

# Official Transcript of Proceedings

*Before the*

## UNITED STATES POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 4

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

DATE: Wednesday, October 8, 1997

PLACE: Washington, D.C.

PAGES: 1316 - 2156

**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 4

14                              Wednesday, October 8, 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

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3	Library Reference Nos. 151		
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24	Seckar, Exhibit No.		
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1 EXHIBITS [continued]

2        EXHIBITS AND/OR TESTIMONY                                  IDENTIFIED     RECEIVED

3      Designation of Written Cross-

4 Examination of Paul G.

5	Seckar	1847
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6 Library References H-134 and

7 H-169 1893

8 Direct Testimony and Exhibits of

9 Thomas M. Sharkey, Exhibit No.

10	USPS-T-33	1922	1922
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11 Designation of Written Cross-

12 Examination of Thomas M.

13	Sharkey	1923
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14 Additional Designation of Written

15 Cross-Examination of Thomas M.

16	Sharkey	2093
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17 Library References H-118, H-166,

18           and H-191

2155

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

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning.

We continue hearings on docket R97-1.

Today, we're going to hear from five Postal Service witnesses, witnesses Nelson, Fronk, Hatfield, Seckar -- I believe is the correct pronunciation --

MR. COOPER: Seckar.

CHAIRMAN GLEIMAN: -- Seckar -- okay -- thank you -- and Sharkey.

As I indicated yesterday, witness Musgrave was also scheduled to appear today.

As no participant has filed a timely notice of intent to cross examine witness Musgrave, in the interest of efficiency and economy we decided to forego questioning witness Musgrave from the bench and excuse him from appearing here this morning.

Presiding officer's information requests will be sent to Musgrave shortly.

Yesterday, Presiding Officer's Ruling No. 41 resolved several Office of Consumer Advocate motions to compel responses from witness Fronk.

The only outstanding motion to compel a response from a witness scheduled to testify today -- excuse me -- relates to OCA interrogatory 57B to witness Fronk. The

1 'issue raised by that motion is really part of a larger  
2 controversy involving the status of library references.

3 I do not think witness Fronk is qualified to  
4 respond on why the Postal Service is or is not sponsoring a  
5 particular piece of testimony. Therefore, I'll deny the  
6 motion to compel a further response to OCA/USPS-T-32-57B.

7 Mr. Reporter, if you would please index this  
8 ruling at the beginning of today's transcript.

9 [Presiding Officer's Ruling to  
10 deny the Motion to Compel a  
11 further Response to  
12 OCA/USPS-T-32-57B by Witness  
13 Fronk.]

14 CHAIRMAN GLEIMAN: Does any participant have a  
15 procedural matter to raise before we begin today?

16 [No response.]

17 CHAIRMAN GLEIMAN: There don't appear to be any.

18 On Monday, I granted the Postal Service a motion  
19 to reschedule witness Nelson as the first witness to appear  
20 today.

21 However, I notice that the Postal Service counsel  
22 representing witness Musgrave is present now, and I believe  
23 it would be best to receive witness Musgrave's testimony  
24 into evidence before beginning actual oral cross  
25 examination.

1           Ms. Duchek, are you prepared to offer the direct  
2 testimony and written cross examination of witness Musgrave?

3           MS. DUCHEK: Yes, I am.

4           CHAIRMAN GLEIMAN: Ms. Duchek, please provide the  
5 reporter with two copies of the corrected testimony and the  
6 exhibits of Postal Service witness Gerald L. Musgrave,  
7 accompanied by a declaration attesting to the authenticity  
8 of those documents.

9           MS. DUCHEK: I'm doing that now, Mr. Chairman.

10          CHAIRMAN GLEIMAN: Hearing no objections, the  
11 testimony and exhibits of Mr. Musgrave are received into  
12 evidence. As -- as is our practice, they will not be  
13 transcribed.

14                               [Direct Testimony and Exhibits  
15                               of Gerald L. Musgrave, Exhibit  
16                               No. USPS-T-8 was marked for  
17                               identification and received  
18                               into evidence.]

19          CHAIRMAN GLEIMAN: Ms. Duchek, do you have a  
20 declaration applicable to the designated written cross  
21 examination of this witness?

