

Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 3

DATE: Tuesday, October 7, 1997

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PAGES: 502 - 1315

ANN RILEY & ASSOCIATES, LTD.

1250 I St., N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

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

7

8 Third Floor Hearing Room

9 Postal Rate Commission

10 1333 H Street, N.W.

11 Washington, D.C. 20268

12

13 Volume 3

14 Tuesday, October 7, 1997

15

16 The above-entitled matter came on for hearing,
17 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

23 HON. GEORGE A. OMAS, COMMISSIONER

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

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES:

2 On behalf of the Newspaper Association of America:

3 WILLIAM B. BAKER, ESQUIRE

4 Wiley, Rein & Fielding

5 1776 K Street, NW

6 Washington, DC 20006

7 (202) 429-7255

8 fax (202) 429-7049

9

10 ROBERT J. BRINKMANN, ESQUIRE

11 Newspaper Association of America

12 529 14th Street, NW, Suite 440

13 Washington, DC

14 (202) 638-4792

15 fax (202) 783-4649

16

17 On behalf of the Alliance of Nonprofit Mailers:

18 JOEL T. THOMAS, ESQUIRE

19 11326 Dockside Circle

20 Reston, VA 20191

21 (703) 476-4646

22 fax (703) 620-2338

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the United States Postal Service:

3 SUSAN DUCHEK, ESQUIRE

4 ERIC KOETTING, ESQUIRE

5 RICHARD COOPER, ESQUIRE

6 MICHAEL TIDWELL, ESQUIRE

7 ANNE REYNOLDS, ESQUIRE

8 ANTHONY ALVERNO, ESQUIRE

9 DAVID RUBIN, ESQUIRE

10 KENNETH N. HOLLIES, ESQUIRE

11 SCOTT L. REITER, ESQUIRE

12 United States Postal Service

13 475 L'Enfant Plaza West, SW

14 Washington, DC 20260

15

16 On behalf of Hallmark Cards, Incorporated:

17 DAVID F. STOVER, ESQUIRE

18 2070 S. Columbus Street, Suite 1B

19 Arlington, VA 22206

20 (703) 998-2568

21 fax (703) 998-2987

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the McGraw-Hill Companies, Inc.:

3 TIMOTHY W. BERGIN, ESQUIRE

4 Squire, Sanders & Dempsey

5 1201 Pennsylvania Avenue, NW, Suite 500

6 P.O. Box 407

7 Washington, DC 20044

8 (202) 626-6608

9 fax (202) 626-6780

10

11 On behalf of Readers Digest Association, Parcel Shippers
12 Association:

13 TIMOTHY J. MAY, ESQUIRE

14 Patton Boggs, LLP

15 2550 M Street, NW

16 Washington, DC 20037

17 (202) 457-6050

18

19 On behalf of the National Postal Policy Council, Inc.:

20 MICHAEL F. CAVANAUGH, ESQUIRE

21 National Postal Policy Council, Inc.

22 1800 Diagonal Road, Suite 600

23 Alexandria, VA 22314

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the American Bankers Association:

3 IRVING D. WARDEN, ESQUIRE

4 American Bankers Association

5 1120 Connecticut Avenue, NW

6 Washington, DC 20036

7 (202) 663-5027

8 fax (202) 828-4548

9

10 On behalf of the Direct Marketers Association:

11 DANA T. ACKERLY, II, ESQUIRE

12 DAVID L. MEYER, ESQUIRE

13 MICHAEL D. BERGMAN, ESQUIRE

14 Covington & Burling

15 1201 Pennsylvania Avenue, NW

16 Washington, DC 20016

17 (202) 662-5296

18 fax (202) 778-5296

19

20

21

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Nashua Photo, Inc.; District Photo, Inc.;
3 Mystic Color Lab; Seattle FilmWorks, Inc.; ValPak Direct
4 Marketing Systems, Inc.; ValPak Dealers' Association; Carol
5 Wright Promotions:

6 WILLIAM J. OLSON, ESQUIRE

7 ALAN WOLL, ESQUIRE

8 William J. Olson, P.C.

9 8180 Greensboro Drive, Suite 1070

10 McLean, VA 22102-3823

11 (703) 356-5070

12 fax (703) 356-5085

13

14 On behalf of American Business Press:

15 DAVID STRAUS, ESQUIRE

16 Thompson Coburn

17 700 14th Street, NW, Suite 900

18 Washington, DC 20005

19 (202) 508-1013

20 fax (202) 508-1010

21

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the United Parcel Service:

3 JOHN E. McKEEVER, ESQUIRE

4 Schnader Harrision Segal & Lewis LLP

5 1600 Market Street, Suite 3600

6 Philadelphia, PA 19103

7 (215) 751-2200

8 fax (215) 751-2205

9

10 On behalf of the Major Mailers Association:

11 RICHARD LITTELL, ESQUIRE

12 1220 19th Street, NW, Suite 400

13 Washington, DC 20036

14 (202) 466-8260

15

16 On behalf of ADVO, Inc.:

17 JOHN M. BURZIO, ESQUIRE

18 THOMAS W. McLAUGHLIN, ESQUIRE

19 Burzio & McLaughlin

20 1054 31st Street, NW, Suite 540

21 Washington, DC 20007

22 (202) 965-4555

23 fax (202) 965-4432

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Time Warner, Inc.:

3 TIMOTHY L. KEEGAN, ESQUIRE

4 1054 31st Street, NW, Suite 540

5 Washington, DC 20007

6 (202) 965-4555

7 fax (202) 965-4432

8

9 On behalf of Advertising Mail Marketing Association:

10 IAN D. VOLNER, ESQUIRE

11 Venable, Baetjer, Howard & Civiletti

12 1201 New York Avenue, NW

13 Washington, DC 20005

14 (202) 962-4814

15 fax (202) 962-8300

16

17 On behalf of the Office of Consumer Advocate:

18 SHELLEY S. DREIFUSS, ESQUIRE

19 Office of the Consumer Advocate

20 Postal Rate Commission

21 1333 H Street, NW, Suite 300

22 Washington, DC 20268

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Dow Jones & Company, Inc.:

3 SAM BEHREND, ESQUIRE

4 LeBoeuf, Lamb, Greene & Macrae

5 1875 Connecticut Avenue, NW

6 Washington, DC 20009

7 (202) 986-8018

8 fax (202) 986-8102

9

10 On behalf of David B. Popkin:

11 DAVID B. POPKIN

12 P.O. Box 528

13 Englewood, NJ 07631-0528

14 (201) 569-2212

15 fax (201) 569-2864

16

17 On behalf of the Association of Alternate Postal Systems:

18 BONNIE S. BLAIR, ESQUIRE

19 Thompson Coburn

20 700 14th Street, NW, Suite 900

21 Washington, DC 20005

22 (202) 508-1003

23 fax (202) 508-1010

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Mail Order Association of America:

3 DAVID C. TODD, ESQUIRE

4 Patton Boggs, LLP

5 2550 M Street, NW

6 Washington, DC 20037

7 (202) 457-6410

8 fax (202) 457-6513

9

10 On behalf of the Magazine Publishers of America:

11 JAMES R. CREGAN, ESQUIRE

12 Magazine Publishers of America

13 1211 Connecticut Avenue, NW, Suite 610

14 Washington, DC 20036

15 (202) 296-7277

16 fax (202) 296-0343

17

18

19

20

21

22

23

24

25

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3	PAUL M. LION				
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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 resume hearings on Docket R97-1, the Postal Service request for changes in rates and fees.

Scheduled to appear today are Postal Service Witnesses Needham, Miller, Schenk, Plunkett, Lion, Treworgy and Currie. However, no participants submitted a timely notice of intent to cross-examine Witness Currie and I ascertained that no commissioners had questions to ask this witness.

Therefore, Witness Currie is excused from appearing today and the Postal Service counsel will be allowed to enter his testimony and written cross-examination into the record using appropriate declarations of authenticity later on in the day when that counsel is prepared with his other witnesses.

Let me add that no participant has filed a timely notice of intent to cross-examine Witness Musgrave, who is scheduled to appear tomorrow. The Bench has some questions for this witness but in the interests of efficiency and economy, we have decided to submit a written Presiding Officer's Information Request to Witness Musgrave. Therefore, he will not need to appear at tomorrow's hearing.

Yesterday, I issued Presiding Officer's Ruling

1 Number 39 which disposed of the Office of the Consumer
2 Advocate motion to compel additional responses from Witness
3 Plunkett. Two motions to compel concerning discovery
4 addressed to Witness Treworgy remain outstanding. If
5 possible, I will have a written disposition of these issues
6 available before he takes the stand later today.

7 Does anyone have a procedural matter that they
8 would wish to raise at this point in time?

9 Mr. Popkin?

10 MR. POPKIN: I should know all this electronic
11 equipment.

12 Good morning.

13 Is it possible to switch Witness Sharkey, T-33, to
14 earlier in the day since I would like to try and see if I
15 can get home at a reasonable hour tomorrow, since it's last
16 on the list.

17 CHAIRMAN GLEIMAN: I will take it under
18 advisement. I don't have tomorrow's witness list in front
19 of me and I would have to consult with the Postal Service to
20 determine whether they have any special needs or
21 restrictions with respect to that witness.

22 MR. POPKIN: Okay.

23 CHAIRMAN GLEIMAN: So we will take it up at
24 lunchtime, during the lunch break, and we will make a
25 determination at that point in time. I would like to switch

1 all the witnesses to very early in the morning because I
2 would like to get home early, too. So.

3 Our first order of business this morning is a
4 discussion of the issues addressed in written responses to
5 Commission Notice of Inquiry Number 1. Timely responses
6 were filed by the Alliance of Nonprofit Mailers, Nashua
7 District, et al., Newspaper Association of America, the
8 Office of the Consumer Advocate and the Parcel Shippers
9 Association which, while last on the list, filed its
10 comments first anticipating our notice of inquiry.
11 Additionally, the Postal Service filed a response early
12 yesterday morning.

13 Has any other participant filed a written response
14 that I have not yet seen?

15 [No response.]

16 CHAIRMAN GLEIMAN: Before ruling on outstanding
17 controversies concerning the treatment of specific library
18 references, I want to provide all counsel with an
19 opportunity to comment on the written responses to the
20 notice of inquiry. I hope that counsel will focus on
21 helping the Commission develop a complete record while
22 providing full due process rights to all participants. I
23 will allow every participant the opportunity to comment and
24 then the further opportunity to respond to any points made
25 by other counsel. However, I would like to go home tonight,

1 so if we can stay focused?

2 Does the Postal Service have any response to the
3 comments provided by participants or additional points to
4 add to its written comments?

5 MR. TIDWELL: Good morning, Mr. Chairman. The
6 Postal Service would generally like to state that we have an
7 interest in ensuring that these proceedings proceed with as
8 much due process as is necessary. We have an institutional
9 interest in ensuring the Commission recommended decisions
10 which are approved by the Governors are as defensible as
11 possible when reviewed by the courts.

12 We filed our response to the NOI yesterday. I
13 understand some parties may not have gotten a copy --

14 CHAIRMAN GLEIMAN: Excuse me, Mr. Tidwell. Could
15 you just pull the mic closer and speak up a little bit?

16 MR. TIDWELL: We filed our response to the NOI
17 yesterday and I understand that some parties may not have
18 gotten copies. I won't try to summarize all the points here
19 but our response indicates that our litigation practices
20 have in no way been intended to try to frustrate parties but
21 to try to deal rationally with the increasing burdens of
22 Commission practice and the evidentiary requirements.

23 We think that an appropriate standard for dealing
24 with some of the outstanding issues in this proceeding is to
25 continue the practice that we have worked out with a number

1 of parties, in which where there have been disputes or
2 issues identified with respect to library references where a
3 party believes that written cross-examination doesn't get
4 them quite as far as they need to go toward an understanding
5 of that which underlies the Postal Service rate proposals,
6 we are certainly willing to seek to accommodate parties'
7 interests in cross-examination of witnesses who can further
8 explain the contents of those library references.

9 We have done so in several instances. It is my
10 understanding that there is at least one other instance
11 where a party has raised an issue and we are working to
12 prepare testimony of a witness to further explain that
13 library reference. There are other issues raised by some of
14 the parties relating to cross-indexing and roadmapping of
15 library references which perhaps could be resolved in the
16 context of some rulemaking outside the context of this
17 proceeding. We don't think it is appropriate for a
18 resolution here.

19 We think that if there is -- if the Commission
20 feels that there is a need to engage in any further
21 clarification of its existing rules or further rulemaking,
22 we would certainly like to contribute to that process and to
23 do what we can without unduly burdening the Postal Service
24 to meet the due process concerns of the Commission and the
25 parties.

1 CHAIRMAN GLEIMAN: Thank you, Mr. Tidwell. Would
2 anyone else wish to comment? Any other --

3 MR. KEEGAN: Yes, Mr. Chairman, Timothy Keegan on
4 behalf of Time Warner Inc. There is one issue that was just
5 touched on very briefly in a couple of the comments that we
6 think needs further commentary and that is the significance
7 if any of Federal Rule of Evidence 703, which deals with
8 circumstances in which an expert witness is permitted to
9 rely on materials without those materials themselves being
10 put into evidence or being admissible into evidence.

11 The Federal Rules of Practice -- rather of
12 Evidence, were amended in 1975 and they now provide:

13 "The facts or data in the particular case upon
14 which an expert bases an opinion or ^{inference [i]...[i]f} ~~inference~~ if of a type
15 reasonably relied on by experts in the particular field in
16 forming opinions or inferences upon the subject^{..} need not be
17 admissible in evidence."

18 In 1979 in an article appropriately entitled
19 Expanded Use of Expert Witnesses Pose New Problems for
20 Counsel, the National Law Journal described how that rule
21 was being implemented and stated:

22 "Under Rule 703, expert testimony need not
23 necessarily be based on personal knowledge of the expert or
24 evidence in the record. ^{so} ~~so~~ long as there is 'suitable indicia
25 of trustworthiness' or 'reasonable basis of reliability,' ^{an} ~~An~~

1 expert is permitted wide latitude as to the materials on
2 which he may base his testimony."

3 Finally, in citation of authority concerning the
4 rule, Professor ^{Lilly's} ~~Lilly's~~ Treatise on Evidence states:

5 "Rule 703 means that the expert is permitted to
6 learn the facts prior to trial by a variety of means such as
7 personal examination, first-hand ^{investigation} ~~examinations~~, files,
8 reports of other specialists, or the reports ~~of comment~~ or
9 comments of professional observers. The only requirement is
10 that the sources be reliable in the sense that they are
11 normally relied on in the expert's field, even though these
12 materials may not qualify for admission into evidence."

13 As to the applicability of those principles to the
14 issues the commission has been considering, I think it is
15 universally agreed by everyone who has commented on the
16 subject that when a study or analysis has been filed as a
17 library reference but has not been sponsored into evidence,
18 that a witness who is himself unable to sponsor it into
19 evidence cannot ^{transubstantiate} ~~try and substantiate~~ it into evidence simply
20 by referring to it and saying that he relied upon it. But
21 that is a distinct and different question from whether he
22 may testify that he did rely on it and whether the
23 Commission may consider his reliance itself as evidence.

24 The Commission's rules of practice as -- that have
25 traditionally be followed appear already to contemplate that

1 the general principle of Rule 703 would apply. Rule 31(k)
2 states documentation requirements for, among other things,
3 quote, "studies and analyses offered in evidence ~~were~~^{or} relied
4 upon as support for other evidence," and it requires a clear
5 statement^{of the} study plan, and a number of other documentary
6 materials in support of such studies.

7 And one final and important -- perhaps the most
8 important point. Even if the foundational requirements are
9 met -- that is, if the witness is an expert and if the
10 material is of the sort relied upon by experts in this
11 field, obviously the evidentiary value of any particular
12 study or report relied upon will depend on the facts and
13 circumstances of the particular case, as indicated by
14 factors such as the persuasiveness of the witness'
15 explanation as to he relied on it and by indicia of
16 reliability that it may or may not carry on its own.

17 For example, some types of reports that are
18 routinely -- routinely prepared and reported under
19 procedures that have previously been subject to adversary
20 challenge have more inherent indicia of reliability than a
21 new study or analysis would have, and obviously, at some
22 point, the reasonableness of a -- a witness' reliance
23 descends so far that the principle of the rule no longer
24 applies and -- and no longer could one say he has reasonably
25 relied on any basis whatsoever.

1 CHAIRMAN GLEIMAN: Mr. Keegan, thank you.

2 Mr. Baker.

3 MR. BAKER: Thank you, Mr. Chairman.

4 As one of the parties that may have precipitated
5 this session this morning, I feel -- have some comments to
6 say on behalf of the Newspaper Association of America.

7 In our view, this issue goes more to the integrity
8 of the process than to a particular result.

9 While NAA has filed a motion to strike portions of
10 one witness' testimony based on that witness' use of one
11 library reference, un-sponsored library reference, and
12 referred to another library reference in its comments in
13 addition to the one subject to its motion, there are surely
14 others.

15 Just this morning I was handed a copy of the
16 Office of the Consumer Advocate's response to the notice,
17 which I had not seen before now, which has a fairly
18 extensive list of un-sponsored library references.

19 I have not reviewed, by any means, all of the
20 library references in this case to determine their
21 evidentiary status or to assess whether my client's
22 interests would be better served if references to them were
23 struck from the witnesses' testimonies or not.

24 I think it's reasonable to expect that parties'
25 particular litigation interests will come out on both sides

1 of -- of the issue. Some -- some documents they would be
2 helped by; some documents they would be adversely affected
3 by.

4 But to me, the legal -- the issue here is a
5 straightforward legal one.

6 Should the Postal Service be allowed to base
7 significant material changes on un-sponsored analyses that
8 are themselves contained in un-sponsored library references
9 which, under the commission rules, are simply not evidence?

10 There is little, if any, dispute as to the
11 evidentiary status of an un-sponsored library reference.
12 They ~~claim we~~ ^{plainly} do not have the status of record evidence.

13 I notice even the Postal Service has recently --
14 appears to have gotten a little bit of religion on the
15 matter. I notice they recently amended witness Crum's
16 testimony to incorporate a previously un-sponsored library
17 reference.

18 But the -- to us, it's the efficiency and perhaps
19 even the integrity of the process that's at stake.

20 Here we are two-and-a-half months into the case.
21 It's not clear to parties at this point what evidence the
22 commission -- the Postal Service is relying upon and what
23 evidence the commission will have before it when it renders
24 its recommended decision.

25 The Postal Service has its litigation tactics, and

1 that's understandable, but we need to know what the status
2 of particular materials are as we proceed the case. We're
3 well into the case at this point.

4 Parties would like to know whether they can rely
5 on the commission's rules as the status of documents or not.

6 The choice whether to provide a witness for a
7 particular document is the Postal Service's. In the absence
8 of a sponsoring witness to attest to and verify a -- a cost
9 analysis that is used to support a change, the commission
10 cannot rely upon it, and in that -- and to that degree, I
11 submit that NAA's motion to strike, you know, the portions
12 of Mr. Moeller's testimony should be granted.

13 The choice is the Postal Service's, and -- and we
14 need to -- they can make their choice and we live with the
15 result.

16 The Postal Service's comments seem to focus more
17 on the more wide-ranging issues.

18 I don't think the NAA or any other party is
19 necessarily saying that the witness must attest to every
20 single IOCS tally that it was properly taken in the normal
21 course of procedure or whatever. Certainly, factual
22 compilations of that sort are the sorts of things that
23 experts -- experts can routinely rely on in developing their
24 -- their analyses.

25 The concern to us is where the cost analysis

1 relied upon is a -- a departure from past practice and its
2 usage for change in rates, and that is the issue in our
3 motion and the focus of our comments.

4 Thank you.

5 CHAIRMAN GLEIMAN: Mr. May?

6 MR. MAY: Yes, Mr. Chairman.

7 I -- I think that Mr. Keegan, as well as Mr.
8 Baker, made the point. I don't think you have to invent the
9 wheel all over.

10 There are established rules of evidence. Courts,
11 every day, deal with these very issues, and with just some
12 adaptation to -- of those rules to the fact that you are a
13 regulatory agency, as well as a quasi-judicial agency, and
14 you don't have the strict rules of evidence necessarily
15 imposed upon you.

16 But nevertheless, it's probably good practice --
17 and this commission has usually followed it -- to observe
18 the Federal Rules of Procedure, and so, we don't have to
19 reinvent those, happily; we just have to see what common
20 sense imposes upon the application of those rules to the
21 materials at hand.

22 The commission has always had to have what are
23 called library references, but the original reason was for
24 the voluminous nature, and they were -- from the beginning,
25 they were intended to be part of the witness' testimony.

1 They just weren't studies that materialize out of the ether
2 and were deposited in the library, created by some anonymous
3 source that parties, particularly the post office, could
4 conveniently exploit, and when asked, well, how do you know
5 that -- well, it's in this study.

6 It seems to me that it would serve everyone's
7 interests if a category of material were identified in
8 advance that it's of -- if the Postal Service's case intends
9 to rely upon materials that are not in the testimony, filed
10 testimony of the witness but, rather, are dependent upon an
11 -- another source, a source which is too voluminous to
12 become part of the testimony -- we don't want to litter the
13 record with it -- then that should be identified, and it
14 should be made clear up front that that witness is relying
15 on that data, that witness can -- can vouch for -- vouch for
16 that data source, that that witness knows how that source
17 was -- was -- was acquired, and -- and if it's a piece of
18 analysis, that the witness understands the analysis, agrees
19 with it, understands the methodology of the study, can vouch
20 for the methodology, the usual tests one -- that apply, if
21 you were going to -- if that person were going to actually
22 try to put that study into evidence, that the witness should
23 be prepared to do all of that.

24 Now, we have, in this case, several instances of
25 where the Postal Service has now come forward and said yes,

1 we have a witness who will sponsor a particular study. It
2 is a bit of a litigation strategy on both sides, the Post
3 Office not wanting to identify who it is and leaving it in
4 question whether or not they're going to really try to prove
5 this material. On the other hand, the intervenor party, for
6 example, Parcel Shippers, to use a concrete example, with
7 Library Reference 108, it is not in our interest to
8 authenticate Library Reference 108.

9 So the suggestion that somehow or other it is up
10 to Parcel Shippers to carry the burden of proving that
11 Library Reference 108 is not any good is misplaced. If the
12 Postal Service wants to rely on that study, and they are
13 relying on it, then it seems to me they should have up front
14 identified the authors of the study, said they have a
15 witness who's familiar with the study who understands the
16 methodology, who was involved in it, and I think they've
17 pretty much said that now, but they could easily have said
18 that up front. But, you know, the application of a little
19 common sense to this would resolve a lot of things.

20 Now the Post Office has suggested in its pleading
21 that there's really only reason -- they say that generally
22 the personal identities of sources are only important in
23 three respects: qualifications of experts who offer
24 opinions, accuracy, and reliability, that is, credibility.
25 I would also add what they don't have here, the methodology

1 of a particular study, particularly survey, for example, see
2 the ability to follow up on potential lines of inquiry such
3 as the ability to test assumptions. It says depending on
4 the type of information, however, only for the third point
5 might one actually need a witness. Well, I can't disagree
6 more strongly that that's the only reason we might need a
7 live witness that we can cross examine or examine about a
8 particular study.

9 There's certainly questions about the
10 qualifications of experts, whether they really are expert in
11 the particular study fields. How was the study conducted?
12 What were its methods? If there isn't somebody to tell us
13 that and if the study itself does not explain that in
14 sufficient detail, I don't think it's adequate to simply
15 leave the study there. Their argument that the intervenors
16 can ask all these questions, that they've got a witness
17 who's prepared to answer all these questions, it seems to me
18 beside the point. It is the Post Office burden to qualify
19 their own evidence. It is not our burden to through the
20 interrogatory process or the cross examination process to
21 develop the fact of whether it's any good or not. That
22 isn't our burden.

23 Now I grant you that's a bit of, quote, litigation
24 strategy to use the Presiding Officer's characterization.
25 And certainly there's a little bit of that that goes on in

1 any proceeding before -- in any trial. And I'm not opposed
2 to that as long as the strategy doesn't get in the way of
3 actually producing a record that will support the findings
4 of the Commission. But I think the Commission does well in
5 reserving its opinion. I think everybody should weigh in on
6 the subject. But when the Commission comes to adumbrating
7 this further, I would respectfully suggest that they pay
8 close heed to the rules of evidence which as a body of law
9 and procedure that has spent a great deal of time of the
10 years dealing with the very problems we're grappling with.

11 Thanks, Mr. Chairman.

12 CHAIRMAN GLEIMAN: Anyone else?

13 MR. McKEEVER: Mr. Chairman.

14 CHAIRMAN GLEIMAN: Mr. McKeever.

15 Mr. Popkin, if you're not going to participate in
16 this particular issue, could you let Mr. McKeever have a
17 seat there for a bit.

18 Thank you.

19 MR. McKEEVER: Mr. Chairman, John McKeever for
20 United Parcel Service.

21 We have not weighed in on the subject to date
22 because in the context of this case it has not been an issue
23 for us, but it is an issue that does have general
24 application, and in light of the Chair's request for
25 comments this morning, I don't want to add too much to what

1 has been said already, because I think Mr. Keegan has hit
2 the nail on the head. He's cited the proper rule, and that
3 is an expert can rely on material that is not in evidence as
4 long as his reliance on that material outside the record is
5 customary in his profession and it's a reasonable reliance.

6 Now the point that I would want to add is that
7 there are really two types of library references I think at
8 issue here. One is a library reference which contains data
9 that is drawn from the normal data systems of the Postal
10 Service, the regular periodic data systems that are involved
11 in every Commission proceeding, such as the IOCS data
12 system. I believe that in the case of that type of library
13 reference with that type of data, reliance by a witness on
14 the data is reasonable and customary in these proceedings.

15 That doesn't mean, of course, that that data
16 cannot be attacked. It always can be questioned, but if
17 it's from a regular Postal Service data system of the type
18 that is used in every proceeding, then I think that the
19 presumption is that reliance on it is proper, reasonable,
20 and certainly customary by the expert. It's up to the
21 parties who disagree and feel that the data is flawed in
22 some way or other to develop a record that shows that.

23 Then you have library references that are really
24 special studies. Now they have a different status. There
25 you do not have the normal indicia of reliability, and it

1 may or may not be reasonable for an expert in a particular
2 case to rely on those studies. I think then it's incumbent
3 on the discovery process to probe how the study was done.
4 Certainly it's helpful if all that information is provided
5 beforehand.

6 I am very sympathetic to the pleas of those who
7 want that material beforehand, because we struggle mightily
8 in discovery to get those details. When they're not there
9 in the library reference to begin with, it makes the process
10 much more expeditious if that material can be filed as part
11 of the library reference when it is filed. And we believe
12 that the rules do address that situation, as Mr. Keegan
13 points out, by saying that certain foundation requirements
14 must be met, not only for studies that are put in evidence,
15 but studies that are relied on by a Postal Service witness.
16 So as I say, our preference is to have that type of material
17 early.

18 However, we also believe that the discovery
19 process is available. It's a cumbersome process, but it is
20 available to explore that. And unfortunately I think in the
21 case of special studies the issue has to be taken up on a
22 case-by-case basis, and if discovery shows that the
23 process -- the study is not reliable, then the Commission
24 will act accordingly. At the very least it will take it
25 into account in weighing the weight to be accorded to a

1 witness' testimony, and the defect may be so fundamental
2 that it may actually decide to strike the testimony because
3 it does not have any indicia of reliability or
4 trustworthiness. But it has to be done, I believe, on a
5 case-by-case basis.

6 We are interested in making sure that as much data
7 becomes available as possible, because that's the only way
8 that the Commission's going to be sure that it arrives at
9 the best possible result. And for that reason we would not
10 like to see anything that discourages the filing of library
11 references. On the other hand, we do like to see measures
12 that give more information about those library references as
13 early as possible in the process.

14 Just one more brief remark, and that is the
15 somewhat related subject of institutional responses,
16 interrogatory responses of the Postal Service. Again, that
17 is helpful, in the sense at it often brings out information
18 that otherwise you may not be able to get. On the other
19 hand, there are times when the institutional response
20 contains a conclusion or an opinion that really needs
21 probing, and I think the Chair so far has handled that
22 properly, because it said if people want the ability to
23 cross examine somebody on that, ask for it. But it is a
24 problem. We are concerned by the proliferation of
25 institutional responses by the Postal Service, because it

1 does make one's job more difficult in the discovery process.

2 Just to reiterate, we think that the question of
3 the status of library references and whether witnesses can
4 rely on them really should be decided against a background
5 of distinguishing between two types of data, data produced
6 by the regular data systems of the Postal Service, and
7 special studies.

8 CHAIRMAN GLEIMAN: Anyone else?

9 MR. KEEGAN: Yes, Mr. Chairman.

10 CHAIRMAN GLEIMAN: I see a slew of folks back
11 here. Mr. Keegan, you've already had a shot, so we'll get
12 around to the rejoinders. Mr. McLaughlin, you might want to
13 move up to the front also, and whomever else that we can
14 hear from you.

15 MR. MILES: Mr. Chairman, my name is John Miles,
16 on behalf of Nashua Photo, Inc., District Photo, Inc.,
17 Mystic Color Lab, and Seattle Film Works, Inc.

18 Although we recognize the analysis Mr. Keegan
19 referred to in Rule 703 of the Federal rules and the
20 distinction that Mr. McKeever just made about special
21 studies and the possibility that studies that are normal
22 Postal Service studies might be almost self-authenticating,
23 the material that we addressed and the issues that we
24 addressed in our comments to the notice of inquiry and in
25 our motions practice in the case so far have to do more with

1 the types of issues that Mr. May and Mr. Baker were just
2 speaking to, straightforward legal questions where a witness
3 is relying wholesale on an unsponsored library reference
4 that apparently is not going to be evidence in the case
5 because the Commission's rule says so.

6 In those cases, and we recently encountered one
7 where Witness Fronk was relying on an unsponsored library
8 reference and ultimately we had to move to strike his
9 testimony, and the presiding officer apparently agreed with
10 the merits of our motion, but instead of striking it allowed
11 the Postal Service to attempt to introduce supplemental
12 testimony, brings into play considerations of procedural due
13 process to the intervenors and to other parties.

14 I think the commission is justifiably and -- and
15 obviously concerned about developing as complete a record as
16 possible, but a record in the case is -- is an amorphous,
17 moving subject, and there have to be rules and there are
18 rules which attempt to define when that record should be
19 established.

20 As we read Rule 53 of the commission's rules, from
21 the Postal Service's point of view, it should be set at the
22 time it files its request.

23 If it relies on testimony of witnesses who are
24 relying on evidence or materials that will never be evidence
25 in the case and there's a danger that, by doing that, they

1 more or less bring that inadmissible matter into evidence by
2 virtue of the very testimony, we think that that witness'
3 testimony that relies on that inadmissible evidence should
4 be stricken, and we think it's a serious problem from time
5 to time in a case and in this case as we brought it up to
6 the commission.

7 The net result to the intervenor in bringing it
8 up, of course, was to face, now, supplemental testimony a
9 few days before scheduled cross examination, with no
10 opportunity, really, to examine the basis for that
11 supplemental testimony.

12 So, we would ask the commission to consider not a
13 change in the rules, because the rules are there. Rule 53
14 is there, it says the Postal Service's case shall be filed
15 complete; Rule 31 is there which defines what evidence in
16 the case is; and Special Rule of Practice 5 says that
17 un-sponsored library references are not evidence.

18 With all of those rules, there needs to be, we
19 think, a little bit of enforcement so that we don't get into
20 these situations, and the only way that we know of to bring
21 the issue is the way we brought it. We asked the Postal
22 Service who was sponsoring library references, and we were
23 told nobody was.

24 We moved to strike a witness' testimony based on
25 the fact that the witness had no real knowledge, not the

1 kind of reliance that Mr. Keegan was speaking about under
2 Rule 703. He was just incorporating, basically, the -- the
3 inadmissible library reference in his testimony.

4 That's the situation that we're addressing, and in
5 addition to the other problems that may be presented by
6 library references being more or less willy-nilly
7 designated, this is a serious situation that's posed by the
8 Postal Service's apparently longstanding practice, and we
9 would ask the commission to consider taking the step of
10 striking testimony that is not justified.

11 CHAIRMAN GLEIMAN: Mr. McLaughlin?

12 MR. McLAUGHLIN: It's been a while since I've been
13 up here.

14 I think we disagree somewhat with what I would
15 call that harder line position. I think I agree more with
16 Mr. McKeever to the effect that the commission, as is usual
17 in these kinds of situations, is going to have to deal with
18 these things on a case-by-case basis.

19 There obviously are library references that, once
20 we go to the case, we discover that, yes, indeed, there are
21 questions that perhaps cannot be addressed adequately
22 through discovery, even though -- whether it's a
23 witness-sponsored piece of testimony or a library reference,
24 you can't engage in the same kind of discovery up until the
25 point of the hearing.

1 The fact is there are probably hundreds if not
2 thousands of Postal Service studies out there. They
3 probably have studies on OCR acceptance and reject rates and
4 who knows what else out there that are relied upon by
5 witnesses.

6 The Postal Service would probably have a very
7 difficult time determining, at the time it files its case,
8 what kinds of things may become questioned by parties or
9 whatever. They obviously can't put in 200 witnesses at the
10 outset.

11 I think we're always going to have situations
12 where a library reference is filed that a witness relies
13 upon that later on becomes the subject of closer scrutiny
14 and parties want to have discovery on it and a witness, and
15 I think the commission is going to have to basically do a
16 case-by-case assessment of that as to whether a witness
17 should be required.

18 The difficulty in doing a general rule which says
19 that, in every case, the Postal Service must have a witness
20 and it must be designated at the start of the case is that
21 it becomes just a mind-boggling morass for the Postal
22 Service and for the parties and perhaps even the commission.

23 The fact is -- is that all parties can engage in
24 discovery of all the documents that are submitted by the
25 Postal Service, including library references, work papers,

1 whatever, during the course of discovery and that the
2 commission can't always deal with these issues as they come
3 up in terms of sponsoring witnesses' pieces of testimony.

4 CHAIRMAN GLEIMAN: Anyone else?

5 Yes, sir.

6 MR. THOMAS: Joel Thomas of Alliance Non-profit
7 Mailers.

8 The alliance submitted a written response to your
9 notice of inquiry, but I'd like to speak this morning simply
10 because I received the Postal Service's response yesterday
11 well after our response to your notice was originally
12 written and filed.

13 Quite frankly, when I prepared it, it did not
14 occur to me, having read what they had said in response to
15 some of the motions to strike, that the Postal Service was
16 really taking the position that they never were going to
17 have to sponsor a great deal of the testimony and library
18 witnesses on which people rely.

19 They seemed to be left in doubt with the remark
20 that they would sponsor what was necessary in some earlier
21 responses.

22 Now they seem to be suggesting flat out that they
23 are never going to sponsor this, even if it is relied upon.

24 I think they have to sponsor it under the rules.
25 If you want to change the rules, then I think you have to

1 prospectively change the rules and -- and not tell us now
2 that the rules are not going to be enforced.

3 I disagree with those that said this should be
4 done on a case-by-case basis. The Postal Service can decide
5 when it submits its testimony what it is relying on and it
6 can put forward a list.

7 I do not want to discourage the Postal Service
8 from putting documents into library references so that
9 people can have access to information, but if it's
10 information the Postal Service is relying upon, I think
11 they've got to identify it and say they're relying on it.

12 My understanding of Federal Rule 703 is quite
13 different, apparently, than some witnesses.

14 When you say that you can use information that is,
15 in effect, hearsay that is commonly relied upon, they're
16 talking about an engineer coming in and testifying that
17 studies have been done by reputable laboratories and
18 published that steel of a certain quality and size breaks at
19 a certain point.

20 They don't have to bring somebody in that did that
21 test in that laboratory if these are tables that are
22 commonly used by expert engineers to -- to fabricate steel.

23 But individual studies prepared by one of the
24 parties to the -- to a case -- I've never heard of those
25 being treated as information that's commonly relied upon

1 experts in a case. I have been following postal affairs for
2 some years now. I'm fairly new to some of this rate case
3 litigation, but I have litigated a lot against the
4 government over the last 20 years, and the suggestion that
5 government data is so inherently reliable that it should
6 come in as an exception to the hearsay rule and without
7 verification is, to me, startlingly beyond belief.

8 Let me give you a very simple example. I
9 litigated against the Department of Interior, the Bureau of
10 Land Management. An issue arose over how much acreage
11 managed by the department was in a certain status. There
12 were only five steps. It's not nearly as complicated as
13 figuring out what category mail belongs in.

14 When we got into a hearing on motions for summary
15 judgement, the government suddenly announced there were so
16 many acres involved. I got up and said that's not what I
17 understood, that I understood it was a great deal more.

18 The government -- the judge asked counsel where he
19 gotten -- for the government -- where he'd gotten his
20 information. He said somebody at headquarters had provided
21 it.

22 He asked me where I'd gotten it. I said I'd
23 gotten it from the 10 state directors, but I had signed
24 letters from all of them that said this is the amount of
25 property they have in that category, and the numbers weren't

1 even similar.

2 So, the notion -- I mean the government's had this
3 land for 100 years. This isn't counting something that's
4 going through the system daily, and there's phenomenal
5 disagreement over what we're talking about.

6 So, the notion that this information is somehow
7 inherently reliable -- we've got -- we've got a scandal in
8 this town right now with the FBI lab.

9 It was generally assumed throughout the country,
10 in state courts and everywhere else, this information was
11 inherently reliable, and now we've got a problem.

12 We have thousands of -- of people released onto
13 the street because it was conceded -- concluded that this
14 stuff was inherently reliable and it turned out not to be
15 inherently reliable, and I -- I mean I would go so far as to
16 say, I think, if they're going to rely on IOCS tallies,
17 somebody ought to come in and say they were properly put
18 together.

19 That would be required of any other party in any
20 other kind of litigation.

21 They should not simply be saying here's some
22 numbers we came up with.

23 CHAIRMAN GLEIMAN: Well, a lot of folks have come
24 in -- a lot of folks have come in during the proceedings
25 that I've sat through and -- and raised questions about

1 whether those IOCS tallies were done properly.

2 Right, Mr. Keegan?

3 Anyone else before we get to rejoinders?

4 Mr. Todd.

5 MR. TODD: David Todd on behalf of the Mail Order
6 Association of America.

7 I would just urge in all of this -- and much has
8 been said that makes a lot of sense. Certainly, I believe
9 Mr. Keegan's view of how we approach this makes sense. I
10 would just urge that the commission move in this area with
11 caution.

12 The ability of able and even not so able lawyers
13 to create procedural chaos and make a proceeding so
14 complicated and so subject to objections simply knows no
15 bounds.

16 I think it is perfectly clear that these
17 procedures have, over the years, become increasingly
18 complicated. We are inundated with information. There has
19 been a constant push for ever more complicated analyses of
20 the data.

21 It has got to the point that to truly understand
22 all the facets of this case is simply impossible except for
23 an intervenor of simply unlimited means and willingness to
24 spend it. Perhaps it's even gotten beyond those.

25 So, without necessarily rejoining any of the

1 comments that have been made this morning, I would certainly
2 urge that the commission look carefully before it leaps into
3 yet another requirement for increased complexity and
4 difficulty.

5 CHAIRMAN GLEIMAN: Thank you. That's exactly why
6 we're here having this discussion this morning, because we
7 don't intend to leap.

8 On the other hand, I don't intend to have the
9 commission in this case or any other case, while I'm here,
10 be put in a position of having it suggested that we need to
11 vote on whether we're going to violate our own rules again,
12 which is a challenge that was laid down to us in one of the
13 filings associated with this notice of inquiry.

14 But we will take our time and we will try and be
15 thoughtful, even if some think it's out of character for us
16 to be so.

17 Rejoinder, Mr. Keegan?

18 MR. KEEGAN: Yes, Mr. Chairman, just two brief
19 comments.

20 First of all, I think the -- the discussion we had
21 of government statistics admirably supports the view that
22 cases should be judged individually and that reasonable
23 reliances is not something that can be determined
24 categorically.

25 And secondly, since I found it disquieting to be

1 so strenuously agreed with by Mr. McKeever, I just wanted to
2 stress that, contrary to one or two statements he made that
3 I assume were simply slips, at the end of the day, in the
4 case of the materials we're talking about, those materials
5 are not evidence, they may not be relied on by the
6 Commission, they may not be treated as evidence.

7 It is the witness and his reliance on materials
8 that is -- is at issue, not the Commission's reliance.

9 CHAIRMAN GLEIMAN: Mr. May?

10 MR. MAY: Mr. Chairman, I think that it simply is
11 the case that we are talking about two different kinds of
12 records here. One are the regular data systems that the
13 Postal Service keeps and I think that those are admissible
14 in evidence under the Business Records Rule, the Hearsay
15 Rule, it is one of the standard exemptions. The Post Office
16 keeps these data. It may be terrible data and we have all
17 challenged it from time to time, but it is kept in the
18 ordinary course of business, it is an exception to the
19 Hearsay Rule and I think that is a wholly different set of
20 problems.

21 On the other hand, we have a proliferation of
22 studies that take selected pieces of various data systems,
23 manipulate those data in some kind of often Rube Goldberg
24 fashion, put one thing together with another and then
25 announce that such-and-such costs something.

1 But those things, it seems to me, should be
2 subject to all the rules of admissibility, they have to have
3 a live witness explain how it was done, why it was done,
4 what the methodology was and I don't think that that kind of
5 study has any quality of its own; it needs to be sponsored.

6 I have another problem I would like to raise and
7 it is with the Commission's own recent ruling about how to
8 handle institutional responses to interrogatories. There
9 is, after all, not a lot different between an institutional
10 response and an unsponsored library reference. They are
11 both nothing other than you have a lawyer, we don't -- we
12 cannot have testimony by lawyers making up the entire record
13 in this case. All of these institutional responses are
14 nothing other than responses delivered by lawyers for the
15 Postal Service. They are -- and so your rule now says that
16 you cannot -- the only time you have to get a live witness
17 to sponsor those answers is when you want to have oral
18 cross-examination and your rule states that in order to get
19 oral cross-examination that requests for oral cross must
20 describe in detail the subject matter of the questions to be
21 posed and explain why followup written questions were not
22 sufficient to explore the context and content of the
23 institutional answer.

24 So it is only under circumstances where you can
25 satisfy that, is the Postal Service now required to supply a

1 witness to vouch for institutional answers. Now, I suppose
2 you could say, well, the Postal Service might want to argue,
3 why can't we treat library reference studies the same way,
4 that we don't have to supply a sponsor.

5 And the fact is, I take the pleading to be an
6 argument that that is exactly what they are saying, is they
7 don't have to supply a sponsor for these studies unless and
8 until the party shows that written cross-examination has not
9 been satisfactory to elucidate all the information that a
10 party would need and the party has to explain why it
11 wants -- what is it going to do with this live witness if it
12 gets its hands on it and what are they going to ask them and
13 how is that going to advance the record. I take that to be
14 their argument about the only circumstances under which they
15 have to supply a sponsor. It is uncomfortably close to the
16 Commission's own rule about when they must supply a sponsor
17 for an institutional answer to an interrogatory. That
18 troubles me.

19 Thank you, Mr. Chairman.

20 MR. TIDWELL: Mr. Chairman, the Postal Service
21 would like to respond to two points made by counsel for
22 Parcel Shippers. It may have been the practice of the Post
23 Office Department to have the lawyers write the
24 institutional responses but it has not been the practice of
25 the Postal Service to have that go on. We certainly don't

1 have the time or the expertise to provide the information
2 that appears in the institutional responses.

3 The second point is that the Postal Service
4 position with respect to the resolution of sponsorship that
5 counsel just alluded to is something we think is reasonable
6 under the present circumstances and that can help resolve
7 issues that have arisen specifically in this proceeding. We
8 are willing again to work with parties to resolve those
9 issues on a case-by-case basis.

10 CHAIRMAN GLEIMAN: Yes, sir.

11 MR. THOMAS: I would just like to comment I said
12 earlier what we are looking for is the enforcement of
13 existing rules and not a new set. With regard to the
14 Federal Rules of Evidence and the admissibility of business
15 records as an exception to the Hearsay Rule, if they come in
16 as an exception to the Hearsay Rule under the business
17 records exception, fine. The question is, I'm not even sure
18 they do. I'm not sure these are records kept in the
19 ordinary course of business and as that rule is written and
20 enforced. So I think some examination.

21 But if they do qualify for the business records
22 exception, they ought to come in as business records. But
23 some foundation for that may have to be laid.

24 CHAIRMAN GLEIMAN: Thank you. Any further
25 rejoinder?

1 [No response.]

2 CHAIRMAN GLEIMAN: Just a couple of comments. The
3 first is, regarding the Presiding Officer's rulings on
4 motions to strike, it is my belief that, given the nature of
5 the proceedings before this administrative body and given
6 the distinct possibility that issues may be resolved as we
7 go on with the proceedings and that due process rights of
8 the parties can be protected, that we best not strike except
9 in the most extraordinary of circumstances.

10 The Commission, of course, if testimony on which a
11 motion has been made and denied feels that, in the final
12 analysis, the testimony does not carry great weight, we will
13 give it the weight that is appropriate when it makes its
14 decisions and recommendations. That's number one.

15 Number two, on the comments that have been made by
16 several of the participants in the discussion today about
17 the increasing burden of Commission practice and the
18 constant push for increasingly complex information and
19 analyses, just let me say that it is my impression -- I have
20 only been here three-and-a-half years but I have watched the
21 Postal Service from another perch for a number of years. It
22 is my impression that one of the reasons for the
23 increasing -- alleged increasing burdens of Commission
24 practice and the constant push for more and more information
25 is that the system that we all deal with has become more and

1 more complex and all of you have participated in assisting
2 it to become more and more complex and more and more refined
3 over the years as you have sought to take advantage of the
4 work sharing that you do.

5 You sought to take advantage -- and I don't mean
6 that in a derogatory sense; it is entirely appropriate -- of
7 changes in the system involving first mechanization and then
8 automation and on and on. So I think that when people come
9 before the Commission and comment on the increasing burdens
10 of practice, they have to keep in mind that frequently their
11 clients are the beneficiaries of that increasingly complex
12 and burdensome practice that takes place by virtue of the
13 many subclasses and new classes and discounts, rate
14 categories and what have you.

15 We have a difficult problem that we have got to
16 deal with, and I appreciate all of your comments this
17 morning. I know that you have given it a great deal of
18 thought, and your comments were all thoughtful. We will
19 take a look at the transcript and sit down and see how we
20 can best deal with this problem.

21 As I said, the one thing that I don't want to do
22 is be in a position where the commission is accused of
23 relying on data which is not properly relied on because it
24 hasn't been made part of the evidentiary record, either by
25 being bootstrapped by one of Mr. Keegan's witnesses who is

1 expert enough to rely on a certain type of evidence or what
2 have you.

3 By the same token, Mr. Todd, I appreciate your
4 comments, and we certainly don't want to do anything that is
5 going to be burdensome in perpetuity or until the next rule
6 change. Hopefully, we can deal with this matter reasonably.

7 One final request, Mr. Tidwell. Is it possible
8 for the Postal Service to give us a list of those studies
9 that you mentioned at the outset that you're intending to
10 support with a witness?

11 If you cannot do it today, we'd be happy to
12 receive something in writing, but if you are prepared to
13 provide us with a list, perhaps that would mitigate some of
14 the concerns that currently exist.

15 MR. TIDWELL: I've just been handed a list that
16 indicates that library references 108, 109, 112, and 182
17 --108 was incorporated by reference by witness Crum.

18 It's my understanding that witness McGrane, who is
19 not a stranger to these proceedings, from Christianson
20 Associates, will be sponsoring the content of library
21 references 109 and 182, and as the parties are aware,
22 witness Daniel has some sponsorship of the contents of
23 library reference H-112, and -- and again, if there are
24 issues that parties believe need to be resolved with respect
25 to others, we are available to consult and to see how best

1 to resolve these to satisfy everyone's interests.

2 CHAIRMAN GLEIMAN: Thank you.

3 If there's nothing further on this matter, then
4 we'll move on with the scheduled witnesses.

5 You know, I -- given the time and -- and knowing
6 that the witness has been sitting there already for close to
7 an hour, I think it would be a good idea for us to take our
8 10-minute break a teeny bit early right now, and we'll come
9 back at 25 of the hour, according to the clock in this room,
10 and we'll pick up at that point.

11 [Recess.]

12 CHAIRMAN GLEIMAN: Mr. Rubin, do you want to
13 introduce your witness?

14 MR. RUBIN: The Postal Service calls Susan W.
15 Needham as its next witness.
16 Whereupon,

17 SUSAN W. NEEDHAM,
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 DIRECT EXAMINATION

22 BY MR. RUBIN:

23 Q Ms. Needham, do you have two copies of a document
24 titled Direct Testimony of Susan W. Needham on Behalf of
25 United States Postal Service and designated as USPS-T-39?

1 A Yes, I do.

2 Q And does this testimony include the corrections
3 that were filed on August 22, 1997?

4 A Yes.

5 Q And do you have another minor correction to make
6 at this time?

7 A Yes, I do. My correction is to -- on page 92,
8 Table 16, the Stamped Envelope Current and Proposed Fee
9 Schedule, I have a few minor changes to make.

10 The first one is under the Current Description
11 column, the first column, the eleventh line down under
12 Current Description, where it says Savings Bonds, or Savings
13 Bond, excuse me, is to be deleted.

14 The next column over, Proposed Description, where
15 it says Savings Bond with a parentheses is to be deleted and
16 under Current Fee on the same line where it says \$15 is to
17 be deleted.

18 The line below that, where it says Plain, 6-3/4
19 Banded, on the Proposed Description line it should say
20 "plain" and it says "printed." And the line below that
21 where it says "Printed 10 Banded" it should say "Plain 10
22 Banded."

23 Additionally, down toward the end of the table,
24 there is -- the sixth line up from the bottom on the first
25 column where it says "Plain 10 Size" if you go down to the

1 line below the second-to-the-bottom line, Savings Bond
2 should be deleted there. Over in the next column, Savings
3 Bond should be deleted at the end. And there is one change
4 to the footnote. The footnote should state, "All stamped
5 envelopes in boxed lots of 500," and then there is an
6 insert, "except household envelopes in 50-packs," and then,
7 "unless otherwise noted." And those are the corrections to
8 the table, revisions.

9 Q Thank you.

10 Was this testimony prepared by you or under your
11 supervision?

12 A Yes, it was.

13 Q And with the corrections that have been filed and
14 you just described today, if you were to testify orally here
15 today, would this be your testimony?

16 A Yes, it would.

17 MR. RUBIN: Then I will hand two copies of the
18 Direct Testimony of Susan W. Needham on behalf of the United
19 States Postal Service to the reporter and I ask that the
20 testimony be entered into evidence in this docket.

21 CHAIRMAN GLEIMAN: Are there any objections?

22 [No response.]

23 CHAIRMAN GLEIMAN: Hearing none, Ms. Needham's
24 testimony and exhibits are received into evidence and I
25 direct that they be accepted into evidence. As is our

1 practice, they will not be transcribed.

2 [Direct Testimony of Susan W.
3 Needham, Exhibit No. USPS-T-39 was
4 marked for identification and
5 received into evidence.]

6 CHAIRMAN GLEIMAN: Ms. Needham, have you had an
7 opportunity to examine the packet of designated written
8 cross-examination that was made available earlier today?

9 THE WITNESS: Yes, I have.

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

13 THE WITNESS: Yes, they would.

14 MR. RUBIN: I would note that yesterday the Postal
15 Service filed corrections to four of the answers to -- to
16 four of the interrogatories from Douglas F. Carlson. Those
17 changes have been incorporated in the packets.

18 CHAIRMAN GLEIMAN: Thank you, Mr. Rubin.

19 Two copies of the corrected designated written
20 cross-examination of Witness Needham are being given to the
21 reporter and I direct that they be accepted into evidence
22 and transcribed into the record at this point.

23 [Designation of Written
24 Cross-Examination of Susan W.
25 Needham 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

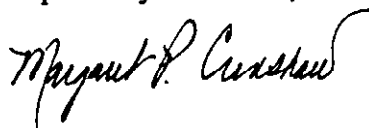
Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS SUSAN W. NEEDHAM
(USPS-T-39)

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

<u>Party</u>	<u>Answer To Interrogatories</u>
ADVO, Inc.	AAPS\USPS: Interrogatory T39-1.
Office of the Consumer Advocate	<p>OCA\USPS: Interrogatories T39-1-20, including the Supplemental Response to T39-3, and T24-40 (a-c) and T24-75 redirected from witness Lion.</p> <p>AAPS\USPS: Interrogatory T39-1.</p> <p>DBP\USPS: Interrogatories 25(a-b, e-k, m-s), 26(a-b, e-g), 38(a-b, e-g), 53(f-g, i, o, z, aa), 60-61, and 66 redirected from the Postal Service.</p> <p>DFC\USPS: Interrogatories T39-1-16 and 19-24, and T40-10-12 redirected from witness Plunkett.</p> <p>NDMS\USPS: Interrogatories T32-32, 37(a-c) and T32-40 redirected from witness Fronk.</p>

Respectfully submitted,



Margaret P. Crenshaw
Secretary

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORY OF THE ASSOCIATION OF
ALTERNATE POSTAL SYSTEMS

AAPS/USPS-T39-1.

At page 24, you state the Postal Service does not charge for sequencing cards in carrier route walk sequence. (a) Would it therefore follow that the cost of sequencing cards is an institutional cost? (b) If so, is it correct that most of the cost of sequencing cards into walk sequence is paid for by mailers that do not walk sequence their mail and therefore do not obtain the discounts related to walk sequencing? Please explain.

RESPONSE:

(a&b) I am assuming that when you refer to institutional costs you mean what the Postal Service now refers to as "other" costs. While the Postal Service fee design does not specifically charge for sequencing cards in carrier route walk sequence, the Postal Service recovers the costs for this service by charging 17 cents (proposed to be 20 cents) for each card removed due to an incorrect or undeliverable address and for each card added with a new address. Note that the fee design does not determine the treatment of costs as either other or volume variable. It is my understanding that the costs of sequencing cards would be reflected in cost segments 2, 3, and 6, most of which are not other.

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-25 [a] Confirm, or explain if you are unable to do so, that the proposed fee for Certified Mail will be \$1.55, for Return Receipt for Merchandise will be \$1.75, and for individual Certificate of Mailing will be \$0.60. [b] Confirm, or explain if you are unable to do so, that the cost coverage Certified Mail will be 133%. [c] What will the cost coverage be for Return Receipt for Merchandise? [d] What will the cost coverage be for an individual Certificate of Mailing? [e] Based on the fees shown in subpart a and the cost coverage values shown in subparts b through d, what will the costs be for each of the three services listed in subpart a. [f] Is the cost value determined by dividing the proposed rate by the decimal value of the cost coverage percent [for example, a fee of \$2.00 with a cost coverage of 164% would have a cost of \$2.00 divided by 1.64 or \$1.22] [g] If not, explain how it is calculated. [h] Is there any interaction between the rates and costs for Certified Mail vs. those for Return Receipt service or have the two rates been evaluated independently of each other? [i] Fully explain any interaction. [j] What percentage of Certified Mail articles utilize Return Receipt Service? [k] With respect to these three services, confirm, or explain if you are unable to do so, that there is no added service or costs associated with the processing or handling of the article from the time of the completion of its acceptance into the mail stream at the acceptance postal facility to the time at which it becomes necessary to "trap" the article at the delivery office so that it may be properly handled for the type of service being requested. [l] Confirm, or explain if you are unable to do so, that there are no costs associated at the delivery office with respect to articles for which a Certificate of Mailing had been issued and therefore there will be no costs associated with this service once the completion of its acceptance into the mail stream at the acceptance postal facility has been completed. [m] For each of the three services, list each of the specific cost elements which relate to and are charged to that service and the costs associated with that element for the time up until dispatch of the article from the acceptance postal facility. These cost elements should include the following [if the costs for any of these elements are not charged to the service, so indicate. If any additional items apply, so indicate them and provide the data]: 1. Cost of advertising the service, 2. Cost of training employees regarding the service, 3. Cost for designing and printing the necessary forms, 4. Cost for shipping, storing, and distributing the forms, 5. Cost for window services to explain the service, and 6. Cost for the acceptance of the article by the acceptance office, including, but not limited to, observing the article, postmarking the receipt, discussion with the customer, and possible record keeping. [n] For Certified Mail and Return

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-25 Continued

Receipt for Merchandise services, list each of the specific cost elements which relate to and are charged to that service and the costs associated with that element for the time starting at the point at which the article is "trapped" at the delivery office. These cost elements should include the following [if the costs for any of these elements are not charged to the service, so indicate. If any additional items apply, so indicate them and provide the data]: 1. Cost of "trapping the article" at the delivery office, 2. Cost of any special handling that may be required to process these at the delivery office, 3. Cost of turning accountability for the articles over from the processing employee[s] to the delivery employee, 4. Cost associated with the delivery of the article by the delivery employee to the addressee, 5. Cost for "clearing" the delivery employee of the accountability after the return to the office, 6. Cost for subsequent delivery attempts for articles returned after the first attempt, 7. Cost for returning undeliverable articles, 8. Cost for filing delivery receipts, 9. Cost for handling inquiries received for the article, 10. Cost for processing the PS Form 3811 for Return Receipt for Merchandise service at the delivery office before it is entered into the mail stream, and 11. Cost for transmission of the PS Form 3811 from the delivery office back to the original sender of the parcel. [o] If subparts k and l result in any added cost elements, provide the data requested in subparts m and n for them. [p] With respect to the three separate costs that you provide for each of the three services in your response to subpart m, if the value is different between the three services for the same cost element, fully explain the difference for each separate cost element. [q] Same as subpart p except for the two services and your responses to subpart n. [r] Same as subpart p for any responses to subpart o. [s] If all of the costs enumerated in subparts m through o do not add up to the corresponding total cost provided in subpart e, explain the reasons for the difference. [t] Do the costs specified in subpart n item 11 match the cost of processing and delivery of a post card or stamped card? [u] If not, explain why not.

RESPONSE:

a) Confirmed for certified mail.

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-25 Continued

- b) Not confirmed. The proposed cost coverage for certified mail is 137.7 percent as presented in USPS-T-39 WP-17, page 1, revised August 22, 1997.
- c) Answered by witness Plunkett.
- d) Answered by witness Plunkett.
- e) The cost for certified mail is presented in USPS-T-39 WP-17, page 1, revised August 22, 1997. It is not derived from the fees and cost coverages provided in response to parts a-b.
- f) No, in order to calculate a cost coverage the cost of the service and the revenue from the service must be known. The revenue is divided by the cost.
- g) The total certified mail cost is from Exhibit USPS-15J, revised August 22, 1997. The unit cost is presented in USPS-T-39, WP-17, page 1, revised August 22, 1997.
- h) The two fees were evaluated and proposed independently by two separate witnesses.
- i) Not applicable.
- j) See USPS-T-39, page 27, lines 5-6.
- k) Confirmed for certified mail.

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-25. Continued

l) Answered by witness Plunkett.

m-s) See my response to DFC/USPS-T39-12.

t) Answered by witness Plunkett.

u) Answered by witness Plunkett.

**RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)**

DBP/USPS-26 [a] Confirm, or explain if you are unable to do so, that when delivering a Certified Mail article, that the delivery employee must obtain a single signature from the addressee on the Postal Service delivery record [irrespective of whether there is a single article to deliver this way or multiple articles for delivery on some form of manifest]. [b] Confirm, or explain if you are unable to do so, that when delivering a Certified Mail article which contains a Return Receipt, that the delivery employee must obtain two separate signatures from the addressee, one on the Postal Service delivery record [irrespective of whether there is a single article to deliver this way or multiple articles for delivery on some form of manifest] and the second on the Return Receipt card PS Form 3811. [c] Confirm, or explain if you are unable to do so, that when delivering a Return Receipt for Merchandise article, that the delivery employee must obtain two separate signatures from the addressee, one on the Postal Service delivery record [irrespective of whether there is a single article to deliver this way or multiple articles for delivery on some form of manifest] and the second on the Return Receipt card PS Form 3811. [d] Confirm, or explain if you are unable to do so, that the time and therefore costs for obtaining both signatures for Return Receipt for Merchandise service are charged to that service since there is a single fee. [e] With respect to a Certified Mail - Return Receipt Requested article, how are the time and costs allocated between the two separate services? [f] Explain the rationale for such an allocation. [g] Confirm, or explain if you are unable to do so, that the time that it takes to obtain the second signature will usually be less than the time that it takes to get the first signature, or in general, the time that it takes to obtain both signature will be less than twice the time to obtain only one signature.

RESPONSE:

- a) Confirmed.
- b) Confirmed.
- c) Answered by witness Plunkett.
- d) Answered by witness Plunkett.

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-26 (Continued)

- e and f) Postal Service data systems are used to allocate certain costs to certified mail, while return receipt costs are developed using a special study, presented in LR H-107. See witness Plunkett's response to DFC/USPS-T40-5 and my response to DFC/USPS-T39-12.
- g) While I have not studied this, if waiting time is assigned to getting the first signature, the time for the second signature without any waiting time would tend to be lower.

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-38 [a] Confirm, or explain if you are not able to do so, that a mailer who is utilizing Registered Mail must declare the full value of the article. [b] Confirm, or explain if you are unable to do so, that this must be done whether or not the mailer desires insurance coverage. [c] Confirm, or explain if you are unable to do so, that a mailer who is utilizing Insured Mail is not required to declare the full value and may purchase whatever value insurance is desired [although a claim may not be filed for more than the value of the article]. [d] Confirm, or explain if you are unable to do so, that the purchase of insurance is not required by a mailer of any class of mail, regardless of the value of the article. [e] What is the logic for requiring the declaration of full value for Registered Mail and not for any other class of mail. [f] Confirm, or explain if you are unable to do so, that insurance may be purchased up to a \$5,000 value. [g] What is the logic for requiring the declaration of full value for Registered Mail having a value of less than \$5,000.

RESPONSE:

- a) Confirmed.
- b) Confirmed.
- c) Answered by witness Plunkett.
- d) Answered by witness Plunkett.
- e) Registry service provides insurance up to \$25,000. In order to provide the appropriate security for registered articles, it is imperative that registry mailers declare the full value. The very nature of registered mail is logic enough for a declaration of the full value. Moreover, the fees for registered

**RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)**

DBP/USPS-38. Continued

e) Continued

mail are based on the declared value, to reflect costs and the value of
service for items of varying values.

f) Confirmed.

g) See response to DPB/USPS-38(e).

**RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)**

DBP/USPS-53. [f] Confirm, or explain if you are unable to do so, that a parcel containing merchandise may be registered regardless of whether the postage is paid at the First-Class Mail, or Priority Mail rate. [g] Confirm, or explain if you are unable to do so, that when Registered Mail is utilized, there is an accounting for each individual mailpiece between the accountable mail section of the delivering post office and the delivering employee. [i] Confirm, or explain if you are unable to do so, that when Registered Mail is utilized there is an accounting for the mail as it progresses through the mail system from (sic) the acceptance to the delivery. [o] Confirm, or explain if you are unable to do so, that the fee for Registered Mail for an article with a value of \$5,000 insurance would be \$11.65. [z] Confirm, or explain if you are unable to do so, that Express Mail may not be registered. [aa] If so, provide a rationale for such a regulation.

RESPONSE:

f) Confirmed.

g) Confirmed.

i) Confirmed.

o) Confirmed that \$11.65 is the proposed fee.

z) Confirmed.

aa) Express Mail is an expedited mail service with guaranteed delivery.

Registry service involves accountability at every handoff during the acceptance, dispatch, transportation and delivery phases, in addition to any added security procedures. Therefore, it is not feasible to move registered mail through the mail in an expedited fashion while maintaining the necessary levels of accountability and security.

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-60 [a] Confirm, or explain if you are unable to do so, that post office box service is designed to be a premium service and to provide value to the user. [b] Confirm, or explain if you are unable to do so, that any increase in the number of hours that the box section is accessible to boxholders may increase the value to the boxholder. [c] Confirm, or explain if you are unable to do so, that post office box sections should be accessible to boxholders any time that employees are on duty in the facility. [d] Confirm, or explain if you are unable to do so, that there are there (sic) post office box sections which are accessible to boxholders at times when there is no one on duty in the facility. [e] Provide a listing of the security measure that are utilized in those instances referenced in subpart d. [f] Provide copies of any outstanding regulations or Headquarters directives which relate to the hours for which post office box sections should be accessible to boxholders.

RESPONSE:

- a) Confirmed, except in those situations where carrier delivery is not an option.
- b) Confirmed.
- c) Not confirmed. The decision to provide access to the box section any time when employees are on duty is done on an individual basis. For the obvious reasons of safety and security, not to mention other situations which may be peculiar to a specific facility, access to the box section any time when employees are on duty may not be prudent or practical.
- d) Confirmed.
- e) The security measures used in those postal facilities where box sections are accessible when no postal employees are on duty would vary on an

**RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)**

DBP/USPS-60 Continued

e) Continued

individual basis.

**f) I am not aware of any changes from Docket No. MC96-3. See Docket No.
MC96-3 transcript volume 3, pages 411, 524-529, 585, and 626.**

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-61 [a] Confirm, or explain if you are unable to do so, that in Docket MC96-3, Postal Service witness provided the following response, "Well, it's -- as far as setting the fee, like I said, like I had mentioned earlier in one of my interrogatory responses, I had -- I looked for something that would be easily divisible by six, therefore making the refund process go smoothly as opposed to a -- I considered two other fees, one lower, one higher. The one wasn't divisible by six, and \$3 seemed like a sufficient amount based on the value. That is my -- that is my testimony, my opinion. QUESTION Can you tell us here today why \$6 per six months would not be sufficient to reflect the added value of box service to nonresidents? ANSWER Well, my goodness, I'll tell you, \$6 would be \$1 a month. That's a small contribution to the high value of service that these nonresidents get with their boxes, for whatever reasons they use them for. I felt \$3 was a sufficient amount. I didn't see that it needed to be higher, but I felt that \$2 or \$1 was too low, and --"[Transcript page 833]. [b] Confirm, or explain if you are unable to do so, that this testimony indicates that the rate being proposed in that Docket was determined at the belief of the witness as to what was felt to be appropriate based on the value to the customer and without any basis to cost of providing the service. [c] Are there any rates which are being proposed in this Docket which were arrived in a similar manner? [d] If so, enumerate and explain. [e] What consideration, if any, was given to proposing a nonresident box fee in this Docket?

- a) Confirmed that these statements were made by both myself as the Postal Service witness and Mr. Carlson as the intervenor. However, the statements made prior to these on pages 832 and 833 of the Docket No. MC96-3 transcript accurately put into context the above-mentioned portions of text. Specifically, the following discussion immediately precedes the text you have quoted above.

RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)

DBP/USPS-61 Continued

a) Continued

"QUESTION In your response to DFC USPS T7-7 – ANSWER Yes.
QUESTION – you stated that you did not consider monthly nonresident fees
of \$1 or \$2 because neither of these amounts seemed sufficient. On what
basis did you determine that these amounts were not sufficient? ANSWER I
believe I address this in the pricing criteria portion of my testimony with
respect to how I came about this proposed fee. I say here in the
interrogatory response that I did not feel \$1 or \$2 was a sufficient amount of
money to take into consideration the value derived from a nonresident box,
so it works out to approximately 10 cents a day. I think it's fair and equitable,
and I have described that, like I said, in the criteria. QUESTION Forgive me.
I have read your testimony in detail several times and I have not been able to
draw from it how you determined that \$18 as opposed to some other amount
was sufficient to reflect the added value of box service to nonresidents. How
did you determine the value to nonresidents?" Tr. at 832-833.

b) Not confirmed. In Docket No. MC96-3, I discussed Criterion 1, Criterion 4,
Criterion 5, and Criterion 7 in addition to Criterion 2 in the

**RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)**

DBP/USPS-61 Continued

b) Continued

pricing criteria section for the non-resident fee in my testimony. Since no quantified costs were available, I could not have based the demand-based fee on non-existing cost information.

c) There are no such Postal Service proposed rates.

d) Not applicable.

e) None.

**RESPONSE OF WITNESS NEEDHAM TO
INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE UNITED STATES POSTAL SERVICE)**

DBP/USPS-66 Refer to interrogatory DBP/USPS-54 which relates to stamped envelopes. [a] If you arrive at a price for any of the following types of envelopes in response to the following subparts of DBP/USPS-54, explain how that price was arrived at utilizing the data which is provided in the specific Fee Schedule for stamped envelopes: subparts d, e, k, and w. [b] Confirm, or explain if you are unable to do so, that the Postal Service issued a "G" rate stamped envelope which was prepared in advance of the last case and was sold with a postage value of 32 cents. [c] Will there be an "H" rate, or other designation, stamped envelope prepared in advance for use with the rate approved in the current case? [d] How many colors will be utilized to print the envelopes referred to in subpart c?

RESPONSE:

- a) See USPS-T-39, page 95, lines 6-21, and page 96, lines 1-13, for the development of the stamped envelope fees.
- b) Confirmed.
- c) This has not yet been determined.
- d) See response to DBP/USPS-66(c).

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T39-1. Please refer to your testimony at page 59. For Group A, B, C, and D post-office boxes, please provide a table similar to the one on page 59 that shows the cost coverage for each group and size at (1) the current fee and (2) the proposed fee.

RESPONSE:

Please see the attached table for the cost coverages at the current and proposed fees. Note that the cost coverages at the proposed fees were calculated using the before rates per box costs.

POST OFFICE BOX COST COVERAGES
AT CURRENT AND PROPOSED FEES

Service	Current Fee Volume	Cost Per Piece (\$)	Current Fee Total Cost	Current Fee Revenue	Current Fee Cost Coverage (Col 4/Col 3)	Proposed Fee Volume	Cost Per Piece (\$)	Proposed Fee Total Cost 1/	Proposed Fee Revenue	Proposed Fee Cost Coverage (Col 9/Col 8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Post Office Boxes										
Group A - Size 1	72,129	\$53.43	3,853,852	3,462,192	89.8%	54,875	\$53.43	2,931,971	3,841,250	131.0%
Group A - Size 2	4,500	\$76.79	345,555	333,000	96.4%	3,368	\$76.79	258,629	353,640	136.7%
Group A - Size 3	2,524	\$146.89	370,750	323,072	87.1%	1,943	\$146.89	285,407	359,455	125.9%
Group A - Size 4	242	\$287.08	69,473	58,564	84.3%	199	\$287.08	57,129	64,675	113.2%
Group A - Size 5	69	\$567.47	39,155	28,842	73.7%	57	\$567.47	32,346	31,350	96.9%
Group B - Size 1	124,239	\$43.74	5,434,214	5,466,516	100.6%	102,625	\$43.74	4,488,818	8,157,500	137.2%
Group B - Size 2	29,835	\$62.26	1,857,527	1,969,110	106.0%	23,298	\$62.26	1,450,533	2,096,820	144.6%
Group B - Size 3	10,744	\$117.82	1,265,858	1,203,328	95.1%	8,860	\$117.82	1,043,885	1,329,000	127.3%
Group B - Size 4	1,553	\$228.94	355,544	338,554	95.2%	1,288	\$228.94	294,875	373,520	126.7%
Group B - Size 5	1,516	\$451.18	683,989	563,952	82.5%	1,383	\$451.18	623,982	601,605	96.4%
Group C - Size 1	5,291,127	\$30.77	162,807,978	211,645,080	130.0%	4,945,941	\$30.77	152,186,605	222,567,345	146.2%
Group C - Size 2	2,239,904	\$42.81	95,890,290	129,914,432	135.5%	2,076,309	\$42.81	88,886,788	134,960,085	151.8%
Group C - Size 3	742,733	\$78.92	58,616,488	77,244,232	131.8%	702,145	\$78.92	55,413,283	80,746,675	145.7%
Group C - Size 4	158,544	\$151.15	23,963,926	27,269,568	113.8%	147,591	\$151.15	22,308,380	28,780,245	129.0%
Group C - Size 5	33,185	\$295.61	9,809,818	9,557,280	97.4%	30,982	\$295.61	9,158,589	10,069,150	109.9%
Group D - Size 1	3,985,837	\$28.32	112,878,904	47,830,044	42.4%	3,879,073	\$28.32	109,855,347	69,823,314	63.6%
Group D - Size 2	1,561,215	\$39.13	61,090,343	31,224,300	51.1%	1,507,223	\$39.13	58,977,636	45,216,690	76.7%
Group D - Size 3	403,555	\$71.56	28,878,396	14,527,980	50.3%	395,869	\$71.56	28,328,386	21,772,795	76.9%
Group D - Size 4	32,290	\$136.42	4,405,002	1,711,370	38.9%	31,888	\$136.42	4,350,161	2,551,040	58.6%
Group D - Size 5	3,607	\$266.14	959,967	299,381	31.2%	3,579	\$266.14	952,515	447,375	47.0%

Source: USPS-T-39 WP17, pages 2 and 3, except costs per piece from Columns 2 and 7 which are from USPS-T-24, page 27, as revised August 14, 1997.

1/ Using before rates costs per piece provided by witness Lion.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-2. Please refer to your testimony at page 60, lines 4-5. Does the term "carrier delivery" include delivery by a rural carrier?

RESPONSE: Yes.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T39-3. Please confirm that DMM section S911.2.1 requires the mailer, in accordance with the chart contained in that section, to declare the full value of a registered article when the mailer presents it for registration and mailing.

RESPONSE:

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-4. Please refer to your testimony at page 78, lines 4-5, where you testified that "a value level of \$0.00 indicates there is no need for insurance." Please explain why there is a need for a customer to purchase postal insurance if (1) the customer wishes to send a \$1,000 diamond ring via registered mail and (2) the mailer's own, private insurance would reimburse him for the loss of the ring.

RESPONSE:

When a claim is settled for a lost, stolen, or damaged registered article, the Postal Service is the insurer of first resort. Consequently, if a mailer has private insurance, the insurer may be reimbursed for any payment made to the insured to the extent that the insured has received payment from the insurer. In essence, the private insurance company is made whole and the registered mail customer should not experience an increase in premiums because of the loss or damage of a registered article, since the insurance company is reimbursed for any claim it may have already paid.

Moreover, if an article is lost or damaged while in the possession of the Postal Service, many customers expect the Postal Service to compensate them for the loss, regardless of whether the item was insured. The proposals in Docket No. MC96-3 and this docket, by including insurance for all articles with monetary value, are intended to enable the Postal Service to meet these customers' expectations.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-5.

- a. Please refer to your response to DFC/USPS-T39-1. Please explain the significance of your statement that "the cost coverages at the proposed fees were calculated using the before rates per box costs." Does the use of before-rates costs somehow reduce the usefulness or reliability of the cost coverages that you provided?
- b. Please confirm that the chart in Attachment to Response to DFC/USPS-T39-1 indicates that Postal Service costs for providing box service have not increased since Docket No. R94-1. If you do not confirm, please provide the costs and cost coverages that were the basis for the box fees that were approved in Docket No. R94-1.

RESPONSE:

- a) The statement "the cost coverages at the proposed fees were calculated using the before rates per box costs" clarifies the bases of the cost coverage calculations. After rates per box costs are not available. The overall test year after rates cost coverage of 114.7 percent for post office box, caller service, and reserve call numbers is calculated using total after rates box and caller service costs. If after rates per box costs had been available, I expect they would have been higher than the before rates costs, resulting in lower cost coverages for the proposed fees.
- b) Not confirmed. The chart presents only Docket No. R97-1 test year before rates costs. In its Recommended Decision in Docket No. R94-1, the Postal

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-5.

b) Continued

Rate Commission presented total post office box, caller service, and reserve call number costs of \$488,827,000 and a cost coverage of 115.4 percent (see PRC Op., R94-1, Appendix G, Schedule 1). Per box costs were not developed, or used as the basis for box fees, in Docket No. R94-1. In the current docket, the Postal Service has presented total post office box, caller service, and reserve call number costs of \$595.9 million (see Exhibit USPS-15J, page 24, as revised 8/22/97).

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
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DFC/USPS-T39-6. Please provide all evidence in support of your testimony at p. 66, lines 2-4, that post-office-box service provides an "extremely high value[] of service." In your answer, please explain in detail the implications for ratemaking of the difference between a "high value of service" and an "extremely high value of service."

RESPONSE:

Please see my testimony at page 61, lines 1-17, and page 66, lines 4-7. Also please see pages 26 to 30 of my Docket No. MC96-3 USPS-T-7 testimony (copy attached). Additionally, witness Carlson in Docket No. MC96-3 presented several benefits of post office box service that demonstrate its high value of service (Docket No. MC96-3, Tr. 2/2538-39, copy attached). Finally, see my response to DFC/USPS-T39-7.

With the exception of those boxholders ineligible for carrier delivery, the basic concept of paying for delivery when that service can be generically obtained for free denotes an extremely high value of service. When utilizing the pricing criteria in the post office box fee design, I determined that post office boxes, caller service and reserve call numbers are extremely high value services in the

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-6 Continued

context of Criterion 2. The same statement could be made if it had been determined that these services provide a high value of service, as opposed to an extremely high value of service.

1 Vanity addresses are addresses within certain towns, cities, and ZIP
2 Code areas, associated with affluence, prestige, and celebrity residences.
3 Any one or a combination of these characteristics may prompt customers to
4 seek post office box service in vanity address areas.

5
6 According to articles in USA Today and The Washington Post on the
7 demand for vanity addresses, one of the most desirable locations for a post
8 office box address is Beverly Hills. The 90210 ZIP Code, made famous by the
9 television show of the same name, is used strictly for residential delivery within
10 that ZIP Code and does not provide post office box service. However, all post
11 office boxes in the other ZIP Code areas within Beverly Hills are in high
12 demand. In fact, the average number of customers on a waiting list for post
13 office box service in Beverly Hills is 400.¹⁷

14
15 Another place where post office box service has recently gained
16 national media attention is the town of Middleburg, Virginia. Originally named
17 "Middle Burg" to represent its location as a rest stop between Alexandria,
18 Virginia, and Winchester, Virginia, over 200 years ago, the town began to earn
19 status as a fox hunting area for wealthy men at the beginning of this century.
20 When John F. Kennedy and his family leased an estate near Middleburg
21 during his presidency, the sleepy Virginia town became known nationwide.¹⁸

¹⁷ LR-SSR-105 at 6.

¹⁸ *Id.* at 4.

1
2 Business customers from neighboring towns that use post office box
3 service in Middleburg find that the Middleburg address enlarges their client
4 base. These non-resident business and individual customers from cities and
5 towns outside of Middleburg obtain post office box service in Middleburg for
6 the financial and/or status benefits which this box address confers. These
7 non-resident customers use nearly half of the almost 2,000 post office boxes,
8 while some local Middleburg residents are waiting for post office box service.
9 Middleburg residents have become concerned about the percentage of post
10 office boxes allocated to non-residents, and the resulting unavailability of
11 boxes for residents.¹⁹

12
13 Rancho Santa Fe, California, home to several celebrities, is another
14 sought-after box address for customers who cannot afford to reside or do
15 business within the post office's ZIP Code service area. Since no boxes are
16 available, non-resident boxholders in Rancho Santa Fe preclude new
17 residents from obtaining post office box service. Moreover, since Rancho
18 Santa Fe offers no carrier delivery service, all residents must receive their mail
19 through post office box service. Therefore, the new residents have no choice
20 but to obtain general delivery service at their post office, or post office box
21 service at neighboring towns.²⁰

¹⁹ *Id.* at 3-5.

²⁰ *Id.* at 6.

1 Another vanity address area is Palm Beach, Florida, where the waiting
2 period for a post office box of any size averages four months. In Winnetka,
3 Illinois, an area of million-dollar lakeside estates, up to 40 percent of the post
4 office box service is obtained by non-residents.²¹

5
6 As demonstrated by the post offices mentioned above, vanity
7 addresses attract large numbers of non-residents seeking post office box
8 service. Towns bordering Canada and Mexico also attract large numbers of
9 non-residents seeking post office box service. A recent article in the Arizona
10 Republic discusses the post office box service demand of non-residents in an
11 Arizona border town.²²

12
13 Mexican residents desire U.S. Postal Service post office box service for a
14 variety of reasons. Mail service in Mexico is purported to be inferior to mail
15 service in the United States. Therefore, U.S. retirees living in Mexico may prefer
16 to collect their annuity checks at post office boxes in the U.S. Mexicans who
17 work in the U.S. but do not reside here need to file taxes in the U.S., and may
18 prefer to receive any income tax refunds at post office boxes in the U.S.
19 Employment in the U.S. may eventually lead to government benefits, which may
20 also be collected at U.S. post office boxes.²³

²¹ *Id.*

²² *Id.* at 7-8.

²³ *Id.*

1 The value of post office box service to customers is noted in two other
2 newspaper articles in the Modesto Bee and The Oregonian. In Modesto,
3 California, post office box customers prefer the anonymity box service provides.
4 Modesto post office box service customers feel comfortable leaving for vacations
5 without the concern of returning to an overflowing mail box, or making
6 arrangements to have their mail picked up by a neighbor. Additionally, box
7 service provides these customers protection for their mail during the day when
8 no one is home.²⁴

9
10 In West Linn, Oregon, and neighboring towns, customers similarly
11 desire post office box service for its privacy features. Post office box service
12 is also rapidly becoming popular among individuals who run businesses from
13 home.²⁵

14
15 I know first-hand how valuable the privacy aspect of post office box
16 service can be to a business. When I worked at the Postal Service's National
17 Test Administration Center (NTAC), I obtained post office box service for the
18 center so that our street address would not be disclosed to the thousands of
19 applicants for Postal Service entrance examinations. As no testing was
20 conducted in the facility, NTAC preferred not to disclose its street address to
21 the general public. It is conceivable that the facility could have been

²⁴ *Id.* at 9.

²⁵ *Id.* at 10-11.

1 overwhelmed by applicants desiring permission to take entrance
2 examinations, or by individuals who were dissatisfied with their test results.
3 (Examinations could be re-scored only if a written request was submitted by
4 mail.)

5

6 In another newspaper article from the Charlotte Observer, the effect of
7 development on the demand for post office box service is demonstrated. The
8 post office in Davidson, North Carolina, has seen a surge in the demand for post
9 office box service due to recent growth in the local population. Although some
10 post office boxes become available when post office box customers request and
11 receive carrier delivery, the supply of post office boxes still does not match the
12 demand for this service.²⁶

13

14 The Davidson postmaster discussed the impact if city carrier delivery
15 service were to begin in Davidson. Becoming a city carrier delivery office
16 would result in higher fees for box customers, who would become responsible
17 for paying the current Subgroup IC fee for their box service. "They [size 1
18 post office boxes] are \$8 a year now," said the Davidson postmaster. "If the
19 people of Davidson had to start paying \$30 a year, it would come as a shock
20 to some people. But it would be a good deal."²⁷ As a point of reference, the
21 proposed annual resident fee for size 1 post office box service in a proposed

²⁶ *Id.* at 12-14.

²⁷ *Id.* at 13.

DOUGLAS F. CARLSON
RESPONSE TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE

TO DEFC/USPS-T39-6, PAGE 6
Tr. 8/2538, MC96-3
585..

USPS/DFC-1. Please refer to your testimony at pages 2 and 3.

(a) Why did you obtain post office box service, rather than carrier delivery, in Walnut Creek?

(b) Why did you obtain post office box service, rather than carrier delivery, in Davis?

(c) Was the only reason you obtained a post office box in Emeryville to test the delivery service there? If not, please explain fully.

(d) Why did you obtain post office box service, rather than carrier delivery, in Berkeley?

(e) Have you obtained post office box service in any other post office? If so, please list each post office, and explain why you obtained post office box service.

(f) What size boxes have you used at each of the locations where you have used post office box service? If you have used other than size 1 boxes, please explain the circumstances that led to your use of larger boxes.

RESPONSE:

(a) I obtained box service in Walnut Creek because:

(i) The Postal Service is one of my hobbies, and I enjoy going to the post office every day to pick up my mail;

(ii) A post-office box provides better security for my mail than carrier delivery. When large articles arrive at my post-office box, the articles are held for pickup at the window (or, at some offices, placed in a secure locker). In contrast, large articles that arrive at cluster mailboxes in apartments typically are left out in the open near the mailboxes, increasing the risk of theft. Also, occasionally thieves burglarize postal vehicles that are parked on city streets. My mail probably is safer from theft when it is delivered to a post-office box;

(iii) By using a post-office box, I can avoid revealing my street address to my correspondents. Thus, I can more effectively protect my privacy;

DOUGLAS F. CARLSON
RESPONSE TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE

USPS/DFC-1. Please refer to your testimony at pages 2 and 3.

(a) Why did you obtain post office box service, rather than carrier delivery, in Walnut Creek?

(b) Why did you obtain post office box service, rather than carrier delivery, in Davis?

(c) Was the only reason you obtained a post office box in Emeryville to test the delivery service there? If not, please explain fully.

(d) Why did you obtain post office box service, rather than carrier delivery, in Berkeley?

(e) Have you obtained post office box service in any other post office? If so, please list each post office, and explain why you obtained post office box service.

(f) What size boxes have you used at each of the locations where you have used post office box service? If you have used other than size 1 boxes, please explain the circumstances that led to your use of larger boxes.

RESPONSE:

(a) I obtained box service in Walnut Creek because:

(i) The Postal Service is one of my hobbies, and I enjoy going to the post office every day to pick up my mail;

(ii) A post-office box provides better security for my mail than carrier delivery. When large articles arrive at my post-office box, the articles are held for pickup at the window (or, at some offices, placed in a secure locker). In contrast, large articles that arrive at cluster mailboxes in apartments typically are left out in the open near the mailboxes, increasing the risk of theft. Also, occasionally thieves burglarize postal vehicles that are parked on city streets. My mail probably is safer from theft when it is delivered to a post-office box;

(iii) By using a post-office box, I can avoid revealing my street address to my correspondents. Thus, I can more effectively protect my privacy;

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-7. Please explain the significance of your testimony at p. 66, lines 19-21, that CMRA fees are considerably higher than the Postal Service's box fees.

RESPONSE:

Post office box fees are a bargain when compared to the fees of Commercial Mail Receiving Agents (CMRAs). Aside from free carrier delivery which is offered by the Postal Service, CMRA box service is an available alternative to the Postal Service's box service for those individuals willing to pay more. The fact that commercial services charge much more is a further indication of extremely high value placed by the market on post office box and similar services. Further, the higher CMRA fees help show that the proposed post office box fees are still low for such a valuable service.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-8. Please refer to your testimony at p. 66, lines 21-23, and p. 67, lines 1-2.

- a. Does your testimony reflect a general principle or attitude toward postal ratemaking whenever customers may decline a service that they perceive as being overpriced if some alternative exists?
- b. Please explain why this approach to ratemaking is in the public interest.

RESPONSE:

a and b) My testimony reflects the general principle that special services are services provided above and beyond basic services and should be priced accordingly. With respect to box service, free carrier delivery or general delivery (with some exceptions) exists for those boxholders who feel that Postal Service and CMRA fees are too high. The fact that these free available alternatives exist indicate that special consideration due to the lack of available alternatives under Criterion 5 is not needed.

Proposing special service fees that result in cost coverages closer to the systemwide average, as opposed to 100 percent cost coverages, is in the public

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-8

a and b) Continued

interest as it begins to reflect the extremely high value characteristics of these services. Otherwise relatively lower value items must pay more. However, as mentioned previously, a cost coverage of 115 percent for the proposed post office box fees is still very low for a premium special service and is proposed in order to mitigate the impact on customers, consistent with Criterion 4.

REVISED OCTOBER 6, 1997

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-9. Please refer to your response to DFC/USPS-T39-4.

- a. Do customers expect the Postal Service to compensate them for loss or damage to uninsured, nonregistered (i) First-Class Mail, (ii) Priority Mail, or (iii) Parcel Post? If your answer for any of these three classes is no, please explain the basis for your answer and for your statement in DFC/USPS-T39-4 that customers expect the Postal Service to compensate them for loss or damage to uninsured registered mail.
- b. Why doesn't the Postal Service require customers to purchase insurance for all items of value?
- c. Under the current rate structure, why might a customer who elected to purchase registered mail without postal insurance reasonably expect to be compensated for loss or damage?
- d. If satisfying expectations of customers to be compensated for loss or damage of registered mail is a motivation for requiring all customers to purchase insurance for registered mail of declared value greater than \$0, why should all customers be required to purchase insurance just to avoid disappointing customers whose mail was lost or damaged and who specifically chose not to purchase insurance?
- e. Your response to DFC/USPS-T39-4 explains a benefit to the private insurer and suggests that the customer may benefit as well because the insurance company will be reimbursed for the claim. Why is the Postal Service unwilling to give the customer the option of declining postal insurance and taking responsibility for an increase in his insurance premium that may or may not occur if a claim is paid?

RESPONSE:

- a) My understanding is that the Postal Service receives lawsuits for loss or damage to uninsured mail, so I would say presumably yes. With respect to

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T39-9 (Continued)

a) Continued

registered mail however, claims filed for lost or damaged registered mail articles have demonstrated customer expectations of compensation for uninsured registered mail, when the customers erroneously believed they had insured the mail simply by purchasing registered mail service.

b) Whether or not to purchase postal insurance is strictly a customer choice.

The fee for insurance for non-registered mail is much greater than the marginal price difference between uninsured and insured registered mail.

c) Under the current fee structure, customers can purchase registered mail without postal insurance for items with a declared value up to \$100. A portion of these customers may be among those past customers who are under the assumption that registering an article automatically includes insurance coverage.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
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DFC/USPS-T39-9 (Continued)

- d) As the registered mail fee histories in LR-H-187 reflect, the price differences for registered mail with postal insurance versus uninsured registered mail were nominal. The decision to propose the elimination of the vast majority of uninsured registered mail offerings in Docket No. MC96-3 was based on a thorough analysis of the marginal price difference between insured and uninsured registered mail, the usage patterns, and the results of market research to gauge customer reaction.
- e) My registered mail proposal in this docket enhances product image and serves the goal of administrative simplicity. Please see my testimony, pages 77-78.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T39-10.

- a. Please confirm that a customer will be required to pay 23 cents to purchase a stamped card if your proposed two-cent fee for stamped cards is approved.**
- b. Please refer to your testimony at p. 89. Suppose the cost of manufacturing a stamped card were (i) 1.15 cents, (ii) 1.30 cents, or (iii) 1.50 cents. For each case, would the Postal Service still have proposed a two-cent stamped-card fee? Please explain your answer.**
- c. Please provide all studies that have been conducted to support the conclusion that stamped cards have a value sufficiently high to justify a 200-percent cost coverage.**
- d. Please provide copies of all documents or directives that have been issued to inform postal employees that postal cards are now called stamped cards.**
- e. Please offer an explanation as to why window clerks in Richmond, Virginia, and Emeryville, California, had no idea what I was talking about when I asked to buy a stamped card in August 1997.**

RESPONSE:

- a) Confirmed if the rate for a First-Class non-presort postcard is increased from the current 20 cents to the proposed 21 cents.**
- b) I do not know. My proposal was based partially upon the cost information available. It is important to bear in mind that the unit cost is not the only factor affecting price. Other considerations, such as the impact on customers and whole-cent rounding constraints are taken into account when developing the fee proposal.**

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
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DFC/USPS-T39-10 Continued

- c) No studies have been conducted regarding the high value of service for stamped cards. Testimony presented in Docket No. MC96-3 provides support for the high value of stamped cards (see USPS-T-8 at 96,97,109-110, and 113, and USPS LR-SSR-106 at 7 and 9). Also, please see my testimony in this docket at page 88, lines 4-12; page 89, lines 8-16; and page 90, lines 4-8. Additionally, on page 103, lines 17-20, of my testimony in this docket, I discuss how my proposed fee increases were kept to a minimum when considering available alternative at much higher prices. Purchasing a postcard (one without the added benefit of pre-affixed postage) would be considerably higher than 2 cents as demonstrated in Docket No. MC96-3 at USPS LR-SSR-106 at 5. Finally, in order to provide a cost coverage greater than 100 percent, using a whole-cent rounding constraint, the lowest possible proposed fee is 2 cents.
- d) See attached Postal Bulletin, dated May 22, 1997. More materials will be provided as soon as they are located.
- e) I can offer one of two plausible explanations for the situations you encountered in Richmond, Virginia, and Emeryville, California. First, since postal cards have gone by the same name since at least 1926, it can be

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
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DFC/USPS-T39-10 Continued

e) continued

difficult for some individuals to get used to the new name for the same product. Some postal employees may not have yet seen notification of the name change.

Domestic Mail

DMM NOTICE

Special Services Reform: Implementation Standards

Effective June 8, 1997, *Domestic Mail Manual* (DMM) D910, D920, D930.1.0, R000.3.0, R900, S010.2.0, S500.1.0, S500.3.0, and S930 are amended to present the standards and fees adopted by the Postal Service to implement the Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Special Services Fees and Classifications, Docket No. MC96-3. These changes take effect at 12:01 a.m., Sunday, June 8, 1997. The final rule announcing these changes was published in the *Federal Register* on May 12, 1997 (62 FR 26086-26098).

Minor conforming amendments, also effective June 8, 1997, are made to DMM A010.1.2, A910.1.5, A910.3.2, A910.5.2, C022.3.0, C031.3.2, C031.5.6, C100.2.0, C600.2.2, E020.2.3, E030.2.6, E060.9.0, E110.3.0, E612.4.1, E620.2.0, E630.3.1, F010.3.0, F010.4.5, F010.5.1, F020.3.0, F030.5.3, G011.1.5, G013.2.1, P014.1.0, P014.2.0, P021.3.1, P021.4.0, P022.2.2, P023.1.0, P023.3.1, P030.4.0, P030.5.4, P100.2.1, R100.1.1, S070.1.0, S911.1.1, S911.2.0, S912.1.2, S912.2.5, S913.1.0, S915.1.0, S917.1.0, and S917.2.2. All these amendments will appear in DMM Issue 52 (scheduled for release on July 1, 1997).

These amendments affect only the fees for, and certain attributes of, the following special services:

- Post office box service.
- Caller service.
- Certified mail.
- Insurance (insured mail and Express Mail).
- Parcel airlift.
- Postal cards.
- Registered mail.
- Return receipt.
- Return receipt for merchandise.
- Special delivery.

Regulatory History

On June 7, 1996, pursuant to its authority under 39 U.S.C. 3621, *et seq.*, the Postal Service filed with the Postal Rate Commission (PRC) a request for a recommended decision on several special service reform proposals. The PRC designated the filing as Docket No. MC96-3. The PRC published a notice of the filing, with a description of the Postal Service's proposals, on June 21, 1996, in the *Federal Register* (61 FR 31968-31979).

Pursuant to 39 U.S.C. 3624, on April 2, 1997, the PRC issued its Recommended Decision on the Postal Service's Request to the Governors of the Postal Service. The PRC's Recommended Decision made revisions to some of the restructuring of the post office box fees requested by the Postal Service.

In other areas, the PRC's Recommended Decision generally followed the requests made by the Postal Service to increase the fee for certified mail, merge the two options for return receipt service, merge the two options for return receipt for merchandise, increase the maximum available indemnity for insured mail to \$5,000, add optional insurance for Express Mail and refine the current available indemnity structure, simplify the fee schedule for registered mail, and eliminate special delivery.

Although the PRC did not recommend a fee for postal cards (renamed stamped cards), it did suggest that the Postal Service remove costs unique to stamped cards from total postal and postcard subclass costs to support any proposed fee in addition to the face value of the cards.

Based on extensive analysis of the PRC's Recommended Decision and deliberation as to its consequences to the Postal Service and its customers, and pursuant to 39 U.S.C. 3625, the Governors acted on the PRC's recommendations on May 5, 1997.

The Governors determined to approve the PRC's recommendations, and the Board of Governors set an implementation date of June 8, 1997, for those rate and classification changes to take effect.

Using new data and analysis obtained since the last omnibus rate case, the Postal Service, with its filing, sought the reform of several special services to improve customer satisfaction and to account for cost and customer demand.

Special Delivery Service

The Postal Service eliminates domestic special delivery service because the demand for it has virtually disappeared. Consumers who request expedited delivery service most frequently use Priority Mail or Express Mail.

A 2-pound Priority Mail package costs only \$3, compared with \$12.95 for the same Priority Mail package sent as special delivery (\$3 postage plus \$9.95 special delivery fee). A 2-pound Express Mail Post Office to Addressee package costs \$15.00. Express Mail, unlike special delivery service and Priority Mail, includes a delivery guarantee and insurance at no additional charge.

Stamped Cards

The Postal Service renames postal cards as *stamped cards*. Unlike stamped envelopes, stamped cards will continue to be sold at no additional charge above their face value of postage. The designation *stamped cards* emphasizes the similar nature of this stationery item with stamped envelopes.

Domestic Mail Manual (DMM)**A Addressing****A000 Basic Addressing****A010 General Addressing Standards**

[In 1.2d, replace "postal cards" with "stamped cards"; no other change to text.]

* * * * *

A900 Customer Support**A910 Mailing List Services**

[In 1.5, 3.2, and 5.2, replace "postal card[s]" with "stamped card[s]"; no other change to text.]

* * * * *

C Characteristics and Content**C000 General Information**

* * * * *

C020 Restricted or Nonmailable Articles and Substances

* * * * *

C022 Perishables

[In 3.1f, remove "special delivery or"; in 3.7, remove "special delivery or"; no other change to text.]

* * * * *

C030 Nonmailable Written, Printed, and Graphic Matter**C031 Written, Printed, and Graphic Matter Generally**

[In 3.2 and 5.6, replace "postal card" with "stamped card or postcard"; no other change to text.]

* * * * *

C100 First-Class Mail

[In 2.1, 2.3, and 2.9, replace "postal card[s]" with "stamped card[s]"; no other change to text.]

* * * * *

C600 Standard Mail

[In 2.2, remove "special delivery or"; no other change to text.]

* * * * *

D Deposit, Collection, and Delivery

* * * * *

D900 Other Delivery Services**D910 Post Office Box Service****1.0 BASIC INFORMATION**

[Amend 1.0 by revising 1.1; by removing current 1.7; by redesignating current 1.6 as 1.7; and by adding new 1.6 to read as follows:]

1.1 Purpose

Post office box service is a premium service offered for a fee to any customer requiring more than free carrier delivery or general delivery and for no fee to certain customers who are not eligible for carrier delivery. The service allows a customer to obtain mail during the hours the box lobby is open. Post office box service does not include alternate means of delivery established to replace, simplify, or extend carrier delivery service. A postmaster and a box customer may not make any agreement that contravenes the regulations on post office box service or its fees.

* * * * *

1.6 Box Availability

When no box of the appropriate size is available, an application for box service may be handled, at the postmaster's discretion, in any one or more of the following ways: by referring the customer to another postal facility with available capacity; by placing the customer's name on a waiting list for box service; by providing general delivery service until an appropriate size box becomes available; by offering a smaller or larger box at its fee; or by offering caller service.

* * * * *

P020 Postage Stamps and Stationery**P021 Stamped Stationery**

[In 3.1, revise the heading to read "Stamped Card" and replace "P[p]ostal cards" with "S[s]tamped cards"; in 4.0, replace "postal cards" with "stamped cards (formerly called postal cards)"; no other change to text.]

P022 Adhesive Stamps

[In 2.2d, replace "postal cards" with "stamped cards"; no other change to text.]

P023 Precanceled Stamps

[In 1.1 and 1.3, replace "P[p]ostal cards" with "S[s]tamped cards"; in 3.1, replace "postal cards" with "stamped cards"; no other change to text.]

