

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)

EXPERIMENTAL SUSPENSION)
OF FEE FOR MANUAL DELIVERY)
CONFIRMATION CATEGORY)

Docket No. MC2001-2
R2001-2

VOLUME #3

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Date: November 1, 2001

Place: Washington, D.C.

Pages: 203 through 288✓

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POSTAL RATE COMMISSION

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

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

Volume 3
 Thursday, November 1, 2001

The above-entitled matter came on for hearing
 pursuant to notice, at 9:33 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:

On behalf of the United States Postal Service:

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APPEARANCES: (cont'd.)

On behalf of the United Parcel Service:

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On behalf of the Postal Rate Commission, Office of the
Consumer Advocate:

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C O N T E N T S

WITNESSES APPEARING:
 LARRY F. DARBY
 KATHIE J. KLASS

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Larry F. Darby	230	--	--	--	--
By Mr. Heselton	--	256	--	--	--
Kathie J. Klass	272	--	--	--	--

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P R O C E E D I N G S

(9:33 a.m.)

1
2
3 COMMISSIONER COVINGTON: Good morning to everyone.
4 Today we continue hearings in Docket No. R2001-2 and
5 MC2001-2. We're here today for the purposes of receiving
6 testimony filed on behalf of Intervenor, United Parcel
7 Service, and the Commission's Office of the Consumer
8 Advocate in response to the direct case of the United States
9 Postal Service.

10 Before the testimony, let us address some
11 housekeeping matters in this case. On October 25, two days
12 after the hearing on the Postal Service case in chief, the
13 Service filed the response of Witness O'Hara to four
14 outstanding interrogatories, together with a motion for
15 their late acceptance. On the following day, the Postal
16 Service filed another motion for late acceptance, together
17 with responses to three additional interrogatories plus
18 Witness O'Hara's written response to questions posed from
19 the bench during the hearing on October 23.

20 Now, at this time does any party wish to respond
21 to the Postal Service motion for acceptance of the late
22 filed interrogatory responses? Mr. McKeever?

23 MR. MCKEEVER: Mr. Commissioner, we certainly have
24 no objection to the fact that they were filed late. We
25 would appreciate the opportunity to have certain of that

1 material entered into the record as additional cross-
2 examination of the witness.

3 COMMISSIONER COVINGTON: Okay.

4 MR. MCKEEVER: I can do that at this time or at
5 your pleasure.

6 COMMISSIONER COVINGTON: In light of that, Mr.
7 McKeever, we would probably --

8 Mr. Heselton?

9 MR. MCKEEVER: I did discuss this with the Postal
10 Service, incidentally, over the last couple of days before
11 the hearing, and the Postal Service indicated that they
12 would have no objection to our entering some of these
13 interrogatory answers and the responses, at least one
14 response that we intend to enter into the record, into
15 evidence today.

16 MR. HESELTON: That's correct, Commissioner
17 Covington.

18 COMMISSIONER COVINGTON: Okay. In light of that
19 then, I shall grant the Service's motion for acceptance of
20 the late filed responses in the interest of developing a
21 complete record in this proceeding.

22 Does UPS or any other party wish to designate any
23 of these responses for inclusion in the evidentiary record?

24 MR. MCKEEVER: Mr. Commissioner?

25 MS. DREIFUSS: I am sorry. Commissioner

1 Covington, I am not sure if United Parcel Service is
2 intending to enter both the Question 1 response and Question
3 2 response to Commissioner questions into the record today.

4 COMMISSIONER COVINGTON: Okay.

5 MS. DREIFUSS: If he does not intend to enter
6 both, then I would like to enter both.

7 MR. MCKEEVER: Our intention, Mr. Commissioner,
8 would be to enter into evidence Mr. O'Hara's responses to
9 UPS Interrogatories 44, 53, 54, 55, 56, and his response to
10 Question 1 posed by the Commission.

11 We did not intend to introduce into evidence other
12 interrogatory answers that may have come in late or his
13 response to Question 2.

14 MS. DREIFUSS: In that case, Commissioner
15 Covington, I would also like to have entered into the record
16 Dr. O'Hara's response to Question 2 from the Commission, and
17 I have brought two copies and his declaration to make that
18 possible.

19 MR. MCKEEVER: And I have two copies of the
20 material that we would like to have admitted by stipulation
21 with the Postal Service. I am prepared to provide two
22 copies of that material to the reporter, and I move that it
23 be admitted into evidence.

24 COMMISSIONER COVINGTON: Thank you, Mr. McKeever.
25 Thank you, Ms. Dreifuss.

1 For the record, that was Ms. Shelley Dreifuss from
2 the PRC's Office of Consumer Advocate.

3 At this time, Mr. McKeever, would you provide two
4 copies of the response to the reporter?

5 MR. MCKEEVER: Yes, Mr. Commissioner.

6 COMMISSIONER COVINGTON: With that, these
7 additional designated responses of Witness O'Hara are
8 received into evidence and are to be transcribed into the
9 record.

10 (The document referred to was
11 marked for identification as
12 UPS/USPS Exhibit No. T1-44 and
13 was received in evidence.)

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

UPS/USPS-T1-44. Refer to Library Reference USPS-LR-1, DC-LR.xls, tabs "WP-p.3 Daily Data" and "WP-p.4 Weekly Data," which contain Priority Mail volume information.

(a) Provide, in the same format, volume information for Parcel Post similar to that provided in "WP-p.3 Daily Data."

(b) Provide, in the same format, volume information for Parcel Post similar to that provided in "WP-p.4 Weekly Data."

RESPONSE: (a)

Daily Parcel Post Volume Data: Retail Window-Entered & PERMIT System

CY 2000 Dates	Parcel Post Volume Entered at POS Sites	Est. Retail Parcel Post Vol: POS*100/70 (Millions)	PERMIT System Parcel Post Vol. (Millions)	Exp. Retail Vol,	Non-Exp. Retail Vol,	2001 Dates
11/24/00	70,387	0.100553	1.415905		0.1	11/23
11/25/00	43,794	0.062563	0.629768		0.1	11/24
11/26/00	1,612	0.002303	0.006365		0.0	11/25
11/27/00	127,594	0.182277	1.386781		0.2	11/26
11/28/00	107,455	0.153507	1.551424		0.2	11/27
11/29/00	98,968	0.141383	1.144271		0.1	11/28
11/30/00	98,880	0.141257	1.331431		0.1	11/29
12/01/00	119,470	0.170671	1.297409		0.2	11/30
12/02/00	73,350	0.104786	0.775946	0.1	0.1	12/1
12/03/00	2,368	0.003383	0.049024	0.0		12/2
12/04/00	188,694	0.269563	1.565479	0.3		12/3
12/05/00	162,294	0.231849	2.304063	0.2		12/4
12/06/00	152,097	0.217281	2.143264	0.2		12/5
12/07/00	156,010	0.222871	2.531552	0.2		12/6
12/08/00	179,938	0.257054	1.857865	0.3		12/7
12/09/00	116,917	0.167024	0.791615	0.2		12/8
12/10/00	7,173	0.010247	0.145197	0.0		12/9
12/11/00	196,837	0.281196	2.193828	0.3		12/10
12/12/00	187,961	0.268516	2.408616	0.3		12/11
12/13/00	204,539	0.292199	1.659956	0.3		12/12
12/14/00	185,853	0.265504	2.319065	0.3		12/13
12/15/00	199,096	0.284423	1.524909	0.3		12/14
12/16/00	103,595	0.147993	0.925569	0.1		12/15
12/17/00	5,322	0.007603	0.149389	0.0	0.0	12/16
12/18/00	182,627	0.260896	2.280741		0.3	12/17
12/19/00	122,321	0.174744	1.542267		0.2	12/18
12/20/00	86,399	0.123427	1.156898		0.1	12/19
12/21/00	73,849	0.105499	1.206512		0.1	12/20
12/22/00	72,832	0.104046	1.417771		0.1	12/21
12/23/00	35,392	0.050560	0.259650		0.1	12/22
12/24/00	541	0.000773	0.006009		0.0	12/23

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

RESPONSE TO UPS/USPS-T1-44(a) Continued:

Above Data summed in response to UPS/USPS-T1-49(b)							
11/25/00 thru 12/1/00		0.853961					
12/2/00 thru 12/22/00		3.800103					
12/2/00 thru 12/8/00		1.306787					
12/9/00 thru 12/15/00		1.569109					
12/16/00 thru 12/22/00		0.924207					

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

RESPONSE TO UPS/USPS-T1-44(b):

FY 2001 Weekly POS Data on Priority Mail and Manual Delivery Confirmation					
A/P Begins	FY 2001	POS Parcel Post Volume (millions)	POS Manual DC Purchased with Parcel Post (millions)	% POS Parcel Post with Delivery Confirmation	Est. Retail Parcel Post Vol: POS*100/70 (Millions)
9/9	AP 01	0.304226	0.012647	4.2%	0.4
		0.311609	0.013365	4.3%	0.4
		0.326506	0.013211	4.0%	0.5
		0.342387	0.014399	4.2%	0.5
10/7	AP 02	0.332984	0.013935	4.2%	0.5
		0.373540	0.015626	4.2%	0.5
		0.388041	0.016005	4.1%	0.6
		0.374495	0.016437	4.4%	0.5
11/4	AP 03	0.386707	0.017448	4.5%	0.6
		0.369371	0.016202	4.4%	0.5
		0.375054	0.017385	4.6%	0.5
		0.597773	0.024320	4.1%	0.9
12/2	AP 04	0.914751	0.033578	3.7%	1.3
		1.098376	0.036696	3.3%	1.6
		0.646945	0.020919	3.2%	0.9
		0.425355	0.018199	4.3%	0.6
12/30	AP 05	0.480479	0.018850	3.9%	0.7
		0.839672	0.033622	4.0%	1.2
		0.765183	0.032538	4.3%	1.1
		0.805042	0.036655	4.6%	1.2
1/27	AP 06	0.774955	0.035916	4.6%	1.1
		1.016621	0.038221	3.8%	1.5
		0.806951	0.035128	4.4%	1.2
		0.683582	0.033458	4.9%	1.0
2/24	AP 07	0.725263	0.036064	5.0%	1.0
		0.733094	0.036768	5.0%	1.0
		0.741225	0.037242	5.0%	1.1
		0.744334	0.038739	5.2%	1.1
3/24	AP 08	0.767677	0.039123	5.1%	1.1
		0.844656	0.040519	4.8%	1.2
		0.831389	0.037665	4.5%	1.2
		0.672906	0.034204	5.1%	1.0
4/21	AP 09	0.725144	0.038702	5.3%	1.0
		0.748190	0.039407	5.3%	1.1
		0.830678	0.041846	5.0%	1.2
		0.749424	0.041924	5.6%	1.1
5/19	AP 10	0.755490	0.043302	5.7%	1.1
		0.679895	0.038268	5.6%	1.0
		0.800585	0.044784	5.6%	1.1
		0.791845	0.043061	5.4%	1.1
6/16	AP 11	0.746244	0.042898	5.7%	1.1
		0.753489	0.043001	5.7%	1.1
		0.667803	0.038936	5.8%	1.0
		0.757059	0.044475	5.9%	1.1

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE****RESPONSE TO UPS/USPS-T1-44(b) Continued:**

7/14	AP 12	0.746658	0.044877	6.0%	1.1
		0.737613	0.045299	6.1%	1.1
		0.770653	0.046281	6.0%	1.1
		0.770933	0.046618	6.0%	1.1
8/11	AP 13	0.796619	0.049686	6.2%	1.1
		0.815973	0.051071	6.3%	1.2
		0.826504	0.050716	6.1%	1.2
		0.752105	0.044310	5.9%	1.1

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

UPS/USPS-T1-53. Provide the volume of window-entered Priority Mail pieces during the following periods:

- (i) November 27, 1999 through December 3, 1999;
- (ii) December 4, 1999 through December 10, 1999;
- (iii) December 4, 1999 through December 24, 1999;
- (iv) December 11, 1999 through December 17, 1999; and
- (v) December 18, 1999 through December 24, 1999.

RESPONSE:

I am informed that POS data for FY 2000 are much less complete than for FY 2001. The reason is that, until software changes were at the beginning of FY 2001, window clerks would often print PVI labels without specifying the class of mail and/or special service to which the label was applied. This caveat should be kept in mind in any use of POS based data for FY 2000, such as that requested in UPS/USPS-T1-53-56.

