22029: 7690-04-000-5636	PB 22015: 7690-04-000-3994
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PB 22027: 7690-04-000-5634	PB 22013: 7690-04-000-3992
PB 22026: 7690-04-000-5633	PB 22012: 7690-04-000-3991
PB 22025: 7690-04-000-5632	PB 22011: 7690-04-000-3990
PB 22024: 7690-04-000-5631	PB 22010: 7690-04-000-3989
PB 22023: 7690-04-000-5630	PB 22009: 7690-04-000-3988

The *Postal Bulletin* is published biweekly; information is effective for one year unless it changes a permanent directive or unless otherwise specified.



Holiday 2000 Publicity Kit for Postmasters

"Happy Holidays!" This year's U.S. Postal Service holiday campaign will ride the wave of fun and holiday cheer associated with Universal Studio's November release of *Dr. Seuss' How the Grinch Stole Christmas*. Using the movie's feel-good theme and imagery, postal in-store messaging and merchandise, as well as TV and print advertising, will leverage the movie's Whoville community and prominently featured Whoville Post Office. "Wholiday" is Grinch-speak for holiday.

Special die hubs on automated facer-canceler machines will begin spraying "Happy Who-lidays from the U.S. Postal Service!" on cards and letters in early November.



Helping You Leverage the Holidays

Postal retail units offer residential customers many advantages during the busy holiday period. Spread the news. Your post office provides more than stamps. Availability of packaging materials makes mailing easy, convenient, and affordable for customers in a "Heckuva-rush" (postmark on the movie's Whoville Post Office mail).

This kit will help you share important holiday mailing information through your local news media and generate positive publicity for your office's activities. Included are fill-in news releases on product and service promotions, extended hours, options for buying stamps, stocking-stuffer gifts, and helpful tips on package wrapping and correct addressing.

Take advantage of the opportunity to talk with news reporters. This is the one time of year that the news media are eager to come to you to discuss mailing options and deadlines, Santa letters, and other caring activities involving your employees.

For additional information and advice on publicity, contact your area Public Affairs and Communications Office and the communications program specialist who covers your performance cluster.

Holiday 2000 Promotional Materials

Every postmaster was mailed a 90-Day Calendar and a Communications Kit that included Holiday 2000 retail lobby signs.

These promotional materials should now be on display in all post offices. Postmasters needing additional promotional materials may call the Holiday 2000 Hotline at 888-999-6623.

Holiday 2000 Advertising Campaign

The Postal Service and Universal Studios have entered into a licensing agreement surrounding Universal's movie release *Dr. Seuss' How the Grinch Stole Christmas*, starring Jim Carrey as the Grinch.

The Whoville Post Office is one of the key locations featured in the film, and as with most small towns, the post office is the heart of the town. In the film the Whoville postal employees embody the spirit of Whoville and the "Who-lidays."

USPS will use the film, and more specifically the Whoville Post Office, as the corporate-wide theme for the Holiday 2000 Advertising and Promotion Campaign, which will run from November 1 to January 7. The campaign will include television, print, and in-store point-of-purchase materials, along with public and employee communications. While framed by the Whoville theme, the focus of the campaign will be on USPS products and services as smart solutions that customers need during the hectic holiday season.

Both TV and print ads focus on convenience for the busy holiday shopper who can purchase, pack, and ship gifts at one location — their local post office. Featured products and services are Priority and Express Mail, packaging supplies, Whoville-themed gifts and stationery, money orders, and phone cards.

The Postal Store at www.usps.com

The new Postal Store is online at <http://www.usps.com>. The Postal Store offers customers the speed and convenience of secure online shopping 24 hours a day for postal products such as stamps and philatelic items, FIRST-CLASS PHONECARDS, stamp-themed stationery, and USPS Pro Cycling Team gear. The Postal Store site replaces StampsOnline and is poised to become a one-stop online shop for everything postal.

The Postal Store can help reduce lobby lines. By promoting the shop-at-home convenience of the Postal Store, you will enhance customer satisfaction and improve operational efficiency while still getting credit for sales. Online sales are credited back to post offices based on the 5-digit ZIP Code of the customer's billing address.

Online stationery and apparel items are offered for the same price as USPS retail store items, plus a charge for shipping and handling. Stamp orders are handled through the Stamp Fulfillment Services center. Orders should be

placed no later than December 18 to guarantee delivery before Christmas day.

Key "Wholiday" Season Messages

- We are providing ease-of-use for our customers this Wholiday season, making their hectic shopping season simpler with convenient services and gifts.
- Reduce long lines by promoting alternative outlets for stamp purchases.
- With the growth in Internet shopping, remind customers of the value of Priority Mail shipping and suggest they request it from their e-tailer for their online gift purchases.

First Book Charity Involvement — A Promotional Partnership to Help Disadvantaged Children

As part of this year's holiday promotion with Universal Studios and our commitment to literacy, the U.S. Postal Service is partnering with First Book, a national nonprofit organization with a mission to give disadvantaged children the opportunity to read and own new books. First Book supports local tutoring, mentoring, and family literacy programs.

From November 1 through January 7, more than 32,000 post offices across the country will display posters promoting First Book Day, encouraging customers to send a child a book this Wholiday season.

A First Book Day kick-off ceremony will be held November 1 in New York City, featuring a guest appearance by Ron Howard, director of the movie *Dr. Seuss' How the Grinch Stole Christmas*, and New York school children. New York postal employees will also participate in the event by packaging books for delivery to a local school.

Retail customers who express an interest in First Book are encouraged to visit <http://www.firstbook.org> or write to:

FIRST BOOK
1319 F ST NW STE 1000
WASHINGTON DC 20004

Other participating partners in the First Book Day promotion are Barnes & Noble.com, Kellogg's, Nabisco, Random House Children's Books, Visa, Wendy's, and Ziploc.

Holiday 2000 Stamps

Due to the pending increase in First-Class postage and a large inventory of last year's holiday stamps, the planned holiday stamps for 2000 will not be issued until 2001. Existing supplies of 1999 holiday stamps will be supplemented this year with a reprint of the *Holiday Greetings (Deer)* stamp.

The following inventory of 1999 holiday stamps will be available for this holiday season:

Stamp	Stamp Type
Hanukkah (Holiday Celebrations)	Self-Adhesive Pane of 20
Holiday Greetings (Deer)	Self-Adhesive Pane of 20 Self-Adhesive Booklet of 20 Self-Adhesive Vendible of 15
Vivanti's Madonna and Child (Holiday Traditional)	Self-Adhesive Pane of 20
Kwanzaa (Holiday Celebrations)	Self-Adhesive Pane of 20

Holiday 2000 Publicity Tips

1. Use the sample news releases included in this kit or develop your own. Send the completed releases to local newspapers, radio, and television stations. Several days after mailing your release, follow up with a phone call to the local reporter, editor, or news director.
2. Plan special events to get media attention. Special events could include:
 - Hosting a wrapping demonstration in the post office lobby.
 - Helping promote the First Book charity by bringing a group of children in for a reading of *How the Grinch Stole Christmas*. You can also provide a photo opportunity and promote Priority Mail by demonstrating how customers can bring their book donations in to mail.
 - Holding a Happy Wholidays customer appreciation event to kick off the holiday mailing season. Feature gift ideas at the post office as well as mailing tips to avoid holiday glitches.

Note: Graphics used for the in-store messaging are licensed and should not be copied for other uses. Avoid featuring or calling attention to the Grinch.
3. Call local radio and television news and talk show producers. Offer to guest on programs airing before Christmas to discuss mailing deadlines, proper addressing and packaging, and the holiday gifts available at your post office and the new Postal Store online.
4. Invite radio and television stations to:
 - Do a "live remote" on December 11 or 18, the busiest mailing days.
 - Deliver mail with a carrier on December 13 or 20, the busiest delivery days of the year.
 - Follow employees, dressed as "Santa's helpers," delivering Express Mail items on Christmas Eve or Christmas Day (if applicable).

5. Provide reporters and editors with the handy Holiday Mailing Tips sheet in this kit. Consider making copies of the Holiday Mailing Tips available to your post office lobby customers as well.

Holiday 2000 Season Outlook

- The domestic Christmas holiday mailing season begins after Thanksgiving and ends on December 31. We expect Americans to mail more than 20 billion mailpieces — up 3 percent from last year.
- On an average day from October through December, the Postal Service receives about 100 million letters and cards nationwide. This number is expected to increase to 150 million a day from November 24 through December 31.
- Predictions are that more people will be shopping through the Internet this holiday, which means more parcel deliveries. We anticipate an increase in Priority Mail and Standard Mail (B) parcels of 5 percent, or about 9 million more pieces than last year's holiday season.
- The "busiest mail day" will be Monday, December 11. We expect to cancel approximately 280 million cards and letters on that day. Monday, December 18 will also be a busy mail day. The busiest delivery days will be Wednesday, December 13 and 20.

- We don't have suggested holiday mail deadlines for domestic mail. Our goal this holiday is to deliver increased holiday mail volumes at our normal year-round service levels. Delivery standards vary according to location (on average: First-Class Mail takes one to three days; Priority Mail takes two to three days; Standard Mail (B), or Parcel Post, takes one day per zone; and Express Mail is guaranteed for overnight delivery to most major cities). Post offices can provide information on local delivery standards.
- We want to encourage our customers to keep mailing — even at the last minute! However, we ask the general public to mail early to prevent a backup of mail during Christmas week.
- To move the large volumes of mail during the holiday season we will add the following: temporary processing facilities; three holiday network hubs with more than 80 supplemental airplanes dedicated entirely to moving the mail; hundreds of added truck connections; and dozens of additional trains. We will also put about 60 million more mail sacks and trays in service. Nationwide, we plan to add about 40,000 temporary holiday employees.

Holiday 2000 Mailing Tips

Advice for customers on how to avoid "glitches" affecting delivery of their holiday mailings.

Addressing Tips

- Write, type, or print the complete address neatly.
- Always use a complete return address.
- Always provide complete address information, such as AVE, BLVD, and ST. Always use the apartment or suite number as well as correct directionals such as N, W, and SW.
- Don't let an incorrect ZIP Code create a glitch in timely delivery of cards and letters. Local post offices and the Postal Service Web site, <http://www.usps.com>, offer ZIP Code information. (For post offices covered by the National Call Centers, you can also publicize the toll-free phone number.)

Packaging Tips

- Select a box that's strong enough to protect the contents. Leave space for cushioning inside the carton.
- Cushion package contents with shredded or rolled newspaper, bubble wrap, or Styrofoam peanuts.

Plain air-popped popcorn is also good for cushioning — it's inexpensive and environmentally friendly, and you can string leftover popcorn for holiday decoration.

- Always use tape that is designed for shipping, such as pressure-sensitive tape, nylon-reinforced craft paper tape, or glass-reinforced pressure-sensitive tape. Never use string or twine to secure a package.
- The only addresses on packages for mailing should be the delivery and return addresses. It's also a good idea to place a return address label inside the package.
- Carefully pack glass and fragile hollow items, like vases, with newspaper or packing material to avoid damage due to shock. When mailing framed photographs, take the glass out of the frame and wrap it separately.
- Remove batteries from toys. Wrap and place them next to the toys in the mailing box.
- Packages that weigh at least 1 pound must be taken into the post office for mailing.

Holiday 2000 Special Tips

- Purchase convenient packaging materials, including boxes and padding, at your local post office. Express Mail and Priority Mail boxes, envelopes, and tubes are free.
- All former package markings and labels must be removed before a box can be reused for mailing. Parcels cannot be accepted if markings visibly indicate that the box was used for shipping hazardous material. Wrapping boxes to cover markings is not sufficient. If the wrapping is damaged and markings become visible, the package will be returned to the mailer.
- Access the Postal Service's Web site, <http://www.usps.com>, for postage calculations, post office locations, ZIP Code lookup, plus stamps and unique gifts at the Postal Store. (For post offices covered by the National Call Centers, you can also publicize the toll-free phone number.)
- (In areas where we have contracts with Mail Boxes Etc.) Mail Boxes Etc. centers are now fully authorized United States Postal Service retailers offering Priority Mail, Express Mail, and stamps at many locations with convenient hours to accommodate your holiday mailing and shipping needs.
- Avoid waiting in line to purchase holiday stamps by using Stamps-By-Phone (1-800-STAMP-24), Stamps-By-Mail, and postal vending machines, or go online to the Postal Store at <http://www.usps.com>.
- Don't forget, last-minute packages can still be delivered Christmas day to most major metropolitan areas via Express Mail. (Indicate Christmas Eve hours or location of closest open office).
- Procrastinating international mailers should not despair. Global Priority Mail averages three to five days to many countries for items weighing up to 4 pounds. Express Mail International Service averages two to three days to most major cities, and Global Express Guaranteed, our fastest international delivery service, provides day-certain guaranteed delivery in two days.
- For those traditional domestic procrastinators, we offer Priority Mail, which gets packages to their destinations in two to three days. It's a great buy at \$3.20 for up to 2 pounds. For \$11.75, we also have Express Mail service that gets mail to most major cities overnight.
- Want to know when your package was delivered? Delivery Confirmation service is available for Priority Mail and Standard Mail (B) (Parcel Post) shipments. For a fee of 35 cents, customers receive a tracking number and can retrieve delivery information through the Postal Service Web site or a toll-free telephone number.
- Shopping online? Don't forget to request the best-value shipping solution, Priority Mail, from your online retailer for all of your Wholiday gifts.

Holiday 2000 News Releases

News releases should be typed on postal letterhead and double-spaced. The City/State on the first line should indicate the site where the release originates.

**POSTAL NEWS**

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)**POST OFFICE READY FOR THE HOLIDAYS**

(CITY, STATE) — The (city) Post Office has prepared for your "Wholidays" and is ready to take care of (city) resident's mailing needs during the holiday season.

"About 20 billion cards, letters and packages will be mailed nationwide between November 24 and December 31, up three percent from last year. This translates to about 150 million cards and letters a day, compared to 100 million on an average day," said Postmaster (full name). "Here in (city), we anticipate delivering an additional (number) cards, letters and packages during this time."

To move these large volumes of mail nationwide the U.S. Postal Service has added more transportation, more processing facilities and more temporary holiday employees. With upgrades to mail processing equipment, more handwritten cards and letters will be "read" and sorted by automation than ever before.

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**POSTAL NEWS**

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)**(CITY) POST OFFICE OFFERS TIPS TO ACCOMMODATE MAILERS
AND AVOID THE "WHOLIDAY" GLITCHES**

(CITY, STATE) — This year the (city) Post Office offers extended hours and new services designed to bring enhanced ease-of-use for postal customers mailing holiday items.

"We have a number of new options that will make the mailing experience at our post office fast and convenient for customers," says (city) Postmaster (full name). Illustrating the point, Postmaster (last name) offers the following list of "Wholiday helpful":

Special hours, deliveries and conveniences

- To help customers this holiday season, we have earlier and later hours. (List extended hours and any Sunday office hours.) (For post offices covered by the National Call Centers, you can also publicize the toll-free 800 number.)
- (In areas where we have contracts with Mail Boxes Etc.®) Mail Boxes Etc. centers are now fully authorized United States Postal Service retailers offering Priority Mail, Express Mail and stamps at many locations with convenient hours to accommodate your holiday mailing and shipping needs.

- We will deliver Express Mail packages on Christmas Eve and Christmas Day.
- We accept all major debit and credit cards. Check out the special holiday VISA card sweepstakes to win all your holiday purchases and a \$1,000 gift card.

Stamps offer selection with ease

- We have a wide variety of self-adhesive holiday stamps: Vivarini's Madonna and Child, Hanukkah, Kwanzaa, Deer, as well as a slightly smaller version of the Deer stamps offered through vending machines.
- Most holiday stamps are available at selected grocery stores, banks and various other locations. There is also a toll-free number, 1-800-STAMP-24, for ordering stamps. Stamps can also be ordered online from the Postal Store at www.usps.com.
- Priority Mail and Express Mail stamps are available for last-minute mailings.
- Forms to receive Stamps-By-Mail are available from letter carriers, and rural carriers can sell stamps on their routes.

Holiday help

- Call the post office (provide number; for offices under the call center system, give the 800 number) or the holiday mail information hotline (if applicable) for answers to questions about mailing options, best dates to mail and packaging pointers.
- The Postal Service's Web site — www.usps.com — also offers advice, ZIP Codes, post office locations and other helpful information.

"As these reminders illustrate," Postmaster (last name) said, "the Postal Service has many options to help customers complete their 'Holiday' mailings with ease and greater convenience."

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POSTAL NEWS

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)

POST OFFICE ASKS CUSTOMERS TO MAIL EARLY; AVOID THE UNEXPECTED "WHOLIDAY" GLITCHES

(CITY, STATE) — With the volumes of cards, letters and packages expected to mushroom with the countdown to the holidays, (city) Postmaster (name) advises customers to mail early. "Our goal is to deliver increased holiday mail volumes at our normal year-round service levels," says (last name). "Although we have taken extra measures to handle the added volume, we are asking customers to mail early to avoid a backup of mail the last days before Christmas."

U.S. Postal Service customers will bring 20 billion mailpieces to post offices during the holiday season, from November 24 through December 31.

Postmaster (last name) said that customers can help speed post office transactions by providing retail clerks with full information on packages, such as requirements for insurance, delivery confirmation and desired time for package arrival.

Other helpful mailing tips to avoid glitches include:

- Write, type or print the delivery address neatly.
- Always use a return address.
- Always use complete address information, such as AVE, BLVD and ST. Use the apartment or suite number as well as correct directionals, such as N, W and SW.