P030 Postage Meters and Meter Stamps

[In 4.8, remove "special delivery, "; in 4.10, remove "or special delivery mail, "; in 5.4b, remove "special delivery mail or"; no other change to text.]

P100 First-Class Mail

[In 2.1, replace "postal cards" with "stamped cards"; no other change to text.]

R Rates and Fees**R000 Stamps and Stationery**

[Revise the heading and text of 3.0 to read as follows:]

3.0 STAMPED CARDS

Stamped cards are priced as follows:

Configuration	Postage	Fee	Total Price
Cut single card	\$0.20	\$0.00	\$0.20
Sheet of 40 cards	8.00	0.00	8.00
Double reply-paid card	0.40	0.00	0.40

R100 First-Class Mail

[In 1.1 and in the Summary of First-Class Rates, replace "postal cards" with "stamped cards"; no other change to text.]

R900 Services

[Remove current 19.0; renumber current 7.0 through 18.0 as 8.0 through 19.0, respectively; add new 7.0; and revise other sections to read as follows:]

[Revise 3.0 to read as follows:]

3.0 CALLER SERVICE

Fees are charged as follows:

- a. For service provided, per semiannual period:

Fee Group	Fee
A	\$250.00
B	240.00
C	225.00
D	225.00

- b. For each reserved call number, per calendar year (all post offices): \$30.00.

[Revise 5.0 to read as follows:]

5.0 CERTIFIED MAIL

Fee, in addition to postage and other fees, per mailpiece: \$1.35.

[Add new 7.0 to read as follows:]

7.0 EXPRESS MAIL INSURANCE

Fee, in addition to postage and other fees, for additional Express Mail insurance:

- a. For amount of merchandise insurance liability:

Insurance Coverage Desired	Fee
\$0.01 to \$500.00	none
500.01 to 5,000.00	\$0.90 for each \$100 or fraction thereof over \$500 in insurance coverage desired

Merchandise maximum liability: \$5,000.00.

- b. Document reconstruction maximum liability: \$500.00.

[Revise redesignated 8.0 to read as follows:]

8.0 INSURED MAIL

Fee, in addition to postage and other fees, for merchandise insurance liability:

Insurance Coverage Desired	Fee
\$0.01 to \$50.00	\$0.75
50.01 to 100.00	1.60
100.01 to 5,000.00	1.60 plus \$0.90 for each \$100 or fraction thereof over first \$100 in insurance coverage desired

Insured mail maximum liability: \$5,000.00.

9.0 MAILING LIST SERVICE

[No change to redesignated 9.0.]

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-11. Please provide the percentage of certified-mail volume for which the sender did not request or receive proof of mailing (see 2 on the reverse side of PS Form 3800 (April 1995); see also DMM S912.2.5(d)).

RESPONSE:

It is my understanding that the Postal Service does not collect this type of information.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-12. Please provide the cost of each element or activity related to certified mail (I am seeking information that is similar to the information that witness Plunkett provided in Attachment to DFC/USPS-T40-5).

RESPONSE:

This information is not available. Certified mail costs are collected using Postal Service data systems, so no special study providing the requested detail has been done.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-13. Please provide all studies, reports, or other information that would allow for a comparison of the delivery performance (measured in days) for the first delivery attempt to certified First-Class Mail versus noncertified First-Class Mail.

RESPONSE:

The Postal Service does not maintain separate records for the delivery performance of certified First-Class Mail.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T39-14.

- a. If the fees for single-sale stamped envelopes that you have proposed are approved, please confirm that the fee for a non-hologram envelope will be \$0.07 and the fee for a hologram envelope will be \$0.08. If you do not confirm, please explain.**
- b. Please confirm that the two-tier structure described in part (a) will cause confusion among customers. If you do not confirm, please explain all reasons why you believe that this fee structure will not cause customer confusion.**
- c. If you do not confirm in part (b), please confirm that customers may be confused initially but will understand the fee structure over the long term. If you do not confirm, please explain fully.**
- d. Is the Postal Service concerned about the confusion that may arise from a fee structure that charges different fees for two types of stamped envelopes?**
- e. Does the Postal Service believe that the negative effects of any confusion that exists in the short term due to the two-tier fee structure will be mitigated by the benefits of this two-tier fee structure over the long term?**

RESPONSE:

- a) Confirmed.**
- b) Not confirmed. Those customers who currently only purchase single hologram stamped envelopes would have a fee increase, if approved, of two cents for the envelope. Those customers purchasing single stamped envelopes would be given a non-hologram stamped envelope unless they**

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-14. Continued

b) Continued

asked to see a selection. It would be at this point that the clerk would relay the price difference between a non-hologram and a hologram stamped envelope. I believe that customers would typically understand that an additional one-cent charge for the hologram stamped envelope reflects the significant cost and appearance differences between hologram and non-hologram stamped envelopes.

c) Not confirmed. See my response to DFC/USPS-T39-14(b).

d) The Postal Service does not view the fee proposal as confusing based on the explanation provided in response to part b. Additionally, it is important to note that the stamped envelope proposal simplifies the current fee structure significantly through the aggregation of all non-hologram and non-banded stamped envelopes into categories by size and whether or not they are printed.

e) The Postal Service does not agree that there will be confusion. The two-tier system does better reflect cost differences between hologram and non-hologram stamped envelopes.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-15. Are customers confused by the fact that they must pay 38 cents for a stamped envelope even though the rate for mailing a single-piece, non-presorted, first-class letter is only 32 cents? If so, is this confusion a problem?

RESPONSE:

No. I am not aware of such confusion. I believe that current stamped envelope customers realize the total price they pay for a stamped envelope is for postage plus the fee for an envelope. First-time stamped envelope customers could figure out that the difference between the total charge for a stamped envelope and the price they pay for stamps must be an additional charge for the envelope. I expect that if these customers did not figure this out, when asking the clerk they would be informed of what the total price comprises.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-16. Has the price of a stamped envelope (currently, 38 cents) caused some customers to believe that the rate for mailing a one-ounce, non-presorted, first-class letter also is 38 cents? Please explain why or why not.

RESPONSE:

With a 32-cent postage stamp impressed upon a stamped envelope, I believe it is highly unlikely that a customer would believe that the First-Class Mail, first ounce, non-presorted rate would be anything other than 32 cents.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-19. Please provide the before-rates and after-rates cost coverages for all types of single-sale stamped envelopes.

RESPONSE:

Assuming the same costs for before rates and after rates, from LR-H-107, page 55, and using the volumes and revenues from USPS-T-39 WP-15, the implicit single sale stamped envelope cost coverages are as follows:

	Before Rates	After Rates
6 ¾ Non-Hologram	57%	66%
10 Non-Hologram	54%	63%
10 Hologram	48%	64%

REVISED OCTOBER 6, 1997

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-20. Does the Postal Service believe that the distinctive appearance of the preprinted postage on some stamped envelopes adds value to stamped envelopes.

RESPONSE:

See my testimony, USPS-T-39, at page 96, lines 17-23, and page 97, lines 1-4, for a discussion of the value of service provided by stamped envelopes. The Postal Service primarily provides single stamped envelopes as a convenience for customers in a hurry to mail something while at the post office, for customers who do not want to affix stamps to envelopes, and for customers who do not, for whatever reason, wish to purchase an envelope and a stamp separately. For individuals, both collectors and non-collectors alike, there may be a value of the particular stamp on the envelope or the fact that the postage is impressed.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-21.

- a. Does the Postal Service believe that the distinctive, attractive appearance of the preprinted postage on many multi-colored, 20-cent stamped cards that the Postal Service currently sells adds value to a stamped card?
- b. Might some customers use a stamped card instead of a private post card because they enjoy or believe that the addressee will enjoy the distinctive, attractive appearance of the preprinted postage on a stamped card?

RESPONSE:

- a) See my testimony, USPS-T-39, at page 89, lines 8-16, for a discussion of the value of service provided by stamped cards, as presented by the Postal Service. The Postal Service primarily provides single stamped cards as a *convenience to customers in a hurry to correspond, and for customers who do not wish to purchase a card and a stamp separately, or affix a stamp to a card.* For individuals, both collectors and non-collectors alike, there may be a value of the particular stamp on the card or the fact that the postage is impressed.
- b) This is quite possible, although I know of no research on this subject.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T39-22. Please refer to your response to DFC/USPS-T40-10.

- a. Please confirm that DFC/USPS-T40-10 asked you to answer the question by focusing on only DMM S912.1.1 and S917.1.1.**
- b. Please provide a copy of the page(s) from the DMM that indicate that DMM S912.1.1 refers to "return receipt requested after mailing" and "restricted delivery".**
- c. If appropriate, please provide the confirmation that was requested in DFC/USPS-T40-10.**

RESPONSE:

- a) Confirmed that the question, which was redirected from witness Plunkett to me, referred to only DMM S912.1.1 and S917.1.1.**
- b) The DMM section that refers to return receipt requested after mailing and restricted delivery availability for certified mail is S912.1.4. The response to DFC/USPS-T40-10 incorrectly identified DMM S912.1.1.**
- c) I can only confirm that each of the basic characteristics listed in DMM S912.1.1 for the description of certified mail also appear in the basic characteristics listed in DMM S917.1.1 for the description of return receipt for merchandise. I cannot confirm that these basic characteristics are complete, as elements, aspects or characteristics, because certified mail, particularly when combined with return receipt service, is superior to return receipt for merchandise service.**

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-23. Please refer to your response to DFC/USPS-T40-11.

- a. Please confirm that metered Priority Mail that weighs over 16 ounces can be deposited in street collection boxes. If you do not confirm, please explain and provide appropriate documents.
- b. Please confirm that certified mail to which a return receipt is attached may be deposited in street collection boxes. If you do not confirm, please explain.
- c. Please cite the DMM section that offers a duplicate return receipt to a customer who purchased return receipt for merchandise.

RESPONSE:

- a) Confirmed.
- b) Confirmed.
- c) Please see DMM S915.4.0 which applies to return receipt for merchandise service as well as return receipt service.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T39-24. Please refer to your response to DFC/USPS-T39-7. Please also refer to the Commission's Opinion and Recommended Decision in Docket No. MC96-3 at page 64, where the Commission wrote, "On this record the Commission also finds unconvincing the Postal Service's arguments for giving increased weight to demand when pricing post office boxes. The Service has not provided sufficient evidence of demand for box service. While CMRAs may be in competition with post office boxes, both Carlson and Popkin raise pertinent questions about the comparability of their services". Where in your testimony in Docket No. R97-1 do you provide evidence about demand for box service that you did not already provide in Docket No. MC96-3?

RESPONSE:

Aside from personal knowledge of post offices throughout the country enlarging their box sections over the past year to accommodate growing demand, no formal research was done on post office box service demand in preparation for this rate case proceeding. Therefore, there is no new evidence concerning demand for post office box service presented in my Docket No. R97-1 testimony.

I would like to add that your testimony in Docket No. MC96-3 provided evidence of your personal demand for box service, in various locations and for various reasons. Although the Commission may have found the Postal Service's arguments unconvincing for giving increased weight to demand when pricing post office boxes, the Postal Service believes your testimony shows demand for box service.

REVISED OCTOBER 6, 1997

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON
(REDIRECTED FROM WITNESS PLUNKETT)

DFC/USPS-T40-10. Please refer to DMM S912.1.1, which describes certified mail, and DMM S917.1.1, which describes return receipt for merchandise. For the purpose of this question, please focus on only these two DMM sections. Please confirm that every substantive element, aspect, or characteristic of the description of certified mail also appears in the description of return receipt for merchandise. If you do not confirm, please explain which elements, aspects, or characteristics of certified mail are not shared by return receipt for merchandise.

RESPONSE:

Not confirmed. A return receipt requested after mailing is available with certified mail service. Furthermore, as evident in DMM S912.1.4, restricted delivery is available with certified mail service, and not with return receipt for merchandise.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON
(REDIRECTED FROM WITNESS PLUNKETT)

DFC/USPS-T40-11. Please refer to DMM S912.2.1 and DMM 917.2.1. Why may a mailer of certified mail deposit articles in collection boxes (thus exercising his DMM S912.2.5(d) option to forgo proof of mailing) while a mailer using return receipt for merchandise cannot deposit articles in street collection boxes? (Assume that these articles are metered.) Please explain the rationale for these differing requirements.

RESPONSE:

Certified mail is available only for First-Class Mail and Priority Mail, both of which may be deposited in street collection boxes (if the Priority Mail weighs less than 16 ounces or is metered). Return receipt for merchandise service may be used with Priority Mail and various Standard Mail subclasses, some of which may not be entered into the mailstream through street collection boxes. Since certified mail does not require a return receipt, it can be deposited in a street collection box. Return receipt for merchandise service does require a return receipt. Moreover, if an article with return receipt for merchandise service was not entered into the mailstream through a window, the Postal Service could not provide a duplicate return receipt, if needed, because of the lack of a round dated stamped receipt to verify that the service was even requested.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON
(REDIRECTED FROM WITNESS PLUNKETT)

DFC/USPS-T40-12.

- a. Please refer to DMM S912.2.5(b), which requires a user of certified mail, return receipt requested, to place a complete return address on the mail piece. Please explain the rationale for this requirement.
- b. Please refer to DMM S912.2.5(b), which applies to certified mail, return receipt requested. This section states, in part, that "The name and delivery address entered on the reverse of the return receipt do not have to match the sender's name and return address on the mailpiece." Please refer also to DMM S917.2.2(c), which applies to return receipt for merchandise. This section states, in part, that "The name of the person to whom the return receipt is to be returned must be the same as that of the sender." Please explain the rationale for these different requirements.

RESPONSE:

- a) The complete return address ideally should be placed on all First-Class Mail and Priority Mail pieces. Regardless, for certified mail with a return receipt requested, in the event the sender did not put a return address on the return receipt card and/or the certified mailpiece cannot be forwarded, the Postal Service will have an address to which the mailpiece or signed return receipt can be returned.
- b) I know of no rationale.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORY OF NASHUA PHOTO, INC., DISTRICT PHOTO, INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
REDIRECTED FROM WITNESS FRONK

NDMS/USPS-T32-32.

Why does the Postal Service offer the BRMAS rate for BRM destinating at facilities where it knows that such BRM will not be processed on automated BRMAS equipment?

RESPONSE:

If an established BRMAS mailer has fulfilled the preparation requirements for BRMAS mail, the Postal Service will accept this mail and assess the BRMAS fee. This reflects a policy decision, consistent with the treatment of the BRMAS fee in prior Commission proceedings and recommended decisions, which based the BRMAS fee on an average cost for manual and automated processing of BRMAS-qualified mail.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORY OF NASHUA PHOTO, INC., DISTRICT
PHOTO, INC., MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
REDIRECTED FROM WITNESS FRONK

NDMS/USPS-T32-37.

- a. What was the total number of BRMAS accounts in Base Year 1996?
- b. What was the total volume of BRMAS mail which paid BRMAS rates in Base Year 1996?
- c. What was the average volume of BRMAS mail paid by BRMAS accounts in Base Year 1996?

RESPONSE:

- a) The total number of Business Reply Mail advance deposit accounts for the 1996 Base Year was 132,871, which includes both BRMAS and non-BRMAS accounts. Since this total number of accounts is calculated using the total BRM advance deposit accounting fee revenue divided by the annual accounting fee, it is not possible to determine the specific number of BRMAS accounts.
- b) The total volume of mail which was charged the BRMAS fee in Base Year 1996 was 512,735,971.
- c) Please see my response to a) above. Since the number of BRMAS accounts is not known it is not possible to provide the information requested.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORY OF NASHUA PHOTO, INC., DISTRICT
PHOTO, INC., MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
REDIRECTED FROM WITNESS FRONK**

NDMS/USPS-T32-40.

- a. In your opinion, could a monthly fee be charged for (I) QBRM, and/or (ii) advance deposit BRM that would eliminate the need to charge per-piece fees to recipients of such types of mail? Why or why not? Please explain your answer fully.**
- b. In your opinion, will the per-piece rates which would be charged (I) QBRM mailers, and/or (ii) advance deposit BRM mailers who receive daily volume of hundreds or thousands of mailpieces subsidize the accounting costs incurred by the Postal Service to calculate the postage due from QBRM and/or advance deposit BRM mailers whose daily volumes are small (i.e., under 100 pieces)? Please explain your answer fully.**
- c. In your opinion, which of the following methods would be superior to ensure that a mailer receiving QBRM or advance deposit BRM pays all costs incurred by the Postal Service in calculating that mailer's postage due from BRM received: (I) a monthly fee with no per-piece charge; (ii) a per-piece charge with no monthly fee; or (iii) a two-part fee consisting of a fixed amount plus a per-piece fee? Please explain your answer fully.**

RESPONSE:

- a) No. Since the counting, rating, and billing costs for QBRM and other advance deposit BRM are volume related, I believe that the fee design should include a per-piece fee. Due to the fluctuations in BRM volume received by BRM mailers, it would be very difficult to assess a monthly fee as opposed to per-piece fees while meeting the pricing criteria of the Postal Reorganization Act. Further, costs are determined separately for the BRM permit fee, accounting fee, and the per-piece fees.**

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORY OF NASHUA PHOTO, INC., DISTRICT
PHOTO, INC., MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
REDIRECTED FROM WITNESS FRONK

NDMS/USPS-T32-40. Continued

- b) My opinion would depend on the costs for the groups of BRM customers you define, which I do not believe are available. However, I would not be surprised if the BRM service is like other special services and subclasses of mail in which low-cost customers pay a greater contribution than high-cost customers.
- c) Unless option iii is intended to represent the current system, the current system of an annual permit fee, an annual accounting fee, and per-piece fees is superior to the three options described in the interrogatory. The current fee assessment system relies on the actual costs for the BRM services and is an appropriate means to recover the volume related and non-volume related costs for QBRM and the other advance deposit BRM.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-1. Please refer to your testimony at page 60, lines 13-16.

- a) Please confirm that customers who are ineligible for delivery because they live within one-quarter mile of a non-city delivery office (hereinafter "quarter-mile" rule) cannot obtain a post office box at no charge. If you do not confirm, please explain.
- b) Please confirm that the Postal Service does not offer customers referred to in part a. above one free method of delivery. If you do not confirm, please explain.
- c) Please confirm that Group D fees apply to customers referred to in part a. above. If you do not confirm, please explain.

RESPONSE:

- a) Confirmed.
- b) Not confirmed. In Docket No. MC96-3, one new free delivery option was introduced -- a Group E box, but the two existing options, carrier and general delivery, were retained. Customers living within the quarter-mile radius also have the option of getting free delivery by erecting a mailbox along a carrier's established line of travel.
- c) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-2. Please refer to your testimony at page 60, lines 13-16, concerning customers who live within one-quarter mile of a non-city delivery office. Please confirm that the Postal Service agrees with the following statement of the Postal Rate Commission.

The Commission believes it is equitable to offer one post office box at no charge to any customer ineligible for carrier delivery.

PRC Op. MC96-3, at 62. If you do not confirm, please explain.

RESPONSE:

Not confirmed. While it may seem equitable to offer a post office box at no charge to any customer ineligible for carrier delivery, conditions vary at different post offices. Moreover, general delivery is an alternative form of free delivery.

See my response to OCA/USPS-T39-1(b). As I state in my testimony, the Postal Service is studying the circumstances involving customers who live within one-quarter mile of a non-city delivery office.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-3. Please refer to your testimony at page 67, footnote 9.

- a) Please describe the nature of the "formal study" to obtain information on the number of customers affected by the quarter-mile rule.
- b) Please describe the scope of work to be performed.
- c) Please identify and describe the entity (or entities) that will produce the "formal study."
- d) If the entity (or entities) referred to in part c. above is a contractor(s) of the Postal Service, please provide a copy of the statement of work to be performed by the contractor(s).
- e) Please specify the date the "formal study" referred to in footnote 9 will be completed.
- f) Please identify and describe any studies, reports, summaries or other "deliverables" to be provided prior to the completion date of the "formal study."

RESPONSE:

a-f) Details of the formal study are being finalized contemporaneously with the drafting of this response. The statement of work (SOW) will include the requested information, and is expected to be complete within a week or two of the filing of this response. The SOW will be provided when it is complete.

Requisition for Supplies, Services, or Equipment

1. Date 08/28/97	2. Request No.	3. Budget Finance No. 698680	4. Account No.	5. Property Accountability Finance No.	6. Property Code No.	7. Capital Property ID No.
8. Job Order Number (Maintenance Use Only)		WC	Acronym		Equipment No.	EC

REQUESTOR INFORMATION			DELIVERY INFORMATION		
9a. Name Kirk T. Kaneer	Title Economist		10a. Contact Kirk T. Kaneer		Telephone No. (202) 268-2671
9b. Signature <i>Kirk T. Kaneer</i>	9c. Organization Pricing		10b. Address Room 6670 Postal HQ		
9d. Address Room 6670 Postal HQ			City Washington	State DC	ZIP + 4 20260-2406
City Washington	State DC	ZIP + 4 20260-2406	10c. Desired Delivery Date		10d. Required Delivery Date
9e. Telephone No. (202) 268-2671	9f. FEDSTRIP Address Code		10e. FEDSTRIP Address Code		10f. Acceptable Delivery Times From: To:

SUPPLIES, SERVICES, OR EQUIPMENT INFORMATION

11a. Item/Part No.	11b. Supplies, Services, or Equipment Requested (Attach SOW, specifications, or other technical data, if applicable)	11c. Unit of Issue	11d. Quantity	Estimated	
				11e. Unit Price	11f. Total Cost
	Contract #102590-95-H-1895 Task #102590-97	1	1.00	36,391.20	36,391.20

12. Rationale To gage impact of offering alternate delivery options to customers affected by the "Quarter Mile Rule" (See attached "Statement Of Work").	11g. Total Estimated Cost	36,391.20
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SUGGESTED SOURCES OF SUPPLY (Provide name, street address, city, state, ZIP + 4, contact name, and telephone and fax no.)

13a. Foster Associates, Inc. 1015 fifteenth ST NW Suite 1100 Washington DC 20005-2697 Don Barron TEL 301-644-7824	13b.	13c.
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APPROVALS (The contracting official is authorized to make the purchase provided it does not exceed the amount entered below.)

14a. Certification of Funds (Signature, name, and title) Funded Amount: \$36,391.20 Michael Altavilla / Budget Coordinator		Date
14b. Approval Authority (Signature) <i>[Signature]</i>	(Name and title) Ashley Lyons Manager, Pricing	Date 8/28/97
14c. Other Approval (Signature) <i>[Signature]</i>	(Name and title) Donald O'Hara Manager, Classification	Date 8/28/97
15. After Approval, Send to:		16. Local Notes

PURCHASE		
7a. Excess Equipment Available? <input type="checkbox"/> No <input type="checkbox"/> Yes	17b. Buyer Initials	17c. Processin

**Task Order 102590-97-
Contract Number 102590-95-H-1895
Evaluation of "Quarter-Mile Rule"**

Statement of Work

Work to be Performed

The purpose of this project is to collect and analyze data to inform USPS decisions regarding service to customers of non-city delivery offices who are ineligible for carrier route extensions because of the "quarter-mile rule". The quarter-mile rule affects customer eligibility for carrier delivery and (indirectly) access to Group E box fees, based on the relative proximity to the post office of a customer's residence or place of business. Specifically, the project shall estimate the number of potential delivery points affected by the quarter-mile rule and whether customers at those potential delivery points obtain post office box or general delivery service. The results of the project will be used to estimate the potential impacts of offering affected customers other delivery options.

This task requires the following actions:

- a. Prior to these data collection efforts, the contractor will, if time permits, conduct informal inquiries to obtain information from postmasters that will help in the design of the survey methodology.
- b. The contractor will produce mailing lists, print the survey forms, mail the forms to post offices, and collect completed forms. The contractor will provide a contact for technical assistance to respondents who ask for further clarifications in order to complete the forms. The USPS will also provide an administrative contact for respondents.
- c. The contractor will survey a sample of non-city delivery offices stratified by geographic area, office size, and other relevant variables. Postmasters of these offices will be asked to quantify the number of delivery points affected by the quarter-mile rule and whether customers at those potential delivery points pay for post office box service or obtain general delivery service.
- d. The contractor will key-punch and key-verify all returned survey forms.
- e. The contractor will load data from returned surveys into databases and analyze the response data. Data from existing post office box databases will be appended as appropriate. All data files will be prepared in formats that protect the confidentiality of office-specific information.

Deliverables

The following will be provided by the contractor during and upon completion of this study:

- a. Draft and final survey instruments for Postal Service review.
- b. Lists of survey recipients and respondents; these lists will include information on response rates.
- c. Databases and reports summarizing the survey results that shield the identities of targeted and surveyed offices.
- d. Estimates of potential revenue impacts if quarter-mile customers are provided other delivery options.
- e. Draft and final written reports.

Period of Performance

The period of performance will be August 27 through October 31, 1997. All deliverables other than the final report shall be provided to the Postal Service by October 1, 1997. The final report shall be provided by October 25, 1997 with consultation services provided through October 31, 1997.

Furnished Items

The following will be provided by the U.S. Postal Service to facilitate the contractor's completion of assigned tasks:

- a. Cover letter from appropriate Postal Service officials to accompany survey forms.
- b. Review of project activities by and coordination with designated Postal Service officials.
- c. Access to Postal Service data and to Postal Service Headquarters as necessary.
- d. Access to Postal Service computer facilities as necessary.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-4. Please refer to your testimony at page 60, lines 10-11.

- a) Please confirm that the Group B fees apply to the post offices listed in DMM section D910.4.3, Exhibit 4.3 under Category 1B. If you do not confirm, please explain.
- b) Please confirm that there are 18 post offices in cities and counties listed in Exhibit 4.3 under Category 1B. If you do not confirm, please explain.
- c) Please confirm that the "eight large cities" referred to on line 11 of your testimony are New York, NY (other than Manhattan); Boston, MA; Philadelphia, PA; Washington, DC; Chicago, IL; Los Angeles, CA; San Francisco, CA; and Honolulu, HI. If you do not confirm, please explain.
- d) Without considering Group A, please confirm that "high-cost ZIP Code areas" are not limited to "eight large cities and their suburbs" in Group B. If you do not confirm, please explain how you determined which ZIP-code areas are "high-cost ZIP Code areas."

RESPONSE:

- a) Not confirmed. However, I can confirm that Group B fees apply to the ZIP Codes listed in Exhibit 4.3.
- b) Not confirmed. I can only confirm that there are 18 locations listed in DMM section D910.4.3, Exhibit 4.3 (Issue 52) under Category 1B. I do not know how many post offices are represented in these locations. In particular, only selected ZIP Codes for certain post offices are included in the Group B list. Also, note that McLean, Virginia, and its 22103 ZIP

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-4, Page 2 of 2

b) (Continued)

Code have recently been moved from Group B to Group C. Postal
Bulletin 21948 (6-19-97), page 37.

c) Confirmed.

d) Not confirmed. The "high cost ZIP Code areas" as determined in Docket
No. R90-1 came from these eight large cities and their suburbs. As was
indicated in the course of Docket No. MC96-3, the Postal Service is
interested in re-grouping post office box fees using economic data that are
more recent than the late 1980's. However, no decisions have yet been
made regarding how best to do this. As implied by this interrogatory,
there is a potential for moving offices or ZIP Codes from Group C to
Group B.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-5. Please refer to your testimony at page 66, lines 13-17.

- a) Please confirm that boxholders of size 4 boxes in Groups A and B experienced a fee increase as a result of Docket No. MC96-3. If you do not confirm, please explain.
- b) Please confirm that in Docket No. MC96-3, for the 1996 TYBR, the fees for size 4 boxes in Groups A and B were below their per box cost. If you do not confirm, please explain.
- c) Please explain why mitigating the impact of proposed fee increases is "especially needed" for size 5 boxes in Groups A and B when size 4 boxes in Groups A and B also experienced an increase in fees as a result of Docket No. MC96-3.

RESPONSE:

- a) Confirmed.
- b) Confirmed.
- c) Primarily, just as it is important to mitigate the impact of the proposed box fees for Group D (as referred to in USPS-T-39, page 66, lines 13-17), it is also important to mitigate the effect of the fee increases on box size 5 in groups A and B because these two segments (Group D and size 5 boxes in Groups A and B) of post office boxes experienced higher fee increases as a result of Docket No. MC96-3 than size 4 boxes in Groups A and B. Additionally, peculiar to size 5 boxes in Group A, the proposed box fee is identical to the proposed Group A caller service fee. The Postal Service

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-5, Page 2 of 2

c) (Continued)

decided it was not prudent to propose a higher box fee than the proposed caller service fee in this proceeding. Finally, fees for size 5 boxes should be kept relatively low, because large box customers have low-priced alternatives, and since, in most cases, it is more beneficial to the Postal Service for these businesses to take advantage of box service as opposed to carrier delivery. See my Docket No. MC96-3 testimony, USPS-T-7, page 20.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-6. Please refer to your testimony at page 59, Table 11, and page 66, lines 13-17.

- a) Please confirm that the current fees for size 4 boxes in Groups A and B do not cover their per box cost in the 1998 TYBR. If you do not confirm, please explain.
- b) Please confirm that the proposed fees for size 4 boxes in Groups A and B will cover their per box cost. If you do not confirm, please explain.
- c) Please confirm that size 4 boxes in Groups A and B received a larger percentage fee increase than size 5 boxes in Groups A and B. If you do not confirm, please explain.
- d) Please explain why mitigating the impact of proposed fee increases is "especially needed" for size 5 boxes in Groups A and B, where proposed fees will not cover their per box costs, when proposed fees for size 4 boxes in Groups A and B will cover their per box costs.

RESPONSE:

- a) Confirmed.
- b) Confirmed.
- c) I confirm that size 4 boxes in Groups A and B have larger proposed percentage fee increases than size 5 boxes in Groups A and B.
- d) Please see my response to OCA/USPS-T-39-5(c).

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-7. Please refer to your testimony at page 66, lines 13-17. Please confirm that the Postal Service agrees, at least in principle, with the statement: Per box fees should cover per box costs for post office boxes. If you do not confirm, please explain.

RESPONSE:

Not confirmed. In principle, and practice as demonstrated in the proposed fees in this proceeding, the Postal Service believes that total fees for the post office box and caller service special service should cover total box costs. Cost coverage for individual fee cells is only one of the many pricing concerns. Probably the best manifestation of this belief is the proposed box fees for Group D. While this segment of the boxholder population has been afforded the benefit of box fees significantly below costs for some time, the fact remains that exorbitant fee increases should be avoided. The Postal Service is therefore continuing the trend begun in Docket No. MC96-3 of bringing box fees in below-cost cells closer to covering costs, while mitigating the impact of fee increases on consumers.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-8. Please refer to the Lotus 1-2-3 spreadsheet file, "Pobox.wk3," and to cell "AE79," which shows the figure, 1,529, and contains the formula:
 $= (1651 / 110370) * AE82$.

- a. Please provide a source for, or the derivation of, the figure 110,370 in the formula in cell AE79. Please show all calculations and provide citations to all figures used.
- b. Please confirm that the figure 1651 in the formula in cell AE79 is computed as follows: $1651 = (1507 / 100770) * 110370$, where 1507 is the "Before Rates" number of caller service customers in Group 1A, and 100,770 is the "Before Rates" total number of caller service customers from Appendix D, Schedule 3, page 17, of PRC Op. MC96-3. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to all figures used.

RESPONSE:

- a) Please see my revised workpaper 10, page 2, filed on 8/22/97, which presents a new figure of 100,770. This new figure is from Docket No. MC96-3, LR-SSR-113, page 50.
- b) Not confirmed. Please see revised workpaper 10 filed on 8/22/97, and Docket No. MC96-3, LR-SSR-113, page 50.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-9. Please refer to the Lotus 1-2-3 spreadsheet file, "Pobox.wk3," and to cell "A179," which shows the figure, 1,355, and contains the formula: $=(1445/96592)*A182$. Please provide a source for, or the derivation of, the figure 96592. Please show all calculations and provide citations to all figures used.

RESPONSE:

Please see my response to OCA/USPS-T39-8.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-10. Please refer to the Lotus 1-2-3 spreadsheet file, "Pobox.wk3," and to cell "AO87," which shows the "Grand Total" of before-rates revenues for post office boxes, caller service and reserve numbers of \$616,535,639. Also, please refer to USPS-T-24, Table 9B., and the "Grand Total" in the column "TYBR Revenues" of \$616,519,399. Please confirm that the difference between the figure in the file, "Pobox.wk3," and Table 9B., is due to rounding.

- a. If you do not confirm, please provide the correct figure. Please show all calculations and provide citations to all figures used.
- b. If you do confirm, please indicate which of the two Grand Total before-rates revenue figures should be relied upon.

RESPONSE:

Please see my revised workpaper 10, page 2, filed on 8/22/97, and witness Lion's revised Table 9B, filed on 8/14/97. The revised grand total revenue for post office boxes, caller service and reserve numbers in workpaper 10 is \$611,375,285. Witness Lion's revised figure is \$611,360,737. The difference is due to rounding. The workpaper 10 revenue number reflects more detail with respect to caller service revenue, and thus is more reliable. The workpaper 10 figure also is used by witness O'Hara in his revised workpapers, filed on 8/22/97.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-11. Please refer to the Lotus 1-2-3 spreadsheet file, "Pobox.wk3," and to cell "AS87," which shows the "Grand Total" of after rates revenues for post office boxes, caller service and reserve numbers of \$688,001,329. Also, please refer to USPS-T-24, Table 9B., and the "Grand Total" in the column "TYAR Revenues" of \$688,001,947. Please confirm that the difference between the figure in the file, "Pobox.wk3," and Table 9B., is due to rounding.

- a. If you do not confirm, please provide the correct figure. Please show all calculations and provide citations to all figures used.
- b. If you do confirm, please indicate which of the two Grand Total after-rates revenue figures should be relied upon.

RESPONSE:

Please see my revised workpaper 10, page 2, filed on 8/22/97, and witness Lion's revised Table 9B, filed on 8/14/97. The revised grand total revenue for post office boxes, caller service and reserve numbers in workpaper 10 is \$683,362,079. Witness Lion's revised figure is \$683,362,484. The minimal difference is due to rounding. The workpaper 10 revenue number can be relied upon, and is used by witness O'Hara in his revised workpapers, filed on 8/22/97.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-12. Please refer to your testimony at page 31, lines 12-14. Please confirm that "W/P 5" of USPS-T-39 was filed in electronic format.

- a. If you do not confirm, please provide "W/P 5" in electronic format.
- b. If you do confirm that "W/P 5" was filed in electronic format, please provide the file names associated with "W/P 5."
- c. Please provide the file names associated with Workpapers 1-4, and Workpapers 6-17.

RESPONSE:

Confirmed. The reference on page 31 should have been to W/P 4. Please see my revised testimony filed on 8/22/97.

a) Not applicable.

b) COD.WK3

c) <u>Workpaper</u>	<u>File Name</u>
1	ELECADCH.WK3
2	ADDCORR.WK3
3	BUSREPLY.WK3
4	CERTIFY.WK3
5	COD.WK3
6	CORLIST.WK3
7	MORDERS.WK3
8	ONSMETER.WK3
9	PAL.WK3
10	POBOX.WK3
11	PREPAID.WK3
12	REGISTRY.WK3
13	SPECHAND.WK3
14	STAMPCD.WK3
15	STAMPENV.WK3
16	ZIPLIST.WK3
17, page 1	SSCCP1.WK3
17, page 2	SSCCP2.WK3
17, page 3	SSCCP3.WK3
17, page 4	SSCCP4.WK3

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-13. Please refer to the Lotus 1-2-3 spreadsheet file, "Certify.wk3."

- a. Please confirm that the total number of Certified Mail transactions for FY 1996 is 269,730,120. If you do not confirm, please explain.
- b. Please confirm that the figure in part a. above consists of basic Certified Mail transactions only. If you do not confirm, please explain.
- c. Please confirm that the total revenue for Certified Mail for FY 1996 is \$292,900,039. If you do not confirm, please explain.
- d. Please confirm that the figure in part c. above consists of revenues from basic Certified Mail transactions only. If you do not confirm, please explain.
- e. Please explain the treatment of the ancillary service revenues for Certified Mail from Return Receipt of \$248,225,566, and Restricted Delivery of \$9,799,285.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. These FY 1996 revenues are reported in their respective billing determinants.

The test year revenues for return receipts and restricted delivery are kept separate from certified mail revenue, and reported as "other" special services "postage" in witness O'Hara's WP I, page 3 (TYBR), and WP II, page 3 (TYAR), as revised 8/22/97.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-14. Please refer to the Lotus 1-2-3 spreadsheet file, "Certify.wk3."

- a. Please confirm that fiscal year 1996 is the "base year" in Docket No. R97-1. If you do not confirm, please explain.
- b. Please provide a source for, or show the derivation of, the "Base Year" figure, 270.832, in cell "W23." Please show all calculations and provide citations to all figures used.
- c. Please confirm that the "Base Year" figure in part b. above consists of basic Certified Mail transactions only. If you do not confirm, please explain.
- d. Please reconcile the figure in part b. above with the total number of basic Certified Mail transactions of 269,730,120 in cell "O40." Please show all calculations and provide citations to all figures used.

RESPONSE:

- a. Confirmed.
- b. This figure was changed to 269,730, which matches cell O40, in the errata filed on August 22, 1997.
- c. Confirmed.
- d. See the response to part b.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-15. Please refer to the Lotus 1-2-3 spreadsheet file, "Certify.wk3."

- a. Please confirm that the TYBR volume is 304,153,000. If you do not confirm, please explain.
- b. Please confirm that the TYBR figure in part a. above consists of basic Certified Mail transactions only. If you do not confirm, please explain.
- c. Please confirm that the TYAR volume is 293,118,000 (see USPS-T-6 at page 190). If you do not confirm, please explain.
- d. Please confirm that the TYAR figure in part c. above consists of basic Certified Mail transactions only. If you do not confirm, please explain.
- e. Please refer to cell "W21," which shows the figure, 286.578, and contains the following formula: =293.118-+3.071-3.469069. Please provide sources for, or the derivation of, the figures 3.071 and 3.469069. Please show all calculations and provide citations to all figures used.
- f. Please refer to cell "W21," which shows the figure, 286.578, and contains the following formula: =293.118-+3.071-3.469069. Please explain the reason for the "-+" in the formula.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. Please see my revised workpaper 4 filed on August 22, 1997, which shows the TYAR volume of 289,653,000. This figures adjusts the volume from USPS-T-6 to reflect the impact of the proposed delivery confirmation and packaging services.
- d. Confirmed (for the volumes of 293,118,000, and 289,653,000).

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTEROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-15

Page 2 of 2

- e. Cell W21 has been revised to 289.853, which contains the formula $293.118 - 3.469069 + 0.004$, as shown in the revised workpapers (and LR-H-206) filed on 8/22/97. The "3.469069" is the delivery confirmation diversion, from Exhibit USPS-33R, page 2. The "0.004" reflects the impact of the proposed packaging service, based on Docket No. MC97-5, Exhibit USPS-3D, page 1.
- f. The "-+" was an error that has been corrected in the revised workpaper 4 filed on 8/22/97.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-16. Please refer to the Lotus 1-2-3 spreadsheet file, "Certify.wk3."

- a. Please refer to cell "BF23," which shows the figure, 283,148, and contains the formula: $=(((BB23/BB31))*BF31)-3430.362$. Please provide a source for, or the derivation of, the figure 3430.362. Please show all calculations and provide citations to all figures used.
- b. Please confirm that the figure 283,148, shown in cell BF23, consists of basic Certified Mail transactions only. If you do not confirm, please explain.
- c. Please explain the relationship between the figure 283,148, shown in cell BF23, and the figure 286,578, shown in cell BF31.

RESPONSE:

- a. The revised workpaper 4 filed on 8/22/97 does not include the figure 3430.362 in the formula for cell BF23.
- b. Confirmed for the revised figure in cell BF23 (289,653).
- c. In the revised workpaper 4, Cells BF23 and BF31 contain the same number (289,653).

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-17. Please refer to the Lotus 1-2-3 spreadsheet file, "Certify.wk3."

- a. Please refer to cell "BP33," which shows the figure, 1.334002237, and contains the formula: =BP31/328994. Please provide a source for, or the derivation of, the figure 328994. Please show all calculations and provide citations to all figures used.
- b. Please explain the significance of the figure, 1.334002237, shown in cell "BP33."

RESPONSE:

- a. The figure "328994" is not relevant to the workpaper proper, and is an interim cost figure used in an interim cost coverage calculation.
- b. The figure "1.334002237" is the result of an interim cost coverage calculation.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-18. Please refer to the Lotus 1-2-3 spreadsheet file, "Certify.wk3."
Please explain the significance of the figure, 109,885, shown in cell "BP35."

RESPONSE:

This figure was the result of an interim contribution calculation.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-19. Please refer to Docket No. MC96-3, rebuttal testimony of witness Taufique (USPS-RT-2), at page 14.

- a. Witness Taufique states, "The Postal Service acknowledges that a 'one price fits all' approach may not be the most efficient method of pricing post office boxes." Please confirm that this statement continues to reflect the views of the Postal Service. If you do not confirm, please explain.
- b. In Docket No. R97-1, please explain how the Postal Service has reduced its reliance on a "one price fits all" approach in developing fees for post office boxes.
- c. In Docket No. R97-1, please explain how the post office box fee proposal has taken differences in costs and demand into account.

RESPONSE:

- a. Confirmed.
- b. & c. Docket No. R97-1 was filed too soon after Docket No. MC96-3 for the Postal Service to redesign the post office box fee structure. The Postal Service has proposed fees set at more equal intervals between fee groups A to D, which will set the stage for better reflecting varying levels of costs and demand in different post offices.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T24-20. Please refer to Docket No. MC96-3, rebuttal testimony of witness Taufique (USPS-RT-2), at page 14. Witness Taufique states,

A comprehensive consideration of the demand, supply, and cost difference of post office boxes could evolve into local adjustments to prices at each facility depending upon market factors.

- a. If "local adjustments to prices at each facility" would present administrative burdens to the Postal Service, what options short of local adjustments would reduce Postal Service reliance on a "one price fits all" approach to pricing post office boxes.
- b. For any options identified in response to part a. above, please explain whether and how those options were addressed in the Postal Service's post office box fee proposal in Docket No. R97-1.

RESPONSE:

- a. Please see Docket No. MC96-3, USPS-RT-2, at 14, lines 16-19.
- b. Please see my response to OCA/USPS-T39-19(b&c) above.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS LION)

OCA/USPS-T24-40. Please refer to your testimony at page 15, Table 7D, and the table below.

<u>Delivery/Fee Group</u> [A]	<u>Pre 96-3 Fees</u> [B]	<u>Post 96-3 Fees</u> [C]
IA/A	\$500	\$500
IB/B	\$480	\$480
IC/C	\$450	\$450
II/D	\$134	\$450

- a. Please confirm that the annual fees for caller service prior to PRC Op. MC96-3, are those shown in column [B]. If you do not confirm, please explain.
- b. Please confirm that the annual fees for caller service recommended by the Commission in PRC Op. MC96-3, are those shown in column [C]. If you do not confirm, please explain.
- c. Please confirm that caller service customers in Delivery/Fee Group II/D experienced a fee increase of 236 percent. If you do not confirm, please explain.

RESPONSE:

- a) Not confirmed for the \$134 fee for Pre 96-3 Group II. The annual Pre 96-3 fees for Group II caller service were either \$55 or \$450, depending on the circumstances. An estimated 80 percent of the caller service customers in Group II paid the fee of \$55 (the former fee for a size 5 box) and an estimated 20 percent of the caller service customers paid the Group IC caller

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS LION)

a) Continued

service fee of \$450. See Docket No. MC96-3, USPS-T-7, p. 4. The \$134 fee represents a weighted average of the two fees.

b) Confirmed.

c) Not confirmed, since no customer faces a proposed 236 percent increase.

Please see my response to OCA/USPS-T24-40(a). However, using the \$134 average, the \$450 fee represents a 236 percent increase.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS LION**

OCA/USPS-T24-75. Please refer to your testimony at page 16, Table 8.

- a. Please confirm that, to the extent that post offices vary from year to year in the type of carrier service provided, the number of post office boxes in each fee group would change. If you do not confirm, please explain.
- b. Please confirm that where post offices vary from year to year in the type of carrier service provided, and the number of post office boxes in each fee group change as a result, the Postal Service changes the post office box fees. If you do not confirm, please explain.
- c. Please explain how and when the Postal Service changes post office box fees for boxes that are placed in a new fee group where such boxes are located in post offices that vary from year to year in the type of carrier service provided.

RESPONSE:

- a. Not confirmed. Groups A, B, and E are not defined by the types of carrier service provided.
- b. The Postal Service generally changes post office box fees only pursuant to a Governors' Decision following a Recommended Decision by the Postal Rate Commission. Changes in the application of post office box fees for a particular post office can occur as a result of changes in the type of carrier delivery at the post office, but such changes are not at all common.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS LION**

OCA/USPS-T24-75 Continued.

- c. See DMM § D910.4.4. The new fee group would affect a particular customer only when the customer renews a box, or commences new box service. It would be very rare for the type of carrier service to change more than once over a period of several years.

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

3 MS. DREIFUSS: Mr. Chairman, OCA does have two
4 interrogatories. Witness Needham filed her answers to OCA
5 interrogatories 21 and 22 on October 1.

6 May I approach the witness and show her these
7 answers?

8 CHAIRMAN GLEIMAN: Certainly.

9 MS. DREIFUSS: Ms. Needham, were these answers
10 prepared by you or under your supervision?

11 THE WITNESS: Yes, they were.

12 MS. DREIFUSS: Do you adopt them as your testimony
13 today?

14 THE WITNESS: Yes, I do.

15 MS. DREIFUSS: I move that they be included in
16 today's transcript and included in the record.

17 CHAIRMAN GLEIMAN: Provide two copies to the
18 reporter, please, and I will direct that the additional
19 designated written cross-examination of Witness Needham be
20 accepted into evidence and transcribed into the record at
21 this point.

22 [Additional Designation of Written
23 Cross-Examination of Susan W.
24 Needham was received into evidence
25 and transcribed into the record.]

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-21. Please refer to the Commission's recommended opinion and decision in Docket No. MC96-3, where it states

The Commission endorses the Postal Service's stated goal of offering one free method of delivery to all customers.

PRC Op. MC96-3, at 63.

- a. Please confirm that the Commission's statement quoted above accurately reflects the Postal Service's position in Docket No. MC96-3. If you do not confirm, please explain.
- b. Please confirm that post office boxholders ineligible for carrier delivery service also have the option of general delivery as an alternative form of free delivery. If you do not confirm, please explain.

RESPONSE:

- a) Confirmed that the Postal Service has long held the goal of offering one free method of delivery to customers, and that it continues to do so today. While this is a goal, it is not a service commitment.
- b) Not confirmed. The availability of general delivery is limited. See DMM D930.1.1. The primary group of customers who are both ineligible for carrier delivery and eligible for permanent general delivery service are those subject to the quarter-mile rule. Customers of city delivery offices, regardless of their eligibility for carrier

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-21(b) Continued

delivery service, lost any entitlement to permanent general delivery service many years ago. At non-city delivery offices, but outside the quarter-mile area, one change effected in implementing Docket No. MC96-3 was to replace customer eligibility for permanent general delivery service with eligibility for Group E box service.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T39-22. Please refer to your response to OCA/USPS-T39-2, wherein you declined to confirm that the Postal Service agrees with the Commission's statement that

The Commission believes it is equitable to offer one post office box at no charge to any customer ineligible for carrier delivery.

Since you do not agree with the Commission's statement, please state and explain the Postal Service's affirmative reasons as to why it is offering another type of free delivery in the form of free post office box service to customers ineligible for carrier delivery.

RESPONSE:

The Postal Service has a goal of offering one free method of delivery to customers, and has recently begun offering free box service as one means to attain that goal. To agree fully with the Commission's statement, however, would imply that the Postal Service has decided that offering one post office box at no charge to any customer ineligible for carrier delivery is appropriate in all circumstances. Other options are available. For example, the Postal Service makes available free general delivery, but not free box service, for customers who are not eligible for carrier delivery because of the quarter-mile rule. The Postal Service is not satisfied that this is necessarily optimal, which is why, as stated in my response to OCA/USPS-T39-2, the Postal Service is studying the circumstances involving quarter-mile customers.

1 CHAIRMAN GLEIMAN: Anyone else?

2 [No response.]

3 CHAIRMAN GLEIMAN: Let me say at this point that
4 we have a pretty long list of witnesses today and while it
5 doesn't appear that there are a large number of parties that
6 want to cross-examine any one witness, I would request in
7 the interest of moving things along that cross-examiners
8 keep their questions crisp and nonrepetitive.

9 Three participants have requested oral
10 cross-examination of Witness Needham, Douglas S. Carlson,
11 the Office of the Consumer Advocate and David B. Popkin.

12 Does anyone else wish to have oral
13 cross-examination of this witness?

14 [No response.]

15 CHAIRMAN GLEIMAN: There doesn't appear to be
16 anyone else.

17 Mr. Carlson, would you care to begin?

18 MR. CARLSON: Thank you.

19 CROSS EXAMINATION

20 BY MR. CARLSON:

21 Q Good morning.

22 A Good morning.

23 Q I have a hypothetical question. Suppose a study
24 determines that some consumers would pay \$2 for one apple.
25 Suppose further that this study reveals that some consumers

1 would pay \$1 for an orange. From this information, can we
2 conclude that consumers would pay \$2 for an orange?

3 A You said \$2 for an apple and \$1 for an orange and
4 you're asking if we can conclude that consumers would pay \$2
5 for an orange?

6 Q That's the question.

7 A I really don't know enough about -- about this.

8 Q Just based on the information given, can we make
9 this conclusion?

10 A I don't -- I don't think so, no.

11 Q Okay, thank you.

12 Suppose the Post Office at which customer A has a
13 box distributes mail to the boxes by 8:30 a.m. Suppose the
14 Post Office at which customer B has a box distributes mail
15 to the boxes by 11:00 o'clock a.m. If customers A and B are
16 businesses and if all else is equal, would you expect that
17 customer A might receive a higher value from his box than
18 customer B because customer A receives his mail earlier in
19 the day than customer B?

20 A No.

21 Q Why not?

22 A Well, it depends on what the desires are of
23 customer A and B. What if customer A didn't get to the Post
24 Office before 11 o'clock? There wouldn't be any -- any
25 added value there to customer A than there would be to

1 customer B. Customer B may get there before customer A.

2 Q On your testimony at page 61, line 13, you noted
3 that --

4 A I'm sorry, excuse me? Page 61?

5 Q Line 13.

6 A Line 13. Okay.

7 Q You stated that businesses may opt for box service
8 to receive their mail early in the day. For instance, this
9 early delivery may permit banking transactions to be
10 completed before the close of the banking day, thereby
11 maximizing flow. Post Office box service also helps
12 businesses respond to mail that same business day, such as
13 answering -- answering correspondence or filling orders.

14 Do you believe that a business might want to
15 receive its mail at 8:30 a.m. if it were available?

16 A Yes.

17 Q And if that business wanted to receive its mail at
18 8:30 a.m. but that mail were not available until 11:00
19 o'clock a.m., that business would value receiving the mail
20 at 8:30 higher than receiving it at 11 o'clock?

21 A Probably.

22 Q Continuing with this example, suppose that
23 customer A's mail sometimes is in the box by 8:30 a.m. but
24 other times it is not in the box until 11:00 o'clock a.m.
25 Customer A has discovered this phenomenon by checking his

1 mail at 8:30 a.m. and at 11:00 o'clock a.m. and has found
2 mail in the box at 11 o'clock that was not in the box at
3 8:30. Under which situation would customer A likely derive
4 a higher value for his box: One, the mail is in the box
5 every day by 8:30 a.m. so customer A needs to make only one
6 trip to the Post Office or, two, the mail sometimes is in
7 the box by 8:30 a.m. but sometimes it is not delivered until
8 11:00 o'clock a.m. so customer A who needs his mail early in
9 the day must make two trips to the Post Office every day to
10 ensure that he has picked up all of that day's mail?

11 A Well, if customer A is only planning to make one
12 trip to the Post Office and it is more convenient to do it
13 earlier, I am sure that customer A would probably value it
14 being in earlier. But I also would presume that customer A
15 would value having whatever mail was in there when he or she
16 went to pick it up as being valuable.

17 Q So if he had a choice in going to the post office
18 once at 8:30 or going twice, once at 8:30 and once at 11
19 o'clock, would he value the situation where he could make
20 one trip at 8:30 higher than the situation where he has to
21 make two trips?

22 A It depends on Customer A. I really couldn't
23 answer.

24 Q Suppose Customer A is a business that needs to get
25 started processing its mail as early as possible in the day?

1 A Well, suppose Customer A also needs to go back to
2 the post office to conduct business.

3 Q Can you answer the question with just my facts,
4 which is Customer A wants to make one trip to the post
5 office and needs his mail as early as possible.

6 A Oh, well, if that is the case, then -- I didn't
7 hear before that it was just one trip, but if that is the
8 case then -- and if Customer A wants the mail as early as
9 possible, then I'm sure that Customer A would prefer having
10 it all in the box by 8:30 or whatever the time was you had
11 specified.

12 Q Are you aware that many post offices post a sign
13 in the lobby indicating the cutoff time by which mail or
14 sometimes just First Class mail will be delivered --
15 distributed to the post office boxes?

16 A I am aware of some, but I don't if that is the
17 case for all post offices.

18 Q Do you have any studies or other information
19 indicative of the average cutoff time that is posted in box
20 lobbies nationwide?

21 A I don't personally, no.

22 Q Does the Postal Service?

23 A I am not sure. I -- I could check but I don't
24 know myself but I could check. That sounds more like an
25 operational type question.

1 Q Is that a question that we could get an answer to
2 from the Postal Service?

3 A Well, we have an Operations witness coming later
4 on in the proceeding.

5 I don't know if that would be the person to best
6 address it or not, but we do have an Operations Department
7 that could probably provide an answer.

8 MR. CARLSON: Would the Postal Service stipulate
9 to allowing me to file an institutional interrogatory in
10 writing requesting this information?

11 CHAIRMAN GLEIMAN: Mr. Rubin, would you have a
12 problem with that?

13 MR. RUBIN: No, I think we, yes, we can accept --

14 CHAIRMAN GLEIMAN: Would the post office have a
15 problem with that?

16 MR. RUBIN: No, I think -- I mean if it is under
17 Rule 2-E, it might be the kind of question that would fit as
18 information available only from the Postal Service, so we
19 could take that.

20 CHAIRMAN GLEIMAN: Mr. Carlson, satisfied?

21 MR. CARLSON: Yes. Thank you.

22 CHAIRMAN GLEIMAN: Good.

23 BY MR. CARLSON:

24 Q Would this information possibly be relevant to
25 determining the value of service the post office boxes

1 provide?

2 Suppose that the evidence showed that 80 percent
3 of post offices provided the mail by 8:30 a.m. or suppose
4 that the information showed that 80 percent provided the
5 mail by 11:30 a.m.

6 Would you be able to argue that there is a higher
7 value for post office box service if the evidence showed
8 that it were 8:30 a.m. versus 11:30 a.m.?

9 A I think it really depends on the customer and the
10 needs of the customer. I know that post office box service
11 does provide a very high value of service to the customers.

12 There is also caller service, which -- you were
13 speaking to businesses, and I am kind of confused that you
14 didn't mention caller service, because, well, unless it is a
15 small business a lot of businesses do take advantage of
16 caller service.

17 Q So if I understand what you are saying, we should
18 qualify your testimony and say as one of the examples of the
19 high, extremely high, value of post office box services is
20 that businesses may opt for box service to receive their
21 mail early in the day, but only depending on the operations
22 of that business?

23 A More specifically, my testimony -- are you
24 referring to --

25 Q Page 61, line 13.

1 A Okay. Could you repeat the question, please?

2 Q Certainly. Since you are unwilling to state that
3 an earlier cutoff time for delivery of post office box mail
4 would increase the value of service, then would it be fair
5 to say that your testimony should be modified so that the
6 line that says "Businesses may opt for box service to
7 receive their mail early in the day" should in fact say
8 "Businesses may opt for box service to receive their mail
9 early in the day, but only if the nature of their business
10 requires them to receive the mail early or otherwise makes
11 early receipt of the mail valuable."

12 A No. No, I don't think it should be modified.

13 Q Then why aren't you willing to say it would be
14 more valuable if P.O. box mail were generally in the boxes
15 by 8:30 a.m. versus 11:30 a.m.?

16 A I am just saying I think it depends on the
17 customer but I did agree already that if somebody wanted to
18 make only one trip, early in the day, it would probably be
19 of more value to them to have all the mail there.

20 Q How about if it were 8:30 versus 3 p.m.? Is 8:30
21 a.m. any more valuable than 3 p.m. in general nationwide
22 over the scope of the average customer?

23 A Well, I guess it depends on the business at that
24 time of operation if we are discussing businesses here and
25 this business is using box service as opposed to caller

1 service.

2 I mean it would depend on different things.

3 I would need to know a little bit more.

4 Q So, suppose the bank closes at three o'clock and
5 the box mail is going to be in the box by three o'clock.
6 Would that make box service just as valuable to a business
7 than if the mail were in the box by 8:30?

8 A Well, it -- if the -- it depends on if what they
9 needed to get out of the box needed to be deposited in the
10 bank that day.

11 Q So, how early mail is delivered to a box is not a
12 particularly important criterion in the value of service.

13 A Well, I think box mail is put up fairly early
14 throughout.

15 Q No, the question is, is the time that the box mail
16 is put up a criterion in determining the value of box
17 service?

18 A This is -- it's all a factor in the value of
19 service, yes.

20 Q And so, then, three o'clock versus eight -- three
21 p.m. versus 8:30 a.m. -- no difference?

22 A Well, show me -- show me a post office that puts
23 up box mail -- the first mail at three p.m. in the afternoon
24 and -- and then we'll discuss it.

25 Q How about two p.m.? I could point out some rural

1 locations that I visited in Montana last week. Suppose they
2 exist. Two p.m. versus 8:30.

3 A Well, do you have -- do you have evidence of that?
4 I -- I'd like to see it.

5 Q Suppose it's true.

6 A Well, if -- if I supposed it were true -- I mean I
7 -- you know, it depends on -- again, it depends on the
8 business. If the bank closes at three and they can pick up
9 their box mail at two, I don't see why they can't get to the
10 bank.

11 Q And answer all the customer correspondence that
12 you were referring to in your testimony that same day?

13 A Well, perhaps they could. Why not? That has
14 nothing to do with going to the bank, does it?

15 Q Okay.

16 So, I'm still -- still not clear whether the time
17 at which mail is put into the boxes has any bearing on the
18 value of box service.

19 A It does to customers, but it's my understanding
20 that box mail is put up pretty early in the day, and this is
21 why businesses and some individuals choose to get box
22 service, to get the mail before carrier delivery.

23 Q Is earlier better than later?

24 A For customers that -- to which it's a concern,
25 having it early in the day? It would be better for them to

1 have it earlier in the day.

2 Q And therefore it would be more valuable.

3 A Presumably so, yes.

4 Q Okay. Thank you.

5 Which steps has the Postal Service taken to ensure
6 that postmaster post a true, accurate cut-off time?

7 A I have no idea. That's -- that's beyond the scope
8 of my testimony.

9 Q By which time do you -- do you believe should mail
10 be delivered to post office boxes that are located in an
11 urban area?

12 A It depends on the facility. As soon as possible.
13 I'm not sure it -- what time, you know, that early, you
14 know, staff gets there, clerks, mail handlers.

15 Q Is -- is 11:30 a.m. good enough?

16 A Well, I'm -- I don't use a post office box, so for
17 -- for me personally, 11:30 would be fine, because if I did,
18 I'd -- I'd go -- go at lunch time, probably, to pick up box
19 mail.

20 Q How about for all these people who derive an
21 extremely high value service from -- from box service who
22 want their mail early in the day? Do you think 11:30 a.m.
23 is good enough?

24 A It depends on the individuals themselves. You'd
25 have to ask them if it's good enough.

1 Q Has the Postal Service asked them?

2 A To my -- to my knowledge, no. I imagine, if -- if
3 there were complaints -- there -- there are consumer cards
4 at -- at postal facilities that you can fill out if -- if
5 there's a complaint about service or -- or a compliment or a
6 comment, whatever.

7 Q If I wrote a card saying that I thought 11 o'clock
8 a.m. was not early enough for my box mail, do you think the
9 postmaster would actually change it and get the mail up
10 earlier?

11 A Well, it's -- it's -- it's a -- it's a
12 possibility. I -- I -- I don't know which postmaster you're
13 speaking of specifically, but you could always ask that
14 particular postmaster.

15 Q Is the Postal Service committed to providing
16 high-quality box service?

17 A Yes.

18 Q Do you think it would be useful for the Postal
19 Service's mission to provide high-quality box service to ask
20 customers by what time they need their mail?

21 A Well, I -- I believe that the Postal Service
22 provides high-quality service in all areas. That's --
23 that's me personally speaking.

24 I -- I feel that if there's a -- that customers
25 have a problem with, you know, a delivery time to a box, for

1 example, that that's something they can bring up. A lot of
2 times you're providing good service, and unless you hear
3 otherwise, it's -- it's good service.

4 Q Do you think the Postal Service could demonstrate
5 its commitment to providing high-quality box service if it
6 asked customers when -- by what time they need box mail to
7 be distributed to the boxes?

8 A I don't know if that's really necessary, unless
9 there were problems with -- with some customers saying that
10 their mail didn't -- wasn't getting in the box as early as
11 possible.

12 Q Would it demonstrate commitment if they asked that
13 question of customers?

14 A I don't think it's necessary to ask that question.
15 I think the commitment of providing good box service is
16 already there.

17 Q I didn't ask if it was necessary. Would it
18 demonstrate commitment if they asked that question?

19 A Commitment is already demonstrated in terms of
20 good box service, unless -- unless somebody brings -- brings
21 up, you know, an issue that it's -- it's -- the -- the mail
22 isn't in the box early enough.

23 Q Would it demonstrate additional commitment?

24 A I -- I suppose it could.

25 Q And has the Postal Service asked -- I'm sorry.

1 I've asked that question and it's been answered.

2 Do CMRAs often use caller service or a firm
3 hold-out?

4 A It -- it depends on the CMRA. I -- I have not
5 seen studies of whether or not -- of how many of them do use
6 caller service or firm hold-out.

7 Q Do you know if any do?

8 A I personally, offhand, do not, but I wouldn't be
9 surprised if they did.

10 Q How about special arrangements to deliver mail to
11 a CMRA at the beginning of a carrier's route?

12 A I don't know about that.

13 Q How about to pick up mail directly from a
14 processing and distribution center?

15 A I don't -- that's beyond the scope of my
16 testimony. I don't know.

17 Q To the extent that customers do not receive their
18 post office box mail until after 11 o'clock a.m., is it
19 possible that some of them could receive their mail earlier
20 if they had carrier delivery?

21 A I assume anything's possible; yes.

22 Q Is it possible that to the extent that customers
23 do not receive their p.o. box mail until after 11 o'clock
24 a.m. that they could receive their mail earlier if they had
25 a CMRA box?

1 A I suppose that's possible too; yes.

2 Q Are you aware that some postal facilities are
3 staffed on Saturdays in such a way that the window clerks
4 are also responsible for distributing the mail to the boxes?

5 A Yes.

6 Q Could that arrangement cause problems if the
7 window clerks have to split their time or allocate their
8 time between window service and sorting mail to the box
9 section?

10 A Could you define problems?

11 Q In other words, either they're faced with a choice
12 between longer window lines or delaying mail to the box
13 customers.

14 A Yes, that could possibly happen; sure.

15 Q Does the Postal Service conduct any sort of
16 analysis or study to determine whether this arrangement
17 causes serious problems that might diminish the value of
18 service that box service provides?

19 A I personally am not aware of that. I think that
20 would be -- that would vary by individual office.

21 Q If I told you that I had a post office box in
22 Berkeley several years ago where sometimes the mail was
23 never put in the boxes because the clerks were busy with the
24 window service, would you consider that to be an example of
25 something that diminished the value of service that I

1 received at my post office box?

2 A Is this on Saturdays you're talking about?

3 Q Yes, on a Saturday.

4 A Did you bring this up with the postmaster?

5 Q Yes.

6 A Yes. And you were told what, that the window
7 clerks were the only ones that could put up box mail on
8 Saturday?

9 Q That part was evident. I don't remember exactly
10 what was told to me, but the problem never was corrected.
11 Would that be an example of something that would diminish
12 the value of service that I would receive at my post office
13 box?

14 A Well, I'm sure it would have to you, yes, to not
15 receive box mail on Saturday if you went in to get it.

16 Q And the Postal Service has undertaken no
17 initiatives from headquarters or any other level that you
18 know of to investigate the scope of this problem that I'm
19 referring to and possibly try to correct it if it is indeed
20 determined to be a problem?

21 A With respect to the Berkeley post office?

22 Q With respect to offices at which the window clerks
23 are responsible also for distributing box mail.

24 A And what are the other offices?

25 Q I don't know. But you acknowledge that some

1 exist, so I assume that some do more than just the one I
2 mention.

3 A I don't think I acknowledged that some exist. I
4 think I acknowledged that I knew of postal facilities where
5 window clerks did also put up box mail.

6 Q Okay. That's what I meant. Has the Postal
7 Service done any sort of study to determine whether that
8 situation can cause delivery problems such as the one that I
9 referred to?

10 A Not to my knowledge, but again, the situations I'm
11 aware of I think I should state that what I'm aware of ^{is} where
12 window clerks have extra time and it's not taking away from
13 waiting on people at the window.

14 Q So for all we know, the circumstance that I
15 described could be -- I'll clarify the question. The
16 situation that I experienced in Berkeley where the window
17 clerks were not able to deliver my mail in a timely manner
18 could be widespread. We just don't know. Is that true?

19 A I suppose anything's true. I doubt -- I
20 personally doubt it myself, but it could be true.

21 Q On what basis do you doubt it?

22 A Well, I just feel that if that was a widespread
23 problem, that I would have actually have heard about it,
24 because a lot of times I will see letters from post office
25 box customers with various, you know, different issues that

1 they bring up. They might not all be complaints or
2 whatever, but I've never really seen anybody write in about
3 that issue before.

4 Q Do they --

5 A It could be widespread, but I would doubt it
6 myself.

7 Q How many of those letters do you receive per
8 month?

9 A Well, it just depends.

10 Q Average month or average year, how many letters
11 about box service do you receive?

12 A Well, like I said, it depends. There was -- last
13 year we received probably, oh, I don't know, in my office
14 maybe several hundred a month.

15 Q Are these --

16 A On average I would say probably 25 a month.

17 Q Does the Postal Service have some sort of policy
18 where all the compliment letters that demonstrate high value
19 of box service are routed to your office?

20 A No. No. Those normally would go to consumer --
21 the Consumer Advocate's office. But if there are issues
22 dealing with fees or they're unsure whether to direct it, a
23 lot of times it will come to our office first.

24 Q Does the Postal Service have standards to ensure
25 the timeliness and consistency of distribution of mail to

1 post office boxes?

2 A I'm not sure of that. I think that's better posed
3 to an operations person.

4 Q So you have no information about the mechanisms
5 that are in place to ensure that the standards, if any, are
6 followed?

7 A I don't.

8 Q And you didn't think that information would be
9 relevant to testimony about the extremely high value that
10 box service provides?

11 A It provides extremely high value of service, as
12 you and I both know, but I don't -- I think that conditions
13 vary throughout the United States, and there may be -- there
14 may be a set of national-type regulations, but, you know,
15 within that there's some room where individual offices may
16 provide even better than what's required. But again that
17 would be an operational issue.

18 Q So you know that the Postal Service provides
19 extremely high value of box service and you don't need to
20 know this information to --

21 A No.

22 Q Okay. What is the overall percentage increase in
23 rates and fees in Docket R97-1, if you know that offhand?

24 A Actually I don't.

25 Q Must a recipient sign for certified mail before

1 possession of the certified mail is transferred from the
2 Postal Service to the recipient?

3 A I'm sorry, you're speaking a little bit fast.
4 Could you slow down? I didn't quite get it.

5 Q Must a recipient sign for certified mail before
6 possession of the certified mail is transferred from the
7 Postal Service to the recipient?

8 A Is that specifically in an interrogatory response
9 or my testimony?

10 Q I have submitted no interrogatories on this issue,
11 and I'm not sure if anyone else has.

12 A Must a recipient sign for certified mail before it
13 is handed over?

14 Q Before possession of the certified mail is
15 transferred from the Postal Service to the recipient.

16 A And by recipient, what exactly do you mean?

17 Q The addressee or the addressee's agent.

18 A Um-hum. Is this -- is this when mail is being
19 delivered say to a mail room?

20 Q I'm asking a general question. Does it matter?

21 A Well, yes, it does, actually, because in some
22 instances the addressee's agent will -- will sign for it.
23 If -- if you -- if it -- if we can -- if we -- if -- if I
24 can state that this is the addressee's agent that signs for
25 it, the -- the -- the practice is to have the person sign

1 for it and then the -- the piece of certified mail is handed
2 over.

3 Q Whether it is the addressee or the addressee
4 agent.

5 A Or the addressee's agent, correct.

6 Q Okay.

7 Does this requirement comprise part of the value
8 of certified mail service?

9 A It wasn't one of my considerations of certified
10 mail value of service, but --

11 Q So, you don't think the fact that the recipient
12 can't take possession of the mail until he signed for it
13 adds anything to the value of certified mail.

14 A It's more the signature than taking possession of
15 it that -- that provides the value. It's the value inherent
16 in certified mail and also signing for it that's -- that's
17 -- that's of -- that's of a high value to the sender of
18 certified mail.

19 Q How about if the addressee could sign for the
20 certified mail with a date that were three days later than
21 he actually received it? Would it -- would that be
22 something that would diminish the value of certified mail?

23 A Probably not to the addressee, if there were a
24 specific reason why he or she was signing it later.

25 Q Who purchases certified mail, the sender or the

1 addressee?

2 A The sender.

3 Q To the sender, would there be a diminished value
4 in certified mail service if the recipient could take
5 possession of the certified mail and then sign for it as if
6 he received it three days later than he actually did?

7 A I think it depends on the -- the sender. I don't
8 always think that the date of delivery is actually the most
9 important part of the certified but the fact that it is
10 certified is -- is probably more important and that it was
11 delivered --

12 Q So, if --

13 A -- is -- is more important.

14 Q So, if I were a landlord sending you as my tenant
15 an eviction notice and I wanted to prove that you received
16 it on October 7 and if you could, instead, have it on
17 October 7 but have the record show that you received it on
18 November 7, you don't think the value of service to me would
19 be diminished at all?

20 A I don't think that that -- that would -- that
21 would happen, actually. I don't see how the postal employee
22 delivering the certified mail piece would -- would allow for
23 the -- the date to be altered.

24 Q Suppose it did happen. Would that lower the value
25 of service in my hypothetical?

1 A Hypothetically, it probably would in that -- in
2 that situation, yes.

3 Q Please refer to your response to DFC USPS
4 T-39-14(c).

5 If any confusion exists immediately after
6 implementation of the two-tier fee structure for stamped
7 envelopes, will it likely -- will it likely subside as
8 consumers become more familiar with the two-tier fee
9 structure?

10 Again, assuming there were any confusion, would it
11 subside as consumers become more familiar --

12 A Right. If I assumed that -- that there is
13 confusion -- and I don't think there will be -- if I assume
14 that, it would probably be very short-lived.

15 Q Okay.

16 Please refer to your response DFC USPS T-39-14(e).

17 A Okay.

18 Q Since there would be no confusion, would the
19 benefits of the two-tier fee structure offset the confusion,
20 given that the confusion would have a value of zero?

21 A I'm sorry. Could you -- could you repeat that,
22 please?

23 Q Since there would be no confusion, would the
24 benefits of the two-tier fee structure offset the confusion,
25 given that the confusion would have a value of zero?

1 A Well, there's no confusion. So, I don't quite
2 understand the question.

3 Q So, it will have some benefits of a two-tier fee
4 structure and those will offset something, say, confusion
5 that has a value of zero. If -- if you can --

6 A I just -- I just -- it doesn't quite make sense to
7 me.

8 Q That's fine.

9 Please refer to your response to DFC USPS T-39-19.

10 A Okay.

11 Q I was just a bit confused. Shouldn't those cost
12 coverages be preceded by a one, as in 157 percent, 166
13 percent?

14 A No. Well, ideally, that would be nice, but no,
15 they aren't. They're not covering their costs.

16 Q Okay.

17 A Okay?

18 Q Okay. Thank you.

19 Why not? Why -- why don't single-sale stamped
20 envelopes cover their cost?

21 A Well, as you can see, the before rates don't.
22 After rates -- this is after -- this is using the same costs
23 from the library reference and after the proposed fee
24 revenue is in place.

25 Totally, as a -- as a total package, stamped

1 envelopes cover their cost, but these are implicit cost
2 coverages just for specific, you know, stamped envelopes.
3 They do not cover their costs, implicitly.

4 Q And is that -- is that partly because the window
5 service element -- the cost of the window service for
6 single-sale stamped envelopes -- is that what pushes up the
7 implicit -- or pushes down the implicit cost coverage for
8 single-sale stamped envelopes?

9 A Well, these are just based on the costs. As far
10 as the components in the costs, I'm -- I'm not -- I'm not
11 sure.

12 Q Why should a stamped card have a higher cost
13 coverage than a stamped envelope?

14 A Well, it does -- it does have a higher cost
15 coverage.

16 I think it's a little bit -- it's a little more
17 difficult with stamped cards, because you're -- when you're
18 considering a rounding constraint such as a penny, it's --
19 it's going to push it up, where with stamped envelopes,
20 you've got a little bit more room to play with, and in
21 considering a -- a fee for the stamped cards that covered
22 the costs and made a contribution.

23 The -- the smallest increase represents a high
24 cost coverage.

25 Q So, why couldn't you go higher or why don't you go

1 higher on the single-sale stamped envelopes or go lower on
2 the stamped cards if you think that stamped cards should not
3 have a higher cost coverage than stamped envelopes, or if
4 you think that stamped cards should have a higher cost
5 coverage than stamped envelopes, why?

6 A Well, I think that since stamped envelopes cover
7 their costs, the costs -- proposed cost coverage is
8 appropriate. I also believe that the cost coverage is
9 appropriate for stamped cards because it makes a
10 contribution to costs, as does stamped envelope cost
11 coverage does make a contribution above the cost of the
12 envelopes.

13 Q But single sale stamped envelopes don't cover
14 their cost; isn't that correct?

15 A Implicitly, that's correct.

16 Q Is the Postal Service considering a different fee
17 for people who buy 50 stamped cards at a time?

18 A Currently, not now. I believe I answered that in
19 an interrogatory response. Do you know exactly which one --
20 okay.

21 No, not at -- not right now.

22 Q It doesn't make sense to me why there should be
23 apparently different fees for different quantities of
24 stamped envelopes but not for stamped cards.

25 A We need to get a fee first for stamped cards

1 before we look further into a discounted fee for a higher
2 number of --

3 Q Why?

4 A Well, first we want to see if -- if we can get a
5 fee for the service. They're not -- they are sold singly,
6 you know, and then in sheets of 40. But I believe the most
7 common is single sale stamped cards.

8 Q In an ideal world, would stamped cards have a
9 higher cost coverage than stamped envelopes or a lower cost
10 coverage than stamped envelopes, or the same?

11 A In an ideal world, I think they would have a
12 higher cost coverage because with stamped cards, you also
13 are providing the stationery. With stamped envelopes, you
14 are providing the vehicle to move whatever is inside it but
15 with stamped cards, you don't need anything else. Your
16 correspondence is right there and currently, of course, we
17 provide them at no cost for the card above the postage rate.

18 Q Please refer to your response, DFC-USPS-T-39-20.

19 A Okay.

20 Q Given that the primary purpose of single stamped
21 envelopes is "as a convenience for customers in a hurry to
22 mail something while at the Post Office, for customers who
23 do not want to affix stamps to envelopes and for customers
24 who do not, for whatever reason, wish to purchase an
25 envelope and a stamp separately," why does the Postal

1 Service offer hologram stamped envelopes?

2 A There is more to that interrogatory response and I
3 believe that answers it. It was filed yesterday.

4 Q I am taking a look. Just a moment. The
5 supplementary characteristic of a stamped envelope is not
6 part of the primary purpose.

7 A Do you have the rest of that interrogatory?

8 Q I do but it didn't automatically answer my
9 question.

10 A Well, it is for individuals, both collectors and
11 noncollectors alike, there may be a value of the particular
12 stamp on the envelope or the fact that the postage is
13 impressed.

14 Q Right, so that may not be a primary purpose but it
15 is an additional purpose of a stamped envelope?

16 A Right.

17 Q If the Postal Service began producing two types of
18 stamped cards that had different manufacturing costs, would
19 the Postal Service adjust the stamped card fee to take this
20 fee differential into account?

21 A I really don't know. It depends on how -- it
22 depends on what the cost was. That would have to be
23 reviewed. If it was something more expensive, such as a
24 hologram, you know, then that would have to be looked at.

25 Q Or cheaper?

1 A Possibly.

2 Q Do you believe that the Postal Service has any
3 obligation to the public to attempt to reduce or minimize
4 the manufacturing cost of stamped cards?

5 A They are so low, no. I don't know how much lower
6 you could get.

7 Q From two cents to one cent?

8 A You know, well, yes, it is proposed to be. But
9 reducing the manufacturing cost any lower than what it is
10 now, I am not sure if that's possible. But it's awfully
11 darn low when you consider that if you went out to buy a
12 card, you know, it would cost more than two cents.

13 Q Suppose it were possible to produce a stamped card
14 for half a cent? Would you think the Postal Service would
15 have any obligation to the public to consider using
16 manufacturing process that would lower the cost?

17 A Perhaps, yes.

18 Q Which role, if any, do the costs of producing
19 various stamped card designs have in the decision whether to
20 produce a particular stamped card?

21 A I have no idea.

22 Q What role should they have? What role should the
23 cost of producing various stamped card designs have in the
24 decision whether to produce a particular stamped card?

25 A I don't know.

1 Q You don't think it matters?

2 A I am just not familiar with how that decision is
3 made. I basically see what the costs are for what is
4 manufactured with respect to both stamped envelopes and
5 stamped cards and fee design is done from there.

6 Q So you have no opinion as to whether the cost of
7 producing a particular design should have a role in the
8 decision whether to produce a card in that particular
9 design?

10 A Well, it isn't my decision to make but I am sure
11 that is considered when they are designed.

12 Q Suppose it weren't considered, should it be?

13 MR. RUBIN: Objection. This is getting into an
14 area that the Postal Service has filed a written objection
15 on in terms of the design considerations with respect to
16 stamped cards. And I think that the witness has stated the
17 extent of her knowledge in this area and --

18 MR. CARLSON: I am asking a question completely
19 different from the one in the written interrogatory. I am
20 asking should the cost of producing a particular design be a
21 consideration for the Postal Service when it decides whether
22 in fact to produce that particular design.

23 MR. RUBIN: And I think that's an area is beyond
24 the witness's, the scope of the witness's --

25 CHAIRMAN GLEIMAN: Why don't we let the witness

1 see if she can provide an answer.

2 WITNESS: I believe I already answered that, Mr.
3 Carlson.

4 I said I believe that it is taken into
5 consideration when --

6 BY MR. CARLSON:

7 Q My question is not whether it is but should it be.
8 Suppose it is not. Should it be?

9 A Suppose it's not, should it be? I would assume
10 so. Yes.

11 Q Do you believe it should be taken into account?

12 A Oh, sure.

13 Q Okay. Does the Postal Service have any plans to
14 resume production of single colored stamp cards?

15 MR. RUBIN: Objection. This is in the area of the
16 written question and it's an area that is beyond the scope
17 of the witness's testimony.

18 CHAIRMAN GLEIMAN: Sustained.

19 MR. CARLSON: Sustained as to being beyond the
20 scope or sustained because it is in the written objection?

21 CHAIRMAN GLEIMAN: Beyond the scope of her
22 testimony.

23 BY MR. CARLSON:

24 Q Please refer to your response to DFC/USPS
25 T39-9(a).

1 A Okay.

2 Q Does the fact that some customers filed lawsuits
3 against the Postal Service for loss or damage to uninsured,
4 nonregistered First Class mail, Priority Mail, and Parcel
5 Post suggest that those customers expect compensation for
6 their lost or damaged uninsured mail?

7 A As I stated in the interrogatory, I would say
8 presumably yes.

9 Q Please refer to DFC/USPS T39-9(b) .

10 A Okay.

11 Q Why does the Postal Service not require customers
12 to purchase insurance for all items of value?

13 A As I stated in the answer, it is strictly a
14 customer choice.

15 If the customer chooses to send something without
16 getting insurance for it, perhaps they have another
17 insurance carrier that they are relying on in case of loss
18 or damage, but it's strictly up to the customer. It is
19 their choice.

20 Q Then why not give customers that choice for
21 Registered Mail too?

22 A Well, insurance with Registered Mail is not very
23 much more expensive than Registered Mail itself. Inherent
24 in Registered Mail is security, extreme security, and many
25 times customers believe that if they send something

1 registered it is automatically insured.

2 This is one of the reasons why in order to
3 simplify the fee structure and satisfy or give customers
4 what they wanted in terms of expectations that in Docket
5 MC96-3, most of the uninsured Registered Mail was
6 eliminated, the offerings.

7 Q Can you explain how a customer might send
8 something through uninsured Registered Mail and think he or
9 she was buying insurance?

10 Can you give me an example of how that retail
11 transaction might take place, where the customer would
12 purchase the Registered without insurance and believe that
13 he in fact had purchased insurance?

14 A Well, for what specific value level are you
15 talking here? I mean that makes a difference.

16 Q \$90.

17 A Okay. For \$90 if a customer approached a window
18 clerk and asked for -- wanted to register an article and the
19 value was \$90, currently right now the Postal Service offers
20 a choice of uninsured Registered Mail up to \$100, and then
21 of course the alternative is insured Registered Mail.

22 The customer would then be asked which do they
23 want. Above \$100, insurance is automatic.

24 Q So if the customer were asked which do you want
25 and the customer said "uninsured," how could that customer

1 reasonably believe he had bought insurance?

2 A Oh, I don't think they would.

3 Q So if a customer who sends something through
4 uninsured registered mail could not reasonably believe that
5 he had bought insurance, why do we have a problem?

6 Why force customers then to buy insurance just
7 because some customers unreasonably believe they bought
8 insurance?

9 A You mean from zero to \$100?

10 Q Yes.

11 A It is not, like I said before, it's not that much
12 more in terms of a fee. It is just a way of providing
13 something that should be -- actually is a part of Registered
14 Mail over \$100 up to \$25,000, and should be a part of
15 Registered Mail from a penny up to \$25,000 as far as
16 insurance goes.

17 Q And that's the only reason? What you just stated,
18 those are the only reasons why a customer should be required
19 to purchase the insurance?

20 A I think I've addressed in my testimony the
21 classification criteria for this proposal, and there would
22 be reasons in there also. And I can refer you to that, if
23 you'll give me a minute.

24 Q Okay.

25 A On pages 77 and 78 of my testimony I discuss

1 classification criteria for making this -- for proposing
2 this classification change that include more than what I
3 just discussed.

4 Q Finally, please refer to your response to DFC USPS
5 T-39-9(e) .

6 A Okay.

7 Q Do the benefits of administrative simplicity
8 outweigh the utility that will be lost by removing a
9 customer's option to decline postal insurance and take
10 responsibility for any increase in his insurance premium
11 that may or may not occur if a claim is paid?

12 A Could you repeat that, please? It was a long
13 question.

14 Q Do the benefits of administrative simplicity
15 outweigh the utility if any that will be lost by removing a
16 customer's option to decline postal insurance and take
17 responsibility for an increase in his insurance premium that
18 may or may not occur if a claim is paid?

19 A I believe that it goes -- actually goes beyond
20 administrative simplicity, but that would outweigh a
21 customer's perhaps not wanting to have the registered mail
22 insured. As I answered in one of my interrogatory
23 responses, it's important to remember that the Postal
24 Service is the insurer of first resort, so with respect to
25 registered mail, it really does not make sense to offer

1 registered mail that is uninsured at any monetary value -- I
2 mean, above zero.

3 Q I don't have any further questions. Thank you.

4 A Thank you.

5 CHAIRMAN GLEIMAN: Thank you, Mr. Carlson. I
6 think we'll take a short break right now, 10 minutes, and
7 then we'll come back and we'll pick up with OCA's cross
8 examination.

9 [Recess.]

10 CHAIRMAN GLEIMAN: Ms. Dreifuss?

11 MS. DREIFUSS: Thank you.

12 CROSS EXAMINATION

13 BY MS. DREIFUSS:

14 Q Good morning.

15 A Good morning.

16 Q I'd like you to turn to your testimony at page 65,
17 please, lines seven through eight. There you -- the first
18 page of the -- the sentence that begins on line seven -- you
19 state, "in an effort to recognize the similarities in groups
20 C and D with respect to costs and service," and I wanted you
21 to tell me what similarities in cost are you talking about
22 there?

23 A Well, with respect to groups C and D, they are
24 both carrier delivery offices, and I'm talking about the
25 costs associated such as space costs, which are closer

1 together than previously we had thought they were. You
2 know, it was assumed they were much further apart.

3 And as far as service goes, the -- that delivery
4 service would -- will be carrier delivery, be it city or
5 rural.

6 Q Okay.

7 So, that's what you meant by similarities in
8 service, grouping them by either rural carrier service or --
9 or city carrier service.

10 A Right, as far as -- as -- yes, as far as delivery
11 service with the -- with respect to the office itself, and
12 then box service is -- is the same.

13 Q Are -- are you under the impression that there
14 would be greater similarity among offices in group C with
15 respect to space costs than there would be, let's say,
16 between C and D? Let me -- let me rephrase that.

17 Are you under the impression or of the opinion
18 that the space provision costs would be most similar within
19 group C and within group D as opposed to between group C and
20 D, or do you think it could be -- it could be a mix?

21 A Well, I know that group D, as far as like space
22 costs go, are not that far away from group C, but I imagine
23 that, within group C, they'd probably -- you know, they
24 might be closer together, and group D, they may be closer
25 together.

1 However, I could imagine some group D offices
2 individually having higher costs than -- than group -- some
3 group C offices.

4 So, it could be a mix, too, but I -- I --I would
5 -- I think that the thrust of this is trying to get the
6 group C and D box fees more closer together and -- and then
7 have the distinction of A and B -- group A and B fees being
8 higher.

9 Q What -- what was the reason that you wanted to
10 make -- bring group D fees closer to group C fees?

11 A Well, it was in the recommended decision from
12 MC96-3. If you'll give me a second, I can --

13 I am sorry to be taking this time, but I believe
14 that there is something in here that I -- I should point to.

15 Could you repeat the question?

16 Q I asked you why you wanted to bring group D fees
17 closer to group C fees.

18 A I can't find what I am looking for, but -- oh,
19 well, one thing I had looked -- one thing -- one thing I --I
20 found here in the MC96-3 recommended decision, the -- the
21 commission stated that -- on page 67 -- ^{The Service} ~~this service~~ may not
22 -- the service being the Postal Service -- may not
23 indefinitely continue to offer group D boxes below
24 attributable costs.

25 I don't think -- I -- that was part of what I

1 wanted.

2 One reason is -- to bring -- to bring group D fees
3 closer group C fees is to show that there really is no
4 difference in the type of box service and very minimal
5 differences in the type of cost for these -- for these two
6 groups, two fee groups.

7 Q Thank you.

8 Could you go down to lines 13 through -- I'm sorry
9 -- lines 13 and 14 on that same page?

10 A Okay.

11 Q You talk about continuing a process begun in
12 docket number MC96-3 of uncoupling box fee groups from the
13 type of carrier delivery offered by offices. Was anything
14 other than group E uncoupled in this proceeding?

15 A No.

16 Q Does the Postal Service contemplate uncoupling
17 other fees than Group E at this time?

18 A Not to my knowledge.

19 Q Could you turn to your response to
20 OCA-USPS-T-24-75, Subpart A? That was an interrogatory
21 redirected to you from Witness Lion.

22 A Okay.

23 Q In that question we asked you to confirm -- well,
24 actually, we asked him to confirm but you answered that to
25 the extent that Post Offices vary from year to year in the

1 type of carrier service provided, the number of Post Office
2 boxes in each fee group would change and your answer to A
3 seemed incomplete to us. You talked about groups A, B and E
4 and stated that they are not defined by the types of carrier
5 service provided however you didn't address groups C and D,
6 so I would like you to complete your answer at this time
7 with respect to C and D.

8 A Okay.

9 Well, groups C and D are defined by the type of
10 carrier service provided, C being city carrier, not -- not
11 among the group -- the Post Offices that are in groups A and
12 B, and group D being rural -- noncity delivery carrier.

13 Q If a given office experienced a change from no
14 city carrier routes to one that had at least one city
15 carrier route, then wouldn't such an office move from group
16 D to group C?

17 A Probably.

18 Q Do you think it ever goes the other way, goes from
19 having -- an office might go from having city carrier routes
20 to having none and only providing rural carrier service?

21 A It's possible. It doesn't seem as likely as the
22 other way around but it would be possible, sure.

23 Q In such a case, then an office like that would
24 move -- box fees would move from group C to group D would
25 they not?

1 A Correct.

2 MS. DREIFUSS: Okay, thank you. We have no
3 further questions.

4 CHAIRMAN GLEIMAN: Mr. Popkin?

5 MR. POPKIN: Thank you.

6 CHAIRMAN GLEIMAN: Don't worry about the clock.
7 I'll worry about that.

8 MR. POPKIN: I just want to know whether to wish
9 her good morning or good afternoon.

10 CROSS EXAMINATION

11 BY MR. POPKIN:

12 Q Okay, good morning, for another 12 seconds.

13 A Good morning.

14 Q In special handling, I asked an interrogatory to
15 the Postal Service which was referred to you for response
16 and these responses were not given to us until we stopped
17 and picked them up last night on the way back to the motel
18 so I haven't had a chance to fully go through them but I've
19 got some of the main points.

20 In your response to my interrogatory number 21(a)
21 where I asked to provide copies of directives and
22 instructions that indicates how special handling should be
23 handled, you referred me to two sections of the manual. And
24 I assume that these two sections provide, shall we say,
25 generalities, you know, expeditious handling and

1 transportation or words to that effect.

2 What I am really looking for is, what -- how is
3 special handling mail, in other words, if I have a parcel,
4 is the usual case, but a piece of mail which I decide to
5 send special handling, how is that mail going to be handled
6 differently than it would be if I didn't decide to do it?

7 A You are referring to interrogatory 21?

8 Q Right, DBP-USPS-21(a).

9 MR. RUBIN: I would note that these
10 interrogatories have not been designated for the record.

11 But Mr. Popkin can proceed.

12 CHAIRMAN GLEIMAN: Thank you, Mr. Rubin.

13 Mr. Popkin, let me make a little bit of a request.
14 Unlike all the other folks around here who are a little bit
15 too soft spoken, and I have to ask them to bring the mic
16 closer, could you move the mic back a tiny bit? Thank you.

17 That's not a fault, mind you.

18 THE WITNESS: I'm sorry, could you repeat the
19 question, please?

20 BY MR. POPKIN:

21 Q The question is, if I were to mail a piece of
22 mail, I will call it that rather than parcel, whatever, a
23 piece of mail and I have the option of either sending it by
24 some method or some method plus special handling, what
25 specific special handling, and those are in small "s" and

1 small "h", will I get on my package over and above whether I
2 decide not to do it?

3 A Well, you are going to get preferential treatment
4 in handling and dispatch.

5 Q What I am looking for are specifics. In other
6 words, I want to know it will be put on the first truck out,
7 it will go by air if air will help? In other words, what
8 specifics will be done rather than generalities?

9 A Well, I think it depends on the individual case.
10 For example, your parcel might be the last one loaded on the
11 truck, held back and put in a special place so it doesn't
12 get damaged or covered. You know, if it is containing live
13 poultry or whatever, if -- and then at the destination point
14 it could possibly be the first one off the truck or, you
15 know, whatever mode of transportation.

16 Also, just -- I mean, I can only give you my
17 personal experience with special handling which -- which --
18 which demonstrated it was fairly costly because we took
19 special care with special handling packages such as to even
20 call the recipient and let them know that their special
21 handling package had come in and that we would be getting it
22 to their house at a certain time. But if they needed it
23 before that, we could hold it. That sort of thing.

24 I am unaware of anything other than what I
25 answered in the interrogatory with respect to the Postal

1 Operations Manual and the Domestic Mail Manual in terms of,
2 you know, what specific steps might be taken. But then,
3 again, I also would like to stress it would vary depending
4 upon the office and perhaps the type of shipment.

5 Q That's the question I'm trying to find, what is
6 there in the way of directives or instructions or however it
7 might be issued which tells post offices how to handle
8 special handling.

9 In other words, this -- this -- this rate that you
10 have is being proposed to be almost tripled, and yet, you
11 know, I'm looking for information that says here's what
12 we're going to do for the money.

13 In other words, can air transportation be used,
14 other than perhaps in Alaska, where it's always used? In
15 other words, if I send a package from -- well, like I did in
16 sub-part D -- from Englewood to Los Angeles, will that go by
17 air or by surface if it's special handling?

18 A Yes. I don't know.

19 Q Is there a witness in the United States Postal
20 Service, since this is an institutional interrogatory?

21 A I -- I don't know.

22 MR. RUBIN: We've -- we've tried to provide the
23 best answers we have -- we have, and we have not -- we do
24 not -- there is not another witness who has more
25 information. These are the directives we've located.

1 CHAIRMAN GLEIMAN: Mr. Popkin, you've got an
2 institutional response.

3 If you want to make a motion at some point under
4 the ruling that we put out indicating that we would be
5 receptive to a request for witnesses to testify in support
6 of institutional responses to interrogatories, do so, but
7 the interrogatory response says what it says and it's from
8 who it's from.

9 So, at this point, there's not much we can do
10 about it.

11 If you want to move -- you can make a motion
12 later.

13 MR. POPKIN: Okay.

14 BY MR. POPKIN:

15 Q In -- in your response to sub-part B -- well,
16 let's go back. Can air transportation be used in other
17 than, let's say, Alaska? In other words, if I send a -- a
18 package from here to Los Angeles and send it special
19 handling, will it go surface or air?

20 A Well, that depends on the -- I believe it would
21 depend on the type of mail class that it was attached to.

22 Q What classes can I use special handling for?

23 A Well, you can use it with first-class and standard
24 mail.

25 Q Okay.

1 If I use it for a standard mail package, will that
2 parcel go air or surface to Los Angeles?

3 A I'm not sure.

4 MR. POPKIN: Is there a witness in the Postal
5 Service that knows that answer to this question?

6 MR. RUBIN: I don't -- there's not a witness who
7 can provide that information.

8 CHAIRMAN GLEIMAN: There -- there ought to be
9 somebody in the Postal Service who can answer that question,
10 and I know that there's a vice president for operations, for
11 example, who probably ought to know about the operations of
12 the Postal Service, and in the interest of moving along, let
13 me make a suggestion, which is that, to the extent that
14 there are questions that -- that can't be answered by this
15 witness who is ostensibly a pricing witness and not an
16 operations witness and not a costing witness, I -- I think
17 you need to try and limit your questions.

18 On the other hand, if there are questions such as
19 the one you just asked where, intuitively, one would suspect
20 that there is a person in the United States Postal Service
21 as entity that can respond, then we ought to try and get a
22 response, and I would ask the Postal Service to try and
23 accommodate us in this regard by providing a simple answer
24 to a simple question in writing following this hearing to
25 the -- and the question at this point is if -- how would a

1 package move from -- from New Jersey to California?

2 MR. POPKIN: Cross-country.

3 CHAIRMAN GLEIMAN: Cross-country.

4 MR. POPKIN: I mean it can be the New Jersey that
5 I asked in sub-part D or it can be Washington. It's a
6 Standard B.

7 CHAIRMAN GLEIMAN: Standard B package.

8 MR. POPKIN: With and without special handling.

9 Okay.

10 BY MR. POPKIN:

11 Q One of the items that I observed in researching
12 special handling is that it can be used for first-class
13 mail. I was not aware of that. What added value do I get
14 for sending my 32-cent letter by special handling?

15 A Well, you would get preferential handling in
16 dispatch and transportation. It would be held out from --
17 from the other first-class non-special handling --

18 Q Let's -- let's take --

19 A -- mail and -- and --

20 Q Let's take that one specifically. I walked into
21 the post office around the corner and say I want to send
22 this 32-cent -- you know, I have a number 10 envelope with
23 32 cents on it, and I say I'd like to send this by special
24 handling.

25 What am I going to get for my extra money, and how

1 is that going to be accomplished?

2 A Well, it would travel with the other special
3 handling mail and you would get preferential treatment in
4 dispatch and transportation, preferential handling.

5 Q My perception is that if I did that, this would be
6 the first time this postal clerk had seen special handling
7 in three weeks or three months and he wouldn't know what to
8 do with the letter other than throw it in with the rest of
9 the letters. Could that be possible?

10 A I don't -- I don't think that's possible.

11 I mean, actually, anything is possible but I don't
12 think that would be likely at all.

13 Q Okay, I'm still somewhat at a loss of how that
14 would work. In other words, isn't First Class supposed to
15 be handled expeditiously?

16 A To the best of my knowledge it's -- expedited mail
17 is handled expeditiously. I believe First Class Mail has
18 very high service standards which makes it a very quick way
19 of mailing.

20 Q Let's compare special handling standard mail to
21 Priority Mail. Which one would get better service?

22 A When you say "better service," could you explain
23 exactly what you mean by "better service"?

24 Q Faster service, handled quicker, delivered quicker
25 is, I guess, the bottom line.

1 A Faster, faster service, I believe the Priority
2 Mail service standards are faster than they are for
3 standard, standard B mail, is that what you are referring
4 to?

5 Q Right.

6 A Yes. So if you go -- just take them both as
7 standard B and Priority, probably Priority is going to be
8 faster. When you said "better service" and if you meant
9 faster service, that's it. But if it's -- if we're talking
10 about the special handling faction, you're not going to get
11 that with Priority that you would with standard mail and
12 special handling -- with special handling.

13 Q Could you clarify what you mean by the special
14 handling in small letters?

15 A In small letters?

16 Q As opposed to the service. I am using "special
17 handling" as a generic word or pair of words.

18 A Well, I assume that Priority Mail would just be
19 tossed into the truck or whatever, the vehicle, along with
20 all the other mail, maybe in sacks, whatever. Just all put
21 in.

22 Special handling packages, however, do not travel
23 just thrown in with everything else. They are set off to
24 the side. It is my understanding that they are loaded last
25 and unloaded first.

1 Q Okay. If we were to compare the costs of Priority
2 Mail and Standard Mail Special Handling, which is the basic
3 use of Special Handling -- I don't believe too many people
4 have sent 32-cent letters special handling -- what
5 percentage of the parcels would be cheaper to send special
6 handling?

7 A I'm not a costing witness. You were asking to
8 compare costs. I don't -- I'm not familiar with the costs.

9 Q I'm not talking about costs; I'm talking about
10 price to the public.

11 A Now, could you repeat the question?

12 Q The normal use of special handling, do you agree,
13 is for standard mail B?

14 A I -- to my knowledge, yes. Yes, it would be.

15 Q What I am trying to determine is what percentage
16 of the standard mail B packages will be sent special
17 handling rather than Priority Mail.

18 A I don't know. I would have no way of knowing
19 that.

20 Q You would have no way of knowing that the tripling
21 of the rates, what effect that may have on the people using
22 the service?

