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# Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

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OFFICE OF THE SECRETARY

In the Matter of:

POSTAL RATE AND FEE CHANGES

Docket No.

R97-1

VOLUME 2

DATE: Monday, October 6, 1997

PLACE: Washington, D.C.

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Washington, D.C. 20005  
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1                               BEFORE THE  
2                               POSTAL RATE COMMISSION

3   - - - - - X

4   In the Matter of:                               :

5   POSTAL RATE AND FEE CHANGES       :     Docket No. R97-1

6   - - - - - X

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8                               Third Floor Hearing Room

9                               Postal Rate Commission

10                              1333 H Street, N.W.

11                              Washington, D.C. 20268

12

13                              Volume 2

14                              Monday, October 6, 1997

15

16                              The above-entitled matter came on for prehearing  
17   conference, pursuant to notice, at 9:30 a.m.

18

19   BEFORE:

20                              HON. EDWARD J. GLEIMAN, CHAIRMAN

21                              HON. GEORGE W. HALEY, VICE CHAIRMAN

22                              HON. W. H. "TREY" LeBLANC, III, COMMISSIONER

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24                              HON. H. EDWARD QUICK, JR., COMMISSIONER

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## P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning.

Today we begin hearings to receive the direct testimony of Postal Service witnesses in the docket R97-1, the request of the Postal Service for changes in postal rates and fees.

Witness O'Hara is scheduled to appear today.

Presiding Officer's Ruling #22, issued on September 18, 1997, established a schedule for the session of hearings.

Presiding Officer's Rule #38 revised the schedule to allow for the participation of the supplemental -- the receipt of the supplemental testimony of witness Daniel.

Witness Daniel is currently scheduled to appear on Thursday, October 9th, when she will be available for cross examination on both pieces of her testimony.

On October the 2nd, the Postal Service filed a motion requesting that witness Nelson, who is scheduled to appear as the fifth witness on October the 8th, be scheduled earlier in the day. I'll grant that motion. Witness Nelson will be our first witness on Wednesday, the 8th.

Extra copies of the revised schedule are available on the table at the door as you enter the hearing room.

Presiding Officer's Ruling #37, issued on October

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1 the 3rd, established the procedure for designation of  
2 institutional responses of the Postal Service. These  
3 designations are due on or before October the 20th. Copies  
4 of the ruling are available on the table at the front of the  
5 room, front of the hearing room.

6 Let me spend a minute going over the procedure for  
7 designating written cross examination. Most problems could  
8 be avoided with a little common sense. Just remember that  
9 the purpose of designations is to facilitate incorporation  
10 of discovery responses into the transcript, and I'll take a  
11 minute or two to go over some of the problems that we've  
12 experienced. These rules may seem obvious and elementary,  
13 but each of the problems will list -- that I list arose out  
14 of designations provided in the past.

15 First, answers should be on separate pages,  
16 clearly identifying the number of the question and the name  
17 of the witness who has provided the answer.

18 Second, submit only the questions you want  
19 incorporated into the record. If you want to designate  
20 numbers one, three, and eight, do not submit a stapled  
21 document containing answers to numbers one through 10.

22 Third, I mention one answer per page. Please do  
23 not submit answers copied on both sides of a single page.

24 Fourth, designations should include two copies of  
25 the material you want placed in the record. Our staff

1 cannot be responsible for locating and copying answers or  
2 for adding or substituting revised responses.

3 If an answer makes reference to material provided  
4 in a library reference, putting the answer into the record  
5 serves to put the referred material, not the library  
6 reference itself, into the record, as well. However, if an  
7 answer contains attachments, those attachments should be  
8 submitted with the answer.

9 Now, a few additional requests that will  
10 facilitate preparing accurate packages of written cross  
11 examination.

12 If you submit designations for more than one  
13 witness at a time, clearly separate the materials designated  
14 for each witness behind the cover sheet. A single sheaf of  
15 answers can be difficult to separate properly.

16 Since the purpose of submitting designated answers  
17 is so that all -- that a single all-inclusive packet can be  
18 put together, please do not staple all designated answers to  
19 one another.

20 I would suggest that it would be helpful if you  
21 used paper clips, alligator clips, and to the extent it's  
22 appropriate, rubber bands.

23 Finally, in past cases, some participants have  
24 gone to our docket room just at closing time and asked for  
25 copies of discovery responses so that they could be

1 incorporated into -- as possible designations the next day.

2 We do want an all-inclusive designation list,  
3 however there are only so many things that can be done at  
4 five p.m.

5 As the case goes on, if you're expecting discovery  
6 responses on a day when the designations are due, please try  
7 to make arrangements with counsel to obtain copies for  
8 designation purposes separate from copies filed with the  
9 commission or served by mail.

10 I would appreciate your cooperation in this  
11 matter.

12 Next, I want to briefly review the rules for oral  
13 cross examination. We will proceed alphabetically from A to  
14 Z.

15 I am willing -- I am willing to vary the order of  
16 cross examination for the convenience of participants. I  
17 encourage counsel to work out any changes that will assist  
18 them to get through these hearings with a minimum of wasted  
19 time.

20 If any party has only or two questions, they may  
21 wish to go out of order so that they can prepare for the  
22 next witness, and that's fine with me. However, I would  
23 appreciate if you would inform me of any such changes in the  
24 order of cross examination as soon as possible.

25 When it comes to cross examination of witnesses,

1 the Postal Service will, as has been the practice, go last.

2 We have a lot of testimony to hear in a limited  
3 number of days, and therefore, I must emphasize that we --  
4 we will promptly at 9:30 in the morning and run each day  
5 until the completion of cross examination scheduled for that  
6 day.

7 We will take a 10-minute mid-morning break at  
8 approximately 10:45 and recess for lunch around 12:15 for an  
9 hour or perhaps a bit more. In the afternoon, we'll take a  
10 break approximately every hour-and-a-quarter of 10 minutes,  
11 and I intend to resume promptly.

12 I will be using the buzzer to let everyone know  
13 that we are ready to resume, and I would ask your  
14 cooperation in returning to the hearing room upon hearing  
15 the buzzer.

16 We will maintain a telephone message to inform  
17 everyone of scheduling changes and the status of hearings.  
18 The message is reached at 789-6874. It will be updated  
19 during breaks so that you can learn how cross examination is  
20 progressing.

21 I know that counsel will understand that, in light  
22 of the tight schedule of these hearings, I prefer to listen  
23 to witnesses testifying rather than attorneys discussing  
24 fine points of evidentiary rules or procedural objections.  
25 Therefore, I'm asking everyone, including my colleagues on

1 the bench -- and I'll try to adhere to it, too -- to use  
2 discretion before interrupting to raise even technically  
3 valid points.

4 When it is necessary, I will be prepared to rule  
5 on motions from the bench, but my preference would be to  
6 avoid taking time in the hearing room listening to legal  
7 arguments.

8 Therefore, on occasion, I may take motions under  
9 advisement and request legal arguments be presented in  
10 writing. In any case, I will make certain to hear from  
11 everyone present who wishes to address an issue before I  
12 rule on it.

13 One problem that has arisen repeatedly during past  
14 proceedings concerns the effect of referring questions to  
15 other Postal Service witnesses. The situation arises when a  
16 question is posed which a witness or counsel believes may be  
17 within the scope of testimony of another witness.

18 In such circumstances, it would be helpful to wait  
19 the appearance of the witness who can best answer the  
20 questions.

21 The problem arises when the second witness is  
22 unable to provide the answer.

23 If the question seeks relevant and material  
24 information related to the testimony, the questioning party  
25 is entitled to a responsive answer. It may be sufficient to



1 obtain a written answer from the Postal Service as an  
2 institution, or in unusual cases, we may even have to recall  
3 the first witness.

4 But I believe the problem can be avoided if Postal  
5 Service attorneys representing the first witness take the  
6 responsibility of informing Postal Service witnesses  
7 representing -- Postal Service attorneys will take  
8 responsibility and inform their colleagues who are  
9 representing other witnesses on the nature of the questions  
10 that have been deferred, so that they can be responded to at  
11 a proper point in time.

12 It's important that our transcript be an accurate  
13 record of the proceedings.

14 Parties are urged to review relevant portions of  
15 the transcript and submit any necessary transcript  
16 corrections promptly. Substantive corrections, those that  
17 clarify the meaning of a statement that has been made, are  
18 the ones that are necessary. I do not believe it is  
19 necessary to correct punctuation or syntax.

20 Ordinarily, all transcript corrections are to be  
21 submitted with -- within one week of the close of the  
22 session of hearings.

23 As the schedule currently allows for the  
24 possibility of hearings on the 23rd and 24th of October,  
25 should they be necessary, I will allow until October 31st

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1 for the filing of transcript corrections for this round of  
2 hearings.

3 A few other points.

4 Counsel are reminded that the reporter cannot deal  
5 with more than one person speaking at a time, and I will  
6 rely on you to speak in turn. If necessary, I will  
7 interrupt you to try to assure that we have a coherent  
8 transcript.

9 Cross examination exhibits which are not offered  
10 into evidence can be useful. Each party should number the  
11 cross examination exhibits sequentially for each witness  
12 with the designation XE for cross examination exhibit,  
13 counselor to provide two copies for the transcript and  
14 enough copies so that the bench can follow the cross  
15 examination. If you wish that the cross examination exhibit  
16 be made part of the evidentiary record, you will have to  
17 make a specific motion to that effect and be prepared to  
18 support the request.

19 Are there any questions so far?

20 Last Friday written responses to Commission Notice  
21 of Inquiry I were due to be filed. In Presiding Officer's  
22 Ruling No. 32 I announced that participants would be given  
23 an opportunity to present oral statements on this issue, the  
24 use of library references at the beginning of tomorrow's  
25 hearing. The Notice of Inquiry I concerns the sufficiency

1 of the evidence record in this case. It is my hope that  
2 working together counsel can clarify proper use of library  
3 references and make certain that the evidentiary record in  
4 this case is complete. And I would note that the  
5 supplemental testimony of Witness Daniel that I mentioned  
6 earlier in effect incorporates Library Reference 108 as I  
7 recall --

8 MR. TIDWELL: 112.

9 CHAIRMAN GLEIMAN: 112?

10 MR. TIDWELL: Yes.

11 CHAIRMAN GLEIMAN: Excuse me, I'm corrected,  
12 Library Reference 112 dealing with surcharges and first  
13 class mail into her testimony. I would hope that we can  
14 achieve similar accommodations with library references that  
15 have been in play during the discovery period.

16 I have two equally important standards that I  
17 intend to apply. First, I want to make sure that the  
18 Commission decision is based on the evidentiary record.  
19 Equally important, I want to make sure that the Commission  
20 decision reflects available relevant and material  
21 information. In my opinion we do not fulfill our function  
22 if we allow our decision to be altered by our failure to  
23 include known relevant information in our evidentiary  
24 record. All participants are urged to review the written  
25 comments before tomorrow's discussion. And I must tell you

1     that I am disappointed only a few parties filed written  
2     comments.

3             Is there any participant who intends to file  
4     written comments but was unable to do so by Friday for some  
5     reason?

6             MR. TIDWELL: Mr. Chairman, there was one party  
7     that wasn't able to get his comments in by Friday. The  
8     Postal Service, we did file our comments this morning,  
9     though, and we have extra copies of those comments on one of  
10    the chairs here for the parties to review at their leisure.

11            CHAIRMAN GLEIMAN: Thank you, Mr. Tidwell.

12            I have one final announcement to make. That one I  
13    think is very good news. At the prehearing conference I  
14    mentioned that the Commission was trying to complete a  
15    system that would allow participants to explore  
16    electronically the record in this case and certain past  
17    Commission cases. The Commission has been attempting to  
18    install a program known as Laserfiche, and we believe that  
19    the process has been completed.

20            Today the Commission will be issuing a notice to  
21    all participants in this docket indicating that this system  
22    is available for public use. The Commission will have a  
23    work station in the library and another in the reading room,  
24    both of which will have access to all documents filed in  
25    this case. In fact, the system will access all documents

1 filed in every case since R94-1, and we are working to get  
2 access to past cases as well.

3 Copies of the notice will be made available in the  
4 front of the hearing room. Instructions on how to use this  
5 system are included in the notice, but the Commission Staff  
6 also stands ready to provide assistance to any member of the  
7 public who wishes to use the system.

8 We're very excited about this Laserfiche system.  
9 I've used it. It is an extraordinarily friendly research  
10 tool, at least in my office, and I'm about to find out how  
11 friendly it is in the hearing room. If you have any  
12 problems, please bring them to our attention. We want the  
13 system to benefit everyone.

14 Does any participant have a procedural matter to  
15 raise at this point in time?

16 Mr. Olson.

17 MR. OLSON: Mr. Chairman, when you say procedural  
18 matters I don't -- I have a procedural matter and also some  
19 comments with respect to the notice of inquiry. I don't  
20 know if I should incorporate them together. Would that  
21 be --

22 CHAIRMAN GLEIMAN: Why don't you proceed right  
23 now. We're going to discuss the notice of inquiry responses  
24 tomorrow, but --

25 MR. OLSON: Well, it is relevant insofar as this

1 morning the Commission has distributed a schedule reflecting  
2 that Witness Daniel's testimony, Supplemental Testimony 43,  
3 is to be available for cross examination on Thursday of this  
4 week, and I'd just like to refresh the Commission's  
5 recollection with respect to the dates as to when this  
6 testimony was filed. My purpose is to ask that if this  
7 testimony is to be permitted that it be at least put over  
8 until the end of the hearing so that counsel at least for  
9 Nashua-Mystic-District-Seattle if not other parties can have  
10 an opportunity to review it before the witness comes on the  
11 stand for cross examination purposes.

12           The dates as I recall them are that on September  
13 17 Presiding Officer Ruling 20 of the Commission gave the  
14 Postal Service seven days to present a witness to sponsor  
15 Library Reference 112. Eight days later a filing from  
16 Postal Service counsel came in saying that they would be  
17 providing such a witness. That would be Witness Daniel.  
18 Another couple of days later there was a filing adopting  
19 certain interrogatory responses of the Postal Service's  
20 Witness Daniel's responses. And then I believe it was 13  
21 days later on September 30 that the Postal Service filed  
22 this new supplemental testimony.

23           If the schedule stands and if you're asking us and  
24 other counsel to cross examine Witness Daniel regarding  
25 Library Reference 43, which I might add did not adopt

1 Library Reference 112 but rather made substantive changes in  
2 that library reference, if you're asking us to do that on  
3 Thursday, that gives us nine days from the filing of  
4 testimony to the time that the witness goes on the stand for  
5 oral cross examination, and there would be no opportunity  
6 whatsoever for written cross examination.

7 In other words, while the Postal Rate Commission's  
8 own rules require the entire filing to be filed at the  
9 beginning of the case of July 10, we have nine days on this  
10 testimony.

11 CHAIRMAN GLEIMAN: Let me make this  
12 counter-proposal and see if you're comfortable with this.  
13 Why don't we proceed with Witness Daniel's schedule on the  
14 8th. To the extent that you and other parties who are  
15 interested in this particular matter feel that you need  
16 additional time and that you can't properly cross examine  
17 Witness Daniel on his testimony on the 8th, we will move to  
18 recall Witness Daniel during those two extra days that we've  
19 added to the end of the schedule.

20 MR. OLSON: I know that since we have Witness  
21 O'Hara on the stand all day today as well as other witnesses  
22 that we're cross examining between now and Thursday the 9th,  
23 I believe the date is, there's no way that we will be  
24 prepared so I can make the request now, but I'd be glad to  
25 renew it at that time if I know that the intent of the

1 Commission --

2 CHAIRMAN GLEIMAN: Your request is a matter of  
3 record now, and if you wish to renew it at that point in  
4 time, after you finish your cross examination of Witness  
5 Daniel, which I assume you are going to do, then we'll make  
6 a decision at that point.

7 MR. OLSON: Okay.

8 CHAIRMAN GLEIMAN: Thank you, Mr. Olson.

9 Anyone else?

10 [No response.]

11 CHAIRMAN GLEIMAN: If there's nothing further then  
12 in the way of procedural issues, then Mr. Tidwell, would you  
13 please identify your witness so that I can swear him in?

14 MR. TIDWELL: The Postal Service calls Donald  
15 O'Hara to the stand.

16 Whereupon,

17 DONALD J. O'HARA,  
18 a witness, was called for examination by counsel for the  
19 United States Postal Service and, having been first duly  
20 sworn, was examined and testified as follows:

21 CHAIRMAN GLEIMAN: Counsel.

22 DIRECT EXAMINATION

23 BY MR. TIDWELL:

24 Q Dr. O'Hara, you have before you two copies of a  
25 document entitlement the Direct Testimony of Donald O'Hara



1 on behalf of the United States Postal Service, which has  
2 been designated as USPS-T-30 for purposes of this  
3 proceeding. Was that document prepared by you or under your  
4 supervision?

5 A Yes, it was.

6 Q If you were to give that testimony orally today,  
7 would it be the same?

8 A It would. On Friday of last week, I filed an  
9 errata that would change ~~some~~<sup>some</sup> of the numbers in the original  
10 testimony filed in July. I don't know if I need to do those  
11 explicitly or not.

12 CHAIRMAN GLEIMAN: Excuse me. Could you pull the  
13 mic a bit closer to you? Thank you.

14 THE WITNESS: Yes.

15 MR. TIDWELL: For the record, the Postal Service  
16 filed a list of six or seven numerical changes to  
17 Dr. O'Hara's testimony which reflect outputs of revised  
18 workpapers that were filed a month or so ago and there I  
19 think it's six numbers. It probably would be useful if you  
20 would read, briefly read the quick list of changes for  
21 parties for their convenience here?

22 THE WITNESS: Okay, we provided replacement pages  
23 at the time we filed this but the changes are on page 26,  
24 line 22, replace 198 with 192.

25 On page 28, line 7, replace 204 with 205.

1 On page 32, line 11, replace 4.8 with 7.2.

2 Still on page 32, line 16, replace 154 with 155.

3 On page 33, line 11, replace 154 with 155.

4 And on page 37, line 5, replace 103 with 104.

5 BY MR. TIDWELL:

6 Q Those are all the changes you are offering?

7 A That's correct.

8 MR. TIDWELL: Mr. Chairman, subject to those  
9 changes, we would move the direct testimony of Dr. O'Hara  
10 into the record, into evidence.

11 CHAIRMAN GLEIMAN: Are there any objections?

12 [No response.]

13 CHAIRMAN GLEIMAN: Hearing none, Dr. O'Hara's  
14 testimony and exhibits are received into evidence and I  
15 direct that they be accepted into evidence. As is our  
16 practice, they will not be transcribed.

17 [Direct Testimony of Donald J.  
18 O'Hara, Exhibit No. USPS-T-30 was  
19 marked for identification and  
20 received into evidence.]

21 CHAIRMAN GLEIMAN: Dr. O'Hara, have you had an  
22 opportunity to examine the packet of designated written  
23 cross-examination that was made available to you earlier  
24 today?

25 THE WITNESS: Yes, I have.

1           CHAIRMAN GLEIMAN:  If these questions were asked  
2 of you today, would your answers be the same as those you  
3 previously provided in writing?

4           THE WITNESS:  Yes, they would.

5           MR. TIDWELL:  We would make one note,  
6 Mr. Chairman.  Included in the package was a redirected  
7 response from Witness O'Hara to Witness Alexandrovich.  We  
8 have taken the liberty of removing that response from the  
9 package, as it is one that relates to Witness Alexandrovich.  
10 We would also note that we have, today, filed a revised  
11 response from an interrogatory from Mr. Carlson to  
12 Mr. O'Hara, DFC/USPS-T-30-6.  It provides a revised  
13 reference to the source of information referred to in that  
14 interrogatory response and we have run it by Mr. Carlson and  
15 I don't believe he is going to raise an objection.  We  
16 basically more clearly identify the source of the  
17 information referred there and we have substituted the  
18 revised response in the package.

19           Lastly, I would note that there is included in the  
20 package a response to DMA/USPS-T-30-6 that was intended to  
21 have been filed as an institutional response.  The cover  
22 page transmitting that response identifies it as such.  
23 Somehow, some way, I won't say how in too much detail  
24 because I have to admit fault, the document bears two  
25 captions.  It bears a caption identifying it as a response

1 of Witness O'Hara and it also bears a caption identifying it  
2 as a response of the Postal Service. It was intended to be  
3 a response from the Postal Service and so would be an  
4 institutional response.

5 CHAIRMAN GLEIMAN: Have you removed that also?

6 MR. TIDWELL: Yes, we have.

7 CHAIRMAN GLEIMAN: Let me make sure I understand.  
8 You have removed a redirected response from Witness O'Hara  
9 to Witness Alexandrovich. You have substituted a revised  
10 response to an interrogatory from Intervenor Carlson and you  
11 have removed a response to DMA Interrogatory T-30-6 which  
12 was intended to be an institutional response when it was  
13 initially filed but some way or another it got a wrong  
14 heading on it?

15 MR. TIDWELL: That's correct.

16 CHAIRMAN GLEIMAN: I am going to let Mr. Ackerly  
17 speak to the response that he apparently put into the  
18 package originally.

19 MR. ACKERLY: Mr. Chairman, I have not had a  
20 chance to review the package. We filed a motion asking that  
21 certain pages from library references be included following  
22 our answer to DMA-4. Is that in?

23 MR. TIDWELL: Yes.

24 MR. ACKERLY: Okay. Thank you, Mr. Chairman.

25 CHAIRMAN GLEIMAN: Do I take it then, Mr. Ackerly,

1       that you have no problem with the removal of the specific  
2       interrogatory response?

3               MR. ACKERLY: I have no problem, Mr. Chairman.

4               CHAIRMAN GLEIMAN: Mr. Tidwell, do you know if the  
5       corrections have been made in the packages that are going  
6       to --

7               MR. TIDWELL: They have.

8               CHAIRMAN GLEIMAN: I want to note that the Direct  
9       Marketing Association included in its designated documents  
10      referred to by Witness O'Hara in his response, DMA states  
11      that the documents are properly admissible, as they are  
12      taken from the Postal Service Manual or documents, and I  
13      will grant the DMA motion that these materials be admitted  
14      into evidence subject to the objections filed in writing by  
15      close of business Thursday, October the 9th.

16              Mr. Ackерly, you can assure yourself that the  
17      documents are included in the designated written cross  
18      examination at the appropriate place.

19              Two copies of the corrected designated cross  
20      examination of Witness O'Hara will be given to the Reporter,  
21      and I'll direct that they be accepted into evidence and  
22      transcribed into the record at this point.

23                                      [Designation of Written  
24                                      Cross-Examination of Donald J.  
25                                      O'Hara was received into evidence

and transcribed into the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS DONALD J. O'HARA  
(USPS-T-30)

The parties listed below have designated answers to interrogatories directed to witness O'Hara as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
Advertising Mail Marketing Association	DMA/USPS: Interrogatory T30-2. MMA/USPS: Interrogatory T30-7. OCA/USPS: Interrogatories T30-5 and 8. UPS/USPS: Interrogatories T30-, 9, 10, 11, 12, 13, and 14.
ADVO, Inc.	AAPS/USPS: Interrogatory T30-1. DMA/USPS: Interrogatories T30-3, 10. NAA/USPS: Interrogatories T30-3, 7, 14, 15. OCA/USPS: Interrogatories T30-5, 7. VP-CW/USPS: Interrogatories T30-5.
American Bankers Association, Edison Electric Institute and National Association of Presort Mailers	ABP/USPS: Interrogatories T30-1-2. APMU/USPS: Interrogatory T30-1. DFC/USPS: Interrogatories T30-1 and 3. DMA/USPS: Interrogatories T30-1-4, 7-8 and 10. MMA/USPS: Interrogatories T30-1 and 7. NPA/USPS: Interrogatory T30-1. NAA/USPS: Interrogatories T30-2-5, 7-10, 12, 16 and 17. OCA/USPS: Interrogatory T30-6. UPS/USPS: Interrogatories T30-3, 13 and 16. VP-CWI/USPS: Interrogatories T30-1 and 3.

American Business Press	ABP/USPS:	Interrogatories T30-1-8.
Direct Marketing Association, Inc.	DMA/USPS:	Interrogatories T30-1-10.
	AAPS/USPS:	Interrogatory T30-1.
	ABP/USPS:	Interrogatories T30-1-2, 4-5, 7.
	MPA/USPS:	Interrogatory T30-1.
	NAA/USPS:	Interrogatories T30-1-4, 6-9, 11-20.
	NNA/USPS:	Interrogatory T30-5.
	OCA/USPS:	Interrogatories T30-5-9.
	UPS/USPS:	Interrogatories T30-3-4, 7-8, 12-13, 16-17.
	VP-CW/USPS:	Interrogatories T30-1, 3-5.
The McGraw-Hill Companies	MH/USPS:	Interrogatories T30-1 and 3.
	ABP/USPS:	Interrogatory T30-1.
	DMA/USPS:	Interrogatory T30-4.
	MASA/USPS:	Interrogatory T30-1.
	NAA/USPS:	Interrogatories T30-1, 3-4.
	OCA/USPS:	Interrogatory T30-5.
	UPS/USPS:	Interrogatories T30-3, 4.
Mail Order Association of America	AAPS/USPS:	Interrogatory T30-1.
	DMA/USPS:	Interrogatories T30-1-4, 7-10.
	NAA/USPS:	Interrogatories T30-1-17, 19-20.
	OCA/USPS:	Interrogatory T30-5-7.
	VP-CW/USPS:	Interrogatories T30-5.
Magazine Publishers of America	ABP\USPS:	Interrogatories T30-1, 5, 8.
	NAA\USPS:	Interrogatory T30-3.
	OCA\USPS:	Interrogatory T30-5.
	UPS\USPS:	Interrogatories T30-3, 4.
	VP-CW\USPS:	Interrogatory T30-4.
Major Mailers Association's	MMA/USPS:	Interrogatories T30-2, 7, 8.
Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc.	APMU/USPS:	Interrogatories T30-1-6.
	DFC/USPS:	Interrogatory T30-6.
	NAA/USPS:	Interrogatory T30-4
Newspaper Association of America	NAA/USPS:	Interrogatories T30-1-4, 6-20.
	AAPS/USPS:	Interrogatory T30-1.
	ABP/USPS:	Interrogatories T30-1, 2, 5, 7.
	DMA/USPS:	Interrogatories T30-1, 2, 4, 5, 9, 10.
	MPA/USPS:	Interrogatory T30-1.
	MMA/USPS:	Interrogatories T30-2, 5, 7.
	NNA/USPS:	Interrogatory T30-6.
	OCA/USPS:	Interrogatories T30-5-9.
	UPS/USPS:	Interrogatories T30-3, 15.



Office of the Consumer Advocate

VP-CW/USPS: Interrogatories T30-1, 3-5.  
OCA/USPS: Interrogatories T30-1-9.  
AAPS/USPS: Interrogatory T30-1.  
ABA&EEI&NAPM/USPS: Interrogatory T30-1.  
ABP/USPS: Interrogatories T30-1-8.  
APMU/USPS: Interrogatories T30-1-6.  
DFC/USPS: Interrogatories T30-1-7.  
DMA/USPS: Interrogatories T30-1-4, 5a-d., 7-10, 13, 15, and 16.  
MMA/USPS: Interrogatories T30-1, 2, 5, 7a. (1)., 7.b., 8a.-b., and 9a.-f.  
MPA/USPS: Interrogatories T30-1-3.  
NAA/USPS: Interrogatories T30-1-14, and 16-20.  
NNA/USPS: Interrogatories T30-1, 2, 5, 6.  
UPS/USPS: Interrogatories T30-1-17.  
VP-CW/USPS: Interrogatories T30-1-5, 7-9.  
Witness O'Hara's responses to POIR No. 1, question 10a., and POIR No. 3, question 16.

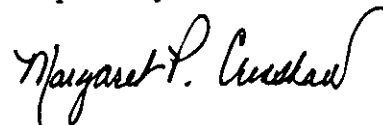
United Parcel Service

UPS/USPS: Interrogatories T30-3-16.  
ABP/USPS: Interrogatories T30-1 and 7.  
DFC/USPS: Interrogatory T30-5.  
DMA/USPS: Interrogatories T30-2 and 5.  
MMA/USPS: Interrogatory T30-2.  
NAA/USPS: Interrogatories T30-4, 10 and 16.  
OCA/USPS: Interrogatory T30-5.

Val-Pak Direct Marketing System, Inc.  
And Val-Pak Dealers' Association, Inc.  
And Carol Wright Promotions, Inc.

VP-CW/USPS: Interrogatories T30-1, 3-5.  
ABP/USPS: Interrogatories T30-1, 8.  
DMA/USPS: Interrogatories T30-3, 4, 8.  
MMA/USPS: Interrogatories T30-5, 7.  
NAA/USPS: Interrogatories T30-1, 3, 5, 6, 8-20.  
UPS/USPS: Interrogatory T30-10.

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF  
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL  
ASSOCIATION OF PRESORT MAILERS**

**ABA&EEI&NAPM\USPS-T30-1.**

Please identify any portion of the projected revenue of the USPS for the test year in this proceeding which is attributable to any amount for fees received by the USPS for Forward Address Correction Requested, Address Correction Service, National Change of Address, or FASTFORWARDsm. Please specifically identify where in the USPS testimony such revenue is set forth, the amount of such revenue, and the assumptions underlying the calculation of such revenue, including any increases due to implementation of move update requirements.

**RESPONSE:**

Test-year revenues for Forward Address Correction Requested and Address Correction Service are shown for each class of mail on page 1 of my Workpapers I (TYBR) and II (TYAR) on the lines headed "Address Correction"; see USPS-T-39, pages 8-11 and Workpaper 2 for the assumptions underlying the revenues shown.

I am informed that revenues from National Change of Address license fees in the base-year amount of \$779 (000) are included in Other Income (line 35, page 3 of my Workpaper 1 and line 32, page 3 of my Workpaper II); no assumptions have been made that this particular component of Other Income will either increase or decrease from its base-year level as a result of implementing move update requirements.

I am informed that no FASTFORWARDsm license fees were collected in the base-year, and none are specifically included in test-year revenues; an informal estimate of the fees expected to be received in FY 1988 is \$3,000 (000).

Note also that neither NCOA nor FASTFORWARDsm fees are for specific classes of mail.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE AMERICAN BUSINESS PRESS**

**ABP/USPS-T-30-1.**

One of the statutory ratemaking factors you address is available alternatives. All other things being equal, does application of this factor mean that more costs, or that fewer costs, should be assigned to a particular type of mail if there are no (or minimal) readily available alternatives.

**RESPONSE:**

One manifestation of limited alternatives may be a low own-price elasticity, which is taken to indicate a high value of service, with a corresponding indication of a relatively high cost coverage, under criterion 2. Given that this aspect of the availability of alternatives has been considered under value of service, I interpret criterion 5 as providing a basis for considering whether and to what extent a relatively high cost coverage might need to be mitigated, perhaps because alternatives are especially limited for a particular sub-group within the overall body of users of the subclass in question. This is especially true in the case of First-Class Mail where there are statutory restrictions on the delivery of certain hard-copy messages.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE AMERICAN BUSINESS PRESS**

**ABP/USPS-T-30-2.**

You state at page 21 that "all else being equal, I view movement of rates in the direction of Ramsey prices to be beneficial ." Please explain what you mean by "all else being equal" in this context.

**RESPONSE:**

If, for example, two subclasses received equal evaluations on all criteria except economic value of service (or own-price elasticity), then I would consider that "all else" was equal.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE AMERICAN BUSINESS PRESS**

**ABP/USPS-T-30-3.**

You state at page 21 that movement toward or away from Ramsey prices did not have a "major" effect on your conclusions. Did it have a minor effect? If so, please explain how.

**RESPONSE:**

Please see my response to OCA/USPS-T30-6a.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE AMERICAN BUSINESS PRESS**

**ABP/USPS-T-30-4.**

You state at page 21 that one reason for the modest impact of Ramsey prices on your conclusions is the "Postal Service's desire to keep increases for all subclasses close to the overall average where possible...." What assurances can or is the Postal Service willing to give that such desire will be present in future cases?

**RESPONSE:**

My statement is made specifically in the context of this case.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE AMERICAN BUSINESS PRESS**

**ABP/USPS-T-30-5.**

You testify at page 29, lines 20-21, that the "value of service " received by periodicals is "moderately high in terms of intrinsic service characteristics ..." Is this statement based upon service standards or on service actually received? If the later, please provide copies of all studies or data in the possession of the Postal Service or contractors and generated in the past three years that addresses the actual service (in terms of days to delivery) received by periodicals.

**RESPONSE:**

Criterion 2 and this statement refer to service actually provided (see page 2, lines 8-11 of my testimony). However, the Postal Service has not developed any nationally representative data on the days to delivery for periodicals.

RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE AMERICAN BUSINESS PRESS

**ABP/USPS-T-30-6.**

You state at page 31, lines 6-7, that smaller publications with geographically dispersed circulation had recently experienced substantial rate increases as a result of "Classification Reform," and that these increases were taken into account here. Please provide an estimate of the percentage of regular rate periodical titles that experienced an increase as a result of the decision in MC95-1 and provide an estimate of the "typical" or the range of increases experienced.

**RESPONSE:**

I have no basis for estimating the percentage of regular rate periodical titles that experienced a rate increase as a result of MC95-1. The typical percentage rate increase for smaller publications with geographically dispersed circulation is difficult to state with any precision, but I would note the following:

- a. The non-advertising pound rate increased from 15.9 to 16.1 cents, or 1.3%;
- b. The advertising pound rates for zones 3 to 8 either did not change or increased 0.1 cent, or 0.5% at most.
- c. For the piece-rate portion of postage, there were quite modest increases for publications so small and geographically dispersed that most of their pieces are presorted only to Level A; the non-barcoded rate increased from 23.2 to 24.0 cents, or 3.4%, and the barcoded rate increased from 20.6 to 20.9 cents, or 1.5%.
- d. For publications with intermediate size/dispersion, primarily presorted to Level B, the piece-rate increases were somewhat greater, from 18.3 to 20.2 cents (or 10.4%) for non-barcoded pieces, and from 16.6 to 17.5 cents (or 5.4%) for barcoded pieces.



**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE AMERICAN BUSINESS PRESS**

**ABP/USPS-T-30-7:**

In response to NDMS/USPS-T3-18, Postal Service Witness Sharkey states: "The principles of Ramsey Pricing are useful guide posts in the setting of rates at the subclass level. Rate setting below the subclass level should look to the pricing criteria in the PRA as the principle source of guidance." Do you agree with this statement? Please explain your views on this subject if they are different in any respect.

**RESPONSE:**

I would simply clarify witness Sharkey's statement to note explicitly that the pricing criteria of the PRA are the principal source of guidance at the subclass level (as well as below the subclass level). As witness Sharkey notes in a portion of his response not quoted, witness Bernstein discusses both theoretical and practical aspects of Ramsey pricing below the subclass level in connection with worksharing discounts.

ABP/USPS-T-30-8.

In response to ABP/UPS-T30-5, you assert that your testimony as to the "moderately high" value of service afforded to periodicals is based upon actual service, not service standards. Yet you also state that the Postal Service has no nationally representative data on actual service.

(a) Why has the Postal Service failed to collect such service data for periodicals?

(b) How can you assess the quality of service actually given to periodicals when you have no service data?

RESPONSE:

(a) I am informed that the Postal Service has found no cost effective way to develop a system that is representative of Periodicals Mail in terms of deposit date to in-home delivery.

(b) Please see my response to VP-CW/USPS-T30-4.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS**

**AAPS/USPS-T30-1.** You conclude on page 35 that, because the ECR subclass has a "very high cost coverage" the "rate increase does not result in unfair competition" for Postal Service competitors. In this regard, (a) please confirm that the Postal Service is proposing rate decreases of as much as 18% for certain heavier ECR pieces? (b) please confirm that the Postal Service is proposing rate decreases even in the 4-7 ounce range, where there is substantial competition, (c) please state the Postal Service's estimate of how many ECR pieces and what percentage of ECR pieces will enjoy rate decreases under this proposal, and (d) please describe what efforts the Postal Service made to determine whether the rate decreases proposed will have an adverse impact on competitors or on competition.

**RESPONSE:**

- a. Confirmed that the proposed rates will result in an 18% decrease for any pieces weighing (almost) 16 ounces entered at the Destination Delivery Unit (DDU), unless such pieces are subject to the residual-shape surcharge.
- b. Confirmed that the proposed rates result in decreases for some but not all of the rate cells in the 4-7 ounce range. For example, for 4-ounce pieces entered at the DDU, rates increase 2.6% for Basic ECR and decrease 0.7% for Saturation ECR. At 5-ounces, which is the average weight for all ECR pound-rate pieces, the rate decreases for DDU-entered pieces are 2.2% for Basic ECR and 5.4% for Saturation ECR.
- c. Pound-rated pieces account for 7.431 billion pieces or 23.8% of test-year after-rates ECR volume (USPS-T-36, WP 1, p. 20); since rates will increase for some of pound-rated mail, as noted in my response to part b, the number and percentage of ECR pieces receiving rate decreases will be somewhat less than this.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS**

- d. These rate decreases are not due to any Postal Service attempt to target competitors; the proposed cost coverage for the ECR subclass is 228%. The rate decreases result from aligning rates more closely with Postal Service costs (USPS-T-36 at p.24 line 7 through p. 26, line 2); also, other advertising media already have rates that are less sensitive to weight than current Postal Service rates (USPS-T-36 at p. 26, lines 3-7). A quantitative assessment of the effects on competitors would require information on competitors' costs, prices, and volumes, and as far as I am aware this information is not available. A qualitative assessment by an industry source is contained in the material from Optimum Delivery cited by witness Moeller in his response to NAA/USPS-T36-28 provides; this material suggests that alternate delivery would continue to have a competitive advantage relative to the Postal Service even with Postal Service pound rates similar to those proposed in this case.

**APMU/USPS-T30-1.**

In your testimony, at page 27, you state that Priority Mail "enjoys the convenience of the collection system for the unzoned two-pound rate packages that constitute a large share of its volume." As you know, however, all Priority Mail pieces weighing more than one pound currently must be entered at a post office counter. This requirement will continue to be enforced during the Test Year. (See response to NDMS/USPS-T33-11.)

- a. When you were setting the cost coverage for Priority Mail, did you consider that nearly 45 percent of unzoned two-pound rate mailpieces (see response to NDMS/USPS-T33-7), and nearly 56 percent of total Priority Mail volume, weigh more than one pound?
- b. Does the fact that less than half of total Priority Mail volume in the Test Year will enjoy the convenience to which you refer support your proposed cost coverage? Please explain your answer fully.
- c. Please confirm that all First-Class Mail "enjoys the convenience of the collection system." If you do not confirm, please explain your answer fully.

**RESPONSE:**

Please note that it is only stamped pieces weighing more than one pound that may not be deposited in collection boxes; metered pieces weighing more than one pound may still be deposited in collection boxes (see supplemental response to NDMS/USPS-T33-11, filed 9/24/97). Also, as part of the collection system, carriers may collect stamped pieces weighing more than one pound from known customers.

- a. No; please see my response to parts b and c.
- b. I believe that well over half of Priority Mail volume does have access to the collection system, given that 44% of the volume weighs less than one pound and that a significant portion of the remainder will be metered or, if stamped, collected by carriers from known customers; thus, this "fact" is incorrect.
- c. Not confirmed; workshared mail, which is about 43% of test-year First-Class Mail letters, does not enjoy the convenience of the collection system.

**APMU/USPS-T3-2.**

- a. Please confirm that local Priority Mail has an overnight service commitment/standard identical to that for First-Class Mail (i.e., the geographic areas with an overnight service commitment are identical). If you do not confirm, please explain in full how they differ.
- b. Please confirm that Priority Mail has a two-day service commitment/standard identical to that for First-Class Mail (i.e., the geographic areas with an [sic] two-day service commitment are identical). If you do not confirm, please explain in full how they differ.
- c. Please confirm that Priority Mail has a three-day service commitment/standard identical to that for First-Class Mail (i.e., the geographic areas with an [sic] three-day service commitment are identical). If you do not confirm, please explain in full how they differ.

**RESPONSE:**

- a. Confirmed that the overnight commitment area for Priority Mail is generally the same as that for First-Class Mail.
- b. Not confirmed. Two-day service commitments for Priority Mail generally include a number of metropolitan areas that are outside the two-day commitment area for First-Class Mail.
- c. Not confirmed; as a consequence of differences noted in part b, a smaller portion of the country is left in the three-day service area for Priority Mail than in that for First-Class Mail.

**APMU/USPS-T30-3.**

Please refer to your testimony, on page 27, that "the Priority Mail [own] price elasticity (-0.77) is considerably higher than that of First-Class Mail, indicating a lower economic value of service" (emphasis added). In light of:

- the fact that all First-Class Mail "enjoys the convenience of the collection system," while less than half of Priority Mail enjoys such convenience;
- the existing differences between First-Class Mail and Priority Mail service commitments; and
- the fact that Priority Mail has a considerably higher own price elasticity;

how does the application of rate-setting criterion 2 (39 U.S.C. sec. 3622(b)(2)) to both First-Class Mail and Priority Mail support nearly equal (within 0.6 percent) cost coverages? Please explain your answer fully.

**RESPONSE:**

First, the coverages for the two subclasses were set with reference to all the criteria, as discussed for each subclass in my testimony, not just with reference to criterion 2. Second, only one of the three items mentioned in your question, price elasticity, clearly points toward a lower value of service for Priority Mail.

Please see my answers to APMU/USPS-T30-1 and -2.

**APMU/USPS-T30-4.**

When the new Priority Mail network becomes operational, within the states served by this new network, will the areas with

- a. an overnight service commitment/standard (i) remain the same, (ii) be enlarged, or (iii) be reduced? Please explain your answer, and quantify changes in service where possible.
- b. a two-day service commitment/standard (i) remain the same, (ii) be enlarged, or (iii) be reduced? Please explain your answer, and quantify changes in service where possible.
- c. a three-day service commitment/standard (i) remain the same, (ii) be enlarged, or (iii) be reduced? Please explain your answer, and quantify changes in service where possible.

**RESPONSE:**

a-b. I am informed that some changes are anticipated both from overnight to two-day and from two-day to overnight. While the exact change in areas cannot be specified until the network is fully implemented, it is expected that the overnight area will be enlarged somewhat, and the two-day area reduced.

c. I am informed that, within the states served by the network, it is expected that the three-day area will be greatly reduced.



**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE ASSOCIATION OF PRIORITY MAIL USERS**

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**APMU/USPS-T30-5.**

Are window clerks provided information, specific to their postal facility, as to which 3-digit zip codes do not have:

- a. an overnight service commitment/standard for Priority Mail?
- b. a two-day service commitment/standard for Priority Mail?

Please explain your answer, and provide samples of such information provided to window clerks.

**RESPONSE:**

a-b. I am informed that window clerks are provided with information as to which 3-digit ZIP Codes are beyond the two-day commitment area for their facility (so that when Priority Mail for such a destination is presented they can inform the customer of this fact). This information is currently provided through the Integrated Retail Terminals (IRTs), not in hard-copy.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE ASSOCIATION OF PRIORITY MAIL USERS**

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**APMU/USPS-T30-6.**

Some Priority Mail users currently plant-load directly to airmail centers. Will these mailers be permitted to continue that practice if they are located within the area served by the network? If not, how will the Postal Service ensure that they receive the same expeditious service that they currently receive?

**RESPONSE:**

I am informed that, because airport mail centers (AMCs) will no longer perform distribution of Priority Mail, entry of these plant-loads at AMCs will no longer be permitted. Instead, the Postal Service will facilitate plant loads to the PMPC where the mail will be processed, or to the nearest plant served by the PMPC. It is expected this arrangement will not have any negative effect on the service received by this mail.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE  
INTERROGATORIES OF DOUGLAS F. CARLSON**

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**DFC/USPS-T30-1.** Please provide the cost coverage for First-Class Mail letters and First-Class Mail single-piece letters that was approved in Docket No. R94-1.

**RESPONSE:**

The Commission's recommended cost coverage for First-Class Mail letters in Docket No. R94-1 was 174.5% (Opinion and Recommended Decision, Appendix G, Schedule 1). As far as I am aware, the Commission did not specifically recommend a cost coverage for the single-piece portion of the First-Class Mail letters subclass.

**DFC/USPS-T30-2.** Please provide the cost coverage for First-Class Mail cards and First Class Mail single-piece cards that was approved in Docket No. R94-1.

**RESPONSE:**

The Commission's recommended cost coverage for First-Class Mail cards in Docket No. R94-1 was 136.7% (Opinion and Recommended Decision, Appendix G, Schedule 1). As far as I am aware, the Commission did not specifically recommend a cost coverage for the single-piece portion of the First-Class Mail cards subclass.

**DFC/USPS-T30-3.** Please provide the cost coverage for single-piece First-Class Mail letters that the Postal Service is proposing in Docket No. R97-1.

**RESPONSE:**

The Postal Service is proposing a cost coverage only for the entire First-Class Mail letters subclass, not for single-piece portion of the subclass. However, the proposed coverage for the entire subclass, combined with witness Fronk's rate design, does result in an implicit cost-coverage for the single-piece portion; this is shown on line 2 of Exhibit USPS-30B.

**DFC/USPS-T30-4.** Please provide the cost coverage for First-Class Mail single-piece cards that the Postal Service is proposing in Docket No. R97-1.

**RESPONSE:**

The Postal Service is proposing a cost coverage only for the entire First-Class Mail cards subclass, not for single-piece portion of the subclass. However, the proposed coverage for the entire subclass, combined with witness Fronk's rate design, does result in an implicit cost-coverage for the single-piece portion; this is shown on line 5 of Exhibit USPS-30B.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE  
INTERROGATORIES OF DOUGLAS F. CARLSON**

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**DFC/USPS-T30-5.**

- a. Please confirm that the rate for mailing a single-piece post card on July 1, 1994, was 19 cents.
- b. Please confirm that the rate for mailing a single-piece post card on July 1, 1997, was 20 cents.
- c. Please explain your statement at page 26, lines 3-5, that the current case represents "the first overall increase in card rates since Docket No. R90-1."

**RESPONSE:**

- a-b. Confirmed.
- c. Clearly, this is a misstatement. I will amend that sentence of my testimony to read "However, in view of the fact that the overall increase in card rates since Docket No. R90-1 is significantly below average, the effect of this increase on mailers is clearly acceptable (criterion 4)."

## RESPONSES OF WITNESS O'HARA TO INTERROGATORIES OF DOUGLAS CARLSON

DFC/USPS-T30-6.

Please provide all data reporting the average delivery time for Priority Mail and the percentage of time in which Priority Mail is delivered in accordance with the Postal Service's two- or three-day service standards . Please provide all background material that would be necessary for a person to understand the data.

RESPONSE:

Non-privileged national summaries of ODIS time-in-transit statistics are provided in the response of witness Moden to DMA/USPS-T4-31..



**DFC/USPS-T30-7.** Please refer to your testimony at page 37, lines 9-10. Please confirm that a mailer still can deposit a Parcel Post parcel weighing three pounds in a collection receptacle if the parcel bears metered postage. If you do not confirm, please explain your answer fully.

**RESPONSE:**

Confirmed; although stamped Parcel Post has lost its former access to the collection system, metered Parcel Post may still utilize this system.

**DMA/USPS-T30-1.** Please compare your discussion of First-Class Letters at pages 22-25 with your discussion of Standard (A) Regular mail at pages 32-34.

- a. Would it be an accurate summarization of your testimony to state that in your view and give the facts of this case, Standard (A) Regular mail should have a cost coverage that is substantially less than the cost coverage of First-Class Letters? Please explain fully.
- b. Is there any statutory pricing criterion the consideration of which, given the facts of this case, would cause you to increase the cost coverage of Standard (A) Regular mail relative to the cost coverage of First-Class Letters, all other things being equal? Please explain any "yes" answer in detail.

**RESPONSE:**

(a) Yes; given the facts of this case, I am proposing a coverage of 154% for Standard (A) Regular, which I would characterize as "substantially less" than the First-Class Mail letters coverage of 200%.

(b) No, given the facts of this case.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-2.** In its opinion in Docket No. R94-1, the Commission stated that one of its goals was "to moderate the growth in the differential between the institutional burden of First-Class Mail and third-class mail." (R94-1 RD, ¶5303) In its opinion in Docket No. R90-1, the Commission stated that one of its goals was to bring the cost coverages of First-Class Mail and third-class mail "back into proper balance, by bringing the coverages for First- and third-class closer together, near the systemwide average." (R90-1 RD, ¶ 4055).

- a. Putting aside consideration of the size of relative postal rate increases and the "impact" on mailers (39 U.S.C. §3622(b)(4)), is it your opinion, that, given the facts of this case, the coverages for First-Class Mail and Standard (A) Regular mail should be "close together, near the systemwide average"? Please explain fully.
- b. Putting aside consideration of the size of relative postal rate increases and the "impact" on mailers (39 U.S.C. §3622(b)(4)), is it your opinion, that, given the facts of this case, the coverages for First-Class Mail and Standard (A) ECR mail should be "close together, near the systemwide average"? Please explain fully.

**RESPONSE:**

a.-b. Yes, at least to the degree indicated in my testimony at page 36, lines 1-9, where I note that, were it not for the effects of rate increases on mailers and the other factors discussed in that paragraph, a lower cost coverage for Standard A ECR would have been appropriate, which would have meant higher rate increases (and coverages) for other subclasses (such as Standard A Regular). Since the ECR coverage is above both that of First-Class Mail letters and the system average while the Regular coverage is below, this would move in the direction indicated in the question, bringing the coverages "closer" together (as in the quote from R90-1), if not necessarily "close" (as in parts a-b of the question).

As background, note that the R90-1 quote refers to R87-1 coverages, which the Commission would have preferred to move closer together were it not

for the whole-cent constraint on the First-Class rate.

Recommended coverages were as follows:

	<u>FCM Ltrs</u>	<u>BRR</u>	<u>Average</u>	<u>FCM vs Avg</u>	<u>BRR vs Avg</u>
R87-1	158%	141%	148%	1.07	0.95
R90-1	162%	146%	150%	1.08	0.97
R94-1	175%	151%	157%	1.11	0.96

Thus, bringing third-class BRR closer to the system average would have meant raising its coverage.

My proposed coverages are

		<u>vs Avg</u>
FCM Letters	200%	1.12
Std A Regular	154%	0.86
Std A ECR	228%	1.27
Average	179%	

DMA/USPS-T30-3. In its opinion in Docket No. R94-1, the Commissions stated:

"The lower markup index for BRR reflects its higher elasticity of demand, the potential for volume diversion to alternative delivery, and the need to set rates which are responsive to the market. The markup index for BRR also reflects the lower intrinsic value of its service standards and service performance." (R94-1 RD, ¶ 5285).

Do you agree that, in the current postal environment, this statement continues to be applicable to Standard (A) Regular mail? Please explain fully, describing in detail the extent, if any, to which you believe that this statement is not so applicable.

**RESPONSE:**

The cited R94-1 paragraph compares the Bulk Rate Regular markup index with that of First-Class Mail letters. The elasticity of Standard (A) Regular is higher than that of First-Class Mail letters and its intrinsic value of service is lower.

However, I believe that the "potential for volume diversion to alternate delivery" applies relatively more to the carrier-route portion of the former BRR subclass and relatively less to the portion that is now Standard (A) Regular, so that the statement does not apply as strongly to Standard (A) Regular as it did to BRR.

**DMA/USPS-T30-4.** Please refer to your testimony at page 32, line 18 through page 33, line 7, and to your testimony at page 34, line 22 through page 35, line 9. In those paragraphs you discuss Standard (A) Regular mail and Standard (A) ECR mail and the applicability of "criterion 2" to this mail. You refer to "intrinsic value of service" and "economic value of service."

- a. Please describe in as much detail as possible both the legal and the policy reasons for applying criterion 2 through reference to both "intrinsic" and "economic" value of service. Please incorporate in your answer your understanding of the meaning of these two terms.
- b. Please describe in as much detail as possible the "deferability for delivery" to which you refer, including reference to the points in the postal system at which Standard (A) Regular mail and/or Standard (A) ECR mail is deferrable. Please include in your answer an explanation of the benefits that accrue to the Postal Service through the deferability of Standard (A) Regular mail and/or Standard (A) ECR mail.
- c. Does the Postal Service have service standards for the delivery of Standard (A) Regular mail and Standard (A) ECR mail? If so, please describe these service standards generally and attach a copy of them to your response.
- d. What information does the Postal Service have concerning the extent to which Standard (A) Regular mail and Standard (A) ECR mail are delivered in accordance with their service standards? Please identify each document available to the Postal Service concerning the level of service received by Standard (A) Regular mail and Standard (A) ECR mail. With respect to each such document, please state whether the Postal Service considers some or all of this document to be confidential; if, so, please explain fully. Please summarize the information contained in each such document and, to extent that the Postal Service does not consider such information to be confidential, please provide copies thereof as a library reference.
- e. Please describe the data collection effort known as "EX3C", including the date on which the system was initially established and the current status of the system. Please provide copies of all EX3C reports as library references, or, if the Postal Service considers such reports to be confidential, please describe these reports in detail and summarize the information they contain.

**RESPONSE TO DMA/USPS-T30-4:**

- a. Since I am not a lawyer, I cannot speak to the legal reasons. For the policy reasons, please see my testimony at page 4, lines 4 - 19.

RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.

RESPONSE TO DMA/USPS-T30-4, continued (page 2):

- b. Standard A Mail is deferrable at any point in the postal system from deposit to delivery, unless such mail has been combined with First-Class Mail, such as during the first pass of delivery-point sequencing. Standard Mail's priority in handling is described in sections 453, 458, and 621 of the Postal Operations Manual 7 (POM 7), filed as USPS LR-SSR-161. The Postal Service benefits from this deferability because it facilitates workload leveling.
- c. Service standards are described in the Postal Service's Request; see the page in Attachment G relating to Rule 54(n). This information is also contained in the 1997 National Five-Digit Zip Code and Post Office Directory, Volume 2, page 10-3. See also POM 7, sections 458.1-458.345.
- d. There are no nationally representative data regarding service performance for Standard Mail (A).
- e. I am informed that EX3C measured the days elapsed between deposit and delivery for seeded pieces in selected mailings of participating third-class mailers, under a Postal Service contract with Price Waterhouse. Reporters received the seeded mail pieces and telephoned the receipt date to Price Waterhouse. After a period of pilot testing and development operations, the system became operational in PQ 3 of FY 94. It was discontinued on November 3, 1996. Only in PQ 3, FY 94 was any aggregated data produced; that data applied only to the voluntarily participating mailers, whose participation was not subject to efforts to limit or control participation in

RESPONSE TO DMA/USPS-T30-4, continued (page 3):

order to make the sample representative of the third-class mail stream.

Thereafter, no data were aggregated, and results for individual mailers were provided only to the individual participants that purchased their specific results.



RULE: 54(n)

**REQUIREMENT:** This rule requires identification of any performance goals which have been established for the classes and subclasses of mail. The Request must identify the achieved levels of service for those classes and subclasses of mail and mail services for which performance goals have been set.

The currently effective service standards for mail are shown below.

**UNITED STATES POSTAL SERVICE**  
**Service Commitments**  
 (ZIP Coded mail only)

Mail Class	Over-night	2nd Day	3rd Day	4th Day	5th Day	6th Day	7th Day	8th Day	9th Day	10th Day	Notes
Express Mail											Directories available at your local post offices.
Priority Mail											Primarily a two-day product.
First-Class Mail											11 ounces or less.
Second Class											Surface preferential
Fourth Class											See local BMC Manager for Parcel Post Commitments.
Third Class											Mail entered at the Destination P&DC has a 2 & 3 day commitment.

Achieved levels of performance are shown in the Origin-Destination Information System (ODIS) – Quarterly Statistics Report, prepared by the Postal Service.

**452 Authorized Distribution****452.1 General**

The vice president, Area Operations, has the following responsibilities with regard to authorized distribution:

- a. Determines the authorized distribution and routing of all classes of mail originating in the area, and issues appropriate instructions.
- b. Determines requirements for installations in the area regarding the type and extent of mail distribution and the schemes and methods used.
- c. Authorizes or approves the authorization of any intraarea distribution changes.

**452.2 Outgoing Distribution**

Changes in the interarea distribution of managed mail for 2- and 3-day delivery must be coordinated between the areas involved, with concurrence from In-Plant Operations at Headquarters.

**453 Distribution Priorities**

Distribute mail by these priorities:

- a. Express Mail.
- b. Priority Mail.
- c. First-Class Mail.
- d. Periodicals.
  - (1) Newspaper treatment Periodicals (marked "NEWS").
  - (2) All other Periodicals (marked "PER").
- e. Standard Mail (A).
- f. Standard Mail (B).

**454 Centralized and Decentralized Distribution**

Generally, the distribution of mail should be centralized at the main post office or central distribution facility. Plant managers and district managers may approve decentralization of distribution to delivery units (stations and branches) under the following conditions:

- a. It provides same-day delivery of preferential mail not attainable through the main post office or the central mail facility.
- b. Daily mail receipt of presorted bulk, Periodicals, and Standard Mail (A) can be transported directly to the branch or station.
- c. Space is not available at the main post office or at the centralized distribution point.
- d. Station and branch clerks can be gainfully utilized during slack periods.
- e. Distribution of mail at delivery units is more economical.

workloads and total piece handlings are reduced because of expanded mechanized mail processing at ADCs. Greater use of mail sorting equipment is reflected in improved productivity and makeup of directs.

## 457 Scheme Distribution

### 457.1 General

Scheme distribution is a systematic plan to move all classes of mail from originating office to destination office. ZIP Code, ZIP+4 code, Delivery Point Sequence (DPS) code, and general schemes are used to distribute mail to proper separations.

### 457.2 City Schemes

A city scheme is an official published list of elements of address for the distribution of incoming mail.

## 458 Color Code Policy for Bulk Business Mail (BBM)

### 458.1 Objectives

The objective and intent of this policy is to ensure the timely processing, dispatch, and delivery of bulk business mail (BBM), which is bulk Standard Mail (A), within established service commitments.

- a. All outgoing, ADC, or SCF BBM, regardless of where received must be coded with a color representing the day on which the mail is scheduled to be *cleared*.
- b. All other destinating BBM must be coded with a delivery color representing the scheduled day of *delivery*. Once applied, the color code must remain on the mail until it is taken out for delivery. The delivery color code must be applied as outlined in the specific facility portions of this policy.

### 458.2 General Principles

The following principles apply to distribution, dispatch, and delivery of BBM:

- a. All BBM must be distributed within the framework of the approved operating plan. The application of color codes to BBM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property.
- b. If BBM is commingled with a higher class of mail in such a manner as it loses its identity, the BBM will be considered upgraded and will be treated as the higher class of mail.
- c. If a holiday falls upon a scheduled delivery day, the application of the normal color code will be maintained to allow for proper sequencing in any downstream operation.

- d. Color coding will not be the sole indicator used in evaluating what mail constitutes a plan failure (as related to mail condition reporting), but compliance with approved operating plan parameters will be the determining factor.
- e. There are no prohibitions against management agreements being made below the national level that accelerate the color coding and/or delivery expectations for any BBM versus this policy.
- f. Color code tags used to identify *Clearance Day* targets in outgoing, ADC, and SCF operations are to be removed prior to dispatch to downstream operations, but *Delivery Day* color codes are to remain with the mail until it is taken out for delivery, unless otherwise specifically noted in these instructions.
- g. Anytime BBM is sent back upstream (backflowed) for DPS, automated, or other processing, the mail must retain the original color coding and delivery schedule as if it had remained in the downstream unit.
- h. Offices should make every effort to adhere to mailer-requested in-home delivery dates and such mail should not be delivered earlier than requested by the mailer.

### 458.3 Color Coding Procedures by Facility

#### 458.31 Bulk Mail Centers

##### 458.311 Application of Color Codes

The application of color codes to BBM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. BMCs must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises, until it is dumped, and will also ensure that volume in the system is expedited as much as possible.

##### 458.312 Standard Mail (A)

All outgoing Standard Mail (A) will be coded with a 1-day color code representing the day on which the mail is scheduled to be cleared. After processing is completed, the clearance day tags used in outgoing operations are to be removed prior to dispatch to downstream operations/facilities. (See Exhibit 458.312 for the applicable color coding procedures.)

##### 458.313 Area Distribution Center or Sectional Center Facility Function

If a BMC either shares responsibility for completing an ADC or an SCF function (sometimes identified as the 115/185 operation) with another processing facility, or is itself a designated ADC or SCF, the mail processed in such an operation must be coded with a 1-day color code indicating the day the operation should be cleared. *Such color code tagging must be consistent with the arrival of the mail on postal premises*, and not when it is extracted or identified from a mechanized operation. After processing is completed, remove the clearance day tags used in the ADC/SCF operation prior to dispatch to downstream operations. If any further distribution is performed below the ADC/SCF level in the BMC, then the portion of these instructions applicable to a P&DC, ADC, delivery unit, etc., are to be applied, as

appropriate. (See Exhibit 458.312 for the applicable color coding procedures.)

**Exhibit 458.312  
One-Day Clearance Matrix**

<b>Receipt Day</b>	<b>Color Code</b>	<b>Clearance Day</b>
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

**458.314 Incorrectly Coded and Non-Color-Coded BBM**

When BBM is discovered in a facility after its initial receipt without color codes or incorrectly identified with multiple color codes, and it cannot be reasonably determined what the color code should be, follow these procedures:

- a. If the mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- b. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- c. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were delayed.

**458.32 Processing and Distribution Centers, Processing and Distribution Facilities, Mail Processing Facilities and Centers, and Customer Service Mail Processing Facilities**

**458.321 Application of Color Codes**

The application of color codes to BBM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. All the above listed facilities must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises, even when such mail is entered into mechanized sack sorting systems.

**458.322 Outgoing BMM**

All outgoing mail, ADC, and SCF/incoming primary mail and carrier route mail will be color coded to indicate scheduled clearance 1 day after receipt at the facility. After processing is completed, the clearance day tags used in outgoing, ADC, SCF/incoming primary, and carrier route operations are to be removed prior to dispatch to downstream operations/facilities. The SCF/incoming primary BBM must be totally finalized and processed by the identified clearance day.

**458.323 Secondary Distribution of BBM**

- a. Facilities that process three-digit (SCF) BBM only to the five-digit level will color code that three-digit BBM for clearance 1 day after receipt at that facility, as listed in Exhibit 458.323a. This mail will then be dispatched without color codes, and the proper delivery color code will be applied upon receipt at the facility that performs the secondary distribution.
- b. All BBM that will subsequently receive incoming secondary distribution at the facility performing the ADC or SCF operation will receive a 2-day color code based upon its arrival or upon its extraction and identification from its initial distribution operation (either the ADC or SCF operation) (see Exhibit 458.323b).

**Exhibit 458.323a**  
**One-Day Clearance Matrix**

Receipt Day	Color Code	Clearance Day
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

**Exhibit 458.323b**  
**Two-Day Delivery Matrix**

Arrival/Extraction Day	Color Code	Delivery Day
Saturday	orange	Tuesday
Sunday	orange	Tuesday
Monday	green	Wednesday
Tuesday	violet	Thursday
Wednesday	yellow	Friday
Thursday	pink	Saturday
Friday	blue	Monday

**458.324 Commingled, Incorrectly Coded, and Non-Color-Coded BMM**

When BBM is discovered in a facility after its initial receipt, without color codes or incorrectly identified with multiple color codes, and it cannot be reasonably determined what the color code should be, follow these procedures:

- a. In situations wherein ADC and SCF mails are, for operational reasons, commingled in the same processing operation, all such mail extracted for the local SCF will be color coded for a scheduled delivery day, also using the 2-day delivery matrix.

- b. If mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- c. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- d. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were delayed.

### 458.33 Delivery Distribution Centers/Units (DDCs/DDUs)

#### 458.331 Application of Color Codes

The application of color codes to BBM mail is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. All facilities must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises. Whenever a delivery day color code is applied, it must remain on the mail until it is taken out by the carrier at the delivery unit.

#### 458.332 Outgoing BMM

- a. All outgoing mail received from a mailer and destinating carrier route mail must be color coded to indicate scheduled clearance 1 day after receipt at the facility (see Exhibit 458.332a). After processing is completed, the clearance day tags are removed prior to dispatch.
- b. All other destinating BBM received at delivery distribution centers/units, including drop shipment mailings, must be color coded for 2-day delivery according to Exhibit 458.332b.

Exhibit 458.332a  
One-Day Clearance Matrix

Receipt Day	Color Code	Clearance Day
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

Exhibit 458.332b  
**Two-Day Delivery Matrix**

Receipt Day	Color Code	Delivery Day
Saturday	orange	Tuesday
Sunday	orange	Tuesday
Monday	green	Wednesday
Tuesday	violet	Thursday
Wednesday	yellow	Friday
Thursday	pink	Saturday
Friday	blue	Monday

**458.333 Secondary Distribution of BMM**

DDCs and DDUs that perform secondary distribution for delivery units must also apply a 2-day delivery color code to that mail upon its arrival from upstream facilities.

**458.334 Incorrectly Coded and Non-Color-Coded BMM**

When BBM is discovered in a facility, after its initial receipt, without color codes or incorrectly identified with multiple color codes, and it cannot be reasonably determined what the color code should be, follow these procedures:

- a. If mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- b. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- c. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were delayed.

**458.34 Delivery Units, Including Post Offices, Stations, and Branches**

**458.341 Application of Color Codes**

The application of color codes to BBM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. All facilities must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises. Whenever a delivery day color code is applied, it must remain on the mail until it is taken out by the carrier at the delivery unit.

**458.342 Outgoing BMM**

- a. All outgoing mail received from a mailer must be color coded to indicate scheduled clearance 1 day after receipt at the facility (see Exhibit 458.342). After processing is completed, the clearance day tags used in outgoing operations are to be removed prior to dispatch. Delivery units not performing secondary distribution will receive BBM from the



- distribution facility with a color code attached. This color code must remain on the mail until taken out for delivery.
- b. If a holiday falls on a scheduled delivery day, the delivery color code must remain unchanged, and must be used to properly sequence the mail on the next delivery day. On the day following the holiday, the mail color coded for the holiday is not considered delayed but is worked prior to the mail with the current day's color.
  - c. Delivery units may receive BBM with a mailer-requested delivery date later than the scheduled color-coded day. This mail is to be color coded or re-color coded at the delivery unit to match the last requested in-home delivery date, to comply with the mailer's request.
  - d. Delivery units may receive BBM with a mailer-requested delivery date earlier than the color-coded delivery day. Although this mail will remain color coded for delivery as outlined in these procedures, all reasonable efforts should be made to deliver this mail within the mailer's requested delivery window.
  - e. Delivery units may receive BBM with a mailer-requested delivery date that has already passed. Although this mail will remain color coded as outlined in these procedures, the decision regarding the delivery or disposition of this mail will be consistent with the current national policy on this subject.

## Exhibit 458.342

**One-Day Clearance Matrix**

<b>Receipt Day</b>	<b>Color Code</b>	<b>Clearance Day</b>
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

**458.343 Secondary Distribution**

Delivery units receiving BBM requiring secondary distribution (including drop shipment mailings and mail received directly from mailers) must apply 2-day delivery color codes upon receipt of the mail as outlined in Exhibit 458.343. This color code must remain on the mail until taken out for delivery.

Exhibit 458.343

**Two-Day Delivery Matrix**

Receipt Day	Color Code	Delivery Day
Saturday	orange	Tuesday
Sunday	orange	Tuesday
Monday	green	Wednesday
Tuesday	violet	Thursday
Wednesday	yellow	Friday
Thursday	pink	Saturday
Friday	blue	Monday

**458.344 Procedures for Mailer-Prepared Carrier Route Mail Received in Delivery Units**

- a. When mailer-prepared carrier route mail is received in delivery units from upstream postal facilities (BMCs, P&DCs, DDU's, etc.), such mail has an advanced service commitment and must be color coded with a 1-day delivery color code, according to Exhibit 458.344.
- b. When mailer-prepared carrier route mail is received in delivery units directly from mailers and has never been handled in a prior postal facility, use the 2-day color code matrix.

Exhibit 458.344

**One-Day Delivery Matrix**

Receipt Day	Color Code	Delivery Day
Saturday	blue	Monday
Sunday	orange	Tuesday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

**458.345 Incorrectly Coded and Non-Color-Coded BMM**

When BBM is discovered in a facility after its initial receipt, without color codes or incorrectly identified with multiple color codes, and it cannot be

reasonably determined what the color code should be, follow these procedures:

- a. If the mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- b. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- c. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were delayed.

## 46 Dispatch and Routing Concepts

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Distribution Networks is required to provide a minimum of two dispatches for each destination made:

- a. An advance dispatch is used to send a volume of mail to the destination office as an accommodation to allow advance distribution and prevent an excessive volume of mail from being received at the critical entry time.
- b. A dispatch of value, or a "last chance" routing, reflects the latest time at which mail can be dispatched from the originating facility and arrive at the destinating facility prior to the appropriate critical entry time.
- c. Additional dispatches will be provided when justified by volume or other operational considerations. NASS produces a variety of reference and operation reports. NASS products used by a facility depend on type, size, and function. The supervisor, Networks at DN, with the manager of In-Plant Support Operations Support at the mail processing facility, will determine the type of NASS reports to be used. The manager of Distribution Networks at the area, together with the plant manager of the P&DC, is responsible for resolving all disagreements between transportation, distribution networks, and mail processing facilities.
- d. Further information is available in USPS, Handbook M-22, *Dispatch and Routing Policies*.

## 47 Platform Operations

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### 471 Platform Operations

Each postal facility must organize platform operations to provide unloading, loading, and dock transfer to meet service requirements and to eliminate delays caused by careless platform handling. The mishandling of one pouch, sack, or container on the dock negates the value of sophisticated distribution procedures and could cause delay to thousands of individual pieces of mail.

## 62 Delivery Schedules and Trip Frequencies

### 621 Schedules

#### 621.1 Express Mail, First-Class Mail, and Priority Mail

Deliver on the first trip all Express Mail, First-Class Mail, and Priority Mail received at the central distribution facility prior to the established cut-off time.

#### 621.2 Periodicals

Deliver Periodicals on the first scheduled delivery trip following receipt at the delivery unit, provided that such delivery does not delay First-Class Mail.

#### 621.3 Standard Mail (A)

Deliver Standard Mail (A) not later than second delivery day after day of receipt. (Day of receipt begins at midnight unless the area manager approves a different time.) Deliver mail received on Saturday no later than Tuesday. Deliver circulars received on a day preceding a holiday no later than the second delivery day following the holiday.

#### 621.4 Standard Mail Parcels

Where possible, schedule delivery of Standard Mail parcels so as to maintain published service standards for these classes of mail.

### 622 Trip Frequencies

Frequency changes must be approved by the area manager.

### 623 Withdrawal of Delivery Service

#### 623.1 Suitable Receptacles

Consider withdrawing service if a customer does not provide a suitable mail receptacle after being so notified by Form 1507, *Request to Provide Proper Mail Receptacle* (city delivery routes); by Form 4056, *Your Mailbox Needs Attention* (rural and highway contract routes); by letter or verbally.

#### 623.2 Blocked Mail Receptacles

##### 623.21 General

The customer is responsible for keeping the approach to the mailbox clear to facilitate delivery (see 632.13). If the carrier continually experiences a problem in serving curbside boxes and where the customer is able to control access or on-street parking in front of his or her mailbox but does not take prompt corrective action after being properly notified, the postmaster may, with the approval of the district manager, withdraw delivery service.

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**DMA/USPS-T30-5.** Assuming that the information identified in response to DMA interrogatory DMA/USPS-T30-4(d) indicates that at least some Standard (A) Regular and ECR mail is not delivered in accordance with service standards,

- a. Please describe, in as much detail as possible, the reasons why some Standard (A) Regular mail and Standard (A) ECR mail is not delivered in accordance with service standards. For example, can this phenomenon be explained, at least in part, by postal managers' conscious decisions to defer Standard (A) mail to achieve other goals, such as delivery First-Class Mail in accordance with service standards? Can this phenomenon be explained, at least in part, by the conscious decision by postal management to put into place capacity (including labor) that is inadequate to meet service standards for Standard (A) mail on high volume days? Please explain fully.
- b. Please provide all documents available to the Postal Service concerning daily, weekly or seasonal variations in First-Class and Standard (A) mail volume.
- c. Please describe generally the ways in which the Postal Service determines the capacity (including labor) to put in place in order to be able to handle these variations in mail volume in accordance with its service standards.
- d. Please describe generally how postal capital and operating budgets are developed at the regional and local levels with specific reference to the capacity (including labor) adequate to permit the Postal Service to handle all mail in accordance with service standards, given the daily, weekly and seasonal variations in demand on the postal system.
- e. Please elaborate upon the Postal Service's "Compliance Statement" (Attachment G to its Request in this case) by providing the specific references to the testimony of the USPS witnesses Alexandrovich Patelunas, Degen and Bradley, wherein they address the cost consequences of peaking patterns. See Compliance Statement, Rule 54(h)(4), (12), para. numbered 1.

**RESPONSE:**

- a. I am informed that all classes of mail may fail to meet service standards for a variety of reasons. Many of these reasons are unexpected and include factors such as equipment problems, transportation delays, unanticipated

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volume surges, improper mail preparation, unscheduled employee absences, and unseasonable weather. All of these factors can affect whether various classes of mail are delivered in accordance with service standards. In situations where all classes of mail cannot be delivered in accordance within their respective service standards, First-Class Mail will be given priority of handling relative to Standard (A) Mail, in accordance with the distribution priorities referenced in my response to DMA/USPS-T30-4b. To the extent that the final part of your question implies that postal managers make conscious decisions to staff operations inadequately on known (as opposed to unanticipated) high-volume days, I understand that this is not the case.

b. For seasonal variation, refer to the volume data for each of the 13 Accounting Periods (A/Ps) per year for total First-Class Mail and total Standard (A) Mail that are contained in the A/P Financial & Operating Statements filed with the Commission on a regular basis. I have been unable to identify any documents concerning daily or weekly volume variations for the requested mail classes.

c-d. I am informed that capacity (including labor) is, in general terms, determined by operating and capital budget decisions that take into account projected workload (and its variation over time), based in large part on past

RESPONSE TO DMA/USPS-T30-5, continued (page 3):

experience. This capacity is not determined with the objective of being able to handle literally all mail in accordance with service standards, as part d of this question suggests. Instead, management judgment is employed to determine what balance to strike between expenditure on capacity and the risk of service failure due to factors such as those listed in my response to DMA/USPS-T30-5a.

- e. Redirected to witness Alexandrovich.

**DMA/USPS-T30-7.** Please refer to your testimony at page 33, lines 8-12, in which you discuss the "impact" on users Standard (A) Regular mail (criterion 4).

- a. In your consideration of criterion 4, did you consider the extent, if any, to which Standard (A) Regular mailers have the ability to pass postal rate increases along to their customers? If so, please describe in detail the factors that you considered, and the impact that these factors had on your consideration of a proposed rate increase for Standard (A) Regular mail.
- b. Please identify all documents available to the Postal Service concerning whether the ability of Standard (A) Regular mailers to pass postal rate increases on to their customers is greater or less than the ability of mailers of other classes (especially First-Class Mail) to pass the postal rate increases along to their customers.

**RESPONSE:**

- a. No, except as this ability is reflected in the price elasticity.
- b. No such documents have been identified.



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**DMA/USPS-T30-8.** Please refer to your testimony at page 5, lines 10-13, in which you discuss the "impact" on users of Standard (A) ECR (criterion 4).

- a. In your consideration of criterion 4, did you consider the extent, if any, to which Standard (A) ECR mailers have the ability to pass postal rate increases along to their customers? If so, please describe in detail the factors that you considered, and the impact that these factors had on your consideration of a proposed rate increase for Standard (A) ECR mail.
- b. Please identify all documents available to the Postal Service concerning whether the ability of Standard (A) ECR mailers to pass postal rate increases on to their customers is greater or less than the ability of mailers of other classes (especially First-Class Mail) to pass the postal rate increases along to their customers.

**RESPONSE:**

- a. No, except as this ability is reflected in the own-price elasticity.
- b. No such documents have been identified.

**DMA/USPS-T30-9.** Please refer to your testimony at page 21 where you state that you "view movement of rates in the direction of Ramsey prices to be beneficial" and that "whether a particular rate level would move rates closer to, or farther away from, Ramsey prices was one of the many factors I considered in evaluating potential rate levels."

- a. Would it be an accurate summarization of your testimony to state that, in your view and given the circumstances of this case, the benefits of setting postal rates at or near prices indicated by the Ramsey pricing methodology is small compared to the importance of other factors, including "the Postal Service's desire to keep the increase for all subclasses close to the overall average where possible"? Please explain fully.
- b. Please identify all instances, if any, in which the particular rates that the Postal Service has proposed in this case would have been different were it not for the consideration of Ramsey prices, all other things being equal. Please explain fully.

**RESPONSE:**

(a) Not precisely. I would prefer to say that a joint consideration of all the statutory criteria led to a set of proposed rate levels that deviate significantly from the set of rate levels indicated by Ramsey pricing.

(b) As noted in my testimony at page 21, no formal use of Ramsey prices was made in selecting the Postal Service's proposed rate levels. However, relative price elasticities, which are an important input to the derivation of Ramsey prices, were considered under criterion 2.

**DMA/USPS-T30-10.** Please refer to your testimony at page 13, line 20 through page 14, line 9, where you refer to Dr. Panzar's testimony and state that "the ratio of revenue to volume-variable cost is the more appropriate cost concept for this purpose [i.e. evaluating rate levels with respect to the criteria of the Act]."

- a. Given the facts of this case, would your views concerning the applicability of the statutory pricing criteria to the relative cost coverages of First-Class Mail and Standard (A) Regular and ECR mail be different if for legal or other reasons it were determined that "incremental costs" (or some cost concept other than volume-variable costs) were the cost levels to which revenue levels were to be compared? Please explain fully.
- b. Given the facts of this case, would your views concerning the applicability of statutory pricing criteria to the relative cost coverages of First-Class Mail and Standard (A) Regular and ECR mail be different if a comparison with the cost coverages from prior cases were measured using a mark-up index as opposed to the coverage index that you prefer? See your testimony at page 19, lines 15-17. Please explain fully.

**RESPONSE:** Yes; undoubtedly I would have recommended different cost coverages relative to incremental cost than those I actually recommended relative to volume-variable cost. In the first place, the average coverage level needed to generate the required revenue would have been different, but I also would very probably have recommended different coverages relative to this average. For example, since incremental cost for First-Class Mail letters is about 9% more than volume-variable cost, the application of an unchanged relative coverage for First-Class Mail letters ( $200\%/179\% = 1.12$ ) would probably have resulted in a rate increase that I would have judged to have an undesirable effect on its users. If so, I would have lowered its relative coverage to mitigate this effect and would have increased the relative coverage of one or more other subclasses, quite possibly including Standard (A) Regular and/or ECR. I cannot,

however, in this hypothetical situation judge whether or not the degree of mitigation would have been enough to hold the increase for First-Class Mail letters to that actually proposed.

In addition, I believe that the relationship of revenue to volume-variable cost is important because of the signal it sends mailers, as discussed in my testimony (p.15, line 18 through p.16, line 8). Even if it were determined for legal or other reasons that the ratio of revenue to incremental cost was to be the primary basis for application of the statutory pricing criteria, I would argue that the ratio of revenue to volume-variable cost would also deserve significant consideration, under fairness and equity (criterion 1); see my testimony at page 14, line 17 through page 15, line 17.

b. As explained in my testimony (page 18, line 43 through p.19, line 14), a consideration of fairness and equity (criterion 1) is precisely what leads me to prefer the use of a previous coverage index, rather than a previous mark-up index, in the situation where there has been a change in measured costs due to an improvement in costing methodology. In fact, I began my consideration of how to adjust previous rate-levels to the situation under the new costing method by using the mark-up index; it was only after arriving at results similar to those in Panel II of Table E-1 (p.18) that I came to understand the short-comings of the mark-up index in this situation. Therefore, the best answer I can give to your question (which I note does not postulate a legal requirement to use a mark-up

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index) is that I would do what I have already recommended: use the previous coverage index as a starting point because it better accords with the criteria.

That is, it is not so much that the application of the criteria would be different given the use of the mark-up index as that in this situation the criteria themselves lead to the use of the coverage index.

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**DMA/USPS-T30-13.** Please refer to page 33, lines 19-22, of your direct testimony (USPS-T-30), where you address the degree of mailer preparation of Standard (A) mail and conclude that Standard (A) Regular mail overall "does not have the same degree of preparation as Enhanced Carrier Route."

- (a) Please describe in detail all data and analysis on which this conclusion was based. Did you take into account the cost to the mailer associated with mailer preparation?
- (b) Please confirm that at least some pieces of Standard (A) Regular mail have a greater degree of mailer preparation than certain pieces of Standard (A) ECR mail.

**RESPONSE:**

- (a) This conclusion is based on a straightforward examination of the billing determinants for the two subclasses. As I understand criterion 6, it does not call for consideration of the cost to the mailer of mailer preparation, and I did not take this into account.
- (b) Although examples of greater preparation in Standard (A) Regular relative to Standard (A) ECR are quite limited, a prebarcoded Standard (A) Regular letter presorted to the 5-digit level could be viewed as having a greater degree of preparation than a Standard (A) ECR basic letter without a barcode.

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**DMA/USPS-T30-15.** Please refer to your response to DMA/USPS-T30-5, where you state that "management judgment is employed to determine what balance to strike between expenditure on capacity and the risk of service failure."

- (a) Please confirm that the fact that a "balance" is struck indicates that postal management is willing to incur some risk of service failure. If not confirmed, please explain fully.
- (b) Please confirm that in striking this balance, postal management at times decided to put in place fewer capacity resources than would be regarded as sufficient to ensure that anticipated mail volumes during a high-volume period will be meet applicable service standards, and that service failures in fact result from these decisions. If not confirmed, please explain fully.
- (c) Please confirm that, in the instances referred to in sub-parts (a) and (b), the service failures are suffered by (and/or the risks of service failures are borne by) Standard (A) mail to a greater extent than by First Class mail.

**RESPONSE:**

- (a) Confirmed; by definition, striking a balance implies that the risk of service failure is not reduced to zero. I would note, however, that service failure may be due to many other factors than lack of capacity; see my response to DMA/USPS-T30-5(a).
- (b) Confirmed; however, I am informed that service failures are minimized by bringing additional casual employees and extending the hours of regular employees during high volume periods. Facilities are provided with more manual cases than would be required in a normal volume period in order to provide distribution workspace for the additional workers.
- (c) Not confirmed. Although First-Class Mail has priority in processing relative to Standard (A) mail, it also has tighter service standards. The net effect on the degree of failure to meet service standards is not clear.

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**DMA/USPS-T30-16.** Please refer to your response to OCA/USPS-T30-5, under the heading "Value of Service," where you state that Ramsey pricing included the effect of "cross price elasticities more explicitly" than "economic value of service" under 39 U.S.C. § 3622(b).

- (a) Please describe in detail the appropriate role, if any, of "cross price elasticities" under the pricing criteria of § 3622(b).
- (b) If such elasticities have some role, is it appropriate to limit consideration to cross-price elasticities among postal products? Explain fully your reasoning.
- (c) Do you believe that the cross-price elasticity estimates contained in the record are appropriate for use in applying the pricing criteria of § 3622(b)? Please explain your response fully.

**RESPONSE:**

- (a) Given the qualitative role that own-price elasticities have in setting rate-levels, I do not see any role for cross-price elasticities at present in setting rate levels under § 3622(b).
- (b) Not applicable.
- (c) I have not formed an opinion on this question.



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**MH/USPS-T30-1.** With respect to your testimony at p. 4 ("Value of Service"), as applied to Periodicals Regular mail at pp. 29-30 of your testimony:

(a) Please explain fully the source and justification for your statement at p. 4 that apart from the "intrinsic value" of the service provided, "[a]nother aspect of value of service is the degree to which usage of the service declines in response to price increases, often referred to as the economic value of service."

(b) Please confirm that own-price elasticity of demand, standing alone, is not necessarily the sole indicator, much less a dispositive determinant, of the economic value of service. To the extent that you are unable to confirm, please explain fully.

**RESPONSE:**

(a) Please see the Opinion and Recommended Decision in Docket No. 87-1, paragraph 4085.

(b) For the purposes of my testimony, I use the term "economic value of service" solely with reference to the own-price elasticity. I believe this is a reasonable and natural use of the term because a low own-price elasticity means that users value the service so much that they will reduce their use of it by only a small percentage when the price is increased.

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**MH/USPS-T30-3.** With respect to your testimony (p. 30, lines 20-22) that "[t]he Postal Service is undertaking an analysis to understand what factors may have contributed to increases in flats mail processing costs, especially for Periodicals", please explain fully the reasons why it was determined that such analysis is necessary, and provide all documents reflecting the reasons that led the Postal Service to undertake such analysis.

**RESPONSE:**

Please see the testimony of witness Moden, USPS-T-4, pages 11-13. Another factor supporting the need for this analysis is the fact that, from FY 1993 to FY 1996, the unit mail processing costs for Periodicals, as reported in the Cost Segments and Components Report, grew faster than salaries and benefits per workhour.

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**MPA/USPS-T30-1.** Please refer to Exhibit USPS-30D and Table 1 below. Table 1 shows the percentage change in revenue per piece from Test Year Before Rates to Test Year After Rates. The revenue per piece figures are from the Test Year Current Rates and Test Year Proposed Rates Cost and Revenue Analyses from Witness Patelunas's testimony (Exhibit USPS-15G, Pages 15-20 and Exhibit USPS-15J, Pages 15-20).

- a. Please confirm that the percentage changes in revenue per piece by class and subclass in Table 1 are different than the proposed percentage changes in rates by class and subclass in Exhibit USPS-30D.
- b. Please explain how you developed the percent change figures shown in Exhibit USPS-30D.
- c. Please provide all calculations and underlying data for Exhibit USPS30-D.

**Table 1. Percentage Change in Revenue Per Piece**

Class	Subclass	Test Year Revenue Per Piece		
		Current Rates	Proposed Rates	Change
First	Single Letters/Sealed Parcels	\$0.394	\$0.404	2.54%
First	Presort Letters/Sealed Parcels	\$0.267	\$0.279	4.49%
First	Single Card	\$0.204	\$0.213	4.41%
First	Private Presort Card	\$0.161	\$0.173	7.45%
First	All	\$0.332	\$0.343	3.31%
Priority	All	\$3.545	\$3.777	6.54%
Express	All	\$12.798	\$13.412	4.80%
Periodicals	In County	\$0.089	\$0.091	2.25%
Periodicals	Nonprofit	\$0.140	\$0.157	12.14%
Periodicals	Classroom	\$0.205	\$0.215	4.88%
Periodicals	Regular Rate	\$0.225	\$0.234	4.00%
Periodicals	All	\$0.197	\$0.207	5.08%
Standard Mail A	Commercial ECR	\$0.145	\$0.149	2.76%
Standard Mail A	Commercial Regular	\$0.208	\$0.212	1.92%
Standard Mail A	Nonprofit ECR	\$0.081	\$0.075	-7.41%
Standard Mail A	Nonprofit	\$0.112	\$0.125	11.61%
Standard Mail A	All	\$0.168	\$0.175	4.17%
Standard Mail B	Parcel Post	\$3.052	\$3.331	9.14%
Standard Mail B	Bound Printed Matter	\$0.868	\$0.912	5.07%
Standard Mail B	Special	\$1.763	\$1.755	-0.45%
Standard Mail B	Library	\$1.594	\$1.821	14.24%
Standard Mail B	All	\$1.570	\$1.647	4.90%

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**RESPONSE:**

a. Confirmed.

b-c. The after-rates revenue per piece numbers in your Table 1 apply to the total after-rates volumes, including any volume shifted between subclasses and any new volume attracted by various initiatives. Because the billing determinants (and hence revenue per piece) of this shifted/new volume may differ significantly from that of the pre-existing volume in a subclass (being heavier or lighter, or more finely presorted, etc.), simple comparisons of revenue per piece before- and after-rates may not adequately depict the rate increase for the volume initially in the subclass. The percent change figures in my Exhibit USPS-30D were obtained from the pricing witnesses for the individual subclasses, who in some cases have provided a calculation that controls for these volume shifts to the extent possible. Other minor differences between your Table 1 and my Exhibit USPS-30D may be due to rounding (the pricing witnesses would generally have been using more digits) and to differences in the treatment of fee revenue. Specific sources for Exhibit USPS-30D in the testimony of the pricing witnesses are as follows:

First Class Mail	
Letters	Exhibit USPS-32B
Cards	Exhibit USPS-32B
Priority Mail	USPS-T-33 Table 6, line 14
Express Mail	USPS-T-33 Table 3, line 5
Periodicals	
In County	USPS-T-34 at 1
Nonprofit	USPS-T-35 at 1
Classroom	USPS-T-35 at 1
Regular Rate	USPS-T-34 at 1
Standard Mail A	
Commercial Regular	USPS-T-36 at 2

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MAGAZINE PUBLISHERS OF AMERICA

Commercial Enhanced Carrier-Route	USPS-T-36 at 2
Nonprofit	USPS-T-36 at 2
Nonprofit Enhanced Carrier-Route	USPS-T-36 at 2
Standard Mail B	
Parcel Post	USPS-T-37, WP II.A&C*
Bound Printed Matter	USPS-T-38, WP BPM1
Special	USPS-T-38, WP SR1
Library	USPS-T-38, WP Lib1

\*Calculated as percent change in revenue per piece using revenues from WP II.C, page 1,  
line 4 and volumes from WP II.A, page 1.

**RESPONSE OF POSTAL WITNESS O'HARA TO THE INTERROGATORIES OF THE  
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL**

**MASA/USPS-T30-1.** Identify the implicit after rates markups, and cost coverages, for each of the categories of Standard mail in the table below:

REGULAR SUBCLASS	Mark-Up	Implicit Cost Coverage
Nonletters:		
Basic Presort		
Basic Automation		
3/5-Digit Presort		
3/5-Digit Automation		
Letters:		
Basic Presort		
Basic Automation		
3/5-Digit Presort		
3-Digit Automation		
5-Digit Automation		
ENHANCED CARRIER ROUTE SUBCLASS		
Nonletters:		
Basic		
High Density		
Saturation		
Letters:		
Basic		
Auto Basic		
High Density		
Saturation		

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MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL**

**MASA/USPS-T30-1. (continued)**

**RESPONSE:**

Implicit cost coverages and markups for these rate categories were not calculated in the preparation of this filing. Such calculations are not needed for rate design purposes, nor can they be done accurately since total costs are quantified on a subclass level, rather than a rate category level, which is the level requested in this interrogatory. For example, although witness Daniel presents costs corresponding to rate category (Exhibit USPS-29C, page 3), some of the cost elements are equal for each rate category since finer detail of these costs is not available. For instance, transportation costs are assumed to be the same for every rate category in the Regular subclass; however, to the extent dropship levels (or any other transportation cost driver) differ for these rate categories, actual transportation costs would vary. The calculation of implicit markups using these data, therefore, would not only be unnecessary from a rate design perspective, but would also be inaccurate.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
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**MMA/USPS-T30-1.**

On pages 32-36 of USPS-T-30, you state one coverage for Standard (A) Regular mail and a second, separate coverage for Standard (A) Enhanced Carrier Route mail, and you refer to "the Regular subclass" (page 32) and to "the Enhanced Carrier Route (ECR) subclass" (page 34).

(A) Do you regard these two types of mail as separate categories of mail or as separate subclasses of mail?

(B) Do you regard First-Class nonpresorted mail and presorted mail as separate categories of mail or as separate subclasses of mail?

(C) Do you regard First-Class non-Automated mail and Automated mail as separate categories of mail or as separate subclasses of mail?

**RESPONSE:**

A. They are defined by the Domestic Mail Classification Schedule as separate subclasses.

B. Presortation is a qualifying characteristic for a number of bulk First-Class Mail rate categories.

C. Automation-compatibility is a qualifying characteristic for a number of First-Class Mail rate categories.

a)



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**MMA/USPS-T30-2.**

In USPS-T-30, at page 1 you state that you "present[] the Postal Service's proposed rate levels...." which "are described in terms of cost coverages...." You also state (*Id.*) that "[f]or each subclass, [your] testimony describes how the Postal Service's proposed rate levels conform to the rate-making criteria of the Postal Reorganization Act." Finally, you state (*Id.*) that your "Exhibits USPS-30A and USPS-30B show the test-year finances of the Postal Service on a subclass-by subclass basis before and after the proposed rate changes."

Please confirm that your testimony and exhibits show the "cost coverages," "proposed rate levels" and "the test-year finances of the Postal Service on a subclass-by-subclass basis," all as computed according to the Postal Service's proposed cost methodology.

**RESPONSE:**

Confirmed that the cost coverages, proposed rate levels, and test-year finances in my testimony are based on the Postal Service's proposed cost methodology. (In addition to proposed cost coverages for subclasses, my Exhibit USPS-30B shows implicit cost coverages for certain rate categories as well.)

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**MMA/USPS-T30-5.**

Please provide, for each subclass during the test year (after rates), the contribution per piece to overhead under the Postal Service's methodology.

**RESPONSE:**

This information can be derived by dividing each subclass's contribution (my Exhibit USPS-30B, column (4)) by its volume (my Workpaper II, pages 2 and 3, column (1)), as you have apparently done in preparing question 7(B).

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INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

**MMA/USPS-T30-7.**

Please refer to Interrogatories MMA/USPS-T30-5 and T30-6 and your responses thereto.

- (A) What are the contributions per piece to overhead of First-Class nonpresorted letters and First-Class worksharing letters (stated separately):
- (1) Under the Postal Service's proposed cost methodology?
  - (2) Under the "attribution procedures applied by the Commission in the most recent general rate proceeding"? (See Commission Rule 54(1), 62 Fed. Reg. 30242, 30250 (June 3, 1997).)
- (B) Please confirm that, based on the data contained in your Exhibits USPS-30B and 30-G, the Postal Service's cost methodology results in unit contribution to overhead of the following:
- (1) First-Class single-piece letters: 17.18 cents
  - (2) First-Class worksharing letters: 18.04 cents
  - (3) Standard Mail (A) Bulk Rate ECR: 8.43 cents
  - (4) Standard Mail (A) Bulk Rate Other: 7.52 cents

If you are not able to confirm any of these unit contributions, please provide the correct unit contribution.

**RESPONSE:**

(A) (1) \$0.1718 (single-piece letters); \$0.1804 (worksharing letters)

(2) Objection filed.

(B) Confirmed.

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**MMA/USPS-T30-8.**

Please refer to your Exhibits USPS-30F and 30G.

(A) In Exhibit USPS-30F you adjusted the CRA Roll Forward costs for the test year at the Postal Service' proposed rates. For each such adjustment, please provide (1) a statement of the reason for the adjustment and (2) a description of how each adjustment was made.

(B) In Exhibit USPS-30G you adjusted the volume forecasts for the test year at the Postal Service' proposed rates. For each such adjustment, please provide (1) a statement of the reason for the adjustment and (2) a description of how each adjustment was made.

**RESPONSE:**

(A) - (B) These adjustments were made by the pricing witnesses to account for the effects of various rate and classification proposals not incorporated in the roll-forward; see the sources cited in my Workpaper III (revised 8-22-97) for explanations of why and how each adjustment was made.

**MMA/USPS-T30-9.**

In your answer to MMA/USPS-T30-8 you indicate that the adjustments you made in Exhibits USPS-30F and 30G were provided to you by other pricing witnesses that are cited in your revised Workpaper III. Please also refer to your Exhibit USPS-30D, where you list percentage increases in rates and fees that are proposed by the Postal Service in this proceeding.

A) Please confirm that the Postal Service computes the proposed percentage increases by dividing the unit revenue for the test year at proposed rates by the unit revenue for the test year at current rates and subtracting one. If you cannot confirm, please explain.

B) Please confirm the following data in \$ thousands for Standard Mail A Commercial Regular mail as obtained from your revised Exhibits USPS30A, B and G and USPS-T-30, W/P 1, p.2 (revised).

	Revenues	Volumes
Current Rates	7,192,729	34,359,008
Proposed Rates	8,022,045	37,627,554

If you cannot confirm, please provide the correct data along with the appropriate support.

C) Please confirm that the unit revenues computed from data shown above in paragraph B) are .2093 for current rates and .2132 for proposed rates. If you cannot confirm please explain.

D) Please confirm that the unit revenues as shown in USPS-T-30 W/P 1,p.2 (revised) and USPS-T-30 W/P 11, p. 2 (revised) are .2093 for current rates and .2132 for proposed rates. If you cannot confirm, please explain.

E) Please confirm that the proposed percentage increase in rates for Standard Mail A Commercial Regular is 1.86%  $[(.2132 / .2093) - 1]$ . If you cannot confirm, please explain.

F) Please explain why Exhibit USPS-30D (revised) indicates that the proposed increase in rates for Standard mail A Commercial Regular is 4.1%.

G) Please explain how an intervenor in this proceeding can make comparable adjustments as shown in your USPS-T-30, W/P III (revised) under the Commission's established attributable cost methodology.

**RESPONSE:**

- A) Not confirmed; please see my response MPA/USPS-T30-1.
- B) Confirmed.
- C) Confirmed.
- D) Confirmed.
- E) Not confirmed; please see my response MPA/USPS-T30-1.
- F) Please see my response MPA/USPS-T30-1.
- G) Response deferred pending Presiding Officer's ruling.

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**NNA/USPS T-30-1.** Please confirm that effective service standards for Periodicals mail are overnight delivery up to 150 miles (Zones 1 and 2), 2nd day delivery up to 300 miles (Zone 3), 3rd day delivery up to 600 miles (Zone 4), 4th day delivery up to 1,000 miles (Zone 5), 5th day delivery up to 1,400 miles (Zone 6), 6th day delivery up to 1,600 miles (Zone 7) and 7th day delivery up to 1,800 miles (Zone 8). If you cannot confirm, please provide accurate service standards or target delivery dates for Periodicals mail.

**RESPONSE:**

I am informed that transit time commitments for all mail classes are based on the three-digit ZIP prefixes of the origin and destination. Mileage-based "rules of thumb" are not as accurate as the actual ZIP to ZIP tables.

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**NNA/USPS T-30-2.** Please confirm that the effective service standard for within-county mail is overnight. If you cannot confirm, please explain.

**RESPONSE:**

I am informed that, as explained in my response to NAA/USPS-T30-1, transit time commitments are ZIP-code based. ZIP code boundaries do not necessarily conform strictly to political boundaries such as counties. Where overnight commitments prevail, they may not align with county boundaries in some cases, and overlap in others.



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**NNA/USPS T-30-5.** Did you consider any USPS data on on-time delivery or service complaints in your consideration of 39 U.S.C §3622(b)(2)? If you did, please provide any workpapers or notes explaining the effect of that calculation on your cost coverage recommendation for Periodicals mail. If you did not, please explain why not.

**RESPONSE:**

Please see my response to VP-CW/USPS-T30-4; no calculations were utilized, and no notes or workpapers were generated.

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**NNA/USPS T-30-6.** Please confirm that the value to a subscriber of a time-sensitive periodical is reduced if delivery is delayed beyond the service standard or targeted delivery date. How would you calculate the effect upon value of persistent late delivery of the following circumstances:

- a. a weekly newspaper delivered more than 7 days after publication date to a subscriber within a retail trade zone?
- b. a daily newspaper delivered more than two days after publication date to a subscriber within a retail trade zone?
- c. a weekly or daily newspaper delivered in batches of two or three to a subscriber living in a distant zone?
- d. the effect upon a merchant whose newspaper advertisement is delivered to a subscriber in his retail trade zone a day after the sale being advertised has concluded? Please confirm that the merchant's perception of value would affect his decision to advertise in the future, which in turn would affect the newspaper's financial viability, as well as the size of the newspaper issue in future mailstreams.

**RESPONSE:**

Almost by definition, if a "time-sensitive" periodical is delivered after its "targeted delivery date," there would be some effect on its value to subscribers.

a-d. I am unable to calculate, quantify, or rank the effects on value resulting from the hypothesized scenarios.

NAA/USPS-T30-1. Please refer to page 4, lines 5-13 of your testimony.

- a. Please describe how "intrinsic value of service" differs from "economic value of service.
- b. Please describe all the non-economic values not included in the latter term.

**RESPONSE:**

- a. The cited portion of my testimony simply summarizes my understanding of how these terms have traditionally been utilized in discussing rate levels, with "intrinsic value of service" referring to identifiable aspects of the service provided to the various subclasses of mail and "economic value of service" referring to the degree to which volume responds to a price change. There is no intention to suggest that the various "intrinsic" aspects of service have only "non-economic" value.
- b. As I read the question, I am asked to describe all the non-economic values [of service] excluded from "economic value of service." Since my use of "economic value of service" refers only to the response of volume to a price change (own-price elasticity), all other aspects of service (whether labeled "intrinsic," "non-economic," or even "economic") are excluded to the extent they do not manifest themselves in the price elasticity.

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**NAA/USPS-T30-2.** Please refer to page 6, lines 2-3 of your testimony. If the Commission were to find the "improved cost information" flawed, and therefore used the previous cost methods, would you tend to prefer that it use cost coverages that produce the proposed rates, or somewhat lesser rates, for the affected subclasses.

**RESPONSE:**

The cited portion of my testimony notes that "somewhat higher percentage rate increases are proposed when the improved cost information indicates that a subclass's share of volume-variable cost is higher under the new cost methods than under the previous method." If the new cost methods are by assumption excluded from consideration, this in isolation would tend to indicate somewhat smaller proposed rate increases for these subclasses (and somewhat higher proposed increases for subclasses with a reduced share of volume-variable costs under the new cost methods); however, it is possible that other criteria would outweigh this tendency, leading to hypothetical proposed rate increases for some subclasses that were unchanged (or even reduced) from those actually proposed.

**NAA/USPS-T30-3.** Please refer to page 7, lines 1-8 of your testimony and your response to OCA/USPS-T30-5(5). Does the availability of more alternatives tend to increase or decrease the cost coverage compared to the coverage where few alternatives exist? That is, if many other firms provide similar service at comparable prices, would you propose a lower cost coverage or a higher cost coverage than you would in the absence of these alternatives? Please explain.

**RESPONSE:**

Please see my response to ABP/USPS-T30-1, where I discuss the case of limited alternatives, and note that if limited alternatives result in a low elasticity, implying a high cost coverage under value of service (criterion 2), criterion 5 provides a basis for considering whether this high cost coverage should be mitigated. In my view, cases of limited alternatives provide the primary occasion for the application of criterion 5. In the case of widespread alternatives, as in your question, criterion 5 generally does not lead to a symmetrical result – that is, if widespread alternatives result in a high elasticity, indicating a low coverage under value of service, criterion 5 does not generally indicate that this coverage should be increased.

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**NAA/USPS-T30-4.** Please refer to page 23, lines 5-6 of your testimony. If the elasticity of First Class Mail were due in part to the Private Express Statutes, what would be the significance of that fact?

**RESPONSE:**

The presumed effect of the Private Express Statutes in reducing the price elasticity of First-Class Mail provides a basis for mitigating, under criterion 5, the cost coverage that might otherwise be implied by this elasticity.

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**NNA/USPS T-30-5.** Did you consider any USPS data on on-time delivery or service complaints in your consideration of 39 U.S.C §3622(b)(2)? If you did, please provide any workpapers or notes explaining the effect of that calculation on your cost coverage recommendation for Periodicals mail. If you did not, please explain why not.

**RESPONSE:**

Please see my response to VP-CW/USPS-T30-4; no calculations were utilized, and no notes or workpapers were generated.

**NAA/USPS-T30-6.** Please refer to page 35, lines 14-17 of your testimony. Did the fact that this Standard ECR mail has many alternatives cause you to reduce or increase your proposed cost coverage for this subclass? Please explain.

**RESPONSE:**

Although the Standard ECR cost coverage is very high, this is not due to any increase resulting from the existence of significant alternatives. Please see my response to NAA/USPS-T30-3, where I discuss the applicability of criterion 5 to the case of widespread alternatives.



**NAA/USPS-T30-7.** Please refer to page 8, lines 4-7 of your testimony. You state that as a consequence of the significant increase in worksharing, the cost coverages for individual subclasses as well as the system as a whole will increase.

- a. Have you estimated what the cost coverages would be in the absence of worksharing? If yes, please provide these adjusted cost coverages.
- b. Please confirm that postal rate schedules, at present and as proposed, contain many more worksharing discounts and shape-based differentials than existed when the Commission and Postal Service first began to make use of markups and cost coverages for setting rates.
- c. Could one address, at least in part, the concern discussed at the cited pages of your testimony by "normalizing" cost coverages by (1) adding back the cost savings from worksharing to the attributable costs of each subclass and (2) then recomputing the cost coverages implicit in the proposed rates with these adjusted attributable costs? Please discuss.

**RESPONSE:**

- a. No.
- b. Confirmed that the number of rate categories has increased substantially since the Postal Reorganization Act was established.
- c. I am skeptical that this exercise could be carried out with enough precision even to provide a useful basis for discussion, much less serve as an aide to actually setting rate levels. For example, (1) estimated worksharing cost savings may not capture all important cost differences between workshared and non-workshared mail; (2) the calculated revenue (presumably at single-piece or "basic" rates) would probably not achieve breakeven with respect to

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the revenue-requirement (augmented by adding back the cost savings); and  
(3) it is not clear what volume forecast should be used in such calculations.

NAA/USPS-T30-8. Please refer to page 9, lines 1-12 of your testimony.

- a. Is it your opinion that the total institutional cost contribution of an individual subclass should remain unchanged when new worksharing discounts are introduced? If not, please explain why new discounts should allow a subclass to reduce its institutional cost contribution.
- b. Please confirm that maintaining the same cost coverage for a subclass while introducing new worksharing discounts that reduce attributable costs for the subclass necessarily will result in a lower unit cost contribution for that subclass. If you cannot confirm this statement, please explain why.
- c. Please explain why the reduced contribution from the hypothetical subclass with the greater than average reduced attributable costs presented in lines 11 -12 would "unfairly" burden other subclasses. In particular, please explain why you believe that outcome to be "unfair."