- Don't let an incorrect ZIP Code delay delivery of cards and letters. Local post offices and the Postal Service Web site — www.usps.com — offer ZIP Code information. (For post offices covered by the National Call Centers, you can also publicize the toll-free 800 number.)
- Select a container that's strong enough to protect the contents. Leave space for cushioning inside the carton.
- Always use tape that is designed for shipping, such as pressure-sensitive tape, nylon-reinforced craft paper tape or glass-reinforced pressure-sensitive tape.
- Plain air-popped popcorn, shredded or rolled newspaper, bubble wrap or Styrofoam peanuts work well for cushioning package contents.
- The only addresses on packages for mailing should be the delivery and return addresses. It's a good idea also to place a return address label inside the package.
- Carefully pack glass and fragile hollow items, like vases, with newspaper or packing material to avoid damage due to shock. When mailing framed photographs, take the glass out of the frame and wrap it separately.
- Packages that weigh at least one pound must be taken into the post office for mailing.
- Access the Postal Service's Web site — www.usps.com — for postage calculations, the latest address information, and unique gifts at the Postal Store.
- When writing to Santa, be sure to use a return address. Santa may write back!

"The 'Holidays' are here, and we want to make sure your mail flies like an eagle and is delivered on time. Just help us by mailing early," (last name) said.

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POSTAL NEWS

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)

(NAME) POST OFFICE EXTENDS HOURS FOR THE HOLIDAY SEASON

(CITY, STATE) — The (city) Post Office, (address), will extend its business hours for the 2000 holiday mailing season, says (city) Postmaster (full name).

The new hours will be from (list new hours) beginning (date) and continue through (date), (he/she) said.

(If applicable:) "We will also be open on Sundays beginning (date) between the hours of (list times)," Postmaster (last name) added.

Postmaster (last name) also reminds customers of other convenient service options such as Stamps-By-Mail, Stamps-By-Phone (1-800-STAMP-24) and the Postal Store on the Postal Service Web site at www.usps.com.

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POSTAL NEWS

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)

MANY (CITY) POST OFFICES OPEN SUNDAY(S) THIS "WHOLIDAY" SEASON EXPRESS MAIL WILL GUARANTEE CHRISTMAS DELIVERY

(CITY, STATE) — Time keeps on slipping for procrastinators that have not yet sent off holiday cards, letters and packages. "To help ease the last-minute 'Wholiday' rush, a number of (city) area post offices will be open on Sunday(s), December (give date[s])," said (city) Postmaster (full name).

(If applicable:) "(City) post office(s) will also be open on Sunday, Christmas Eve day, Dec. 24, for regular customer service hours and parcel pick up," added Postmaster (last name). (See attached list.) (If applicable, include information pertaining to other holiday celebrations, such as Hanukkah and Kwanzaa.)

To have last-minute holiday gifts and cards arrive on time, Postmaster (last name) advises customers to use guaranteed overnight Express Mail, which is delivered every day of the year — even Christmas Day.

(List local plans for mail collection or processing on Christmas Eve.)

(if applicable:) As a reminder, the (facility name), (address), is open every day of the year, including Christmas (list hours).

Post offices will be closed on Christmas Day, (last name) added.

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[Attach a page to your press release listing the full schedule, including operating hours of post offices open Sunday and other special holiday hour information.]



POSTAL NEWS

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)

BRING PACKAGES INTO LOCAL POST OFFICE FOR WEIGHING

(CITY, STATE) — The U.S. Postal Service remains an important part of a government service that strives to ensure the safety of the public and its employees, especially during the holidays, said (city) Postmaster (full name).

In order to avoid delays, as a reminder to (city) residents, special security rules still apply when mailing stamped packages that weigh one pound or more.

"Even if you've carefully calculated and applied the correct amount of postage, you must bring these packages to the post office for mailing," (last name) said.

Packages found in mail collection boxes, because of security guidelines, may be returned to the sender, Postmaster (last name) explained. The only exceptions are business packages and letters that use metered postage, (he/she) added.

Packages for international destinations, including military APO and FPO addresses, have special customs requirements and must also be mailed personally at the post office, (last name) added.

In addition, (last name) reminds customers that all former package markings and labels must be removed before a box can be reused for mailing. Parcels cannot be accepted if markings visibly indicate that the box was used for shipping hazardous material. Wrapping boxes to cover markings is not sufficient. If the wrapping is damaged and markings become visible, the package will be returned to the mailer.

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POSTAL NEWS

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)

NEED GIFT IDEAS THIS "WHOLIDAY"? POST OFFICE IS A GREAT PLACE FOR "STOCKING" UP

(CITY, STATE) — We've all been through it. You have to buy a gift for the office grab bag. Your Uncle Ray unexpectedly sends you a gift, now you have to get one for him. You forgot to get something for the newspaper boy. And, it's that time of year again.

"Come to the post office," says Postmaster (full name). "We have a variety of gift items for your holiday giving," including the following:

- **STAMPS** are a practical gift because everyone needs and uses them. Plus, with the variety of stamps, customers are sure to find a subject to fit the interests of the gift recipient.
- **BOOKS FOR COLLECTING AND DISPLAY** such as *The 2000 Commemorative Stamp Yearbook*, illustrating the stamps of the past year and the stories behind them. A new addition this year is *An American Postal Portrait: A Photographic Legacy*, which provides a photojournalistic retrospective celebrating behind-the-scene postal stories from the early 1800s.
- **MONEY ORDERS** are better than a gift certificate. They are safe and secure. Purchase any amount up to \$700 for just 80 cents.
- **Prepaid FIRSTCLASS PHONECARDS** make ideal gifts for college students, grandparents and small business owners. Customers purchasing two \$20 60-minute FIRSTCLASS PHONECARDS will receive a third one FREE! A Limited Edition 30-minute Whoville Phonecard is also available.
- **UNIQUE STATIONERY AND ORNAMENTS** featuring imagery characteristic of scenes and items in the popular holiday movie *Dr. Seuss' How the Grinch Stole Christmas*. A light-up Christmas ornament features the Grinch. There's also a Whoville Activity Kit for children. Select post offices will sell themed computer paper, note cards, greeting cards, wrapping paper and labels.
- **ONLINE SHOPPING AT THE POSTAL STORE** allows busy shoppers to access www.usps.com any time to buy stamps and philatelic collectibles, FIRSTCLASS PHONECARDS, stationery and exciting USPS Pro Cycling Team gear. Orders should be placed by December 18 to guarantee arrival before Christmas day.

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POSTAL NEWS

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)

(Contact Phone)

NEED POSTAGE STAMPS? TRY THESE ALTERNATIVES

(CITY, STATE) — *Without a doubt, the holidays are the busiest time of the year for the post office. Customers are not only mailing their usual correspondence, they are often sending several packages, adding special services like insurance and asking clerks about different ways to mail. "Like any retailer this time of year, we have more customers with larger and more complex transactions," says (city) Postmaster (full name). For customers simply buying stamps, (last name) recommends several approaches to avoid the holiday lines:*

- Purchase from vending machines in post office lobbies. Many post offices provide 24-hour access to vending machines and offer stamps in different quantities and denominations. Plus, many areas have postal vending machines in public areas like business parks, malls and grocery stores.
- Purchase from participating retailers who sell books of stamps at face value, right at the check-out line. Ask your major grocer, drug store or convenience store.
- (In areas where we have contracts with Mail Boxes Etc.®) Mail Boxes Etc. centers are now fully authorized United States Postal Service retailers offering Priority Mail, Express Mail and stamps at many locations with convenient hours to accommodate your holiday mailing and shipping needs.
- Purchase from participating banks selling stamps through 15,000 ATMs nationwide. A surcharge by the bank is usually applied.
- Call 1-800-STAMP-24. Customers can place orders by phone, use a credit card and get stamps delivered to their door.
- Visit www.usps.com. Not only can customers order stamps at the Postal Store, they can look up ZIP Codes, calculate postage and get details on mailing options and special services.
- Order Stamps-By-Mail with forms available in post offices or from letter carriers.

"Getting everything you need to get done for the holidays can be a hassle. By providing alternate means to purchase stamps, the post office hopes to help customers avoid 'Who'da' hassles and glitches," says (last name).



POSTAL NEWS

(date, year)

FOR IMMEDIATE RELEASE

(Contact Name)
(Contact Phone)**PHOTO OPPORTUNITY****LETTER CARRIER "SANTAS" DELIVER ON CHRISTMAS DAY**

(CITY, STATE) — Last-minute Express Mail gifts will be delivered personally by a "Santa's Helper" on Christmas Eve (and/or) Christmas Day (if applicable) again this year to customers living in (city), said (city) Postmaster (full name).

The tradition began 15 years ago when several U.S. Postal Service delivery employees decided to make working on the holiday more fun by donning Santa outfits and becoming "Santa-for-a-Day."

(Talk about local program.)

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POSTAL NEWS

FOR IMMEDIATE RELEASE

Contact: Monica A. Hand
(202) 268-2783
Release No. 94**OVERSEAS CHRISTMAS MAILING DEADLINES RIGHT AROUND THE CORNER**

WASHINGTON, D.C. — It's always a shock when the first holiday catalogs arrive in the mailbox — it seems to get earlier every year. But it is a good reminder that if you want your loved ones overseas to get their gifts on time, the recommended mailing deadlines are fast approaching.

Depending on where and how it's being mailed, the first recommended mailing date is October 27 for surface transportation to Africa. For most international destinations, including military bases, the Postal Service advises you to mail packages, cards, and letters no later than December 11. Expedited mail services like Global Express Guaranteed (GXG) and Express Mail International can be used even up to the last few days before Christmas.

This year, between Thanksgiving and Christmas, the Postal Service expects to deliver 20 billion holiday letters, postcards and packages, about one billion of which will be bound for international destinations.

The following information is also available through the Postal Service's Web site, www.usps.com.

International Mail To	Air Letters/Cards	Air Parcel Post	Surface
Africa	December 4	December 4	October 27
Asia/Pacific Rim	December 11	December 11	November 3
Australia/New Zealand	December 11	December 11	November 3
Canada	December 15	December 15	November 24
Caribbean	December 11	December 11	November 11
Central & South America	December 4	December 4	November 3
Europe	December 11	December 11	November 11
Mexico	December 11	December 11	November 11
Middle East	December 11	December 11	October 27



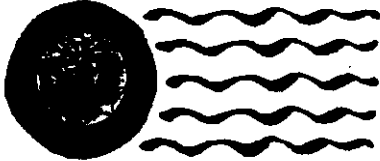
POSTAL NEWS

FOR IMMEDIATE RELEASE

Contact: Gerry Kreienkamp
(202) 268-3051

Release No. 62

USPS Web Site: <http://www.usps.com>



**TO HELP YOU SHIP THOSE GIFTS THAT WILL PLEASE
THE POSTAL SERVICE WILL BRING YOU DELIVER-EASE**

Postal Service turns holidays into "Wholidays"

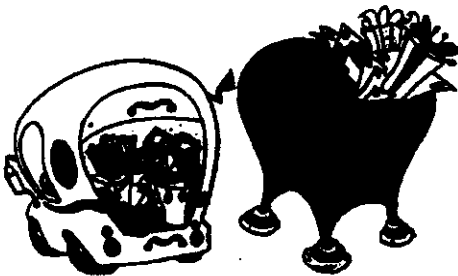
WASHINGTON, D.C. — *When customers come in, they know from the start, with service this good, it'd change a Grinch's heart. Even in August, the Postal Service is getting ready for the holiday mailing rush. This holiday season, post offices across the country will be filled with the spirit of the "Wholidays," with the happy denizens of Whoville from the new Universal Pictures movie Dr. Seuss' How the Grinch Stole Christmas, to be released November 17th.*

*What would make the holidays exciting, we sat around and thought,
To give customers a smile when they shipped what they bought?*

*A happy new movie with characters so fun,
We could use them in our stores. And the deal was done.*

*Universal said, "Great! We'd love to work with you."
We knew our customers would love Whoville, too.*

*With lobbies festooned with the cute little critters,
And great service, too, to ease holiday jitters.*



Caption: The Postal Service is using imagery of the Whoville characters from the Universal Pictures release Dr. Seuss' How the Grinch Stole Christmas in its holiday season advertising.

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Editor's note: Graphic images can be downloaded for print or screen from the Postal Service Web site at www.usps.com, with the press releases.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-16. Describe in detail the expected operating plan for window clerks for offering Manual Delivery Confirmation for free to Priority Mail users from December 1 to December 16.

(a) Must customers request the free service, or will window clerks offer it to customers?

(b) Will all Priority Mail items receive free Manual Delivery Confirmation automatically?

RESPONSE: The expected operating plan for window clerks is still under development and details are not available.

(a) – (b) Customers will not have to request the service. Window clerks will offer it in a manner designed to encourage acceptance, but if a customer does not wish to use Delivery Confirmation, his or her wishes will of course be respected.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-17. Provide all market research that the Postal Service has performed, or has contracted to perform, on the potential impact of its proposed fee suspension.

RESPONSE: *No such studies have been performed by the Postal Service or its contractors.*

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-18. Has the Postal Service studied through market research, customer interviews, or any other means the potential increase in Delivery Confirmation usage as a result of this proposal? If so, provide the studies and all results of these studies.

RESPONSE: No such studies have been performed.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-20. Has the Postal Service studied through market research, customer interviews, or any other means the reason that customers are likely to mail packages during the busiest week of the holiday season? If so, provide the studies and all results of these studies.

RESPONSE:

No such studies have been conducted.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1-21. Has the Postal Service studied through market research, customer interviews, or any other means the likelihood that customers will mail packages before the busiest week of the holiday season as a result of this proposal? If so, provide the studies and all results of these studies.

RESPONSE:

No such studies have been conducted. Experience with the proposal is intended to generate such information directly.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T1 -22. Is it the Postal Service's expectation that, if this proposed program is judged a success by Postal Service management, Manual Delivery Confirmation would be offered at no charge during the same time period in calendar year 2002? Explain.

RESPONSE:

As suggested in my testimony (page 7, lines 1-4), if the proposal were to be implemented as an experiment and were to be judged as a success in noticeably smoothing holiday mailing patterns, the Postal Service would contemplate considering a permanent classification modeled on the proposal. Under that scenario, within the framework of an omnibus rate case, the revenue and cost effects resulting from the "without charge" period could be included in the overall assessment of cost coverages for the Priority Mail and Delivery Confirmation along the lines of Panel C on page 2 of my workpaper.

The Postal Service reserves judgment regarding the 2002 holiday season until it has had the opportunity to assess the outcome of its proposal.

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UPS/USPS-T1-23. Refer to USPS-LR-I, file 'DC LR.xls', page 'WP-p.2 Exper. Rev & Cost'.

(a) Explain why one-half of the cost of informing customers is assigned to Priority Mail. How was the determination to assign one-half of the cost to Priority Mail made?

(b) Explain why the cost of additional Delivery Confirmation usage during the experiment is assigned to Priority Mail.

(c) Explain why the cost of non-electronic, existing usage is moved from the cost base of Delivery Confirmation to the cost base of Priority Mail.

RESPONSE:

(a) Please see my testimony, page 9, lines 13-18.

(b) - (c) Please see my testimony, page 8, line 18 through page 9, line 10.

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UPS/USPS-T1-25. Refer to pages 3 and 4 of your Workpaper, Library Reference MC2001-2/I. Provide PERMIT System Priority Mail volume by week for FY 2000 and FY 2001.

RESPONSE:

The requested data are provided below, with exception of those for the last quarter of FY 2001, which are not yet available.

FY 2000 & FY 2001 Weekly Data on PERMIT System Priority Mail

FY 2000 A/P Begins	FY 2000	FY 2000 PERMIT System Priority Mail (millions)	FY 2001 A/P Begins	FY 2001	FY 2001 PERMIT System Priority Mail (millions)
9/11/00	AP 01	4.085	9/9/00	AP 01	4.077
		5.100			4.260
		6.463			4.468
		4.534			4.257
10/9	AP 02	4.767	10/7	AP 02	4.675
		4.978			5.246
		4.724			5.611
		4.880			4.666
11/6	AP 03	5.032	11/4	AP 03	4.780
		5.831			5.102
		5.129			4.548
		10.686			7.246
12/4	AP 04	9.457	12/2	AP 04	7.158
		11.890			7.481
		8.177			7.185
		3.938			3.170
1/1	AP 05	4.530	12/30	AP 05	3.717
		4.442			3.727
		4.402			3.589
		4.590			3.891
1/29	AP 06	6.647	1/27	AP 06	3.614
		5.957			3.689
		4.338			3.867
		4.333			2.608
2/26	AP 07	4.787	2/24	AP 07	3.881
		4.443			3.428
		4.549			3.609
		6.030			4.534
3/25	AP 08	5.530	3/24	AP 08	4.816
		5.025			4.252
		5.161			3.971
		4.852			5.488
4/22	AP 09	4.376	4/21	AP 09	5.975
		4.659			3.604
		4.781			4.930
		4.929			7.287

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5/20	AP 10	4.788	AP 10
		3.570	
		4.283	
		4.589	
6/17	AP 11	4.931	AP 11
		4.541	
		3.786	
		4.338	
7/15	AP 12	4.070	AP 12
		3.749	
		3.816	
		3.818	
8/12	AP 13	3.873	AP 13
		3.936	
		3.965	
		3.500	

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UPS/USPS-T1-26. Refer to your response to UPS/USPS-T1-1(a)-(b). Provide the time period covered by the figure received from the Retail Department that compares revenue received at POS sites to the grand total revenue received at retail sites.

RESPONSE: The 70% figure applies to the anticipated coverage resulting from the most recent round of POS purchases; deployment for this round was essential complete in Quarter 3 of FY 2001.

The revenue to which this figure applies is retail "walk in revenue." Walk in revenue excludes certain revenue received at retail sites, such as revenue from the sale of precanceled stamps, that comes from commercial mailers

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UPS/USPS-T1-27. Refer to your response to UPS/USPS-T1-2(c).

- (a) Define "dramatically" as used in this response.
- (b) Are the "developed usage patterns" of these third channel pickup/collection box mailers strongly associated with the price of the delivery confirmation service?
- (c) Describe in detail why these third channel mailers with "developed usage patterns" will not respond to a 40-cent price decrease.
- (d) Confirm that these third channel mailers simply apply a manual delivery confirmation label to the Priority Mail piece. If not confirmed, explain in detail.