Daily Priority Volume Data: Retail Window-Entered and PERMIT System								
CY 1999 Dates	Priority Volume Entered at POS Sites	Delivery Confirmation with Priority at POS Sites	Est. Window- Entered Priority Vol.: POS*100/70 (Millions)	Est. DC with Window -Entered Priority	PERMIT Priority Volume (Millions)	Exp. Retail Vol.	Non- Exp. Retail Vol.	2001 Dates
11/26/99	257,015	33,004	0.367	0.047	1.1		0.4	11/25
11/27/99	166,980	21,139	0.239	0.030	0.5		0.2	11/26
11/28/99	2,284	267	0.003	0.000	0.1		0.0	11/27
11/29/99	477,663	54,317	0.682	0.078	2.0		0.7	11/28
11/30/99	418,750	48,787	0.598	0.070	1.4		0.6	11/29
12/01/99	388,909	44,433	0.556	0.063	2.6		0.6	11/30
12/02/99	371,481	41,033	0.531	0.059	2.1		0.5	12/1
12/03/99	419,174	47,141	0.589	0.067	2.0		0.6	12/2
12/04/99	257,234	28,077	0.367	0.040	0.6	0.4	0.4	12/3
12/05/99	4,999	551	0.007	0.001	0.3	0.0		12/4
12/06/99	691,585	63,645	0.988	0.091	1.5	1.0		12/5
12/07/99	614,796	60,113	0.878	0.086	1.7	0.9		12/6
12/08/99	561,880	53,581	0.803	0.077	1.8	0.8		12/7
12/09/99	552,498	51,539	0.789	0.074	1.8	0.8		12/8
12/10/99	644,067	59,342	0.920	0.085	1.8	0.9		12/9
12/11/99	444,635	40,427	0.635	0.058	1.2	0.6		12/10
12/12/99	38,214	4,014	0.055	0.006	0.2	0.1		12/11
12/13/99	1,099,999	86,319	1.571	0.123	1.8	1.6		12/12
12/14/99	999,332	80,557	1.428	0.115	2.3	1.4		12/13
12/15/99	951,780	75,619	1.360	0.108	2.0	1.4		12/14
12/16/99	911,368	73,428	1.302	0.105	2.3	1.3		12/15
12/17/99	985,029	80,701	1.407	0.115	2.2	1.4		12/16

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

RESPONSE TO UPS/USPS-T1-53 Continued:

12/18/99	735,470	59,104	1.051	0.084	1.2	1.1		12/17
12/19/99	90,822	7,508	0.130	0.011	0.3	0.1	0.1	12/18
12/20/99	1,252,713	100,407	1.790	0.143	1.9		1.8	12/19
12/21/99	803,492	72,668	1.148	0.104	2.1		1.1	12/20
12/22/99	476,940	46,807	0.681	0.067	1.3		0.7	12/21
12/23/99	330,615	34,842	0.472	0.050	1.0		0.5	12/22
12/24/99	198,497	22,577	0.284	0.032	0.4		0.3	12/23
12/25/99	73	7	0.000	0.000	0.0		0.0	12/24
12/26/99	972	163	0.001	0.000	0.0		0.0	12/25
11/27/99 thru 12/3/99			3.207	0.367				
12/4/99 thru 12/10/99			4.753	0.453				
12/4/99 thru 12/24/99			18.066	1.574				
12/11/99 thru 12/17/99			7.758	0.630				
12/18/99 thru 12/24/99			5.555	0.491				

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

UPS/USPS-T1-54. Provide the volume of window-entered Priority Mail pieces for which Delivery Confirmation was purchased during the following periods:

- (i) November 27, 1999 through December 3, 1999;
- (ii) December 4, 1999 through December 10, 1999;
- (iii) December 4, 1999 through December 24, 1999;
- (iv) December 11, 1999 through December 17, 1999; and
- (v) December 18, 1999 through December 24, 1999.

RESPONSE:

I am informed that POS data for FY 2000 are much less complete than for FY 2001. The reason is that, until software changes were at the beginning of FY 2001, window clerks would often print PVI labels without specifying the class of mail and/or special service to which the label was applied. This caveat should be kept in mind in any use of POS based data for FY 2000, such as that requested in UPS/USPS-T1-53-56.

The data requested are contained in my response to UPS/USPS-T1-53.

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

PS/USPS-T1-55. Provide the volume of window-entered Priority Mail pieces by week for FY2000.

RESPONSE:

I am informed that POS data for FY 2000 are much less complete than for FY 2001. The reason is that, until software changes were made at the beginning of FY 2001, window clerks would often print PVI labels without specifying the class of mail and/or special service to which the label was applied. This caveat should be kept in mind in any use of POS based data for FY 2000, such as that requested in UPS/USPS-T1-53-56.

**FY 2000 Weekly POS Data on Priority Mail and
Manual Delivery Confirmation**

A/P Begin s	FY 2000 POS Priority Mail Volume	POS Manual DC Purchased with Priority Mail	% POS Priority Mail with Delivery Confirmation	Est. Window- Entered Priority Vol: POS*100/70 (Millions)	Est. Window- Entered Priority with DC: POS*100/70 (Millions)	
9/11/99	AP 01	1,167,382	12,288	1.1%	1.667689	0.017554
		1,230,374	0	0.0%	1.757677	0.000000
		1,207,630	25	0.0%	1.725186	0.000036
		1,401,994	56	0.0%	2.002849	0.000080
10/9	AP 02	1,316,279	154	0.0%	1.880399	0.000220
		1,461,102	117,190	8.0%	2.087289	0.167414
		1,787,532	198,291	11.1%	2.553617	0.283273
		1,695,989	204,636	12.1%	2.422841	0.292337
11/6	AP 03	1,608,565	198,912	12.4%	2.297950	0.284160
		1,849,904	226,351	12.2%	2.642720	0.323359
		1,498,116	188,704	12.6%	2.140166	0.269577
		2,245,241	257,117	11.5%	3.207487	0.367310
12/4	AP 04	3,327,049	316,814	9.5%	4.752927	0.452591
		5,430,357	441,065	8.1%	7.757653	0.630093
		3,888,549	343,913	8.8%	5.555070	0.491304
		1,688,595	207,402	12.3%	2.412279	0.296289
1/1	AP 05	1,785,040	220,102	12.5%	2.521486	0.314431
		1,881,175	250,947	13.5%	2.658821	0.358496
		1,664,770	220,612	13.3%	2.378243	0.315180
		1,832,892	255,291	13.9%	2.618417	0.364701
1/29	AP 06	1,919,254	239,535	12.5%	2.741791	0.342193
		1,635,792	194,473	11.9%	2.336846	0.277819
		1,862,199	270,811	14.5%	2.660284	0.386873
		1,710,951	258,801	15.1%	2.444216	0.369716

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

RESPONSE TO UPS/USPS-T1-55 CONTINUED:

2/26	AP 07	1,926,295	296,755	15.4%	2.751850	0.423936
		1,879,182	293,168	15.6%	2.684546	0.418811
		1,927,200	306,714	15.9%	2.753143	0.438163
		1,883,317	301,970	16.0%	2.690453	0.431386
3/25	AP 08	1,804,459	291,731	16.2%	2.577799	0.416759
		1,937,857	285,293	14.7%	2.768367	0.407581
		2,052,014	327,228	15.9%	2.931449	0.467469
		2,147,594	250,542	11.7%	3.067991	0.357917
4/22	AP 09	1,759,823	292,125	16.6%	2.513747	0.417321
		1,836,526	296,158	16.1%	2.623609	0.423083
		2,399,336	327,669	13.7%	3.427623	0.468099
		1,813,098	294,743	16.3%	2.590140	0.421061
5/20	AP 10	1,659,821	282,215	17.0%	2.371173	0.403164
		1,729,655	288,507	16.7%	2.470936	0.412153
		2,029,541	338,777	16.7%	2.899344	0.483967
		2,391,811	362,171	15.1%	3.416873	0.517387
6/17	AP 11	2,065,549	346,040	16.8%	2.950784	0.494343
		2,104,979	360,430	17.1%	3.007113	0.514900
		1,824,261	311,833	17.1%	2.606087	0.445476
		2,215,799	385,761	17.4%	3.165427	0.551087
7/15	AP 12	2,196,353	366,138	16.7%	3.137647	0.523054
		2,242,083	394,342	17.6%	3.202976	0.563346
		2,281,193	396,110	17.4%	3.258847	0.565871
		2,330,214	411,941	17.7%	3.328877	0.588487
8/12	AP 13	2,384,992	418,155	17.5%	3.407131	0.597364
		2,477,428	423,867	17.1%	3.539183	0.605524
		2,522,553	428,295	17.0%	3.603647	0.611850
		2,346,795	391,383	16.7%	3.352564	0.559119

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

UPS/USPS-T1-56. Provide the volume of window-entered Priority Mail pieces for which Delivery Confirmation was purchased by week for FY2000.

RESPONSE:

I am informed that POS data for FY 2000 are much less complete than for FY 2001. The reason is that, until software changes were made at the beginning of FY 2001, window clerks would often print PVI labels without specifying the class of mail and/or special service to which the label was applied. This caveat should be kept in mind in any use of POS based data for FY 2000, such as that requested in UPS/USPS-T1-53-56.

The data requested are contained in my response to UPS/USPS-T1-55.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO QUESTIONS FROM
POSTAL RATE COMMISSIONERS POSED AT THE OCTOBER 23, 2001 HEARING**

QUESTION 1. Can you think of anything that might be done to obtain a quantitative estimate of the savings in overtime and supplemental air transportation generated by the experiment? Tr.2/180-181, 184-186.

RESPONSE: Many factors other than the experiment will have an effect on this year's use of both overtime and supplemental air transportation in comparison with last year. For this reason, any estimate of savings will require numerous assumptions and approximations.

However, the reduction in the scale of the experiment does permit an approach that was not available when the experiment was going to cover the entire country. This is to use parts of the excluded area as a "control group." The control group would be selected to match the experimental areas as closely as possible. The experimental areas could then be compared to the control group with respect to changes in window-clerk overtime and outgoing mail-processing overtime. Since the Priority Mail entered in the experimental areas will be destined for locations throughout the country, this approach is not likely to yield meaningful results with respect to carrier overtime or incoming mail-processing overtime.

Measuring changes in supplemental air transportation due to the experiment will be difficult in part because major changes in the overall transportation arrangements for Priority Mail have occurred between last year and this year. However, the northern California area included in the experiment represents a relatively self-contained region for originating Priority Mail, so some analysis of supplemental air transportation costs for that area may be possible.

1 COMMISSIONER COVINGTON: At this time, does any
2 party believe that it needs to conduct additional --

3 MS. DREIFUSS: Commissioner Covington, would this
4 be the appropriate time for me to give two copies of the
5 response to Question 2 to the reporter?

6 COMMISSIONER COVINGTON: I am sorry, Ms. Dreifuss.
7 Yes, at this time that would be appropriate.

8 MS. DREIFUSS: Thank you.

9 COMMISSIONER COVINGTON: Okay. As I was saying,
10 at this time does any party believe it needs to conduct
11 additional oral cross-examination of Witness O'Hara in
12 connection with these most recently designated interrogatory
13 responses?

14 MR. MCKEEVER: United Parcel Service does not
15 believe any additional cross-examination is necessary.

16 COMMISSIONER COVINGTON: Ms. Dreifuss?

17 MS. DREIFUSS: The OCA has no additional cross-
18 examination either, Commissioner Covington.

19 COMMISSIONER COVINGTON: Okay. I would like to
20 ask my colleagues now. I am joined on the bench by
21 Commissioner Ruth Goldway to my right and Commissioner
22 George Omas to my left.

23 With regard to written responses that Witness
24 O'Hara provided us to questions that you all had from the
25 bench, I think it would be necessary to include that

1 material in the record to supplement and correct the
2 information already provided in the Postal Service direct
3 case.

4 I think all of these responses have been
5 designated. I would like to let my colleagues know as to
6 Question 1, the response of Postal Service Witness O'Hara
7 from Postal Rate Commission that was posed at the
8 October 23, 2001, hearing, that I have that in my hands to
9 give to the court reporter as well.

10 I just handed from the bench to the reporter the
11 questions and the responses, and I would like to direct that
12 they be received into evidence and transcribed into the
13 record at this point.

14 (The documents referred to
15 were marked for identification
16 as Responses to Questions 1
17 and 2 and were received in
18 evidence.)

19 //
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QUESTION 1. Can you think of anything that might be done to obtain a quantitative estimate of the savings in overtime and supplemental air transportation generated by the experiment? Tr.2/180-181, 184-186.

RESPONSE: Many factors other than the experiment will have an effect on this year's use of both overtime and supplemental air transportation in comparison with last year. For this reason, any estimate of savings will require numerous assumptions and approximations.

However, the reduction in the scale of the experiment does permit an approach that was not available when the experiment was going to cover the entire country. This is to use parts of the excluded area as a "control group." The control group would be selected to match the experimental areas as closely as possible. The experimental areas could then be compared to the control group with respect to changes in window-clerk overtime and outgoing mail-processing overtime. Since the Priority Mail entered in the experimental areas will be destined for locations throughout the country, this approach is not likely to yield meaningful results with respect to carrier overtime or incoming mail-processing overtime.