22          MS. DUCHEK: Yes, I do, Mr. Chairman. I've also  
23 checked the two packets of cross examination, and they seem  
24 to have included every -- include everything that has been  
25 designated.

1           CHAIRMAN GLEIMAN: I'm going to hand two packages  
2 to the reporter of the written -- designated written cross  
3 examination of witness Musgrave, and I direct that they be  
4 transcribed at this point, along with the applicable  
5 declaration, and that it be received into evidence.

6                           [Designation of Written Cross  
7 Examination of Gerald L.  
8 Musgrave was received into  
9 evidence and transcribed into  
10 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 GERALD L. MUSGRAVE  
(USPS-T-8)

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

Party

Answer To Interrogatories

Office of the Consumer Advocate

OCA\USPS: Interrogatories T8-1-5.  
POIR: POIR No. 1 Question 10(d).

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Margaret P. Crenshaw  
Secretary

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

**UPS/USPS-T8-1.** Please refer to your testimony, page 18, line 14, where you state that the own-price elasticity of demand for Priority Mail is estimated to be  $-0.77$ .

a. Did you compute confidence levels or any other statistical measure of the uncertainty associated with this estimate?

b. If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measures were computed.

c. If the answer to (a) is no, please provide an estimate of the range within which the own-price elasticity of demand for Priority Mail, in your opinion, likely falls.

**RESPONSE:**

a. Yes.

b. Please see my Library Reference H-120, page 56, first line, where the computed t-statistic equals  $-5.719$ .

c. Not Applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

**UPS/USPS-T8-2.** Please refer to your testimony, page 27, lines 17-21, where you provide estimates of volume for Priority Mail in the Test Year.

a. Did you compute confidence levels or any other statistical measure of the uncertainty associated with these estimates?

b. If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measure was computed.

c. If the answer to (a) is no, please provide an estimate of the range within which the estimate of Priority Mail volume in the Test Year, in your opinion, likely falls.

**RESPONSE:**

a. No.

b. They have not been provided in previous cases. In addition, it is my understanding that the Postal Service and the Postal Rate Commission use point estimates of volume forecasts, rather than confidence intervals.

c. A statistical confidence interval is not available. However, the R94-1 after- rates Test Year forecast was 10.65% low. I would expect the current forecast to be within the range of plus or minus 11% of the actual value.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

**UPS/USPS-T8-3.** Please refer to your testimony, page 35, lines 5 and 6, where you provide an estimate of the long-run own-price elasticity for Express Mail.

a. Did you compute confidence levels or any other statistical measure of the uncertainty associated with this estimate?

b. If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measure was computed.

c. If the answer to (a) is no, please provide an estimate of the range within which the estimate of Express Mail own-price elasticity, in your opinion, likely falls.

**RESPONSE:**

a. Yes.

b. Please see my Library Reference H-121, page 42, line 11, where the computed t-statistic equals -17.774.

c. Not Applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

**UPS/USPS-TB-4.** Please refer to your testimony, page 44, where you provide estimates of Express Mail volumes in the Test Year.

a. Did you compute confidence levels or any other statistical measure of the uncertainty associated with these estimates?

b. If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measure was computed?

c. If the answer to (a) is no, please provide an estimate of the range within which the estimate of Express Mail volume, in your opinion, likely falls.

**RESPONSE:**

a. No.

b. They have not been provided in previous cases. In addition, it is my understanding that the Postal Service and the Postal Rate Commission use point estimates of volume forecasts, rather than confidence intervals.

c. A statistical confidence interval is not available. However, the R94-1 after- rates Test Year forecast was 6.98% low. I would expect the current forecast to be within the range of plus or minus 7% of the actual value.