RESPONSE: (a) In this response "dramatically" simply means enough to affect the adjustment for third-channel use (column headed "Ratio of non-window manual DC to window manual DC," workpaper page 1) by more than a few percentage points

(b) & (c) The "developed usage patterns" (which might be thought of as loosely defined standard operating procedures) reflect business decisions to use Delivery Confirmation with certain types of out-going Priority Mail and not with others, depending perhaps on the value of the item, the need for some evidence of delivery, or recipient request. I can not confirm that these patterns are "strongly" associated with the price of Delivery Confirmation, but I would expect them to have been somewhat affected by the price of Delivery Confirmation (35 cents from March 1999 to January 2001, and 40 cents thereafter) during the period they were developed, and I would expect them to respond to a permanent reduction of 40 cents in the Delivery Confirmation fee. However, I would expect very few of the business decisions that generated these usage patterns to be revisited because of a 16-day reduction of 40 cents.

(d) Confirmed. Moreover, through the web site noted in OCA/USPS-T1-1, many if not most of these third channel mailers can already obtain Delivery Confirmation without charge by printing their own label. I would expect this permanent change to generate a gradual expansion in third-channel use of Delivery Confirmation.

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UPS/USPS-T1-28. Refer to your response to UPS/USPS-T1-2(d).

(a) Provide the total RPW-based Priority Mail volume for FY2001 by quarter and annually.

(b) Provide the total "window-entered" Priority Mail volume for FY2001 and FY2000 by quarter and annually.

(c) Provide the POS Site-entered Priority Mail volume for FY2001 and FY2000 by quarter and annually.

(d) Provide the PERMIT-entered Priority Mail volume for FY2001 and FY2000 by quarter and annually.

RESPONSE:

Priority Mail Volume Data					
		Window- Entered (=POS*100/ POS % of Retail Rev.)	POS	PERMIT	POS % of Retail Revenue 1/
FY 2000					using Q1 01
Q1	283,583,000	30,904,508	18,362,100	66,209,402	59%
Q2	318,102,000	47,925,612	28,475,292	72,699,866	59%
Q3	279,492,000	38,890,270	23,106,889	59,122,579	59%
Q4	334,404,000	57,678,307	34,269,915	65,551,310	59%
PFY	1,215,581,000	175,398,697	104,214,196	263,583,157	
GFY	1,222,454,000	n.a.	n.a.	n.a.	
FY 2001					
Q1	272,694,000	62,114,839	36,905,907	58,936,433	59%
Q2	303,383,000	92,563,342	55,634,375	53,695,565	60%
Q3	264,586,000	64,059,850	43,493,814	55,776,689	68%
Q4	n.a.	75,708,370	54,441,046	n.a.	72%
PFY	n.a.	294,446,401	190,475,142	n.a.	65%
GFY	n.a.	n.a.	n.a.	n.a.	
1/ Retail revenue is "Walk in Revenue." This excludes certain revenue received at retail units that relates to commercial customers, such as sales of precancelled stamps. Walk in Revenue AICs are defined in the 9/7/00 Postal Bulletin. Note also that in calculating window-entered volume from POS volume, data for FY 2000 utilize the FY 2001 Q1 POS percentage of Retail revenue since FY 2000 data are not yet available.					

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UPS/USPS-T1-29. Refer to your response to UPS/USPS-T1-3(c). Describe in detail the specific permanent classification modeled on the experiment that "might well be warranted".

RESPONSE:

If the experiment is successful in smoothing holiday package mailing patterns, the Postal Service and its customers could benefit from establishing the no-charge period as a permanent feature of the season. The details of any such classification could only be determined after the experiment has been evaluated. My expectation of how such a classification would be structured is generally reflected in my workpaper, page 2, panel C. The classification would set the fee for manual Delivery Confirmation with Priority Mail at zero for a certain period in early December, and the costs of providing the service during that period would be transferred to Priority Mail as is currently done for electronic Delivery Confirmation for the full year. Decisions as to exactly how many days and whether either the beginning day or the final day should be specified (relative to December 25) are best left until later.

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UPS/USPS-T1-30. Refer to your response to UPS/USPS-T1-4(h)-(i). Confirm that in an omnibus rate case, both the Postal Service and the Commission calculate the manual delivery confirmation cost coverage for Priority Mail by comparing the revenue from the fee for the service to the cost of manual delivery confirmation in excess of the cost of electronic delivery confirmation. If not confirmed, explain in detail.

RESPONSE: Confirmed. [Should I say more – like "and I have conformed to the practice except for the 16 days on which Delivery Confirmation would be provided without charge. For those days I have conformed to Postal Service and Commission practice for electronic Delivery Confirmation for Priority Mail, where the cost is transferred to Priority Mail and marked up along with other Priority Mail costs.

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UPS/USPS-T1-33. Refer to your response to UPS/USPS-T1-11 regarding retail Priority Mail pieces that would have been mailed after December 16, 2001, but *instead are mailed during the proposed pricing*

(a) Confirm that approximately 12.8% of these pieces would have selected manual delivery confirmation. If not confirmed, explain in detail.

(b) Confirm that the Postal Service will not receive 40 cents per piece in revenue for those pieces that would have selected *manual delivery confirmation*, and thus, the net additional cost to the Postal Service of the proposed experiment is 40 cents for these pieces. If not confirmed, explain in detail.

RESPONSE:

(a) Not confirmed; rather than use the 12.8% average for the experimental period (page 1 of my workpaper, cell D9), it would be better to use the 11.3% that applies to the week following the experimental period (page 4 of my workpaper, cell E17).

(b) Confirmed.

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UPS/USPS-T1-35. When the Postal Service describes the window-entered retail channel, does it include Contract Postal Units and private retail outlets such as Pak Mail or Postal Plus? If not, in what category are these outlets included?

RESPONSE: Yes with respect to Contract Postal Units. Private retail outlets would be included in the third-channel category.

INTERROGATORIES
**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
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UPS/USPS-T1-36. Refer to your response to UPS/USPS-T1-28. Do the RPW-based volume figures regarding window-entered Priority Mail include private retail outlets and Contract Postal Units? If not, in what figures are these volumes included?

RESPONSE: Revenue from these Contract Postal Units is included in the total retail walk-in revenue that is used to scale up POS data, so volume from these sources is reflected in the window-entered Priority Mail data in my response to UPS/USPS-T1-28. Volume from private retail outlets is part of third-channel volume.

I would note that UPS/USPS-T1-28 asks only for window-entered Priority Mail, not for "RPW-based" window-entered Priority Mail. Because of the lack of information on metered Priority Mail entered by large commercial shippers (see my response to UPS/USPS-T1-34), I do not think it is possible to develop an RPW-based estimate of window-entered Priority Mail.

INTERROGATORIES

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UPS/USPS-T1-37. Does the Postal Service intend to offer free Manual Delivery Confirmation at all Postal Service-operated retail facilities during the period from December 1, 2001, through December 16, 2001? If not, why not?

RESPONSE:

That was the intention at the time the Request was filed, but the Postal Service is now evaluating whether the scale of the experiment should be reduced.

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UPS/USPS-T1-38. Does the Postal Service intend to offer free Manual Delivery Confirmation at all Contract Postal Units during the period from December 1, 2001, through December 16, 2001? If not, why not, and have you considered the impact of this proposal on Contract Postal Units?

RESPONSE:

Yes, at least all Contract Postal Units in areas where the experiment is conducted.

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UPS/USPS-T1-39. Does the Postal Service intend to offer free manual Delivery Confirmation at private retail facilities that tender Priority Mail to the Postal Service during the period from December 1, 2001, through December 16, 2001? If not, why not, and have you considered the impact of this proposal on private retail facilities that offer Priority Mail?

RESPONSE:

Yes, at least all such facilities in areas where the experiment is conducted.

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UPS/USPS-T1-40. Does the Postal Service intend to offer free Manual Delivery Confirmation at any other non-Postal Service-operated outlet that tenders Priority Mail to the Postal Service during the period from December 1, 2001, through December 16, 2001? If not, why not, and have you considered the impact of this proposal on other non-Postal Service outlets that offer Priority Mail?

RESPONSE:

Yes, at least all such outlets in areas where the experiment is conducted.

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UPS/USPS-T1-41.

(a) Refer to Library Reference USPS-LR-1, Workpaper, page 4 of 4. Confirm that the total POS Priority Mail volume during FY2001 was 191.3 million. If not confirmed, explain in detail.

(b) Confirm that multiplying this 191.3 million figure by 100/70 yields the estimated window-entered Priority Mail volume in FY2001 of 273.3 million. If not confirmed, explain in detail.

(c) Refer to your response to UPS/USPS-T1-5(b). Confirm that with a cost for Priority Mail Manual Delivery Confirmation of 36 cents per piece and a 40 cent fee for that service, the net contribution per piece for Priority Mail Manual Delivery Confirmation is 4 cents per piece. If not confirmed, explain in detail.

(d) Refer to your response to UPS/USPS-T1-3(b). Confirm that with a contribution of 4 cents per piece and a total cost of the proposed pricing experiment of \$9666.715, approximately 240 million additional pieces of window-entered Priority Mail must select Manual Delivery Confirmation services after the pricing experiment for the pricing experiment to pay for itself if there are no net benefits from pieces being mailed early. If not confirmed, explain in detail.

(e) Provide all studies and supporting analyses of the additional volume out of the total window-entered Priority Mail volume of 273.3 million pieces per year that will choose Manual Delivery Confirmation service as a result of the proposed pricing experiment.

RESPONSE:

(a)-(c) Confirmed.

(d) Confirmed that \$9,566,715 divided by \$0.04 is approximately 240 million.

Note that the experiment need not pay for itself in a single year; I would expect that any increase in usage that results from introducing customers to Delivery Confirmation during the experiment would persist for a number of years.

(e) No such studies have been performed, but Chart 2 shows that the Delivery Confirmation usage for window-entered Priority Mail is noticeably below average in weeks when window-entered volume spikes upward, so there is considerable potential for increased usage.

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UPS/USPS-T1-42. Refer to Domestic Mail Manual, "Rates and Fees," §§ R100.8.0 and R700.1.1.

(a) Confirm that the fee for Manual Delivery Confirmation of Parcel Post pieces will be 50 cents per piece during the proposed pricing experiment. If not confirmed, explain in detail.

(b) Confirm that the rate for 1-pound inter-BMC/ASF Single-Piece Machinable Parcel Post pieces with Manual Delivery Confirmation will be 42 to 45 cents per piece higher than for 1-pound Priority Mail pieces with Manual Delivery Confirmation during the proposed pricing experiment. If not confirmed, explain in detail.

(c) Confirm that the rate for 2-pound inter-BMC/ASF Single-Piece Machinable Parcel Post pieces, Zone 3 and above, with Manual Delivery Confirmation will be equal to the rate for 2-pound Priority Mail pieces with Manual Delivery Confirmation during the proposed pricing experiment. If not confirmed, explain in detail.

(d) Confirm that the rate for 3-pound inter-BMC/ASF Single-Piece Machinable Parcel Post pieces, Zone 5 and above, with Manual Delivery Confirmation will be 1 to 16 cents per piece higher than for 3-pound Priority Mail pieces with Manual Delivery Confirmation during the proposed pricing experiment. If not confirmed, explain in detail.

(e) Provide all analyses or studies on the impact of the proposed pricing experiment on Parcel Post.

RESPONSE:

(a)-(d) Confirmed.

(e) Please see my response to UPS/USPS-T1-14.

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UPS/USPS-T1-45. Has the Postal Service studied through market research, customer interviews, or any other means the potential change in Parcel Post volume as a result of this proposal? If so, provide the studies and all results of these studies.

RESPONSE: No such studies have been conducted.

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UPS/USPS-T1-47. Refer to page 10 of your testimony, where you discuss "supplemental air transportation" costs.

(a) Did contracts for supplemental air transportation contain rates that varied during the period from December 2, 2000, through December 22, 2000? If so, describe how they varied, and to what extent? What was the basis for the variation?

(b) Do the contracts for supplemental air transportation contain rates that vary during the period from December 1, 2001, through December 21, 2001? If so, describe how they vary, and to what extent? What is the basis for the variation?

RESPONSE:

(a)-(b) My testimony on page 10 refers to the possibility that shifting volume away from the busiest week to the experimental period would permit reduced total usage of supplemental air transportation over the period from December 1, 2001 through December 21, 2001, with correspondingly more use of regular air transportation. This possibility does not rely on the existence of varying rates for supplemental air transportation within the December 1-21 period, and I have no knowledge of any such variation.

UPS/USPS-T1-51. How will the Postal Service obtain information about the causes for any shifts in holiday mailing patterns or increases in future usage of Delivery Confirmation that occur after the suspension of the fee?

RESPONSE:

The Postal Service has no definite plans in this area. Depending on the extent of shifts in mailing patterns and the extent of increased future Delivery Confirmation usage, it might be worthwhile to conduct some form of market research to confirm to obtain a deeper understanding of what aspects of the experiment were most important in generating the shifts.

Also, if the experiment is conducted in only a portion of the country, changes occurring in the experimental area could be compared with those in the remainder of the country.

1 COMMISSIONER COVINGTON: Mr. Heselton, has the new
2 appendix to Dr. O'Hara's testimony been formally filed with
3 the Commission and served to all the participants in this
4 proceeding?

5 MR. HESELTON: Yes, it has, Commissioner.

6 COMMISSIONER COVINGTON: Okay. Thank you.

7 If there are no further procedural matters, this
8 brings us to oral cross-examination. One participant, the
9 United States Parcel Service, has asked to conduct oral
10 cross-examination of Witness O'Hara.

11 I also would like to note for the record that Ms.
12 Shelley Dreifuss is present from the Office of the Consumer
13 Advocate here at the Commission, and we feel quite sure that
14 she realizes that she has the right to reserve a chance to
15 conduct follow up cross-examination and, of course,
16 participate in these proceedings as we move along.

17 Good morning, Ms. Dreifuss.

18 MS. DREIFUSS: Good morning. Thank you.

19 COMMISSIONER COVINGTON: At this time, Mr.
20 McKeever, are you prepared to begin?

21 MR. MCKEEVER: Yes, Mr. Commissioner.

22 COMMISSIONER COVINGTON: Okay.

23 CROSS-EXAMINATION

24 BY MR. MCKEEVER:

25 Q Good morning, Dr. O'Hara. Could you turn, please,

1 to your response to UPS Interrogatory 37? I think that was
2 filed just this morning.

3 A Yes. Yes.

4 Q Now, we asked you in that interrogatory whether
5 the Postal Service intended to offer free manual delivery
6 confirmation at all Postal Service operated retail
7 facilities during the proposed experimental period, and your
8 response, and I'm quoting here, is:

9 "That was the intention at the time the request
10 was filed, but the Postal Service is now evaluating whether
11 the scale of the experiment should be reduced." Is that
12 correct?

13 A That is correct.

14 Q What is the Postal Service contemplating in the
15 way of changing this experiment?

16 A Let me provide a little background. The
17 combination of the current procedural schedule and the lead
18 time for providing additional capacity to respond to
19 inquiries about the status of individual packages with
20 delivery confirmation on them is such that we have to make
21 those commitments now in order to have those things
22 provided.

23 Even the internet channel turns out to have
24 capacity constraints that need to be relaxed and also the
25 automated voice response and, most critically, the operators

1 that fall through to the -- when calls fall through those
2 two systems. Persons need to be hired and undergo a certain
3 amount of training. We do this routinely every year for
4 Christmas. There's always a peak.

5 To conduct it for the whole -- to conduct an
6 experiment for the whole country would generate a much
7 larger peak, and since we're not sure of what the outcome of
8 this case would be, we're proposing considering a
9 substantial reduction in the scale of the experiment.

10 Q So the Postal Service does not believe that it
11 would have the time to take the necessary steps to implement
12 the experiment on the scale originally proposed?

13 A I guess the time is there, but the commitment of
14 funds is large, and we are also somewhat concerned about the
15 scale. It's a very substantial ramp up in some things which
16 we have already added capacity for the Christmas season. We
17 have to add more. That is the primary consideration.

18 Q You said the commitment of funds is large. Can
19 you expand on that? What do you mean by that?

20 A Well, relative to the scale of the experiment. We
21 would have to sign contracts to hire additional temporary
22 operators and have to acquire seats for them and so on.
23 There are firms that provide this kind of capacity. We
24 don't have to do it all ourselves. They would not be Postal
25 employees.

1 In terms of the overall magnitude of the
2 experiment, if it doesn't go forward at all we would still
3 be committed to a very substantial amount of the projected
4 cost if we didn't get the decision in time to implement or
5 in a form that we wanted to implement.

6 Q But if it does go forward there would be some
7 additional commitment of resources in the way of hiring
8 additional people?

9 A Yes. These are costs which are included. The
10 unit cost of doing this is not different. In fact, it may
11 be lower because this is a simpler set of skills that are
12 required to just respond to tracking inquiries. You don't
13 have to know about the full range of things that the call
14 centers usually have.

15 The total number of such people required to handle
16 the projected volume of transaction inquiries is larger. Is
17 large. It's not larger than projected, but it's
18 substantial. If we're not going to be able to actually
19 conduct the experiment, we might essentially get no return
20 on those.

21 Q So there would be additional people hired if the
22 experiment were to go forward?

23 A Yes.

24 Q Okay. Do you have any idea what the cost would be
25 at this point in time?

1 A I don't. You can look in the unit cost of
2 delivery confirmation for call center responses and sort of
3 multiply that by the time.

4 I want to be careful to distinguish between the
5 unit cost, which I do not think will be any higher than has
6 been provided for in my testimony, and the fact that if we
7 don't have the experiment take place we will have expended
8 funds that will have no benefit.

9 Q And at this time you don't have any idea of the
10 amount of funds that would have been expended for no
11 benefit? Is that correct?

12 A I don't have a number with me. It would depend on
13 we have people working to get quotes on all three of the
14 fronts -- the internet, the automated voice response and the
15 operators.