**RESPONSE:**

*Note that the cited portion of my testimony refers to "increased worksharing" over time, not to the introduction of new worksharing discounts per se. Worksharing may increase over time without new discounts; for example, the adoption of worksharing by existing mail may take place gradually, and there may also be differential growth in different types of mail (e.g., presort vs. single-piece First-Class Mail).*

- a. Not necessarily; coverages and contributions need to be evaluated against all the rate-setting criteria, taking into account the overall circumstances presented by each specific rate-case. My example (page 9, lines 3-12) does illustrate, however, that mechanically maintaining cost-coverages relative to the system average (by using coverage indexes, for example) will tend to

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shift the burden of contribution to institutional cost from subclasses with above-average increases in work-sharing to those with below-average increases. In this situation, I believe that previous coverages (or coverage indexes), determined to be fair and equitable at the time they were recommended, cannot be assumed to remain so at a later date, given differential increases in worksharing over the intervening period.

- b. Confirmed, but only to the extent that the new worksharing discounts do lead to reduced attributable costs by generating increased worksharing; new worksharing discounts that simply recognize worksharing that is already being performed will have no effect on unit contribution.
- c. Please see my response to part a.

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**NAA/USPS-T30-11. Please refer to page 36, lines 1-9 of your testimony.**

- a. Please confirm that the movement of ECR basic letters to the Automation 5-digit rate in Standard Regular mail indicates that these two mail categories are direct substitutes for one another. If you cannot confirm this statement, please explain why.
- b. Please confirm that the desire to have a lower rate for Automation 5-digit letters within Standard Regular mail compared to the basic ECR letter rate significantly restricts your ability to set cost coverages for these two subclasses independently of each other. If you cannot confirm this statement, please explain how you can determine the cost coverage for Standard ECR mail independently of the cost coverage for Standard Regular mail.

**RESPONSE:**

- a. Not confirmed; the movement of this mail simply demonstrates that some mailers have choices as to how they prepare their mail and will respond to rate differentials, in the same way that other Standard Regular mailers may choose to mail certain items at First-Class Mail card rates.
- b. Not confirmed; although I mention this consideration among others, I cannot confirm that it "significantly restricts" my choice of cost coverages. The considerations mentioned in lines 2-4 of page 36 would have been sufficient to generate the cost coverage I proposed.

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**NAA/USPS-T30-12.** In Docket No. R90-1, the Postal Service, through the testimony of witness Mitchell, advocated setting rates and discounts in a manner that would minimize the total combined cost to the Postal Service and mailers. Is the minimization of total combined cost to the Postal Service and mailers still a goal of the Postal Service today in setting rates?

**RESPONSE:**

Yes, the Postal Service still regards the achievement of "lowest combined cost" to be an important consideration in setting rates; this consideration is primarily addressed in connection with rate design within a subclass.

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**NAA/USPS-T30-13.** Please refer to page 14, lines 3-5 of your testimony.

- a. Please confirm that rates for all subclasses are not equal to the marginal costs of the subclass. If you cannot confirm this statement, please indicate where rates equal marginal costs.
- b. Please confirm that the mailers decision about how much to mail is determined by the rate for the mail, not by the marginal cost of the mail. If you cannot confirm this statement, please explain how the marginal cost of the mail influences the mailer's decision.
- c. Please confirm that using incremental costs in place of volume variable costs as the attributable costs for markup purposes would only alter a mailers decision about how much to mail if the use of incremental costs resulted in different rates. If you cannot confirm this statement, please explain why.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed; however, although the question appears to imply that costs do not affect rates, it is my expectation that the use of different measures of cost for determining markups would result in different rates.

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**NAA/USPS-T30-14.** Please refer to page 14, lines 10-16 of your testimony. You state that "any rate setting process based on something other than volume-variable costs ... will be constructing rates based on a cost concept that does not accurately reflect the cost consequences of the decisions that mailers will make in response to those rates." (footnote omitted)

- a. If volume variable costs are used in the rate setting process, please explain how rates that are not equal to volume variable costs "reflect the cost consequences of the decisions that mailers will make in response to those rates."
- b. Please confirm that the cost coverages proposed by the Postal Service in this proceeding are not equal to the cost coverages derived by Witness Bernstein's in his Ramsey pricing analysis. if you cannot confirm this statement, please illustrate how your proposed cost coverages equal Witness Bernstein's coverages.
- c. Please refer to page 14, lines 15-16 of your testimony. Please demonstrate that your proposed cost coverages based upon volume variable costs are "economically efficient." If you cannot do so, please explain why.
- d. Please demonstrate that setting rates based upon incremental costs will be less economically efficient than your proposed cost coverages and the resulting rate levels based upon volume variable costs. If you cannot do so, please explain why.
- e. Please confirm that the use of marginal costs in the rate setting process will result in "economically efficient" rates only if rates are set equal to marginal costs or Ramsey pricing is used.

**RESPONSE:**

- a. As is well-known, rates equal to marginal cost would not produce enough revenue to cover the total cost of providing postal services, but rates that are based on marking-up volume variable costs will better reflect the cost consequences of mailer response to these rates than rates based on marking up attributable or incremental costs. The example that immediately follows



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the cited paragraph in my testimony illustrates this; for the general principle of setting rates relative to volume-variable costs, see the testimony of witness Panzar, USPS-T-11, especially p. 28, lines 7-19.

- b. Confirmed.
- c. There are degrees of economic efficiency; setting prices equal to marginal cost is often referred to as a "first-best" solution, while Ramsey prices are "second-best," involving some loss of efficiency relative to prices that equal marginal cost. Prices that are above marginal cost but not equal to Ramsey prices will entail some additional loss of economic efficiency. This is true of my proposed cost coverages, which reflect all the criteria of the Act and do not aim solely at economic efficiency. However, if these coverages (or a suitably indexed version of them) were applied to attributable cost (calculated as the sum of volume-variable and specific-fixed cost in accordance with previous practice) or incremental cost, the loss of efficiency would be even larger, and unnecessarily so, as witness Panzar testifies (USPS-T-11, page 28, lines 14-15).
- d. Please see my response to part c.
- e. Not confirmed; please see my response to part c.

NAA/USPS-T30-15. Please refer to your example on pages 14-15 of your testimony.

- a. Please confirm that the incremental costs for the one product are 22 cents per piece and the incremental costs for the other product are 18 cents per piece.
- b. Assume that these are the only two products offered by the firm. Please confirm that the costs remaining after subtracting the incremental costs of both products are the costs that cannot be avoided by eliminating one of the products and hence, these costs are common to the production of both products; that is, the remaining costs can only be avoided by eliminating both products.
- c. Assume that each product is charged a rate of 30 cents. Please confirm that the first product (with an incremental cost of 22 cents per piece) covers its average incremental costs and makes a contribution of 8 cents per piece to the common costs of the firm. If you cannot confirm this figure, please explain why not.
- d. Please confirm that the second product (with an incremental cost of 18 cents per piece) covers its average incremental costs and makes a contribution of 12 cents per piece to the common costs of the firm. If you cannot confirm this figure, please explain why not.

**RESPONSE:**

- a. Confirmed that these are the average incremental costs, given the volumes of both products implicit in the example.
- b. Not confirmed. Incremental costs are determined by treating each product in turn as the last service provided, and the incremental cost of each product in general depends not only on its own volume but on the volume of the other product. See USPS-T-11, pp. 24-26. Therefore, the figure obtained by adding these costs together and subtracting from total costs is not a meaningful measure of "common costs;" instead it is a measure of economies of scope (see USPS-T-11, p. 29).

c-d. Not confirmed, since "common costs" as defined in part b are not  
meaningful.

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**NAA/USPS-T30-16.** Please provide the Postal Service's delivery performance (that is, success in meeting delivery standards) for First Class Mail for Fiscal Years 1995 and 1996. Please state separately the delivery performance for overnight, two day, and three day service.

**RESPONSE:**

Quarterly EXFC data for the requested time period is presented below.

	<u>95:1</u>	<u>95:2</u>	<u>95:3</u>	<u>95:4</u>
Overnight	84.1	84.5	86.8	87.2
Two-day	75.5	75.0	79.1	80.1
Three-day	80.2	75.5	82.2	82.7
	<u>96:1</u>	<u>96:2</u>	<u>96:3</u>	<u>96:4</u>
Overnight	87.8	87.3	90.4	91.2
Two-day	79.5	75.5	80.0	80.3
Three-day	82.2	70.9	82.4	82.8

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**NAA/USPS-T30-17.** Please provide the Postal Service's delivery performance (that is, success in meeting delivery standards) for Standard (A) Mail (or, as appropriate, third class bulk business regular) for Fiscal Years 1995 and 1996. Please state separately the delivery performance for overnight, two-day, and three day service.

**RESPONSE:**

I am informed that the Postal Service has no nationally representative delivery performance data for third-class or Standard (A) Mail. Moreover, service standards for this mail are not stated in terms of "overnight, two-day and three day service;" service standards are described in the Postal Service's Request; see the page in Attachment G relating to Rule 54(n).

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**NAA/USPS-T30-18.** To your knowledge, does the Postal Service have any information regarding the delivery service provided to First Class and Standard (A) mail that is entered at destination offices? If so, please state your understanding of what that information is.

**RESPONSE:**

None, to my knowledge.

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**NAA/USPS-T30-19.** Please refer to page 36, lines 4 -9 of your testimony. Does the Postal Service's operational goal of encouraging ECR basic letters into the automation mailstream act as a ratemaking constraint by creating a "linkage" between the Standard Regular and ECR subclasses?

**RESPONSE:**

Please see my response to NAA/USPS-T30-11b. This situation is similar to a number of other cases where it is necessary to consider rate relationships across subclass boundaries for particular rate categories (e.g., the Priority Mail two-pound rate compared to both the 11-ounce First-Class Mail letter rate and Parcel Post rates; First-Class worksharing card rates compared to Standard (A) Regular letter rates). None of these cases is of sufficient importance to create a linkage between the subclasses in their entirety.

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**NAA/USPS-T30-20.** Please refer to page 36, lines 4 -9 of your testimony. Does the Postal Service have an operational or revenue preference as to whether Standard (A) high-density and saturation letters are mailed at Standard Regular automation or Standard ECR rates? Please explain.

**RESPONSE:**

The operational preference for moving ECR letters into the automation mailstream noted in witness Moden's testimony refers only to ECR Basic letters, not high-density or saturation letters (USPS-T-4, p. 8, line 15 to p. 9, line 2). As for "revenue preference," the relevant consideration is revenue minus cost, or net revenue; although data do not permit precise net revenue calculations for this specific type of mail, the Postal Service has no reason to believe that having this mail entered as high-density or saturation Standard ECR letters (rather than as Standard Regular automation letters) entails a reduction in net revenue.



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**OCA/USPS-T30-1.** The following interrogatory refers to USPS-T-30, W/P III, Revised 7-23-97. In each of the following instances, the data appears to disagree with the source cited. Please indicate which information is correct and provide corrected workpapers and sources as appropriate.

- a. USPS-T-30, W/P III, Revised 7-23-97, indicates the following cost adjustments to Priority Mail: Delivery Confirmation - 78,949, Package Services - 1,776, and Standard A Single Piece - 24,174. (Trailing zeros have been omitted.) USPS-T-33, Table 6 at 23 indicates the following cost adjustments to Priority Mail: Delivery Confirmation - 69,755,871, Package Services - 1,793,669, and "Third Class Single Piece 12 to 16 ounce Conversion" - 24,416,810. Please indicate what the correct amount is. If the numbers in W/P III, Revised 7-23-97, are calculated, please show the derivation of each, cite all sources and provide copies of source documents not previously submitted.
- b. USPS-T-30, W/P III, Revised 7-23-97, indicates the following cost adjustments to Express Mail: Delivery Confirmation - (5,029) and Package Services - 532. (Trailing zeros are omitted.) USPS-T-33 at 13 indicates the following cost adjustments to Express Mail: Delivery Confirmation - (5,079,750) and Packaging Services - 537,184. Please indicate what the correct amount is. If the numbers in W/P III, Revised 7-23-97, are calculated, please show the derivation of each, cite all sources and provide copies of source documents not previously submitted.
- c. USPS-T-30, W/P III, Revised 7-23-97, cites "USPS-T-38, WP BPM 1" as the source of the 13,443, however, "USPS-T-38 WP BPM 1" does not indicate a 13,443 cost adjustment for Standard (B) Bound Printed Matter. Please show the derivation of the 13,443, cite all sources and provide copies of source documents not previously submitted.
- d. USPS-T-30, W/P III, Revised 7-23-97, indicates that the data reflected in the exhibit is "(\$000's, before contingency)." A review of each cite in USPS-T-38 includes the contingency. Please explain the apparent inconsistency between the "before contingency" notation on USPS-T-30, W/P III, Revised 7-23-97, and what is stated on USPS-T-38, WP-BPM1, WP-SR1 and WP-Lib1.
- e. USPS-T-30, W/P III, Revised 7-23-97, cites "USPS-T-38, WP SR 1" as the source of the (698), however, "WP SR 1" does not appear to indicate a (698) cost adjustment for Standard (B) Special. Please show the derivation of the (698), cite all sources referenced and provide copies of all source documents not previously submitted.

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**OCA/USPS-T30-1 (continued):**

- f. USPS-T-30, W/P III, Revised 7-23-97, cites "USPS-T-38, Lib 1" as the source of the Library: Delivery Confirmation - 31, "Parcel/Spec. Serv. Reform" - (21), and the Total - 10, however, "USPS-T-38 WP Lib 1" does not appear to provide the breakdown of the Standard (B) Library rate. Please show the derivation of the 31 and the (21), cite all sources referenced and provide copies of all source documents not previously submitted.
- g. USPS-T-30, W/P III, Revised 7-23-97, cites "USPS-T-15" as the source of the "Single Cards Parcel/Spec. Serv. Reform" amount of (4,540). Please provide the specific cite within USPS-T-15. If the (4,540) is the result of a calculation, please show its derivation, cite all sources referenced and provide copies of all source documents not previously submitted.

**RESPONSES:**

- (a)-(f) The data in my WP III are correct, and are correctly headed "before contingency." The data in the sources cited in the question include the 1% contingency (as noted in part (d) of the question for USPS-T-38). The data in my WP III are derived from the source data by dividing by 1.01. Additional detail on individual parts of the question follows:
  - (b) Note that the Delivery Confirmation adjustment for Priority Mail is the sum of line 26 and line 27 on p. 23 of USPS-T-33, not line 26 alone.
  - (c) USPS-T-38 WP-BPM1 shows "Cost including contingency" for "Final TYAR [3]" and "Forecast TYAR [2]," the difference between which is \$13,576,992. When the contingency is removed by dividing by 1.01, the result is the \$13,443(000) figure appearing in my WP III.
  - (e) Please refer to USPS-T-38, WP-SR1. This shows "Cost including contingency" for "Final TYAR [3]" and "Forecast TYAR [2]," the difference between which is

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\$705,102. When the contingency is removed by dividing by 1.01, the result is the \$698(000) figure appearing in my WP III.

- (f) Please refer to USPS-T-38, WP-Lib8, page 2 on which the adjusted cost with contingency for unbarcoded volume is shown as \$47,766,949, and the TYAR forecast cost with contingency for unbarcoded volume is shown as \$48,682,806, the difference between which is -\$915,857. The cost with contingency shown for the "Additional Volume Barcoded from Market Research" is shown as \$894,227. The difference between the cost decrease in unbarcoded volume (-\$915,857) and the cost for the newly barcoded volume (\$894,227) is -\$21,630. The cost with contingency from "New Volume from Delivery Confirmation" is shown as \$31,753. When the contingency is removed from the \$31,753 and the -\$21,630 figures, the results are the \$31(000) and -\$21(000) figures appearing in my WP III.
- (g) Please refer to Exhibit USPS-15H, p. 49. Note, however, this is not a "final adjustment" in the conventional use of that term, but simply a shift of CRA stamped card manufacturing costs from the single-piece card line to the "Stamped Card" special service line. Therefore, in my revised Exhibits and Workpapers (filed August 22, 1997), this has been moved from WP III to Exhibit USPS-30F.

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**OCA/USPS-T30-2.** Please cite the source documents used to support the (222,080) shown on USPS-T-30, W/P III, Revised 7-23-97, for Standard Mail A Single Piece. If the number is a result of a calculation, please show the derivation, cite all sources referenced and provide copies of all documents not previously submitted.

**RESPONSE:**

This row simply subtracts out the costs of single-piece Standard (A), the elimination of which is proposed. These costs are distributed to First-Class Mail (192,549), Priority Mail (24,174), and BPRS (5,357, which is corrected in my 8-22-97 revised WP III from the 4,783 originally shown). See USPS-T-32, WP I, p.3.

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**OCA/USPS-T30-3.** Please cite the source document of the (3,865) shown on USPS-T-30, W/P III, Revised 7-23-97, for Special Services certified. If the number is a result of a calculation, please show the derivation, cite all sources referenced and provide copies of all documents not previously submitted.

**RESPONSE:**

This adjustment is developed from the volume adjustment (-3,469, Exhibit USPS-33R, p2) multiplied by the unit cost (1.1256, USPS-T-39, WP 17 p.1, revised August 22, 1997), divided by 1.01 to remove the contingency.

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**OCA/USPS-T30-4.** USPS-T-30, W/P III cites USPS-T-40, WP 13 as the source of the Insurance adjustment of 6,585 for "Parcel/Spec.Serv. Reform." A review of USPS-T-40, WP-13 indicates a total cost of 48,288,139 for insurance. Please show the derivation of the 6,585, cite all sources referenced and provide copies of all documents not previously submitted.

**RESPONSE:**

The correct adjustment is 6,303, which is developed in USPS-T-40, WP 15, filed August 18, 1997; this is incorporated in my revised WP III filed August 22, 1997.

**OCA/USPS-T30-5.** Please refer to your direct testimony. At page 2 you set forth the criteria of 39 U.S.C. §3622(b). At page 20 you state that Ramsey pricing "does provide a useful framework for demonstrating the effects of different pricing decisions and provides a sense of direction toward prices that reduce the excess burden of raising the revenue needed to operate the Postal Service on a breakeven basis. At the same time, the Postal Service recognizes that the Act directs that postal ratemaking consider a variety of factors, not all of which are directed toward economic efficiency." As a professional economist, do you regard Ramsey pricing of postal services and products to be compatible or incompatible with the criteria of 39 U.S.C. §3622(b)? Please fully explain your answer as to each criterion.

**RESPONSE:**

- (1) Fairness and equity: I regard Ramsey pricing as generally compatible with the fairness and equity criterion. For example, if two subclasses differed in their own-price elasticities (economic value of service) but received equal evaluations on all other aspects of the criteria, I believe it would be fair and equitable for the subclass with the higher economic value of service to be assigned a higher cost coverage, as Ramsey pricing would indicate.
- (2) Value of service: Ramsey pricing is clearly compatible with economic value of service, (although economic value of service has traditionally considered only a subclass's own-price elasticity, whereas Ramsey pricing includes the effect of cross-price elasticities more explicitly). When a subclass's intrinsic value of service differs from its economic value of service, there would be a conflict between Ramsey pricing and the intrinsic value of service portion of the criterion.
- (3) Cost: It is theoretically possible for revenue from Ramsey prices to be less than incremental cost, which would result in a conflict between this criterion and pure

Ramsey pricing. However, this conflict can be resolved by imposing the constraint that revenue cover incremental cost, as witness Bernstein does. USPS-T-31 at 47.

- (4) Effect of Rate Increases: This criterion considers the effect of price changes, whereas Ramsey pricing deals with price levels. Thus, while it might well indicate that a movement to Ramsey prices should be made in several steps rather than all at once, it does not seem to me to be incompatible with the general principles of Ramsey pricing.
- (5) Availability of Alternatives: Limited availability of alternatives generally points toward some reduction in cost coverage from that which would otherwise apply. To the extent that this limited availability of alternatives generates a low own-price elasticity, Ramsey pricing will indicate a relatively high cost coverage. Thus, criterion 5 may conflict to some degree with Ramsey pricing, just as it may conflict with the value of service criterion (see my response to UPS/USPS-T30-3).
- (6) Degree of Preparation: This criterion addresses matters that have been increasingly taken into account at the level of rate design within a subclass, rather than at the level of the cost coverage for the subclass as a whole, which is the domain of Ramsey pricing, but I do not believe that it is incompatible with Ramsey pricing.
- (7) Simplicity: This criterion addresses matters that are largely outside the scope of Ramsey pricing, but I do not believe that it conflicts with Ramsey pricing in any essential way.
- (8) ECSI: This criterion clearly directs the consideration of matters that are not considered by Ramsey pricing, and thus a conflict with Ramsey pricing is obviously



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possible, as in the case of Periodicals where Ramsey pricing leads to a high cost coverage and high ECSI value indicates a relatively low cost coverage.

- (9) Other Factors: Compatibility or incompatibility would depend on the specific factor advanced for consideration under this criterion.

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**OCA/USPS-T30-6.** On page 21 you state: "I make no formal use of the Ramsey prices developed by witness Bernstein in USPS-T-31. In general, however, all else being equal, I view movement of rates in the direction of Ramsey prices to be beneficial. Therefore, whether a particular rate level would move rates closer to, or farther away from, Ramsey prices was one of the many factors I considered in evaluating potential rate levels." You conclude that "the consideration of movement toward or away from Ramsey prices did not have a major effect on my conclusion."

- a. Confirm that consideration of Ramsey pricing goals had some, and more than a *de minimis* effect on your conclusions. If not confirmed, please explain fully.
- b. Describe in detail as to each of the classifications set forth at pages 45-46 of your direct testimony the specific effect Ramsey pricing had on your conclusions to proposed percentage changes in rates. Replicate and describe fully each specific numerical calculation that was altered through consideration of Ramsey pricing analysis, and specify the percentage change that consideration of Ramsey pricing caused.
- c. Please supply all documents that you consulted in the preparation of your testimony (including data calculations supporting such testimony) relating to Ramsey pricing.

**RESPONSE:**

- a. I am unable to give a more precise or detailed description of the degree to which a consideration of Ramsey prices affected my conclusions than in the Section of my testimony referenced in the question.
- b. Please see my response to part a; no numerical calculations were utilized.
- c. I consulted witness Bernstein's testimony.

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**OCA/USPS-T30-7.** At page 4 you discuss the "value of service" criterion. You state that the lower (in absolute value) the own-price elasticity, the higher the value of service.

- a. 39 U.S.C. §3622(b) (2) also refers to "the value of the mail service actually provided each class or type of mail service to both the sender and the *recipient*." [Emphasis added.] Please explain whether or not you have considered value of service to the recipient in your analysis.
- b. Comment on the proposition that mail recipients in general place a higher value of service on their receipt of First-Class Mail than mail of other classes.
- c. Comment on the proposition that household recipients of mail place a higher value of service on their receipt of First-Class Mail than mail of other classes, e.g., households arguably place a relatively high value on receiving First-Class Mail from other households, and from companies with which they do business. Note in your consideration that the 1995 Household Diary Study states that in terms of percentage of First-Class Mail volume, the largest current users are banks, credit card companies, and insurance companies. See Diary at I-12. Note further that significant percentages of First-Class Mail received by households consist of Total Personal (7.1%), Bill/Invoice/Premium (15.9%) and Financial Statement (5.2%). See Diary at IV-26, Table 4-10.
- d. At page 10 you set forth the so-called ECSI statutory criterion (educational, cultural, scientific, and informational value to the recipient). You state that "[t]he Postal Service's rate-level proposals conform to this practice." However, you provide no additional explanation. Please discuss ECSI in terms of both households' and non-households' receipt of First-Class Mail versus other classes of mail. In your discussion of households, discuss specifically households' receipt of personal, bill/invoice/premium, and financial statement mail versus receipt of mail containing only advertising.

**RESPONSE:**

- a. In my view, the various factors that I discussed as affecting the value of service actually provided, such as mode of transportation and priority of delivery, are relevant to both sender and recipient (access to the collection system be primarily of interest to the sender). Even in cases of unsolicited

communications, the sender is likely to consider the recipient's point of view in these matters.

- b. This is quite plausible, at least relative to the value of service provided to Standard Mail, but perhaps not relative to Express Mail and Priority Mail.

Note that as I understand the criterion it refers to the value of service provided, not to the value of the contents of the mailpiece, whether information or merchandise. The recipient may well consider timely delivery of periodicals, sale announcements, or merchandise to be just as valuable as timely delivery of personal correspondence or financial statements.

- c. Please see my response to part b. of this question.
- d. It is my understanding that the Commission's determination that First-Class Mail deserves consideration under the ECSI criterion (paragraphs 4101-2 and 5032 of its Opinion and Recommended Decision in Docket No. R87-1) primarily referred to personal correspondence and greeting cards, rather than utility bills or mail containing only advertising.

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**OCA/USPS-T30-8.** Do you consider the use of cost coverages instead of markups to determine rate levels to be compatible with Ramsey pricing? Please explain why or why not.

**RESPONSE:**

As I understand the question, the distinction between cost coverages and markups has no importance in this context. That is, I can think of no reason that the choice between cost coverages or markups as the basis for determining rate levels would have any predictable or systematic impact on the degree to which these rate levels approached or departed from Ramsey prices. Conversely, prices determined through Ramsey analysis can be equivalently expressed in terms of either cost coverages or markups.

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**OCA/USPS-T30-9.** At page 15, footnote 7, you state that, "In fact, for most postal products, incremental cost does exceed volume-variable cost. However, there are several Special Services for which the reverse is true; for example, the incremental cost for Certified Mail is 9% below its volume-variable cost." Please explain fully how this comports with the avoidance of cross-subsidy between postal products (as discussed by both you and Dr. Panzer) and your use of incremental costs under Criterion 3 as the appropriate test of this.

**RESPONSE:**

There is no conflict; cross-subsidy is avoided as long as revenue is at least equal to incremental cost even when incremental cost is below volume-variable cost. However, in such cases, which arise when marginal cost rises with volume, there are efficiency reasons to set prices at least equal to unit volume-variable cost (or marginal cost), and this has been done for Certified Mail (the proposed cost coverage is 138%).

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**UPS/USPS-T30-1.** If the Postal Service had included the same contingency factor in its test year estimates of accrued costs in this proceeding as the Commission used in Docket No. R94-1, what Parcel Post cost coverage would result from the rates proposed in this proceeding?

**RESPONSE:**

The contingency factor in R94-1 was 2%. With that contingency factor, volume-variable costs (in \$000s) would be \$768,681 ( $= 761,146 * (1.02/1.01)$ ), and the cost coverage would be 102% ( $= 782,916 / 768,681$ ).

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**UPS/USPS-T30-2.** Assume that the Commission were to approve the proposed rates, resulting in a test year Parcel Post cost coverage that the Postal Service estimates to be 103%. What would be the total dollar contribution that Parcel Post would make to the restoration of the Postal Service's equity in the test year?

**RESPONSE:**

As shown in Exhibit USPS-30B, the Parcel Post contribution to total other (non-volume-variable) costs is \$21,769,000. There is, however, no meaningful way to allocate this contribution to the individual components of total other costs, such as the recovery of prior-year losses.



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**UPS/USPS-T30-3.** Please refer to lines 22-25 on page 3 of your testimony. List all instances in which one of the Act's pricing criteria indicates a conflicting direction from that indicated by another of the Act's pricing criteria.

**RESPONSE:**

Setting aside fairness and equity itself (criterion 1), and the cost floor requirement (criterion 3), it is possible for any two of the Act's other pricing criteria to indicate conflicting directions for a given subclass. Also, there may be conflicting directions within criterion 2 (intrinsic value of service, as compared to economic value of service) and criterion 4 (effects of rate increases on mailers, as compared to effects on competitors). Specific instances of conflicting directions between two or more criteria that are contained in my testimony include (but are not necessarily limited to) the following:

First-Class Mail letters: p.22, lines 22-23 (high value of service), as compared to p. 23, lines 11-12 (limited alternatives) and p. 24, line 20 to p. 25 line1 (ECSI value).

First-Class Mail cards: p.25, lines 15-19 (lower value of service), as compared to p.26, lines 6-11 (broader availability of alternatives).

Periodicals: p. 29, line 20 to p. 30, line 6 (high value of service), as compared to p. 30, lines 7-10 (ECSI value) and p. 30, lines 11-12 (effect of rate increases on mailers).

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**UPS/USPS-T30-4.** Please refer to lines 35-36 on page 5 and lines 1-4 on page 6 of your testimony. In arriving at your proposed rate levels, did you increase or decrease a subclass's proposed cost coverage from what you otherwise would have proposed when that subclass's share of volume-variable cost is higher under the new cost methods?

**RESPONSE:**

The lines of my testimony cited in the question note that "somewhat higher percentage rate increases are proposed when . . . a subclass's share of volume-variable cost is higher under the new cost methods." Because cost coverage is the ratio of revenue to volume-variable cost, a higher percentage rate increase will result directly from the higher share of volume-variable cost; an increase in the cost coverage ratio is not needed.

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**UPS/USPS-T30-5.** Please refer to Exhibit USPS-30B on page 43 of your testimony, line 47 ("Other Costs"). Please provide separately for each of the following the amount of costs that are included in the total "Other Costs" figure of \$218,009,000: (a) BPRS, (b) stamped cards, (c) delivery confirmation, and (d) packaging service cost.

**RESPONSE:**

These costs (in \$000s) are:

BPRS	\$ 6,410
Stamped Cards	\$ 4,585
Delivery Confirmation	\$22,139
Packaging Service	\$28,098

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**UPS/USPS-T30-6.** In Exhibit USPS-30G, you show the total TY1998(AR) volume for First Class Cards to be 4,940,041. In USPS-T-41, at Exhibit USPS-41B, witness Takis indicates that the volume for First Class Cards is 5,523,046. Please explain this discrepancy.

**RESPONSE:**

My Exhibit USPS-30G is incorrect; the stamped card volume of 583,005 was inadvertently omitted. A revised exhibit is being filed today (August 22, 1997). Note also that the stamped card volume was correctly included in my WP II, which feeds into my Exhibit USPS-30B.

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**UPS/USPS-T30-7.** Please confirm that an FY 1998 after-rates ratio of revenue to incremental cost for Parcel Post below 1 would be unacceptable to the Postal Service. If not confirmed, please explain.

**RESPONSE:**

Confirmed, for all subclasses during the test year.

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**UPS/USPS-T30-8.** Please confirm that a subclass of mail with a ratio of revenue to incremental cost below 1 in a given year would be cross-subsidized by the other subclasses of mail. If not confirmed, please explain.

**RESPONSE:**

Please see my response to UPS/USPS-T30-7.

UPS/USPS-T30-9. Please refer to your answers to UPS/USPS-T30-7 and UPS/USPS-T30-8 in this proceeding. You there state that it would be unacceptable to the Postal Service for any subclass of mail to have an FY 1998 after-rates ratio of revenue to incremental cost that was less than one "during the test year."

(a) Does this imply that it would be acceptable to the Postal Service for a subclass of mail to have a ratio of revenue to incremental cost less than one in any year after the test year?

(b) If the answer to (a) is yes, please explain why such a price would be economically efficient, cross-subsidy free, and, generally, fair and equitable.

(c) If the answer to (a) is no, (e.g., that in a year other than a test year it would be unacceptable to have a subclass with a rate that resulted in a ratio of revenue to incremental cost less than one), please explain how the rates that you propose in your testimony guard against such a result.

(d) If the answer to (a) is no, please explain how such a result is consistent with the testimony of witness Panzar in this proceeding. In your answer, please address (but not be limited to) Professor Panzar's principle stated on page 7, lines 13 through 21, that avoiding economic inefficiency requires not providing services that customers value less than the cost of the resources used to produce them. Please also address (but not be limited to) the statement by Professor Panzar, on page 8 of his testimony, that fair and reasonable postal prices require cross-subsidy free rates and therefore that prices cover incremental costs. Also, please address (but do not limit your answer to) Professor Panzar's conclusion on page 9, line 6, that prices which meet the incremental cost test also have a role to play in obtaining economic efficiency.

(e) Does Professor Panzar's principle that prices which meet the incremental cost test also have a role to play in obtaining economic efficiency apply only to the test year. If yes, why?

**RESPONSE:**

(a)-(e) My testimony specifically addresses only test-year revenues and costs.

This does not mean that the rationale for the incremental cost test presented by Professor Panzar applies only to the test-year, but it does mean that I have no basis for evaluating the relationship between revenues and incremental costs after the test-year. While one might expect inflation to result in increases in costs after the test-year, unit costs do not necessarily move in concert with overall inflation. For example, a variety of programs may reduce costs beyond

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the test-year. Also, if mail-mix within a subclass shifts toward rate cells with an above average ratio of revenue to cost, this will tend to increase the ratio of revenue to incremental cost.



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**UPS/USPS-T30-10.** Please refer to page 8 of your testimony and the example of the effect of worksharing on the recovery of non-attributed costs at lines 8 through 19 and the example on page 9, lines 1 through 12. Please confirm that the total contribution to the recovery of non-attributed costs provided by some type of mail before and after a change in total attributed costs is a way to evaluate fairness and equity. If not confirmed, please explain.

**RESPONSE:**

Confirmed for the example cited, in which the change in total attributed cost is due to differential growth in worksharing across subclasses. Not necessarily confirmed for other changes in total attributed cost (such as, for example, a change in total attributed cost due to differential volume growth across subclasses).

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**UPS/USPS-T30-11.** Please refer to page 13, lines 7 and 8 of your testimony, where you state that "[i]f revenue from a subclass equals or exceeds its incremental cost, then there is no cross-subsidy," and to your answers to interrogatories UPS/USPS-T30-7 and UPS/USPS-T30-8 in this proceeding. Does your testimony apply only to test years? Please explain your answer, including but not limited to an explanation as to how in some year other than a test year, a postal rate that is less than the incremental cost to provide that service would not involve a cross-subsidy to users of the applicable subclass of mail.

**RESPONSE:**

Please see my response to UPS/USPS-T30-9.

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**UPS/USPS-T30-12.** Please refer to Section E, "Mark-ups and Coverages After A Reduction in Measured Cost," on pages 16-20 of your testimony. Please confirm that in prior proceedings when the Postal Rate Commission has utilized previously developed rates as a starting point for developing new rates, the Commission has used a mark-up index rather than a cost-coverage index. If not confirmed, please explain.

**RESPONSE:**

Confirmed, and in fact I began my own consideration of how to adjust previous rate-levels to the situation under the new costing method by using a mark-up index. It was only after arriving at results similar to those in Panel II of Table E-1 (p.18) that I came to understand the short-comings of the mark-up index in this situation.

UPS/USPS-T30-13. Please refer to Table E-1 on page 18 of your testimony.

(a) Please confirm that if a column were added that showed the percentage contribution made by Products A and B to recovery of non-volume variable costs, the revised table would be as follows:

**Table E-1. Effect of Holding Mark-Up Index or Coverage Index Constant, With Changes in Measured Volume-Variable Costs**

**I. Initial Situation, Before Changes in Cost Measurement**

Product	Volume-Variable Cost	Contribution	Percentage Contribution	Revenue	Coverage	Mark-Up	Coverage Index	Mark-Up Index
A	33.3	22.2	66.7%	55.6	167%	67%	1.11	1.33
B	33.3	11.1	33.3%	44.4	133%	33%	0.89	0.67
Total	66.7	33.3	100.0%	100.0	150%	50%	1.00	1.00
Revenue Requirement				100.0				

**II. Equal Reduction in Measured Costs, Previous Mark-Up Index Applied**

Product	Volume-Variable Cost	Contribution	Percentage Contribution	Revenue	Coverage	Mark-Up	Coverage Index	Mark-Up Index = Initial
A	25.0	33.3	66.7%	58.3	233%	133%	1.17	1.33
B	25.0	16.7	33.4%	41.7	167%	67%	0.83	0.67
Total	50.0	50.0	100.1%	100.0	200%	100%	1.00	1.00

**III. Equal Reduction in Measured Costs, Previous Coverage Index Applied**

Product	Volume-Variable Cost	Contribution	Percentage Contribution	Revenue	Coverage	Mark-Up	Coverage Index = Initial	Mark-Up Index
A	25.0	30.6	61.2%	55.6	222%	122%	1.11	1.22
B	25.0	19.4	38.8%	44.4	178%	78%	0.89	0.78
Total	50.0	50.0	100.0%	100.0	200%	100%	1.00	1.00

If not confirmed, please explain.

(b) Please confirm that using the hypothetical example that is the basis for your Table E-1, a mark-up index would result in each product making

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the same percentage contribution to the recovery of non-volume-variable costs before and after the reduction in volume-variable costs. If not confirmed, please explain.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed; however, I believe that each subclass's contribution to non-volume-variable costs should be evaluated relative to its volume-variable costs; fixing each subclass' percentage share of non-volume-variable cost would exclude this important factor.

**UPS/USPS-T30-14.** You state on page 17 of your testimony, lines 7 and 8, that it is a "natural question" as to whether previously developed mark-ups and cost coverages could be used as "a starting point, at least" for developing new rate levels.

(a) Did you use previously-developed mark-ups and cost coverages as a starting point for your rate recommendations in this proceeding?

(b) Did you use previously-developed mark-ups and cost coverages as more than a starting point? Please explain.

**RESPONSE:**

(a)-(b) Yes; please see my testimony at page 19, line 15 through p. 20, line 7;

although I'm not certain I understand what distinction you mean to make

between "a starting point" and "more than a starting point," I viewed the

previously determined markups and cost-coverages as a critical point of

reference in developing new rate levels.

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**UPS/USPS-T30-15.** Please refer to your testimony, page 19, lines 15-17. Leaving aside the issue of whether the cost-coverage index or the mark-up index is the better way to adjust current rates to reflect cost-pool changes, please confirm that you assert that the development of new rates should begin by using the previously-developed cost coverages or mark-ups as a base. If not confirmed, please explain.

**RESPONSE:**

The nine criteria section of 3622(b) provide the fundamental basis for the development of new rates; previously-developed markups and cost coverages are a useful starting point because they have, under previous circumstances, been found to satisfy these criteria.

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**UPS/USPS-T30-16.** Please explain your belief, as stated on page 19, lines 6 and 7 of your testimony, that fairness and equity require equal rate increases for Products A and B in the example embodied in your Table E-1, page 18.

**RESPONSE:**

In my example, the two products are equally affected by the change in costing methodology, and I conclude that the unequal rate changes that result from a mechanical application of the previous mark-up index are not "consistent with fairness and equity." I contrast this with the application of the previous coverage index, which does produce equal rate changes, and which I believe is consistent with fairness and equity. However, I do not go quite so far as to conclude that fairness and equity "require" equal rate changes; in my example the two products have different initial markups (and coverages), and I cannot rule out the possibility that a consideration of all the criteria would also lead to different rate changes.



**UPS/USPS-T30-17.** Please refer to page 20 of your testimony, lines 11-15. Please explain why you believe Ramsey pricing provides a useful framework for demonstrating the effects of different pricing decisions and provides a sense of direction for postal pricing.

**RESPONSE:**

A fundamental question that postal pricing must resolve is how the revenue necessary to cover non-volume-variable costs should be assigned to the various subclasses; Ramsey pricing provides a framework for evaluating the relative costs, in terms of loss of economic efficiency, of different ways of doing this.

VP-CW/USPS-T30-1.

Your testimony at page 35 states that delivery of ECR mail may be deferred.

- a. Under Postal Service standards, regulations or other guidelines what is the maximum length of time that ECR mail can be deferred (i) at a DDU, (ii) at a DSCF, (iii) at a DBMC, (iv) at a OBMC, and (v) at a OSCF?
- b. Does the Postal Service keep any kind of records on either (i) the number of occasions that ECR mail is actually deferred, or (ii) the length of deferral when ECR mail is deferred? Please explain any answer that is not an unqualified negative, and identify the type of records kept.

**RESPONSE:**

- a. See Postal Operations Manual (POM 7), sections 458.1-458.345 (USPS LR-SSR-161).
- b. I am informed that no records are kept on the number of occasions that ECR mail is deferred or on the length of deferral for ECR mail.

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**VP-CW/USPS-T30-2.**

- a. Please identify all applicable service and/or delivery standards, regulations or other guidelines for Standard A ECR and/or Regular Mail.
- b. Please identify whether there are different service and/or delivery standards for Standard A ECR and/or Regular mail entered at (i) DSCFs and (ii) DDUUs.

**RESPONSE:**

- a-b. Please see my response to DMA/USPS-T30-4c.

VP-CW/USPS-T30-3.

At page 35 of your testimony you refer to the Postal Service accommodating mailer requests for delivery within a specific time frame.

- a. With respect to the Postal Service's efforts to accommodate such requests, can ECR mailers request day-certain delivery? If so, under what conditions?
- b. If a request for day-certain delivery is not an option, what is the minimum time frame that ECR mailers can request? (E.g., two days? three days?)
- c. With respect to ECR mail for which delivery has been requested within a specific time frame, does the Postal Service keep any kind of records, or have any data that would show the percentage of ECR mail that is in fact delivered within the time frame requested by mailers? If so, please provide such data for Base Year 1996.

**RESPONSE:**

- a. I am informed that a mailer can request day-certain delivery for ECR mail, but there is no assurance that delivery will be made on the requested day. A more appropriate request is for a range of delivery dates; such requests are often utilized by ECR mailers. Mailers requesting an in-home delivery window work with local USPS representatives to determine, for example, the appropriate entry date needed to achieve their requested delivery date(s).
- b. Not applicable.
- c. I am informed that the Postal Service has no records on the aggregate volume of ECR mail for which delivery has been requested within a specific time frame nor any basis for determining the percentage of such mail that is delivered within the requested time frame. For individual mailings with specified characteristics, however, the ADVANCE system does permit the

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mailer and the Postal Service to monitor the percentage of the mailing that is delivered within the requested time frame. However, the individual mailing data are confidential and available only to the individual mailer.

**VP-CW/USPS-T-30-4.**

- a. Your testimony at pp. 2-3 lists the nine criteria of 39 U.S.C. 3622(b). In your opinion, under which of the nine criteria should the actual performance in delivery be reflected? If you do not consider actual service performance to be relevant to the establishment of pricing levels, please explain why.
- b. (i) Please indicate those subclasses for which have you endeavored to take account of actual performance in delivery provided by the Postal Service, and (ii) please indicate how such performance in delivery affected your recommendation to increase or reduce the cost coverage.

**RESPONSE:**

- a. Service actually provided is considered under value of service (criterion 2).
- b. Because the Postal Service does not have nationally representative service performance data for most subclasses, my consideration of this aspect of value of service relied upon the relative service standards for the various subclasses, as detailed in the sources referenced in my response to DMA/USPS-T30-4c. My discussion of value of service for each of the subclasses in my testimony assumes that the relative levels of service actually provided for the various subclasses corresponds to their relative service standards, even though for each subclass some portion of the volume, perhaps varying from subclass to subclass, will not be delivered within its standard. In addition, I review various postal indicators of service performance and I am generally aware of customer concerns about service levels through my reading of trade publications and reports from other postal employees. None of this additional information dissuaded me from my

general understanding that the relative levels of service actually provided to various subclasses reflect their relative service standards.

VP-CW/USPS-T30-5.

At p. 36 of your testimony you state that:

a lower coverage for ECR would have made it more difficult to design rates so that the Automation 5-digit rate in Standard Regular was below the ECR basic rate, encouraging the movement of ECR basic letters into the automation mailstream. As has been the case since at least Docket No. MC95-1, this is an important operational goal of Postal Service management.

- a. Is the goal of the Postal Service to achieve lowest combined cost, or the encourage movement of ECR basic letters into the automation mailstream regardless of cost?
- b. Wouldn't mailers' interests be better served by adhering to the principle of lowest combined cost?
- c. Why do ECR basic presort letters continue to have a lower unit cost than automation letters?

**RESPONSE:**

a-c. The achievement of lowest combined cost is a major reason the Postal Service is encouraging the movement of basic ECR letters (but not high-density or saturation ECR letters) into the automation mailstream. With increased automation of the letter mailstream, the cost differential between automation letters and basic ECR letters has virtually disappeared; the test-year cost for an automation letter is only \$0.0002 more than that of a basic ECR letter (USPS-T-36, WP 1, p. 24). Beyond the test-year, the increased capture of savings from Delivery Point Sequencing (DPS) is expected to produce automation letter costs below those of basic ECR letters, so that moving basic ECR letters to automation will achieve lowest combined cost.



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general understanding that the relative levels of service actually provided to various subclasses reflect their relative service standards.

**VP-CW/USPS-T30-7.**

In your testimony, at page 9, you state that "the coverage of a subclass with a greater-than-average increase in worksharing will need to increase relative to the system-average coverage."

- a. Is it your testimony that application of criterion 6 requires imposition of a higher cost coverage wherever a greater degree of preparation by the mailer is found? Please explain your answer fully.
- b. Does the imposition of a higher cost coverage on a class or subclass of mail due to its "greater-than-average increase in worksharing" create a disincentive for mailers to participate in worksharing, thereby reducing their participation in projects which increase Postal Service efficiency and productivity?

**RESPONSE:**

- a. Not at all; my testimony refers to changes in the degree of worksharing (relative to the system average) over time, not to differences in the level of worksharing, and notes that an increase in coverage (relative to the system average) is needed to avoid reducing the subclass's contribution to institutional costs as an indirect, and perhaps unintended, consequence of increased worksharing.
- b. No; the incentive to participate in worksharing is primarily driven by rate design within the subclass. Moreover, to mechanically impose prior coverage indexes in this situation would reward all pieces in the subclass, even those that did not increase their degree of worksharing.

VP-CW/USPS-T30-8.

Please refer to Exhibit USPS-30D, and to page 36 your testimony, where you state that application of several of the statutory criteria to Standard A ECR "would indicate a cost coverage lower than that actually proposed," however, "this could only be achieved by imposing **greater rate increases on other subclasses**, thereby widening the range of increases around the modest overall average (emphasis added)."

- a. Please confirm that the systemwide average proposed rate increase is 4.5 percent. If you do not confirm, please provide the correct figure.
- b. Do you agree that your argument against **greater rate increases on other subclasses** does not apply to subclasses where the proposed increase is **less than the systemwide average**. If not, please explain.
- c. Please confirm that, under the Postal Service's proposal, First-Class letter mail, Express Mail, In-County Periodicals, Nonprofit Periodicals, Regular Rate Periodicals, Standard A Regular mail, and Standard B Special Mail have average proposed rate increases **less than the systemwide average**. If you do not confirm, please explain.
- d. Please confirm that, in addition to the subclasses set out in the preceding subpart, under the Postal Service's proposal, First-Class card mail, Classroom Periodicals, and Standard B Bound Printed Matter also have average proposed rate increases **under 6 percent**. If you do not confirm, please explain.
- e. Do you agree that your argument against **greater rate increases on other subclasses** has limited applicability to subclasses which have average proposed rate increases of under 6 percent? If not, please explain.
- f. Please explain how it is **fair and equitable** to impose a higher cost coverage on Standard A ECR, despite the fact that the application of the statutory criteria you reference in your testimony support a lower cost coverage, so that so many classes and subclasses of mail may have rate increases which are less than the systemwide average increase, or increases which are less than 6 percent.

RESPONSE:

- a. Confirmed.
- b. The "greater increases for other subclasses" portion of the statement necessarily applies to any subclass; the "widening the range" of increases

portion of the statement does apply only to subclasses with increases that are above average.

- c. Confirmed; it should however be noted that two of these are preferred rate subclasses whose rate increases are indirectly determined by the Revenue Forgone Reform Act (RFRA), which links their coverages to the coverages of commercial subclasses.
- d. Confirmed except for Classroom Periodicals (see Exhibit USPS-30D revised 8-22-97), which is another preferred-rate subclass with a coverage determined by the RFRA.
- e. No, because the coverages proposed for those subclasses with rate increases below 6.0% were developed after considering all the criteria; for example, subclasses with below-average rate increases generally experienced greater-than-average reductions in their measured costs due to the new costing methodology.
- f. Please see the cited portion of my testimony, as amplified by my responses to the preceding parts of this question and to VP-CW/USPS-T30-9.

**VP-CW/USPS-T30-9.**

At p. 36 of your testimony you state that:

a lower coverage for ECR would have made it more difficult to design rates so that the Automation 5-digit rate in Standard Regular was below the ECR basic rate, encouraging the movement of ECR basic letters into the automation mailstream. As has been the case since at least Docket No. MC95-1, this is an important operational goal of Postal Service management.

In your response to VP-CW/USPS-T30-5, you state that "the cost differential between automation letters and basic ECR letters has virtually disappeared."

- a. Why was it necessary to assign Standard A ECR a cost coverage over 228 percent to encourage the migration of ECR basic letters into the automation mailstream?
- b. Would a Standard A ECR cost coverage of 180 percent have been sufficient to encourage such migration? 200 percent? 210 percent?
- c. If your proposed cost coverage for the Standard A ECR subclass were lower (e.g., 200 percent) what principle(s) of rate design would prevent the Postal Service from maintaining the proposed rate on basic letters and lowering rates in all other ECR rate cells?

**RESPONSE:**

- a. First, I want to emphasize that my response to VP-CW/USPS-T30-5 refers to the test-year cost differential, not the current rate differential, and that beyond the test-year, as stated in that response, automation letters are expected to cost less than basic ECR letters. The 228% coverage facilitates the alignment of proposed rates with these costs; please see my response to parts b and c.
- b. A cost coverage of 180% would imply a decrease of approximately 19% from current rates (calculated by dividing 180% by the after-rates coverage of 228% adjusted to back out the 3.2% increase implied by the after-rates

coverage); a coverage of 200% would imply a decrease of about 9%, and a coverage of 210% would imply a decrease of about 5%.

- c. As noted in my response to part b, a coverage of 200% would imply an overall rate decrease of 9% for ECR. Holding the basic ECR rate at its proposed level with a 200% coverage would thus imply rate decreases of even more than 9% for the high-density and saturation portion of ECR; I would expect that this would require passthroughs of the cost differences between basic ECR and the remaining presort tiers that greatly exceeded 100%.

RESPONSE OF POSTAL SERVICE WITNESS O'HARA  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO.1

10. Volume Forecasting

a. Please describe the procedures employed to forecast international mail volume and revenue for FY 1997, FY 1998 (test year before rates), and FY 1998 (test year after rates). USPS-T-30, Workpapers I, II and IV. Also, provide the underlying calculations for the international mail quarterly volume forecasts for each of the above fiscal years and FY 1999.

RESPONSE:

It is my understanding that the information requested is presented on the attached pages.

## **International Mail**

### **I. Overview**

The methodology employed to forecast international mail volume is different from that used in the previous omnibus rate case, R94-1. The details of the model are considered to be commercially sensitive. Quarterly Postal Service and economic data are used to construct an econometric model of the total international mail market.

#### **A. Base Year Volume**

While the base method is not used, the base year volume for international mail would be the sum of the volumes of the four postal quarters 1996 three and four plus 1997 one and two, which equals 987.185 million pieces. The individual quarterly volumes are:

1996:3	242.591
1996:4	274.183
1997:1	216.968
1997:2	253.443

#### **B. Population**

Population is used in the model as one of the factors accounting for the growth in the utilization of international postal services.

#### **C. Seasonality**

The impact of seasonal changes in the use of international postal services is included in the model.

#### **D. Net Trend**

Net trends were not used.

#### **E. Quarter Length**

The fact that postal fiscal year is composed of 13 accounting periods and the postal quarters are distributed as indicated below is taken into account in the model.

Fall: 3/13 Spring: 3/13 Winter: 3/13 Summer: 4/13



## **F. Aggregate Economic Activity**

The impacts of international trade are taken into account as factors influencing the use of international postal services.

## **G. Other Factors**

The model includes other factors such as trends, as well as events such as Canadian postal strikes, that influence international mail.

## **H. Price**

The model includes the impact of international mail prices on international mail volumes. The inflation-adjusted price of aggregate international postal prices is used. The estimated own-price elasticity is -0.6038.

## **II. Postal Quarter Volume Forecasts**

The postal quarterly volume forecasts for 1997:1 through 2000:1 in the before-rates environment are calculated via the model. In the after-rates environment all of the factors are held constant, and international mail prices are assumed to increase by 3.2 percent. The new international mail prices are assumed to take effect on October 1, 1997. The forecasts are shown below:

	Before-Rates	Rate	After-Rates
Pqtr	Volume	Multiplier	Volume
1997:1	216.968	1.000000	216.968
1997:2	253.443	1.000000	253.443
1997:3	208.002	1.000000	208.002
1997:4	275.268	1.000000	275.268
1998:1	244.666	0.985014	240.999
1998:2	269.057	0.981161	263.989
1998:3	219.796	0.981161	215.655
1998:4	286.202	0.981161	280.810
1999:1	252.944	0.981161	248.179
1999:2	276.829	0.981161	271.614
1999:3	226.560	0.981161	222.292
1999:4	294.251	0.981161	288.708
2000:1	259.396	0.981161	254.509

## **III. Government Fiscal Year Forecasts**

The government fiscal year forecasts are obtained from the following equations:

$$1997: (53.5/66) * 1997:1 + 1997:2 + 1997:3 + 1997:4 + (13.5/66) * 1998:1$$

$$1998: (52.5/66)*1998:1 + 1998:2 + 1998:3 + 1998:4 + (14.5/66)*1999:1$$

$$1999: (51.5/66)*1999:1 + 1999:2 + 1999:3 + 1999:4 + (15.5/66)*2000:1$$

Accordingly, the forecasts for the government fiscal years 1997 through 1999 are:

GFY	Before-Rates Volume	After-Rates Volume
1997	962.634	961.884
1998	1,025.247	1,006.682
1999	1,055.932	1,036.039

#### **IV. Results in Tabular and Spreadsheet Form**

These results are presented in tabular form in the attached Table 1. The results are also available on diskette in spreadsheet form in Library Reference-H-227.