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO INTERROGATORIES OF THE UNITED PARCEL SERVICE

**UPS/USPS-T8-5.** In its Opinion and Recommended Decision in Postal Rate and Fee Changes, 1994, Docket No. R94-1, the Commission presented, at page II-39, a table comparing forecasted volume estimates of Postal Service witnesses Tolley and Musgrave with actual volumes. On page II 38, the Commission concluded that:

- The excellent overall volume forecasting performance masked large but offsetting forecast errors among individual mail categories
- Percentage errors for major categories of mail were within a range of plus or minus 3%
- Forecasting errors for smaller categories of mail tended to fall within a larger range
- Forecasting accuracy has improved
- No bias was apparent

a. Do you agree with the Postal Rate Commission's assessment summarized above? If not, please explain.

b. With respect to the forecasts provided in the present proceeding, Docket No. R97-1, do you anticipate that the same conclusions might apply? Please explain your answer.

c. Specifically, with respect to the forecasts provided in the present proceeding, do you anticipate that the differences between the forecasts and the actual volumes for the larger mail categories will fall within a range of plus or minus 3 % and the errors for the smaller categories will fall within a wider range? Please explain your answer.

### RESPONSE:

a. My testimony and response are limited to Priority Mail and Express Mail. In the cited table (II-3), page II-39, percent difference in forecast versus actual is -4.78% for Priority Mail and -2.36% for Express Mail. These seem to be generally consistent with the Commission's statement.

b. Yes, within the limits of my testimony, these same conclusions might apply.

c. Yes, within the limits of my testimony, see my response to UPS/USPS-T8-2 and UPS/USPS-T8-4. My best estimates of the Test Year volumes are presented in my testimony and they are the ones in which I have the most confidence as being closest to the actual volumes.

Response of Postal Service Witness Gerald L. Musgrave  
to  
Presiding Officer's Information Request NO. 1,  
Question 10(d)

10.d. Below are selected quarterly values of the price for consumer spending used by witness Tolley and Musgrave to deflate postal prices for volume forecasting purposes.

<u>Postal Quarter</u>	<u>Tolley's Price Index<sup>a</sup></u>	<u>Musgrave's Price Index<sup>b</sup></u>
1997.1	1.110	1.106
1997.2	1.115	1.111
1997.3	1.122	1.128
1997.4	1.129	1.135
1998.1	1.136	1.142
1998.2	1.143	1.150
1998.3	1.150	1.158
1998.4	1.158	1.166
1999.1	1.166	1.174
1999.2	1.174	1.182
1999.3	1.183	1.190
1999.4	1.191	1.199

<sup>a</sup> Variable PC in LR-H-173, Spreadsheet EC\_R97.WK4.

<sup>b</sup> Variable PIDC in LR-H-125, Spreadsheets FEMR97.WK4, FEMR97A.WK4, FPMR97.WK4 and FPMR97A.WK4.

Please provide the source of the above indices and explain the differences in their values.

**Response:**

Dr. Musgrave's revised price index data and Dr. Tolley's original data used to forecast volumes are now the same from 1997:3 to 2000:1. See Dr. Musgrave's revised testimony and errata.

Dr. Musgrave's values for 1997:1 and 1997:2 were from DRI's April database, and reflect the actual values at that time. The values used by Dr. Tolley all come from DRI's February data base. The source of the forecasted values of these price indices from 1997:3 onward are from DRI's TREND25YR0297 database.

**DECLARATION**

I, Gerald L. Musgrave, declare under penalty of perjury that the foregoing written testimony is true and correct to the best of my knowledge, information and belief, and that were I to testify orally, my testimony would be the same.

G. MUSGRAVE

Dated: 10/6/97



1 CHAIRMAN GLEIMAN: And I want to thank you, Ms.  
2 Duchek, for your assistance on this one.

3 I -- I had an indication that people could not  
4 hear me. Am I speaking loud enough now? We're okay?  
5 Usually it's people telling me they don't want to hear what  
6 I have to say, so it's a little bit of a switch.

7 Mr. Cooper, if you are ready to identify your  
8 first witness, we can begin cross examination.

9 MR. COOPER: Yes, sir.

10 I'm Richard Cooper for the Postal Service, and I  
11 call Michael A. Nelson to the stand.

12 CHAIRMAN GLEIMAN: Before you sit down, if you  
13 could please raise your right hand, Mr. Nelson.  
14 Whereupon,

15 MICHAEL A. NELSON,  
16 a witness, was called for examination by counsel for the  
17 United States Postal Service and, having been first duly  
18 sworn, was examined and testified as follows:

19 CHAIRMAN GLEIMAN: Thank you. Please be seated,  
20 and if you could turn on your mike when you sit down, I'd  
21 appreciate it.