16 I think it's more the uncertainty than the amount.
17 The amount is I think going to be in line with the amount
18 provided for in my testimony.

19 Q Do you mean on a unit basis?

20 A Yes, and then on a unit basis, I mean, I have a
21 total number of units in my testimony and a total amount of
22 cost for all of the aspects of delivery confirmation.

23 Q Now, you're going to hire additional people if the
24 experiment goes forward because I think you said you expect
25 more volume?

1 A More inquiries at the call center, yes. If there
2 are more delivery confirmation transactions taking place,
3 more pieces with delivery confirmation on them, then a
4 certain fraction of those people will need to be dealt with
5 in person over the phone. That requires more people, even
6 though the unit cost of doing so is no different than it is
7 for the existing transactions.

8 Q Do you expect the volume of delivery confirmation
9 transactions to go up from what is I want to say estimated,
10 but I should say from what your numbers are based on in your
11 testimony?

12 A No. No. I expect the numbers -- this is strictly
13 my numbers really have -- well, they have a number of
14 simplifying assumptions in both directions, but I'm assuming
15 that 100 percent of what I project to be the eligible volume
16 accepts the offer and that they incur the same kinds of cost
17 that we incur on the existing volume.

18 Q But your concern is they will generate additional
19 inquiries that you may not be able to handle without hiring
20 additional people?

21 A That's right. The inquires are exactly -- they're
22 a multiple of what we ordinarily handle. I think if we were
23 to try to handle them without hiring any more than the
24 normal number of Christmas extra people, we would have
25 people waiting on hold for a very long time. That's simply

1 not the way we want to provide the service.

2 Q Now, you say the number of additional inquiries
3 would be a multiple of what you normally would expect to
4 handle.

5 A Yes.

6 Q Do you have any idea what kind of multiple?

7 A I think you can just look in the work paper. The
8 volume that we're talking about is -- if we look on my first
9 page, the percent of Priority Mail that last year bought,
10 retail Priority Mail that bought delivery confirmation, was
11 12.8, and now if everybody buys it, which is the assumption
12 I make, that's a multiple of eight, I believe, of roughly
13 12.8.

14 Q Okay. You said the people who had bought it is
15 12.8. Did you mean 2.8?

16 A Twelve point eight percent.

17 Q Twelve point eight percent?

18 A I'm sorry. Yes.

19 Q Okay. The number is kind of 2.8 million?

20 A Yes. Yes.

21 Q Okay.

22 A Twelve point eight percent of the retail Priority
23 Mail bought delivery confirmation last year. That's the
24 average down in the shaded, if you have that.

25 Q I do.

1 A Yes.

2 Q Thank you.

3 A And so dividing that into 100 percent I get a
4 multiple of about eight.

5 Q So you would expect an increase in inquiries of
6 about eight times what you normally would have?

7 A That's the number we're using for planning
8 purposes. I don't have any other basis for doing it, but
9 yes.

10 Q Now, of course, the 2.8 million folks who have
11 already used it are presumably somewhat familiar with the
12 service. Is that correct?

13 A Yes.

14 Q And I guess the people above the 2.8 million, I
15 guess it's an additional 19 million, almost 19.1 million, --

16 A Yes.

17 Q -- that you base your numbers on is probably going
18 to have a larger percentage of people who haven't used the
19 service. Is that correct?

20 A That's the whole idea. Yes.

21 Q Okay. And so they're likely to have more
22 questions about it?

23 A They may. On the other hand, since they have been
24 offered this in a way that's going to encourage them to
25 accept it, they may not have the same interest in following

1 up as people who are "familiar" with it, but also bought it
2 for a reason.

3 Q So they may -- I'm sorry.

4 A Yes. All I'm saying is they might have more
5 questions for lack of familiarity, but they might also have
6 less interest in actually taking advantage of the service
7 even though they agreed to try it.

8 Q So they may accept something for free, you know,
9 as long as they don't have to pay for it, even though they
10 don't know what they're getting?

11 A Well, I think we're going to try and have
12 information that will tell them what they're getting, but
13 whether they're going to want to take the time to make the
14 phone call, go on the internet, is I think reasonable to
15 assume that if you didn't really pay for it, you weren't
16 probably part of the people that were paying for it last
17 year, you were part of the 80 plus percent that didn't buy
18 it, that some people will take it and simply ignore it, so
19 that will work the other direction. I have no basis for
20 saying which way is the bigger of the two.

21 Q Okay. Now, I take it from your answers, so far,
22 that the Postal Service is evaluating whether to reduce the
23 geographic scope of the experiment?

24 A Yes. The way we at least we're thinking about it
25 is because of the communication problem or communication

1 task we think we need to do it in whole media markets or
2 metropolitan areas. We wouldn't want to do it, for example,
3 in this area just in northern Virginia, but not in Maryland
4 and D.C. That would be one consideration.

5 We wouldn't be doing it at a few offices in
6 selected locations throughout the country. It would be
7 geographically limited. Another thing that I think is
8 important is that we have areas where POS terminals were
9 deployed at Christmas last year so we have the appropriate
10 baseline for tracking the change in behavior.

11 Beyond that, there are probably a number of other
12 sort of operational considerations. I don't think we would
13 want to do it in places where people are preoccupied with
14 dealing with anthrax, if you can predict what is going to be
15 the case in December on that score, but fundamentally whole
16 metropolitan areas with substantial surrounding of rural
17 territory and sites or areas that had POS deployed at
18 Christmas last year.

19 Q So some people in the country would be able to get
20 it for free, and other people would be paying for it?

21 A That's correct. That would be the situation.

22 Q And do you have any geographic areas in mind now
23 where you would implement the experiment?

24 A I don't. I have people looking at the kinds of
25 criteria that I talked about, but I don't have any notion of

1 what it would be.

2 Q Now, to the extent that you cut down on the number
3 of geographic areas where you offered the service, that
4 would be a decrease, I guess, in the ability of the Postal
5 Service to achieve one of the goals of the experiment; that
6 is, to introduce the service to customers who haven't used
7 it before. Is that correct?

8 A Yes. It would scale back. It really would scale
9 back both the goals and also scale back the corresponding
10 expenses, so I think in some sense the actual amount of
11 benefit that we would get from this on both runs would be
12 less, but the cost would be correspondingly less.

13 Q The unit cost would be the same, wouldn't it?

14 A I think so.

15 Q But the absolute cost may not be as much
16 additional cost as if you were to implement the experiment
17 on a nationwide basis?

18 A Exactly. That is exactly the reason that this is
19 under consideration.

20 Q And you don't have any idea what the absolute cost
21 would be yet I think you've said a couple times?

22 A That's right. I mean, the closest I could come
23 would be to look at the unit cost for delivery confirmation
24 and multiply it, but some of that is not incurred until we
25 actually provide the service.

1 I don't think there's anything in my work papers
2 that provides the component breakdowns of how much is call
3 center costs versus acceptance costs versus delivery costs,
4 but that would be how I would go about it.

5 Q When does the Postal Service expect to be able to
6 make a determination concerning the scope of the experiment
7 it is requesting this Commission to approve?

8 A That decision has to be made very soon -- I would
9 say by Monday of next week -- just in order to sign
10 contracts.

11 Q You're projecting Monday of next week a decision
12 would be made?

13 A Yes. Let me say that would be a decision on the
14 scope. We might not have the particular geographic areas
15 pinned down by Monday.

16 Q But you might have the number of areas pinned
17 down?

18 A The approximate number of households and a
19 baseline. I'll use that words in two senses. Last year's
20 volume of transactions in those sites, Priority Mail
21 transactions, so we have a way to know what scale of
22 participation we need to prepare for.

23 The selection of the additional sites, the
24 specific sites, might take a bit longer, but not much.

25 MR. MCKEEVER: Mr. Commissioner, may I ask Postal

1 Service counsel if the Postal Service intends to return to
2 the Commission to amend its request once it decides the
3 contours of the experiment it wishes this Commission to
4 approve?

5 COMMISSIONER COVINGTON: Mr. Heselton, what says
6 you to that question from Mr. McKeever?

7 MR. HESELTON: Commissioner Covington, as Witness
8 O'Hara has indicated, this is a decision that's not been
9 decided yet, and until it has been I don't see the Postal
10 Service in a position to determine what adjustments it would
11 make to the filing.

12 COMMISSIONER COVINGTON: Mr. McKeever?

13 MR. MCKEEVER: Mr. Commissioner, let me ask Mr.
14 O'Hara one more question -- well, at least one more question
15 -- as a result of that.

16 BY MR. MCKEEVER:

17 Q Dr. O'Hara, has a decision definitely been made to
18 scale back the experiment, or is there still some
19 possibility that the Postal Service would go ahead as it
20 proposed on a nationwide basis?

21 A There's still some possibility. I would bet that
22 it's going to be scaled back, but that decision is made --

23 Q By others than you?

24 A By others, yes. As of late yesterday, we were
25 still uncertain about what we wanted to do.

1 Q But if you were a betting man, you'd bet that it's
2 going to be scaled back?

3 A I would.

4 Q But you don't know how much it's going to be
5 scaled back?

6 A Well, I can tell you that we're looking at if we
7 scale back at all scaling back to something that would
8 represent between ten and 20 percent of the households or
9 Priority Mail volume entered at retail.

10 Q So instead of making the offer to 100 percent of
11 the eligible volume, you think it's more likely to be on a
12 scale of making the free offer to ten to 20 percent of the
13 potential users?

14 A That's correct. I mean, we have always thought of
15 this as an experiment. I realize we're not using the
16 experimental rules, but almost all experiments have been
17 limited in scope. You can learn things that way at reduced
18 cost.

19 In this case, we thought we could do it for
20 everybody and that it would ease the communication problem
21 to do it for everybody, but it turns out that there are some
22 of these customer response considerations especially at this
23 hour or date making it hard to be sure that that's the right
24 course to do.

25 Q In other words, there were some concerns that you

1 hadn't anticipated?

2 A Yes.

3 Q Okay.

4 A We really -- first we thought we might get a
5 settlement. That didn't happen. That would have given us
6 some more certainty about what was going to come forth.
7 Then secondly, nobody that we talked to in preparing the
8 case said you can't scale up internet capacity that fast.

9 Q Somebody has since said that?

10 A Yes.

11 Q Okay. Dr. O'Hara, when did the Postal Service
12 begin work on this proposal?

13 A I began -- let me see. It was something we began
14 considering in mid August. I had been in my current product
15 redesign project talking to many of the senior executives in
16 the Postal Service looking for ideas about ways that we
17 could take cost out of the system. We've done a lot of work
18 on that side on the commercial mailer side, but very little
19 really on the retail side.

20 One of the things that came up was the possibility
21 of trying to get transactions that occur at peak time or
22 don't even need to occur at a window at all, such as simple
23 stamp transactions, to move away from the peak, to move to
24 other channels. After thinking about this, all of those
25 ideas are still there for the longer run, but the delivery

1 confirmation possibility was something that it looked like
2 we could do without involving the whole classification
3 schedule.

4 It was discussed by people at the working level
5 and also at the executive level, and it wasn't until very --
6 well, usually a week or so before the board meeting that we
7 actually made a firm decision to go ahead.

8 Q When was the board meeting?

9 A The board meeting was in September. September 4,
10 I believe it was.

11 Q So it was about a week before that that you made a
12 decision to go ahead with this?

13 A Yes. I had done a lot of the number gathering
14 that shows up in my testimony before then, but in terms of
15 actually getting the senior management of the Postal Service
16 to approve taking it to the board, that was when it
17 happened.

18 Q The idea first came up in mid August, though?

19 A I believe that's correct.

20 Q And the case was filed I think September 20?

21 A Thereabouts anyway, yes.

22 Q Okay. So the idea first came up about a month
23 before the case was filed?

24 A Yes.

25 Q Okay. Could you turn to your response to UPS

1 Interrogatory 39, please?

2 A Yes.

3 Q There we asked you if the Postal Service intends
4 to offer free manual delivery confirmation at private retail
5 facilities. To make sure that we understand each other
6 there, I take it we agree that we're talking about places
7 like Postal Plus or Postal Pak, which are not Postal Service
8 operated, --

9 A That's correct. Yes.

10 Q -- but that provide mail to the Postal Service --

11 A Uh-huh.

12 Q -- accepted from the public?

13 A Yes.

14 Q Okay. Do all those facilities have the ability to
15 offer delivery confirmation service presently for a fee?

16 A I believe they are on the same footing as what
17 I've referred to in my testimony as third channel mailers.
18 If you have an ability to apply postage and you have a label
19 today, you can do that. You don't get the acceptance scan
20 if you leave it for collection by the Postal Service or put
21 it in the collection box, but you do get the delivery scan.

22 I believe they are -- without being at all
23 familiar with the details of how they operate, I believe
24 they have the ability today, just as any mailer really does
25 who has the ability to apply postage and have the labels in

1 hand.

2 Q So they're in the same position as I would be at
3 my home to use the service? Is that what you're saying?

4 A Pretty much, except that I think if they have
5 experienced customers wanting this they will have the labels
6 on hand, and you don't probably.

7 Q To the extent that they're going to offer the
8 service to the public, then they either would have to take
9 whatever packages they accept where there would be delivery
10 confirmation to the Postal Service and fill out the labels
11 there, or if they have the labels on hand they would have to
12 fill it out in their store and then go to the Postal Service
13 and present it? Is that correct?

14 A No. In the same way that all the third channel
15 mailers today, which I think I have a number in my work
16 paper that's about 20 percent of our manual delivery
17 confirmation scans come without an acceptance scan. These
18 are the third channel people like the private retail units,
19 but also like firms that have the labels on hand.

20 Today they have to put the extra 40 cents in
21 postage on the piece and leave it for collection or put it
22 in the box if it's under a pound. If it's metered I guess
23 they could go over a pound in the box. That's all there is
24 to it. Nobody has to go to the post office. If you wanted
25 the delivery scan, the acceptance scan, I guess you would

1 have.

2 The other alternative, which is not widely used
3 yet as far as I'm aware, is to print your label, your
4 delivery confirmation label, off the internet. This was
5 mentioned in an OCA interrogatory. That is treated as an
6 electronic delivery confirmation, and as long as you put the
7 mail piece in the mail stream on the day you printed the
8 label, you get an accurate acceptance, as well as a delivery
9 scan. If somehow the label were printed days ahead, it
10 would be treated as entered at the time it was printed.

11 Q Now, there is a scan at the delivery point?

12 A Yes.

13 Q Okay.

14 A Yes.

15 Q I take it there are instances where for one reason
16 or another the scan at the delivery point is not made when
17 it should be? That happens, doesn't it?

18 A I'm sure it does.

19 Q Okay. And in that case I believe the Postal
20 Service will refund the delivery confirmation fee to a user
21 of the service who essentially doesn't get it. Is that
22 correct?

23 A I believe that is correct. There were some -- the
24 first batch of OCA interrogatories to me raised that set of
25 issues. We got those I think refiled in the omnibus case

1 since they were more directly relevant there, but, yes, I
2 believe that is the case.

3 Q So if a mailer gets the service for free, but
4 there is no delivery scan, of course, he doesn't get a
5 refund, I assume, or does he?

6 A Well, I guess you could figure that either way.

7 Q He just doesn't get the service?

8 A He doesn't get the service. I mean, I don't know
9 what a refund of zero would be. Yes. That's correct.

10 Q It will be, of course, made widely known
11 throughout the postal facilities, at least those who are
12 participating in the experiment, --

13 A Right.

14 Q -- that delivery confirmation will be provided for
15 free. Is that correct?

16 A Yes.

17 Q Okay. Dr. O'Hara, you've indicated in your
18 testimony and elsewhere that one of the goals of the
19 experiment is to hopefully get volume that otherwise would
20 be sent from December 17 to December 23 or 24 to shift into
21 the earlier weeks. Is that correct?

22 A That is correct.

23 Q And the purpose of that would be to save clerk and
24 carrier overtime, as well as air transportation costs,
25 during that last week before Christmas?

1 A Yes.

2 Q Because that is viewed as the peak week?

3 A Very much so.

4 Q Now, if I wanted to get the total window entered
5 Priority Mail volume during that week, the week December 17
6 to the 23rd or 24th, --

7 A Right.

8 Q -- I could go to your work paper, couldn't I, on
9 page 3?

10 A I believe so.

11 Q And since we're talking about 2001 here, I can
12 ignore the dates in the very first left-hand column and look
13 at the dates in the right, the extreme right-hand column?

14 A Yes.

15 Q Is that correct?

16 A Yes.

17 Q So if I wanted to get the volume during that week,
18 I would take the numbers in the second to the last column,
19 the one headed Non-Experimental Retail Volume, --

20 A Yes.

21 Q -- for those seven days and add them up?

22 A Yes.

23 Q Okay. I did that, and I got 12.4 million pieces.

24 A Uh-huh.

25 Q Now, if I wanted to get the volume in the week

1 before that, and that would be the second and last week of
2 the experiment, --

3 A Right.

4 Q -- I would just add up the numbers for the dates
5 12-9 through 12-16 --

6 A Uh-huh.

7 Q -- or 12-10 I guess if we're talking about seven
8 days, add them up, and that would give me the retail
9 Priority Mail volume during that week. Is that correct?

10 A That's correct.

11 Q Now, I did that, and I got 12.6 million. That's
12 200,000 pieces more during that second week of the
13 experiment than during the peak week and I guess so on for
14 the week before. Is that correct?

15 A The week before, and I'm looking now at page 1 of
16 my work papers, which covers a slightly different range of
17 dates. I have the week of 12-9 to 12-15 at 11.7 and then
18 the week before that at 8.2 it would round to, so it's clear
19 that the week before the last week of the experiment is
20 less. I think it's really most easily seen on my chart.

21 Q Yes. I agree with that.

22 A Yes.

23 Q I think that is pretty clear.

24 A Yes. The volume in the week just before the
25 experiment has this very high volume on the first two days,

1 at least last year. The dates shift a little bit this
2 coming year, so it's not clear that the peak would always be
3 quite as sharp on Monday and Tuesday. It might spread
4 easily to Wednesday, but it's that last week before
5 Christmas and especially the beginning of that week where
6 the volume is so high.