23 A Could you -- I don't understand. Could you
24 rephrase that, then, this new thing? I didn't hear that in
25 your old question, your other question. Could you repeat

1 that, please?

2 Q The question I have is, since you are raising the
3 rates for special handling considerably, give or take
4 tripled, and I realize it is not exactly, but will that
5 force most of the potential users for special handling to go
6 over to Priority Mail in your opinion?

7 A Well it -- we -- in my workpapers, I do show a
8 volume decrease for special handling in the test year after
9 rates -- after any new fee like that would be -- would be
10 implemented. As far as going to Priority Mail, I'm not
11 sure. They could.

12 Q Or not use it all?

13 A Correct.

14 Q However --

15 A Or use an alternative means, where available.

16 Q Okay, there are two types of special handling
17 packages in general. One are those which are required to be
18 used by a mailer because of the contents of the mailing,
19 true?

20 A Would you please elaborate, because I'm not --

21 Q Okay, in general there are two types of mailers
22 who will use special handling. One is if the mailer is
23 required to do so by the regulations such as baby chicks and
24 whatever else is in that category. And the other would be
25 people who are sending ones that they are not required to do

1 but they have chosen to do so.

2 A I don't agree that baby chicks must be sent
3 Special Handling.

4 Q Other than Priority Mail and Special Handling.

5 A Other than Priority, yes.

6 Q In other words, what I'm trying to compare here is
7 with the tripling of the Special Handling rates, are we
8 going to lose the service? In other words, 99 percent of
9 the people who would use the service will now use Priority
10 Mail, because it's cheaper.

11 A I'll tell you, in my -- and I don't know whether
12 you have a copy of my work paper --

13 Q No, I do not.

14 A In front of you.

15 Q I don't have a copy anywheres.

16 A We -- going from the test year before rates to the
17 test year after rates, the volume out of 70 -- approximately
18 75,000 pieces before rates is predicted to drop to
19 approximately 69,000 pieces after rates.

20 THE COURT: Excuse me, Ms. Needham, could you give
21 a cite in your work papers?

22 THE WITNESS: Sure.

23 THE COURT: It'll be available to Mr. Popkin.

24 THE WITNESS: It's USPS-T-39, Work Paper 13.

25 BY MR. POPKIN:

1 Q In other words, you're predicting only a
2 few-percent drop in service from before to after the rates?

3 A Right.

4 Q Do you believe that a small part, a somewhat part,
5 or how much of those 69,000 packages that you expect to be
6 done or sent Special Handling after the new rates go in
7 would be cheaper Priority Mail if the mailer was, shall we
8 say, aware of the -- my knowledgeable mailer?

9 A It depends on what the mailer's -- if the mailer's
10 looking for the special handling portion of Special
11 Handling, then they would stay with the Postal Service's
12 Special Handling or find an alternative carrier that would
13 provide a service similar to Special Handling. I can see
14 where some mailers that would divert their volume to within
15 the Postal Service could go to -- they could go to Priority
16 Mail. If it were poultry, for example.

17 Q What did you base your 69,000 on?

18 A Well, that figure comes from the -- it's tied
19 directly to the mail classes such as the Standard Mail B
20 with respect to after rates, because we're proposing the
21 elimination of single-piece Standard Mail A in this
22 proceeding, so there's a zero volume -- Special Handling
23 volume for single-piece Standard Mail A in the test year
24 after rates.

25 Q In other words, I don't have my calculator here,

1 but let's see, 6 out of 75 is 8 percent. You're predicting
2 an 8-percent drop in usage with a tripling of the rates. In
3 other words, what I want to know is how was that arrived at?
4 Was there any study made? Was there any -- I mean, in other
5 words, what evaluation was made to say if we triple the
6 rates, we'll still keep 92 percent of the business?

7 A We have no special studies for Special Handling.
8 The only thing we do get is a cost from the roll-forward.

9 Q Okay. My last question on Special Handling.
10 You've given me what Work Paper 13 said. Is there some
11 reason why in your response to subpart (f)(f) --

12 A Which interrogatory?

13 Q The same one. We're on 21.

14 A Okay.

15 Q That you said "Please see USPS T39, work paper 13,
16 for the after rate special handling volumes."

17 Is there some particular reason why you just
18 didn't answer that interrogatory, "69,000."

19 CHAIRMAN GLEIMAN: Mr. Popkin, I am going to
20 interrupt at this point.

21 While I can appreciate the difficulties it creates
22 for you and for other intervenors when a response makes
23 reference to a work paper rather than providing a numerical
24 answer such as you just suggested could have been done,
25 nevertheless, the reference to the work paper -- and I have

1 the same problem that you have when I get those
2 interrogatory responses and read them -- the response is a
3 legitimate response.

4 You were told you could look at spot X and you
5 could find the answer. I understand that it is a little bit
6 more complicated for you because you are an individual who
7 is intervening and because you are out of town, but I think
8 that the answer was a legitimate and complete answer, and I
9 would like you to move on.

10 MR. POPKIN: Okay.

11 BY MR. POPKIN:

12 Q On Registered Mail, which is Interrogatory 37,
13 DBP/USPS --

14 A Excuse me. That was not designated and if --
15 I must state that there was a correction, a revision made to
16 that interrogatory response, so I think this should be taken
17 care of before we proceed further.

18 MR. RUBIN: There is --

19 CHAIRMAN GLEIMAN: An interrogatory, a revised
20 answer was filed when?

21 MR. RUBIN: There is just a minor change to the
22 response --

23 CHAIRMAN GLEIMAN: Minor by many. There are --
24 minor changes abound in this case.

25 MR. RUBIN: We were planning, I mean we can --

1 we're planning to make that, have Witness Needham make that
2 when it became appropriate.

3 I don't even know if it will have an impact on Mr.
4 Popkin's questions.

5 CHAIRMAN GLEIMAN: I don't understand what you
6 mean by "make it." Has this been filed or not?

7 MR. RUBIN: No.

8 CHAIRMAN GLEIMAN: It's not been filed?

9 MR. RUBIN: It's something we discovered late
10 yesterday so we brought corrected pages with us.

11 CHAIRMAN GLEIMAN: Okay, well, you can file it at
12 lunch if you want, but since we here and now in the hearing
13 room and since the witness has the answer or some revision,
14 however minor it might be, in her hand, why dcn't we just
15 get the answer to the question based on the revised
16 response.

17 BY MR. POPKIN:

18 Q In the response to subpart (f) you say "Registered
19 items with very high declared values".

20 What do you define "very high declared values" as?

21 A Well, I think it would vary, depending on the
22 office and what they are used to handling.

23 If an office isn't used to handling a Registered
24 Mail article above \$25,000, there would need to be special
25 training for employees perhaps on how to handle something

1 that would involve special circumstances and perhaps even an
2 office that isn't used to handling Registered Mail may need
3 to have their employees trained on how to handle something
4 up to \$25,000.

5 Q All right. Let me ask a question then.

6 I take my \$25,000 pile of hundred dollar bills and
7 I walk into a post office and I say I would like to register
8 this.

9 Are they at that point going to conduct special
10 training?

11 In other words, don't the postal clerks who accept
12 mail over the window have training already?

13 A They have training. There might be circumstances
14 where they would need some sort of training for something,
15 something of that magnitude or above that -- that would
16 require -- it depends on the security of the office.

17 Would they need to hire, you know, someone, an
18 armed guard, that sort of thing.

19 It really depends on a lot on the individual
20 circumstance.

21 The safest way is the way we are going to do it,
22 and it may vary from office to office, but we are going to
23 give it the safest, most secure method, and if that requires
24 special training, then it does.

25 Q The question I had was how can provide this

1 special training once a mailer comes in with the mail?

2 A Well, you do it right then. There is somebody
3 there that is going to know how to do it or going to call
4 and find out how to handle it right then and there. It's
5 going to be done.

6 Q But in general, you agree that somewhere around
7 \$25,000 is probably the number where somebody would start
8 doing something.

9 A Not necessarily. Like I said, it varies by the
10 office.

11 I mean there might be rural -- you know, rural
12 offices in -- in very poor sections of the United States
13 where some business may move in, a jeweler or something, and
14 -- and start wanting to send high-value registered mail
15 articles, and people at the office may not be familiar with
16 it because they haven't had to handle anything like that
17 ever.

18 Q Where would you feel the 75-percent limit would
19 be, the 100 -- the 90-percent limit of value that, quote,
20 becomes "very high declared value"?

21 A I -- I couldn't guess. It -- it -- it would vary
22 by -- by office. The circumstance I gave you just a moment
23 ago --

24 Q Would it be fair to say that, for 99 percent of
25 the registered mail that's sent in this country, that \$5,000

1 would not be considered very high declared value?

2 A I don't know whether I could agree to that or not.
3 I -- I can -- I could -- I'd just like to add that the
4 interrogatory itself, what it was asking, was if there would
5 be any -- any -- anything that -- like training of employees
6 or this or that, any sort of additional items that -- that
7 the costs would be the same regardless of the declared
8 value, and I am just saying that, you know, declared --
9 higher declared values of -- of articles could require
10 training for employees; it's possible.

11 Q And what I'm -- what I'm attempting to do is get
12 your perception as the expert witness as to where that
13 dollar amount of value would -- would -- would be with some
14 level of explanation.

15 A Well, this was a cost question, and I'm not the
16 costing witness, but in -- you know, I -- it would just
17 depend on -- on the office itself as to how high value an
18 item they're used to handling, where -- where the office is
19 located, is it in a -- and is it a high-crime area? You
20 know, are they used to handling, you know, registered mail
21 above 5,000, above 10,000, whatever? I -- it -- it depends.

22 Q I walked into the Englewood post office with three
23 \$25,000 registered letters, and I was anxious to -- I was
24 glad I got there in one piece, but they just they just threw
25 them under the counter like everything else. So, I don't

1 understand.

2 All right.

3 In sub-part G, you go to extremely high declared
4 value. How would you characterize what "extremely high"
5 refers to?

6 A Oh. I -- extremely high could be anything over
7 \$25,000 up to wherever. I mean they go beyond 15 million,
8 you know, millions of dollars.

9 Q Okay. But less than 25 would not be extremely
10 high.

11 A For the purposes of that interrogatory sub-part,
12 no, I don't -- I wouldn't say that 25,000 would be
13 considered -- below 25,000 would be extremely high.

14 Q Okay.

15 How's about below \$25,000.01, below that, namely
16 that the 25,000 is still not considered extremely high?

17 A Well, you see, above 25,000, you're going to have
18 -- you have handling, you know --

19 Q I'm just trying to clarify that 25,000 is, in
20 fact, down with the lower half rather -- the break point is
21 just above 25,000 rather than just below 25,000.

22 A The break point of what?

23 Q Of being extremely high declared value.

24 A Well, it's more likely that above \$25,000
25 different methods are going to be employed to handle the

1 registered mail, but it's -- it's not impossible that, below
2 25,000, different methods would be employed to handle the
3 registered mail outside of, you know, the standard, you
4 know, postal employee hand-offs.

5 So, I can't really -- I mean I could say that,
6 because we insure up to 25,000 and we don't go beyond, that
7 anything beyond 25,000 would be extremely high.

8 Q Okay.

9 I was just trying to clarify specifically that the
10 rates at which we have insurance available for are all
11 considered not extremely high-value.

12 A Well, I -- I don't want to keep repeating myself,
13 but I really think it -- it depends -- it depends on the
14 circumstances of -- of the office accepting it, that sort of
15 thing.

16 Q Okay.

17 A They may employ other methods other than postal
18 employees in the -- the routine handling of registered mail
19 for items below 25,000. It depends on the office and the
20 situation, the circumstances surrounding it.

21 Q Okay, let's go to subparts S and T of that
22 interrogatory where we are concerned with how the value of a
23 registered article gets known beyond the window clerk.
24 Could you -- and your response, you pointed out that it has
25 a postage value on that and someone would look at it and

1 say, well, let's see, it's four ounces, I'll weigh it and
2 that's \$1.01. I subtract the \$1.01, it's got a return
3 receipt so I subtract \$1.10 and what's left is some number
4 which corresponds to the registry fee; is that correct?

5 A Correct.

6 Q Okay. What percentage of the registered mail that
7 is handled that way do you feel somebody is going to do
8 that?

9 A Handled what way?

10 Q In other words, what percentage -- in other words,
11 if we handle 100 million registered articles in a year, and
12 I don't know what the number is, I'm sure you have it there,
13 but out of that 100 million, how many do you feel some
14 employee down the road, you know, in transit or in delivery
15 is going to go through and play this calculation out to say,
16 okay, let me find out how much this article is worth, add up
17 all the value of the stamps or the PVI strip, weigh the
18 article, subtract the postage, subtract any special services
19 such as return receipt, come up with a registered value
20 amount and then go look in the chart and say, ah, \$7.45,
21 this article is worth between \$5,000 and \$6,000 or whatever
22 the numbers are? How many people are going to do that?

23 A I don't know. And, as I mentioned in subpart S,
24 no data exists on how many postal employees would calculate
25 in their heads what the declared value would be.

AFTERNOON SESSION

[2:00 p.m.]

CHAIRMAN GLEIMAN: Before we resume with cross examination of the witness by Mr. Popkin, I just want to mention that a -- a ruling has been issued with respect to OCA's motion to compel on certain information in connection with witness Treworgy.

Am I pronouncing the gentleman's name correctly? I hate to mispronounce names.

MR. HOLLIES: Treworgy, T-R-E-W.

CHAIRMAN GLEIMAN: Treworgy. Okay. Okay.

MR. HOLLIES: I was going to cover that later.

CHAIRMAN GLEIMAN: Well, I do -- I'm -- I'm issuing a blanket apology now, because for some reason that's a tough one for me.

In any event, copies of that ruling are on the table in the front of the room.

Also, earlier today, Mr. Popkin, you asked me whether we could accommodate you with respect to witness Sharkey, as I recall, tomorrow?

MR. POPKIN: Right.

CHAIRMAN GLEIMAN: And I -- I don't think you should plan on us being able to accommodate you. We've been looking at the witnesses and the cross examination, and we haven't had an opportunity to give anybody else notice about

1 changes in the lineup.

2 So, I think that the best we can offer you at this
3 point in time is that we'll have to play it by ear, and if,
4 tomorrow morning, other intervenors are willing to
5 accommodate you and if Mr. Sharkey is here earlier in the
6 day, then we'll see if we can make a switch, but right now,
7 if I were you and making plans, I would plan for the late
8 train or whatever it is that you're going to be taking to
9 get back home.

10 So, I'm sorry that we can't accommodate you, but
11 we have tried to group the witnesses you wanted to cross
12 examine in this two-day period, and that, in itself, made
13 life a tad more difficult than it might have otherwise been.

14 With that, why don't we pick up on cross
15 examination?

16 Whereupon,

17 SUSAN W. NEEDHAM,
18 the witness on the stand at the time of the recess, having
19 been previously duly sworn, was further examined and
20 testified as follows:

21 CROSS EXAMINATION [resumed]

22 BY MR. POPKIN:

23 Q Earlier today you referred to your Table 16,
24 stamped envelopes, on page 92 of your testimony?

25 A Okay.

1 Q And also, we have the request of the United States
2 Postal Service for a recommended decision on changes in
3 rates of postage and fees for postal services which has a
4 schedule -- a fee schedule 961.

5 A I don't have that with me.

6 CHAIRMAN GLEIMAN: Can we help the witness out,
7 Counsel?

8 MR. RUBIN: I have one copy. Can I quickly make a
9 copy of the page or --

10 CHAIRMAN GLEIMAN: I think --

11 MR. POPKIN: I have one simple question.

12 CHAIRMAN GLEIMAN: Well, perhaps --

13 MR. RUBIN: Okay. I'll --

14 CHAIRMAN GLEIMAN: Perhaps --

15 MR. RUBIN: Yes, I'll move up with the --

16 CHAIRMAN GLEIMAN: Yes, why don't you do that? If
17 it's just one simple quick question, maybe that's the best
18 way to handle it. Appreciate it.

19 BY MR. POPKIN:

20 Q Are these two the same?

21 A The proposed fees appear to be the same. I'm just
22 -- as I count them down.

23 Q Well, other than the fact that Table 16 has
24 percentage changes which do not appear in the Postal
25 Service's request.

1 A Right. In the current on Table 16, we don't list
2 separately the printing charge. That's one thing I have
3 noticed.

4 Q Well, what does "NA" mean under "proposed" for
5 printing charge?

6 A Not applicable.

7 Q What do you mean by "not applicable"? In other
8 words, that rate is no longer going to be in the fee
9 schedule.

10 A Right. It's not a fee above -- above plain. The
11 proposed fees listed in Table 16 are -- are the fees
12 including printed -- printing -- for printed.

13 Q Well, my -- my question is, on Table 16, you
14 present certain data, and the Postal Service has presented
15 certain data on attachment B at page 63, fee schedule 961,
16 both of which relate to the current and proposed fees for
17 stamped envelopes. Are they the same?

18 A As -- as far as I can --

19 Q As -- as corrected --

20 A As far as I can see, they appear to be the same.
21 The verbiage may be a little bit different.

22 Q Well, the -- let me rephrase the question, then.
23 If one were to establish prices to sell stamped envelopes to
24 the public after this rate case were to be approved, if it
25 is approved and, you know, whatever mechanics go through

1 there, could I use either sheet to determine how much to
2 charge?

3 A Yes.

4 Q And arrive at the same value?

5 A Yes.

6 CHAIRMAN GLEIMAN: Thank you, Mr. Rubin. You may
7 take your seat now.

8 I appreciate your help, sir.

9 BY MR. POPKIN:

10 Q One thing I want to clarify is what you have
11 identified as multi-colored envelopes.

12 A Where.

13 Q Pardon?

14 A Where have I defined --

15 Q You have used that term. In other words, if we
16 look at Fee Schedule 961, we have multi-color printing, 500,
17 6-3/4 size is \$14 from a current 10.50. Number 10 size is
18 \$15 from \$15.

19 CHAIRMAN GLEIMAN: I think you're going to have to
20 wait a moment because we are back to the schedule again.

21 MR. POPKIN: Well, it's not really the schedule,
22 it's for a definition of multi-color.

23 CHAIRMAN GLEIMAN: Fine. Let's let the witness
24 look at what it is you are referring to.

25 MR. POPKIN: Okay.

1 THE WITNESS: Okay. I've got the schedule back.
2 It's not -- I don't think I have multi-color in my testimony
3 on Table 16.

4 BY MR. POPKIN:

5 Q Okay, so that's one item that's not the same.
6 Which one are you expecting the Postal Rate Commission to
7 act on, Table 16 or the proposed Fee Schedule 961?

8 A Well, I don't see that there are any real
9 differences between the two.

10 Q Well, we just found one. In other words, the
11 price for multi-colored envelopes.

12 A Well, that's part of printing.

13 Q Well, the question I have, first of all, let's
14 backtrack. What are multi-colored envelopes, multicolored
15 stamped envelopes?

16 A Well, they're stamped envelopes with more than one
17 color to the stamp. Actually, what I believe you are
18 probably referring to I took out of -- I took out of today
19 the savings bond, which was currently 15. That would
20 have -- that would represent the 10-inch multi-color.

21 Q Well, you removed the savings bond question,
22 savings bond, from your Table 16.

23 A Right.

24 Q And you did also in your response to one of my
25 parts of Interrogatory 54 indicate that they are no longer

1 sold.

2 A Right, but it is part of -- it is in here listed
3 in the request, Fee Schedule 961, but they have now been
4 discontinued, so it is really not applicable anymore.

5 Q Okay. I am still trying to determine what
6 multi-colored are.

7 Let me give you two examples.

8 Suppose we have the standard 32 cent stamped
9 envelope that is being sold at every post office now. It
10 has a Liberty Bell and USA and 32 and one is printed in
11 green, one is printed in blue.

12 Is that a multi-colored envelope?

13 MR. RUBIN: Objection. That has been answered in
14 the response to interrogatories, 54-P, so the witness has
15 already answered that question.

16 CHAIRMAN GLEIMAN: Well, if the witness -- does
17 the witness have a response to Interrogatory 54-P in front
18 of her somewhere?

19 WITNESS: I do. Yes, I did answer that.

20 CHAIRMAN GLEIMAN: Well, why don't we just read
21 the answer real fast then. I don't have to flip around on
22 the computer and find it and read it myself.

23 WITNESS: The answer is, "Confirmed^{ed} that the Liberty
24 Bell is green and the USA 32 is blue." That is the
25 indication of the postage. "However, these envelopes are

1 not considered multi-color for purposes of the multi-color
2 fee. See my response to J."

3 And J is, "Not confirmed. Multi-color printing
4 refers to the envelope you describe in Part AA and AA is
5 multi-color. The space station stamped envelope is the only
6 hologram stamped envelope currently offered."

7 CHAIRMAN GLEIMAN: There is the answer to your
8 question. That is the definition.

9 MR. POPKIN: Okay.

10 BY MR. POPKIN:

11 Q In other words, just to clarify it then, the one
12 referred to in subpart AA is the one where they cut out a
13 rectangle or a square out of the white envelope and pasted
14 behind it a many-colored picture of something?

15 A That is the environmental stamped envelope.

16 Q Well, there have been a number of them.

17 A That has the cut-out --

18 Q There have been a number of them I remember, but
19 that -- the one that is in that format where they have cut
20 out a rectangle or some other shape out of the white
21 envelope and pasted something behind it, which was printed
22 in several different colors, that is the only one that this
23 multi-colored rate will apply to, is that true?

24 A That is the one that is considered multi-colored.
25 That is the only one we consider multi-colored.

1 Q Okay. In other words, any one that is strictly an
2 envelope with no cutouts, no nothing, just one folded piece
3 of paper glued together, regardless of the number of colors
4 that are physically used to prepare it --

5 MR. RUBIN: Objection. I think that your question
6 has already been answered. You are trying --

7 MR. POPKIN: I am just trying to confirm the other
8 half.

9 CHAIRMAN GLEIMAN: I think if you, when you look
10 at the transcript you will see that your question was
11 answered indeed, both here and perhaps in the interrogatory.

12 MR. POPKIN: Okay.

13 BY MR. POPKIN:

14 Q In Fee Schedule 961, where we refer to multi-color
15 printing, this -- the word "printing," does that relate back
16 to the printing of the stamp or the printing of the return
17 address or both?

18 A It refers to the environmental stamped envelope
19 and that is the fee for that stamped envelope.

20 Q Okay, so in other words, the fee, the proposed fee
21 of \$14 for 6 and three-quarter size and the proposed fee of
22 \$15 for Number 10 size would be for a box of 500 of the
23 environmental stamp without a return address being printed,
24 is that correct?

25 A No. No, that is with -- that is with the

1 printing, a printing of a return address or logo, whatever.

2 Q So in other words a plain envelope, the regular
3 envelope, printed, would be \$15 for a Number 10, and the
4 environmental type multi-colored one would also be \$15, is
5 that correct?

6 A That's correct.

7 Q And the 6-3/4 size of the multicolored one would
8 be \$14 printed and the regular one would be \$15 printed.
9 I'm sorry, it would be \$11.50 printed.

10 A Where exactly are you?

11 Q Printed it's \$15. On Fee Schedule 961 a regular
12 printed bulk --

13 A Yes, that's what it says here.

14 Q 6-3/4 size would be \$14, and the environmental one
15 would also be \$14.

16 A That's correct.

17 Q Does it cost more to -- what's the difference?
18 Why do we need two separate rates then?

19 A Two separate rates for what, the 6-3/4 and the
20 10-inch size?

21 Q No. We have a special rate here for multicolored
22 printing, and we also have a special rate here for printed
23 bulk envelopes, and they're both the same.

24 A Correct.

25 Q Why do we make the distinction? What is being

1 accomplished by making that distinction of adding in the
2 multicolored printed?

3 A Well, I won't say it's added in. This is the way
4 the fee schedule's been, and it's just explaining that the
5 fees -- I'm proposing that they be aggregated in this -- my
6 testimony, and it's part of the aggregation, but it's
7 showing the fee schedule as it's always been.

8 Q Okay. Using Schedule 961, what would the price be
9 for the multicolored envelope, you can use environmental
10 envelope if you like, which does not have a return address
11 printed on it?

12 A Well, the plain bulk for -- proposed for 6-3/4 is
13 \$8.50. Proposed for 500 -- excuse me, proposed for size 10
14 is \$11.50.

15 Q The cost of printing a 6-3/4 envelope, a box of
16 500, would be the \$14 for the printed minus the \$8.50 for
17 the regular or \$5.50?

18 A Now this was answered in an interrogatory
19 response, and I can't confirm that that's the cost of the
20 printing. That's the --

21 Q The cost to the mailer or the purchaser.

22 A Can you refer me to that interrogatory subpart?

23 Q Right.

24 A I know that's been asked.

25 Q That would be (f), and the next question will be

1 (g) .

2 A Okay.

3 Q Now is the added cost if I want to get printed
4 return address envelopes versus unprinted ones would cost me
5 as a mailer \$5.50 if they were 6-3/4 envelopes and \$3.50 if
6 they were other than 6-3/4.

7 A Correct.

8 Q Why is there a different -- why is there a greater
9 cost in getting the small ones printed than the large ones?

10 A Well, the fees for the stamped envelopes were
11 based on costs among other factors, and this is the proposed
12 fee for the printed over the plain 6-3/4 just happens to be
13 higher than the difference between the printed versus plain
14 10-inch.

15 Q Is that based on the cost of having it done?

16 A No, it's based on -- it's based on the -- not only
17 the costs of the stamped envelopes itself but other things
18 that went into consideration when doing the fee design,
19 other criteria.

20 Q Such as?

21 A Well, if you'll turn -- my testimony pages 95
22 through 98 discuss the fee design and the pricing criteria,
23 and I'm not sure how specific you want me to get here.

24 Q Well, which specific thing -- which specific line
25 refers to why the printing charge for small envelopes is

1 bigger than the printing charge for large envelopes?

2 A There's -- I have nothing in my testimony.

3 Q Okay. Can you provide any insight to that?

4 A All I really can provide here is just the way the
5 fees were developed based on the criteria, and the costs,
6 you know, being one of the criteria that were used.

7 Q Okay, in interrogatory or subpart WW.

8 A Okay.

9 Q Can you clarify your response? In your response
10 you said that Post Offices may receive one of each type of
11 advanced envelope prior to the rate increase. Is that still
12 your testimony --

13 A Yes.

14 Q That -- in other words, that the new envelopes,
15 whether it is the G envelopes that they sold beforehand or
16 the equivalent of the F envelopes before that and so on, are
17 not placed on sale to the public until after the effective
18 date of the rate increase?

19 A You said sold beforehand? I am not aware of
20 anything being sold beforehand but I am saying -- I said
21 that they, Post Offices, may receive an advance copy of a
22 new stamped envelope before a rate -- rate change takes
23 place.

24 Q The question I have is, can I, as a member of the
25 public, buy in this case let's say the new H stamp, H

1 envelope which I assume will come out, prior to the
2 effective date of the 33 cent rate? Based on --

3 CHAIRMAN GLEIMAN: Mr. Popkin, I would like you to
4 move on to another question. I don't think that that
5 question is relevant to the request for changes in rates and
6 fees, when it might become available for sale in a Post
7 Office. Unless you can explain to me --

8 MR. POPKIN: Well, it is the price that they will
9 charge for it. In other words, what's happening is that the
10 Post Office -- in the past rate cases, as far back as I can
11 remember, made these new envelopes available a week, two
12 weeks beforehand. And what's happening is that those Post
13 Offices are selling them at the new stamped envelope rate
14 and that's what I am trying to find out, why they do that.

15 CHAIRMAN GLEIMAN: That is not a matter of
16 relevance to the Postal Rate Commission. It is not under
17 the Postal Rate Commission's jurisdiction as to when and how
18 the Postal Service actually puts rates into effect or sells
19 stamps or stamped envelopes. That is not something that is
20 within our jurisdiction.

21 MR. POPKIN: Okay.

22 BY MR. POPKIN:

23 Q In response to interrogatory 15 and 16, you refer
24 to philatelic cards.

25 A I think those were objected to. I believe. Are

1 you speaking of your interrogatories 15 and 16?

2 Q Right.

3 A Yeah.

4 Q I don't hear an objection. So --

5 MR. RUBIN: Well, what are -- well, do you have a
6 response to 15 and 16 that you wish to -- that you can point
7 at?

8 BY MR. POPKIN:

9 Q The question I have is, if I have --

10 MR. POPKIN: May I show these to the witness?

11 MR. RUBIN: Well, it looks to me like he is
12 getting into the issues raised in interrogatory 16 and maybe
13 15 that there is a pending objection to. I don't think it
14 is appropriate to raise these questions at the hearing.

15 CHAIRMAN GLEIMAN: I'm afraid you are going to
16 have to move on and we are just going to have to see what
17 happens. I assume you filed a motion to compel which we
18 have not ruled on yet, or at least I don't recall having
19 ruled on it.

20 MR. POPKIN: Pardon?

21 CHAIRMAN GLEIMAN: I don't recall having ruled on
22 the motion to compel yet.

23 MR. POPKIN: No.

24 BY MR. POPKIN:

25 Q Okay, with respect to stamped cards, one question

1 I have relates to a point that came up where you said that
2 stamped cards have a very high value to the mailer, in fact
3 more than stamped envelopes in many cases.

4 Are there any reasons why a stamped envelope might
5 have a higher value to the mailer than a stamped card?

6 A Well, yes. It depends on the mailer but if the
7 mailer has something to put in that envelope and needs to
8 mail it, then a stamped envelope would be probably of a
9 higher value than a stamped card to that mailer as opposed
10 to just preparing the correspondence and sending it off with
11 the stamped card.

12 Q Is there a limited space available for
13 correspondence on a card?

14 A Sure.

15 Q Whereas one might expect far more space on an
16 enclosure in a stamped envelope, correct?

17 A Right, you are paying a higher postage rate, too,
18 I might add.

19 Q Sure.

20 A Sure.

21 Q What about the -- shall we say the security of the
22 mail as far as unauthorized people reading it?

23 A Well, with respect to First Class Mail, it is
24 sealed against inspection.

25 Q An envelope versus a card?

1 A Um-hum, true.

2 Q In other words, a card is sealed against
3 inspection?

4 A Well, a card is First Class Mail. So there is no
5 seal on it but --

6 MR. RUBIN: I have an objection that this is
7 beyond the scope of Witness Needham's testimony. It
8 seems -- she is proposing fees for the stamped mail envelope
9 and stamped card.

10 CHAIRMAN GLEIMAN: Well, let me say first of all I
11 think you are asking for a legal conclusion. You are asking
12 for a legal interpretation of what's sealed against
13 inspection. But in point of fact, as I understand the law,
14 a First Class post card is sealed against inspection. If a
15 Postal employee were to turn the card over and read the
16 message, the postal employee would be liable for violating
17 the law in the same sense that a Postal employee would be
18 liable if he were to open an envelope.

19 Likewise, if one wants to obtain, for example, a
20 law enforcement agency wants to obtain access, they have to
21 get a warrant approved before they can have access to post
22 cards, in the same sense as letters, sealed envelopes. So
23 that should answer your question but it is beyond the scope
24 of this witness' testimony.

25 MR. POPKIN: Okay.

1 BY MR. POPKIN:

2 Q All right. Certified Mail. Can you confirm that
3 some mailers may be interested in knowing that there was an
4 independent person, agency, who delivered this and got the
5 receipt for the Certified letter that was delivered?

6 A Perhaps.

7 Q Well, that's one reason it could exist?

8 A Sure.

9 Q Could some mailers be interested in ensuring that
10 we have an accurate date of delivery?

11 MR. RUBIN: Objection. I mean, these questions
12 sound like they are the same as questions that we have
13 already asked and answered in your written interrogatories.

14 CHAIRMAN GLEIMAN: Mr. Rubin, can you point us to
15 the interrogatory responses in question?

16 And, Mr. Popkin, if these are followup to
17 responses that you got rather than just repeating the
18 interrogatories, if you could explain that?

19 Well, while you're scurrying around, why don't we
20 get a few questions asked and if you can come up with the
21 interrogatory, then we will interrupt and take it from
22 there.

23 Mr. Popkin, why don't you go ahead.

24 BY MR. POPKIN:

25 Q All right, we'll get back to -- on Certified Mail,

1 one of the questions I asked was to what extent will mail
2 processing facilities and/or delivery offices have the
3 ability to trap a certified letter?

4 A Which interrogatory was that, do you know?

5 Q I don't have that handy.

6 A I don't believe I answered that one.

7 Q I believe someone else did answer it.

8 CHAIRMAN GLEIMAN: Well, if you've got an answer
9 to it, you've got an answer to it from someone else. Let's
10 rely on --

11 MR. POPKIN: Well, the answer was that it doesn't
12 exist.

13 CHAIRMAN GLEIMAN: Well, if that's the answer,
14 that's the answer.

15 MR. POPKIN: Okay, all right.

16 MR. RUBIN: Yeah, on the independent third party
17 issue, I am finding there are related questions that Witness
18 Plunkett answered. I am not sure that Witness Needham
19 addressed this.

20 MR. POPKIN: And he's the one who is dealing with
21 return receipt. I specifically said for a certified letter
22 only.

23 CHAIRMAN GLEIMAN: If that's the case, put these
24 questions off until Witness Plunkett gets here. If Witness
25 Plunkett is the proper party to answer those questions --

1 MR. POPKIN: No, he is the return receipt party.

2 But this is for a certified letter without a return receipt.

3 CHAIRMAN GLEIMAN: Do we have a party who deals
4 with that?

5 MR. RUBIN: Witness Needham can try to respond.

6 CHAIRMAN GLEIMAN: To the extent you're capable,
7 let's move ahead.

8 BY MR. POPKIN:

9 Q Are there some mailers who are -- would find it of
10 value to have an accurate date on the -- in the Post Office
11 records for the delivery records?

12 A Yes, I'm sure there -- sure there would be. I
13 know of no reason why there wouldn't be an accurate date.

14 Q Okay.

15 A Would not be.

16 MR. POPKIN: Okay, I have no further questions.

17 CHAIRMAN GLEIMAN: Thank you.

18 Thank you, Mr. Popkin.

19 Is there any followup?

20 [No response.]

21 CHAIRMAN GLEIMAN: Followup questions from the
22 Bench? I have a very few questions from the Bench.

23 Ms. Needham, on special handling, maybe you can
24 help me out. I understand that the base year volume for
25 special handling was somewhere in the vicinity of 67,000

1 pieces?

2 THE WITNESS: That's correct.

3 CHAIRMAN GLEIMAN: That's a drop of about 72
4 percent from the preceding year?

5 THE WITNESS: Correct.

6 CHAIRMAN GLEIMAN: And despite the fact that there
7 is a drop from the preceding year of 72 percent, for the
8 test year you have an increase in volume before rates?

9 THE WITNESS: yes.

10 CHAIRMAN GLEIMAN: From 67 to 75,000 pieces?

11 THE WITNESS: Correct.

12 CHAIRMAN GLEIMAN: Can you explain why that would
13 happen, given what I understand has been a rather -- a long
14 history of rather precipitous drops in special handling?

15 THE WITNESS: Well, I believe that the fee
16 increase which took place for -- the special handling fee
17 increase as a result of Docket R94-1 went into effect
18 January 1, 1995, which I think would explain the large drop
19 from '95 to '96. Going from '96 to the test year before
20 rates, it -- since we have no volume forecasts specifically
21 for special handling mail, the only way to estimate any type
22 of test year volumes is to use that -- use the volumes that
23 are assigned to -- that special handling is a part of, such
24 as standard mail A, standard mail B.

25 CHAIRMAN GLEIMAN: So you just used volume growth

1 in standard mail generally as a proxy despite the fact, for
2 example, that in 1970 there were 15 million pieces of
3 special handling mail and in 1995 there were 115,000 pieces,
4 ballpark?

5 THE WITNESS: Correct.

6 CHAIRMAN GLEIMAN: Okay.

7 The unit cost for special handling has tripled
8 since the R94 case. Do you think that is a real increase in
9 cost or is it indicative of the fact that this is an
10 extraordinarily small sample?

11 THE WITNESS: No, I believe that it is fairly
12 indicative. This is a pretty costly service, I believe,
13 that had been under-costed prior to that. And I think that
14 it's somewhat accurate.

15 CHAIRMAN GLEIMAN: So you don't think it was due
16 to a tripling of the wages of people who handle special
17 service -- special handling? You think it was just --

18 THE WITNESS: No.

19 CHAIRMAN GLEIMAN: Is there anywhere else because
20 of something that was underpriced as a result of some
21 confusion over the actual cost where you have had increases
22 of over 200 percent, are you aware that you are proposing a
23 200 percent, 220 percent increase here?

24 THE WITNESS: Right. Not that I'm aware of.

25 CHAIRMAN GLEIMAN: I will pick out the wrong B but

1 one of the B's says that you have to take into account the
2 sticker shock, so to speak. Have you taken that into
3 account in establishing a fee that increases by 220 percent?

4 THE WITNESS: Yes. That's why I didn't propose
5 anything really much higher than what would cover the costs
6 because I realize that there are special handling mailers
7 out there that do -- do need this.

8 CHAIRMAN GLEIMAN: If I asked you to round the
9 number .8 to a whole number, what would you round it to?

10 THE WITNESS: 1.0, one.

11 CHAIRMAN GLEIMAN: And what kind of an increase
12 percentagewise would that be from the actual number to the
13 rounded number?

14 THE WITNESS: 25 percent.

15 CHAIRMAN GLEIMAN: Okay. I have no further
16 questions.

17 Commissioner Haley.

18 COMMISSIONER HALEY: Good afternoon, Ms. Needham.

19 THE WITNESS: Good afternoon.

20 COMMISSIONER HALEY: In part 5 of your testimony
21 on page 102 you refer to a proposed reorganization of the
22 Special Services Section of the Domestic Mail Classification
23 Schedule. Can you tell me whether you or the Service have
24 considered categorizing the hazardous-material surcharge as
25 a special service? It appears to me that that could be

1 considered a form of special handling, which has always been
2 classified as special service.

3 THE WITNESS: I agree with you. I do not know
4 personally whether that would -- if the fee is approved
5 would go into something under -- which one of these
6 categories it would be into. Maybe parcel handling or
7 something with respect to the categories. I'm not sure, but
8 I agree that it's -- to me is similar in nature to special
9 handling.

10 COMMISSIONER HALEY: Okay. Thank you. I think
11 that the matter's very worth pursuing, and I wanted to know
12 how you felt about it. Okay?

13 THE WITNESS: Thank you.

14 COMMISSIONER HALEY: All right. Thank you.
15 That's all.

16 CHAIRMAN GLEIMAN: Commissioner LeBlanc.

17 COMMISSIONER LeBLANC: Ms. Needham, just a
18 clarification for me. On the stamped cards, you went up
19 2-cent fee per stamped card, right?

20 THE WITNESS: Correct.

21 COMMISSIONER LeBLANC: And if I understand that
22 right, that gives you a cost coverage of 254 percent; right?

23 THE WITNESS: Correct.

24 COMMISSIONER LeBLANC: Why not just go up 1 cent?
25 Because if my calculations are right, that's 125 percent

1 cost coverage.

2 THE WITNESS: Well, the way I had determined it
3 was pretty close to being exactly one penny for the cost,
4 and the next -- in order to make a contribution above the
5 cost in my testimony that's why I proposed to go up another
6 penny, since we're dealing with such a -- you know, one
7 penny here makes a big difference in the cost coverage.

8 COMMISSIONER LeBLANC: Well, didn't you cover your
9 manufacturing costs and everything else on one cent?

10 THE WITNESS: You do cover costs. You don't make
11 any contribution really.

12 COMMISSIONER LeBLANC: And the last question is
13 that on the money orders we proposed 111-percent in '94 if
14 my memory serves me right, check and so forth. You've got a
15 cost coverage of 203, and yet you didn't change any of the
16 fees. Why?

17 THE WITNESS: Well, that's perhaps because the
18 cost coverage was calculated not using the revenue -- all of
19 the revenue that goes into money orders. If -- aside from
20 the fee revenue, the revenue just strictly from the fees,
21 there's also revenue associated with interest on the income
22 until the money order's cashed.

23 COMMISSIONER LeBLANC: Um-hum.

24 THE WITNESS: There's revenue from unredeemed
25 money orders. And there's also revenue from commissions on

1 international money orders.

2 COMMISSIONER LeBLANC: So that's your increase?

3 THE WITNESS: Exactly.

4 COMMISSIONER LeBLANC: Okay. Thank you very much.

5 THE WITNESS: Thank you.

6 COMMISSIONER LeBLANC: Thank you, Mr. Chairman.

7 CHAIRMAN GLEIMAN: Ms. Needham, I need to ask you
8 another question. I apologize. But I'll try not to prolong
9 things. On the COD charges you propose raising them 50
10 cents across the board basically to maintain the current
11 relationship. Do I understand correctly that there's no
12 real cost base for these fees as current -- as proposed or
13 as currently employed?

14 THE WITNESS: Well, we have a total cost for COD,
15 but not individually by value level.

16 CHAIRMAN GLEIMAN: Okay. Is there any reason to
17 believe that the cost of COD actually bears some
18 relationship to the value of the materials being delivered
19 or the items being delivered?

20 THE WITNESS: Well, I think in terms of collecting
21 the money, particularly if it's cash, it is more costly to
22 collect higher sums of cash than -- just from personal
23 experience I remember you try to get COD payments and people
24 kind of well, hold on, let me go grab some money out of the
25 cookie jar, oh, wait a minute, I need to get a little more

1 from here and there. So you could be standing waiting at
2 somebody's door for, you know, five minutes or more while
3 they're trying to pull together the money to pay for it.

4 CHAIRMAN GLEIMAN: But that could be the same for
5 \$50 that someone didn't anticipate having to come up with on
6 a moment's notice as opposed to \$600.

7 THE WITNESS: Yes, but I think it's -- personally
8 I feel it's more likely the higher the amount.

9 CHAIRMAN GLEIMAN: But there's no actual study
10 that shows any relationship with the time?

11 THE WITNESS: No.

12 CHAIRMAN GLEIMAN: Okay. Thank you very much.

13 THE WITNESS: Thank you.

14 CHAIRMAN GLEIMAN: Is there any followup as a
15 consequence of questions from the bench?

16 FURTHER CROSS EXAMINATION

17 BY MR. CARLSON:

18 Q Just one question. I'd like to follow up on
19 something that Commissioner LeBlanc just mentioned. Do you
20 believe that the 254-percent cost coverage that's proposed
21 for stamped cards is sufficient?

22 A I believe it's sufficient for the service.

23 Q Are you familiar with Interrogatory DFC
24 USPS-T-5-2(b), Attachment 1, where the total processing cost
25 plus manufacturing cost for postal cards in fiscal year 1996

1 was 7.6 cents?

2 A No. I mean, I'm not familiar with that
3 interrogatory response.

4 Q So if the manufacturing costs and processing costs
5 for postal cards were in fact 7.6 cents, and it were to cost
6 23 cents for a person to purchase a stamped card if the
7 proposals in this case were approved, we'd have a cost
8 coverage of approximately 303 percent? If the math works
9 out. Does it make sense that if the cost is 7.6 cents and
10 the person has to pay 23 cents that the cost coverage would
11 in fact be 303 percent?

12 A This has to deal with the rate. Mine is strictly
13 dealing with the fee. That's the rate for a stamped card.

14 Q Okay. Thank you.

15 A Thank you.

16 CHAIRMAN GLEIMAN: Any other followup?

17 [No response.]

18 CHAIRMAN GLEIMAN: If there is none, that brings
19 us to redirect.

20 Do you want some time with your witness?

21 MR. RUBIN: Yes. Can we have 10 minutes?

22 CHAIRMAN GLEIMAN: You've got 10 minutes.

23 [Recess.]

24 CHAIRMAN GLEIMAN: Mr. Rubin?

25 Let's buzz everybody and let the know.

REDIRECT EXAMINATION

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BY MR. RUBIN:

Q Chairman Gleiman asked about special handling volumes and costs. As the special handling fee goes up and the volumes go down, might there be a level at which the volume would stabilize?

A I -- I believe so. As the -- as the fee goes up -- and the fee took a very large jump, a 200-percent increase, as a result of docket R94-1 -- you would tend to move out -- you would move the -- the less costlier pieces of special handling and then you'd be left with the really costly live animals.

Q So, the --

A So, the --

Q So, the --

A I -- I believe that the -- the -- right now, it's -- you know, the mailers that are going to ^{be} left are the -- the -- the ones that have the costlier special handling that need to -- that need to use it for the -- for the honeybees, the -- the baby chicks, and that's probably flattened out now, as the other ones have -- have diverted to -- as the other mailers who would have typically used special handling for whatever have -- have gone -- gone elsewhere.

Q Thank you.

Commissioner LeBlanc asked you about the

1 254-percent cost coverage you present for stamped cards. Do
2 you believe that the costs underlying that cost coverage are
3 typical of the past few years' manufacturing costs for
4 stamped cards?

5 A No. Actually, as was presented in docket number
6 MC96-3, for quite some time, historically, the costs were in
7 excess of a penny, manufacturing costs for -- for stamped
8 cards.

9 In my -- in my testimony, I used the test year
10 manufacturing costs and I used the FY '96 base year volume,
11 because the volume that has been forecast appeared to be
12 very high, and I didn't -- it -- it didn't look like an
13 accurate volume.

14 I couldn't really get an explanation for why the
15 forecast volume was so -- so high the test year after rates.
16 So, that's why I, in -- in calculating my cost, ended up
17 with one penny using -- using '96 base year volume with the
18 test year manufacturing costs.

19 MR. RUBIN: Thank you. I have no more questions.

20 THE WITNESS: Thank you.

21 CHAIRMAN GLEIMAN: Is there any followup as a
22 consequence of redirect?

23 Mr. Carlson?

24 MR. CARLSON: One question.

25 BY MR. CARLSON:

1 Q You testified that, in previous years, the
2 manufacturing costs for stamped cards was, quote, "in excess
3 of a penny," end quote. Is it true that, in MC96-3, the
4 cost was approximately 1.175 cents?

5 A Correct.

6 MR. CARLSON: Thank you.

7 I have nothing further.

8 CHAIRMAN GLEIMAN: Is there any further followup
9 as a consequence of redirect?

10 [No response.]

11 CHAIRMAN GLEIMAN: If there is, then I want to
12 thank you, Ms. Needham. We appreciate your appearance here
13 today and your contributions to our record, and if there's
14 nothing further, you're excused.

15 THE WITNESS: Thank you.

16 CHAIRMAN GLEIMAN: And just let me say as we close
17 out the part of the hearing where we're dealing with special
18 handling, so that we can lighten things up a little bit for
19 -- for the day, that a woman in the admin office caught me
20 the other day as I handed her a stack of letters that we've
21 received that are on their way into the commenter file from
22 the poultry industry, and she said did you ever wonder where
23 that saying, the chick is in the mail, came from? Now we
24 know.

25 Thank you, Ms. Needham.

1 [Witness excused.]

2 CHAIRMAN GLEIMAN: Mr. Tidwell, I guess you've got
3 the next witness?

4 MR. TIDWELL: Postal Service calls Michael W.
5 Miller to the stand.

6 CHAIRMAN GLEIMAN: Mr. Miller, can I catch you
7 before you sit down?

8 MR. MILLER: Sure.

9 CHAIRMAN GLEIMAN: Would you raise your right
10 hand, please?
11 Whereupon,

12 MICHAEL W. MILLER,
13 a witness, was called for examination by counsel for the
14 United States Postal Service and, having been first duly
15 sworn, was examined and testified as follows:

16 CHAIRMAN GLEIMAN: Please be seated.

17 MR. TIDWELL: OCA and the Postal Service have
18 united on -- on this issue.

19 CHAIRMAN GLEIMAN: On more than one occasion,
20 they've united, as I recall.

21 DIRECT EXAMINATION

22 BY MR. TIDWELL:

23 Q Mr. Miller, on the table in front of you is two
24 copies of a document entitled "The Direct Testimony of
25 Michael W. Miller on behalf of the United States Postal

1 Service." It's been designated as USPS-T-23 for purposes of
2 this proceeding.

3 Was that document prepared by you or under your
4 supervision?

5 A Yes, it was.

6 Q And if you were to give that -- the testimony in
7 that document today orally, would that testimony be the
8 same?

9 A Yes, it would. Oh, with one exception, I'm sorry.
10 I'm sorry. There was one exception to my testimony.

11 In Exhibit B, on page 13 -- in Exhibit B, on page
12 13, if you look under number six, accept and upgrade rates,
13 the very last rate for MPBCS/DBCS acceptance specifies the
14 source as library reference H-11 -- or, I'm sorry, H-130,
15 and it should be changed to H-113.

16 Q And is that the only correction to your testimony?

17 A Yes, it is.

18 MR. TIDWELL: Mr. Chairman, with that, we would
19 move into evidence the direction testimony of Mr. Miller.

20 CHAIRMAN GLEIMAN: Is there any objection?

21 [No response.]

22 CHAIRMAN GLEIMAN: Hearing none, Mr. Miller's
23 testimony and exhibits are received into evidence, and I
24 direct that they'll be accepted into evidence, and as is our
25 practice, they will not be transcribed into the record.

1 [Direct Testimony of Michael
2 W. Miller, Exhibit No.
3 USPS-T-23 was marked for
4 identification and received
5 into evidence.]

6 CHAIRMAN GLEIMAN: By the way, Mr. Tidwell, if you
7 ever decided that you wanted to take up permanent residence
8 on that side of the room, we would not be upset.

9 Mr. Miller, have yo had an opportunity to examine
10 the packet of designated written cross examination that was
11 made available to you earlier this morning?

12 THE WITNESS: Yes, I have.

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

16 THE WITNESS: Yes, with two exceptions.

17 In -- in the first case, OCA interrogatory number
18 three, the second sentence in my response should state, this
19 figure was taken from United States Postal Service library
20 reference H-113, and -- and in the second case, in OCA
21 interrogatory number four, the first sentence should read
22 United States Postal Service library reference H-113 did not
23 analyze MPBCS/DBCS rates based on specific mail types.

24 MR. TIDWELL: The Postal Service would note that
25 the witness just basically is correcting errors in three

1 instances, one in the testimony, two in the interrogatory
2 responses, where he inadvertently referred to one one and he
3 inadvertently referred to one three zero instead of one one
4 three, and we have made the corrections in pen to the
5 designated interrogatory packages.

6 CHAIRMAN GLEIMAN: If you could please provide
7 those copies to the Reporter, I will direct that they be
8 accepted into evidence and transcribed into the record at
9 this point, and I apologize to you, Mr. Tidwell. Our
10 microphone problem has robbed us of our standup mike. I
11 don't mean to inconvenience people that way.

12 [Designation of Written
13 Cross-Examination of Michael W.
14 Miller was received into evidence
15 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 MICHAEL W. MILLER
(USPS-T-23)

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


Party

Answer To Interrogatories

Office of the Consumer Advocate

OCA\USPS: Interrogatories T23-3-7.
BUG\USPS: Interrogatories T23-1-13.
DFC\USPS: Interrogatories T23-1-9.
NAA\USPS: Interrogatories T23-1 and 2.

Respectfully submitted,



Margaret P. Crenshaw
Secretary

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-1. On page 3 (Lines 8-10) of your testimony you indicate that you measured Prepaid Reply Mail ("PRM") cost savings "up to the point where PRM and a handwritten First-Class reply letter receives its first barcoded sortation on a BCS." Does this mean that your models disregard any additional cost savings that PRM provides after the outgoing primary sort? Please explain any no answer.

RESPONSE:

The models themselves did not include any additional cost avoidance beyond the first barcoded sortation. However, I attempted to account for this additional cost avoidance through the application of the First-Class non-carrier route presort CRA adjustment factor as developed by USPS witness Hatfield (USPS-T-25). As stated in my testimony (page 9, lines 8-11), "The application of this factor is appropriate since the models do not consider some elements which would have contributed to further increasing the cost avoidance. These elements include: bin capacity constraints, barcoding limitations, REC keying errors, system failures, and REC productivity."

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-2. On page 3 of your testimony you discuss the Advanced Facer Canceler System (AFCS) operation that culls, faces, cancels, and sorts collection letters. What is the productivity and unit cost to perform this function?

RESPONSE:

The costs related to AFCS cancelation operations would be the same for both a handwritten reply mail piece and a Prepaid Reply Mail piece. As a result, these costs were not included in my testimony. Furthermore, I am not aware of any study that has been conducted to identify the costs associated with AFCS operations.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-3. On pages 8 and 9 of your testimony you discuss how you reconciled your model costs to the CRA. For PRM you applied the First-Class Non-Carrier Route Presort CRA adjustment factor of 1.1586.

- (a) Please refer to Exhibit USPS-T-23D. How did you obtain your adjustment factor of 1.1586 for handwritten letters? Please explain your answer.
- (b) Did you apply a "fixed" cost adjustment factor to each of your model costs, in the same way that USPS witness Hatfield did? (See USPS-25A, page 1). If so, please explain. If not, please explain why not.

RESPONSE:

The testimony included on pages 8 and 9 did not actually reconcile my model costs to actual CRA data for First-Class single-piece mail. It was not possible to perform this calculation due to the fact that full-scale models could not be created. The First-Class non-carrier route presort CRA adjustment factor of 1.1586 was applied as an alternative to account for the fact that some elements were not modeled which could have contributed to further increasing the cost avoidance (page 9, lines 8-9).

- (a) The adjustment factor used for handwritten letters was the same factor that was used for PRM. In both cases the First-Class non-carrier route presort CRA adjustment factor (see USPS-25A, page 1) was used.
- (b) A "fixed" cost adjustment factor was not applied to the model costs for either the handwritten reply mail benchmark or PRM because it would not have affected the magnitude of the cost avoidance.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-4. On page 9 of your testimony, you note that your models assume that handwritten and prebarcoded letters are processed to the same depth of sort. Do you agree that if PRM can be sorted to the addressee in fewer sorts than handwritten letters, such an assumption causes you to understate the derived PRM cost savings? Please explain any no answer.

RESPONSE:

Although it was not explicitly stated in this section of my testimony (page 9, lines 12-13), I was referring to handwritten and prebarcoded "reply" mail pieces. Given that fact, I agree that these savings might have been understated were a PRM mail piece to be finalized in fewer sortations than a handwritten reply mail piece. I do not, however, agree that this situation would actually occur. The point at which a mail piece is finalized is dictated by mail volume. A high volume reply mail recipient would receive the same total volume whether households used preapproved, prebarcoded reply envelopes or handwritten reply envelopes. Therefore, the mail pieces in both scenarios should both be finalized at the same point in time (e.g., the first barcoded sortation, the second barcoded sortation, etc.).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-5. On pages 9 and 10 of your testimony, you discuss barcode percentages, REC keying errors, system failures, and REC productivity. Do you agree that for each of these situations, your models tend to understate the cost differences between PRM letters and handwritten reply letters. Please explain any no answer.

RESPONSE:

Yes. However, I attempted to account for the impact these situations might have had on the cost avoidance through the application of the First-Class non-carrier route presort CRA adjustment factor.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-6. USPS witness Fronk testified that PRM recipients will need to receive a certain "break-even" volume such that the unit postage savings will offset the monthly accounting fee charges. (See USPS-T-32, page 43.) Witness Fronk used a break-even volume of 200,000 pieces annually in his Workpaper III

- (a) Do you agree with USPS witness Fronk that recipients who wish to join the PRM program are likely to receive significant volumes of mail? Please explain any no answer.
- (b) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to be assigned their own 5-digit ZIP code destination? Please explain any no answer.
- (c) Do you agree that PRM recipients who receive mail in "bulk" quantities, if they are not assigned their own unique 5-digit ZIP code, are likely to be assigned their own 9-digit ZIP code destination? Please explain any no answer.
- (d) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to obtain a final sort to addressee in the incoming secondary sort and by-pass the carrier sequencing operations? Please explain any no answer.
- (e) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to obtain a final sort to addressee in the incoming primary sort and by-pass the incoming secondary sort and carrier sequencing operation? Please explain any no answer.
- (f) Do you agree that PRM recipients who receive mail in "bulk" quantities, particularly if the mail is local, are likely to obtain a final sort to addressee in the outgoing primary sort and by-pass the incoming primary, incoming secondary, and carrier sequencing operations? Please explain any no answer.
- (g) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to have their mail addressed to a post office box rather than have their mail delivered by a carrier? Please support your answer.
- (h) What proportion of advance deposit Business Reply Mail is currently addressed to a post office box?
- (i) USPS witness Hume testified that First-Class letters cost about 5 cents to deliver. (See USPS-18A, page 6 (Line 16, Column I)). Do you agree that PRM letters delivered in "bulk" quantities and which are addressed to post office box will save the Postal Service a delivery cost of about 5 cents? Please explain any no answer.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

- (j) Can you confirm that your models do not measure any cost savings for PRM which might result from PRM being delivered in "bulk" quantities and to a post office box (or firm holdout)? If not, please explain.

RESPONSE

- (a) Yes.
- (b), (c) I do not know the percentage of mail recipients that are assigned either a 5-digit or 9-digit ZIP code destination, nor am I familiar with how those assignments relate to mail volume.
- (d), (e), (f) It is expected that PRM will be finalized in either the incoming secondary, incoming primary, or outgoing primary operation based on mail volume.
- (g) I would agree that large volume mail recipients would be more likely to have their mail delivered to a post office box rather than have their mail delivered by a carrier.
- (h) I do not know the percentage of BRM that is addressed to a post office box.
- (i), (j) My testimony measures the mail processing cost avoidance only. However, the inclusion of delivery costs in my testimony would not have affected the cost avoidance as the same manner of delivery would have been used for both the handwritten reply mail piece and the PRM mail piece.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-7. It is our understanding that, by definition, PRM will never receive free forwarding at the proposed PRM rate of 30 cents.

- (a) Do you expect that PRM will ever receive forwarding? If yes, please explain how this will be accomplished and the rationale for allowing this mail to be forwarded with the recipient being charged only 30 cents.
- (b) Does a handwritten reply letter receive free forwarding and return service? Please explain any no answer.
- (c) Please confirm that your models do not measure any cost difference or cost savings resulting from handwritten reply letters getting forwarded and PRM never receiving forwarding? Please explain any no answer.
- (d) Please confirm that your models do not measure any cost savings resulting from handwritten reply letters requiring use of the central mark-up system to print forwarding addresses and PRM never requiring use of this system? Please explain any no answer.
- (e) Can you quantify any savings that PRM provides since this mail will not incur forwarding or central mark-up charges? Please provide support for your answer.

RESPONSE

- (a) I do not know how often PRM will require forwarding and am not familiar with the basis for your understanding.
- (b) Yes. Like other First-Class mail pieces, handwritten reply mail pieces do not incur any additional charges for forwarding and return services.
- (c) Confirmed.
- (d) I am aware of no basis for attempting such a measurement.
- (e) See my response to (a).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-8. Please confirm that your models do not measure any cost savings caused by handwritten reply letters incurring window service costs for mailing and stamp sales whereas PRM does not? Please explain any no answer.

RESPONSE:

Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-9. You list the productivities that you used as inputs to your model in EXHIBIT USPS-T-23-B.

- (a) Please confirm that you adjusted upward the actual productivities, in a manner similar to that employed by USPS witness Hatfield (see USPS-T-25, pp. 8-10) to reflect the Postal Service's proposed cost methodology whereby USPS labor costs are not 100% attributable? If you cannot confirm, please explain.
- (b) Did you perform your analysis using actual (unadjusted) productivities? If so, please provide those results.
- (c) If your answer to part (b) is no, please confirm that had you used the unadjusted productivities, the cost savings derived for PRM would be higher?
- (d) If your answer to part (b) is no, please provide the unadjusted productivities for each of the operations included in your cost models.

RESPONSE:

- (a) With the exception of the REC keying productivity, my models use the same productivity inputs as USPS witness Hatfield (USPS-T-25, page 8, lines 23-24) which "show volume variabilities for certain mail processing operations that are less than 100 percent." The REC keying operation was determined to be a 100% volume variable operation. Therefore, there is no difference between the actual productivity and the volume variable productivity.
- (b) No.
- (c) Confirmed.
- (d) This information can be found in USPS LR-H-113, p. 100, column E.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-10. Under the Postal Service's PRM proposal postage is to be paid by advanced deposit account.

- (a) Will any interest be paid on excess funds kept in PRM advance deposit accounts?
- (b) If your answer to part (a) is no, will the Postal Service experience a financial benefit from excess postage being kept in PRM advance deposit accounts?
- (c) If your answer to part (b) is yes, can you quantify any financial benefit that the Postal Service will enjoy from excess postage being kept in PRM advance deposit accounts? Please provide support for your answer.

RESPONSE:

- (a) I am not familiar with the specific requirements of advanced deposit accounts or what would be considered "excess" funds.
- (b) See response to (a).
- (c) See response to (a).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-11. Please refer to your responses to BUG/USPS-T23-4 and 6. Please confirm that your model examines the cost differences between two pieces of reply mail, one hand-addressed and the other prebarcoded and automation compatible. In addition, each of these pieces includes all of the cost savings attributes exhibited in general of reply mail pieces that are delivered to a recipient in very large quantities. If you cannot confirm, please explain.

RESPONSE:

My testimony measures the mail processing cost avoidance between a preapproved, prebarcoded reply mail piece and a handwritten reply mail piece. The delivery attributes would have been the same for both mail pieces and were not included in my testimony as they would not have contributed to further increasing the magnitude of the cost avoidance.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-12. Please refer to your responses to BUG/USPS-T23-1,3 and 5:

(a) Is the reason why you applied USPS witness Hatfield's First-Class non-carrier route presort CRA adjustment factor of 1.1586 (See Exhibit USPS-25A, page 2.) (1) to account for bin capacity constraints, barcoding limitations, REC keying errors, system failures, and REC productivity, or (2) to account for other variable costs that your (and Mr. Hatfield's) cost models do not pick up but which contribute to further increasing the cost avoidance, or (3) both (1) and (2). If your answer is not (3), please explain.

(b) Do you agree that Mr. Hatfield's First-Class non-carrier route presort CRA adjustment factor of 1.1586 was derived "to account for the difference in cost between the benchmark (CRA unit cost) and the models"? (USPS-T-25, p.5). If not, please explain.

(c) Do you agree that when Mr. Hatfield derived his First-Class non-carrier route presort CRA adjustment factor of 1.1586, he measured CRA cost pools for First-Class non-carrier route presorted letters. If you do not agree, please explain.

(d) During the Base Year in this proceeding, what percentage of First-Class non-carrier route presorted letters had handwritten addresses? Please provide a source for your answer or estimate.

(e) Please identify which cost pools shown in USPS-T-25 Appendix V, p. 3 are affected by letters that have handwritten addresses.

(f) Please identify where in Mr. Hatfield's cost models he measured costs associated with handwritten addressed letters whose costs are affected by bin capacity restraints, barcoding limitations, REC keying errors, RBCS system failures and REC productivity.

RESPONSE:

(a) I did not develop full-scale models because single piece density information was not available at the time of the filing. Therefore, I was not able to compare the model costs to single piece CRA unit costs. I applied the First-Class non-carrier route presort CRA adjustment factor to show that, had full-scale models been developed, there would have been differences between the model costs and the CRA costs. Some of the reasons why these cost differences might have occurred include: bin capacity constraints, barcoding limitations, REC keying errors, system failures, and REC

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY

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productivity. The cost avoidance would have decreased from 4.016 cents to 3.466 cents were the CRA adjustment factor not to have been applied.

(b) Yes.

(c) Yes.

(d) I am not aware of any study that has attempted to analyze the amount (if any) of First-Class non-carrier route presort mail pieces that might contain handwritten addresses. By applying the First-Class non-carrier route presort CRA adjustment factor, I was not attempting to imply that mail pieces within this rate category had handwritten addresses. I was trying to illustrate the general concept that there will always be a difference between mail processing model costs and CRA unit costs. CRA adjustment factors can be used to account for those differences. Since I was not able to develop a single piece CRA adjustment factor, I used the First-Class non-carrier route presort adjustment factor to estimate any possible differences. The cost avoidance would have decreased from 4.016 cents to 3.466 cents were the CRA adjustment factor not to have been applied.

(e) My testimony did not involve an analysis of these cost pools. I am not aware of any study that has attempted to determine how these costs are affected (if at all) by letters with handwritten addresses.

(f) I am not aware of any point within Mr. Hatfield's testimony where the specific costs associated with bin capacity constraints, barcoding limitations, REC keying errors, RBCS system failures, and REC productivity were identified.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

BUG/USPS-T23-13. Please refer to your response to BUG/USPS-T-23-7.

- (a) How will the Postal Service handle an "old" PRM letter that is addressed to a recipient who has moved (1) if the recipient no longer agrees to pay for PRM, or (2) if the recipient still pays for PRM but at a different location from the address on the PRM letter in question?
- (b) How will the Postal Service handle an "old" PRM letter that is addressed to a recipient who has not moved but no longer agrees to pay for PRM?
- (c) Please state the percentage of First-Class nonpresorted letters that were forwarded or returned during the Base Year in this proceeding. Please provide the source of information.
- (d) Please state the percentage of First-Class presorted or automated letters that were forwarded or returned during the Base Year in this proceeding. Please provide the source of your information.

RESPONSE:

- (a) Any First-Class single piece mail piece that has been addressed to a recipient that has moved would be subject to the Postal Computerized Forwarding System (CFS). In most cases, large volume recipients would not have distributed reply envelopes with outdated addresses. In other instances, when Postal employees have been made aware of potential addressing problems, sort plans can be constructed which send both the old and new address to the same bin. In cases where the postage associated with a PRM mail piece has not been accounted for and the recipient refuses to pay the postage, that mail piece will be returned to sender for adequate postage at the full single-piece rate.
- (b) As stated in (a), in cases where the postage associated with a PRM mail piece has not been accounted for and the recipient refuses to pay the postage, that mail piece will be returned to sender for adequate postage at the full single-piece rate.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF BROOKLYN UNION GAS COMPANY**

(c), (d) Please reference the response to ABA&EEI&NAPM/USPS-T25-29.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T23-1.

- a. Please confirm that some mail will reject from the MPBCS-OSS because the RBCS ID tag did not print properly on the reverse side of the mail piece.
- b. Please confirm that a slick or glossy surface on the reverse side of a mail piece is one reason why the RBCS ID tag might not print properly on a mail piece.
- c. Please confirm that the mail described in part (a) may be directed to an LMLM so that a label can be applied to the reverse side of the mail piece.
- d. Of the mail described in part (a) that is directed to an LMLM, please estimate the percentage that is successfully processed through RBCS thereafter.
- e. Please estimate the percentage of the mail described in part (a) that is directed to a manual sorting operation instead of an LMLM or that is directed to an LMLM but cannot subsequently be processed successfully through RBCS (and then is directed to a manual sorting operation).

RESPONSE:

- a. b. Some mail pieces will be rejected because the MPBCS-OSS cannot read the ID tag. I am not aware of any study, however, that has analyzed the reason(s) why this might actually occur, including whether the ID tag did not "print properly."
- c. Confirmed.
- d. The percentage of LMLM mail that is accepted on the MPBCS-OSS when it is reprocessed was not included in the accept and upgrade rates study (USPS LR-H-130).

In my testimony, I used the MPBCS-OSS accept rate (87.35%) to estimate this percentage.
- e. The accept and upgrade rates study (USPS LR-H-130) quantified the percentage of mail that was rejected on the MPBCS-OSS and sent to manual operations (0.95%). It did not, however, include a breakdown as to the reasons (e.g., an unreadable ID tag) why those mail pieces were rejected.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T23-2. Please refer to your testimony at pages 4-5.

- a. Of the MPBCS-OSS rejects that are due to verifier errors for the Postnet bar code, please estimate the percentage of this mail that is directed to an LMLM machine and is successfully processed through RBCS thereafter.
- b. Please confirm that not all MPBCS-OSS mail that rejected because of verifier errors can be processed on the LMLM in the late hours of an operation due to processing windows and dispatch schedules.
- c. Please confirm that some verifier errors are caused by glossy or slick surfaces on mail pieces that prevent successful application of the Postnet bar code directly onto the surface of the mail pieces.
- d. Please confirm that some verifier errors on picture post cards of the type that people send while they are on vacation are caused when handwriting encroaches on the bar-code clear area.

RESPONSE:

- a. The percentage of LMLM mail that is accepted on the MPBCS-OSS when it is reprocessed was not included in the accept and upgrade rates study (USPS LR-H-130).
In my testimony, I used the MPBCS-OSS accept rate (87.35%) to estimate this percentage.
- b. Confirmed.
- c. Some verifier rejects may occur on mail pieces with glossy/slick surfaces. I am not aware of any study, however, that has attempted to correlate MPBCS-OSS verifier errors to this specific mail piece characteristic.
- d. Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T23-3.

- a. Please confirm that some mail has a surface texture that is glossy or slick enough to require the mail piece to be routed to an LMLM to apply a label on both the front side and reverse side of the mail piece.
- b. Please confirm that the situation described in part (a) normally occurs after the mail piece makes at least two passes through the MPBCS-OSS - that is, on one pass the problem with applying an RBCS ID tag is encountered, and on another pass the problem with spraying a Postnet bar code is encountered.
- c. Please confirm that glossy picture post cards of the type that people send while they are on vacation often must be routed to an LMLM to apply a label on both the front side and reverse side of the mail piece.

RESPONSE:

- a. Any mail piece that would require a LMLM label to be affixed over both the ID tag and the Postnet bar code would have had to be routed through some RBCS elements three times in order to receive a "good" bar code. The time constraints involved with RBCS processing would, in all likelihood, prevent this from actually occurring. Most facilities isolate MPBCS-OSS errors and process them separately. If such a mail piece were rejected a second time on the MPBCS-OSS, even if it were for a different reason, it would probably be sent to a manual sortation operation rather than routed back through RBCS.
- b. Were this situation to actually occur, at least two MPBCS-OSS passes would be required.
- c. As stated in a., most MPBCS-OSS errors would only be reprocessed through RBCS once and would be diverted to manual operations if rejected a second time. Therefore, the application of two LMLM labels, though possible, is an unlikely situation.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T23-4.

- a. Please describe the characteristics, including surface texture, size, and type (i.e., card or letter), of the mail that often is routed to an LMLM.
- b. Are cards represented at the LMLM in a proportion greater than their proportion in the entire automated mail stream?
- c. Of all the mail that is diverted from RBCS manual sorting operations, are cards diverted in a greater proportion than their proportion in the entire automated mail stream?

RESPONSE:

- a. Mail pieces are rejected on the MPBCS-OSS and sent to the LMLM when two types of errors occur: Postnet "verifier errors" and "ID tag unreadable" errors. The LMLM is used to affix a label over the front of the mail piece in the first situation and over the back of the mail piece in the second situation. The reasons why these mail pieces are rejected, however, varies a great deal. I am not aware of any study that has been conducted which correlates MPBCS-OSS errors to specific mail piece characteristics. Therefore, I have no basis for discussing which specific characteristics would result in more frequent LMLM processing.
- b. I am not aware of any data which would provide a basis for answering this question.
- c. I am not aware of any data which would provide a basis for answering this question.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T23-5.

- a. Please estimate the percentage increase in processing cost each time a mail piece must be routed to a LMLM. This cost should include the extra pass or passes that this mail must make through an MLOCR-ISS or MPBCS-OSS after the label is applied.
- b. All else being equal, to the extent that customers who presently prepare mail that must be processed on a LMLM at least once instead prepared their mail in a manner that obviated the need to route that mail to a LMLM, would processing costs for that mail decline?

RESPONSE:

- a. I am unable to answer this question. In order to determine a "percentage increase in processing cost," it would have been necessary to develop complete models in my testimony. As stated in my testimony (page 3, lines 6-8), "It is not possible to develop extensive mail flow models as no single-piece density information is currently available."
- b. Yes. However, it would be difficult to determine (at the time the mail pieces are prepared) whether those mail pieces would be processed on the LMLM and/or the future mail characteristics changes that would be required for those mail pieces to avoid all LMLM processing.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T23-6. Please confirm that the flimsiness of some private post cards sometimes causes problems for automated processing.

RESPONSE

The "flimsiness" of a mail piece, whether it be a letter, card, or flat, can sometimes cause problems for automated processing. In order to fully understand the extent to which the "flimsiness" of a card affects automation, mail pieces with this specific characteristic would have to be identified, isolated and processed separately. Such an analysis would be difficult to conduct as these types of mail pieces are currently mixed with other cards and/or letters that have varied characteristics. To the best of my knowledge, this type of analysis has not been conducted.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T23-7. Please confirm that the color or reflectance of the card stock used for private post cards sometimes causes problems for automated processing.

RESPONSE

The color and/or reflectance of a mail piece, whether it be a letter or a card, can sometimes cause problems for automated mail processing. This fact is especially evident during December when high volumes of greeting cards are being processed. As a result, many field sites attempt to isolate these mail pieces and divert them directly to manual sortation operations. In my experience, the darker colors seem to cause the most problems. The Postal Service has, however, attempted to minimize the impact color and reflectance have on automated processing in some operations. The Grayscale Camera described by USPS witness Moden (USPS-T-4, p. 5, line 24) is an example of a project that has been initiated to achieve this end.

**REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T23-8. Comparing stamped cards with private post cards, please confirm that private post cards are less likely than stamped cards to cause processing problems for the OCR and RBCS that are due to extraneous matter in the bar-code clear zone or the OCR read area.

RESPONSE:

This response assumes that "stamped cards" refers to cards which can be purchased from the USPS where the proper postage has already been affixed to the mail piece.

"Private post cards" is assumed to refer to those post cards where individuals affix the postage to the mail piece themselves.

Stamped card and private post card users are responsible for addressing each mail piece themselves and, if the bar code zone is not clearly marked on the mail piece, can either write an address by hand or affix a label in a manner that interferes with the bar code clear zone. As a result, both stamped cards and private post cards can experience a processing problem because extraneous matter encroaches into this area.

**REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T23-9. Comparing stamped cards to private post cards, please confirm that stamped cards, on average, pose fewer obstacles to automated processing than private post cards and, therefore, can be processed at a lower cost than private post cards.

RESPONSE:

This response assumes that "stamped cards" refers to cards which can be purchased from the USPS where the proper postage has already been affixed to the mail piece.

"Private post cards" is assumed to refer to those post cards where individuals affix the postage to the mail piece themselves.

It seems that both mail pieces could possibly contain extraneous matter which might interfere with the Postnet bar code and/or the ID tag bar code. On the address side of the mail piece, as discussed in my response to DFC/USPS-T23-8, it is possible that both types of cards might contain Postnet bar code interference depending on where the address is placed by the user. In addition, the reverse side of these mail pieces would contain either text/graphics (stamped cards) or pictures/graphics (private post cards) - both of which could interfere with the ID tag bar code. I have not studied what any related mail processing cost differences might be between these two types of cards.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T23-1. *Please confirm that your calculation of mail processing cost avoidance for Qualified Business Reply Mail (QBRM) and Prepaid Reply Mail (PRM) of 4.016 cents is a single estimate that applies equally to both types of mail, rather than an average of two different estimates of costs avoided. If you cannot confirm, please explain.*

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T23-4. What is the reject rate for prebarcoded *reply mail*? If the rate is unknown, please explain why it is unknown.

RESPONSE:

113

~~The accept and upgrade rates study (USPS LR-H-130)~~ did not analyze MPBCS/DBCS rates based on specific mail types (e.g., prebarcoded reply, prebarcoded presort, etc.). The rate used was an average for all barcoded mail. In my testimony, I used the MPBCS/DBCS accept rate of 95% in the prebarcoded reply mail model. Therefore, the reject rate was 5%.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T23-5. When prebarcoded mail is rejected, does the rejection take place at the Advanced Facer Canceler? Please explain.

- a. Please describe what additional handling and processing steps are required when prebarcoded mail is rejected.
- b. Do rejections of such mail occur at any other point in the mail processing system? Please discuss, and include in your discussion any additional handling and processing steps that take place.
- c. Are any of the answers to this interrogatory different for prebarcoded reply mail? Please discuss.

RESPONSE:

AFCS rejects usually consist of misfaced mail or mail that does not contain sufficient postage. These rejects will include a mixture of prebarcoded mail, handwritten mail, and machine-printed mail. My testimony assumed that all mail pieces were successfully processed by the AFCS and did not include specific cancelation costs, as these costs would have been identical for both a preapproved, prebarcoded reply mail piece and a handwritten reply mail piece.

- a. If prebarcoded mail were rejected by the AFCS, it would either be refaced and canceled or diverted to the postage due section.
- b. Yes. Rejects that occur on either the MPBCS or DBCS would be routed to manual operations for processing.
- c. The answers in this response are for prebarcoded reply mail only, as the question was directed toward AFCS operations. AFCS barcode separations are made based on the Facer Identification Marks (FIM) for CRM and BRM. Therefore, by definition, we are only referring to reply mail.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T23-6. You explain on page 5 of your direct testimony how "leakage" occurs with mail processed through the REC. Does leakage ever occur with prebarcoded mail or prebarcoded reply mail? Please discuss.

RESPONSE

The term "leakage" does not refer to specific mail types; it refers to mail that is processed through the RBCS network. To the extent that some prebarcoded mail pieces occasionally end up getting processed through RBCS, it is possible that the "leaked" mail could contain some prebarcoded pieces. The percentage of leakage mail that contains prebarcoded mail pieces, however, would be quite small when compared to a corresponding percentage for handwritten mail pieces.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T23-7. Please refer to your direct testimony at page 2 where you state that the cost avoidance for both QBRM and PRM is calculated as the difference in mail processing costs between a prebarcoded First-Class reply mail piece and a handwritten First-Class reply mail piece. Please explain whether your QBRM/PRM cost avoidance analysis (and the underlying mail flow analysis) would be the same for Courtesy Envelope Mail ("CEM") as defined in Docket No. MC95-1. In your analysis, assume that the CEM mail would have the proper postage affixed.

RESPONSE

Assuming that the proper postage was affixed to each mail piece, this cost avoidance could be applied to other mail pieces with the same characteristics as QBRM and PRM. In instances where proper postage is not affixed to each mail piece, the mail processing costs could increase dramatically, especially in a full-up Delivery Point Sequencing (DPS) environment where a short paid situation would not be identified until the mail piece reaches a clerk or mail carrier at the destinating facility.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross examination for Witness Miller?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.
5 Only one participant indicated an interest in
6 examining, Douglas F. Carlson.

7 Do any other participants have oral cross
8 examination for this witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: There don't appear to be any
11 others so with that, Mr. Carlson, if you would please begin.

12 MR. CARLSON: Thank you.

13 CROSS EXAMINATION

14 BY MR. CARLSON:

15 Q Good afternoon.

16 A Good afternoon.

17 Q I know that the term post net verifier error is a
18 common term in mail processing.

19 Is RBCS ID tag verifier error another term that
20 exists? Or is there a term that expresses the same concept
21 as post net verifier error for the RBCS ID tag?

22 A In mailing terms they would usually refer to that
23 error as ID tag errors once it is sorted out as such on an
24 OSS.

25 Q Do you consider yourself an expert ON RBCS?

1 A Yes, I do.

2 Q And can you describe briefly how you developed
3 this expertise on RBCS processing operations?

4 A I worked for five years at the Margaret L. Sellers
5 Processing and Distribution Center as Industrial Engineer in
6 San Diego, California, specifically working on mail
7 processing types of issues associated with RBCS.

8 Q How much time did you spend out on the mail
9 processing floor on a particular day observing RBCS
10 operations, not on a particular day but an average day or
11 typical day?

12 A I don't know if I would be able to tell you on
13 average how many hours per day I was out on the floor
14 looking at RBCS types of issues, but I was in remote bar
15 coding, the remote bar code sorter installation coordinator
16 for our facility, and San Diego was one of the first five in
17 the country to receive that.

18 Q Did you spend much time examining rejects from the
19 RBCS system?

20 A Yes, I did.

21 Q To determine the causes for the rejects? Was that
22 the purpose of examining the rejects, to try to determine
23 why they rejected?

24 A Many times it is difficult to really determine
25 what actually caused a reject, but in looking at the rejects

1 you can kind of get an idea of how to organize your sort
2 plans for example on the OSS, and then what the next step
3 should be in processing.

4 So by looking at them, you can kind of get an idea
5 as to how to most efficiently organize your operations.

6 Q So the purpose for examining rejects is to try to
7 determine the cause for the reject, whether you actually can
8 or cannot, the goal is to try to determine the cause?

9 A Well, you want to try to avoid any rejects that
10 you can, but a lot of times it is not a simple task as far
11 as determining what the actual cause was for any given
12 reject.

13 Q Is one way to avoid future rejects of the same
14 type to determine the cause for the reject?

15 A Yes, that might be the case. But when you are
16 looking at any rejects, I mean, you have really two
17 competing -- well, you have many factors but two of them are
18 you have the issue of the machine itself and there could be
19 problems with a machine that led to a reject. And then you
20 also have issues associated with a mail piece and many times
21 you could have more than one issue for one single mail
22 piece. So to really say that it was one specific thing that
23 caused that reject, you would have to, like, isolate a lot
24 of other variables.

25 Q But isn't the goal of examining rejects to try to

1 determine why they rejected?

2 A Well, certainly. If you were to find -- if you
3 were to have an idea that there was some reason why several
4 mail pieces were rejecting, you would try to correct that.

5 Q And the reason why a mail piece rejects could also
6 be considered a cause of a reject?

7 A Yes.

8 Q Okay. And you've examined rejects from ML OCR
9 ISS?

10 A Yes, I have.

11 Q ML OCR -- MPBCS OSS?

12 A Yes, I have.

13 Q Okay. Is it true that one reason why mail will
14 reject from the RBCS system is due to lack of a barcode
15 clear area?

16 Let me restate that question. Is one reason why a
17 mail piece might reject from the MPBCS OSS the lack of a
18 barcode clear area on the mail piece?

19 A I think I would phrase that more that there is
20 always a barcode clear area; it is just a matter of whether
21 there is something in that zone.

22 Q Okay, so, if a mail piece comes through the RBCS
23 system on its first pass through with an obstructed or
24 obscured barcode clear area and rejects from the MPBCS OSS
25 as a result, presumably due to a POSTNET verifier error, is

1 that, what I have just described, one of the reasons why
2 mail pieces will reject from RBCS?

3 A Could you repeat that?

4 Q Is it true that sometimes mail pieces will reject
5 from the MPBCS OSS because there is an obstruction in the
6 barcode clear area on that mail piece?

7 A I would say that you could look at some rejects on
8 the OSS and you might see that there is something in the
9 barcode clear area but, as I said before, it is not always
10 easy to say that was the exact reason why that mail piece
11 rejected.

12 Q But that is one of the reasons why mail pieces
13 reject from the MPBCS OSS?

14 A Yes.

15 Q Okay. And typically those mail pieces will be run
16 through an LM LM to place a label on the mail piece, to
17 provide essentially a barcode clear area?

18 A If it was isolated as a verifier reject, it would
19 usually be routed to a LM LM.

20 Q If you have a piece of mail that, by its design,
21 is going to have writing on the front other than just the
22 address, such as a picture postcard that someone sends while
23 on vacation, is it more likely that that piece is going to
24 have writing in the barcode clear area than a mail piece
25 that is not designed to have correspondence writing on the

1 front?

2 A I'm confused by that question because you said
3 that there would be something on the same side as the
4 address and on a picture postcard, it would be on the
5 opposite side.

6 Q On a picture postcard such as this Bugs Bunny
7 postcard that I'm holding up that has a picture design on
8 the back where there is no space for writing and then on the
9 front, the left half of the card is designed for the
10 correspondent to write a message and on the right side is
11 designed for the address, is this type of mail piece more
12 likely to have interference in the barcode clear area than
13 say a number 10 envelope that one could argue is not
14 designed to have correspondence written on the address side?

15 A Really a tough question to answer because in both
16 cases the person that is sending the mail piece is
17 responsible for placing the address on that mail piece and
18 they could very well write the address in the barcode clear
19 zone and then there would be a problem in both cases.

20 Q But I am interested to know which is more likely,
21 based on all your observation of rejects from the MPBCS OSS
22 at RBCS sites. Can you say that it's more likely that you
23 are going to have interference in the barcode clear area if
24 the mail piece is designed to have writing in that area
25 versus one that is generally designed not to have writing,

1 correspondence, writing in that area?

2 A I can say that in my mail processing experience, I
3 have seen instances with both types of mail piece where
4 there was a problem and there was interference. But I have
5 never specifically tried to measure the magnitude in either
6 case.

7 Q Is it a reasonable supposition that something
8 that's designed to have writing that may go into the bar
9 code clear area would have writing in the bar code clear
10 area than something that's not designed to have
11 correspondence writing in that area?

12 A Are you talking in general or specific to that
13 mail piece?

14 Q Generally --

15 A Are you talking specific to cards?

16 Q Generally speaking. And a card -- I'm -- I'm
17 assuming that a card such as the one I'm holding typically
18 -- a card such as the one I'm holding is designed to have
19 writing on the address side that could go into the bar code
20 clear area, and I'm wondering, is it reasonable to assume
21 that this type of mail piece is more likely to have writing
22 in the bar code clear area than a regular envelope that's
23 not designed to have correspondence around the bar code
24 clear area.

25 A I don't know if I'd be willing to make that

1 assumption, because sometimes you'll see postcards that
2 actually have that area marked off ^{with a} ~~at the~~ box, and a lot of
3 times you don't see that on a regular envelope.

4 Q Uh-huh.

5 A So, unless I did some specific study, which I
6 haven't done, I wouldn't really be willing to make that
7 assumption.

8 Q And your observations don't lead you one way or
9 the other.

10 A Well, as I said, I've -- I've seen instances of
11 both types of mail pieces where there's been a problem with
12 interference.

13 Q Suppose this card again that I'm holding has
14 correspondence on the left side and a typewritten address on
15 the right side.

16 Is it true that the OCR will have a difficult time
17 making out the typewritten address because it's reading
18 horizontally and it's picking up handwriting that's in that
19 horizontal bar code clear area?

20 In other words, will the handwriting on the left
21 side of this card likely interfere with the OCR's attempt to
22 read even the best address on the right side?

23 A Well, in my experience, I -- I've never really
24 seen -- I can't recall one time when I've seen a postcard
25 that was typed like that with the address, and so, as a

1 result, I've never really tried to investigate that specific
2 characteristic in terms -- in terms of how the OCR actually
3 read that mail piece.

4 Q Are you familiar with the domestic mail manual
5 that -- that defines or has a picture of the bar code clear
6 area as being a long horizontal area, the -- the OCR read
7 area as being a long horizontal area? Is it reasonable --

8 A I know that that manual has standards within it.
9 I'm not sure exactly what they are off the top of my head.
10 But I know that it does have standards for mail piece design
11 in it.

12 Q Suppose it stated that the OCR read area on this
13 card was roughly from the right edge to the left edge
14 horizontally.

15 If you had a typewritten address on the right side
16 and handwriting on the left side that went through the OCR
17 read area, would it be reasonable to assume that there may
18 be an OCR readability problem as a result?

19 A I'd really have to check back into that manual and
20 look into that further --

21 Q But suppose the manual --

22 A -- to answer that.

23 Q -- stated that the OCR read area went from right
24 to left on this card horizontally and you have handwriting
25 on the left side of that read area and a typewritten address

1 on the right side.

2 Not having any operational experience in it, is it
3 reasonable to assume that there may be an OCR readability
4 problem as a result?

5 A If you said it went right to left, though,
6 wouldn't it read the typewritten address first?

7 Q Left to right, right to left. I mean just an area
8 that's defined from the left side of the card to the right
9 side of the card or the right side of the card to the left
10 side of the card. I'm not referring to how the OCR reads
11 it. I'm just referring --

12 A Uh-huh.

13 Q -- to the boundaries of the area.

14 A Well, there might be a problem in that -- there
15 might be a problem in that situation.

16 Q Okay. Thank you.

17 In -- I would like you to turn to DFC
18 USPS-T-23-2(c), and there -- there I ask you to confirm that
19 some verifier errors are caused by glossy or slick surfaces
20 on mail piece -- mail pieces that prevent successful
21 application of the post-net bar-code directly onto the
22 surface of the mail pieces.

23 Suppose you have a piece of mail that is glossy
24 enough to cause verifier errors. If you had -- I'm going to
25 pass on that question.

1 I answered my own question.

2 Okay. On DVC USPS-T-23-3(a), I -- I asked an
3 interrogatory about types of mail that may have a surface
4 texture that's so glossy or slick that both the RBCS ID tag
5 on the back cannot spray directly onto that mail piece and
6 the post-net bar-code cannot spray directly onto that mail
7 piece, and you indicated that it would be unlikely that a
8 piece of mail would have to get a label on both the front
9 and the back of that mail piece, because if -- if it
10 rejected a second time through RBCS, that mail would likely
11 be sent to a manual operation. Is that --

12 A Yes.

13 Q -- the essence of your answer? And most likely in
14 the scenario I just described, we'd first have a problem
15 with the RBCS ID tag not spraying correctly, in which case
16 the piece would be sent to an LM LM, and then, upon be
17 re-run through the MLOCR ISS and the MPBCS OSS, we would run
18 into the verifier problem with the post-net bar code and
19 have a reject at that point. Is that correct?

20 A Well, this is a situation you're defining for me.
21 So, are you saying that --

22 Q Is that how the situation that you describe in
23 your interrogatory response could come about?

24 So, you'd have the mail piece that's too glossy on
25 the back to spray an RBCS ID tag, so it would reject from

1 the MPBCS OSS, would go to an LM LM, would go back to an
2 MLOCER ISS, it would go to an MPBCS OSS, and then it would
3 have a post-net bar-code verifier reject from the MPBCS OSS,
4 and then it would go to a manual sortation.

5 That's a logical expected route that that type of
6 mail would take. Is that correct?

7 A Well, I guess if you would have said that -- in
8 the first case, the ID tag error, that -- if you would have
9 said it was an ID tag error, I would have said that's true.

10 However, you said -- you were associating with the
11 glossy surface, and I've really never been involved in any
12 studies that tried to actually measure how often the -- you
13 know, relate the number of errors to -- to the actual mail
14 characteristic in terms of the surface type.

15 So, if you would have just said that it was first
16 an ID tag error and then it went through the ISS, then the
17 OSS, and was a verifier error, then I would agree with that.

18 Q Okay. Let me ask the question a different way.

19 Suppose the back of the -- the back of the card is
20 too glossy for the RBCS ID tag to print. Is it likely,
21 then, that there will be a reject from the MPBCS OSS because
22 the RBCS ID tag did not spray on the back?

23 A Well, once again, I -- I'm not really -- haven't
24 ever been involved in a study that tried to tie OSS errors
25 to the actual mail surface type, and especially with the ID

1 tag errors, because you tend to have a lot less problems
2 with those.

3 So, the part about the glossy, I can't say that,
4 but if you had an ID tag error that went through the ISS,
5 then the OSS, and then it became a verifier error, I would
6 agree with that.

7 Q I'm not asking about studies.

8 Is it possible that there is a mail piece whose
9 back-side is so glossy that an RBCS ID tag cannot spray on
10 that glossy surface?

11 A Well, I -- I kind of stand behind my answer that I
12 said before unless you could give me some sort of
13 measurement of -- of glossy in terms of, you know, what that
14 means. I mean --

15 Q So glossy that the RBCS ID tag will not stick,
16 will not print in a readable form. Is it possible that
17 there will be a mail piece --

18 A It's possible that there are mail pieces where the
19 ID tag, for whatever reason, does not stick to the back of a
20 mail piece.

21 Q And could one of the reasons be because the back
22 of the mail piece is too glossy?

23 A I don't really know the answer to that question.
24 I've never been involved in any studies that tried to tie
25 errors to specific mail piece characteristics.

1 Q So, your -- you -- from all your years on the mail
2 processing floor, you've never seen a piece of mail come
3 through that had the back side so glossy that the RBCS tag
4 could not print?

5 A Well, I wouldn't think in those terms. First of
6 all, I don't ever use the term "glossy." I would have just
7 said that there was an ID tag error on the back of a mail
8 piece.

9 Q Well, let's use the term "glossy" or "slick" or
10 otherwise unable to absorb or allow a bar-code to print
11 properly on the back of the mail piece. Is it possible such
12 a piece exists?

13 A I've seen pieces where there was a problem with
14 the ID tag on the back of a mail piece, where it didn't
15 stick.

16 Q Because the mail piece was too glossy or slick or
17 otherwise not receptive to the ink.

18 A I don't really know if I -- I could say that that
19 was the actual reason. I just know there was a problem with
20 the ID tag on the back of the mail piece.

21 Q So, you've never seen a piece of mail where there
22 was something about the characteristic of the paper that
23 prevented the ID tag from printing properly on the back, in
24 fact that it printed so poorly that you couldn't even make
25 it out with the naked eye. You've never seen that.

1 A You're talking about the ID tags?

2 Q Yes.

3 A Usually, there are a lot less problems with that
4 sort of thing regarding the ID tags than there are with the
5 POSTNET barcodes.

6 Q I am not asking about usual; I am asking if you
7 have ever seen a case where the characteristics of the paper
8 on the back of the mail piece were such that the RBCS ID tag
9 could not print sufficiently well to allow subsequent
10 processing of that mail piece?

11 A Well, this gets back to what I said before. If
12 you look at any given mail piece, it is really hard to
13 determine what actually caused the error because it could
14 have been -- I could have seen a mail piece like that and
15 made that interpretation or I could have said, well, we have
16 had problems with this specific machine and the ID tag
17 printer.

18 Q How about if you look at the barcode and it's just
19 a big burst of dots that doesn't even look like a barcode?

20 A Once again, you could also have a problem with the
21 ID tag printer. I'm just not so willing to see one specific
22 situation and then say that's the exact reason why something
23 happened.

24 Q But could it be?

25 A I would say if you had baselined the machine,

1 which is a term they use basically to say the machine has
2 been well maintained, and then you took an entire series of
3 mail pieces that you might have considered to be glossy and
4 you ran them and they all had a problem, then I would say
5 you could say, yes, that was the cause. But the problem is,
6 when you are looking at mail in any processing facility,
7 these mail pieces are mixed with all sorts of other mail
8 pieces and it's really hard to make that leap and say, yes,
9 this is the reason why this happened.

10 Q Suppose you run a thousand number 10 envelopes,
11 beautiful, plain white number 10 envelopes through the MLOCR
12 ISS, it sprays a very nice looking RBCS ID tag on the back
13 of each envelope and each envelope subsequently is processed
14 100 percent successfully through the RBCS system and then
15 there is one glossy card in that set of 1,000 envelopes and
16 the surface is so slick that the barcode just sprays as this
17 big spray of dots that doesn't look anything like a barcode,
18 are you saying that you would not want to draw the
19 conclusion that there was a problem with the surface of that
20 paper that prevented that RBCS ID tag from spraying
21 properly?

22 A No. In that situation, I would tend to think that
23 that was a problem.

24 Q Okay. Let's take that mail piece now and we are
25 going to take it -- it's probably going to go to the -- let

1 me back up and assume that the OCR cannot resolve the
2 address on that mail piece we just discussed so it lifts the
3 image and sends the image through the RBCS system, is that a
4 fair assumption? The ISS lifts the image of that mail
5 piece, sends it to RBCS for resolution; is that a reasonable
6 assumption that that might happen to that mail piece?

7 A Well, actually, the ISS is part of the RBS -- RBCS
8 system so ~~you~~ ^{you} are saying it sends it to the rec. site?

9 Q Yes, that's what I mean.

10 A Yes.

11 Q So then that mail piece is going to go to the
12 MPBCS OSS. That machine is going to try to read the RBCS ID
13 tag that is on the back of that mail piece and it is going
14 to be unable to do so; is that right? If we just define
15 this piece as having a barcode so bad on it that it doesn't
16 even look like an RBCS ID tag?

17 A I would have to check that because I am really not
18 sure if the ISS ID tag printer also has a verifier error --
19 I'm sorry, a verifier on it. And I can't recall whether the
20 ISS can evaluate whether there is a problem at that point
21 and then isolate verifier errors for the ID tag. But if it
22 got through, there could be a problem on the OSS.

23 Q And it's possible, I suppose, even if the MLOCR
24 ISS did have an RBCS ID tag verifier that the barcode could
25 have been good at the point that the verifier saw it but

1 then it smeared so badly later that it would go through to
2 the MPBCS OSS?

3 A Yes. Usually the ID tag errors on the OSS are
4 referred to as I think usually it would say either no ID tag
5 or ID tag unreadable.

6 Q So if it comes out as no ID tag or ID tag
7 unreadable, then that mail piece will go to an LM LM,
8 ideally?

9 A Well, in the case of no ID tag, it would go
10 directly back to the ISS. The ID tag unreadable, it depends
11 on the specific processing facility because a lot of
12 facilities have problems with LM LM capacity and not all of
13 them use the LM LM to put labels on the back of the mail
14 piece. But most of them -- I would think almost all of them
15 use a LM LM to apply the label ^{over} ~~or~~ a POSTNET barcode.

16 Q Or an RBCS ID tag?

17 A No, I'm saying that in that occasion they have to
18 separate those out from the verifier errors, the POSTNET
19 verifier errors and some sites don't -- some sites will send
20 that type of mail directly to a manual operation because
21 they don't have the capacity on the LM LMs.

22 Q Which type? The RBCS ID tag?

23 A The ID tag.

24 Q Okay, so it could go at this point directly to
25 manual or it could go to LM LM?

1 A Yes.

2 Q And if it went to LM LM, then it would go back
3 through an MLOCR ISS to get a new RBCS ID tag sprayed on the
4 back?

5 A Yes, if that facility was using a LM LM for that
6 purpose.

7 Q Okay. And then at that point, it would go to an
8 MPBCS OSS and then that machine would try to spray a POSTNET
9 barcode on the front of the mail piece?

10 A Yes, that's correct.

11 Q And if that front were so slick or otherwise
12 unreceptive to the POSTNET barcode ink, then it would reject
13 from that machine as well?

14 A Well, assuming it's the same situation you said
15 before, where one mail piece out of a hundred pieces that
16 had no problem --

17 Q Uh-huh.

18 A -- was rejected, then I would agree to that.

19 Q Okay. And then you typically would expect it to
20 go to a manual operation at that point --

21 A Yes.

22 Q -- because they isolate.

23 Now, when mail goes to a manual operation -- and
24 let's say this piece was mailed in Seattle and it goes to
25 Seattle's manual distribution operation and the destination

1 of the mail piece is Washington, D.C.

2 When Washington, D.C., receives that mail piece,
3 is it going to keep that mail on a manual operation because
4 it originated in a manual operation in Seattle, or might it
5 go to a manual operation in Washington or might it go to an
6 automated operation in Washington?

7 A So, you're saying that Seattle was the originating
8 facility?

9 Q Yes. So, it originated --

10 A Okay.

11 Q -- in Seattle, left Seattle in a tray from the
12 manual 030 operation.

13 A Uh-huh.

14 Q When it gets to Washington, are they necessarily
15 going to keep that mail on the 030 manual, or might they put
16 it onto an automated operation?

17 A Now, you're saying 030 manual in Washington?

18 Q D.C.

19 A Okay. Well, 030 is outgoing primary operation, so
20 that would be in Seattle. In Washington, it would probably
21 be --

22 Q Oh, I'm sorry.

23 A -- like operation 150, I would imagine, incoming
24 primary.

25 Q Okay. I meant an -- I meant an incoming manual

1 operation.

2 A Yes.

3 In -- in that instance, I would say that they
4 would probably keep it in the manual operation, because both
5 those sites are RBCS sites.