22 DIRECT EXAMINATION

23 BY MR. COOPER:

24 Q Mr. Nelson, I'm handing you two copies of a  
25 document entitled "Direct Testimony of Michael A. Nelson on

1     Behalf of the United States Postal Service," designated as  
2     USPS-T-19. Are you familiar with that document?

3             A     Yes.

4             Q     Was it prepared by you?

5             A     Yes.

6             Q     I understand that you had one typographical change  
7     you wish to make at this time.

8             A     Yes.

9             Q     And would you describe that for us?

10            A     On page 10, in line 12, the word "two" should be  
11     struck so that the phrase reads "allocating the fixed  
12     portion."

13            Q     And with that change, if you were to be giving  
14     testimony orally today, is this the testimony that you would  
15     give?

16            A     Yes.

17                   MR. COOPER: Mr. Chairman, I will hand these  
18     copies to the court reporter, and I ask that they be  
19     admitted into the evidentiary record.

20                   CHAIRMAN GLEIMAN: Are there any objections?

21                   [No response.]

22                   CHAIRMAN GLEIMAN: Hearing none, Mr. Nelson's  
23     testimony and exhibits are received into evidence, and I  
24     direct that they be accepted into evidence. As is our  
25     practice, they will not be transcribed.

1 [Direct Testimony and Exhibits  
2 of Michael A. Nelson, Exhibit  
3 No. USPS-T-19 was marked for  
4 identification and received  
5 into evidence.]

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

10 THE WITNESS: Yes, I have.

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

14 THE WITNESS: Yes, they would.

15 CHAIRMAN GLEIMAN: That being the case, I'm going  
16 to provide two copies of the designated written cross  
17 examination of witness Nelson to the reporter and direct  
18 that they be accepted into evidence and transcribed into the  
19 record at this point.

20 [Designation of Written Cross  
21 Examination of Michael A.  
22 Nelson was received into  
23 evidence and transcribed into  
24 the record.]

25

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

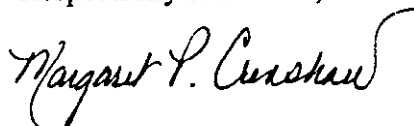
Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS MICHAEL A. NELSON  
(USPS-T-19)

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

<u>Party</u>	<u>Answer To Interrogatories</u>
ADVO, Inc.	ADVO\USPS: Interrogatories T19-1-2, 4-5, 9. NAA\USPS: Interrogatories T19-1, 2, 4.
Newspaper Association of America	NAA\USPS: Interrogatories T19-1-2, 4. ADVO\USPS: Interrogatories T19-1-3, 5-9.
Office of the Consumer Advocate	ADVO\USPS: Interrogatories T19-1-9. NAA\USPS: Interrogatories T19-1-4.

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

ADVO/USPS-T19-1. In regard to Library Reference H-151, please provide the full working definitions (as used in the survey) of:

- (a) Deviation stop.
- (b) Routine walking loop.
- (c) Routine dismount.

**Response:**

(a) It is assumed that this question refers to deviation delivery. As shown in Line 21 of the Motorized Letter Route Survey - Street Form (presented on page 34 of Library Reference H-151), deviation delivery involves delivery from stops that are not the regular, designated vehicle parking locations for the given route.

(b) "Routine walking loop" refers to delivery to more than 1 address made from a stop that is a regular, designated vehicle parking location for the given route.

(c) "Routine dismount" refers to delivery to 1 address made from a stop that is a regular, designated vehicle parking location for the given route.

ADVO/USPS-T19-2. Referring to your workpaper 1.2:

(a) Are the units in columns 3 and 4 weighted stops from the Motorized Letter Route Survey - Street Form? If not, please describe the units and identify their source.

(b) Please provide a cross-walk between the Street Form and the Activities in your workpaper 1.2 (i.e., line items in the form go into each of the activities on the workpaper).

**Response:**

(a) Yes.

(b) The column labeled "Variables" in Workpaper 1.2 contains the line number or numbers from the Street Form that correspond to each "Activity". For example, the activity "Express Mail Facility Drop/Pickup" corresponds to line 12 and line 14 on the Street Form.