7 If we could get some of that volume entered even
8 on Saturday, that would actually make a difference, even
9 though when you throw in the remaining days in the week last
10 year after Tuesday, this year maybe after Wednesday, going
11 through Saturday it tails off considerably.

12 I think it's really interesting, more interesting,
13 at the daily level than at the weekly level, but you're
14 right. If you do the arithmetic, the total for the week is
15 about the same in that last week before Christmas. It's
16 just that it comes all at once. It comes in the first half
17 of the week.

18 Q Of course, Priority Mail comes in other ways than
19 at the retail level.

20 A Yes.

21 Q For example, you show figures for permit Priority
22 volume. Is that correct?

23 A Right.

24 Q And of course, that Priority volume makes use of
25 the same clerks and carriers and air transportation. Is

1 that correct?

2 A It makes use of the same carriers and air
3 transportation. It's not usually window entered. If it is,
4 it's entered in volume so that if the clerk is handling it,
5 he or she is handling many pieces at a time.

6 Q But still clerks have to process it, and carriers
7 have to deliver it?

8 A Yes. Yes.

9 Q And planes have to fly it?

10 A Right. Yes.

11 Q Okay. Now, if I wanted to know the volume of
12 permit entered Priority Mail the last week before Christmas,
13 I would go to page 3 of your work paper, and I would add up
14 the last seven numbers in the column entitled Permit
15 Priority Volume. Is that correct?

16 A That is correct.

17 Q I did that, and I came out with 6.9 million
18 pieces.

19 A Okay.

20 Q If I wanted to know the volume of permit entered
21 Priority Mail during the week before that, which would be
22 the second and last week of the experiment, I would just add
23 up the next seven numbers of the column. Is that correct?

24 A I believe so. Let's see. I'm losing track of
25 what day of the week we're talking about, but go ahead. I

1 assume you're right.

2 Q Well, I'm talking about the last seven days --

3 A Yes.

4 Q -- and then the next seven days before that.

5 A Right.

6 Q I did that, and I got 7.7 million pieces, which is
7 about 800,000 pieces during the second week of the
8 experiment than during the peak week.

9 A Uh-huh.

10 Q Now, the numbers in your work paper --

11 A I guess if I could, you know, again look at Chart
12 1, which shows the daily pattern in a way that I find easier
13 to deal with than the column of numbers. You see some of
14 the same peaking in the permit volume at the beginning of
15 the week. Again, there is a phenomenon, although not nearly
16 as strong, of the first half of the week being busy and the
17 second half not.

18 Putting all of that together, it looks like there
19 is accepting you're going to take a little more volume in
20 the prior week than the week after the experiment.

21 Q Did the Postal Service originally anticipate
22 before it made the filing putting this experiment into
23 effect for different a time period than the one it has
24 proposed in this filing?

25 A Until very late in the process, we had thought

1 about starting the experiment on the Friday after
2 Thanksgiving and going for about the same length of time,
3 about the same two weeks.

4 As we looked at it more closely, considering what
5 we were offering, which is a 40 cent -- a benefit priced at
6 40 cents, but not worth 40 cents apparently, although some
7 of that we attribute to people not really being familiar
8 with it, but, as I mentioned earlier, not more than about 12
9 or 13 percent of the people purchased it last year, so some
10 of them probably would have purchased it if they had been
11 more familiar with it, but some of them probably wouldn't
12 have.

13 Anyway, it's a 40 cent incentive, to keep things
14 simple, on a price which is \$3.50 at the minimum and for
15 packages more likely to be \$3.95 or above, so about a ten
16 percent difference.

17 How much change in behavior can you expect to get
18 from that? Can you expect to change people's shopping
19 patterns? Maybe not, but maybe let them shop when they
20 will. If they've already got the packages in hand by the
21 time of the experiment we did choose we think we might be
22 able to get them at least to mail early, so that was the
23 reason for the shift from just after Thanksgiving to
24 starting December 1 and going up to the last week before.

25 Q Well, you used a lot of words there, and I'm not

1 sure I followed them all --

2 A Sorry.

3 Q -- so let me see if I can break it down a little
4 bit. Originally the experiment was always going to be two
5 weeks?

6 A Thereabouts, allowing for ease of communication.
7 If we were going to do it just after the Thanksgiving
8 period, we would have said the Friday after Thanksgiving.

9 Q So originally it was anticipated that the fee
10 suspension period would be two weeks or so --

11 A Or so.

12 Q -- beginning the day or the Friday after
13 Thanksgiving?

14 A That's correct.

15 Q Okay. Now, when was the decision made to change
16 the dates from those two weeks or so to the December 1 to
17 December 16 time frame?

18 A That was made very shortly before the executive
19 committee meeting that approved sending the filing to the
20 governors, so it was within a week of the governors meeting.

21 Q So that was late August/early September?

22 A Very late August.

23 Q Okay. Now, the numbers in your work paper assume
24 that there would be no shift; the cost numbers in
25 particular. There would be no shift of window entered

1 Priority Mail from the last week before Christmas into the
2 experimental period. Is that correct?

3 A That's correct.

4 Q If there is a shift, then the Postal Service would
5 lose more revenue than shown in your work papers? Is that
6 correct?

7 A That's correct, and we would have at least the
8 opportunity to get some of the cost savings, which I
9 mentioned the possibility of, but don't quantify in my work
10 papers.

11 Q And those cost savings are said to be due to the
12 fact that the last week is the peak week?

13 A Yes, and especially the first half of the last
14 week.

15 Q Now let's suppose there were some shift from say
16 competitors of the Postal Service. People hear about the
17 offer, and we'll talk about that later, but that people hear
18 about the offer and decide that they'd rather send their
19 package by the Postal Service and get free delivery
20 confirmation than by the other source they would use during
21 that experimental period.

22 There would be some additional costs that are not
23 shown in your work paper, is that correct, for that
24 additional volume?

25 A There would be additional cost and additional

1 revenue. Yes.

2 Q Well, there wouldn't be additional revenue during
3 the experimental period. There's no fee.

4 A Not for delivery confirmation. There would be
5 additional Priority Mail revenue.

6 Q Right, but there wouldn't be additional manual
7 delivery confirmation revenue?

8 A That's correct.

9 Q So as far as manual delivery confirmations is
10 going, you would have added manual delivery confirmation
11 costs, but no added manual delivery confirmation revenue?

12 A That's correct.

13 Q Okay. In fact, the added costs would be about
14 42.4 cents a piece?

15 A I believe that's the number, yes.

16 Q Okay. With no offsetting manual delivery
17 confirmation revenue?

18 A That's correct.

19 Q And if you were to look at only the non-electronic
20 portion of the manual delivery confirmation cost, it would
21 be about 35 cents, 34.6 cents to be exact, additional cost
22 per piece?

23 A That's correct.

24 Q That's not shown in your work paper?

25 A No shift of volume from competitors is in my work

1 paper.

2 Q Okay. The numbers in your work paper also don't
3 reflect any possible shift in usage from a mailer who might
4 have sent his piece by parcel post, but decided instead to
5 send it by Priority Mail in order to get free delivery
6 confirmation, Is that correct?

7 A That's correct. I talk about that in my I think
8 it's Interrogatory Response 14.

9 Q Right. And to the extent there is such a shift,
10 there would be additional cost to the tune of about 42.4
11 cents per piece, but no additional manual delivery
12 confirmation revenue?

13 A Yes. Yes.

14 Q Okay. I think you also acknowledged in one of
15 your interrogatory responses that during the period of the
16 experiment it would actually be cheaper to send a piece
17 during the experiment by Priority Mail and get free delivery
18 confirmation than it would be to send it by parcel post and
19 pay 50 cents to get delivery confirmation. Is that correct?

20 A That's correct.

21 Q And the difference in the case of packages
22 weighing I guess two pounds and under is it would be 45
23 cents cheaper. Isn't that correct?

24 A I think it's one pound and under where that
25 applies. We can look, but I don't remember the difference

1 being that big except at the one pound level.

2 Q You may be correct. Yes. You're right. For the
3 one panel level it would be actually 45 cents cheaper to
4 send a piece by Priority Mail with free delivery
5 confirmation during the experiment than it would be to send
6 it by parcel post and pay for delivery confirmation.

7 A Yes.

8 Q Go ahead.

9 A I was going to say it's already the case today
10 that it's a few cents cheaper to send it by Priority with
11 delivery confirmation than by parcel post with delivery
12 confirmation because there's a ten cent difference in the
13 fees and only a nickel difference in the rates, so even
14 today at that volume if you want delivery confirmation it is
15 better sent by Priority.

16 Chairman Glyman or former Chairman Glyman used to
17 remark about that occasionally.

18 Q Well, that's because part of the cost of delivery
19 confirmation is in the base rate for Priority Mail --

20 A That's correct.

21 Q -- and isn't charged. Is that correct? That is
22 why that anomaly occurs?

23 A That is the immediate cause of the anomaly, yes.

24 Q Okay. But the difference right now without the
25 experiment is a few cents, whereas it's 45 cents for one

1 pound and under packages during the experiment?

2 A Right.

3 Q And in the case of two pound packages really the
4 rates are essentially the same. Is that correct?

5 A Yes. Literally the same in some cells and a few
6 cents in others, I think.

7 Q Okay. Just to be clear, when we say the rates are
8 the same, the mailer would pay the same to get Priority Mail
9 service with free delivery confirmation as he would to get
10 parcel post service and pay for delivery confirmation?

11 A That's correct.

12 Q And that's true for certain rate cells for three
13 pound packages as well? Is that correct?

14 A Yes.

15 Q Now, suppose a mailer comes into the post office
16 during the experiment and has a package, and, of course, he
17 has a choice of how to send that, Priority Mail or parcel
18 post. Suppose he comes in and says I want to send this
19 parcel post.

20 Will window clerks be instructed to tell the
21 customer that he has the option of sending it by Priority
22 Mail with free delivery confirmation? Will that be part of
23 the rubric of the experiment?

24 A I think it would. All the details of the script
25 are being worked out, but right now window clerks are

1 supposed to ask how fast do you want it to get there.

2 If the person says I want parcel post, I want
3 parcel post, I want parcel post, then they're not going to
4 argue with him, but if somebody walks up to the window with
5 a package they're supposed to ask how fast do you want it to
6 get there. That is designed to induce or at least provide
7 the opportunity for the clerk to suggest Priority Mail if
8 that is important.

9 I think with that framework in mind and the work
10 habits of clerks during the year that they will also be of
11 the frame of mind, and we'll do something in our
12 communications, not to try and limit this, but to suggest
13 Priority Mail.

14 Q Well, I think we're talking past each other a
15 little bit here --

16 A Okay.

17 Q -- because my concern isn't whether the clerk will
18 do what the clerk normally does, which is to say how fast do
19 you want it to get there, --

20 A Yes.

21 Q -- but will the clerk be instructed to inform the
22 customer that if you send it Priority Mail you can get
23 delivery confirmation without paying any extra charge?

24 A We're going to have a notification that if you
25 send it Priority Mail you get delivery confirmation without

1 extra charge lots of places.

2 The actual weight comparison I think we haven't
3 actually got there, but I think we want to do that. We
4 don't want people to have the experience of finding out
5 later that they could have gotten something, a better deal,
6 so I think we'll want to inform people that that is an
7 option.

8 Q Again I apologize, but just so I'm clear.

9 A Yes?

10 Q And so if a person comes in and says I want to
11 send this parcel post because that's what they're familiar
12 with --

13 A Yes.

14 Q -- the Postal Service's intent is to have the
15 clerk say to that person well, you can also send it by
16 Priority Mail and get free delivery confirmation?

17 A Right. Yes.

18 Q Now, one of the ways in which the Postal Service
19 plans to inform mailers of the fact that they can get manual
20 delivery confirmation for free if they use Priority Mail is
21 to post window cards and displays in post offices.

22 A Uh-huh.

23 Q Is that right?

24 A That's right.

25 Q Now, of course, if a mailer doesn't come into the

1 post office until after the experiment ends, it's too late
2 to get them to come in earlier. Those window cards and
3 displays, really at least those items, haven't helped the
4 mailer to take advantage of the experiment. Is that
5 correct?

6 A That's correct, and for that reason we have the
7 additional plan to use news coverage to let people know more
8 generally.

9 The signs will be up at least as early as the
10 beginning of the experiment and maybe a bit before so that
11 if people come in to buy stamps for their holiday greeting
12 cards or for any other purpose before they actually get
13 around to mailing their packages they'll have an opportunity
14 to learn about it from the signs in time to affect their
15 behavior.

16 Undoubtedly there are going to be some people who
17 just are last minute people and don't come in until after
18 the experiment is over, and those people, if they haven't
19 heard about it on the radio or the TV or newspapers, we
20 don't have a way to get them to change their behavior.

21 Q Do you have any idea of how many people will --
22 well, let me try it this way. You said you're going to use,
23 and I think the phrase you use in your testimony on page 8
24 at lines 12 and 13 is that the Postal Service plans to make
25 extensive use of press coverage.

1 A Uh-huh.

2 Q You referred to a plan to do that.

3 A Yes.

4 Q Is there a written document that sets forth that
5 plan?

6 A No.

7 Q So right now it's just a plan in mind?

8 A There are people working on the kinds of -- in one
9 of the interrogatory responses I provided the ordinary
10 holiday mail early kinds of material that's provided to
11 postmasters, and there are people working on providing sort
12 of parallel information, press releases, letters to the
13 editor and so on that could be used to do this.

14 As far as a plan for exactly when that's going to
15 be done, a lot of this is a level of detail we haven't
16 gotten to yet.

17 Q Okay. Now, you did refer to material that you
18 attached to an interrogatory answer on this subject.

19 A Yes.

20 Q I think that's part of the Postal Bulletin?

21 A Yes, it is.

22 Q And in fact you provided a copy of the Postal
23 Bulletin that went out to postmasters last year to prepare
24 them for the holiday season. Is that correct?

25 A I believe it is, yes.

1 Q Okay. Feel free to check, but I believe that that
2 Postal Bulletin was dated November 2.

3 A Uh-huh.

4 Q Is that correct?

5 A I'll take your word for it. Yes. Yes. Sorry for
6 that.

7 Do you remember which interrogatory response it
8 was just to -- I've got it. Yes. November 2. Yes.

9 Q Do you know when the Postal Service plans to
10 publish in the Postal Bulletin advisory I guess I'll call it
11 or whatever term you're comfortable with concerning the
12 holiday season this year? Is that plan already underway?

13 A I believe it is. These things typically follow
14 the same path year after year, so we will not be able to put
15 this in that package unless things move -- well, the
16 schedule just doesn't allow that. We had always expected
17 that it would be a separate communication.

18 The Postal Bulletin would be one of the channels
19 for that, but there are now other ways to communicate with
20 postmaster at least in POS sites. You can communicate very
21 quickly. Postmasters and clerks actually can get a message
22 I don't know if it's quite overnight. It's a big system.
23 There are a number of ways that we will be considering to do
24 that.

25 Q So the Postal Bulletin is out anyway? We know

1 that?

2 A The November early Postal Bulletin is out, but
3 there are Postal Bulletins every two weeks.

4 Q The next one would be then say in mid November?

5 A Yes.

6 Q About the 15th?

7 A I suppose, yes.

8 Q We're probably going to be too late for that,
9 aren't we, under the current schedule?

10 A We are, yes.

11 Q Okay. So we're talking about the Postal Bulletin
12 in early December?

13 A That would be the first opportunity before --
14 after we could expect to have a decision, and now that
15 you've focused my attention on that and especially with the
16 prospective limitation of the geographic extent of the
17 experiment, I think the Postal Bulletin is probably
18 something we're not going to be able to or want to utilize
19 for this.

20 Q The other way of communicating with postmasters
21 and clerks that you mentioned, is that essentially e-mail?

22 A At POS sites we also can communicate through the
23 mail, and there may be other things as well. I don't know
24 of all of the things that are done in the course of an
25 ordinary either holiday season campaign or an ordinary rate

1 implementation campaign. We have had sort of pieces of both
2 of those that we're going on.

3 Q Would postmasters be required to use whatever
4 publicity you -- well, let me ask you first. Will you be
5 providing them with publicity materials, as opposed to just
6 informing them --

7 A Yes.

8 Q -- that this option is available?

9 A Yes. The intention would be on a smaller scale
10 than what's in the Postal Bulletin because that covers a lot
11 of different things, but provide them material that they can
12 use and adapt with relatively little work on their part so
13 that they can, A, do it in the midst of all their other
14 duties, and, B, do it fairly quickly.

15 Q Okay. I did look at the example or sample press
16 releases, et cetera, that were attached to that Postal
17 Bulletin of November 2 for last year, and there were a range
18 of different ones.

19 Will the postmaster be required to issue a press
20 release on free manual delivery confirmation, or will that
21 be left up to his discretion, depending on all the other
22 things he has to do, as you just mentioned?

23 A Right. I honestly don't know what the case is
24 with requirements today for things. We would do everything
25 we can to get it done, but I'm not sure.

1 I think postmasters will want to do this. I think
2 this is from their point of view an opportunity to make good
3 news, so I don't think it will be a serious problem. Make?
4 Require? I don't know.

5 Q Okay. Has any of that material been prepared?

6 A It's being drafted. Yes.

7 Q So it's not available yet?

8 A No.

9 Q Do you have any idea when it will be available?

10 A Final stuff might be a couple weeks. The same
11 people that work on that are working on some other things,
12 so I'm not sure.

13 MR. MCKEEVER: Mr. Commissioner, I would request
14 that if that material is available before the Commission
15 renders its decision in this case that it be made available
16 to the Commission because I think it would be helpful in
17 informing the Commission of what the Postal Service intends
18 to do to communicate the availability of this key suspension
19 to the public.