6 If it was a site -- if the originating site was a
7 non-automated site that didn't have RBCS, they might
8 actually take some of that manual mail and try to process it
9 through RBCS.

10 Q Sometimes manual mail will be put back onto
11 automation even at an RBCS site?

12 A That could happen.

13 Q Okay. And suppose it did happen to this piece of
14 mail that was too glossy on the front, too glossy on the
15 back.

16 Then the RBCS site is going to probably read that
17 RBCS ID tag or re-use that RBCS ID tag that's on the back of
18 that mail piece, so the Washington, D.C., MLOCR ISS will see
19 Seattle's old RBCS ID tag on the back and essentially reuse
20 it?

21 A I'd have to check into that, because those ID tags
22 have a lot of information built into them in terms of what
23 machine that mail piece was processed on, and I'm not sure,
24 if it was an ID tag from another facility, if it could still
25 re-use it.

1 If it would have been within the same facility, it
2 could have re-used it.

3 Q Okay.

4 A I know that.

5 Q Okay. And suppose it cannot re-use it. Then that
6 mail piece might go to an LM LM to have another label put on
7 the back.

8 A Well, once again, that would depend on whether
9 there is an ID tag verifier -- or, I'm sorry, if there is a
10 verifier for ID tags on the ISS, because if there is, it
11 would over-sprayed that bar-code with a new -- a new
12 bar-code and then it could have been rejected right on the
13 ISS.

14 Q Okay. In which case, it might go to an LM LM to
15 have a label placed on the back?

16 A Well, once again, that depends on, you know, how
17 facilities are using their letter mail labeling machines.

18 Q But that mail piece is --

19 A It could. It could.

20 Q Okay. Okay. Okay.

21 So, that mail piece is going to continue to have
22 problems in RBCS in Washington, D.C.

23 A Well, that's why, I think, most RBCS sites, when
24 they receive manual volumes from other RBCS sites, would try
25 to isolate it and keep it in manual operations.

1 Q It adds a cost to mail processing if -- every time
2 a mail piece has to go through an LM LM. Is that correct?

3 A Yes, that would be true of any mail piece being
4 processed in any operation.

5 Q And every additional pass through an MLOCR or a
6 BCS is going to add a cost to the processing for that mail
7 piece.

8 A Yes, that's true.

9 Q Okay.

10 Have you seen private postcards that are -- that
11 are in a paper color or have other reflectance problems that
12 cause readability problems either for an OCR in general or
13 for the RBCS system?

14 A Could you define what you mean by "private
15 postcards"?

16 Q An item that meets the definition of a card that's
17 not a stamped card?

18 A I guess that's what I'm referring to. Are you
19 talking about like postcards that people send when they're
20 on vacation?

21 Q Sure.

22 A Or are you talking about the type of postcards
23 that we sell? I think they're called postal cards, the ones
24 that we sell at the Postal Service.

25 Q Right. They used to -- and they were renamed

1 stamped cards in the last -- in the last rate case. I would
2 be referring --

3 A They're stamped cards?

4 Q Stamped cards. I would be referring to either a
5 postcard that somebody sends on vacation or a postcard that
6 a business designs to promote an -- an open house or a grand
7 opening of a new store, four-by-six card, hot pink, perhaps,
8 or dark green.

9 You -- you have seen private postcards that have
10 problems with the color that interfere with processing
11 either on an OCR or through the RBCS system?

12 A Most of the problems I've seen associated with
13 color mail pieces -- they're not just limited to cards, it's
14 also letters, but it's usually the darker colors --

15 Q Uh-huh. Okay.

16 A -- that cause problems.

17 MR. CARLSON: I don't have any further questions.

18 CHAIRMAN GLEIMAN: Thank you, Mr. Carlson.

19 Is there any follow-up questions from the bench?

20 Commissioner LeBlanc?

21 COMMISSIONER LeBLANC: Mr. Miller, do you know how
22 much business reply mail is handwritten?

23 THE WITNESS: Business reply mail?

24 COMMISSIONER LeBLANC: Uh-huh.

25 THE WITNESS: I don't know if there's any business

1 reply mail that's actually handwritten. I wouldn't know --

2 COMMISSIONER LeBLANC: Okay.

3 THE WITNESS: -- the answer to that question.

4 COMMISSIONER LeBLANC: Okay.

5 Why is it more appropriate to use a pre-bar-coded
6 handwritten reply mail as a benchmark for PRM cost avoidance
7 rather than the bulk metered mail which is used as a
8 benchmark for the first-class discounts?

9 THE WITNESS: I don't know if I can answer that
10 question in terms of how it applies to the first --
11 first-class discounts, but the reason we chose a handwritten
12 benchmark was just to illustrate the fact that, if a
13 pre-approved, pre-bar-coded reply mail piece was not
14 provided by businesses to their customers, that those
15 customers would have to use handwritten envelopes.

16 COMMISSIONER LeBLANC: Then that would increase
17 the handwritten number, would it not? And -- and if it did,
18 how about a separate rate for a handwritten piece? Was that
19 ever given any consideration?

20 THE WITNESS: Not as part of my testimony. I'm
21 not sure I completely follow what you asked.

22 COMMISSIONER LeBLANC: You just said in response
23 to my last question that it would increase the handwritten
24 number, would it not?

25 THE WITNESS: That's the one I didn't really

1 understand what you were referring to.

2 COMMISSIONER LeBLANC: Well, in response to the
3 last question, didn't you say that it would increase the
4 number of handwritten business reply mail -- mail pieces
5 --excuse me -- or did I misunderstand you?

6 THE WITNESS: I don't think I answered that
7 question. I was kind of waiting for you to finish your
8 thought, and I just --

9 COMMISSIONER LeBLANC: All right. Let me --

10 THE WITNESS: Do you want to restate what --

11 COMMISSIONER LeBLANC: All right.

12 THE WITNESS: -- what you asked me?

13 COMMISSIONER LeBLANC: Let me try it again.

14 Why is it more appropriate to use a pre-bard-coded
15 handwritten reply mail piece as a benchmark for PRM cost
16 avoidance rather than bulk metered mail? I'll just stop
17 there since you said you don't want to tie it into the
18 first-class discount. So let me just stop right there.

19 THE WITNESS: Well, I guess I didn't answer that
20 question. As I said, the reason that we chose that as a
21 benchmark was because if businesses did not provide their
22 customers with preapproved, prebarcoded reply mail
23 envelopes --

24 COMMISSIONER LeBLANC: They did not?

25 THE WITNESS: They did not provide their

1 customers --

2 COMMISSIONER LeBLANC: Oh, if they did not.

3 THE WITNESS: Yeah, then their customers would
4 have to use handwritten envelopes. It's a way of looking at
5 the situation, you know, in terms of if they didn't have
6 those on what would be the alternative.

7 COMMISSIONER LeBLANC: Correct. So my point is,
8 did you do any work, study or look at, if that happens, to
9 giving a separate rate for handwritten?

10 THE WITNESS: Not as part of this cost study.

11 COMMISSIONER LeBLANC: Okay, that's what I needed
12 to know.

13 Thank you.

14 THE WITNESS: Um-hum.

15 COMMISSIONER LeBLANC: Thank you, Mr. Chairman.

16 CHAIRMAN GLEIMAN: Is there any followup as a
17 result of questions from the Bench?

18 [No response.]

19 CHAIRMAN GLEIMAN: There doesn't appear to be any.

20 Mr. Tidwell, would you like to take a couple
21 minutes with your witness?

22 MR. TIDWELL: Mr. Chairman, we have no redirect,
23 though we do have a wish to raise an issue that the Chairman
24 probably would be personally sensitive to.

25 I went down yesterday afternoon at headquarters

1 after I finished up the hearings yesterday and went to meet
2 with my witness to begin our last round of preparations and
3 I saw the witness yesterday morning or I saw him the day
4 before and he had probably one of the most attractive
5 goatees of any -- any headquarters employees I had seen in a
6 while and I get the impression that Mr. Madison, his boss,
7 may have said something to him about the appropriate
8 appearance of Postal rate case witnesses and the degree of
9 facial hair they ought to bring with them and I was pretty
10 shocked when I went to go see Mr. Miller yesterday afternoon
11 and found him clean shaven.

12 I just thought that I should bring that to the
13 attention of the Chairman. The Chairman expressed some
14 sensitivity on that issue yesterday.

15 COMMISSIONER LeBLANC: Well, I'll take any hair.

16 [Laughter.]

17 CHAIRMAN GLEIMAN: Well, I don't recall having
18 seen Mr. Miller before. But it may be that I did see him
19 but didn't recognize him when he got here today. Certainly
20 I was confused when Dow Jones counsel approached from the
21 back of the room and I expected to see a gentleman with a
22 full beard and it was his partner, Mr. Behrends, instead who
23 was here.

24 Apparently, that's the second bad decision
25 Mr. Miller made. I noticed from his bio that -- and I

1 believe he mentioned earlier on, that he was out in San
2 Diego for a while. You know, come in to Washington from San
3 Diego and then shaving off your beard to boot, I don't know,
4 Mr. Miller. But we will give appropriate weight to your
5 testimony.

6 I guess that was the followup to your nonredirect
7 and if there is nothing further, Mr. Miller, I want to thank
8 you for your appearance here and your contributions to our
9 record and if there is nothing further, you're excused.

10 [Witness excused.]

11 CHAIRMAN GLEIMAN: We might have saved Witness
12 Miller for later this evening. We might need that levity to
13 get us through.

14 Mr. Tidwell, whenever you are prepared to
15 introduce your next witness. And Ms. Schenck, if I could
16 save you jumping up and down?

17 Mr. Tidwell?

18 MR. TIDWELL: The Postal Service calls Dr. Leslie
19 Schenck to the stand.
20 Whereupon,

21 LESLIE M. SCHENCK,
22 a witness, was called for examination by counsel for the
23 United States Postal Service and, having been first duly
24 sworn, was examined and testified as follows:

25 DIRECT EXAMINATION

1 BY MR. TIDWELL:

2 Q Dr. Schenck, I have placed in front of you two
3 copies of a document entitled the direct testimony of
4 Leslie -- I forget the middle initial -- Schenck.

5 A M.

6 Q M. Schenck, on behalf of the United States Postal
7 Service. It has been designated for purposes of this
8 proceeding as USPS-T-27, I believe.

9 Was that document prepared by you or under your
10 supervision?

11 A Yes, it was.

12 Q If you were to give the testimony in that document
13 here orally today, would that testimony be the same?

14 A Yes, with two exceptions. On page 13 of the text,
15 there was one word that was inadvertently omitted in the
16 draft. On the first line, the last word should be the word
17 "not," n-o-t, so the sentence should read, "Since a new
18 BRAMAS program is not expected to be in place," and then
19 continue with the sentence.

20 And then in Exhibit 27-C, footnote 14, the last
21 number in that formula should be a 1 and not a 2.

22 Q Those are all the changes?

23 A Yes, they are.

24 MR. TIDWELL: Mr. Chairman, the Postal Service
25 would move into evidence the direct testimony of Leslie M.

1 Schenck on behalf of the Postal Service.

2 CHAIRMAN GLEIMAN: Are there any objections?

3 [No response.]

4 CHAIRMAN GLEIMAN: Hearing none, Dr. Schenck's
5 testimony and exhibits are received into evidence and I
6 direct that they be accepted into evidence. As is our
7 practice, they will not be transcribed.

8 [Direct Testimony of Leslie M.
9 Schenk, Exhibit No. USPS-T-27 was
10 marked for identification and
11 received into evidence.]

12 CHAIRMAN GLEIMAN: Dr. Schenck, have you had an
13 opportunity to examine the packet of designated written
14 cross-examination that was made available to you earlier
15 today?

16 THE WITNESS: Yes, I have.

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

20 THE WITNESS: Yes, with two exceptions. The
21 responses to MPA-USPS-T-27-4-D, the last sentence in that
22 response, the last five, six words, had been omitted. That
23 last line should read, "Postal Service would not have to
24 incur the costs of counting and rating each piece," so the
25 words "of counting and rating each piece," should be added

1 to the end of that sentence.

2 And the final exception would be
3 MPA-USPS-T-27-5-A, there is a partial sentence at the end of
4 that response which begins also on page 7. That partial
5 sentence should just be deleted.

6 CHAIRMAN GLEIMAN: Mr. Tidwell, do you have
7 corrected copies for the reporter? If you would please
8 provide them to the reporter?

9 The designated cross-examination of Witness
10 Schenck shall be given to the reporter and I direct that
11 they be accepted into evidence and transcribed into the
12 record at this point.

13 [Designation of Written
14 Cross-Examination of Leslie M.
15 Schenck was received into evidence
16 and transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

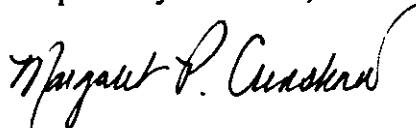
Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS LESLIE M. SCHENK
(USPS-T-27)

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

<u>Party</u>	<u>Answer To Interrogatories</u>
Magazine Publishers of America	MPA\USPS: Interrogatories T27-1-5 and 7.
Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc.	NDMS\USPS: Interrogatory T32-39, redirected from witness Fronk NDMS\USPS: Interrogatory T27-1, 2a, 4a, and 5.
Office of the Consumer Advocate	NDMS\USPS: Interrogatories T27-1, 2a, 4a, and 5 (partial).

Respectfully submitted,



Margaret P. Crenshaw
Secretary

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

821

MPA/USPS-T27-1. Please refer to Page 13 of your testimony where you state, "[I]f there is migration of BRMAS-qualified volumes to PRM, the BRMAS coverage factor would change, which would affect the cost of BRMAS-qualified BRM. According to witness Fronk's testimony, 66 percent of BRMAS-qualified volume is projected to migrate to PRM. Multiplying the volume of BRMAS-qualified mail counted and rated in the BRMAS operation by 34 percent, determining the percentage of all BRMAS qualified mail, and weighting across strata by total BRMAS-qualified volume (after 66 percent has migrated to PRM), the resulting BRMAS coverage factor after this migration is 5.87 percent."

- a. Please provide all underlying data and calculations used to derive the "resulting BRMAS coverage factor after this migration is 5.87 percent." If you use a spreadsheet in the calculations, please also provide the data and calculations in electronic form.
- b. Please confirm, ceteris parabis [sic], that if (1) 66 percent of BRMAS-qualified BRM that is counted and rated in the BRMAS operation migrates to PRM, and (2) 66 percent of BRMAS-qualified BRM that is not counted and rated in the BRMAS operation migrates to PRM, then the BRMAS coverage factor will remain at 14.24 percent.

RESPONSE:

- a. The following process was used to estimate the BRMAS coverage factor after migration to PRM was accounted for. By strata, the volume of BRMAS-rated mail counted and rated in the BRMAS operation was multiplied by 34 percent, and then divided by the volume of BRMAS-rated for which the method of counting and rating was known (after 66 percent has migrated to PRM). A weighted average of these strata BRMAS coverage factors was then taken, with the result that the BRMAS coverage factor after this migration is 5.87 percent.

The following table shows this calculation.
- b. Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA**

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MPA/USPS-T27-2. Please refer to Exhibit USPS-27A and Exhibit USPS-27C.

- a. Please confirm that Exhibit USPS-27A shows that after the incoming primary sort, there are three alternative sorting options for BRMAS mail: (1) BRMAS Operation, (2) Other Barcode Sorter, and (3) Manual Sort.
- b. Please confirm that the weighted cost per piece of \$.0785 shown in Exhibit USPS-27C is a weighted average of (1) the cost for BRMAS mail sorted in the BRMAS operation and (2) the cost of manually sorted BRMAS mail.
- c. If subpart b is confirmed, please explain why the weight cost per piece is not a weighted average of (1) the cost for BRMAS mail sorted in the BRMAS operation, (2) the cost for manually sorted BRMAS mail, and (3) the cost for BRMAS mail sorted on another Barcode Sorter.
- d. If subpart b is confirmed, please explain fully why you assumed that all BRMAS mail that is not counted and rated in the BRMAS operation is manually sorted.
- e. Please confirm that the Weighted Cost Per Piece [14] on Exhibit USPS-27C is actually equal to $((1)*((11)+(12)))+(13)*(1-(1)))$, not $((1)*((11)+(12)))+(13)*(1-(2)))$ as is stated on Exhibit USPS-27C.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The unit cost model was developed when it was assumed that a new BRMAS program would be in place during the test year. With an improved BRMAS program, it was assumed that automatable BRM would be processed in the BRMAS operation, so the cost of processing BMR in a non-BRMAS barcode sorter operation was not studied. Given that it is now known that a new BRMAS program will not be in place in the test year, it would be appropriate to include the cost of processing BRM in a barcode sorter operation, if costs could be developed. However, I do not know of any special studies done to obtain this information, and the only study of pre-barcode single piece First-Class mailpiece unit costs I am aware of is that addressed in witness Miller's testimony (USPS-T-23), and the scope of that analysis is limited to the cost avoidance for PRM compared to a handwritten reply mail piece. Therefore, the data are not available to include sortation of BRM in a barcode sorter operation in my model.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA**

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- d. See my response to part c. above. It should be noted that even though BRM can be sorted to mail recipient or account in a non-BRMAS barcode sorter operation, those pieces must still be rated and billed (accounted for) manually in the Postage Due Unit.
- e. Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA
MPA/USPS-T27-1a**

Estimated BRMAS Coverage Factor After Migration to PRM

(All volumes given are average daily volumes; from the BRM Practices Survey)

	(1)	(2)	(3)	(4)	(6)	(7)	(8)		
Strata	BRMAS Volume	BRMAS- rated volume for which method to count and rate are known	BRMAS-rated volume counted and rated in BRMAS operation	Percent of BRMAS-rated pieces counted and rated in a BRMAS operation	BRMAS- rated volume for which method to count and rate are known	BRMAS-rated volume counted and rated in BRMAS operation	Percent of BRMAS-rated pieces counted and rated in a BRMAS operation		
1	341,154	341,154	69	0.02%	341,108	23	0.01%	69	23.46
2	0	0	0	0.00%	0	0	0.00%	0	0
3	221,229	221,229	0	0.00%	221,229	0	0.00%	0	0
4	131,123	131,123	13,287	10.13%	122,354	4,518	3.69%	13287	4517.6
5	321,150	321,144	27,285	8.50%	303,136	9,277	3.05%	27286	9276.9
11	877,542	877,148	200,172	29.56%	545,034	68,058	12.49%	200288	68058
	1,692,198	1,691,798	240,813	14.24%	1,532,861	81,876	4.84%		
				(5)			(9)		

Explanation of data used or calculation made:

- (1) BRM Practice Survey, controlled to 1996 RPW totals
- (2) BRM Practice Survey, controlled to 1996 RPW totals
- (3) BRM Practice Survey, controlled to 1996 RPW totals
- (4) (3) / (2)
- (5) Weighted average of strata percentages, using (1) as weights
- (6) (2) * (3) * 0.66
- (7) (3) * 0.34
- (8) (7) / (6)
- (9) Weighted average of strata percentages, using (1) as weights

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MPA/USPS-T27-3. Please refer to Table LR-H-179, Table 13 and Exhibit USPS-27A.

- a. Please confirm that Table 13 shows that 19.3 percent of "2 cent" volume was counted using "EOR counts from Barcode Sorter."
- b. If subpart a is confirmed, does this imply that 19.3 percent of "2 cent" pieces were sorted on "Other Barcode Sorter Operations." If not confirmed, please explain fully.
- c. What is the direct and indirect cost of a "2 cent" piece that is sorted on an "Other Barcode Sorter Operation"?
- d. Are all "2 cent" pieces, which were counted by "Weighing of identical piece," "Special Counting Machines," and "Bulk Weighing," sorted manually? Please explain.
- e. If subpart d is not confirmed, what percentage of "2 cent" pieces that are counted by "Weighing of identical piece," "Bulk Weighing," and "Special Counting Machines" are sorted manually? What percent are sorted in automated operations?

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. See my response to MPA/USPS-T27-2c and d.
- d. "2 cent" pieces which are counted by these three methods can be sorted manually or in automation operations. These are methods to count and rate BRM, not to sort BRM to mail recipient or account. In general, we would expect pieces counted by these methods to be manually sorted, since if they were sorted in an automation operation then machine counts would be available, and so these alternative methods of counting BRM would not be needed. In addition, one of these methods, "Bulk Weighing," is generally used to count and rate nonletter-size BRM, which is not automatable.
- e. The data needed to address this question are not available.

MPA/USPS-T27-4. Please refer to Exhibit USPS-27C.

- a. Please confirm that the marginal processing and Postage Due Unit cost per piece for BRMAS-qualified BRM that is counted and rated in the BRMAS operation is 1.04 cents.
- b. Please confirm that BRMAS-qualified BRM that is counted and rated in the BRMAS operation avoids the 2.31 cent cost for an incoming secondary sort for automation compatible First-Class Mail pieces.
- c. Please confirm that the marginal cost for BRMAS-qualified BRM that is counted and rated in the BRMAS operation is less than the cost for Prepaid Reply Mail that does not avoid the incoming secondary sort. If not confirmed, please explain fully.
- d. Please confirm that when a piece of BRMAS-qualified BRM that is counted and rated in the BRMAS operation migrates to PRM, the cost to the Postal Service increases. If not confirmed, please explain fully.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. As stated in witness Miller's testimony, the cost avoidance for both QBRM (currently, BRMAS-qualified BRM) and PRM is "calculated as the difference in mail processing costs between a prebarcoded First-Class reply mail piece and a handwritten First-Class reply mail piece." Even though a BRMAS-qualified BRM piece avoids the incoming secondary sort, this does not mean that its "marginal cost" is less than the cost for Prepaid Reply Mail that does not avoid the incoming secondary sort. The BRMAS operation is a sortation operation that in a sense acts as a "secondary sort," i.e., BRMAS-qualified BRM is not finalized in the incoming primary operation. The BRMAS fee is designed to cover the costs of this "secondary sort," as well as any additional workload associated with counting and rating BRMAS-qualified BRM done in the Postage Due Unit. The cost avoidance for the incoming secondary sort is included in my cost model for BRMAS-qualified BRM so that the cost of sortation of these

pieces beyond the incoming primary sortation are not included twice. In the case of PRM, the cost model developed by witness Miller did not explicitly analyze incoming secondary costs because he was not developing the full cost of PRM, but rather the cost avoidance that results because prebarcoded reply mail pieces are not processed through RBCS.

- d. Not confirmed. The costs to the Postal Service would decrease when a piece migrates from being processed on the BRMAS operation, to PRM, since the Postal Service would not have to incur the costs of counting and rating each piece.

MPA/USPS-T27-5. Please refer to Page 13, Lines 4 through 14.

- a. Please confirm that the "PRM service would be advantageous for some high-volume BRM recipients."
- b. Please confirm that the BRMAS coverage factor is higher for "high volume BRM recipients" than for low volume BRM recipients.
- c. Please confirm that a higher percentage of BRMAS-qualified BRM that is counted and rated in the BRMAS operation than of BRMAS-qualified mail that is not counted and rated in the BRMAS operation will migrate to PRM.
- d. What percentage of BRMAS-qualified mail that the Postal Service estimates will migrate to PRM was counted and rated on a BRMAS operation?
- e. Ceteris parabis [sic], do you think that the BRMAS coverage factor would decrease if the volume of BRMAS-qualified BRM decreases? If no, please explain fully.
- f. Please confirm that charging a 6 cent fee for BRMAS-qualified BRM will drive low-cost BRM that is counted and rated in the BRMAS operation to more expensive PRM.
- g. Please explain why the Postal Service is proposing a 200 percent increase in the BRMAS-qualified BRM fee in light of the fact that BRMAS-qualified BRM that is counted in the BRMAS operation is very low cost mail.

RESPONSE:

- a. Confirmed. As witness Fronk says on page 42 in his testimony: "PRM will come from two sources...Second, certain high-volume Business Reply Mail users who prebarcode their pieces and currently qualify for the 2-cent per-piece BRM fee may qualify for PRM." ~~Also, on page 7 of his testimony, he states~~
- b. This is likely to be the case.
- c. Not confirmed. As witness Fronk states on page 7 of his testimony, "Whether an organization is interested in QBRM or PRM will depend on a number of factors, including its willingness to prepay postage and whether it finds a monthly fee or a per-piece fee more advantageous financially."
- d. It was assumed that 100 percent of the BRMAS-qualified volume that migrates to PRM was counted and rated in a BRMAS operation in the base year.
- e. The BRMAS coverage factor might change from its current level if the volume of BRMAS-qualified BRM decreases, depending on how this decline is achieved.

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Without further information on what caused this decline, and which volumes were affected, it is impossible to know the exact effect on the BRMAS coverage factor.

f. Not confirmed. See my response to MPA/USPS-T27-4c.

g. Redirected to USPS witness Needham.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA**

MPA/USPS-T27-7. Please refer to Page 4, Lines 14 and 15 where it states, "[t]hese pieces [BRMAS-Qualified BRM Pieces] avoid the Incoming Secondary distribution that other FCM pieces receive."

- a. Please confirm that BRMAS-qualified BRM pieces which receive caller service, avoid delivery costs as well as the cost for an incoming secondary sort?**
- b. What percentage of BRMAS-qualified BRM pieces receive caller service?**
- c. What is the unit attributable cost for caller service?**
- d. What is the unit attributable cost for First-Class Mail city delivery?**
- e. What is the unit attributable cost for First-Class Mail rural delivery?**

RESPONSE:

- a. Confirmed.**
- b. As shown in LR-H-179, Table 4, 75 percent of all BRM volume is delivered to mail recipient in the box section or through caller service. No data were collected in the survey on which that library reference is based that show the percentage of BRMAS-qualified BRM that receives caller service.**
- c. See USPS-LR-H-107, page 11.**
- d. and e. The test year unit costs of city carrier and rural carrier delivery functions by shape and rate category are provided in witness Hume's testimony (USPS-T-18).**

NDMS/USPS-T32-39.

- a. Suppose a mailer with a BRMAS account received only one piece of BRMAS mail on a particular day during Base Year 1996. (i.) What would be the Postal Service's cost to count and account for that piece of mail? (ii.) Would you agree that the cost of debiting the mailer's advance deposit account would exceed the 2 cent fee? (iii.) Would you agree that in Test Year 1998, the cost of debiting the mailer's account would likely exceed the proposed 6 cent per-piece QBRM fee?
- b. During Base Year 1996, if the same mailer received the following number of pieces of BRM on a particular day, what would be the Postal Service's total cost to count and account for that mail? (i.) 10; (ii.) 100; (iii.) 1,000; (iv.) 10,000.
- c. During Test Year 1998, would the proposed QBRM 6-cent per-piece fee cover the cost of counting and accounting for the following number of QBRM mailpieces? (i.) 10; (ii.) 100; (iii.) 1,000; (iv.) 10,000.

RESPONSE:

- a. (i.) The cost to count and rate one piece of BRMAS mail received on a particular day will depend on a number of factors. Does the particular BRM recipient typically receive only one piece per day? Are the recipients daily volumes on average high or low? How many other BRM recipients receive BRMAS mail at the same facility, and what is the relative volume of the one mail recipient compare with those of the others? These factors, as well as site-specific resource constraints, will determine whether the BRMAS mail for any one particular BRM recipient is processed through a BRMAS operation, or manually. The relative volumes and number of separations will affect the productivity in either the BRMAS or manual operation, which will in turn affect the cost associated with any one particular piece. For those pieces that are counted and rated on a BRMAS operation, and assuming that the BRMAS operation has an average productivity of 8,207 pieces counted and rated per hour, the unit cost of all counting and rating activities is:

RESPONSE to NDMS/USPS-T32-39 (continued)

(\$0.0127) = \$0.0064	line [11]
+ \$0.0040	line [12]
- \$0.0231	line [15]; all figures from Exhibit USPS-27C

For those BRMAS-rated BRM that are counted and rated manually in the Postage Due Unit, assuming that the average productivity in that unit is 454 pieces per hour counted and rated, the unit cost of all counting and rating activities is:

\$0.0596 = \$0.0827 line [13], Exhibit USPS-27C
- \$0.0231 line [15], Exhibit USPS-27C

The annual cost to account for advance deposit account mail (i.e., to set up the account and to debit the advance deposit account) is given by line [6] in Exhibit USPS-T27-F: \$276.93. Assuming that BRM is processed and received six days per week, the daily cost to maintain the advance deposit account is then \$1.78 (276.93 / 312).

(ii.) and (iii.) The per piece BRM fees for advance deposit accounts are designed to recover the volume-variable costs associated with counting and rating these volumes. The cost of debiting the BRM recipient's advance deposit account includes the costs associated with maintaining that account (including setting up the account, debiting daily postage due, notifying the mailer of a low balance). The fee for the advance deposit account is designed to recover these costs.

- b. I am assuming that your question is referring to the costs associated with BRMAS-rated BRM. For the test year, the per piece cost of counting and

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INTERROGATORIES OF NDMS REDIRECTED FROM WITNESS FRONK

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rating BRMAS-rated BRM is \$0.0554, as shown in Exhibit USPS-27C. The total cost for a particular day for a particular volume of BRMAS-rated BRM would be obtained by multiplying the per piece cost by the number of BRMAS-rated BRM pieces received. The annual cost of maintaining an advance deposit account for BRMAS-rated mail is \$276.93, as shown in Exhibit USPS-27F.

- c. The proposed QBRM 6-cent per-piece fee does cover the cost of counting and rating QBRM mailpieces (which is \$0.0554, as stated in the response to part b.). The daily cost of maintaining the advance deposit account is covered by the annual fee for that service.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
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NDMS/USPS-T27-1.

At p. 6 of your testimony you state that "only 14 percent of BRMAS-qualified BRM is counted and rated on a BRMAS operation."

- a. For those pieces that are counted and rated on a BRMAS operation, what is the total unit cost of all counting and rating activities performed by the Postal Service?
- b. For the 86 percent of BRMAS-qualified BRM that are not counted and rated on a BRMAS operation, what is the unit cost of all counting and rating activities performed by the Postal Service?

RESPONSE:

- a. For those pieces that are counted and rated in a BRMAS operation, and given the assumption concerning productivity as stated in my original testimony, the unit cost of all counting and rating activities performed by the Postal Service is:

[from Exhibit USPS-27C]

\$0.0064	line [11]
+ \$0.0040	line [12]
- <u>\$0.0231</u>	line [15]
(\$0.0127)	

- b. For those BRMAS-qualified BRM that are counted and rated manually in the Postage Due Unit, the unit cost of all counting and rating activities performed by the Postal Service is:

[from Exhibit USPS-27C]

\$0.0827	line [13]
- <u>\$0.0231</u>	line [15]
\$0.0596	

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
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NDMS/USPS-T27-2.

- a. Please confirm that for Test Year After Rates the BRMAS coverage factor is estimated at only 5.87 percent in USPS-27C.
- b. In Base Year 1996, how many facilities used automated BRMAS equipment to process BRM paying the BRMAS rate?
- c. In Test Year After Rates, how many facilities were expected to process BRM on automated BRMAS equipment?

RESPONSE:

- a. Confirmed.
- b. Redirected to USPS.
- c. Redirected to USPS.

NDMS/USPS-T27-4.

- a. For each year since Docket No. R90-1, what has been the BRMAS coverage factor?
- b. What are the major reasons why the BRMAS coverage factor has never reached the levels anticipated by the Postal Service in Docket No. R90-1?
- c. What sense does it make to have a "BRMAS Program" when the coverage factor is less than 6 percent, and declining?

RESPONSE:

- a. The BRMAS coverage factor is not available for any years between 1990 and 1996. Between 1990 (when the Postal Service study used in support of Docket No. R90-1 was done) and 1996 (when the BRM Practices Survey was done in support of Docket No. R97-1), no studies were done to estimate the BRMAS coverage factor. These data are not collected nationally in a Postal Service database.
- b. Redirected to USPS.
- c. Redirected to USPS.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
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NDMS/USPS-T27-5.

Your testimony at p. 13 states that "a new BRMAS program is expected to be in place during the test year."

- a. What is the new BRMAS program? Please provide a brief explanation and submit a copy of the program as a library reference.
- b. When is implementation of the new BRMAS program expected to begin, and when is full implementation expected to be accomplished?
- c. How does the new BRMAS program differ from the old BRMAS program?
- d. What is the expected effect of the new BRMAS program on the BRMAS coverage factor?

RESPONSE:

The final proofreading of page 13 of my testimony before it was printed and filed did not catch the omission of the word "not" which should have appeared between the last word on line 1 and the first word on line 2.

The sentence from which you quote should have read as follows:

"Since a new BRMAS program is not in place as of the filing of this case, and will not be in place during the test year, the current BRMAS coverage percentage is the applicable BRMAS coverage factor to use in this model, *ceteris paribus*."

A corrected page will be filed.

Please note that pages 9 (footnote 6), and 10 (lines 9-10) of my testimony both correctly reflect that there will not be a new BRMAS program in effect during the test year.

a. - d. Redirected to USPS.

1 CHAIRMAN GLEIMAN: Last night, Witness Schenck
2 provided a written response to Presiding Officer's
3 Information Request Number 3, Question 27, accompanied by a
4 motion for late acceptance. I will grant the motion for
5 late acceptance administration enter Witness Schenck's
6 responses into the evidentiary record.

7 I am handing two copies to Mr. Tidwell, who is
8 going to be kind enough to hand them to the reporter for me,
9 and if the reporter would please have these transcribed into
10 the record at this point and received into evidence.

11 [Response of USPS Witness Schenk to
12 Presiding Officer's Information
13 Request Number 3, Question 27, was
14 received into evidence and
15 transcribed into the record.]

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Response OF USPS Witness Schenk
To Presiding Officer's Information Request No. 3

27. In Library Reference H-179, Table 12, reasons for not using BRMAS software are given. According to this table, 49.9 percent of sites report that there is "not enough volume to justify use," 7.8 percent of sites report that there are "problems with BRMAS software not solvable on the local level," and 6.3 percent give "other" as the reason for not using BRMAS software.
- a. Please describe all problems with BRMAS software that have been identified. Please discuss the reasons these problems are "not solvable on the local level."
 - b. Though only 6.3 percent of sites gave "other" as a response, this 6.3 percent constitutes 33.7 percent of BRM volume. Please describe what "other" reasons there may be for not using BRMAS software.

RESPONSE:

- a. I am not aware of what problems there are with BRMAS software, or why these problems are "not solvable on the local level." The sites did not say in the survey what these problems were, or why they were not solvable on the local level. Please see the USPS response to NDMS/USPS-T27-4.
- b. Other reasons that sites gave as to why they were not using BRMAS to sort BRMAS-rated mail were: have never used BRMAS, but don't know why; barcoded BRM arrives mixed with manual (letters); don't know how to use it; BRMAS reports not provided by servicing P&DC; and some responded "other" but gave not reason.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for Witness Schenck?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.
5 The only party that indicated an interest in
6 cross-examination of this witness was the Magazine
7 Publishers of America requesting followup cross-examination
8 and if you don't have cross-examination, you can't have
9 followup cross-examination and I don't see any familiar
10 faces from MPA in the room right now in any event so I am
11 going to assume that there is, unless I hear otherwise from
12 someone, that there is no cross-examination for this
13 witness.

14 Is there anyone else who cares to cross-examine?

15 [No response.]

16 CHAIRMAN GLEIMAN: There is not.

17 I believe there may be a couple of questions from
18 the Bench.

19 Commissioner LeBlanc?

20 COMMISSIONER LeBLANC: Ms. Schenck, Dr. Schenck,
21 is it fair to conclude that a large portion of the increase
22 in the unit cost of counting and rating the BRAMAS qualified
23 mail is driven by the fact that so little of this mail is
24 actually processed in the BRAMAS operation?

25 THE WITNESS: Yes, I think that is a fair

1 characterization.

2 COMMISSIONER LeBLANC: Then moving right along
3 here, in your testimony at page 13 you state that, and I
4 quote, "A new BRAMAS program is expected to be in place
5 during the test year."

6 THE WITNESS: And that, if I may interrupt for a
7 moment, that is one of the corrections that I made to the
8 testimony when I first -- when we first entered it, that
9 that sentence should read a new BRAMAS program is not
10 expected to be in place.

11 COMMISSIONER LeBLANC: Then that answers -- that
12 answers some of the other stuff that we have then. Okay, I
13 just wasn't following along on that. Thank you. That was
14 my fault.

15 Appreciate it. Thank you, Mr. Chairman.

16 CHAIRMAN GLEIMAN: Does any participant have
17 followup as a result of questions from the bench?

18 If not, redirect.

19 [No response.]

20 CHAIRMAN GLEIMAN: No redirect.

21 No recross.

22 Dr. Schenck.

23 THE WITNESS: Um-hum.

24 CHAIRMAN GLEIMAN: I want to thank you for your
25 patience with us today. We appreciate your appearance here

1 today, and I'm sure that some of your fellow witnesses are
2 quite jealous at this point, and if there's nothing further,
3 again I want to thank you for your contributions to our
4 record, and you're excused.

5 THE WITNESS: Thank you.

6 CHAIRMAN GLEIMAN: The next witness will be
7 Witness Plunkett. I would like to take a 10-minute break
8 right now. Before we turn off the mike and go off the
9 record for 10 minutes, I just want to remind people we do
10 have Witness Plunkett. There are four parties that have
11 indicated cross-examination. And then three other
12 witnesses, one of whom there does not appear to be any oral
13 cross for. So that leaves us with three more witnesses.

14 My guess is we're going to go for a while this
15 evening, and it's only a guess, but if you have a car parked
16 in the garage downstairs, you should make some accommodation
17 or be prepared to make some accommodation at our next break,
18 which will be about 5:30-ish or so, to go down, pay your
19 parking fee, get your car keys, and lock your car up so that
20 you'll be able to get it out of the garage, because the
21 garage closes at 7:00 o'clock, and unless you do that before
22 7:00, you will wind up spending the night trying to find
23 some other means of getting home.

24 So with that, we'll take 10 now and come back at 5
25 after the hour.

1 [Recess.]

2 CHAIRMAN GLEIMAN: Mr. Rubin, whenever you're
3 ready.

4 MR. RUBIN: The Postal Service calls Michael K.
5 Plunkett as its next witness.

6 CHAIRMAN GLEIMAN: Mr. Plunkett, would you please
7 raise your right hand?
8 Whereupon,

9 MICHAEL K. PLUNKETT,
10 a witness, was called for examination by counsel for the
11 United States Postal Service and, having been first duly
12 sworn, was examined and testified as follows:

13 CHAIRMAN GLEIMAN: Please be seated.

14 DIRECT EXAMINATION

15 BY MR. RUBIN:

16 Q Mr. Plunkett, do you have two copies of a document
17 titled "Direct Testimony of Michael K. Plunkett on Behalf of
18 United States Postal Service," and -- and is that designated
19 as USPS-T-40?

20 A Yes, that's correct.

21 Q And was this testimony prepared by you or under
22 your supervision?

23 A Yes, it was.

24 Q And if you were to testify orally here today,
25 would this be your testimony?

1 A Yes, it would be.

2 MR. RUBIN: With that, I am -- I will hand two
3 copies of the direct testimony of Michael K. Plunkett on
4 behalf of the United States Postal Service to the reporter
5 and ask that the testimony be entered into evidence in this
6 docket.

7 CHAIRMAN GLEIMAN: You sure you don't want to make
8 any corrections.

9 THE WITNESS: Not at this time, thanks.

10 CHAIRMAN GLEIMAN: Thank you.

11 Any objections?

12 [No response.]

13 CHAIRMAN GLEIMAN: Hearing none, Mr. Plunkett'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 into the record.

17 [Direct Testimony of Michael
18 K. Plunkett, Exhibit No.
19 USPS-T-40 was marked for
20 identification and received
21 into evidence.]

22 CHAIRMAN GLEIMAN: Mr. Plunkett, have you had an
23 opportunity to examine the packet of designated written
24 cross examination that was made available earlier today?

25 THE WITNESS: Yes, I have.

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

4 THE WITNESS: Yes, I have, but I would point out
5 that yesterday we filed two corrected responses to two of
6 the interrogatories. The specific interrogatories were
7 OCA/USPS-T-40-31, sub-part (a), and I believe the other was
8 DBP/USPS-26, and that was also sub-part (a).

9 CHAIRMAN GLEIMAN: Okay.

10 THE WITNESS: Those have been incorporated into
11 the packets.

12 CHAIRMAN GLEIMAN: Mr. Rubin, do you have the
13 corrected packages or do I have the corrected packages?

14 MR. RUBIN: I think witness Plunkett has them.

15 CHAIRMAN GLEIMAN: Witness Plunkett?

16 Well, I'm going to ask my colleague to step in
17 here and assist us a little bit.

18 Thank you, Commissioner LeBlanc.

19 Two copies of the corrected designated written
20 cross examination having been given to the reporter, I
21 direct that they be accepted into evidence and transcribed
22 into the record.

23 [Designation of Written
24 Cross-Examination of Michael
25 K. Plunkett was received into

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1 evidence and transcribed into
2 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 MICHAEL K. PLUNKETT
(USPS-T-40)

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

<u>Party</u>	<u>Answer To Interrogatories</u>
Office of the Consumer Advocate	<p>OCA\USPS: Interrogatories T40-1-18 and 21-31; and witness Plunkett's response to T22-3c. and d., redirected from witness Treworgy.</p> <p>DFC\USPS: Interrogatories T40-1-7 (2 interrogatories carry this number), 8-9 and 13-22.</p> <p>OCA\USPS: Interrogatories T30-5 and 8.</p> <p>DBP\USPS: Responses of witness Plunkett to DBP interrogatories USPS-24, 25a., c-g, and k-u, 26c and d, 27, 28c-v, 29, 30c-j, 31, 32, 33a-e and m-s, 34, 36, 38c and d, 50c-e, 51, 53a-e, h, j-n, p-s, u-w and bb-ff, 62h-k, and 64, redirected from the Postal Service.</p>
United Parcel Service	<p>OCA\USPS: Interrogatories T22-3(c)-(d) of the OCA redirected from witness Treworgy.</p>

Respectfully submitted,



Margaret P. Crenshaw
Secretary

DFC/USPS-T40-1. Please refer to your testimony at page 12, lines 2-6. Please assume that a customer wishes to obtain proof of delivery of a letter. This customer decides that he has two choices:

1. Purchase return-receipt service from the Postal Service;
 2. Not purchase return-receipt service, but instead enclose a self-addressed, stamped post card inside the letter. The post card would request that the recipient sign the post card, indicate on the post card the date on which the letter was delivered, and either indicate that the letter was delivered to the address on the mail piece or provide the address at which the letter was delivered if that address differed from the address on the letter. The self-addressed post card would request that the recipient mail back the post card promptly.
- a. Please confirm that a customer might be faced with these two choices.
 - b. Please confirm that option (1) and option (2) would provide the customer with the same amount and reliability of information about the delivery of the letter. If you do not confirm, please explain your answer fully.
 - c. For the purpose of assisting the Commission in determining the value of return-receipt service, please explain all differences between option (1) and option (2) that might make option (1) more valuable than option (2).

DFC/USPS-T40-1 Response:

- a. Assuming the circumstances in your question, confirmed.
- b. Option 2 would provide the information that is comparable in quantity and reliability to option 1 only under certain circumstances. The hypothetical example provided appears to imply a cordial relationship between sender and recipient such that the recipient has no reason to either withhold information or provide false information to the recipient. As many return receipts are used in conjunction with ongoing legal

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proceedings in which the recipient may benefit from the provision of faulty information, it would not be safe to assume that the scenario envisioned in this interrogatory is typical. In addition, in many cases the recipient might fail to fill out the post card, or fail to mail it back to the sender. Since return receipt service makes delivery conditional upon the recipient's signing the return receipt card, it is more likely that the requested information will be provided to the sender. Finally, when purchased in conjunction with certified mail, return receipts provide a mailing receipt and a record of delivery.

- c. In option 1, the Postal Service acts as a disinterested third party in confirming the date on which an article was received, and the address to which it was delivered. While the relative value of objective information depends on the relationship between the sender and the recipient, it would be reasonable to conclude that it is non-trivial. Furthermore, option 2 places greater demands upon the recipient for the provision of information. Senders who place a high value upon the time of the recipient, or who merely wish not to inconvenience the recipient would undoubtedly value option 1 more highly. As discussed

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- c. in part b, option 1 often would provide more, and more reliable,
information to the sender, along with a record of delivery.

DFC/USPS-T40-2. Please provide all evidence that the Postal Service has to indicate the percentage of customers who would consider a return receipt showing to whom a mail piece was delivered, the date of delivery, and the address of delivery to be at least 35 cents more valuable than a return receipt showing to whom a mail piece was delivered and the date of delivery.

DFC/USPS-T40-2 Response:

I am not aware of any study that would either confirm or refute the assertion that customers consider return receipts that provide the address of delivery to be 35 cents more valuable than those which do not. However, as indicated in Docket No. MC96-3, 10 percent of return receipt customers paid an additional 40 or 45 cents for receipts that provided the address of delivery in FY 95 (PRC Op., MC96-3, App. D, Sch. 3, p. 15). Additional customers who were unaware of the old address option for return receipt service may also find the address information worth at least 35 cents. The confirmation of a correct address through the new check-off box also might be worth at least 35 cents for some customers.

As this interrogatory suggests that the proposed 35 cent fee increase is predicated on the provision of address information for all return receipts, some additional clarification may be required. The proposed fee increase is intended to reflect not only the improvement in the service itself, but increases in test year costs, and a new application of the statutory pricing criteria as well. The Postal Service thus is proposing a cost coverage that reflects the value of return receipt service better than the 125 percent coverage recommended by the Commission in Docket No. MC96-3.

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DFC/USPS-T40-3. Please provide all evidence that the Postal Service has to indicate the percentage of customers who would *not* consider a return receipt showing to whom a mail piece was delivered, the date of delivery, and the address of delivery to be at least 35 cents more valuable than a return receipt showing to whom a mail piece was delivered and the date of delivery.

DFC/USPS-T40-3 Response:

See my response to DFC/USPS-T40-2.

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DFC/USPS-T40-4. Please provide all evidence that the Postal Service has to indicate the percentage of customers to whom the address information on a return receipt is of any positive value.

DFC/USPS-T40-4 Response:

See my response to DFC/USPS-T40-2.

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DFC/USPS-T40-5. Referring to the Docket No. MC96-3 record if necessary, please provide all evidence or data that the Postal Service has to estimate the cost associated with providing:

- a. The new address on a return receipt if a piece of mail is delivered to an address different from the one on the mail piece;
- b. A check mark in the check-off box to indicate that the piece of mail was delivered to the address on the mail piece.

DFC/USPS-T40-5 Response:

- a. See USPS LR-H-107, pages 40-41 (copy attached).
- b. Please refer to my testimony, page 14, lines 11-17.

**RETURN RECEIPTS
UPDATE TO COST ANALYSIS
WHOM AND DATE DELIVERED**

VI. Update to Test Year at Current Rates

Function	Time Mins	Rate per Minute Test Year	Direct Attr Cost Test Year	Piggyback Cost (3) Test Year	Total Attr Cost Test Year
1.1 Window Acceptance	0.414	0.426	0.176	0.074	0.250
1.2 Carrier/Driver Delivery & Call Window/Box Second Delivery (1)	0.667	0.432	0.288	0.102	0.390
1.3 Clerk Review of Return Receipt	0.128	0.426	0.054	0.023	0.077
1.4 Carrier Waiting for Review of Return Receipt	0.128	0.435	0.055	0.016	0.071
1.5 Printing Cost			0.006	0.003	0.009
1.6 Cost of Returning Return Receipt			0.139	0.000	0.139
1.7 Additional Cost of Handling Duplicate Requests					
Window Acceptance	0.017	0.426	0.007	0.003	0.010
Review and Search	0.038	0.426	0.016	0.007	0.023
<u>Forwarding and Returning Return Receipts Through the Mailstream</u>			<u>0.002</u>	<u>0.000</u>	<u>0.002</u>
Total Attributable Cost: Whom, and Date Delivered					0.972
 1B Return Receipt for Merchandise Service					
<u>Additional Cost</u> (2)	<u>0.3336</u>	<u>0.426</u>	<u>0.142</u>	<u>0.050</u>	<u>0.192</u>
Total Attributable Cost: Whom and Date Delivered for Merchandise					1.164

Footnotes:

(1)

Return Receipt at Time of Mailing Showing to Whom and Date Delivered.
Determination of Carrier /Driver Delivery and Call Window /Box

Cost Components	Minutes	Rate / Minute	Piggyback	Volume	Attr Cost (w/o Piggyback)	
Carrier Street Time	0.839	\$0.435	1.351	77,690	\$38,277	\$28,332
Carrier Office Time	0.766	\$0.435	1.286	40,879	\$17,501	\$13,609
Window Service	0.450	\$0.426	1.419	80,192	\$21,825	\$15,380
Total				198,761	\$77,603	\$57,322

Composite Average	0.667 (Avg. Minutes weighted by Volume)	\$	0.432	0.288
Study Unit Cost Weighted Markup				1.35381
Carrier Productive Hourly Wage Rate		\$26.08		
Clerk Productive Hourly Wage Rate		\$25.55		

(2) Additional Cost for Merchandise Return Receipt is assumed to be one-half of component 1.2 Carrier/Driver Delivery & Call Window Box

(3) Direct Cost times Piggyback Factor in (1) minus Direct Cost

**RETURN RECEIPTS
UPDATE TO COST ANALYSIS
WHOM, WHERE AND DATE DELIVERED**

FUNCTION	Time	Rate per Minute	Direct Attr Cost	Piggyback Cost (3)	Total Attr Cost
	Mins	Test Year	Test Year	Test Year	Test Year
2.1 Window Acceptance	0.324	0.426	0.138	0.058	0.195
2.2 Carrier/Driver Delivery & Call Window/Box Second Delivery (1)	0.928	0.433	0.402	0.137	0.539
2.3 Clerk Review of Return Receipt	0.271	0.428	0.115	0.048	0.163
2.4 Carrier Waiting for Review of Return Receipt	0.271	0.435	0.118	0.034	0.151
2.5 Printing Cost			0.008	0.000	0.008
2.6 Cost of Returning Return Receipt			0.139	0.000	0.139
2.7 Additional Cost of Handling Duplicate Requests					
Window Acceptance	0.012	0.426	0.005	0.002	0.007
Review and Search	0.031	0.426	0.013	0.006	0.019
Total Attributable Cost: Whom, Where and Date Delivered					\$ 1.220
Return Receipts for Merchandise Return Service					
2B Additional Cost (2)	0.4639	0.425833333	0.198	0.067	0.265
Total Attributable Cost: Whom, Where and Date Delivered for Merchandise					\$ 1.485

Footnotes:

(1)

Return Receipt at Time of Mailing Showing to Whom and Date Delivered.

Determination of Carrier/Driver Delivery and Call Window /Box

Cost Components	Minutes	Rate per Minute	Piggyback	Volume	Attr. Cost (w/o Piggyback)	
Carrier Street Time	0.942	\$0.435	1.351	8572	4,741	3,509
Carrier Office Time	1.123	\$0.435	1.286	4587	2,880	2,240
Window Service	0.650	\$0.426	1.419	3657	1,437	1,013
Total				16816	9,058	6,762

Composite Average	0.928 (Avg. Minutes weighted by Volume)	\$	0.433	\$	0.402
Study Unit Cost Weighted Markup					1.33968

(2) Additional Cost for Return Receipt for Merchandise is assumed to be one-half of component 2.2 Carrier/Driver Delivery & Call Window Box

(3) Direct Cost times Piggyback Factor in (1) minus Direct Cost

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DFC/USPS-T40-6. Referring to the Docket No. MC96-3 record if necessary, please provide the approximate percentage of all return receipts that will be delivered at an address different from the address on the mail piece.

DFC/USPS-T40-6 Response:

The estimated percentage is 1.13 percent (Docket No. MC96-3, Tr. 4/1098).

DFC/USPS-T40-7. Please refer to your testimony regarding the proposed new delivery-confirmation service.

a. Please provide all standards relating to the time that should be allowed to elapse between (1) the time that a parcel for which a customer has purchased delivery confirmation was delivered and (2) the time at which the telephone- or Internet-based delivery-confirmation system will reflect the delivery data.

b. Will a customer be eligible for a refund if the delivery-confirmation data are not posted to the delivery-confirmation system within a specified period of time after delivery of the parcel? If not, why not?

c. Please provide all data that are available about the speed with which delivery-confirmation data become available to customers who access the existing Express Mail tracking system.

DFC/USPS-T40-7 Response:

- a. Delivery offices will upload delivery confirmation at the close of the workday. Customers will therefore be able to access delivery confirmation information on the evening of the day on which delivery was completed.
- b. As the implementation of delivery confirmation depends in large part upon the outcome of the instant proceeding, there are many details that have yet to be finalized. Currently there are no plans to offer refunds, partly owing to the fact that many customers will pay nothing for the service, while those who do will pay a relatively modest amount. Moreover, the proposed cost coverage for delivery confirmation is sufficiently low that implementation of a refund system may well result in costs exceeding revenues.

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- b. As with delivery confirmation data, Express Mail delivery information generally is uploaded at or before the conclusion of the workday, and consequently should be available to customers on the day that delivery is made.

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DFC/USPS-T40-7. Please explain the rationale for DMM section § S915.1.2, which restricts the availability of return-receipt service to Express Mail and mail sent certified, COD, insured for more than \$50, or registered.

DFC/USPS-T40-7 Response:

Return receipt service is not designed as a stand alone service, but instead is used in conjunction with other "accountable services" for which unique identifiers are assigned and delivery records are maintained. Delivery records, in conjunction with unique identifiers, are of particular importance when customers request duplicate return receipts and return receipts after mailing, neither of which could be provided in the absence of a delivery record.

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DFC/USPS-T40-8. Please explain the rationale for requiring a person who, at the time of mailing, desires only a return receipt showing proof of delivery of a First-Class letter to purchase either certified mail, which provides proof of mailing and a record of delivery at the delivery post office, or another of the special services listed in DMM § S915.1.2.

DFC/USPS-T40-8 Response:

See the response to DFC/USPS-T40-7, concerning the delivery record feature of return receipt service. Although one could argue that customers who are willing to forgo the opportunity to purchase duplicate return receipts or return receipts after mailing would benefit from availability of return receipts without a delivery record, it is likely that the costs of such a product would be greater than that for the current return receipt service. Currently, the costs of creating the delivery record required for return receipts are attributed to the special services listed in DMM S915.1.2, and not to return receipt service. In the absence of these special services, costs such as the cost of having the carrier wait for the recipient to come to the door to sign the return receipt, would need to be added to the costs of providing return receipt service.

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DFC/USPS-T40-9. Please provide the cost of each element or activity related to return receipt for merchandise (I am seeking information that is similar to the information that you provided in Attachment to DFC/USPS-T40-5).

DFC/USPS-T40-9 Response:

The attachment to DFC/USPS-T40-5 provides the requested costs for return receipt for merchandise service, which include all of the costs for return receipt service, plus an additional cost presented in line 1B.

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DFC/USPS-T40-13. Please refer to DMM § S917.2.3(f). For which situation is the cost of providing return receipt for merchandise service lower: (1) A customer is not home, but the sender signed the waiver on Form 3804, so the delivery employee signs for the article on the first delivery attempt; or (2) A customer is not home and the sender did not sign the waiver on Form 3804, so the Postal Service must make another delivery attempt or hold the article for pickup at the post office. Please explain your answer in detail and quantify cost information.

DFC/USPS-T40-13 Response:

While these costs have not been studied, it appears that the costs for situation (1) would in general be lower.

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DFC/USPS-T40-14.

- a. Please provide the percentage of articles sent via return receipt for merchandise for which the sender signed the waiver on Form 3804.
- b. Please provide the percentage of articles sent via return receipt for merchandise for which the delivery employee signed for the article on the first delivery attempt because the addressee or his agent was not available to accept the shipment. (Assume that the sender signed the waiver on Form 3804.)

DFC/USPS-T40-14 Response

a and b. The Postal Service does not track the number of instances where senders waive the signature requirement, or the number of instances in which the employee signs for the article.

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DFC/USPS-T40-15. Please refer to your response to DFC/USPS-T40-1.

a. Would it be reasonable to conclude that, in a significant number of the instances in which a sender elects to use return receipt, the relationship between sender and recipient is something less than cordial or that the recipient may benefit from the provision of faulty information about date of delivery? If not, please explain.

b. At least in those instances in which the recipient may benefit from provision of faulty information about the existence or date of delivery, does the fact that the Postal Service retains possession of the mail piece until the recipient signs the Form 3811 return receipt contribute significant value to return-receipt service? If not, please explain.

c. At least in those instances in which the recipient may benefit from provision of faulty information about the existence or date of delivery, does the fact that the Postal Service acts as a disinterested third party in confirming the date on which an article was delivered and the address of delivery contribute significant value to return-receipt service? If not, please explain.

d. Please confirm that the Postal Service either places the date of delivery on the Form 3811 return receipt or, if the recipient has already placed the date of delivery on the Form 3811, verifies the accuracy of the date of delivery. If you confirm, does this practice contribute significant value to return-receipt service? Please explain.

DFC/USPS-T40-15 Response:

a. This may be the case for some proportion of these transactions, but it need not be true for all transactions.

b. While I am unaware of any attempt to quantify the value customers derive from this aspect of return receipt service, I believe it is reasonable to conclude that there is some value associated therewith.

c. See the response to subpart b.

d. Confirmed. See the response to part b. The Postal Service in this case acts as a disinterested third party, thus adding value to return receipt service.

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DFC/USPS-T40-16.

a. Do any instances exist in which the Postal Service, pursuant to a written or unwritten agreement, understanding, or procedure, regularly or routinely delivers to any private company, individual, or government agency other than the Postal Service letters, flats, or parcels with the Forms 3811, Domestic Return Receipt, still attached and allows the recipient, at a later time and not under the visual supervision of a postal employee, to sign the Forms 3811, indicate the date of receipt on the Forms 3811, and then return the Forms 3811 to the Postal Service for return to the sender?

b. If your answer to part (a) is yes, please explain fully, cite all known examples, and reconcile your response with applicable postal regulations.

DFC/USPS-T40-16 Response:

a. I am not aware of any instances of this kind.

b. Not applicable.

DFC/USPS-T40-17.

a. Do any instances exist in which the Postal Service, pursuant to a written or unwritten agreement, understanding, or procedure, regularly or routinely (1) delivers letters, flats, or parcels to any private company, individual, or government agency other than the Postal Service, (2) removes the Forms 3811, Domestic Return Receipt, prior to or simultaneously with delivery, and then (3) allows the recipient, at a later time and not under the visual supervision of a postal employee, to sign the Forms 3811, indicate the date of receipt on the Forms 3811, and then return the Forms 3811 to the Postal Service for return to the sender?

b. If your answer to part (a) is yes, please explain fully, cite all known examples, and reconcile your response with applicable postal regulations.

DFC/USPS-T40-17 Response:

a. I am not aware of any instances of this kind.

b. Not applicable.

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DFC/USPS-T40-18.

a. Do any instances exist in which the Postal Service, pursuant to a written or unwritten agreement, understanding, or procedure, regularly or routinely delivers letters, flats, or parcels to any private company, individual, or government agency other than the Postal Service, with the Forms 3811, Domestic Return Receipt, either still attached to or already removed from the letters, flats, or parcels, and then allows the recipient to sign the Forms 3811 under conditions that prevent the Forms 3811 from being under the visual supervision of a postal employee while the recipient is signing them?

b. If your answer to part (a) is yes, please explain fully, cite all known examples, and reconcile your response with applicable postal regulations.

DFC/USPS-T40-18 Response:

a. I am not aware of any instances of this kind.

b. Not applicable.

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DFC/USPS-T40-19.

a. Please confirm that POM § 822.112 provides that return receipts must be mailed not later than the first workday after delivery. If you do not confirm, please explain.

b. Please confirm that the POM § 822.112 requirement described in part (a) adds value to return-receipt service. If you do not confirm, please explain.

c. Please refer to the two options presented in the introductory portion of DFC/USPS-T40-1 and confirm that the POM § 822.112 requirement described in part (a) tends to make option (1) more valuable to many mailers than option (2). If you do not confirm, please explain.

DFC/USPS-T40-19 Response:

a. The Postal Operations Manual speaks for itself.

b. Confirmed.

c. Confirmed.

DFC/USPS-T40-20.

a. Please refer to your response to DFC/USPS-T40-8 and confirm that the cost of creating a delivery record for return receipt for merchandise is not attributed to a special service that is listed in DMM § S915.1.2. If you do not confirm, please explain fully and, if applicable, explain why costs for return receipt for merchandise would be attributed to a special service listed in DMM § S915.1.2, given that return receipt for merchandise can be purchased independently of any other special service.

b. Please confirm that all costs for return receipt for merchandise, including the cost of creating a delivery record at the delivery post office, are attributed exclusively to return receipt for merchandise. If you do not confirm, please explain.

DFC/USPS-T40-20 Response:

a. Confirmed.

b. My understanding is that the cost study provided for return receipts in LR-H-107 adds 50 percent to the carrier time for regular return receipts to account for additional carrier time for return receipts for merchandise. I am not sure whether the resulting additional cost is enough to cover the cost of creating a delivery record at the delivery post office, along with any other costs for return receipts for merchandise which are over and above the costs for regular return receipts.

DFC/USPS-T40-21.

- a. Will delivery-confirmation service provide proof of mailing? Please explain.
- b. When a customer who purchases manual delivery-confirmation service leaves the window, will he have a dated receipt proving that he mailed the item on a particular date?
- c. Will delivery confirmation provide a record of delivery at the delivery post office that is similar to the record of delivery that is created for certified mail or return receipt for merchandise?

DFC/USPS-T40-21 Response:

- a. No. See response to subpart (b).
- b. Customers purchasing delivery confirmation service at a retail unit will be provided with a receipt showing the amount paid for the service, the tracking number that can be used to confirm delivery, and the telephone number to call in order to verify delivery. There is no requirement that the receipt be dated.
- c. No. Delivery offices are required to scan barcodes on delivered pieces, and to then upload the necessary information to a centralized database. This database will serve as the sole depository of delivery confirmation data.

DFC/USPS-T40-22.

a. Please confirm that, under the Postal Service's proposal in Docket No. R97-1, a customer who sends a piece of mail via Priority Mail will have the option of purchasing manual delivery confirmation for \$0.35 as well as a return receipt for the proposed return-receipt fee of \$1.45. If you do not confirm, please explain.

b. Suppose a mailer desires only a return receipt showing to whom the mail piece was delivered, the date of delivery, and the address of delivery (if the address is different from the address on the mail piece). This mailer also desires only whatever proof of mailing that the delivery-confirmation service may or may not provide. Please confirm that a mailer who desires only the information described in this question will be able to obtain that information for \$1.80 if he sends his mail via Priority Mail (using delivery confirmation and return receipt) but will be required to pay \$3.00 to obtain this information if he sends his letter via First-Class Mail (since he will need to purchase certified mail and return receipt). Please explain your answer. (Note that this mailer places no value on the proof of mailing that certified mail provides.)

c. If you confirm in part (b), please explain why a customer who uses First-Class Mail should be required to pay \$1.20 more than if he used Priority Mail, just to obtain the same information.

d. Please explain why a customer who uses Priority Mail should have the option to forgo the services of certified mail and directly obtain delivery confirmation and a return receipt, while a customer who uses First-Class Mail must pay for the more-expensive certified mail even if he does not want to purchase certified mail.

e. Please explain why the proposed delivery-confirmation service should not be offered for customers who wish to use First-Class Mail and return receipt.

f. Please explain why a service that is identical in function to return receipt for merchandise should not be available for non-merchandise that is sent via First-Class Mail.

g. Please explain why the Postal Service would support or oppose a proposal to offer a new service called "Return Receipt Service" that would provide the same services as return receipt for merchandise and would be available for all First-Class Mail. In your answer, consider that this service might or might not be offered in conjunction with delivery-confirmation service.

h. Please explain why the services described in parts (e), (f), and (g), if they were available, would not provide a valuable service to customers.

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DFC/USPS-T40-22 Response:

- a. Confirmed.
- b. Confirmed, with the understanding that the \$1.80 provides the information in electronic form rather than the hard copy return receipt card provided for \$3.00, and assuming the Postal Service's proposals are recommended by the Commission and implemented by the Postal Service. I would also point out that in most cases the customer would pay an additional \$2.87 in postage given the rates proposed in R97-1.
- c-f. Delivery confirmation was developed in response to interest from Priority and Standard (B) customers. While this does not rule out later availability of delivery confirmation for letter mailers, there are a number of operational issues that need to be resolved before this could happen. For example, letters are sorted primarily through automated equipment, many into delivery point sequence. Moreover, some of these letters are bundled for direct delivery, for instance to large volume customers. Absent a method for capturing delivery confirmation pieces, there is some likelihood that carriers would fail to notice delivery confirmation letters. As parcels generally are distributed through mechanized means and are handled individually by the carriers, this is not an issue for parcels.

Another issue relates to acceptance. Single piece First-Class letters are accepted primarily through collection boxes, so window service costs are minimal. However, if delivery confirmation were available with First-Class

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Mail, each such piece would result in an additional window service transaction. As parcels are accepted predominantly through window transactions, the incremental window cost of providing delivery confirmation is limited to the additional time required to process the delivery confirmation transaction, as shown in witness Treworgy's testimony (USPS-T-22, Appendix B). While the cost impact of these operational issues have not been studied, they suggest that the cost of providing delivery confirmation for First-Class Mail would be higher than the cost of providing the service with parcels. Moreover, while return receipt service with delivery confirmation service provides the same information as return receipt service with other special services, some customers might value the hard copy return receipt provided in the latter case more than the electronic version provided with delivery confirmation service, and may be willing to pay an additional \$1.20.

- g. I am not aware that a proposal such as this has been considered. Support or opposition would depend on numerous factors such as expected cost, customer demand, and the impact on other products and services, none of which has been studied. In addition, the operational issues discussed in response to parts c-f need to be addressed. Also, see witness Treworgy's response to OCA/USPS-T22-8.
- h. Presumably these services would be of value to some consumers. What is not known is how much customers would be willing to pay for these services, or what it would cost to provide them. For example, the operational issues discussed in response to parts c-f need to be addressed.

OCA/USPS-T40-1. This set of interrogatories concerns the insurance portion of your direct testimony (excluding express mail insurance, and, except as to OCA/USPS-T40-31, bulk mail insurance). To the extent you do not have personal knowledge or the qualifications necessary to respond to a question, please refer the question to an appropriate witness or to the Postal Service for an institutional response. Please confirm that pursuant to DMM S913.1.1, insured mail provides up to \$5,000 indemnity coverage for a lost, rifled, or damaged article, subject to the standards for the service and payment of the applicable fee. If not confirmed, please explain.

OCA/USPS-T40-1 Response.

The DMM speaks for itself.

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OCA/USPS-T40-2. Confirm that pursuant to DMM S913.1.3. among the types of mail ineligible for insurance are: nonmailable matter, articles so fragile they cannot be carried safely in the mail regardless of packaging, and articles not adequately prepared to withstand normal handling in the mail (with the proviso that "[a]s a rule, any mailable package should be insurable."). If not confirmed, please explain.

OCA/USPS-T40-2 Response.

See OCA/USPS-T40-1.

OCA/USPS-T40-3. Confirm that DMMS010.2.11(a) provides, *inter alia*, that insurance for loss or damage to insured mail is payable for actual value of lost articles at the time and place of mailing, and cost of repairing a damaged article or replacing a totally damaged article not exceeding the actual value of the article at the time of mailing. If not confirmed, please explain.

OCA/USPS-T40-3 Response.

See OCA/USPS-T40-1.

OCA/USPS-T40-4. Confirm that DMM S010.2.13 provides: "The USPS does not make payment for more than the actual value of the article or for more than the maximum amount covered by the fee paid." If not confirmed, please explain.

OCA/USPS-T40-4 Response.

See OCA/USPS-T40-1.

OCA/USPS-T40-5. Confirm that the Postal Service denies insurance claims, under DMM S010.2.14, according to the following standards, *inter alia*: (1) a requested replacement value exceeding actual value at the time and place of mailing, (2) damage by abrasion, scarring, or scraping to articles not properly wrapped for protection, (3) fragile nature of the article prevented its safe carriage in the mail, regardless of packaging, and (4) nonmailable items, prohibited items, or restricted items not prepared and mailed according to postal standards, or any item packaged in such a manner that it could not have reached its destination undamaged in the normal course of the mail. If not confirmed, please explain.

OCA/USPS-T40-5 Response.

Confirmed if by denying claims you mean refusal to pay replacement value in excess of the actual value at the time of mailing. Claimants in such cases are entitled to recover the actual value of the article.

OCA/USPS-T40-6. Confirm that under DMM S010.2.15, the Postal Service "depreciates a used article either lost or damaged based on the life expectancy of the article." If not confirmed, please explain.

OCA/USPS-T40-6 Response.

See OCA/USPS-T40-1.

OCA/USPS-T40-7. Please provide all documents containing interpretations of the Postal Service's DMM insurance regulations. There is no need to send identical copies of documents pursuant to this document request.

- a. Confirm that pursuant to DMM S010.4.0 the St. Louis Accounting Service Center adjudicates and pays or disallows all domestic claims except the initial adjudication of domestic unnumbered insurance claims and those appealed to the Postal Service's consumer advocate. If not confirmed, please explain.
- b. Separately list all documents containing interpretations of the Postal Service's DMM insurance regulations used by the St. Louis Accounting Center, and submit all such documents (except to the extent they are identical to others already submitted).

OCA/USPS-T40-7 Response.

- a. The DMM speaks for itself.
- b. When adjudicating claims, Accounting Center employees are expected to conform to the guidelines of the DMM. It is my understanding that in doing so, these employees rely on the observations of the employee to whom the damaged article is presented. Employees are expected to evaluate each claim based on the physical characteristics of the article and the materials used to package it; no additional guidelines are published.

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OCA/USPS-T40-8. Do you agree that, pursuant to the above regulations, the Postal Service compensates insureds for the depreciated value of an article, and not its replacement value? Please comment.

OCA/USPS-T40-8 Response.

Yes.

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OCA/USPS-T40-9. Please describe all circumstances, if any, where the Postal Service will compensate an insured for the replacement value of an article. Please specifically address in your response how the Postal Service treats insurance claims for articles that the insured purchased new on or near the day the article was placed in the mail, i.e., does the Postal Service provide replacement value coverage? Please explain.

OCA/USPS-T40-9 Response.

The Postal Service will compensate an insured for the replacement value of an article in such instances where the replacement value is equal to the actual value, for instance when an article is new and when the insured presents a sales receipt, invoice, or statement of value from a reputable dealer as set forth in DMM § S010.2.6(a).

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OCA/USPS-T40-10. Please supply all documents relating to depreciation standards, depreciation guidelines, or other depreciation decisional rules used to handle insurance claims.

OCA/USPS-T40-10 Response.

Employees are advised to depreciate items based on the article's value and it's remaining useful life using a straight line method. For example, a five year old television with a \$500 retail value, and an expected life of ten years would have a depreciated value of \$250. No additional guidelines are published.

OCA/USPS-T40-11. Does the Postal Service provide notice to purchasers of insurance as to the extent of coverage provided by the insurance, e.g., that they are buying depreciation value insurance and not replacement value insurance? If so, please explain, and supply non-identical copies of any insurance brochures provided to customers.

- a. If such insurance brochures exist, how many were distributed during the last fiscal year to retail postal offices?
- b. If such brochures do not exist, why not?

OCA/USPS-T40-11 Response.

PS Form 3813-P (Receipt for Insured Mail (Domestic or International), which customers fill out when purchasing insurance, explains the terms and conditions of coverage, and advises customers that coverage is limited to the value of the contents at the time of mailing in the event of loss or complete damage. In addition, Publication 201 Consumer's Guide to Postal Services and Products, and Publication 122 Customer Guide to Filing Domestic Claims or Registered Mail Inquiries both explain the terms and conditions applicable to insurance claims. Copies will be filed as library reference H-273.

- a. Form 3813-P: 1,900,484

Publication 122: 92,000

Publication 201: 2,260,000

Shipments of Publication 122 were suspended early in FY 96 pending the outcome of Docket No. MC96-3.

- b. Not applicable.

OCA/USPS-T40-12. How many complaints about, objections to, and appeals from insurance denials were filed with the Postal Service by insureds during the last fiscal year?

- a. As to the above, how many related to circumstances where the insured thought or maintained that replacement value and not depreciated value should be the compensation standard?
- b. Of the complaints, objections and appeals referred to above, how many were granted in whole or in part. Include settlements of claims in your answer, and specify the number settled.

OCA/USPS-T40-12

a-b. In FY 97, 408 appeals were filed. Of these claims 129 were denied, 132 were paid, and 147 remain pending. None of these claims involved disputes as described in subpart (a).

OCA/USPS-T40-13. Submit all reports, surveys, studies, and internal memoranda relating to the Postal Service's issuance of depreciation insurance, including, but not limited to: (1) analyses of complaints from consumers, (2) analyses of customer relations regarding the issuance of insurance, (3) customer perceptions about what type of insurance they are buying, and (4) adequacy or inadequacy of insurance coverage.

OCA/USPS-T40-13 Response:

I am unaware of any reports, surveys, studies, or internal memoranda relating to this topic.

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OCA/USPS-T40-14. Is the insurance business of the Postal Service regulated by state insurance commissions? Please explain, including any legal citations necessary to support the Postal Service explanation. Also include any contrary legal citations if they exist.

OCA/USPS-T40-14 Response:

I am not aware of any such regulation.

OCA/USPS-T40-15. Is the advertising or marketing of insurance by the Postal Service regulated by any federal agency, such as the Federal Trade Commission (under its unfair or deceptive acts or practices authority). Please explain.

OCA/USPS-T40-15 Response:

I am not aware of any federal agency actively regulating the advertising or marketing of insurance by the Postal Service.

OCA/USPS-T40-16. Explain what action a postal retail clerk will take if a customer asks what insurance purchased from the Postal Service covers and excludes. Supply all documents relating to this question.

OCA/USPS-T40-16 Response:

Clerks trained in the DMM provisions relating to indemnity claims and, if asked such a question, are instructed to inform the customers of the appropriate DMM provisions. See DMM § S010.2. See also response to OCA/USPS-T40-11.

OCA/USPS-T40-17. In response to OCA/USPS-T2-10 In Docket No. MC97-5, redirected from witness Brehm, you stated that "postal indemnity provisions do not provide payment in the event an article is 'not properly wrapped for protection,' see DMM S010.2.14(l)" Please also refer to DMM S010.2.14(m), which directs that a nonpayable claim includes: "Fragile nature of article prevented its safe carriage in the mail, regardless of packaging."

- a. In the last fiscal year for which records are complete, how many claims were denied because of the quoted language herein?
- b. When a customer asks to insure an article, does the postal clerk inform the customer of the above provisions? Please explain. If not, why not?

OCA/USPS-T40-17 Response.

- a. In FY 96, 10 claims were rejected because the fragile nature of the article prevented its safe carriage, and 28 were rejected because the articles had not been properly wrapped.
- b. According to Postal Operations Manual § 813.1, the USPS employee at the window is required to ask whether the package presented for insurance contains fragile, perishable, or flammable matter. If the package does not contain such matter and to all outward appearances is adequately prepared, no further inquiry about contents is made. If the package contains such matter, detailed inquiry must be made to determine whether contents are admissible in the mail and are adequately packed. Depending on the results of said inquiry, clerks are expected to inform the customer of the relevant DMM provisions.

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OCA/USPS-T40-18. Does the Postal Service ever compensate uninsured mailers for items damaged by the Postal Service, for items lost in the mails, or for items rifled or stolen while the item is in the mailstream? Please explain.

OCA/USPS-T40-18 Response.

I am advised that the Postal Service defends against mailers' claims for loss or damage to the contents of mail matter for which postal insurance is not elected.

OCA/USPS-T40-21. Has a mailer ever filed a lawsuit against the Postal Service because, though uninsured, the mailer alleged that the Postal Service had a legal responsibility to compensate it for items damaged by the Postal Service, for items lost in the mails, or for items stolen while the item is in the mailstream? Please explain, and please provide citations to all reported court decisions related to this topic.

OCA/USPS-T40-21 RESPONSE:

I have no particular expertise in legal research, and am not aware of any particular lawsuits. However, I am told that the Postal Service does receive claims of this nature, and defends against them under an exception to the waiver of sovereign immunity in the Tort Claims Act (28 U.S.C. § 2680(b)).

OCA/USPS-T40-22. What standards does the Postal Service use to determine when the fragile nature of an item prevents its safe carriage in the mail, regardless of packaging? If the standards exist in a document, please supply it.

OCA/USPS-T40-22 Response.

Determination that the fragile nature of an item prevented its safe carriage in the mail is the responsibility of the employee adjudicating the claim, in accordance with the provisions of DMM § S010.2.14. It is my understanding that in doing so, these employees rely on the observations of the employee to whom the damaged article is presented for inspection under DMM § S010.2.8. Employees are expected to evaluate each claim based on the physical characteristics of the article and the materials used to package it; no additional guidelines are published.

OCA/USPS-T40-23. What standards does the Postal Service use to determine when an article is "not properly wrapped for protection" pursuant to DMM S010.2.14(I)? If the standards exist in a document, please supply it.

- a. Suppose a customer insures a parcel that upon external inspection looks properly packed; internally, however, the packaging is inadequate (i.e., "not properly wrapped for protection"). Under the standards of DMM S010.2.14(I) will the insured's claim be denied?
- b. In such cases does the Postal Service refund the insurance fee? If not, why not?

OCA/USPS-T40-23 Response:

Determination that an article has not been properly wrapped for protection is the responsibility of the employee adjudicating the claim, in accordance with the provisions of DMM § S010.2.14. It is my understanding that in doing so, these employees rely on the observations of the employee to whom the damaged article is presented.

Employees are expected to evaluate each claim based on the physical characteristics of the article and the materials used to package it; no additional guidelines are published.

- a. Yes, if the claim is for damage to contents and the inadequate packaging contributed to the damage.
- b. No. The customer has still received the benefit of the bargain, *i.e.*, coverage against loss or damage in all other circumstances for which insurance coverage is offered.

OCA/USPS-T40-24. Please confirm that under DMM S010.3.2, if "the insured article is lost or the entire contents totally damaged, the payment includes an additional amount for the postage (not fee) paid by the sender." If not confirmed, please explain.

- a. Please explain whether or not the Postal Service refunds the amount of postage spent by the insured mailer if the article has been rifled or stolen while within the postal system. If postage is not refunded, why not?
- b. Please explain whether or not the Postal Service refunds the amount of postage spent by the insured mailer if the article has been partially damaged while within the postal system. If postage is not refunded, why not?

OCA/USPS-T40-24 Response:

Confirmed

- a. If an article is rifled while within the postal system, postage is not refunded. As the theft of an article would constitute total loss of the article, postage would be refunded. Postage is not refunded in the case of rifling because the customer has benefited from the service for which the postage was tendered; transportation of the article from origin to destination.
- b. In the case of partial loss, postage is not refunded. See my response to subpart (a) above.

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OCA/USPS-T40-25. Confirm that pursuant to DMM S010.2.14(p), the Postal Service will not pay an insurance claim where the damage is caused by shock, transportation environment, or x-ray, without evidence of damage to the mailing container. If not confirmed, please explain.

- a. Please define what is meant by "shock."
- b. Please define what is meant by "transportation environment."
- c. Does the Postal Service x-ray mail? Please explain.
- d. If your answer to the initial question herein is confirmed, why should it matter whether or not the mailing container is undamaged if the injury to the article was caused by, e.g., the "shock?"

OCA/USPS-T40-25 Response:

The DMM speaks for itself.

- a. Shock in this instance refers to impact from an external stimulus.
- b. Transportation environment refers to the environmental factors, i.e. temperature, humidity, etc. to which the package is subject during transportation.
- c. No.
- d. The incidence of any of the factors listed in DMM § S010.2.14(p), if sufficient to cause damage to the article contained therein, would presumably leave evidence of damage on the mailing container. In the absence of damage to the external container there is no way to ascertain whether damage to the article occurred while the article was within the postal system or prior to acceptance.

OCA/USPS-T40-26. Please refer to Table 1 in your direct testimony.

- a. The table lists the number of claims transactions for lost and damaged articles. However, there is no separate listing of indemnity transactions for articles subject to rifling or theft. Is there claims data on articles subject to rifling or theft? If there is, please supply it. If not, why not?
- b. Confirm that Table 1 shows that in 1996 insureds received in-pocket \$6,297,137 to compensate the insureds for lost articles, and insureds received in-pocket \$5,304,728 to compensate insureds for damaged articles. If not confirmed, please explain. And, if not confirmed, please provide the actual amounts insureds received in-pocket as to both categories.
- c. Please provide data on the average replacement value, and the average depreciated value, of the paid claims listed in Table 1, by amount insured (i.e., value up to 50, value up to 100, etc.). If the data cannot be gathered in this manner, please provide all other available data that would show the average replacement value and the average depreciated value of the articles for which claims were approved. If no such data is available, please explain why it is not.

OCA/USPS-T40-26 Response:

- a. Claims are classified either as loss or damage. To the extent that rifling results in either of these, the claims are considered to be loss or damage. There is no separate accounting for rifled items. Similarly, loss claims include claims resulting from theft.
- b. Confirmed.
- c. Claims data do not include replacement value. Average indemnity payments for FY 96 are provided in the table below.

Value Up To	Average Indemnity		
	Lost	Damaged	Total
50	\$ 40.20	\$ 35.58	\$ 38.41
100	\$ 85.01	\$ 65.61	\$ 73.67
200	\$ 163.27	\$ 115.84	\$ 136.34
300	\$ 259.08	\$ 173.79	\$ 211.70
400	\$ 349.26	\$ 235.51	\$ 288.29
500	\$ 436.40	\$ 282.45	\$ 350.45
600	\$ 548.68	\$ 354.59	\$ 440.66
Total	\$ 125.85	\$ 104.49	\$ 115.09

OCA/USPS-T40-27. What instructions are given to customers concerning the appropriate value to declare once the customer has declared a wish to buy insurance? Provide all documents relating to this question.

OCA/USPS-T40-27 Response:

If the customer does not ask any additional questions, clerks are required only to inquire as to the nature of the contents (see response to OCA/USPS-T40-17 (b)).

However, if asked by the customer about the appropriate value to declare, clerks are instructed to inform the customers of the appropriate DMM provisions. See DMM § S010.2.11. See also response to OCA/USPS-T40-11.

OCA/USPS-T40-28. Please refer to your direct testimony beginning on page 3 where you discuss the Postal Service's insurance proposals in this case. At page 6 you state: "At the same time, the primary surface alternative provides a limited amount of insurance as part of the basic price." Please clarify this sentence. What or who is the primary surface alternative? Please also describe what you know about the limited amount of insurance provided by the primary surface alternative.

OCA/USPS-T40-28 Response:

United Parcel Service (UPS) is the primary surface alternative. Published shipping rates for UPS ground service include insurance up to \$100 in value.

OCA/USPS-T40-29. Please confirm that DMM S010.2.14(g) provides that the Postal Service will not pay a claim based on consequential damages. If not confirmed, please explain.

OCA/USPS-T40-29 Response:

The DMM speaks for itself.

OCA/USPS-T40-30. Please describe fully how the Postal Service interprets the phrase "consequential damages" set forth in the DMM regulation.

- a. Supply all documents relating to the interpretation of the phrase "consequential damages" set forth in the DMM regulation
- b. In the last fiscal year, how many claims by insureds included consequential damages claims? Of those claims, how many were denied?
- c. Do postal clerks inform customers wishing to buy insurance that the insurance does not cover consequential damages? If not, why not?

OCA/USPS-T40-30 Response:

Consequential damages would be damages incurred by the recipient of a lost or damaged article as a consequence of the loss or damage of the insured article.

- a. A definition of consequential loss is provided in Publication 122, Customer Guide to Filing Domestic Claims or Registered Mail Inquiries, p. 25. See response to OCA/USPS-T-40-11.
- b. Records of paid claims do not include amounts for consequential loss. Of all insurance claims disallowed in FY 96, one was disallowed on the basis that it was for consequential losses.
- c. If the customer does not ask any additional questions, clerks are required only to inquire as to the nature of the contents (see response to OCA/USPS-T40-17 (b)). However, if asked by the customer about consequential damages, clerks are instructed to inform the customers that consequential damages are not covered. See DMM § S010.2.11. See also response to OCA/USPS-T40-11.

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DBP/USPS-26 [c] Confirm, or explain if you are unable to do so, that when delivering a Return Receipt for Merchandise article, that the delivery employee must obtain two separate signatures from the addressee, one on the Postal Service delivery record [irrespective of whether there is a single article to deliver this way or multiple articles for delivery on some form of manifest] and the second on the Return Receipt card PS Form 3811. [d] Confirm, or explain if you are unable to do so, that the time and therefore costs for obtaining both signatures for Return Receipt for Merchandise service are charged to that service since there is a single fee.

DBP/USPS-26 Response:

- c. Confirmed, except when the customer instructs the Postal Service to deliver without obtaining the recipient's signature. See DMM § S917.2.2f.
- d. Please see my response to DFC/USPS-T40-20.

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OCA/USPS-T40-31 Response:

- a. Confirmed, but only in the sense that, in most instances, bulk insurance customers would receive their replacement cost for the article being insured. While the relevant DMM provisions have not been written at this point, the proposed service calls for mailers to receive the lesser of either the *actual* or *wholesale* value of the article [emphasis added]. As indicated in my testimony, this will presumably be equal to replacement cost in many cases. Note that this treatment of bulk insurance claims is in no way intended to be advantageous relative to the treatment of insurance claims. In fact, the replacement cost for wholesalers is often less than the actual value (which is based on retail price) for the individual customer. Consider a hypothetical example where an individual purchases a garment mail order with a retail price of \$175 and a wholesale cost of \$125. If the retailer ships the article using bulk insurance and the article is lost, the retailer would be entitled to recover \$125. If, on the other hand, the customer receives the article intact and immediately mails the article to a third party, purchasing insurance, the customer would be entitled to recover \$175 in the event of loss.
- b. For the examples cited in subpart (b) I would agree. However, the replacement cost for these types of mailers is the wholesale cost, not the retail price.
- c. The method for determination or definition of wholesale cost has not yet been developed.
- d. No such provisions exist at this time.
- e. See subpart c. I would expect the "wholesale cost" to be \$100.

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- f. As indicated in subpart (b), the replacement value for household mailers generally is much higher than the replacement value for bulk mailers, so offering replacement value insurance for non-bulk customers would not necessarily treat them the same as bulk mailers. Moreover, for most of the intended users of bulk insurance, insured articles will be new merchandise. Consequently these mailers would be entitled to recover the replacement value of these articles in the event that they are lost or completely damaged. As indicated in my response to OCA/USPS-T40-9 household mailers are also entitled to recover the replacement value of new articles, albeit different replacement values than those available to bulk mailers.
- g. The likelihood that an article would have depreciated in the manner described in this question depends on the expected life of the article. In the hypothetical example presented, more than 60 percent $((250-100) \div 250)$ of the article's value would have to be depreciated before the actual value is less than the wholesale value. Only if the article has an expected life of less than 20 months $(12 \text{ months} \div 0.6)$ would this be the case.
- h. The specific qualifications and conditions that mailers will have to meet in order to qualify for bulk insurance have not yet been determined, beyond what is included in the proposed DMCS § 943.22.

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OCA/USPS-T22-3. Please refer to your direct testimony in Docket No. MC97-2 at 23, Table 7, where you list final total unit attributable costs at \$0.207541 for electronic DC and \$0.495545 for manual DC. In the earlier proceeding, the proposed rates for electronic and manual DC were \$0.25 and \$0.50, respectively. In your direct testimony in this docket, Table 7 at page 17, you show total volume variable unit costs as \$0.1486 and \$0.3349 respectively. In this proceeding, the proposed rates are \$0.25 and \$0.60, respectively.

- c. What policy decisions entered into the proposed pricing of electronic delivery confirmation relative to manual delivery confirmation in this docket? Explain fully.
- d. Please submit all documents relating to (c).

OCA/USPS-T22-3 Response.

c. The Standard (B) manual fee is 35 cents more than the Standard (B) electronic fee, while the manual costs are 33.41 cents more than the electronic costs. For discussion regarding application of ratemaking criteria in this instance, please see my testimony (USPS-T-40, pp. 16-22).

d. I am unaware of any documents relating to (c), other than my testimony in Docket No. R97-1 (USPS-T-40, pp. 16-22).

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DBP/USPS-24 [a] Confirm, or explain if you are unable to do so, that Return Receipt for Merchandise service will provide the following four services to a mailer: 1. Proof that the article was mailed [namely, the mailing receipt may be postmarked at the office of mailing], 2. The ability to utilize Restricted Delivery will be permitted, 3. The article will be signed for by the addressee and the record of delivery will be maintained by the office of delivery, and 4. The ability to receive proof of delivery will be available [namely, the Return Receipt PS Form 3811]. [b] Enumerate any other services that are available to the user of this service or indicate that there are none. This only includes those services that one would obtain by utilizing the specific Return Receipt for Merchandise and not other services that may be utilized for the parcel such as insurance, COD, etc. [c] Confirm, or explain if you are unable to do so, that an article which is sent by Certified Mail - Return Receipt Requested will provide to the mailer the same identical services available as noted for Return Receipt for Merchandise in subparts a and b above. This assumes that I am able to utilize the service either by the contents of the parcel, the level of service that I desire, or the rate at which I send the article. [d] Confirm, or explain if you are unable to do so, that if I have a 1-1/2 pound domestic parcel containing merchandise which I desire to send by Priority Mail, the postage will be \$3.00. [e] Confirm, or explain if you are unable to do so, that if I wish to utilize the Return Receipt for Merchandise service in connection with this parcel, I will pay an additional \$1.20 or a total of \$4.20 for the service. [f] Confirm, or explain if you are unable to do so, that if I wish to utilize the Certified Mail - Return Receipt Requested service in connection with this parcel, I will pay an additional \$2.45 [\$1.35 Certified Mail fee and \$1.10 Return Receipt fee] or a total of \$5.45 for the service. [g] List and explain any reasons why a knowledgeable mailer should utilize the more expensive Certified Mail - Return Receipt Requested service over the less expensive Return Receipt for Merchandise service when the service received will be identical. [h] Confirm that Priority Mail is a subclass of First-Class Mail and is sealed against Postal Inspection. [i] Confirm, or explain if you are unable to do so, that the Postal Service will not be able to determine whether a Priority Mail parcel contains merchandise and therefore may utilize the Return Receipt for Merchandise service or contains non-merchandise and therefore may not utilize the service. [j] What penalty, if any, is there for a mailer who is already utilizing Priority Mail service [either because of the weight and/or desire for the delivery standards] and who wants some form of mailing receipt / proof of delivery service utilizing the Return Receipt of Merchandise service [as opposed to Certified Mail - Return Receipt Requested] regardless of whether or not the parcel contains merchandise? [k] Confirm, or explain if you are unable to do so, that the proposed rate for Return Receipt for Merchandise is \$1.70 and the total fee for Certified Mail - Return Receipt Requested is \$1.55 plus \$1.45 or \$3.00. [l] Explain why in both the present and proposed rate schedules, the fee for Certified Mail - Return Receipt Requested is between 176% and 204% of the fee for Return Receipt for Merchandise when both services provide identical benefits to the mailer.

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- a. Not confirmed. Restricted delivery service is not available to customers who purchase return receipt for merchandise service.
- b. There are no other services available.
- c. Not confirmed. See response to subparts (a) and (g).
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. Customers purchasing certified mail and return receipt service are also able to purchase restricted delivery, and are able to request return receipts after mailing; services which are unavailable to customers purchasing return receipt for merchandise service. Furthermore, customers using certified mail and return receipt may deposit their mail in street letterboxes, post office maildrops, or any other receptacle for First-Class Mail subject to DMM § 912.2.5. Return receipt for merchandise customers must mail articles at a post office, branch, or station or give them to a rural carrier (DMM § 917.2.1).
- h. Confirmed.
- i. Not confirmed. As indicated in my response to subpart (g), customers must present these articles to USPS employees for acceptance. The physical characteristics of the mailpiece (if it is flat for example) may indicate that the article does not contain merchandise.
- j. I am unaware of any attempt to impose penalties on mailers who attempt to circumvent DMM provisions as described. Typically, when an employee becomes aware that a customer is using a service for which they are not eligible, the practice is to inform the customer of the appropriate regulation. However, as is pointed out in subpart (h), Priority Mail is sealed against inspection, making detection of such pieces difficult. To some extent, the Postal Service relies on the integrity of its customers not to send non-merchandise using a product called return receipt for merchandise.

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k. Confirmed.

l. Costs for return receipt for merchandise are less than the combined costs for certified mail and return receipts. See LR-H-107, and USPS-T-39, WP-17, page 1. Moreover, the services are not identical. See response to subpart (g).

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DBP/USPS-25 [a] Confirm, or explain if you are unable to do so, that the proposed fee for Certified Mail will be \$1.55, for Return Receipt for Merchandise will be \$1.75, and for individual Certificate of Mailing will be \$0.60. [b] Confirm, or explain if you are unable to do so, that the cost coverage Certified Mail will be 133%. [c] What will the cost coverage be for Return Receipt for Merchandise? [d] What will the cost coverage be for an individual Certificate of Mailing? [e] Based on the fees shown in subpart a and the cost coverage values shown in subparts b through d, what will the costs be for each of the three services listed in subpart a. [f] Is the cost value determined by dividing the proposed rate by the decimal value of the cost coverage percent [for example, a fee of \$2.00 with a cost coverage of 164% would have a cost of \$2.00 divided by 1.64 or \$1.22] [g] If not, explain how it is calculated. [h] Is there any interaction between the rates and costs for Certified Mail vs. those for Return Receipt service or have the two rates been evaluated independently of each other? [i] Fully explain any interaction. [j] What percentage of Certified Mail articles utilize Return Receipt Service? [k] With respect to these three services, confirm, or explain if you are unable to do so, that there is no added service or costs associated with the processing or handling of the article from the time of the completion of its acceptance into the mail stream at the acceptance postal facility to the time at which it becomes necessary to "trap" the article at the delivery office so that it may be properly handled for the type of service being requested. [l] Confirm, or explain if you are unable to do so, that there are no costs associated at the delivery office with respect to articles for which a Certificate of Mailing had been issued and therefore there will be no costs associated with this service once the completion of its acceptance into the mail stream at the acceptance postal facility has been completed. [m] For each of the three services, list each of the specific cost elements which relate to and are charged to that service and the costs associated with that element for the time up until dispatch of the article from the acceptance postal facility. These cost elements should include the following [if the costs for any of these elements are not charged to the service, so indicate. If any additional items apply, so indicate them and provide the data]: 1. Cost of advertising the service, 2. Cost of training employees regarding the service, 3. Cost for designing and printing the necessary forms, 4. Cost for shipping, storing, and distributing the forms, 5. Cost for window services to explain the service, and 6. Cost for the acceptance of the article by the acceptance office, including, but not limited to, observing the article, postmarking the receipt, discussion with the customer, and possible record keeping. [n] For Certified Mail and Return Receipt for Merchandise services, list each of the specific cost elements which relate to and are charged to that service and the costs associated with that element for the time starting at the point at which the article is "trapped" at the delivery office. These cost elements should include the following [if the costs for any of these elements are not charged to the service, so indicate. If any additional items apply, so indicate them and provide the data]: 1. Cost of "trapping the article" at the delivery office, 2. Cost of any special handling that may be required to process these at the delivery office, 3. Cost of turning accountability for the articles over from the processing employee[s] to the delivery employee, 4. Cost associated with the delivery of the article by the delivery employee to the addressee, 5. Cost for "clearing" the delivery employee of the accountability after the return to the office, 6. Cost for subsequent delivery attempts for articles returned after the first

attempt, 7. Cost for returning undeliverable articles, 8. Cost for filing delivery receipts, 9. Cost for handling inquiries received for the article, 10. Cost for processing the PS Form 3811 for Return Receipt for Merchandise service at the delivery office before it is entered into the mail stream, and 11. Cost for transmission of the PS Form 3811 from the delivery office back to the original sender of the parcel. [o] If subparts k and l result in any added cost elements, provide the data requested in subparts m and n for them. [p] With respect to the three separate costs that you provide for each of the three services in your response to subpart m, if the value is different between the three services for the same cost element, fully explain the difference for each separate cost element. [q] Same as subpart p except for the two services and your responses to subpart n. [r] Same as subpart p for any responses to subpart o. [s] If all of the costs enumerated in subparts m through o do not add up to the corresponding total cost provided in subpart e, explain the reasons for the difference. [t] Do the costs specified in subpart n item 11 match the cost of processing and delivery of a post card or stamped card? [u] If not, explain why not.

DBP/USPS-25 Response:

- a. Confirmed for certificates of mailing. Not confirmed for return receipt for merchandise, which has a proposed fee of \$1.70.
- b. Answered by witness Needham.
- c. Cost coverages are normally calculated for subclasses or special services, not for individual components of a particular special service. However, the implied cost coverage for return receipts for merchandise is 147 percent.
- d. Cost coverages are normally calculated for subclasses or special services, not for individual components of a particular special service. However, the implied cost coverage for an individual certificate of mailing is 122 percent.
- e. See LR-H-107. Unit costs for return receipt for merchandise and individual certificates of mailing are \$1.16 and \$0.49 respectively. Note that these costs are not based on fees and implicit cost coverages.
- f. No. Cost coverages are derived by dividing the total revenues of a service by the volume variable costs of that service. Implied cost coverages for specific components of a service can be calculated by dividing the fee by the unit cost of a particular component.
- g. See response to subpart (f)
- h. Answered by witness Needham.

- i. Answered by witness Needham.
 - j. Answered by witness Needham.
 - k. Confirmed for return receipt for merchandise and certificates of mailing.
 - l. Confirmed.
- m-s. For the Postal Service's cost analysis of return receipt for merchandise, see response to DFC/USPS-T40-9, and for Certificates of Mailing see LR-H-107 page 18.
- t-u. The cost study supporting return receipts uses the processing and delivery cost of single piece cards as a proxy for the actual cost of returning a return receipt. See LR-H-107, p. 39.

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OCA/USPS-T40-31. Please refer to page 8 of your direct testimony where you state as to bulk insurance: "The proposed bulk insurance service would provide indemnity for the lesser of the actual value of the article at the time of mailing or the wholesale cost of the contents to the sender. This is a reasonable approach because *the lost value to the shipper is the replacement cost of the article*, which may be different from the retail price." [emphasis added.]

- a. Confirm that the Postal Service proposes a wholesale cost type of insurance for bulk mailers that will compensate these mailers for the replacement value of the item. If not confirmed, please explain.
- b. It would appear that for certain classes of bulk mailers (e.g., manufacturers, companies that sell items through catalogs) the compensation standard will normally be replacement cost, since the items they will mail will be new. Please comment.
- c. Please explain how "wholesale cost" will be determined and defined.
- d. Provide any proposed or finalized DMM provisions relating to this type of insurance.
- e. Suppose a manufacturer mails items whose cost of manufacturer (sic) is \$100 apiece. It sells the items for \$150 apiece to a distributor. The distributor in turn sells them to a retailer for \$200 apiece. The retailer sells them to the public for \$250 apiece. Under the terms of the proposal, what is the "wholesale cost" at which price the manufacturer will be compensated?
- f. Why is the Postal Service not offering replacement value insurance to all customers, including household mailers who typically will not be able to take advantage of the bulk insurance proposal? Further, please explain why this disparate treatment is not discriminatory as to mailers who cannot take advantage of the bulk insurance requirements.
- g. At page 8 you also state that "indemnity costs for bulk insurance are expected to be lower than for basic insurance. Current insurance coverage provides indemnity for the actual value of the article at the time of mailing." Please now refer to the hypothetical in (e) herein. Suppose that the ultimate purchaser of the item, e.g., a household consumer, keeps the item after purchase from the retailer and uses it for a year, but then mails it insured to a relative. Is it not likely or possible that the depreciated value of the item after a year will be lower than the wholesale cost value? Please explain.
- h. We cannot discern either from your direct testimony or from the proposed changes to the DMCS (see Request of the United State Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Attachment A, p. 81) what the bulk mail insurance qualifications and conditions will be. Please describe any such proposed qualifications and conditions, including applicable DMM language. Include in your explanation any volume requirements to be attached to the proposal.