# INTERNATIONAL MAIL VOLUME FORECASTS

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PQ	Before-Rates Volume	Rate Multiplier	After-Rates Volume
1997:1	216.968	1.000000	216.968
1997:2	253.443	1.000000	253.443
1997:3	208.002	1.000000	208.002
1997:4	275.268	1.000000	275.268
1998:1	244.666	0.985014	240.999
1998:2	269.057	0.981161	263.989
1998:3	219.796	0.981161	215.655
1998:4	286.202	0.981161	280.810
1999:1	252.944	0.981161	248.179
1999:2	276.829	0.981161	271.614
1999:3	226.560	0.981161	222.292
1999:4	294.251	0.981161	288.708
2000:1	259.396	0.981161	254.509

Rate Multiplier 1998:1 =  $13.5/66 + (1.032^{-0.6038}) * 52.5/66$   
 Rate Multiplier 1998:2 onwards =  $(1.032^{-0.6038})$

## GFY ADJUSTMENTS

PQ	Before-Rates Volume	After-Rates Volume
1997:0	175.876	175.876
1997:1	216.968	216.968
1997:2	253.443	253.443
1997:3	208.002	208.002
1997:4	275.268	275.268
1997:5	50.045	49.295
1998:0	194.620	191.704
1998:1	244.666	240.999
1998:2	269.057	263.989
1998:3	219.796	215.655
1998:4	286.202	280.810
1998:5	55.571	54.524
1999:0	197.373	193.655
1999:1	252.944	248.179
1999:2	276.829	271.614
1999:3	226.560	222.292
1999:4	294.251	288.708
1999:5	60.919	59.771
2000:1	259.396	254.509

## PFY FORECASTS PQ1+PQ2+PQ3+PQ4

PFY	Before-Rates Volume	After-Rates Volume
1997	953.681	953.681
1998	1019.721	1001.453
1999	1050.584	1030.792

## GFY FORECASTS PQ0+PQ2+PQ3+PQ4+PQ5

GFY	Before-Rates Volume	After-Rates Volume
1997	962.634	961.884
1998	1025.247	1006.682
1999	1055.932	1036.039

## **International Mail Revenues**

International mail revenues are developed as follows:

1. For postage, forecast volumes for FY97 and TYBR are multiplied by a base-year revenue per piece of \$1.339723. This is derived from 1996 RPW international volume (998,645) and revenue (total international revenue of \$1,607,552 less foreign postal transactions of \$251,728 and international miscellaneous fees of \$17,917). The forecast TYAR volumes are multiplied by  $1.339723 * 1.032$ , where 3.2% is the assumed rate increase noted in Section II of Attachment A. See USPS-T-30, WP IV, p. 3, line 17; WP I, p. 3, line 17; and WP II, p. 3, line 14.
2. Fee revenue (certificates of mailing) is developed on page 2 of this Attachment.
3. Terminal and Transit revenue is assumed to be constant at the 1996 RPW level of \$252,000 (000).

## Certificate of Mailing Fee Revenues

INTERNATIONAL	FY 1996	FY 1997	TYBR	TYAR
-----				
BASIC	8,761	8,009	8,530	9,136
FIRM BOOK MAILING	0	0	0	0
BULK: First 1,000 pcs 3/	880	804	856	917
Each add'l. 1,000 pcs	1,231	1,126	1,199	1,345
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TOTAL	10,872	9,939	10,585	11,398

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA  
TO POIR NO. 3**

16. Please explain why the use of incremental costs as the basis for Express Mail rates provides a reasonable contribution to institutional costs in conformance with Section 3622(b)(3) of the Act.

**RESPONSE:**

The genesis of this question is unclear, as postal witnesses have tried to be consistent in maintaining that volume variable (i.e., marginal) costs, not incremental costs, provide the correct basis for setting rates. Moreover, in this case, the Postal Service is proposing rates for Express Mail that are substantially in excess of both volume variable and incremental costs.

The question may relate to the fact that witness Bernstein, in developing Ramsey prices, encountered a situation in which the unconstrained Ramsey price of Express Mail would have been below its incremental cost. In response to this situation, witness Bernstein set the constrained Ramsey price for Express Mail at the level of its incremental cost. Please see USPS-T-31 at 60-61. Of course, neither witness Bernstein, nor any other postal witness, is proposing that the Commission recommend without adjustment the Ramsey prices that he has developed.

Or perhaps this question may relate to a purely hypothetical situation in which the Commission determined, based on its assessment of all other factors of the Act (i.e., fairness and equity, value of service, impact on mailers and competitors, availability of alternatives, etc.), that the best possible rates for Express Mail would be rates set at (or as close as practicable to) the level of incremental costs, but wondered whether such rates could provide a reasonable contribution to other costs as required by section 3622(b)(3). The answer to this hypothetical question would

appear to be yes, they could.

For example, if the current relationship between Express Mail volume variable costs and incremental costs continues to hold (i.e., incremental costs substantially in excess of volume variable costs), at rates set at the incremental cost level, each additional piece of Express Mail would be generating additional revenue substantially in excess of the additional expenses incurred to handle that piece. So, in this respect, the contribution could be "reasonable."

Obviously, the contribution could also be "reasonable" in the sense that it is non-negative. That is to say, if it is per se unreasonable for a subclass to fail to cover its incremental costs, the hypothesized rates would not be unreasonable on that basis. With respect to the other end of the zone of reasonableness, under this hypothetical, there is no reason to believe that the contribution would be unreasonably high.

Under the circumstances of the hypothetical as stated above, Express Mail rates supported by consideration of all other ratemaking criteria of the Act and set directly at the level of incremental costs could be construed to meet the minimum standards of section 3622(b)(3) for the following reasons:

1. Express Mail service would cover all of its costs and not be a burden to other mailers.
2. Additional volume of Express Mail would generate net revenue to the benefit of other mailers.
3. Express Mail service would continue to generate consumer surplus for some of its customers (those who value this service enough that they would be willing to purchase Express Mail service at even higher rates).
4. Express Mail would continue to exist as an option for all postal customers to utilize under circumstances in which it best fills their needs and/or serves their convenience.

5. The continued existence of Express Mail might serve as a limiting factor on the potential ability of other overnight service providers to exploit their customers.

It bears repeating, however, that the Postal Service's proposed Express Mail rates in this case are well in excess of both volume variable and incremental costs.



1 CHAIRMAN GLEIMAN: Does any participant have  
2 additional designated written cross examination for the  
3 witness?

4 MR. LITTELL: Yes, Mr. Chairman. I'm Richard  
5 Littell of the Major Mailers Association.

6           This morning I was handed two copies of the Postal  
7   Service's response for Witness O'Hara to interrogatories of  
8   the Major Mailers Association designated as MMA/USPS-T30-9,  
9   and I would like to ask that these be incorporated in the  
10   record at this time.

11 CHAIRMAN GLEIMAN: Mr. O'Hara, do you have copies?  
12 Could you just show a copy to Dr. O'Hara, please?

13           Since we have just received these today, I am  
14   going to assume, unless you tell me otherwise, that your  
15   response would be the same?

16 WITNESS: Yes, they would.

17 CHAIRMAN GLEIMAN: If that is the case, if you  
18 could please provide two copies to the Court Reporter.

19 MR. LITTELL: I will do that right now.

20 CHAIRMAN GLEIMAN: Two copies of the additional  
21 designated written cross examination of Witness O'Hara are  
22 going to be given to the Court Reporter and I'll direct that  
23 they be accepted into evidence and transcribed into the  
24 record at this point.

25 [Additional Designation of Written

1 Cross-Examination of Donald J.  
2 O'Hara was received into evidence  
3 and transcribed into the record.]  
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**MMA/USPS-T30-9.**

In your answer to MMA/USPS-T30-8 you indicate that the adjustments you made in Exhibits USPS-30F and 30G were provided to you by other pricing witnesses that are cited in your revised Workpaper III. Please also refer to your Exhibit USPS-30D, where you list percentage increases in rates and fees that are proposed by the Postal Service in this proceeding.

A) Please confirm that the Postal Service computes the proposed percentage increases by dividing the unit revenue for the test year at proposed rates by the unit revenue for the test year at current rates and subtracting one. If you cannot confirm, please explain.

B) Please confirm the following data in \$ thousands for Standard Mail A Commercial Regular mail as obtained from your revised Exhibits USPS30A, B and G and USPS-T-30, W/P 1, p.2 (revised).

	Revenues	Volumes
Current Rates	7,192,729	34,359,008
Proposed Rates	8,022,045	37,627,554

If you cannot confirm, please provide the correct data along with the appropriate support.

C) Please confirm that the unit revenues computed from data shown above in paragraph B) are .2093 for current rates and .2132 for proposed rates. If you cannot confirm please explain.

D) Please confirm that the unit revenues as shown in USPS-T-30 W/P 1,p.2 (revised) and USPS-T-30 W/P 11, p. 2 (revised) are .2093 for current rates and .2132 for proposed rates. If you cannot confirm. please explain.

E) Please confirm that the proposed percentage increase in rates for Standard Mail A Commercial Regular is 1.86%  $[(.2132 / .2093) - 1]$ . If you cannot confirm, please explain.

F) Please explain why Exhibit USPS-30D (revised) indicates that the proposed increase in rates for Standard mail A Commercial Regular is 4.1%.

G) Please explain how an intervenor in this proceeding can make comparable adjustments as shown in your USPS-T-30, W/P III (revised) under the Commission's established attributable cost methodology.

**RESPONSE:**

A) Not confirmed; please see my response MPA/USPS-T30-1.

B) Confirmed.

C) Confirmed.

D) Confirmed.

E) Not confirmed; please see my response MPA/USPS-T30-1.

F) Please see my response MPA/USPS-T30-1.

G) Response deferred pending Presiding Officer's ruling.

DECLARATION

I, Donald J. O'Hara, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

  
Donald J. O'Hara

9-30-97  
Date

1 CHAIRMAN GLEIMAN: Anyone else? Mr. Olson?

2 MR. OLSON: Mr. Chairman, William Olson for  
3 Val-Pak.

4 I want to also ask if we can designate this  
5 witness's late filed responses, or after we filed our notice  
6 filed responses, to Val-Pak/Carol Wright Interrogatories  
7 T30, 6 through 9. I have two copies provided this morning  
8 by Postal counsel.

9 CHAIRMAN GLEIMAN: Could you please show the  
10 copies to the witness?

11 WITNESS: Okay.

12 CHAIRMAN GLEIMAN: Dr. O'Hara, if these questions  
13 were asked today, would your answers be the same?

14 WITNESS: They would, and according to my notes, 7  
15 through 9 were already designated by the OCA, but I guess  
16 that can be handled.

17 CHAIRMAN GLEIMAN: Six?

18 WITNESS: Six was not designated by the OCA.

19 MR. OLSON: Well, I hadn't seen them, Mr.  
20 Chairman. We would ask 6 also be designated then.

21 CHAIRMAN GLEIMAN: Seven through 9 have been  
22 designated and they are in the package, so we are going to  
23 just offer up the response to T30-6 as the additional  
24 designated written cross.

25 Two copies will be given to the Reporter and I'll

1 designate that they be -- I'll direct that they be accepted  
2 into evidence and transcribed into the record at this point.

3 [Additional Designation of Written  
4 Cross-Examination of Donald J.  
5 O'Hara was received into evidence  
6 and transcribed into the record.]

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**VP-CW/USPS-T30-6.**

Your testimony at pages 34-35 states that Standard A ECR mail has a relatively low intrinsic value of service. Your response to VP-CW/USPS-T30-4(b) states that you looked at the Postal Service's service standards - as reported in the Postal Service's statement in this docket in compliance with Rule 54(n) - to assess the service actually provided to Standard A ECR under criterion 2.

- a. Please confirm that, according to the Postal Service's statement in this docket in compliance with Rule 54(n), no class or subclass of mail has a lower service standard than Standard A. If you do not confirm, please explain your answer fully.
- b. Please identify all classes and subclasses of mail that, according to the Postal Service's statement in this docket in compliance with Rule 54(n), enjoy a higher standard of service than Standard A.
- c. Please refer to Exhibit USPS-30B. Please confirm that, for Test Year After Rates, only Mailgrams would receive a cost coverage that is as high or higher than that applied to Standard A ECR.
- d. In your response to VP-CW/USPS-T30-4, you state that actual performance in delivery is considered under criterion 2, value of service. In your opinion, do any issues of fairness and equity arise when a subclass such as Standard A ECR with the lowest service standard pays the second-highest cost coverage?
- e. Please explain what information the Postal Service's statement in compliance with Rule 54(n) provides about the service actually provided to Standard A mail.

**RESPONSE:**

- a. Confirmed.
- b. All other classes.
- c. Confirmed.
- d. Coverages are set with respect to the entire set of criteria, not just value of service; the ECR cost coverage is, however, relatively high given its evaluation on these criteria, as noted in my testimony at page 36, lines 1-2.
- e. Please see my responses to DMA/USPS-T30-4(b) and VP-CW/USPS-T30-4.



1 CHAIRMAN GLEIMAN: Anyone else? Mr. Baker.

2 MR. BAKER: Thank you, Mr. Chairman. I am Bill  
3 Baker for Newspaper Association of America.

4 I will hand the witness two copies of his  
5 responses to NAA/USPS T30, Numbers 21 through 24, and ask  
6 similarly that if he adopts those as his answers again today  
7 that they be introduced -- admitted into the record.

8 CHAIRMAN GLEIMAN: Could you please show them to  
9 the witness?

10 Dr. O'Hara, would your answers be the same if  
11 these questions were asked today?

12 WITNESS: Yes, they would.

13 CHAIRMAN GLEIMAN: That being the case, Mr. Baker,  
14 if you would please provide two copies to the Court  
15 Reporter.

16 I'll direct that they be accepted into evidence  
17 and transcribed into the record at this point.

18 [Additional Designation of Written  
19 Cross-Examination of Donald J.  
20 O'Hara was received into evidence  
21 and transcribed into the record.]  
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**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T30-21.** Please refer to your response to DMA/USPS-T30-4(b). You state that Standard A Mail is "deferrable at any point in the postal system from deposit to delivery, unless such mail has been combined with First-Class Mail, such as during the first pass of delivery-point sequencing."

- a. Please provide all studies or analyses that estimate that amount of Standard A Mail which is combined with First-Class Mail prior to the city delivery carrier.
- b. Does the Standard A Mail which is combined with First-Class Mail receive a higher level of service than this mail has traditionally received? Please explain your response.
- c. Does the Standard A Mail which is combined with First-Class Mail receive a higher level of service than Standard A Mail which is not combined with First-Class Mail? Please explain your response,

**RESPONSE:**

- a. I have been unable to identify any studies or analyses that estimate the amount of Standard (A) mail which is combined with First-Class Mail prior to the city delivery carrier; it is my understanding that this would apply only to barcoded letters destinating in zones where delivering point sequencing is performed on DBCSs.
- b.-c. The effect on level of service is unclear. Because the ability to defer is lost once Standard (A) mail has been combined with First-Class, postal operations managers may sometimes elect to preserve flexibility by deferring mail at the plant that, in absence of DPS, would have been sent to the carrier and delivered without deferral. In any case, the decision not to defer such mail at the plant is within the discretion, and for convenience, of the Postal Service and cannot be relied upon by the mailers of this type of Standard (A) mail.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T30-22.** Please refer to your response to NAA/USPS-T30-1.  
Please describe all aspects of the "value of service" which are not measured in the own-price elasticity.

**RESPONSE:**

Any aspect of value of service may be reflected in the own-price elasticity, but because it is a summary measure, I know of no way to identify which specific aspects of service are included and to what degree.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T30-23.** Please refer to your response to NAA/USPS-T30-11(a).

- a. Please define your interpretation of "direct substitutes."
- b. Please explain why you do not consider the Automation 5-digit service in Standard Regular mail to be a "direct substitute" for the ECR basic mail service, given that mailers can choose to enter their mail as Automation 5-digit rather than ECR basic in response to rate differences.

**RESPONSE:**

a.-b. I may have misinterpreted the original question as referring to the entirety of Standard (A) Regular and Standard (A) ECR, rather than these two specific rate categories, which might reasonably be characterized as direct substitutes.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T30-24.** Please refer to your response to NAA/USPS-T30-14(c).

- a. Please confirm that the "loss in economic efficiency" depends upon how much the rates derived using your proposed cost coverages deviate from the Ramsey prices derived by Witness Bernstein. If you cannot confirm this statement, please explain why.
- b. Please confirm that the "loss in economic efficiency" that would result if incremental costs were used as attributable costs rather than marginal costs also depends upon how much the rates derived from the cost coverages applied to the incremental costs deviate from Ramsey prices. If you cannot confirm this statement, please explain why.
- c. Please provide a calculation of the loss in consumer welfare that results from rates derived using your proposed cost coverages rather than Ramsey prices.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Please see witness Bernstein's response to DMA/USPS-T31-2.

1 CHAIRMAN GLEIMAN: Anyone else? Mr. Ackerly.

2 MR. ACKERLY: Mr. Chairman, we have a few  
3 others -- the witness's answers to DMA 13 through 16, his  
4 answer to OCA 10, his answer to MASA 2, and his answer to  
5 NAA 25.

6 I believe, as best we can, checking what is  
7 available to us at the moment, that those are not yet in the  
8 record.

9 I have two copies and I will hand them to the  
10 witness.

11 CHAIRMAN GLEIMAN: Thank you.

12 MR. ACKERLY: If asked today, would your answers  
13 today be the same?

14 WITNESS: Yes, they would.

15 CHAIRMAN GLEIMAN: Did you get that, Mr.  
16 Reporter?

17 THE REPORTER: Yes.

18 CHAIRMAN GLEIMAN: Mr. Ackerly, if you would  
19 provide two copies to the Court Reporter, I'll direct that  
20 they be accepted into evidence and transcribed into the  
21 record at this point as additional designated cross.

22 MR. ACKERLY: I have just done that.

23 CHAIRMAN GLEIMAN: Thank you.

24 MR. ACKERLY: I have just done that, Mr. Chairman.

25 [Additional Designation of Written

1 Cross-Examination of Donald J.  
2 O'Hara was received into evidence  
3 and transcribed into the record.]  
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**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-13.** Please refer to page 33, lines 19-22, of your direct testimony (USPS-T-30), where you address the degree of mailer preparation of Standard (A) mail and conclude that Standard (A) Regular mail overall "does not have the same degree of preparation as Enhanced Carrier Route."

- (a) Please describe in detail all data and analysis on which this conclusion was based. Did you take into account the cost to the mailer associated with mailer preparation?
- (b) Please confirm that at least some pieces of Standard (A) Regular mail have a greater degree of mailer preparation than certain pieces of Standard (A) ECR mail.

**RESPONSE:**

- (a) *This conclusion is based on a straightforward examination of the billing determinants for the two subclasses. As I understand criterion 6, it does not call for consideration of the cost to the mailer of mailer preparation, and I did not take this into account.*
- (b) *Although examples of greater preparation in Standard (A) Regular relative to Standard (A) ECR are quite limited, a prebarcoded Standard (A) Regular letter presorted to the 5-digit level could be viewed as having a greater degree of preparation than a Standard (A) ECR basic letter without a barcode.*



**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-14.** Please refer to your response to DMA/USPS-T30-4(b), which describes the Postal Service's policies of deferring Standard (A) mail to facilitate "workload leveling."

- (a) Please provide the Postal Service's best possible description of the circumstances in which Standard (A) mail is most commonly deferred, and the Postal Service's best possible estimate of the approximate frequency of deferral.
- (b) Please state whether Standard (A) Regular mail is deferred more often than: (i) First Class mail; (ii) Periodicals; and (iii) Standard (A) ECR mail.
- (c) Please describe in detail all data or analysis on which you base your responses to sub-parts (a) and (b).

**RESPONSE:**

- (a) I am informed that Standard (A) mail is probably more often deferred at the delivery unit than at earlier stages of processing, but that no estimate of the frequency of deferral is available.
- (b) I am informed that, in accordance with the processing priorities referenced in my response to DMA/USPS-T30-4, First-Class Mail and Periodicals may not be deferred, while service standards for Standard (A) allow for deferral; therefore, Standard (A) Regular would necessarily be deferred "more often" than First-Class or Periodicals. Standard (A) Regular and ECR have the same processing priority, and no information is available that would permit a judgment as to whether one is deferred more often than the other.
- (c) The above responses are based on the judgment of knowledgeable Postal Service operations personnel; no data or analyses are available.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-15.** Please refer to your response to DMA/USPS-T30-5, where you state that "management judgment is employed to determine what balance to strike between expenditure on capacity and the risk of service failure."

- (a) Please confirm that the fact that a "balance" is struck indicates that postal management is willing to incur some risk of service failure. If not confirmed, please explain fully.
- (b) Please confirm that in striking this balance, postal management at times decided to put in place fewer capacity resources than would be regarded as sufficient to ensure that anticipated mail volumes during a high-volume period will be meet applicable service standards, and that service failures in fact result from these decisions. If not confirmed, please explain fully.
- (c) Please confirm that, in the instances referred to in sub-parts (a) and (b), the service failures are suffered by (and/or the risks of service failures are borne by) Standard (A) mail to a greater extent than by First Class mail.

**RESPONSE:**

- (a) Confirmed; by definition, striking a balance implies that the risk of service failure is not reduced to zero. I would note, however, that service failure may be due to many other factors than lack of capacity; see my response to DMA/USPS-T30-5(a).
- (b) Confirmed; however, I am informed that service failures are minimized by bringing additional casual employees and extending the hours of regular employees during high volume periods. Facilities are provided with more manual cases than would be required in a normal volume period in order to provide distribution workspace for the additional workers.
- (c) Not confirmed. Although First-Class Mail has priority in processing relative to Standard (A) mail, it also has tighter service standards. The net effect on the degree of failure to meet service standards is not clear.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-16.** Please refer to your response to OCA/USPS-T30-5, under the heading "Value of Service," where you state that Ramsey pricing included the effect of "cross price elasticities more explicitly" than "economic value of service" under 39 U.S.C. § 3622(b).

- (a) Please describe in detail the appropriate role, if any, of "cross price elasticities" under the pricing criteria of § 3622(b).
- (b) If such elasticities have some role, is it appropriate to limit consideration to cross-price elasticities among postal products? Explain fully your reasoning.
- (c) Do you believe that the cross-price elasticity estimates contained in the record are appropriate for use in applying the pricing criteria of § 3622(b)? Please explain your response fully.

**RESPONSE:**

- (a) Given the qualitative role that own-price elasticities have in setting rate-levels, I do not see any role for cross-price elasticities at present in setting rate levels under § 3622(b).
- (b) Not applicable.
- (c) I have not formed an opinion on this question.

**RESPONSE OF POSTAL WITNESS O'HARA TO THE INTERROGATORIES OF THE  
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL**

**MASA/USPS-T30-2.**

- a. Please confirm that in MC95-1, the PRC estimated TY after rates volumes for Standard (A) Regular Automation letters as reflected on the following table (PRC Opinion and Recommended Decision, MC95-1, Appendix I, p. 2).
- b. Please complete the table, noting your source for the data.

<i>Standard A Automation Categories (Letters)</i>	<i>MC95-1 PRC TY Volume Estimates (After-Rates)</i>	<i>Actual Volumes Year Ended June 30, 1997<sup>1</sup></i>	<i>R97-1 TY Volumes (Before Rates)</i>	<i>R97-1 TY Volumes (After Rates)</i>
Basic	4,430.828			
3-Digit	3,585.542			
5-Digit	6,276.280			

Table cont'd:

<i>1997PFY (Before- Rates)</i>	<i>1997PFY (After- Rates)</i>	<i>1998PFY (Before- Rates)</i>	<i>1998PFY (After- Rates)</i>	<i>1999PFY (Before- Rates)</i>	<i>1999PFY (After- Rates)</i>

<sup>1</sup> If you are unable to give actual volumes for this period, please give actual volumes for the longest period for which you have the data, and supplement the response with the requested period data when it becomes available.

**RESPONSE OF POSTAL WITNESS O'HARA TO THE INTERROGATORIES OF THE  
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL**

**MASA/USPS-T30-2. (continued)**

**RESPONSE:**

- a. Confirmed. This was the volume presented in the Opinion. The 5-digit volume, however, included 2.2 billion pieces presumed to migrate from carrier route. This migration was unlikely, though, given that the rate recommended for 5-digit automation was higher than the recommended ECR basic letter rate. Therefore, the volume presented below in response to part (b) does not include this migrating volume.

b.

<i>Standard A Automation Categories (Letters)</i>	<i>MC95-1 PRC TY Volume Estimates (After-Rates)</i>	<i>Actual Volumes FY97, Q1,2 USPS-T-36 WP1, p.1</i>	<i>R97-1 TY Volumes: (Before Rates) USPS-T-36 WP1, p.4</i>	<i>R97-1 TY Volumes (After Rates) USPS-T-36 WP1, p. 20</i>
Basic	4,430.828	1,301.620	3,157.221	3,136.543
3-Digit	3,585.542	4,079.119	9,750.408	9,535.365
5-Digit	4,055.429	1,252.148	3,016.552	6,358.646

Table cont'd:

<i>1997PFY (Before-Rates) Exh. USPS-6A Table 2</i>	<i>1997PFY (After-Rates) N/A</i>	<i>1998PFY (Before-Rates) Exh. USPS-6A Table 2</i>	<i>1998PFY (After-Rates) Exh. USPS-6A Table 4</i>	<i>1999PFY (Before-Rates) Exh. USPS-6A Table 2</i>	<i>1999PFY (After-Rates) Exh. USPS-6A Table 4</i>
2,858.043	N/A	3,135.448	3,115.322	3,305.220	3,282.931
8,873.928	N/A	9,681.520	9,469.319	10,236.382	10,032.616
2,737.215	N/A	2,995.466	6,285.356	3,162.987	6,689.801

**NAA/USPS-T30-25.** Please refer to your answer to NAA/USPS-T30-9. In designing rates, did you consider the following quotation from paragraph 4088 of the Commission's *Recommended Decision* in Docket No. R90-1 (Jan. 4, 1991):

... we have reviewed the unit contribution from low cost subclasses to be assured that they are providing more than minimal amounts to offset Institutional costs. Should a separate subclass be established for mail which had practically no attributable costs, we would expect that subclass to provide a meaningful contribution in unit terms, even if this would compute to an extremely high markup index.

- a. If you did consider this quotation and the discussion in the *Recommended Decision* of which it is a part, please explain what effect did your consideration have on your proposed institutional cost assignments to First Class and Standard (A) Regular and ECR mail.
- b. If you did not, please explain why not.

**RESPONSE:**

a.-b. I was aware of the quoted portion of the Docket No. R90-1 Opinion and Recommended Decision, but it had no effect on my proposed coverages simply because none of the subclasses for which I was proposing rate levels came close to the hypothetical situation addressed in the quotation.

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

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**OCA/USPS-T30-10.** This interrogatory follows up on witness Moden's response to interrogatory DMA/USPS-T4-42b, in particular, to his statement: "[M]ail with a window of requested in-home dates may be curtailed consecutive days." (Witness Moden's earlier response to interrogatory DMA/USPS-T4-21b establishes that the curtailment statement applies "100 percent" to Standard A mail.)

- a. Do you agree that curtailing mail for a period of time for the convenience of the mailer, i.e., so that a delivery window can be met, increases the "value of the mail service . . . to . . . the sender" under subsection 3622(b)(2)? If you do not agree, please explain.
- b. You indicate in your testimony, at 32-33, that "due to its deferability," Regular and other Standard subclasses have a "relatively low value of service." But has the curtailment of Standard Mail A at the request of the mailer and for the mailer's advantage caused you to increase Standard Mail A subclasses' cost coverages?
  - i. If so, please provide a citation to your testimony and/or workpapers where you have explicitly increased the cost coverage of the Standard Mail A subclasses in recognition of this benefit.
  - ii. If not, why did not this benefit influence you to propose a somewhat higher cost coverage for Standard Mail A subclasses?

**RESPONSE:**

a.-b. I understand that curtailment to meet a requested delivery window applies almost exclusively to Standard (A) ECR mail. I considered this aspect of Standard (A) ECR service in my testimony at page 35, lines 2-6, noting that the Postal Service's ability to accommodate requests for a specified delivery window often requires planning and coordination on the part of the mailer. See also my response to VP-CW/USPS-T30 3(b).

1 CHAIRMAN GLEIMAN: Anyone else?

2 [No response.]

3 CHAIRMAN GLEIMAN: Fourteen participants have  
4 requested oral cross examination of Witness O'Hara:  
5 American Bankers Association, along with Edison Electric  
6 Institute, and the National Association of Pre-Sort Mailer,  
7 American Business Press, the Advertising Mail Marketing  
8 Association, the Direct Marketing Association, Dow Jones and  
9 Company, Inc., the Magazine Publishers of America, McGraw  
10 Hill Companies, Mail Order Association of America, Nashua  
11 District/Mystic/Seattle, the Newspaper Association of  
12 America, the Office of the Consumer Advocate, Parcel  
13 Shippers Association, United Parcel Service, Val-Pak  
14 Marketing Systems/Val-Pak Dealers Association and Carol  
15 Wright Promotions, Inc.

16 Does any other participant have oral cross  
17 examination for the witness?

18 MR. LITTELL: Your Honor, Richard Littell from the  
19 Major Mailers Association.

20 Until the issuance of the Commission's Order 1197,  
21 I had not proposed to cross examine this witness.

22 Even now I believe that the more orderly procedure  
23 would be for my cross examination to wait a determination of  
24 if, whether, and how the witness will answer the questions  
25 which the Postal Service has --



1 CHAIRMAN GLEIMAN: Your rights are reserved to  
2 cross examine

3 MR. LITTELL: To have him recalled for re-cross  
4 examination?

5 CHAIRMAN GLEIMAN: Your rights are reserved, sir.

6 MR. LITTELL: Thank you. I believe that probably  
7 the same thing should be true of the other witnesses who are  
8 subject to this.

9 CHAIRMAN GLEIMAN: That was my point earlier, that  
10 we try and make some, have the Postal Service counsel help  
11 us out on those situations.

12 MR. LITTELL: Thank you.

13 CHAIRMAN GLEIMAN: Any other participant?

14 [No response.]

15 CHAIRMAN GLEIMAN: We'll start with the American  
16 Bankers Association, Edison Electric Institute, National  
17 Association of Pre-Sort Mailers, unless there has been some  
18 change in the schedule that you all have agreed to.

19 MR. VOLNER: If we're going straight -- in  
20 straight alphabetical order, Mr. Chairman, Advertising, I  
21 think, comes before American, but if you want to go with it  
22 that way, it's perfectly fine.

23 CHAIRMAN GLEIMAN: No. I'm just -- I'm just  
24 looking at a list that was handed to me by the staff, you  
25 know. I know, when I was a staff person, I never made a

1 mistake, or at least not one that I will admit to.

2 Well, you got me. Even though we're going in  
3 alphabetical order, I tried to slide one by you, just to see  
4 if you really had a motion in your hand to change --

5 MR. VOLNER: I do.

6 CHAIRMAN GLEIMAN: -- the name of your  
7 organization. But we'll start with the Advertising Mail  
8 Marketing Association --

9 MR. VOLNER: Thank you.

10 CHAIRMAN GLEIMAN: -- vis TCMA vis whatever,  
11 whatever, whatever.

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

13 CROSS EXAMINATION

14 BY MR. VOLNER:

15 Q Dr. O'Hara, my name Ian Volner, and I'm cross  
16 examining you, as you just learned, for the Advertising Mail  
17 Marketing Association, and I'd like to start very quickly  
18 with a few of the topics that you touch upon in -- in your  
19 general discussion of the non-cost criteria.

20 Could you turn to page 26 of your testimony,  
21 please? At line 18 and 19, you make the statement, "The  
22 proposed rate level reflects a balanced consideration of all  
23 of the relevant criteria," and then there's a semicolon, and  
24 you go to say it is fair and equitable.

25 Do I take it that that signifies, in your view,

1     that if a coverage or rate level meets all of the other  
2     criteria, it is, almost by definition, fair and equitable,  
3     meets or appropriately responds to it?

4           A     Not by definition, but in figuring out how to  
5     weigh possibly competing, conflicting indications from the  
6     various criteria, the fairness and equity criterion is what  
7     comes into play, and it's -- it's the -- the joint  
8     consideration of them all that -- that makes a rate level  
9     fair and equitable.

10          Q     That's fine.

11                 Let's go on, then, to -- you discuss at some  
12     length economic -- what you call economic value of service,  
13     which is criteria number two, and if we take a look at page  
14     nine of your testimony -- I believe it's page nine -- I'm  
15     sorry -- page five --

16          A     Uh-huh.

17          Q     You saw the long run on price demand elasticities  
18     of all of the various classes, and I notice that you --  
19     you've done them in the traditional way of listing them by  
20     class and did not do them by rank order. Was that a  
21     deliberate decision on your part? Rank order of -- of  
22     relative elasticity.

23          A     No. This was simply the most convenient way to  
24     organize them, from my point of view. That's the order in  
25     which I discuss the various classes in the testimony. I

1 think it's also the order in which I obtained them from the  
2 sources I cite.

3 Q In -- in applying these elasticities as you  
4 discuss the various classes, did you have rank orders in  
5 mind?

6 A I had the relative positions in mind, which comes  
7 to the same thing, but I -- I didn't ever, I think, write  
8 down a rank ordering. But in -- in --

9 Q You did that the relative positions in mind.

10 A I did have the relative positions in order -- in  
11 mind, yes.

12 Q Well, let's take a look at page 33 of your  
13 testimony for a moment, and on that page, you're talking  
14 about a class near and dear to some of our hearts, a regular  
15 stamp day, and you say that the price elasticity is higher  
16 than for first, lower than enhanced carrier route, and you  
17 conclude with a statement suggesting an intermediate  
18 economic value of service.

19 Now let's turn to page 40 for a moment and compare  
20 a statement that you've made in -- there in connection with  
21 Special Rate Fourth.

22 On line one, you say that Special Rate Fourth has  
23 a moderately high economic value of service, and yet, I  
24 noticed, at page five, that the two elasticities were very,  
25 very similar. How is it that one is intermediate and the

1 other is high or moderately high?

2 A I don't think I would make a strong distinction  
3 between the two. The -- the first -- page 33 discussion is  
4 comparing it, as you said, between first class letters and  
5 enhanced carrier route, and the regular elasticity is  
6 intermediate between those two.

7 The Standard -- the special elasticity of 36 is  
8 really just a little bit lower but essentially the same as  
9 the regular periodicals, Standard A --

10 Q Regular.

11 A -- regular, and I think one would have to suggest  
12 that the two economic values of service are very close  
13 together. I don't intend to make a fine distinction between  
14 moderately high on the basis of a small difference in the  
15 elasticities.

16 Q Well, let me go back to your earlier statement.  
17 You pointed out correctly that, in your testimony, in  
18 discussing these two sub-classes, you were comparing them to  
19 very different sub-classes.

20 Can we agree that it might well be inappropriate  
21 to compare Special Rate Fourth and Standard A in terms of  
22 elasticities because of other differences in the classes,  
23 sub-classes?

24 A Well, I think, in terms of setting rate levels,  
25 you take all of those other differences into consideration,

1 but --

2 Q You do take all of those --

3 A -- in terms of elasticities, I think that they  
4 basically speak for themselves.

5 Q Well, is -- is it correct to say, then, that at  
6 least in setting rate levels, classes with similar  
7 characteristics should be similarly compared, and classes  
8 with different characteristics should not be compared with  
9 classes that -- that -- with which they are dissimilar?

10 A Oh, it's more -- oh, there are more factors you  
11 take into account in comparing dissimilar classes.  
12 Ultimately, I have to set rate levels for the whole set of  
13 classes, and so, I do, in the end, have a comparison across  
14 all the sub-classes, and it's just that the comparisons are  
15 closer and -- and maybe easier to discuss when the  
16 sub-classes are more similar.

17 Q That will do.

18 Let's go to page six for a moment, please.

19 A Yes.

20 Q And on line 15 of page 6, you talk about the  
21 effective rate increases and you say the one point of  
22 comparison is relative to the overall rate of inflation.

23 A Right.

24 Q Now, you could have quantified the rate increases  
25 proposed here to the overall rate of inflation, couldn't

1     you?

2           A     Yes, I could have.

3           Q     Didn't you?

4           A     I can give you now the overall rate of inflation I  
5     had in mind at the time I was writing that, which from the  
6     forecasting service that they use, I believe it's Data  
7     Resources, Incorporated, was 9.7 projected from the time of  
8     the last rate increase to the midsummer of next year.

9           Q     So that you came very, very close to what I asked  
10    about quantifying. You looked at the overall rate of  
11    inflation?

12          A     I looked at the overall rate of inflation.

13          Q     Now, you could have taken that back in time. How  
14    far back in time did you go? You went from the date of the  
15    last rate increase to the expected date of this rate  
16    increase. Did you take it back or could you have taken it  
17    back to 1980?

18          A     I'm sure the data are available. I did not.

19          Q     You did not.

20                 So it is your view that what we are looking at  
21    here is relative to the rate increase only for the --  
22    between the time the rates last went up?

23          A     Yes. And I think there is one more factor that I  
24    need to put into this discussion.

25                 The rate increase that I show in one of my

1 exhibits, I believe it is Exhibit D for the various classes  
2 of mail, in which I discuss for each class in the text of my  
3 testimony is a rate increase from the levels now in effect.  
4 The inflation number that I just gave you is a rate increase  
5 from the time of the last general rate case. In the  
6 interval between those two periods, there has been  
7 reclassification and so there is an effect which would not  
8 be captured by the <sup>9.7</sup>~~9-7~~ since the last general rate case and  
9 the individual rate increases for the various subclasses  
10 shown in my testimony.

11 Q I understand that but let me pose a not so  
12 hypothetical question. Suppose I was able to establish that  
13 one class of mail in the period since -- to take 1980 as a  
14 benchmark, had experienced rate increases in each successive  
15 rate increase -- rate case that substantially exceeded the  
16 rate of inflation, whereas another class of mail, assuming  
17 them to be similar as you pointed out, you have to do these  
18 comparisons among similar subclasses, had experienced rate  
19 increases that were at or below the rate of inflation, is  
20 that a factor that you regard as irrelevant to this  
21 criterion?

22 A We're talking about the effective rate? Generally  
23 not. I believe there is a discussion in my testimony  
24 looking at periodicals that makes reference to the effect of  
25 reclassification and also in the background of that



1 discussion is some understanding of what happened in the  
2 R-94 rate case. So I don't regard it as entirely irrelevant  
3 but I do take the rates established and in effect as having  
4 been determined in the recommendation of the Commission and  
5 the decision of the board of governors as being fair and  
6 equitable at the time they were put into effect and I  
7 generally did not look back beyond that.

8 Q But you don't regard it as entirely irrelevant? I  
9 mean, there were circumstances when it might come into play?

10 A Yes.

11 Q Let's go on. You do another comparison here in  
12 the question of impact of rate increases. You say you  
13 compare the rate increases for other classes of -- you have  
14 compared the percentage rate increase relative to the  
15 overall rate of inflation and relative to the rate increases  
16 for other classes of mail. And I take it what you're doing  
17 there is to say, well, if -- to take a not so supposititious  
18 example, First Class Mail is going to get a 3.9 percent  
19 increase, then it would not be unreasonable for Third Class  
20 Mail to get a 4.1 percent rate increase? It's a straight  
21 class-to-class comparison; is that correct?

22 A Yes. Yes.

23 Q And, again, we would have to be comfortable that  
24 those comparisons were, to use the vernacular, apples to  
25 apples rather than comparing apples and oranges.

1           But I have another problem of this comparison of  
2   one rate increase by class and that is, isn't the reality  
3   that this comparison is driven by the overall revenue  
4   requirement in a very significant way, given the relative  
5   volumes of the classes of mail?

6           A     The average rate increase is certainly driven by  
7   the revenue requirements.

8           Q     The system average rate increase is certainly  
9   driven by the revenue requirement but doesn't the system  
10   average rate increase effectively determine the upper and,  
11   in the real sense, the lower bounds of percentage rate  
12   increases for at least the two classes which tend to  
13   dominate the system?

14          A     It certainly has a very strong effect on First  
15   Class and I think a less strong but significant effect on  
16   the standard A class as a whole.

17          Q     So that -- well, how meaningful then is that  
18   comparison, to put it directly?

19          A     I think there is even within that level of overall  
20   constraint and the effects due to the large size of those  
21   two classes, there is still room for variation, still some  
22   possibility of greater or lesser rate increases and so the  
23   comparison is still worth doing.

24                 It is true that it is very hard to get either of  
25   those two increases enormously different from the average,

1       whereas that would not be true of a smaller subclass.

2           Q       Let's turn to page 7 of your testimony because  
3       that is a subject that has had me intrigued for a number of  
4       years.

5                    You are talking there about the degree of  
6       preparation and if you can would you tell me not in the rate  
7       design context but in the rate level setting context how  
8       degree of preparation enters into it? Because, as you point  
9       out in your testimony, the more work sharing a subclass  
10      does, the less attributable cost it provides, it causes the  
11      Postal Service to bear. That forces an increase in the  
12      percentage coverage. So are you saying that's tough, don't  
13      do work sharing because you are going to pay the same  
14      anyway?

15           A       No. I have in the pages following 7, I guess the  
16      example doesn't really start until about line 8 of page 8, a  
17      discussion which I hope is useful on that score. I think  
18      it's -- before I recap the example, if I think that's going  
19      to be necessary, I should step back and look at the criteria  
20      itself and really note that all of the criteria are written  
21      down with respect to rates. It says postal rate and fee  
22      levels. We typically talk about rate levels as the cost of  
23      coverage. But I think the degree of preparation criteria,  
24      number 6, is one where you first of all look at it in terms  
25      of the actual rates and not just within the subclass but for

1 the subclass as a whole.

2 The more preparation, the <sup>less</sup>~~more~~ cost imposed on the  
3 Postal Service attributable cost and what my example is  
4 intended to do is to point out that a subclass which engages  
5 in work sharing or in a greater than average degree of  
6 increased work sharing since the last rate case should not  
7 be burdened -- well, I guess actually this should not be  
8 allowed to affect the distribution of burdens without  
9 consideration. In other words, if a subclass has a greater  
10 than average increase in work sharing and you are to apply  
11 the same coverage as before across the board, the fact that  
12 the coverage, the work sharing has gone down, attributable  
13 cost share has gone down more than average is going to  
14 result in the possibility of the share of institutional  
15 costs being distributed differently across subclasses than  
16 it was before. I think maybe the best way is to walk  
17 through that example which is at the top of page 9.

18 Q Yes, but that example at the top of page 9  
19 presents me with a problem because it is a constrained  
20 example. You say to maintain its previous \$500 million  
21 contribution, but that is not what is happening in this case  
22 and it doesn't often happen in the real world. You have  
23 constrained it to assume that what we are trying to achieve  
24 is the same level of contribution post increased work  
25 sharing as before.

1           What I am asking you is, assuming that the total,  
2 total, system total contribution needs to go up for whatever  
3 reason, and now we have two classes, one of which has not  
4 increased its work sharing at all and the other has  
5 significantly increased its work sharing over time,  
6 should -- does it follow that the subclass that has  
7 significantly increased its work sharing over time should  
8 also go up?

9           A     We again need to distinguish very carefully  
10 between coverage ratios and --

11          Q     Absolute dollars.

12          A     Absolute dollars. And the example says that to  
13 keep the absolute dollar contribution the same, the  
14 attributable cost goes down due to the increased work  
15 sharing, that part goes down. In order to keep the  
16 contribution to the nonattributable institutional costs the  
17 same, the coverage ratio goes up but the dollar contribution  
18 need not go up.

19          Q     But you didn't do the comparison in going through  
20 the classes by looking at the absolute dollars, did you?  
21 Either under the markup or the cost coverage approach, you  
22 were using percentages not absolute dollars in doing your  
23 degree of preparation in setting rate levels?

24          A     Generally, that's correct. My example, I believe,  
25 where I use the markup and the contribution index does get

1 back to -- well, that's not going to work too well because  
2 the change in cost, it's not in the example, degree of work  
3 sharing.

4 Q That raises my last question on this line. When  
5 we talk about changes in costs in this context, we have to  
6 distinguish, don't we, very carefully between changes in  
7 cost which was often changes in costing methodology and  
8 changes in costs which result from work sharing?

9 A Yes.

10 Q But it would be possible, wouldn't it, to go  
11 through over the period of years and see that absolute work  
12 sharing has gone up for some classes, work sharing has  
13 remained relatively constant for others and then take a look  
14 at the absolute dollars of contribution made over the years,  
15 dollars of contribution, not percentage contribution?

16 A Yes. Yes, it would be.

17 Q Now, let's talk about the indices you raised  
18 because that is something else that has always intrigued me  
19 and I want to try to understand it better. If I understand  
20 your testimony correctly, you have said to the Commission  
21 and to all of us, I believe that the cost coverage index is  
22 a better way of doing it than the markup index which has  
23 traditionally been used?

24 A Yes, especially in this particular change in  
25 costing methodology situation.

1           Q     Okay, but both your index and the traditional  
2 index compare to system average, don't they?

3           A     Yes.

4           Q     Now I'm a dreadful economist and I'm an even worse  
5 mathematician, but the word system average in this context  
6 has beguiled me. It's not a statistical average, is it?  
7 It's not a mean.

8           A     Not statistically we're not doing any kind of  
9 sampling; no.

10          Q     And it is not a simple mean. It's not simply  
11 taking the sums and dividing it by a number, which is the  
12 way we were taught -- or I was taught to do the mean. And  
13 it's not a median.

14          A     Not a median. Still think it is an average of --

15          Q     Isn't it really the sum of the attributable costs  
16 and the sum of the institutional costs and the sum of the  
17 revenues from all of the classes?

18          A     It's the sum of the revenues divided by the sum of  
19 the attributable costs.

20          Q     Okay.

21          A     Or the revenue requirement divided by --

22          Q     Now we've talked about this in a somewhat  
23 different context but let's come back to it again, because  
24 it becomes important. Certainly First Class contributes  
25 very significantly to the sum of all three of those elements

1 that we just discussed.

2 A Um-hum.

3 Q And the next major significant contributor,  
4 particularly if you take the two of them combined, would be  
5 Standard A Regular and Enhanced Carrier Route.

6 A Yes.

7 Q So is it fair to say that this system average  
8 which both of these indexes key off are very significantly  
9 influenced by those two classes?

10 A Well, I think the causality really runs the other  
11 way. That is, given the revenue requirement, given the  
12 attributable cost --

13 Q Given the total of revenue requirement --

14 A Yes.

15 Q And the total of attributable costs, it's going to  
16 determine --

17 A Right. It is.

18 Q Well, given either version of the answer -- let me  
19 ask the next question. Do you think that First Class mail  
20 and Standard A really are closely comparable for these kinds  
21 of purposes or for any purpose?

22 A Well, they are two distinct classes of mail.

23 Q Well, let's take a look at DMA Interrogatory 2,  
24 please.

25 A Okay.



1           Q     At the bottom of the first page of your response  
2     you point out that as background the Commission would have  
3     preferred to move the two coverages closer, but for the  
4     whole-cent constraint on the First Class rates.

5           A     Um-hum.

6           Q     The whole-cent constraint is really a rate design  
7     matter, isn't it? I mean, it's not statutorily mandated,  
8     but the general design is we're going to have to have the  
9     whole cent on the first ounce.

10          A     Um-hum.

11          Q     Okay. That's a difference, isn't it, between  
12     First and Third? There is no such whole-cent constraint on  
13     Third, is there?

14          A     That's correct.

15          Q     Now because of the whole-cent constraint, what  
16     happens is in order to maintain the whole cent, the  
17     contribution both in absolute and percentage terms of First  
18     has to be perhaps higher than you might want to set it.

19          A     Or perhaps lower.

20          Q     Or perhaps lower than you might want to set it.

21          A     Yes, the constraint can cut either way.

22          Q     And to the extent that you try to do a comparison  
23     between First and Third, the coverage for Third is being  
24     driven by a constraint that does not apply to it; is that  
25     correct?

1           A     That's certainly how I read the quote that was  
2 part of the question from the R90 decision, that there's a  
3 constraint that applies and if it affects one thing and the  
4 one thing is a part of the total, then it's also going to  
5 affect the rest of the total. So yes, it affects everything  
6 else.

7           Q     Okay.

8           A     I don't know that with the modest increase that we  
9 have in this case for First Class and overall that the --  
10 and also this sort of generally higher level of the First  
11 Class stamp whether that constraint was in any sense binding  
12 here.

13          Q     That it was significant, yes. That may well be,  
14 but the -- and you're quite correct, mailers don't pay  
15 coverages, they pay rates. Nonetheless, if there's a  
16 problem with a principle of determining rate levels, it  
17 applies, does it not, regardless of the aggregate rate  
18 level? I mean, the rates for First could have been higher  
19 and the rates for Third could have been lower, or vice  
20 versa, couldn't they, even within the overall revenue  
21 constraint?

22          A     Within the overall revenue requirement; yes.

23          Q     Okay. So that the principle is still the point  
24 that I'm trying to get at.

25                Let's do some other things. Let's compare First

1 and Third for example in terms of degree of preparation.

2 Are they comparable?

3 A Third Class generally -- First and Third, Standard

4 A, I guess, <sup>habits</sup> ~~have its~~ die hard.

5 Q Yes.

6 A Generally has a greater degree of preparation.

7 Q And so that to the extent that the absence of  
8 degree of preparation, some of which is apparently  
9 statutorily driven, in First, forces a higher contribution  
10 of First. When you make this kind of a comparison aren't  
11 you penalizing Third -- let's call it Third, let's stop  
12 kidding ourselves -- both Standard A Regular and ECR because  
13 of things which you either haven't done or can't do in  
14 First. And what I had in mind in particular is the drop  
15 entry situation. Isn't there a penalty when you compare two  
16 classes that are fundamentally dissimilar in this respect?

17 A Well, I'm not sure -- I know we have no  
18 destination entry discounts for First Class, but in terms of  
19 the actual degree of local versus nonlocal entry, I don't  
20 know. An awful lot of First Class is in the overnight  
21 service area. It's not entered at the facility, but it's --  
22 it may not travel long distances. So I just don't know how  
23 they -- the two classes compare in the dimension of  
24 work-sharing.

25 Q Well, we know that, if there was local entry, it

1 would reduce the attributable cost of first, and we know  
2 that, in third, drop entry has reduced the attributable cost  
3 of third. Do we know what the percentages of the two are,  
4 local entry as opposed to drop entry?

5 A I don't.

6 Q So, you didn't take that into account in --

7 A No.

8 Q -- in doing this comparison.

9 There's one other category of thing that might  
10 want to be considered in -- in trying to decide this -- to  
11 do this comparison.

12 If I -- as I understand it, first class mail gets,  
13 for example, forwarding and return, quote, "free," it's paid  
14 for in the rate.

15 A Of course, yes.

16 Q When you do your indices, as you've done on page  
17 two of the DMA response, what account do you take of the  
18 revenues and contributions that Standard A mail makes in two  
19 ways?

20 The first is through the charges that they pay for  
21 forwarding and return.

22 A Uh-huh.

23 Q And the second is, now that the world changed in  
24 reclassification, how do you take account of the  
25 contribution from residue Standard A mail, which now goes at

1 single-piece rates, which are the equivalent of first-class  
2 rates and will, presumably, go at first-class rates if the  
3 commission accepts the proposal to abolish single-piece?

4 A Right.

5 Well, on the first question, the fees for, I  
6 believe -- I have to double-check the -- I know the  
7 address-correction fees are in the --

8 Q While you're thinking of address correction,  
9 address correction --

10 A You're talking about charges for --

11 Q Right.

12 A Oh, the forwarding.

13 Q Right.

14 A The additional postage.

15 Q Right.

16 A We are -- you are talking about postage revenue?

17 Q I am talking about postage -- what I am trying to  
18 understand is have you made any attempt to -- to estimate  
19 the contribution that Standard A makes through its use of  
20 address correction, forwarding, and return, for which -- for  
21 which it is charged separately, and through the residue?

22 These comparisons, if I understand them correctly,  
23 are simply the -- the contributions in the sub-class and not  
24 from any of the ancillary services that the sub-class uses.

25 A I am still trying to understand --

1 Q Well, let me --

2 A -- enough about the details.

3 Q The 154 percent --

4 A Uh-huh.

5 Q -- that you've shown in -- in -- on page two of  
6 the DMA response --

7 A Right.

8 Q -- is the 154 percent that you've proposed in this  
9 case, 154, 155.

10 A That's correct.

11 Q So that you have not included any revenues or  
12 contributions or coverages that Standard A provides to the  
13 system through its use of ancillary services.