Measuring changes in supplemental air transportation due to the experiment will be difficult in part because major changes in the overall transportation arrangements for Priority Mail have occurred between last year and this year. However, the northern California area included in the experiment represents a relatively self-contained region for originating Priority Mail, so some analysis of supplemental air transportation costs for that area may be possible.

QUESTION 2. What has the Postal Service decided with respect to the scale of the experiment, and, if the experiment will not cover the entire country, what areas will be included? Tr.2/198-199.

RESPONSE:

The Postal Service has decided that it would prefer to reduce the scale of the experiment to a level that represents about 12% of the original nationwide scope.

The areas that have been selected are listed below, with their originating Priority

Mail volume during last year's A/P 4, which contains the experimental period:

Postal Districts to be Included in the Experiment	Originating Volume A/P 4 FY2001*	Percent of National Volume
Akron	1,013,553	
Cleveland	816,760	
Columbus	1,996,062	
Cincinnati	1,531,366	
Total	5,357,741	4.2%
Dallas	2,665,301	
Fort Worth	1,065,451	
Total	3,730,752	2.9%
Oakland	1,147,874	
Sacramento	1,662,824	
San Francisco	2,016,140	
San Jose	1,202,485	
Total	6,029,323	4.7%
Total Experiment	15,117,816	11.9%
National Total	126,979,397	
*ODIS Originating volume shares applied to RPW volume.		

POS terminals were deployed in these areas prior to last year's holiday mailing season, which means that the data collected this year can be compared with the

Response to Hearing Room Question No. 2 (continued):

corresponding period last year. The boundaries of these areas are such that they do not split major metropolitan areas, so communication about the experiment through mass media can be used without complicated explanations of exactly what areas are and are not included.

Since the experiment will be limited to areas representing only about 12% of the country, any potential impact on competitors should be greatly reduced.

This reduction in scale will have the effect of proportionately reducing all of the figures related to the experiment on pages 1 and 2 of my workpaper, as shown below. The changes on page 1 are shaded; these flow through to Panel B on page 2, where the cost of informing customers is also scaled down. The cost of the reduced-scale experiment is \$1,138,439.

Response to Hearing Room Question No. 2 (continued):

**Projected Experimental Volumes
 with Reduced Scale**

Page 1

CY 2000 Days Corresponding to the Proposed Experimental Period of December 1, 2001 to December 16, 2001	Estimated Retail Priority Mail Volume (= Buying POS Volume x 100/70	Percent of Projected Priority Mail DC (POS Sites)	Projected Window Purchase of DC if No Experiment	Ratio of Non-Window Manual DC to Window DC	Projected Total Purchase of DC if No Experiment
--	--	---	--	--	---

12/02 - 12/08 (Sat. thru Fri.)	971,075	14.6%	41,431	20.6%	170,621
12/09 - 12/15 (Sat. thru Fri.)	1,392,005	11.8%	164,801	18.0%	194,189
12/16 - 12/16 (Sat. & Sun.)	239,436	11.3%	27,170	16.9%	31,757
Total Period:	2,602,516	12.8%	333,202	19.0%	396,567

Lost revenue on projected DC usage if no experiment, at
 \$0.40

\$158,627

Retail Priority Mail Not Buying DC if No
 Experiment (Candidate volume for additional
 DC usage)

2,269,314

Percentage of candidate volume accepting
 DC offer

100%

Additional Manual DC usage

2,269,314

Scale factor (see response to
 Question 2 posed at the
 October 23 hearing)

11.9%

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO QUESTIONS FROM
POSTAL RATE COMMISSIONERS POSED AT THE OCTOBER 23, 2001 HEARING**

Response to Hearing Room Question No. 2 (continued):

**TY 2001 Cost and Revenue for Priority Mail and Manual Delivery Confirmation
with reduced-scale experiment**

Page 2

A. Summary of TYAR Volume, Revenue and Cost from R2000-1 ¹	Volume	Revenue	Cost	Coverage	Unit Cost
Priority Mail	1,243,245,000	\$5,680,265,000	\$3,509,283,000	161.9%	\$2.823
Manual Delivery Confirmation on Priority Mail paying the \$0.40 fee ²	52,221,268	\$20,888,507	\$18,068,559	115.6%	\$0.346
Unit cost of electronic DC (cost of TYAR electronic DC usage is included in Priority Mail cost) ³					\$0.078

B. Data on the experiment:

Portion of TYAR manual DC usage occurring during experimental period:	396,567				
Revenue not received on this manual DC usage at \$0.40		\$158,627			
Cost (non-electronic only) of this usage at \$0.346			\$137,212		
Additional manual DC usage due to experiment	2,269,314				
Full cost (including electronic) of additional usage at (\$0.346+ \$0.078)			\$961,962		
Cost of informing customers			\$17,850		
Cost of experiment (= revenue not received+cost of add'l usage+cost of informing customers)			\$1,338,439		

C. Adjustments to TYAR data to reflect the experiment:

Priority Mail	1,243,245,000	\$5,680,265,000	\$3,509,283,000		
Plus non-electronic cost of existing usage			\$137,212		
Plus full cost of additional usage:			\$961,962		
Plus one-half the cost of informing customers			\$8,925		
Adjusted TYAR Priority Mail data	1,243,245,000	\$5,680,265,000	\$3,510,391,099	161.8%	
Manual Delivery Confirmation on Priority Mail paying \$0.40 fee	52,221,268	\$20,888,507	\$18,068,559		
Less volume and revenue of existing manual DC during experiment	(396,567)	(\$158,627)			
Less cost (non-electronic only) of this DC usage transferred to Priority Mail			(\$137,212)		
Plus one-half the cost of informing customers			\$8,925		
Adjusted TYAR Manual Confirmation on Priority Mail data	51,824,701	\$20,729,880	\$17,940,272	115.5%	

¹ Unless otherwise noted all data in Panel A are from the R2000-1 Op. & Rec. Dec., App. G, p.1

² Volume & Revenue: Op. & Rec. Dec., R2000-1, App. G, p.33; unit cost based on USPS-RT-21 in accordance with paragraph 6121.
Cost and cost coverage calculated from volume, unit cost, and revenue.

³ Unit cost based on USPS-RT-21 in accordance with paragraph 6121, R2000-1 Op. & Rec. Dec.

1 COMMISSIONER COVINGTON: Does any party believe it
2 needs to conduct additional oral cross-examination of
3 Witness O'Hara in connection with his written responses?
4 Ms. Dreifuss?

5 MS. DREIFUSS: No, Commissioner Covington, we do
6 not.

7 MR. MCKEEVER: We do not also, Commissioner
8 Covington.

9 COMMISSIONER COVINGTON: Okay. Does any
10 participant have any other issue we should discuss before we
11 begin and proceed with today's hearings?

12 (No response.)

13 COMMISSIONER COVINGTON: Okay. If there are no
14 other matters at this time, we will proceed.

15 United Parcel Service has filed testimony for one
16 witness, Mr. Larry F. Darby, as its case in chief in these
17 proceedings.

18 Mr. McKeever, will you call your witness to the
19 stand, please?

20 MR. MCKEEVER: Yes, Mr. Commissioner. United
21 Parcel Service calls to the stand Dr. Larry F. Darby.

22 COMMISSIONER COVINGTON: Would you mind standing,
23 Mr. Darby?

24 //

25 //

1 Whereupon,

2 LARRY F. DARBY

3 having been duly sworn, was called as a witness
4 and was examined and testified as follows:

5 COMMISSIONER COVINGTON: You may be seated.

6 (The document referred to was
7 marked for identification as
8 Exhibit No. UPS-T-1.)

9 DIRECT EXAMINATION

10 BY MR. MCKEEVER:

11 Q Dr. Darby, I have just provided you with a copy of
12 a document entitled Direct Testimony of Larry F. Darby on
13 behalf of United Parcel Service and identified as UPS-T-1.
14 Was that document prepared by you or under your direction
15 and supervision?

16 A Yes, sir, it was.

17 Q If you were to testify orally here today, would
18 your testimony be as set forth in that document?

19 A Yes, sir, it would be.

20 MR. MCKEEVER: Mr. Commissioner, I'd like to note
21 one typographical correction in the table of contents from
22 the document that was originally served. This is not in the
23 testimony itself, but rather in the table of contents.

24 Heading No. 5 in the table of contents entitled
25 The Experiment Will Not Provide Useful Information had an

1 indication that it began on page 3 in the document. It
2 actually begins on page 4. We have made that correction in
3 the copy provided to Dr. Darby, and it will be in the copies
4 that I would provide to the reporter if his testimony is
5 admitted into evidence.

6 With that, I would move that the direct testimony
7 of Larry F. Darby on behalf of United Parcel Service and
8 identified as UPS-T-1 be admitted into evidence in this
9 proceeding.

10 COMMISSIONER COVINGTON: Okay. Are there any
11 objections?

12 (No response.)

13 COMMISSIONER COVINGTON: Hearing none, I will
14 direct counsel to provide the court reporter with two copies
15 of the direct testimony of Dr. Larry F. Darby. That
16 testimony is received into evidence at this time and will be
17 transcribed.

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

22 //

23 //

24 //

25 //

UPS-T-1

BEFORE THE
POSTAL RATE COMMISSION

EXPERIMENTAL SUSPENSION OF FEE FOR
MANUAL DELIVERY CONFIRMATION CATEGORY :

DOCKET NO. R2001-2
DOCKET NO. MC2001-2

DIRECT TESTIMONY
OF
LARRY F. DARBY
ON BEHALF OF
UNITED PARCEL SERVICE

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I. QUALIFICATIONS

1
2 My name is Larry F. Darby. I head an economics consulting practice, Darby
3 Associates, in Washington, D.C. I received a Ph.D. in Economics from Indiana
4 University in 1970, where I specialized in price theory, industrial organization, and
5 regulation of business. I have been Assistant Professor of Economics at the Temple
6 University Graduate School of Business; Senior Economist in the Office of
7 Telecommunications Policy in the Executive Office of the President; Chief Economist
8 and Chief of the Common Carrier Bureau of the Federal Communications Commission;
9 Executive Director of the Motor Carrier Ratemaking Study Commission; and Vice-
10 President of Corporate Finance in the Lehman Brothers Investment Banking Group.

11 In addition to conducting my consulting practice, I am currently Professorial
12 Lecturer in Telecommunications at the Graduate School of The George Washington
13 University, where I now teach a course in Telecommunications Finance and am
14 scheduled in the Spring to teach the final course in applied research in the economics
15 sequence of the Telecommunications Masters Program. I am also Adjunct Professor of
16 Law at the New York Law School, where I will teach a course in the Economics of
17 Regulation. I have done research and studied rates and ratemaking processes under
18 transport and telecommunications regulation for much of my career and have written
19 numerous articles, reports, and advisory memoranda on those and closely related
20 subjects.

21 I have offered testimony to the Federal Communications Commission as its
22 principal advisor on common carrier rates, to Committees of both Houses of Congress,
23 to the Motor Carrier Ratemaking Study Commission (a temporary Joint Congressional

1 Commission established to examine the antitrust implications of motor carrier
2 ratemaking methods), and to state regulatory bodies.

3 **II. INTRODUCTION**

4 I have been asked by United Parcel Service to evaluate the proposal of the
5 United States Postal Service to suspend the fee for Manual Delivery Confirmation for
6 Priority Mail users for sixteen days in December 2001. The purpose of my testimony is
7 to explain the results of my evaluation in the specific context of (a) the experiment's
8 purposes, (b) its desired effects, and (c) the applicable statutory standards and Postal
9 Rate Commission precedent.

10 My testimony begins with a statement of the proposal and my understanding of
11 its rationale; proceeds to set forth the criteria for my evaluation of it; and then weighs
12 the proposal in terms of those criteria.

13 **III. THE PROPOSAL AND ITS RATIONALE**

14 The Postal Service has proposed an experiment under which it would offer a rate
15 reduction of 100% -- that is, service without charge -- for Manual Delivery Confirmation
16 to its Priority Mail customers for the period from December 1, 2001, to December 16,
17 2001. It has two primary objectives for giving away this costly and valuable service: to
18 obtain usable information about customer demand for the service by promoting it to
19 customers, and to smooth holiday demand for the service. The Postal Service claims
20 substantial benefits and minimal cost from the experiment.

1 **IV. TERMS OF REFERENCE FOR EVALUATING THE PROPOSAL**

2 My testimony is organized around four points of reference for evaluating the
3 proposed experiment. The first relates to the general purposes and effects of the
4 experiment. The last three relate to the evidence that must be adduced and evaluated
5 to determine the experiment's ability to pass specific statutory tests.