20 COMMISSIONER COVINGTON: Mr. Heselton? Mr.
21 Tidwell?

22 MR. HESELTON: Commissioner Covington, the Postal
23 Service would be happy to make those materials available
24 when they are produced.

25 COMMISSIONER COVINGTON: Thank you.

1 MR. MCKEEVER: One similar request like that, Mr.
2 Commissioner. Well, let me ask Dr. O'Hara a question first.

3 BY MR. MCKEEVER:

4 Q I think you referred to a plan that right now is
5 in people's heads, but will be committed to paper. Is that
6 correct? An implementation plan.

7 A An implementation plan? Yes. Definitely. Yes.

8 Q Do you know when that will be available?

9 A Probably about the same time frame maybe. The
10 details are a bit longer because there are enough different
11 pieces to that that I'm not sure what time is required for
12 all of them. We have to have it in place in about that same
13 time frame anyhow in order to roll it out.

14 Q Right.

15 A Yes.

16 MR. MCKEEVER: Mr. Commissioner, I would make the
17 same request with respect to the implementation plan that
18 when it is ready the Postal Service immediately provide it
19 to the Commission at the same time that it is ready if
20 that's before a decision has been rendered so again the
21 Commission can take that into account in arriving at its
22 decision.

23 COMMISSIONER COVINGTON: Mr. Heselton?

24 MR. HESELTON: Mr. Commissioner, once again the
25 Postal Service would be happy to provide that also.

1 COMMISSIONER COVINGTON: Thank you. You may
2 proceed, Mr. McKeever.

3 BY MR. MCKEEVER:

4 Q Now, this effort to come up with an implementation
5 plan, et cetera. You have not included the cost of any of
6 that effort in the costs shown in your Work Paper 3. Is
7 that correct?

8 A The cost of that is -- a lot of it is in the
9 \$150,000 that is in Work Paper 3.

10 Q I thought that was for the window displays, et
11 cetera.

12 A The window displays and distribution of those
13 window displays.

14 The people that actually do the drafting and
15 prepare all that are part of the headquarters staff, and I
16 think their time is never sort of tracked to individual
17 product or class of mail, but yes. It's a round number
18 figure that's in the work paper, and most of it or all of it
19 is really based on the cost of printing and the cost of
20 distribution.

21 Q Of the window displays?

22 A Of the window displays and the other material. I
23 think we typically send the window displays, the cards and
24 other information to postmasters as well. They get a
25 shipment for their facilities.

1 I believe at least in the last rate case we had
2 some things in the package which are not displays. They're
3 background information, questions and answers. All that
4 would be distributed together, but they're not separately
5 identified.

6 Q Now, when the geographic scope of the experiment
7 is determined, will people be able to get free manual
8 delivery confirmation by putting a piece of Priority Mail
9 into a collection box where that's permitted as long as they
10 use the delivery confirmation label?

11 A Yes.

12 Q Suppose they don't learn about the experiment, and
13 they put the extra 40 cents on it. I guess is that their
14 tough luck, or do they get the 40 cents back?

15 A I don't actually know what we're going to do
16 there. It would seem that they might be entitled to a
17 refund. I don't know how often we've given refunds for
18 people who don't get the service anyway. I don't know if we
19 have answers to that. I really don't know for sure what
20 will happen there. I don't know what our policies are.

21 Q I guess the same applies to probably what is a
22 bigger volume, which is Priority Mail that is picked up.
23 That's again part of the third channel. Is that right?

24 A Yes. That there would probably be an opportunity
25 if this is -- carriers will know about this, and they will

1 have an opportunity to tell people. We might even be able
2 to have them selectively drop off the same information
3 that's on the window card for commercial customers.

4 We're not budgeting for a saturation mailing to
5 all customers or all households, but again we don't want
6 people to feel that they've been sort of taken advantage of.
7 I hadn't thought of that particular issue, but I think it
8 would be worth doing to let the people that regularly -- the
9 carriers know regularly -- leave mail with delivery
10 confirmation and postage that they won't have to apply the
11 postage.

12 Q So some effort will be made to educate and
13 instruct carriers that they should tell their pick up --

14 A Yes.

15 Q -- customers that they don't have to put 40 cents
16 on a piece if they want manual delivery confirmation during
17 the period from December 1 to December 16?

18 A Yes.

19 Q And the carriers will do that in their normal
20 rounds or what?

21 A Yes. What I'm thinking, and I'd have to talk with
22 other people, would be simply a one-third size sheet of
23 paper that they could leave so that they wouldn't have to
24 take the time to have a discussion or master the details,
25 find the right person.

1 Q I'm not sure whether it was you, Dr. O'Hara, or
2 the Postal Service, so I apologize for this, but either you
3 or the Postal Service indicated in some filing that one of
4 the possible changes that might come out of this
5 experimental offering would be a decision to roll manual
6 delivery confirmation costs into base Priority Mail costs,
7 much as is done now with the electronic delivery
8 confirmation services. Is that correct?

9 A I indicated that with respect to the shape that a
10 permanent classification designed to shift volume away from
11 the peak week would take, yes. I didn't touch the subject
12 of doing this year round for Priority Mail.

13 Q I see. So the Postal Service is not considering
14 evaluating after this experiment a proposal that would on a
15 year round basis eliminate a manual delivery confirmation
16 fee and instead roll those costs into Priority Mail? Is
17 that correct?

18 A I probably should be careful whether or not to
19 speak for the entire Postal Service, but this experiment is
20 not connected with any such thought process or
21 consideration.

22 Q And that's because if the Postal Service were to
23 decide to take the manual delivery confirmation costs and
24 roll them into the base rate for Priority Mail, there
25 wouldn't be any incentive for mailers during the holiday

1 season to shift from one week to another. Is that correct?

2 A Well, that certainly would be the case. I think
3 the decision of whether or not to do that year round would
4 be taken not on that basis, but on the basis on whether we
5 think that's what the product needs to have in the way of
6 built in features.

7 There are people from time to time in the Postal
8 Service who make the suggestion that we ought to do that,
9 both because of the customer and because it would be nice to
10 have a bar code on every parcels that everybody would be
11 used to scanning parcels all the time. Nice is one thing.
12 The cost of doing it is another.

13 Q In any event, that's not one of the proposals that
14 experiment is aimed at?

15 A No. No.

16 Q No matter what the Postal Service may have said in
17 a filing in this case?

18 A Yes. I'd be real interested to see that because I
19 certainly -- you know, as you say, if it's available for
20 free year round there's no incentive. Those two things are
21 not logically compatible with one another.

22 That's not to say that the other one wouldn't
23 happen, but that's not the point of this, and I can't see
24 that this would really provide much information that would
25 help inform that decision.

1 Q I have a couple of questions, Dr. O'Hara, that
2 relate to your response to UPS Interrogatory 2, so you may
3 want to turn to that and review that.

4 A Okay. Yes.

5 Q Now, am I correct that the numbers in your work
6 papers, and we may have covered this earlier, assume that
7 mailers who have their Priority Mail picked up by the Postal
8 Service or who enter it in collection boxes will not
9 increase the extent to which they use manual delivery
10 confirmation when they can do so for free? Is that correct?

11 A That is correct. I believe there were subsequent
12 interrogatories that touched on that.

13 Q And in your answer to No. 2 in particular you
14 justify your assumption that those mailers would not
15 increase their use of delivery confirmation, even though
16 it's free, by saying, "They are already familiar with
17 delivery confirmation and have developed usage patterns that
18 they are not likely to change." Is that correct?

19 A That's correct.

20 Q So it's your testimony that mailers who are
21 already familiar with delivery confirmation and sometimes
22 choose to pay 40 cents per transaction for that service will
23 not choose to use it more if it's given away for free? Is
24 that your testimony?

25 A If it's given away for free for a short period of

1 time. Perhaps I should look for my answer where I deal with
2 that basic issue in a little more length.

3 A One of those is, and it may be the only one, is
4 27.

5 Q Yes. You there indicate that at least pickup
6 accounts -- I don't know if you are talking about people
7 putting collection boxes there too, but pickup accounts,
8 those people make decisions as to what types of priority
9 mail to use delivery confirmation and what types not to,
10 depending, and I am quoting here, "...depending perhaps on
11 the value of the item;" is that correct?

12 A Yes, that's correct.

13 Q And that's in part because the item might be of
14 such low value that they don't want to pay an additional 40
15 cents? It's not worth it?

16 A That would be one possibility, yes.

17 Q But, of course, if it's for free, then the value
18 of the item becomes kind of not very relevant, does it?

19 A Well, it does, they become not very relevant, but
20 there is still some effort required to put the label on the
21 piece and all that.

22 Even when electronic delivery confirmation is free
23 on your route, so it's not a question of making a temporary
24 change, much less than 100 percent of --

25 Q Permit entered mail?

1 A -- has electronic delivery con. free, delivery
2 confirmation on it, so I think people don't just use
3 something because it's free. They use something if it's got
4 some value to them, and there would be some cases where it's
5 not worth 40 cents, but it's worth something. They would
6 tend to check on it. So in the situation of the short
7 experiment, I don't expect that to be very large, but I --
8 as an economist not very well able to claim it's going to be
9 zero. And I think I would just say that it's going to be
10 let's say very few decisions revisited on the basis of the
11 16-day experiment.

12 Q Well, these -- go ahead. I'm sorry.

13 A No, that's --

14 Q Okay. These users obviously do see some value to
15 the service because they use it from time to time; is that
16 correct?

17 A Yes. But, you know, without having detailed
18 information there may be some people that use it all the
19 time, in which case they will keep on using it, and there
20 may be some people who use it only when the recipient
21 requests. Maybe some people will use it depending on the
22 value of the item. There may be some people who use it
23 because they want to have some kind of record of delivery,
24 but they don't want to pay for certified.

25 And to the extent those things are sort of already

1 classified and categorized in their mailing patterns,
2 whether it's an individual or a small firm, I wouldn't
3 expect much change for this. But you know, the change can
4 only go one way. It can only go up.

5 Q It can only go to an increased use of delivery
6 confirmation, correct? Is that what you mean --

7 A From the experiment.

8 Q -- when you say it can only go up?

9 A Yes. Yeah.

10 Q Okay. And of course, if it does go up, then the
11 Postal Service will have some added delivery confirmation
12 costs without any revenue for that; is that correct?

13 A That is correct.

14 Q And you don't have any data on that. You just
15 don't believe it's going to be very large?

16 A That's right.

17 Q Because they have to put a label on more pieces
18 than the pieces they would choose to put it on when they pay
19 40 cents?

20 A Well, that's one thing, but the other thing is
21 just the time that it takes to -- especially if there is
22 more than one person involved -- revisit the policy, if you
23 will, as to what stuff gets delivery confirmation on it.

24 Q We don't --

25 A Yeah, I just don't think people will use it just

1 because it's free in the same way that people don't use
2 electronic delivery confirmation all the time just because
3 it's free.

4 Q Well, electronic delivery confirmation, of course,
5 the mailer has to have an electronic link with the Postal
6 Service.

7 A Yes.

8 Q There are a fair number of additional costs to the
9 mailer participating in electronic delivery confirmation,
10 aren't there?

11 A There might be. I don't know whether it's -- what
12 the magnitude of the costs are.

13 Q You don't know?

14 A No.

15 Q Okay. And you don't know what the magnitude of
16 the costs would be for the mailer who may decide, well, hey,
17 for the next two weeks let's just put a label on every
18 package?

19 A I don't know. I do know that they can, if they
20 are aware of the Internet option, they can already do that
21 all the time anyway, and yet that has not for one reason or
22 another happened. So I really don't expect it to happen.

23 Q Do you know the extent to which the Postal Service
24 has tried to publicize the fact that one can get manual
25 delivery confirmation for free by using that Internet base

1 label?

2 A I do not know much about that. I believe that
3 just in my ordinary use of the site myself, I saw something
4 where you go to check your delivery confirmation, something
5 that -- what you know that there was this possibility. But
6 I --

7 Q You really can't help us much.

8 A I can't help you much, yeah. And I don't think we
9 have done any advertising, that sort of thing. I think any
10 communication has been maybe, well, appropriately, limited
11 to, you know, people who are already using one form or
12 another.

13 COMMISSIONER COVINGTON: Mr. McKeever, at this
14 point in time I would like to offer a proposal I don't think
15 that took many people would object to. It's about 12:30
16 p.m., and some of us are customary to having a little bit of
17 nourishment about this time of the day. So I was wondering
18 if you could mark your place where you are as far as, you
19 know, your questioning of the witness, and we would begin a
20 lunch break now with intentions to be back here in the
21 hearing room around 1:30.

22 And before we depart, Mr. Heselton, I would like
23 to advise or to direct that either you or Mr. Tidwell should
24 be aware of one point that I would hope that I make fairly
25 clear.

1 Since the Postal Service initially decided what
2 the scope of this experiment is during the past latter
3 questioning that Dr. O'Hara has given. There seems to be
4 some changes or I feel that if there are changes the
5 Commission needs to be advise of them immediately.

6 There were two things that I had particularly
7 noticed with regard to the marketing and implementation
8 aspects of this experiment. I have heard Mr. McKeever
9 mention the possibility of, you know, the postal bulletin
10 having been used. I think Dr. O'Hara touched on window
11 cards at the postal facilities and other displays, and I
12 don't even know whether, you know, you all know exactly what
13 kind of press coverage you are going to put out there.

14 Then in addition to the marketing and
15 implementation concerns that I have, as soon as the Postal
16 Service decide on the actual areas or the actual locations,
17 Dr. O'Hara, geographically where the experiment is to be
18 carried out, I think the Commission needs to be informed of
19 those facts as well.

20 So at some point in time after we reconvene or
21 definitely before the end of the day it might be
22 advantageous if the Commission, myself and my colleagues,
23 are kind of briefed on where we are with the matters I just
24 raised.

25 THE WITNESS: I --

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1 COMMISSIONER COVINGTON: Go ahead.

2 THE WITNESS: I was just going to say that I don't
3 think we will know by the end of the day even whether the
4 geographic scope will be restricted, and I can't imagine
5 that we would know if that were to be the case with which
6 areas.

7 COMMISSIONER COVINGTON: Okay. Well, you know
8 something, Dr. O'Hara, that I might be being a little bit
9 too expeditious. But what we would like to know is -- I
10 would just use the term "immediately" or as soon as
11 possible, ASAP --

12 THE WITNESS: Yes.

13 COMMISSIONER COVINGTON: -- where we are with the
14 overall scope if there are changes with the experiment.

15 Mr. McKeever?

16 MR. MCKEEVER: Mr. Commissioner, the only reason I
17 interject, we are, of course, at the pleasure of the
18 Commission with respect to scheduling. However, I did want
19 you to know that I am very close to the end of my cross-
20 examination, and in fact if I had five minutes, I might be
21 able to review my notes and maybe only have an additional
22 five minutes or so of cross-examination.

23 But we are more than happy to come back too,
24 whatever the Commission's pleasure it. I didn't want to not
25 say it, come back at 1:30, and then have you here only for

1 five - 10 minutes.

2 COMMISSIONER COVINGTON: Well, in light of the
3 fact that, number one, I would be remiss if I didn't
4 recognize for the record my colleagues who are on the bench
5 with me today, and under this circumstance I would feel
6 quite sure that they wouldn't want to miss out on the
7 opportunity possibly to direct some inquiry towards Dr.
8 O'Hara.

9 MR. MCKEEVER: Okay.

10 COMMISSIONER COVINGTON: Which was the basis for
11 my proposal in the first place.

12 MR. MCKEEVER: Then we will be back at 1:30.

13 COMMISSIONER COVINGTON: Thank you, Mr. McKeever.
14 Off the record.

15 (Whereupon, at 12:33 p.m., the hearing in the
16 above-entitled matter was recessed, to resume at 1:30 p.m.,
17 this same day, Tuesday, October 23, 200.)

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A F T E R N O O N S E S S I O N

(1:37 p.m.)

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2
3 COMMISSIONER COVINGTON: We are now going back on
4 the record.

5 Good afternoon. I am Commissioner Danny
6 Covington, and we are now making preparations to continue
7 our proceedings on the Postal Service's request or
8 recommendation of an experimental fee suspension for manual
9 delivery confirmation service in Dockets No. R2001-2 and
10 MC200-2.

11 As I stated before, we took a break for lunch. I
12 am pleased to be accompanied by my colleagues this
13 afternoon, Commissioner Omas to my left, and Commissioners
14 Ruth Goldway and Commissioner Le Blanc to my right.

15 At this time are there any housekeeping matters we
16 need to take of care of, or Mr. McKeever are you ready to
17 resume questioning Witness Donald J. O'Hara?

18 MR. MCKEEVER: Mr. Commissioner, we do have no
19 further questions at this point in time.

20 COMMISSIONER COVINGTON: No further questions at
21 this point in time.

22 Mrs. Dreifuss, is there any questions that you may
23 have of the witness on behalf of the Office of Consumer
24 Advocate?

25 MS. DREIFUSS: I have just one or two questions to

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1 clarify an exchange that took place between Dr. O'Hara and
2 Mr. McKeever earlier.

3 Dr. O'Hara, when you were talking about the
4 possibility of narrowing the scope of this offering, I
5 thought I heard you say that you would try to offer it in
6 offices where there were POS terminals and perhaps not offer
7 it in offices where there were not?

8 THE WITNESS: Not exactly that. What I wanted to
9 have -- be the case is that -- I should probably explain.

10 The POS terminals are not deployed in the smallest
11 offices, even when the area is sort of fully equipped with
12 POS terminals. So no matter where we do the experiment, as
13 long as we are offering it a whole geographic area, there
14 will be some offices that will not have POS terminals. That
15 was not my point.

16 My point was we are trying to look at the data
17 collection plan which basically envisions comparing what
18 happens this Christmas with what happened last Christmas.
19 And we can really only do that for sites that have POS
20 terminals, and so I wanted to make sure that any geographic
21 area that we picked had POS terminals last year, so that
22 there would be the proper year-over-year comparison.