14 A Ancillary services being?

15 Q Address correction.

16 A Address correction fees are distributed to the  
17 classes, and they're part of the revenue that shows --

18 Q They show in the system average.

19 A No. No. They -- if you look at my work paper  
20 two, there -- this would be page one, work paper two, line  
21 19 -- there are address-correction fees shown there --

22 Q Right.

23 A -- and those are part of the revenue that then  
24 goes into the -- calculating the total revenue that is used  
25 to calculate the 154-percent coverage.

1           Q     It's the total revenue, but what I'm trying to get  
2 out of this is -- that's total revenue. What about the  
3 contribution? Is that also distributed down through --

4           A     So, the question is where are the costs of doing  
5 that?

6           Q     Yes.

7           A     I don't know enough about whether those -- the  
8 costs of that are in the volume variable cost or not. If  
9 they are, then it seems to me that the ratio is as it should  
10 be. If they're not, then it looks to me like we've got  
11 revenue there and no costs to go with them, and --

12          Q     Nor do you have any costs to go with them for  
13 first class which doesn't make any use of some of these  
14 services, because it doesn't need them.

15          A     Well, we have address-correction revenue, and -- I  
16 know that -- I believe that the -- I guess I -- I'm not so  
17 -- I'm not sure about the -- exactly how the costs of that  
18 are treated.

19          Q     Okay. Well, we've gotten a little deeper into  
20 this than I -- than I really had intended to, but let me try  
21 to sum it up.

22                 First class is -- is subject to a whole-cent  
23 constraint; Standard A is not. Standard A is, on average,  
24 more finely -- was more highly prepared. The economic  
25 values of the two are -- are what they are; they are

1     calculated.

2           A     Right.

3           Q     And then we have this question of how the  
4     ancillary services are --

5           A     Right.

6           Q     -- are treated.

7                     And let's go on, then, to the last of my line of  
8     questions, which won't take very long, I hope.  Would you  
9     take look at Major Mailers Association response, your  
10    response to their interrogatory seven?

11          A     Yes.

12          Q     And what they have calculated there is a unit  
13    contribution per piece for some selected sub-classes.

14          A     Right.

15          Q     Now, first let's make sure I understand how the  
16    unit contribution is calculated, because I believe you said,  
17    in response to some UPS interrogatories, that you started  
18    with the existing rates, marked them up, started originally  
19    with the markup, and then shifted to the -- the cost  
20    coverage approach.

21          A     Well, in -- in thinking about how to proceed, I  
22    did.  I did not actually, for all of these sub-classes --

23          Q     -- do that.

24          A     -- do that exercise.

25          Q     But the unit -- isn't it correct that the unit



1 contribution is the total dollar volume contribution divided  
2 by the volume and sub-class?

3 A That's correct.

4 Q Okay. And in this case, I suppose you could do a  
5 comparison to system average, but the interrogatory does not  
6 do one for you, does it?

7 A No.

8 Q And would that be very meaningful given the -- the  
9 very significant differences in the classes?

10 A I don't think it would be. There's -- we already  
11 have two classes here that are somewhat different, and if  
12 you get to the whole system, we have express, priority  
13 parcels that have higher unit cost, higher revenues.

14 I'm not sure -- I think, aside from the fact that  
15 these two classes are, again, a large part of the total and  
16 would have some effect on the average, I am not sure where  
17 they -- where they would fall with respect to the average.

18 Q So then how would we evaluate these unit  
19 contributions, just kind of do it by how it feels?

20 A The unit contributions here come out of the cost  
21 coverages and in the case of the First Class pieces, they  
22 also come out of the rate design. I only set the cost  
23 coverage for the whole of first class letters.

24 And I look at those cents per piece and see much  
25 higher contribution per piece for first class, both

1 categories, relatively close to one another but a higher  
2 cent per piece for the work shared portion, and within  
3 standard A much closer to one another than they are to First  
4 Class and again a higher contribution per piece for the --

5 Q More finely work shared?

6 A More finely work shared.

7 Q I want to end with one last question because I  
8 just want to make sure I understood what you said. You said  
9 that these unit contributions come out of the cost coverage?

10 A Yes.

11 Q So that to the extent that there were a flaw in  
12 any comparison of cost coverages, it is going to infect the  
13 unit contribution comparisons as well, isn't it?

14 A If I understand your reasoning, I think the two  
15 are tied together and so if one is changed, the other will  
16 change.

17 MR. VOLNER: Dr. O'Hara, thank you very much.

18 I have no further questions, Mr. Chairman.

19 CHAIRMAN GLEIMAN: I think this would be an  
20 appropriate time to take a 10-minute break and when we come  
21 back we will pick up with the next party in alphabetical  
22 order, which I will endeavor to figure out during the break.

23 [Recess.]

24 CHAIRMAN GLEIMAN: Mr. Warden.

25 CROSS EXAMINATION

1 BY MR. WARDEN:

2 Q I am Irving Warden representing the American  
3 Banker's Association and my cross-examination will be  
4 developed from the interrogatories jointly submitted with  
5 the Edison Electric Institute and the National Association  
6 of Presort Mailers.

7 Dr. O'Hara, in response to the -- I want to follow  
8 up with some of the things that were asked you by preceding  
9 counsel.

10 When you -- the discussion of whether or not a  
11 subclass had greater work sharing and the consideration that  
12 that would be given in rate design setting cost coverage, et  
13 cetera. Does that indicate then that the subclass that has  
14 greater work sharing, that the -- that should be reflected  
15 in a rate design which would reflect that by giving that  
16 subclass lower rates than they would have if they did not  
17 have as much work sharing?

18 A Lower rates, yes. As opposed to a lower coverage.  
19 We tried to do it here, that distinction. The rates  
20 certainly -- there's no question about how that -- the  
21 direction of the effect works.

22 Q Now, there was a discussion also of standard class  
23 or Third Class mails that was referred to and things like  
24 address correction. But to the extent that address  
25 correction is also done and required in work sharing mail in

1 First Class, then those factors should have the same effect  
2 in either class; is that correct?

3 A They should be present in both classes, yes.

4 Q And I want to make sure that this is clear. On  
5 factors that were discussed, such as the availability of  
6 drop entry and other things that are not necessarily  
7 available in First Class Mail, those are currently reflected  
8 in the costs that are used; is that correct?

9 A The place of entry is reflected into the cost.  
10 Whether or not there is a discount for it. That's the  
11 point, at least, I was trying to make. There are no  
12 specific destination entry discounts in First Class but  
13 there may be a pattern of entry which involves a lot of  
14 local entry and I want to distinguish between the effect on  
15 the cost and the presence in the rate schedule of a  
16 discount.

17 Q Thank you.

18 Now, you were discussing unit contributions and is  
19 it correct that you were saying the unit contributions arise  
20 out of the cost coverages and the rate design? Is that what  
21 you are trying to say?

22 A Yes, specifically made the rate design point with  
23 respect to First Class where I propose the coverage for the  
24 entire First Class Mail letters subclass and the  
25 interrogatory that we were referring showed separate unit

1 contributions for single piece and work sharing mail. And  
2 there, the unit contributions for those two parts of First  
3 Class Mail letters are also driven by the rate design within  
4 First Class.

5 Q Following up on that, in your Exhibit B, page 43  
6 of your testimony, where you have titled Summary of the  
7 Estimated Fiscal Year 1996 After Rates Finances, what you've  
8 said here and in response to several of your  
9 interrogatories, I believe with the interrogatories from  
10 ABA, et al., shall we say, at least in responses numbers 3,  
11 8, 11, 13, 14, 15, I think you've made -- it appears to me  
12 you have made it quite clear that you don't go any lower  
13 than the subclass level?

14 A That's correct.

15 Q But you do have -- looking, for example, on line  
16 three, on -- in Exhibit 30-B -- you do have a percent of  
17 cost that goes down and breaks out single-piece letters and  
18 work-sharing letters in first class, and that is -- that is  
19 -- those figures are, indeed, at a lower level than in the  
20 --

21 A Yes. They appear in the exhibit. The  
22 roll-forward model develops those costs separately. The --  
23 that's what's really driving that. We -- we take those  
24 costs.

25 They could have been added up before being entered

1 in this exhibit from the roll-forward and shown just as the  
2 total, but the exhibit does show them separately.

3 Q Well, this shows a -- 283 percent for work-sharing  
4 letters, shows single-piece letters of 173, and total  
5 first-class letter of 200 percent.

6 Now -- so, when you do prepare your testimony, you  
7 are aware of those differences, then, even though they're  
8 lower than the sub-class level.

9 A Yes. I can't say that I focused on them, but  
10 they're there.

11 Q Well, is -- is there -- since it is quite a bit  
12 higher here for work-sharing letters than for the total of  
13 first-class letters and then for the single-piece letters,  
14 would it have made a difference to you if, instead of 283,  
15 that coverage were 300 percent of 350 percent?

16 Would that -- if -- if you had done all these  
17 numbers and seen them, would -- would that be something you  
18 would consider in setting coverage of sub-class level?

19 A Well, if the sub-class coverage were still the  
20 same and we had that great a disparity -- I guess if we're  
21 going to keep an average of 200 for the sub-class and get  
22 the other up to 350, the single-piece letter is going to  
23 have to decline to pull the average of 200.

24 I think the way that I would have reacted to that  
25 would be to investigate what was going on in the rate

1 design, because I really took my responsibility to look and  
2 propose coverages at the sub-class level.

3 But you're correct that a wide disparity -- and  
4 this is a wide disparity -- does cause one to think, and in  
5 fact -- now, I've talked to the first-class pricing witness  
6 and -- and understand something about where that's coming  
7 from. He'll be testifying later in the week.

8 But my understanding is basically that we're using  
9 the bulk-metered benchmark for calculating -- as a base for  
10 calculating the rates and work-shared portion of first-class  
11 letters and that that benchmark was something that the  
12 commission advised us to use in -- in MC95-1 and  
13 reclassification and that that is a big factor in what is  
14 driving the rates within the work-sharing part of first  
15 class, and that, combined with the costs that come out of  
16 the roll-forward result in the cost coverage that you see.

17 Q Okay.

18 Now, when you -- you have discussed, in -- in your  
19 testimony, several places, starting -- the first --  
20 originally, I believe, at page three and going through the  
21 criteria that are used, the statutory --

22 A Uh-huh.

23 Q -- criteria, and I want to make sure I understand,  
24 after reading your responses and reading your testimony.

25 As I understand it, you do not assign specific

1 numeric values to -- to criteria. Is that correct?

2 A That is -- that is correct.

3 Q And you do not assign relative weights to the  
4 various criteria. Is that correct?

5 A That's correct. I suppose I should qualify that  
6 by saying numeric weights. There is some criteria that come  
7 in more frequently than others, but I certainly have no  
8 notion of a -- of a numerical weighting scheme.

9 Q Okay.

10 Now, work-sharing, if we refer to -- I believe  
11 it's criteria number six, the degree of preparation or -- or  
12 --

13 A Yes.

14 Q I think it's probably -- it's pretty much the same  
15 as the work-sharing, or very similar, what we refer to as --  
16 as work-sharing activities.

17 A Yes. They certainly -- they may not be identical  
18 in every respect, but work-sharing often is restricted to  
19 things for which we give a discount, and there may be  
20 preparation that's not specifically recognized in that  
21 arena, but certainly good synonyms.

22 Q Okay.

23 Now, is it -- you've discussed the fact that these  
24 coverages that were set, that you set, that the -- below the  
25 -- below the sub-class level, the -- the rate categories are



1 set, the prices and all are set essentially by someone else,  
2 and is it possible that, on some of these rate categories,  
3 that there might essentially be double-counting when you  
4 have your -- set the coverages, and then when the others  
5 --the pricing people set up the rate categories?

6 A I don't see that. Pricing people work with the  
7 coverage and look within the class at differences in  
8 preparation or work-sharing within each sub-class, and I  
9 don't see an opportunity for double-counting there.

10 Q Would there be an indication that something like  
11 that might happen if there was, say, great disparities  
12 between rate categories in first class and the standard  
13 class, for example, in the rate categories for mail that was  
14 similarly prepared, that if the similar preparation  
15 requirements and similar other requirements, the -- the  
16 differences between rate -- comparable rate categories in  
17 different classes were greater than, say, the class as a  
18 whole, would that indicate that there might be -- something  
19 might be double-counted or not counted?

20 A I wouldn't think that conclusion would necessarily  
21 follow, and I'm having trouble grasping the -- the full  
22 proposition that you're making, but there -- there are so  
23 many things which affect rate differences within  
24 sub-classes.

25 Relationships are not the same, because the

1 structure of the rates is not the same in the two  
2 sub-classes, that I think you could easily get some of the  
3 differences, as I understand you're positing them, without  
4 there being double-counting as the cause.

5 Q In -- in first-class, since you don't go below the  
6 sub-class level, then your work, then, would not -- for  
7 example, with -- in first-class letters -- would not reflect  
8 the work-sharing that's done for the pre-sorted letters as  
9 opposed to the single-piece.

10 A Could you say that again?

11 Q Okay.

12 Since you said your work doesn't go beyond the  
13 sub-class level or below the sub-class level --

14 A Uh-huh.?

15 Q -- in -- in first-class letters, looking at  
16 first-class letters --

17 A Yes.

18 Q -- if you have -- on -- in Exhibit 30-B, you've --  
19 you've divided that into two categories, single-piece and  
20 work-sharing --

21 A Yes.

22 Q -- and it can be, of course, more finely divided,  
23 but then what you're doing in -- in setting coverages as  
24 such or -- is not -- does not take into account the  
25 differences between the single-piece letters and the

1 work-sharing, because they're all lumped together for you?

2 A That's right. I'm setting a coverage for the  
3 whole class, and so, I'm looking at -- at -- under each of  
4 the criteria -- that -- that sub-class as a whole and not  
5 trying to look at the -- at the separate pieces.

6 MR. WARDEN: Thank you.

7 I have no further questions.

8 CHAIRMAN GLEIMAN: My new alphabetical list says  
9 American Business Press is next.

10 CROSS EXAMINATION

11 BY MR. STRAUS:

12 Q Dr. O'Hara, I am David Straus for American  
13 Business Press.

14 It's true, isn't it, that Ramsay pricing would not  
15 take into account the Statutory Criterion 5 on availability  
16 of alternatives?

17 A I talked about that in a response to an OCA  
18 interrogatory, looking at Ramsay pricing versus each of  
19 those.

20 I believe that is OCA-5. What I say there is that  
21 there may be a conflict in the sense that if the  
22 availability of alternatives is limited, this is usually  
23 taken to point toward a lower cost coverage than otherwise  
24 and if that same lack of availability of opportunities or  
25 limited availability of opportunities is manifest in a low

1 price elasticity, high economic value of service, there  
2 could be a conflict, so certainly the two ways of getting at  
3 rates, the 9 Criteria and Ramsay pricing are not necessarily  
4 the same when it comes to Criteria 5.

5 Q And in response to the ABP Question 1 you  
6 basically explain that you view Criterion 5 as a way to  
7 mitigate Ramsay pricing's reliance upon price elasticity?

8 A Not -- well, maybe I should look at the response  
9 and be sure, but -- I don't reference Ramsay pricing in  
10 particular. I just talk about if there is mitigating a high  
11 cost coverage that might be implied by a low own-price  
12 elasticity, which would have the same effect in Ramsay  
13 pricing.

14 Q Isn't it true that the very high -- well, I don't  
15 want you to agree with my characterization -- that the rates  
16 that would result to periodicals from applying Ramsay  
17 pricing, which I believe that Dr. Bernstein or Mr. Bernstein  
18 said would be about double the requested rate, that one of  
19 the reasons for that high rate under Ramsay pricing is the  
20 lack of availability of alternatives, isn't it?

21 A Well, it is the low own-price elasticity, whether  
22 that is a reflection of alternatives or some other aspect of  
23 the demand for the delivery of periodicals I can't say.  
24 Excuse me, go ahead.

25 Q Do you read the SAI report that was discussed in

1 the reclassification case?

2 A No, I did not.

3 Q And you still have not read the additional SAI  
4 material that has been the subject of some controversy in  
5 this case?

6 A That is correct.

7 Q Now can you tell me why you haven't gone and taken  
8 a look at that, since one of the things you think about and  
9 testify about is availability of alternatives?

10 A Even though it was the subject of some controversy  
11 in reclass, but not having read it then and not realizing  
12 that there was any further work, it just did not occur to  
13 me.

14 I thought I had from other sources of information  
15 a general understanding of what the classes of mail are,  
16 some adequate understanding of the availability alternatives  
17 for the various classes, and I did not think to seek that  
18 out.

19 I was, as I said, not aware of a revised version.

20 Q Your testimony states that Ramsay pricing did not  
21 have a major effect on your conclusions, although you also  
22 testify that a movement toward Ramsay pricing might be a  
23 good thing.

24 Can you tell me why the Bernstein testimony was  
25 presented in this case?

1           A     The Postal Service has had, and I think other  
2     Intervenors have presented testimony as well, in previous  
3     cases on Ramsay pricing.

4                     Certainly the Postal Service has had an interest  
5     in knowing what that approach could tell us about the cost  
6     of pursuing any set of objectives, Ramsay pricing itself  
7     trying to get the most efficient, economically efficient set  
8     of prices needed to raise the revenue to cover the total  
9     cost of operating the Postal Service, and that testimony was  
10    prepared to give us a basis for examining that question.

11           Q     You didn't use Bernstein's results, did you?

12           A     I did not. I looked at them, but there are so  
13    many other factors that were bearing on the rate levels, the  
14    rate increases in this case that, as I have said in response  
15    to other interrogatories and in my testimony, they did not  
16    have a major impact on my rates.

17           Q     So it is fair to say then, isn't it, that Ramsay  
18    pricing is a way to price postal services that you did not  
19    use, but that you thought would be a good idea to put in the  
20    record anyway?

21           A     I think it is interesting -- I didn't make myself  
22    the decision to put it on the record -- but I think it is  
23    useful.

24                     I think it is useful to see what prices would be  
25    implied by a strict application of that framework, but I

1 don't think it is a process for actually getting to a set of  
2 rate proposals.

3 Q In this case or in any other case?

4 A I think I should probably limit myself to this  
5 case.

6 Q Well, you have already testified that it is  
7 inconsistent, at least with respect to some types of mail,  
8 with Criterion 5.

9 A Yes. In that OCA response I also mentioned some  
10 other criteria where it might be inconsistent, so I don't  
11 think we would ever, I would ever I guess is what I can say  
12 or propose to implement Ramsay prices exactly as they fall  
13 out of the model, but I still, to repeat myself, I think it  
14 is useful to know what those prices are, how much they  
15 deviate from what we are proposing.

16 Q In ABP's Question 6 to you, we asked you whether  
17 you could give an estimate of the percentage of regular rate  
18 periodical titles that experienced a rate increase as a  
19 result of the reclassification decision, and your answer was  
20 that you have no basis for estimating that percentage.

21 A That is correct.

22 Q Do you have some basis for saying, giving some  
23 sort of order of magnitude of what percentage of your  
24 periodical customers had a rate increase in 1996?

25 A Titles?

1 Q Yes.

2 A As I in some sense would think of the customers as  
3 the recipients of the periodical, subscribers or requesters,  
4 and on that percentage I still can't come very close but  
5 look at some of the numbers that I cite in the remainder of  
6 my response to the interrogatory where we look at the volume  
7 increases.

8 That case was basically with respect to  
9 periodicals revenue or contribution neutral. I suppose that  
10 a fair estimate of the volume might be 50/50, some up, some  
11 down, because the rest of my response does not get to a  
12 numerical answer but I think 50/50 in terms of volume would  
13 be reasonable.

14 In terms of titles, I understand that probably the  
15 smaller titles, especially the titles that are not  
16 geographically concentrated, would have been more likely to  
17 be among the periodicals getting a rate increase.

18 Q It would be more than half of the titles would  
19 have rate increases, wouldn't they?

20 A Of the titles? I would expect so but I really  
21 have no basis for going beyond the reasoning that I just  
22 walked through.

23 Q What I am trying to figure out is why you don't  
24 have a little bit more in there. The Postal Service tells  
25 Congress and others it wants to operate like a business, the



1 people who mail magazines are your customers. Some of those  
2 customers had a rate increase in 1996. Presumably all of  
3 those customers have -- could well have a rate increase in  
4 1998. I am trying to figure out why you didn't try to  
5 figure out how many of those customers had an increase last  
6 year.

7           Especially since one thing you have to look at is  
8 the impact of this increase and you've already testified  
9 that the cumulative effect of both increases is something  
10 that you thought about.

11           A     It is something we thought about, something that  
12 caused us to reduce the coverage from what it might  
13 otherwise have been. And I also look at this interrogatory  
14 response, number 6, and I see for the very smallest  
15 periodicals some numbers that are in the one to two percent  
16 range. I really shouldn't say smallest; I should say most  
17 geographically dispersed, those that would only have the  
18 level A presort, in other words.

19           I am proposing a rate increase for the class as a  
20 whole, subclass as a whole, and as with First Class, work  
21 share and other mail, I did not myself investigate in detail  
22 things below that, although I have some general awareness of  
23 the diversity of mailers within each of the subclasses.

24           Q     You are also aware, aren't you, that some  
25 individual periodicals experienced increases of six or seven

1 percent in 1996?

2 A I guess I can't actually confirm that from what  
3 I've got here in the testimony. I see numbers -- there's  
4 one 10.4 percent for nonbarcoded pieces but that would be  
5 mixed in with presumably other levels of presort with pound  
6 rate with --

7 Q Other levels of presort wouldn't affect the piece  
8 rate on the -- excuse me, the 10.4 percent increase for --

9 A That would be for a particular copy of a  
10 periodical. But if the entire publication has some at that  
11 presort level and some at other presort levels.

12 Q Well, let's take a non -- let's take a tabloid for  
13 which the Postal Service does not offer a barcode discount.

14 A Correct.

15 Q And if they say it was half level A and half level  
16 B, then you would add the 3.4 percent in your response to  
17 subpart C to the 10.4 percent in D and that would come out  
18 to 13.8 percent. So on the piece rate, the piece rate  
19 increase would be nearly 7 percent.

20 A Dividing that number by 2, yes.

21 Q And let's say for an 8-ounce periodical, it's  
22 true, isn't it, that well over half of the postage is  
23 determined from the piece rate?

24 A I believe the number in regular rate is 60 percent  
25 from the piece rate.

1           Q     Yes, but I am talking about a lighter weight  
2 piece.

3           A     I don't know that. I'm not that familiar with how  
4 the rate design affects pieces of different weights. I  
5 think I recall from previous cases that for the subclass as  
6 a whole it is 60 percent piece and 40 percent pound but I  
7 don't know how it would affect pieces of different weights.

8           Q     So for a lighter-than-average piece, the piece  
9 rate would be more significant; isn't that right?

10          A     A lighter-than-average piece? I would suppose so.  
11 I am having trouble dealing with the chain of assumptions  
12 here.

13          Q     If the average is 60 percent comes from the piece  
14 rate and 40 percent from the pound rate, that would be  
15 determined by how many pounds?

16                     Let me withdraw that.

17                   MR. STRAUS: I have no further questions. Thank  
18 you, Dr. O'Hara.

19                   CHAIRMAN GLEIMAN: Next up is DMA.

20                                   CROSS EXAMINATION

21                   BY MR. ACKERLY:

22          Q     Good morning, Dr. O'Hara.

23          A     Good morning.

24          Q     Let me start by asking you to describe the Postal  
25 Service policy that affects the relationship between the

1 Standard A ECR basic rate and the Standard A regular  
2 automation five-digit rate.

3 A Well, I refer to that in my testimony very  
4 briefly, and I guess the summary there is worth repeating,  
5 which is to say that the policy of the Postal Service is to  
6 encourage the movement of ECR basic letters into the  
7 automation mail stream.

8 MR. TIDWELL: Could you give me a citation?

9 THE WITNESS: Oh, I'm sorry. This is page 36,  
10 line 7, really, 5, 6, 7 -- the sentence starts on line 4.

11 BY MR. ACKERLY:

12 Q And there you state that it was important for the  
13 Postal Service to have the automation five-digit rate in  
14 Standard A regular to be below the ECR basic rate; is that  
15 correct?

16 A I do; yes.

17 Q Now that is a relationship that bridges two  
18 subclasses within Standard A. Is that nor correct?

19 A That's correct.

20 Q And in fact the five-digit automation rate in  
21 Standard A regular is interconnected with all the other  
22 Standard A regular rates through what I believe has been  
23 called in recent cases the work-sharing tree. Is that  
24 correct?

25 A It's -- I don't know about the work-sharing tree

1 specifically, but if all the rates are developed within a  
2 subclass by the rate-design witness looking at rate  
3 relationships and cost avoidances and the whole works.

4 Q And the same would be true with the Standard A ECR  
5 basic rate, is that not correct? That rate is connected in  
6 various ways with all the other rates within Standard A ECR  
7 subclass?

8 A Yes. Again, developed by the pricing witness  
9 looking at a whole range of considerations so that the  
10 nature of the connection in each subclass is not mechanical.

11 Q And that in fact is the reason, as you state on  
12 page 36, line 4, of your testimony, that a lower cost  
13 coverage for ECR was something that you were not in a  
14 position to recommend.

15 A I cite that as a secondary reason for the ECR  
16 coverage being what it is, 228 percent. The primary reason  
17 is at the beginning of that paragraph, and gets back to a  
18 point that was raised earlier this morning. Standard A in  
19 general is a large enough part of the total, and Standard A  
20 ECR as well, that it's difficult to lower that cost coverage  
21 without raising in a nonnegligible fashion some of the  
22 others. And so that I'm basically very close to that cost  
23 coverage anyway without getting into the automation  
24 five-digit versus ECR basic letter consideration.

25 Q When you say others, are you referring to classes

1 and subclasses of mail other than Standard A?

2 A I'm referring to, you know, all other subclasses.

3 MR. ACKERLY: Mr. Chairman, since the beginning of  
4 the hearings this morning, we have had a chance to review  
5 the witness' answers to some ABA et. al interrogatories.

6 These interrogatories will form the foundation for  
7 my next series of questions. I don't believe they have been  
8 entered into the record yet, and I think it would be  
9 appropriate to put them in now, if it's acceptable with the  
10 chair.

11 CHAIRMAN GLEIMAN: I'll take your word for it that  
12 they have not been included. If you could give me the  
13 numbers, then we can do a quick check ourselves, and if they  
14 are not in there already, then I have no objection.

15 MR. ACKERLY: They are ABA et. al 2, 3, 4, 6, 7,  
16 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17.

17 CHAIRMAN GLEIMAN: I -- I believe you're correct.  
18 I only see one ABA, et al., interrogatory, number one,  
19 having been included in the package. Do I understand  
20 correctly that you want to add this as designated written  
21 cross examination material at this point in time?

22 MR. ACKERLY: That's correct, Mr. Chairman.

23 CHAIRMAN GLEIMAN: Okay.

24 Could you please show the interrogatory responses  
25 to the witness?

1 BY MR. ACKERLY:

2 Q Dr. O'Hara, I am handing you a copy of the  
3 interrogatory answers to which I just referred and ask, if  
4 asked these questions today, would your answers be the same?

5 A They would.

6 MR. ACKERLY: Mr. Chairman, I am handing two  
7 copies -- Mr. Chairman, I am handing two copies of these  
8 questions and answers to the reporter. I ask that they be  
9 admitted into evidence and transcribed into the record at  
10 this point.

11 CHAIRMAN GLEIMAN: Please do so.

12 MR. STRAUS: Mr. Chairman, could counsel --

13 CHAIRMAN GLEIMAN: You're on.

14 MR. STRAUS: Could counsel identify the date on  
15 which those responses were served?

16 MR. ACKERLY: My copy shows October 3, Mr.  
17 Chairman.

18 CHAIRMAN GLEIMAN: Thank you.

19 I direct that the additional designated written  
20 cross examination be entered into the record and transcribed  
21 at this point.

22 [Additional Designation of Written  
23 Cross-Examination of Donald J.  
24 O'Hara was received into evidence  
25 and transcribed into the record.]

**ABA&EEI&APM/USPS-T-30-2.** For the base year and test year (before and after rates), please provide the following costs for First Class and Standard (A) mail by subclass and by rate category: (a) volume variable; (b) incremental; and accrued (or institutional).

**RESPONSE:**

For the subclasses requested, base-year volume-variable costs can be found in Exhibit USPS-5B; test-year volume-variable costs can be found in my Exhibits USPS-30A (before rates) and USPS-30B (after rates). Incremental costs are in Exhibit USPS-41B, column 2 (base-year), column 5 (test-year after rates); test-year before-rates incremental costs can be obtained by multiplying the ratio in column 3 of Exhibit USPS-41B by the volume-variable costs in my USPS-30A. These costs are not available for rate categories. As far as I am aware, the term "accrued costs" is not applied to subclasses, but rather to cost segments, where it is simply the total (volume-variable plus non-volume-variable) cost for a segment.



**ABA&EEI&NAPM/USPS-T-30-3.** Please explain and, if possible, quantify how the degree of mailer preparation influenced your proposed coverages for the following: (a) First-Class single piece; (b) First-Class automation presort (i) basic, (ii) 3-digit, (iii) 5-digit, and carrier routs; and (c) Standard (A) (i) basic, (ii) 3digit, (iii) 5-digit, and enhanced carrier route.

**RESPONSE:**

I am proposing coverages only for subclasses, not for rate categories. I would note that in my discussion of increased worksharing over time on pages 8-9 of my testimony, I indicate that it is appropriate to assure that increased worksharing in one subclass does not produce unintended consequences for the rates of another.

**ABA&EEI&NAPM/USPS-T-30-4.** Re your example at 15, I. 10-17. You conclude this paragraph by stating: "This seems to me unfair, given that the two products received equal evaluations on the non-cost criteria."

(a) Does "This" refer to the 2 to 1 ratio or that any difference in the each products contribution to other costs exists? if the latter, would such a result "seem to you unfair" regardless of the difference in each product's contribution to other costs? if neither, please explain.

(b) Eliminating the assumption that the products have the same cost coverage, at what level, if any, would the difference in each product's contribution to other costs be deemed by you to be unfair? Please explain, identifying those factors which would shape your judgment.

**RESPONSE:**

(a) The latter, although the degree of unfairness would diminish as the difference in contribution diminished.

(b) If the products have different evaluations on the non-cost criteria, then differences in contribution reflecting these evaluations are not unfair.

**ABA&EEI&NAPM/USPS-T-30-6.** Re Testimony at 30, lines 16-19.

(a) If the coverage from Docket Mo. R94-1 had been used, would the percentage change in rates be approximately 3.8% as opposed to 3.54? (see Exhibit USPS-30D; revised 8/22/97.) If not, what would the percentage increase have been?

(b) Explain what you mean by the phrase "only intensify the problem." Id. at line 19.

**RESPONSE:**

(a) No; the cited lines say "nine percentage points higher," which implies a rate increase of approximately 12.5% ( $=3.5 + 9.0$ ).

(b) The problem referred to is that of the effect of rate increases on Periodicals mailers; adjustment for the change in system-average coverage would result in rate increases greater than 12.5%, which would intensify the effect of rate increases on Periodicals mailers.

**ABA&EBI&MAPM/USPS-T-30-7. Re Testimony at 30, lines 20-22.**

- (a) For Periodicals regular, please provide by rate category the mail processing costs for flats for fiscal years 1993 through 1997, or year-to-date if not available, and for the test year.
- (b) Please explain the analysis Postal Service is undertaking, including its status.
- (c) Quantify the "full cost increase" (Id. line 22) and the percent of the full cost increase reflected in your proposed rate levels for this mail. If available, provide this information, by rate category.

**RESPONSE:**

- (a) Regular Periodicals are about 90% flats, so that overall Regular Periodicals mail processing costs can be taken as useful indicator of mail processing costs for Regular Periodicals flats; such data is contained in the Cost Segments and Components Report for each Fiscal Year. As far as I am aware, the requested data are not available for rate categories within Regular Periodicals.
- (b) Please see the testimony of witness Moden, USPS-T-4, pages 11-13. I am informed that this analysis is still in the design stage.
- (c) I have not quantified this cost increase, nor would it be a straightforward exercise, given the change in costing methodology; hence, I am unable to say what percentage of it is reflected in my proposed rate level. A rough estimate of the increase could be obtained by comparing the growth of CRA unit costs for Periodicals from FY 1993 to FY 1996 with the growth of salaries and benefits per workhour over the same period.

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**ABA&EEI&NAPH/USPS-T-30-8.** Is it your testimony that each criterion (page 2 and 3 of Testimony) applies to each (a) class, (b) subclass, and (c) rate category of mail? If not, please explain.

**RESPONSE:**

My testimony applies the criteria at the subclass level. The pricing witnesses apply the criteria as appropriate in rate design within each subclass.

**ABA&EEI&NAPMIUSPS-T-30-9.** (a) You state on page 10, line 8 that First-Class Mail letters have ECSI value. Do you acknowledge that bills and financial statements sent under various worksharing rates have high ECSI value? if not, please explain.

(b) In setting cost coverages for First-Class presort and automation letter mail, how did you take ECSI value into account?

(c) In setting cost coverages for First-Class presort and automation mail, did you assign a higher or lower ECSI value than you assigned for (i) Standard class mail, and (ii) First-Class single piece mail?

**RESPONSE:**

(a) The Postal Service is not proposing any change from the Commission's previous determination regarding the ECSI value of First-Class Mail; in reaching that determination in R87-1, the Commission noted that the survey on which it relied had found that consumers considered utility bills to have a relatively low ECSI value. See Opinion & Recommended Decision in Docket No. R87-1, paragraph 4102.

(b)-( c) My cost coverage applies to the entirety of First-Class Mail letters; I do not set cost coverages for First-Class presort and automation mail.

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**ABA&EEI&NAPM/USPS-T-30-10.** Regarding criterion 8, (educational, cultural, scientific, and informational value to the recipient) you note that the Commission has recognized this criterion in the past, and that your proposal "reflects this as well." Testimony at 25, l. 1; see also pages 30, lines 7-10, and 40, lines 10-12. Please explain specifically how, for each rate level affected, you applied criterion 8 in determining the contribution to other costs by the subject mail.

**RESPONSE:**

The Postal Service is not proposing any changes from the Commission's previous determinations regarding the degree to which the various subclasses deserve ECSI consideration under criterion 8; these determinations are reflected in the previously determined cost-coverages that provide a starting point for my own development of rate levels as discussed in my testimony at page 19, line 15 through page 20 line 7.

**ABA&EEI&NAPM/USPS-T-11.** You state on page 8 lines 4-6 that "as the degree of preparation increases over time, all else equal, the coverage required to obtain the same contribution also increases." Yet, you are proposing a cost coverage of 282% for First Class worksharing letters, but only 228% for Standard (A) commercial ECR and 154% for Standard (A) commercial regular.

(a) Do your relative cost coverages reflect your belief that there is a greater degree of mailer preparation in First-Class worksharing than Standard (A) commercial mail worksharing?

(b) By each rate category for workshared First-Class and Standard (A) mail, please list all worksharing activities of which you are or were aware in setting the above cost coverages.

**RESPONSE:**

Please review the example (page 8, line 8 through page 9, line 12) that immediately follows the cited lines of my testimony; note that it discusses changes in worksharing over time, not differences in the level of worksharing at a point in time. Also, note that coverages are set with reference to all the criteria, and that I am not proposing a coverage for First-Class worksharing letters but rather for the entire First-Class Mail letters subclass.



**ABA&EEI&NAPM/USPS-T-30-12.** On page 8 you make the point that increased worksharing takes attributable costs out of the system, thereby increasing the systemwide cost coverage.

- (a) Does not increased worksharing also take institutional costs out of the system, e.g., those automation machinery costs that are not attributable when a presort bureau buys and operates an MLOCR?
- (b) Please confirm that the main reason for an increase in cost coverages in this case has little or nothing to do with worksharing, but reflects instead USPS witness Bradley's regression results for mail processing labor costs. If you do not confirm, please break down the increases in cost coverage associated with each of the foregoing, i.e., worksharing and witness Bradley's regression results for mail processing labor costs.

**RESPONSE:**

- (a) No; this would only happen if attributable cost as measured did not capture all costs that were in fact caused by a subclass. With respect to your example, I am informed that the machinery costs (depreciation and maintenance, for example) associated with MLOCRs were 100% attributable.
- (b) I cannot confirm since I have not performed (nor could I with reasonable effort) the analysis specified in the last sentence of this part of the question. However, I accept as reasonable the hypothesis that, over the period since R94-1, the change in costing methodology has had a greater effect than the change in worksharing. Granting this, however, I also believe that the increase in worksharing is too great to justify a casual acceptance of a "little or nothing" assessment of the effects of worksharing.

**ABA&EEI&NAPM/USPS-T-30-13.** You note in this proceeding (at 5) a higher own price elasticity calculated for First-Class presort letters than for First-Class as a whole. How, if at all, did you use this knowledge in setting First-Class presort and automation coverages relative to the single piece rate?

**RESPONSE:**

I do not propose cost coverages for First-Class presort and automation mail. My cost coverage applies to the entirety of First-Class Mail letters and I utilized the average elasticity for the entire First-Class Mail letter subclass in setting that coverage (see my testimony at page 23, lines 4-6).

**ABA&EEI&NAPM/USPS-T-30-14.** (a) Please confirm that since the last rate case, and in light of MC95-1 and this rate filing, the percentage increase in the discount for Standard (A) mail is: (i) 67% greater for basic automation Standard (A) mail than for its First-Class counterpart; (ii) 233% greater in Standard (A) 3-digit automation than for its First-Class counterpart; and (iii) 74% greater in Standard (A) 5-digit automation than for its First-Class counterpart.

(b) How, if at all, is the "fairness and equity" criterion achieved by setting the lower levels of discounts for automation mailstreams in First-Class than Standard (A) mail, specifically for basic automation first ounce letter rates, 3-digit automation, 5-digit automation, and the extra ounce rate?

**RESPONSE:**

(a) I cannot confirm or disconfirm, since I am unclear on how the percentage increases in the question were calculated.

(b) My testimony does not address automation discounts. The pricing witnesses for First-Class Mail and Standard (A) mail develop those discounts taking into account the specific cost-avoidance information for the respective subclasses as well as other rate design considerations.

**ABA&EEI&NAPM/USPS-T-30-15.** (a) Please confirm that since the last rate case and through FY 1996, the cost coverage ratios have: (i) increased by 19% for First-Class presort; (ii) decreased marginally for First-Class single piece; (iii) increased by only 7% for Standard (A) bulk rate regular, and (iv) decreased by 6% for standard A carrier route.

(b) If confirmed, how did you take these coverage ratios into account in setting cost coverages for test year 1998 using the "fairness and equity" criterion?

(c) On what postal statutory ratemaking criteria have the cost coverages for First Class presort been allowed to increase so much more than other large volume drivers for the Postal Service?

(d) On what statutory grounds did you set the cost coverage for advertising mail as a whole (Standard mail (A) total commercial) at the same rate as First-Class single piece letter mail (174.14% and 173.25% respectively)?

**RESPONSE:**

(a)-(d) In the time available, and given the press of other discovery, I have not been able to confirm the percentages listed in part (a). In any case, I am not proposing coverages below the subclass level, so that comparisons involving coverages for First-Class presort or First-Class single-piece are outside the scope of my testimony.

**ABA&EEI&NAPM/USPS-T-30-16.** As a result of the proposed changes in cost methodology in this case which reduce attributable costs in mail processing and other areas, systemwide cost coverages have had to rise. Below are the coverage ratios for CRA 1996, Base Year 1996 (at existing rates which incorporate the now costing methods), and your proposed coverages for test year 1998.

Rate	Cost Coverage Ratios		
	FY1996	BY1996	TY1998
First Class Single Piece	149.8	176.1	173.2
First Class Presort	261.3	285.6	282.3
Standard A BRR	168.9	177.2	154.5
Standard A ECR	229.7	237.1	228.3
Systemwide	162.9	181.0	178.6

(a) Please confirm that your TY1998 proposed cost coverages are in fact lower for Standard (A) commercial mail under the revised costing methodology (and markedly lower for BRR) than the FY1996 CRA derived cost coverages under the old costing methodology.

(b) Please explain the justification for setting the cost coverage ratio for Standard (A) commercial regular mail so much lower, relative to BY1996, than other ratios listed above.

(c) Had you set the Standard A BRR cost coverage ratio for TY1998 in proportion to BY1996 cost coverages as the other test year figures listed, (i.e., at about 175), what would be the rate and revenue implications?

**RESPONSE:**

I believe this set of questions is based on a misconception. The line labeled "Standard (A) BRR" appears to show coverages for the entirety of commercial Standard (A) in the first two columns but only for Standard (A) Regular in the TY1998 column (i.e., excluding Standard (A) ECR). A proper comparison would be with the coverage for "Total Commercial" shown on line 23 of my Exhibit 30B, which is 174%. Thus, my responses to the individual parts are:

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- (a) Not confirmed.
- (b) The coverage is not in fact "so much lower" relative to BY 1996.
- (c) The rate and revenue implications would be essentially identical to those  
resulting from the coverage I have proposed.

**ABA&EEI&NAPM/USPS-T-30-17.** Assume: (a) all cost coverages (higher in First-Class than Standard (A)) were to remain in the same relative proportions to each other after a change in costing methodologies which required a systemwide increase in cost coverages, and (b) that the changed cost methodologies reduce attributable costs in First-Class by more than they reduce such costs in Standard (A) commercial mail. Under these assumptions, there would be a net redistribution in total costs (volume variable plus institutional) away from First-Class to Standard (A) commercial. In Docket No. R97-1, there has in fact been a much greater reduction in attributable costs for First-class than for Standard (A) commercial mail, but the changed cost coverages have not been proportional as assumed above. Using the actual cost coverages proposed, please confirm that the increase in institutional costs from the changed cost methodologies shifts the total cost burden from Standard (A) commercial to First Class. Please provide workpapers or other documentation which supports your answer.

**RESPONSE:**

The total cost burdens of First-Class Mail (letters and cards) and Standard (A) commercial (Regular and ECR) at the actual cost coverages proposed are the revenues shown on lines 8 and 23 of my Exhibit USPS-30B; these are \$34,704 million and \$12,326 million respectively, or 56% and 20% of the total revenue requirement of \$61,616 million. As I interpret your question, an appropriate set of comparison figures would be those contained the Commission R94-1 Recommended Decision, Appendix G, Schedule 1, where the corresponding figures are \$32,364 and \$9,949 respectively, or 59% and 18% of the \$54,517 revenue requirement. Thus, I cannot confirm that the actual coverages proposed, in combination with the new cost methodology, shift the total cost burden from Standard (A) commercial to First-Class.

1 CHAIRMAN GLEIMAN: Yes, Mr. Straus.

2 MR. STRAUS: Does counsel have available copies of  
3 those responses for those of us who have not yet received  
4 them?

5 MR. ACKERLY: I do not, Mr. Chairman. I had one  
6 copy, and I made two extra copies within the last hour.

7 MR. STRAUS: We are now having material going into  
8 the evidentiary record that most of the parties have never  
9 seen.

10 CHAIRMAN GLEIMAN: That is, in fact, the case.

11 MR. STRAUS: That is, in fact, a problem.

12 CHAIRMAN GLEIMAN: Well, it appears to me as  
13 though this is going to be a fairly long day, unless each of  
14 the parties who wishes to cross examination only has a  
15 handful of questions, which means that we're likely to  
16 return after lunch, and I -- I would suggest that any party  
17 who has not actually received copies of the documents  
18 perhaps can go to the document room or perhaps to the  
19 reading room or library and get them up on the laser-fiche,  
20 I believe they may have been loaded, although I'm reluctant  
21 to try and do two things at once up here to check it to see  
22 if we're up that far on the laser-fiche, and to the extent  
23 that a party would then desire to have additional cross  
24 examination, followup is available. So --

25 MS. DREIFUSS: Mr. Chairman, interject a -- a



1 comment at this point.

2 We have also not seen many answers that I guess  
3 were filed late Friday.

4 Could -- could counsel for -- for the Postal  
5 Service indicate which responses were filed on Friday and  
6 also indicate whether any were filed this morning, so that  
7 we can look -- we'll know what to look for? Otherwise we're  
8 in the dark on that.

9 CHAIRMAN GLEIMAN: Mr. Tidwell, could you  
10 accommodate us on that or --

11 MR. TIDWELL: Off the top of my head, I know that  
12 we filed a revised response to Carlson number six, which was  
13 put in the package today. Unfortunately, I have stripped my  
14 interrogatory book of all cover pages, and so, I -- I can't  
15 make any references right now.

16 What I can do is -- is check -- we may have -- the  
17 -- the ABA, EEI, and APM set may have been the only --

18 THE WITNESS: There was one other, I believe,  
19 which was OCA 10, due today, was filed on Friday, was a  
20 followup. To the best of my recollection it was ABA 2  
21 through 17 and OCA 10 filed on Friday.

22 MS. DREIFUSS: Thank you.

23 CHAIRMAN GLEIMAN: Ms. Dreifuss? Thank you.

24 Mr. Ackerly, would you like to proceed now/

25 BY MR. ACKERLY:

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1 Q Dr. O'Hara, would you turn to your answer to ABA  
2 et. al 16, please?

3 A Yes.

4 Q At the -- at the bottom of the first page, do you  
5 see your reference to the figure 174 percent?

6 A Yes.

7 Q Would you describe what that number is, please?

8 A That number is drawn from my Exhibit 30-B, and  
9 it's on line 23 of that exhibit.

10 That is obtained by dividing the volume variable  
11 cost for the total of what is labeled commercial Standard A  
12 -- that is the sum of regular and enhanced carrier route --  
13 on the two lines above -- divide the volume variable cost  
14 for that pair of sub-classes into the revenue for that pair  
15 of sub-classes, and the coverage is shown in column three.

16 Q Right.

17 Would you now turn to your answer to DMA number  
18 two?

19 A Yes.

20 Q On the second page of your response, do you see at  
21 the end there numbers that you referred to as your proposed  
22 cost coverages --

23 A Yes.

24 Q -- and you see the number opposite FCM letters,  
25 which is 200 percent.

1           A     Yes.

2           Q     Is it correct to say that the number 174 percent  
3     to which we've just been referring is the average of the  
4     next two numbers, which is your proposed cost coverage for  
5     Standard A regular of 154 percent and your Standard A ECR  
6     cost coverage of 228 percent?

7           A     Yes.

8           Q     Now, in -- in light of the linkage between the two  
9     Standard A sub-classes that we have just been discussing,  
10    would it be a -- a fair comparison, based on -- on your  
11    testimony of the -- of the cost coverages that you proposed  
12    for first-class letters and Standard A, to compare the 200  
13    percent number against the 174 percent number?

14          A     Well, I don't think the linkage is that tight that  
15    the two coverages are driven to a given average by the  
16    linkage. I didn't develop them by looking at the average  
17    between the two Standard A regular classes, so I would not  
18    make that comparison myself.

19                I mean the -- the arithmetic is -- is possible if  
20    someone wants to do that, but I -- I would not say that it  
21    has any significance.

22          Q     So, the -- the mental process that you went  
23    through to develop the cost coverages for Standard A regular  
24    and Standard A ECR was independent for the two sub-classes.  
25    Is that what you're saying?

1           A     Yes.

2                     In both cases, I started with the rates and  
3     implicit coverages or explicit coverages, except that I  
4     don't show them exactly -- they're there in Exhibit A --  
5     start with the rates and -- and consider as a -- a primary  
6     consideration the rate increases that were going to be  
7     implied and the degree of adjustment that would stem from  
8     that, and I -- I did that separately.

9                     I have a cost coverage for Standard A, which -- a  
10    Standard A ECR, which is developed from the whole set of  
11    criteria, winds up being quite high but involves a lower  
12    rate increase than any other sub-class.

13                    I have a rate increase for Standard A regular,  
14    which, again, starting from the existing situation, winds up  
15    being low, as it was in the before rate situation, and I  
16    have a slightly higher rate increase for Standard A regular,  
17    bringing those two categories, as this interrogatory raises  
18    the possibility of, slightly closer together. We're not  
19    moving very fast in that direction, but we are moving them  
20    slightly closer together.

21           Q     Let me ask you now about the extent to which you  
22    considered the relative level of service accorded First  
23    Class as compared to that accorded standard A. Could you  
24    describe the mental process that you went through to take  
25    that factor into account?

1           A     I considered basically the well established  
2 priority in processing that these whole set of classes have.  
3 First Class taking priority relative to both standard A and  
4 standard B but Express and Priority taking precedence over  
5 First Class and Second Class again, falling between First  
6 Class and the various standard subclasses and viewed that in  
7 qualitative terms.

8           Q     Does that complete your answer?

9           A     I think so.

10          Q     All right, let me ask you to direct your attention  
11 to Val-Pak, et al., interrogatory number 4 and your answer  
12 thereto.

13          A     Yes.

14          Q     You make reference to your response to DMA 4. Do  
15 you see that?

16          A     Yes.

17          Q     DMA 4 is the interrogatory answer to which you  
18 made reference to the published service standards for all  
19 the classes of mail; isn't that correct?

20          A     That's correct.

21          Q     And it's also correct, isn't it, that the  
22 published standards for standard A are significantly lower  
23 than the published standards for First Class?

24          A     That is correct.

25          Q     What interests me is your next sentence where you

1 state that you assume that the relative levels of service  
2 actually provided for the various subclasses corresponds to  
3 their relative service standards. Do you see that?

4 A Yes, I do.

5 Q Did you have any discussions with any Postal  
6 Service officials or do you have based on your own knowledge  
7 any basis for making that assumption and, if so, would you  
8 explain that, please?

9 A Yes. Over the whole length of my time with the  
10 Postal Service, I think, going into facilities, talking to  
11 people, we get a very clear sense that these service  
12 priorities are taken very seriously. They are what drives  
13 the operations of both the mail processing and the delivery  
14 side of the whole organization.

15 I don't claim to be an expert in either of those  
16 two areas. I have talked to any number of people who have  
17 spent their careers there and the very parts of the Postal  
18 Operations Manual which you entered into the record. I  
19 think as part of the attachment to that response to DMA-4,  
20 my impression is that those are not just documents, those  
21 are the way the Postal Service actually processes the mail  
22 and the priorities that are given to the different classes  
23 of mail.

24 Q The point, Dr. O'Hara, that I am trying to get to  
25 is the difference between the theory and the reality. The

1 published service standards and the service that is accorded  
2 to standard A regular mail in practice. You make an  
3 assumption here in your answer to Val-Pak, et al., number 4,  
4 and I am trying to find out what the validity of that  
5 assumption is.

6 Let me put the question to you slightly  
7 differently. Let's say someone were to come to you and to  
8 say that this person has statistical proof that the Postal  
9 Service meets its First Class service standards 90 percent  
10 of the time but that it meets its standard A service  
11 standards only 75 percent of the time. Would you have any  
12 basis for disputing that statement?

13 A I would not. But that would still leave unchanged  
14 the relative position of the two service standards. I think  
15 it is well known that we don't meet the First Class service  
16 standards 100 percent of the time. Even the overnight is  
17 just a 92 and the 2- and 3-day are well below that. And I  
18 expect that we don't meet the service commitments for any  
19 class of mail an extremely high percentage of the time.

20 All I am trying to do in my evaluation of service  
21 levels is to get at the relative position and standard A is  
22 at the bottom of the ladder there. I don't know what  
23 information I might receive that would cause me to doubt  
24 that it is at the bottom of the ladder.

25 Q In other words, your answer to Val-Pak, et al.,

1 number 4, was simply to indicate a rough ranking rather than  
2 making any judgments with respect to the degrees by which  
3 the Postal Service provides service to the various classes;  
4 is that a fair summary of what you have just said?

5 A I think it is, in that I have no sense from  
6 talking to people, from reading the trade press, talking to  
7 mailer representatives that the ranking of service  
8 incorporated in the Postal Service POM-7 is reversed, that  
9 we somehow give First Class Mail a lower level of service  
10 than periodicals or than standard A or standard B.

11 Q So basically in setting your recommended cost  
12 coverages for standard A mail, you didn't take into account  
13 the fact, if it is a fact, that standard A service is lower  
14 than the standards -- the published standards, than First  
15 Class service is below the published standards?

16 A Yes, I did not take that "fact" into account  
17 because I have no way to know whether it is a fact. I would  
18 be -- I would need consistent information across all the  
19 subclasses to know whether the degree of deviation from the  
20 service standard was not only a little more or a little less  
21 for each subclass, but really for my purposes to know  
22 whether those deviations were so great as to change the  
23 ranking.

24 Q Okay. Would you turn to DMA's interrogatories,  
25 Number 11, to you.



1           A     That one was redirected to the Postal Service and  
2 I believe has not been responded to. Is that correct?

3           Q     Let me put it this way, Dr. O'Hara. I have not  
4 received a response to it yet.

5           A     Yes.

6           Q     Would you describe for the record basically what  
7 that interrogatory is inquiring about?

8           A     This interrogatory inquires about several  
9 different sources of information on Third Class or Standard  
10 A, Ex3C, Advance/DAR, and TCMAS, and it asks for basically  
11 all available information.

12                   MR. ACKERLY: Mr. Chairman, as I think the record  
13 will show, not the record of the hearing, but the filings  
14 that the DMA and the Postal Service has made in this  
15 discovery period, DMA has been extraordinarily -- I am  
16 searching for the correct adjective -- shall I say  
17 understanding of the pressure that the Postal Service has  
18 been under.