6 (1) Design of the experiment. The novelty of the proposal to give away a
7 valuable service as an experiment obliges the Commission to consider carefully
8 elements of the experiment's rationale in some detail. In particular, what questions are
9 intended to be answered, and what questions will in fact be answered, by the data
10 generated by the experiment? Are these data and answers useful in pursuit of lawful
11 Postal Service purposes? Are there better ways to get the desired information?
12 Finally, what are the full implications, beyond those addressed by the Postal Service, of
13 the experiment?

14 (2) Cost coverage. Section 3622(b)(3) of the Postal Reorganization Act
15 requires that "each class of mail or type of mail service bear the direct and indirect
16 postal costs attributable to that class or type plus that portion of all other costs of the
17 Postal Service reasonably assignable" to it. Accordingly, I will examine the information
18 provided by the Postal Service to evaluate its conclusions and claims about the extent
19 to which the experiment meets this applicable legal requirement.

20 (3) Competitive impact. Section 3622(b)(4) of the statute requires an
21 evaluation of the impact of the proposed experimental rate change "upon the general
22 public, business mail users, and enterprises in the private sector of the economy
23 engaged in the delivery of mail matter other than letters." The class of mail to which the

1 free value-added feature attaches, Priority Mail, is a substitute for comparable services
2 offered by firms in the private sector. Thus, the proposal raises questions about its
3 impact on competition and on the health of the competitive process.

4 (4) Other considerations. The Postal Service's testimony raises assorted
5 issues not falling clearly into these three categories. These issues include assertions
6 about the interpretation and relevance of practices by other firms in the economy and
7 certain other factual representations.

8 **V. THE EXPERIMENT WILL NOT PROVIDE USEFUL INFORMATION.**

9 The experiment is destined to fail to the extent that success requires it to achieve
10 substantially the purposes for which it was designed: to yield information about
11 customer demand relevant to lawful ratemaking; to shift usage in ways that will save
12 costs; or otherwise to deliver substantially the promises held out by the Postal Service.

13 The experiment is intended (1) to acquire, and is rationalized on the basis of
14 acquiring, data that will provide useful information about customer demand by
15 conveying information about the availability of the service, thereby promoting it to
16 customers, and (2) to smooth holiday demand for the service.

17 (a) Demand Data

18 Unfortunately, data from the experiment will convey almost no useful information
19 about customer demand, let alone information about demand in the range of lawful
20 rates. The experiment purports to test for information about the relationship between
21 rates and volume of usage. The relationship between price changes and changes in
22 quantity demanded (price elasticity of demand) is well known to ratemaking analysts. It
23 is well established in principle and from studies of demand that measures of price

1 elasticity have meaning for firm pricing behavior only when (a) price changes are
2 relatively small, and (b) changes in quantity are clearly attributable to the price change
3 and not to some other variable. Neither of these holds in the case of the proposed
4 experiment.

5 The Law of Demand holds that price and quantity are negatively related. When
6 price changes, quantity changes in the opposite direction: if prices go up, the quantity
7 purchased goes down; if prices go down, the quantity purchased goes up. While that
8 general relationship holds everywhere on a normal demand curve, like the one that
9 almost certainly applies to Manual Delivery Confirmation service, the relative
10 responsiveness of quantity changes to price changes is different for each initial price
11 level and for every different magnitude of price change.

12 Large price changes typically yield little useful information about the elasticity of
13 demand in the neighborhood of the initial price. An experiment raising or lowering price
14 -- say, by plus or minus 10-15% from the current level of \$0.40 -- would yield useful
15 information about pricing around the neighborhood of that price -- at, say, \$0.35.
16 However, lowering the current price to zero will convey no useful information about
17 consumer demand around the current price (or around any other price, for that matter),
18 since the overall effect of the larger price change conceals the specific impacts of
19 smaller changes. Giving away service for free will tell the Postal Service absolutely
20 nothing about the responsiveness of consumer behavior to neighborhood price
21 changes that are meant to be sustained for a longer period of time.

22 It is noteworthy in this context that the Postal Service has pending a request to
23 raise the present rate of \$0.40 for Manual Delivery Confirmation of Priority Mail by

1 12.5%, to \$0.45. The experiment will provide no credible information about the effect
2 of the proposed rate increase on consumer usage at that price.

3 A second problem with the experiment relates to the "noise level" created by
4 other demand factors. The change in quantity observable while giving away Manual
5 Delivery Confirmation at a zero price would not be a reliable indicator of the effect of the
6 price change alone, since other important influences on demand will likely be changing
7 over the same time interval.

8 For example, if allowed to go forward, the experiment will yield data about
9 quantity for Manual Delivery Confirmation at a zero price during the experimental
10 period. These data would be compared with price and quantity for the comparable
11 period last year. However, material changes in other factors driving demand are sure to
12 be changing, and perhaps substantially so, thereby rendering uncertain the implications
13 of the price change alone. Analysts of the effects of the price experiment must
14 calculate how much of the quantity change is attributable to reducing the price to zero,
15 and how much is attributable to other changes. The proposal provides no information
16 useful for answering this question. Economic principles and a large body of empirical
17 work on demand suggest that a number of other factors affecting demand will likely be
18 material and potentially too large to ignore. These include, but certainly are not limited
19 to, changes in the economy and expectations, changes in buying habits, gift-giving and
20 mailing patterns associated with changes in perceptions of security, and changes in the
21 prices of other closely related, substitutable or complementary services. The Postal
22 Service does not propose to do anything to examine the influence of these factors.

23 This problem of determining whether the price change is the cause of increased usage,

1 or whether the level of increased usage is due to any significant degree to other factors,
2 is similar to that suggested by the Postal Service itself in its response to Commissioner
3 Goldway's question on whether the Postal Service will be able to determine whether it
4 will actually save any costs as a result of shifting demand from one week to another.
5 See Response of Postal Service Witness O'Hara to Questions From Postal Rate
6 Commissioners Posed at the October 23, 2001 Hearing (filed October 26, 2001)
7 ("Response to Hearing Questions"), Response to Question 1.

8 The Postal Service's belated suggestion that it might scale back the experiment
9 does nothing to change this conclusion: No matter how large or small the geographic
10 scope of the experiment, giving away a service for free tells one nothing about how
11 much people will be willing to pay for a service, or about how much of the service they
12 will buy at a given price. In fact, restructuring the experiment to certain selected
13 geographic areas raises other questions that the Postal Service has not addressed,
14 such as whether demand in the areas selected is characteristic of demand nationwide,
15 and whether the costs of serving the additional volume in the limited geographic area
16 will remain constant or will increase on a unit basis when a different price change is
17 rolled out on a nationwide basis.

18 In sum, the experiment may generate data about consumer demand for Manual
19 Delivery Confirmation when its price is zero. However, that data will be ambiguous in
20 meaning and have little information content useful for any future pricing decisions.

21 A related goal of the experiment is to inform consumers about the service in
22 order to promote its use. Dr. O'Hara has observed that the experiment would introduce
23 Manual Delivery Confirmation to customers who might otherwise never try it, and that

1 more households and other infrequent users of Priority Mail would probably find Manual
2 Delivery Confirmation useful if they were familiar with it. USPS-T-1 at 2. These claims
3 are largely unexceptionable. At the same time, they amount to faint praise indeed,
4 since other methods would yield the same conclusion. The experiment will not provide
5 suitable data, nor does it reflect an intention to do so, to test the cost effectiveness of
6 giving the service away relative to other, possibly less expensive means of promotion.
7 Dr. O'Hara conjectures that offering Manual Delivery Confirmation without charge may
8 be more effective than other methods -- saturation mail or broadcast media -- as a
9 means "to build awareness." USPS-T-1 at 3. But then again, it may not. Considering
10 the substantial negative impact of the experiment -- a revenue loss alone of \$0.40 for
11 each transaction -- it is reasonable to suggest that the same "awareness" might well be
12 created through other, less objectionable means than giving away a valuable and costly
13 service for nothing. In any event, the experiment will not shed any light on the issue
14 without additional information and careful analysis of the effectiveness of alternatives,
15 none of which the Postal Service proposes to test.

16 Finally, there is a simple alternative solution to the lack of customer awareness
17 problem -- a test and solution that avoids the issues raised by giving the service away.
18 The clerk at the window could simply be instructed to ask customers if they would like to
19 purchase Manual Delivery Confirmation at the current rate. Point of sale
20 representatives in other retail sectors of the economy routinely provide information
21 about other services to customers at the time of the transaction.

(b) Smoothing Mailing Patterns

1
2 Dr. O'Hara indicates that another objective is "to learn more about . . . the extent
3 to which modest incentives will induce households to shift holiday mailing patterns"
4 USPS-T-1 at 3. The rate experiment -- a 100 percent reduction that takes the rate to
5 zero -- is inaptly described as conveying a "modest" price incentive. Indeed, the only
6 way to configure a less "modest" proposal would be to pay customers to try the service.
7 Moreover, as indicated above, measuring the change in volume (comparing volume for
8 the test period with that achieved for the same period last year) cannot dispose of the
9 question whether, and to what extent, the experimental rate change is the cause of any
10 shift in mailing patterns. Significant volume differences in different weeks might
11 reasonably be anticipated as a consequence of other factors -- the business cycle,
12 changes in consumer attitudes and behavior, changes in holiday patterns (e.g., the day
13 on which Christmas falls), and others.

14 Evidence on usage patterns shows clearly an uneven distribution of demand
15 during the weeks, and particularly the last few days, preceding Christmas day. This
16 pattern is described visually in Dr. O'Hara's Chart 1: Holiday Mailing Patterns (see Dr.
17 O'Hara Workpapers), and numerically in the table entitled "Daily Priority Volume Data:
18 Retail Window-Entered and PERMIT System" (USPS-T-1, Workpaper, page 3 of 4).

19 Dr. O'Hara asserts that the experiment would give customers an incentive to mail
20 packages before the very busiest week of the holiday season. He also claims benefits
21 from shifting the peak: "To the extent that customers respond to this incentive the
22 Postal Service may be able to reduce the need for clerk and carrier overtime and for
23 supplemental air transportation during the peak week." USPS-T-1 at 1 (emphasis

1 supplied). Again, as stated, this observation is unexceptionable. If customers shift the
2 time of usage and thereby smooth it out, peak costs might be reduced. While clearly
3 possible, however, the necessary conditions are not assured.

4 It is also worth noting that customers may ship late simply because they shop
5 late. The Postal Service has shown nothing to indicate that free Manual Delivery
6 Confirmation will affect a primary driver of volume during the last week before
7 Christmas.

8 First, the Postal Service offers no assessment of the costs of the peak, or, by
9 inference, the value available to it or to its customers of smoothing the peak, beyond
10 the observation that it would provide "opportunities" for "modest savings in clerk and
11 carrier overtime and in supplemental air transportation costs." USPS-T-1 at 5
12 (emphasis supplied). Subsequently (at USPS-T-1, p. 10), Dr. O'Hara states, without
13 equivocation, that the Postal Service does not know what the costs of the peak are and
14 has not even attempted to estimate any cost savings. Thus, the Postal Service does
15 not attempt to estimate the value of a major alleged benefit of the experiment -- shifting
16 peak usage. In place of a suggestion of even a rough order of magnitude of the
17 benefits, *the Postal Service simply begs this important question by citing the difficulty of*
18 *measuring it. Explaining why no cost savings or other benefits of shifting the peak are*
19 *estimated, Dr. O'Hara correctly states that the amount of potential cost savings is*
20 *contingent on how customers respond to the gift of free Manual Delivery Confirmation,*
21 *and he notes how difficult that is to estimate before the fact. USPS-T-1 at 10.*

22 Again, this issue does not disappear by reducing the scale or scope of the
23 experiment. As Dr. O'Hara has observed, "Many factors other than the experiment will

1 have an effect on this year's usage of both overtime and supplemental air
2 transportation in comparison with last year." Response to Hearing Questions,
3 Response to Question 1. Dr. O'Hara forthrightly admits that "For this reason, any
4 estimate of savings will require numerous assumptions and approximations." *Id.* These
5 are accurate and candid statements. Thus, the Postal Service concedes that it will be
6 difficult even after the experiment is implemented to estimate any cost savings from it.
7 But surely, the Commission and the public are entitled to a reasonable estimate of the
8 benefits of such a drastic experiment designed to shift the peak in demand for Priority
9 Mail.