DBP/USPS-27 [a] Confirm, or explain if you are unable to do so, that effective June 8, 1997, the service for return receipts changed requiring the delivery employee to indicate the address of delivery if different from the address on the mailpiece. [b] Confirm, or explain if you are unable to do so, that the service available on June 8th represents a difference in the service that was provided at the basic fee on June 7th. [c] Other than the mention on Page 9 of the May 22, 1997 Postal Bulletin, provide references and copies of all directives issued by Headquarters notifying the field of this change. [d] Has the Postal Service conducted any tests to determine the level to which the field is complying with the requirements to provide an updated address when appropriate? [e] If so, provide details and results of the tests. [f] If not, explain why not including reasons why one would consider Return Receipt service to be a quality service, particularly with respect to providing customers with updated addresses.

DBP/USPS-27 Response:

- a. Confirmed.
- b. Confirmed.
- c. Materials will filed as LR-H-286.
- d. I am not aware of any tests that have been conducted thus far.
- e. NA
- f. As barely three months have passed since implementation a test at this time would be premature. Moreover, any of the headquarters offices that would typically perform such tests have been devoting the bulk of their resources to the preparation and litigation of R97-1.

DBP/USPS-28 [a] Confirm, or explain if you are unable to do so, that Section 822.111 of the Postal Operations Manual [POM] requires that the delivering carrier or window clerk will obtain the signature or authorized signature stamp of the recipient of an article utilizing the Return Receipt Service. [b] Confirm, or explain if you are unable to do so, that POM Section 822.111 also requires the delivery employee must complete the date of delivery if the addressee has not already done so. [c] Would it be reasonable to expect the delivery employee to check to ensure that the Return Receipt has been properly signed? [d] Would it be reasonable to expect the delivery employee to check to ensure that the Return Receipt has the name of the addressee printed in addition to the signature? [e] Would it be reasonable to expect the delivery employee to check to ensure that the Return Receipt has the correct date of delivery entered on it? [f] Would it be reasonable to expect the delivery employee to check to ensure that the Return Receipt has been properly completed? [g] Would it be reasonable to expect the delivery employee to make any necessary corrections to the information provided on the return receipt? [h] Explain any negative answers to subparts c through g. [h] Will the delivery employee referenced in POM Section 822.111 always be an employee of the United States Postal Service? [i] If your response to subpart h is not an unqualified yes, list all examples and instances in which the delivery employee will not be a USPS employee. [j] Do the requirements of POM Section 822.111 apply to the necessity of having the delivery employee ensure that the Return Receipt is completed at the time of delivery [the time at which the custody of the mail is transferred from the control of the United States Postal Service to the control of the addressee]? [k] If not, explain any instances in which it is not required. [l] Do the requirements of POM Section 822.111 apply to the necessity of having the delivery employee ensure that the Return Receipt is completed at the time of delivery with respect to all agencies, departments, or organizations of the federal government? [m] Same as subpart l except with respect to those of any state or local government. [n] Same as subpart l except with respect to delivery to any non-government addressee. [o] Do the requirements of POM Section 822.111 apply to the necessity of having the delivery employee ensure that the Return Receipt is completed at the time of delivery regardless of the number of return receipts that are involved in the delivery? [p] Explain and list any instances with respect to any negative answers to subparts l through o. [q] Confirm, or explain if you are unable to do so, that the delivering employee will be required in all instances to determine if the delivery address differs from the original address shown on the article and if so to provide the new address on the Return Receipt card. [r] Confirm, or explain if you are unable to do so, that the delivering employee will be required in all instances to determine if the delivery address differs from the original address shown on the article and if not to check the box on the return receipt card to indicate that the article was delivered to the same address as originally addressed. [s] Confirm, or explain if you are unable to do so, that the requirements specified in subparts q and r will apply to all types of addressees including, but not limited to, those types mentioned in subparts l through o. [t] Confirm, or explain if you are unable to do so, that the delivering employee will be required in all instances to give all return receipts to the clearing clerk daily. [u] Confirm, or explain if you are unable to do so, that subpart t means that for all return receipts which are being requested for mail which is delivered on a given day will be turned over to the clearing

clerk that same day. [v] Confirm, or explain if you are unable to do so, that the requirements specified in subpart t will apply to all types of addressees including, but not limited to, those types mentioned in subparts l through o.

DBP/USPS-28 Response:

a-b Objection filed September 25, 1997.

c-h. POM § 822.111 states that the delivering employee must examine the card for completeness and make any necessary corrections. What is reasonable depends on the circumstances.

h. No.

i. The delivering employee may be a highway contract route driver.

j-p. POM § 822.111 does not appear to require completion at the time of delivery.

q. Confirmed.

r. Confirmed.

s. Confirmed.

t. Confirmed.

u. Confirmed, when practicable. POM § 822.112 gives the clearing employee until the next workday to mail the completed return receipt to the customer.

v. Confirmed.

DBP/USPS-29 [a] Confirm, or explain if you are unable to do so, that Section 822.112 of the Postal Operations Manual requires that the clearing clerk must evaluate all return receipts that have been turned in to ensure that they are properly completed. [b] Would it be reasonable to expect the clearing clerk to check to ensure that the Return Receipt has been properly signed? [c] Would it be reasonable to expect the clearing clerk to check to ensure that the Return Receipt has the name of the addressee printed in addition to the signature? [d] Would it be reasonable to expect the clearing clerk to check to ensure that the Return Receipt has the correct date of delivery entered on it? [e] If there are any instances where the return receipt is not given to the clearing clerk on the date of delivery, explain how the clearing clerk would be aware of the date of delivery? [f] Would it be reasonable to expect the clearing clerk to check to ensure that any requirements for restricted delivery have been complied with? [g] Would it be reasonable to expect the clearing clerk to check to ensure that any requirements for notifying the sender of a new address have been complied with? [h] Would it be reasonable to expect the clearing clerk to check to ensure that any requirements for notifying the sender that there is no new address [namely, the box has been checked to show this] have been complied with? [i] What corrective action should the clearing clerk take if in evaluating a return receipt it is noticed that 1. the card is not properly signed, 2. the name of the person signing has not been properly printed, 3. the correct date of delivery has not been shown, 4. the restricted delivery requirements have not been complied with, 5. a new address has not been provided when there is one, or 6. the box has not been checked when there is no new address. [j] Confirm, or explain if you are unable to do so, that all return receipts must be mailed [namely, placed into the mail stream for processing and transporting and delivery to the sender] no later than the first workday after delivery. [k] Explain why POM Section 822.112 does not require that the clearing clerk mail the return receipt card on the date of delivery rather than allowing it to be held until the next workday. [l] Confirm, or explain if you are unable to do so, that the requirements specified in subparts b through j will apply in all instances regardless of the type of addressee or the number of return receipts involved. [m] Confirm, or explain if you are unable to do so, that the clearing clerk referenced in POM Section 822.11 is an employee of the United States Postal Service.

DBP/USPS-29 Response:

- a. Not confirmed. POM § 822.112 states: "The clearing clerk must check all return receipts to make sure that they are properly signed and dated."
- b. In general, yes.
- c. This checking would go beyond what's required by POM § 822.112.
- d. In general, yes.

- e. The clearing employee could be informed by the delivering employee in such cases.
- f. In general, yes.
- g. In general, this checking would go beyond what's required by POM § 822.112.
- h. In general, this checking would go beyond what's required by POM § 822.112.
- i. For subparts 1,2,3, and 5, clearing clerk should notify delivering employee. For subpart 4, as indicated in POM § 822.112, a corrected return receipt should be obtained from the addressee.
- j. Confirmed, based on POM § 822.112.
- k. In some cases, carriers may be cleared of their accountable items after the final dispatch of outgoing mail has left the delivery unit. In addition, the return receipt might require corrective action.
- l. Not confirmed. Please see my responses to parts b through j. The POM does not provide any special procedures for different types of addresses or different numbers of return receipts.
- m. Confirmed, to the best of my knowledge.

DBP/USPS-30 With respect to the utilization of other than a signature by hand on the return receipt card, confirm or explain if you are unable to do so, that POM Section 822.2 requires that, [a] In those cases where the article is addressed to a federal or state official or agency, a rubber stamp showing the name of the agency or organization may be utilized. [b] This rubber stamp must show the name of the agency or organization and not just the name of an individual. [c] The ability to utilize a printed rubber stamp or other automated means [as opposed to one which has a facsimile of a written signature of an individual] may only be used by a federal or state agency. [d] A federal agency is one in which the employees of the agency are employees of the United States Government. [e] A state agency is one in which the employees of the agency are employees of one of the 50 states of the United States of America. [f] This provision does not apply to other governmental agencies such as, multi-state agencies, counties, municipalities, school districts. [g] This provision does not apply to companies or other non-governmental agencies. [h] For all addressees other than federal and state agencies, the rubber stamp or other automated means must include a facsimile, hand-written signature of the individual who is authorized to accept accountable mail. [i] The type of addressee noted in subpart h may not utilize a rubber stamp or other automated means which contains printed information only [such as the name of the agency]. [j] Explain any non-confirmations.

DBP/USPS-30 Response:

- a. Objection filed.
- b. Objection filed.
- c. Confirmed.
- d. I can not confirm that this precise interpretation is implied by the POM.
- e. I can not confirm that this precise interpretation is implied by the POM.
- f. The POM specifies only state and federal government agencies.
- g. Not confirmed. POM § 822.22 applies to other large well-known organizations with approval from the local postmaster.
- h. That appears to be what POM § 822.22 says.
- i. That appears to be what POM § 822.22 says.
- j. See parts d-i.

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DBP/USPS-31 [a] Confirm that on August 1, 1996, Sandra D. Curran, Acting Manager, Delivery, sent a letter to all District Managers - Subject: Failure to Obtain Signature on PS Form 3811 Domestic Return Receipt. [b] Confirm, or explain if you are unable to do so, that this letter indicates that all District Managers are to take a proactive approach with all of their delivery offices to ensure that return receipts are not being signed for at a "later", more convenient time and therefore this would require that the return receipt be signed for at the time of delivery. [c] Confirm, or explain if you are unable to do so, that this letter indicates that any long standing, unofficial arrangements that promote or provide for exceptions to the state procedures for "convenience" should be voided if they exist. [d] Confirm, or explain if you are unable to do so, that this letter indicates that a lack of realization by some employees that the customer has paid for this service and any arrangement that makes it easier for the addressee at the expense of that service should not be tolerated. [e] Is this letter still in force? [f] If not, provide a copy of the letter which superseded or modified it. [g] Provide copies and references of any directives that have been issued since August 2, 1996 which relate to the provision of return receipt service.

a. Confirmed.

b. Not confirmed. The letter asks managers to review current practices and void where necessary, those that are inconsistent with official procedures.

c-d. Confirmed.

e. I am not aware of any subsequent letters which would have countermanded or superseded it.

f. Not applicable.

g. Not applicable.

DBP/USPS-32 [a] Bottom line, is it a requirement of the United States Postal Service that all accountable mail, including any return receipts that are associated with the mail piece, be signed [this includes the use of a signature stamp under the provisions of POM Section 822.2] for by the addressee at the time of delivery [namely, when the control of the mail piece transfers from the United States Postal Service to that of the addressee] and that the requirements for the completion of the return receipt also be completed at the time of delivery in accordance with the provisions of POM Section 822 and that this applies to any and all addressees throughout the United States who might receive accountable mail and also applies regardless of the quantity of mail involved. [b] If your response to subpart a is not an unqualified yes, provide a complete listing of all exceptions to the requirement and the authority authorizing that exception. [c] Confirm, or explain if you are unable to do so, that the cost for a return receipt is presently \$1.10 and that this charge will apply for each separate accountable mail piece for which return receipt service is desired. [d] Confirm, or explain if you are unable to do so, that should there be 10,000 accountable mail pieces requesting return receipt service being delivered to a single addressee on a given day that each of the senders paid a fee of \$1.10 for the return receipt and that the total revenue received by the Postal Service for processing all ten thousand return receipts will be \$11,000. [e] Confirm, or explain if you are unable to do so, that, on average when there is more than one return receipt involved for a given addressee, the average cost for processing each single return receipt will be less than the cost that would be entailed if the addressee only received a single mail piece requesting return receipt service. In other words, if the cost for handling a single return receipt on average was fifty cents, then the total cost for handling 100 return receipts for a single addressee at one time would be less than fifty dollars [resulting in an average cost of less than fifty cents each]. [f] Do the cost figure for return receipt service take into account the potential savings in delivering multiple pieces at the same time?

- a. This is the goal.
- b. As there is no requirement, there can be no exceptions. In some cases it is possible that the signature takes place after delivery.
- c. Confirmed, assuming a regular return receipt rather than a return receipt for merchandise or return receipt after mailing.
- d. Your multiplication appears to be correct, and the fee for each return receipt would be \$1.10.
- e. Having no available study to support this conclusion, I can not confirm. However, your assumption appears reasonable insofar as it suggests that some costs can be avoided when a carrier delivers multiple pieces with return receipts. I would note

however, that the nature of return receipt service suggests that multiple pieces requesting return receipts addressed to a single recipient are relatively rare.

1. I would expect that the cost figure does reflect these savings. It is my understanding that the original return receipt cost study, which is updated in LR-H-107, collected data on the time and volume for return receipts at 26 CAG A,B, and C post offices. These data most likely include some return receipts for multiple pieces delivered at one time.

DBP/USPS-33 In order to determine that the Return Receipt service provides a value to the mailer, [a] Enumerate and provide details of all studies and tests that have been performed or conducted by the Postal Service in the past seven years [since Docket R90-1] to determine the mailing public's needs and desires for return receipt service. [b] Same as subpart a except to determine the quality of service being received by return receipt users. [c] Same as subpart a except to determine the extent to which the return receipt service is being provided as mandated in the regulations. [d] Explain why the responses to subparts a through c indicate that the Postal Service is making a concerted effort to provide a quality service. [e] Confirm, or explain if you are unable to do so, that one of the purposes of the return receipt is to provide evidence of delivery to the sender and that this evidence is being provided by an independent third party, namely the Postal Service. [f] Confirm, or explain if you are unable to do so, that the Postal Service used to apply the red validating stamp to return receipts and that this procedure was terminated. [g] When and why was the use of this procedure terminated and provide copies of the directive doing so? [h] Wouldn't the date on the red validating stamp be more likely to be correct than a date that was handwritten? [i] Wouldn't the presence of the red validating stamp on the return receipt provide a greater level of authenticity of the return receipt than one without it? [j] Explain any negative responses to subparts h and i particularly in light of the desire to provide a quality product. [k] Confirm, or explain if you are unable to do so, that the application of a red validation stamp impression on a return receipt by other than an authorized Postal Service employee would be a violation of the law. [l] Are there any plans to resume the use of the red validating stamp? [m] When will the new form be available for return receipts which includes the box for indicating that the article was delivered as addressed? [n] Will the instructions for the implementation of these new forms call for the immediate removal from service of the existing forms to ensure maximum use of the new form? [o] Confirm, or explain if you are unable to do so, that there are times when the actual date of delivery is significant to the mailer utilizing return receipt service. [p] Confirm, or explain if you are unable to do so, that there are times when name of the recipient is significant to the mailer utilizing return receipt service. [q] Confirm, or explain if you are unable to do so, that there are times when prompt notification of delivery is significant to the mailer utilizing return receipt service. [r] Confirm, or explain if you are unable to do so, that provision of the return receipt as proof of delivery and proof of delivery date having been furnished by an independent, disinterested third party, such as the Postal Service, is significant to the mailer at times. [s] Confirm or explain if you are unable to do so, that failure of the Postal Service to process return receipts in the manner specified in the regulations may increase the likelihood of a decrease in value to the mailer who is expecting one of the services noted in subparts o through r.

- a. Witness Needham discussed one study showing that most certified mail customers desire return receipt service. See Docket No. MC96-3, USPS-T-8 at 66-67; LR-SSR-110.

- b. I am not aware of any such studies.
- c. I am not aware of any such studies.
- d. The Postal Service utilizes many methods to ensure that employees and managers provide the services customers expect. The fact that studies have not been performed at a national level to determine the level to which the Postal Service has been able to meet this goal vis à vis return receipts should not be construed as meaning that there has been no concerted effort toward this end. Local managers have access to customer feedback via consumer service cards and other means. They are expected to utilize these data to improve their performance not only as regards return receipts, but for all products and services.
- e. Confirmed.
- f-l. Objection filed September 25, 1997.
- m. This has not yet been determined.
- n. Typically, destruction of existing forms is called for only when a change in the nature of the service requires. For instance, when a block for the name of the addressee was added to return receipts, offices were instructed to destroy the old return receipts upon receipt of the new version. In this case, the nature of the service is not changing; the new receipt will provide an enhanced method for providing the same service. Consequently it is unlikely that the old forms will be destroyed, though that decision has not yet been made.
- o. Confirmed.
- p. Confirmed.
- q. Confirmed.
- r. Confirmed.
- s. Confirmed.

DBP/USPS-34 DMM Section S915.1.6 states, Return receipt fees are refunded only if the USPS fails to furnish a return receipt. May a refund be claimed for the following: [a] The return receipt which is received back is not signed. [b] The return receipt which is received back does not have the printed name of the recipient. [c] The return receipt which is received back does not show a date of delivery. [d] The return receipt which is received back shows an incorrect date of delivery. [e] The return receipt which is received back does not show a new address where delivered when there is one. [f] The return receipt which is received back does not have the box checked to show that there was no change of delivery address. [g] The return receipt which is received back was mailed by the delivery office later than the next business day following delivery. [h] The return receipt which was received back utilizes a rubber stamp or other automated signature which does not meet the requirements of POM Section 822.2. [i] There is evidence that the accountable mail was delivered to the addressee to complete the return receipt at a later, more convenient time and therefore the return receipt was not obtained by the Postal Service at the time of delivery. [j] The return receipt is not received. [k] A duplicate return receipt indicates that the article was not delivered. [l] The article is returned by the Postal Service without delivery. [m] Confirm, and explain if you are unable to do so, that the referenced DMM section also implies that the return receipt which is furnished meets the requirements of the Postal Service. [n] Explain any of the items for which a refund of the return receipt fee would not be authorized. [o] Confirm, or explain if you are unable to do so, that the necessity of a sender to request a duplicate return receipt just to fix a problem caused by the improper completion of the original return receipt will reduce the value of the service to the mailer.

- a. Customer would not be entitled to a refund in this case; however, the mailer may request a duplicate return receipt under DMM § S915.4.2.
- b. Customer would not be entitled to a refund in this case; however, the mailer may request a duplicate return receipt under DMM § S915.4.2.
- c. Customer would not be entitled to a refund in this case; however, the mailer may request a duplicate return receipt under DMM § S915.4.2.
- d. Customer would not be entitled to a refund in this case; however, the mailer may request a duplicate return receipt under DMM § S915.4.2.
- e. Customer would not be entitled to a refund in this case; however, the mailer may request a duplicate return receipt under DMM § S915.4.2.

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- f. Customer would not be entitled to a refund in this case; however, the mailer may request a duplicate return receipt under DMM § S915.4.2.
- g. Customer would not be entitled to a refund in this case.
- h. Customer would not be entitled to a refund in this case; however, the mailer may request a duplicate return receipt under DMM § S915.4.2.
- i. It is unclear how this would be known by the sender; however the customer would not be entitled to a refund in this case.
- j. The customer would be entitled to a refund.
- k. The customer would be entitled to a refund.
- l. The customer would be entitled to a refund.
- m. The DMM speaks for itself. The inference you draw does not appear to be consistent with the wording of DMM S915.1.6.
- n. See responses to subparts a-i, and DMM S915.1.6.
- o. Such a necessity certainly may reduce the value of service if the customer had expectation of a refund.

DBP/USPS-36 [a] Confirm, or explain if you are unable to do so, that when accountable mail is delivered, the addressee will be required to sign for the receipt of the mail utilizing either a single receipt form, manifest delivery form, or other computerized listing of the type and number of each accountable mail article. [b] Confirm, or explain if you are unable to do so, that this signature will always be a hand signature. [c] If not, provide the authority [and furnish a copy] which authorizes the delivery without a hand signature. [d] Confirm, or explain if you are unable to do so, that this record of delivery will be maintained in the post office of delivery. [e] Confirm, or explain if you are unable to do so, that these records will be discarded after a period of time. [f] What is the authorized time after which these records may be discarded? [g] Confirm, or explain if you are unable to do so, that a mailer who has a return receipt may receive confirmation of its validity by having the delivery office utilize the delivery record and provide this confirmation. [h] How would such confirmation be accomplished? [i] Confirm, or explain if you are unable to do so, that once the delivery records have been discarded, there will be no record of delivery maintained in the Postal Service. [j] Confirm, or explain if you are unable to do so, that once the delivery record retention period has passed and the records discarded, the mailer may no longer obtain confirmation of the validity of the return receipt. [k] Confirm, or explain if you are unable to do so, that the inability of a mailer to obtain confirmation of the validity of the return receipt could potentially reduce the value of the service to the mailer. [l] Confirm, or explain if you are unable to do so, that the use of the red validating stamp on the return receipt could mitigate or eliminate this potential loss of the value of the service.

DBP/USPS-36 Response:

- a. Not confirmed. See DMM § D042.2.0.
- b. Not confirmed. See DMM § D042.1.7.g.
- c. See response to subpart (b).
- d. Confirmed. A record of delivery will be maintained in the post office of delivery.
- e. Delivery records are retained for two years.
- f. See response to subpart (e).
- g. Confirmed. A duplicate return receipt is not available more than one year after the date of mailing. DMM § S915.4.1.
- h. See DMM § S915.4.0.
- i. Confirmed.

- j. Confirmed. However, a duplicate return receipt would already not have been available. See DMM § S915.4.1.
- k. Though there has been no study to quantify the value customers would place on confirming the validity of return receipts that are more than two years old, it is reasonable to assume that such value is negligible.
- l. See response to subpart (k).

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DBP/USPS-38 [c] Confirm, or explain if you are unable to do so, that a mailer who is utilizing Insured Mail is not required to declare the full value and may purchase whatever value insurance is desired [although a claim may not be filed for more than the value of the article]. [d] Confirm, or explain if you are unable to do so, that the purchase of insurance is not required by a mailer of any class of mail, regardless of the value of the article.

DBP/USPS-38 Response:

- c. Confirmed.
- d. Confirmed, though Express Mail rates include limited insurance coverage.

DBP/USPS-50 [a] Confirm, or explain if you are unable to do so, that the proposed fee for Delivery Confirmation on a manual basis will be 35 or 60 cents and that the fee for Certificate of Mailing is proposed to be 60 cents. [b] Confirm, or explain if you are unable to do so, that the proposed fee for Delivery Confirmation on an electronic basis will be 0 or 25 cents. [c] Confirm, or explain if you are unable to do so, that a customer will be given a receipt for the parcel. [d] What added information or proof, if any, will the Certificate of Mailing provide to the mailer of a parcel for the added fee of up to 60 cents over the cost of using the Delivery Confirmation Service? [e] If there is none, what is the justification of the higher rate for the Certificate of Mailing?

- a. Objection filed September 25, 1997.
- b. Objection filed September 25, 1997.
- c. Not confirmed. See my response to DFC/USPS-T40-21b.
- d. The only instance where a 60 cent difference occurs is if one compares the fee for an individual certificate of mailing with the fee for electronic delivery confirmation used in conjunction with Priority Mail. I believe there are few, if any, customers interested in both services. Indeed individual certificates of mailing are most likely to be used by the customers that would use non-electronic delivery confirmation at fees of 25 cents and 60 cents for Priority and Standard (B) mail respectively. Furthermore, the two services are entirely different. Certificates provide confirmation of mailing, while delivery confirmation provides proof of delivery. Also see my response to part c. To suggest that fees ought to be comparable misunderstands the purposes served by these two products.
- e. Individual certificates of mailing have a unit cost of 49 cents. See my testimony (USPS-T-40, p. 3), and LR-H-107, p. 18.

DBP/USPS-51 [a] Confirm, or explain if you are unable to do so, that bulk insurance will only pay for the lesser of the actual value or the wholesale cost of the contents. [b] Will this provision also apply to individual insurance? [c] If so, explain why?

DBP/USPS-51 Response:

- a. Confirmed, assuming you refer to the Postal Service proposal.
- b. No, individual insurance allows customers to claim the actual value of the contents up to the amount covered by the fee paid.
- c. Not applicable.

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DBP/USPS-53 [a] Confirm, or explain if you are not able to do so, that under the proposed regulations if I have merchandise weighing under eleven ounces that I may either utilize First-Class Mail or Priority Mail. [b] Confirm, or explain if you are not able to do so, that under the proposed regulations if I have merchandise weighing between eleven and sixteen ounces that I must utilize Priority Mail. [c] Confirm, or explain if you are not able to do so, that under the proposed regulations if I have merchandise weighing over sixteen ounces that I may either utilize Standard Mail [B] or Priority Mail. [d] Confirm, or explain if you are not able to do so, that a comparison of all of the characteristics of Standard Mail [B] vs. Priority Mail, will show that, neglecting the price, Priority Mail will always be equal to or better than Standard Mail [B], i.e., the delivery standard for Priority Mail is faster, any parcel between 1 and 70 pounds may be sent by either service with the same level of preparation, the place of mailing is either the same or better for Priority Mail, Priority Mail will have free forwarding and return, etc. [e] Confirm, or explain if you are unable to do so, that a parcel containing merchandise may be insured regardless of whether the postage is paid at the First-Class Mail, Priority Mail, or Standard Mail [B] rate. [f] Confirm, or explain if you are unable to do so, that a parcel containing merchandise may be registered regardless of whether the postage is paid at the First-Class Mail, or Priority Mail rate. [g] Confirm, or explain if you are unable to do so, that when Registered Mail is utilized, there is an accounting for each individual mailpiece between the accountable mail section of the delivering post office and the delivering employee. [h] Confirm, or explain if you are unable to do so, that when Insured Mail is utilized, there is no accounting for each individual mailpiece nor even for the total number of insured parcels between the accountable mail section of the delivering post office and the delivering employee. [i] Confirm, or explain if you are unable to do so, that when Registered Mail is utilized there is an accounting for the mail as it progresses through the mail system from the acceptance to the delivery. [j] Confirm, or explain if you are unable to do so, that when Insured Mail is utilized, there is no accounting for the parcel at any time other than when the acceptance employee provides the mailer with a receipt and when the delivering employee obtains a receipt from the addressee. [k] Confirm, or explain if you are unable to do so, that for the acceptance of the article and the delivery of the article, the security and accountability between Registered Mail and Insured Mail is either identical or better for Registered Mail. [l] Confirm, or explain if you are unable to do so, that for the time between the acceptance of the article and its ultimate delivery, the accountability and security provided to Registered Mail will be greater than that provided to Insured Mail. [m] Confirm, or explain if you are unable to do so, that, ignoring any price differential, a knowledgeable mailer with a merchandise parcel weighing over one pound will always choose Priority Mail - Registered Mail over Standard Mail [B] - Insured Mail. [n] If you provide any examples where the knowledgeable mailer referred to in subpart m would choose Standard Mail [B] - Insured Mail over Priority Mail - Registered Mail, provide an estimation of the percentage of parcels out of the total number of parcels handled would fall into that category. Remember, that any price differential must be ignored. [o] Confirm, or explain if you are unable to do so, that the fee for Registered Mail for an article with a value of \$5,000 insurance would be \$11.65. [p] Confirm, or explain if you are unable to do so, that the fee for Insured Mail for an article with a value of \$5,000 insurance would be \$50.90. [q] Confirm, or explain if you are unable to do so, that a

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mailer having a parcel for which \$5,000 insurance is desired would pay \$39.25 more for Insured Mail compared to Registered Mail. [r] Based on the above, confirm, or explain if you are unable to do so, that a knowledgeable mailer with a parcel containing merchandise and weighing under one pound and for which \$5,000 insurance coverage is desired will always choose Registered Mail over Insured Mail. [s] Based on the above, confirm, or explain if you are unable to do so, that a knowledgeable mailer with a parcel containing merchandise and weighing over one pound and for which \$5,000 insurance coverage is desired will always choose Registered Mail over Insured Mail in those rate cells where the Priority Mail rate is \$39.25 or less compared to the Standard Mail rate for the same zone and weight. [t] Provide a listing of all Standard Mail rate cells where the Priority Mail rate for the same zone and weight is \$39.26 or more greater than the Standard Mail rate for the same zone and weight. [u] What percentage of all parcels sent by Standard Mail or Priority Mail fall into those rate cells provided in response to subpart t? [v] What would United Parcel Service charge an individual shipper for \$5,000 insurance? [w] Based on the above, how could a knowledgeable mailer perceive the rates for insurance as being fair and equitable? [x] Confirm, or explain if you are unable to do so, that the rate for Express Mail insurance is \$45.00 for \$5,000 coverage. [y] Confirm, or explain if you are unable to do so, that a mailer having a parcel for which \$5,000 insurance is desired would pay \$33.35 more for Express Mail Insured Mail compared to Registered Mail. [z] Confirm, or explain if you are unable to do so, that Express Mail may not be registered. [aa] If so, provide a rationale for such a regulation. [bb] Confirm, or explain if you are unable to do so, that the rate for Express Mail will always be greater than that for Priority Mail. [cc] Confirm, or explain if you are unable to do so, that the level of service for Express Mail will always be greater than or equal to that for Priority Mail. [dd] What do United Parcel Service, Federal Express, and other major carriers charge their individual overnight shippers for \$5,000 insurance? [ee] Based on the above, how could a knowledgeable mailer perceive the rates for Express Mail insurance as being fair and equitable. [ff] Confirm, or explain if you are unable to do so, that a mailer with a parcel for which \$5,000 coverage may decide to accept the slower Priority Mail compared to the faster Express Mail because of the added \$33.35 difference in insurance rates between Registered Mail and Express Mail insurance rates.

DBP/USPS-53 Response:

- a. Confirmed. Though you would not be limited to those two choices.
- b. Not confirmed. For example, you may use Express Mail.
- c. Confirmed. Though you would not be limited to those two choices.
- d. Confirmed.
- e. Confirmed.
- f. Answered by witness Needham.
- g. Answered by witness Needham.

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- h. Confirmed.
- i. Answered by witness Needham.
- j. Confirmed.
- k. Confirmed.
- l. Confirmed.
- m. Not confirmed. I can not assert that all mailers value the same service attributes equally.
- n. I am unaware of any available volume data that would provide the requested information.
- o. Answered by witness Needham.
- p. That would be the fee under the proposed schedule.
- q. Confirmed.
- r. Not confirmed. See response to subpart (m).
- s. Not confirmed. See response to subpart (m).
- t. Objection filed September 25, 1997.
- u. Volume data are contained in USPS-LR-H-145.
- v. The UPS published rate for insurance is \$0.35 for each \$100 in value greater than \$100.
- w. Please refer to my testimony USPS-T40, pp. 3-9.
- x. Objection filed September 25, 1997.
- y. Objection filed September 25, 1997.
- z. Answered by witness Needham.
- aa. Answered by witness Needham.
- bb. Not confirmed. I can not predict what may happen to rates in the future.
- cc. Not confirmed. I can not predict what may happen to rates in the future.
- dd. Published price schedules for these carriers can be obtained through their web sites.
- ee. Please refer to my testimony USPS-T-40, pp. 3-9.
- ff. Confirmed.

DBP/USPS-62 Provide a listing for each of the following services indicate, 1. the rate being proposed; 2. the cost for providing the service for the proposed rate, 3. the cost coverage percentage for the proposed rate, 4. the present rate, 5. the cost of provided the service for the present rate, and 6. the cost coverage percentage related to the existing rate: [a] Fee Group C - PO Box size 1, [b] size 2, [c] size 3, [d] size 4, [e] size 5, [f] Fee Group C - Caller Service, [g] Certified Mail [also provide data for pre-MC96-3 rate], [h] Return Receipt, [i] Return Receipt for Merchandise, [j] Return Receipt issued after mailing, [k] individual Certificate of Mailing, [l] Special Handling, [m] Single Stamped Envelope, [n] Single Hologram Stamped Envelope, [o] Plain box of 500 stamped 6-3/4 size envelopes, [p] size 10 envelope, [q] processing and handling a stamped card, [r] processing and handling a post card, and [s] fee for the stamped card itself.

DBP/USPS-62

h.1. \$1.45

h.2. \$0.97 excluding contingency

h.3. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(1.45/0.97 = 149\%)$.

h.4. \$1.10

h.5. \$0.97 excluding contingency

h.6. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(1.10/0.97 = 113\%)$.

i.1. \$1.70

i.2. \$1.16 excluding contingency

i.3. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(1.70/1.16 = 147\%)$.

i.4. \$1.20

i.5. \$1.16 excluding contingency

i.6. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(1.20/1.16 = 103\%)$.

j.1. \$7.00.

j.2. \$6.61 excluding contingency

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j.3. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(7.00/6.61 = 106\%)$.

j.4. \$6.60

j.5. \$6.61 excluding contingency

j.6. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(6.60/6.61 = 99.8\%)$.

k.1. \$0.60

k.2. \$0.49 excluding contingency

k.3. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(0.60/0.49 = 122\%)$.

k.4. \$0.55

k.5. \$0.49 excluding contingency

k.6. Cost coverage is normally calculated on a subclass or special service basis. The implied cost coverage is $(0.55/0.49 = 112\%)$.

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DBP/USPS-64 Refer to interrogatory DBP/USPS-27. [a] With respect to the new Return Receipt service showing the new address of delivery, has Headquarters or any Area prepared a training course or other training material to explain the new service? [b] If so, provide copies of the training material. [c] If not, add that reason into your response to subpart f of DBP/USPS-27.

DBP/USPS-64 Response:

- a. Yes.
- b. Materials will be filed as LR-H-286.
- c. Not applicable.

1 CHAIRMAN GLEIMAN: At this point, does any
2 participant have additional written cross examination for
3 the witness?

4 Ms. Dreifuss?

5 MS. DREIFUSS: Mr. Chairman, OCA would also like
6 to have included as evidence and part of the record witness
7 Plunkett's recently-filed responses to OCA interrogatories
8 32, 33, 35, and 37 through 39.

9 May I approach the witness and show him copies?

10 CHAIRMAN GLEIMAN: You sure can.

11 Mr. Plunkett, if these questions were asked --
12 these additional questions were asked of you today, would
13 your answers be the same as those you previously submitted
14 in writing?

15 THE WITNESS: Yes, Mr. Chairman, they would.

16 CHAIRMAN GLEIMAN: That being the case, Ms.
17 Dreifuss, if you could please provide two copies of the
18 additional designated written cross-examination of Witness
19 Plunkett to the reporter, I'll direct that they be accepted
20 into evidence and transcribed into the record at this point.

21 [Additional Designation of Written
22 Cross-Examination of Michael K.
23 Plunkett was received into evidence
24 and transcribed into the record.]

25

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ADVOCATE

OCA/USPS-T40-32. Please refer to your response to OCA/USPS-T40-9.

- a. Consider a hypothetical situation where a mailer sends a Christmas gift he or she purchased on or about December 1, and mails the gift soon thereafter (after having purchased insurance). The parcel is lost or totally destroyed. Upon presentation of a sales receipt, invoice, or appropriate statement of value from a reputable dealer, and after filing a claim, will the mailer receive full replacement value? Please explain.
- b. Consider the same hypothetical as in (a), but the mailer purchased the gift on September 1, and never used it personally. The actual mailing takes place in December.

OCA/USPS-T40-32 Response:

- a. As DMM § S010.2.11 provides for recovery only of the replacement value, a precise answer would require information regarding the expected life of the article. From a practical standpoint, assuming that the customer presents proof of insurance, and that the fee is sufficient to indemnify the full replacement value of the article, claims of this type are normally paid at the full replacement value.
- b. As in subpart (a), a precise answer would require knowledge of the expected life of the article. Unlike subpart (a), in this hypothetical case, some time has elapsed which, despite the fact that the article has not been used, may cause some diminution of value of the article.

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OCA/USPS-T40-33. Please refer to your responses to OCA/USPS-T40-7 and 10. Confirm that no documents exist (including documents which advise employees what the "remaining useful life" of an article is and how to evaluate it) that would tell Accounting Center employees or other postal employees how to depreciate items for insurance purposes other than the DMM guidelines. If not confirmed, please explain.

OCA/USPS-T40-33 Response:

Confirmed.

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OCA/USPS-T40-35. Please refer to your responses to OCA/USPS-T40-14 and 15. Please confirm that the insurance business of the Postal Service is not regulated by any state or federal agency. If not confirmed, please explain.

OCA/USPS-T40-35 Response:

I am not aware of any such regulation.

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ADVOCATE

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OCA/USPS-T40-37. Please refer to your response to OCA/USPS-T40-11. Is Publication 122 routinely handed out to insurance purchasers at the time they purchase insurance? Please discuss.

OCA/USPS-T40-37 Response:

Publication 122 is typically handed out in response to customer requests for more detailed or written information regarding insurance, registered mail, or Express Mail insurance. It is not given out during every insurance transaction.

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OCA/USPS-T40-38. Please refer to your response to OCA/USPS-T40-11. Is Publication 201 routinely handed out to insurance purchasers at the time they purchase insurance? Please discuss.

OCA/USPS-T40-38 Response:

Publication 201 is typically handed out in response to customer requests for more detailed or written information regarding postal service products and services. It is not given out during every insurance transaction.

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ADVOCATE

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OCA/USPS-T40-39. Please refer to your response to OCA/USPS-T40-16.

- a. Please describe the training that clerks receive in the DMM provisions relating to indemnity claims.
- b. Provide any documents used in such training.
- c. Are all window clerks trained in the DMM provisions relating to indemnity claims? Please discuss.

OCA/USPS-T40-39 Response

a-b. The Postal Service's standard training program for window clerks includes a module devoted to claims and inquiries which includes information on, and exercises dealing with, customer interaction and claim submission, including training on the applicable DMM provisions. Copies of relevant sections of the facilitator and participant guides, along with a copy of PS Form 1000, Domestic Claim or Registered Mail Inquiry, which is used in the training, are being filed as a separate library reference H-293.

c. Yes.

1 CHAIRMAN GLEIMAN: Anyone else?

2 There doesn't appear to be anyone else.

3 Four participants have requested oral cross
4 examination of the witness. Mr. Carlson, the Office of the
5 Consumer Advocate; Mr. Popkin; and the United Parcel
6 Service.

7 Does any other participant have oral
8 cross-examination for Witness Plunkett?

9 There doesn't appear to be anyone else.

10 Mr. Carlson, we're ready when you are.

11 MR. CARLSON: Mr. Chairman, I'd like to defer
12 until after Mr. Popkin.

13 CHAIRMAN GLEIMAN: That's fine.

14 Mr. Popkin, you're in the dock.

15 MR. CARLSON: I believe the OCA might still be
16 first alphabetically.

17 CHAIRMAN GLEIMAN: I apologize.

18 MS. DREIFUSS: Thank you, Mr. Chairman. Good
19 afternoon.

20 CHAIRMAN GLEIMAN: I can't blame that one on the
21 staff, can I?

22 MR. HOLLIES: Mr. Chairman, if you would put that
23 microphone a little closer to you, it would I think help
24 several of us.

25 CHAIRMAN GLEIMAN: I'll just tone it up a bit.

1 How's that?

2 And in case you missed the comment, I said I
3 couldn't blame that one on the staff. I don't know whether
4 you were here yesterday or not for the alphabetical faux pas
5 and oversights.

6 Ms. Dreifuss.

7 CROSS EXAMINATION

8 BY MS. DREIFUSS:

9 Q Mr. Plunkett, I'd like you to turn to your answer
10 to OCA No. 11 to you.

11 A Yes.

12 Q As part of that answer, the Postal Service filed
13 Library Reference H-273. I think you can see that near the
14 end of the first full paragraph.

15 A Yes.

16 Q Are you familiar with the contents of that library
17 reference?

18 A Yes, I am.

19 Q Included in this library reference was a sample
20 receipt for a domestic mail purchase. Does that sound
21 right?

22 A Yes, that's correct.

23 Q Mr. Chairman and other Commissioners, I've
24 provided copies of some of the things that are contained in
25 the library reference that we'll be talking about during our

1 cross examination. For ease of following what I'm doing,
2 we'll be talking about a receipt, a domestic insured mail
3 receipt, a publication, Publication 122, filing domestic
4 claims or registered mail inquiries.

5 We photocopied four pages from this brochure,
6 pages 24 through 28, I believe. No, I'm sorry, 24 through
7 27. And we will also be referring to Consumers Guide to
8 Postal Services and Products. We only photocopied page 26
9 of that guide, because that's the only one we will be
10 referring to during cross examination.

11 CHAIRMAN GLEIMAN: Excuse me, do you want to mark
12 these as cross examination exhibits?

13 MS. DREIFUSS: I don't think it's going to be
14 necessary.

15 CHAIRMAN GLEIMAN: All right.

16 MS. DREIFUSS: I will, if you think it would aid
17 in the reading of the transcript.

18 CHAIRMAN GLEIMAN: That's fine. I think you've
19 identified them adequately.

20 Is there any objection, Mr. Rubin, to proceeding
21 without having them marked?

22 MR. RUBIN: There's no objection to that.

23 CHAIRMAN GLEIMAN: Thank you.

24 Thank you, Ms. Dreifuss.

25 BY MS. DREIFUSS:

1 Q Please refer first to the receipt for insured
2 mail, please.

3 A Yes.

4 Q I'd like you to look at the terms of coverage.
5 Would you mind reading into the record what the terms of
6 coverage are?

7 A Under the heading "Coverage"?

8 Q Yes.

9 A Postal insurance coverage. One, the value of the
10 contents at the time of mailing if lost or partially damaged
11 or, two, the cost of repairs. It does not cover spoilage of
12 perishable items. Coverage may not exceed the limit fixed
13 for the insurance fee paid. Consult postmaster for details
14 of insurance limits and coverage.

15 Q All right. Now, in answer to Interrogatory 11,
16 you stated that there are additional -- in effect you said
17 there are additional terms and conditions of coverage, and
18 one should look at Publication 201 to find them, and
19 Publication 122. Is that correct?

20 A Yes, that's correct.

21 Q Okay.

22 Let's turn to pages 24 through 27 of publication
23 122, please. You have -- you have a photocopy of those four
24 pages --

25 A Yes.

1 Q -- that I gave you earlier.

2 COMMISSIONER LeBLANC: What page, Ms. Dreifuss?

3 MS. DREIFUSS: In -- in your handout, it's pages
4 24 through 27.

5 COMMISSIONER LeBLANC: Thank you.

6 MS. DREIFUSS: I think they would be -- they would
7 begin at the third page of the stapled material that I -- I
8 put on the dais.

9 BY MS. DREIFUSS:

10 Q Beginning at page 24, do you see that there are
11 exceptions listed to the kind of coverage that's available
12 through purchase of -- of insurance?

13 A Yes, I do.

14 Q At page 26 -- no, I'm sorry, not page 26.

15 Now let's turn for a moment to publication 201,
16 which is the Consumers Guide.

17 A Yes.

18 Q Under the heading "Insurance," there is a -- a
19 description of -- of coverage, and the second sentence from
20 the end of that section states that the amount of insurance
21 coverage for loss will be the actual value less
22 depreciation. Do you see that?

23 A Yes, I do.

24 Q Is that what Form 3813-P, which is the receipt
25 that I referred to earlier -- is that language included

1 under the coverage description of the receipt?

2 A I believe that's implied by the sentence that
3 "Postal insurance covers (1) the value of the contents at
4 the time of mailing," or clause rather than sentence, sorry.

5 Q Well, it could certainly be made more clear that,
6 ultimately, someone who wants to file a claim will be --
7 will be subject to that subtraction of depreciation.
8 Couldn't -- couldn't it be stated more clearly on the form
9 than it is today?

10 A Well, I -- I believe it's stated more clearly in
11 the -- in the -- in publication 122. However, on the form,
12 we're somewhat limited in size, and it is not possible to
13 list all the exceptions and provisions that -- that govern
14 insurance coverage.

15 Q Okay.

16 One -- one more thing I'd like you to look at,
17 because this also contains some exceptions or at least some
18 -- some more detail about what coverage would be, and that
19 would be from the DMM, Section S010.2.14.

20 A Yes.

21 Q Now, I've also provided copies of -- of pertinent
22 -- of that section to the commissioners and to you and to
23 your counsel.

24 Under sub-part G, is it correct that -- that
25 consequential losses will not be covered by insurance?

1 A That is correct.

2 Q And that doesn't say so on this receipt, does it?

3 A Well, it's not stated explicitly. I believe it's
4 implied, once again, in -- in that it says "Postal insurance
5 covers (1) the value of the contents," and moreover, where
6 it says "Coverage may not exceed the limit fixed for the
7 insurance fee paid," whereas if consequential damages were
8 allowed, then presumably those damages could be in -- could
9 exceed the amount for which the fee was paid.

10 Q But again, it's not stated clearly that
11 consequential damages will not be covered; is that correct?

12 A It's not stated explicitly on the form, no.

13 Q Just a few examples. Under the DMM Section 2.14,
14 does the form -- the receipt, the domestic insured mail
15 receipt state that, just as an example, sentimental value will
16 not be covered by insurance?

17 A Once again, not explicitly, though I believe
18 that's implied by what is stated under the heading
19 "coverage" on the back of the form.

20 Q Does it say that damage -- this is subpart I of
21 that DMM section I was referring to a moment ago. Does it
22 say that damage by abrasion, scarring, scraping or to
23 articles not properly wrapped will also not be covered?

24 A Not explicitly on the form, no.

25 Q Does it say that the fragile nature of articles,

1 this is Subpart M, that the fragile nature of articles
2 preventing safe carriage in the mail will not be covered?

3 A Not on the form receipt, no, it does not.

4 Q You also state in your answer to 11 that if the
5 purchaser wants more information, they can ask a clerk, I
6 imagine --

7 A Yes, that's correct.

8 Q -- for some of this. However, in answer to
9 subpart A of that interrogatory, you note that Publication
10 122 doesn't appear to be shipped any longer to facilities,
11 does it?

12 A It -- it will be when the new document is
13 completed and I believe those will be shipped sometime
14 within the next month or two.

15 Q But at least for some period of time, they were
16 not shipped; is that correct?

17 A No new -- that's correct. For some period new
18 copies were not shipped because the ones in existence were
19 no longer correct given the outcome of the special services
20 case.

21 Q At the -- the copies that you note in subpart A,
22 these would be how many brochures would be distributed to
23 retail Post Offices, correct?

24 A In fiscal year '96.

25 Q Okay. And for example, Publication 122, 92,000

1 copies were distributed in FY '96; is that correct?

2 A Yes, that's right.

3 Q Do you have any idea, a ballpark figure, how many
4 retail postal facilities would have offered insurance during
5 FY '96?

6 A Short of saying all of them, no I do not.

7 Q But can you come up with a ballpark figure? A
8 number?

9 A Between 30 to 40,000.

10 Q Are you under the impression that most consumers
11 who publish insurance would be aware of these DMM
12 provisions?

13 A I'm not really able to answer that. My belief is
14 that, for most insurance purchasers, they tend to be
15 relatively routine, and these restrictions are either not
16 relevant or not of interest to the customers who are
17 purchasing the insurance.

18 Clerks are instructed to ask some questions of
19 customers about the nature of the contents of what they're
20 mailing, and for example, if those contents are flammable,
21 clerks are then instructed to ask further questions to make
22 sure that the articles are packaged properly, but again, in
23 most cases, I believe that the -- the -- the articles that
24 are presented for insurance coverage, these -- these
25 particular provisions are not really relevant, in most

1 cases.

2 Q If -- if an insured individual needed to make a
3 claim for loss, damage, theft, would the Postal Service hold
4 that individual responsible for -- even though -- if the
5 individual were to say "I wasn't aware of these exceptions, I
6 thought you would reimburse me for sentimental value of the
7 article," just as an example, would the Postal Service take
8 that into account, or would they hold fast to the exceptions
9 that are contained in the DMM and say "no, ~~we're -- we're~~
10 ~~--~~ we're simply not going to pay you damages of that sort?"

11 A In general, claims for sentimental value are
12 rejected.

13 Q Do you know whether courts would hold purchasers
14 of insurance responsible or charge them with the knowledge
15 of the contents of the DMM if -- if such a claim ever
16 actually wound up in court?

17 A No, I do not.

18 Q If -- if you were to learn that courts would hold
19 individuals responsible for having such knowledge, would it
20 make you conclude that information like this ought to be
21 handed out routinely upon purchase of insurance, all of
22 these -- all of the exceptions to coverage?

23 A I guess that would depend on the relative costs
24 and benefits. I mean anytime you hand out information as a
25 matter of course in -- in conjunction with any transaction,

1 there's a cost associated with that.

2 Conversely, there would be a cost, then, of not
3 informing customers of that provision, and without knowing
4 what the relative costs were, it's -- I can't say whether
5 I'd be in favor of that or not.

6 Q Could you turn to your answer to OCA interrogatory
7 23, please?

8 A Yes.

9 Q In answer to 23, you state that "Determination
10 that an article has not been properly wrapped for protection
11 is the responsibility of the employee adjudicating the
12 claim, in accordance with the provisions of DMM Section
13 S010.2.14," and you also state further down in that
14 paragraph that no additional guidelines are published.

15 A That's correct.

16 Q Does that mean that an employee has to pretty much
17 make a common sense conclusion about whether an article has
18 been properly wrapped or not?

19 A We rely on the judgement of the employees who are
20 adjudicating the claims, if that's what you're saying, yes.

21 Q If you had, let's say, 10 different employees look
22 at a package, do you think that some of them might reach the
23 conclusion that it was properly wrapped and others might
24 reach the conclusion that it was not?

25 A If 10 individuals looked at any situation, the

1 likelihood that all 10 would agree is probably relatively
2 low. However, in general, my understanding is it's -- it's
3 not difficult to ascertain when an article has not been
4 properly packaged for protection. At least that is what I
5 have been informed.

6 Q Where did you obtain that information?

7 A In responding to these interrogatories, I
8 consulted with people who work in Claims in the St. Louis
9 Accounting Service Center.

10 Q We also asked in Interrogatory 23 whether the
11 Postal Service would refund the insurance fee for an article
12 not properly wrapped for protection, and you stated in
13 subpart (b) that the answer to that would be no.

14 A That's correct.

15 Q So the insurance fee would not be refunded?

16 A Correct.

17 Q Would postage be refunded?

18 A In the event of damage, postage is not refunded.
19 Postage is refunded in the event of loss.

20 Q And the reason you give for that is you say the
21 customer has still received the benefit of the bargain,
22 which is coverage against loss or damage in all other
23 circumstances for which insurance coverage is offered, is
24 that correct?

25 A That's correct.

1 Q If an individual decided to send an item -- let's
2 say it was a fungible number of items weighing roughly 10
3 pounds -- and a Postal Service employee rifled such a
4 package and removed half of them, in a case like that would
5 the postage be refunded?

6 A No, the postage wouldn't be refunded, but the
7 customer would be able to recover the loss incurred as a
8 result of the rifling.

9 Q Would the insurance fee be refunded?

10 A No, it would not.

11 Q In the case that I just posited, you were saying
12 that the customer -- or at least in answer to our
13 Interrogatory 23(b) you said the customer still got what
14 they bargained for, in effect. Is that correct?

15 A I did not phrase it in that way.

16 The customer has paid for a service and part of
17 that service has been rendered, meaning the transportation
18 of the article from an origin to a destination, and the part
19 for which -- the part that the customer did not receive,
20 meaning in this case the damage as a result of rifling, the
21 customer will have been compensated as a result of the claim
22 that they filed.

23 Q Well, if the customer wanted to send 10 pounds of
24 silverware, let's say, as a gift, and only 5 pounds of it
25 was delivered to the recipient, that means the Postal

1 Service failed to deliver 5 pounds of the silverware, didn't
2 it, in my hypothetical where the package was rifled and half
3 the contents were stolen.

4 A That's correct.

5 Q I don't see how the customer got the full benefit
6 of the bargain there, because the customer paid for 10
7 pounds of items to be shipped and only 5 pounds were
8 shipped.

9 A Correct, and the customer would be entitled to
10 recover the value of the 5 pounds that were not safely
11 delivered to their intended destination.

12 Q Do you think that they got all of the postal
13 service that they had originally paid for in that case?

14 A If you are asking me do I think they would be
15 happy with the results of their transaction, certainly not.

16 However, as a practical matter the postage is in
17 this case intended to cover the cost of transporting the
18 item from origin to destination. That has occurred.

19 I'll grant that the article did not arrive in its
20 proper state. Insurance offers an avenue for the customer
21 to recover the damages as a result of that.

22 I am not sure why that indicates the customer
23 should be entitled to recover postage in this case.

24 Q Using Parcel Post as an example, do you know
25 whether a purchaser pays a higher postage for 10 pounds to a

1 given zone under Parcel Post than 5 pounds, just as an
2 example?

3 A Well, I am not an expert on the Parcel Post rates.

4 I would assume that in general that is the case.

5 Q Right. So you pay a higher postage rate for 10
6 pounds than you do for 5 pounds?

7 A That's correct.

8 Q However, in my example, 10 pounds were not
9 delivered to the recipient, only 5 pounds were delivered, is
10 that true?

11 A That is correct.

12 Q Again, I don't understand how a purchaser would
13 have received the full benefit of that bargain, because not
14 everything was delivered that was intended to be delivered
15 and was paid for.

16 A If I am understanding correctly, are you implying
17 that they should be entitled to recover half of the postage,
18 assuming that the Parcel Post rate for a 10 pound package is
19 double the Parcel Post rate for a 5 pound package?

20 Q Yes. I am suggesting that that would be a fair
21 result.

22 Do you disagree with that?

23 A Well, I mean I can understand the basis for it,
24 but as a practical matter I am not sure how you would
25 implement that.

1 I mean it would increase the complexity of the
2 claims process and it would -- you would have to then
3 reweigh and reweight -- I mean -- the package when it is
4 brought in for the claim.

5 I am not sure what the costs of doing that would
6 be and how that would affect the rates we would have to
7 charge for postal insurance.

8 BY MS. DREIFUSS:

9 Q It is possible, isn't it, that in that case,
10 after -- again, in my hypothetical -- a claimant
11 successfully recovers for the 5 pounds of silverware that
12 had been stolen while in the hands of the Postal Service.

13 It is possible that that might have to be mailed
14 again and an additional and new postal charge would be
15 incurred, is that correct?

16 A I am not sure why it would need to be mailed
17 again.

18 Q Would the Postal Service put those items in the
19 hands of the recipient? Would that be part of the damages
20 paid to the claimant?

21 A I am not sure of that.

22 I guess that would depend on who files the claim.

23 Q If it were filed by the person who paid for
24 insurance, would the items be put in the hands of the
25 recipient as part of the reparations?

1 A Are you saying that the recipient shipped them
2 back to the sender?

3 Q No, no, the purchaser. No, in my example, the
4 individual sent 10 pounds of silverware to a recipient.
5 When it arrived, 5 pounds were missing, and somehow it was
6 able to be established that it was rifled while in the hands
7 of the Postal Service and 5 pounds were removed.

8 As part of the reparation, would the Postal
9 Service I guess ship for free that new 5 pound purchase to
10 make up for the 5 pounds that were originally stolen?

11 A To be honest, if a customer claimed that, I am not
12 sure how that would be handled.

13 Q All right, let's go to a new line of questions.
14 Turn to your answer to OCA interrogatory 25, please.

15 A Okay.

16 Q In response to OCA 25, you confirm that the Postal
17 Service will not pay a claim where the damage is caused by
18 shock or transportation environment without evidence of
19 damage to the mailing container; is that correct?

20 A That's correct.

21 Q And you also state that the incidence of any of
22 the factors listed in DMM Section S010.2.14 Subpart P, if
23 sufficient to cause damage to the article contained therein
24 would presumably leave evidence of damage to the mailing
25 container; is that correct?

1 A Yes, that's correct.

2 Q What do you mean by "presumably" in that answer?

3 A Well, I mean, for example, shock would be if the
4 package were dropped such that it damaged the contents of
5 the package. If that were the case, presumably there would
6 be a mark on the outside of the box to indicate that in some
7 way the package had been mishandled, in this case dropped.

8 In the absence of such external characteristics,
9 it is difficult to ascertain whether the damage to the
10 article inside the box or package happened as a result of
11 the Postal Service handling or happened before the article
12 was accepted for mailing.

13 Q It is certainly possible though that there would
14 be instances where the contents of the container would be
15 fragile, although not so fragile as not to be insurable.
16 And in such a case if, for example, the container were
17 dropped from a great height, the contents could shatter but
18 the mailing container would remain intact and show no signs
19 of damage.

20 A I would have to disagree. I think if an article
21 is dropped from a great height, there should be some visible
22 evidence of that on the exterior of the package.

23 Q You can't conceive of a situation where the
24 contents would be damaged in some way but the container
25 would not?

1 A I can conceive of it but when I try to imagine
2 such an instance, what I think of is instances where the
3 article has not properly been packaged for protection. If
4 it is a fragile article such that it can be damaged without
5 any visible evidence of that on the exterior of the package,
6 that indicates to me that it should be very securely
7 packaged inside. And if that were the case, then I would
8 have to ask why it was damaged when there was no evidence of
9 damage to the exterior of the carton, in which case it would
10 indicate to me that the article had not been properly
11 wrapped for protection.

12 Q How about this example. There is a container that
13 is not subject to heat damage but the contents of the
14 container might be. Wood, for example. Let's say a wood
15 article were being shipped through the Postal Service and
16 the article was left in a truck in the hot sun and the
17 temperature inside the truck reached a very, very high level
18 so that the wood split from the heat and the container did
19 not. Would the contents of that package be recoverable?
20 I'm sorry, would damage for the contents of that package be
21 recoverable?

22 A To some extent, that would in part depend on the
23 person adjudicating the claim and what their judgment
24 indicated to them. Conceivably, one could argue that that
25 is an instance where the article has not properly been

1 wrapped for protection. If the article is susceptible to
2 heat damage, presumably it should be packaged in a container
3 that will insulate it from that damage.

4 Q Let's turn to page 8 of your testimony, please.

5 A Yes.

6 Q Beginning at line 11, you state that, in addition
7 to the window service -- window services costs that will be
8 avoided, indemnity costs for bulk insurance are expected to
9 be lower than for basic insurance. Is that correct?

10 A Yes, that's correct.

11 Q Are postal insurance premiums dependent in some
12 way on the historical incidence of indemnity claims?

13 A Well, indemnity claims are part of the cost on
14 which the insurance fees are based.

15 Q And in fact, the level at which fees are set in
16 this case would reflect the -- the costs incurred in
17 indemnity claims --

18 A Yes, they do.

19 Q -- from past years.

20 A Yes, they do.

21 Q Is it correct that the Postal Service really
22 doesn't have any past information on what -- what claims
23 might be -- might be incurred on behalf of bulk purchasers
24 of insurance?

25 A That's correct.

1 MS. DREIFUSS: Well, that concludes the cross
2 examination of the OCA.

3 CHAIRMAN GLEIMAN: Well, let me try again.
4 Mr. Popkin.

5 MR. POPKIN: All right, okay, again.

6 CROSS EXAMINATION

7 BY MR. POPKIN:

8 Q One quickie thing.

9 I assume, in fee schedule 943, which I just
10 noticed now, under Part B general insurance, that the last
11 item should be changed from 100.1 to 100.01?

12 A I don't have that in front of me, but from what
13 you've read, that sounds like it would --

14 Q Yes.

15 A -- be correct.

16 Q Just for the -- the clean-up crew.

17 You commented before that consequential insurance
18 -- consequential damages would not be covered by insurance
19 primarily because of the limit on the fees.

20 A I'm not sure that I said that.

21 Q Is consequential damage ever covered regardless of
22 -- in other words, if I bought \$5,000 worth of insurance for
23 mailing a \$100 clock-radio but I had \$4,900 in consequential
24 damage because I didn't have my clock-radio, would that be
25 covered?

1 A No, it would not.

2 Q So, consequential damage is not covered at all,
3 regardless of the fee paid.

4 A That's correct.

5 Q Okay.

6 In response to a number of OCA comments, you
7 seemed to indicate that, if an article was damaged, as
8 opposed to rifled or lost or whatever, that that would be
9 the result of poor packing and therefore not covered. Is
10 that correct?

11 A That could be the result of poor packaging,
12 although it's hard for me to imagine what improper packaging
13 would have to do with rifling or theft.

14 Q I -- I said other than that --

15 A Oh.

16 Q -- because that's obviously not poor packing. But
17 the impression I had in listening to your responses was
18 that, if -- if it got damaged, it was the fault of the
19 packing and therefore wouldn't be paid. I don't know if
20 that's --

21 A That's one possible reason why a claim might not
22 be paid. I mean we pay thousands of claims. So, in
23 general, that is often not the case.

24 Q Okay. All right. Let's go at the items I had
25 here.

1 In response to my interrogatory 24 --

2 A Yes.

3 Q -- you indicate that, with respect to the return
4 receipt for merchandise, that restricted delivery is not
5 available for that service.

6 A Yes, that's correct.

7 Q Can you give any explanation as to why?

8 A Well, as it exists right now, return receipt for
9 merchandise allows the mailer the option to waive the
10 signature at the point of delivery, ~~You can't really do~~
11 ~~that if you're also offering restricted delivery,~~ meaning
12 that the carrier can sign for the article if it's return
13 receipt for merchandise. You can't do that if you're
14 offering restricted delivery.

15 Q Does Express Mail have the ability to also waive
16 the signature?

17 A Yes, it does.

18 Q Are there any other classes of accountable mail
19 that have the same ability?

20 A Off the top of my head, I'm not sure.

21 Q Return -- return receipt after mailing or
22 duplicate return receipt.

23 A Yes.

24 Q You say that this is not available for return
25 receipt for merchandise.

1 A That's correct.

2 Q Is there any particular reason why? Well, let me
3 ask you the question --

4 A Well --

5 Q When a return receipt for merchandise article is
6 delivered, the Postal Service will also get the signature of
7 the addressee on the delivery record, correct?

8 A Yes, that's correct.

9 Q Okay.

10 So, why would the -- since the Postal Service
11 would have this delivery record, why is -- do you feel it's
12 appropriate that the return -- that a duplicate return
13 receipt or a return receipt after mailing would not be
14 available for the -- the service?

15 A I'm not sure I understand your question. Could
16 you repeat it?

17 Q Well, you have indicated that a duplicate return
18 receipt or a return receipt after mailing -- the Form 3811-A
19 --

20 A That's correct.

21 Q -- the yellow card -- is not available for return
22 receipt for merchandise.

23 A That's correct.

24 Q Can you give any insight as to why not?

25 A As to why the classification was written that way?

1 Q Yes.

2 A No, I don't know why.

3 Q Okay.

4 If I were to send out -- okay. I am just -- in --
5 well, let me ask mine first, then I will pick this one up.

6 If I were to send out a parcel and purchase the
7 return receipt for merchandise service, that would cost me
8 \$1.20 today and -- what's it -- I think it's \$1.70 --

9 A Yes.

10 Q -- next year if this is approved.

11 A We hope, yes.

12 Q Suppose that I do not receive that return receipt
13 or suppose that that return receipt I receive is missing a
14 date, is missing a signature, there's some defect in it.
15 What is my remedy?

16 A If you do not receive the return receipt, I
17 believe you're entitled to a refund of the fee.

18 Q In other words, so I can just go to my post office
19 and say I didn't get this, and they'll just give me my \$1.20
20 back?

21 A You would have to present your receipt.

22 Q Okay. Here's my receipt that says I mailed this.

23 A And then the post office would attempt to confirm
24 that the article was not delivered.

25 Q Isn't that exactly what the duplicate return

1 receipt is?

2 In other words, would they make that confirmation
3 by filling out a 3811A and sending it off to the postmaster
4 of the addressee and say did, you know --

5 A In the case of a duplicate return receipt, you
6 would receive a hard-copy confirmation of delivery. The
7 other situation that you posited was just that you were
8 requesting a refund for a service that was not rendered. I
9 didn't mean to imply that you would then get a duplicate
10 return receipt. You would be entitled to get a refund
11 subject to the post office's ability to confirm that the
12 article wasn't delivered. I don't know how that implies
13 that they're the same service.

14 Q I think we're not communicating. I mail a
15 package.

16 A Um-hum.

17 Q And I purchase return receipt for merchandise
18 service on it.

19 A Yes.

20 Q And I wait, and I wait. I don't get the green
21 card back after a week, after two weeks, after a month,
22 whatever. Am I entitled to anything?

23 A You're entitled to -- I believe I said you're
24 entitled to a refund if you don't receive the return
25 receipt.

1 Q Okay. If I do the same thing with certified mail,
2 am I entitled to a refund if I don't receive --

3 A I'm not sure.

4 Q Well, a return receipt refund?

5 A Oh, certified mail with a return receipt?

6 Q Right.

7 A Yes, you're entitled to a refund if you don't get
8 the return receipt.

9 Q In other words, they won't fill out a 3811A and
10 see if the article was delivered?

11 A No, they would check to confirm that the article
12 was delivered or not delivered, and if it wasn't and you
13 wanted a refund, you would get a refund.

14 Q My question --

15 CHAIRMAN GLEIMAN: Excuse me, Mr. Plunkett, can
16 you either pull the mike closer --

17 THE WITNESS: Oh, I'm sorry.

18 CHAIRMAN GLEIMAN: Or speak up a little bit.

19 THE WITNESS: I'm sorry.

20 CHAIRMAN GLEIMAN: That's okay.

21 BY MR. POPKIN:

22 Q The question I have is does the provision for
23 duplicate return receipt apply for return receipt for
24 merchandise service?

25 A No, it does not.

1 Q In your response to -- in the response of Witness
2 Needham to DFC USPS-T-39-23 subpart (c), please cite the DMM
3 section that offers a duplicate return receipt to a customer
4 who purchased return receipt for merchandise.

5 Response: Please see DMM S-915.4.0 which applies
6 to return receipt for merchandise service as well as return
7 receipt service.

8 Can you reconcile the difference?

9 A I can't -- well, I can't respond to an
10 interrogatory response by Witness Needham. I don't have it
11 in front of me, and I'm not sure. I mean, I don't know what
12 those specific DMM provisions say.

13 MR. POPKIN: Can we get a -- can we get the Post
14 Office to provide an institutional response to this
15 question?

16 CHAIRMAN GLEIMAN: The question as I understood it
17 was can you reconcile these differences.

18 MR. POPKIN: Well, the difference between --

19 CHAIRMAN GLEIMAN: Well, the witness has told you
20 he can't -- essentially said he can't reconcile it.

21 MR. POPKIN: But Witness Needham has said one
22 thing. He's said another thing. Can we get the Postal
23 Service to provide an institutional response which clarifies
24 this matter?

25 CHAIRMAN GLEIMAN: Mr. Rubin, would you care to

1 try and have someone clarify the matter in writing following
2 this --

3 MR. RUBIN: Or we -- perhaps we'll be able to do
4 it on redirect with Witness Plunkett. We'll see.

5 CHAIRMAN GLEIMAN: Okay.

6 MR. POPKIN: Okay.

7 BY MR. POPKIN:

8 Q You indicated that return receipt for merchandise
9 matter may not be put in the collection box; is that
10 correct?

11 A That's correct.

12 Q May standard mail B be placed in a collection box?

13 MR. RUBIN: Could we have -- if possible, I think
14 these are answers related to particular interrogatory
15 sections. It would help if we could keep focused on those
16 sections.

17 MR. POPKIN: I'm in interrogatory 24. Subpart G,
18 it looks like, or I.

19 MR. RUBIN: Thank you.

20 THE WITNESS: I'm sorry, which interrogatory was
21 that?

22 BY MR. POPKIN:

23 Q 24, the answers look like G and I but your
24 response to G says, furthermore, customers using certified
25 mail and return receipt may drop it in their thing -- in a

1 mail drop, return receipt for merchandise customers must
2 mail articles at a Post Office branch or station or give
3 them to a rural carrier.

4 A Yes.

5 Q Is there any particular -- so the next question I
6 asked is, is standard mail B capable of being mailed in a
7 collection box?

8 A I believe there are restrictions on standard mail
9 B being deposited in a collection box. I am not exactly
10 certain what they are.

11 Q Okay. In other words, it is not the return
12 receipt for merchandise that is the controlling factor in
13 this but it is the standard mail B?

14 A No, I don't think I said that.

15 Q Well, I'm asking.

16 A It's -- the service, return receipt for
17 merchandise, does not allow for acceptance through
18 collection boxes. I thought your question was whether or
19 not standard B mail independent of that could be deposited
20 in collection boxes.

21 Q Right. And you said that it can't be, you
22 believe.

23 A In certain cases. I believe there are cases where
24 standard B mail can be left in collection boxes.

25 Q Okay, if that's the case, and we're only talking

1 now of course with the new rule under 16 --

2 A Well, that's --

3 Q So assume I'm using a metered post -- a metered --

4 A Okay.

5 Q So since parcel -- I'm dating myself with this.

6 Parcel Post can be mailed in a collection box. What is the

7 rationale between not allowing standard mail B return

8 receipt for merchandise to not be put in the collection box?

9 A If you are asking for why that provision was
10 included in the DMM, I don't know.

11 Q Why do you believe? Do you have any insight as to
12 why you believe it might be?

13 A No, I don't.

14 Q In your response to interrogatory 34?

15 A Yes.

16 Q You make numerous responses which end in, however
17 the mailer may request a duplicate return receipt under DMM
18 Section S 915.4.2?

19 A Yes.

20 Q What I would like to do is go over with you what
21 is entailed in getting a duplicate return receipt.

22 Do you want me to ask the questions or do you want
23 to describe the procedure?

24 A Feel free to ask the questions.

25 Q Okay. Is the first requirement that I must mail

1 the original article, now we're talking about certified
2 mail, that I must mail the original article at a Post Office
3 to get the, you know, the dated receipt, receipt of mailing?

4 A You need to have the dated receipt of mailing,
5 that's correct.

6 Q So I must do that rather than just drop the letter
7 in a collection box?

8 A Well, I don't have the DMM in front of me. There
9 may be provisions that allow deposit other than at a window
10 but I'm not sure.

11 Q Well, rural carrier, possibly a highway contract
12 carrier?

13 A Right.

14 Q In other words, I have to mail it --

15 A Correct.

16 Q -- at a specific location of Post Office or an
17 authorized carrier?

18 A Yes.

19 Q If the return receipt doesn't come back within a
20 period of time or it comes back incorrect or any of the
21 other items you referred to and I decide that I need this
22 duplicate return receipt, the next step I have to do is take
23 this receipt that I got a week, two weeks, three weeks, four
24 weeks ago and bring it to a Post Office, correct?

25 A Yes, that's correct.

1 Q Next step is the Post Office unfortunately has a
2 hard time finding the 3811A but they will do this? They
3 will not provide the Form 3811A to me to complete it in
4 advance so they have to find the form and then we have to
5 sit down together and complete it; is that correct?

6 A In essence, yes.

7 Q Would you call that to be a very convenient method
8 which maintains the value of return receipt service?

9 A I guess I would ask you to clarify what you mean
10 by convenience.

11 Q Do you feel that that poses some inconvenience on
12 the mailer to go through the steps necessary to file for a
13 duplicate return receipt?

14 A The mailer is required to exert some effort to get
15 that, yes.

16 Q Would you feel that in 99 plus percent of the time
17 that the reason the mailer is doing this is the fault of the
18 Postal Service?

19 A I -- I have no way to know any percentage of that.

20 Q Virtually all of the time?

21 A Again, I have no basis for either affirming or
22 refuting that statement.

23 Q Who else could be at fault if it is not the Postal
24 Service?

25 A Again, you are asking me to speculate about

1 something that I am not able to know.

2 Q Well, I mail a certified letter to Mr. Carlson. I
3 bring it into the Englewood Post Office, they postmark the
4 receipt, they take the letter.

5 A Yes.

6 Q If I don't get the green card back, it's either
7 because the letter didn't get there, it didn't get signed
8 for or it didn't get back to me, or my letter carrier
9 delivered it to my next-door neighbor or some other reason.

10 MR. RUBIN: Objection. Mr. Popkin is arguing with
11 the witness who has stated he can't speculate on the
12 reasons. You can state your reasons through testimony or
13 brief.

14 CHAIRMAN GLEIMAN: How say you, Mr. Popkin? Are
15 you ready to ask a question and move on? If the witness
16 can't give you the answer -- you can't get blood out of a
17 turnip. If he doesn't give you the answer that you want to
18 hear, that's the way it goes.

19 MR. POPKIN: Okay.

20 BY MR. POPKIN:

21 Q The mailer would have some inconvenience in --

22 A Certainly. If the customer does not receive the
23 service that they expected, they are inconvenienced.

24 Q Would this reduce the value of the service to
25 them?

1 A They would certainly be unhappy, yes.

2 Q In your response to interrogatory 34, subparts E
3 and G?

4 A Yes.

5 Q In part E, subpart E, you indicate that the
6 delivery record would be maintained for two years.

7 A Yes, that's right.

8 Q And in subpart G you indicate that I could only
9 get a duplicate return receipt for a one-year period?

10 A I believe that's what the DMM says, yes.

11 Q Is there any rationale you could provide which
12 would indicate why since the record of delivery is at the
13 Post Office for two years?

14 A I am not sure of the difference in the retention
15 periods, no.

16 Q In your response to Interrogatory 53 --

17 A Yes.

18 Q -- one of the questions is if I have a parcel that
19 has a value of \$5,000, and I want to send this to Mr.
20 Carlson, who I'm sure will be glad to accept it, there are
21 basically two ways I can send this parcel -- either Standard
22 Mail B insured -- assuming I want coverage for any damage or
23 loss -- or Registered Mail Priority, or Priority Mail
24 Registered. Is that correct/

25 A You could also use Express Mail.

1 Q Or Express Mail.

2 A I mean I don't believe you are limited to those
3 choices but -- I mean you could send it Priority as well.

4 Q I said Priority.

5 A Oh, I'm sorry.

6 Q Priority Insured -- Priority Registered -- well,
7 two of the possible choices are Priority Registered and
8 Standard Mail Insured.

9 A That's correct.

10 Q With respect to whether I choose the insurance
11 feature or the Registered Mail feature, which one will give
12 me better security?

13 A By security, you mean more than just indemnity
14 against loss, correct?

15 Q That's correct -- better security. In other
16 words, more likely it will get there.

17 A In general, Registered Mail is the most secure
18 service that we provide.

19 Q What security do you provide for insured mail?

20 A Well, an article of that high a value would have a
21 number attached to it. It could not be sent unnumbered
22 insured.

23 Carriers are accountable for those items and are
24 required to get a signed receipt before delivery can be
25 made.

1 Q When you indicate that the carriers are
2 accountable for it, what do you mean by that?

3 A The carriers are required to get a signed receipt
4 acknowledging delivery of the article.

5 Q That doesn't mean that the carrier is responsible,
6 does it? That means that the -- in other words, I have here
7 a P.S. Form 3867, which is accountable mail matter received
8 for delivery.

9 A Yes.

10 Q Which is used to charge the accountable mail to
11 the letter carrier or rural carrier or what have you prior
12 to taking it out on the route and attempting delivery.

13 A Yes.

14 Q This form does not call for insured mail to be
15 charged to the carrier.

16 A My understanding is that carriers are supposed to
17 ~~identified~~ ^{identify} insured parcels, secure a signed receipt
18 acknowledging delivery, and to return those receipts to the
19 accountables clerk, at which time the delivery record is
20 maintained at the delivering office.

21 Q That wasn't the question. The question was when
22 the accountable mail -- in other words Registered, COD,
23 Express Mail, Certified Mail, Return Receipt for Merchandise
24 Mail, or Recorded Delivery Mail -- is transferred from the
25 accountable mail clerk, the accountable mail section,

1 whatever it might be, to the letter carrier or rural
2 carrier, there is no record on this form for accounting and
3 getting the signature of the carrier that he has received
4 this insured mail?

5 A That's correct. That form is not intended to be
6 used for insured articles, so the carrier is still
7 accountable for that item and is still expected to return a
8 signed receipt acknowledging delivery by the customer.

9 Q Oh, yes.

10 A And that way the carrier is accountable to
11 guarantee that that article is presented to the customer for
12 delivery.

13 That is what I meant when I said that the carrier
14 was accountable for those items.

15 Q But there is far less security between Registered
16 and Insured?

17 A As I said, Registered Mail is the most secure
18 service that we offer.

19 Q Let's go to the other half of it.

20 Priority Mail versus Standard Mail B.

21 A Yes.

22 Q Which one will have -- all right. Assuming the
23 cost of those were the same, is there any reason a
24 knowledgeable mailer might choose to send his article
25 Standard Mail B?

1 A I can't answer for what every mailer would do. In
2 general, Priority receives expedited handling and is a
3 higher value service than Standard B.

4 Presented with a situation where the rates were
5 the same, most customers would certainly opt for the higher
6 value service.

7 Q Okay. Now the question I have then is with
8 respect to my \$5,000 article that I want to mail to Mr.
9 Carlson, why does the Priority Mail Registered choice cost
10 less than the Standard Mail Insured cost?

11 A Are you asking me why -- I am attempting to
12 clarify.

13 Are you asking me why, in general, the fees for
14 Registered Mail are lower than the fees for insurance for a
15 comparable indemnity value?

16 Q That's one question, one part of it.

17 A Well, I mean there are differences in the service.
18 I am not an expert on the costs for either one.

19 In general, insurance provides faster delivery
20 because registered involves so much accountability at every
21 step in the transportation process, it generally takes
22 longer to get from origin to destination than insured mail.

23 Customers who are very concerned with the amount
24 of time that it takes for the article to be delivered might
25 opt to use insurance instead of Registered Mail.

1 Q Would you believe that Priority Mail slowed up
2 somewhat, a little bit, or whatever to cover the registry
3 part of it would now be slower than Standard Mail B in many
4 cases, most cases?

5 A I have no way to respond to that question.

6 Q Let's refer to article -- to sub-part --
7 interrogatory 33, sub-part F to L, which refers to the red
8 validating stamp, which I know has been objected to, so I'm
9 not going to ask directly on that, although I have filed a
10 motion to compel.

11 A All right.

12 Q If I get a PS Form 3811-A, request for return
13 receipt after mailing, also known as a duplicate return
14 receipt, sub -- line 15, or box 15, in this case, says
15 postmark of delivery office.

16 A I don't have the form in front of me.

17 MR. RUBIN: Objection. Objection. The -- the
18 question assumes that return receipt after mailing and
19 duplicate return receipt are the same thing, and I think
20 that's some of the confusion we had earlier on.

21 MR. POPKIN: If I fill --

22 MR. RUBIN: Can he explain what the --

23 MR. POPKIN: Okay.

24 CHAIRMAN GLEIMAN: Well, let me try.

25 I don't think a question's been asked yet. I just

1 think he referred to an interrogatory and then referred to a
2 form and then referred to a box on a form.

3 So, I don't know what the question is that he's
4 going to ask, and once he asks the question, if you find it
5 objectionable on some standard grounds, then you can make an
6 objection to it.

7 BY MR. POPKIN:

8 Q If I go to the post office and, together with
9 them, fill out a Form 3811-A saying -- and either showing
10 them my previously paid receipt or paying the fee for return
11 receipt after mailing, when this yellow card comes back to
12 me, will it be postmarked by the post -- by delivery office
13 in the box marked "postmark of delivery office"?

14 A I don't really understand what you're asking. Are
15 you asking me if they will put the postmark where it's
16 indicated on the card?

17 Q Will I get the red validating stamp, which is the
18 contention of the Postal Service that they don't want to
19 answer and have objected to -- will they put this red
20 validating stamp or postmark in box 15 which says "postmark
21 of delivery office"?

22 MR. RUBIN: I -- I will object to the question now
23 that it's been asked.

24 I mean you're asking questions in order to get at
25 the --

1 CHAIRMAN GLEIMAN: Talk to me, Mr. Rubin, okay?

2 MR. RUBIN: Mr. Popkin is asking questions in
3 order to get at the same issue, the red validating stamp,
4 that he asked about in interrogatory 33 F to L and to which
5 we've objected, and I believe -- he says he's filed a motion
6 to compel. We can deal with the issue --

7 CHAIRMAN GLEIMAN: Well --

8 MR. RUBIN: -- in that way.

9 CHAIRMAN GLEIMAN: If, indeed, you've filed a
10 motion to compel and we've not ruled on it yet -- and there
11 have been so many motions by so many people that I can't
12 remember whether we ruled on that one or not yet, let's let
13 that one lie until such time as we rule.

14 If we rule in your favor, then they're going to
15 have to answer the question, or if the presiding officer
16 rules, they can always ask for reconsideration, in which
17 case the commission as a whole will rule on it, but let's
18 just move on, then.

19 MR. POPKIN: Okay.

20 BY MR. POPKIN:

21 Q In your response to interrogatory 32(a), sub-part
22 (a) --

23 A I'm sorry. Was that 32(a)?

24 Q 32(a), yes.

25 A Yes.

1 Q I asked you, is it the requirement that
2 accountable mail and return receipts be signed for at the
3 time of delivery, and your response was, "This is a goal."
4 Could you explain what you mean by being the goal?

5 A That is the goal of the Postal Service, that --
6 that those articles ^{be} ~~by~~ signed for by the addressee at the
7 time of delivery. I don't understand what you're asking.

8 Q Well, then, if we look now at sub-part (b), you
9 say, as there is no requirement, there can be no exceptions.
10 What do you define as a goal, what do you define as a
11 requirement?

12 A Well, I think that refers to the way your
13 interrogatory was phrased, where it says -- you asked that
14 -- is it a requirement of the Postal Service, as indicated
15 by POM Section 822.2? I don't believe that relevant POM
16 section says that it's a requirement.

17 Q My question was, what do you define as a goal,
18 what do you define as a requirement? In other words, if
19 it's in the manual, is it a requirement?

20 A I mean that -- that's the Postal Service policy,
21 that that's when those articles will be signed for, and
22 that's the goal. I -- I guess I'm not -- maybe there is no
23 distinction between requirement and goal in this case. I'm
24 not sure.

25 Q Well, if -- if there were a section in the DMM or

1 the POM which said X, Y, Z should take place, would that be
2 a requirement and, therefore, it should take place?

3 A I -- I mean I suppose one could infer that that's
4 a requirement.

5 MR. POPKIN: May I give him a copy of the DMM
6 section?

7 CHAIRMAN GLEIMAN: Certainly.

8 BY MR. POPKIN:

9 Q Can you look at Section D0421.7(b) and tell me
10 what that means?

11 A Should I read it?

12 Q You may read it.

13 A The mail piece -- in this case, Express Mail and
14 accountable mail -- may not be opened or given to the
15 recipient before the recipient signs and legibly prints his
16 or her name on the delivery receipt, parentheses, and return
17 receipt, if applicable, close parentheses, and returns the
18 receipts to the USPS employee.

19 Q Does this require the United States Postal Service
20 to obtain the signature -- and the signature can be in
21 whatever is permitted as a form of signature. In other
22 words, it can be an authorized rubber stamp or whatever.
23 That's not the question.

24 A That's what this says, yes.

25 Q That they must do this before turning over control

1 of the mail to the addressee.

2 A Yes, that's what it says.

3 Q Does this -- is this required in all instances?

4 A It doesn't offer any exceptions.

5 Q Are there any exceptions?

6 A Not that I'm aware of, no.

7 Q In your response to sub-part (b), you said, "In
8 some cases it is possible that the signature takes place
9 after delivery." What does that mean?

10 A It's the possibility that in some cases that may
11 happen, but again, it doesn't imply that there are
12 exceptions to that requirement. In fact, it says that there
13 are no exceptions.

14 Q In what instance could it happen?

15 CHAIRMAN GLEIMAN: Mr. Popkin, can I ask you a
16 question --

17 MR. POPKIN: Certainly.

18 CHAIRMAN GLEIMAN: -- about your interrogatory?

19 Does your interrogatory make reference to the
20 Domestic Mail Manual section that you just handed to counsel
21 and witness?

22 MR. POPKIN: No, it does not, because it's
23 courtesy of Mr. Plunkett that I found that section.

24 CHAIRMAN GLEIMAN: Okay.

25 So, when you ask him about the Domestic Mail

1 Manual section that seems to be fairly straightforward and
2 doesn't allow any exceptions and then you ask an
3 interrogatory that's based on something else, are you sure
4 that your -- your follow-up question to the question about
5 the domestic mail manual is a proper question?

6 I mean you seem as though it -- it seems to me as
7 though you feel that there is some -- there is a different
8 answer in the interrogatory than the Domestic Mail Manual
9 would lead one to believe, but the interrogatory is not --
10 is not based on -- the question is not based on the domestic
11 mail manual.

12 MR. POPKIN: The question I have is in sub-part
13 (b), which says --

14 CHAIRMAN GLEIMAN: I -- I read it. It says --

15 MR. POPKIN: Right.

16 CHAIRMAN GLEIMAN: -- in your response to sub-part
17 (a) -- if your response to sub-part (a) is not an
18 unqualified yes, provide a complete listing of all
19 exceptions to the requirement and the authority that -- the
20 authority authorizes that exception. I see that.

21 But the -- but the preamble question is sub-part
22 (a), and sub-part (a) talks about POM Section 822-2.

23 MR. POPKIN: Correct. However --

24 CHAIRMAN GLEIMAN: And 822-2 of POM is not the
25 section that you cited out of the Domestic Mail Manual.

1 MR. POPKIN: Actually, 822.2 of the POM relates to
2 the use of a signature stamp.

3 CHAIRMAN GLEIMAN: I understand.

4 MR. POPKIN: Not to the signing.

5 CHAIRMAN GLEIMAN: Well, then you really have me
6 confused, because you're asking questions here based on this
7 interrogatory and the followup to the question you just
8 asked on the stand that deals with the signature.

9 So, you see to be mixing the stamp and the
10 signature up, and it's confusing me. I hope you can
11 straighten it out and move ahead.

12 MR. POPKIN: Okay. Let me -- let me try.

13 CHAIRMAN GLEIMAN: I -- I don't -- it seems to me
14 that the witness may be as confused as I am at this point
15 about --

16 MR. POPKIN: Okay.

17 THE WITNESS: You're correct.

18 BY MR. POPKIN:

19 Q The second sentence of your response to sub-part
20 (b) says, "In some cases it is possible that the signature
21 takes place after delivery."

22 A Yes, it does.

23 Q If that were occurring, it would appear to be a
24 violation of the DMM 042 1.7(b) section. Where does that
25 occurrence take place? In other words, what caused you to

1 say that? What situations exist where the signature can be
2 done sometime after delivery?

3 A Well, let me try to explain.

4 Again, this interrogatory response didn't refer,
5 necessarily, to the Domestic Mail Manual, and again, the
6 primary point in response (b) was that, because there was no
7 explicit requirement stated -- and in this case, I'm
8 referring to POM 822 -- there really couldn't be any
9 exceptions.

10 However --

11 Q That's the first sentence. I understand that.

12 A Yes. And that second sentence is merely to
13 qualify that response by saying that, well, there are no
14 exceptions possible because there is no explicit
15 requirement. It is conceivable that in some cases that may
16 happen.

17 It's merely a qualifier and in no way indicative
18 of explicit exceptions to any -- any verifiable requirement.

19 Q Okay, in other words, all accountable mail,
20 regardless of whether it is a single letter sent to me or
21 10,000 of them sent to IRS, must meet the requirements of
22 the Domestic Mail Manual where the addressee will sign both
23 the delivery record and the return receipt if there is one,
24 prior to gaining control of the mail?

25 A In the case of the IRS, they would presumably use

1 some kind of a stamp but, otherwise --

2 Q Sign in a permissible manner.

3 A Otherwise, that's my understanding, yes.

4 Q So you know of no exceptions, then?

5 A I am not aware of any, no.

6 MR. POPKIN: I'm on my last question. May I?

7 BY MR. POPKIN:

8 Q These questions relate to the value of the return
9 receipt service.

10 The end of August, early September, I mailed out a
11 series of 16 return receipt -- well, certified letters,
12 return receipt requested. I'd like you to go through these
13 and indicate whether the return receipt is properly
14 completed or not, and if not, why not? I guess we can --

15 A Do you want to specify certain numbers or --

16 Q Well, let's use the last three digits of the
17 certified mail number. In other words, the article number
18 is 715901, and then three digits.

19 MR. RUBIN: I would object to the line of
20 questioning. This seems to be a study that Mr. Popkin has
21 done. It would normally be presented as testimony in a
22 proceeding like this, and I don't know why we should spend
23 time at the hearing going through the results of this study.

24 MR. POPKIN: Well, this is just an example. I'd
25 like him to point out what some of the items are that are

1 not acceptable or whether they are acceptable.

2 CHAIRMAN GLEIMAN: Do you have a sense of whether
3 any or all of these are filled out correctly or not
4 correctly?

5 MR. POPKIN: My perception is that of the 16,
6 probably 13 or 14 are not filled out correctly.

7 CHAIRMAN GLEIMAN: Well why -- perhaps it would be
8 more productive, rather than playing a guessing game, to
9 point out to the witness which ones you think are not, and
10 see if he agrees with you.

11 MR. POPKIN: Okay. Well, most of them are not
12 filled out correctly.

13 All right, let's go through them.

14 CHAIRMAN GLEIMAN: Well, why -- if you want to --
15 if you want to --

16 MR. POPKIN: Okay.

17 CHAIRMAN GLEIMAN: If you want to get the witness'
18 answer --

19 MR. POPKIN: Okay.

20 CHAIRMAN GLEIMAN: To those.

21 MR. POPKIN: Well, we'll do this quickly, each
22 one. All right.

23 BY MR. POPKIN:

24 Q Do you agree that No. 136 does not have the
25 printed name of the addressee nor the date of delivery?

1 A I don't see either one on the article.

2 Q No. 135, does that have a date of delivery? Also,
3 No. -- well, it has 9/2, which is not a full date of
4 delivery, but it's also signed with the company name rather
5 than the name of the individual.

6 A I don't know what that word is.

7 Q That word happens to be the name of the addressee.

8 A Then is the --

9 Q In other words, it's not a person's name, it's the
10 name of the company.

11 A Well, I have no way to know that.

12 MR. RUBIN: I would object. I mean, we've got
13 photocopies here. We really can't tell if this is what he
14 got back and what's -- these haven't been authenticated.

15 THE WITNESS: It also appears that in each one
16 there is a section that has been blocked off by some kind of
17 a white covering, and I'm not sure what that conceals.

18 MR. POPKIN: The addressee's name, which I feel is
19 no, you know, part of the record.

20 CHAIRMAN GLEIMAN: Well, I'm not sure what you
21 handed out, because I haven't seen it, and under ordinary
22 circumstances this is something that should have been
23 provided to a witness in advance so that there would have
24 been an opportunity to study it. We're talking about
25 whether somebody signed for material that was supposedly

1 sent by you and received by these parties, and yet you say
2 the addressee's name is of no consequence. Is the addressee
3 the person to whom this was sent and --

4 THE WITNESS: No, what I said was, I sent an
5 article to a company called Comsearch, and the return
6 receipt was signed Comsearch rather than, you know, the name
7 of the person who signed it.

8 CHAIRMAN GLEIMAN: Are you familiar with other
9 parts of the Domestic Mail Manual that might provide that
10 when you send mail to a company or to a Government agency
11 that an authorized individual other than the named addressee
12 might be an acceptable recipient?

13 MR. POPKIN: That's rubber stamps in POM 822-2.

14 CHAIRMAN GLEIMAN: Okay.

15 MR. POPKIN: My question is --

16 CHAIRMAN GLEIMAN: I don't want to be
17 argumentative about this. I want to move on quickly with
18 this.

19 MR. POPKIN: Okay.

20 CHAIRMAN GLEIMAN: If you think there's something
21 wrong there, then go down the list quickly --

22 MR. POPKIN: Okay. All right.

23 CHAIRMAN GLEIMAN: You know, we can't --

24 MR. POPKIN: I'm trying.

25 CHAIRMAN GLEIMAN: I just want you to

1 understand -- I want Postal Service counsel and the witness
2 to understand that, you know, it is my considered view that
3 when you're dealing with an individual who is not a member
4 of the Postal Bar who does not come here and participate in
5 every case that you have to give a certain amount of leave
6 with respect to their cross-examination. I think that's
7 entirely proper, even if it seems as though it might take
8 more time than some of us would like.

9 And in that regard, I would like you to continue.
10 I don't want to be argumentative about this. Mr. Rubin's
11 concerns about the validity of any of these has been made a
12 part of the record as a consequence of his objection. Your
13 concern about marked out boxes has been made a concern.

14 Let's just go down the list from top to bottom,
15 page after page. You point out what you think is improper
16 and get the word as to whether it is --

17 MR. POPKIN: Okay.

18 BY MR. POPKIN:

19 Q Where a letter is signed, Number 135, where a
20 letter is signed by the company name rather than the name of
21 the individual, would that be correct?

22 A If that is the case, that would be incorrect --

23 Q Okay.

24 A -- except again unless there is some agreement
25 with the post office that allows for that.

1 Again, I don't know what this word is. I don't
2 know that -- I mean it doesn't appear to be a signature
3 stamp but I cannot be absolutely certain that that is the
4 case.

5 Q If it were a handwritten --

6 A Then that would be incorrect.

7 Q Okay, thank you.

8 CHAIRMAN GLEIMAN: Let's just move on to the next
9 one.

10 BY MR. POPKIN:

11 Q Okay. On the bottom two, 137, 135, they just show
12 the date as 9/2 and 9/4, is that correct?

13 A I suppose the year should be on there but in
14 general I think people would accept that for the current
15 year.

16 Q How do I show the current year next year if I have
17 to look at these?

18 Would you say it's providing me a high value of
19 service if I don't get the year?

20 A I guess if you keep them for more than a year,
21 then that might cause some confusion.

22 Q Thank you. Do you notice the red validating stamp
23 on Number 138?

24 A Yes.

25 Q Okay. 141 does not have the name printed on it,

1 correct?

2 A I don't see it.

3 Q Yes. 142 is properly filled out. 140 not only
4 does not have the name printed on it, it also does not have
5 the full year.

6 139 does not have the name printed on it. It also
7 does not have the full year.

8 Do agree, on that page?

9 A That is the way it appears.

10 Q 145 does not have the name printed. 146 does not
11 have the date of delivery. It also does not have the
12 gentleman's correct name, which I find confusing. His last
13 name is really Davis.

14 A I'll take your word for that.

15 Q If that were correct, that would be a problem,
16 right?

17 A I suppose yes, it would.

18 Q Number 143 does not have the printed name. Number
19 144 does not have the printed name or the year of delivery.

20 A Okay.

21 Q 148 does not have the printed name. 151 does not
22 have the printed name nor the year of delivery. 147 is
23 correct if we utilize the red validating stamp on it and 149
24 does not have the printed name nor the year of delivery.

25 A Okay.

1 Q Do you agree with all of those?

2 A From what I can tell, yes.

3 MR. POPKIN: No further questions.

4 CHAIRMAN GLEIMAN: Thank you, Mr. Popkin. Mr.
5 Carlson.

6 I think we are going to take ten. I said we would
7 break at 5:30, so I think we will take a 10-minute break
8 now.

9 Come back at a quarter of the hour and I would
10 urge anybody who has got their vehicle parked downstairs to
11 take this time to make some arrangements with the garage,
12 pay for your parking, and get your key or whatever.

13 [Recess.]

14 CHAIRMAN GLEIMAN: Mr. Carlson.

15 MR. CARLSON: Thank you.

16 CROSS EXAMINATION

17 BY MR. CARLSON:

18 Q Please refer to your response to DFC-USPS-T-40-2.

19 A All right.

20 Q Is it true that a majority of customers may, in
21 fact, place no value on the address information that the new
22 return receipt service provides?

23 A Well, our presumption has been that many do. I
24 don't have quantifiable estimates of how many but our
25 presumption that they do.

1 Q I am concerned about the presumption. Is it
2 possible that a majority of customers do not place any value
3 on that address information?

4 A I am uncomfortable with the use of "majority." I
5 think it is possible that some don't but how may, I have no
6 way to know.

7 Q Why are you uncomfortable with the term
8 "majority"?

9 A Because it implies most and I am not sure that is
10 the case.

11 Q What evidence do you have that it's not the case?

12 A I don't have any evidence that would directly
13 refute that.

14 Q So it could be that a majority do not place any
15 value?

16 A Could be.

17 Q When the Postal Service uses automated equipment
18 to sort mail to carrier routes or delivery point sequence,
19 is it true that phosphorescent tags on certified mail labels
20 allow some of the automated equipment to separate the
21 certified mail from the uncertified mail?

22 A I believe that's true but I am not an expert on
23 Postal Service operations.

24 Q Does the term "phosphorescent tag" cause part of
25 the problem? If we --

1 A I believe that's the case. I am just qualifying
2 my response by saying that I am not an expert in that area.

3 Q Please refer to your response to
4 DFC-USPS-T-40-22-E.

5 A Okay.

6 Q Where I asked why the proposed delivery
7 confirmation service should not be offered for customers who
8 wish to use First Class Mail and return receipt. You
9 replied that, "Absent a method for capturing delivery
10 confirmation pieces, there is some likelihood that carriers
11 would fail to notice delivery confirmation letters."

12 Why could not a phosphorescent tag similar to the
13 tag used for certified mail labels be applied to the
14 delivery confirmation labels to facilitate separation of
15 delivery confirmation pieces?

16 A I'm not sure whether or not that is feasible or
17 not. All I know about the labels being tested is that I
18 believe they are adhesive and I am not sure that the
19 application of a phosphorescent tag to an adhesive label of
20 that kind is possible. Beyond that, I am not really
21 prepared to answer that question.

22 Q Are you aware that certified mail labels have a
23 self-adhesive on them?

24 A On the backing, yes, I know that they do. I am
25 talking about the facing of the delivery confirmation label

1 which I -- I believe it is composed of different material
2 than the certified mail label and I am not sure that that
3 material is amenable to phosphorescent tagging.

4 Q Do you have any reason to believe that it's not?

5 A I don't know.

6 Q Is there any reason why if the phosphorescent ink
7 couldn't be applied to that delivery confirmation label that
8 the delivery confirmation label couldn't be redesigned so
9 that it could take a phosphorescent tag?

10 A I suppose that's possible. I'm not sure that
11 that's been considered or tested in any way.

12 Q Please refer to (c) through (f).

13 A Yes.

14 Q In evaluating the possibility of making delivery
15 confirmation and return receipt available along with
16 first-class mail, please confirm that one problem that you
17 cited with this idea is that the cost of providing delivery
18 confirmation with first-class mail will be higher than the
19 cost of providing the service with parcels.

20 A Well, I -- I think I presented a reason why that
21 may be the case. I'm not aware that any study has been
22 conducted to determine what the cost of providing delivery
23 confirmation for first-class would be. What I proposed was
24 a possible reason why the cost would be slightly higher.

25 Q And is that because those customers would have to

1 take that mail through the window line, whereas without the
2 delivery confirmation service, they would have dropped it
3 into a collection box?