23 MS. DREIFUSS: I see. So if you decide to offer
24 it in a given market, you will offer it even in those
25 offices where they do not have POS terminals?

1 THE WITNESS: Absolutely. Yes.

2 MS. DREIFUSS: Okay. That is all I have. Thank
3 you.

4 COMMISSIONER COVINGTON: Is there any follow up
5 cross-examination? I probably should have asked that before
6 I asked Ms. Dreifuss.

7 (No response.)

8 COMMISSIONER COVINGTON: At this time I would like
9 to know if there are any questions from the bench?

10 COMMISSIONER OMAS: Yes, thank you, Commissioner
11 Covington. I have a couple of questions.

12 One, Mr. O'Hara, in response to UPS/USPS-T1-5, in
13 Part C you state that a contingency should have been
14 applied.

15 What level of contingency should have been
16 applied?

17 THE WITNESS: Well, all of my other calculations,
18 figures in the workpaper are taken from the Commission's
19 R2000-1 decision. The contingency that was applied there
20 was 1.5 percent, so I think that would be the appropriate
21 contingency to apply in this case. Yes, sir.

22 COMMISSIONER OMAS: All right, thank you.

23 The other question I have, you stated earlier that
24 you all began considering filing this case in August.

25 THE WITNESS: Yes.

1 COMMISSIONER OMAS: Was the experimental date of
2 December 1 through 16 the dates considered at that time?

3 THE WITNESS: No. As I think I mentioned in
4 response to Mr. McKeever's question, originally we had
5 thought that the dates would start the day after
6 Thanksgiving, and that would extend for about the same two
7 weeks, plus a couple of days -- periods that the current
8 experiment is, but earlier. That's earlier by about a week.

9 COMMISSIONER OMAS: A week or so?

10 THE WITNESS: Yes.

11 COMMISSIONER OMAS: Well, I guess, you know -- I
12 guess I am little concerned. You filed the case, you filed
13 the case on September the 20th, looking for an implementing
14 date of December the 1st. And you know, it just -- you
15 know, we are determined to expedite this case, but that
16 really didn't leave a great deal of time.

17 And I just wondered whether officials of the
18 Postal Service had given this consideration. Even under
19 most efficient expedited conditions, it still is difficult
20 for the Commission to turn around unless, you know, you just
21 figured that it would be done in settlement and it could be
22 implemented.

23 Even with the 20th filing date, you know, no, the
24 15th is still sort of close or a couple of weeks away from,
25 you know, the implementation date. I guess I just found

1 that a little strange that there was not a little more time
2 and consideration given.

3 THE WITNESS: Right. Well, we certainly were
4 aware of the task we were putting before the Commission to
5 achieve resolution in time to implement.

6 As I mentioned, I think we had hoped that there
7 might be a settlement, and we had considered whether we
8 would want to simply pull the case if there was no
9 settlement, but that did not seem to really make sense.

10 So once we saw that procedural schedule, we
11 thought that with the December 1 start date it would be
12 doable, and that's where we are today. But we were
13 certainly aware that this was calling on the Commission to
14 do something which is very tight, and we fully appreciate
15 that.

16 COMMISSIONER OMAS: All right. Well, thank you.

17 I have no further questions.

18 COMMISSIONER COVINGTON: Commissioner Goldway.

19 COMMISSIONER GOLDWAY: Yes, I have questions that
20 touch perhaps on what Commissioner Omas had mentioned, but I
21 want to start further back.

22 You had said that you had been looking at ways to
23 take costs out of the system, and that the efforts had
24 always been directed towards the commercial mailers, and
25 processing as such. There hadn't been any effort directed,

1 or very little, to retail. And that you were trying to find
2 a way to do -- to take the cost out of the system, and I
3 believe that you said at that point that what you focused on
4 was trying to reduce some of the peak costs at Christmas
5 time, and that was the impetus for coming up with this
6 proposal.

7 THE WITNESS: That's correct, although --

8 COMMISSIONER GOLDWAY: Is that fair to say?

9 THE WITNESS: Yeah, we are looking much more
10 broadly than the peak cost at Christmas. It's just --

11 COMMISSIONER GOLDWAY: And I can give you lots of
12 other suggestions --

13 THE WITNESS: Yeah, right.

14 COMMISSIONER GOLDWAY: -- about where I think you
15 could deal with the retail, and I will throw one in now just
16 so you will return it to the management; and that is, if we
17 could just have vending machines at the Postal Service that
18 took credit cards to buy rolls of stamps, it would save the
19 Postal Service lots of money.

20 THE WITNESS: Uh-huh. Okay. Well, I will make
21 sure someone hears about that.

22 COMMISSIONER GOLDWAY: Not to mention offering
23 people some sort of discount for bulk purchases of stamps at
24 Christmas time.

25 So the focus was on the peak, and what you seem to

1 be saying is you wanted some way to encourage people to
2 switch using priority packages from the very last week to
3 something earlier, and that seems reasonable to me as well.

4 Why did you think that the delivery confirmation
5 portion of the priority mail was the way to encourage people
6 to switch as opposed to some other adjustment to priority
7 mail?

8 THE WITNESS: Well, we looked at that. Actually
9 we did initially think, well, what about just an equivalent
10 discount, and one of the things which made that less
11 attractive was the fact that it would, I think, be very hard
12 to offer a discount just to retail customers.

13 So that if we are offering it to everybody,
14 including commercial shippers, it greatly complicates, I
15 think, the effect on Mr. McKeever's clients and other
16 competitors of the Postal Service. So that was one
17 consideration.

18 The other consideration was that by doing it with
19 delivery confirmation we were able to at least explore the
20 other side of this experiment, which is just introducing
21 more people to delivery confirmation in the hope that they
22 would find it useful and use it more later.

23 COMMISSIONER GOLDWAY: Do you think that by using
24 delivery confirmation more in the future you are going to
25 take costs out of the system, or not?

1 THE WITNESS: That is not going to take cost out,
2 but it will bring additional revenue in, which could fully
3 cover the --

4 COMMISSIONER GOLDWAY: Help.

5 THE WITNESS: Well, because we are going to charge
6 for it after the experiment is over. And delivery
7 confirmation makes a modest per piece or per usage
8 contribution to overhead. It's not large. But it would be
9 there and that means that there is a little more -- put this
10 in perspective -- a little more there to keep the rates on
11 everything else down. It's a very small dollar amount, but
12 certainly any additional costs that we incur will be covered
13 by the revenue that we get, and with a little left over. So
14 that didn't seem to me to be contrary to the fundamental
15 objection of taking cost out of the system.

16 COMMISSIONER GOLDWAY: Did you give any thought to
17 the fact that the institutional cost coverage for priority
18 product is a lot higher than the institutional cost for
19 parcel products, and therefore, if there was some shift from
20 parcel to priority, that was good for the bottom line? Or
21 wasn't that part of the --

22 THE WITNESS: That was not really part of the
23 consideration. First of all, as I have said, I don't really
24 think there is going to be much. But if there were, you are
25 looking at things for which our data is not necessarily as

1 good as I want it to be to look at that.

2 The priority data cover all kinds of priority
3 mail. The parcel post data, we have at least some ability
4 to distinguish between bulk-entered mail and single piece or
5 over-the-counter mail.

6 And so I just don't know for sure that we would be
7 able to know that those costs are really as big as the cost
8 coverages which are an aggregate across all the mail would
9 suggest.

10 COMMISSIONER GOLDWAY: Okay.

11 THE WITNESS: It's quite possible we are, but I
12 guess we didn't get really deeply into that because of a
13 judgment that there was relatively little parcel post
14 entered at the window during this period. We did look at
15 that.

16 COMMISSIONER GOLDWAY: Okay.

17 THE WITNESS: And that of the stuff that was
18 entered, relatively little of it used delivery confirmation
19 today, so maybe it was not such a big candidate for moving
20 up, but anyway.

21 COMMISSIONER GOLDWAY: And getting back to ways to
22 measure the effectiveness of this program and the fact that
23 the focus began with trying to level out some of the peak
24 usage --

25 THE WITNESS: Yeah.

1 COMMISSIONER GOLDWAY: -- did you look at your
2 calendar and say, you know, on October 30th we have to
3 commit to extra staff and overtime, and therefore we have to
4 have a decision by October 30th, and move back to when you
5 could possibly submit something to us?

6 Because I feel as though we have been given one
7 set of conditions and a calendar to act on.

8 THE WITNESS: Yeah.

9 COMMISSIONER GOLDWAY: And you have now introduced
10 another. Yet in your testimony you mentioned today that the
11 focus has always been on peak usage.

12 THE WITNESS: Yes.

13 COMMISSIONER GOLDWAY: And doesn't the Postal
14 Service normally, even without this program, have to
15 contract for additional employees at a certain time in
16 anticipation of the Christmas rush?

17 THE WITNESS: Yes, we do. We do that normally.
18 And at the time we were analyzing the whole process and
19 deciding whether we should go forward we anticipated having
20 to hire more people, and we knew that the people took a lead
21 time. You have to find space and everything for them.

22 What we did not understand, I guess we didn't ask
23 the right people as deeply enough in the organization, is
24 that both the Internet capacity and the automated voice
25 response, which are the first two lines of serving the

1 customers, also have fairly substantial lead times.

2 COMMISSIONER GOLDWAY: Is there any additional
3 Internet capacity that is normally purchased for the peak
4 time?

5 THE WITNESS: I believe there is.

6 COMMISSIONER GOLDWAY: And they normally do that
7 by the --

8 THE WITNESS: Yeah, it's sort of --

9 COMMISSIONER GOLDWAY: -- first of November or
10 something like that?

11 THE WITNESS: Something like that, yeah. In fact,
12 you know, this is ongoing. It may even be in place, that
13 is, the arrangements in place.

14 COMMISSIONER GOLDWAY: So there was a certain
15 omission on your part in --

16 THE WITNESS: There was.

17 COMMISSIONER GOLDWAY: -- in looking at these
18 schedules in anticipation --

19 THE WITNESS: Yes.

20 COMMISSIONER GOLDWAY: -- of submitting something
21 to us.

22 THE WITNESS: Right.

23 COMMISSIONER GOLDWAY: Because I really feel that
24 that omission puts us at a disadvantage. We want to be as
25 efficient as we can in processing your request, but if the

1 request isn't possible to process when you submit it to us,
2 what do we do about this?

3 THE WITNESS: Well, I think you do the best you
4 can. And if you can't, then we will understand. We really
5 did not intend to put anybody in an impossible situation. I
6 knew it was not simple, but we also didn't know about this
7 one thing which caused us to think about whether the best
8 way to handle it is to scale it back.

9 COMMISSIONER GOLDWAY: Okay. And I have another
10 value question here --

11 THE WITNESS: Yeah.

12 COMMISSIONER GOLDWAY: -- that I would like your
13 comments on.

14 When you figured out what the cost of this
15 experiment would be, it's approximately \$10 million, and you
16 thought about spending \$10 million in the Postal Service, do
17 you -- you aren't quantifying the potential cost savings at
18 the peak.

19 THE WITNESS: Right.

20 COMMISSIONER GOLDWAY: And you are not venturing
21 any guess to us about what they are. But didn't somebody
22 say is \$10 million worth whatever the savings is going to
23 be?

24 THE WITNESS: The question was considered, but it
25 seemed to us really difficult, even with more time to get a

1 usable estimate of how much the things would be because it
2 depends upon how much people respond.

3 You go and ask people, gee --

4 COMMISSIONER GOLDWAY: Yes, but wouldn't you do
5 well -- let's say we had 10 percent response.

6 THE WITNESS: Okay.

7 COMMISSIONER GOLDWAY: Or 15 or 20, wouldn't you
8 say, well, at 10 percent response maybe we will only save \$2
9 million, but at 20 percent response are going to save \$20
10 million, and therefore the investment of 10 is worth the
11 risk?

12 I mean did anyone do this?

13 THE WITNESS: Nobody did it in the quantity as far
14 as I would know.

15 COMMISSIONER GOLDWAY: Well, do you have any plans
16 for quantitatively measuring what the savings will be
17 assuming there is some shift that you can identify here?

18 THE WITNESS: I think we will try to do that. But
19 as I said in my testimony, you are looking at a period of
20 time which has got -- a year has elapse has a lot of things
21 that will be different this year from last year. The
22 precise timing of Christmas relative to the days of the week
23 shifts. And so I suggest we should look at particular weeks
24 and all of that.

25 If we did the shift in milling pattern, that we

1 can track with POS. Then I think the best way to get from
2 there to a dollar value is going to be with the use of some
3 averages rather than to try and trace through the
4 particular.

5 COMMISSIONER GOLDWAY: And are you going to look
6 at the POS usage by day because it is clear that it's
7 different day by day?

8 THE WITNESS: Yes. Yes.

9 COMMISSIONER GOLDWAY: And you will report to us
10 on what that is?

11 THE WITNESS: Yes, we are committed to reporting
12 the daily usage and over the experimental period, and usage,
13 I think it's not daily but over longer chunks of time after
14 the experiment is over.

15 COMMISSIONER GOLDWAY: Yes, right. And what are
16 the averages you are going to look at? What kinds of
17 measurements will you look at?

18 THE WITNESS: Well, I would look at -- this hasn't
19 been worked out in detail. We have -- for example, we will
20 have data on overtime last year and this year. And if we
21 get some of the movement in deposit of mail, then you will
22 be able to look at that and the average cost of a work hour,
23 but I don't know that we will ever be able to know that we
24 actually saved work hours in that function or not during the
25 period of the experiment.

1 As a practical matter, to be frank, I don't --
2 it's very hard for --

3 COMMISSIONER GOLDWAY: Will you be able to measure
4 whether there are any additional window hour used --

5 THE WITNESS: Well, we will be --

6 COMMISSIONER GOLDWAY: -- because people have to
7 register for their delivery confirmation?

8 THE WITNESS: Well, that process is designed not
9 to take much window time. It doesn't have to be done before
10 the --

11 COMMISSIONER GOLDWAY: It's part of the
12 transaction.

13 THE WITNESS: It's part of the transaction.

14 COMMISSIONER GOLDWAY: But it does make the
15 transaction a little bit longer.

16 THE WITNESS: A customer can handle that, and
17 that's included in the cost estimates. The cost of doing
18 the additional transaction is included in the workpaper.

19 We can see whether there is additional window
20 overtime, but how much of that, or a reduction in overtime,
21 how much of the swing in overtime is due to this as opposed
22 to anything else that might be going on. The slight shift
23 in the calendar, the weather, all these things, the total
24 cost, the total number of hours used in this is pretty small
25 compared the overall window hours.

1 COMMISSIONER GOLDWAY: Aren't there other services
2 you might have thought of which one could track more easily
3 to determine peak usage than this?

4 THE WITNESS: Nobody did think of them. I can't
5 think of them now, and I would be happy to have suggestions.
6 The peak in the -- especially in the priority parcel
7 mailing, more than parcel post, is pretty sharp, and this
8 was a way, as I said, that we felt we could do something
9 that would have sufficiently small interaction with non-
10 retail customers and competitors to make it doable, but it
11 may not be.

12 COMMISSIONER GOLDWAY: But because it's so small
13 it may be hard to measure.

14 THE WITNESS: Also correct. Yes.

15 COMMISSIONER GOLDWAY: Now, you might not be the
16 right person to ask this, but I think the other concern that
17 we have to realize is that the postal world in December of
18 2001, given what has just happened, is a very different
19 postal world --

20 THE WITNESS: Yes.

21 COMMISSIONER GOLDWAY: -- from 2000.

22 THE WITNESS: Yeah.

23 COMMISSIONER GOLDWAY: So is this \$10 million
24 investment worth anything at all, not that we wouldn't want
25 you to experiment, but you know, are you yourselves thinking

1 about this?

2 THE WITNESS: I certainly have thought about it,
3 and I am sure senior management will get around to thinking
4 about it. I think they are probably not focusing very much
5 attention on it right now, but yes, that's certainly
6 something I have thought about as -- you know, it just
7 raises the question of whether we have the appropriate
8 conditions to do the experiment or not, and it's going to be
9 real hard to assess that.

10 But I know that senior management will take that
11 question seriously.

12 COMMISSIONER GOLDWAY: Could you just -- to
13 proceed, assuming -- well, I guess one thing I would like
14 is, if it is possible for you to write out at least in some
15 way how you would expect to measure any cost savings from
16 shifting the peak, what you might look at, and so that we
17 have this in black and white when we make our
18 considerations, recognizing that they may be estimates. But
19 what process you think you will --

20 THE WITNESS: Yes.

21 COMMISSIONER GOLDWAY: -- follow in more detail
22 than we have in the --

23 THE WITNESS: Right.

24 COMMISSIONER GOLDWAY: -- testimony so far. Can
25 you get that for us?

1 THE WITNESS: I can try to do that. Just to
2 repeat what I said earlier, I considered that pretty
3 carefully when I filed the testimony originally, and made
4 the distinction between being able to track the shift in
5 mailing dates and also the subsequent increase in delivery
6 confirmation usage, pretty precisely at POS sites, and do a
7 kind of comparison.

8 And the difficulty of really turning that into a
9 measure of cost savings from the package shifting, I think
10 if you see additional delivery confirmation receipts, then
11 you have got additional costs to provide those services, and
12 enough more revenue to provide a little margin on top of the
13 cost.

14 But the cost savings at the holiday season from
15 shifting packages are -- having tried to look at this
16 before -- are going to be real hard to isolate from all the
17 other things that move cost around from one year to the
18 next.

19 COMMISSIONER GOLDWAY: But at least it seems to me
20 one could say, okay, we have certain costs for hiring
21 overtime --

22 THE WITNESS: Yes.

23 COMMISSIONER GOLDWAY: -- for a certain number of
24 days, and if we could -- you know, if we can assume that
25 some volume shift will relate to certain numbers of hours.