10 The difficulty of measuring the savings from whatever success the experiment
11 may yield in terms of shifting the peak should not be permitted to shroud the fact that
12 the Postal Service is proposing a drastic solution to what may very well be a modest
13 problem. The problem may be trivial for a couple of reasons. First, I call attention to
14 Dr. O'Hara's Chart 1 showing a frequency distribution for estimated Retail Priority Mail
15 volume during the period from November 24, 2000, to December 24, 2000. Volume on
16 four of the seven days during the pre-Christmas week -- Wednesday, Thursday, Friday,
17 and Saturday -- is less than the peak during the previous week. Volume on six days in
18 the second-last week preceding Christmas (*i.e.*, the last week of the experiment) and
19 the average for six days in the prior week exceeded the volume during three days of the
20 "peak" Christmas week. Thus, the week before Christmas day, that is the week during
21 which demand is presumed to be excessive, is not the peak week.

1 There is, however, a clear daily peak in the week before Christmas day, but it is
2 notable that this peak exceeds the peak of the previous week on only two days --
3 Monday and Tuesday.

4 There are several important facts to take away from this. First, under the best of
5 circumstances that might follow from any Postal Service action to shift that peak, the
6 cost savings are likely to be very small, as well as subject to considerable measurement
7 error, since there is considerable chance that the experiment may simply shift the peak
8 to another day during an earlier week. In other words, there will be no net cost savings;
9 instead, peak costs will merely be incurred on a different, but earlier day. By giving
10 away the service during earlier times, the solution advanced in the proposed
11 experiment may simply create the very same problem, but with the peak occurring on
12 different days than would otherwise be the case. The Postal Service offers no evidence
13 or assurance that its solution will not simply make matters worse.

14 Uneven demand, usage peaks, and time of day/week/season congestion are not
15 unique to the Postal Service, even if its proposed solution is. Pricing changes as a
16 solution to similar problems in other industries seldom, if ever, involve simply giving
17 service away during off peak times. Instead, solutions in other sectors, unlike the
18 solution proposed here, quite frequently involve assigning the costs of the peak
19 ("congestion costs") to the cost causer, that is, the customers responsible for creating
20 the peak. Applying the well accepted principles of that solution to the problem
21 addressed here would require the Postal Service to estimate the costs of the peak,
22 which it has not done, and then to attribute those costs to the relevant service -- Manual
23 Delivery Confirmation.

1 **VI. THE EXPERIMENT PROPOSES A RATE BELOW**
2 **COST IN VIOLATION OF SECTION 3622(b)(3).**

3 The Delivery Confirmation service provides customers with information about the
4 date and time of day of delivery (or attempted delivery). Delivery Confirmation may be
5 by either mechanical or electronic means.

6 Like all postal services, Manual Delivery Confirmation service for Priority Mail
7 must cover its attributable costs as well as make a contribution to the Postal Service's
8 institutional costs. Since the proposed rate is zero, the Postal Service faces a
9 formidable barrier in meeting its responsibility to assure the Commission that the rate
10 meets the statutory standard for cost recovery. To document fully the financial impact
11 of the proposal, the Postal Service is obliged to show its cost effects.

12 In his original testimony, Dr. O'Hara concluded a very truncated analysis of cost
13 and revenue changes brought about by the experiment with the conclusion that ". . . the
14 cost coverages of both Priority Mail and the manual Delivery Confirmation for Priority
15 Mail would be reduced by only one-half percentage point." USPS-T-1 at 9. Not clearly
16 expressed, but suggested by the statement, is the impression that the experiment
17 passes the very clear test of cost coverage spelled out in Section 3622(b)(3) of the
18 Postal Reorganization Act. That impression is not correct, as I will demonstrate below
19 by walking through the details of Dr. O'Hara's analysis.

20 In his calculations of the cost and revenue impact of the experiment, Dr. O'Hara
21 starts with TYAR 2000 volumes, revenues, costs, and cost coverages for (a) Priority
22 Mail as a class, and (b) Manual Delivery Confirmation for Priority Mail paying the \$0.40

1 fee. As previously allowed (on a conditional basis) by the Commission,¹ he attributes
2 the cost of electronic Delivery Confirmation to Priority Mail, since the costs are already
3 included in and recovered by the base rate for Priority Mail.

4 Citing no economic basis and without any discussion, Dr. O'Hara then departs
5 from the Commission's established costing methodology and attributes the cost
6 associated with the non-electronic portion of Delivery Confirmation (\$0.346 per unit) to
7 Priority Mail rather than to Manual Delivery Confirmation. Dr. O'Hara gives no
8 explanation or rationalization for doing so. He merely states in a single sentence that
9 "with the experiment the cost for the non-electronic portion would similarly be
10 transferred to Priority Mail from Delivery Confirmation." USPS-T-1 at 9.

11 Dr. O'Hara thereby shifts the bulk of the economic costs caused by the
12 experiment from one service -- Manual Delivery Confirmation -- to another, Priority Mail.

13 Now you see it, now you don't, and now you see it again over there. The Postal
14 Service simply erases economic costs from one class of service and pencils them into
15 another type of service.

16 These are real economic costs that would not exist but for the experiment. They
17 are costs the Postal Service agrees are "caused by" the added Manual Delivery
18 Confirmation volume stimulated by the zero experimental price. See USPS-T-1,
19 Workpaper, page 2 of 4, in particular Part B, the line item entitled "Additional manual
20 DC usage due to experiment."

21 Such cost shifting is the very antithesis of the language and intent of Section
22 3622(b)(3). Moving costs in this way does not change the fact that new and significant

1. Docket No. R97-1, Opinion and Recommended Decision at 586, ¶ 5977.

1 costs will be caused by the Manual Delivery Confirmation service and magnified by the
2 zero experimental price. Because of this accounting sleight of hand, the costs caused
3 by the added volume stimulated by the experiment must be borne by other users, or by
4 "the Postal Service," according to Dr. O'Hara. USPS-T-1 at 9.

5 The amount of cost shifted is relatively straightforward to calculate, and I will do
6 so in the course of considering Dr. O'Hara's workpaper.

7 To calculate the cost of the experiment, Dr. O'Hara considers costs from four
8 sources -- actually, three costs and one source of foregone revenue. These are (a) the
9 revenue foregone by giving away service for which customers would, but for the
10 experiment, have been obliged to pay, (b) the Manual Delivery Confirmation costs of
11 informing consumers of the experiment, (c) the electronic costs of the additional Manual
12 Delivery Confirmation volume, and (d) the non-electronic costs of the additional Manual
13 Delivery Confirmation volume:

- 14 (1) The revenue foregone from usage pro rated from the prior year is
15 estimated at \$1,332,998 (prorated volume of 3,332,494 times \$0.40);
- 16 (2) The cost of informing customers of the experiment is estimated at
17 \$150,000, of which only \$75,000 (half) is attributed to Manual Delivery
18 Confirmation with the other half attributed to Priority Mail;
- 19 (3) It is assumed that additional usage of 19,069,868 units of Manual Delivery
20 Confirmation will be stimulated by the zero experimental price. The cost
21 of this additional usage has two parts -- the electronic portion of Manual
22 Delivery Confirmation costs, and the non-electronic portion. The
23 additional cost of the electronic segment is \$1,487,450 (that is,

1 19,069,868 times \$0.078, or the stimulated volume times the electronic
2 unit cost);

3 (4) The additional cost of the non-electronic segment is \$6,598,174 (that is,
4 19,069,868 times \$0.346, or the stimulated non-electronic volume times
5 the non-electronic unit cost);

6 (5) The full additional cost of the stimulated volume (electronic and non-
7 electronic) is \$8,085,624, or the added volume of 19,069,868 times
8 (\$0.078 + \$0.346).

9 These costs must be attributed. Dr. O'Hara correctly charges the experiment
10 with the foregone revenue from giving away a service that otherwise would have been
11 sold at \$0.40 per unit. Secondly, as noted, he attributes half the cost of informing
12 customers to the Manual Delivery Confirmation service and half to Priority Mail. Third,
13 following the precedent allowed previously by the Commission, he attributes the
14 electronic portion of the costs of the added Manual Delivery Confirmation volume
15 (\$1,487,450) to Priority Mail. Fourth, and contrary to the Commission's established
16 treatment, Dr. O'Hara attributes to Priority Mail the non-electronic portion of the costs of
17 the added Manual Delivery Confirmation volume resulting from the zero price
18 experiment (\$6,598,174).

19 By shifting to Priority Mail the additional non-electronic cost of the additional
20 Manual Delivery Confirmation volume stimulated and clearly caused by the zero price
21 experiment -- thereby excluding it from the calculation of the cost coverage ratio of the
22 Manual Delivery Confirmation service to which the experiment applies -- the Postal

1 Service is able to say that the service will generate a cost coverage of 115.1% for the
2 year. USPS-T-1, last line of Workpaper, page 2 of 4.

3 I recalculate below the cost caused by the experiment with one change from Dr.
4 O'Hara -- attribution to Manual Delivery Confirmation, where the Commission has said it
5 belongs, of the increase in the non-electronic portion of Manual Delivery Confirmation
6 cost resulting from the volume stimulation caused by the zero price experiment:

7	(a)	Lost revenue from foregone sales at \$0.40.....	\$1,332,998;
8	(b)	Half the cost of informing customers.....	\$ 75,000;
9	(c)	Non-electronic Manual Delivery Confirmation cost caused	
10		by the experiment.....	\$6,598,174;
11	(d)	Total cost "caused by" the experiment to be borne by	
12		Manual Delivery Confirmation.....	\$8,006,172.

13 The difference between these numbers and Dr. O'Hara's approach is in line item (c),
14 which I have attributed to Manual Delivery Confirmation, as required by Commission
15 precedent, and which Dr. O'Hara has attributed to Priority Mail. This is an economic
16 cost "caused" by the experiment and properly attributable to Manual Delivery
17 Confirmation. That contrasts with Dr. O'Hara's unexplained decision to depart from
18 Commission precedent and attribute it instead to Priority Mail.

19 Dr. O'Hara also inexplicably shifted \$1,153,043 (3,332,494 times \$0.346) of the
20 non-electronic component of the cost of Manual Delivery Confirmation to Priority Mail
21 and away from Manual Delivery Confirmation. This is the cost of the Manual Delivery
22 Confirmation transactions that would have taken place and that would have been borne
23 by the service in the absence of the experiment, but which, as a result only of the
24 proposed free offering, simply disappears as a Manual Delivery Confirmation cost and
25 then, supposedly, rematerializes as a cost of Priority Mail. On its face, the rationale

1 appears to be that the announcement of a price experiment for a service "causes" costs
2 to move from that service to another class of service to be recovered by other
3 customers.

4 The foregoing has accepted several assumptions by Dr. O'Hara whose basis is
5 not set forth or with which I do not necessarily agree -- the division of the cost of
6 informing users between Priority Mail and Manual Delivery Confirmation instead of
7 assigning all of the cost to Manual Delivery Confirmation, the assumption about how
8 much volume will be stimulated, and others. Even accepting these questionable
9 assumptions, the core difference in our estimates of the cost impact of the experiment
10 centers on the attribution of the non-electronic portion of the added cost of the Manual
11 Delivery Confirmation service stimulated by the experiment. I believe Dr. O'Hara's
12 treatment leads to a misallocation of economic cost, cross-subsidy, and a burden on
13 other postal users.

14 I conclude that the costs of the experiment, when properly recognized, will result
15 in a loss of at least \$5.2 million for the year and a cost coverage of only 79% for Manual
16 Delivery Confirmation service, in clear violation of the statute.

17 It is worthwhile to put these losses in a slightly different context. Using Dr.
18 O'Hara's estimated non-electronic cost of Manual Delivery Confirmation of around
19 \$0.35 and a current price of \$0.40, the contribution per transaction is around \$0.05. The
20 lost revenue (\$1.3 million) and the added cost (\$8.1 million) of the experiment combine
21 to a total cost of \$9.4 million. For this experiment to recoup its cost, the volume of
22 Manual Delivery Confirmation service for Priority Mail would have to increase by about

1 188 million units. Since current annual volume is in the range of 52 million units, this is
2 indeed a formidable requirement.

3 Finally, I note that Dr. O'Hara's analysis suggests that the total cost of Manual
4 Delivery Confirmation as recorded in the Postal Service's accounts will actually
5 decrease by \$1.15 million even though volume is assumed to increase by 19 million
6 transactions.

7 Once again, a reduction in the scale or scope of the experiment does not change
8 the basic underlying fact: the additional volume stimulated will be given away at less
9 than its attributable cost, and the cost coverage for Manual Delivery Confirmation will be
10 eroded below the level required by the statute. In fact, even assuming a "scaled-down"
11 cost of the experiment of only \$1,138,439 (see Response to Hearing Questions,
12 Response to Question 2), an additional 22.8 million Manual Delivery Confirmation
13 transactions would have to be generated after the experiment to pay for it. That
14 represents a volume increase of almost 44%, a volume increase that is highly unlikely,
15 to say the least.