4 A That was my response, yes.

5 Q Suppose delivery confirmation service and return
6 receipt were offered for regular first-class mail. Is it
7 true that some of the customers who would use delivery
8 confirmation and return receipt would -- would have, under
9 the current service and fee structure, used certified mail
10 and return receipt?

11 A Probably, yes.

12 Q Do many customers who use certified mail and
13 return receipt take their mail to the retail window for
14 acceptance?

15 A I'm not -- I have no -- I don't know of any volume
16 estimates of the number that go through the window versus
17 the number that go through collections boxes or other
18 acceptance methods.

19 Q Do you think many do?

20 A Many go to the window?

21 Q Yes.

22 A My guess would be that, in general, the proportion
23 of customers who present certified mail at the window is
24 higher than the average for first-class as a whole.

25 Q Do you think more individual customers who use

1 certified mail take their mail to the retail window than
2 drop it in a collection box?

3 A That I don't know.

4 Q Do you think the typical individual customer is
5 fully versed in how to prepare a certified mail and return
6 receipt piece and put the proper postage on?

7 A I suppose that depends on the frequency with which
8 they send such pieces. My understanding is that certified
9 mail tends to be used recurrently by the same people, in
10 general. So, many of the customers who send it are already
11 aware of the conditions under which they can send it.

12 Q If delivery confirmation and return receipt were
13 available for regular first-class mail, do you think some
14 customers would become familiar with the service and use it
15 frequently, in the same way that customers frequently use
16 certified and return receipt?

17 A Presumably they would.

18 Q Do some -- I'll pass on that -- well, I'll -- I'll
19 ask it. I think we've referred to it, but I'll ask it
20 anyway.

21 Do some customers who use certified mail and
22 return receipt deposit their mail directly into collection
23 boxes?

24 A Yes, they do.

25 Q Therefore, is it true that the customers who

1 currently go to the window for acceptance of the mail that
2 they are sending certified mail, return receipt requested,
3 would continue to go to the window for delivery,
4 confirmation, and return receipt, if that service were
5 adopted?

6 A Could you ask that again, please?

7 Q Uh-huh.

8 Is it true that the customers who currently go to
9 the window for acceptance of the mail that they are sending
10 certified mail, return receipt requested, would continue to
11 go to the window for delivery confirmation and return
12 receipt if that service were adopted?

13 A I suppose that's a reasonable assumption. I
14 hadn't --

15 Q So then those -- I'm sorry.

16 A I -- I hadn't -- I have not previously considered
17 that, but that seems to be a reasonable assumption.

18 Q So then those customers seemingly would not impose
19 greater window service costs on the Postal Service, because
20 previously they used certified and return receipt and went
21 to the window and now they'd be using delivery confirmation
22 and return receipt and going to the window.

23 A When I spoke about the higher costs of delivery
24 confirmation, I was -- I meant higher relative to the costs
25 of providing delivery confirmation on parcel products, not

1 relative to the cost of certified mail.

2 What I said was that, because a relatively high
3 proportion -- a higher proportion of parcel post and parcel
4 items are presented at the window than first-class items,
5 many of the window costs that would be associated with
6 providing delivery confirmation to first-class mail are not
7 really relevant in providing delivery confirmation for
8 Standard B mail.

9 Q Okay. But -- but it is true that some people use
10 certified mail and return receipt for their first-class
11 mail, and those customers might opt to use delivery
12 confirmation and return receipt for their first-class mail
13 if delivery confirmation and return receipt were offered for
14 first-class mail.

15 A I assume so.

16 Q So, to that extent, the window costs would not
17 change for those customers who are merely moving from
18 certified mail return receipt to delivery confirmation and
19 return receipt, because they were going to the window before
20 and they're still going to the window.

21 A What window costs are you referring to? If you
22 mean window costs as a whole, that I'm not sure about.

23 What I was referring to were the window costs
24 associated with a specific service, and in this case, as I
25 said, my understanding is that, in general, the window

1 services costs of providing delivery confirmation for
2 first-class mail would be higher per piece than the window
3 costs associated with providing delivery confirmation for
4 Standard B mail.

5 Q Why?

6 A Well, I think that is contained in my response to
7 the interrogatory, and it refers to the fact that relatively
8 little First Class mail is presented at the window for
9 acceptance because of all the other means by which that mail
10 can be accepted. However, a larger proportion of standard B
11 mail is presented at the window. Therefore, those window
12 services costs are already being borne by standard B mail.

13 [Whereupon, at 6:00 p.m., the hearing continued
14 into evening session.]

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EVENING SESSION

[6:00 p.m.]

BY MR. CARLSON:

Q Do you agree that if delivery confirmation and return receipt were offered with First Class mail, that some customers who currently use Certified Mail and return receipt for their First Class mail would transition instead to delivery confirmation and return receipt?

A I think that would depend on the relative fees.

Q Suppose delivery confirmation and return receipt were less expensive than certified mail and return receipt?

A I'm not sure, because they don't actually provide the same service. Delivery confirmation provides notification that an article -- that an article was delivered. Return receipt provides more than that. It provides a signed receipt signed by the recipient of the piece. Some customers may think that the service that's provided by delivery confirmation is insufficient.

Q But isn't it true that there are customers who primarily want the return receipt or the delivery confirmation and not the proof of mailing that certified mail provides?

A I think that's a reasonable assumption.

Q So to the extent that there are customers who do not want the proof of mailing that certified mail provides,

1 those customers might be expected to transition to delivery
2 confirmation and return receipt for First Class mail if that
3 service were offered and if it were offered at a rate that
4 were lower than the fee for Certified Mail and return
5 receipt.

6 A Depending on the fees, there would probably be
7 some migration, although I'm not aware that there's been any
8 attempt to quantify that again, since I'm not aware that
9 there's been any serious consideration given yet to
10 providing delivery confirmation for First Class mail.

11 Q So to the extent that some customers did make that
12 transition, then those are customers who were at the window
13 already or might have been at the window already for
14 Certified Mail and return receipt and would still be at the
15 window for delivery confirmation and return receipt. In
16 other words, the net effect on window transition would be
17 zero for customers who already went to the window for
18 Certified Mail and return receipt.

19 A Perhaps. I'm not -- I mean, I've not -- I mean,
20 that sounds plausible, but I'm not aware that there's been
21 any attempt to quantify that, and I'm not sure that I could
22 on the spot.

23 Q I'm trying to see why it would be anything less
24 than 100 percent. Every -- just focus on the customers who
25 go to the window to present their Certified Mail and return

1 receipt. If delivery confirmation and return receipt were
2 offered in conjunction with First Class mail, seemingly
3 those same customers, same number, would go to the window
4 for their delivery confirmation and return receipt. In
5 other words, the net number of window transactions would be
6 unchanged. There'd be no change.

7 A I can't really confirm that, because I don't know
8 under what conditions delivery confirmation would be made
9 available with First Class mail. Conditions may be such
10 that it is -- it would be easier to deposit certified mail
11 in a collection box than to conduct a delivery confirmation
12 transaction. Without knowing the specific requirements of
13 acceptance, I can't really answer that question.

14 Q Will the proposed delivery confirmation service
15 require the customer to present the item at the window?

16 A For retail.

17 Q And this would be manual delivery confirmation
18 service.

19 A I believe that will be the case. Yes.

20 Q Why? Why require the customer to take the article
21 for which he wants delivery confirmation service to the
22 window as opposed to dropping it in a collection box?

23 A Well, the customer will have to have a delivery
24 confirmation number assigned to the article.

25 Q Could that be available in the post office lobby

1 the same way Certified Mail forms are?

2 A Now we're getting into the implementation details,
3 and I'm not sure those have been determined yet. As
4 currently being tested, that service is not yet available.
5 So I'm not sure under what conditions it's going to be
6 offered at window sites.

7 Q Would it add value to the service if customers did
8 not have to go through the window line to drop off their
9 delivery confirmation mail?

10 A I suppose to the extent that it makes it easier
11 for customers to do, yes, it would. However, I'm not sure
12 what effect that would have on the reliability of the
13 service and on our ability to confirm that an article has
14 been entered for delivery confirmation if those labels were
15 more widely available. So I'm not sure which effect
16 outweighs the other.

17 Q Okay. If you could please refer to your response
18 to DFC USPS-T-40-22(g).

19 A That's 22(g)?

20 Q Yes?

21 A Okay.

22 Q This question concerns a hypothetical new service
23 that would be similar to return receipt for merchandise,
24 which would provide the same services as return receipt for
25 merchandise, except that it would be available for all First

1 Class Mail, merchandise or nonmerchanidise. Does that
2 correctly restate the nature of that question?

3 A Yes, it does.

4 Q Why would the expected cost be any different than
5 the cost for the existing return receipt for merchandise
6 service?

7 A I am not an expert on costing and I have not
8 studied this. I am not really prepared to answer that
9 question. I believe my response said that our ability or
10 willingness to offer such a service would depend on what the
11 costs were but I gave no indication on what I thought they
12 were and I am not really prepared to do so.

13 Q Suppose the customer demand among First Class
14 mailers for this new service were low, would there be any
15 harm in offering the service nevertheless, given that the
16 existing service, return receipt for merchandise, would
17 simply be renamed to take the word "merchandise" out and
18 offered to an additional class of mail; in this case, First
19 Class Mail?

20 A Well, if demand were low or perceived demand were
21 low, I'm not sure why we would want to offer it. If there's
22 no demand or little demand, why would we want to offer the
23 service?

24 Q Let me give an example. Suppose that 2,000 people
25 want the service and would value the service at \$2 each. If

1 you offered the service, then there would be \$4,000 of
2 utility or surplus that would accrue to those consumers for
3 having provided them with the service that they valued at \$2
4 each. If you didn't provide the service, their utility
5 would be zero.

6 So even if demand were low, one could see a reason
7 why you might want to offer the service.

8 A Except that there is an opportunity cost
9 associated with offering a service like that, which means
10 that the Postal Service's resources, which are scarce though
11 vast, would have to be devoted to a service for which there
12 is little demand while, if we did not devote those resources
13 to that service, presumably those resources would be
14 available to satisfy potentially greater demand for some
15 other service.

16 The Postal Service has to consider multiple
17 product offerings and weigh the merits of each one and we,
18 in general, offer and propose services with high demand
19 rather than those with low demand.

20 Q So the harm would be only to the extent that might
21 adversely affect the product line or cause the Postal
22 Service to devote resources to a service for which there
23 were low demand?

24 A That's one potential harm that I can identify
25 right now.

1 Q How might this proposed modified return receipt
2 for merchandise service affect other products and services?

3 A I don't know. I have not -- I have not studied
4 the matter. I mean, you proposed a hypothetical service and
5 I indicated that our interest in providing it would depend
6 on a number of factors. But, other than that, I have not
7 really considered what effect it might have.

8 Q Does the fact that I have suggested that the
9 service could have value to some mailers potentially affect
10 the Postal Service's thinking and cause the Postal Service
11 perhaps to propose this service in the future?

12 A It could. I mean, those decisions aren't made by
13 me or people in my department. It is conceivable that the
14 people who make those decisions would see that idea and
15 consider, well, that is something we should give further
16 consideration to but I don't know.

17 Q I am interested in an answer to this sort of
18 question. Suppose I were a Canadian citizen who had never
19 been to the U.S. before and I walked into a Post Office and
20 I wanted to send a letter and obtain simply a return receipt
21 for it, that's all I cared about. I didn't care about proof
22 of mailing, just wanted to know that the piece of mail was
23 received.

24 The Postal clerk told me that I could obtain the
25 return receipt by purchasing certified mail plus return

1 receipt, which would be a fee I believe of about \$2.52 and
2 then the clerk happened to mention, but if you were sending
3 merchandise and it happened to be going Priority Mail, we
4 would give you the return receipt and a proof of mailing for
5 just \$1.20.

6 Why shouldn't I be able to get the service that
7 return receipt for merchandise offers for a document that I
8 send via First Class Mail for \$1.32 less? Why should I have
9 to purchase certified mail just to get a return receipt when
10 I am sending a document by First Class Mail?

11 A Well, I mean the reason -- the reason for the
12 requirement that a customer purchase certified mail is that
13 a delivery record is required for a return receipt. My
14 understanding is that return receipt for merchandise was
15 offered to mailers of merchandise to allow them to confirm
16 delivery of articles that have an intrinsic value.

17 Of course, if a customer were to send an article
18 of merchandise through Priority Mail, they would presumably
19 be paying much more in postage relative to a First Class
20 letter.

21 Q Isn't it true that return receipt for merchandise
22 creates a delivery record in the same way that certified
23 mail does?

24 A It creates a delivery record. They are not
25 exactly the same.

1 Q So why have this one service that is available
2 just for merchandise and not available for First Class Mail
3 that provides the same bag of -- the same mix of services
4 for this customer as certified mail return receipt
5 requested, except certified mail return receipt requested
6 costs another \$1.32? Why?

7 A If you are asking for the reason why these
8 services were developed, I can't answer that. The
9 development of this service predates my involvement in this
10 case or with these services.

11 Q And if you saw a reason right now, you would tell
12 me? If you could see a reason off the top of your head, you
13 would tell me?

14 A Well, I mean, as I said before, the intent of
15 offering return receipt for merchandise was to allow mailers
16 of articles with an intrinsic value to verify that those
17 pieces had been delivered and received by the intended
18 recipients. Those articles have different characteristics
19 for First Class Mail than -- I'm sorry, different
20 characteristics from First Class Mail.

21 Q Wouldn't there be a value to offering a customer a
22 return receipt for a document that he wants to send via
23 First Class mail?

24 What does the intrinsic value have to do with it?

25 A Well, as I have said, I mean -- as I said in my

1 interrogatory response, there may be a value in providing
2 that service to some group of customers.

3 We have not studied what it would be or what it
4 would cost to provide that service.

5 In my response just now I tried to give a basis
6 for the offering of return receipt for merchandise as a
7 distinct service from return receipt offered in conjunction
8 with other accountable items as the basis for why that
9 service was originally provided.

10 That I know does not explain why it was not
11 extended to cover all First Class mail, but that is my
12 understanding for why the service was offered in that way.

13 Q Do you think it would be a good idea to study why
14 it shouldn't be extended to regular First Class mail for
15 documents?

16 A Yes, I do.

17 Q Okay. If you can refer, please, to your response
18 to DFC/USPS T40-15(a).

19 A That was 15(a)?

20 Q Yes.

21 A 15(a). All right.

22 Q Do you believe that many people use Certified Mail
23 and Return Receipt for sending documents to the Internal
24 Revenue Service?

25 A Yes, they do. That is my understanding.

1 Q Is that because they perceive the relationship
2 between themselves and the IRS as something less than
3 cordial?

4 A Well, I'm sure that many people view their
5 relationship with the IRS that way.

6 I don't believe that is their main reason for
7 requesting Return Receipt in this case.

8 Q Why do you think they request Return Receipt?

9 A In general, because there are financial
10 consequences for not having your tax forms completed and
11 filed on time and customers want the assurance of knowing
12 that the items they have sent to the IRS have been received
13 on or before the necessary deadline. That is my
14 understanding.

15 Q And they want to know from a disinterested third
16 party such as the Postal Service that they were delivered on
17 time?

18 A Yes. I would concur with that.

19 Q Are you aware of an August 1, 1996 letter to
20 District Managers from Sandra Curran which was produced in
21 Docket Number MC96-3 regarding problems with delivery of
22 Return Receipts?

23 A Yes, I have read it.

24 Q Okay -- and are you familiar with a paragraph in
25 the letter that says a significant concern is a lack of

1 realization by some employees that the customer is the
2 sender who has paid for the service and any arrangement that
3 makes it easier for the addressee at the expense of that
4 service should not be tolerated?

5 A I don't have the letter in front of me, but that
6 sounds familiar.

7 Q How about if I just give you a copy, quickly.

8 A Yes, that's what it says.

9 Q Are you aware that the Postal Service published a
10 notice in Postal Bulletin earlier this year advising
11 employees of the need to follow proper procedures with
12 respect to Return Receipt?

13 A I was not aware of that, no.

14 Q Can you please describe the follow-up that has
15 taken place since this August 1, 1996 letter and since the
16 publication of the announcement in Postal Bulletin on the
17 need to improve Return Receipt service?

18 A What do you mean by follow-up?

19 Q Has anything else happened?

20 A Not that I am aware of but I am not sure why I
21 would be aware if any had taken place.

22 Q In MC96-3, this evidence was mentioned for the
23 issue of value of Return Receipt service, and the Postal
24 Service argued on brief that it had taken steps to try to
25 improve the value of Return Receipt service, so it seems

1 like it would be relevant, but you are not aware of any
2 additional steps that have been taken?

3 A Not specifically, but I mean in general -- I mean
4 this letter is one example of a step that is taken to
5 improve the quality of return receipt service.

6 Q Does the Postal Service have in place any audits
7 to ensure that proper procedures are followed?

8 A I believe that a number of audits are conducted
9 locally and regionally, but what the outcome of those are or
10 who is responsible for them I am not aware.

11 Q At this point I would like to discuss with you an
12 exhibit, DFC/USPS T40, XE 1 through 9, which I will give to
13 you in just a moment.

14 [Cross-Examination Exhibit Nos.
15 DFC/USPS-T40-XE-1 through XE-9(b)
16 were marked for identification.]

17 MR. RUBIN: I would note that this is the first
18 time the Postal Service or the witness has seen this cross
19 examination exhibit.

20 BY MR. CARLSON:

21 Q I'm hoping you can confirm that Exhibit No. 1
22 appears to be a letter from the postmaster in Memphis,
23 Tennessee, to me, Douglas Carlson, and I just wanted to
24 point out paragraphs two, three, and four and -- and have
25 you look those over.

1 Have you had a chance to look over those -- those
2 paragraphs?

3 A I've read them, yes.

4 Q Okay. And then on Exhibit No. 2, if you could
5 look, in particular, at paragraph five.

6 A Yes.

7 Q Okay. And Exhibit No. 3, if you could look at
8 paragraphs three and four.

9 CHAIRMAN GLEIMAN: I'm sorry. That was Exhibit 5?

10 MR. CARLSON: Exhibit 3, paragraphs three and
11 four.

12 CHAIRMAN GLEIMAN: Excuse me.

13 THE WITNESS: Yes.

14 BY MR. CARLSON:

15 Q And Exhibit 4, paragraphs four and five.

16 A Yes.

17 Q And Exhibit 6. Notice there's a 5(a), 5(b), so go
18 on to 6, please. I wanted to point out -- and if you could
19 look at paragraphs three and four.

20 A Is that from a consumer affairs associate in
21 Sacramento district?

22 Q Yes.

23 A Okay.

24 Q Do you think that customers who use certified
25 mail, return receipt requested, to send certified mail to

1 these addresses would be pleased to know that the recipient
2 is either wholly or partially responsible for completing the
3 return receipt information?

4 A Given the circumstances -- that's the IRS -- I
5 would -- my assumption would be that if the customer
6 received the receipt back indicating that it had been
7 accepted and delivered in time for the filing date, that
8 they would be, in most cases, indifferent.

9 Q And let's say the date were late.

10 A Then I suppose it would depend on the -- the --
11 the consequences of that.

12 I mean if -- if as a result of the -- the late
13 date on the receipt, the -- or the sender were to receive
14 some form of difficulty from the IRS, I would assume they
15 would be quite annoyed. If there were no consequences, that
16 customer may be indifferent.

17 MR. CARLSON: At this point, I have no further
18 questions, and I'd like to move that this -- these exhibits,
19 XE-1 through 9, be admitted into evidence.

20 MR. RUBIN: The Postal Service would object to
21 putting these into evidence.

22 Now, they could be included in the transcript, but
23 I don't see how we have a sponsor for them, they're -- and
24 they were letters that were just presented to us now, so
25 that no one's had a chance to fully read them, other than

1 Mr. Carlson and -- and he may be able to sponsor them in the
2 future, but I don't see how this qualifies as evidence at
3 this time.

4 MR. CARLSON: I certainly would personally consent
5 to a 10- or 15-minute recess if the Postal Service wanted to
6 review the letters, but I -- I have the originals here, and
7 I think they speak for themselves, and -- and I move that
8 they be admitted.

9 CHAIRMAN GLEIMAN: They're letters that are
10 prepared by Postal Service employees from around the
11 country. I don't understand what your objection would be.
12 They say what they say.

13 MR. RUBIN: I guess 5(a), 5(b), 8 are IRS letters.

14 MR. CARLSON: And I think --

15 MR. RUBIN: The others --

16 MR. CARLSON: I think A-8 also is an IRS letter.

17 CHAIRMAN GLEIMAN: Is it -- is it the fact that
18 they're from another agency that you find objectionable?

19 MR. RUBIN: That's part. It's just also -- this
20 is not --

21 CHAIRMAN GLEIMAN: Mr. Carlson, as a matter of
22 fact, you did not use each and every one of these cross
23 examination exhibits as a basis for cross examination, and
24 therefore, I don't think that they should be -- the ones
25 that you didn't rely on should even be considered for

1 admission as evidence.

2 I would be inclined to be more receptive to a
3 motion that would limit the materials that you hope to
4 insert in the record as to only those letters that came from
5 Postal Service officials.

6 I would also respectfully request that you
7 include, along with the material, a copy of the letter that
8 you wrote. Because we don't know what questions were asked
9 to know what questions were answered. But I think that, in
10 all fairness to the parties here, that would be perhaps
11 material.

12 Would you find it less objectionable if we just
13 limited it to the letters that came from the Postal Service
14 and included the response?

15 MR. RUBIN: Well, that would be less
16 objectionable. Perhaps we could have a written motion to
17 put these into evidence with the additional material and
18 the --

19 CHAIRMAN GLEIMAN: How about we do that.

20 MR. RUBIN: And the exclusions.

21 MR. CARLSON: So I shouldn't do a written motion
22 that includes, that submits the letter that I sent to --

23 CHAIRMAN GLEIMAN: That includes the letter that
24 these responses are in reference to so that other parties
25 have a better understanding of what questions you asked and

1 how they were asked. I wouldn't want to put interrogatories
2 into our record, for example, interrogatory responses
3 without having interrogatories associated with them and I
4 think that is a reasonable standard so that we can
5 understand the context of this.

6 MR. CARLSON: And just to clarify, I should not
7 include in the motion --

8 CHAIRMAN GLEIMAN: You can ask, if we are going to
9 do it by written motion, you can ask to include whatever you
10 want to include. I think that's not an unreasonable
11 suggestion that Mr. Rubin had and it will move us along.
12 You can request whatever you want. It is a motion. The
13 Postal Service can object to all or part of the motion and
14 then we will have an opportunity to rule on it and put the
15 materials in the record. So, right now, as it stands, we
16 have a package of cross-examination exhibits.

17 MR. CARLSON: And would I submit the
18 cross-examination exhibits as a library reference and refer
19 to them in the motion or simply refer to them in their
20 status that they're in right now?

21 CHAIRMAN GLEIMAN: Refer to them in their status
22 that they're in right now.

23 MR. CARLSON: Okay, thank you.

24 CHAIRMAN GLEIMAN: Is that okay with you,
25 Mr. Rubin?

1 MR. RUBIN: Yes. I mean, another alternative
2 would be to put them in as testimony when that --

3 CHAIRMAN GLEIMAN: Let's just go --

4 MR. RUBIN: On November 17. But --

5 CHAIRMAN GLEIMAN: Let's just go with the motion
6 and we can all kill another piece of a tree with some more
7 paper.

8 MR. CARLSON: And so I have no further questions.

9 CHAIRMAN GLEIMAN: Thank you, Mr. Carlson.

10 Mr. McKeever?

11 I keep watching for the motion that you were
12 trying to send me yesterday. I didn't see one today.

13 MR. McKEEVER: No, but I promise I will be brief,
14 Mr. Chairman.

15 CHAIRMAN GLEIMAN: You take as much time as you
16 wish, sir.

17 CROSS EXAMINATION

18 BY MR. McKEEVER:

19 Q Mr. Plunkett, in developing your fee proposals for
20 delivery confirmation service, you start with a unit volume
21 variable cost calculated by Mr. Treworgy; is that correct?

22 A Yes, that's correct.

23 Q And the unit volume variable cost calculated by
24 Mr. Treworgy for Priority Mail electronic service is 14.86
25 cents per unit; is that correct?

1 A I would like to check my workpapers to verify
2 that.

3 Q Sure.

4 A I'm sorry, was that Priority Mail electronic?

5 Q Priority mail electronic service, yes.

6 A I don't include that in my workpapers because
7 Witness Sharkey included those costs in the costs for
8 Priority Mail. So, subject to check, I would accept that.

9 Q Okay, that is what Mr. Treworgy shows on page 17
10 of his testimony, which of course has not been admitted yet.
11 But it is 14.86 cents per unit for Priority Mail electronic
12 service, okay?

13 A Again, subject to check, I accept that.

14 Q Now, that priority mail electronic service is
15 intended for larger mailers; is that correct?

16 A Yes, that's correct.

17 Q And given that cost of 15 cents per unit, you
18 nevertheless propose that mailers who use Priority Mail
19 electronic delivery confirmation service not pay any
20 additional charge; is that correct?

21 A That is the Postal Service proposal, yes.

22 Q And those extra delivery confirmation costs of 15
23 cents per unit are included in Priority Mail's overall costs
24 and spread among all Priority Mail; is that correct?

25 A I believe that's true, yes.

1 Q Including the cost basis for those who do not use
2 delivery confirmation service at all?

3 A That question might be better directed to Witness
4 Sharkey. I mean, I believe that is contained in his
5 testimony.

6 Q Okay. Now, for standard mail B, Mr. Treworgy's
7 unit volume variable costs for electronic delivery
8 confirmation is 14.99 cents per unit; do you recall that?

9 A Yes, that's correct.

10 Q And that's about the same as the cost for priority
11 mail electronic delivery confirmation; is that correct?

12 A Very close, yes.

13 Q The difference is about thirteen ^{hundredths} ~~thousandths~~ of a
14 cent?

15 A Yes.

16 Q But for standard B electronic confirmation
17 service, you propose an additional charge of 25 cents; is
18 that correct?

19 A Yes, that's correct.

20 Q For priority mail manual delivery confirmation,
21 Mr. Treworgy's unit volume variable cost is 48.35 cents?

22 A That was Priority Mail manual?

23 Q Priority Mail manual and I am not talking now
24 about the difference between manual and electronic but the
25 total cost for Priority Mail manual.

1 A My workpapers only show the difference in costs
2 but that appears to be approximately correct from what I can
3 see.

4 Q You show a difference of 33.49 cents?

5 A 33.51.

6 Q 33.51?

7 A Yes.

8 Q Okay. And you accepted subject to check that for
9 manual the -- well, all right, let's leave it go at that,
10 33.51.

11 Now, Mr. Treworgy's volume variable cost for
12 standard B manual is 48.4 cents; is that correct?

13 A That's what I have, yes.

14 Q Now, if the total unit volume variable cost for
15 Priority Mail manual, not just the difference now between
16 manual and electronic, is 48.35 cents and the unit volume
17 variable cost for standard B manual is 48.4 cents, those two
18 numbers are approximately the same; is that correct?

19 A They are very close.

20 Q Five ^{hundredths}~~thousandths~~ of a cent; is that correct?

21 A Yes.

22 Q Now you propose a fee of 35 cents though per unit
23 for Priority Mail manual delivery confirmation but a fee of
24 60 cents for standard B manual confirmation; is that
25 correct?

1 A That's correct; yes.

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

3 CHAIRMAN GLEIMAN: Is there any followup?

4 Mr. Popkin?

5 FURTHER CROSS EXAMINATION

6 BY MR. POPKIN:

7 Q Regarding the Postal Service letters and IRS
8 letters that were given to you by Mr. Carlson, can you
9 reconcile these in light of the August 1 letter that was
10 also presented and also the Domestic Mail Manual requirement
11 that you indicated to me?

12 A I'm not sure what you mean by reconcile.

13 Q Well, they appear -- you mentioned to me in your
14 testimony to my cross examination that there are no
15 instances that you know of where mail is delivered to an
16 addressee without getting it signed for at the time.

17 A Yes, that's what I said.

18 Q And yet we have information here that makes it
19 appear that that's not happening.

20 A Well, subject to a review of the exhibit, that
21 would appear to be the case.

22 Q What does that do to the value of the service?

23 A I believe in response to Mr. Carlson's question,
24 again, in these particular instances I guess the customer's
25 perceived lack of value would depend on the consequences of

1 what happened. As I said, in most cases I would assume that
2 if a customer received their receipt back indicating that
3 the article had been received at the IRS on or before the
4 necessary date, most of those customers would be indifferent
5 as to how that signature or how that receipt was obtained.
6 Do I think that this is consistent with the letter signed by
7 Mrs. Curran? No, it doesn't appear to be.

8 Q Is it consistent with the Domestic Mail Manual
9 section that we referred to, DOM 42, was it 1.7(b)?

10 A It does not appear to be.

11 CHAIRMAN GLEIMAN: Is there any further followup?
12 Questions from the bench?

13 COMMISSIONER LeBLANC: Yes, sir.

14 CHAIRMAN GLEIMAN: Commissioner LeBlanc.

15 COMMISSIONER LeBLANC: Mr. Plunkett, let me go
16 back just before I get to the other question. I don't
17 believe I heard an answer as to, on the insured versus the
18 Registered Mail, on the \$5,000 figure, \$11.65 versus \$50
19 plus or minus I believe if I wrote that down right, and yet
20 there's more work in registry. Why is it less?

21 THE WITNESS: Again, I'm not an expert on the
22 costs for the two services. I can say that my understanding
23 is that the costs for insurance are higher than the costs of
24 Registered Mail. But I'm not sure -- I'm not sure of the
25 basis for that difference. All I know is that the costs for

1 providing the same level of indemnity protection for a given
2 article are much higher for insured mail than for Registered
3 Mail.

4 COMMISSIONER LeBLANC: Okay. I thought that might
5 be the answer. I just wanted to make sure.

6 And then on the bulk insured mail, you're
7 proposing it, but at what number? You might have stated it
8 in your testimony somewhere. But what number is the bulk,
9 and what --

10 THE WITNESS: Do you mean the number of articles
11 that need to be presented to qualify for the discount?

12 COMMISSIONER LeBLANC: Exactly.

13 THE WITNESS: That has not been determined yet. I
14 mean, the only qualification that I'm aware of is that the
15 customer will be required to hold a permit for bulk entry,
16 but the qualification criteria for the bulk insurance have
17 not yet been finalized.

18 COMMISSIONER LeBLANC: Okay. And you propose a
19 passthrough of 50 percent, but if I understand that, that
20 passthrough is based on the unnumbered pieces. Is that
21 right or am I wrong?

22 THE WITNESS: The passthrough is based on the --

23 COMMISSIONER LeBLANC: You propose a passthrough
24 of 50 percent of the savings on the unnumbered pieces.

25 THE WITNESS: You're referring to the window

1 services costs.

2 COMMISSIONER LeBLANC: Yes, I'm sorry.

3 THE WITNESS: Yes, that's correct.

4 COMMISSIONER LeBLANC: Now it's -- if I understand
5 it right, the cost savings is 80 cents on the unnumbered and
6 \$1.13 on the numbered. Is that right?

7 THE WITNESS: Can I check my testimony to confirm
8 that?

9 COMMISSIONER LeBLANC: Yes, by all means. I'm
10 sorry.

11 THE WITNESS: And do you have the page number?

12 COMMISSIONER LeBLANC: No, I don't. These are
13 just notes. I apologize. If you don't have it right in --
14 you can't get to it --

15 THE WITNESS: No, I have it. I show 79.9 cents --

16 COMMISSIONER LeBLANC: Eighty cents.

17 THE WITNESS: For unnumbered, and \$1.13 for
18 numbered.

19 COMMISSIONER LeBLANC: All right. And you got to
20 the 40 cents per piece on the 50-percent passthrough
21 obviously.

22 THE WITNESS: Yes, that's correct.

23 COMMISSIONER LeBLANC: Why did you use that
24 instead of the \$1.13?

25 THE WITNESS: My main concern was the variability

1 in the cost estimates between the first estimate and the
2 second estimate. The first estimate we had of the window
3 services cost were 47.2 cents for unnumbered and 81.9 cents.
4 So between the two studies the estimate of the costs
5 doubled. So I chose to be relatively conservative in
6 proposing the discount, because I was not comfortable
7 proposing a higher passthrough given the variability in the
8 two numbers.

9 COMMISSIONER LeBLANC: So, you made that call.
10 That's your judgement call.

11 THE WITNESS: That -- that was my decision, yes.

12 COMMISSIONER LeBLANC: Okay. And the last thing
13 is, in your colloquy with Mr. McKeever, I guess I just
14 misunderstood. Did I understand you to agree with him, plus
15 or minus, that the costs for priority manual and Standard B
16 manual are both plus or minus 48.4, 48.3?

17 THE WITNESS: The total costs are close, yes.

18 COMMISSIONER LeBLANC: And yet your proposed rate
19 for priority manual is 35 cents?

20 THE WITNESS: Well, my -- my proposed fees in this
21 case are based on the difference between manual delivery
22 confirmation and electronic, which in both cases are
23 approximately 33 cents, and that's the basis for the 35-cent
24 fee for priority mail.

25 COMMISSIONER LeBLANC: So, you're basing it on the

1 difference. You're not basing it on -- on what I call the
2 absolute cost here.

3 THE WITNESS: No. On the difference between the
4 manual costs and the electronic costs, which in both cases
5 are --

6 COMMISSIONER LeBLANC: And was there a reason to
7 do that in this particular case?

8 THE WITNESS: Because the decision had been made
9 to include delivery confirmation for priority mail
10 electronic customers, so that, at least for priority mail
11 customers, the relative number -- or the more relevant
12 number to me was the difference in cost between manual and
13 electronic service, which is the 33 cents on which the
14 35-cent fee is predicated.

15 COMMISSIONER LeBLANC: I mean you're aware that
16 you might be criticized there for being under cost.

17 THE WITNESS: In what way?

18 COMMISSIONER LeBLANC: Well, I mean, from what you
19 just said, if you're going to put a -- correct me if I'm
20 wrong here, but if you're going to put a -- an electronic
21 extra charge, surcharge, whatever you want to call it, on --
22 on one, why wouldn't you do it on the other?

23 THE WITNESS: Well, those fees are -- the costs of
24 providing electronic service are included in the cost of
25 priority mail.

1 COMMISSIONER LeBLANC: Okay. That's what I was --
2 that's what I was trying to get to.

3 THE WITNESS: Okay.

4 COMMISSIONER LeBLANC: Okay. Thank you very much.
5 Thank you, Mr. Chairman.

6 CHAIRMAN GLEIMAN: Is there any followup?

7 MR. McKEEVER: Mr. Chairman, I do have a few to
8 follow up with Commissioner LeBlanc's questions.

9 BY MR. McKEEVER:

10 Q That -- those costs, you said, are included -- the
11 15 cents for priority mail electronic are included in the
12 costs of priority mail, correct?

13 A That's my understanding, yes.

14 Q And we established that that's priority mail as a
15 whole. All priority mail users pick that up, not just those
16 who use delivery confirmation.

17 A Again, I -- I believe that's in witness Sharkey's
18 testimony. I'm not prepared to testify on the --

19 Q Well, do you have any doubt about that? You don't
20 charge a rate for the people who use delivery confirmation,
21 do you?

22 A No, I don't have any basis for rejecting that
23 statement. I just said that that's in witness Sharkey's
24 testimony, and I'm not conversant enough with it to -- to
25 give an unqualified confirmation to your statement.

1 Q Let me try one or two more questions to see if I
2 can make you comfortable, and then, if I can't, we will
3 stop.

4 The -- the cost for priority mail electronic is
5 approximately 15 cents per unit. Is that correct?

6 A Yes, that's correct.

7 Q Okay. But you do not propose a rate for that, a
8 fee for that, a separate fee.

9 A No, that is -- those costs are assumed to be
10 included in the costs of priority mail.

11 Q Okay.

12 A There is no separate fee.

13 MR. McKEEVER: Okay.

14 Thank you, Mr. Chairman.

15 CHAIRMAN GLEIMAN: Is there any further followup
16 as a consequence of questions from the bench?

17 [No response.]

18 CHAIRMAN GLEIMAN: Doesn't appear to be.

19 That brings us to redirect.

20 Would you like some time with your witness?

21 MR. RUBIN: Yes. We'd like 10 minutes.

22 CHAIRMAN GLEIMAN: Okay.

23 We're good until a quarter of seven.

24 [Recess.]

25 CHAIRMAN GLEIMAN: Mr. Rubin, whenever you are

1 ready.

2 REDIRECT EXAMINATION

3 BY MR. RUBIN:

4 Q Mr. Plunkett, counsel for the OCA discussed with
5 you the Form 4813-P, the receipt for insured mail and how
6 well it covered the details of the insurance coverage with
7 the Postal Service.

8 Is there any statement on that form that provides
9 a little more guidance for customers about how to learn
10 about the details of insurance coverage?

11 A I may have read this when I was responding to the
12 OCA's question earlier.

13 The last sentence in the section headed "Coverage"
14 says "Consult Postmaster for details of insurance limits in
15 coverage."

16 As I think I later replied to a different
17 question, again given that the kinds of articles we were
18 discussing are relatively rare and most of these
19 transactions are somewhat routine, that sort of catch-all
20 provision seems to cover that, given the constraints of the
21 size of the receipt.

22 Q Mr. Popkin and Commissioner LeBlanc asked about
23 the lower fee for insurance for a \$5,000 item compared to
24 the fee for registering that item.

25 Is one aspect underlying the lower fee for

1 registered mail the difference in indemnity costs between
2 insurance and registered?

3 A Well, as I mentioned at a different point in
4 today's proceeding, registered mail is the most secure
5 product that we offer and as such the associated loss and
6 damage claims are lower than for insurance.

7 I should also point out that because the limit for
8 insurance was recently raised to \$5,000 we don't really have
9 any actual claims experience for articles above \$600 in
10 value.

11 In estimating the indemnity costs for articles
12 worth more than \$600 we assumed that they would be of
13 similar proportion to lower value articles, which means that
14 we are estimating an indemnity cost per piece of \$26.16 for
15 articles valued at \$5,000, which is well above the expected
16 indemnity costs of a comparable registered article.

17 MR. RUBIN: Thank you, that's all I have.

18 CHAIRMAN GLEIMAN: Is there any recross as a
19 consequence of redirect?

20 Mr. Popkin.

21 RECROSS EXAMINATION

22 BY MR. POPKIN:

23 Q This indemnity cost that you are referring to is
24 the money that you set aside to pay for claims?

25 A Yes, that's right.

1 Q It is far less, you are saying, for registered
2 mail and comparably valued insured mail?

3 A Well, we know what the costs are for registered
4 mail. For insured mail we don't have any real claims
5 experience for articles that are that highly valued.

6 What we have done to estimate it is assume that
7 the indemnity costs for those articles will be similar in
8 proportion to the value of the article, which results in an
9 estimated indemnity cost that is \$26.16 for an article
10 valued at \$5,000, which is well above the cost for an
11 identical registered article.

12 Again, that is an estimate not based on actual
13 claims experience.

14 Q If that is an estimate, then what is your
15 justification for raising the fee from 90 cents to \$1 per
16 hundred dollars?

17 In other words, without getting -- I can
18 understand perhaps that you might estimate it in MC96-3, but
19 now that it exists, why wasn't it used?

20 A I am not sure of the basis for the 90 cents in
21 MC96-3.

22 The basis for the \$1 fee per one hundred dollar
23 increment in indemnity value is the indemnity costs that are
24 presented in my testimony.

25 Q But you -- did I understand you to say that you

1 have no real knowledge of what they are. You have just
2 estimated it?

3 A We don't know what they are for articles valued
4 above \$600. We do have actual claims experience for
5 articles valued at \$600 or less, and that is the basis for
6 the \$1 fee increment that is in my testimony.

7 It is based on the actual claims experience for
8 articles valued from zero to \$600, not on any estimate.

9 Q Well, the estimate though, if I understand you, is
10 that you have prorated or massaged the experience from zero
11 to \$600 and you have extended that in some manner to cover
12 \$600 to \$5000.

13 A Yes, that's right.

14 Q What was that method?

15 A Well, to -- without using the exact numbers, in
16 general, there is a relationship between the indemnity cost
17 per piece and the declared or the insured value of the
18 article. For example, articles valued up to \$50 have an
19 average indemnity per transaction of 11 cents whereas
20 articles valued between \$500 and \$600 have an estimated
21 indemnity -- well, an average indemnity per transaction of
22 \$3.62.

23 What I have done is assumed that -- and that is --
24 I'm not sure of the exact ratio but I believe that's
25 about -- the indemnity costs per transaction are about 5

1 percent of the value of the article and what I have done is
2 assumed that that relationship continues to exist throughout
3 the entire range of values through \$5,000 so that that is
4 how you arrive at an average indemnity per transaction of
5 \$26 for a \$5,000 article; it is approximately 5 percent of
6 the declared value of the article or the insured value of
7 the article.

8 Q Well, 5 percent of \$50 is 25 cents, correct?

9 A Yes, that would be right.

10 Q And 5 percent of \$5 -- of \$500 to \$600 is 25 to
11 30 -- \$2.50 to \$3.00?

12 A Right. This is an average. As you have pointed
13 out, the indemnity cost for articles valued below \$50 is
14 less than 5 percent but the indemnity cost per piece for
15 articles valued between \$500 and \$600 is greater than 5
16 percent. That is an approximation and an average.

17 Q In other words, you just take the -- I guess it
18 would be seven categories and numerically average them and
19 then say, well, that same average would apply from 600 to
20 5,000?

21 A I believe -- I believe what I did was I looked at
22 the ranges of values, judgmentally gave greater weight to
23 the more expensive or the higher value articles and noted
24 that on average the indemnity per piece was approximately 5
25 percent of the declared or insured value of the article and

1 applied that number to all insured values from \$600 to
2 \$5,000.

3 Q Do you think it's -- that the rates are just and
4 fair when you have such a discrepancy between registered and
5 insurance --

6 A I developed the --

7 MR. RUBIN: Objection. I think we have gotten
8 beyond the scope of my redirect.

9 CHAIRMAN GLEIMAN: I believe you are correct, sir.
10 That last question goes beyond the scope of redirect.

11 Is there any other followup?

12 Ms. Dreifuss?

13 MS. DREIFUSS: Yes, Mr. Chairman.

14 RECROSS EXAMINATION

15 BY MS. DREIFUSS:

16 Q During redirect, Mr. Rubin said that some of the
17 matters I had raised with you were rare. What was it you
18 were referring to that was rare?

19 A I think during the cross-examination you had asked
20 about the number of exceptions that are made to when
21 articles or when customers could recover for loss or damage
22 and whether or not I thought customers ought to be informed
23 of all of those instances on the receipt form. And I think
24 my response was that most transactions are relatively
25 routine and most of those conditions would not apply.

1 Therefore, to include all of them in an exhaustive list on
2 the receipt form which, for practical reasons needs to be
3 somewhat small, may not be the best way to do that. And I
4 think the sentence that says for further information contact
5 Postmaster is a way to resolve that point that, in most
6 cases, those exclusions do not apply. But for the few that
7 do, it may be best for the customer to consult the
8 Postmaster, if that appears to be the case.

9 As I also said, window clerks are instructed to
10 ask about the nature of the contents and if there is reason
11 for the customer at that point to think that they may need
12 additional information, it is available through either the
13 clerk or the Postmaster.

14 Q Well, when you begin to sum up the exceptions to
15 coverage, consequential damages could not be recovered. If
16 -- if rifling exists, postage may not be refunded. There
17 are a number of exceptions; they begin to mount.

18 I'm not sure how you could -- how you can conclude
19 that the sum of all these situations is -- is rare. On what
20 would you base that conclusion?

21 A Well, I didn't mean that there were few
22 exclusions. In number, there may be quite a few of them.
23 But most insurance transactions do not involve these
24 exclusions in any way.

25 I believe, in response to an interrogatory,

1 someone had asked how many claims were appealed on the basis
2 of some of these exclusions, and the total number of
3 appeals, I believe, was in the neighborhood of 400 for FY
4 '96, and for some of these particular exclusions, the number
5 of appeals or rejected claims is fewer than 10.

6 That is what I meant by that these are relatively
7 rare occurrences, not that there were few instances of
8 things that can be excluded from coverage but that, relative
9 to the total number of insurance transactions, the incidence
10 of those -- or the number of instances where those
11 exclusions come into play are relatively few.

12 Q Do you recall whether you've ever provided figures
13 on the number of claims -- the number of insurance claims
14 that are filed in a given fiscal year?

15 A That -- I believe that's contained -- there's a
16 table in my testimony, on page six, that shows the number of
17 claims that were paid in FY '96.

18 Q Does it give the number of claims that were made?

19 A No, it doesn't, and I'm not -- I don't believe
20 I've provided that.

21 Q Do you know how many -- what the volume of
22 insurance purchases were in FY '96?

23 A Number of transactions?

24 Q Yes.

25 A I show approximately 28 million.

1 Q But you don't know the number of claims made, only
2 the number of claims paid.

3 A Not offhand, no, I don't.

4 Q And as far as you know, that -- that figure has
5 not been provided.

6 A I don't believe that it has.

7 MS. DREIFUSS: Will the Postal Service be willing
8 to provide that?

9 CHAIRMAN GLEIMAN: Mr. Rubin?

10 MR. RUBIN: If that's available, then we will
11 provide that.

12 MS. DREIFUSS: Okay.

13 BY MS. DREIFUSS:

14 Q One other thing that was raised on redirect. I
15 think you said that the -- the receipt that I had held up
16 earlier was too small to contain the many exceptions to
17 coverage that we discussed.

18 Is there any reason the receipt couldn't be
19 enlarged to some extent, the print reduced to some extent,
20 so as to -- as to -- to make the purchaser well aware of
21 these exceptions?

22 A I'm not -- I don't know of the -- the criteria
23 that are used to develop these receipts and how important
24 size is. I mean, as a practical matter, I believe the
25 receipt is designed to be such that it is the same in width

1 as the label that is going to go on the piece, and that may
2 be a binding constraint which would prevent the receipt from
3 being enlarged very much.

4 MS. DREIFUSS: Thank you.

5 CHAIRMAN GLEIMAN: Is there any further followup?
6 Mr. Popkin?

7 FURTHER RECROSS EXAMINATION

8 BY MR. POPKIN:

9 Q Could the indemnity cost be reduced if greater
10 security was provided to the insured mail such as --

11 CHAIRMAN GLEIMAN: Mr. Popkin, that is beyond the
12 scope of the redirect.

13 Is there anything further?

14 [No response.]

15 CHAIRMAN GLEIMAN: If there's not, then Mr.
16 Plunkett, I want to thank you. We appreciate your
17 appearance here today and your contributions to the record,
18 and if there's nothing further, you're excused.

19 THE WITNESS: Thank you, Mr. Chairman.

20 [Witness excused.]

21 CHAIRMAN GLEIMAN: Are we passing the baton at
22 this point, Mr. Rubin?

23 Mr. Hollies, call your witness.

24 MR. HOLLIES: I wonder if this would be an
25 appropriate juncture to introduce the testimony and written

1 cross examination of witness Currie.

2 CHAIRMAN GLEIMAN: I see no problem with that, if
3 I can figure out where I am in my cheat sheet.

4 MR. HOLLIES: I'm a little unclear on how to -- to
5 proceed here.

6 What we have prepared are two copies of his direct
7 -- written direct testimony, each of which has attached to
8 it -- or at least adjacent to it -- a declaration executed
9 by Mr. Currie and faxed to our offices yesterday indicating
10 that he would testify to the same effect were he here today.

11 Similarly, I have the two packets of his
12 designated written cross examination put together, and each
13 of those has attached to it a separate declaration
14 indicating that, were he to testify in response to those
15 questions orally, again his answers would be the same.

16 CHAIRMAN GLEIMAN: You've just answered all of my
17 questions.

18 So, if you could just hand that material to the
19 reporter, we will, without objection, accept the testimony
20 and exhibits of witness Currie, accompanied by the
21 declaration to the authenticity of the document, into
22 evidence, and they will be received into evidence and not
23 transcribed into the record, as is our practice with respect
24 to the designated cross examination.

25 [Direct Testimony and Exhibits

1 of John W. Currie, Exhibit No.
2 USPS-T-42 was marked for
3 identification and received
4 into evidence.]

5 CHAIRMAN GLEIMAN: The reporter is also receiving
6 two copies, and I direct that they be transcribed at this
7 point, along with the applicable declaration, and that they
8 be received into evidence.

9 [Designation of Written Cross
10 Examination of John W. Currie
11 was received into evidence and
12 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 JOHN V. CURRIE
(USPS-T-42)

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

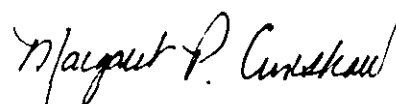
Party

Answer To Interrogatories

Office of the Consumer Advocate

OCA\USPS: Interrogatories T42-1-2.
DBP\USPS Interrogatory 57 redirected from
United States Postal Service
UPS\USPS: Interrogatory T42-1.

Respectfully submitted,



Margaret P. Crenshaw
Secretary

**RESPONSE OF U.S. POSTAL SERVICE WITNESS CURRIE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T42-1. Please list all differences between your testimony in Docket No. MC97-2 (USPS-T-11) and your testimony in Docket No. R97-1 (USPS-T-42). Give full citations to page and line. Explain the reasons for the changes.

RESPONSE:

The only substantive change between my MC97-2 testimony and my R97-1 testimony is the insertion in my R97-1 testimony of material supplied as an interrogatory response in MC97-2. This material appears at p. 13, line 5 through page 14, line 4.

In addition, there are a few editorial changes that are intended to improve the clarity of the testimony.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS CURRIE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

1053

OCA/USPS-T42-2. Please refer to your interrogatory responses to OCA/USPS-T11-1-18 in Docket No. MC97-2.

- a. Please confirm that your responses to the above-referenced interrogatories are true, accurate, and complete for purposes of your testimony in Docket No. R97-1. If you do not confirm, please explain and provide corrections.
- b. Please confirm that you hereby adopt your responses to the above-referenced interrogatories as your testimony in Docket No. R97-1. If you do not confirm, please explain.

RESPONSE:

a-b. Confirmed.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS CURRIE TO
INTERROGATORIES OF DAVID B. POPKIN**

DBP/USPS-57. [a] Confirm, or explain if you are unable to do so, that there will be a 50 cent surcharge per piece for mailing hazardous medical materials and a \$1.00 surcharge per piece for mailing other mailable hazardous materials. [b] How will articles that require this surcharge be marked to indicate their contents and the requirement for the surcharge? [c] How will the acceptance, handling, transportation, and delivery of these articles differ from an article that has the same shape, weight, and class of mail except for the requirement for the surcharge based on the contents of the mail? [d] Confirm, or explain if you are unable to do so, that the only costs that will be incurred with respect to the handling of these parcels will be in the event that there is a "problem" with the parcel. [e] What percentage of the parcels are expected to have "problems" with them?

RESPONSE:

[a] Confirmed.

[b] The required markings are described in the Domestic Mail Manual §§ C021, C023, and C024; these DMM sections are included in LR-PCR-26. In addition, I am informed that the endorsements identifying articles as having paid the Hazardous Medical Material or Other Mailable Hazardous Material surcharge may be applied either by window clerks or by the mailer subject to verification by acceptance personnel.

[c] Please see my testimony at p. 8, line 12 through p. 9 line 15, and p. 10, line 18 through page 11, line 3.

[d] Not confirmed; please see my testimony at p. 8, line 12 through p. 12, line 5.

[e] The information required to develop the requested percentage is not available.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS CURRIE TO
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

1055

UPS/USPS-T42-1. Please refer to your response to OCA/USPS-T11-6 in docket No. MC97-2, and in particular the third page of that response. Please provide a copy of MI-EL-810-96-1 and all other Management Instructions currently in effect which provide guidance on compliance with requirements governing hazardous materials.

RESPONSE:

Copies of Management Instructions MI-EL-810-96-1 and MI-EL-810-96-2 are contained in Library Reference PCR-26.

DECLARATION

I, John V. Currie, declare under penalty of perjury that the foregoing written answers to interrogatories are true and correct to the best of my knowledge, information, and belief, and that were I to testify orally my answers would be the same.


John V. Currie

Date: 10/06/97

1 CHAIRMAN GLEIMAN: Well, we've dispensed with
2 witness Currie.

3 MR. HOLLIES: For the record, he expressed some
4 formal disappointment in that he was not able to appear.

5 CHAIRMAN GLEIMAN: When next you talk with him,
6 remind him that he would have been appearing sometime
7 significantly later than five after seven this evening.

8 MR. HOLLIES: I will see what I can do to mollify
9 the gentleman.

10 CHAIRMAN GLEIMAN: If you would identify the next
11 witness, please.

12 MR. HOLLIES: The Postal Service calls Paul M.
13 Lion to the stand.

14 CHAIRMAN GLEIMAN: Mr. Lion, you're too fast for
15 me, I couldn't catch you in time, but could you please stand
16 and raise your right hand?
17 Whereupon,

18 PAUL M. LION,
19 a witness, was called for examination by counsel for the
20 United States Postal Service and, having been first duly
21 sworn, was examined and testified as follows:

22 CHAIRMAN GLEIMAN: Please be seated.

23 DIRECT EXAMINATION

24 BY MR. HOLLIES:

25 Q Mr. Lion, I've handed to you two copies of what

1 has been marked as USPS-T-24, and I ask if that was prepared
2 by you or under your direction?

3 A Yes.

4 Q Are there -- have you filed any errata -- formal
5 errata into your testimony ^{into} ~~in~~ this case?

6 A Yes.

7 Q And are the errata included in the package?

8 A Yes.

9 Q Are there any additional corrections that you have
10 had cause to make?

11 A Yes.

12 Q And what are they?

13 A Page one, line 13, there is a comma after "each,"
14 should be a period.

15 Page 16, line 14, 71 million should read 72
16 million.

17 Page 16, line 15, 688 million should read 683
18 million.

19 Page 19, line 24, there's a dash in front of
20 "cost" that should go.

21 Page 20, line 12, the word "such" should be
22 stricken.

23 Q Are these corrections incorporated in the copies
24 that you have in front of you?

25 A Yes.

1 Q Were you to testify orally today on direct
2 examination, would your testimony be the same?

3 A Yes.

4 MR. HOLLIES: With that, the Postal Service moves
5 that USPS-T-24 be accepted into evidence.]

6 CHAIRMAN GLEIMAN: Are there any objections?

7 [No response.]

8 CHAIRMAN GLEIMAN: Hearing none, Mr. Lion's
9 testimony and exhibits are received into evidence, and I
10 direct that they be accepted into evidence. As is our
11 practice, they will not be transcribed into the record.

12 [Direct Testimony and Exhibits
13 of Paul M. Lion, Exhibit No.
14 USPS-T-24 was marked for
15 identification and received
16 into evidence.]

17 CHAIRMAN GLEIMAN: Mr. Lion, have you had an
18 opportunity to examine the packet of designated written
19 cross examination that was made available earlier today?

20 THE WITNESS: Yes.

21 CHAIRMAN GLEIMAN: If these questions were asked
22 of you today, were your answers be the same as those you
23 previously provided in writing?

24 THE WITNESS: Yes, with several exceptions.

25 CHAIRMAN GLEIMAN: And could you tell us what they

1 are?

2 THE WITNESS: In OCA USPS-T²24-5, on the second
3 page, due to the copying, the words are obscured. On the
4 fourth line of the second paragraph, the first two words are
5 "office increase," and on the two lines below that, there is
6 a word "completing," which should be "completely," and on
7 number 34 --

8 CHAIRMAN GLEIMAN: Are you referring to OCA --

9 THE WITNESS: -- OCA --

10 CHAIRMAN GLEIMAN: -- USPS --

11 THE WITNESS: -- USPS-T²24-34 -- on the last line
12 of the response, there is a one point that -- at the
13 beginning that should be stricken, and on OCA USPS-T²24-65
14 -- I have to find that -- I have to find that for just a
15 minute.

16 On the second page of the response -- excuse me,
17 on the first page of the response to C, on the first line of
18 that there is an "increases". It should be "decreases".

19 On the line below that "Group A" should be
20 replaced by "Groups D and E for which there is no change."

21 On the second page of that response, on the last,
22 the third line, after "1 percent" the "and" should be
23 changed to "as are" -- a period after the word "coverage"
24 and the remainder of the sentence stricken.

25 That's it.

1 CHAIRMAN GLEIMAN: Have those changes been
2 incorporated into the packages that you have?

3 WITNESS: Yes.

4 CHAIRMAN GLEIMAN: Mr. Hollies, if you would
5 provide two copies of the corrected designated written cross
6 examination of Witness Lion to the Reporter, I will direct
7 that they be accepted into evidence and transcribed into the
8 record at this point.

9 [Designation of Written
10 Cross-Examination of Paul M. Lion
11 was received into evidence and
12 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 PAUL M. LION
(USPS-T-24)

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

Party

Answer To Interrogatories

Office of the Consumer Advocate

OCA\USPS: Interrogatories T24-1-24, 26-30,
31(a), 33-34, 36, 38-39, 40(d-f),
41-47, 59, 60(a), 61-65, 66(d-e),
68, 69(a), 70-72, 73(b-c), 74(a),
78-87, 90-91, 92(a), and 93.

Respectfully submitted,



Margaret P. Crenshaw
Secretary

OCA/USPS-T24-1. Please refer to your testimony at page 2, lines 17-19.

- a. Please confirm that the "POB Survey" referred to in your testimony is the same Post Office Box Study described on pages 3 - 14 of your testimony in Docket No. MC96.3. If you do not confirm, please explain.
- b. Please confirm that the Post Office Box Study from Docket No. MC96-3 has not been revised or updated with supplemental information on the number of post office boxes installed or in use. If you do not confirm, please explain.
- c. Please confirm that the Postal Service has not conducted any other study of post office boxes during the past five years concerning the number of post office boxes installed or in use. If you do not confirm, please explain, and provide copies of (and file as library references) any and all such studies.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed, in that the original Post Office Box Survey data have not been revised or updated. Other postal files, such as the Delivery Statistics File (DSF), are routinely updated and have been merged with the original data.
- (c) Not confirmed. As stated in part (a), the POB Survey done for Docket No. MC96-3 and used in Docket No. R97-1 has not been updated. However, we have done additional analyses based on that data, which are presented in my testimony.

OCA/USPS-T24-2. Please refer to your testimony at pages 1-3.

- a. Please confirm that post office box fee groups are based on groupings of post office by the type of carrier delivery service, or lack thereof, provided. If you do not confirm, please explain.
- b. Please confirm that the grouping of post offices by the type of carrier delivery service, or lack thereof, provided was not based on the costs associated with each office in the group. If you do not confirm, please explain.
- c. Please confirm that post office box fee groups based on the grouping of post office by the type of carrier delivery service, or lack thereof, provided are not designed to be a homogeneous cost grouping. If you do not confirm, please explain.

RESPONSE:

- (a) Not confirmed. The fee groups depend upon specified ZIP Codes, customer characteristics, and type of carrier delivery service. They are defined on page 2, lines 8-13, of my testimony, USPS-T-24.
- (b) Unable to confirm. See my response to part (a). The current definitions reflect a correlation between fee groups and costs (see Table 13, USPS-T-24). However, office-by-office cost distinctions never have been and are not now proposed as an appropriate -- let alone exclusive -- basis for grouping box fees.
- (c) Unable to confirm. As explained above, box fee groups based in part upon the type of delivery service are correlated with costs, but whether this means that those groups are "homogeneous", I am unable to say. It may be possible to improve the strength of the correlation, but the Postal Service has yet to determine how best to do so.

OCA/USPS-T24-3. Please refer to Tables 1 and 2 of your testimony.

- a. Please provide the total number of post office boxes installed, and annual change in the number of boxes installed, for each of the past five years.
 - i. What percent of the change in the number of boxes installed occurred at existing facilities that were renovated or remodeled?
 - ii. What percent of the change in the number of boxes installed occurred at facilities that were newly opened for business?
- b. Please provide the total number of post office boxes in use, and the annual change in the number of boxes in use, for each of the past five years.
 - i. What percent of the change in the number of boxes in use occurred at existing facilities that were renovated or remodeled?
 - ii. What percent of the change in the number of boxes in use occurred at facilities that were opened for business?

RESPONSE:

The requested information is not available. The data in Tables 1 and 2 are based on the POB Survey, which was a one-time undertaking. The Delivery Statistics File (DSF) provides data on boxes installed, but not boxes in use, and since its function is to aid current mail operations, it does not provide historical data.

OCA/USPS-T24-4. Please refer to your testimony at page 5, Table 1.

- a. Please confirm that Delivery Group "City - A" consists entirely of CAG A post offices. If you do not confirm, please explain.
- b. Please provide the number of post office boxes installed, for each box size, by CAG.
- c. Please provide the number of post office boxes in use, for each box size by CAG.
- d. Please provide the number of post office boxes installed, for each box size, by CAG in each delivery group.
- e. Please provide the number of boxes in use, for each box size, by CAG in each delivery group.

RESPONSE:

- (a) Confirmed, in that all the ZIP Codes in Delivery Group City-A are included in a single CAG A office, according to the DSF.
- (b) - (e) USPS LR-H-216 is being filed with the data necessary to perform the necessary calculations.

OCA/USPS-T24-5. Please refer to your testimony at page 20, lines 19-21, and Table 12.

- a. Please confirm that the rent paid for leased space is the average rental cost per square foot. If you do not confirm, please explain.
- b. Please confirm that the figures shown in the "Average Rent" column of Table 12 are computed as the ratio of total cost to total area for all post offices in each fee group. If you do not confirm, please explain, and provide all data (and file as a library reference any data files) supporting the computation of the figures shown in the "Average Rent" column.

RESPONSE:

- (a) Not confirmed. The statement cited refers, in general terms, to those costs that are allocated to Space Provision in the Cost Segments and Components Report. See definition in USPS-T-24, page 19, lines 17-20. Average rent per square foot was derived from the Facility Management System, as described in LR-H-188.
- (b) Not confirmed. This interrogatory raises an issue discussed in Docket No. MC96-3: whether to use the ratio of total cost to total area for all post offices in each fee group, or to average the rents for individual post offices counting each as a separate data point. As discussed in the standard reference Sampling Techniques by Cochran (Chapter 6, 3rd Edition, 1977), there are situations in which a case can be made for either method. In this case, we considered both approaches and determined to average the rental costs for individual offices.

The reasoning is as follows: The purpose is to measure, as accurately as possible and from postal data, the cost of renting retail office space for a certain group of post offices. This is why we used only lease rentals and not the depreciated costs of ownership in our calculations. The rental cost at each office, regardless of its size, is a valid data point in this exercise. Each should be weighted equally.

Calculating the average rental cost as the total cost divided by total floor space allows a few large facilities to dominate the result and, in effect, dissipates valid information. It is often the case that the large facilities are built in industrial areas and have few, if any, boxes. On the other hand, many smaller facilities, such as nondelivery offices, have nothing but boxes. Accordingly, we determined that costs at large facilities should not dominate.

The dominance of larger offices is shown by the stylized example with two post offices presented by OCA in its Initial Brief in Docket No. MC96-3, page 105.

Comparing Scenario 1 to Scenario 2 in that example, the rental costs at the larger ^{office increase} ~~office~~ by 4 percent while, at the smaller facility, they decrease by 67 percent. Yet the average rental cost remains the same when calculated as the ratio of total cost to total area. This is a complet^{ly} misleading result if the post office boxes are located at the smaller facility, which is quite possible absent other information.

Taking that example (Scenario 1 or Scenario 2) one step further: suppose the larger office is expanded in size to make room for more mail processing equipment. In that case, the average rent calculated as the ratio of total cost to total area would increase as well, even though the decision had nothing to do with post office boxes and the rental rates at both facilities remained the same. The average rent using the method we chose, however, would remain the same.

The calculations supporting the average rents by fee group are contained in USPS LR-H-188, item 3. The data required to reproduce these results are contained in USPS LR-H-216.

OCA/USPS-T24-6. Please refer to your testimony at page 20, lines 22-24, and page 21, lines 1-2.

- a. Please confirm that the average rental cost per square foot for each fee group is constant. If you do not confirm, please explain.
- b. Is it your testimony that the Postal Service has the data to be able to allocate space provision costs on a post office-by-post office basis?
- c. Please provide a citation of the portion of LR-H-188 that implements the procedure described at page 20, lines 22-24, and page 21, lines 1-2.

RESPONSE:

- (a) Confirmed.
- (b) No. The data are not available. The example is cited only to illustrate the allocation methodology.
- (c) The procedure cited is implemented by applying Equation (1) on page 22. The results are shown in Table 12.

OCA/USPS-T24-7. Please refer to Table 12 of your testimony.

- a. Please provide the average rental cost in dollars per square foot by CAG.
- b. Please show the computation of average rental cost per square foot by CAG requested in part a. above. Please provide all data (and file as a library reference any data files) supporting the computation of the average rental cost per square foot requested in part a. above.

RESPONSE:

- (a)-(b) The data to perform this calculation are available in USPS LR-H-216 for any participant interested in performing such calculations.

OCA/USPS-T24-8. Please refer to your testimony at page 22, lines 7-12.

- a. Please confirm that the volume variable cost of space provision is \$223,226,000. If you do not confirm, please explain.
- b. Please confirm that the figure in the expression: $c = (\$179,233,000)/Q$ is the volume variable cost for space provision developed in Docket No. MC96-3. If you do not confirm, please explain.
- c. Please confirm that the volume variable cost for space provision in the expression referred to in part b. above should be \$223,226,000. If you do not confirm, please explain.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

An appropriate erratum will be filed.

OCA/USPS-T24-9. Please refer to LR-H-188, pages 16-20.

a. Did you consider calculating group rent per square foot as the ratio of total group rental cost to total group square footage for your complete date set (excluding the one percentile and 99 percentile outliers)? Why did you not use such a formula to calculate your rental cost per square foot?

b. Please consider the following modifications to your SAS program:

Modify line 12 to read:

KEEP ZIP FINANCE RSCTSQFT RENTAMT INTSQFT

Insert after line 136:

```
PROC MEANS;  
CLASS GROUP  
VAR RENTAMT INTSQFT;  
OUTPUT OUT=GRPSUM SUM=  
DATA GRPAVG; SET GRPSUM;  
AVRCSF=RENTAMT/INTSQFT;  
PROC PRINT DATA=GRPAVG; .
```

- i. Please confirm that the above modifications would produce the ratios of total group rental cost to total group square footage as referred to in part a. of this interrogatory. If you do not confirm, please provide any corrections necessary.
 - ii. Please provide the results of modifying your SAS program so that the ratios referred to in part a. are produced.
 - iii. Please confirm that this modification excludes the one percentile and 99 percentile facility rental cost per square foot outliers as in the unmodified program.
- c. Please confirm that the data sets utilized by your SAS program have not been and will not be filed as a library reference. If you do not confirm, please identify the library reference containing the data sets.

RESPONSE:

(a) See response to OCA/USPS-T24-5(b).

(b) (i) Confirmed.

(ii) The data to perform this calculation are contained in USPS LR-H-216.

(iii) Confirmed.

(c) Not confirmed. While I do not believe that the DSF and FMS are included in any library reference in this proceeding, LR-H-216 contains an extract from each merged with data from the POB Survey. (Each record represents a different 5-digit ZIP Code, although the ZIP Code itself is not included.)

OCA/USPS-T24-10. Please refer to Table 1 from USPS-T-24, and Table 3 from USPS-T-4 in Docket No. MC96-3, below. Table X reflects the change in the number of post office boxes installed by box size and delivery group between Docket Nos. MC96-3 and R97-1.

Table 1. Number of Boxes Installed (Survey Data)						
Box Size	City-A	City-B	City-other	Noncity	Nondelivery	Total
1	35,535	58,079	4,211,964	3,564,918	976,251	8,846,747
2	1,987	16,525	2,030,453	1,544,572	357,141	3,950,678
3	1,162	5,899	719,650	409,758	89,322	1,225,791
4	118	1,154	170,699	35,142	7,807	214,920
5	51	747	40,705	6,674	3,985	52,162
Total	38,853	82,404	7,173,471	5,561,064	1,434,506	14,290,298

Source: Table 1, USPS-T-24, Docket No. R97-1.

Table 3 USPS T-4					
Number of Post Office Boxes Installed (Survey)					
	I-A	I-B	I-C	II	Total
1	35,535	55,529	4,071,571	4,684,112	8,846,747
2	1,987	15,428	1,964,539	1,968,724	3,950,678
3	1,162	5,531	700,489	518,609	1,225,791
4	118	1,064	167,433	46,305	214,920
5	51	739	40,228	11,144	52,162
Total	38,853	78,291	6,944,260	7,228,894	14,290,298

Source: Table 3, USPS T-4, Docket No. MC96-3

Table X					
Change in the Number of Boxes Installed By Size and Delivery Group					
Box Size	Change				Check Col. Net Change
	City-A	City-B	City-other	Noncity	
	[1]	[2]	[3]	[4]	[5]=[1]+[2]+[3]+[4]
1	0	2,550	140,393	-1,119,194	-976,251
2	0	1,097	65,914	-424,152	-357,141
3	0	368	19,161	-108,851	-89,322
4	0	90	3,266	-11,163	-7,807
5	0	8	477	-4,470	-3,985
TOTAL	0	4,113	229,211	-1,667,830	-1,434,506

- Please confirm that the data on number of boxes installed in Tables 1 and 3 were obtained from the Post Office Box Study described on pages 3-13 of your testimony from Docket No. MC96-3. If you do not confirm, please explain.
- Please confirm that the change in the number of post office boxes installed by box size and delivery group, as shown in Table X, is correct. If you do not confirm, please explain and provide correct figures.
- Please refer to Table X. Please explain the reasons for, and the assumptions underlying, the change in the number of post office boxes by delivery group.
- Please refer to Table X. Please explain the reasons for, and the assumptions underlying, the change in the number of post office boxes by box size.
- Please identify any new or additional information used to develop the number of post office boxes installed for the Delivery Group entitled "Non-Delivery" shown in Table X.

RESPONSE:

(a) Confirmed.

(b) Not confirmed. The subtraction is correct, but the result is meaningless for Groups other than City-A and City-B. The other delivery groups (City-other and Non-city) were defined differently for this proceeding. Specifically, as explained at line 23, page 1 of USPS-T-24, delivery groups are now defined in terms of finance number, whereas in Docket No. MC96-3 they were defined in terms of 5-digit ZIP Codes.

For Delivery Group City-B, which should be the same as former Delivery Group I-B, coding mistakes in Docket No. MC96-3 were discovered when we performed the analysis for this proceeding. For example, Philadelphia ZIP Codes that should have been coded 191xx were incorrectly coded as 091xx.

(c) See (b).

(d) See (b).

(e) The nondelivery group was identified as finance numbers that, according to the Delivery Statistics File, contain no city routes, no rural routes, and no highway contract routes. See definitions at lines 19-24, page 1 of my testimony.

OCA/USPS-T24-11. Please refer to your testimony at page 7, Table 3.

- a. Please explain the wide disparity between the number of post office boxes installed for the City-A Delivery Group as recorded in the Delivery Statistics File in April 1997 (DSF 97) and as reported in the Post Office Box Study.
- b. Table 3 shows the City-A Delivery Group with an expansion factor of 2.69, and the Non-city Delivery Group with an expansion factor of 1.26. Please explain why the City-A Delivery Group should have an expansion factor more than two times the expansion factor of the Non-city Delivery Group.

RESPONSE:

- (a) The POB Survey is a sample, and the response rates for the City-A Delivery Group were relatively low. The sample is still a statistically large one and valid for the conclusions drawn.
- (b) The response rates from the survey were lower for the City-A Group than for the Non-City Delivery Group. In Docket No. MC96-3, a single expansion factor was used for all delivery groups. We believe that group-specific expansion factors produce more accurate estimates.

OCA/USPS-T24-12. Please refer to your testimony at page 5, Table 1, and page 7, lines 7-9. Please explain why you did not increase the number of boxes installed as shown in Table 1 by 1.2 percent to reflect the growth in the number of boxes installed between the two "DSF runs."

RESPONSE:

The suggested step was not taken because it would make no difference in the final result and the procedure would only add complexity. If boxes installed from the POB Survey were increased by 1.2 percent to account for growth in the interim, the expansion factors would be reduced by approximately the same percentage. However, we would also have to increase the boxes in use by the same 1.2 percent to account for growth and to maintain the critical assumption that usage rates remain constant over time. When the expansion factors are applied to estimate the total boxes in use the two changes would then cancel out.

In effect, we calculate usage rates from the POB Survey, and then apply those results directly to the DSF 97 results.

OCA/USPS-T24-13. Please refer to your testimony at page 6, and the excel file "Pobox97" and the sheet "Tables 1-3." Please show how the formulas

- (1) Boxes In Use (97) = Boxes In Use (Survey 95) * Boxes Installed (DSF 97)/
Boxes Installed (Survey 95).
- (2) Boxes In Use (97) = Boxes In Use (DSF 97) * Boxes In Use (Survey 95)/
Boxes Installed (Survey 95).

were used to estimate the Pre-MC96-3 boxes in use.

RESPONSE:

The basic assumption, as indicated in my response to OCA/USPS-T24-12, is that box usage ratios remain constant. The two formulas express this relationship in mathematical form, solving each for the one unknown – Boxes in Use (97). The two formulas are equivalent – either one can be used.

(Note: there is an error in the second formula as printed in the interrogatory: "Boxes In Use (DSF 97)" on the right-hand side of the equation should be "Boxes Installed (DSF 97)". I have answered the interrogatory as though it merely contains a typographical error, since this error does not appear on the spreadsheet in copy #2 of Library Reference H-188 and the DSF provides no information on boxes in use.)

The first form of the equation is used in sheet "Tables 1-3". The expansion factor is the ratio of Boxes Installed (DSF 97) to Boxes Installed (Survey 95), by delivery group. This ratio is multiplied by Boxes in Use(Survey 95) from Table 2 to estimate Boxes in Use (DSF 97) in Table 4.

The second form of the equation is expressed in words at the end of my response to interrogatory OCA/USPS-T24-12.

OCA/USPS-T24-14. Please refer to your testimony at page 6, lines 8-11.

Please confirm that the number of customers ineligible for box service were estimated in the Postal Service's response to POIR No. 4, Question 6, Docket No. MC96-3. If you do not confirm, please explain.

RESPONSE:

Confirmed, assuming that the question was intended to refer to page 8, lines 8-11. The testimony incorrectly refers to POIR No. 6, Question 4, rather than POIR No. 4, Question 6. An appropriate erratum will be filed.

OCA/USPS-T24-15. Please refer to your testimony at page 9, Table 5.

- (a) Please refer to columns two and three. Please explain the terms "Classified" and "Contract," and the origin and meaning of the corresponding percentages 94 and 6, respectively.
- (b) Please refer to the last column, which shows the percent of customers ineligible for carrier delivery by Delivery Group (i.e., type of carrier delivery office). Please confirm that the 1 percent of customers ineligible for city delivery service would equate to 72,964 ($0.01 * 7,296,367$ total boxes in Delivery Group 1C) boxes from Docket No. MC96-3. If you do not confirm, please explain and provide the correct figure. Please show all calculations used to derive the correct figure, and provide citations to all figures used.
- (c) Please refer to the last column, which shows the percent of customers ineligible for carrier delivery by Delivery Group (i.e., type of carrier delivery office). For the 2 percent of customers at "classified" non-city delivery offices, and the 90 percent of customers at "contract" non-city delivery offices, ineligible for carrier delivery service, please provide the number of boxes corresponding to the 2 and 90 percent from Docket No. MC96-3. Please show all calculations used and provide citations to all figures used.
- (d) Please refer to the last column, which shows the percent of customers ineligible for carrier delivery by Delivery Group (i.e., type of carrier delivery office). For the 30 percent of customers at nondelivery offices ineligible for any carrier delivery service, please provide the number of boxes corresponding to the 30 percent from Docket No. MC96-3. Please show all calculations used and provide citations to all figures used.

RESPONSE:

- (a) "Classified" refers to classified stations and branches of non-city delivery offices; in Docket No. MC96-3, this was former Group II. "Contract" refers to contract stations and branches of non-city delivery offices; in Docket No.

MC96-3, this was former Group III. The percentages of contract and classified boxes were estimated from data in Docket No. MC96-3 as follows:

<u>Group</u>	<u>No. Boxes</u>	<u>Source</u>
Classified	5,797,558	Table 4, USPS-T-4
Contract	338,510	LR-SSR-93, Item 3, page 3

The results were rounded to the nearest percent.

- (b) Not confirmed. As explained in my response to OCA/USPS-T24-10(b), City Delivery offices are not the same as former Delivery Group I-C. As shown in Table 6B (page 10) and calculated on sheet "Tables 4-6" of workbook "POBox97" in LR-H-188, the 1 percent of customers ineligible for city delivery service is estimated at 83,916 ($=.01 * 8,391,563$). The number of City-other boxes is 8,391,563 as shown in Table 4 of USPS-T-24, page 8.
- (c) As stated in my response to OCA/USPS-T24-10(b), it is not possible to compare the number of boxes in different delivery groups in Docket No. MC96-3 with those in the current docket, because the delivery groups have been defined differently in the two cases.
- (d) See (c).

OCA/USPS-T24-16. Please refer to LR-H-188 at page 1. Please explain the meaning of the existence of "records that had POB Survey data, but no DSF data."

RESPONSE:

This refers to the fact that, for some offices that responded to the POB Survey, there is no corresponding record in the DSF. These records were initially classified as "NA", and later included in the total for nondelivery offices. See my response to OCA/USPS-T24-17.

Response of Witness Lion to Interrogatories of the OCA, Questions 10-19, Docket No. R 97-1

OCA/USPS-T24-17. Please refer to the table on page 6 of LR-H-188, concerning the number of boxes installed.

- (a) Please explain in detail what the figures represent in the row entitled "NA."
- (b) Please explain in detail your rationale for summing the rows entitled "Nondelivery" and "NA" to compute the row entitled "Total Nondelivery."

RESPONSE:

- (a) "NA" refers to those records that have 5-digit ZIP Codes that were not found in the DSF. The figures in the row labeled "NA" in the table on page 6 of LR-H-188 are the numbers of boxes installed by box size, as indicated in the POB Survey.
- (b) If a ZIP Code belonged to a finance number with any city, rural, or highway contract routes, it should appear in the DSF. Since these ZIP Codes did not so appear, we classified them as nondelivery offices.

OCA/USPS-T24-18. Please refer to the table on page 7 of LR-H-188, concerning the number of boxes in use.

- (a) Please explain in detail what the figures represent in the row entitled "NA."
- (b) Please explain in detail your rationale for summing the rows entitled "Nondelivery" and "NA" to compute the row entitled "Total Nondelivery."

RESPONSE:

- (a) "NA" refers to those records that have 5-digit ZIP Codes that were not found in the DSF. The figures in the row labeled "NA" in the table on page 6 of LR-H-188 are the numbers of boxes in use by box size, as indicated in the POB Survey.
- (b) If a ZIP Code belonged to a finance number with any city, rural, or highway contract routes, it should appear in the DSF. Since these ZIP Codes did not so appear, we classified them as nondelivery offices.

Response of Witness Lion to Interrogatories of the OCA, Questions 10-19, Docket No. R 97-1

OCA/USPS-T24-19. Please refer to the table on page 7 of LR-H-188, concerning the number of boxes in use.

- (a) Please confirm that for the row entitled "NA" the total is 50,390. If you do not confirm, please explain.
- (b) Please confirm that for the row entitled "NA" the total should be 79,338. If you do not confirm, please explain.

RESPONSE:

- (a) - (b) There are two errors in the row labeled "NA" on page 7 of LR-H-188. The number in the column labeled "BOXRENT1" should be "46,031" instead of "46,013". The total in the right column is 79,338. The table is given correctly at the bottom of page 13, LR-H-188. An appropriate erratum will be filed.

OCA/USPS-T24-20. Please refer to your testimony at page 7, Table 3.

- a. Please refer to the column, "Boxes Installed (DSF 97)." Please provide the number of post office boxes installed, for each box size, by CAG in each delivery group shown in Table 3.
- b. Please refer to the column, "Boxes Installed (POB Survey)." Please provide the number of post office boxes installed, for each box size, by CAG in each delivery group shown in Table 3.

RESPONSE:

- (a)-(b) The data to perform this calculation are available in USPS LR-H-216 for any participant interested in performing such calculations.

OCA/USPS-T24-21. Please refer to your testimony at page 27, Table 13.

- a. Please provide post office box attributable costs by CAG for the FY98 TYBR.
- b. Please provide post office box attributable costs by CAG by box size for the FY98 TYBR.

RESPONSE:

- (a)-(b) The data to perform this calculation are available in USPS LR-H-216 for any participant interested in performing such calculations.

RESPONSE OF POSTAL SERVICE WITNESS LION TO INTERROGATORY
OF THE OFFICE OF THE CONSUMER ADVOCATE, OCA/USPS-T24-22

OCA/USPS-T24-22: Please refer to your testimony at page 6, lines 6-7, and the excel file "pobox98" and the sheet "TYBR Box Count." Please explain the origin and development of the 1.9 percent growth factor. Please show all calculations and provide citations to any figures used.

RESPONSE:

I understand that for recent rate cases, post office box volume has been estimated to increase 3.9 percent annually based on results from a 1985 study that profiled post office boxes. Since new data on post office box volumes were collected in preparing for Docket No. MC96-3, the growth factor was reviewed. It was decided to use a more conservative factor of 1.9 percent.

OCA/USPS-T24-23. Please refer to your testimony at page 14, Table 7C.

- a. Please confirm Table 7C shows that, prior to docket No. MC96-3, 904,241 boxholders ineligible for carrier delivery service paid post office box fees ranging from \$2 to \$55 annually, depending on box size. If you do not confirm, please explain.
- b. Please confirm that, as a result of Docket No. MC96-3, boxholders in Delivery Groups IC and II ineligible for carrier delivery service (other than boxholders living within one-quarter mile of the post office) received a fee decrease and now obtain box service at no charge. If you do not confirm, please explain.
- c. Please confirm that Table 7C shows no change, or 904,241 boxholders obtaining box service after the fee decrease at no charge after the fee decrease in Docket No. MC96-3. If you do not confirm, please explain.
- d. Prior to Docket No. MC96-3, how many customers received general delivery service in Delivery Groups IC and II.
- e. Please confirm that a price decrease for post office box service would cause some general delivery and other customers in Delivery Groups IC and II to obtain box service at no charge. If you do not confirm, please explain.
- f. Please estimate the increase in the number of general delivery and other customers obtaining box service at no charge as a result of the box fee decreases resulting from Docket No. MC96-3. Please show all calculations, and provide citations to all figures.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.

- (d) I do not have, and am not aware of, any data on general delivery that permit an answer to this question.
- (e) This may be reasonable, but I have no data to confirm your statement. Migration of general delivery or other customers to Group E boxes would not, however, affect the revenue estimation for post office boxes, which is the point of Table 7.
- (f) I do not have, and am not aware of, any data to make this estimate.

OCA/USPS-T24-24. Please refer to your testimony at page 19, lines 4-5. Please confirm that the volume-variable cost data for post office boxes in the test year before rates are taken from the testimony and workpapers of witness Patelunas, USPS-T-15, WP E, Tables C and D. If you do not confirm, please explain.

RESPONSE:

Confirmed.

Response of Witness Lion to OCA Interrogatories, Questions 26-31, 33-34, 36, Docket No. R97-1

OCA/USPS-T24-26. Please refer to your testimony at page 11, Table 6C, and PRC Op. MC96-3, Appendix D, Schedule 3, Table 13.

- a. In Table 6C, please confirm that the total number of paid and free post office boxes in use, pre-MC96-3, is 15,648,462. If you do not confirm, please explain.
- b. In Table 13, please confirm that the TYBR total number of paid and free post office boxes is 15,550,019 (15,650,789 "Subtotal" less 100,770 "Caller Service," from Column(5)). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

OCA/USPS-T24-27. Please refer to your testimony at page 10, Tables 6A. and 6B., and PRC Op. MC96-3, Appendix D, Schedule 3, Tables 12 and 13.

- a. Please explain why you did not use the Commission's TYBR number of boxes, shown in Tables 12 and 13 as your "Estimated Boxes in Use, Pre MC96-3" by Fee Group.
- b. Please explain in detail any disagreements or differences you have with the Commission's methodology, as shown in PRC Op. MC96-3, Appendix C, Part 1, Tables 1-4, and Appendix D, Schedule 3, Tables 12 and 13.

RESPONSE:

- a. The fee groups in Tables 6A and 6B are defined differently. See my response to OCA/USPS T24-10b.
- b. I have no disagreement with the Commission's methodology in terms of the delivery groups as previously defined in Docket No. MC96-3. Indeed, the box counts in PRC Op. MC96-3, Appendix D, Schedule 3, Tables 12 and 13, are taken from my testimony in that proceeding. However, the costs per box for this docket must be estimated in terms of the newly defined fee groups (DMM § D910, July 1, 1997). The crosswalk between the two cannot be made precisely.

OCA/USPS-T24-28. Please refer to your testimony at page 13, Table 7B. For the Fee Groups "D-2, Non-city Contract eligible" and "D-3, Nondelivery eligible," please confirm that the elasticities (unrounded) are calculated as follows:

Box Size 1	$-0.05357143 = (((1+.025) / 2) - 1) / 7.00$
Box Size 2	$-0.06916667 = (0.17 - 1) / 12.00$
Box Size 3	$-0.03608696 = (0.17 - 1) / 23.00$
Box Size 4	$-0.02441176 = (0.17 - 1) / 34.00$
Box Size 5	$-0.01537037 = (0.17 - 1) / 54.00$

where the figures, 0.25 and 0.17, represent the acceptance percentages rounded to two digits) from POIR No. 5, question 2 in Docket No. MC96-3, and the figures, 7.00, 12.00, 23.00, 34.00, and 54.00, represent the percentage increase in fees proposed by the Postal Service for "Group 3 Offices Assigned to Group 2" in Docket No. MC96-3. If you do not confirm, please explain.

RESPONSE:

Rather than calculate the elasticities, I took them directly from PRC Op. MC96-3,

Appendix D, Schedule 3, Table 12; as stated in footnote 2, page 11 of my

testimony. The question correctly identifies the values of the elasticities used.

OCA/USPS-T24-29. Please refer to your testimony at page 10, Tables 6A. and 6B.

- a. Please provide by CAG the percentage of post office boxes, by box size, in the column "E-0."
- b. Please provide by CAG the percentage of post office boxes, by box size, in the column "E-1."
- c. Please provide by CAG the percentage of post office boxes, by box size, in the column "E-2."
- d. Please provide by CAG the percentage of post office boxes, by box size, in the column "E-3."

RESPONSE:

The information to perform these calculations is not available.

OCA/USPS-T24-30. Please refer to your testimony at page 10, Tables 6A. and 6B., and page 26, Table 12.

- a. Please refer to Table 6B. Please confirm that Fee Group E consists of post office boxes from (i) "City-other" delivery offices, (ii) "Non-city" delivery offices and (iii) "Non-Delivery" offices. If you do not confirm, please explain.
- b. Please confirm that the average rental cost per square foot for the three types of offices, identified in part a. (i), (ii) and (iii) above, differ. If you do not confirm, please explain.
- c. Please refer to Table 12, and the column "Average Rent." Please confirm that the average rent for Fee Group E reflects the differing costs associated with the three types of offices, identified in part a. (i), (ii) and (iii) above. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

OCA/USPS-T24-31. Please refer to your testimony at page 1, lines 17-22.

- a. Please provide a tabulation of the total number of post offices by city delivery offices, non-city delivery offices, and nondelivery offices.
- b. Please describe the process by which a post office is converted from
 - (i) a non-city delivery office to a city delivery office;
 - (ii) a nondelivery office to a non-city office; and,
 - (iii) a nondelivery office to a city delivery office.
- c. Please provide a tabulation of the number of post offices by conversion process as described in (i), (ii) and (iii) above by fiscal year for the past five fiscal years.
- d. Please confirm that that no post offices have been converted from a city delivery office to a non-city delivery office, from a city delivery office to a nondelivery office, and [sic] from a non-city delivery office to a nondelivery office during the past five years. If you do not confirm, please explain and provide a tabulation of the number of offices by conversion process by fiscal year for the past five fiscal years.

RESPONSE:

- a. The data to perform the required calculations are contained in USPS LR-H-222.
- b-d. [Redirected to the Postal Service.]

OCA/USPS-T24-33. Please refer to LR-H-188, and the table on page 15.

- a. Please confirm that the column "Average Rental Cost (\$/sq.ft.)" is the average rental cost per square foot for each carrier delivery group. If you do not confirm, please explain the assumptions made and used to allocate rental costs from carrier delivery groups "City-other" and Non-city" to Fee Group E.
- b. Assuming rental costs are allocated from carrier delivery groups "City-other" and "Non-city" to Fee Group E, please explain whether the average rental cost for Fee Groups C, D and E would be higher or lower than the average rental cost for carrier delivery groups "City-other," "Non-city" and "Non-Delivery," respectively.

RESPONSE:

- a. Not confirmed. As originally filed, the table on page 15 of USPS-LR-H-188 was average rent by delivery group, as you state. However, an erratum has been filed to LR-H-188, Item 3, that calculates the average rents by fee group. The assumptions are given on pages 15, 15A, and 15B of the revised library reference.
- b. The reclassification from delivery group to fee group actually makes little difference in the final estimate, i.e. the unit cost per box.

The comparison of rents is shown on page 15B of the revised LR-H-188. In dollars per square foot, the average rents are:

<u>Fee Group</u>		<u>Delivery Group</u>	
C	\$7.71	City-other	\$7.71
D	\$6.19	Non-city	\$6.00
E	\$6.70	Nondelivery	\$7.19

OCA/USPS-T24-34. Please refer to LR-H-188, and the table on page 15.

- a. Please confirm that Fee Group A consists only of post offices rated CAG A. If you do not confirm, please explain and provide a tabulation of the number of post offices by CAG for Fee Group A.
- b. Please confirm that Fee Group B consists only of post offices rated CAG A-D. If you do not confirm, please explain and provide a tabulation of the number of post offices by CAG for Fee Group B.
- c. Please confirm that Fee Group C consists only of post offices rated CAG A-K. If you do not confirm, please explain and provide a tabulation of the number of post offices by CAG for Fee Group C.
- d. Please confirm that Fee Group D consists only of post offices rated CAG A-L. If you do not confirm, please explain and provide a tabulation of the number of post offices by CAG for Fee Group D.
- e. Please confirm that Fee Group E consists only of post offices rated CAG A-L. If you do not confirm, please explain and provide a tabulation of the number of post offices by CAG for Fee Group E.

RESPONSE:

The question mischaracterizes fee groups in that they apply to customers at certain groups of post offices, not post offices *per se*. See the definitions at USPS-T-24, page 2. The confusion can be corrected simply by inserting "customers at" between "of" and "post" in each part. The questions would then take the form:

"Please confirm that Fee Group X consists only of customers at post offices rated CAG Y-Z."

With that understanding, the responses are as follows:

- a. Previously confirmed in response to OCA/USPS-T24-4.
- b-c. The data to perform the required calculations are in USPS LR-H-222.
- ~~z~~ d-e. Confirmed, since the entire range of CAG designations is listed.

OCA/USPS-T24-36. Please refer to USPS Library Reference F-183, at 15, from Docket No. R90-1, where it states "that CAG A and B offices tend to be located in higher-rent urban areas, while CAG K and L offices tend to be located in lower-rent rural areas."

- a. Do you agree with the statement quoted above?
- b. If you do not agree, please explain, and provide citations and references to any reports, studies, analysis or other documents (and file as a library reference) that support your disagreement. If your disagreement is based upon discussions with Postal Service employees or knowledgeable persons not in the employ of the Postal Service, please identify such employees or persons.
- c. Please define the terms "urban" and "rural" as used in the statement quoted above.

RESPONSE:

a-c. Library Reference F-183 is quoted correctly, but I do not have information sufficient to confirm. However, since CAG A and B offices are larger, the quotation seems reasonable. While I have no particular basis for knowing how the terms "urban" and "rural" were used, I would accept the standard dictionary definitions. A variation of this question was addressed in the response to OCA/USPS-88(n-o), Docket No. MC96-3, Tr. 8/2915-2917.

OCA/USPS-T24-38. Please refer to your testimony at page 15, Table 7D. In the column "Pre 96-3 Boxes," please explain the origin and development of the figure, 110,370, for caller service. Please show all calculations and provide citations for any figure used.

RESPONSE:

The number "110,370" should read "100,770". An erratum has been filed to correct this.

OCA/USPS-T24-39. Please refer to your testimony at page 15, Table 7D., and PRC Op. MC96-3, Appendix D, Schedule 3, Table 12.

- a. In Table 7D., please confirm that the figure for "Post 96-3 Boxes" for Caller Service is 110,370. If you do not confirm, please explain.
- b. Please confirm that the TYAR number for caller service from Table 12 is 89,055. If you do not confirm, please explain.
- c. Please explain why you did not use the Commission's TYAR figure of 89,055 for caller service as the figure for "Post 96-3 Boxes" for Caller Service in Table 7D?
- d. Please explain the discrepancy between the figure in part a. above and the figure, 89,055, from Table 12.

RESPONSE:

- a. Not confirmed. The number should read "100,770". An erratum has been filed to reflect this.
- b. Confirmed.
- c. The TYAR number should read "89,055", as in PRC Op. MC96-3, Appendix D, Schedule 3, Page 17, Table 12. An erratum has been filed to reflect this.
- d. See c.

OCA/USPS-T24-40. Please refer to your testimony at page 15, Table 7D, and and the table below.

<u>Delivery/Fee Group</u>	<u>Pre 96-3 Fees</u>	<u>Post 96-3 Fees</u>
[A]	[B]	[C]
IA/A	\$500	\$500
IB/B	\$480	\$480
IC/C	\$450	\$450
II/D	\$134	\$450

- Please confirm that the annual fees for caller service prior to PRC Op. MC96-3 are those shown in column [B]. If you do not confirm, please explain.
- Please confirm that the annual fees for caller service recommended by the Commission in PRC Op. MC96-3, are those shown in column [C]. If you do not confirm, please explain.
- Please confirm that caller service customers in Delivery/Fee Group II/D experienced a fee increase of 236 percent. If you do not confirm, please explain.
- Please show the origin and development of the figure, \$451, in the column "Pre 96-3 Fees" in Table 7D. Please show all calculations and provide citations for any figure used.
- Please explain why there is no elasticity for caller service in the column, "Elasticity," in Table 7D.
- Please confirm that the elasticity for caller service in Table 7D. should be -0.152210643231. If you do not confirm, please explain and provide the correct figure.

RESPONSE:

a - c. Redirected to witness Needham.

d. The figure \$451 is taken from PRC Op. MC96-3, Appendix D, Schedule 3, Page 17, Table 12, Column 2, Row "Caller Service". It is a weighted average of the PRC-recommended annual fees.

- e. The elasticity for caller service should be -0.398. This is the implied elasticity when the groups are taken as a whole. An erratum has been filed to reflect this.

- f. Not confirmed. The elasticity cited (-0.152) applies to caller service in Delivery Group II (in PRC Op. MC96-3, Appendix D, Schedule 3, Page 17, Table 12), which faces a 236 percent increase based on a weighted average. See witness Needham's response to OCA/USPS-T24-40(c). When calculating the caller service results for all groups together (which collectively face a fee increase of 29 percent) the appropriate elasticity is the weighted average elasticity, -0.398.

OCA/USPS-T24-41. The following tabulation of rental cost per square foot is based on the data file RENT.DATA included in LR-H-216.

Comparison of $av(rent/sf)$ with $(total\ rent)/(total\ sf)$.

TYPE=0.1 for all offices, by GROUP

* indicates that GROUP is missing

OBS	GROUP	_TYPE_	_FREQ_	RCSF	TOTRSF	RATIO
1		0	24860	6.7281	5.9271	0.88095
2	*	1	286	7.9224	3.4632	0.43714
3	A	1	30	23.4905	8.3891	0.35713
4	B	1	153	16.7431	13.9132	0.83099
5	C	1	6050	7.7267	5.5969	0.72437
6	D	1	14171	5.9971	6.2122	1.03587
7	E	1	4170	7.1936	7.1541	0.99451

- a. Please confirm that the above frequencies (_FREQ_) and rental cost per square foot values (RCSF) update the similar figures given in LR-H-188. If you do not confirm, please explain and provide the correct figures consistent with the data files of LR-H-216.
- b. Please confirm that all differences between the above table and the analogous figures presented in LR-H-188 are due to the change in the delivery statistics file described in footnote 1, page 1 of LR-H-216.

RESPONSE:

- a. Confirmed for rental cost per square foot values (RCSF). Not confirmed for frequencies (_FREQ_). The frequencies shown in the table measure the number of observations in each delivery group that have rental data and that pass the outlier test. The frequencies in LR-H-188 measure the total number of observations in each delivery group in the DSF.
- b. Confirmed for rental cost per square foot; not confirmed for frequencies. See part a.

Response of Witness Lion to Interrogatories of the OCA, Questions 41-47, Docket No. R97-1

OCA/USPS-T24-42. Attachment 1 to this interrogatory provides a list of the 30 group A facilities in the RENT.DATA file contained in LR-H-216. Attachment 2 provides a list of the 29 group A facilities listed in the BOXES.DATA file contained in LR-H-216.

- a. Please confirm that several group A observations in the BOXES.DATA file contain no installed boxes. If you do not confirm, please explain how the figures in rows 2 and 19 of Attachment 2 should be interpreted.
- b. [i] Please confirm that the rental cost per square foot figures for offices having no boxes are used in library reference H-188 to compute rental cost per square foot. [ii] If you confirm, please explain why these offices without installed boxes were included in the calculations. [iii] If you do not confirm, please provide a reference to the SAS code that excludes these observations from your calculations.
- c. Please identify which of the group A observations on the RENT.DATA file correspond to facilities that have no installed boxes.