19                   Several important answers to DMA interrogatories  
20 were received not just late but very late, and now we have  
21 one that, as we have just seen, is important to a  
22 substantial pricing factor. It deals with data on an issue  
23 that at least we think is quite important and we have not  
24 yet received an answer to it.

25                   I would like to ask or to have you ask Postal

1 Service counsel what the status of the response to this  
2 interrogatory is and when we might be able to receive  
3 something.

4 CHAIRMAN GLEIMAN: Can we get a response?

5 MR. TIDWELL: Efforts are being made to prepare an  
6 institutional response. We would certainly have liked to  
7 have gotten a response out by now.

8 Unfortunately, despite the diligence of people  
9 working with Mr. O'Hara, we have not been able to accomplish  
10 that.

11 We will continue our efforts and hope to have a  
12 response within a week.

13 MR. ACKERLY: May I ask, Mr. Chairman, why a week?

14 MR. TIDWELL: In part, because some of us who are  
15 going to have to be involved in developing the response will  
16 be here for the better part of the week; in part, because  
17 Postal Service Headquarters is going to shut down completely  
18 at mid-day Friday and the building will not be open again  
19 until some time Tuesday, to deal with some electrical  
20 problem that none of us knows much about, but it is forcing  
21 us to scramble to find places to work while we work on the  
22 case.

23 CHAIRMAN GLEIMAN: Mr. Tidwell, when you do  
24 provide the response, and if a week is what we can expect,  
25 then a week is what we can expect, don't include the

1 delivery data for the period when Headquarters closes down  
2 because undoubtedly the mail will move faster in the field  
3 when Headquarters is out of commission.

4 MR. TIDWELL: That was the common belief back in  
5 '84 after the fire, that it was a brief period during which  
6 everything worked perfectly.

7 MR. ACKERLY: Mr. Chairman, I will accept  
8 counsel's statement.

9 I would also at the same time like to express my  
10 displeasure with the way the Postal Service has responded to  
11 this interrogatory and obviously reserve all my rights to  
12 ask for various recalls of witnesses, et cetera, et cetera  
13 in order to explore this issue as much as we possibly can.

14 CHAIRMAN GLEIMAN: It is so noted, sir.

15 MR. ACKERLY: I have no further questions, Mr.  
16 Chairman.

17 CHAIRMAN GLEIMAN: Thank you. If that is the  
18 case, then next we would hear from Dow Jones & Company.

19 MR. BEHRENDTS: Mr. Chairman, I am Sam Behrends,  
20 representing Dow Jones & Company and we have no cross  
21 examination of this witness.

22 We would however like to reserve the right to ask  
23 follow-up questions if the need arises.

24 CHAIRMAN GLEIMAN: Certainly, Mr. Behrends. You  
25 had me spooked there for a minute. I saw -- I don't have my

1 glasses on -- I saw somebody walking up from the back of the  
2 room without a beard and I thought that Mr. McBride had done  
3 a terrible thing --

4 [Laughter.]

5 MR. BEHREND: You will get to see him, sir. I  
6 promise.

7 CHAIRMAN GLEIMAN: I hope so. We enjoy his cross  
8 examination.

9 That brings us to the Magazine Publishers of  
10 America.

11 Before we start with the Magazine Publishers of  
12 America, if I can do this very quickly, I can confirm to  
13 those of you who are interested that the interrogatories  
14 that were filed on the 3rd were OCA O'Hara 10, or the  
15 interrogatory responses that is -- OCA O'Hara 10, ABA O'Hara  
16 2 through 4, 6 through 17, and DFC O'Hara 6 Revised.

17 Those are the ones that were filed.

18 Mr. Cregan?

19 MR. CREGAN: Mr. Chairman, Magazine Publishers of  
20 America has no questions at the moment.

21 We may have follow-up later. Thank you.

22 CHAIRMAN GLEIMAN: Moving right along, McGraw Hill  
23 Companies.

24 MR. BERGIN: Mr. Chairman, initially I would like  
25 to note on behalf of McGraw Hill that we are in a similar

1 situation as DMA in that McGraw Hill interrogatories to Dr.  
2 O'Hara relating to service ~~that we~~ <sup>were</sup> directed to the Postal  
3 Service and no response has been forthcoming.

4 I assume we are on the same schedule roughly, but  
5 in any event we would reserve our rights in terms of recall  
6 of the witness.

7 CHAIRMAN GLEIMAN: Certainly.

8 MR. BERGIN: That's Tim Bergin for the McGraw Hill  
9 Companies.

10 CROSS EXAMINATION

11 BY MR. BERGIN:

12 Q Good morning, Dr. O'Hara.

13 A Good morning.

14 Q Is my understanding correct that you would agree  
15 that there are only limited alternatives under Criterion 5  
16 to the Postal Service for magazines?

17 A Well, there are no statutory limitations on the  
18 delivery of magazines, and the other possibilities are  
19 numerous for at least some kinds of magazines.

20 There are newsstand sales. There may be alternate  
21 delivery as a possibility in some areas. So I don't think I  
22 can just accept that statement without those qualifications.

23 Q Well, I am not suggesting that there are no  
24 alternatives for any magazines, but let me put it this  
25 way -- did you take into consideration under Criterion 5 the

1 limitations on alternatives for magazines?

2 A My use of Criterion 5 generally, as I have said in  
3 a couple of interrogatory responses, is to -- if a cost  
4 coverage is high as a result of a low price elasticity which  
5 might stem itself from limited alternatives, to ask whether  
6 that needs to be mitigated to an extent.

7 In this case the periodicals' cost coverage is 107  
8 percent. That is not high enough for me to think that  
9 Criterion 5 needed to be brought to bear.

10 Q So you had no need to resort to it, if I  
11 understand?

12 A That's correct.

13 Q Now do I understand correctly that dealing with  
14 let's say a hypothetical subclass in which a cost coverage  
15 is high as a result of the economic value of service that  
16 limited alternatives under Criterion 5 could offset that  
17 economic value of service?

18 A Yes, they could act to provide a rationale for  
19 lowering the coverage from what would be the case without  
20 that limited availability of alternatives.

21 Q And under Criterion 5 your consideration of  
22 limited alternatives would not be restricted to statutory  
23 limitations but would extend beyond that to limitations in  
24 fact?

25 A To some degree. I think my reading of past

1 Commission and Postal Service discussion of that issue  
2 suggests that the most prominent use that has been made of  
3 that criteria is with respect to the First Class letter  
4 coverage where there is a statutory consideration at work,  
5 but I don't limit it exclusively to that.

6 Q You would agree that a low own-price elasticity of  
7 demand would raise the question as to whether there were  
8 limited alternatives that would require consideration under  
9 Criterion 5?

10 A It certainly raises the question. It does not  
11 dispose of the question. No way to know exactly what is  
12 giving rise to a particular elasticity, whether it's the  
13 limitation of alternatives or just the value that the people  
14 place on the service itself. But, yes, it would certainly  
15 give rise to the question.

16 Q And those are two different things, those items  
17 that you just mentioned, the availability of alternatives  
18 and the value that the mailer would place upon the service?

19 A Yes.

20 Q If I understand correctly, to the extent mail  
21 service deviates from the service standard established by  
22 the Postal Service, that could offset the economic value of  
23 service determined under Criterion 2?

24 A The real use that I make of the service standards  
25 is a relative one, and I know that our service for all

1 classes deviates from those, so it would have to get to a  
2 consideration I suppose of whether the deviation in a  
3 particular class was out of line to a significant degree  
4 from what the deviation that seemed to be experienced by all  
5 the classes are. Because basically I'm relying on the  
6 relative service levels, and we know that they're not met,  
7 but my impression as I just testified is that the actual  
8 service does correspond in relative terms to the relative  
9 service standards.

10 Q If there were evidence presented that there was a  
11 deviation from service standards which exceeded the norm,  
12 then would you agree that that would be a relevant factor  
13 which might offset your estimation of the economic value of  
14 service?

15 A I think it could. It would certainly point in  
16 that direction. I would have to know more about the actual  
17 facts --

18 Q Sure.

19 A Than it is possible in a hypothetical to know  
20 whether it would have significant weight. But I think the  
21 direction is not unclear.

22 Q Would you agree that as a general matter to the  
23 extent that service deteriorates, then the economic value of  
24 the service is less?

25 A I would expect so, certainly generally look at the



1 level of service not under the economic value of service but  
2 under the intrinsic category. I suppose that if the level  
3 of service deteriorates that could have an effect on the  
4 economic value as it would show up in the price elasticity.  
5 People might not be as willing to retain their previous  
6 levels of usage or nearly their previous levels of usage  
7 after a rate increase if the service standard had fallen. So  
8 it certainly could show up in the economic value of service,  
9 but I would look at it first under the intrinsic value.

10 Q Well, if evidence is presented in this case, let's  
11 say that there were unusual deviations from the standard of  
12 service for periodicals mail. Would you consider that as  
13 potentially being an offset to the economic value of service  
14 as indicated by the own-price elasticity for periodicals  
15 mail?

16 A Specifically, as indicated by the own-price  
17 elasticity?

18 Q I think you just --

19 A I said it could show up there. But I guess the  
20 thought I had in mind when I said that is that you would  
21 actually see a change in the measured elasticity. Not that  
22 I would be taking the measured elasticity and adjusting by  
23 some degree that in order to take this hypothetical evidence  
24 into account. If I were going to do that, I would be  
25 inclined to do that on the intrinsic side and let the

1 elasticity stand.

2 Q But would the result be the same in terms of the  
3 direction and cost coverage?

4 A The direction would be the same. Although, as I  
5 said before, the cost coverage is so low that there is not  
6 really much room for any adjustment downward. But, as a  
7 matter of just identifying the sign and not worrying about  
8 the magnitude, yes.

9 Q Understood.

10 If I could move on to some more general questions  
11 about your approach to a cost coverage determination. If  
12 you would assume that under the methodology applied in  
13 docket R-94, a hypothetical subclass had attributable costs  
14 of let's say 100 million and it had a markup of 100 percent  
15 which would imply I believe a 100 million contribution to  
16 institutional costs. A simple scenario.

17 And if you will assume for this hypothetical  
18 subclass, under the methodology proposed in this case, it  
19 would have incremental costs of 100 million but only 50  
20 million would be volume variable.

21 A Right.

22 Q My question is, under this scenario and using the  
23 methodology proposed in this case but in order to maintain  
24 proportionate contribution, assuming <sup>that</sup> ~~a~~ statutory ratemaking  
25 factors <sup>are</sup> ~~is~~ applied the same way, how much would you mark up

1 the volume variable costs? Would you mark them up 100  
2 percent?

3 A Let's see if I've got this example right. Before,  
4 we were getting a total revenue of 200, 100 percent -- cost  
5 of 100 and 100 percent markup for 200. In this case, the  
6 incremental costs are still 100 but the volume variable  
7 costs have gone down to 50 and the question is what markup  
8 would I propose on that volume variable cost?

9 Q If I can be a little more specific, I am wondering  
10 if you would propose a 100 percent markup to obtain  
11 proportionate contribution or whether you would propose a  
12 300 percent markup which would have a closer --

13 A I think it is likely to be neither of those. The  
14 change in methodology reduces the volume variable cost  
15 across the board, not uniformly but across the board so all  
16 coverages are going to have to go up. System average  
17 coverage goes up. I can't very well make due with the same  
18 markup or coverage.

19 At the same time, you were proposing as the  
20 alternative 300 percent?

21 Q Yes.

22 A Which would get me back to the same total revenue.

23 Q Right.

24 A If this class is taken as the average, which  
25 overstates the degree which costs were actually reduced in

1     this case, but then I believe that is exactly what would  
2     follow from the example that I used with markup indexes and  
3     coverage indexes. That basically we would get back, if  
4     everybody were affected identically, at least in the  
5     direction of the same revenue. I do allow for the  
6     possibility that coverage would start out differently  
7     because of evaluations on the noncost criteria, that you  
8     wouldn't necessarily get back to the same exact revenue from  
9     each class. Especially, that's in the case even when all  
10    costs are reduced proportionally. Then, of course, when all  
11    costs are not reduced proportionally, you have an additional  
12    factor that varies across classes.

13           So things are necessarily complex. But if this is  
14    the typical subclass, it's getting a proportionate  
15    reduction. It's got, let's say, a typical evaluation on the  
16    other factors, then somehow yes, we've got to raise the same  
17    revenue, and so I've got to get the same contribution out of  
18    the typical subclass and that gets me toward the same total  
19    revenue which, in this case, can only be achieved with that  
20    150 percent or 300 percent markup.

21           So that's -- if we've not lost any connections in  
22    working that through, not had any lapses of arithmetic or  
23    logic, that's where I think I would come out.

24           Q     Thank you.

25                 If I could go at it a slightly different way, in

1 proposing cost coverages in this case under the proposed new  
2 methodology, to what extent did you take into account that  
3 nonvolume variable costs were caused by the particular  
4 subclasses under consideration, such as specific fixed and  
5 other nonvolume variable costs which are no longer being  
6 marked up?

7 A Right. My view of that, as I have  
8 responded -- well, initially in my testimony and in several  
9 interrogatories is that volume variable cost is the right  
10 thing to look at when you are setting coverages or markups  
11 and I think it's not entirely correct to look at the  
12 nonvolume variable cost as being two wholly different  
13 things, specific fixed and the rest of it.

14 The nonvolume variable costs that are there under  
15 this methodology result in a lot of cases from the  
16 difference between the marginal cost at the level of output  
17 in a particular operation where that output is combined with  
18 mail from a bunch of different classes ↘ compared to the  
19 total cost of running the operation. With a declining  
20 marginal cost, the total cost exceeds the unit volume  
21 variable cost times the volume and so the nonvolume variable  
22 cost that is left is, in fact, directly caused by the  
23 combination of the classes of mail that use that operation.

24 So I don't make a sharp distinction between  
25 specific fixed cost and the other nonvolume variable cost

1 and I instead proceed, for that reason and others, to mark  
2 up the volume variable cost.

3 Q Do I understand then that in considering a cost  
4 coverage for a subclass you do take into account the fact  
5 that certain product-specific costs which are now part of  
6 institutional costs or other costs were caused by that  
7 subclass?

8 A I understand the term "product specific" has  
9 entered the record at least in interrogatory response form  
10 recently, but I am not completely familiar with how that's  
11 used, so maybe let me drop back to specific fixed --

12 Q All right.

13 A Which I am familiar with. And my response was  
14 that I consider that there is not a dramatic difference  
15 between specific fixed and other nonvolume variable cost,  
16 and so that I do not look to the specific fixed portion of  
17 nonvolume variable cost in any -- to give that any special  
18 consideration in setting coverages.

19 Q Then do you look to the nonvolume variable costs  
20 generally that are -- in the past have been attributed to a  
21 subclass in considering what appropriate cost coverage that  
22 subclass should have under the new methodology?

23 A I'm really only looking at the cost under this  
24 methodology. I'm not looking back at the cost under  
25 previous methodologies.

1           Q     I understand you use the volume variable as the  
2 basis for the markup, but in considering what markup to  
3 make, is it important under say Criterion No. 3 to start  
4 with the fact that the particular subclass in question may  
5 have caused some of the other costs for which a contribution  
6 is sought?

7           A     Well, let's deal with Criterion 3 in itself. I do  
8 look at Criterion 3 and ask whether the revenue for each  
9 subclass covers the incremental cost, which includes the  
10 specific fixed cost and these other nonvolume variable costs  
11 that are part of each subclass's incremental cost. But  
12 beyond that what I've been saying to you is that all of the  
13 nonvariable -- all of the nonvolume variable costs  
14 attributable -- specific fixed and other -- are for the  
15 benefit of some class of mail.

16                     And if you are a class of mail that can use the  
17 same operation as other classes of mail, one that has these  
18 economies of scale decreasing marginal cost, then there are  
19 some of those nonvolume variable costs other than specific  
20 fixed costs, which are for the benefit of the classes of  
21 mail using that operation, in the same way that specific  
22 fixed costs are for the benefit of the class of mail to  
23 which they are specific. And I treat them all together. I  
24 think the nonvolume variable costs other than specific fixed  
25 cost are also for the benefit of the classes of mail that

1 I'm working up. So I don't treat them separately, I don't  
2 look at -- I don't make a distinction between the different  
3 kinds of nonvolume variable cost.

4 Q Well, you do consider all of the nonvariable --  
5 nonvolume variable costs that are attributable to a subclass  
6 or in the past have been attributed as an important factor  
7 in considering cost coverage?

8 A There are two pieces of that, and I think the  
9 answer is going to be no to both. First of all, the  
10 nonvolume variable -- nonvolume variable cost under the new  
11 methodology aside from the specific fixed I know of no way  
12 to get back, especially no known arbitrary way to get back  
13 to the classes that they benefit. That's the whole point of  
14 the being able to use the same operation for different  
15 classes of mail. You get some economies of scale and  
16 economies of scope by using that together, but that doesn't  
17 mean that those classes don't benefit from the inframarginal  
18 cost. That's under the current methodology. So I think  
19 the, as I understood the question, the answer is no, and  
20 certainly it's no with respect to whatever might have been  
21 the case under the previous methodology. I'm not trying to  
22 look back at what we think is information, cost information,  
23 which has now been improved upon, and bring that to bear.

24 THE REPORTER: Infomarginal?

25 THE WITNESS: Infra, i-n-f-r-a. Sorry. That's



1 the cost of running the operation in question that's above  
2 the unit volume variable cost times the volume. You get  
3 sometimes significant magnitudes of that if there are  
4 economies of scale in the operation. It's one of the things  
5 which makes it sensible to have different classes of mail  
6 combined in a given postal system.

7 BY MR. BERGIN:

8 Q Well, if I could go back to the hypothetical that  
9 we began with, if using the new methodology, applying it to  
10 this hypothetical subclass with \$50 million in volume  
11 variable costs, if you applied a 100-percent markup and that  
12 subclass would just cover its incremental costs?

13 A That's correct.

14 Q But you would not consider that an adequate cost  
15 coverage for a subclass that had previously contributed \$100  
16 million to institutional costs.

17 A Yes. I mean, it's not going to be adequate on the  
18 average and we're sort of taking this as a typical class.  
19 We've got to get essentially the same revenue. And so yes,  
20 that would not be an adequate cost coverage for that, and I  
21 would -- aside from its being sort of arithmetically  
22 necessary if this is going to be a representative subclass,  
23 we're short revenue, I would think the fact that we have  
24 just got up to covering institutional cost or incremental  
25 cost -- I have to be careful with my language here -- the

1 fact that the 50-percent cost coverage, 100-percent cost  
2 coverage on 50, just gets us to \$100 of revenue, says well  
3 we just passed the incremental cost test or met the  
4 incremental cost test, but unless there's something highly  
5 special about this, we're getting only half the revenue out  
6 of this subclass that we had before, and we can't stop  
7 there. We've got to have a higher coverage than that.  
8 We've got to have a higher markup or coverage of the volume  
9 variable cost.

10 MR. BERGIN: Thank you, Dr. O'Hara. I have  
11 nothing further.

12 CHAIRMAN GLEIMAN: Perfect timing. We'll break  
13 for lunch, and we'll come back at 1:30, and when we come  
14 back Nashua-District-Mystic et al. will be up.

15 [Whereupon, at 12:17 p.m., the hearing was  
16 recessed, to reconvene at 1:30 p.m., this same day.]

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## AFTERNOON SESSION

[1:30 p.m.]

CHAIRMAN GLEIMAN: Welcome back. I hope you enjoyed your lunch, and hopefully I'm better at numbers than I am at the alphabet. We will jump back in with Mail Order Association of America, which should have preceded McGraw-Hill & Companies in the lineup, and I apologize, Mr. Todd.

MR. TODD: Thank you, Mr. Chairman.  
Whereupon,

DONALD J. O'HARA,  
the witness on the stand at the time of the recess, having been previously duly sworn, was further examined and testified as follows:

## CROSS EXAMINATION

BY MR. TODD:

Q Dr. O'Hara, I'm David Todd, representing the Mail Order Association of America.

Just briefly, to review your testimony, I am correct that it is your belief that the use of cost coverages produces, when properly evaluated, rates that are both fair and economic. Is that correct?

A Fair and economic or fair and equitable?

Q And equitable. As well as producing sound economic results. Is that correct? Economic efficiency.

1           A     Well, I think that the act provided a variety of  
2     criteria which go into the determination of cost coverages  
3     and that economically -- economic deficiency can be  
4     considered within those, but it's <sup>not</sup> the sole aim of the cost  
5     coverages that I'm proposing in this case.

6           Q     But is it your testimony that, if we have two  
7     products with the same evaluation of the non-cost criteria,  
8     that using an equal cost coverage on those two products will  
9     -- will result in rates that are both fair and economically  
10    efficient?

11          A     Well, I'm still resisting the linkage necessarily  
12    with economic efficiency. I think, if -- if I recall your  
13    question correctly, we had the same evaluation on all the  
14    criteria?

15          Q     Correct.

16          A     Then the same cost coverage is certainly fair, and  
17    assuming, as part of your hypothesis, that the elasticities  
18    are the same, as one factor taken into account in the  
19    evaluation of those criteria, then there would be the same  
20    degree of efficiency or inefficiency in the rate level or  
21    cost coverage for the two sub-classes. They might both  
22    depart from a pure -- a purely economic -- economically  
23    efficient price level.

24          Q     And then I am reading your testimony correctly  
25    that you're -- you really weren't very concerned with

1 economic efficiency. Is that correct?

2 A It's only one of the things I was concerned about,  
3 and as -- if you think of economic efficiency as the sole  
4 consideration, you wind up with Ramsay prices, and it's  
5 certainly correct that I'm a good ways away from Ramsay  
6 prices.

7 Q And therefore --

8 A But it is something that I -- I think is  
9 important.

10 Q Therefore, however, it would be a fair statement  
11 that the extent to which your prices differ from Ramsay  
12 prices is a good measure of the extent to which the rates  
13 which you are recommending depart from economic efficiency.

14 A Yes.

15 Q Let me postulate a situation in which you were  
16 given all of the costs of the various products, postal  
17 products, and then you set about evaluating the noncost  
18 criteria. Would you be comfortable recommending rates if  
19 that's the only knowledge you had?

20 A Well, certainly a quite different situation from  
21 the one I actually faced where I have a whole history of  
22 ratemaking already on the record and in particular the rates  
23 most recently recommended by the Commission in their  
24 discussion of how the factors apply, what the coverages  
25 were. It would certainly be a much more daunting task to

1 start with a clean slate and that list of nine factors and  
2 the cost and come up with a set of coverages.

3 Q It would be more daunting but it is something that  
4 you could do within the context of the Postal Reorganization  
5 Act?

6 A I think so. I think that must have been how the  
7 rates we have have developed over time. I don't really see  
8 any other course of action but to start with the cost under  
9 Criterion 3 and make sure that your revenues at least cover  
10 those costs for each class and then you use the other  
11 criteria to determine how to recover the remainder of the  
12 cost.

13 Q Well, I think then if we were to say this is case  
14 one, that is how you would have had to go about it, right?

15 A That's correct.

16 Q And you would have at that time looked at what the  
17 cost of the various -- as one of the obviously vital steps  
18 in your development of recommended rates, you would have  
19 looked at the costs as they exist?

20 A Yes.

21 Q Turning to page 19 of your testimony, as well as  
22 some of your testimony this morning in response to counsel  
23 for McGraw-Hill, let me state this in my words to try and  
24 see if I understand what you're saying here. As I  
25 understand what you're saying, that with respect to a change

1 in costing methodology, the net result of which is to reduce  
2 costs unequally among the classes, you believe that the use  
3 of a cost coverage formula, and you are contrasting it with  
4 a markup index, produces a sound result; is that correct?

5 A If I heard your premise correctly, you postulated  
6 an unequal effect of the new methodology?

7 Q Yes.

8 A Then that's not correct. My example which lays  
9 out in some detail does have an equal effect on the two  
10 subclasses. And then I think I go on to say -- perhaps I  
11 can find it -- there are two things that are relevant. One  
12 is the footnote at the bottom of page 20, footnote number 9,  
13 which still adheres to the assumption that the two classes  
14 are affected equally by the methodology but allows that  
15 there may be differences in the evaluation on the other  
16 criteria that were reflected before the methodology change  
17 in different coverages. And I certainly do not rule out the  
18 fact that the different evaluation on those factors would  
19 result in something other than a perfectly -- the coverages  
20 resulting simply from the application of the coverage index.

21 The situation has changed. Even though both  
22 classes were affected equally by the costing methodology  
23 change, they had different evaluations on the noncost  
24 factors and it seems to me it is well within the realm of  
25 possibility that those different evaluations when considered

1 in the light of the new situation could result in different  
2 rate changes, different cost coverages under the new  
3 situation compared to the situation initially where they had  
4 equal cost coverages. So it is not quite as precise as that  
5 even when the effect of the methodology is the same.

6 Then at the paragraph at the top of page 20, which  
7 logically follows the footnote, I address the real world  
8 situation where the change in costing methodology does not  
9 affect all the classes equally and obviously that being the  
10 case we are not going to have necessarily the same coverage  
11 index or the same rate increase for all the classes.

12 Q Dr. O'Hara, that is really the sentence I am  
13 focusing on which is the first, or I guess the second full  
14 sentence on page 20.

15 A Yes.

16 Q I am reading that, and if I am wrong, please tell  
17 me, as your testimony that if product A experiences a  
18 greater reduction in costs because of a change in  
19 methodology than product B, you are nevertheless going to  
20 give this product A a lower than average rate increase?

21 A Yes, sir, and I think those are consistent. The  
22 wording is a bit complicated by the fact that the costing  
23 methodology reduces all costs or at least costs on average.  
24 But I'm saying if your costs went down more than average,  
25 your rate increase is going to be <sup>less</sup> ~~more~~ than average.



1           Q     You explored this morning the fact that in the  
2     face of work saving -- work sharing cost increases, or cost  
3     reductions, you would adjust the cost coverage upward. Are  
4     you telling me that you would or would not do that in the  
5     face of a costing -- a change in costing methodology that  
6     produces the same costing results; i.e. product A having  
7     substantially a greater reduction in costs than product B as  
8     a result of the change to methodology.

9           A     I think the two situations are different. One,  
10    the one that this paragraph is addressing, is that a change  
11    in methodology which need not have been accompanied by any  
12    change in the actual level of work sharing between the two  
13    subclasses. We have a methodology which the Postal Service  
14    believes is a distinct improvement over the previous  
15    methodology, basically replacing an assumption of 100  
16    percent variability with an analysis about the degree of  
17    variability. And if that methodology change tells us we now  
18    have better information about the relative cost of these two  
19    subclasses and one of them has a greater reduction in its  
20    cost than the other, then that translates to my mind, in the  
21    context of this case, a less-than-average rate increase.

22                 Exactly how that works in coverages might well be  
23    the same but in any case the two situations are parallel,  
24    are not parallel. The situation where the methodology  
25    changes and the situation where costs change due to

1 differential increases in work sharing.

2 Q All right, let me put that in my words and see if  
3 I've got it right. There is a reduction in costs because of  
4 work sharing and it is your testimony that as that occurs,  
5 there should, in the interest of fairness, your word, be an  
6 increase in cost coverage so that this contribution to the  
7 institutional cost burden doesn't go down. However, if  
8 there is a change in costing methodology, let's assume the  
9 same dollar amount, same class of mail, because the Postal  
10 Service has changed its approach to costing that same result  
11 shouldn't occur, which is to say that you would still -- you  
12 would not try to keep the institutional cost burden equal.

13 A No. I think the easiest way to think about this  
14 is to in both cases look at rates.

15 The paragraph on page 20 we are looking at talks  
16 about rate increases.

17 Work sharing is reflected in rates. If the work  
18 sharing has taken cost out of the system, I would expect the  
19 rates paid by the mail with a greater increase in work  
20 sharing also to have a lower than average rate increase.

21 The coverage is a ratio of contribution -- well,  
22 the markup is ratio of contribution to cost, and if the cost  
23 has gone down, even with the same contribution the markup in  
24 the coverage will go up, but differentially if work sharing  
25 has gone down more than another the rates will to down

1 relative to the other or go up less, as it is put here.

2 Q Dr. O'Hara, I appreciate that, and I agree that in  
3 the end we have to look at rates, at least at one level.

4 I would like however to go back and let's at the  
5 moment forget about rates. Let's just look at the  
6 principle.

7 Product A has a cost reduction of 20 percent --  
8 pick a number -- because of work sharing. Product B has a  
9 cost reduction of 20 percent because of a change in costing  
10 methodology.

11 Let us assume that neither Product A nor Product B  
12 changes otherwise.

13 My question is, would you adjust simply because of  
14 work sharing or would you also adjust because of a change in  
15 costing methodology?

16 A If I can follow the example, I think I have got  
17 parallel results. In both cases for roughly parallel  
18 reasons, what's changed is the volume variable or  
19 attributable portion of the cost, and higher coverages in  
20 both cases, at least system-wide, are going to be necessary  
21 to get back to the original revenue requirement.

22 In the case of work sharing, some costs have  
23 actually gone from the system, and so the revenue  
24 requirement is lower. The rates can be lower and that may  
25 nevertheless result in a higher cost coverage, even though

1 the increase in work sharing is fully reflected in the  
2 rates.

3 The situation with the change in costing  
4 methodology is a little different because the costs aren't  
5 gone from the system.

6 We can't give everybody a rate reduction.  
7 Everybody's got a change in volume variable cost as a result  
8 in the change in methodology, but there are some costs that  
9 are now identified as non-volume variable, and so in this  
10 case everybody's rates can't go down.

11 Rates on average have to raise the same revenue as  
12 without the methodology change, so there is that degree of  
13 difference in what happens, but if we are talking about, as  
14 this paragraph does, a case in which a particular subclass  
15 has a greater than average reduction in measured cost due to  
16 the methodology change, then this says smaller than average  
17 rate increase and I don't know if it is always going to work  
18 out that way or not, but I think it is going to be  
19 consistent more often than not with a higher coverage at  
20 least than before -- not higher relative to the system  
21 average in this case necessarily, but higher than before,  
22 and that is I think the result we had in the case of work  
23 sharing as well.

24 Q Dr. O'Hara, I recognize that when there's simply a  
25 change in costing methodology we haven't taken any costs out

1 of the system, but I would still like to go back because I  
2 am not certain that I really fully understand your answer as  
3 to whether -- and let's -- I know life isn't simple and  
4 ratemaking isn't simple, but let's try to keep things  
5 simple.

6 Let's just take this reduction as a result of work  
7 sharing cost reduction and as a result of costing  
8 methodology cost reduction --

9 A And we have one subclass affected one way and one  
10 subclass affected the other way?

11 Q That's correct. As I understand your testimony,  
12 you had said that as a matter of fairness we would have to  
13 increase the cost coverage for the work sharing cost  
14 reduction subclass or class.

15 Would you say that the same should be true as a  
16 matter of fairness if it is simply a change in costing  
17 methodology?

18 A It's in that case not only a matter of fairness,  
19 it's at least for the situation as a whole a matter of  
20 arithmetic.

21 Q I don't mean to cut you off, Dr. O'Hara, but I am  
22 trying to get away from arithmetic. I am trying to get to  
23 your concept of fairness in how you looked at the  
24 establishment and how you think we should be looking at the  
25 establishment of cost coverages under these two different

1     hypotheticals, cost savings as a result of work sharing,  
2     cost savings as a result of the costing methodology change.

3             You have made it very clear in your testimony that  
4     as a result of what you say is fairness we should increase  
5     the cost coverage of the work sharing subclass in order to  
6     keep its contribution to institutional costs equal or nearly  
7     equal.

8             Is that your testimony, what we should also do  
9     with respect --

10            A     No.

11            Q     -- to the costing methodology change?

12            A     My testimony with respect to the costing  
13     methodology change in the case of differential impact, which  
14     is again this first paragraph on page 20, doesn't get -- in  
15     the words themselves, "directly to coverage."

16                     It talks about rates.

17                     I guess I would have to work through an example to  
18     be sure -- maybe more than one example -- but it does seem  
19     to me that with a smaller than average rate increase for  
20     somebody whose costs were reduced more than average that  
21     their coverage is likely to go up more than average.

22                     The average coverage has to go up.

23                     Let me see if I can get any firmer fix on that by  
24     looking at my example.

25                     It of course only deals with the equal reduction

1 in cost, but it is clear that the coverage increases for  
2 both classes there and I would think that even if one of  
3 those subclasses were affected a little -- had its costs  
4 reduced a little more, which is the example you are using,  
5 by this costing methodology change, its cost coverage would  
6 still wind up being higher.

7 Even though we are not applying mechanically  
8 either the markup index or the coverage index, I can't see  
9 in this example -- cost coverages both go up. They both go  
10 up more than marginally.

11 I think if we are making adjustments that reflect  
12 differential effect of the methodology change we are  
13 probably still going to wind up with both of the coverages  
14 higher than we had before, and so I think it is consistent  
15 with my treatment of work sharing.

16 Q Well, Dr. O'Hara, again I think as I hear your  
17 answer we're kind of going back to the arithmetical issue as  
18 opposed to the principles that you think should be applied  
19 in determining your rate recommendations, and I still don't  
20 believe I've heard an answer to the question of whether as  
21 you have said very clearly in your testimony with respect to  
22 cost reductions resulting from work-sharing, I would like to  
23 hear as clear an answer as to what you think should be the  
24 principle guiding cost coverages as a result of cost  
25 reductions resulting from a changed costing methodology.

1           A     I believe that the same principle applies, but I  
2     would need to work through examples just to make sure that I  
3     haven't missed an aspect of this problem. Everything I can  
4     get out of the testimony and the thinking I've done says  
5     that this methodology change is going to raise coverages and  
6     it's going to raise coverages even for people who have a  
7     greater than average reduction in their cost as a result of  
8     the methodology change. In other words, we've learned  
9     something about their costs relative to other people's costs  
10    given the improved methodology.

11           Q     Well --

12           A     And that's going to be reflected in lower rates,  
13    but I also think it's going to wind up with a higher  
14    coverage than they had before. It's important to me that it  
15    be reflected in lower rates in the same way that it's  
16    important to me that work-sharing is reflected in lower  
17    rates, but it happens that that also works to produce a  
18    higher coverage.

19           Q     Well, again, I thought we had given a fairly  
20    specific hypothetical, and I still don't think I've gotten  
21    the answer. We have a Product A saving 20 percent in cost  
22    from work-sharing, Product B saving 20 percent in costs from  
23    changed methodology. Ignoring the arithmetic for the  
24    moment, should the principle which you've enunciated clearly  
25    at page 15 of your testimony, that the cost coverage should



1 go up in order that this work-sharing product continue to  
2 make its same or nearly same contribution to institutional  
3 costs -- should that same principle apply with respect to  
4 costing methodological changes? And if we could, please  
5 stay away from rates. I understand the arithmetic problem.

6 A I guess I'm not going to be able to do any better  
7 than this. I'm unwilling to make a pronouncement on a  
8 principle that I haven't thoroughly understood the  
9 implications of.

10 Q Which --

11 A I've come as close as I can using a little bit of  
12 the arithmetic and the examples. I think it's important  
13 that the improved information about relative costs from the  
14 new methodology be reflected in the relative rate increases  
15 for the two subclasses. I think it's important that the  
16 work-sharing be reflected in the rates paid by the increased  
17 work-shared mail. But because we're dealing with ratios,  
18 which I can't manipulate quite as easily here, I think the  
19 principles really apply -- if there's any difficulty they  
20 apply to the rates as well as the coverages.

21 I'm not willing to go and endorse or make a  
22 general pronouncement about the case where we've got an  
23 apple and an orange, and I know what I'm doing with the  
24 apple and I know what I want to happen to the rates of the  
25 orange, but I'm not sure about the coverage of the orange.

1           Q     Well, Dr. O'Hare, let me try just one more time.  
2     Let me say that in this very case the rate -- the cost  
3     reductions for Product A --

4           A     Um-hum.

5           Q     Were substantially larger than the cost reductions  
6     for Product B. Let me be more specific, that the cost  
7     reductions for First Class were much larger on any basis,  
8     absolute or percentage, than for other classes of mail. In  
9     looking at that picture, did you conclude that therefore  
10    cost coverages for First Class mail should be higher in  
11    order to maintain their institutional cost contribution  
12    disregarding the arithmetic issues?

13          A     I didn't get to my result in that particular  
14    fashion, but I think I got to that result, not to the degree  
15    of precisely maintaining contribution, but I do have a very  
16    slightly lower rate increase for First Class than the  
17    average. It's 3.3, I believe, compared to 4-1/2.

18                Assuming the difference in cost were greater than  
19    that, then I've got greater coverage than I had before for  
20    First Class, and a greater dollar contribution. The last is  
21    necessary because the total to be covered, but I would think  
22    that I've at least maintained the dollars contribution of  
23    First Class with the coverages that I've got.

24          Q     But we don't know what -- we don't know what your  
25    pricing principle is in all of that. Is that a fair

1 statement?

2 A Well, I've tried to be as careful as I can about  
3 this, and within the limits of the hypothetical as clear,  
4 but there is a limit to how precise I can be beyond  
5 describing what I've done and the results that I've got in  
6 rates. I think what I've done is consistent one with the  
7 other and with your hypothetical, but there is this issue of  
8 the relationship between cost and revenue, the coverage  
9 ratio, which tends to get moved in a way which is not always  
10 easy to work through mentally without looking at perhaps  
11 several examples. So I think I've done the right thing, but  
12 I still can't give you a single principle that will deal  
13 with both of those things in one sentence.

14 Q Let me move to a different hypothetical situation.  
15 We have two products, product A, product B, and between case  
16 1 and case 2 the Postal Service has become measurably more  
17 efficient. So they can, in fact, process product A at a  
18 unit saving that is substantial as compared to product B.  
19 Should, under those circumstances, product B's  
20 cost coverage be increased in order to keep its  
21 institutional cost coverage where it was before?

22 A Which product has the greater increase in postal  
23 productivity?

24 Q I may have mixed this up in my description. But  
25 let's say product A, the Postal Service has made a

1     remarkable and measurable improvement in efficiency and  
2     productivity so it costs much less to process product A.  
3     Product B, they have done nothing with. So Product A's  
4     costs are much lower in case 2, than they were in case 1.

5             Should that result in product A having a higher  
6     institutional cost coverage so that its institutional  
7     contribution doesn't decline?

8             A     In that situation, I could reduce the rates for  
9     product A to fully reflect the improved productivity, get  
10    the same rates and same contribution out of product B, the  
11    same contribution out of product A and break even. That  
12    would amount to putting the entire -- reflecting the entire  
13    productivity gain for product A in product A's rates and  
14    would still give us a higher cost coverage for product A  
15    than it had before if I have not messed up any of my steps  
16    in the logic.

17            Is that correct? Is that how you understand what  
18    would happen? I've now got to a point where product A's  
19    cost coverage is higher than it was before, product B's cost  
20    coverage is the same, product B's rate is also the same and  
21    product A's rate is lower forgetting about the inflationary  
22    factors that have gotten us to another rate case.

23            Q     But, again, solely as a result of Postal Service  
24    productivity gains for product A, what I'm asking is, again,  
25    on page 15 you have stated very explicitly that if there are

1 cost savings resulting from work sharing, that you have to  
2 increase the cost coverage to keep their contribution to  
3 institutional costs constant or -- you haven't used the word  
4 constant but to beef it up. I am asking, would you do the  
5 very same thing in the face of Postal Service productivity  
6 gains?

7 A I expect that I would. In other words, the  
8 example I just walked through lets me reflect fully the  
9 reduction of the cost of product A in their rates and still  
10 leaves me with a higher coverage than it had before. I  
11 don't know if that's the end of the process or not, in this  
12 case. It might be that some of the benefit from this  
13 productivity gain, depending on how we understand the actual  
14 facts of the matter -- I think that gets piling hypothetical  
15 on hypothetical but, at least, in this case I see no reason  
16 that would keep me from increasing the coverage on product  
17 A.

18 Q But would you increase that coverage as a matter  
19 of pricing philosophy, as you said you would, as a matter of  
20 pricing philosophy with respect to work sharing cost  
21 savings?

22 A I think it amounts to the same thing. The costs  
23 are lower, attributable costs are gone from the system in  
24 terms of this example but the nonvolume variable costs are  
25 still there and as at least a starting point, I would be

1 inclined to reward, if you will, the class of mail that  
2 experienced the productivity gain with no more than the  
3 productivity gain. If I keep their coverage the same, don't  
4 raise it, they're getting lower attributable costs and lower  
5 cents per piece contribution as well.

6 Q Would you give this product A the full  
7 productivity gain?

8 A That's what I am unable to say at this point. I  
9 started to speculate that, on that, and I realized I was  
10 not -- hadn't really thought that through enough to have  
11 anything useful to say.

12 Q But it is quite true that your testimony says that  
13 you will not give the full productivity gain to work  
14 sharing --

15 A Oh, yes, I will. I absolutely will. All I am  
16 doing is keeping the contribution the same. All of the  
17 reduced costs show up in lower rates. All I am doing is  
18 keeping the cents per piece contribution the same.  
19 Absolutely.

20 Q But -- but effectively, of course, that approach  
21 effectively in fact does away with much of the cost savings  
22 gained, does it not, mathematically?

23 A Mathematically, in the case of work sharing, it  
24 puts into lower rates for the increased work shared mail, in  
25 this example the full cost savings. I realize that we don't

1 always do 100 percent passthrough and there are different  
2 ways of measuring things. But, in this example, we get all  
3 the way to a rate implicitly that reflects the cost avoided  
4 by the work sharing but does not add to that a rate  
5 reduction due to applying -- due to reducing the  
6 contribution to institutional costs as well.

7 Q Well --

8 A In cents per piece.

9 Q All right, let me just posit then a situation  
10 where 50 percent volume variable, 50 percent nonvolume  
11 variable. We save 20 percent of the volume variable costs  
12 for product A. In the real world, if you are going to  
13 recover and keep the cents per piece contribution  
14 institutional costs constant, doesn't that necessarily wipe  
15 out a goodly portion of the gain in cost savings for the  
16 work sharing product?

17 A No. If the cost per piece as a result of work  
18 sharing has gone down, well, let's get a before and after  
19 here. The cost per piece before is 10 cents and the markup  
20 is 50 percent so the rate per piece is 15 cents. Work  
21 sharing takes 2 cents of volume variable costs per piece  
22 out. Now I've got a cost of 8 cents.

23 If I get the same 5 cents coverage on a base of 8,  
24 5 cents contribution on a base of 8, I've got a higher cost  
25 coverage. But all of the savings due to the increased work

1 sharing is in the rate of the mail that is doing the  
2 increased work sharing. That is why it is hard to talk  
3 about these things in percentage terms.

4           You are taking something off the denominator, the  
5 cost, and also potentially doing something to the numerator.  
6 It is not clear what happens to the ratio. But in this  
7 example, and I believe in the example in my text, that's  
8 exactly what I'm proposing to do is keep the unit  
9 contribution and in the example -- I'm not saying we do this  
10 perfectly all the time in reality -- let the rates reflect  
11 the increased work sharing.

12           Q     Going back to our -- your testimony earlier, where  
13 you have case one, you simply have the costs, you don't have  
14 a history, it's the first time around.

15                     Well, we're a long way from the first time around,  
16 but my question to you is, you would agree, I gather, that  
17 in terms of economic efficiency, this approach certainly  
18 isn't the best approach. We're doing this simply because of  
19 your view as to fairness. Is that correct?

20                     Let me ask the question -- in terms of pure  
21 economic efficiencies, wouldn't you simply look at the costs  
22 and you wouldn't care whether they had been increased,  
23 decreased, or the reasons for the increased or decrease,  
24 you'd just look at the cost at a given moment.

25           A     Look at the cost and the other factors, including



1 the elasticities.

2 Q Yes.

3 A Elasticities are not easy to measure, but I would  
4 not necessarily think the elasticities would be un-affected  
5 by the increased work-sharing.

6 Q Well, I understand that, but you --

7 A My rationale is that if -- the user is going to be  
8 looking at the total cost of sending this mail piece, and if  
9 he's now doing some of the work, that might affect his  
10 response to an increase in postage.

11 So, it's -- it's not just might have changed. I  
12 -- I think there could -- could be a systematic connection  
13 there.

14 Sorry for --

15 Q Dr. O'Hara, that's a valid point. Again, though,  
16 I'm --

17 THE REPORTER: Sorry for what?

18 THE WITNESS: Sorry for wanting to finish my point  
19 and -- and, thereby, interrupting his point.

20 MR. TODD: God forbid that the witness should  
21 interrupt -- interrupt counsel here, but --

22 BY MR. TODD:

23 Q Dr. O'Hara, what I am really saying, in pure  
24 economic efficiency -- I understand the elasticity issues  
25 and that work-sharing might shift things around.

1           I am still saying, however, that from pure  
2   economic efficiency, you would simply look at the costs, and  
3   you wouldn't look back to see whether there's been an  
4   increase and decrease in cost because of productivity gains,  
5   because of work-sharing, because of a change in costing  
6   methodology, just look at the costs, what are they right  
7   now. Isn't that correct?

8           A     And what are the elasticities and what are --

9           Q     Yes.

10          A     -- everything else. Yes.

11          Q     All right. Thank you.

12          A     I think that's fair enough. I'm starting with,  
13   you know, the previous coverage index and the whole works,  
14   previous rates, because we're not doing case one. But I  
15   think --

16          Q     All right.

17          A     -- if it were case one, we would have to start  
18   several steps back in the process from where we are now.

19          Q     But then the final thing I'd like to be clear  
20   about is, does this go on forever?

21                   We have case one, certain costs.

22                   Case two, it turns out that product A has done an  
23   enormous amount of work-sharing, saved huge amounts of  
24   costs, and you say, well, man, if we do this, they're not  
25   going to keep their unit cost contribution up for

1 institutional costs, so we're going to have to adjust their  
2 cost coverage way up, even though recognizing that's a not  
3 economically efficient approach.

4 Does this go on to case three, case four, case  
5 five? Does it go on forever?

6 A Well --

7 Q Is it cumulative?

8 A First, let me qualify one of your remarks there.

9 I -- I don't know whether it's economically  
10 efficient or not. I -- I haven't argued that it is, but I  
11 -- I also don't know that it isn't.

12 There are some frameworks in which you can -- an  
13 efficient component pricing sort of framework, which  
14 typically is focused more narrowly within a sub-class than  
15 across sub-classes but still gives you something to think  
16 about, even between sub-classes, where one of the  
17 implications of this, at least in simple models, is that the  
18 unit contribution per piece winds up being the same. You  
19 reflect differences in preparation in the rates, but you  
20 wind up with the same unit contribution.

21 So, I'm not -- not just saying, well, it might  
22 turn out to be not economically efficient.

23 I'm saying there are some reasons that would  
24 suggest that just reflecting the cost avoided by the  
25 work-sharing in the rate and not also reducing the

1 contribution to institutional cost proportionally with the  
2 reduction in attributable cost might have some desirable  
3 characteristics in terms of efficiency.

4 It's -- I think it's much too strong to call it  
5 economically efficient in capital letters, but it's not  
6 something without some support in the way people have  
7 thought about how to price different kinds of Postal Service  
8 and particularly things that involve different degrees of  
9 work-sharing within a sub-class.

10 So, I don't know if it goes from case to case to  
11 case.

12 Each case is new, each cases has lots of different  
13 factors in it, but you've correctly identified a part of my  
14 testimony that suggests that the reduction in volume  
15 variable or attributable cost does not, by itself, imply  
16 that cents-per-piece reductions, proportionate cents-per-  
17 piece reductions, ~~and -- and~~ <sup>in</sup> contribution should follow.

18 They might follow, but the example that -- that  
19 we've focused on for this last -- however many minutes it's  
20 been -- doesn't head in that direction, you're correct.

21 Q And -- and you -- you -- you can't today say how  
22 long we should continue to look back at the way things were  
23 in case one.

24 A I can't, but I can -- can amplify what I just  
25 said, which is that if -- if this were case one and we

1 looked and came today with the degree of work-sharing that  
2 we see across various sub-classes and certainly within  
3 sub-classes, there are some reasons for thinking that  
4 contribution per piece, at least across things that are not  
5 too different in their total cost, shouldn't be too far  
6 different from one another.

7 I don't want to make more of this -- I think any  
8 particular way of modeling principles of rate-making,  
9 including efficient component pricing, can be adhered to too  
10 rigidly, but I'd take a nice simple model of that and that's  
11 exactly where you get, is equal per-piece contributions.

12 Q Therefore, again -- and you're saying that you  
13 believe that, indeed, it might be appropriate to use this  
14 case one's costs for an infinite -- for -- at least for a  
15 very long period of time as the basis for determining  
16 institutional contributions notwithstanding substantial  
17 changes in costs for whatever reason.

18 A No. No. I think we -- we have suddenly got off  
19 track there. Maybe I should have stopped you sooner.

20 All that I am retaining from case one, way back  
21 there, is a cents-per-piece contribution, adjusted for  
22 inflation, if you will, not the cost. Any reduction in  
23 cost, the way we've been talking about it, goes directly to  
24 rates.

25 Q All right. Okay.

1           A     Directly to rates.

2           Q     We use those costs for the purpose of -- or we use  
3     that case for the institutional cost contribution --

4           A     Yes.

5           Q     -- propriety even 20 years later.

6           A     Well, I don't doubt that things ought to be  
7     revisited case by case. I think things are revisited case  
8     by case but not -- we don't revisit on the terms of the  
9     example we've been discussing or on the basis of cost  
10    change.

11                    You would revisit them on the basis of all the  
12    criteria, if the elasticities have changed, if the  
13    alternatives have changed, if the level of service has  
14    changed, if the <sup>ECST</sup>~~XE~~ value has changed or been determined to  
15    be different.

16                   All of those things would be reason for adjusting  
17    contributions.

18                   But the way we've been -- you know, it's a  
19    somewhat narrow example, and I don't want to over-sell my  
20    point in order to drive it home, but in the sense we've been  
21    talking about things, cost reductions flow into rates, the  
22    contribution above that -- whether it's expressed in cents  
23    per piece is -- seems to me easiest to talk about -- that  
24    gets us away from ratios -- or in coverage levels -- is a  
25    result of the other factors, and if we have changed

1 evaluations of those other factors, then of course we'll  
2 have changes from case one, and indeed, case two to case  
3 three to case four, changes, potentially, every time.

4 Q But you wouldn't look at cost, correct?

5 A I would look at costs for coverages. I would look  
6 at cost not directly for coverages. Costs will affect  
7 coverages.

8 This kind of work sharing cost or methodology  
9 change cost I think is fully reflected in rates as long as  
10 those rates do in fact reflect the cost savings of work  
11 sharing, which look something like 100 percent pass-through.

12 Once you have done that, the work sharing has been  
13 properly reflected in rates, and arithmetically at least in  
14 the examples I have actually worked through, we do wind up  
15 with a higher cost coverage just to maintain the same  
16 contribution to institutional costs.

17 I am not saying that that is exactly what we  
18 always have to get, but that is clearly an implication of  
19 what I have said in my testimony.

20 MR. TODD: Well, thank you, Dr. O'Hara. Thank  
21 you, Mr. Chairman. That's all I have.

22 CHAIRMAN GLEIMAN: Thank you again, Mr. Todd, for  
23 putting up with my problems with the alphabet today. See if  
24 we can get back on track.

25 Nashua District?

## CROSS EXAMINATION

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BY MR. WOLL:

Q Dr. O'Hara, my name is Alan Woll. I represent Nashua Photo, District Photo, Mystic Color Lab, and Seattle Film Works.

A Yes.

Q I would like to discuss with you the setting of the cost coverage for Priority Mail.

As you were discussing, in a response to OCA regarding the value of service criterion, you talked about the importance of reviewing the value of service provided by the Postal Service.

MR. TIDWELL: Counsel, could you give us a specific citation?

MR. WOLL: Certainly. That's OCA-7.

MR. TIDWELL: Okay.

BY MR. WOLL:

Q You had stated earlier that Priority Mail takes precedence to First Class mail in mail processing --

A Yes.

Q Does Priority Mail have a higher service standard than First Class mail?

A Yes.

Q Now one thing I wanted to make sure of, we have sent you several interrogatories regarding overnight



1 standards, two day standards, three day standards both for  
2 First Class mail and also for Priority mail, and I wanted to  
3 make sure that they are measured -- they are measured the  
4 same way, are they not?

5 A We need to be perhaps more precise than that.

6 Q Okay. My understanding is that for First Class  
7 mail the service standard is measured from the scheduled  
8 date of collection to the date of delivery to the addressee,  
9 that that is what EXFC measures?

10 A Yes. That is my understanding.

11 Q And my understanding is that the ODIS data for  
12 Priority Mail measures the postmark to the delivery to the  
13 destination delivery unit?

14 A Postmark or meter indicia, I believe.

15 Q Okay. Now when we talk about the Priority Mail  
16 service standard are we talking about from date of scheduled  
17 pickup to the time of delivery to the addressee, or are we  
18 talking about what ODIS data measures?

19 A No, we are clearly, we are talking about the  
20 measure of service.

21 The numbers that get reported for the EXFC are not  
22 the same as the -- not measuring the same sender to  
23 recipient --

24 Q Agreed.

25 A -- as ODIS. That is one of the reasons that they

1     went to EXFC for First Class was to get a handle on the two  
2     parts that are not reflected in the, at least in the  
3     postmark.