16 **VII. THE PROPOSED RATE WOULD BE ANTICOMPETITIVE.**

17 Section 3622(b)(4) of the Postal Reorganization Act requires consideration of the
18 impact of the proposed rate "upon the general public, business mail users, and
19 enterprises in the private sector of the economy engaged in the delivery of mail matter
20 other than letters."

21 *While the Commission has, and should have, no obligation to protect specific*
22 *competitors of the Postal Service from the rigors of healthy rivalry in the marketplace,*
23 *the statutory monopoly of the Postal Service over letter mail creates the familiar*

1 opportunity for rates to embody cross subsidies from monopoly to competitive services.
2 To the extent that competitive services offered by the Postal Service do not cover
3 costs, appropriately defined and determined, the offering can be expected to harm the
4 competitive process that the Postal Reorganization Act and other laws are designed to
5 protect.

6 Dr. O'Hara characterizes the experimental gift of Manual Delivery Confirmation
7 service as consistent with similar practice elsewhere in the economy. USPS-T-1 at 13.

8 It is notable, though, that the specific example Dr. O'Hara cites is very different in
9 important ways from the instant case. Cable television operators and their program
10 suppliers sometimes offer premium channels to prospective customers for a limited
11 time free of charge. However, since the cost of that offer is not assured to be
12 recovered by other customers and any losses therefrom are assured to be borne by
13 private shareholders, managers have a clear and compelling incentive to make sure the
14 offer will have a positive financial impact. Moreover, it is also notable that, unlike with
15 the instant experiment, the cable offer is typically not extended to customers who are
16 already paying for the service.

17 A private firm would have strong incentives not to undertake the kind of
18 experiment offered here, given the degree of uncertainty present about the success of
19 the experiment or the potential for cost savings or improved customer service quality if
20 the experiment is successful.

21 Though the total costs of the experiment and their misallocation may be relatively
22 small in the context of a \$70 billion revenue stream, that is not an adequate defense for
23 the potentially anticompetitive impacts of a not demonstrably effective, poorly designed

1 pricing experiment that fails to cover its economic costs. Nor is the disclaimer of its
 2 proponents with respect to anticompetitive intent (USPS-T-1 at 14) sufficient to offset its
 3 anticompetitive impact. To the extent that a service offering fails to cover its economic
 4 cost and for that reason diverts traffic from lower cost competitors unable to draw
 5 support from a protected monopoly service, there will be a well-known deadweight
 6 efficiency loss to the economy from resource misallocation.

7 The potential impact in the marketplace and on competition of the Commission's
 8 decision on this proposal may be significant, notwithstanding the characterization by its
 9 proponents of the small size of the revenues and costs projected to be involved. The
 10 Commission with its decision here will send an important signal not only about its views
 11 of this proposal, but also about Postal Service prospects for similar, future ones as well.

12 The decision here will have precedential value for consideration downstream of
 13 proposals involving uncertain revenue, cost, and overall financial consequences in a
 14 competitive environment. The proposal to take to zero the rate for a costly and
 15 valuable service and thereby eliminate a lawful fee for a competitive service during the
 16 heaviest mailing season of the year is a serious one, regardless of its relative scale in
 17 the context of the overall size of the Postal Service.

18 In short, it is important for public policy purposes that the Commission get this
 19 one right.

20 **VIII. CONCLUSION**

21 The proposed experiment's benefits are overstated and not measured. The
 22 costs are understated. To the extent that this experiment does not cover the costs
 23 caused by it, as opposed to a fictional accounting allocation of those costs, the offering

1 is clearly anticompetitive and will be a burden on monopoly ratepayers or users of other
2 services. The description of the proposal and its analysis offers vagueness, ambiguity,
3 and conjecture, where the gravity of the issues raised by it require care, precision, and
4 analytical rigor.

1 COMMISSIONER COVINGTON: Would counsel who wish to
2 conduct oral cross-examination please identify yourselves at
3 this time for the record?

4 MR. HESELTON: Commissioner Covington, the Postal
5 Service has some cross-examination for this witness.

6 COMMISSIONER COVINGTON: That is Mr. Frank
7 Heselton of the United States Postal Service.

8 MS. DREIFUSS: The OCA has only one or two
9 questions for the witness.

10 COMMISSIONER COVINGTON: And that is Ms. Shelley
11 Dreifuss of the Postal Rate Commission's Office of Consumer
12 Advocate.

13 Very well. We will begin with cross-examination
14 by United States Postal Service. Mr. Heselton, you may
15 proceed.

16 MR. HESELTON: Thank you, Commissioner.

17 CROSS-EXAMINATION

18 BY MR. HESELTON:

19 Q Good morning, Dr. Darby.

20 A Good morning, Mr. Heselton.

21 Q I'm Frank Heselton representing the Postal
22 Service. Could you turn, please, to page 19 of your
23 testimony and specifically to line 11 on that page where you
24 indicate a cost of the experiment of \$1,138,439 that you
25 obtained from the response of Witness O'Hara to Question No.

1 2, which has been entered into the record this morning.

2 A Yes, sir.

3 Q What I'd like to do would be to focus your
4 attention on the page of that response to Question 2 from
5 which you obtained that number, specifically page 2 of Dr.
6 O'Hara's response to Question 2, Section B.

7 MR. MCKEEVER: Mr. Commissioner, may I ask for an
8 identification of the material again?

9 COMMISSIONER COVINGTON: Mr. Heselton, can you
10 direct us to --

11 MR. HESELTON: Certainly, Mr. Commissioner. What
12 we're talking about here, as I indicated, is page 19, line
13 11, of the witness' testimony, Witness Darby's testimony,
14 and page 2 -- let me make sure. Page 2 of the response of
15 Postal Service Witness O'Hara to questions from Postal Rate
16 Commissioners posed at the October 23, 2001, hearing and
17 specifically Question 2 of that response and page 2 of that
18 response.

19 MR. MCKEEVER: Thank you, Mr. Commissioner.

20 THE WITNESS: I believe I have that reference.

21 MR. HESELTON: Okay. More specifically, this is a
22 page with a number of numbers presented on it.

23 MR. MCKEEVER: Mr. Commissioner, page 2 of my copy
24 of Dr. O'Hara's response to Question 2 has only one figure
25 on it, the \$1,138,439. There is an additional page, a

1 couple of pages, with numbers on it. I don't know if that's
2 what counsel is referring to or not.

3 COMMISSIONER COVINGTON: Mr. Heselton, could you
4 let Dr. Darby see what it is in hard copy, see what it is
5 that you're referring to at the present time? I think
6 there's some confusion even on the bench as to where you're
7 at.

8 MR. HESELTON: Okay. This page 2 is a page which
9 corresponds to the witness' original work papers.

10 MR. MCKEEVER: I believe I now, Mr. Commissioner,
11 understand what counsel is intending to refer to, and I
12 believe it's the fourth page of the response to Question 2
13 or the last page of that response, I guess. Maybe it's
14 easier to identify it that way.

15 MR. HESELTON: That is correct, Commissioner
16 Covington. It is the fourth page of the response, but it's
17 page 2 of the sets of tables that were attached to that
18 response.

19 COMMISSIONER COVINGTON: Okay.

20 MR. HESELTON: I hope that clarifies matters.

21 COMMISSIONER COVINGTON: Okay. Dr. Darby, are you
22 wish us now?

23 THE WITNESS: I believe I am, Commissioner.
24 Counsel confirmed that the page I've turned to is the same
25 as he was showing to me.

1 COMMISSIONER COVINGTON: Okay. I think he's with
2 you now, Mr. Heselton.

3 MR. HESELTON: Thank you, Commissioner.

4 BY MR. HESELTON:

5 Q Since this number is now in evidence, what I would
6 like to do, Dr. Darby, is to turn to your page 17 in your
7 testimony and specifically lines 7 to 12 on that page --

8 A Yes, sir.

9 Q -- and to see if we can in straightforward
10 fashion, using the scheme of analysis that you have
11 developed yourself on page 17, fold the numbers that are
12 presented on Question 2, page 2 of the attachment, into that
13 analysis. Specifically I'd like to start with line 7 where
14 there's an indication there of lost revenue from foregone
15 sales from the experiment.

16 Looking at page 2 of the attachment to Witness
17 O'Hara's response to Question 2, there is a number there of
18 revenue not received on this manual DC usage at 40 cents of
19 \$158,627. I take it if you were to update your analysis for
20 the evidence entered this morning that that \$158,627 would
21 be an appropriate entry under line 7(a) to reflect the
22 difference?

23 MR. MCKEEVER: Mr. Commissioner, I object to the
24 use of the term update. The Postal Service has not done
25 anything to amend its request yet in this case. While Dr.

1 O'Hara has stated in his response to this question that the
2 Postal Service would prefer to scale down the experiment, it
3 hasn't indicated whether that's what it is requesting the
4 Commission to do or not. The request that is on the table
5 before the Commission right now is, of course, embodied in
6 the Postal Service's formal request, which is for a
7 nationwide experiment.

8 Now, I take it that the Postal Service would
9 prefer, to use its term, to use a scaled down experiment.
10 I'm not sure if they're asking the Commission to approve
11 either the nationwide experiment or the scaled down one. My
12 assumption, since they haven't amended their request, is
13 that they still want the authority to go ahead with the
14 nationwide experiment.

15 Now, we have no problem with stipulating that the
16 number that counsel used, \$158,627, is the analog to the
17 \$1,332,998 on line 7 of Dr. Darby's testimony, but to use
18 the term update I think is somewhat confusing because we're
19 not clear whether it's an update or just further
20 information.

21 I have no objection really to the substance of the
22 question, but I just don't want to mislead anyone concerning
23 what the Postal Service is proposing, which I believe is a
24 nationwide experiment, but I'm not sure.

25 COMMISSIONER COVINGTON: Mr. Heselton?

1 MR. HESELTON: Yes, Commissioner. Perhaps I could
2 just simplify this by changing the word update in my
3 question to alternative presentation so that we can avoid
4 the issues raised by counsel for United Parcel Service.

5 MR. MCKEEVER: We would agree to that, Mr.
6 Commissioner. We think that's a proper question, and the
7 answer is obvious, but, yes, we have no objection.

8 COMMISSIONER COVINGTON: Okay, Mr. McKeever.
9 You can proceed, Mr. Heselton.

10 BY MR. HESELTON:

11 Q Dr. Darby, my question to you was if you were to
12 use the numbers from the alternative presentation on page 2
13 of the attachment to Question 2 of Dr. O'Hara's response to
14 the Commissioners' questions that in line 7(a) the number
15 that would fit in there would be the \$158,627 from Section B
16 of that page. Is that correct?

17 A Let me do the arithmetic. My number, sir, for
18 line 7, Lost Revenue from Foregone Sales at 40 Cents Per
19 Unit, \$1,332,998, was derived by multiplying 40 cents times
20 the foregone volume of 3,332,998.

21 I understand that the experiment or the suggested
22 revision to the experiment would scale it down to one-
23 eighth, so I think the correct number, the corrected number
24 on the premise of your question, would be one-eighth the
25 size of what I have entered there.

1 I have not done that arithmetic. If that
2 corresponds with Dr. O'Hara's calculation then I would agree
3 that we're on the same page.

4 Q And agreed on the same number?

5 A My ball park just in my head looking at it quickly
6 looks like it's going to be very, very, very, close.

7 Q Okay. I think that's an answer that satisfies me.
8 In fact, the scale is a little bit different than the one-
9 eighth, but very close.

10 Going now to -- well, let's take it this way.
11 Looking at that same page on the attachment to Dr. O'Hara's
12 response that we've been looking at, but going above to
13 Section A, there is a revenue figure for manual delivery
14 confirmation on Priority Mail paying the 40 cent fee of
15 \$20,888,507. Do you see that?

16 A That's on the page preceding the one we just
17 addressed?

18 Q It's on page 2 of the attachment to Dr. O'Hara's
19 response, the same page that the \$158,627 that we just
20 discussed came from.

21 A Okay. I'm sorry. Please ask the question again.
22 I'm sorry. I was looking for pages.

23 Q Okay. What I'm looking at on that page and
24 directing your attention to is a number up in Part A, the
25 line Manual Delivery Confirmation on Priority Mail Paying

1 the 40 Cent Fee, and specifically the revenue number there
2 of \$20,888,507. Do you see that number?

3 A Yes, sir, I do see that number.

4 Q Incidentally, I believe that number was the same
5 number that was in Dr. O'Hara's original work papers.

6 Now, I would take it that to get the revenue from
7 the experiment, assuming the downsized figure for revenue
8 not received that we just discussed of \$158,627, that to
9 calculate the revenue after the experiment one would simply
10 take the \$158,627 and subtract that from the \$20,888,507.
11 Is that correct?