Response of Witness Lion to Interrogatories of the OCA, Questions 41-47, Docket No. R97-1

Attachment 1 to OCA/USPS-T24-42

LISTING OF ALL GROUP=A RECORDS IN RENT.DAT FILE 47
 12:39 Tuesday, August 5, 1997

CBS	GROUP	CAG	RCSF	RA	SF
1	A	A	20.3022	395000	19456
2	A	A	0.0020	1	508
3	A	A	55.3502	182379	3295
4	A	A	29.7628	41400	1391
5	A	A	9.4678	580000	61260
6	A	A	2.9039	100000	34437
7	A	A	27.1367	575000	21189
8	A	A	28.5006	73332	2573
9	A	A	16.7277	64000	3826
10	A	A	2.6468	45560	17213
11	A	A	44.1327	126043	2856
12	A	A	22.5000	72000	3200
13	A	A	48.3000	281299	5824
14	A	A	22.5389	6700	386
15	A	A	30.0809	178500	5934
16	A	A	31.2776	455840	14574
17	A	A	2.8377	1340000	472215
18	A	A	9.5053	539200	56726
19	A	A	46.4306	350040	7539
20	A	A	21.2020	85020	4010
21	A	A	26.5564	54600	2056
22	A	A	1.2585	13692	10880
23	A	A	14.4796	32000	2210
24	A	A	21.0555	80011	3800
25	A	A	15.3404	32000	2086
26	A	A	19.1872	285813	14896
27	A	A	64.0482	366420	5721
28	A	A	10.6978	170000	15906
29	A	A	8.4950	55812	6570
30	A	A	52.0000	177580	3415

Response of Witness Lion to Interrogatories of the OCA, Questions 41-47, Docket No. R97-1

Attachment 2 to OCA/USPS-T24-42

LISTING OF ALL GROUP=A RECORDS IN BOXES.DAT FILE 48
12:39 Tuesday, August 5, 1997

			B O X I N S T 1	B O X I N S T 2	B O X I N S T 3	B O X I N S T 4	B O X I N S T 5	B O X I N S T 1	B O X I N S T 2	B O X I N S T 3	B O X I N S T 4	B O X I N S T 5
1	A	A	2861	40	8	4	0	2622	36	8	3	0
2	A	A	0	0	0	0	0	0	0	0	0	0
3	A	A	1010	64	43	8	4	997	59	38	8	4
4	A	A	0724	201	120	40	0	2674	195	118	38	0
5	A	A	780	0	0	0	0	697	0	0	0	0
6	A	A	140	24	8	0	0	340	20	6	0	0
7	A	A	700	32	20	6	3	685	29	20	5	3
8	A	A	528	139	45	0	0	538	189	45	0	0
9	A	A	612	88	72	0	0	565	68	40	0	0
10	A	A	2026	159	53	0	0	1069	147	53	0	0
11	A	A	3062	396	268	40	25	2473	346	234	33	18
12	A	A	1081	0	0	0	0	930	0	0	0	0
13	A	A	1357	90	35	0	0	1267	87	32	0	0
14	A	A	888	0	4	0	0	878	0	4	0	0
15	A	A	840	0	0	0	0	678	0	0	0	0
16	A	A	2004	8	4	2	0	1944	8	4	2	0
17	A	A	3650	0	120	0	0	0	0	105	0	0
18	A	A	972	32	0	0	0	930	26	0	0	0
19	A	A	5	0	0	0	0	0	0	0	0	0
20	A	A	660	0	20	0	0	649	0	17	0	0
21	A	A	600	80	40	10	0	446	9	11	2	0
22	A	A	1800	0	38	0	0	1562	0	32	0	0
23	A	A	1010	144	60	0	0	537	72	35	0	0
24	A	A	1416	104	52	0	16	1413	102	52	0	1
25	A	A	1260	40	40	0	0	0	0	0	0	0
26	A	A	902	120	24	4	2	642	114	24	3	2
27	A	A	990	16	20	0	0	674	11	7	0	0
28	A	A	972	144	60	2	0	909	117	31	0	0
29	A	A	420	16	8	2	1	231	9	6	2	0

RESPONSE:

- a. Confirmed in that no boxes are shown for observations 2 and 19 in the PO Box Survey. In some cases, however, the DSF may show boxes for facilities when the PO Box Survey shows none (and vice versa). In Attachment 2, observation 2 shows 0 boxes and observation 19 shows 1,125 boxes, according to the DSF.
- b. [i] Confirmed.
- [ii] There is no reason to exclude them; they are valid postal rental rates in an area or district, regardless of the use to which the particular postal facility is put. When combined with other rates at other rented facilities, they provide a measure (or index) of average postal rental costs throughout a group.
- [iii] Not applicable.
- c. This information is available in the merged file, BOXRENT, contained in USPS LR-H-222. See response to OCA/USPS-T24-43.

OCA/USPS-T24-43. Please refer to the RENT.DATA and BOXES.DATA files included in LR-H-216. Please provide a merged file that provides CAG, Group, rental costs, square feet, boxes installed (by box size), and boxes rented (by box size) for the facilities that are represented in both the LR-H-216 files.

RESPONSE:

The merged file requested, BOXRENT, is provided in USPS LR-H-222.

OCA/USPS-T24-44. Please refer to your response to OCA/USPS-T24-5b. In that response you state, "It is often the case that the large facilities are built in industrial areas and have few, if any, boxes. On the other hand, many smaller facilities, such as nondelivery offices, have nothing but boxes."

- a. Would an equivalent assertion be that the proportion of square footage devoted to boxes is inversely related to the facility's square footage? Please explain.
- b. Have you tested whether the proportion of square footage devoted to boxes is inversely related to the facility's square footage? If so, what are the results? If not, why not?
- c. [i] Could the inverse relationship stated in part a of this interrogatory be tested using the RENT.DATA and the BOXES.DATA of library reference H-216? [ii] Could the inverse relationship stated in part a of this interrogatory be tested using the "Facility Cost Development Update" (LR-G-120, R94-1)? [iii] If not, what additional data would be required to test whether the proportion of square footage devoted to boxes is inversely related to the facility's square footage? [iv] Please provide in electronic form any available data that could be used to estimate the inverse relationship.
- d. Are you suggesting that smaller offices should receive a larger allocation of space costs than they would when calculating average cost per square foot as the ratio of total group rental cost to total group square feet? If so, why? If not, please elaborate on your point.
- e. Are you suggesting that your method of calculating average cost per square foot as an average of averages does, in fact, result in a larger allocation of space costs to smaller offices (e.g., nondelivery offices) than would result from calculating average cost per square foot as the ratio of total group rental cost to total group square feet? If not, please elaborate on your point.
- f. Please refer to the attachment to this interrogatory. The columns labeled "rcsf-key" and "totrsf-key" display the relative allocation of space cost to fee group using your average of averages technique and a simple ratio of rent to total square footage, respectively. [i] Please confirm that your technique allocates *more* space cost to fee groups A and C and *less* space cost to fee groups B, D, and E. [ii] If you confirm, please comment on the desirability and consistency of such a result. [iii] If you do not confirm, please provide a corrected table of relative allocations of space cost, showing the source and derivation of all numbers.

Response of Witness Lion to Interrogatories of the OCA, Questions 41-47, Docket No. R97-1

Attachment to OCA/USPS-T24-44

OBS	GROUP	_TYPE_	_FREQ_	RCSF	RA	SF	TOTRSF	RATIO
3	A	1	30	23.4905	6761242	805952	8.3891	2.8001216
4	B	1	153	16.7431	12496169	898149	13.9132	1.2033968
5	C	1	6050	7.7267	211145264	37725109	5.5969	1.3805321
6	D	1	14171	5.9971	133551070	21498175	6.2122	0.9653746
7	E	1	4170	7.1936	26062082	3642977	7.1541	1.0055213

	rscf-wt	totrst-wt
A	18932215	6761211.9
B	15037799	12496127
C	291490600	211143663
D	128926705	133550963
E	26206119	26062222
Totals	480593438	390014186

	rscf-ky	totrstf-key	ratio
A	0.0393934	0.0173358	2.2723721
B	0.0312901	0.0320402	0.9765881
C	0.6065222	0.5413743	1.120338
D	0.2682656	0.3424259	0.7834268
E	0.0545287	0.0668238	0.8160069

RESPONSE:

- a. No. My statement means that the number of post office boxes in a facility is not necessarily related to the size of the facility. This is why each facility should be weighted equally. Otherwise, as explained in the response to OCA/USPS-T24-5b, a few large facilities may dominate the result.
- b. No. I do not see how such a study would have any bearing on the analysis presented in my testimony. The overall size of the facility is relevant only insofar as it provides the divisor to determine the rental rate for that facility.
- c. [i] No, not without further assumptions on how to measure the floor space "devoted" to boxes.
- [ii] This would depend on the assumptions made.
- [iii] One could test the relationship between number of boxes and facility size. By assuming fixed percentages for lobby space and working space, as well as standard size boxes, one could estimate the relationship, if any, between "proportion of square footage devoted to boxes" and "[a] facility's square footage."
- [iv] Data on box counts, box lobby space, box working space, and building interior floor space are included in USPS LR-H-222. These data are from the PO Box Survey.
- d. No. There is no attempt to allocate costs to individual offices. We need only determine the relative costs of different fee groups in order to allocate costs among them. The point is that a few large facilities should not be allowed to dominate the resulting average of postal rental rates.

- e. No. There is no attempt to allocate costs to specific offices. The question mischaracterizes the method used. It is not an "average of averages," but an average of data points. Specifically, it is the average of postal rental rates throughout the fee group in question.
- f. [i] Unable to confirm. In the question, it is unclear what the terms "more" and "less" refer to. It is also unclear whether "space cost" includes space support costs in addition to space provision costs, which are otherwise the subject of this interrogatory. Assuming that the comparison requested is between columns "rcsf-ky" [sic] and "totrsf-key" in the last set of columns: the numbers in these columns are derived by multiplying the average rents for each fee group by the total square feet for that fee group. The product does not yield "space costs" or even space provision costs. Not all facilities are rented. Space provision costs include depreciation and interest on postal-owned facilities.
- [ii] Not applicable. See [i].
- [iii] Space provision costs by fee group are given in Table 12 of my testimony, as revised August 14, 1997, and are reprinted in the table on the next page.

Space Provision Costs by Fee Group

<u>Fee Group</u>	<u>Dollars in Thousands</u>
A	\$ 2,992
B	\$ 5,497
C	\$135,363
D	\$ 66,979
<u>E</u>	<u>\$ 12,394</u>
Total	\$223,226

Intuitively, we expect the average rental rate to be higher in Fee Group A (which consists of Manhattan, which has the highest retail rental costs in the nation) than in Group B (which consists of 8 other large metropolitan areas). We also intuitively expect average rental rate to be higher in Group C than in Group D. Both expectations are confirmed with the method in my testimony. Neither is confirmed using total dollars divided by total square feet as the measure of rent.

OCA/USPS-T24-45. Please refer to your response to OCA/USPS-T24-5. The following table summarizes information for the first 5 group A records on the RENT.DATA file of H-216. RCSF denotes the rental cost per square foot from the file, RA denotes rent amount, and SF denotes square footage. Totals for these variables and the average for RCSF have also been included. The column labeled comp1RA is a computed rent amount determined by multiplying SF by the average of the facility rental cost per square foot values.

OBS	GROUP	CAG	RCSF	RA	SF	comp1RA	comp2RA
				a	b	c=b*e	d=b*f
1	A	A	20.3022	395000	19456	447041	271487.2
2	A	A	0.002		508	11672	7088.584
3	A	A	55.3502	182379	3295	75709	45978.12
4	A	A	29.7628	41400	1391	31961	19409.88
5	A	A	9.4678	580000	61260	1407571	854816.2
total			114.885	1198780	85910	1973954	1198780
average (e)			22.977				
ratio of totalRA to totalSF (f)				13.95391			
relative difference from actual						65%	0%

- Please confirm that the average of RCSF values (AvRCSF=22.977) applied to facility square footage figures generally will not produce the known total rent amounts.
- Please confirm that the total computed RA values overstate total known RA by about 65 percent for the first five group A facilities.
- Please refer to the column labeled comp2RA. Please confirm that if (total rent amount)/(total square footage) is used as the measure of overall cost per square foot, then there is no deviation from the total of known RA values for the first five group A facilities.
- Please confirm that the "constant of proportionality (c)" discussed at page 22 of your testimony includes any adjustments necessary to account for the fact that the average of facility rental costs per square foot is not compatible with the total rent amount for the facilities. If you do not confirm, please provide citations to where any such adjustments may be found.

RESPONSE:

- Confirmed. The average of RCSF values applied to facility square footage will generally not produce the same result as the "total known rent." However, the latter is only a portion of attributed space provision costs, which also include depreciation

and facility-related interest. Thus, "total rent" is a partial cost and, as such, has no particular role in the allocation procedure.

b-c. Confirmed. This exercise is a correct manipulation of numbers, but has no bearing on the allocation of space provision costs, for the reason cited in the response to part a.

d. Unable to confirm. "c" is a constant of proportionality used to satisfy the constraint that the space provision costs for all fee groups and box sizes must sum to the total calculated by the cost attribution method of witness Patelunas (\$223.226 million).

This is a standard mathematical technique. Starting with Docket No. R90-1, space provision costs have been assumed to be directly proportional to rental costs and to box capacity. This proportionality is expressed mathematically in Equation (1), page 22, of my testimony. The constant "c" is then determined so as to satisfy the constraint.

The "total rent" referred to has nothing to do with this process. The \$223 million includes not only rent but depreciation and interest on postal-owned facilities. This number is a given for purposes of this analysis, and we then allocate this total equitably among the different fee groups and box sizes. There is no need in this analysis to estimate a "total rent" that is only part of the space provision costs.

OCA/USPS-T24-46. Please refer to your testimony at page 17, Table 9B., and the column "New Fee." Please confirm that the "New Fee" for box size 5 in Fee Group A should be \$550. If you do not confirm, please explain.

RESPONSE:

Confirmed. An erratum to this effect will be filed.

OCA/USPS-T24-47. Please refer to page 22 of your testimony, lines 1-16.

- a. Please confirm that the units for AC_k are dollars. If you do not confirm, please state the correct units and explain why they are not dollars.
- b. Please confirm that the units for R_j are dollars-ft². If you do not confirm, please state the correct units and explain why they are not dollars per square foot.
- c. Please confirm that the units for EC_k are size-1 boxes. If you do not confirm, please state the correct units and explain how they are determined.
- d. Please confirm that the units for Q are size-1-box-dollars-ft². If you do not confirm, please state the correct units and explain why they are not size-1-box-dollars per square foot.
- e. Please confirm that the units for c (in either equation 1 or 2) are square feet per size-one box (or square feet per "basic unit of capacity"), not dollars. If you do not confirm, please state the correct units and explain how they are determined.
- f. Let B equal the square feet occupied by a "basic unit of capacity," i.e., a size-1 box. [i] Please confirm that the units for B are square feet per size-1 box and that [ii] B is a known value that does not vary across fee groups. [iii] If you confirm, please provide the value of B . [iv] If you do not confirm, please explain.
- g. Please refer to page 9 of LR-F-183, Docket No. R90-1. Please confirm that a standard box section contains one size-5 box and that the floor space occupied by a standard box section equals the floor space occupied by a size-5 box. If you do not confirm, please explain.
- h. Please confirm that a standard box section contains the equivalent of 5 size-5 boxes or 10 size-4 boxes or 20 size-3 boxes or 30 size-2 boxes or 60 size-1 boxes. If you do not confirm please explain.
- i. Please confirm that the square feet occupied solely by box sections (excluding lobby space in front of boxes) in Group j equals $E_j B/5$, where division by 5 accounts for stacking box modules five high. If you do not confirm, please provide the correct expression for the square feet occupied solely by box sections (excluding lobby space in front of boxes) in Group j .
- j. [i] Please confirm that you would estimate the cost of space occupied solely by box sections (excluding lobby space in front of boxes) in Group A as $R_A E_A B/5 = \$2,084,221 B/5$, where $R_A = \$23.49$ and $E_A = 88,728$. [ii] If you do not confirm, please explain how to interpret the figure \$2,084,221, which is one of the five terms summed to get your value of Q .
- k. [i] Please confirm that the cost of space occupied solely by box sections (excluding lobby space in front of boxes) in all fee Groups equals $(B/5)(R_A E_A + R_E E_E) = QB/5 = \$155,481,018 B/5$. [ii] If you do not confirm, please provide the correct value and explain how to interpret the value of Q .
- l. Please confirm that the units for $QB/5$ are dollars. If you do not confirm, please state the correct units and show their derivation.
- m. Let d equal $\$223,226,000/QB/5 = \$223,226,000/\$155,481,081 B/5 = 7.18/B$. [i] Please confirm that d has no units associated with it. [ii] Please confirm that d is the ratio of total space devoted to box sections (including lobby space) to space occupied solely by boxes (excluding lobby space). [iii] Please confirm that

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- your constant $c = dB/5$. If you do not confirm, please explain how to interpret your constant c .
- n. Please confirm that use of the "TOTRSF" average cost per square foot figures from interrogatory OCA/USPS-T24-44 in the calculation of Q yields a value for c of 1.73 square feet per size-1 box and a value for d of $8.63/B$. If you do not confirm, please explain.
 - o. [i] Please confirm that the square feet occupied by a size-1 box is indeed a constant and should not vary with the estimated rental cost per square foot at various fee groups. [ii] If you do not confirm, please explain.
 - p. [i] Please confirm that there is only one correct value for d , the ratio of box space (including lobby space) to box space (excluding lobby space) at a given point in time. [ii] Please confirm that the correct value for d can only be derived from total rent, E_j , and R_j when the values for R_j are calculated as the simple ratio of total group space cost divided by total group square feet. [iii] If you do not confirm, please provide the actual value of d and [iv] show that your set of group rents per square foot will generate d .
 - q. Please confirm that your constant c accomplishes at least four separate adjustments: (1) expanding square feet occupied solely by boxes to total square feet devoted to boxes, (2) accounting for the fact that box modules are stacked five high, (3) accounting for the space occupied by a single size-one box, and (4) deflating for the overstatement of total rent resulting from using the average of averages method of estimating rent per square foot by fee group. If you do not confirm, please provide a detailed explanation and justification for your use of a "constant of proportionality (c)" at page 22 of your testimony.

RESPONSE:

The thrust of this question seems to misunderstand the allocation process. The question attempts to build "actual" rental costs from the bottom up, whereas the allocation procedure is a top-down distribution of a fixed total. Some of the concepts introduced are correct in a narrow and technical sense. However, midway through they become an empty mathematical formalism, because the terms defined are devoid of real meaning.

- a. Confirmed.
- b. Confirmed.

- c. Confirmed.
- d. Confirmed.
- e. Confirmed. An erratum was filed on August 14, 1997 to correct this. This change has no effect on the results or conclusions.
- f. [i] Confirmed.
- [ii] Not confirmed. Not all boxes are standard size. The average may well vary across fee groups.
- [iii] Not applicable.
- [iv] The Domestic Mail Manual describes the capacity of post office boxes in terms of cubic inches (DMM § D910.4.2). These values are shown in the column 2 of the table below. Column 3 shows the standard frontal dimensions in square inches.
- (Source: USPS LR-F-183, pages 8-9). As shown in the right column, the depth of the standard box varies over a range.

<u>Box Size</u>	<u>Capacity (cu. in.)</u>	<u>Frontal Area (sq. in.)</u>	<u>Depth (in.)</u>
[1]	[2]	[3]	[4] = [2] / [3]
1	< 296	24	< 12.3
2	296 - 499	36	8.2 - 13.9
3	500 - 999	72	6.9 - 13.9
4	1,000 - 1,999	144	6.9 - 13.9
5	> 2,000	288	> 6.9

If the depth is 12 inches, as stated in USPS LR-F-183 (page 8), a standard box section, which contains 60 size-1 boxes, would have a "footprint" of 288 square

inches. Under this assumption, the space that would be allocated to a size-1 box is 4.8 square inches

- g. Confirmed.
- h. Confirmed, except that a standard box section contains 40, not 30, size-2 boxes.
- i. Confirmed, assuming B represents the appropriate exterior dimension of a size-1 box. This would equal 1/60 of the average footprint of a box section.
- j. [i] Not confirmed.

[ii] The figure "\$2,084,221" that is cited (as well as "Q"), are intermediate quantities in the calculation. They would have meaning only when divided by an appropriate total to produce a ratio or percentage.

Total space provision cost for Fee Group A cannot be determined by multiplying " $E_A B/5$ " by " R_A " because not all facilities are rented. The only use for the " R_k " is to estimate the relative rental costs among groups. It would be reasonable, however, to consider that the expression " $R_A E_A B/5$ " represents the space provision costs for Fee Group A relative to other fee groups. For all fee groups, this is expressed mathematically as:

$$AC_k = d (R_k) (E_k) (B/5)$$

where the subscript refers to fee group k and d is a constant used to satisfy the constraint that the space provision costs for all fee groups and box sizes must sum to \$223.226 million. That, of course, is equivalent to the method we used, and the relationship between the two constants of proportionality is:

$$d = c / (B/5)$$

In this case, d is a pure number (no units) and is the same number defined in part m below.

k. [i] Not confirmed. See part j.

[ii] The correct value of Q is 155,580,997. (See Table 12, USPS-T-24, as revised August 14.) However, it is not the "cost of space" as asserted in subpart [i]. As explained in part j, it is an intermediate step in the calculation.

l. Confirmed.

m. [i] Confirmed.

[ii] Not confirmed. "d" is properly defined as a constant of proportionality, used to satisfy the total cost constraint.

[iii] Confirmed. See part j.

n. Confirmed.

o. [i] Not confirmed. While a standard box size has fixed dimensions, not all boxes are standard.

[ii] See part f [iv].

p. [i] Not confirmed. The question contains a premise that is not true, i.e., that "d" is "the ratio of box space (including lobby space) to box space (excluding lobby space)."

[ii] The "correct value for d" is the value that makes the sum of all space provision costs equal \$223.226 million. It does involve the E_j and R_j as shown in the response to part j. The "total rent" has no role in this analysis as explained in the response to

OCA/USPS-T24-45a. The calculation can be done using either the average of postal rental costs, as in my testimony, or the ratio of total rent dollars to total square feet, as suggested by the OCA. The former method is superior, as indicated in the response to OCA/USPS-T24-44f.

[iv] See response to part j.

q. Not confirmed. "c" is a single constant that is used to satisfy but one constraint. The correct interpretation of "c" is given in the response to USPS/OCA-T24-45d.

The line of reasoning pursued in this interrogatory becomes a mathematical formalism about halfway through. In particular, it loses meaning at part j, when the average rent (which applies to a subset of facilities) is multiplied by the equivalent capacity (of all facilities), and the result interpreted as the "cost of space." (This statement is true whether the average rent is calculated as the average of postal rental rates, as in my testimony, or as the ratio of total rent dollars to total facility square feet as suggested by the OCA.)

This contrasts with the allocation method used in my testimony. We use the average rent and the equivalent capacity only to determine the relative amounts (percentages) to be allocated to different box sizes and fee groups. There are three conditions satisfied by the approach used:

(1) Space provision costs are proportional to average rent.

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- (2) Space provision costs are proportional to equivalent capacity.
- (3) Total space provision costs are equal to a specified total.

The assumptions and methodology used in my testimony have been applied since Docket No. R90-1. They result in a fair and equitable allocation of space provision costs.

OCA/USPS T-24-59. Please refer to your response to OCA/USPS-T24-21, Table 13 of your testimony, and to LR-H-216.

- a. Please provide post office box [S]pace [S]upport, [S]pace [P]rovision and [A]ll [O]ther costs by CAG.
- b. Please confirm that file RENT.DATA of H-216 contains neither post office box space support costs nor all other attributable costs for post office boxes by CAG. If you do not confirm, please list the variables that provide these costs on the file RENT.DATA.
- c. Please confirm that file BOXES.DATA of H-216 contains neither post office box space support costs nor all other attributable costs for post office boxes by CAG. If you do not confirm, please list the variables that provide these costs on the file RENT.DATA.
- d. Your response to OCA/USPS-T24-21a states that the Table 13 attributable costs by CAG can be developed from the data in library reference H-216.
 - i. Please explain how to develop the FY98 TYBR space support costs for post office boxes by CAG from the data contained in library reference H-216. If these costs cannot be produced from data in library reference H-216, please provide all necessary data to produce these cost estimates. Please include an explanation of how to use any data provided to produce these cost estimates.
 - ii. Please explain how to develop the FY98 TYBR space provision costs for post office boxes by CAG from the data contained in library reference H-216. If these costs cannot be produced from data in library reference H-216, please provide all necessary data to produce these cost estimates. Please include an explanation of how to use any data provided to produce these cost estimates.
 - iii. Please provide the attributable costs by Cost Segment that would be included in the cost category of "All Other" costs for the FY98 TYBR. Please explain how the attributable costs by Cost Segment in the "All Other" cost category can be developed for post office boxes by CAG from the H-216 data. If these costs cannot be produced from data in library reference H-216, please provide all necessary data to produce these cost estimates. Please include an explanation of how to use any data provided to produce these cost estimates.

RESPONSE:

(a) As stated in the Response to OCA/USPS-T-24-21, the data to perform this calculation are available in USPS LR-H-216. See detailed instructions in part d.

(b) Confirmed. It also does not contain Space Provision costs.

(c) Confirmed. It also does not contain Space Provision costs.

(d) An estimate of post office box costs by any set of subgroups requires first an estimation of the TYBR number of boxes in those subgroups (by box size). The starting point for any such estimate is the number of boxes in use, by box size and by 5-digit ZIP Code, in the PO Box survey (the most recent source of such data). To estimate the TYBR boxes, four sets of assumptions, or factors to be estimated, are required:

- (1) Expansion factors, to account for the fact that the PO Box Survey covered only about 72% of boxes (according to the DSF).
- (2) Allocation factors, to estimate the number of "free" boxes (Group E) in each subgroup.
- (3) Elasticities, to estimate the effects of the rate increases in Docket No. MC96-3.
- (4) Growth factor, to estimate the growth in numbers of boxes from 1997 to the test year.

The file BOX.DATA in LR-H-216 contains data on CAG, Delivery Group, and boxes in use by box size.

Step 1 As an expansion factor, one could use the overall factor (1.38), as we did in Docket No. MC96-3. Or, one could use subgroup expansion factors as we did for delivery groups in this proceeding. See Table 3 of USPS-T-24.

To translate these factors into equivalent factors by CAG, Table A below could be constructed for each CAG:

TABLE A

Delivery Group	Survey Boxes for CAG X	Expansion Factor	Pre 96-3 Boxes for CAG X
	[1]	[2]	[3]
City-A	from BOX.DATA	2.69	[1] X [2]
City-B	"	2.45	"
City-Other	"	1.50	"
Non-city	"	1.26	"
Nondelivery	"	1.20	"
Total			

The ratio of Total Pre 96-3 Boxes to Total PO Box Survey Boxes gives the expansion factor for CAG X. This must be done for each CAG.

Step 2 Estimates of the number of "free" boxes (Group E) in each CAG could be done in much the same way. The percentages of Group E boxes in each delivery group are shown in Table B below (See Table 5, USPS-T-24).

TABLE B

Delivery Group	Group E Percentage
City-A	0 %
City-B	0 %
City-Other	1 %
Non-city	7.3 % = $(.94)(2) + (.06)(90)$
Nondelivery	30 %

The numbers of Group E boxes for each CAG could then be estimated using Table C below.

TABLE C

Delivery Group	Pre 96-3 Boxes for CAG X	Pct Group E	Free Boxes
	[1]	[2]	[3]
City-A	Table A	0 %	$[1] \times [2] / 100$
City-B	"	0 %	"
City-Other	"	1 %	"
Non-city	"	7.3 %	"
Nondelivery	"	30 %	"

Subtracting Group E boxes from the total for the corresponding delivery group gives the total number of boxes in each fee group for CAG X. The total of the numbers in last column, of course, gives the Group E total for CAG X. This must be done for each CAG.

Step 3 This step depends upon how fees are to be applied. If new fees are to be applied by CAG group, one must estimate the elasticities. If new fees are to be applied by fee groups as specified in the DMM, then tables similar to Table D below could be constructed for each CAG:

TABLE D

Delivery Group	Pre 96-3 Boxes for CAG X	Elasticity	Post 96-3 Boxes for CAG X
City-A	Table C less Group E	-.527	Equation (1) below
City-B	"	-.516	"
City-Other	"	-.546	"
Non-city	"	-.056	"
Nondelivery	"	N.A.	"

Note: The elasticities shown are weighted averages by box size.

The Post 96-3 Boxes for each group are calculated from the following formula:

$$\text{Post 96-3 Boxes} = \text{Pre 96-3 Boxes} (1 + e \, dp/p) \quad (1)$$

where e = elasticity and dp/p = percentage fee increase.

Step 4 Finally, a growth factor must be assumed to account for general economic growth from 1997 to the Test Year. We use 1.9% for this value. See my response to OCA/USPS-T24-22.

Steps 2 and 3 must be carried out for each CAG (12), each delivery group (5) and each box size, for a total of 300 (=12(5)(5)) categories.

Given the numbers of boxes by subgroup (CAG) and box size, calculations to determine the unit costs for each of the three groups of costs (Space Provision, Space Support, and All Other) are straightforward.

[i] For each CAG, the total space support costs are multiplied by the percentage of "equivalent capacity" for that CAG. Equivalent capacity is defined as:

$$EC = N_1 + N_2 (1.5) + N_3 (3) + N_4 (6) + N_5 (12)$$

where N_k = number of boxes of size k .

These calculations, for fee groups, are carried out in Table 11 of USPS-T-24, and in Workbook "Cost 98" in LR-H-188.

[ii] For each CAG and box size, total space provision costs are multiplied by the percentage of the quantity

$$R_k E_{kj}$$

where R_k = the average rental costs for CAG k. and E_{kj} = the equivalent capacity for CAG k and box size j. These rental costs are contained in the file RENT.DATA in LR-H-216.

These calculations, for fee groups, are carried out in Table 12 of USPS-T-24, and in Workbook "Cost 98" in LR-H-188.

[iii] The cost segments included in attributable All Other Costs are listed, with appropriate references, in witness Patelunas' response to OCA/USPS-T24-25. Only the total is needed in this exercise.

All Other Costs in each CAG can be estimated by multiplying total All Other Costs by the percentage of boxes in that CAG. These calculations, for fee groups, are carried out in Table 10 of USPS-T-24, and in the Workbook "Cost 98" in LR-H-188.

OCA/USPS-T24-60. Please refer to your testimony at page 20, lines 5-7, concerning the total cost for each of the three cost categories of Space Support, Space Provision and All Other.

- a. Please confirm that you assumed there would be no change in total Space Support and total Space Provision costs in the test year associated with the decrease in the total number of post office boxes. If you do not confirm, please explain.
- b. Please confirm that only the total of All Other costs will vary with the decrease in the number of post office boxes in the test year. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. I made no assumptions as to TYAR costs.
- b. Redirected to witness Patelunas.

OCA/USPS-T24-61. Please refer to your testimony at pages 26 and 27, Tables 12 and 13, as revised August 11, 1997. Please provide electronic files of the spreadsheets underlying Tables 12 and 13, as revised.

RESPONSE:

Diskettes incorporating the change are being filed as a supplement to LR-H-188.

The change required is in a single cell of Workbook "Cost98.XLS," Sheet "Space Provision." Cell J2 now reads

$$=1000*I34 / (H9*F9+H15*F15+H21*F21+H27*F27)$$

It should read

$$=1000*I34 / (H9*F9+H15*F15+H21*F21+H27*F27+H33*F33)$$

The first expression spreads space provision costs only over Fee Groups A, B, C, and D. The correction spreads space provision costs over Fee Groups A, B, C, D, and E.

OCA/USPS-T24-62. Please refer to your response to OCA/USPS-T24-10.

- a. Please confirm that the total number of boxes installed (e.g., 14,290,298) is the same in Docket No R97-1 as in Docket No. MC96-3. If you do not confirm, please explain.
- b. For purposes of your testimony in Docket No. R97-1, please confirm that you could have defined delivery groups in terms of 5-digit ZIP Codes. If you do not confirm, please explain.
- c. Please explain the advantages and disadvantages of defining delivery groups in terms of finance number instead of in terms of 5-digit ZIP Codes.
- d. Table X in OCA/USPS-T24-10 shows the "Change in the Number of Post Office Boxes Installed by Box Size and Delivery Group." Are delivery groups defined in terms of finance number "more correct" than delivery groups defined in terms of 5-digit ZIP Codes? Please explain your answer in full.
- e. Please refer to Table X. Please confirm that more post office box customers are paying Group B fees because delivery groups are defined in terms of finance number. If you do not confirm, please explain your answer in full.
- f. Please refer to Table X. Please confirm that more post office box customers are paying Group C fees because delivery groups are defined in terms of finance number. If you do not confirm, please explain your answer in full.
- g. Do costs change for post office boxes because delivery groups are defined in terms of finance number? Please explain you answer in full.

RESPONSE:

Since Docket No. R90-1, the Postal Service has applied post office box fees to groups consisting in part of post offices that are themselves defined by finance numbers. See, e.g., Docket No. MC96-3, Reply Brief of United States Postal Service at 65, note 48 (the term "post office" corresponds to "finance number"); and at 30 (sampling unit of "finance number" is generally referred to as "office"). This is true of new delivery groups City-other and Non-city, as it was of former delivery groups I-C and II. Due to a misunderstanding of the old version of the DMM and the fact that former delivery groups I-A and I-B are defined in terms of

specific ZIP Codes (as are new Delivery Groups City-A and City-B), we used 5-digit ZIP Codes as the basic unit of analysis in Docket No. MC96-3. The DMM (§ D910) was revised as of July 1, 1997 to make the fee group definitions more explicit and, accordingly, we used these definitions (which correspond to finance numbers) in the analysis for Docket No. R97-1.

Accordingly, the premise behind this interrogatory -- that the definition of fee groups changed thus increasing the number of customers paying Group B fees -- is incorrect. No actual customers experienced such increases, but the estimates of customers in the respective groups did change. This constitutes an improvement of (or correction to) our previous analysis. Any "movement" of post office box customers from one group to another is only an improved estimate of the correct numbers.

- a. Confirmed. This is the total number of boxes installed from the PO Box Survey. It includes no boxes from former Delivery Group III, which was not included in the survey.
- b. Not confirmed. The application of Fee Groups A and B (which apply to Delivery Groups A and B and to former Delivery Groups I-A and I-B) is defined in terms of specific 5-digit ZIP Codes in the Domestic Mail Manual. The application of Fee Groups C and D is defined in the Domestic Mail Manual (DMM § D910, July 1, 1997) in terms that correspond to finance numbers.

- c. The advantage of defining delivery groups as we did is that the definition complies with the definitions in the Domestic Mail Manual.
- d. Yes (for Delivery Groups C and D), in the sense that they accurately reflect the definitions in the Domestic Mail Manual.
- e. Not confirmed. As stated above, no post office box customers are paying different fees "because delivery groups are defined in terms of finance number."

In any case, the numbers of post office box customers cannot be determined from Table X because it is the difference between two tables that show boxes installed, as opposed to boxes in use.

Finally, as explained in the response to OCA/USPS-T24-10b, the definition of Delivery Group B is the same as the definition of the former Delivery Group I-B. The difference shown in Table X is due to the correction of coding errors in Docket No. MC96-3 (See response to OCA/USPS-T24-10b). Thus, the number of post office box customers would be the same (at the same point in time).

- f. Not confirmed. As stated above, no post office box customers are paying different fees "because delivery groups are defined in terms of finance number."

In any case, the numbers of post office box customers cannot be determined from Table X because it is the difference between two tables that show boxes installed, as opposed to boxes in use.

- g. The total attributable costs do not change. The allocation of those costs to different fee groups may change, because the numbers of boxes (in some groups) change.

OCA/USPS-T24-63. Please refer to Table X in OCA/USPS-T24-10, and your response to that interrogatory.

- a. Please confirm that column [2] shows the net increase in the number of post office boxes in Group B paying higher fees. If you do not confirm, please explain.
- b. Please confirm that column [3] shows the net increase in the number of post office boxes in Group C paying higher fees. If you do not confirm, please explain.
- c. Please provide a list of 5-digit ZIP Codes where post office boxes changed from one fee group to another.
- d. Please complete the table below so as to show box movement from delivery groups defined in terms of 5-digit ZIP Code to delivery groups defined in terms of finance numbers. [Example: an entry of 5 in row 3, column 1 means that 5 boxes moved from group "1-A" to group "City-other."]

DELIVERY GROUPS

Finance Number	ZIP Code				
	I-A	I-B	I-C	II	III
City-A					
City-B					
City-other					
Noncity					
Nondelivery					

RESPONSE:

- a. Not confirmed. Table X is constructed as the difference between boxes installed, not boxes in use.
- b. Not confirmed. Table X is constructed as the difference between boxes installed, not boxes in use.

- c. Groups I-A, I-B, I-C, II and III have been replaced by Fee Groups A through E, so all ZIP Codes have "changed from one fee group to another." As stated in the response to OCA/USPS-T24-62, no post office box customers are paying different fees than previously because of the analytical change.
- d. The term "movement" in this question should be understood to mean the boxes that were reclassified from one group to another for purposes of analysis. No post office box customer pays a different fee as a result of the definitional changes in the analysis.

New Delivery Groups City-A and City-B are defined the same as former Delivery Groups I-A and I-B. The definition of the other delivery groups in terms of finance numbers means that some box customers are reclassified from former Group II to new Group City-other, but none will be reclassified from former Group I-C to new Groups Non-city or Nondelivery. Therefore, the table can be filled by requiring that row totals and column totals in the matrix below match their known values from Table 3, USPS-T-4, Docket No. MC96-3 and Table 1, USPS-T-24, Docket No. R97-1. Group III is omitted, because it was not included in the PO Box Survey.

Boxes Installed					
New Delivery Groups	Former Delivery Groups				
	I-A	I-B	I-C	II	Total
City-A	38,353				38,353
City-B		82,404			82,404
City-other			6,940,147	233,324	7,173,471
Non-city				5,561,064	5,561,064
Nondelivery				1,434,506	1,434,506
Total	38,353	82,404	6,940,147	7,228,894	14,290,298

Note: 4,113 boxes are shifted from former Group I-C to former Group I-B, as explained in the response to OCA/USPS-T24-10b.

An analogous table can be constructed for boxes in use from Table 4, USPS-T-4, Docket No. MC96-3 and Table 2, USPS-T-24, Docket No. R97-1.

Boxes In Use					
New Delivery Groups	Former Delivery Groups				
	I-A	I-B	I-C	II	Total
City-A	29,040				29,040
City-B		67,456			67,456
City-other			5,425,882	183,287	5,609,169
Non-city				4,480,578	4,480,578
Nondelivery				1,133,693	1,133,693
Total	29,040	67,456	5,425,882	5,797,558	11,319,936

Note: 3,860 boxes are shifted from former Group I-C to former Group I-B, in conformance with the shift explained in the response to OCA/USPS-T24-10b.

OCA/USPS-T24-64. Please refer to Table X in OCA/USPS-T24-10, and your response to that interrogatory. Please confirm that defining delivery groups in terms of finance number as opposed to 5-digit ZIP Code results in more post office boxes experiencing fee increases than intended by the Commission in its opinion and recommended decision in Docket No. MC96-3. If you do not confirm, please explain your answer in full.

RESPONSE:

Unable to confirm. I am unable to comment on the results "intended by the Commission", beyond what is explicitly stated in PRC Op. Docket No. MC96-3. However, as stated in the response to OCA/USPA-T24-62, no post office box customer pays a different fee as a result of the definitional changes in the analysis.

OCA/USPS-T24-65. Please refer to your responses to OCA/USPS-T24-42, -44, and -47.

- a. In your response to part f of interrogatory 44, you appear to justify the equal weighting of rental rates at different-size facilities on the ground that the result conforms to "intuitive" preconceptions regarding relative *nonpostal* retail rental rates across geographic areas associated with fee groups. Is this a correct interpretation of your response? If not, why not?
- b. Are you recommending that space provision costs be allocated on a basis that differs from the actual incurrence of costs by the Postal Service? If not, what is the relevance of *nonpostal* retail rental rates to the choice of distribution key?
- c. In your response to part b of interrogatory 42 you appear to justify the inclusion of rental rates from facilities with no post office boxes on the ground that "they are valid *postal* rental rates" (Emphasis added.) Have you examined whether postal rental rates differ systematically between facilities with and without post office boxes? If so, what was the result of your examination? If not, what is the basis for your statement?
- d. Please confirm that if postal rental rates do not differ systematically between facilities with and without post office boxes, then it makes no difference whether they are included in the development of a distribution key. If you do not confirm, please explain.
- e. Please confirm that if postal rental rates *do* differ systematically between facilities with and without post office boxes, then inclusion of rental rates from facilities without post office boxes runs the risk of biasing the distribution key. If you do not confirm, please explain.
- f. Please confirm that inclusion of rental rates from facilities that do not have post office boxes means that your distribution key allocates space provision costs to fee groups and box sizes on a basis other than actual incurrence of costs by the Postal Service. If you do not confirm, please explain.
- g. In your response to part q of interrogatory 47 you state that your allocation method satisfies three conditions:
 - (1) Space provision costs are proportional to average rent.
 - (2) Space provision costs are proportional to equivalent capacity.
 - (3) Total space provision costs are equal to a specified total.
 Please explain why conditions (1) and (2) are desirable.
- h. Please list all other features of your distribution key that commend it over a key based on actual cost incurrence.
- i. Please confirm that an allocation method using weighted average rent by fee group (where the weights were equivalent capacity by facility) would satisfy all conditions and criteria that you have so far identified as justifying your allocation method using unweighted average rent by fee group. If you do not confirm, please explain. In any event, please provide all reasons you are aware of for favoring an unweighted average rent over a weighted average rent when allocating space provision costs.

RESPONSE:

- a. No. The justification for the equal weighting of rental rates at different facilities is that it provides the best estimate of group-wide rental rates. The interrogatory response you cite (OCA/USPS-T24-44f) simply establishes that the results are confirmed by common sense, which is reassuring. The methodology propounded by the OCA does not generate similarly reassuring results, for the reason stated in part i below.
- b. No. "Nonpostal retail rental rates" were not used in our methodology. However, since postal rents are part of the more general market, postal rents should be correlated generally with market rates.
- c. Yes. Exclusion of rental rates from facilities with zero boxes ^{decreases} increases average rental rates for all fee groups except ^{Groups D and E,} ~~Group A~~. The effect can be seen by comparing Tables I and II in my response to part i below. Percentage differences for key variables are as follows:

<u>Group</u>	<u>Rent</u>	<u>Unit Cost</u>	<u>Coverage</u>
A	- 4.5 %	-2.0 %	+2.0 %
B	- 2.0 %	-0.3 %	-0.3 %
C	- 2.2 %	-0.3 %	0.3 %
D	- 0.0 %	+0.5 %	-0.5 %
E	0.0 %	+0.4 %	0.0 %

d-e. A comparison of Tables I and II in response to Part i, below, shows that postal rental rates do differ systematically between facilities with and without post office

boxes, but that the effects on unit costs and coverages are negligible. For example, for the three largest fee groups (C, D, and E), changes in the unit cost are equal to or less than one half of one percent, ^{as are} and changes in coverage ~~are zero (to two digits)~~.

- f. Not confirmed. The purpose of including all facilities at equal weights in the average was to develop the most accurate measure possible (from postal data) of the average group-wide rental rates. Subsequently in the process, the allocation takes into account the number of boxes and the distribution of box sizes (though the concept of "equivalent capacity"). These three factors —average rent, number of boxes, and distribution of box sizes — then determine the relative costs in each fee group. These relative factors are then applied to "actual incurred" costs.
- g. Space Provision costs increase as average rent increases and as equivalent capacity increases. Thus these assumptions reflect reality.
- h. The question has a false premise, since the "distribution key" is based on actual rental costs (as well as the other factors cited in part f).
- i. Confirmed. A variety of allocation methods conform to the requisite conditions, and their respective effects on average rents, unit costs and coverages are demonstrated in Tables I through V, which follow. Table I shows my method (unweighted rents), based on Tables 12 and 13 from my testimony. Table II shows unweighted rents excluding zero-box facilities. Table III shows rents weighted by number of boxes. Table IV shows rents weighted by equivalent capacity. Table V shows the OCA's suggested method, i.e. group rent = total rent dollars / total area.

Each of the first four methods allocates about 60 percent of Space Provision costs to Group C and about 30 percent to Group D. The last method allocates about 53 percent to Group C and about 37 percent to Group D, in effect shifting 7 percent from city to non-city post office box customers.

The method used to obtain Table V is equivalent to weighting rental rates by interior floor area. Most of this interior area is used for purposes unrelated to post office boxes (e.g., mail processing), and the result therefore distorts the group-average rental costs for post office box space.

The basis for the rental calculations in Tables I-V below are provided in USPS LR-H-254. The other entries in the table can be calculated by entering these rental values in Spreadsheet "Cost98.xls" in USPS LR-H-188.

Response of Witness Lion to Interrogatories of the OCA, Questions 65-67, Docket No. R97-1, revised October 1, 1997.

Response to OCA/USPS-T24-65(i), Table I. Original Method (Unweighted Rents)							
Group	Average Rent	Unit Costs, Group Average			Unit Costs, Size 1 Box		
	(\$ / sq. ft.)	Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$23.49	\$37.44	\$58.66	1.31	\$33.53	\$53.23	1.32
B	\$16.74	\$32.56	\$56.97	1.35	\$23.90	\$43.60	1.38
C	\$ 7.71	\$15.90	\$41.38	1.46	\$11.01	\$30.71	1.47
D	\$ 6.19	\$11.48	\$35.06	0.69	\$ 8.84	\$28.54	0.63
E	\$ 6.70	\$12.46	\$36.11	0.00	\$ 9.56	\$29.27	0.00

Response to OCA/USPS-T24-65(i), Table II. Unweighted Rents, excluding Zero-box Facilities							
Group	Average Rent	Unit Costs, Group Average			Unit Costs, Size 1 Box		
	(\$ / sq. ft.)	Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$22.43	\$36.28	\$57.50	1.34	\$32.49	\$52.19	1.34
B	\$16.40	\$32.36	\$56.78	1.35	\$23.76	\$43.46	1.38
C	\$ 7.54	\$15.78	\$41.26	1.46	\$10.92	\$30.62	1.47
D	\$ 6.19	\$11.65	\$35.23	0.68	\$ 8.97	\$28.67	0.63
E	\$ 6.70	\$12.63	\$36.27	0.00	\$ 9.69	\$29.39	0.00

Response to OCA/USPS-T24-65(i), Table III. Rents Weighted by Number of Boxes							
Group	Average Rent	Unit Costs, Group Average			Unit Costs, Size 1 Box		
	(\$ / sq. ft.)	Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$24.28	\$36.19	\$57.41	1.34	\$32.41	\$52.12	1.34
B	\$17.65	\$32.10	\$56.52	1.36	\$23.56	\$43.26	1.39
C	\$ 8.29	\$15.99	\$41.47	1.45	\$11.07	\$30.77	1.46
D	\$ 6.58	\$11.41	\$35.00	0.69	\$ 8.78	\$28.49	0.63
E	\$ 7.06	\$12.28	\$35.93	0.00	\$..9.43	\$29.13	0.00

Response to OCA/USPS-T24-65(i), Table IV. Rents Weighted by Equivalent Capacity							
Group	Average Rent	Unit Costs, Group Average			Unit Costs, Size 1 Box		
	(\$ / sq. ft.)	Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$20.61	\$32.20	\$53.42	1.44	\$28.84	\$48.54	1.44
B	\$19.11	\$36.43	\$60.85	1.26	\$26.74	\$46.44	1.29
C	\$ 7.74	\$15.64	\$41.13	1.47	\$10.83	\$30.53	1.47
D	\$ 6.48	\$11.78	\$35.36	0.68	\$ 9.07	\$28.77	0.63
E	\$ 6.91	\$12.60	\$36.24	0.00	\$ 9.67	\$29.37	0.00

Response of Witness Lion to Interrogatories of the OCA, Questions 65-67, Docket No. R97-1, revised October 1, 1997.

Response to OCA/USPS-T24-65(i)							
Table V. OCA Method (Group Rent = Total Dollars / Total Square Feet)							
Group	Average Rent	Unit Costs, Group Average			Unit Costs, Size 1 Box		
		Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$ 8.39	\$16.12	\$37.33	2.06	\$14.43	\$34.13	2.05
B	\$13.91	\$32.60	\$57.02	1.35	\$23.93	\$43.63	1.38
C	\$ 5.60	\$13.92	\$39.40	1.53	\$ 9.63	\$29.34	1.53
D	\$ 6.36	\$14.21	\$37.80	0.64	\$10.94	\$30.64	0.59
E	\$ 6.58	\$14.75	\$38.39	0.00	\$11.32	\$31.02	0.00

OAC/USPS-T24-66. At page 20, line 12 of your testimony you state that labor costs relating to provision of post office box service do not vary with location.

- a. Please confirm that attributable costs of postmasters vary by CAG. If you do not confirm, please explain.
- b. Please confirm that the salaries of postmasters vary by CAG. If you do not confirm, please explain.
- c. Please confirm that attributable costs of clerks and mailhandlers vary by CAG (e.g., some CAGs have no clerks or mailhandlers). If you do not confirm, please explain. In any event, please provide a tabulation of total (i.e., not just post office box) FY 1996 Clerk/Mailhandler costs by CAG by subaccount (e.g., .104, .105, .107). See library reference H-1, Tables A-1, A-2.
- d. Please confirm that if fee group D were redefined as boxes at those CAGs that do not employ clerks and mailhandlers not in fee group E, labor costs would vary across fee groups. If you do not confirm, please explain.
- e. Please confirm that if fee group C were redefined as boxes at CAG A-D facilities not in fee groups A, B, or E and if fee group D were defined as boxes at CAG E-L facilities not in fee group E, then labor costs would vary across fee groups. If you do not confirm, please explain.
- f. Please confirm that costs allocated in proportion to clerk and mailhandler costs (e.g., supervisors) vary by CAG. If you do not confirm, please explain. In any event, please provide a tabulation of total (i.e., not just post office box) FY 1996 All Other costs by CAG by subaccount. See library reference H-1, Tables A-1, A-2.

RESPONSE:

- a-c. Redirected to witness Alexandrovich.
- d. Unable to confirm. Some offices in each CAG level (A through L) employ clerks and/or mailhandlers, which means the hypothetical would effectively eliminate Group D altogether.
- e. Unable to confirm, assuming the definition of fee groups is as follows:

Group A	as is
Group B	as is
Group C	CAG A-D offices
Group D	CAG E-L offices.

Group E as is

There are too many factors unspecified. Although postmasters salaries may be different for different CAG levels, the salaries of clerks and mailhandlers (CAGs A-K) are the same. The costs actually incurred for post office boxes depend also on the number of boxes.

f. Redirected to witness Patelunas.

OCA/USPS-T24-68. Please refer to your testimony at page 20, line 5, and the following table, which shows the development of attributable "Space Support" costs.

**FY98 TYBR ACCRUED AND ATTRIBUTABLE SPACE
SUPPORT COSTS 1/**

COST SEGMENT AND COMPONENT	TOTAL ACCRUED (\$1,000)	ATTRIBUTABLE TO POST OFFICE BOXES (\$1,000)
	[1]	[2]
C/S 11.1.1 Cleaning and Protection	\$802,065	\$70,977
C/S 11.1.2 Contract Cleaners	\$53,401	\$4,726
C/S 11.3 Plant & Building Equipment Maintenance	\$389,346	\$34,454
C/S 15.2 Building Occupancy, Fuel and Utilities	\$428,502	\$37,919
C/S 16.3.1 Custodial & Building	\$1,407,999	\$124,598
C/S 18.1.2 Postal Inspection Service	\$360,277	\$7,254
TOTAL SPACE SUPPORT	\$3,441,590	\$279,928

Notes and Sources

1/ USPS-T-15, WP E, Table D, for the cost segments listed.

- a. Please confirm that the figures in column [1] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.
- b. Please confirm that the figures in column [2] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

OCA/USPS-T24-69. Please refer to your testimony at page 20, line 7, "All Other" costs.

- a. For Cost Segments 6 & 7, city delivery carriers, please confirm that the figure, \$353,000, post office box attributable costs, is obtained by summing \$259,000 (Component 6.1, In-Office Direct Labor), \$49,000 (Component 6.2, In-Office Support), and \$45,000 (Component 7.5, Street Support). If you do not confirm, please explain and provide the correct figures.
- b. Please describe, for post office boxes, the tasks and activities performed under Components 6.1, 6.2 and 7.5.
- c. Please confirm that highway contract carriers engage in the same tasks and activities described in part b. above. If you do not confirm, please explain.
- d. Please confirm that the cost of highway contract carriers (Cost Segment 14) is not an attributable cost of post office boxes. If you do not confirm, please explain.
- e. Please explain why the tasks or activities giving rise to costs of highway contract carriers that are similar or identical to the costs of city delivery carriers are not included in post office box attributable costs.

RESPONSE:

- a. Confirmed.
- b-e. Redirected to witness Patelunas.

OCA/USPS-T24-70. Please refer to your testimony at page 4, lines 2-3, concerning the POB Survey, and Tables 1 and 2.

- a. Please confirm that the POB Survey obtained data on the number of post office boxes installed and in use by surveying "contract postal units" (herein contract stations). See Glossary of Postal Terms, Publication 32, April 1988, at 15. If you do not confirm, please explain.
- b. In the POB Survey, what percent of the 32,436 postal facilities surveyed were contract stations?
- c. In the POB Survey, what percent of the 25,591 returned survey forms were contract stations?
- d. In the POB Survey, what percent of the 14,290, 298 post office boxes installed are located in contract stations?
 - i. Please provide the number of post office boxes installed in contract stations in the same format as Table 1.
 - ii. Please provide the number of post office boxes installed in contract stations by CAG by box size.
- e. In the POB Survey, what percent of the 11,319,936 post office boxes in use are located in contract stations.
 - i. Please provide the number of post office boxes in use in contract stations in the same format as Table 1.
 - ii. Please provide the number of post office boxes in use in contract stations by CAG by box size.

RESPONSE:

- a. Not confirmed. There was no attempt to survey "contract postal units."

Nonetheless, some survey forms were returned by Group III offices; these data were eliminated from the PO Box Survey database. (Forms returned by Group I and II offices include data on boxes at contract units administered by those offices, but not in a form that separates contractor-operated boxes.)

- b. No forms were mailed to contract stations.
- c. None. Group III contract units that did return forms were eliminated from the database.

- d. It is not possible to separate this information. Respondents to the survey were asked for a count of the total number of boxes in their 5-digit ZIP Code. This total might include contract as well as classified stations.
- e. See part d.

OCA/USPS-T24-71. Please refer to LR-H-188.

- a. Please confirm that the Delivery Statistics File (DSF) contains data on the number of contract stations having post office boxes. If you do not confirm, please explain.
- b. Please confirm that the Delivery Statistics File (DSF) contains data on the number of post office boxes located in contract stations. If you do not confirm, please explain.
- c. Please provide, and explain how to identify from the data, the number of contract stations having post office boxes.
- d. Please provide, and explain how to identify from the data, the number of post office boxes located in contract stations.
- e. Please provide, and file as a library reference, a file containing data on contract stations, including the number of contract stations, the number of boxes by station by box size, and Postal Service payments to contractors for contract stations.

RESPONSE:

- a. Not confirmed. The Delivery Statistics File can only be used to determine the aggregate number of post office box deliveries for each 5-digit ZIP Code. Any boxes at contract stations in a particular ZIP Code would be included in the aggregate total.
- b. Confirmed.
- c. This information is not available. See my response to part a.
- d. According to the DSF, there are 85,557 post office box possible deliveries located at contract stations.

This number was derived by inserting the following lines of code into the SAS program POBOX.AUG97.DSFRTE.CNTL, which was filed with USPS LR-H-222.

1. After line 18, insert:

"CONBOX + BCONBOX + RCONBOX";

2. At line 32, add the variable "CONBOX" to the variable list;

3. After line 97, insert:

```
DATA ADDFIN; SET ADDFIN  
PROC MEANS DATA = ADDFIN NOPRINT  
VAR CONBOX  
OUTPUT OUT = CONTOT SUM =  
PROC PRINT DATA = CONTOT.
```

- e. I am assuming that this question is a request for a file in which each record is a 5-digit ZIP Code, containing DSF or POB Survey data on the number of contract stations, the number of post office boxes by station and box size, and payments to contractors by the Postal Service. As indicated in part a, the format of the DSF does not allow the determination of the number of contract stations, or the numbers of post office boxes for individual contract stations. Also, the DSF does not contain data on box size, nor does it contain data on payments to contractors. Similarly, the format of the POB Survey does not allow the determination of the requested information.

The aggregate total of payments to contract stations is \$67,986,000, as shown in USPS-T-5, Exhibit 5A, p.40.

OCA/USPS-T24-72. Please refer to your response to OCA/USPS-T24-23e, where it states that "Migration of general delivery or other customers to Group E boxes would not, however, affect the revenue estimation for post office boxes . . ."

- a. Please confirm that migration of general delivery or other customers to Group E boxes would increase the cost of operating Group E boxes. If you do not confirm, please explain your answer in full.
- b. Please provide an estimate of the additional cost of operating Group E boxes resulting from the migration of general delivery or other customers to Group E boxes.
- c. Please confirm that service to general delivery customers is more costly than box service to post office boxholders. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. I have no data on which to base such an estimate.
- c. I have no data on which to base such a judgment.

OCA/USPS-T24-73. Please refer to your testimony at page 1, lines 17-22.

- a. Please confirm that "contract postal units" (herein contract stations) can be grouped by the type of carrier delivery service provided, i.e., as a city delivery office, a non-city delivery office, or a nondelivery office. If you do not confirm, please explain.
- b. Please provide the number of contract stations in each group referred to in part a. above.
- c. Please provide, and file as a library reference, a file containing data for each of the past five fiscal years on
 - i. the number of contract stations by CAG,
 - ii. the number of post office boxes by box size in contract stations by CAG, and
 - iii. the total amount of Postal Service payments to contractors for contract stations with post office boxes by CAG.

RESPONSE:

- a. Redirected to Postal Service.

<u>Delivery Group</u>	<u>Contract Stations</u>
City-A	0
City-B	41
City-Other	3,290
Non-City	713
<u>Nondelivery</u>	<u>88</u>
Total	4,132

Source: Delivery Statistics File.

- c. i. i. This information is available only for 1995, 1996, and 1997.

<u>CAG</u>	<u>Sept. 1997</u> <u>Contract</u> <u>Stations</u>	<u>Sept. 1996</u> <u>Contract</u> <u>Stations</u>	<u>Sept. 1995</u> <u>Contract</u> <u>Stations</u>
A	632	639	554

B	439	441	348
C	930	1007	870
D	394	409	337
E	559	541	439
F	320	313	258
G	278	277	249
H	210	220	195
J	176	188	161
K	184	176	142
L	11	20	7
NA	9	10	26
Total	4,142	4,241	3,586

Source: Address List Management System.

- ii. This information is not available for the reasons cited in my response to OCA/USPS-T24-71e.
- iii. The aggregate total of payments to contractors provided in response to OCA/USPS-T24-71e has not been broken down by CAG.

OCA/USPS-T24-74. Please refer to your testimony at page 20, line 8.

- a. Please confirm that the cost of post office boxes located in contract stations is not included in the TYBR "Total Volume-Variable Costs" of \$607,734,000. If you do not confirm, please explain.
- b. Please confirm that the cost of post office boxes located in contract stations is treated as an institutional cost. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Redirected to witness Patelunas.

OCA/USPS-T24-78. Please refer to your testimony at page 20, lines 5-8.

- a. Please confirm that total TYBR attributable costs for post office boxes is \$607,733,000 (see response of witness Patelunas to OCA/USPS-T15-3). If you do not confirm, please explain.
- b. Please confirm that total TYBR attributable All Other costs for post office boxes is \$104,575,000 (see response of witness Patelunas to OCA/USPS-T15-2b, revised 8/20/97). If you do not confirm, please explain.
- c. Please confirm that the total TYBR attributable All Other costs for post office boxes at page 20, line 7 of your testimony is \$104,580,000. If you do not confirm, please explain.
- d. Please show the derivation of the figure \$104,580,000 at page [sic], line 7 of your testimony. Please show all calculations, and provide citations to any figures used.
- e. Please confirm that the total TYBR attributable Space Support costs for post office boxes is \$279,928,000. If you do not confirm, please explain.
- f. Please confirm that the total TYBR attributable Space Provision costs for post office boxes is \$223,226,000. If you do not confirm, please explain.
- g. Please confirm that the sum of TYBR attributable Space Support and Space Provision, and the total of All Other costs from part b. above, is \$607,729,000 ($\$279,928,000 + \$223,226,000 + \$104,575,000$). If you do not confirm, please explain.
- h. Please show the derivation of, and reconcile any discrepancies between, the figure \$607,734,000 at page 20, line 8 of your testimony and the sum of Space Support, Space Provision and All Other costs referred to in part g. above. Please show all calculations, and provide citations to any figures used.
- i. Please show the derivation of, and reconcile any discrepancies between, the TYBR attributable costs for post office boxes of \$607,733,000, referred to in part a. above, and the sum of Space Support, Space Provision and All Other costs referred to in part g. above.

RESPONSE:

- a. Confirmed. However, I used the figure "\$607,734,000" in my calculations. This error amounts to -0.00016 percent.
- b. The total provided (by OCA) in interrogatory OCA/USPS-T15-2b is incorrect. Specifically, the total leaves out \$3,000 in Cost Segment 12 and \$1,000 in Cost Segment 20.2. See witness Patelunas' revised response to OCA/USPS-T24-25b, filed September 19, 1997. The correct total is \$104,579,000.

c. Confirmed.

d. $\$104,580,000 = \$607,734,000 - \$279,928,000 - \$223,226,000$.

The source of the first number on the right side of this equation is explained in the response to part a. The other two numbers on the right side of the equation are confirmed in the responses to part e and part f, respectively.

e. Confirmed.

f. Confirmed.

g. Confirmed. However, using the correct "All Other" figure, the total is $\$607,733,000$.

h-i. See the responses to parts a-g.

OCA/USPS-T24-79. Please refer to your response to OCA/USPS-T24-10e.

- a. Please provide by CAG the number of post offices that contain no city routes, no rural routes and no highway contract routes.
- b. Please provide by CAG the number of finance numbers that contain no city routes, no rural routes and no highway contract routes.
- c. Please provide by CAG the number of ZIP Codes that contain no city routes, no rural routes and no highway contract routes.
- d. Please provide by CAG the number of facilities that contain no city routes, no rural routes and no highway contract routes.
- e. For parts a. - d., please provide copies of underlying source documents if they are not already on file with the Commission.

RESPONSE:

a-c. The data to produce these results are contained in file DSFAUG97 in USPS-LR-H-222. Note that the response to parts a and b is the same, since a post office is defined by its finance number. Note also that each record in this file is for a unique 5-digit ZIP Code, so that the number of records in a category equals the number of ZIP Codes in that category.

d.	<u>CAG</u>	<u>Nondelivery Facilities</u>
	A	3
	B	1
	C	6
	D	2
	E	18
	F	59
	G	197
	H	412

J	874
K	2,622
L	714
<u>NA</u>	<u>37</u>
Total	4,945

Source: Address List Management System (September 1997).

- e. The source files are being filed as USPS LR-H-280.

OCA/USPS-T24-80. Please refer to your response to OCA/USPS-T24-62, where it is stated,

No actual customers experienced such [fee] increases, but the estimates of customers in the respective groups did change. This constitutes an improvement of (or correction to) our previous analysis. Any "movement" of post office box customers from one group to another is only an improved estimate of the correct numbers.

- a. Please confirm that the net increase in revenue for post office boxes in the TYAR is the result of two changes: 1) the increase in fees for post office boxes, and 2) the improvement of (or correction to) the Postal Service's previous analysis of the number of post office boxes in Docket No. MC96-3. If you do not confirm, please explain.
- b. In the absence of the improvement referred to in the quote above, please confirm that the TYAR net increase in revenue for post office boxes as proposed in Docket No. R97-1 would be smaller. If you do not confirm, please explain.
- c. What would the total net revenue for post office boxes be in the absence of the improvement referred to in the quote above?

RESPONSE:

- a. Not confirmed. The net increase in revenue estimates for post office boxes from TYBR to TYAR is the result of the increase in fees for post office boxes (as proposed in Docket No. R97-1). My use of a better definition of the delivery and fee groups is reflected in all the revenue estimates presented in my testimony, including the "Pre-MC96-3" estimates.
- b. Not confirmed. The "net increase in revenue for post office boxes as proposed in Docket No. R97-1" is about \$67 million. The net increase if the former method of defining fee groups were used would be about the same. The TYBR and TYAR revenues using the new definitions are both about the same amount higher than those using the old definitions. The effect of the new definitions is to increase the "Pre-MC96-3" revenue projections by that amount.

c. The data to produce this result are part of the record of this proceeding, including

(1) Boxes in use counted according to the former definitions

(Reference: Response to OCA/USPS-T24-63d),

(2) Expansion factors

(Reference: Table 3, USPS-T-24, page 7),

(3) Allocation factors for estimating the number of free boxes

(Reference: Table 5, USPS-T-24, page 9),

(4) Elasticities with respect to increased rates

(Reference: Tables 7A-D, USPS-T-24, pages 12-15),

(5) Growth factor = 1.9 percent

(Reference: USPS-T-24, page 16, line 6).

OCA/USPS-T24-81. Please refer to the table below, and your testimony at 8-15.

Boxes in Use, Pre MC96-3						
"Source" Delivery Groups	"Destination" Delivery Groups					Total
	City-A	City-B	City-other	Non-city	Nondelivery	
City-A	78,010					78,010
City-B		165,053				165,053
City-other			8,307,648		83,915	8,391,563
Non-city				5,239,271	411,367	5,650,638
Nondelivery				954,238	408,959	1,363,197
Total	78,010	165,053	8,307,648	6,193,509	904,241	15,648,461

Please confirm that the table above correctly summarizes your shifts of boxes between fee groups to account for customers who are and are not eligible for carrier delivery. The figures in the *column* labeled "Total" are taken from USPS-T-24, Table 4. The numbers in the *row* labeled "Total" are taken from USPS-T-24, Table 7. If you do not confirm, please provide a correct shift matrix.

RESPONSE:

Confirmed, except that the numbers in the first five data columns apply to "fee groups" rather than to "destination delivery groups", and thus should be labeled A through E. The numbers in the E column (your "Nondelivery" column) are respectively 1 percent, 7.3 percent, and 30 percent of the totals in the last ("Total") column, as indicated in Table 5 of my testimony.

OCA/USPS-T24-82. Please refer to your testimony at page 20, lines 5-8.

- a. Please confirm that 82.8 percent $((\$279,928 + \$223,226) / \$607,734)$ of total TYBR attributable post office box costs are space related. If you do not confirm, please explain.
- b. Please confirm that attributable Space Provision costs constitute 36.7 percent of total TYBR attributable post office box costs. If you do not confirm, please explain.
- c. Please confirm that attributable All Other costs constitute 17.2 percent of total TYBR attributable post office box costs. If you do not confirm, please explain.

RESPONSE:

- a-c. Confirmed, with the understanding that the figures cited are accurate to only three significant digits (0.1 percent).

OCA/USPS-T24-83. Please refer to your testimony at page 1, lines 19-22.

- a. Please confirm that city delivery offices provide postal and city carrier delivery service in urban and rural locations. If you do not confirm, please explain.
- b. Please confirm that rural delivery offices provide postal and rural carrier delivery service in urban and rural locations. If you do not confirm, please explain.
- c. Please confirm that nondelivery offices provide postal services in rural locations. If you do not confirm, please explain.

RESPONSE:

- a-c. I have not studied this issue and the descriptors "postal," "urban," and "rural" are imprecise. However, I would not be surprised if all three types of offices were found in what could be considered urban and rural areas.

OCA/USPS-T24-84. Please refer to Table 12 (revised August 11, 1997), and your testimony at page 20, lines 19-21, where it states that "since Space Provision costs include rent paid for leased space or imputed rent for owned space, they vary also with location . . ."

- a. Please explain the basis for the statement that "rent paid for leased space or imputed rent for owned space . . . vary . . . with location." What factors or conditions would cause rent paid or imputed rent to vary between locations? Is population density a factor?
- b. Is it your testimony that an average rent of \$23.49 per square foot paid for postal leased space or imputed rent for postal-owned space is found in locations where population density is high? Fully explain your answer.
- c. Is it your testimony that an average rent of \$6.00 per square foot paid for postal leased space or imputed rent for postal-owned space is found in locations where population density is low? Fully explain your answer.
- d. Are you aware of postal leased space or imputed rent for postal-owned space with an average rent of \$6.00 per square foot in areas of high population density? If you answer in the affirmative, please provide a list of finance numbers and ZIP Codes for the facilities so identified.
- e. Are you aware of postal leased space or imputed rent for postal-owned space with an average rent of \$23.49 per square foot in areas of low population density? If you answer in the affirmative, please provide a list of finance numbers and ZIP Codes for the facilities so identified.

RESPONSE:

- a-e. The basis for the cited quotation is the common-sense observation that rents paid are higher in some locations than in others. The postal rents we used actually do vary with location, thus reflecting a market driven by supply and demand. Population density and level of business activity are both factors that may affect supply and demand. I have not studied how high and low population density areas, or level of business activity, are related to postal rental rates.

OCA/USPS-T24-85. Please refer to your testimony at page 20, lines 19-21.

- a. Please confirm that CAG A-C post offices tend to be located in higher rent areas. If you do not confirm, please explain fully, and provide the basis for your contrary view.
- b. Please confirm that CAG K and L post offices tend to be located in lower rent areas. If you do not confirm, please explain and provide the basis for your contrary view.

RESPONSE:

- a-b. I have not studied nonpostal rental rates. I can confirm that the average postal rental rates in CAGs A, B, and C are higher than the average postal rental rates in CAGs K and L.

OCA/USPS-T24-86. Please refer to your testimony at page 7, table 3.

- a. Please provide the number of boxes installed from the entire DSF 97 by CAG for Delivery Groups City-A, City-B, City-other, Non-city and Nondelivery. Please provide in an electronic file the data used to develop this information.
- b. Please provide the expansion factors by CAG for the Delivery Groups City-other, Non-city and Nondelivery. Please provide in an electronic file the data used to develop this information.

RESPONSE:

- a-b. This information can be calculated from the data provided in USPS LR-H-278.

OCA/USPS-T24-87. Please refer to Table 3, and your testimony at page 7, lines 7-9, and page 16, lines 6-8.

- a. Please confirm that the 1.2 percent growth in the number of post office boxes installed occurred over the period April 1996 to April 1997. If you do not confirm, please explain.
- b. Please confirm that the 1.2 percent growth during the period April 1996 to April 1997 was one in which there were no increases in post office box fees. If you do not confirm, please explain.
- c. Please confirm that the Delivery Statistic File (herein DSF) contains no information on the number of boxes in use. If you do not confirm, please explain.
- d. Please confirm that the ratio of the number of boxes installed from the DSF 97 file to the number of boxes installed from the POB Survey by Delivery Group is used to estimate the number of boxes in use, pre-MC96-3. If you do not confirm, please explain.
- e. Please confirm that the 1.9 percent growth factor applied to the post-MC96-3 box counts is an annual growth factor. If you do not confirm, please explain.
- f. Please confirm that the growth factor of 1.9 percent is the same growth factor used in the rollforward model. If you do not confirm, please explain.
- g. Please confirm that the 1.9 percent growth factor applied to the post-MC96-3 box counts is an annual growth factor. If you do not confirm, please explain.
- h. Please confirm that the 1.9 percent growth factor is applied during a period, from the post-MC96-3 box counts to the test year before rates, during which there is no increase in post office box fees. If you do not confirm, please explain.
- i. Please explain why the 1.9 percent growth factor is better than the 1.2 percent growth rate from the delivery Statistics File for estimating the test year before rates number of boxes in use.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed. This is true as far as it goes. See my response to
OCA/USPS-T24-13.

- e. Not confirmed. The 1.9 percent accounts for growth in the number of post office boxes between April 1997 and the test year. The end of the test year, as well as the likely implementation date, is more than a year after April 1997.
- f. Not confirmed. The growth factor used in the rollforward model is an earlier estimate.
- g. See response to part e.
- h. Confirmed, but only as a matter of convention. The growth factor is independent of the effect of any fee changes and thus could be applied before, during, or after the Docket No. MC96-3 fee changes, and the results would be the same.
- i. The 1.2 percent represents actual growth from April 1996 to April 1997. As explained in my response to part e, the 1.9 percent represents estimated growth for a longer period. The growth factor should be larger than 1.2 percent to reflect the longer period.

OCA/USPS-T24-90. Please refer to the supplement to LR-H-188, Workbook "Cost98.xls," Sheet "TY98 Costs." Please confirm that the figures in the table, "Attributable Costs for Post Office Boxes," represent the TYBR attributable costs. If you do not confirm, please explain.

RESPONSE:

Not confirmed. Sheet "TY98 Costs" is from an old version of Workbook "Cost98.xls". It was included by mistake when the workbook was revised. The correct numbers are given in witness' Patelunas response to OCA/USPS-T24-25.

OCA/USPS-T24-91. Please refer to the supplement to LR-H-188, Workbook "Cost98.xls," Sheet "TY98 Costs," and the column "TOTAL ACCRUED (\$000)."

- a. For the "ALL OTHER" category, please show the derivation of the figure \$55,716,746. Please show all calculations, and provide citations to any figures used.
- b. For the "TOTAL" row, please provide a specific page citation for the figure \$60,790,731.

RESPONSE:

a-b. See response to OCA/USPS-T24-90. These numbers were not used in my calculations.

OCA/USPS-T24-92. Please refer to the supplement to LR-H-188, Workbook "Cost98.xls," Sheet "Unit Costs."

- a. Please confirm that the TYBR attributable "Allocated Costs" of Fee Group E are \$34,179,581. If you do not confirm, please explain.
- b. Please confirm that the post office box fee for all box sizes in Fee Group E is \$0. If you do not confirm, please explain.
- c. Assuming the same cost coverage for post office boxes in the TYBR, please confirm that post office box fees in Fee Groups A, B, C and D are higher than they otherwise would be in order to cover the attributable allocated costs of Fee Group E. If you do not confirm, please explain.
- d. Please confirm that boxholders paying Fee Group E fees, i.e., \$0, are generating costs which are paid for by boxholders paying Fee Group A, B, C and D fees. If you do not confirm, please explain.
- e. Please explain why the Postal Service does not treat the attributable allocated costs of Fee Group E as an institutional cost.
- f. Would it be more consistent with the policy that *mailers* pay the delivery costs of carrier delivery (rather than recipients) if Fee Group E costs were paid for by all mailers and not other boxholders alone? Please explain fully.

RESPONSE:

- a. Not confirmed. The correct number is \$33,269,251. The number cited, "\$34,179,581", results when the average rents for Groups D and E (input on Sheet "Space Provision") are \$6.00 per square foot and \$7.19 per square foot respectively. However, as explained in the errata on USPS LR-H-188, dated August 11, these are rents for delivery groups rather than fee groups. The correct average rents for Fee Groups D and E are \$6.19 and \$6.70 per square foot, respectively. When these values are entered, the resulting cost for Fee Group E is \$33,269,251.
- b-d. Redirected to witness Needham.
- e. Redirected to the United States Postal Service.
- f. Redirected to witness Needham.

OCA/USPS-T24-93. Please refer to the supplement to LR-H-188, Workbook "POBox98.xls," Sheet "TYAR Revenues."

- a. Please confirm that the figure \$43, "Revenue per box (w/oE)," was computed by dividing the "TYAR Revenues" (\$632,143,987) by the "TYBR Number of Boxes" (14,699,437). If you do not confirm, please explain.
- b. Please confirm that the TYAR "Revenue per box (w/oE)" should be \$45.42 (\$632,143,987 / 13,918,499). If you do not confirm, please explain.
- c. Please confirm that the figure \$40.47, "Revenue per box (w/E)," was computed by dividing the "TYAR Revenues" (\$632,143,987) by the "TYBR Number of Boxes" (15,620,769). If you do not confirm, please explain.
- d. Please confirm that the TYAR "Revenue per box (w/E)" should be \$42.60 (\$632,143,987 / 13,918,499). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional cross examination for Witness Lion?

3 MS. DREIFUSS: OCA would like to have two of
4 Witness Lion's recent interrogatory responses to our
5 Interrogatories 94 and 95 included in the transcript and in
6 the record.

7 May I approach the witness with copies?

8 CHAIRMAN GLEIMAN: Certainly.

9 Mr. Lion, if these additional questions were asked
10 of you today, would your answers be the same as those you
11 previously provided in writing?

12 WITNESS: Yes.

13 CHAIRMAN GLEIMAN: Yes. The copies have been
14 handed to the Reporter of the additional designated written
15 cross examination and I direct that they be accepted into
16 evidence and transcribed into the record at this point.

17 [Additional Designation of Written
18 Cross-Examination of Paul M. Lion
19 was received into evidence and
20 transcribed into the record.]
21
22
23
24
25

OCA/USPS-T24-94. Please refer to your response to OCA/USPS-T24-71d, and Tables 5 and 6B.

- a. Please confirm that the "85,557 post office box possible deliveries located at contract stations" represents the number of post office boxes installed at contract stations. If you do not confirm, please explain.
- b. Please confirm that the DSF can identify the total number of post office boxes in contract stations by CAG. If you do not confirm, please explain. If you do confirm, please provide the total number of post office boxes in contract stations by CAG.
- c. Please confirm that all the "85,557 post office box possible deliveries located at contract stations" are from the "Non-city Carrier Delivery Group." If you do not confirm, please explain.
 - i. Please provide the total number of post office boxes in contract stations by Delivery Group.
 - ii. Please provide the total number of post office boxes in contract stations by Delivery Group by CAG.
- d. In Table 6B, please confirm that the total figure of 305,134 in column "E-2" can be calculated as follows: $0.06 * 0.90 * 5,650,638$, where 0.06 represents the percent of contract stations administered by Non-city Delivery Offices and 0.90 the percent of customers ineligible for carrier delivery service from Table 5, and 5,650,638 the total number of boxes in the Non-city Delivery Group from Table 4. If you do not confirm, please explain and provide the correct figures.
- e. In Table 6B, please confirm that for column "E-2," the total figure of 305,134 represents the total number of boxes in use at contract stations in Fee Group E from Fee Group D. If you do not confirm, please explain.
- f. Please reconcile the difference between the figure of 85,557 in part a. above and the figure of 305,134 in part e. above, and explain how the number of boxes in use at contract stations in Fee Group E can exceed the total number of post office boxes installed at all contract stations.

RESPONSE:

- a. Confirmed, according to the DSF.
- b. Not confirmed. The DSF does not contain information on CAG.
- c. Not confirmed. There are post office boxes at contract units in all delivery groups except Group City-A, as the table below shows.

[i]-[ii].

Post Office Boxes at Contract Units by Delivery Group & CAG						
	Delivery Group					
CAG	City-A	City-B	City-Other	Non-city	Nondel.	Total
A		1	13,921		5	13,927
B			7,059			7,059
C			25,090			25,090
D			7,486			7,486
E			9,315	5,078	2,430	16,823
F			2,920	1,305	855	5,080
G			496	4,130	88	4,714
H			484	1,469	266	2,219
J				1,393	1	1,394
K				1,148	320	1,468
L				60	237	297
Total	0	1	66,771	14,583	4,202	

- d. Confirmed.
- e. Not confirmed. The "305,134" boxes are those in use at non-city delivery offices for which no fee is charged.

- f. The two numbers are from two different sources. The source of the "85,557" is the Delivery Statistics File. The "305,134" is an estimate derived from the response of witness Lyons to the Presiding Officer's Information Request No. 4, Question 6 in Docket No. MC96-3, supplemented by my estimate of the percentage of non-city boxes that are contract boxes (see my response to OCA/USPS-T24-15a). Note that the latter figure compares reasonably closely with "338,510", the number of contract boxes estimated from the POB Survey. See USPS LR-SSR-93. I cannot explain the discrepancy between the DSF and the other sources.

OCA/USPS-T24-95. Please refer to your response to OCA/USPS-T24-73b-c.

- a. In reference to part b. of your response, please provide
 - i. a date for the data source used to derive the number of contract stations by delivery group,
 - ii. the name of the SAS program used to produce the information in part b.,
 - iii. the electronic data input file, if not already provided as a library reference, and
 - iv. a description of all variables to the input files.
- b. Please confirm that the average number of post office boxes installed per contract station is approximately 21 (85,557 boxes installed / 4,132 contract stations). If you do not confirm, please explain.
- c. Please explain why the total number of contract stations of 4,132 in part b. of your response does not match the total of contract stations for any year in part c. of your response.
- d. [i] Please explain why you utilized the Address List Management System (ALMS) rather than the DSF to produce the number of contract stations by CAG. [ii] Please describe the ALMS, its use by the Postal Service, and the types of data available from it.

RESPONSE:

- a.
 - i. September 16, 1997.
 - ii. POBOX.SEPT97.CONTRACT.CNTI
 - iii. The electronic data input files, DSFSEP.DATA and
ALMS.SEPT97.DATA, were provided in USPS LR-H-280.
 - iv. The input variables are:

ALMS : ZIP, FINANCE, and TYPECODE

DSF : ZIP, FINANCE, and GROUP.
- b. Confirmed, according to the Delivery Statistics File, assuming the question refers to contract units.

- c. The numbers are from two different sources. Some finance numbers with CAG designations in ALMS are not in the DSF. The difference between the two for 1997 is 0.2 percent.
- d. [i] The DSF does not contain information on the number of contract stations or on CAG. *It also does not contain data on previous years.*
Using the ALMS, we were able provide the data requested for the past two years, in addition to the current year.

[ii] A description of ALMS (from the Internet, www.usps.gov) and file format are attached.



[Search](#) [Stamps](#) [Change of Addr.](#) [ZIP Codes](#)
[Rate Calculator](#) [Express Mail Tracking](#) [Home](#)

Address List Management System (ALMS)

The Address List Management System (ALMS) is an address list manager. The ALMS United States Postal Service (USPS) database and software offer easy access to mailing addresses, telephone numbers, and other useful information (FAX, delivery type, area, district) for all facilities and major positions of the USPS. All ALMS addresses are standardized and prebarcoded.

In addition to the USPS database, ALMS enables users to maintain personal files of correct and standardized addresses. ALMS has user-friendly search, print, import, and export functions, and a direct interface to the CD-ROM ZIP+4 Carrier Route Retrieval System, which is used throughout the USPS to standardize and ZIP+4 code addresses.

By following screen prompts, users can produce mailing labels and telephone lists quickly and effectively. ALMS can generate a variety of labels, barcoded envelopes, and telephone directories.

The ALMS file is divided into the following three user-friendly sections:

1. *USPS File* contains mailing addresses and phone numbers for every postal installation in the United States. Users can browse through the file, print a record, a mailing list, or a phone list.
2. *User File* creates a personal or local mailing list. Users can add, change, or delete addresses that are specific to their organization. Any address that is added must be matched with a ZIP+4 Code.
3. *Individual Address* section standardizes the ZIP+4 Code and prints an address that users do not want to save.

Customers who are in the mailing business and deal with the USPS every day cannot operate efficiently without ALMS.

For more information, please call the National Customer Support Center at 1-800-238-3150. Hours of operation are 7:00 AM through 7:00 PM CT.



[Return to the NCSC Product Information Menu](#)

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Developed by the USPS National Customer Support Center

LBHSMW , , CSC ALMS

ALMS
file format

*BROWSE -- DDA.TESTCOPY(NCSCALMS) - 01.01 ----- LINE 00000000 COL 001 080
COMMAND ==>+ SCROLL ==>+PAGE

***** TOP OF DATA *****

ALMS-FACILITY-MASTER-REC.	Column	00010000
05 ALMS-ORG-AREA-DIST.		00020001
10 ALMS-ORG-TYPE	PIC X(01). 1	00021001
10 ALMS-AREA-CODE	PIC X(01). 2	00022001
10 ALMS-DISTRICT-CODE	PIC X(03). 3-5	00023001
05 ALMS-RECORD-KEY.		00024001
10 ALMS-FINANCE-NO	PIC X(06). 6-11	00024101
10 ALMS-KEY-SEQ-NO	PIC X(04). 12-15	00024201
05 ALMS-LAST-NAME	PIC X(20). 16-35	00025001
05 ALMS-FIRST-NAME	PIC X(15). 36-50	00026001
05 ALMS-MID-INITIAL	PIC X(01). 51	00027001
05 ALMS-TITLE-NAME	PIC X(30). 52-81	00028001
05 ALMS-FACILITY-NAME	PIC X(40). 82-121	00029001
05 ALMS-DELV-ADDRESS	PIC X(50). 122-171	00040001
05 ALMS-CITY-NAME	PIC X(28). 172-199	00050001
05 ALMS-STATE-ABBREV	PIC X(02). 200-201	00051001
05 ALMS-9DIGIT-ZIP.		00060000
10 ALMS-5DIGIT-ZIP	PIC X(05). 202-206	00070000
10 ALMS-ADDON-CODE	PIC X(04). 207-210	00080000
05 ALMS-COM-PHONE-NO.		00090001
10 ALMS-COM-AREA-CODE	PIC X(03). 211-213	00091001

4A X

*BROWSE -- DDA.TESTCOPY(NCSCALMS) - 01.01 ----- LINE 00000022 COL 001 080
COMMAND ==>+ SCROLL ==>+PAGE

10 ALMS-COM-PHONE	PIC X(07). 214-220	00092001
05 ALMS-FAX-PHONE	PIC X(07). 221-227	00100001
05 ALMS-CAG	PIC X(01). 228	00110001
05 ALMS-UNIT-TYPE-CODE	PIC X(01). 229	00120001
05 ALMS-CITY-DEL-FLAG	PIC X(01). 230	00130001
05 ALMS-SUSPND-OFC-FLAG	PIC X(01). 231	00140001
05 ALMS-PROJECT-CODE	PIC X(03). 232-234	00150001
05 ALMS-DROP-SHIP-ID	PIC X(10). 235-244	00160001
05 ALMS-RECORD-UPDATE-DATE.		00161001
10 ALMS-REC-UPDATE-YEAR	PIC X(02). 245-246	00162001
10 ALMS-REC-UPDATE-MONTH	PIC X(02). 247-248	00163001
10 ALMS-REC-UPDATE-DAY	PIC X(02). 249-250	00164001
05 ALMS-UNUSED	PIC X(15). 251-265	00170001

***** BOTTOM OF DATA *****

1 CHAIRMAN GLEIMAN: Does anyone else have any
2 additional written cross examination?

3 [No response.]

4 CHAIRMAN GLEIMAN: Only one participant, the
5 Office of the Consumer Advocate, requested oral cross of
6 this witness.

7 Does anyone else care to cross examine the
8 witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, Mrs. Dreifuss, you can
11 begin.

12 Could I ask you, just so I have a sense of how to
13 handle things for the rest of the evening, ball park idea of
14 how long you might go?

15 MS. DREIFUSS: I would think no longer than half
16 an hour.

17 CHAIRMAN GLEIMAN: Okay.

18 MS. DREIFUSS: And it could be less.

19 CHAIRMAN GLEIMAN: Thank you.

20 CROSS EXAMINATION

21 BY MS. DREIFUSS:

22 Q I would like you to turn to your response to OCA
23 Interrogatory 62, part (b), please.

24 A Yes.

25 Q Is it a correct reading of your response that Fee

1 Groups A and B, as proposed in your testimony, are defined
2 in terms of specific five-digit zip codes?

3 A Groups A and B, yes.

4 Q Are these the same five-digit zip codes that
5 comprised the old post office box delivery Groups 1A and 1B?

6 A Yes.

7 Q These Group A five-digit zip codes are located in
8 Manhattan, are they not?

9 A Manhattan, New York, yes.

10 Q And for Group B the five-digit zip codes are
11 located in eight other cities and their suburbs, is that
12 correct?

13 A Yes. Yes.

14 Q Do you have any understanding of why Groups A and
15 B were singled out for higher fees than other groups?

16 A Strictly by, from what I have heard, because the
17 rental rates were higher in those cities.

18 Q On page 1 of your response to OCA interrogatory
19 62, you state that -- this is about the fourth line down in
20 your answer -- the term "Post Office" corresponds to finance
21 number; is that correct?

22 A Yes.

23 Q Can you tell me whether the delivery statistics
24 file is able to identify Post Offices by finance numbers?

25 A Let me check. Wrong book.

1 Yes, I believe it's there.

2 Q Can you summarize the kind of information that is
3 contained in the delivery statistics file?

4 A You have the number of routes, city routes, rural
5 routes, ~~P~~ost ~~O~~ffice boxes.

6 Q Now let's turn to OCA's interrogatory 4, subpart

7 A. We --

8 A Yes.

9 Q We asked you in part A, please confirm that
10 delivery group city A consists entirely of CAG A Post
11 Offices. And you did confirm that; is that correct?

12 A Yes.

13 Q And then you added that all the ^{ZIP}~~zip~~ codes in
14 delivery group city A are included in a single CAG A office,
15 according to the delivery statistics file; is that correct?

16 A Yes.

17 Q So is a fair conclusion based on your statement
18 that all the zip codes in Manhattan, New York, belong to a
19 single CAG A Post Office?

20 A Yes.

21 Q Now, turn to OCA interrogatory 42, attachment 1,
22 please.

23 A Yes.

24 COMMISSIONER LeBLANC: Did you say Attachment 1,
25 Ms. Dreifuss?

1 MS. DREIFUSS: Attachment 1 to OCA Interrogatory
2 42.

3 COMMISSIONER LeBLANC: Thank you.

4 BY MS. DREIFUSS:

5 Q This attachment presents information for Group A,
6 does it not?

7 A Yes.

8 Q And there are 30 observations in the attachment?

9 A Yes.

10 Q Would those 30 observations correspond to 30 post
11 offices?

12 A No, there's only a single post office under the
13 definition we've used, which is finance number.

14 Q In what way are these 30 observations
15 distinguished?

16 A Different zip codes.

17 Q So the 30 observations would be for 30 different
18 zip codes?

19 A I think so.

20 Q You're not sure as you're sitting here right now?

21 A I'm almost sure --

22 Q Okay.

23 A But there might be a -- I haven't checked that
24 point, but I think it's true.

25 Q If you had recourse to other information after

1 leaving the hearing room, could you give me a definite
2 answer on that?

3 A Yes.

4 MS. DREIFUSS: Would it be all right with Postal
5 Service counsel to give us a definite answer in writing?

6 MR. HOLLIES: Certainly.

7 MS. DREIFUSS: Thank you.

8 COMMISSIONER HALEY: Yes. Very good. Nothing to
9 say. They've already said okay.

10 BY MS. DREIFUSS:

11 Q Is it possible to calculate different square --
12 well, let me back up for a minute. You've got a column --
13 it's the fourth from the left -- which would be rental cost
14 per square foot; is that correct?

15 A That's right. I should note that this was
16 provided by OCA, this attachment.

17 Q Okay. And the column just to the right of that
18 would be rental amount; is that correct?

19 A Yes.

20 Q And the final column on the right-hand side would
21 be square feet.

22 A Yes.

23 Q How is it possible to make these separate
24 calculations by ^{ZIP} ~~zip~~ code? Is there any --

25 A Well, what you've got here is an extract from the

1 facility management system, which lists these data points,
2 and those are the ones corresponding to group A.

3 Q So it's your understanding that, for each
4 observation, rental cost per square foot, rental amount, and
5 square footage were calculated by zip code?

6 A That's the point where I'm not completely
7 positive, but it is true that each is a data point that --
8 for a particular facility. It's possible to have more than
9 one facility with the same zip code. But each of these is a
10 data point in the FMS which is a rental value paid.

11 Q Could you explain what the Facility Management
12 System is?

13 A It's a file that -- I cannot describe the file
14 format, but it has in it the rental values, the interior
15 square feet, and other data corresponding to different
16 facilities.

17 Q Do you know if any of this information has been
18 filed in the proceeding thus far from the facilities --

19 A Well, we filed an extract of it in Library
20 Reference 188.

21 Q Okay.

22 A The data points in that, by the way, are finances~~d~~,
23 number, zip code, number of city route -- well, the only one
24 that came from FMS was the rental cost per square feet.

25 Q Could you now turn to OCA interrogatory 85,

1 please?

2 A Yes.

3 Q In that response, you state that you can confirm
4 that the average Postal rental rates in CAGs A, B and C are
5 higher than the average Postal rental rates in CAGs K and
6 L; is that correct?

7 A Yes.

8 Q How were you able to confirm that?

9 A We calculated them.

10 Q Is it your understanding that CAG A offices in
11 Manhattan have a somewhat higher Postal rental cost per
12 square foot than CAG A offices elsewhere?

13 A Yes, I believe that's true, yes. There may not --
14 there may be data points but generally true. The rental
15 rate for Manhattan was \$23 per square foot which was higher
16 than any other group.

17 Q Most likely, those were the highest rental costs
18 in the country, I would imagine?

19 A Yes.

20 Q Were there any reasons other than rental costs
21 that caused the Postal Service to want to create a separate
22 fee group for these Manhattan offices?

23 A I really don't know, why they separated Manhattan,
24 that is, from the other eight.

25 Q Fee group B consists of CAG A through C offices in

1 eight large cities and surrounding areas; is that correct?

2 A I did not hear the --

3 Q Fee group B, I asked if that consists of --

4 A Eight cities, yes. And plus some suburban areas.

5 Q Right, and does that consist of CAG A through C
6 offices?

7 A I would have to check; I'm not sure.

8 Q Would it be --

9 A It would be reasonable. I would think so.

10 Q I believe I may not have asked --

11 A I have here that group B is CAG offices A through
12 D, although the number in D is small.

13 Q I do accept that correction to my original
14 question. I believe you're right, that it is CAG A through
15 D offices.

16 Do you believe that the CAG A offices in those
17 eight large cities would have a higher postal rental cost
18 per square foot than other non-group B and non-group A
19 offices?

20 A I don't know.

21 Q Do you believe that was the reason that group B
22 was created with higher fees than the remaining lower
23 groups?

24 A Group B consists of, as we said, eight cities
25 which are among the highest rental areas in the United

1 States, yes.

2 Q Do you know whether the CAG B offices in delivery
3 group B would have a higher Postal rental cost per square
4 foot than CAG B offices for other delivery groups aside from
5 delivery group A?

6 A I don't know the answer to that.

7 Q Let's consider post offices that are not in fee
8 groups A or B for the moment.

9 A Uh-huh.

10 Q Would you expect that the average postal rental
11 cost per square foot to be higher for CAG A offices than for
12 CAG L offices?

13 A I would expect that, yes.

14 Q Would you expect the average postal rental cost
15 per square foot to be higher in CAG B offices than in CAG K
16 offices?

17 MR. HOLLIES: Objection. This question has
18 already been answered both orally and in the form of his
19 response to OCA USPS-T²4-85.

20 CHAIRMAN GLEIMAN: I'm at a disadvantage because I
21 was out of the room and did not hear the question asked
22 previously here this afternoon, but it would be real easy,
23 to move things along, if the witness has already answered it
24 once orally and once in writing, to just answer it real
25 quick again and get it over with.

1 MS. DREIFUSS: I would agree, Mr. Chairman. I
2 don't see any harm in -- in his providing an answer. It
3 will take about 10 seconds.

4 CHAIRMAN GLEIMAN: Let's do it, then.

5 MS. DREIFUSS: And then we can proceed -- we can
6 move along quickly.

7 THE WITNESS: Typically, as you go CAG A, B, C, D,
8 as you would expect, the rents get lower.

9 However, the problem is that that relationship is
10 not monotonic. That is to say, at a certain point, goes
11 back up, and -- I forget which one or two -- but goes back
12 up and comes back down.

13 This is one reason why we did not use CAG, because
14 that would -- it would be hard to defend that.

15 BY MS. DREIFUSS:

16 Q You would have had difficulty developing fees by
17 each individual CAG is -- is what you're saying. You would
18 have been concerned about the way costs moved up and down.

19 A They didn't have their -- we looked at it, but it
20 did not have the relationship that we thought we needed, and
21 so, we rejected it.

22 Q Do you know if you'd have a similar concern if
23 --if the CAGs were grouped in some fashion?

24 A I think, by grouping it, you could get around
25 that, but I don't see how that would be much different than

1 -- as you have just said, the higher ones are city and the
2 lower ones tend to be non-city, so you -- you're right back
3 -- that's -- that's essentially the method we used.
4 Although we did use CAG C specifically.

5 Q Could you turn to your answer to OCA Interrogatory
6 44, please.

7 A All right.

8 Q And I am going to look -- at the bottom of my page
9 it is noted this would be your response on page 11 of 21.
10 It is a long answer, so I wanted you to be able to
11 find your place quickly, so we can to go page 11 of 21.

12 A Right.

13 Q The third sentence from the bottom, you state "We
14 also intuitively expect average rental rate to be higher in
15 Group C than in Group D." Is that correct?

16 A Yes.

17 Q What are your reasons for reaching that
18 conclusion?

19 A Typically city locations are more expensive than
20 rural and Group C is largely city and Group D is largely
21 rural.

22 THE REPORTER: Please keep your voice up, doctor.

23 CHAIRMAN GLEIMAN: I think it's late and we are
24 all a little tired. You've got to either pull the mike
25 closer or speak up a little bit or both.

1 WITNESS: It just gets in the way of all my
2 materials.

3 CHAIRMAN GLEIMAN: I understand.

4 BY MS. DREIFUSS:

5 Q Could you turn to your answer to OCA Interrogatory
6 73, part (c), please.

7 A Yes.

8 Q There is a table presented in answer to part (c).

9 A Yes.

10 Q And on the second page of that table, which was
11 page 2 of 6, there is a row entitled NA and an entry of 9.
12 That would be the very last set of --

13 A Right.

14 Q -- of items. What type of offices would these 9
15 contract stations be?

16 A Well, I think those are ones for which we did not
17 have the designator we were looking for -- it didn't have
18 the CAG.

19 It had a record but without the CAG number and so
20 we just added it in. We just put that line down, but I
21 think it is unknown.

22 Q Okay. The highest number of contract stations by
23 CAG appears to be for CAG C, is that correct?

24 At least -- well, I guess we should just start
25 with the September 19, 1997 column. Let's just focus on

1 that for the moment.

2 A Yes, I think it's true for all three columns
3 though.

4 Q Okay. Do you know why the number of CAG C
5 contract stations is so much higher than for other CAGs?

6 A No.

7 Q Would you agree that the number of contract
8 stations for CAG A would be the second highest number, at
9 least for September 1997?

10 A Yes.

11 Q I guess you are going to give me the same answer
12 you just gave.

13 Do you have any idea why the CAG A number would
14 be the second highest?

15 A I really do not. We did not study CAG except to
16 provide responses to OCA.

17 Q Do you know whether there is a very large number
18 of offices in CAGs K and L?

19 A I think K is the highest. I don't think L is very
20 high.

21 Q Do you have any idea why there would be so few
22 contract offices if CAG K has the largest number of offices?

23 A I don't know.

24 Q Could you turn to OCA Interrogatory 15, please,
25 part (a).

1 COMMISSIONER LeBLANC: 50 or 15

2 MS. DREIFUSS: 15, 1-5.

3 THE WITNESS: Yes, I have it.

4 BY MS. DREIFUSS:

5 Q You present a small table at page 9 of 13 of that
6 response.

7 A Yes.

8 Q Are the figures in the table based on the number
9 of boxes in use or the number of boxes installed at
10 classified and contract stations?

11 A I believe that's the boxes in use.

12 Q This would be boxes in use?

13 A Yes. I have it noted here, boxes in use.

14 Q Do you know whether the distribution of box sizes
15 in contract stations would be the same as at classified
16 offices?

17 A No, I only have the box distribution by delivery
18 group or fee group.

19 Q Would you have any reason to expect the average
20 number of boxes in use per contract station to be less than
21 for classified offices?

22 A No.

23 Q Do you have any expectation about that one way or
24 the other?

25 A I have no expectations one way or the other.

1 MS. DREIFUSS: We have no further questions.

2 CHAIRMAN GLEIMAN: Is there any followup?

3 [No response.]

4 CHAIRMAN GLEIMAN: No followup. Are there
5 questions from there bench?

6 [No response.]

7 CHAIRMAN GLEIMAN: No questions from the bench.
8 It does pay to come late in the day, in a sense.
9 Redirect?

10 MR. HOLLIES: I guess I'd like a very brief moment
11 to consult. I think perhaps not, but I would like to check.

12 CHAIRMAN GLEIMAN: Why don't you take a minute to
13 consult and then let us know if you need more time.

14 [Discussion off the record.]

15 MR. HOLLIES: The Postal Service has no redirect.

16 CHAIRMAN GLEIMAN: There's no redirect.

17 As is the case earlier, there can't be any
18 recross, so Mr. Lion, we want to thank you for your patience
19 and your appearance here today, and your contributions to
20 our record, and if there's nothing further that you have to
21 say, you're excused.