4             I suppose the meter strip really does at least  
5     reflect when it was metered and if the meter is up to date  
6     it would be accurate. If the meter has not been set up to  
7     date it could even be giving an erroneously early date of  
8     entry into the system.

9             I know that when they did First Class, ODIS, the  
10    metered scores were always a little lower than the stamp  
11    scores. They reported those separately and one argument  
12    that was made was that that was because some of the meter  
13    dates were stale -- just as maybe a digression or point of  
14    information.

15            Q     Thank you, but regarding the published service  
16    standards, such as were provided by the Postal Service in  
17    the filing under Rule 54 --

18            A     Yes.

19            Q     -- those published standards are identical? For  
20    Priority Mail they would also be from meter strip date or  
21    date of scheduled pickup to date of addressee, delivery to  
22    addressee?

23            A     To my knowledge, that is not specifically  
24    addressed in the standards and my understanding of how they  
25    are applied is that it is something like the postmark or the

1 collection, the actual collection, not the deposit in the  
2 collection box.

3 We can't really start following the procedures  
4 that are set out in the Postal Operations Manual until  
5 somebody has actually got their hands on the mail.

6 Q Okay. Are the standards any different for First  
7 Class mail, the service standards, how they are measured?  
8 What is considered to be two days, is it any different for  
9 First Class mail and Priority Mail?

10 A Very different.

11 Q Okay. The published standards?

12 A The published standards -- I guess I don't  
13 understand.

14 Q Okay, let me --

15 A The published standards simply say -- maybe we  
16 should look at them -- they are attached to DMA-4, I think.

17 This is the Rule 54N, and there the shaded squares  
18 are one day, overnight, second day, and third day for both  
19 Priority and First Class.

20 Q Right.

21 A Over in the Notes column, it says that with  
22 respect to Priority, primarily a two day product. With  
23 respect to First Class it says 11 ounces or less.

24 What I was -- what I had in mind when I said "much  
25 different" was not this chart, although it is suggested by

1     that note "primarily a two day product" but it is the case  
2     that the area of the country covered by the two day  
3     commitment for Priority Mail from a given location, such as  
4     Washington, D.C. or any other location, is generally  
5     significantly greater for Priority Mail than for First  
6     Class.

7           Q     But when you are talking about that commitment,  
8     you are talking about from the time of pickup to the time of  
9     delivery to addressee?

10          A     Let me --

11          Q     Let me ask the question another way.

12                   APMU-2 to you --

13          A     Right.

14          Q     -- you confirm that the overnight commitment area  
15     for Priority Mail is generally the same as for First Class  
16     mail?

17          A     Yes.

18          Q     Now I understand that the geographical boundaries  
19     are generally the same. Are we talking about measuring the  
20     same breadth of service? Are we talking about for the  
21     commitment for Priority Mail the time it is picked up,  
22     scheduled to be picked up in the collection box, to the time  
23     it is delivered to the addressee?

24          A     I'm sorry, I am going to have to ask you to do  
25     that one again.

1           Q     Sure. For Priority Mail, when we talk about an  
2     overnight commitment for Priority Mail, when the Postal  
3     Service measures whether or not they have met that  
4     commitment, are they measuring from when they have -- when  
5     the scheduled pickup time was for that piece of Priority  
6     Mail to when it was delivered to the addressee?

7           A     No. My responses earlier indicate that it is from  
8     either the postmark, which is after we picked it up,  
9     presumably the same day, or the meter strip, which may or  
10    may not be, and it's on the destinating end when the piece  
11    is ready for delivery but not when it is actually in the  
12    hands of a recipient who may -- the carrier may not be  
13    successful in making the delivery even though it is  
14    available on the day.

15          Q     Now are the EXFC data used to measure delivery  
16    performance for First Class mail?

17          A     Yes.

18          Q     And they measure more than the, more of the mail  
19    processing than the measurement used for Priority Mail?

20          A     Yes. They do measure deposit to delivery. I  
21    thought I had already --

22          Q     Yes. I just wanted to confirm that. Thank you.

23                We have been awaiting the filing of the library  
24    reference, as you know, 234, so that we would have First  
25    Class ODIS data that would appear to be comparable to the

1 Priority Mail data that we had received previously and that  
2 was provided in response to an interrogatory.

3 In response to -- in the amended, revised response  
4 to Mr. Carlson's interrogatory, you indicated that the best  
5 data available for Priority Mail was the information in the  
6 DMA interrogatory.

7 A Right. Yes, I think the library reference 234 was  
8 a number that we had reserved in anticipation of needing to  
9 file a library reference in response to another  
10 interrogatory that dealt with First Class service standards.

11 It was -- counsel informs me that it was for the  
12 priority mail --

13 Q Yes.

14 A -- and so, the amended response does --

15 Q So --

16 A -- tidy that up, yes.

17 Q Very good.

18 We have -- as we have provided to your counsel, we  
19 have gone ahead and taken the EXFC data which you have  
20 provided --

21 A Uh-huh.

22 Q -- in response to NAA 16, as well as the DMA --  
23 data from the DMA response that you cited and your revised  
24 response to Mr. Carlson, and placed them on a single page.

25 A Yes.

1           MR. WOLL: And we would like to, at this point,  
2 designate this as MMDS cross examination Exhibit 1, if we  
3 may distribute them?

4           CHAIRMAN GLEIMAN: Certainly.

5                               [Exhibit No. MMDS-1 was marked for  
6 identification.]

7           MR. WOLL: Thank you.

8           BY MR. WOLL:

9           Q     Dr. O'Hara, have you had a chance to look at these  
10 -- this data?

11          A     Yes, I have.

12          Q     Okay. And to some extent, as we discussed, it's  
13 somewhat of an unfair comparison, is it not, in that there  
14 is actually more of the mail processing being measured in  
15 the EXFC than there is in the ODIS data for priority mail.

16          A     There is a difference, yes.

17          Q     Yes. And more is being captured in the  
18 first-class EXFC data than the ODIS priority mail data.

19          A     In terms of the length of -- the span of  
20 operations included, yes.

21          Q     Now, going back to APMU-2, we had talked about how  
22 the overnight commitment area for priority mail, you  
23 indicated, was generally same, geographically, to that of  
24 first-class mail.

25          A     Yes.

1           Q     Now, as we look at this data for the past three  
2 years, is it not the case that, for every period of time,  
3 from the first quarter of postal fiscal year 1995, that the  
4 EXFC data in the overnight category for first-class mail  
5 out-performed the priority mail under the ODIS system?

6           A     Yes, that's correct.

7           Q     Okay.

8                     Does this data indicate to you that first-class  
9 mail receives better actual service from the Postal Service  
10 than priority mail?

11          A     Within the overnight area, I think it does.

12          Q     Okay. Thank you.

13          A     And that's where the --

14          Q     Now, Dr. O'Hara, if I may move on --

15          A     I guess I would really like not to just leave it  
16 at that. I've touched on this point before.

17                     The two-day area for priority is much larger than  
18 for first-class.

19                     The measures are still a little different in the  
20 -- in the span of what's measured, and in that sense, the  
21 differences bounce around a little bit also for -- for  
22 priority two-day, and priority two-day first-class has also  
23 not got the steady upward trend.

24                     I think the wider geographic area covered by  
25 priority mail under the two-day standard and the smaller



1     portion that's left under three-day -- which I do note in --  
2     in APMU-2 also need to be taken into consideration in  
3     judging the relative service provided to these two classes  
4     of mail.

5             Q     I understand. But we have --

6                     MR. WOLL: Could this data be included in the  
7     record?

8                     CHAIRMAN GLEIMAN: Are you asking for the cross  
9     examination exhibit to be included in the record?

10                    Is there any --

11                    MR. WOLL: Yes.

12                    CHAIRMAN GLEIMAN: -- objection?

13                    [No response.]

14                    CHAIRMAN GLEIMAN: No objection. It will be  
15     included in the record.

16                                    [Exhibit No. MMDS-1 was received  
17                                    into evidence and transcribed into  
18                                    the record.]

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MMDS  
Cross Functional  
R1

**Comparison of Priority Mail (ODIS) and First-Class Mail Service Performance (EXFC), PFY 1995-97**

**Overnight Service Standard**

	PFY 1995 Quarter 1	PFY 1995 Quarter 2	PFY 1995 Quarter 3	PFY 1995 Quarter 4	PFY 1996 Quarter 1	PFY 1996 Quarter 2	PFY 1996 Quarter 3	PFY 1996 Quarter 4	PFY 1997 Quarter 1	PFY 1997 Quarter 2	PFY 1997 Quarter 3
First-Class	84	85	87	87	88	87	90	91	91	91	92
Priority	82	81	86	86	85	83	87	89	86	85	87
Difference	2	4	1	1	3	4	3	2	5	6	5

**Two-day Service Standard**

	PFY 1995 Quarter 1	PFY 1995 Quarter 2	PFY 1995 Quarter 3	PFY 1995 Quarter 4	PFY 1996 Quarter 1	PFY 1996 Quarter 2	PFY 1996 Quarter 3	PFY 1996 Quarter 4	PFY 1997 Quarter 1	PFY 1997 Quarter 2	PFY 1997 Quarter 3
First-Class	76	75	79	80	80	76	80	80	76	72	79
Priority	79	72	80	82	80	67	79	82	78	65	77
Difference	-3	3	-1	-2	0	9	1	-2	-2	7	2

**Three-day Service Standard**

	PFY 1995 Quarter 1	PFY 1995 Quarter 2	PFY 1995 Quarter 3	PFY 1995 Quarter 4	PFY 1996 Quarter 1	PFY 1996 Quarter 2	PFY 1996 Quarter 3	PFY 1996 Quarter 4	PFY 1997 Quarter 1	PFY 1997 Quarter 2	PFY 1997 Quarter 3
First-Class	80	76	82	83	82	71	82	83	79	70	80
Priority	80	67	84	87	82	71	79	82	79	66	79
Difference	0	9	-2	-4	0	0	3	1	0	4	1

Sources: NAA/USPS-T30-16; DMA/USPS-T4-21; see also NDMS/USPS-T4-21

PRIORITY MAIL SERVICE REPORT  
 NATIONAL SUMMARY  
 STAMPED AND METERED COMPOSITE -- IDENTIFIED AND NON-IDENTIFIED

		PQ				
		01	02	03	04	
SERV		% ON	% ON	% ON	% ON	
COMM	FY	TIME	TIME	TIME	TIME	
-----						
1 DAY	95	82	81	86	86	
	96	85	83	87	89	
	97	86	85	87	.	
2 DAY	95	79	72	80	82	
	96	80	67	79	82	
	97	78	65	77	.	
3 DAY	95	80	67	84	87	
	96	82	71	79	82	
	97	79	66	79	.	

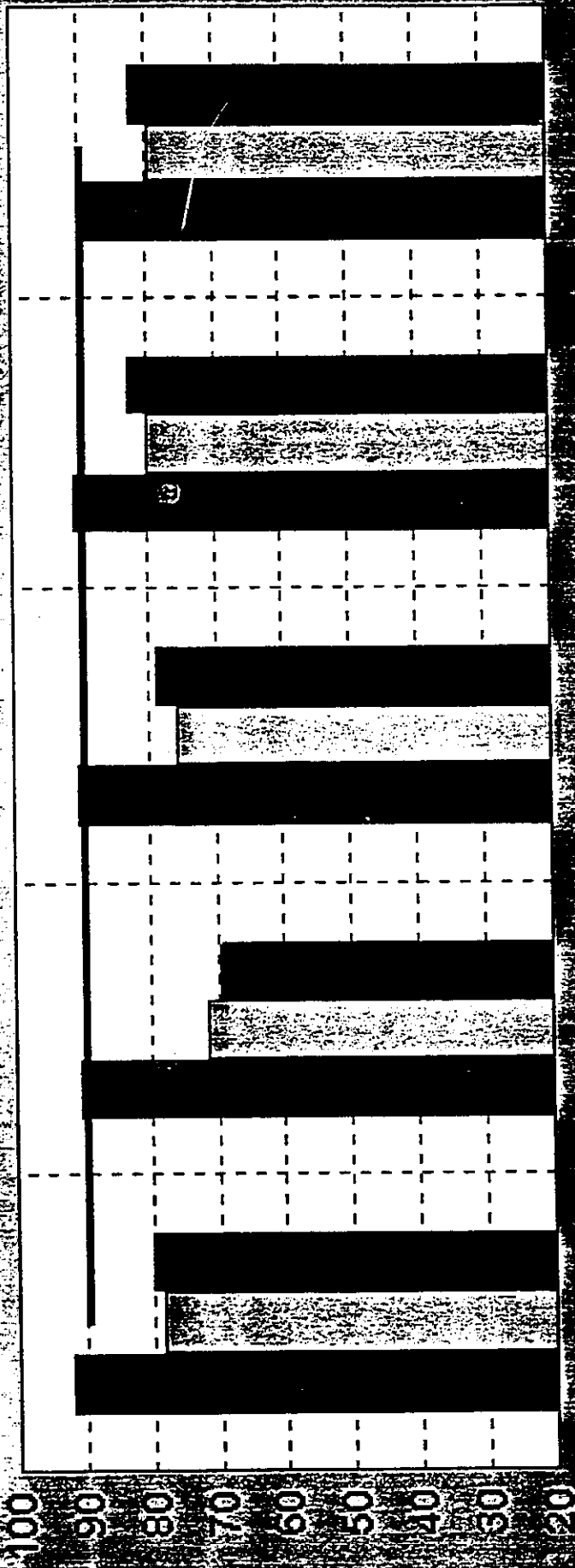
## Service Performance Ireland

Stamped/Metered First Class

Destinating

NATIONAL

DELIVERED ON TIME



Overnight

Two-Day

Three-Day

Source: Price Waterhouse

EXFO: 09/08/97

RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

415

**NAA/USPS-T30-16.** Please provide the Postal Service's delivery performance (that is, success in meeting delivery standards) for First Class Mail for Fiscal Years 1995 and 1996. Please state separately the delivery performance for overnight, two day, and three day service.

**RESPONSE:**

Quarterly EXFC data for the requested time period is presented below.

	<u>95:1</u>	<u>95:2</u>	<u>95:3</u>	<u>95:4</u>
Overnight	84.1	84.5	86.8	87.2
Two-day	75.5	75.0	79.1	80.1
Three-day	80.2	75.5	82.2	82.7
	<u>96:1</u>	<u>96:2</u>	<u>96:3</u>	<u>96:4</u>
Overnight	87.8	87.3	90.4	91.2
Two-day	79.5	75.5	80.0	80.3
Three-day	82.2	70.9	82.4	82.8

1 BY MR. WOLL:

2 Q Now, Dr. O'Hara, in your assessment of priority  
3 mail's value of service in setting the cost coverage, did  
4 you look at the priority mail processing center contract and  
5 what improvements there might be in the test year in service  
6 through that contract?

7 A I did not look specifically at that. I am not  
8 sure how I could, if I could, having read the contract, get  
9 from there to service improvements.

10 I know that is one reason that is mentioned as  
11 --as a benefit of the contract, and I suppose, if that were  
12 the case, it might do something to restore the differential  
13 that you just pointed out between first-class and priority,  
14 but as I say, I did not try to examine the contract to -- in  
15 any respect, but in particular not to try and -- and figure  
16 whether it would have a -- an identifiable impact on -- on  
17 reliability or quality of service.

18 CHAIRMAN GLEIMAN: Excuse -- excuse me, Counsel.  
19 If I could just clarify, the -- the cross examination  
20 exhibit will be admitted into evidence and transcribed into  
21 the record.

22 BY MR. WOLL:

23 Q So, you would -- you're of the impression that the  
24 PMPC contract would improve the quality of service provided  
25 to priority mail.

1           A     That's my impression, but I have to say that I  
2     don't consider myself to know anything about the details of  
3     that contract or to have taken any presumed effect of that  
4     sort into account in -- in my rate levels.

5           Q     Your response to APMU 6, you state that Priority  
6     Mail plant loads will no longer be permitted at air mail  
7     centers. Is there any difference between an air mail center  
8     and an AMF?

9           A     My understanding is not. I asked somebody about  
10    that because I was used to hearing AMF as an acronym and  
11    when I asked to be informed about this question, I got a  
12    response back mentioning AMCs and I asked is that the same  
13    and I think the functional answer is, yes. There may be  
14    some level of detail within the Postal Service at which that  
15    distinction makes a difference but I think for the purposes  
16    of this question, at least as I understand it, they are the  
17    same thing.

18          Q     Very good. Thank you.

19                I would like to explore the assumption of improved  
20    service though under the PMPC contract. I would like to  
21    start with the current practice of one of our clients and  
22    ask you to assume that these facts are true.

23                For Nashua Photo, Priority Mail is picked up by  
24    Parkersburg plant at 3:05 p.m. and it is sent to the  
25    Pittsburgh air port. The trip takes approximately three

1 hours. Nashua is advised that it takes approximately two  
2 hours to get the mail sorted, transported and ready to be  
3 loaded on the correct plane, which puts us at about 8:00  
4 p.m. which allows for most shipments to make departing  
5 flights each evening.

6 Do you know where the Pittsburgh PMPC will be?

7 A No. You are way beyond my level of knowledge  
8 here.

9 Q And you don't know whether they are planning on  
10 putting them adjacent to or anywhere near the AMCs?

11 A I have no idea. I think I might as well just stop  
12 right about there because anything would be pure  
13 speculation.

14 Q Insofar as the Priority Mail mailer would lose the  
15 capacity to deliver directly to the airport and presumably  
16 have to ship it to another location, would it not be logical  
17 to assume that there would be a deterioration in service  
18 under that requirement?

19 A Well, I understand your reasoning but I think that  
20 we cannot assume that there will be a deterioration in  
21 service. The rest of that interrogatory response says in  
22 the final sentence, we expect that this arrangement, which  
23 talks about alternate ways of getting plant loads into the  
24 network, will not have any negative effect on the services  
25 received by this mail.



1           Again, I know no more than that but I think that  
2    did come from people in the Postal Service who were in a  
3    position to answer the question. They may not know the  
4    details of how that is going to be worked out but I think at  
5    least that speaks to an intention that this should not have  
6    a negative effect on the service received by that mail,  
7    which -- now I am just quoting from the interrogatory  
8    response.

9           Q     Dr. O'Hara, isn't there some Priority Mail that is  
10   essentially heavyweight First Class Mail over 11 ounces?

11          A     Yes.

12          Q     Now, in your analysis of Priority Mail and your  
13   setting of the cost coverage, you did not consider <sup>ECST</sup>~~XE~~,  
14   Criterion 8, for Priority Mail. May I ask why you did not?

15          A     With respect to Criterion 8, across the board, all  
16   the subclasses, the Postal Service is not proposing any  
17   changes from previous Commission determinations. The  
18   Commission has, with respect to First Class mentioned, I  
19   believe it was in R-87, the presentation by the New York  
20   Consumer Advocate, I believe, that suggested consumers did  
21   place some XE value on their First Class Mail but did not  
22   adjust the cost coverage on that account. And I am not  
23   proposing any further adjustment here, basically taking that  
24   determination as reflected in previous rates, cost  
25   coverages, and not proposing to make any particular

1 adjustment on that account. So basically I am treating  
2 Priority Mail like First Class, leaving it where it is and,  
3 if I recall correctly, while the ~~XB~~<sup>ECST</sup> value was mentioned in  
4 R-87, there was no explicit, at least, adjustment of the  
5 cost coverage on that account.

6 Q And so with First Class Mail, you did not do any  
7 adjustments to reflect ~~XB~~<sup>ECST</sup>.

8 A I did not make any adjustment beyond what is  
9 already reflected in previous rates and cost coverages.

10 Q What you obtained in R-94?

11 A Yes.

12 Q May I ask you to refer to your testimony at page  
13 27?

14 A Yes.

15 Q There you speak at lines 12 through 13. You say  
16 that the proposed 7.4-percent rate increase for Priority  
17 Mail is above the systemwide average of 4.5 percent, but is  
18 below the rate of inflation in the economy as a whole. Is  
19 that correct?

20 A Yes. I mean, that's not a verbatim quote, but  
21 that is the sense of it.

22 Q Yes. Okay. Thank you.

23 And you state that this above-average rate  
24 increase for Priority Mail should not have an unacceptable  
25 effect on mailers; is that correct?

1           A     I do.

2           Q     When you assessed the effect that this  
3 above-average increase would have on mailers, had you  
4 analyzed the status of Priority Mail's market share?

5           A     I had not.

6           Q     Okay.

7                     Did you review the opinion and recommended  
8 decision in R94-1 as you were preparing your cost coverages?

9           A     I did.

10          Q     Did you recall seeing the discussion there  
11 regarding the decrease Priority Mail's market share from 76  
12 percent in 1990 to 72 percent in 1993?

13          A     I do recall that, but I don't believe I had it in  
14 mind when I was developing the coverage.

15          Q     Did you recall where the Commission had found that  
16 Priority Mail's decline in market share had signified  
17 potential market deterioration and supported a below  
18 systemwide average rate increase?

19          A     Yes, and the above average increase here is one of  
20 those cases where the new costing methodology shows its  
21 face.

22                     The volume and variable cost of Priority Mail were  
23 reduced less than average by the change in costing  
24 methodology and in accordance with some of the testimony we  
25 were talking about earlier, we wind up here seeing that

1 reflected in a greater than average increase for Priority  
2 Mail.

3 Q But you did not check the current status of  
4 Priority Mail's market share?

5 A I did not.

6 Q Okay. Because it went down from 76 percent, as I  
7 said, in 1990 to 72 percent three years later, and according  
8 to Witness Sharkey it was 62 percent in 1996.

9 Do you think that a drop of 10 percent in market  
10 share might have led you, had you identified that, to  
11 further reduce the cost coverage for Priority Mail?

12 A It's difficult to say.

13 It's clear as with other things that it points  
14 toward a lower cost coverage or rate increase than  
15 otherwise, but I am not sure whether as a hypothetical it  
16 would have had a significant effect or not, and I don't  
17 disagree with the direction it points.

18 Q Okay, but you felt that you did address the  
19 concerns that the Commission had raised in R94-1 regarding  
20 the cost coverage for Priority Mail?

21 A Well, among those concerns but also taking into  
22 account the effects of the costing methodology change, this  
23 is where we wound up -- all these things have to come  
24 together in one number and we came together with the 7.4  
25 percent increase, the coverage that resulted in that

1     increase, which is above average.

2                 MR. WOLL:  Thank you, Dr. O'Hara.

3                 CHAIRMAN GLEIMAN:  Newspaper Association of  
4     America.

5                                 CROSS EXAMINATION

6                 BY MR. BAKER:

7                 Q     Good afternoon, Dr. O'Hara.  For the record, I am  
8     Bill Baker, appearing on behalf of the Newspaper Association  
9     of America.

10                 Dr. O'Hara, am I correct the basic purpose of your  
11     testimony is to assign the unattributed costs according to  
12     the Postal Service's proposed methodologies among the  
13     subclasses --

14                 A     The nonvolume variable costs, yes.

15                 Q     -- to meet the revenue requirement, and you do so  
16     by applying the statutory factors found in Section 3622 of  
17     the Act?

18                 A     Yes.

19                 Q     And in this case the costs that have not been  
20     attributed according to the Postal Service's methods, are  
21     they a greater proportion of the revenue requirement than in  
22     past cases?

23                 A     Yes, they are.

24                 Q     And in fact they are about 45 percent of the total  
25     revenue requirement, aren't they?

1           A     I'll accept that but I haven't checked it.

2           Q     Do you recall what the comparable figure might  
3     have been for R94?

4           A     It would have been closer to 33 or 35.

5           Q     So they're a lot larger percentage?

6           A     Yes.

7           Q     In this case?

8           A     Yes that's correct.

9           Q     And is the principal reason for that larger  
10    percentage the fact that in this case the Postal Service has  
11    provided us with new cost analyses under which costs that  
12    previously were treated as 100 percent volume variable now  
13    are not?

14          A     Yes.

15          Q     Does that account for most of the increase or all  
16    of it, or --

17          A     I have not done any calculations or seen any  
18    calculations that let me be precise about that, but I did  
19    have an interrogatory from some party that suggested that  
20    that was the case and said that increased work sharing might  
21    be little or nothing, and I demurred on the little or  
22    nothing.

23                 I think there has been a significant increase in  
24    work sharing and that might also have had an effect.

25          Q     That certainly can -- it's more than half of the

1 explanation for the larger percentage?

2 A Yes, yes. I wouldn't --

3 Q These costs have not disappeared, have they?

4 A Correct.

5 Q They are simply -- I say simply -- they have been  
6 reclassified as nonvolume variable?

7 A Yes.

8 Q So these new methodologies do not directly affect  
9 the revenue requirement, do they?

10 A Correct.

11 Q You used these new cost methodologies to -- as  
12 part of the volume variable costs that you use in your  
13 testimony?

14 A I used the output of the cost methodology which  
15 basically applies to mail processing and a few other cost  
16 components, I think, but yes, I used the output of that  
17 methodology.

18 Q So, to be specific, the cost coverages that you  
19 proposed are based in part on the lower volume variabilities  
20 estimated by Professor Bradley?

21 A Yes.

22 Q Do you regard these newly non-volume variable  
23 costs as institutional?

24 A I prefer the simple label, non-volume variable.

25 Q Do you take these costs into account insofar as

1 they may be considered incremental costs or sub-class?

2 A Yes. I take the -- use the incremental cost of  
3 each sub-class, which will include some non-volume variable  
4 cost, and I use that as the basis to apply the cost floor  
5 requirement that revenues must exceed ~~distributable~~ <sup>attributable</sup> cost in  
6 -- in -- under criterion three.

7 Q So, the sub-class is not really avoiding the  
8 non-volume variable costs which previously were treated as  
9 volume variable to it, is it?

10 A The system as a whole is not avoiding them. Any  
11 particular sub-class differentially affected and, I guess,  
12 may be presumed to benefit from better information, but the  
13 costs have not been removed by the change in methodology.  
14 It's simply a refinement in -- substantial refinement in  
15 --in the measurement.

16 Q Perhaps to restate my question, then, if costs  
17 that previously, in prior cases, had been treated as volume  
18 variable are now considered non-volume -- non-volume  
19 variable but incremental to a sub-class, that sub-class has  
20 not fully avoided responsibility for incurring those costs,  
21 has it?

22 A Certainly not.

23 Q Now, one consequence of the new attribution  
24 methodologies in this case is that the system-wide average  
25 cost coverage is higher than in the past, correct?



1 A Yes.

2 Q And in fact, that's why you devote a portion of  
3 your testimony to the merits of using the cost coverage  
4 index rather than a mark-up --

5 A Right.

6 Q -- index.

7 Suppose the commission does not accept Professor  
8 Bradley's new mail processing cost methodologies but,  
9 instead, decides to continue to treat those costs in the  
10 past manner as 100-percent volume variable. There is an  
11 interrogatory on this --

12 A Okay.

13 Q -- I'll get to, but before we get to that, in --  
14 would this reduce the proportion of non-volume variable  
15 costs from that in the Postal Service's proposal?

16 A I'm sorry. I've lost the whole threat there as a  
17 result of --

18 Q The -- the supposition of the question is that the  
19 commission does not accept Professor Bradley's new analysis  
20 --

21 A Right.

22 Q -- and therefore treats them as attributable, as  
23 -- mail processing --

24 A Mail processing --

25 Q -- is 100-percent attributable. That would,

1 necessarily, would not reduce the proportion of non-volume  
2 variable costs.

3 A Yes. Yes.

4 Q And would the re-classification of those costs  
5 back to attributable by itself make much difference in the  
6 overall revenue requirement?

7 A No. No.

8 Q But it would require, on average, lower cost  
9 coverages.

10 A Yes.

11 Q Simply as a matter of arithmetic?

12 A Yes. Yes.

13 Q And indeed, wouldn't the average cost coverage  
14 decline back to about the approximate levels of past cases?

15 A I would expect so.

16 Q Now, let's turn to NAA-2 to you.

17 A Okay.

18 Q And if you'd take a moment to --

19 A Uh-huh.

20 Q -- refresh your answer there. Have you --

21 A Not quite. Okay.

22 Q Is it a correct reading of your answer here that,  
23 under the assumption we're still making that the commission  
24 does not accept Professor Bradley's new testimony, that you  
25 would want to do more than simply reduce your proposed cost

1 coverages by some uniform index?

2 A Well, the -- I'm not sure if that's implied by  
3 what I've said here.

4 What I've said is -- is simply that, if we have a  
5 change in the -- the costs that are going to be used by the  
6 commission, would I want coverages that produce the same  
7 rates that I proposed on -- on the cost coverage that I am  
8 using or -- it says somewhat lesser rates for the effected  
9 sub-classes. Well, we can't have everybody have lesser  
10 rates.

11 But my answer says, if you change the cost  
12 methodology, if you reject, whole or in part, Professor  
13 Bradley's variability and put some costs differentially back  
14 into different sub-classes, then I would expect that to show  
15 up in adjustments to the rate increases that are implicit in  
16 my cost coverages.

17 Q Is that because the new cost methodologies in  
18 Professor Bradley's testimony and elsewhere do not affect  
19 the volume variability of all the sub-classes equally?

20 A Yes. Yes.

21 Q Do you also have in part here a concern about the  
22 size of the ultimate range change that the sub-class would  
23 experience, the final rate?

24 A Well, the -- the hypothesis of this question is I  
25 get back to the same rates as I'm proposing, so that would

1 be no bigger concern under the reversion to the previous  
2 methodology than it is and has already been taken into  
3 account in my proposed rates.

4 Q In other words --

5 A If we were doing something else, then of course I  
6 would be revisiting the whole set of coverages and -- and  
7 the rate impact would be a criteria, but in this particular  
8 example, we get back to rates that have already been  
9 examined from that point of view.

10 Q You always want to look at the final rate to see  
11 what the rate impact would be.

12 A Sure.

13 Q I want to move -- to ask you a short line of  
14 questions about your process that you went through here in  
15 preparing your testimony. You began your work I take it by  
16 using the markup index from the most recent cases.

17 A I began --

18 Q Began --

19 A Began and I think it's fair to say come at this  
20 from several different directions making a little progress  
21 on each, but in thinking in particular about how to deal  
22 with the reduced level of systemwide volume-variable cost,  
23 increased level of nonvolume-variable cost. That's exactly  
24 what I did. It's sort of -- everybody that I can think of  
25 natural first thought. Markup index is what's been used,

1 let's go use it.

2 Q Did you -- in particular did you look at the R-94  
3 markup index or did you look at -- for a subclass that had  
4 undergone a reclassification proceeding did you look at that  
5 one?

6 A A good deal of what I was doing was at a more  
7 abstract level than that, but I believe that I did certainly  
8 at one point get to looking at the actual subclasses and the  
9 actual cost as they were preliminarily available at that  
10 time and looked then at the coverages then in effect, which  
11 would be a combination of R-94 and MC 95-1.

12 Q And did -- and in starting with those markups I  
13 believe you have an interrogatory response, but the gist of  
14 it is those markups had been found reasonable in the  
15 circumstances of those cases, had they not?

16 A Yes. Yes.

17 Q And therefore they were a reasonable place for you  
18 to start --

19 A Right.

20 Q The consideration.

21 A And I would say the same thing about the coverage  
22 in those cases.

23 Q Um-hum.

24 A It's only when we get to indexes that I found that  
25 it makes a difference.

1           Q     And after a while it occurred to you that it would  
2     be preferable for the reasons described in your testimony to  
3     use a cost-coverage index rather than a markup index.

4           A     Yes.

5           Q     And is that a change in the Commission's previous  
6     practice?

7           A     I'm not sure. It certainly is a change from the  
8     way I would have expected the Commission to do things, but  
9     this is a rather qualitatively at least different situation.  
10    The ratio of institutional or total costs to the  
11    volume-variable cost changes a little bit every case. As  
12    long as we're only talking about a small change in that,  
13    it's pretty hard to tell whether you're using a markup index  
14    or a coverage index in terms of the results that are  
15    produced, given that you're also probably making adjustments  
16    on other grounds.

17                     In this case the adjustments between  
18    volume-variable and nonvolume-variable cost is big enough  
19    that it does make a real obvious difference which you use.  
20    So I certainly can't say that yes, the Commission has always  
21    used a coverage index. Quite the contrary, I think the  
22    Commission has explicitly used a markup index, but in  
23    situations where there wasn't that much difference between  
24    them, at least compared to this situation.

25           MR. BAKER: Mr. Chairman, I'm about to move to a

1 different line and will go on for a while. What is your  
2 desire regarding an afternoon break?

3 CHAIRMAN GLEIMAN: You're a great man, Mr. Baker.  
4 You're a humanitarian. I think we're going to take our  
5 10-minute break right about now.

6 [Recess.]

7 CHAIRMAN GLEIMAN: Mr. Baker.

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

9 BY MR. BAKER:

10 Q Dr. O'Hara, could you turn to page 14 of your  
11 testimony, the paragraph beginning on line 10 where you  
12 discuss the proper starting point for adding the markups?

13 A yes.

14 Q Okay. You have gone over this a little bit this  
15 morning with counsel for McGraw-Hill. I just want to touch  
16 a few points.

17 There are at least three candidate bases, bases  
18 from which to proceed mentioned in this testimony. I want  
19 to go over them one by one.

20 First is volume variable costs, which is in fact  
21 the one you used. Your testimony on line 11 of page 14 also  
22 uses the term attributable cost, which you define as volume  
23 variable plus specific fixed costs; is that correct?

24 A Yes.

25 Q And is it the Commission's past practice to assign

1 the cost coverages from that measure?

2 A That's my understanding, yes.

3 Q And on two lines down, in line 13, your testimony  
4 uses the phrase incremental cost. Do you see that?

5 A Yes.

6 Q To your knowledge, has the Commission previously  
7 used these terms?

8 A Volume variable, certainly, and incremental cost  
9 has at least shown up in the Commission's decision. I have a  
10 footnote somewhere.

11 Yes, it is footnote two on page 12 which says,  
12 skipping the first two words which I think would require me  
13 to read the preceding sentence as well, but the Commission  
14 has specifically recommended that the Postal Service develop  
15 incremental cost estimates to allow it to perform the  
16 cross-subsidy test. I cite the R-94 opinion and recommended  
17 decision, Appendix F at paragraph 170, so at least the  
18 concept has been before the Commission before.

19 Q Are you using the terms "attributable costs" and  
20 "incremental costs" in a way that they have different  
21 meanings?

22 A Generally, yes.

23 Q What is the difference as you use the terms?

24 A Attributable cost, at least as used in previous  
25 Commission decisions is volume variable cost plus specific



1 fixed. Incremental cost will include as well as those two  
2 things the costs that are referred to by Witness Takis as  
3 inframarginal, we had that earlier today. The costs that  
4 would result from taking the entire volume of the subclass  
5 in question out of all the operations where it appears and  
6 assuming those operations have a declining marginal cost  
7 driving the marginal cost for the remaining mail up, the  
8 difference between the -- the difference between volume  
9 variable cost and this inframarginal cost is that it is the  
10 triangular area under the curve between the line, volume  
11 variable costs, the full volumes and the height of that  
12 curve at the reduced volume.

13 I don't imagine that is intelligible unless you  
14 can picture that diagram in Witness Takis' testimony.

15 Q Well, I actually think I understand --

16 A Well, I'm sure having probably spent more time on  
17 that than most people, I'm sure it would be familiar to you  
18 practically with no diagrammatic reference.

19 Q Well, you flatter me. But to sum up, the terms  
20 "volume variable cost," "attributable cost" and "incremental  
21 cost" as used in your testimony have different meanings?

22 A Yes.

23 Q Yes.

24 A Incremental costs are including everything that's  
25 in attributable cost and -- attributable cost including

1 volume variable cost. So, they -- they are nested in that  
2 sense.

3 Q And you are aware, I -- I -- from page two of your  
4 testimony, that the Postal Reorganization Act does use the  
5 term "attributed."

6 A Yes.

7 Q Okay.

8 Can you agree that it does not use the term  
9 "volume variable" or "incremental"?

10 A I guess I could agree at least as I'm familiar  
11 with it. I certainly don't claim to be an expert on the  
12 whole act, but --

13 Q Certainly. It's 3622.

14 A Right.

15 Q And to return to page 12 or to touch on a concept  
16 we've used before, the difference between volume variable  
17 costs and attributable costs in past cases has been, in your  
18 testimony, very small and often zero.

19 A For particular sub-classes, yes, not the total.

20 Q Is that still true in this case?

21 A I'm sorry.

22 Q When I say is that still true, is it still true in  
23 this case that the difference between volume variable and  
24 attributable cost is small?

25 A No, it's -- it's not really true to the same

1 degree.

2 Q And -- and I notice that you are proposing to  
3 apply your cost coverages to volume variable costs only  
4 rather than the total of attributable costs.

5 A That's correct.

6 Q And in so doing, you are proposing a change in the  
7 commission's current practice, correct?

8 A I -- I think I am. I have said in the text  
9 somewhere that, because the difference between volume  
10 variable and attributable cost has been so small in -- in  
11 past cases, that I am not sure it's a change, and that it's  
12 more than a change in terminology, but it certainly is at  
13 least a change in terminology, and once we get to the point  
14 where there are these more significant differences between  
15 volume variable and incremental or attributable costs, it  
16 makes more of a difference what you use, and --

17 Q In the past, in past cases, recent rate cases, in  
18 which a sub-class has a difference between its volume  
19 variable costs and its attributable costs due to the  
20 presence of specific fixed costs or product-specific costs,  
21 do you know which basis the commission has used to assign  
22 institutional costs to that sub-class?

23 A Yes. They have used the attributable cost, the  
24 sum of volume variable and -- and specific fixed.

25 Q Thank you.

1           And as a result of this change, I notice that your  
2 terminology differs a little bit from that that some Postal  
3 Service witnesses have used in the past, and in particular,  
4 I note that you refer to the process that your testimony  
5 describes as applying the statutory factors to recover  
6 non-volume variable costs, whereas in the past the term  
7 "institutional costs" might have been used.

8           A     Yes.

9           Q     Okay.

10           Returning to page 14, line 10, I notice that you  
11 use the phrase "based on" in the sense -- "any rate-setting  
12 process based on something other than volume variable costs"  
13 and so on. My question is this. What does it mean to base  
14 prices on volume variable cost?

15           A     Well, what I mean at that point, at least, is to  
16 look at volume variable cost rather than some other cost  
17 concept in deciding how much above or where prices should be  
18 set relative to costs, that it's the volume variable costs  
19 which are the -- the cost caused by additional mail, if it  
20 comes, or removed by additional mail if it is driven away by  
21 a price increase, and therefore, that's one of the reasons  
22 you should look at that cost --

23           Q     So, it's a place you start.

24           A     Yes.

25           Q     Okay.

1           The practice -- is it the practice for this  
2       commission to set prices pursuant to a judgmental exercise?

3           A     That's my understanding. I think that's --

4           Q     And isn't it true that the ultimate amount that a  
5       price may differ from its volume variable cost can turn on a  
6       number of different factors?

7           A     Yes.

8           Q     And one factor often considered is whether the  
9       final rates would be too much of an increase for that  
10      particular sub-class?

11          A     Certainly.

12          Q     You have used, on page 14 of your testimony, a  
13      hypothetical example about the consequences of two postal  
14      products -- and now I'm quoting -- "having the same  
15      evaluation on the non-cost criteria" --

16          A     Uh-huh.

17          Q     -- close quote -- have different attributable  
18      costs.

19                My question is, as presented in your testimony, do  
20      you give any two postal sub-classes the same evaluation on  
21      the non-cost criteria?

22          A     No.

23          Q     On lines -- still on page 14, lines 14 and 15, you  
24      indicate as one of your reasons for wanting to use the  
25      volume-variable cost or the marginal cost as the starting

1 point is that the prices would accurately reflect the cost  
2 consequence of the decisions that mailers make.

3 The question is generally speaking does that mean  
4 if mail of a type A imposes a greater marginal cost on the  
5 Postal Service than of type B, then type A should have a  
6 higher price?

7 A With all the noncost evaluations the same, yes.

8 Q Um-hum. Suppose that after applying all of the  
9 statutory factors the resulting prices of types A and B  
10 depart from their marginal costs by differing amounts so  
11 that their prices are equal. Would you still say that their  
12 rates are based on marginal cost?

13 A You have to give me that again.

14 Q Well, I start with two types of mail, and one has  
15 a higher marginal cost than the other.

16 A Right.

17 Q But after evaluating all the factors of the act  
18 their price comes out the same.

19 A Um-hum.

20 Q Would you say their rates are still based on  
21 marginal costs?

22 A They're based on marginal costs, but as you said,  
23 as a starting point, and then you get to the other factors.  
24 Yes. But I would still consider those to be based on  
25 marginal cost.

1           Q     I'd like you to turn to your answer to DMA-10,  
2     which asked you to consider the world if the Commission were  
3     to base the markups on attributable costs or incremental  
4     costs or some other measure.

5           A     Um-hum.

6           Q     Do you have that?

7           A     I do.

8           Q     The answer states that if the institutional costs  
9     were assigned using attributable costs as the base, you  
10    would have recommended different cost coverages. Correct?

11          A     Actually --

12          Q     Or very probably.

13          A     Yes. I actually refer to incremental costs, but  
14    I --

15          Q     Um-hum. The answer would be the same if it were  
16    if it were attributable.

17          A     I don't think that would make a difference in the  
18    answer; right.

19          Q     One reason for this would be because of  
20    mathematical necessity. Isn't that --

21          A     Yes.

22          Q     For instance, one way one could do that would be  
23    through a uniform index reduction.

24          A     Um-hum.

25          Q     But your answer suggests that you wouldn't want to

1 stop there.

2 A Correct.

3 Q You go on to say that you would also probably have  
4 recommended different coverages relevant -- relative to the  
5 systemwide average; correct?

6 A Right.

7 Q And I notice that you specifically mentioned First  
8 Class mail as one subclass that possibly would have received  
9 a lower cost coverage; correct?

10 A I have to look -- I do mention First Class mail.

11 Q Um-hum.

12 A And take note of the fact that my cost coverage of  
13 200 percent on volume-variable cost if applied to  
14 incremental cost instead of volume-variable costs even after  
15 having been scaled down --

16 Q Um-hum.

17 A Because First Class mail letters have a bigger  
18 bump from the incremental cost or the inframarginal cost I  
19 probably would have had a rate increase for First Class mail  
20 that would have been undesirably large.

21 Q Um-hum.

22 A I haven't actually tried to work all those  
23 ramifications through, but 9-percent difference relative to  
24 the system average. I mean, 9 percent's the absolute  
25 difference between incremental and volume-variable.



1 Q Um-hum.

2 A The system average is not zero --

3 Q Um-hum.

4 A But it's smaller than that, and I think we could  
5 easily get to a situation where a mechanical scaling of my  
6 coverages would be in that case perhaps or other cases  
7 resulting in rate increases that would have undesirable  
8 impacts on users and maybe other undesirable consequences as  
9 well.

10 Q You mention in that answer the 9 percent by which  
11 the incremental costs of First Class mail as measured by the  
12 Postal Service in this case exceed the volume-variable cost.  
13 Is that a consequence again of the new cost methodologies  
14 that Professor Bradley and others have sponsored in this  
15 case?

16 A I believe it is. Yes.

17 Q I'd like to move now to Exhibit 30-B of your  
18 testimony.

19 A Okay.

20 Q If you could turn to that, please.

21 A I am ready.

22 Q Do you have it?

23 A Yes.

24 Q This exhibit was revised. What's the date that  
25 you have in your --

1 A I have 9/19.

2 Q Good. Then you and I are reading off the same  
3 page.

4 I wanted to ask if I am reading this correctly. I  
5 notice that on the far right of that exhibit is a column  
6 that is called Contribution to Other Costs. And does that  
7 number reflect the total aggregate contribution in the test  
8 year under the proposed rates to cost other than volume  
9 variable costs?

10 A That's correct.

11 Q And so if I were to look at line 4 for -- which I  
12 believe is total letters, First Class Mail, the figure would  
13 be 16 billion, 809 thousand, 20 --

14 A 809 million, et cetera?

15 Q Yes, 809 million, et cetera, and if you move down  
16 to standard regular, you would see the number is 2.8  
17 billion, standard ECR 2.4 billion. Am I reading these  
18 correctly?

19 A Yes, you are.

20 Q Parcel Post, 29 plus -- that's million?

21 A Million.

22 Q Million there.

23 Did you specifically consider these aggregate  
24 contributions in preparing your testimony?

25 A No, I didn't. I have a sense of the relative

1 magnitudes of the revenues from the various classes and the  
2 coverages on volume variable cost so I would have had a  
3 sense, but I did not specifically examine those particular  
4 numbers.

5 Q Thank you.

6 We also asked you about unit cost contributions in  
7 your interrogatories, do you recall?

8 A Yes, I think so. If you could give me the number?

9 Q Well, we asked you a number of questions but I  
10 think in -- let me see, if it's NAA -- maybe it's number 9  
11 to you.

12 A Yes, 9 and then I think there was a followup.

13 Q Right.

14 A But I have 9.

15 Q In the first paragraph of your answer to NAA-9 you  
16 state that you did not use contributions in preparing your  
17 testimony. I believe that's -- is that correct?

18 A I did not use previous unit contributions, yes.

19 Q Okay. In preparing your testimony, did you recall  
20 language from the Commission's decision in Docket MC95-1 at  
21 paragraph 3059 to the effect that: A weakness of using  
22 either of percentage cost coverage and unit contribution to  
23 compare levels of contribution is that in isolation they are  
24 unable to account for the widely divergent cost  
25 characteristics which exist in the mail stream?

1           A     I was aware of that, yes.

2           Q     Okay. Did you use unit contributions at all in  
3 preparing your testimony?

4           A     I was certainly aware of them. And specifically,  
5 knowing things that I had focused on directly in MC95-1, the  
6 difference in unit contribution between ECR and standard A  
7 regular and between the various broadly speaking work shared  
8 and non-work shared portions of First Class Mail even though  
9 the particular definitions I was working with in MC95-1 are  
10 not exactly those.

11          Q     Could you turn to NAA-10 to you?

12                 Here, we ask you to confirm our calculations of a  
13 number of unit costs contributions for test year 1998 and  
14 you did so with the exception of I believe it's (b) where  
15 you rounded to a different one-hundredth of a cent.

16          A     Right.

17          Q     Did you consider these differences in preparing  
18 your testimony?

19          A     Well, as I just said, I was aware of them, but I  
20 was not trying to achieve any particular relationship among  
21 them.

22          Q     So, for example, first-class letter mail makes a  
23 unit contribution of 17.55 cents in A, and standard ECR mail  
24 makes a unit contribution of 8.43 cents, which is less than  
25 half on a unit basis.

1 Does it bother you that the average first-class  
2 letter contributes more than twice the amount on a per-piece  
3 basis than the average piece of standard ECR or standard  
4 commercial mail generally?

5 A No, it doesn't.

6 The various level of -- I should say value of  
7 service indicators are generally higher for first-class, and  
8 even the -- not surprisingly -- the -- the cost on which  
9 that contribution -- the cost basis on which that  
10 contribution is calculated is -- is substantially higher for  
11 first-class.

12 So, I don't think it's bothersome, to adopt your  
13 word, that the unit contributions are also substantially  
14 different.

15 Q Do you happen to know the relative volumes,  
16 aggregate volumes, of first-class letters and commercial  
17 standard mail?

18 A That would be in my work papers.

19 Q Wouldn't it also be in Exhibit 30-G?

20 A I don't recall for sure, but I have both of them  
21 here.

22 Q Okay.

23 A Yes, it would be in Exhibit 30-G.

24 Q All right. And to get the relative volumes -- if  
25 I wish to compare the volumes of those two, would I go to

1 line seven of Exhibit USPS-30-G to get the volume forecast  
2 for total first-class mail?

3 A I think you would want -- if you're going back to  
4 the cost contributions we were just looking at --

5 Q I'm looking at volumes.

6 A -- you would go to line three.

7 Q I'm looking at volumes, though.

8 A It would be line three.

9 Q Line three? All right. Which is -- that's 95.4  
10 billion piece?

11 A Yes.

12 Q Okay.

13 A Total single plus --

14 Q And to compare that to commercial total, for  
15 instance, we would see volume 19. That would be 66.3  
16 billion pieces.

17 A Yes.

18 Q Okay. Ratio of about -- well, the ratio is 66  
19 billion to 95 billion, which is about two to three?

20 A Something close to that, yes.

21 Q Okay.

22 Do you have in your exhibits or work papers the  
23 total weight --

24 A I --

25 Q -- of --

1           A     I do not.

2           Q     -- first-class -- all right.

3           A     No.

4           Q     Do you happen to know whether the difference --

5 unit contribution between first-class letters and, I'll

6 call, standard commercial --

7           A     Uh-huh. The combination of the two.

8           Q     -- in combination -- has increased or decreased

9 over -- since the last case, last rate case, R94?

10          A     I don't know exactly. I know that several people

11 have mentioned the methodology change has a greater effect

12 on first-class than on Standard A.

13          Q     Uh-huh.

14          A     I've reflected that partially with a lower rate

15 increase, in percentage terms, for first-class, but I think

16 it's not sufficiently lower to keep the contribution from

17 first-class from having gone up relative to Standard A, but

18 that's something we really ought to be able to confirm

19 rather than speculate about.

20          Q     Okay.

21                 I want to move to a somewhat different subject

22 now.

23                 Have you been around long enough to know when the

24 concept of cost coverages was first employed?

25          A     No, I don't know for sure when it was first

1 employed.

2 I have seen tables presenting the numbers, going  
3 way back, but I do not know.

4 Q Was it at least 1980 or before, do you think?

5 A I don't know. I can for sure in '87. I think  
6 '84, but that is as far as --

7 Q That is as far as your knowledge goes?

8 A Right.

9 Q Well, even taking R87 as a benchmark, and you  
10 discuss this also in Number 7 to you from us, there are more  
11 rate categories now than when the Act was first adopted,  
12 correct?

13 A Yes.

14 Q And even more rate categories than in 1987?

15 A Yes.

16 Q And could we view Postal Service prices prior to  
17 the onset of work sharing discounts as being for an  
18 end-to-end service in a sense?

19 A I supposed, except that always between classes  
20 there were differences in the preparation requirements and  
21 those have only sort of expanded in detail. The basic  
22 differences are still there.

23 We have added some preparation options, not  
24 requirements, in First Class that were not there before and  
25 so added options in all the other classes, at least that we



1 have been talking about recently.

2 Q Would a rate for a Postal Service that has no work  
3 sharing discounts be an end-to-end service rate?

4 A I would think it would have to have <sup>no</sup> ~~to~~ preparation  
5 requirements, whether or not they are reflected in  
6 discounts.

7 CHAIRMAN GLEIMAN: Dr. O'Hara, could I ask you to  
8 move the mike a little bit closer, please?

9 WITNESS: Sure.

10 CHAIRMAN GLEIMAN: Thank you.

11 BY MR. BAKER:

12 Q To the extent that we now have a wide menu of work  
13 sharing discounts, have we departed from the notion that a  
14 postal rate would be an end-to-end service?

15 A Well, I am not sure that that was ever a central  
16 part of the notion of a postal rate, but clearly you now  
17 have the option to buy an end-to-end service or not.

18 Q At pages 8 and 9 of your testimony, you discuss  
19 the fact that as the degree of work sharing increases over  
20 time the coverage required to obtain the same contribution  
21 must also increase, and you went over this earlier today  
22 with counsel for the Mail Order Association, correct?

23 A Yes.

24 Q Do you recall that the Commission discussed the  
25 same phenomenon in its MC95 decision in the context of what

1     it called implicit cost coverages?

2           A     I must say I don't recall the connection.

3                   I recall the use of implicit cost coverages, but I  
4     don't recall this particular point being made in that  
5     context or discussed.

6           Q     And is the phenomenon that the coverage must  
7     increase to obtain the same unit contribution simply --  
8     that's a result of arithmetic, is it not?

9           A     That's the result of arithmetic, but I go on to  
10    talk about reasons why one might want to if not do exactly  
11    that, do something which would retain a contribution in the  
12    event that is being discussed here.

13          Q     And the situation or the problem you are trying to  
14    address in that is that you do want to maintain the same  
15    unit contribution from those pieces?

16          A     At least I don't want to reduce the unit  
17    contribution without being specifically aware of it.

18          Q     I would like to turn -- move now to a subject that  
19    you went over some with counsel for DMA, page 36 of your  
20    testimony, which has to do with the relationship between ECR  
21    basic rate for letters and the automation five-digit rate  
22    and standard regular.

23                   I direct your attention specifically to page 36,  
24    lines 4 through 7, of your testimony.

25                   Am I correct that this passage focuses on a

1 particular rate design problem in standard commercial mail,  
2 correct?

3 A Yes, affecting a relatively modest portion of both  
4 subclasses but something which we had hoped to take care of  
5 in classification reform and wound up with rates that didn't  
6 move the mail toward the automation mail stream, and so that  
7 is something which that does focus on.

8 Q And the point here is that the Postal Service  
9 would like the rate for standard regular automation  
10 five-digit letters to be lower than that for ECR basic  
11 letters in order to encourage automation?

12 A Yes. Some subsequent interrogatory responses that  
13 I have made note that the cost difference between the two,  
14 even in the test year, is essentially zero, still slightly  
15 higher for the five-digit.