12 MR. MCKEEVER: Mr. Commissioner, I'm just confused
13 by the term revenue from the experiment. The experiment
14 proposes no fee, which would mean it would generate no
15 revenue.

16 MR. HESELTON: That's right. The revenue not
17 received because of the no fee feature.

18 MR. MCKEEVER: May I ask, Mr. Commissioner, that
19 the question be restated then in light of that?

20 COMMISSIONER COVINGTON: Mr. Heselton, could you
21 restate that question?

22 MR. HESELTON: Certainly.

23 BY MR. HESELTON:

24 Q What I'm suggesting is that if one starts with the
25 figure of revenue from manual delivery confirmation before

1 the experiment of \$20,888,507 and subtracts from that the
2 figure that we've alluded to of revenue not received from
3 manual delivery confirmation usage at 40 cents of \$158,627
4 that the difference will be the revenue to be received from
5 delivery confirmation after the downsized experiment is
6 implemented. Is that correct?

7 A Sir, if I understand the logic I believe that's
8 correct.

9 Q And in fact I've performed that calculation, and I
10 arrive at a figure of \$20,729,880 as the revenue received
11 from delivery confirmation service after the downsized
12 experiment. Is that correct?

13 A Could you repeat that question please?

14 Q Certainly.

15 MR. MCKEEVER: Mr. Commissioner, if I may save
16 some time, I think that calculation is shown on the bottom
17 of the same page, so we would agree to the math there. It's
18 right on the same page.

19 MR. HESELTON: That's correct. That's right at
20 the bottom of the --

21 THE WITNESS: It's \$20,729,880, and all of these
22 numbers again I understand are being driven by a
23 proportionate downsizing of all of Dr. O'Hara's initial work
24 papers.

25 MR. HESELTON: That's the premise of my questions

1 to you, yes.

2 THE WITNESS: Okay. That's fine, sir. Thank you.

3 BY MR. HESELTON:

4 Q Let's turn now to line 8 of your testimony on page
5 17. There you've indicated and included a figure of half
6 the cost of informing customers of the delivery confirmation
7 experiment.

8 Parallel to what we've done on line 8 there, I'd
9 like to get some agreement on the figure that would be
10 appropriate to enter there from the downsized experiment,
11 but let's make it easy in this case because your testimony
12 indicates that you don't necessarily agree that only half
13 the cost should be put there.

14 Let's take a look at once again going back to page
15 2 of the attachment to Dr. O'Hara's response to Question 2
16 and directing your attention there once again in Section B
17 under Cost, the cost of informing customers of \$17,850.
18 Would that be the appropriate figure, in your view, to enter
19 into line B for the purpose of updating your exercise? I'm
20 sorry. I used the wrong word. Adjusting your exercise on
21 page 17 to the downsized experiment.

22 Once again, this is the full cost of informing
23 customers rather than the half that you have indicated
24 there.

25 A I'm not sure of the derivation of the -- it's hard

1 to read it. \$17,850?

2 Q That's correct.

3 A \$17,850. Again consistent with my understanding
4 of the changes in Dr. O'Hara's original work papers to
5 conform to the proposed downsizing of the experiment, I
6 think I would be inclined, subject to the reservations I
7 made earlier about the attribution of half, only \$75,000,
8 subject to that reservation, that the premise of one-eighth
9 of that number is a ball park number that would be
10 consistent with my earlier comments.

11 Again, I haven't done the arithmetic, but quickly
12 it looks like one-eighth of \$75,000 is on the order of
13 \$9,000 and change. You have the entire \$17,850. You've
14 attributed that, so in principle I am agreeable.

15 Q Let's proceed then to line 9 and Part C of your
16 testimony on page 17 and perform a parallel adjustment
17 there. In this case, once again to make it simple in terms
18 of the numbers here, you've indicated there that you've got
19 the non-electronic manual delivery confirmation costs caused
20 by the experiment.

21 Just to make this simple, why don't we consider
22 picking up for the downsized experiment the non-electronic
23 manual delivery cost, essentially the full cost, including
24 the electronic, from the experiment. That would appear to
25 be a number once again in Part B on page 2 of the attachment

1 to Dr. O'Hara's response to Question 2 labeled Full Cost,
2 Including Electronic, of Additional Usage, a figure of
3 \$961,692. Do you see that figure?

4 A Yes, sir, I do.

5 Q And once again that would be the appropriate
6 figure reflecting the effects of the downsized experiment to
7 enter into or consistent with your testimony at line C,
8 noting in fact that it includes not only the non-electronic
9 costs, but also the electronic costs?

10 A Counsel, if I understand what you're saying
11 consistently with my previous testimony and today and my
12 understanding that we're downsizing by roughly a factor of
13 one-eighth, you're suggesting to me that one-eighth of
14 \$6,598,000 is a subset of the \$961,000, and you have added
15 additional costs to that as well. That's consistent with my
16 understanding of the testimony and consistent with my
17 contentions that I had earlier with it.

18 Q Thank you, Doctor. Let's confirm what you've said
19 here. We've got \$158,627 entered in on the line with A,
20 \$17,850 for line B, \$961,962 for line C, and when you total
21 those numbers I believe you get \$1,138,439.

22 MR. MCKEEVER: Mr. Commissioner, I hesitate to
23 interject, but the Commission does have a rule that
24 indicates that counsel should provide in advance a cross-
25 examination exhibit when counsel intends to use an exhibit

1 that involves mathematical examples.

2 I hesitate to say these are complex, but they are
3 confusing at least the way it's been posed so far. It would
4 have been far easier if counsel had provided that in advance
5 and asked our witness to be prepared to confirm the numbers
6 instead of going through the somewhat painful process of
7 doing it here.

8 I am prepared to stipulate that if you add the
9 three numbers that counsel has stated you come up with the
10 cost that Dr. O'Hara identified as the cost of the
11 experiment, \$1,138,439, if that will make things easier.

12 COMMISSIONER COVINGTON: Mr. Heselton?

13 MR. HESELTON: Well, Commissioner, that's exactly
14 the point I was getting to. The additions or the
15 differences that we've made here in lines A, B and C do add
16 in fact to the total cost experiment number that Dr. Darby
17 has cited on page 19 of his testimony, line 11.

18 I think, therefore, it sets the witness at ease
19 that in fact the numbers that we've been talking about for
20 Sections A, B and C do in fact tie in all respects to the
21 information presented in the attachment that Dr. O'Hara has
22 presented.

23 I'm almost at the end of my chain of questions
24 here with regard to this matter. I would like to note
25 further that if one takes the -- let me pose this in the

1 form of a question.

2 BY MR. HESELTON:

3 Q You've dealt with the revenue side. Let's take a
4 look at the cost side and specifically the cost for delivery
5 confirmation, assuming a downsized experiment.

6 I'm looking here at a cost figure. Once again
7 this is on page 2 of the attachment to Dr. O'Hara's response
8 to Question 2, Dr. Darby. Looking in Section A there, do
9 you see a figure under Manual Delivery Confirmation Cost of
10 \$18,068,559?

11 A Yes, counselor, I do.

12 Q I take it then if one adds to that figure the two
13 changes in cost that we've been discussing on B and C in
14 your testimony that one will achieve a cost figure of about
15 \$19,048,371?

16 A Again, I trust your arithmetic. You're adding to
17 \$18,068,559 the number \$1,138,431?

18 Q No. We've already taken care of the revenue side
19 by subtracting from the revenue for delivery confirmation
20 before the experiment, the \$158,627 --

21 A Yes.

22 Q -- so at this point we're simply dealing with
23 the two numbers on the cost side, the \$17,850 and the
24 \$961,962 --

25 A Okay.

1 Q -- and subtracting those or adding those rather to
2 the cost.

3 A Again, subject to the reservations I expressed
4 earlier with the initial calculations and my understanding
5 that we're talking ball park one-eighth of the original,
6 that's correct, sir.

7 Q The result of this would be then that if you've
8 got a revenue as we indicated after the downsized experiment
9 of \$20,729,880 and one divides that by a cost after the
10 downsized experiment of \$19,048,371 that that would yield a
11 cost contribution above 100, basically about 1.088. Is that
12 correct?

13 A If I understand correctly, you have divided the
14 revenue to which I agreed by the cost to which I have
15 agreed, and trusting your arithmetic I will consent to the
16 1.07.

17 Q 1.088 as I calculate it.

18 A 1.088. Again, I see Dr. O'Hara nodding his head.
19 He must have done the numbers, and I assume they're correct.

20 MR. HESELTON: The Postal Service has no further
21 cross-examination.

22 COMMISSIONER COVINGTON: Okay, Mr. Heselton.
23 Thanks.

24 We will continue with cross-examination now by
25 counsel for the Office of Consumer Advocate.

1 MS. DREIFUSS: Commissioner Covington, in light of
2 Mr. Heselton's cross-examination I do not need to ask any
3 further questions.

4 COMMISSIONER COVINGTON: Okay. Is there any
5 follow up cross-examination?

6 (No response.)

7 COMMISSIONER COVINGTON: At this time I'd like to
8 ask if there are questions from my colleagues on the bench
9 for this witness, for Dr. Darby?

10 (No response.)

11 COMMISSIONER COVINGTON: Okay. Mr. McKeever,
12 would you like some time with Dr. Darby to review whether
13 there's a need for redirect at this time?

14 MR. MCKEEVER: Mr. Commissioner, we have no
15 redirect.

16 COMMISSIONER COVINGTON: Okay. In light of that,
17 Mr. Darby, that completes your testimony here today. We
18 appreciate your appearance and your contribution to our
19 record. Thank you. At this time you are excused.

20 THE WITNESS: Thank you very much, sir.

21 (Witness excused.)

22 COMMISSIONER COVINGTON: The Office of Consumer
23 Advocate has filed the testimony of one witness, Ms. Kathie
24 Klass, as its case in chief in this case. Ms. Dreifuss, I
25 see that you have had your witness take the stand, and I

1 assume we're ready to proceed.

2 MS. DREIFUSS: Yes, we are.

3 COMMISSIONER COVINGTON: Ms. Klass, would you mind
4 standing a moment?

5 Whereupon,

6 KATHIE KLASS

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

9 COMMISSIONER COVINGTON: Thank you. At this time,
10 Ms. Dreifuss, you may proceed.

11 MS. DREIFUSS: Thank you, Commissioner Covington.

12 (The document referred to was
13 marked for identification as
14 Exhibit No. OCA-T-1.)

15 DIRECT EXAMINATION

16 BY MS. DREIFUSS:

17 Q Mr. Klass, do you have before you two copies of a
18 document entitled Direct Testimony of Kathie J. Klass
19 designated as OCA-T-1?

20 A Yes, I do.

21 Q Did you prepare this document, or was it prepared
22 under your supervision?

23 THE REPORTER: Could you turn your microphone on?

24 MS. DREIFUSS: Should I ask the questions again?

25 THE REPORTER: Yes.

1 BY MS. DREIFUSS:

2 Q Ms. Klass, do you have before you two copies of a
3 document entitled Direct Testimony of Kathie J. Klass?

4 A Yes, I do.

5 Q And this document has been designated OCA-T-1, has
6 it not?

7 A Yes, it has.

8 Q Did you prepare this testimony, or was it prepared
9 under your supervision?

10 A Yes, I did.

11 Q Do you adopt this as your testimony today?

12 A Yes, I do.

13 MS. DREIFUSS: In that case, Commissioner
14 Covington, I ask that these two copies be entered into
15 evidence and transcribed for the record.

16 COMMISSIONER COVINGTON: Okay. At this time are
17 there any objections?

18 MR. MCKEEVER: No objection.

19 COMMISSIONER COVINGTON: Mr. Heselton?

20 MR. HESELTON: No objection.

21 COMMISSIONER COVINGTON: Hearing none, I will
22 direct counsel to provide the reporter with two copies of
23 the direct testimony of Ms. Kathie J. Klass. That testimony
24 is received into evidence and will be transcribed into the
25 record.

1 (The document referred to,
2 previously identified as
3 Exhibit No. OCA-T-1, was
4 received in evidence.)

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OCA-T-1
Docket Nos. R2001-2
MC2001-2

DIRECT TESTIMONY
OF
KATHIE J. KLASS
ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

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October 29, 2001

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**DIRECT TESTIMONY
OF
KATHIE J. KLASS**

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Kathie J. Klass. I am a Consumer Professional in the Office of the
3 Consumer Advocate (OCA). I began my employment at the Postal Rate Commission
4 on October 9, 2001.