1 THE WITNESS: Right.

2 COMMISSIONER GOLDWAY: We are going to track that
3 and report this to you, whether it's the final --

4 THE WITNESS: Well, we certainly could report the
5 shift in hours.

6 COMMISSIONER GOLDWAY: You know, we may not thing
7 that that's the absolute --

8 THE WITNESS: Yeah.

9 COMMISSIONER GOLDWAY: -- final decision.

10 THE WITNESS: Right.

11 COMMISSIONER GOLDWAY: You know, I wonder about a
12 lot of the econometrics that we use to measure cost.

13 THE WITNESS: Yeah.

14 COMMISSIONER GOLDWAY: But I think some sort of
15 indication where cost savings might occur for savings --

16 THE WITNESS: Yes.

17 COMMISSIONER GOLDWAY: -- at peak times --

18 THE WITNESS: Yeah.

19 COMMISSIONER GOLDWAY: -- would be useful, and not
20 just in this case.

21 THE WITNESS: Yes.

22 COMMISSIONER GOLDWAY: But in any future --

23 THE WITNESS: Right.

24 COMMISSIONER GOLDWAY: -- work that's done. I
25 think that seems to me to be essential if you are going to

1 be looking at ways to --

2 THE WITNESS: Yeah.

3 COMMISSIONER GOLDWAY: -- do off-peak pricing.

4 THE WITNESS: Certainly at a larger scale than
5 this, it would be really important. This scale, I would
6 certainly like to know and maybe the kind of simpler
7 function that you are suggesting might do the job. I would
8 like to think about that some more. I will do my best, or I
9 will get you a statement of some kind. I see real
10 difficulties in doing much except by assumption that I'm
11 getting from mailing patterns to actual costs.

12 COMMISSIONER GOLDWAY: I don't think I have
13 anymore questions. Thank you, Mr. Chairman.

14 COMMISSIONER COVINGTON: Thank you, Commissioner
15 Goldway.

16 Dr. O'Hara --

17 THE WITNESS: Yeah.

18 COMMISSIONER COVINGTON: -- first of all, I would
19 like to say that I don't disagree with the initiative that
20 you all want to accomplish under the experiment. I think
21 that anything that you can do to provide to consumers
22 incentives for them to mail earlier is not only commendable,
23 but I think it would probably be practical in light of the
24 fact that you all are a big business.

25 But what I am trying to see is -- the first

1 question you can answer for me, Dr. O'Hara, is that when the
2 experiment was developed or when the concept was first
3 kicked around, how did you go about knowing the audience
4 that you were looking at, and how did that parley into
5 actually targeting infrequent party mail users?

6 THE WITNESS: The notion of targeting infrequent
7 users is basically an inference from the patterns of mailing
8 that I believe it's Chart 2 of my testimony. We didn't
9 actually go out and ask customers last year at Christmas
10 time how long has it been since you were in a post office
11 before you came in this time to mail a package. We didn't
12 do any of that. The experiment wasn't even a concept this
13 time last year.

14 It's just that looking at that pattern and knowing
15 anecdotally from other people in the organization that
16 Christmas season is a lot different than the rest of the
17 time, and that's really all there is is what you see in
18 Chart 2, and the reading I put into that.

19 COMMISSIONER COVINGTON: Okay, Doctor, I need you
20 to expand on the United States Postal Service contention
21 that this first experiment is going to be, I guess, and
22 Commissioner Goldway touched on this, what we would call a
23 value-added service.

24 I think when the experiment was rolled out and
25 first made available, you know, in public concerns, what I

1 am trying to find out is, is priority mail a value-added
2 service, or is delivery confirmation a value-added service,
3 or is both of them the same thing in this experiment?

4 THE WITNESS: At least as I used the term, it's
5 the delivery confirmation which is the value-added service
6 on top of priority mail.

7 COMMISSIONER COVINGTON: Okay.

8 THE WITNESS: Priority mail is in a sense a
9 premium package service.

10 COMMISSIONER COVINGTON: Right.

11 THE WITNESS: But that wasn't the context in which
12 I was using it.

13 COMMISSIONER COVINGTON: Okay. So priority mail
14 is a class of mail.

15 THE WITNESS: Yes.

16 COMMISSIONER COVINGTON: Separate all and to
17 itself, and the waiver, or you know, not charging the manual
18 delivery confirmation, that would be the value that the
19 consumer would benefit from in this regard.

20 It has been stated also in the press release, and
21 I have only seen a couple since the concept was made known,
22 was that this venture could probably provide the United
23 States Postal Service a flexible pricing structure.

24 Now, to me that's -- I mean, you are going to have
25 to expound on that, Dr. O'Hara, because I am saying a

1 flexible pricing approach does that mean by you waiving 40
2 cents, is that flexibility or -- I mean, can you --

3 THE WITNESS: Sure. Every case is going to be a
4 little different, and I would expect that many of the other
5 things that might come under that heading, and I will
6 provide an example or two in a minute, would be -- affect a
7 large enough number of dollars that you couldn't just waive
8 it.

9 Well, let me give you one example, which is the
10 notion that we might have lower rates for catalogue mail in
11 the summertime. Those lower rates would bring in a little
12 more volume, but it's hard to imagine that they would bring
13 in enough volume to pay for the lower rates themselves.

14 So if you are going to maintain the appropriate
15 cost coverage on standard mail, some other rates are going
16 to have to be higher rates the rest of the year. And so
17 different prices at different times of the year but it
18 doesn't involve waiving a fee.

19 COMMISSIONER COVINGTON: Okay.

20 THE WITNESS: Another example would be the notion
21 of stamps at a discount if bought in bulk. You would be
22 able to buy -- the ability to send a First Class letter at
23 two different prices, depending on how you bought the stamp.

24 And so there are lots of ways, but in both cases
25 you would look at the total revenue and presumably the

1 discount would reflect the cost savings from the cheaper
2 means of getting stamps into the customers' hands. And so
3 it would not be in any sense a give-away, but you would look
4 at it -- you get so much revenue for First Class mail from
5 full-price stamps, so much for this kind of stamps, compare
6 that with the cost of providing the service, and evaluate
7 the cost coverage.

8 COMMISSIONER COVINGTON: And that's the flexible
9 pricing, of course.

10 THE WITNESS: Yeah.

11 COMMISSIONER COVINGTON: Now, before we took a
12 break for lunch, Dr. O'Hara, I raised some concerns that we
13 have as commissioners if the experiment ends up only being
14 done geographically. And Commissioner Goldway also touched
15 on the point of service issues here that we would have to
16 consider.

17 If we don't know the actual locations and if we
18 don't know geographically where in the market or where in
19 America this experiment is going to be launched, as far as
20 data generation how does -- I mean, how do you guarantee any
21 validity there which may be on down the line?

22 Then again, you know, you may not be the person that
23 can adequately answer that, but I would like for you to take
24 a stab at it.

25 THE WITNESS: Yes. There are levels at which you

1 can approach that. If we -- sort of the fastest thing one
2 could do is have a determination that we are going to aim
3 for let's say 15 percent of the market, and I believe that
4 most of my calculations would simply scale the nature of
5 postal costs by a margin. Even the printing and
6 distribution costs ought to scale. So that would be
7 straightforward.

8 If we then identified the particular geographic
9 areas, I believe it would be within reason to quickly --
10 have to check with the people who actually have to do the
11 work -- quickly get the prior year volumes of priority mail
12 and delivery confirmations for those specific areas.

13 And so, you know, it's going to turn out to be not
14 exactly 15 percent, it's going to be 14.5 or 16.3 or
15 something. So that's a second level of detail, and maybe
16 that's as much as there is, must as I -- I will think about
17 some more.

18 COMMISSIONER COVINGTON: All right, Doctor, let me
19 ask you this. Did you personally or have you personally
20 looked at reduction of expenses as it pertains to mailers in
21 this experiment?

22 THE WITNESS: Reduction of expenses as it pertains
23 to mailers?

24 COMMISSIONER COVINGTON: Yes. And when I speak in
25 terms of mailers, I am talking about the general public. I

1 am talking about competitors, call it public sector, private
2 sector mailers.

3 THE WITNESS: Right.

4 COMMISSIONER COVINGTON: I mean across the board.

5 THE WITNESS: In reducing the actual cost of
6 providing the service as opposed to the price charged.

7 COMMISSIONER COVINGTON: Right.

8 THE WITNESS: It's primarily the opportunity to
9 reduce the use of overtime and supplemental air
10 transportation, and we have looked at that but we haven't
11 done the kind of quantitative analysis that Commissioner
12 Goldway was suggesting.

13 COMMISSIONER COVINGTON: Okay.

14 THE WITNESS: Most of the things that I have
15 referred to earlier that talks about taking, you know, the
16 cost out of the system or reducing cost are outside this
17 particular experiment.

18 COMMISSIONER COVINGTON: Right. And probably
19 outside of your real of responsibility.

20 THE WITNESS: Yeah.

21 COMMISSIONER COVINGTON: I understand that.

22 THE WITNESS: Yeah.

23 COMMISSIONER COVINGTON: I am Joe Blow Public.

24 THE WITNESS: Right.

25 COMMISSIONER COVINGTON: I'm the average consumer.

1 THE WITNESS: Right.

2 COMMISSIONER COVINGTON: And I look at numbers and
3 it's been said that there are two things in life you can
4 just about find hard to argue with. Number one, you can't
5 argue with success, and number two, Dr. O'Hara, numbers
6 don't lie.

7 THE WITNESS: Yes.

8 COMMISSIONER COVINGTON: All right. If you look
9 at the fact, you say, well, okay, there is going to be some
10 lost revenue in this venture to the tune of \$1.3 million.
11 And then as we are not collecting \$1.3 million to get this
12 thing off the ground and up and running in whatever shape,
13 form or fashion it's going to be, we're talking about
14 additional cost of about \$8.2 million.

15 THE WITNESS: That's correct.

16 COMMISSIONER COVINGTON: My colleagues have
17 alluded to -- we all know about the current events that is
18 going on --

19 THE WITNESS: Yes.

20 COMMISSIONER COVINGTON: -- with the Postal
21 Service and so forth. But if my mother was sitting here in
22 this hearing room today, and if I told her that you were
23 asking to undertake a venture that's projected to cost you
24 \$10 million, she would say, well, how can that be a positive
25 experiment.

1 And I'm saying, you know, would you have an answer
2 for somebody like that?

3 THE WITNESS: Well, it's the same answer that's in
4 the testimony, which is the possibility of savings from
5 shifting volume and the possibility of increased revenue
6 after the experiment is over from delivery confirmation.

7 The question of is it the right thing to do now,
8 of course, was not nearly as clear when we developed the
9 proposal and filed it. But everything that I see the Post
10 Master General and the senior management doing in response
11 to the biological terrorism suggests to me that they will
12 look at this with those same eyes.

13 COMMISSIONER COVINGTON: Well, you know, Dr.
14 O'Hara, I do want to assure you that my colleagues and I
15 intend to give you the full benefit of what it is that you
16 are proposing to do. But I wanted to know before we moved
17 on are there possibly any other benefits that this
18 experiment would bring that the Postal Rate Commission
19 should be made aware of as we sit here today other than the
20 one or two that you touched on during this questioning?

21 THE WITNESS: No. I really -- if I had thought of
22 them, I would have put them in the testimony originally.
23 There are the two sort of direct benefits, and the third
24 benefit of just getting more experience with different, more
25 complicated -- I call them flexible pricing scheme.

1 But that, I think, if there is anything else, it's
2 going to be small compared to --

3 COMMISSIONER COVINGTON: So those two primary
4 objectives.

5 THE WITNESS: I can't -- can't really buttress the
6 case on this for you.

7 COMMISSIONER COVINGTON: Thank you, Dr. O'Hara. I
8 have no further questions.

9 Are there any other questions from the bench?

10 (No response.)

11 COMMISSIONER COVINGTON: If that concludes the
12 oral cross-examination --

13 MR. MCKEEVER: Mr. Commissioner.

14 COMMISSIONER COVINGTON: Yes.

15 MR. MCKEEVER: I do have several, not too many,
16 follow-up questions from questions on the bench if I may.

17 COMMISSIONER COVINGTON: Yes, sir.

18 MR. MCKEEVER: Unless you want to take them at a
19 later time.

20 COMMISSIONER COVINGTON: No. Proceed.

21 BY MR. MCKEEVER:

22 Q Dr. O'Hara, I think you have agreed that the cost
23 of the experiment is somewhere between 9.5 and 10 million
24 dollars?

25 A Yeah.

1 Q And that when the fee is reimposed the
2 contribution each piece makes over and above the cost of the
3 transaction is about four cents per transaction?

4 A Yes, that's the numbers that we are using.

5 Q So if you divide the 9.5 to 10 million dollars by
6 the four cents per transaction, I think you confirmed this,
7 you need about 240 million --

8 A Yes.

9 Q -- new additional transactions --

10 A Right.

11 Q -- to make up that loss, that \$10 million cost?

12 A That's correct.

13 Q And right now the volume of delivery confirmation
14 is about 50 million transactions a year?

15 A That sounds about right.

16 Q Okay. You have also indicated that the attempt to
17 minimize the impact on competitors revolves around the fact
18 that this is aimed at retail customers --

19 A Yes, and that --

20 Q -- as opposed to commercial shippers?

21 A And commercial shippers already have electronic
22 delivery confirmations, so we are not really changing the
23 relative position of priority mail for those customers.

24 Q For the commercial shippers?

25 A Yes.

1 Q Have you studied or done anything to determine the
2 extent to which retail customers use other carriers during
3 the holiday period?

4 A I haven't studied it, no.

5 Q Do you know whether those other carriers also have
6 peak volumes during the Christmas period that may be due to
7 increased use by retail customers?

8 A I would expect that they do.

9 MR. MCKEEVER: That's all I have. Thank you.

10 COMMISSIONER COVINGTON: Thank you, Mr. McKeever.

11 I would like to back up a minute. Mr. O'Hara, in
12 entertaining the questions from the bench, my colleague,
13 Commissioner Goldway specifically poised some questions to
14 you that you agreed to, you know, provide responses to.

15 THE WITNESS: Yes.

16 COMMISSIONER COVINGTON: I was wondering if you
17 had a time table as to when you would make those responses
18 available to us?

19 THE WITNESS: Let's say Friday. If I can do it
20 sooner, I will.

21 COMMISSIONER COVINGTON: Okay.

22 COMMISSIONER OMAS: Excuse me. I would also like
23 to know it may be by Friday when you submit this
24 information, if it would be possible at that time you can
25 give us idea of what the experiment or the test will

1 encompass. Will it be 100 percent or 10 percent?

2 THE WITNESS: Yes.

3 COMMISSIONER OMAS: And that would be very helpful
4 in considering.

5 THE WITNESS: Yes.

6 COMMISSIONER OMAS: I would appreciate it. We
7 don't need a definitive answer. But just what the thinking
8 is that --

9 THE WITNESS: Yes.

10 COMMISSIONER OMAS: Thank you.

11 THE WITNESS: Full country or less than full
12 country, and if less, approximately what percentage.

13 COMMISSIONER OMAS: Yes. Or what region and why.

14 THE WITNESS: Yeah.

15 COMMISSIONER OMAS: You know, that sort of thing.

16 THE WITNESS: Yes. Yes.

17 COMMISSIONER OMAS: Thank you.

18 COMMISSIONER COVINGTON: Anything else from the
19 bench?

20 (No response.)

21 COMMISSIONER COVINGTON: Okay. I would like to
22 know at this time if any party wishes to conduct oral cross
23 tomorrow on responses that was produced for the first time
24 at the opening of the hearings today? Mr. McKeever?

25 MR. MCKEEVER: We do not see any need to conduct

1 cross-examination tomorrow, but rather we would await the
2 additional interrogatory answers that the Postal Service is
3 to provide, and hopefully we can then say we don't need any
4 additional cross, but certainly we don't need any tomorrow.

5 COMMISSIONER COVINGTON: Okay. Mr. Heselton,
6 would you like some time right now with your witness to
7 review whether or not there is a need for redirect on the
8 part of the Postal Service?

9 MR. HESELTON: Commissioner Covington, if I could
10 have about five minutes to consult with the witness, I would
11 appreciate it.

12 COMMISSIONER COVINGTON: That will be granted.
13 We will knock off for about five minutes.

14 (Whereupon, a recess was taken.)

15 COMMISSIONER COVINGTON: Okay. Mr. Heselton,
16 where are we at with Dr. O'Hara?

17 MR. HESELTON: Commissioner Covington, the Postal
18 Service has no redirect.

19 COMMISSIONER COVINGTON: Okay. Well, Dr. O'Hara,
20 that completes your testimony here today. We appreciate
21 your appearance and your contributions to our record. We
22 thank you for your time, energy, and effort, and you are now
23 excused.

24 THE WITNESS: Thank you.

25 (Witness excused.)

1 COMMISSIONER COVINGTON: This concludes today's
2 hearing. Does any participant have anything else to raise
3 here today? Mr. McKeever?

4 MR. MCKEEVER: No, Mr. Commissioner, not that we
5 haven't already discussed.

6 COMMISSIONER COVINGTON: Ms. Dreifuss?

7 MS. DREIFUSS: No, sir.

8 (Off the record comment.)

9 COMMISSIONER COVINGTON: You are right, Mr.
10 Tidwell. It seems like you have been hanging around awhile.

11 MR. TIDWELL: And wipe the plate clean.

12 COMMISSIONER COVINGTON: Yes, and wipe the plate
13 clean.

14 Is there anything from Mr. Tidwell and Mr.
15 Heselton?

16 (No response.)

17 COMMISSIONER COVINGTON: Okay, thank you. This
18 hearing is adjourned. Have a nice today.

19 (Whereupon, at 2:30 p.m., the hearing in the
20 above-entitled matter was adjourned.)

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REPORTER'S CERTIFICATE1
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DOCKET NO.: R2001-2 & MC2001-2
CASE TITLE: EXPERIMENTAL SUSPENSION OF FEE FOR MANUAL
DELIVERY CONFIRMATION
HEARING DATE: October 23, 2001
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: October 23, 2001


Beth Roots

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