16 I think it is two one-hundredths of a cent higher,  
17 but it is expected that the further deployment of delivery  
18 point sequencing and the additional experience with delivery  
19 point sequencing will reverse that, and so that would be the  
20 least cost way of handling that mail.

21 Q And I think it was in NA-23, after some initial  
22 confusion from an earlier question --

23 A Yes.

24 Q -- you agreed with us that these were two specific  
25 rate categories that could be regarded as direct

1 substitutes --

2 A Yes. I think that is fair to say.

3 Q And the problem as it affects your testimony, as  
4 distinct from Mr. Moeller's testimony, is that these two  
5 rate categories are in two separate subclasses?

6 A Yes.

7 Q Okay, and then so what we have here are pieces  
8 that might cross over from one subclass to another?

9 A Indeed, yes.

10 That happens not just here but elsewhere, so  
11 that's the particular situation.

12 Q And in NAA-19, I believe there you identified some  
13 other cases where it is necessary to consider rate  
14 relationships across subclass boundaries?

15 A Yes.

16 Q Was the particular problem with the automation  
17 five-digit and ECR basic letters that you're concerned with  
18 at page 36 of your testimony in existence prior to  
19 reclassification?

20 A The desire to move letters into the automation  
21 mail stream was certainly in existence, and the rates that  
22 were proposed in reclassification would have accomplished  
23 that objective, I believe. So, in that sense, it goes back  
24 at least that far.

25 Q Uh-huh. But at that point, it was a rate design

1 issue. Prior to reclassification, it was merely an issue of  
2 rate design within third-class --

3 A Prior to reclassification, yes.

4 Q -- BRR. Okay.

5 THE REPORTER: Third-class what?

6 MR. BAKER: BRR.

7 THE WITNESS: Bulk-rate regular, BRF.

8 BY MR. BAKER:

9 Q Now, in NAA 11, we tried to get you to agree that  
10 this cross-over significantly -- significantly restrained  
11 your choice for cost coverages, but you weren't willing to  
12 go quite that far.

13 A That's right.

14 Q Would you agree, however, that mailers of ECR  
15 basic letters do have choices and do respond to these rate  
16 differentials?

17 A Well, I guess we hope they do. I mean we are  
18 trying to offer a choice which guides them in that  
19 direction.

20 Q Uh-huh.

21 A They have, depending on where the mail is  
22 destinating, another choice, which is to bar-code the mail  
23 and remain in the ECR sub-class in the automation carrier  
24 route rate category, which is lower than the automation  
25 five-digit category, but that's not available for all zones.

1           Q     Doesn't this cross-over that we are concerned with  
2     here at page 36 of your testimony --

3           A     Uh-huh.

4           Q     -- have some effect on your institutional cost  
5     assignments in -- to the extent that if you're assigning too  
6     much or too little non-volume variable costs to the affected  
7     sub-classes, then the rate design witness will have a real  
8     problem?

9           A     Have a harder time. And it was certainly within  
10    the realm of possibility that we would have foregone this  
11    particular rate relationship in order to get cost coverages  
12    that seemed warranted on the basis of the criteria.

13                This was not something which was a major  
14    constraint, and in fact, it just wasn't clear until we got  
15    fairly deep into the rate design in each sub-class that it  
16    was going to work out that way, and that is something that's  
17    important to the Postal Service, so I mention it, but I do  
18    think it's important to understand that it's not something  
19    that was really driving the two coverages, and it's  
20    something which we might have been led to forego, at least  
21    for the time, in order to get coverages that were warranted  
22    on other grounds.

23          Q     Uh-huh.

24                I want to move to the subject of Ramsay pricing.  
25    Did I -- I believe I heard you this morning tell counsel for

1 ABP that you did not use Ramsay pricing.

2 A I say I do not -- I don't use it directly. The  
3 testimony says I do not make major use of it. I still think  
4 it's useful as something to look at in evaluating what the  
5 efficiency losses are that are inherent in the proposed  
6 rates.

7 Q At what point in the preparation of your testimony  
8 did you first see Mr. Bernstein's numbers?

9 A I would have seen preliminary numbers at the same  
10 time I was developing the initial coverages. Those things  
11 sort of tend to go in -- in circles, hopefully making some  
12 progress as we go.

13 Q So, they were available to you.

14 A They were available.

15 Q They did not come in at the last minute.

16 A No. No. No.

17 Q Could you turn to ABP question two to you, which  
18 had asked you about your statement in your prepared  
19 testimony that, all else being equal, you viewed movement of  
20 rates in the direction of Ramsay prices to be beneficial.

21 A Uh-huh.

22 Q Have you turned to that question?

23 A Yes.

24 Q And ABP asked you what you meant by "all else  
25 being equal," and your answer is, "If, for example, two

1 sub-classes received equal evaluations on all criteria  
2 except the economic value of service" --

3 A Uh-huh.

4 Q -- then you would consider all else is equal.

5 Do any sub-classes in your testimony receive equal  
6 evaluations on all criteria except economic value of  
7 service?

8 A No, they don't. So, in that sense, you can't  
9 directly apply this response, but that is the question that  
10 was asked, and I think it is pretty clear that, in that  
11 case, everything but the own price elasticity, you are going  
12 to wind up under Ramsay pricing, unless there is an extreme  
13 cross-price elasticity effect or something, and also under  
14 value of service, you are going to wind up with higher  
15 prices for the -- the class with the lower own price  
16 elasticity.

17 Q Did you calculate any Ramsay prices yourself?

18 A No.

19 Q You only looked at Mr. Bernstein's numbers?

20 A That's correct.

21 Q And have you independently checked to see whether  
22 he had made some methodological error or some faulty  
23 assumption in his calculations?

24 A No, I haven't.

25 Q And if he had and it affected his results, then



1 your rates might be closer to or further from.

2 A Yes, as a matter of arithmetic.

3 Q Okay. And finally, last line of cross, you were  
4 asked a number of interrogatories about service standards  
5 and the Postal Service's actual performance under the value  
6 of service. Do you recall those?

7 A Yes, in general.

8 Q And do any of those questions have caused you to  
9 rethink your recommendations in this case?

10 A The only thing which I now know that I didn't know  
11 at the time I was developing these is the cross exam -- I  
12 guess an exhibit that was presented earlier this afternoon  
13 showing the increase in first-class relative to priority.

14 Q Uh-huh.

15 A I was aware of the increase in first-class.

16 Q Uh-huh.

17 A One can scarcely escape that.

18 Q Uh-huh.

19 A And I considered at one point whether I should do  
20 something with the first-class coverage on that account, but  
21 I really came back to the notion that I did not have and  
22 still don't, in spite of that exhibit, comparable measures  
23 across sub-classes and that what I really needed was  
24 relative levels of service in any case, and I had that in  
25 the published service standard.

1           So, that was something that I considered but then  
2       decided to leave aside.

3           Q     So, is the problem here that the Postal Service  
4       does have data as to actual service performance for  
5       first-class mail and perhaps priority mail but does not have  
6       similar data for periodicals or standard mail?

7           A     That's fundamentally the case. We don't have --

8           Q     You just don't know.

9           A     There have been -- you know, there are various  
10      ways we learn about service from the mailers and  
11      associations and internal monitoring of performance, but  
12      it's not the same. You can't, especially, look at changes  
13      from case to case --

14          Q     Uh-huh.

15          A     -- and say, well, this case, first-class service  
16      has gone up a little bit relative to the rest, who might  
17      have gone up some but not as much, and therefore, it will  
18      bump the first-class coverage up a little bit. The measures  
19      just aren't that good --

20          Q     And so --

21          A     -- a long ways from being that good.

22          Q     And in the absence of data, you prefer to look at  
23      the service standards.

24          A     Yes. As I said this morning, I think those  
25      service standards are not just bureaucratic manuals. They

1 really do affect and reflect how the mail is handled.

2 Q And do you believe that to be consistent with the  
3 commission's past practice?

4 A As far as I'm aware, just because I don't think  
5 the commission has other sources of data that would permit a  
6 finer evaluation of service.

7 Q Valu-Pak, Carol Wright 3 asks you about your  
8 reference to situations where the Postal Service  
9 accommodates mailer requests for delivery within a specific  
10 time frame. Your answer was that the Postal Service has no  
11 records of the aggregate volume of mail for which delivery  
12 has been requested. Does the fact that mailers do ask for  
13 this suggest that it occurs often enough to make mailers  
14 want to ask for it again?

15 A Sure. I mean, I think I got a piece of mail the  
16 other day that had that on it. At the same time, this piece  
17 of mail was saying, if this gets to you late, bring it in  
18 anyhow, we'll honor the sale prices. But clearly  
19 advertisers, especially, care about when their message is  
20 received and it doesn't cost, I suppose, that much to print  
21 it on. But, in fact, as I talk, I think in the part (a) of  
22 that same question, mailers don't just print it on the page;  
23 they often go to some effort to make sure that they get it  
24 in the system maybe in advance of what the service standard  
25 would actually apply or otherwise facilitate as much as they

1 can our meeting that window.

2 Q And if they do that, they may get fairly good  
3 service, would you expect that?

4 A I think they must find it worth doing.

5 Q I notice in subpart C of that answer, you  
6 mentioned the Advance system. Could you describe that  
7 system for me?

8 A In general terms. This is a system which was  
9 developed to take some of the cost out of the system of  
10 mailers calling up delivery units and asking, "Is my mail  
11 there yet and has it gone out yet if it's there?"

12 I'm probably not going to get all the details  
13 right but the way things now work is the mailer submits in  
14 advance of the mailing a facsimile of the front of the mail  
15 piece, information about which delivery units it's going to  
16 and I guess the requested delivery window which will also be  
17 on either the mail piece itself or the facing slip. That is  
18 communicated electronically, I don't know the precise  
19 mechanism, to those delivery units that are wired up. It's  
20 not all of them but it's a substantial fraction of delivery  
21 units.

22 The mailing itself has to meet several  
23 characteristics. It has to be not automation letter  
24 compatible because that mail tends to be broken apart before  
25 it gets to the delivery unit. Maybe I should finish the

1 description of the system.

2 When it gets to the delivery unit, there is,  
3 again, some electronic relatively simple, not time consuming  
4 on the part of the delivery personnel to record its arrival  
5 in what we can refer to, I think, as a bulletin board  
6 system, which does have some means of allowing each mailer  
7 to have access only to their own mailing data. And then,  
8 again, another ~~notion~~<sup>notation</sup> is made when the mail is taken out.

9 So rather than the mailers spend time calling up  
10 and the delivery units spend time answering the phone, this  
11 information is transmitted probably more efficiently and  
12 certainly cheaply.

13 To get back to the characteristics for which this  
14 is permitted, there is a volume minimum of several hundred  
15 thousand pieces. There is a limitation. I believe that  
16 there must be 50 pieces for a carrier route for anything  
17 which is going to be reported. The mailing itself can  
18 contain packages that have fewer than 50 pieces but you are  
19 not supposed to get reports on them, as I understand it. I  
20 mentioned the lack of automation compatibility because this  
21 bundle wouldn't arrive at the delivery unit intact.

22 Anyway, that is an overview at least of the  
23 system.

24 Q What subclasses of mail is that available to?

25 A My understanding, it is just ECR. Again, it needs

1 to be received intact at the delivery unit and standard A  
2 regular is not. It is also available to periodicals but I  
3 understand that it is, for some software reason, not really  
4 available. It is available in principle but there has been  
5 no use of it because there are only a couple regions where  
6 the mailer could make use of it. That is expected to change  
7 but I don't know on what schedule.

8 Q Is it available for First Class Mail?

9 A I don't believe so. There is relatively little  
10 First Class Mail which would meet that non-automation  
11 compatible 50-pieces-to-a-carrier-route kind of  
12 qualification in the first place. Nor is there the same  
13 sort of variance in service for First Class where you can  
14 have the mail get there and still not be carried out and if  
15 it is passing through several facilities you don't know how  
16 long it is going to take in each one. So I think no First  
17 Class mailer that I am aware of has tried to use it and I  
18 don't think it would be really suited to the mail that is in  
19 First Class. I don't know if there is an absolute  
20 prohibition or not.

21 MR. BAKER: Thank you, Dr. O'Hara and thank you,  
22 Mr. Chairman. That concludes my questioning.

23 CHAIRMAN GLEIMAN: Ms. Dreifuss, OCA?

24 CROSS EXAMINATION

25 BY MS. DREIFUSS:

1 Q Good afternoon, Dr. O'Hara.

2 A Good afternoon, Ms. Dreifuss.

3 Q Could you turn to page 24 of your testimony,  
4 please? I want to look at lines 13 to 15 for a moment.

5 There you state that the Postal Service hopes and expects  
6 that over time much of what is now courtesy reply mail will  
7 convert to prepaid reply mail.

8 I'd like to ask you why the Postal Service hopes  
9 that much of what is now courtesy reply mail will convert to  
10 prepaid reply mail.

11 A We believe that this is a more convenient option  
12 for the mailer. It avoids the necessity to find the stamp.  
13 It would be a way for us to have an explicit identifiable  
14 result of automation for the individual mailer.

15 Right now as you know, are well aware, the  
16 benefits of automation are there, and of the First Class  
17 single-ounce rate, but they're averaged in with all mail  
18 which doesn't take account of -- take as much use of  
19 automation as the courtesy reply mail.

20 I mean, we're getting more and more and more of  
21 the total mail stream at least in automation by the end of  
22 the process with the remote video encoding and well,  
23 primarily that improvements to the OCRs, so that an awful lot  
24 of First Class mail even if it's not bar-coded in the way  
25 that courtesy reply mail is does benefit some from

1 automation in lower handling cost.

2 Q So this is a Postal Service hope more in terms of  
3 benefit to consumers, not so much from the standpoint of an  
4 advantage to the Postal Service? Is that correct?

5 A I think that's at least a major motivation. There  
6 are some advantages to the Postal Service of not having to  
7 deal with all of the stamp issues, but -- that is, the --  
8 not the number of stamps, it's the stamp transactions, stamp  
9 sales. If a large fraction of the mail stream no longer  
10 needs a stamp, we don't have quite as many costs of selling  
11 and distributing stamps. But that's not the major  
12 motivation.

13 Q Would there be any operational advantages that you  
14 can think of in having mail convert from courtesy reply to  
15 prepaid reply mail?

16 A I'm not enough of an operations expert to know  
17 about that.

18 Q I want to ask you a different set of questions.  
19 Is it correct that your role in this case is essentially to  
20 allocate institutional costs to the classes and subclasses?

21 A I think that's correct. I prefer the nonvolume  
22 variable label, but with that perhaps inessential  
23 qualification, yes.

24 Q Were you aware that the Commission issued an  
25 order, Order No. 1197, on October 1, 1997, which essentially



1 will have the Postal Service answer several interrogatories  
2 directed to you by MMA?

3 A I'm aware of that, but I have not had a chance to  
4 read it or therefore think about what would be involved in  
5 my ability to do that. I'm aware of the original  
6 interrogatories. I'm aware of the existence of the order.

7 Q Do you know -- if the Postal Service does comply  
8 with this order, do you know whether you would be the person  
9 responsible for doing these recalculations to some extent?

10 A I think some of the calculations that were  
11 requested have to do with the adjustments that are in my  
12 work papers, but which were given to me by the various  
13 pricing witnesses to reflect mail moving from one subclass  
14 to another or new mail coming in as a result of certain  
15 initiatives. So it's not clear to me whether I would be the  
16 person doing it so much as pulling it together when other  
17 people had done it and supplying the answer.

18 Q At one point in the order the Commission states  
19 that -- I've got copies if you can't follow what I'm going  
20 to tell you, but --

21 A Okay.

22 Q It's only a sentence or two, and just let me know  
23 if you have trouble with it.

24 A Sure.

25 Q This comes within a few paragraphs of the end of

1 the order. And the Commission says although the final  
2 adjustments that Postal Service Witness O'Hara makes to the  
3 attributable costs developed by other Postal Service  
4 witnesses appear to have only a minor effect on those costs,  
5 they are needed for an accurate and complete estimate of  
6 attributable costs whether they are calculated by  
7 established methods or the Postal Service's proposed  
8 methods.

9 And I wanted to ask you if you could describe the  
10 final adjustments that the Commission is talking about here.

11 A Well, I can give you my understanding of where we  
12 are if you can look at my exhibits and work papers. I guess  
13 the best exhibit to look at would be Exhibit F. The ones  
14 that I would be specifically concerned with would be the  
15 ones in column 5. I can wait till you -- if you need to --  
16 at least the 8-22 version. It did not change on 9-19.

17 Q Could you explain what you would do in column 5 as  
18 final adjustments to attributable costs?

19 A Now we may need to go back to Work Paper 3. At  
20 least I'm going to need to look at that. I may be able to  
21 discuss it with you without -- okay, the number that shows  
22 up in Exhibit F, \$157,789,000 for single letters and  
23 parcels --

24 Q I see that.

25 A Comes in my Work Paper 3 from three sources. By

1 far the most important is a \$192 million addition to cost as  
2 a result of Third Class single-piece being eliminated, and  
3 some of those pieces going into First Class. Others go into  
4 Priority I believe and a few wind up in the bulk parcel  
5 return service. Also as part of that 157,789 number, there  
6 are roughly 30 million of cost that are removed from First  
7 Class because of delivery confirmation, which is assumed to  
8 cause some mail not required to be mailed at priority rates  
9 to buy up and pay priority prices in order to get the  
10 delivery confirmation. And finally, the imposition of the  
11 hazardous-material surcharge is assumed to drive enough  
12 volume away to reduce costs by \$4 million. Those three  
13 numbers should add with enough extra digits to the 157.

14 Q Thank you. I think I do understand what changes  
15 you would need to make.

16 I'd like you to turn to page 24 of your testimony,  
17 please, and the sentence that I'm going to focus on does  
18 carry over to the next page. At the bottom of page 24 you  
19 state that in recent proceedings the Commission has also  
20 recognized the informational value of the business and  
21 personal correspondence that constitutes the great majority  
22 of First Class mail letters, Criterion 8, and the Postal  
23 Service reflects this as well.

24 I wanted to ask you whether the informational  
25 value of business and personal correspondence caused you to

1 either increase the cost coverage for First Class mail,  
2 decrease it, or remain the same, although I don't see how if  
3 it did remain the same how you would have given -- taken  
4 account of that factor.

5 A My answer with respect to First Class as well as  
6 the other classes where the ECSI value -- E-C-S-I -- is of  
7 concern is that the Postal Service is ~~now~~<sup>not</sup> proposing to  
8 adjust whatever evaluation that the Commission has already  
9 determined is appropriate in its previous decisions and  
10 rates and coverages that form the starting point for my  
11 rates. So I'm basically not saying well, suppose it had  
12 none, what would the coverage be? And then now let's  
13 recognize that the Commission has said it has some, but what  
14 I bring it back to -- avoiding the up and the down and just  
15 proceeding without making any further adjustment for ECSI  
16 value for any of the classes where that's appropriate.

17 Q Do you have any idea which direction the  
18 Commission pushed cost coverages as a result of the  
19 informational value it ascribed to business and personal  
20 correspondence of First Class mail?

21 A The most explicit thing that I can recall at this  
22 point is the R-87 decision where it recognized -- again, I  
23 am not going to be quoting explicitly unless it is in an  
24 interrogatory response, recognized the value but did not  
25 adjust the markup or the coverage on that account from

1     wherever it was, recognizing, I suppose, that there were a  
2     lot of things, maybe fixing the markup where it is. It is  
3     not easy to make a few -- a small percentage point or two  
4     adjustment in markup given especially some of the whole cent  
5     constraints.

6             So that is the most explicit factor of which I am  
7     aware. I don't remember seeing it expanded in subsequent  
8     cases but I can't say for sure that it wasn't.

9             Q     So you are under the impression that in R-87 the  
10    Commission didn't really make a specific adjustment to cost  
11    coverage based on the informational value of this  
12    correspondence?

13            A     Yes, sort of simply recognized that there was some  
14    but that's my understanding as I read and recall the  
15    decision.

16            Q     Okay. I'd like to turn to your answer to OCA  
17    interrogatory number 10 to you, please.

18            A     Um-hum.

19            Q     In that interrogatory, we introduced the subject  
20    of the curtailment of ~~standard~~ standard A mail and I guess  
21    based on your conversation with Mr. Baker just a few minutes  
22    ago and also your answer, it looks like in particular it's  
23    standard A ECR mail that would be curtailed; is that  
24    correct?

25            A     That's correct. Yes.

1           As -- I should -- I need to be real clear about  
2   this.

3           The Witness Moden's response to DMA-T-42-B talks  
4   about mail being curtailed consecutive days. The question  
5   also cites another DMA response that says curtailment  
6   applies to curtailed mail really, if you read the full  
7   interrogatory response. The curtailed mail that was the  
8   subject of that interrogatory is 100 percent ECR -- 100  
9   percent standard A but not 100 percent ECR. Both standard A  
10   regular and standard A ECR can be curtailed.

11          The reference to mail that is curtailed  
12   consecutive days to meet a delivery window is, however, as  
13   you suggested, mail that is curtailed consecutive days to  
14   meet a delivery window is, as I understand it, essentially  
15   exclusively the ECR mail because that is all that arrives  
16   there in coherent form.

17          Q     I understand. You are saying that regular  
18   standard A is sometimes curtailed.

19          A     Oh, yes, yes.

20          Q     But not for consecutive days?

21          A     Not for consecutive days. If regular -- yes.

22          Q     And it is ECR mail that is curtailed, when it is  
23   curtailed.

24          A     It may be if it gets there before the delivery  
25   window, basically.

1 Q Okay.

2 We asked you whether curtailing mail for  
3 consecutive days, and I guess we are talking about ECR mail,  
4 increases the value of mail service to the sender under  
5 subsection 3622(b)(2). Now, I don't think you answered that  
6 question. You did say that you considered the work effort  
7 that the mailer has to go to when you looked at 3622(b)(2),  
8 but I don't think you answered the question whether you  
9 viewed that as a benefit to the mailer and whether that  
10 influenced you to increase the cost coverage?

11 A It did not influence me to increase the cost  
12 coverage. Cost coverage is already 228 percent on that  
13 mail. Something I didn't get around to mentioning when I  
14 was describing the advanced system to counsel for NAA is  
15 that, near as I can tell, the mail is tracked in that  
16 system, which is not all the mail in that requested delivery  
17 window, admittedly, that mail is less than 5 percent of  
18 standard A ECR. So this is also something that affects a  
19 relatively modest portion of the mail at least as it shows  
20 up in the advanced system.

21 There presumably is some mail which is maybe more  
22 local than that, doesn't otherwise meet some of the  
23 requirements and also still has a delivery window on it.

24 Q If you were to learn that the Postal Service had  
25 discontinued the practice of curtailing ECR mail for

1 consecutive days, would that have influenced you to lower  
2 the cost coverage of ECR to some extent?

3 A In the circumstance of this case where it's -- I  
4 really don't think so. Just because -- as I understand  
5 this, it doesn't affect a whole large share of the mail.  
6 The fact that we're doing it didn't cause me to raise it. I  
7 don't think the fact that we had -- hypothetical fact that  
8 we had discontinued it would have caused me to lower it.

9 I mean, I think this mail is still basically at  
10 the bottom of the service standard ladder, and this is one  
11 way in which some of the implications of being at the  
12 bottom, being deferable, are dealt with. Mailers put it  
13 into the system maybe a little early, put the requested  
14 window on it, and if it gets there ahead of time, we do  
15 accommodate that at least some of the time by curtailing it  
16 consecutive days. No doubt that that's better than sending  
17 it out ahead of time. But I don't think it's a major factor  
18 in the service level provided to Standard A ECR.

19 Q I'm not clear then why you mentioned at the top of  
20 page 35 that the Postal Service accommodates such requests  
21 and that mailer preparation, coordination, and planning is  
22 required. What was the point of even mentioning it in your  
23 testimony?

24 A That was basically to indicate an awareness that  
25 the practice existed. And to note that it wasn't something



1     that was just -- I'm sorry, I'm getting away from the  
2     microphone -- indicate that I was aware that the practice  
3     existed and that it was not something that was solely a  
4     Postal Service -- solely the consequence of Postal Service  
5     actions, that it required the planning and coordination by  
6     the mailer that I mention there.

7           Q     The planning and coordination of the mailer I  
8     guess would tend to lead to a somewhat lower cost coverage.  
9     Well --

10          A     Well --

11          Q     Let me back up for a minute.  If this were a more  
12     widespread practice, if it were not true of only 5 percent  
13     of the mail but if it were true of 50 percent of the mail,  
14     let's say --

15          A     Um-hum.

16          Q     Do you think you would have then taken account of  
17     the practice by looking at both sides of the balance sheet  
18     that there's a benefit --

19          A     Um-hum.

20          Q     To the mailer from having this mail curtailed on  
21     one side, and there's a payment in effect on the other side  
22     which is the mailer's efforts to coordinate and plan this?

23          A     Um-hum.

24          Q     If it had been a more widespread practice, would  
25     you have taken account of both sides of the balance sheet?

1           A       Sure, something that would affect something as  
2 much as half the mail would get more consideration than I  
3 gave this, which is basically to say the coverage is already  
4 real high, the service is already at the bottom of the  
5 ladder, and the fact that this ameliorates some aspects of  
6 being at the bottom of the ladder is not enough to reduce  
7 the coverage. But if this had got to be widespread at 50  
8 percent and we had discontinued it, I would think that both  
9 I and the mailers would consider that to be a reduction in  
10 the value of service, and it would have had greater weight  
11 than I gave it.

12                   MS. DREIFUSS: Well, thank you very much. That  
13 concludes our cross examination.

14                   CHAIRMAN GLEIMAN: I think we'll take a break for  
15 10 minutes now, and when we return we will pick up with  
16 cross examination by the Parcel Shippers Association.

17                   Mr. May informs me that he only has five minutes  
18 of cross examination. That being the case, let's dispense  
19 with that now. Always interested in accommodating our  
20 members of the bar, and we'll take our break after Mr. May  
21 finishes. And we won't even hold you to five minutes  
22 exactly.

23                   MR. MAY: I'm grateful, Mr. Chairman.

24                                   CROSS EXAMINATION

25                   BY MR. MAY:

1 Q Dr. O'Hara, I'm Tim May, as you know.

2 A Good afternoon.

3 Q Representing parcel shippers, and I will indeed be  
4 brief.

5 Referring to page 37 of your testimony, where you  
6 discuss the revenue requirement and cost coverage for parcel  
7 post, you there say that the coverage is 104 percent and  
8 that the 10.2-percent rate increase overall is one of the  
9 highest that you proposed for any subclass. You also say  
10 right there that, quote, unfortunately due to cost increases  
11 and the need to ensure that revenue covered incremental  
12 cost, there was very little room to mitigate this increase.

13 First of all, I assume that we're still  
14 calculating cost coverages the same way, that is, you're  
15 dividing revenues by attributable costs.

16 A In this case if it makes a difference by volume-  
17 variable cost.

18 Q All right, by volume-variable cost. And that's  
19 how you got the 104 percent.

20 A That's how I got the 104 percent.

21 Q If I may ask you, could you -- you could have  
22 had -- you say you regret, that it was unfortunate, I guess  
23 you regret that you had to have an increase that big. Is  
24 that right?

25 A That's correct. It is the largest that's not

1 mandated by the Revenue Forgone Reform Act.

2 Q Well, you could have had 101-percent cost coverage  
3 rather than 104 percent, couldn't you?

4 A Well, actually not, because of the  
5 incremental-cost test. Incremental costs are 2 percent  
6 above volume-variable costs for parcel post.

7 Q Okay.

8 A And at the time I was developing the cost  
9 coverages I was actually dealing with a very narrow margin  
10 between that necessity to get revenue --

11 Q Um-hum.

12 A Above not just volume-variable costs but 102  
13 percent of volume-variable cost.

14 Q Right.

15 A So that's the reason that there's maybe less room  
16 for mitigating that 10-percent increase than meets the eye.

17 Q But I take it though that you stand by your  
18 judgment that the proper amount of coverage in this case is  
19 104 percent of attributable costs.

20 A Yes.

21 Q And -- and let me ask you this, if the  
22 attributable costs -- and by that, I also include to mean  
23 incremental costs -- had been demonstrated to be less than  
24 you believe they are, then you would have been able to have  
25 a -- a lower -- a lower rate and still have reached your 104

1 percent. Is this correct?

2 A That's -- that would follow, yes.

3 Q Is that what you would have recommended?

4 A I can never be sure, looking at one class at a  
5 time, but I think this is one of the simpler cases to deal  
6 with, the -- the rate increase being several percentage  
7 points higher than --

8 Q Yes. I mean --

9 A -- the next averaged -- there would -- there would  
10 have been some room to mitigate it, and there would have  
11 been some reflection of that. I can't say how much.

12 Q I mean the incremental cost permitting, you might  
13 have proposed the average increase in this case of around 4  
14 percent or what you say is -- the post office says is an  
15 average.

16 A Yes, depending on what coverage that would have  
17 resulted in.

18 Q Well, let's suppose it still produces the 104  
19 percent that you say is the standard that you believe in as  
20 appropriate for parcel post.

21 A The one qualification I would want to think about  
22 a while on that score would be the question of what has  
23 happened as a result of the costing change methodology to  
24 parcel post costs relative to other costs. I'm not sure  
25 where we stand on -- on that for parcel post.

1           If they had an average effect of that costing  
2 methodology change, then I could come to a -- perhaps to an  
3 average rate increase.

4           If they got a less-than-average reduction,  
5 therefore higher relative cost as a result of the  
6 methodology change, then it would be harder to get to an  
7 average rate increase, instead of somewhat above average,  
8 but this is not just somewhat above average, this is  
9 considerably above average.

10          Q     But I do take it that your testimony does mean  
11 that, if the costs had permitted it, you would, indeed, have  
12 had lower than 10.2-percent increase, because you say it's  
13 unfortunate --

14          A     Yes.

15          Q     -- but you had to have it.

16          A     Yes.

17          Q     And if the costs allowed, you might even get as  
18 much -- no more than what the single-piece first-class is  
19 getting, at 2 1/2 percent. Is that possible?

20          A     That's far enough outside the range of things that  
21 I considered that I can certainly say it's possible, but to  
22 go beyond that, I can't really assess --

23          Q     Let me -- one final -- let me ask you to consider  
24 this.

25                Assume, just for the purposes of this question,

1     that the test year before rates picture showed that, at  
2     current rate levels, the test year before rates showed that  
3     parcel post was already paying 108 percent cost coverage.  
4     Would you have believed any overall increase in parcel post  
5     was needed?

6           A     Again, I can't say for sure.

7           Q     Bearing in mind that you told us that 104 percent  
8     is -- is kind of the target you thought was right in this  
9     case.

10          A     Well, all things considered, it's what's right,  
11     but it's very heavily influenced by rate shock  
12     considerations, and once you get away from that and start  
13     getting down to a case where I could have had no rate  
14     increase -- we're a long ways from that, and I really --  
15     there is only one, I believe, sub-class where we're doing no  
16     rate increase in -- in this, and that's got a coverage much  
17     higher than -- than the 108 percent, and there are some  
18     special considerations there, so that I really -- without a  
19     lot of consideration, I -- I can't sort of easily agree to a  
20     zero rate increase, even though there would have been room  
21     under 104-percent coverage to do that.

22          Q     But certainly, it would be, you think, in your  
23     judgement, if you had been able to, much lower than the 10  
24     -- 10.2 percent. Is that right?

25          A     Yes. We would have --

1 MR. MAY: That's all, Mr. Chairman. I kept my  
2 word.

3 CHAIRMAN GLEIMAN: As always, you are true to your  
4 word.

5 We'll take our 10-minute break now. We'll come  
6 back at 25 of the hour, and we'll pick up with United Parcel  
7 Service at that point.

8 [Recess.]

9 CHAIRMAN GLEIMAN: Mr. McKeever?

10 MR. McKEEVER: We have no questions, Mr. Chairman.

11 CHAIRMAN GLEIMAN: You should have caught us  
12 before the break. You could have gone home, too.

13 Mr. Olson?

14 MR. OLSON: Thank you, Mr. Chairman.

15 CROSS EXAMINATION

16 BY MR. OLSON:

17 Q Dr. O'Hara, my name is Bill Olson. I'm  
18 representing Val-Pak and Carol Wright, and I want to -- I  
19 don't want to take Mr. Tidwell's job, but ask you if you  
20 would take this opportunity to clarify something you said  
21 before and correct something you said before, I think.

22 When you were discussing ECR proposed rates and  
23 ECR -- and the high coverage factor for ECR with counsel for  
24 DMA, I believe you said, as my note reflects, that ECR  
25 proposed rates were a lower rate increase than for any other



1 subclass, and just ask you if you would like to clarify  
2 that.

3 A Yes, I think I should, especially having just  
4 mentioned a zero in increase a few minutes ago. Let's just  
5 turn to my exhibits and not rely on my memory so much. I  
6 believe it's Exhibit D, and I suppose there are now two  
7 exceptions. The special rate standard B was the zero I was  
8 referring to, and to be complete, there is a 4.8 percent  
9 decrease for non-profit ECR. That's dictated by the  
10 combination of the cost and the revenue foregone at --  
11 coverage relationship between regular and non-profit ECR.

12 So with that amendment --

13 Q Could I ask you to add another minor amendment,  
14 that there is at least one other subclass or one other item  
15 in your Chart 30D that has the same 3.2 percent, first class  
16 letters?

17 A That has been revised since it was originally  
18 filed. It's now 3.3.

19 Q Okay.

20 A That's just a -- something that I did not get  
21 properly from the pricing witness who provided the  
22 calculation.

23 Q Okay. Well, that etched it out, then.

24 A Okay.

25 Q Let me -- first of all, this is, is it not, the

1 first time other than the major reclass case, MC95-1, when  
2 the Postal Rate Commission will have the opportunity to set  
3 a coverage factor for ECR, correct?

4 A That is correct.

5 Q Okay. And I don't want to ask you to be  
6 responsible for what Postal Service counsel say, but I'm  
7 going to quote you just one phrase out of the Postal  
8 Service's reply brief in MC96-5, and I believe it's page 140  
9 where they said that the current institutional cost burden  
10 borne by ECR was excessive by any measure. I believe that's  
11 an accurate quote.

12 Do you understand that that might have been a  
13 reasonable view when it was written? And I wonder if you  
14 have a different view today.

15 MR. TIDWELL: Excuse me. Which docket was that  
16 again?

17 MR. OLSON: MC95-1.

18 MR. TIDWELL: Oh.

19 MR. OLSON: Reply brief. Page 140.

20 THE WITNESS: And does that refer to the situation  
21 before reclass or does that -- it must be, if it's a reply  
22 brief, it must be addressing the situation before reclass  
23 and not necessarily the situation today or post-reclass.

24 BY MR. OLSON:

25 Q As proposed by the Postal Service. I guess I'm

1 really not focusing so much on the words of the Postal  
2 Service, but, I mean, excessive by any measure is not far  
3 from accurate, is it not?

4 A The cost coverage is certainly high. We have  
5 talked -- I say as much in my testimony and several  
6 interrogatory responses -- we've talked about from several  
7 different perspectives some factors that tend to make the  
8 coverage ratio high even though the rates are low in a case  
9 where the cost per piece is low due to either work sharing  
10 or the other characteristics of the mail.

11 Q Right. I had intended to go in a lot of that, --

12 A Yes.

13 Q -- but I'm going to skip it because it has been  
14 covered. Let me just -- I think I can -- I don't have too  
15 many questions, and I just want to get to a few points --

16 A Okay. Sure.

17 Q -- and let all of us head on to preparation for  
18 tomorrow. But with respect to the service performance data  
19 that you've discussed with other counsel today, and you've  
20 spoken about how nationally representative delivery  
21 performance data was not available for various Postal  
22 products and you listed standard A mail as one of them; is  
23 that correct?

24 A That's correct.

25 Q Just confirm something for me, if you would. Is

1     there no ODIS data that is collected and published for  
2     standard A?

3           A     I'm not sure whether it's no, but because ODIS  
4     relies on postmarks and meter for the origin date -- there  
5     certainly is ODIS volume data that gets used for information  
6     on things like shape. Any ODIS service numbers, and I just  
7     don't recall whether we do them or not -- would be limited  
8     to a very small fraction of the standard A mail stream  
9     because of a need to have either a postmark, which would be  
10    practically non-existent, or a meter date. So even if we  
11    had it, I think it would <sup>apply</sup>~~reply~~ to such a small portion of  
12    standard A as to be not nationally representative in that  
13    phrase.

14                But I do confess that I do not know whether we  
15    have it all.

16           Q     Do you know if you have it at all for Standard B,  
17    also, or is it the same situation?

18           A     I think we do have some ODIS things for Standard  
19    B, but I don't recall exactly where we stand on that.

20           Q     Periodicals?

21           A     Nothing for periodicals.

22           Q     Is there ODIS data for first-class?

23           A     There is, yes.

24           Q     So, there are two separate tracking systems  
25    maintained by the Postal Service -- in other words, when

1       they went to EXFC, they did not drop ODIS for first-class?

2           A       That's correct.

3           Q       Are the ODIS data part of the regularly-filed  
4 documents of the Postal Service with the Postal Rate  
5 Commission?

6           A       I believe they are. I'm not -- not certain.  
7 They're in our library, on the shelf with other regular  
8 postal operating data, financial reports.

9           Q       So, it would be your view, then, if we went to  
10 that rate shelf and found the right volume with a comparable  
11 quarter in postal fiscal year, that we'd be able to find  
12 that kind of apples-and-apples comparison that we're  
13 seeking?

14          A       Between priority and first-class?

15          Q       For example.

16          A       For example? Yes. I mean you won't find the  
17 priority on the shelf, but you have it in the previous cross  
18 examination exhibit.

19          Q       And -- and for Standard A, is the -- the ODIS data  
20 that you said probably wasn't nationally representative  
21 insofar as it didn't relate to permit work --

22          A       Uh-huh.

23          Q       -- or -- or --

24          A       Pre-cancelled stamps.

25          Q       -- okay -- pre -- pre-cancelled stamps -- would

1 that also be on the shelf, too, at the Postal Service?

2 A If it's there at all. If we -- if we produce any  
3 at all, it would be in that same report, I think. Yes, the  
4 only thing that I'm aware of that's -- that's not in the  
5 report is the priority mail by service commitment area.

6 Q Did you review any of these items we've just  
7 discussed that exist, however, flawed they may be, prior to  
8 preparing your testimony?

9 A EXFC and -- I might say I didn't sit down and --  
10 and systematically chart them out or something, but you  
11 can't avoid being aware of EXFC and I'm also aware of ODIS  
12 and --

13 Q Well, I'm -- you know, I'm more -- at the moment,  
14 I'm directing my attention to -- to Standard A.

15 A Standard A. I -- I did not look at whatever is or  
16 isn't there in -- in ODIS for Standard A.

17 Q In response to Val-Pak interrogatory T30-(4)(b),  
18 you said that you were generally aware of customer concerns  
19 about service levels through reports from other postal  
20 employees. Do you recall that response?

21 A Yes.

22 Q What kind of reports are you talking about? How  
23 would that come to your attention?

24 A This would be oral, and it just comes from being  
25 in meetings, talking to people usually in the context of

1     either association or individual mailer dissatisfaction, a  
2     feeling that the service has deteriorated.

3             Sometimes it's -- another channel, which I think I  
4     also mentioned, is -- is what I refer to as the trade press.

5             As I recall, it was -- I have it in mind with  
6     respect to Standard A -- the AMMA bulletin, and I -- I think  
7     it's there that -- that, a couple of years ago, the -- sort  
8     of the fall mailing season was worse than average and then  
9     the -- the following year, whether that was last year or two  
10    years before, things were -- problems had been corrected.  
11    That's the kind of thing I had in mind in that response.

12            Q     Okay. I -- I have -- I have just heard you say  
13    the trade press and customer complaints. I guess customers  
14    --

15            A     Uh-huh.

16            Q     -- tend to complain more than they give you credit  
17    when something is done properly.

18            A     Sure.

19            Q     But what I was specifically asking about was  
20    reports from postal employees.

21            A     Yes.

22            Q     What would those be?

23            A     Those would be what I was referring to as oral  
24    reports.

25                    Either I, myself, go to a meeting and -- and hear

1     these or I -- I hear about somebody -- I hear about somebody  
2     who has been in a meeting and trying to figure out whether  
3     the complaint is -- is -- or what's causing it, not -- not  
4     so much whether it's justified, but if there's a problem,  
5     it's not always clear what the -- the fix is.

6             I'm not deeply involved in operations, so I get  
7     these things on a less-than -- than-systematic basis, but I  
8     just talk to enough people in the building and in the course  
9     of what I do that I think I'm generally aware, and that's,  
10    of course, only one of the channels.

11            Q     With respect to standard A, did you gather  
12    information from these reports that was useful to you in  
13    assessing performance?

14            A     I guess nothing I learned from this changed my  
15    view of the relative service levels embodied in our well  
16    known chart. But it is nevertheless useful to have had the  
17    information available to confirm those relative rankings and  
18    it is awfully hard, as I think one of your interrogatories  
19    asked me to confirm what other classes are above standard A  
20    in that hierarchy. All other classes. And so it would have  
21    had to be something that convinced me that the real world  
22    had moved standard A above that. Or if standard A was not  
23    only at the bottom of the ladder but was somehow  
24    experiencing serious systematic problems that were expected  
25    to continue as opposed to the kinds of things they talked



1     about where, yes, there was a problem in the fall mailing  
2     season but by the next year the operations folks had done  
3     something, probably several somethings, to get back to  
4     normal, whatever that amounts to.

5           Q     Your testimony talks about how you looked at  
6     service standards in absence of performance data and this is  
7     not, as you know, the first time that mailers have during  
8     Commission proceedings asked about performance data and its  
9     relative -- the relative dearth of performance data that  
10    exists.

11           Do you have any guidance that you would like to  
12    suggest for the Commission as to what to do in assessing  
13    performance in the absence of performance data? Do you  
14    think looking at the standards is the best approach?

15           A     Well, I think looking at the standards is the best  
16    approach. Supplemented as I have described. But we are  
17    looking at, at least as I dealt with it, with a qualitative  
18    assessment of relative service levels rather than something  
19    which is going to be used as numbers even if we had it.

20           And so I would love to have that information but I  
21    would think that the uses for it would be much more to  
22    assess how the operations are doing and perhaps not of any  
23    particular use in setting rate levels beyond the qualitative  
24    information that I think is embodied in that chart.

25           Q     Let me ask a question that is unrelated to any of

1     that.  Have you considered looking at markups, and perhaps  
2     you have and I missed this, but looking at markups  
3     determined by comparing or subtracting the incremental costs  
4     from the revenue generated for a particular product?

5           A     Yes.  I haven't done any arithmetic on that but  
6     the conceptual process has been dealt with in  
7     interrogatories.  Let me see if I can find that.

8           I am wanting to find the interrogatory response  
9     because that one refers to in a couple places to Witness  
10    Panzar's testimony and rather than paraphrase that, I would  
11    like to find it.

12           Well, I am not having much luck.

13           Q     Do you recall who might have asked that question?

14           A     No, I don't.  That would be a big help.

15           Q     I don't mean to --

16           A     Okay.  I guess the part of Dr. Panzar's testimony,  
17    Professor Panzar's testimony that he does address the  
18    advisability and the meaningfulness of doing that in his  
19    testimony in a couple of subheads toward the end, where he  
20    suggests that to mark up incremental costs would be a  
21    mistake, that the difference between the sum of incremental  
22    cost and total cost is a measure of economies of scope  
23    rather than anything else, and that because you can't  
24    meaningfully add up the incremental costs, that they are  
25    gotten by treating each product as the last one to be added

1 to the production process, the first to be removed, that  
2 that is not really a satisfactory way to proceed.

3 Q Would that then generally reflect your view,  
4 Witness Panzar's view?

5 A Yes. Yes, she's just a much more expert person at  
6 dealing with the theory on those issues than I am.

7 Q Okay. Okay, let me finish by asking you about  
8 your response to OCA Interrogatory T30-7-B.

9 A OCA 7-B?

10 Q Yes, sir. The question was, "Comment on the  
11 proposition that mail recipients in general place a higher  
12 value of service on their receipt of First Class mail than  
13 mail of other classes." Do you recall that?

14 A Yes.

15 Q Okay. The last sentence of your response says  
16 that the recipient may well consider timely delivery of  
17 periodicals, sale announcements or merchandise to be just as  
18 valuable as timely delivery of personal correspondence or  
19 financial statements, correct?

20 A Yes.

21 Q Okay. How did you assess the value of service to  
22 recipients for both -- let me ask you to compare these --  
23 for First Class mail and for Standard A?

24 A Well, my overall approach to value of service as  
25 it regards senders and recipients is that this is the same

1 characteristics with maybe the exception of collection for  
2 the sender are going to be valuable to both, that this is,  
3 even if the mail is unsolicited and not expected by the  
4 recipient, it is still going to matter to the recipient when  
5 it gets there.

6 The sender is going to care about that because the  
7 recipient does, so that you can look at a lot of these  
8 things as not being all that distinct, different values of  
9 service to the sender and the recipient.

10 In fact, the only example I came up with was  
11 collection seems to matter to the sender and unless that  
12 sort of facilitates getting the mail to the recipient a  
13 little quicker than if you had to make the trip to the post  
14 office, then it is mostly a convenience to the sender, but I  
15 think this is -- mail service generally is between two  
16 parties and the things that are valuable to one are for that  
17 reason valuable to the other.

18 Q Right. I just want to focus on the recipient, as  
19 your response does, and ask you if you then are saying that  
20 in terms of value to the recipient that you assessed First  
21 Class and Standard A as having the same value of service to  
22 the recipient?

23 A I guess I didn't consider it finely enough to say  
24 "the same". I just wanted to make the point that from the  
25 recipient's point of view there are considerations that

1     apply to various classes of mail, including the ones I  
2     mentioned, which probably pretty much exhausts the set or  
3     could be made to exhaust the set, and that it is -- the fact  
4     of something being unsolicited or not precisely  
5     anticipated -- if you don't know the sale is coming, you  
6     still want to know that it is going to be there -- but I  
7     can't go beyond that general proposition that those values  
8     apply to an evaluation of exactly how much relative to one  
9     another they are.

10           MR. OLSON: Well, thank you. That's all I have.  
11     I appreciate very much your responses.

12           I hope that you can go through the rest of your  
13     career at the Postal Service and never have to do this  
14     again.

15           WITNESS: Well, I don't think there is any actual  
16     policy to that effect, but very few people have done it more  
17     than once.

18           MR. OLSON: Thank you. Thank you, Mr. Chairman.

19           CHAIRMAN GLEIMAN: Thank you.

20           That brings us to follow-up.

21           Is there any follow-up?

22           [No response.]

23           CHAIRMAN GLEIMAN: If there's no follow-up,  
24     questions from the bench.

25           I have just a very few questions I would like to

1 ask you, Dr. O'Hara.

2 Is it true that the level, to use your  
3 terminology, of non-volume variable cost might be higher in  
4 terms of percentage in some parts of the Postal Service  
5 system than in other parts?

6 For example, the processing function as opposed to  
7 the delivery function -- are the none-volume variable costs  
8 higher in the delivery function?

9 THE WITNESS: That's not implausible to me, but I  
10 really don't know enough to -- to even have an informed  
11 judgement.

12 It seems -- it would have been easier to answer  
13 under the previous methodology, since mail processing was  
14 100-percent variable and now it's not, and -- and clearly  
15 there are some non-volume variable aspects to delivery.

16 I would suppose that it's probably still true, but  
17 that's just --

18 CHAIRMAN GLEIMAN: Well, assuming for the sake of  
19 discussion that it is true, would this mean that mailers who  
20 use only the delivery portion of the system were using a  
21 portion of the system where there were higher non-volume  
22 variable costs or higher institutional costs and, if -- if  
23 that is so, that if you -- if you set rates based on the  
24 portion of the system that they use, that it would not be  
25 unfair for them to perhaps have a larger or higher markup

1       than might otherwise be the case?

2               THE WITNESS: My hesitation has to do with the  
3       --the relationship between the cost and -- and the -- and  
4       the -- the contribution and the attributable cost and the  
5       way that gets reflected in a percentage markup.

6               Some of the things I was saying earlier about  
7       needing a higher contribution on more highly work-shared  
8       mail, which does tend to -- to preserve unit contribution,  
9       does tend to that same point, that the more highly  
10      work-shared mail is going to make relatively less use of the  
11      delivery -- of the mail processing side and relatively more  
12      use of the delivery side, since it all gets delivered --  
13      some of it has more work than others attached to the  
14      delivery, depending on whether it can be sequenced  
15      automatically or not.

16              But in any case, it seems like those two things  
17      are consistent, without my having quite enough grasp on  
18      things to -- to be sure that -- that it's the exact same  
19      point that you're making.

20              CHAIRMAN GLEIMAN: Thank you.

21              You indicated in a response to counsel for  
22      Nashua-Mystic et. al that you did not look at declining  
23      market share in the priority mail area. At least, it was  
24      his contention that there was a declining market share that  
25      the Postal Service had. Did you look at volume trends?

1           THE WITNESS: Again, I didn't do that  
2 systematically, but my understanding was that volume was  
3 growing, and if both of these facts are going to be true,  
4 then it must be growing not as fast as the market, but I  
5 believe it is growing and has been growing, and I didn't  
6 --also didn't look at that as -- as directly affecting the  
7 coverage, however.

8           CHAIRMAN GLEIMAN: With respect to first-class  
9 mail, did you look at the leakage or lost volume or whatever  
10 term one might -- might want to use in -- in the sense of  
11 but for advancing technologies and -- and the use of new  
12 technologies, there might be more first-class mail?

13          THE WITNESS: No, I didn't -- didn't have a way to  
14 get a handle on that. Every -- I think everybody believes  
15 that, but I didn't consider that directly in the coverage.

16          One of the things that the pre-paid reply mail  
17 concept does have on its side is that, by a slightly reduced  
18 rate, there may be some effect on slowing diversion, but  
19 again, it's not something, since that's a rate design issue  
20 and at least initially is going to take -- it's going to  
21 affect only a relatively small volume of mail, it's not  
22 something which affects the coverage.

23          CHAIRMAN GLEIMAN: What -- that -- the pre-paid is  
24 -- is going to be a relatively small volume?

25          THE WITNESS: That's -- yes, that's --



1           CHAIRMAN GLEIMAN: On the order of tens of  
2 millions?

3           THE WITNESS: No. I think it gets to be -- in  
4 witness Fronk's work papers, the combination gets to be --  
5 of that and qualified business reply -- gets to be a billion  
6 pieces, but that's -- that's still out of 90 billion. No,  
7 it's -- it's not tens of millions.

8           CHAIRMAN GLEIMAN: Okay.

9           I have no further questions.

10          Are there any -- is there any follow-up as  
11 consequence questions from the bench?

12          [No response.]

13          CHAIRMAN GLEIMAN: If there is no followup, that  
14 brings us to redirect.

15          Would you like some time with your witness, Mr.  
16 Tidwell?

17          MR. TIDWELL: I think we can dispense with a break  
18 and proceed straight to it.

19          CHAIRMAN GLEIMAN: A great American. Everybody is  
20 going home for dinner tonight.

21                         REDIRECT EXAMINATION

22          BY MR. TIDWELL:

23          Q     Dr. O'Hara, earlier today, NAA counsel asked you  
24 about the effect of changing variability of mail processing  
25 costs on the revenue requirement. Do you recall that?

1 A Yes, I do.

2 Q Well, does the change in variability affect  
3 historical accrued costs in the base year?

4 A No, it doesn't.

5 Q And does the change in variability affect  
6 estimated accrued costs in the test year?

7 A Yes, it does, in the sense that with lower volume  
8 variabilities, the increase in volume between the base year  
9 and the test year gives rise to a smaller increase in cost  
10 than if the variabilities were higher. So that if in  
11 counsel for NAA, I guess, whoever the source of the question  
12 was, if we go back to a higher variability, even though that  
13 will not affect the total accrued cost in the base year, it  
14 would affect to some degree -- to some degree would result  
15 in a higher cost for the test year.

16 MR. TIDWELL: That's all we have.

17 CHAIRMAN GLEIMAN: Did redirect generate any  
18 further recross-examination?

19 [No response.]

20 CHAIRMAN GLEIMAN: There doesn't appear to be any.

21 If that is the case, Dr. O'Hara, I want to thank  
22 you for your patience with all of us today. We appreciate  
23 your appearance here and your contributions to the record  
24 and, if there is nothing further, you are excused.

25 THE WITNESS: Thank you.

1 [Witness excused.]

2 CHAIRMAN GLEIMAN: These hearings will resume  
3 tomorrow morning, the 7th, at 9:30, when Postal Service  
4 Witnesses Needham, Miller, Schenk, Plunkett, Lion,  
5 Treworgy -- did I pronounce that one correctly?

6 MR. TIDWELL: I myself have never tested it.  
7 George.

8 CHAIRMAN GLEIMAN: George. Witness George. And  
9 Currie will appear.

10 Thank you all. Have a good evening and drive  
11 carefully on your way home, or getting to the Metro, as the  
12 case may be.

13 [Whereupon, at 5:07 p.m., the hearing was  
14 recessed, to reconvene at 9:30 a.m., Tuesday, October 7,  
15 1997.]

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