5 Prior to my employment with the Postal Rate Commission, from November 1993-
6 January 2001, I served as Chief, Consumer Information Division for the National
7 Highway Traffic Safety Administration (NHTSA) at the U.S. Department of
8 Transportation. From January 1990 – November 1993, I was the Executive Vice
9 President of the Fight Back! Foundation for Consumer Education. During the 80's, I
10 served as Executive Officer of the California Consumer Advisory Council in the
11 California Department of Consumer Affairs. I began my career as Consumer
12 Coordinator for Santa Cruz County Consumer Affairs, in the District Attorney's Office.

13 I received my MA in 1975 and my BA in 1973 from California State University at
14 San Jose, San Jose, California.

15 II. PURPOSE AND SCOPE OF TESTIMONY

16 The purpose of my testimony is to support the proposed Suspension of the Fee
17 for Manual Delivery Confirmation Service for Priority Mail.

18 OCA has a history of supporting the extension of Delivery Confirmation benefits
19 to Priority Mail users. In Docket No. R2000-1, for example, OCA proposed extending
20 the fee-free Electronic Delivery Confirmation Service to individual users of Priority Mail
21 (Initial Brief of the OCA at 211-213, filed September 13, 2000). I commend the Postal

1 Service's proposal to offer free Manual Delivery Confirmation for the first 16 days of
2 December. It is my hope that this trial proves fruitful for the Postal Service and that the
3 free Manual Delivery Confirmation will be a permanent addition to Priority Mail.

4 **III. CLASSIFICATION CHANGES BENEFICIAL TO CONSUMERS**

5 Witness O'Hara has testified that the advantages of this proposal may not be
6 fully realized in the upcoming holiday season when free Manual Delivery Confirmation
7 is first introduced. He indicates that the Postal Service may wish to make free Manual
8 Delivery Confirmation available permanently on a seasonal basis (Tr. 2/99 and 157),
9 an idea I endorse. The long-term benefits of a permanent seasonal classification are
10 the possibility of reduced supplemental air transportation expenses (Tr. 2/111) and
11 savings in clerk and carrier overtime (USPS-T-1 at 5).

12 Counsel for the Postal Service indicated during oral argument that the Postal
13 Service is even considering rolling Manual Delivery Confirmation Service into Priority
14 Mail as is done with Electronic Delivery Confirmation (Tr. 1/12). I strongly endorse a
15 classification of this kind.

16 I was gratified by Dr. O'Hara's testimony that he is devoting attention to reducing
17 costs for retail customers (Tr. 2/127). I am hopeful that such reduced costs may result
18 in reduced rates for retail mailers.

19 **IV. NO-FEE FREE ELECTRONIC DELIVERY CONFIRMATION**

20 In Docket No. R2000-1, OCA urged the Postal Service to offer fee-free
21 Electronic Delivery Confirmation to individual users. I give the Postal Service kudos for
22 now making this possible on their website. Individual users who prepare, print and affix

1 a Priority Mail Delivery Confirmation label (see Attachment) will obtain Electronic
2 Delivery Confirmation free of charge (Tr. 2/45; witness O'Hara's response to
3 interrogatory OCA/USPS-T1-1).

4 During settlement discussions, OCA asked the Postal Service to consider
5 notifying consumers that even after December 16, 2001, they could still obtain free
6 Delivery Confirmation by printing a label for Priority Mail/Delivery Confirmation at the
7 USPS website. This notice would be incorporated into lobby posters, mail, or whatever
8 media the Postal Service uses to inform the public about the suspension of the Manual
9 Delivery Confirmation fee. I recommend that the Postal Service adopt this suggestion.

10 V. LEARNING FROM OFFERING

11 In my opinion, the trial proposed by the Postal Service provides the consumer
12 with a valued service and offers the Postal Service the opportunity to perform a market
13 analysis while facilitating mail delivery earlier in the heavy holiday mailing season. The
14 Postal Service will have the opportunity to evaluate the public's response to free
15 Manual Delivery Confirmation with Priority Mail. A marketing study tends to provide
16 consumer predictions about future actions, but this trial will demonstrate consumers'
17 actual interest in the service.

18 VI. REACTION TO RECENT EVENTS

19 In light of recent events and with the new safety challenges the Postal Service is
20 facing, this is an appropriate time to offer a new service to consumers to induce them to
21 mail their holiday packages early. This may allow the Postal Service additional time to
22 screen packages, and, even if mail is delayed because of new procedures, holiday gifts

1 are more likely to arrive in time for the holidays. I support the Postal Service's proposal
2 to offer free Manual Delivery Confirmation Service during the holiday season to
3 encourage consumers to mail early. I should add, however, that no matter what the
4 outcome of this proceeding, I continue to believe that Manual Delivery Confirmation
5 should be offered free to consumers of Priority Mail.

6 VII. HOLIDAY MEDIA ATTENTION

7 As someone who has prepared numerous holiday public relations campaigns, I
8 know that offering this service during the holiday season allows local media to present
9 another angle on their traditional holiday postal stories. From my experience, the
10 offering of free Delivery Confirmation will receive more media attention during the
11 holiday season than it would at any other time of the year. It is important to note that
12 during the holiday season local media typically encourage the mailing of holiday parcels
13 in a timely manner, so all carriers benefit from the added publicity. The media stories
14 promoting early mailing of holiday parcels for the Postal Service also serve as a
15 reminder to consumers to send parcels in timely manner, regardless of the company
16 they choose.

17 In December, the media look for holiday traditions, which means if the Postal
18 Service introduces free Manual Delivery Confirmation on a permanent seasonal basis
19 to encourage early mailing of holiday packages, consumers will learn to expect the
20 announcement and will be reminded to take advantage of the service.

1 VIII. CONCLUSION

2 In closing, I support the introduction of free Manual Delivery Confirmation
3 Service for this holiday season. With the current safety challenges the Post Office is
4 facing, the introduction of free Manual Delivery Confirmation may have an additional
5 benefit of encouraging consumers to mail early this year to assure that their holiday
6 gifts arrive on time. I recommend that the Postal Service offer permanent free Manual
7 Delivery Confirmation with Priority Mail year round. At the very least, I urge the Postal
8 Service to offer free Manual Delivery on a permanent seasonal basis.

USPS-Shipping Label

http://www.usps.com/cgi-bin/api/shipping_label.cgi



Introduction

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Rates

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Web Tools

Track & Confirm

Shipping Solutions *Shipping Label*

Print a Priority Mail® Shipping Label online and have Delivery Confirmation™ service included at no additional charge!**

▶ Select one:

- Create an online label for shipping a package
- Create an online label as a sample (not to be used for shipping)

▶ Please complete the following information: Fields marked by * are required.

Shipper Information

* Name

Company

* Address 1

Address 2

* City

* State

ZIP+4 -

Recipient Information

* Name

Company

* Address 1

Address 2

* City

* State

ZIP+4 -

† Delivery Confirmation service gives you the delivery ZIP Code as well as the date and time that your article was delivered. If delivery was attempted you will get the date and time of attempted delivery. You can find this information at our Track & Confirm Web site.

1 COMMISSIONER COVINGTON: Would counsel for
2 participants who wish to conduct oral cross-examination
3 please identify yourselves at this time?

4 (No response.)

5 COMMISSIONER COVINGTON: Okay. In light of the
6 fact that no party has stated a desire to cross-examine at
7 this time, I would like to ask if there are questions from
8 the bench?

9 (No response.)

10 COMMISSIONER COVINGTON: Okay. Very well. At
11 this time we will begin with cross-examination by United
12 States Parcel Service. Mr. McKeever?

13 MR. MCKEEVER: Mr. Commissioner, we have no cross-
14 examination.

15 COMMISSIONER COVINGTON: Mr. Heselton?

16 MR. HESELTON: No cross-examination from the
17 Postal Service, Mr. Commissioner.

18 COMMISSIONER COVINGTON: Well, with no cross-
19 examination from anywhere I guess there can't be any
20 questions for this witness.

21 Ms. Klass, noticing that you are new here, you can
22 only hope that every time you come into this hearing room it
23 happens like this.

24 Ms. Dreifuss, you don't need any time for
25 redirect.

1 Ms. Klass, that will complete your testimony here
2 today. We appreciate your showing up and appreciate your
3 contribution to our record by way of your testimony that was
4 transcribed in. Thank you. You're excused at this time.

5 THE WITNESS: Thank you.

6 (Witness excused.)

7 COMMISSIONER COVINGTON: Now, does any participant
8 here have anything else to raise here today?

9 MR. HESELTON: Mr. Commissioner, the cross-
10 examination of Dr. Darby did raise one point that I think at
11 some point, and I'm not suggesting today, but at some point
12 should be clarified, and that is exactly what is the Postal
13 Service now proposing to do in this case.

14 As I mentioned, its request asks for authority to
15 conduct an experiment on a nationwide scale. Dr. O'Hara, in
16 light of thinking this over, has provided an answer to the
17 Commission that says that the Postal Service would prefer to
18 scale it down. If that is now their new proposal, then I
19 think it would be in order for the Postal Service to tell
20 the Commission that so the Commission knows what it is being
21 asked to approve.

22 Absent any amendment to the request, I assume that
23 the request is still for a nationwide experiment. If they
24 no longer wish that to be their request, then I think they
25 should commit to a scaled down experiment so that again when

1 the Commission acts on its proposal the Commission knows the
2 proposal on which it is acting.

3 My request would be that the Postal Service be
4 instructed to clarify the status of its request with the
5 Commission at some point in the very near future. Other
6 than that, we have no other matters to raise.

7 COMMISSIONER COVINGTON: Mr. Heselton?

8 MR. HESELTON: Commissioner Covington, the Postal
9 Service has presented evidence that it believes supports a
10 nationwide experiment in delivery confirmation. It's also
11 presented evidence comparable to the evidence that it
12 presented initially, but supporting a scaled down delivery
13 experiment.

14 The Postal Service believes that the Commission
15 has the evidence that it needs to consider either of the
16 alternatives before it and that there is no need at this
17 point to suggest one as opposed to the other, although the
18 Service, of course, does reserve the right to indicate in
19 its briefs, which come up very shortly, the position that it
20 believes should be taken.

21 COMMISSIONER COVINGTON: Mr. McKeever?

22 MR. MCKEEVER: Mr. Commissioner, I guess if I
23 understand counsel's remarks he's saying that they're not
24 sure what they're requesting the Commission to do at this
25 point in time, or they're requesting the Commission to

1 approve one or the other. I'm not sure.

2 I think again it has to be clear what their
3 request is so that we can respond, number one, but, more
4 importantly, so the Commission can respond. I think it
5 would be inappropriate to make a request that says well,
6 approve the nationwide experiment, but if you're not going
7 to approve that then, you know, approve something less than
8 that.

9 I think they owe it to the Commission and to the
10 parties to state what it is that they want to do and not
11 just leave it up in the air until they may decide in brief to
12 say something that we have a few days to respond to in a
13 reply brief.

14 COMMISSIONER COVINGTON: Mr. Heselton?

15 MR. HESELTON: Well, perhaps this will respond to
16 counsel for UPS' concern.

17 Dr. O'Hara, when he was on the stand, indicated
18 that the Postal Service was considering a scaled down
19 experiment because of the difficulties of implementing a
20 full nationwide experiment in the shortened time frame that
21 remains before December 1 appears on the calendar and
22 becomes reality, and so it's the Postal Service's position
23 that the emphasis should be on the scaled down experiment
24 because that is the one that it can implement by December 1,
25 given the expedited schedule set by the Commission in this

1 proceeding, which the Postal Service greatly appreciates.

2 COMMISSIONER COVINGTON: Okay. Mr. McKeever,
3 anything before I --

4 MR. MCKEEVER: Mr. Commissioner, I don't think
5 it's fruitful to prolong it other than to say that I think
6 the Postal Service is in essence asking the Commission to
7 advocate its responsibility and say just to prove whatever
8 we want to do, which I think is inappropriate.

9 I don't think it would be fruitful at this point
10 in time for me to make any additional remarks. I guess
11 we'll just have to deal with the situation as best we can.
12 Again, they haven't withdrawn their request for a nationwide
13 experiment, --

14 COMMISSIONER COVINGTON: Right.

15 MR. MCKEEVER: -- and so I take it that is still
16 pending.

17 COMMISSIONER COVINGTON: And I agree, Mr.
18 McKeever. In light of the argument and the points that have
19 been raised here, I would state that I feel at this time the
20 Postal Service need not formally amend its request in this
21 manual delivery confirmation issue, and in light of that if
22 there are no other matters to be considered in the hearing
23 room today this hearing would stand adjourned.

24 (Whereupon, at 10:18 a.m. the hearing in the
25 above-entitled matter was concluded.)

REPORTER'S CERTIFICATE1
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DOCKET NO.: MC2001-2, R2001-2
CASE TITLE: Experimental Suspension of Fee for Manual
Delivery Confirmation Category
HEARING DATE: November 1, 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: November 1, 2001


Beth Roots

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