22 THE WITNESS: Thank you.

23 MR. HOLLIES: The Postal Service calls Mr. David
24 Treworgy. Please note the pronunciation. It's as if --
25 well, if you broke it into two words, it might be a nasty

1 saying, but in fact that's how it's pronounced.

2 CHAIRMAN GLEIMAN: I have a suspicion that as a
3 Federal official I could get in a lot of trouble. I'll just
4 try and pronounce your name correctly, sir.
5 Whereupon,

6 DAVID E. TREWORGY,
7 a witness, was called for examination by counsel for the
8 United States Postal Service and, having been first duly
9 sworn, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. HOLLIES:

12 Q Mr. Treworgy, I've handed you two copies of what
13 has been marked for identification as USPS-T-22, I believe;
14 is that correct?

15 A That's correct.

16 Q Okay, that's the right number. And I ask, was
17 that -- were those documents prepared by you or under your
18 direction?

19 A Yes, it was.

20 Q Have you filed any errata, formal errata in this
21 proceeding?

22 A No, I have not.

23 Q Do you have any other corrections for your -- for
24 the testimony?

25 A I have two minor corrections.

1 Q Could you tell us what they are, please?

2 A Yes, the first is on page 9, Table 5. The step
3 labeled Step 10 should be labeled Step 9.

4 The second is in Appendix B on input sheet B1,
5 footnote 5 indicates references to USPS-T-5 -- or rather it
6 says USPS-T-15; it should be T-5 instead of T-15.

7 Q And have these changes been incorporated into the
8 two copies of USPS-T-22?

9 A Yes, they have.

10 Q Were you to testify orally on direct testimony
11 today, would your testimony be the same?

12 A Yes, it would.

13 MR. HOLLIES: With that, the Postal Service moves
14 for admission of USPS-T-22 into the record.

15 CHAIRMAN GLEIMAN: Are there any objections?

16 [No response.]

17 CHAIRMAN GLEIMAN: Hearing none, Mr. Treworgy's
18 testimony and exhibits are received into evidence and I
19 direct that they be accepted into evidence. As is our
20 practice, they will not be recorded.

21 [Direct Testimony of David E.

22 Treworgy, Exhibit No. USPS-T-22 was
23 marked for identification and
24 received into evidence.]

25 CHAIRMAN GLEIMAN: Mr. Treworgy, have you had an

1 opportunity to examine the packet of designated written
2 cross-examination that was made available earlier today?

3 THE WITNESS: Yes, I have.

4 CHAIRMAN GLEIMAN: If those questions were asked
5 of you today, would your answers be the same as those you
6 previously provided in writing?

7 THE WITNESS: Yes, they would, with three minor
8 exceptions.

9 CHAIRMAN GLEIMAN: Could you tell us what they
10 are?

11 THE WITNESS: Yes, the first is to
12 OCA-USPS-T-22-4-A. The phrase "has been tested in two
13 capacities" should be changed to "have been tested in two
14 capacities."

15 The second is in USPS-T-22-4-B. The phrase, "data
16 was transmitted" should be changed to "data were
17 transmitted."

18 And the third of three is in OCA-USPS-T-22-5-D.
19 In the first paragraph, the phrase "regarding the proportion
20 of transactions that are a one parcels, two parcels," the
21 word "a" should be removed.

22 CHAIRMAN GLEIMAN: Have those changes been
23 incorporated into the package, Counselor?

24 MR. HOLLIES: They have.

25 CHAIRMAN GLEIMAN: Two copies of the corrected

1 designated written cross-examination of the witness will be
2 given to the reporter and I will direct that they be
3 accepted into evidence and transcribed into the record at
4 this point.

5 [Designation of Written

6 Cross-Examination of David E.

7 Treworgy was received into evidence
8 and transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

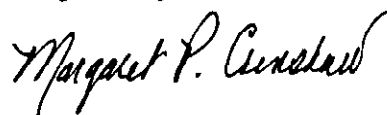
Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS DAVID E. TREWORGY
(USPS-T-22)

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

<u>Party</u>	<u>Answer To Interrogatories</u>
Office of the Consumer Advocate	<p>OCA\USPS: Interrogatories T22-1, 2, 3(a and b) 4-11, 13-19, 20(a) and (c-f), 21-24, 25(a and c), 26(a and c), and 27-29. Also, responses of witness Treworgy to interrogatories previously filed in Docket No. MC97-2, provided in the current proceeding: OCA\USPS-T9-11, 13-15, 17-19, 21-22.</p> <p>NDMS\USPS: Interrogatories T33-20-22 redirected from witness Sharkey.</p> <p>UPS\USPS: Interrogatories T22-1-12.</p>
United Parcel Service	<p>UPS\USPS: Interrogatories T22-4, 5, 7, 8,-9.</p> <p>NDMS\USPS: Interrogatory T33-22 redirected from witness Sharkey.</p> <p>OCA\USPS: Interrogatories T22-3, 5, 6, 9, and 11.</p>

Respectfully submitted,



Margaret P. Crenshaw
Secretary

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NDMS/USPS-T33-20. Please refer to LR-H-114, Distribution of Priority Mail Volume into Delivery Method.

- a. Did you prepare, or participate in any way in the preparation of, LR-H-114?
- b. Unless your answer to preceding part (a) is an unqualified negative, please describe your role with respect to preparation and conduct of the study contained in LR-H-114.
- c. With respect to LR-H-114, are you sponsoring that study?
- d. Please indicate whether any other witness in this docket is sponsoring LR-H-114 into evidence.

RESPONSE.

a-b. No.

c. No.

d. My understanding is that no other witness in this docket is sponsoring LR-H-114.

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NDMS/USPS-T33-21. Please refer to LR-H-114.

- a. Was the study in this library reference performed in-house by Postal Service personnel, or by an outside consultant? If the latter, please identify.
- b. When was the study commenced, and when did it conclude?
- c. Aside from producing the output data contained in Attachment 9 of the study, please indicate the purpose of the study in terms of Priority Mail rate and classification design.

RESPONSE.

- a. The study in this library reference was performed in-house by Postal Service personnel.
- b. The study was conducted in April 1997. The RPW data on which the study is based was collected during FY 1994.
- c. The purpose of the study is to produce certain information presented in USPS-T-22, Input Sheet B-3: Operational Information. Specifically, the study provides estimates of the proportions of delivery confirmation mail items that are delivered by city carriers, by rural carriers, by box section clerks, and as firm holdouts. As explained in my testimony, these results are inputs into the analysis that estimates the unit cost of Priority Mail base delivery confirmation to be \$0.1486 (see USPS-T-22, Worksheet B-8: Volume Variable Costs Summary). This unit cost estimate appears in USPS-T-33, exhibit 33N, line 17 and affects Priority Mail rate and classification design as explained in witness Sharkey's testimony.

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NDMS/USPS-T33-22. Please refer to LR-H-114, Attachment 9, which consists of three pages containing the output data.

- a. Please provide a plain language interpretation of each SG_CODE at the top of each column on each page. (e.g., 011, 012, etc.)
- b. Please indicate whether, where, and how you used the results of this study in your testimony concerning Priority Mail.
- c. (i) What is the maximum weight of the various types of Priority Mail pieces carried by city delivery carriers on their regular routes (distinguish between city delivery routes as necessary), and (ii) what is the weight above which Priority Mail pieces are given to parcel post carriers responsible for parcel delivery?
- d. For Priority Mail pieces that are too heavy or too large for a city carrier on a regular route, and that instead receive parcel delivery, what is the average delivery cost for such pieces?
- e. What is the maximum weight of Priority Mail pieces carried by rural carriers?

RESPONSE.

a.	<u>SG CODE</u>	<u>Description</u>
	011	Small Firm Holdouts
	012	Medium Firm Holdouts
	013	Large Firm Holdouts
	014	Small Box Section
	015	Medium Box Section
	016	Large Box Section
	017	Business & Mixed
	021	Residential & Mixed Foot
	022	Residential Type Delivery
	023	Residential Motorized
	051	Parcel Post & Medium Size Parcel Post
	053	Multi-Carrier Parcel Post
	062	Multi-Carrier Business
	063	Multi-Carrier Business
	071	Multi-Carrier Residential & Mixed
	072	Special Universal Codes
	081	Rural Delivery

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091	CAG K & L Post Offices
111	Small & Medium Special Delivery
123	Large Special Delivery
124	Registered & Certified Mail
141	Film Processing Firms

- b. See my response to NDMS/USPS-T33-21c. The results from the study are aggregated in the following manner to produce the information presented in USPS-T-22, Input Sheet B-3: Operational Information.

<u>USPS-T-22 Input Variable</u>	<u>SG Codes</u>	<u>Volume for SG Codes</u>	<u>USPS-T-22 Estimate</u>
Proportion of DC mail items delivered by city carriers	017,021,022,023,051,053,062,063,071,072,111,123,124,141	539,319,035	70.09%
Proportion of DC mail items delivered by rural carriers	081	68,699,379	8.93%
Proportion of DC mail items delivered by box section clerks	014,015,016,091	75,439,564	9.80%
Proportion of DC mail items that are firm holdouts	011,012,013	86,050,393	11.18%
Total		769,508,371	100.00%

- c. (i-ii) While beyond the scope of my testimony, I understand that a Priority Mail piece carried by a city delivery carrier on a foot route can be no bigger than a shoebox and/or must weigh 2 pounds or less. A Priority Mail piece carried by a city delivery carrier on a park and loop or mounted route can weigh up to 70 pounds, which is the maximum

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weight of any Priority Mail piece accepted by the Postal Service (see USPS-T-33, page 18, lines 5-6). Accordingly, a Priority Mail piece bigger than a shoebox and/or weighing more than 2 pounds is given to a parcel post carrier responsible for parcel delivery only when the delivery point is on a foot route. When the delivery point is on a park and loop or mounted route, a parcel post carrier is normally not responsible for delivery.

- d. While beyond the scope of my testimony, I understand that these costs have not been estimated as part of this filing.

- e. While beyond the scope of my testimony, I understand that the maximum weight of a Priority Mail piece carried by a rural carrier is 70 pounds, which is the maximum weight of any Priority Mail piece accepted by the Postal Service (see USPS-T-33, page 18, lines 5-6).

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OCA/USPS-T22-1. Please refer to your testimony in Docket No. MC97-2 (USPS-T-9) and your testimony in Docket No. R97-1 (USPS-T-22).

- a.** Please list all substantive differences between your testimony in Docket No. MC97-2 (USPS-T-9) and your testimony in Docket No. R97-1 (USPS-T-22). Give full citations to page and line.
- b.** Please explain the reasons for the changes, giving particular attention to text and other material in your testimony in Docket No. MC97-2 (USPS-T-9) that no longer appear in your testimony in Docket No. R97-1 (USPS-T-22).

RESPONSE.

a-b. The differences between my testimony in Docket No. MC97-2 (USPS-T-9) and Docket No. R97-1 (USPS-T-22) are caused by three environmental changes:

- 1.** The Postal Service has now determined to purchase over 300,000 hand-held scanners. Under this new operational environment, information for each DC mail item barcode will be captured at the delivery point with a hand-held scanner. By contrast, the DC proposal in Docket No. MC97-2 involved peel-off DC labels scanned at the end of the day in the office by the accountable clerk using the existing Express Mail (CTT) scanners. This operational change alters both the activities performed for delivery confirmation and the people performing them; each of these in turn impacts the costs for delivery confirmation.
- 2.** Docket No. R97-1 proposes offering delivery confirmation for Priority Mail in addition to Standard B; Docket No. MC97-2 proposed the service only for the latter of these.
- 3.** The base year changed from 1995 (Docket No. MC97-2) to 1996 (Docket No. R97-1). The test year shifted from 1997 (Docket No. MC97-2) to 1998 (Docket No. R97-1). These changes required that many inputs be updated.

The differences between my testimonies caused by these environmental changes are detailed below in a section by section analysis (page references are to the current testimony, USPS-T-22).

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I. PURPOSE AND SCOPE OF TESTIMONY (page 1, line 1 to page 1, line 19)

The purpose and scope of my testimony has expanded to provide two additional unit costs estimates, one for "Priority Mail base delivery confirmation" and one for " Priority Mail retail surcharge delivery confirmation" (page 1, lines 2-9).

I also provide cost estimates of certain capital depreciation and program costs related to scanning equipment (page 1, lines 10-14). This was not necessary in my previous testimony because, under that operational environment, the Postal Service planned to utilize existing CTT scanners for delivery confirmation.

II. NEW SCANNERS TO BE DEPLOYED BY THE POSTAL SERVICE (page 1, line 20 to page 4, line 3)

This section is entirely new; its purpose is to describe the new hand-held scanners the Postal Service plans to purchase.

III. OVERALL APPROACH TO DEVELOPMENT OF COST ESTIMATES (page 4, line 4 to page 4, line 18)

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

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IV. DELIVERY CONFIRMATION OPERATIONS (page 5, line 1 to page 10, line 20)

A. Introduction

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

B. Acceptance Operations

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

C. Delivery Operations

The substantive changes to this section reflect the different operational processes for barcode scanning with the new hand-held scanners. In table 2 of my Docket No. MC97-2 testimony, the following actions:

- Step 2: Carrier peels off barcode label from parcel and affixes it to Form 3849.
- Step 5: Carrier turns in Form 3849 to accountable clerk along with other items such as collection box keys; funds collected for delivery of COD and postage due; and Certified, Registered, and Express Mail delivery receipts.
- Step 6: Scanning clerk scans DC barcode on Form 3849 in same manner as barcodes on Express Mail receipts to record final delivery.

are replaced in Docket No. R97-1 with:

- Step 2: Carrier scans DC barcode, keys status as "delivered," and verifies ZIP Code.

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In table 3 of my Docket No. MC97-2 testimony, the following actions:

- Step 4: Scanning clerk scans DC barcode on undelivered parcel to record attempted delivery.
- Step 8: Window clerk peels off barcode label from parcel and affixes it to Form 02.
- Step 9: After windows close for day, scanning clerk scans DC barcode on Form 02 in same manner as barcodes on Express Mail receipts to record final delivery.

are replaced in Docket No. R97-1 with:

- Step 3: Carrier scans DC barcode on attempted delivery item, keys status as "attempted," and verifies ZIP Code.
- Step 8: Window clerk scans DC barcode, keys "delivered" status, and verifies ZIP Code.

Tables 4 and 5, which discuss comparable steps for the box clerk, exhibit similar changes that reflect the shift from peeling off barcodes from DC mail items to scanning the barcodes directly on the items with hand-held scanners.

D. Provision of Delivery Confirmation Information to Mailers

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

V. DELIVERY CONFIRMATION VOLUME VARIABLE COSTS BY COST CATEGORY
(page 11, line 1 to page 17, line 9)

A. Introduction

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

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B. Postal Service Labor and Associated Non-Labor Costs

The only substantive change to this section is in subsection (ii)(b). Unlike in Docket No. MC97-2, the number of transactions for activities in Docket No. R97-1 is proportional with volume, so there is no need for a coverage factor. Accordingly, "transactions" in all cases refers to the total volume handled by a specific activity.

C. Non-Labor Costs

The only substantive change to this section is in subsection (iii). In the previous testimony, both blank and preprinted labels and Forms 3849 and 02 were to have been used. In Docket No. R97-1, only one label and no forms are necessary.

VI. SUMMARY OF DELIVERY CONFIRMATION VOLUME VARIABLE COSTS (page 17, line 10 to page 17, line 14)

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

VII. DISTRIBUTION KEY FOR SCANNER INFRASTRUCTURE CAPITAL AND PROGRAM COSTS (page 18, line 1 to page 18, line 16)

This section was not included in Docket No. MC97-2 because existing CTT scanners were used to scan each mail piece; therefore no new equipment was required. In Docket

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No. R97-1, over 300,000 scanners and related equipment are planned to be acquired by the Postal Service; this section of the testimony provides a summary of those costs.

APPENDIX A: SPECIAL STUDIES

In Docket No. MC97-2, eight activities were measured by time and motion studies, while in Docket No. R97-2 only three of those eight activities are applicable. The following four activities are no longer applicable because of the changes in scanning procedures:

- Carrier peels off label from parcel and affixes it to Form 3849
- Box section clerk peels off label from parcel and affixes it to Form 02
- Window clerk peels off label from parcel and affixes it to Form 02
- Scanning clerk scans one barcode on Form 3849 or Form 02

The following fifth activity is no longer applicable because full initialization time is used as a proxy for initializing the hand-held scanner rather than the DC-specific initialization time:

- Scanning clerk initializes scanner (DC initialization time only)

DELETED SECTION: VOLUME SENSITIVITY OF DELIVERY CONFIRMATION UNIT
ATTRIBUTABLE COSTS (page 22, line 10 to page 23, line 9)

This section does not appear in Docket No. R97-1 because unit costs associated with *delivery confirmation* are not sensitive to volume changes. In Docket No. MC97-2, initialization activities were not proportional to volume because only one initialization occurred per group of forms/parcels and therefore unit costs decreased as volume

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increased. In Docket No. R97-1, the scanner must be initialized before each piece is scanned and therefore unit costs remain constant even as volume increases.

APPENDIX A: SPECIAL DATA COLLECTION STUDIES

MC97-2 (USPS-T-9) Spreadsheets		Crosswalk to R97-1 (USPS-T-22) Spreadsheets	Reason for Change
Data Sheet A-1	Carrier Peels Off Label From Parcel and Affixes It to Form 3949	Does not appear in R97-1	DC label remains on parcel and scanned by carrier at delivery point
Data Sheet A-2	Box Section Clerk Peels Off Label From Parcel and Affixes It to Form 02	Does not appear in R97-1	DC label remains on parcel and scanned by box section clerk at delivery point
Data Sheet A-3	Window Clerk Peels Off Label From Parcel and Affixes It to Form 02	Does not appear in R97-1	DC label remains on parcel and scanned by window clerk
Data Sheet A-4	Scanning Clerk Initializes Scanner	Appears in Data Sheet A-1; "DC share of initialization" column deleted	"Full initialization" used as proxy for scanner initialization time; "DC share of initialization" (MC97-2) only necessary when Express Mail and DC items scanned concurrently
Data Sheet A-5	Scanning Clerk Scans One DC Parcel	Appears in Data Sheet A-2	No substantive change
Data Sheet A-6	Scanning Clerk Scans One Barcode on Form 3849 or Form 02	Does not appear in R97-1	DC label not removed from mail item, so Forms 3849 and 02 not utilized
Data Sheet A-7	Window Clerk Affixes DC Label to Parcel and Scans Barcode	Appears in Data Sheet A-3	No substantive change
Data Sheet A-8	Proportion of Standard B Items Undeliverable by Box Section Clerk	Appears in Data Sheet A-4	No substantive change

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APPENDIX B: SUPPORTING SPREADSHEETS

MC97-2 (USPS-T-9) Spreadsheets		Additions/Deletions/ Changes in R97-1 (USPS-T-22)	Reason for Change
Input Sheet B-1	Activity Transaction Times	1. Peel/stick activities and separate scanning clerk not included 2. Scanning time (11.82) equals initialization time (9.36) + scan time (2.46) from Data Sheets A-1 and A-2 3. Box section clerk overhead time factor based on MODS cost pools 4. Updated overhead time factors for city carrier and window clerk	1. City and rural carriers, box section clerks, and window clerks scan all pieces at delivery point 2. An initialization and a scan occur when each DC mail item scanned 3. New mail processing cost methodology based on MODS cost pools 4. Base year changed from 1995 (MC97-2) to 1996 (R97-1)
Input Sheet B-2	Wage Rates and Piggyback Ratios by Craft	1. Accountable clerk information not included 2. Updated wage rates and piggyback ratios	1. Carriers, box section clerks, and window clerks scan all mail pieces at delivery point 2. Test year changed from 1997 (MC97-2) to 1998 (R97-1)

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Input Sheet B-3	Operational Information	<p>1. Updated number of delivery days</p> <p>2. Postal facilities with scanner not included</p> <p>3. Delivery method information for Priority Mail used instead of Standard B (MC97-2)</p>	<p>1. Test year changed from 1997 (MC97-2) to 1998 (R97-1)</p> <p>2. All delivery points will be equipped with scanners</p> <p>3. MC97-2 proposed delivery confirmation for Standard B only; R97-1 proposes DC for Priority Mail and Standard B. Priority Mail accounts for most DC volume and therefore used as proxy for delivery method.</p>
Input Sheet B-4	Volumes	Priority Mail DC volume (electronic and manual) included	R97-1 proposes DC for Priority Mail and Standard B
Input Sheet B-5	Postmaster Costs	<p>1. Updated postmasters cost per dollar of revenue</p> <p>2. Priority Mail base and retail surcharge columns included</p>	<p>1. Base year changed from 1995 (MC97-2) to 1996 (R97-1)</p> <p>2. R97-1 proposes DC for Priority Mail and Standard B</p>
Input Sheet B-6	Corporate Call Management Costs	<p>1. Corporate call management projected costs deflated to 1998 dollars</p> <p>2. Proportion of DC manual service placing call to call center updated</p>	<p>1. Test year changed from 1997 (MC97-2) to 1998 (R97-1)</p> <p>2. Base year changed from 1995 (MC97-2) to 1996 (R97-1)</p>
Input Sheet B-7	Information Systems Costs	<p>1. Scans per DC mail item updated</p> <p>2. Priority Mail base and retail surcharge columns included</p>	<p>1. Total volumes and attempted delivery volumes changed due to the addition of Priority Mail and therefore scans per parcel affected</p> <p>2. R97-1 proposes DC for Priority Mail and Standard B</p>

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Input Sheet B-8	Supplies Costs	Only one type of DC label proposed. No cost for Forms 3849 and 02.	In MC97-2, peel-off blank and preprinted labels provided to electronic and manual customers. In addition, all labels placed on Form 3849 or 02. In R97-1, labels only provided to manual customers and no Forms 3849 and 02 required because peel-off labels not used
Worksheet B-1	Delivery Activities Transaction Times	Updated activities and transaction times (see detail for input sheet B-1)	See explanations for input sheet B-1
Worksheet B-2	Volumes by Delivery Method	Updated volumes by delivery method (see detail for input sheets B-3 and B-4)	See explanations for input sheets B-3 and B-4
Worksheet B-3	Delivery Activities Transaction Volumes	Based on number of transactions, which is equal to DC volume for each activity	Number of transactions for some activities in MC97-2 did not vary proportionally with volume and therefore a coverage factor was applied to determine number of estimated transactions. Number of transactions for activities in R97-1 vary proportionally with volume and therefore no coverage factor required.
Worksheet B-4	Delivery Activities Unit Cost	Same methodology as MC97-2	No substantive change
Worksheet B-5	Manual Acceptance Transaction Time	Updated transaction time (see detail for input sheet B-1)	See explanations for input sheet B-1
Worksheet B-6	Manual Acceptance Transaction Volume	Same methodology as MC97-2	No substantive change
Worksheet B-7	Manual Acceptance Unit Cost	Same methodology as MC97-2	No substantive change
Worksheet B-8	Unit Attributable Costs Summary	Priority Mail base and retail surcharge columns included	R97-1 proposes DC for Priority Mail and Standard B
Worksheet B-9	Volume Sensitivity of Unit Attributable Costs	Does not appear in R97-1	Unit costs do not vary with volume

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APPENDIX C: DISTRIBUTION KEY FOR SCANNER RELATED AND PROGRAM COSTS

This section is entirely new. In Docket No. MC97-2, no capital expenditures were necessary for the implementation of delivery confirmation because existing infrastructure (CTT scanners) was to have been used. In Docket No. R97-1, over 300,000 hand-held scanners and related equipment are planned for purchase; therefore these costs must be estimated.

DELETED SECTION: APPENDIX C: DELIVERY CONFIRMATION LABELS AND FORMS

In Docket No. MC97-2, reproductions of three DC labels (manual DC label, electronic preprinted DC label, and blank DC label) and two forms (3849 and 02) were depicted. In Docket No. R97-1, only one label is used and no forms are used. The reason for these changes is that each DC mail item is scanned at its delivery point by a hand-held scanner, not by a CTT scanner in the office as in Docket No. MC97-2.

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OCA/USPS-T22-2. Please refer to your testimony in Docket No. MC97-2 (USPS-T-9) and your testimony in Docket No. R97-1 (USPS-T-22). At pages 1-2 of the latter, you state that the Postal Service is in the process of purchasing and deploying hand-held barcode scanners. Every city and rural carrier route will receive a dedicated scanner; other postal locations will receive them as well. "The Postal Service plans to deploy approximately 300,000 scanners over the next 18 months. It is planned that the scanners ultimately will serve a variety of purposes, including delivery and collection management, service performance measurement, and mail item information acquisition. Delivery confirmation, the focus of this testimony, is an example of mail item information acquisition."

- a. Please give the date when the decision was made to use the new scanners for delivery confirmation (hereinafter, "DC").
- b. Was there a belief that the technology as described in Docket No. MC97-2 to be used for DC was inadequate? Please explain.
- c. Please submit all documents relating to the decision to use the new scanners for delivery confirmation.
- d. What other "mail item information acquisition" uses are planned for the scanner? Include in your response any such uses that are being considered as possibilities but for which plans are not yet established.

RESPONSE:

- a. On May 6, 1997, the Board of Governors approved funds to purchase the carrier scanners and related infrastructure.
- b. There was not a belief that the technology as described in Docket No. MC97-2 was inadequate for delivery confirmation. At the time of the filing of Docket No. MC97-2, the Board of Governors had not approved funding for the carrier scanners. While the technology described in Docket No. MC97-2 is adequate for delivery confirmation, it does not provide some mailers with as convenient service as does the new carrier

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scanner infrastructure (see also LR-H-247, Material Responsive to Interrogatory OCA/USPS-T22-2c, Section 3.0 Alternatives).

- c. See LR-H-247, Material Responsive to Interrogatory OCA/USPS-T22-2c.
- d. See USPS-T-22 (page 3, lines 10-14) for the other mail item information acquisition uses for the scanner. See also my response to UPS/USPS-T22-4a.

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OCA/USPS-T22-3. Please refer to your direct testimony in Docket No. MC97-2 at 23, Table 7, where you list final total unit attributable costs at \$0.207541 for electronic DC and \$0.495545 for manual DC. In the earlier proceeding, the proposed rates for electronic and manual DC were \$0.25 and \$0.50, respectively. In your direct testimony in this docket, Table 7 at page 17, you show total volume variable unit costs as \$0.1486 and \$0.3349 respectively. In this proceeding, the proposed rates are \$0.25 and \$0.60, respectively.

- a. Please confirm. If not confirmed, please explain.
- b. It appears from the above figures that the ratio of manual DC to electronic DC costs has gone down between the two proceedings (from about 2.387/1.0 in Docket No. MC97-2, to 2.254/1.0 in this docket) but that the proposed fee ratios have gone in the opposite direction (from 2.0/1.0 to 2.4/1.0). Please explain.
- c. What policy decisions entered into the proposed pricing of electronic delivery confirmation relative to manual delivery confirmation in this docket? Explain fully.
- d. Please submit all documents relating to (c).

RESPONSE:

- a. Not confirmed. My testimony in Docket No. MC97-2 estimated costs for electronic and manual delivery confirmation for Standard B mail items only, so the appropriate comparison is between the "Electronic" and "Manual" columns in the previous table 7 and the "SBE DC" and "SBM DC" columns in the current table 7. The volume variable unit cost estimates presented in the latter table are \$0.1499 and \$0.4840, respectively.

As noted in the footnote to table 7 in the current filing, \$0.3349 does not represent the volume variable unit cost of providing manual delivery confirmation for Priority Mail.

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Rather, it indicates only the cost of the "retail surcharge." The total volume variable unit cost for manual Priority Mail delivery confirmation is \$0.4835 ($\$0.1486 + \0.3349).

b. See my response to OCA/USPS-T22-3a for clarification on the relative costs of delivery confirmation between Docket No. MC97-2 and the current filing.

c-d. Redirected to witness Plunkett.

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OCA/USPS-T22-4. Please explain whether the computer software and hardware necessary for the proposed delivery confirmation service has [sic] been tested.

- a. Describe the nature of the testing.
- b. Describe the results of the testing.
- c. If any documents summarize the topics addressed in (a) and (b) herein, please supply them.

RESPONSE:

- a. The computer software and hardware necessary for the proposed delivery confirmation service ^{have} been tested in two capacities. In October and November of 1996, carriers in Florida were given hand-held scanners to be used for the scanning and transmission of delivery information. In addition, since 1996 several large shippers have been participating in an electronic Priority Mail delivery confirmation test to obtain delivery information.
- b. In Florida, carriers successfully scanned barcodes and data ^{were} transmitted as part of delivery operations. The large shippers also successfully have been obtaining delivery information electronically.
- c. No formal documents were produced. Results were based on review of transmission data.

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OCA/USPS-T22-5. In the instant case, you discuss the window acceptance study at pages A-3 to A-4, and use an "average baseline transaction time" for window acceptance of a parcel of 43.17 seconds. Please refer to your response in Docket No. MC97-2 to OCA/USPS-T9-2(b). There you differentiate the 43.17 seconds transaction time reported in your testimony from the La Morte testimony in Docket No. R90-1, which reported a "single transaction, weigh and rate" transaction time of 78.16 seconds.

- a. Do you have any alterations in the analysis presented in your response to OCA/USPS-T9-2(b)? If so, please explain.
- b. In Docket No. MC97-5, Postal Service witness Brehm calculates retail transaction times for window parcel service using the La Morte study. See his direct testimony at 13, Table 5. Please explain why the Postal Service uses that study in one proceeding and disclaims it in another.
- c. You also differentiated the La Morte study on the basis that the study reported in your testimony involved relatively "clean" transactions. However, it would seem that in actual practice, delivery confirmation will involve such real life situations as "extended greetings" and "requests." Please comment on why the La Morte study would not be a more reliable indicator of actual transaction times.
- d. You further differentiated the La Morte study on the basis that "the 78.16 seconds includes multi-parcel transactions; my study timed only single parcel transactions." However, we are unable to discern that the La Morte study involved multi-parcel transactions. See La Morte Direct Testimony at 24 in Docket No. R90-1, paragraph 3; La Morte Exhibit A-3, labeled "Profile of One-Element Transactions." In any event, would not a study of transactions times based on single and multi-parcel transactions have been more representative of what can be expected once the delivery confirmation system is up and running? Please comment.
- e. The La Morte study had a weigh/rate sample size of 1,102 transactions. Your study used 124 observations. See your direct testimony herein at A-4. Would you agree that, other things being equal, a study with a larger sample size is more likely to be representative of the universe of transactions?
- f. La Morte describes a postal transaction as involving a "set-up" component (greeting the customer, listening to the request for services, accepting money, and thanking the customer at the end of the transaction) and a "services" component (e.g., accepting a parcel). La Morte Direct Testimony in Docket No. R90-1 at 11-12. Do you agree with her methodology, and her conclusion that "on average, the time associated with this set-up

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component is constant at 31.7 seconds across all transaction types?" La Morte Direct Testimony at 12. If not, why not?

- g. La Morte apparently included within total transaction time a certain amount of time spent concluding the transaction "after the customer has paid and left" (e.g., taking a parcel to a processing area for distribution). See La Morte Direct Testimony at 10. Did the acceptance study used in the instant proceeding also record this portion of the transaction time?

RESPONSE:

- a. No.
- b. My testimony does not disclaim the La Morte study. Witness Brehm's methodology appropriately relies upon the La Morte study while my distinct approach appropriately does not.

Both testimonies seek to accomplish a similar result, estimating the incremental (or delta) transaction time for a new service. In each case, the delta is estimated by comparing "before" and "after" transactions, that is, a transaction without the new service and a transaction with the new service. To insure accurate estimation of the delta between the two transactions, it is essential that the "before" and "after" transactions be comparable in all respects except for the addition of the new service.

In Docket No. MC97-5, the "after" transaction time recorded is that of a "mystery shopper" conducting a transaction without the knowledge of the window clerk. Witness

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Brehm was able to record actual, "mystery shopper" transactions because he observed an existing product (in contrast to delivery confirmation). My understanding is that witness Brehm considered the most appropriate "before" transaction time to compare with this time to be that presented in the La Morte study (78.16 seconds). Please see his responses to OCA/USPS-T2-2b and OCA/USPS-T2-3a in Docket No. MC97-5 for further clarification.

In Docket No. R97-1, the "after" transaction time recorded is not that of a "mystery shopper" conducting a transaction without the knowledge of the window clerk. Rather, the window clerk was fully aware that the transaction was being observed for a specific transaction. This was because delivery confirmation was not an existing service at the time of the study (in contrast to the proposed provisional packaging service).

Consequently, transactions were simulated. The most appropriate "before" transaction time to compare with this time is a comparable, simulated transaction.

- c. The La Morte study in many ways might provide a more reliable indicator of actual *total* transaction times. However, the critical estimate for the purpose of delivery confirmation window service costs is not *total* transaction time, but *incremental* transaction time for the clerk to handle DC-specific activities. Situations such as extended greetings and requests occur whether or not the customer purchases delivery confirmation, and

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consequently should not be included in the estimate of incremental transaction time for the special service.

- d. I agree that a study of transaction times based on single and multi-parcel transactions may be more representative of what can be expected once the delivery confirmation system is up and running. Conducting such a study, however, would require developing assumptions regarding the proportion of transactions that are ~~a~~ one parcel, two parcels, three parcels, etc. in order to produce a weighted average transaction time. As a proposed new service, no such historical information is available for delivery confirmation.

If multi-parcel delivery confirmation transactions were to be studied, I expect that the acceptance process would exhibit some economies of scale. That is, as the number of parcels in a transaction increased, the incremental transaction time required for delivery confirmation would be not rise in proportion (e.g., the incremental DC time for a two-parcel transaction would likely be less than twice the incremental DC time for a one-parcel transaction). My transaction time estimates do not capture these potential economies of scale. The implication is that, to the extent that multi-parcel DC transactions occur, my transaction time estimates (and corresponding costs) are conservatively high in the direction of fully covering volume variable costs.

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- e. Yes. However, it should be noted that the results of the La Morte study (with sample size 1,102) cannot be directly compared to the results of the delivery confirmation window acceptance study (sample size 124) because they measured different types of transactions.
- f. Yes.
- g. Yes. The time recorded for delivery confirmation transactions ended when the clerk was ready to begin serving the next customer. Some observed transactions included the lengthy time required for the clerk to leave the window, walk to the back room, place the parcel in the appropriate container, and return to the window.

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OCA-USPS-T22-6. Please refer to your direct testimony at 9 where you state "All DC mailers may use the Internet to monitor the status of DC items." See also your response to Interrogatory OCA/USPS-T9-3 in Docket No. MC97-2, where you state that manual delivery confirmation customers will be able to obtain delivery confirmation via the Internet as well.

- a. Please describe how this system will work for manual delivery confirmation customers.
- b. Will a manual delivery confirmation customer be able to use the Internet to access the Postal Service Information Systems Service Center?
- c. If access to delivery confirmation information via the Internet will be possible for manual delivery confirmation customers, how will those costs differ from those using the corporate call management system?
- d. What proportion of manual delivery customers likely will use the Internet to obtain delivery confirmation information?

RESPONSE:

- a. My understanding is that the system will work in similar fashion to the current process for Express Mail customers. Please refer to the appropriate screens at "www.usps.gov/cttgate" for details.
- b. The Internet will provide manual customers with DC information. My understanding is that the source of this information is a database housed at the Postal Service Information Systems Service Center.
- c. While I have not developed estimates of the cost of obtaining delivery confirmation via the Internet, I expect that it would be less than that of using the corporate call management system.

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- d. While I do not have specific data on this proportion, I believe that Internet usage by manual customers is likely to be small at first but increase over time.**

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OCA-USPS-T22-7. Please refer to your response to Interrogatory OCA/USPS-T9-4(a) in Docket No. MC97-2. OCA asked for the protocols or designs for two studies still relevant to the proposal, the scanning study and the window acceptance study. You stated that "[t]he protocols and designs for the studies are presented in appendix A; additional documents beyond these have not been developed."

- a. Appendix A to your direct testimony in both this proceeding and in Docket No. MC97-2 provide results of the studies, as well as some description of how the studies were carried out. However, Appendix A does not constitute a protocol or a design of any study. Study protocols or designs are normally formulated prior to the initiation of any study. Is it your testimony that the protocols and designs of the studies (e.g., the instructions for carrying it out) were done orally? If it is not, please supply the documents requested initially.
- b. Apparently Price Waterhouse assisted in carrying out the studies. See your direct testimony at A-3. Does Price Waterhouse have protocols or designs for the studies? If so, please request them and supply them for the record here.

RESPONSE:

- a-b. While protocols and/or designs normally are formulated prior to a study, in this case, the studies were developed and carried out under time constraints severe enough to limit advance development. High quality, reliable results were ensured by two important characteristics of the data collection studies: 1) the protocols and designs were relatively straightforward in nature, and 2) the studies were carried out by a small cadre of data collectors who both designed and implemented the efforts.

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OCA/USPS-T22-8. Your response to OCA/USPS-T22-1(a-b) in this docket reports that "Docket No. R97-1 proposes offering delivery confirmation for Priority Mail in addition to Standard B; Docket No. MC97-2 proposed the service only for the latter of these." In Docket No. MC97-2 we asked a series of questions aimed at why delivery confirmation was not being offered for First-Class Mail, Priority Mail, Periodicals Mail, and Standard A Mail. Due to the termination of that proceeding, answers to OCA/USPS-T9-11-22 were never received.

- a.** Please supply answers to OCA/USPS-T9-11-22 (except for Interrogatories 12, 16 and 20, which relate specifically to Priority Mail). Please note that page number references have changed between proceedings; please ascribe the interrogatories' page references to your direct testimony in Docket No. MC97-2 to the corresponding direct testimony offered in this docket.
- b.** Was consideration given to offering delivery confirmation for First-Class Mail, Periodicals Mail, and Standard A Mail? If so, please describe. If not, why not?
- c.** Please submit all documents relating to the inquiries in (b).

RESPONSE:

- a.** My responses to interrogatories OCA/USPS-T9-11-22 (except for 12, 16 and 20), Docket No. MC97-2, are attached to this response.
- b.** As with most decisions, no single factor controlled the Postal Service's decision to provide delivery confirmation only for Priority Mail and Standard B. Decision making is inherently a subjective mix of factors. The goal of delivery confirmation is to meet the needs of expedited and package mailers. The proposed delivery confirmation service for Priority Mail and Standard B is designed to satisfy these mailers.

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- c. The Postal Service's decision was affirmative in nature—that is, to provide delivery confirmation to expedited and package mailers. As such, my understanding is that no documents address extending delivery confirmation to other types of mail.

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OCA/USPS-T22-9. Please refer to your testimony at page 1, lines 10 and 11, concerning the estimate of certain costs related to scanning equipment.

- a. Please confirm that the Postal Service has awarded a firm-fixed price contract to Lockheed Martin Federal Systems (herein Lockheed Martin) for scanners. If you do not confirm, please explain.
- b. Please confirm that the contract to Lockheed Martin was valued at \$218 million. If you do not confirm, please explain and provide the correct figure.
- c. Please confirm that the contract to Lockheed Martin was for the purchase of 300,000 scanners. If you do not confirm, please explain and provide the correct figure.
- d. Please confirm that the contract to Lockheed Martin will involve the integration and deployment, and in-office computer systems infrastructure, of scanners at 32,000 postal facilities. If you do not confirm, please explain and provide the correct figure.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Not confirmed. The contract to Lockheed Martin will involve the integration and deployment, and in-office computer systems infrastructure, of scanners at more than 32,000 postal facilities.

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OCA/USPS-T22-10. Please refer to your Worksheet C-1, concerning the scanning infrastructure capital and program costs.

- a. Please confirm that the capital and program costs listed in Worksheet C-1 can be characterized as the purchase, deployment and integration of scanners, and development of in-office computer systems infrastructure. If you do not confirm, please explain.
- b. Please confirm that figure, \$185,543,800, represents the estimated total capital and program costs. If you do not confirm, please explain.

RESPONSE:

- a. Partially confirmed. The capital and program costs listed in Worksheet C-1 include the purchase, deployment and integration of scanners, and development of in-office computer systems infrastructure. In addition, the worksheet includes call center development, training, and other miscellaneous costs. See also my response to UPS/USPS-T22-7.
- b. Not confirmed. The figure \$185,543,800 represents only those capital and program costs projected to affect the Test Year.

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OCA/USPS-T22-11. Please refer to your Worksheet C-1, concerning the scanning infrastructure capital and program costs. Please confirm that the estimated "Total capital and program costs" of \$185,543,800, and the \$218 million contract awarded to Lockheed Martin are comparable figures. If you do not confirm, please explain the relationship of these two figures, and reconcile any differences.

RESPONSE:

Not confirmed. The \$218 million Lockheed Martin contract includes only capital costs, not program costs. Thus, any comparison with Worksheet C-1 must be restricted to the \$65,313,200 in capital costs rather than the \$185,543,800 total capital and program costs.

The \$218 million figure differs from the \$65.3 million figure in two ways. First, \$65.3 million represents only those capital costs estimated to be reported as depreciation in the Test Year; \$218 million represents a total purchase amount, not an appropriate depreciation figure. Second, the capital purchases procured through the Lockheed Martin contract represent a subset of all capital purchases planned for the delivery confirmation program.

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OCA/USPS-T22-13. Please refer to Input Sheet B-3, and the 5 percent of delivery confirmation mail items undeliverable by carrier.

- a. Please confirm that the 5 percent of delivery confirmation items undeliverable by the carrier refers to both city and rural carriers. If you do not confirm, please explain.
- b. Please identify the "several sources" indicated in note 2 to Input Sheet B-3 that were reviewed in developing this estimate. If those sources are documents not provided with the Postal Service's request in this proceeding, please provide a copy of each such document. If those sources are Postal Service employees, or contractors of the Postal Service, please identify those employees or contractors.
- c. Please identify and explain those considerations that lead you to believe the 5 percent figure represents a reasonable estimate.
- d. Is it your testimony that 95 percent (1 - .05) of Standard B and Priority Mail items are delivered by city and rural carriers? If you answer in the negative, please explain.

RESPONSE:

- a. Confirmed.
- b. The sources were not specific documents. Rather, I spoke with Postal Service Delivery personnel and Price Waterhouse data collectors who rode with city and rural carriers. Knowledgeable officials in Delivery provided information which was either specific to one mailer or which was not fully representative of all delivery situations. Price Waterhouse data collectors offered first hand knowledge from riding with city and rural carriers in Florida and Northern Virginia, but no specific information on undeliverable Standard B and Priority Mail was collected.

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- c. Information from Postal Service Delivery personnel and Price Waterhouse data collectors (as discussed in OCA/USPS-T22-13b) in conjunction with personal observation have led me to believe that the 5 percent figure represents a reasonable estimate for undeliverable items by city and rural carriers.
- d. Confirmed, based on my understanding of the question. To clarify, it is my testimony that approximately 95 percent of Standard B and Priority Mail items addressed to customers served by city and rural carriers are successfully delivered by the carrier. It is not accurate to say that approximately 95 percent of Standard B and Priority Mail items are delivered by city and rural carriers because a substantial portion are delivered to PO boxes, over the window, and through other means.

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OCA/USPS-T22-14. Please refer to Worksheet B-3, and the figures, 12,346,993 and 4,478,707, in the column entitled "Transactions", and Worksheet B-2.

- a. Please confirm that the figure, 12,346,993, is obtained from the box section "Delivered" volume of 4,112,282 plus the firm holdouts "Delivered" volume of 6,861,985 plus the firm holdouts "Attempted" volume of 1,372,726 from Worksheet B-2. If you do not confirm, please explain.
- b. Please confirm that the figure, 4,478,707, is obtained from box section "Attempted" volume of 3,105,980, and the firm holdouts "Attempted" volume of 1,372,726 from Worksheet B-2. If you do not confirm, please explain.
- c. Please explain the rationale for including the firm holdouts "Attempted" volume of 1,372,726 in the "Transactions" figure of 12,346,993.
- d. Please explain the rationale for having the box section clerk scan the firm holdouts "Attempted" volume twice.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c-d. The box section clerk does not scan the firm holdouts "Attempted" volume twice per se; the first time is an attempted scan, the second time is a delivered scan. The inclusion of the "Attempted" volume of 1,372,726 in the "Transactions" figure of 4,478,707 represents the attempted scan for the 1,372,726 items that cannot be successfully delivered the day they arrive at the delivery unit. The inclusion of the "Attempted"

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volume of 1,372,726 in the "Transactions" figure of 12,346,933 represents the delivered scan of the same 1,372,726 items that were previously unsuccessfully delivered.

Note that in Worksheet B-3, the number of transactions for "Window clerk scans delivered DC mail item barcode" is the sum of "Attempted" volume for city carriers, rural carriers, and the box section. Each of these "Attempted" volumes appears twice in the worksheet; once to represent the attempted scan and once to represent the delivered scan. Similarly, firm holdouts "Attempted" volume also appears twice as explained above.

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OCA/USPS-T22-15. Please refer to Input Sheet B-7, and the "Scans per delivery confirmation parcel." Please confirm that the ratio of 1.1003 reflects the fact that 1) for parcels where delivery is effected by the carrier, the delivery confirmation barcode will be scanned once by the carrier, and 2) for parcels where delivery is attempted by the carrier, the delivery confirmation barcode will be scanned twice, once by the carrier when delivery is attempted and a second time when the parcel is "delivered" to the recipient by the window clerk. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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OCA/USPS-T22-16. Please refer to Input Sheet B-7, and the "Mailer manifest toll-free line charge" of \$0.0008. Please show the derivation of this figure. Please show all calculations and provide citations to any figures used.

RESPONSE:

Part 1: Set-up costs			Source
1	Set-up time/call	1 minute	USPS Information Systems
2	Toll charge/minute	\$0.07	USPS Information Systems
3	Set-up cost/call	\$0.07	Line 1 * line 2
4	Number of customers	39	USPS LR-H-163, p. 222
5	Dial-up days	250	5 days/week excluding holidays
6	Daily dial-ups/customer	2	1 upload and 1 download/day
7	Annual set up costs	\$1,365	Line 3 * line 4 * line 5 * line 6
Part 2: Data transmission costs			Source
8	Transfer rate (records/minute)	1,500	USPS Information Systems
9	Volume of Standard B electronic delivery confirmation	4,404,949	USPS-T-22 Input Sheet B-4
10	Daily upload volume/customer	452	Line 9 / (line 4 * line 5)
11	Daily upload time/customer (minutes)	0.301	Line 10 / line 8
12	Daily download volume/customer	4,518	Line 10 * 10 (assumes each customer retrieves previous 10 days records each day)
13	Daily download time/customer (minutes)	3.012	Line 12 / line 8
14	Total daily transfer time/customer (minutes)	3.313	Line 11 + line 13
15	Annual data transfer time/customer (minutes)	828	Line 14 * line 5
16	Annual data transfer cost/customer	\$58	Line 15 * line 3
17	Total annual data transfer cost	\$2,261	Line 16 * line 4
Part 3: Unit volume variable cost calculation			Source
18	Set-up costs	\$1,365	Line 7
19	Data transmission costs	\$2,261	Line 17
20	Total	\$3,626	Line 18 + line 19
21	Volume variable unit cost	\$0.0008	Line 20 / line 9

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OCA/USPS-T22-17. Please refer to your response to OCA/USPS-T22-1, at page 11, and Exhibit C-2 in your testimony from Docket No. MC97-2.

- a. In your response to OCA/USPS-T22-1, you state that "only one label is used . . ." Please confirm that the label identified in your response is the label shown in Exhibit C-2. If you do not confirm, please explain and provide a copy of the label identified.
- b. With respect to Standard B parcels, please confirm that the delivery confirmation label must be affixed to the parcel on the same side as the address block and postage. If you do not confirm, please explain.
- c. For a Standard B parcel that is too small to accommodate on the same side of that parcel the address block, postage and delivery confirmation label, please explain where on the parcel the Postal Service proposes to place the delivery confirmation label.
- d. Please provide an estimate of the number of delivery confirmation Standard B parcels for which the side of the parcel containing the address block and postage will also be too small to accommodate the delivery confirmation label.

RESPONSE:

- a. Not confirmed. The label identified in my response is not the label shown in Exhibit C-2; rather, it is similar to that shown in Exhibit C-3. I am unable to supply a copy of the label identified beyond referring to Exhibit C-3 because the Postal Service has not yet finalized the graphic design of the label.
- b. Confirmed. To clarify, as much of the delivery confirmation label as possible should be affixed to the side of the parcel with address block and postage.
- c. It is proposed that as much of the delivery confirmation label as possible should be placed on the side of the parcel containing the address block and postage. As long as

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some portion of the label is visible on the side with address block and postage and the label can be easily identified by a postal employee and scanned as delivery confirmation, the size of the Standard B parcel will not affect successful delivery confirmation.

- d. All Standard B parcels should be able to accommodate a delivery confirmation label.
Please see my response to OCA/USPS-T22-17c.

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OCA/USPS-T22-18. Please refer to LR H-247, Delivery Confirmation Infrastructure Acquisition. It is stated:

Federal Express (FedEx), UPS, and Roadway Package System (RPS) have all used information technology to increase their competitive positions. FedEx and UPS spend \$500 to \$750 million annually on track and trace and other related information technology. Analysis of competitors' market share suggests that information about delivery status helped them to sustain higher levels of growth than would have occurred with service improvement alone. Market research shows that a similar effect may be expected for Priority Mail when delivery confirmation is implemented.

Please submit all market research documents showing that "a similar effect may be expected for Priority Mail when delivery confirmation is implemented." For commercially sensitive information, OCA will agree to appropriate protective conditions.

RESPONSE:

Please see LR-H-166, Priority Mail Delivery Confirmation Market Response Research.

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OCA/USPS-T22-19. In your direct testimony at page 2, you state: "It is planned that the scanners will serve a variety of purposes, including delivery and collection management, service performance measurement, and mail item information acquisition. Delivery confirmation, the focus of this testimony, is an example of mail item information acquisition." On pages 2-3 of your direct testimony, you discuss various delivery and collection management and service performance measurement uses of the scanning system.

- a. Please describe fully when all delivery and collection management and service performance measurement uses of the scanning system will be implemented.
- b. Please describe fully how the other uses of the scanning system discussed in (a) are reflected in the Scanning Infrastructure Capital and Program Costs set forth in Worksheet C-1.

RESPONSE:

- a. Please see my response to UPS/USPS-T22-2.
- b. Service performance measurement requires no special infrastructure beyond that developed for delivery confirmation. Accordingly, Worksheet C-1 includes no associated costs and no additional costs are expected to be incurred.

Collection management utilizes the same basic software design as delivery confirmation. Accordingly, the cost of this software is included in Worksheet C-1 in the "Information systems" line under "Program costs." Other costs associated with collection management will be funded separately from those amounts presented in Worksheet C-1.

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Delivery management utilizes the same software as collection management; accordingly, these costs are reflected in Worksheet C-1. As stated in my response to USP/USPS-T22-2, delivery management requires supplemental equipment to work in conjunction with the scanners. The cost of this supplemental equipment is not reflected in Worksheet C-1 as the Postal Service plans to procure this equipment separately.

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OCA/USPS-T22-20. At page 18 of your direct testimony, you state: "I have developed certain capital and program costs for the scanner infrastructure program" You also refer to Worksheet C-1, Scanning Infrastructure Capital and Program Costs.

- a. Are these "certain capital and program costs for the scanner infrastructure program" *all* the capital and program costs for the scanner infrastructure, or are other costs of the scanner infrastructure being distributed elsewhere? Please discuss fully.
- b. Please provide all documents relating to your development of "certain capital and program costs for the scanner infrastructure program" that you consulted or generated, and that have not previously been submitted to this docket.
- c. Referring to Worksheet C-1, please discuss how and why you distributed costs to "Overall carrier cost system" each time you did so.
- d. Worksheet C-1 shows total capital costs (in thousands) of \$65,313.2 and program costs (in thousands) of \$120,543.8, for the test year. However, LR H-247 states: "Capital investment of \$628.1 million and expense investment of \$76.2 million, totaling \$704.3 million, are recommended to acquire and implement the proposed delivery confirmation system. Of this investment, \$541.4 million will be used to acquire carrier scanners" Please reconcile the Worksheet C-1 figures and the LR H-247 figures, showing the derivations of any such reconciliation.
- e. When H-247 was first distributed within the Postal Service, were there any attachments to it? If so, please provide them to the extent they have not been submitted to this docket.
- f. What was the purpose of H-247 institutionally within the Postal Service?
- g. Please provide all documents relating to return on investment of the proposed delivery confirmation.

RESPONSE:

- a. These "certain capital and program costs for the scanner infrastructure program" represent all the capital and program costs for the scanner infrastructure.

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- b. An objection to this question has been filed.
- c. Costs related to carrier scanners (including support and maintenance) are considered variable to the same degree as the carrier cost system as a whole. This approach is followed because the cost driver for scanners is the number of city and rural route routes. Since each route will receive one scanner, the scanner costs will vary directly with the carrier cost system. When one new route is added, one new scanner will be purchased. Accordingly, the distribution of scanner costs should mirror the overall carrier cost system.

Mechanically, this distribution is achieved in Worksheet C-2 by adding Cost Segments 6, 7, and 10 (all which relate to city and rural carriers) and then using the result to compute a distribution key for the \$51,851,000 of costs which are volume variable with respect to delivery confirmation.

- d. Worksheet C-1 and LR-H-247 present financial information which is not directly comparable. Worksheet C-1 presents estimated Test Year capital and program costs. LR-H-247, by contrast, refers to estimated total capital and expense investments for all relevant years, not just the Test Year. See also my response to OCA/USPS-T22-11.

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- e. A partial objection to this question has been filed. Please see Attachment A for a redacted version of the delivery confirmation cash flow summary.
- f. LR-H-247 summarizes the business case for delivery confirmation to the Board of Governors. Based on this management information, the Board approved the funding for the delivery confirmation infrastructure acquisition.
- g. An objection to this question has been filed.

Attachment A

Delivery Confirmation Cash Flow Summary

(In thousands)

Item	1997	1998
1 Capital Investment		
2 Information systems	(27,351)	(17,309)
3 Equipment	(4,582)	(496,535)
4 Project management	(384)	0
5 Training materials	(90)	(117)

8 Expense Investment		
9 Equipment supplies and support		(1,004)
10 Information systems maint. & upgrade		(44,487)
11 Training development		(122)
12 Start-up labels		(1,907)

15 Operating Variance		
16 Equipment maintenance		(12,811)
18 Training		(21,911)
19 Information systems operations		(30,297)
20 Call centers		(2,017)
21 Other costs		(19,331)

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OCA/USPS-T22-21. Please confirm that at Table 7, you show information systems costs per transaction to be \$0.0047 for Priority Mail electronic delivery confirmation (PMB DC) and for Standard B electronic delivery confirmation (SBE DC). If not confirmed, please explain.

- a. Please show how you derived these costs per transaction in the test year. Include in your derivation a complete explanation of how the capital and program costs in Worksheet C-1 were calculated for the test year. If depreciation methods were used, please explain those methods fully, and why they are appropriate for these types of capital and program expenditures
- b. Would the derivation in (a) employ the projected volumes of 4,404,949 for SBE DC and 7,047,652 for PMB DC, as those volumes are set forth at Input Sheet B-4? Please explain.

RESPONSE:

Not confirmed. Information systems costs per unit (units and transactions may not always be interchangeable terms) are \$0.0047 for PMB DC and SBE DC.

- a. Input Sheet B-7 presents the derivation of the \$0.0047 information systems unit cost. The components of this cost estimate can be considered neither capital nor program costs; accordingly, the amount includes no such costs from Worksheet C-1.
- b. The derivation discussed in (a) employs the projected volumes of 4,404,949 for SBE DC, but not the 7,047,652 for PMB DC. Please see my response to OCA/USPS-T22-16 (line 9 refers to "Volume of Standard B electronic delivery confirmation" of "4,404,949") for an explanation of how this projected volume is used in the development of the "Mailer manifest toll-free line charges" line item in Input Sheet B-7.

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OCA/USPS-T22-22. Please refer to your response to OCA/USPS-T22-6(c): "While I have not developed estimates of the cost of obtaining delivery confirmation via the Internet, I expect that it would be less than that of using the corporate call management system."

- a. Confirm that in Table 7 of your direct testimony, you assign corporate call management costs of \$0.0847 for a manual delivery confirmation transaction. If not confirmed, please explain.
- b. Confirm that a customer using the Internet to obtain delivery confirmation information will not cause the Postal Service to incur these costs. If not confirmed, please explain.
- c. Would the costs to the Postal Service of a customer using the Internet to obtain delivery confirmation information be similar to those for electronic delivery confirmation? For Express Mail? Please discuss.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. I have not studied the cost to the Postal Service of a customer using the Internet to obtain delivery confirmation information. Accordingly, I am unable to estimate how these costs would relate to comparable costs for electronic delivery confirmation.

Based on my understanding of the operational process of obtaining information from the Internet (please see my response to OCA/USPS-T22-6a), I would expect that the cost to the Postal Service of a customer obtaining delivery confirmation for Standard B and Priority Mail would be similar to that of Express Mail.

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OCA/USPS-T22-23. Describe all operational difficulties, if any, that would be encountered by the Postal Service if, in addition to electronic delivery confirmation, it offered two forms of "manual" delivery confirmation, one using Internet tracking (similar to that used for Express Mail) and one using telephone tracking (i.e., using the corporate call management system). Under this hypothetical dual system for manual delivery confirmation, the customer would be charged different rates (and, potentially, a lower rate for Internet tracking). If you need to make further assumptions to complete the hypothetical, please state what those are.

RESPONSE:

I have not studied the possibility of offering two forms of "manual" delivery confirmation, but there might be several operational difficulties that would impact cost and service. Costs could increase for two reasons. First, retail procedures could be more complicated (increasing transaction time and cost) because additional explanation of delivery confirmation by clerks to customers could be required. Second, label costs could increase due to the necessity of stocking two types of labels at the retail window.

Customer service could also be adversely affected for similar reasons. A customer may be confused by the offering of two similar products and, consequently, purchase a product which does not meet her needs. Moreover, the presence of two similar sets of delivery confirmation labels could increase the likelihood of the clerk using the wrong label, resulting in the customer being unable to access the delivery confirmation information in the manner she requested.

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OCA/USPS-T22-24. At Input Sheet B-6, corporate call management project attributable costs are said to be \$288,576,217. The figure refers one to footnote 3, which states: "Based on information provided by USPS Marketing Department for FY 1999 full up corporate call management project budget".

- a. Please describe in full the derivation of these corporate call management project attributable costs.
- b. Please provide all documents from the Marketing Department that you consulted in the preparation of your testimony on these costs.

RESPONSE:

- a-b. The following spreadsheet, which reproduces all salient information provided in various forms by officials in the Postal Service Marketing Department, presents the derivation of corporate call management project volume variable costs of \$288,576,217.

Corporate Call Management Volume Variable Costs

Cost element	Call centers	Learning centers	Total 1999 budget	Annual deflator	Total 1999 budget deflated to 1998
Labor	\$2,996,400	\$2,080,300	\$5,076,700	3.80%	\$4,890,848
Supplies	\$3,947,800	\$124,500	\$4,072,300	2.50%	\$3,972,976
Furniture & equipment	\$0	\$14,600	\$14,600	2.50%	\$14,244
Services & maintenance	\$4,417,800	\$287,900	\$4,705,700	2.50%	\$4,590,927
Contractual services	\$149,497,900	\$4,946,200	\$154,444,100	2.50%	\$150,677,171
Rent	\$7,379,100	\$2,254,200	\$9,633,300	2.50%	\$9,398,341
Travel	\$150,800	\$0	\$150,800	2.50%	\$147,122
Utilities	\$2,570,800	\$156,500	\$2,727,300	3.40%	\$2,637,621
Depreciation	\$34,803,300	\$953,300	\$35,756,600	2.50%	\$34,884,488
Communications	\$73,677,480	\$3,685,000	\$77,362,480	0.00%	\$77,362,480
Total	\$279,441,380	\$14,502,500	\$293,943,880		\$288,576,217

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OCA/USPS-T22-25. Please refer to your Worksheet C-2.

- a. In the column "CS 6 & 7," please confirm that the "Total Costs" figure of \$11,461,475 is the Base Year (herein BY) accrued cost of Cost Segments 6 & 7. If you do not confirm, please explain.
- b. Please confirm that the BY accrued cost of Cost Segments 6 & 7 is \$11,461,471, found in W/S 6.0.4 of USPS-T-5, WP B. If you do not confirm, please explain.
- c. Please identify the source for, and provide citations to, all figures in the column "CS 6 & 7."

RESPONSE:

- a. Confirmed.
- b. Redirected to witness Alexandrovich.
- c. USPS-T-5, Exhibit USPS-5A, Costs Segments and Components Base Year 1996.

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OCA/USPS-T22-26. Please refer to your Worksheet C-2.

- a. In the column "CS 10," please confirm that the "Total Costs" figure of \$3,377,062 is the BY accrued cost of Cost Segment 10. If you do not confirm, please explain.
- b. In the column "CS 10," please confirm that the "Attributable figure" of \$1,509,985 is the sum of \$1,373,846 (Evaluated Routes) and \$136,139 (Other Routes) from W/S 10.0.1 of USPS-T-5, WP B. If you do not confirm, please explain.
- c. Please identify the source for, and provide citations to, all figures in the column "CS 10."

RESPONSE:

- a. Confirmed.
- b. Redirected to witness Alexandrovich.
- c. USPS-T-5, Exhibit USPS-5A, Costs Segments and Components Base Year 1996.

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OCA/USPS-T22-27. Please refer to your Worksheet C-2. Please confirm that, in the Base Year, you are distributing 0.002217 percent, or \$1,150, of the volume variable scanning infrastructure capital and program costs to post office boxes. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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OCA/USPS-T22-28. Please refer to your testimony at page 1. Please confirm that delivery confirmation service will be provided only to Priority Mail and Standard B customers. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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OCA/USPS-T22-29. Please refer to your Worksheet C-2.

- a. Please confirm that the \$51,851,000 of volume variable Scanning Infrastructure Capital and Program Costs are distributed to the mail classes and services identified in Worksheet C-2. If you do not confirm, please explain.
- b. Please confirm that the \$51,851,000 of volume variable Scanning Infrastructure Capital and Program Costs are distributed to determine Base Year attributable costs for the mail classes and services identified in Worksheet C-2. If you do not confirm, please explain.
- c. Please explain the rationale for distributing \$51,245,900 ($\$51,851.0 - (\$420.8 + \$184.3)$) of volume variable Scanning Infrastructure Capital and Program Costs to mail classes and services that are ineligible for delivery confirmation service.
- d. Please identify Postal Service witnesses that utilize the figures in the column "Distributed amount."

RESPONSE:

- a. Not confirmed. The \$51,851,000 of Scanning Infrastructure Capital and Program Costs are total costs. A subset of this total, \$24,590,800, represents the volume variable portion, which is distributed to the mail classes and services in Worksheet C-2.
- b. Not confirmed. The \$51,851,000 of volume variable costs are used in the roll forward to determine Test Year 1998 before rates costs, not Base Year 1996 costs .
- c. Please see my response to OCA/USPS-T22-20c.
- d. Witness Patelunas (USPS-T-15).

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OCA/USPS-T9-11. Please confirm that extension of manual delivery confirmation to First-Class Mail would involve substantially the same acceptance operations outlined at pages 5-6 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to First-Class Mail. The acceptance procedures developed for Standard B and Priority Mail may also be applicable to First-Class Mail.

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OCA/USPS-T9-13. Please confirm that extension of manual and/or electronic delivery confirmation to Periodicals Mail would involve substantially the same acceptance operations outlined at pages 5-6 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or electronic delivery confirmation to Periodicals Mail. The acceptance procedures developed for Standard B and Priority Mail may also be applicable to Periodicals Mail.

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OCA/USPS-T9-14. Please confirm that extension of manual and/or electronic delivery confirmation to Standard A Mail would involve substantially the same acceptance operations outlined at pages 5-6 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or delivery confirmation to Standard A Mail. The acceptance procedures developed for Standard B and Priority Mail may also be applicable to Standard A Mail.

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OCA/USPS-T9-15. Please confirm that extension of manual delivery confirmation to First-Class Mail would involve substantially the same delivery operations outlined at pages 7-9 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to First-Class Mail. The delivery procedures developed for Standard B and Priority Mail may also be applicable to First-Class Mail.

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OCA/USPS-T9-17. Please confirm that extension of manual and/or electronic delivery confirmation to Periodicals Mail would involve substantially the same delivery operations outlined at pages 7-9 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or electronic delivery confirmation to Periodicals Mail. The delivery procedures developed for Standard B and Priority Mail may also be applicable to Periodicals Mail.

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OCA/USPS-T9-18. Please confirm that extension of manual and/or electronic delivery confirmation to Standard A Mail would involve substantially the same delivery operations outlined at pages 7-9 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or electronic delivery confirmation to Standard A Mail. The delivery procedures developed for Standard B and Priority Mail may also be applicable to Standard A Mail.

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OCA/USPS-T9-19. Please confirm that the unit attributable costs that you develop at pages 11-17 and Appendices A and B would not differ substantially for manual delivery confirmation if it were to be extended to First-Class Mail. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to First-Class Mail. The unit volume variable costs developed for Standard B and Priority Mail may also be applicable to First-Class Mail.

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OCA/USPS-T9-21. Please confirm that the unit attributable costs that you develop at pages 11-17 and Appendices A and B would not differ substantially for delivery confirmation if it were to be extended to Periodicals Mail. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to Periodicals Mail. The unit volume variable costs developed for Standard B and Priority Mail may also be applicable to Periodicals Mail.

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OCA/USPS-T9-22. Please confirm that the unit attributable costs that you develop at pages 11-17 and Appendices A and B would not differ substantially for delivery confirmation if it were to be extended to Standard A Mail. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to Standard A Mail. The unit volume variable costs developed for Standard B and Priority Mail may also be applicable to Standard A Mail.

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UPS/USPS-T22-1. Please confirm that the new hand held scanner will initially be used solely for delivery confirmation. If not confirmed, please explain.

RESPONSE.

Not confirmed. See USPS-T-22 (page 1, line 20 to page 4, line 3) for an explanation of the variety of purposes and products for which the hand-held scanners will be used. The Postal Service plans to utilize the scanners initially for most of these purposes and products, not just delivery confirmation.

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UPS/USPS-T22-2. Please refer to pages 2-3 of your direct testimony, where you discuss the "delivery and collection management" and "service performance measurement" uses of the new hand held scanners.

- a. Please indicate what measures, if any, have been taken to initiate the use of the hand held scanner program in these areas.
- b. Please provide all memoranda, reports, studies, timetables, or other documentation supporting the use and timetable for implementation of these uses of the scanners.

RESPONSE.

- a. With regard to collection management, my understanding is that hand-held scanners will, upon deployment to a particular postal facility, immediately be used for this purpose. The functional requirements for this use of the scanners have been specified in the software design. Usage of the hand-held scanners for delivery management requires supplemental equipment to work in conjunction with the scanners; the Postal Service anticipates issuing a solicitation for this procurement in the next two months. As with collection management, the current software design includes delivery management functions.

With regard to service performance measurement, my understanding is that no special measures will be necessary to utilize the data produced by the delivery confirmation system to assist with this analysis. Acceptance/delivery dates and ZIP Codes by piece will be captured in a database; patterns in this information should be immediately available for translation into performance results.

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- b. My understanding is that documentation supporting the use and timetable for the scanners is not available at this time because a contract has not yet been awarded to a vendor to provide the scanners. The selection of the vendor will determine critical implementation factors such as the scanner production/delivery schedule.

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UPS/USPS-T22-3. Please refer to page 3, footnote 3, of your testimony and confirm that, currently, the new hand held scanners will be used only for Priority Mail and Standard (B) delivery confirmation. If not confirmed, please explain.

RESPONSE.

Not confirmed. See my response to UPS/USPS-T22-1.

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UPS/USPS-T22-4.

- a. Please confirm that the specifics of how the scanners will be used for delivery confirmation (or other purposes) for Express Mail, inbound international mail, Certified Mail, Registered Mail, and insurance special services have yet to be determined. If not confirmed, please explain.
- b. Please provide all memoranda, reports, studies, timetables, or other documentation supporting the use and timetable for implementation of these anticipated uses of the scanners.

RESPONSE.

- a. Partially confirmed. Development of specifics on how the scanners will be used for delivery confirmation was necessary for purposes of developing unit costs for the current filing. While analyses comparable to that prepared for delivery confirmation have not been developed for other anticipated uses, certain levels of planning have occurred to those ends. This planning process will continue even as the current filing progresses.

For example, while the specifics of scanner use for Express Mail have not been outlined in a fashion comparable to delivery confirmation, the process will be like the current procedures that utilize the CTT scanners with the exception that the delivering employee will perform the delivery scans. CTT scanners will be removed from delivery offices and other facilities and replaced with the new hand-held scanners as part of the roll-out of the new scanners.

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Similarly, it is envisioned that international inbound mail will utilize the scanners for comparable services sold by foreign postal administrations. While specific financial and operational agreements have not been reached with these organizations, the actual planning and introduction of such services should be neither difficult nor time-consuming because the processes will be the same as for domestic mail. Hence, there is no reason to believe that the implementation of these uses of the scanners will lag significantly behind delivery confirmation and Express Mail.

Certified Mail, Registered Mail, and insurance special services require the introduction of barcoded labels in order to utilize the hand-held scanners. My understanding is that the development of these labels is in process and their deployment should coincide with the roll-out of the hand-held scanners.

- b. See my response to UPS/USPS-T22-2b.

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UPS/USPS-T22-5. Please verify that there are only 9 steps for Table 5 on page 9 of your direct testimony. If not confirmed, please explain.

RESPONSE.

Confirmed.

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UPS/USPS-T22-6. Please describe the type(s) of labels that will be used for delivery confirmation. Please include in your answer a discussion of whether or not either form 2 or form 3849 will be used with the delivery confirmation service.

RESPONSE.

There will be two types of labels used for delivery confirmation. The Postal Service will provide preprinted labels which include a barcode and an identification number. Customers can also print their own DC barcode, which must meet Postal Service specifications. Forms 02 and 3849 will not be used with the delivery confirmation service once all hand-held scanners have been deployed.

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UPS/USPS-T22-7. Please provide a more detailed description of the capital and program costs listed in your Worksheet C-1. Include in your answer a description of the components of "Miscellaneous" under Program Costs, which accounts for 19 percent of those costs.

RESPONSE.

The six line items in worksheet C-1 listed under "Capital costs" are explained as follows (all figures in thousands). Information systems (\$14,886.4) includes host processor hardware, associate office modems and telecommunications, project management contract labor, servers and modems, network hardware, PMPC modems and telecommunications, and test lab hardware. Carrier scanners (\$42,430.0) includes hand-held scanners for deployment to carrier routes, racks and power protection equipment, recharge cradles, shipping, and spare batteries. Box section scanners (\$6,751.1) includes hand-held scanners for deployment to box sections, racks and power protection equipment, recharge cradle, shipping, and spare batteries. Support for carrier scanners (\$161.3) includes software development, documentation, testing, and training materials provided by the vendor. Support for box section scanners (\$25.7) similarly includes software development, documentation, testing, and training materials provided by the vendor. Miscellaneous costs (\$1,058.7) include image scanner hardware, Express Mail (CTT) scanner hardware, project management computers, training computers, and printer hardware.

The six line items in worksheet C-1 listed under "Program costs" are explained as follows (all figures in thousands). Information systems (\$64,723.5) includes facility site surveys, system implementation, hardware maintenance, software development and maintenance, and telecommunications installation. Carrier scanner support and maintenance (\$9,259.7) includes

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maintenance contracts, quality assurance personnel, support personnel, purchasing support, and program management support. Box section scanner support and maintenance (\$1,473.3) similarly includes maintenance contracts, quality assurance personnel, support personnel, purchasing support, and program management support. Call center development (\$183.2) represents the cost of Postal Service labor for setting up IVR requirements. Training (\$22,032.9) includes training labor, training development and field support, training materials, and travel. Miscellaneous costs (\$22,558.0) include project management labor and travel, program support/development, CTT and image scanner maintenance, labels, advertising, and startup packages.

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UPS/USPS-T22-8. Please confirm that the non-volume variable portion of the capital and program costs (72 percent of the total) are treated as institutional costs and not as specific-fixed costs. If not confirmed, please explain.

RESPONSE.

Confirmed.

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UPS/USPS-T22-9. Please refer to your Worksheet C-2.

- a. Please confirm that your proposed distribution key allocates 0.81% of costs to Priority Mail and 1.03% of costs to Fourth-class mail.
- b. Please confirm that Priority Mail and Fourth-class Mail are the only classes of mail for which there is a scheduled application of the scanner. If not confirmed, please explain.
- c. Please confirm that your proposed distribution key allocates 98.2% of the volume-variable capital and program costs to classes of mail for which the scanners currently have no specific scheduled application. If not confirmed, please explain.

RESPONSE.

- a. Confirmed.
- b-c. Not confirmed. See my responses to UPS/USPS-T22-1-4.

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UPS/USPS-T22-10. Please explain why you did not select a distribution key which would distribute costs only to those classes of mail (Priority and Standard (B)) which, at this time, are the only classes scheduled to make use of this service.

RESPONSE.

Priority and Standard B are not the only classes scheduled to make use of this service. See my responses to UPS/USPS-T22-1-4.

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UPS/USPS-T22-11. Please explain why you did not elect to classify the non-volume variable portion of the scanner capital and program costs as specific-fixed to those classes of mail (Priority and Standard (B)) which, at this time, are the only classes scheduled to make use of this service.

RESPONSE.

Priority and Standard B are not the only classes scheduled to make use of this service. See my responses to UPS/USPS-T22-1-4.

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UPS/USPS-T22-12. Please refer to pages 2 through 4 of your direct testimony, where you discuss the purposes that the new scanners and the associated data system will serve. Have any estimates been prepared regarding the percent of (i) time, (ii) uses, (iii) benefit, or (iv) any other measure, that would accrue to each of three identified purposes? If yes, please provide any such estimates. If no, can you estimate the percent of (i) time, (ii) uses, (iii) benefit, or (iv) any other measure, that would accrue to each of three identified purposes?

RESPONSE:

No estimates have been prepared regarding the percent of (i) time, (ii) uses, (iii) benefit, or (iv) any other measure that would accrue to each of the three identified purposes that the new scanners and the associated data system will serve. No estimates can be made at this time because specific procedures have not been finalized.

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

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.

5 Two participants requested oral cross-examination
6 of the witness. The Office of the Consumer Advocate and
7 United Parcel Service. I don't believe there is any other
8 participant in the room who is about to request
9 cross-examination.

10 If there is no one else, Ms. Dreifuss, you can
11 begin. But let me throw out a factoid. You all have seen
12 me play with my toy up here for two days now and one of the
13 things I know is that there are 28 documents that have been
14 filed in this case that either were sent by or to
15 Mr. Treworgy. Treworgy. I apologize. I'll butcher a few
16 others before it's all over; you won't stand alone in that
17 regard.

18 Ms. Dreifuss.

19 CROSS EXAMINATION

20 BY MS. DREIFUSS:

21 Q Good evening.

22 A Good evening.

23 Q Could you turn to your response to OCA
24 interrogatory 1, please?

25 A Okay.

1 Q You state that in Docket Number MC97-2, no capital
2 expenditures were necessary for the implementation for
3 delivery confirmation because existing infrastructure, CTT
4 scanners, was to have been used.

5 How will the new scanners improve the delivery
6 confirmation system?

7 A The new scanners are largely for the benefit of
8 the mailers for whom the previous technology, the so-called
9 peel-and-stick labels would be difficult for them to use.

10 Q These would be the bulk mailers or even individual
11 mailers?

12 A These would be for primarily the bulk mailers.
13 The people using electronic delivery confirmation.

14 Q Now, in what way is it advantageous for them to
15 have their work -- their mail acted upon by new scanners?

16 A I am not familiar with how their operations work
17 but what I am told is their preference is to be able to
18 print the barcode on a regular mailing label rather than
19 have to use a special label that has a peel-off portion.

20 Q I want to touch for a moment on a subject that I
21 -- I know is somewhat sensitive. It was the subject of
22 motions to compel and -- and a recent ruling, and I -- I
23 want to see if I can proceed very carefully with this line
24 of questions.

25 Apparently, there are some negotiations ongoing

1 for this CTT equipment. Is that correct?

2 A The -- the -- the appropriate term, I think, would
3 be hand-held scanners.

4 Q Okay.

5 A The CTT equipment applies to the existing scanners
6 that handle Express Mail

7 Q I'm sorry. For the hand-held scanners.

8 CHAIRMAN GLEIMAN: Could I ask both of you to
9 speak up a little bit? I don't know whether it's my cold
10 settling in my ears at this point or whether it's really
11 getting soft.

12 BY MS. DREIFUSS:

13 Q Do you have a sense of how long these negotiations
14 will be taking place, over what period of time?

15 A No, I don't.

16 Q Do you have any idea what percentage of -- of the
17 -- of the negotiations is -- has now been completed?

18 A No, I don't.

19 Q You don't know whether they'll be over in the next
20 few months?

21 A No, I don't.

22 Q Could you describe the depreciation method used
23 regarding the capital costs and program costs in work sheet
24 C-1?

25 A The -- the amounts in work sheet C-1 do represent

1 depreciated amounts, as I indicated, I believe, in one of my
2 interrogatory responses. However, I -- I personally did not
3 actually develop those depreciation numbers. I was provided
4 with those by others.

5 Q Are you familiar with how those numbers were
6 created?

7 A In a general sense.

8 Q Could you explain what -- what it is you do know
9 about the depreciation method?

10 A I only know that they were depreciated and that
11 some sort of a schedule was applied. I'm not familiar with
12 the details of how that was done.

13 MS. DREIFUSS: I'd like to ask the Postal Service
14 to provide an answer in writing describing the depreciation
15 methods that are used in work sheet C-1.

16 CHAIRMAN GLEIMAN: I think that's not an
17 unreasonable request, Mr. Hollies. Do you think we can
18 accommodate OCA and other interested parties?

19 MR. HOLLIES: I'm wondering if it would be worth
20 putting the question in writing or if you'd like us to work
21 from what you just spoke of.

22 CHAIRMAN GLEIMAN: Let's save a piece of paper.

23 MR. HOLLIES: Okay. We'll work from the
24 transcript.

25 CHAIRMAN GLEIMAN: If -- if, upon reviewing the

1 transcript, you don't understand what it is that OCA is
2 seeking, then we'll ask OCA to put it in writing.

3 MR. HOLLIES: That sounds fine.

4 MS. DREIFUSS: We would like to ask you -- there
5 are some questions I would have asked if Mr. Treworgy had
6 been familiar with the depreciation methods.

7 So, I'd like you to at least address these in the
8 written response, please: the number of years involved in
9 depreciating the equipment, whether any alternative
10 depreciation methods were considered, and also explain why
11 the method of depreciation was appropriate to the type of
12 equipment to which they're applied.

13 And I think that's probably enough detail for us,
14 plus the general description of the depreciation method.

15 CHAIRMAN GLEIMAN: I can't believe I'm hearing
16 somebody say that that's enough detail for them.

17 BY MS. DREIFUSS:

18 Q Could you turn to your response to interrogatory
19 24, please?

20 A Okay.

21 Q In response to that interrogatory, you present a
22 -- a spreadsheet titled "Corporate Call Management Volume
23 Variable Costs." Is that correct?

24 A That's correct.

25 Q And attributable costs sum to 288 --

1 approximately, by rounding, \$288.6 million. Is that
2 correct?

3 A I think the term should be volume variable costs,
4 but that is the right amount, yes.

5 Q Okay. 288.6 million --

6 A Yes.

7 Q -- in volume variable -- in volume variable costs.

8 A Yes.

9 Q Can you tell me to what extent the numbers in this
10 spreadsheet are based on actually completed negotiations
11 where prices have been decided and what percentage would
12 --would be unresolved at this time?

13 A No, I -- I'm not familiar with that process.

14 MS. DREIFUSS: Again, I -- I'd like to ask the
15 Postal Service to give us more information, because I don't
16 believe Mr. Treworgy -- well, let me -- let me back up for a
17 second.

18 BY MS. DREIFUSS:

19 Q Did you -- you didn't prepare this -- you didn't
20 prepare this spreadsheet yourself, did you?

21 A I did prepare the spreadsheet based on information
22 provided to me.

23 Q Are you familiar with the source for the -- the
24 cost elements that are listed on the lefthand column?

25 A The -- the numbers were provided to me by people

1 who were working on this project. So, the answer is yes, I
2 -- I'm familiar with how I got them, but I'm not familiar
3 with the sources, per se.

4 Q This spreadsheet was given -- well, the
5 information that's contained in the spreadsheet was given to
6 you by officials within the Postal Service marketing
7 department. Is that correct?

8 A That's correct.

9 MS. DREIFUSS: I guess I'd like to ask the Postal
10 Service to provide in writing the source for these figures
11 that are contained in the spreadsheet, since Mr. Treworgy
12 obtained them from others.

13 CHAIRMAN GLEIMAN: Mr. Hollies, do you think you
14 can --

15 MR. HOLLIES: The -- the -- the question on the
16 surface seems quite simple and straightforward, and -- and I
17 can certainly promise that we will endeavor to do so. My
18 understanding of the situation, however, is that there are
19 -- well, it may not be quite so simple.

20 The sources do not, for example, exist in a
21 documentary form which would have facilitated responding to
22 that type of question, but -- I mean, on the face of it,
23 it's a question that we should be able to provide a
24 reasonable response to, and we will endeavor to do so.

25 MS. DREIFUSS: Right. I -- I understand that

1 documents may not be involved. Whatever the source was
2 would be satisfactory to us, a description of -- of the
3 source.

4 CHAIRMAN GLEIMAN: Well, let's move on to the next
5 one, then. I actually feel like I'm back where we started
6 first thing this morning talking about un-sponsored library
7 references.

8 MS. DREIFUSS: Well, I -- I guess this is -- this
9 is one of the situations where numbers came from others and
10 not necessarily from the witness.

11 BY MS. DREIFUSS:

12 Q I'd like to turn my attention to the contractual
13 services cost element. It's -- well, roughly, 140 -- \$150
14 million -- is that correct? -- for call centers.

15 A Yes, that's correct.

16 Q Do you know what kind of operations are involved
17 in this contractual services figure?

18 A Yes. The contractual service figure is primarily
19 composed of the -- the amounts paid to contract customer
20 service agents answering the telephones.

21 Q Do you have any idea how many individuals would be
22 involved in this figure? I imagine -- let me just say I
23 imagine that figure is probably the result of estimating a
24 number of operators and an hourly wage. Would that be
25 correct?

1 A Again, I received that estimate directly from the
2 Marketing Department, so I couldn't say how it was put
3 together.

4 Q Could we add to our request that we get this
5 broken down by its elements, its more basic elements, and
6 show how that number was derived? That would be for
7 contractual services for call centers?

8 CHAIRMAN GLEIMAN: Mr. Hollies, any problem with
9 that?

10 MR. HOLLIES: We'll see what we can do. I mean, I
11 think this is within the scope of your previous request
12 basically for us to break down this spreadsheet. We'll have
13 to do some digging to get to that specific level of detail,
14 and we will certainly endeavor to do so. If we have a
15 problem, I'll give you a call.

16 MS. DREIFUSS: Thank you.

17 BY MS. DREIFUSS:

18 Q Turn to your response to OCA Interrogatory 6,
19 please, part C.

20 A Okay.

21 Q You state there that obtaining delivery
22 confirmation via the Internet would be less than that of
23 using the Corporate Call Management System; is that correct?

24 A I'm sorry, I'm on 5. Let me turn to 6.

25 Q Yes. I was looking at Interrogatory 6, part C.

1 A Okay. I'm there.

2 Q You state in the latter part of that sentence, I
3 expect it would be less than -- I'm sorry, I'll read the
4 whole sentence to you.

5 "While I have not developed estimates of the cost
6 of obtaining delivery confirmation via the Internet, I
7 expect that it would be less than that of using the
8 Corporate Call Management System." Is that correct?

9 A That's correct.

10 Q And now let's go -- keep your finger on that page
11 and go to your answer to 22, please.

12 A Okay.

13 Q In response to 22 you say that you would expect
14 that the cost to the Postal Service of a customer obtaining
15 delivery confirmation -- and I believe that's via the
16 Internet -- for standard B and Priority Mail would be
17 similar to that of Express Mail; is that correct?

18 A That's correct.

19 Q The cost assigned for manual delivery confirmation
20 through the Corporate Call Management System is .0847
21 dollars; is that correct? Or in other words, 8.47 cents?

22 A Yes, I believe that's correct.

23 Q Do you know what the cost is for an Express Mail
24 transaction?

25 A To be handled through the call center?

1 Q Yes?

2 A No, I don't know offhand.

3 Q Now turn to Interrogatory 23, please, of the OCA.

4 A Okay.

5 Q In Interrogatory 23, we asked you to describe all
6 the operational difficulties that would be encountered by
7 the Postal Service if, in addition to electronic delivery
8 confirmation, it offered two forms of manual delivery
9 confirmation, one using Internet tracking similar to that
10 used for Express Mail, and one using telephone tracking,
11 which I guess is sometimes referred to as a corporate call
12 management system.

13 Is that correct?

14 A That is correct.

15 Q And under this hypothetical dual system, it might
16 be possible to charge different rates, is that correct --
17 that is, one rate for getting delivery confirmation through
18 the Internet and a different rate for getting delivery
19 confirmation through the corporate call system.

20 Is that a possibility some time in the future?

21 A I am not in a position to say.

22 I was asked strictly to cost the situations, not
23 to develop possibilities.

24 Q Do you know whether if one were to implement a
25 dual fee structure, one rate for Internet access, one rate

1 for telephone access, do you know whether the Internet fee
2 would be less than the telephone access fee?

3 A I can't comment on fees. I expect the cost would
4 be less.

5 Q You do expect the cost would be less for Internet
6 access than for the telephone access?

7 A I would expect so.

8 MR. HOLLIES: Excuse me, counsel. If you could
9 speak up so we could all hear you, that would be
10 appreciated.

11 MS. DREIFUSS: Certainly. I wasn't aware that you
12 weren't hearing me.

13 BY MS. DREIFUSS:

14 Q You state in your response that retail procedures
15 could be more complicated if two forms of access were
16 provided. That is, one through the Internet and one through
17 telephone confirmation; is that correct?

18 A That's correct.

19 Q Wouldn't it be a simple matter for a clerk simply
20 to ask whether an individual would choose Internet
21 confirmation over telephone confirmation at the time
22 delivery confirmation was purchased?

23 A Well, it is one more layer of complexity.

24 Q Would you contemplate any more being necessary
25 than that in determining which of my two hypothetical fees

1 should be charged?

2 A Could you elaborate on what you mean by more than
3 that?

4 Q Well, in terms of it -- you say that transaction
5 time and cost would be increased by having those two
6 options. Why don't you tell me in what way it would be
7 increased?

8 A I would expect the cost increase would come at the
9 window side.

10 Q And what kinds of things would happen at the
11 window to make -- to add to the time for purchasing delivery
12 confirmation?

13 A Again, introducing a variation of the product as
14 an extra layer of complexity which might take more time to
15 explain to a customer trying to understand the options.

16 Q You also state that label costs would increase due
17 to the necessity of stocking two types of labels at the
18 retail window. Could you explain why there would be such
19 extra costs?

20 MR. HOLLIES: Objection to the question. That
21 mischaracterizes his response. He says that it could, not
22 that it would. So I object to the form of the question.

23 BY MS. DREIFUSS:

24 Q All right, could you explain what these costs
25 might be?

1 A There are costs associated with stocking an
2 inventory of labels and to have to stock two stacks instead
3 of one could add inventory costs.

4 Q Why is it the Postal Service permits Internet
5 tracking for Express Mail and would not want to offer that
6 same access for delivery confirmation?

7 A I think I have stated in my testimony that the
8 Postal Service does plan to offer Internet tracking for
9 delivery confirmation.

10 Q You're just not sure when that would occur?

11 A My understanding is that it would occur as
12 delivery confirmation is introduced to the marketplace.

13 Q So Internet access would be permitted, however
14 there wouldn't be a separate fee for it as compared to
15 telephone confirmation; is that correct?

16 A That's correct.

17 Q I would like you to turn to OCA interrogatory 8,
18 please.

19 We asked you in that interrogatory whether any
20 consideration was given to offering delivery confirmation
21 for First Class, for Periodicals Class or standard A mail.
22 And I believe you replied that no single factor controlled
23 the Postal Service's decision to provide delivery
24 confirmation, only for Priority Mail and standard B.

25 With respect to each of those classes of mail that

1 we asked you about, could you describe any operational
2 difficulties that you are aware of that would make delivery
3 confirmation undesirable? You could start with First Class.

4 A Right. I haven't studied any of those costs that
5 are discussed in the response to that interrogatory so I'm
6 not in a position to elaborate on what those difficulties
7 might be.

8 Q So you are not aware of the Postal Service's
9 reasons for not extending delivery confirmation to these
10 other classes of mail?

11 A No, I am not aware, although, as I state in my
12 response to Part (c), my understanding is that it was less
13 of a decision to not extend it to those classes of mail, and
14 rather more of a decision to extend it to Priority Mail and
15 Standard B customers, an affirmative decision.

16 Q Do you know why the Postal Service decided to
17 extend delivery confirmation to Priority Mail following
18 Docket Number MC97-2?

19 A The decision -- again, the decision to offer it to
20 Priority Mail and Standard B was in response to perceived
21 demands by those mailers.

22 Q How did the Postal Service assess a demand for it
23 in priority mail?

24 A My understanding is that there is a library
25 reference that documents the market research done.

1 Q Did the Postal Service attempt to gauge a market
2 response to extending delivery confirmation to First Class,
3 for example?

4 A To my knowledge, no.

5 Q Did they try to gauge a market response to
6 offering it for Second Class mail?

7 A Not to my knowledge, no.

8 MS. DREIFUSS: Thank you very much.

9 CHAIRMAN GLEIMAN: Mr. McKeever.

10 CROSS EXAMINATION

11 BY MR. McKEEVER:

12 Q Mr. Treworgy, at the beginning of her cross
13 examination, Ms. Dreifuss directed your attention to your
14 response to OCA Interrogatory 1.

15 Could you turn to that, please, and in particular
16 to page 2.

17 A Okay

18 Q There, in indicating some of the changes between
19 your testimony in MC97-2 in this case, you mention that in
20 this case you provide cost estimates of certain capital
21 depreciation and program costs related to scanning equipment
22 and that it was not necessary to do so in your prior
23 testimony in the prior case, because under the operational
24 environment in effect then the Postal Service planned to use
25 existing ^{CTT}~~CTC~~ scanners for delivery confirmation.

1 Is that correct?

2 A That's correct.

3 Q And I thought I heard you say, and I just want to
4 make sure I heard you correctly, that new scanners other
5 than the CTT scanners were bought primarily to make delivery
6 confirmation more convenient for bulk mailers who would use
7 the Priority Mail electronic service. Did I hear you
8 correctly?

9 A I think you said a couple things there.

10 The scanners were not bought primarily for
11 delivery confirmation. I think the reason for -- however,
12 it is true that the scanners will permit bulk mailers a more
13 convenient access to the products.

14 Q Well, I guess when we review the transcript, we
15 will find out what you said in response to Ms. Dreifuss'.
16 question, but that is what I thought I heard you say.

17 The delivery confirmation program is based on the
18 use of hand-held bar code scanners to scan delivery
19 confirmation bar codes put on pieces of mail when the mailer
20 wants to use delivery confirmation service, right?

21 A Yes, that is one of the components of the program.

22 Q Right. And you have developed a scanner
23 infrastructure capital and program cost of \$185 million for
24 the test year?

25 A That is correct.

1 Q And that includes the cost of buying the scanners
2 and related support and maintenance for example?

3 A Yes.

4 Q And you have determined that of that \$185 million
5 in the test year some \$51.9 million is volume variable?

6 A Yes, that is the correct figure.

7 Q And you distribute that 51.9 million of volume
8 variable costs to the classes of mail in your Appendix C.
9 Is that correct?

10 A Yes, that's correct.

11 Q Could you turn to that appendix and, in
12 particular, to work sheet C-2?

13 A Okay.

14 Q Now, that appendix -- that work sheet shows that
15 ~~First-Class~~ mail, in total, picks up more than 12.6 million
16 of the 51.9 million of volume variable costs. Is that
17 correct?

18 A That's correct.

19 Q And you used the term "third-class mail" there.
20 Third-class mail picks up more than \$8.5 million of those
21 costs. Is that correct?

22 A Yes, that's correct.

23 Q Turning to the next page of that work sheet, am I
24 correct that priority mail picks up \$421,000 of those costs?

25 A That's correct.

1 Q And parcel post -- that's zone rate parcels --
2 pick up \$184,000 of those costs. Is that correct?

3 A That's correct.

4 Q The proposed delivery confirmation service would
5 not be available to the users of first-class and Standard A
6 or third-class mail, correct?

7 A That's my understanding, yes.

8 Q Okay. But it would be available to users of
9 priority mail and Standard B.

10 A Yes.

11 Q Incidentally, you assign about 215,000 of these
12 51.9 million of volume variable costs to bound printed
13 matter. Is that correct?

14 A Yes, that's correct.

15 Q That's more than you assign to parcel post?

16 A Yes.

17 Q Do you know what type of mail moves in the bound
18 printed matter sub-class?

19 A I'm not familiar with what kind of mail moves in
20 that sub-class, no.

21 Q If I were to tell you that it were largely
22 catalogs, would you think that mailers would purchase
23 delivery confirmation service for catalogs?

24 A I can't say if they would want to purchase or not.

25 Q Now, we've been talking about the 51.9 million of

1 costs that you consider to be volume variable out of the
2 total \$185 million of test year costs. Is that correct?

3 A That's correct.

4 Q There's still another 113.1 million of costs out
5 of that total 185 million that is not volume variable under
6 your testimony. Is that correct?

7 A Yes, that's correct.

8 Q And that 133.1 million is treated as an
9 institutional cost?

10 A That's my understanding of how it's treated. I
11 don't -- I don't handle it in my testimony.

12 Q Okay.

13 Does that mean -- do you know that that means it's
14 distributed to all mail classes in amounts determined by the
15 cost coverage of those classes?

16 A That's my understanding.

17 Q Mr. Treworgy, in your view, would the Postal
18 Service have bought these scanners if it was not instituting
19 a delivery confirmation program?

20 A That's difficult to say. The answer, very
21 conceivably, could be yes, but it's hard to say. There are
22 a variety of very significant purposes for which these
23 scanners will be used, one of which is delivery
24 confirmation.

25 Q You say there's a variety of services for which

1 they will be used, but my question is would the Postal
2 Service have bought them if it was not instituting a
3 delivery confirmation program?

4 A I don't think I can answer that. I don't think --
5 I don't think I know the answer.

6 MR. McKEEVER: Okay.

7 That's all I have, Mr. Chairman.

8 CHAIRMAN GLEIMAN: Is there any follow-up
9 questions from the bench?

10 [No response.]

11 CHAIRMAN GLEIMAN: Would you like some time for
12 redirect?

13 MR. HOLLIES: I think we'd like about 10 minutes,
14 although we may not need that much.

15 CHAIRMAN GLEIMAN: All right. Ten minutes it is.

16 [Recess.]

17 CHAIRMAN GLEIMAN: Mr. Hollies.

18 MR. HOLLIES: Yes, I have a couple of lines of
19 followup -- or redirect here, excuse me.

20 REDIRECT EXAMINATION

21 BY MR. HOLLIES:

22 Q Mr. Treworgy, with respect to the decision to use
23 new scanners, a difference reflected in your testimony in
24 this case as opposed to MC⁹⁷-2, was delivery confirmation
25 the only or even primary reason for the purchase of the

1 scanners?

2 A No. My understanding is that the scanners were
3 purchased to enhance the basic functionality of the
4 carriers. There are a variety of purposes for which the
5 scanners will be used, only one of which is delivery
6 confirmation.

7 Q Did you address this in your testimony?

8 A Yes, I did.

9 Q And as you stated there, could you paraphrase that
10 please?

11 A Yes, there are currently three major purposes
12 envisioned for the scanner at this point in time. The first
13 is to enhance delivery and collection management. The
14 second is to better evaluate service performance
15 measurements. And the third is for mail item acquisition.
16 Mail item acquisition includes a variety of types of mail
17 item acquisition, one of which is delivery confirmation.

18 Q And of these various reasons, are any of them more
19 important?

20 A One of the most important is the delivery
21 management system. It's -- my understanding is that it's a
22 major initiative on the part of the Postal Service to
23 improve the structure of the carrier routes. And the
24 hand-held scanners will be critical to implementing that
25 system.

1 Q With respect to the spreadsheet you provided in
2 your response to OCA 24 -- that's kind of a shorthand, OCA
3 USPS-T²22-24 -- do you have an opinion as to the accuracy or
4 reliability of the numbers in that spreadsheet?

5 A Yes, my sense is that those numbers are quite
6 reliable.

7 Q With respect to questions from I believe Mr.
8 McKeever regarding the \$185 million in I think it's your
9 Worksheet C-2 --

10 A Worksheet C-2; yes.

11 Q I believe you stated that the cost of the scanners
12 is in that \$185 million. Are all of the costs of the
13 scanners in there?

14 A No. The \$185 million represents only those costs
15 affecting the test year.

16 MR. HOLLIES: I have no further questions.

17 CHAIRMAN GLEIMAN: Recross?

18 MR. McKEEVER: Yes, Mr. Chairman, just a couple.

19 RECROSS EXAMINATION

20 BY MR. McKEEVER:

21 Q Worksheet C-2 relates to the \$51.9 million, not
22 the \$185 million; isn't that correct, Mr. Treworgy?

23 A Worksheet C-2 is a subset of the 185 million.

24 Q Right. And that worksheet deals only with the
25 51.9 million; is that correct?

1 A That's correct.

2 Q Okay. And of the three other uses for the
3 scanners that you mentioned, one of them was service
4 performance measurement?

5 A Yes.

6 Q That's referred to on page 2 of your testimony?

7 A Yes, 2 and 3.

8 Q And the use there is to permit the Postal Service
9 to test the on-time performance of Standard B mail; is that
10 correct?

11 A That's one of the uses. It will also improve the
12 performance of priority mail or the -- sorry -- it will
13 improve the measurement of the performance of priority mail.

14 Q Okay. So the service performance measurement
15 reason is to test the on-time performance of Standard B and
16 priority mail?

17 A Yes, that's correct.

18 Q Okay.

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

20 CHAIRMAN GLEIMAN: There doesn't appear to be any
21 additional follow-up to the redirect.

22 If that is the case, Mr. Treworgy, I want to thank
23 you. We appreciate your appearance here today and your
24 patience --

25 THE WITNESS: Thank you.

1 CHAIRMAN GLEIMAN: -- in spending the better part
2 of the day and evening here. If there's nothing further,
3 you're excused.

4 [Witness excused.]

5 CHAIRMAN GLEIMAN: This concludes today's hearing.
6 We'll reconvene tomorrow morning at 9:30 to hear testimony
7 from Postal Service Witnesses Nelson, Fronk, Hatfield,
8 Seckar and Sharkey.

9 Thank you all. Have a pleasant evening, what's
10 left of it, and be careful in whatever mode of
11 transportation you're using.

12 [Whereupon, at 8:30 p.m., the hearing was
13 recessed, to reconvene at 9:30 a.m., Wednesday, October 8,
14 1997.]

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