ADVO/USPS-T19-3. Referring to your workpaper 1.10, please identify the specific source (line number, page and library reference or workpaper) of the data in each column.

**Response:**

Additional documentation relating to this workpaper is being prepared and will be filed shortly as a library reference.

ADVO/USPS-T19-4. Referring to your workpaper 1.11, please explain how it was used to develop the factors in Alexandrovich's worksheet 7.0.4.1, lines 7a, 7b and 8a.

**Response:**

In general, the data in Workpaper 1.11 were used to identify driving activity within STS tallies formerly treated as "Route/Access (FAT)" and "Collection". Within each route type, the proportions of tallies associated with such driving are used to develop the factors in W/S 7.0.4.1, L7a.

Among STS tallies formerly treated as "Collection", only a single tally, from a residential curblane route, reflected driving activity (see Workpaper 1.11). Because this tally represented 33.33% of the collection tallies from this route type (note that collection "load" tallies are not shown on this workpaper), 33.33% of the time formerly treated as "Collection" on residential curblane routes is now treated as driving time. With the exception of this change (which reduced the previous value of 0.0057 to 0.0038), the values in L8a have not been changed.

Among STS tallies formerly treated as "Route/Access (FAT)", the values now appearing in L7a and L7b are derived from the information in Workpaper 1.11 as follows:



Response of Postal Service Witness Nelson to ADVO Interrogatories

1346

<u>Route Type</u>	<u>Former L7</u>	<u>% Driving<sup>1</sup></u>	<u>Base Year L7a<sup>2</sup></u>	<u>Base Year L7b<sup>3</sup></u>
Business foot	0.3943	0.00	0.0000	0.3943
Business motorized	0.5880	34.69	0.2040	0.3840
Residential foot	0.3479	5.07	0.0176	0.3303
Residential P&L	0.5676	12.92	0.0733	0.4943
Residential curbline	0.1689	36.96	0.0643 <sup>4</sup>	0.1065
Mixed foot	0.6725	7.02	0.0472	0.6253
Mixed P&L	0.5049	23.29	0.1176	0.3873
Mixed curbline	0.3633	21.88	0.0795	0.2838

---

<sup>1</sup>From Workpaper 1.11.

<sup>2</sup>Former L7 x % Driving/100.

<sup>3</sup>Former L7 x (1 - (% Driving/100)).

<sup>4</sup>(0.1689 x 0.3696) + (0.3333 x 0.0057)

ADVO/USPS-T19-5. Referring to your workpaper 1.14, please provide the following:

- (a) Sources for all the data.
- (b) Units in columns 2 and 3.
- (c) Description of how dismounts were identified as being due to volume/weight.
- (d) Description of how loops were identified as being due to volume/weight.

**Response:**

(a) These data are from a follow-up question that was posed to a subset of supervisors from routes the participated in the Motorized Letter Route Survey. Specifically, if the Street Form from an MLR survey showed that routine loops/dismounts had occurred (Line 20), the supervisor of the sampled route was contacted and asked to provide supplemental information (see attached "Parking Point Worksheet").

(b) The units in columns 2 and 3 are weighted numbers of stops. It is noted that some of the numbers in these columns are incorrect. None of the incorrect values were used in the development of spreadsheet inputs. A corrected version of Workpaper 1.14 is attached.

(c) The identification was performed by route supervisors using the attached worksheet.

(d) The identification was performed by route supervisors using the attached worksheet.

INDEX 1

## Motorized Letter Route Survey - Parking Point Worksheet

To: Supervisor

Date Received \_\_\_\_\_

Route \_\_\_\_\_ participated in the Motorized Letter Route Survey on 4/6/96.  
On that date, the survey shows that a total of 11 routine looping / dismount stops  
were made. (See attached - Motorized Letter Route Survey - Line 20).

Please indicate how many of these stops fall into each of the following categories:

- \_\_\_\_\_ A. Routine dismounts (i.e. serving a single address) established due to  
recipient mail volume / weight.
- \_\_\_\_\_ B. Routine dismounts established due to other factors.  
(Describe factors: \_\_\_\_\_)
- \_\_\_\_\_ C. Routine looping points established due to mail volume / weight.
- \_\_\_\_\_ D. Routine looping points established due to other factors.  
(Describe factors: \_\_\_\_\_)
- 11 Total

Please give a convenient time during a typical day for  
us to call you if needed regarding this worksheet. \_\_\_\_\_

If you need further clarification or assistance in filling out this worksheet you may contact  
survey support personnel at Foster Associates, Inc. (a consulting firm under contract with  
USPS Headquarters) or USPS Headquarters, both located in the Washington, D.C. area:

Technical Assistance: Foster Associates, Inc. - David Neal (301) 664-7839

Administrative Assistance: USPS Headquarters - Dennis Stevens (202) 268-3786

Please complete this worksheet within 48 hours and return it via fax. If no fax is available,  
please mail it to the following address. Whether you use fax or mail, retain a copy of this form.

David Neal  
Foster Associates, Inc.  
4550 Montgomery Avenue, Suite 350N  
Bethesda, MD 20814  
FAX (301) 664-7810 / VOICE (301) 664-7839

Attachments: MLR Survey Street Form

WP 1.14 (Revised - 8/25/97)

Output to W/S 7.0.4.x, C3L6 = 0.4099

$$242,294,460 / (85,273,149 + 242,294,460 + 263,516,968) = 0.4099$$

Responses	118	%
DISMOUNTS		
Stops A--Dismounts Due to Volume / Weight	162,610,262	38%
Stops B--Dismounts Due to Other Factors	263,516,968	62%
----NDCBU	30,558,172	7%
----Parcels	17,981,401	4%
----Distance between del. points	37,271,814	9%
----Safety	8,502,943	2%
----Terrain	6,379,860	1%
----School Bldgs.	2,535,424	1%
----Office Bldgs. / Business	60,104,997	14%
----Apts	17,796,452	4%
----COMBINATION: apts./offices./schools/	17,516,008	4%
----Other	63,192,985	15%
----No Curbside Del.	1,678,911	0%
Total Dismounts Due to Other Factors	263,516,968	62%
Total Dismounts	426,127,249	100%
LOOPS		
Stops C--Loops Due to Volume / Weight	242,294,460	74%
Stops D--Loops Due to Other Factors	85,273,149	26%
----Improves performance	2,686,257	1%
----Numerous Dismounts	26,526,787	8%
----Light Volume	3,693,603	1%
----Safety	433,562	0%
----Separate Streets	671,564	0%
----No Curbside Del	1,343,128	0%
----NDCBU	1,007,346	0%
----Other	46,560,427	14%
-----"Line of travel"	7,695,729	2%
-----"Deliveries across the street"	22,497,401	7%
----Apts	2,350,475	1%
Total Loops Due to Other Factors	85,273,149	26%
Total Loops	327,567,609	100%

ADVO/USPS-T19-6. Referring to your workpaper 1.14, please define and describe the response categories for discounts and explain the logic for each's separate categorization:

- (a) NDCBU
- (b) Parcels
- (c) Distance between del. points
- (d) Safety
- (e) Terrain
- (f) School bldgs.
- (g) Office bldgs/business
- (h) Apts
- (i) Other
- (j) No curbside del.

**Response:**

These are the factors that were supplied by supervisors. See item "B" on the worksheet attached to the response to ADVO/USPS-T19-5.

ADVO/USPS-T19-7. Referring to your workpaper 1.14, please define and describe the response categories for loops and explain the logic for each's separate categorization:

- (a) Improves performance
- (b) Numerous dismounts
- (c) Lite volume
- (d) Safety
- (e) Separate streets
- (f) No curbside del
- (g) NDCBU
- (h) Other
- (i) Line of travel
- (j) Deliveries across the street
- (k) Apts

**Response:**

These are the factors that were supplied by supervisors. See item "D" on the worksheet attached to the response to ADVO/USPS-T19-5.

ADVO/USPS-T19-8. Referring to your workpaper 1.14, please explain the logic for placing the data for "line of travel" and "deliveries across the street" loops in the third column (rather than the second column).

**Response:**

These are subsumed within the "other" category. They are reported in a separate column to help ensure that they are distinguished in this manner.

ADVO/USPS-T19-9. Referring to your workpaper 1.14, please explain the logic associated with the variables chosen to calculate variability.

**Response:**

Variability is calculated from the following considerations:

- The number of discounts due to factors other than volume/weight (263,516,968) is not related in any identifiable way to mail volume. Volume variability for such stops is treated as 0%.
- The number of loops due to volume/weight (242,294,460) is related directly to mail volume. Volume variability for such stops is treated as 100%.
- The number of loops due to factors other than volume/weight (85,273,149) is not related in any identifiable way to mail volume. Volume variability for such stops is treated as 0%.

The variability factor of 0.4099 developed in Workpaper 1.14 is based on these considerations.

The computation presented in Workpaper 1.14 omits discounts due to volume/weight (162,610,282). Volume variability for such stops is unknown. On the one hand, higher volume levels may reasonably be expected at the margin to increase somewhat the number of volume-related discount stops. On the other hand, once a discount is established for volume-related reasons, it may reasonably be expected to be insensitive to further volume changes. The computation shown in Workpaper 1.14 implicitly imparts to volume-related discounts the aggregate variability figure (0.4099) derived from and applicable to the other categories.



NAA/USPS-T19-1. Please refer to Exhibit USPS-19B of your direct testimony.

Concerning the follow-up survey of supervisors of sampled routes with routine loops/dismounts:

- a. How many surveys were distributed?
- b. Out of this total, how many supervisors ultimately responded to the survey?
- c. Did the Postal Service, or contracting firm conducting the follow-up survey, perform any activities to ensure the quality of the data generated by the survey? If so, please describe these activities. If no, please explain why not.
- d. Was the survey pre-tested? If so, please provide a detailed description of the pre-testing procedures. If no, please explain why not.
- e. Did the Postal Service, or contracting firm conducting the follow-up survey, conduct any training activities to ensure the responding supervisors understood the purpose of the survey and information being collected? If so, please describe these activities. If no, please explain why not.

**Response:**

It is assumed that "follow-up survey" refers to the "Parking Point Worksheet", which was distributed to relevant participants in the Motorized Letter Route Survey. This worksheet is described in footnote 2 on page 2 of Exhibit USPS-19B, and in my response to ADVO/USPS-T19-5(a).

- a. 180 worksheets were distributed.
- b. 118 worksheets were completed.
- c. Yes. Activities performed to ensure the quality of the data included the following:
  - The worksheet was designed to rely on the knowledge of route supervisors, who are responsible for the designation of authorized parking points on motorized letter routes (including routine looping points and dismounts);
  - The worksheet was limited to an extremely common type of stop and was kept minimal in scope, requiring only that the observed number of routine looping/dismount stops be distributed to four categories;
  - The observed total number of stops was entered on the worksheet to cross-check the sum of the four categories;

- A copy of the Motorized Letter Route Survey form referenced by the worksheet was attached to the worksheet;

- Participating supervisors were provided with any needed technical assistance through a direct telephone link to support personnel; and,

- The results were checked for general reasonableness and consistency with previous Motorized Letter Route Survey results.

d. Yes. As a pretest, Parking Point Worksheets were initially distributed only to the first fifteen routes in the sample. Based on the responses from these routes, it was concluded that the worksheets could be distributed to the remaining routes.

e. Yes. The Parking Point Worksheet was labeled and presented as being part of the Motorized Letter Route Survey. Extensive teleconference training of the supervisors participating in the Motorized Letter Route Survey was previously undertaken. During that training, the purpose and uses of the information being collected were explained thoroughly. While the worksheet sought additional information regarding a particular category of stops, it did not alter the purpose of the data collection.

NAA/USPS-T19-2. Please refer to your Workpaper 1.14.

a. For the following items cited by respondents to the follow-up survey as being factors in establishing dismounts, please explain how each factor results in establishing a dismount regardless of the volume or weight of the mail:

1. Parcels
2. Office Buildings/Business
3. Apts.
4. Combination: apts./offices/schools
5. Distance between delivery points

b. Would light-weight, small parcels result in establishing a dismount to the same degree as heavier, bulkier parcels? Please explain.

c. If the weight of the mail for an office building or apartment is extremely light, is a dismount established for other reasons. Please explain.

d. For the following items cited by respondents to the follow-up survey as being factors in establishing loops, please explain how each factor results in establishing a loop regardless of the volume or weight of the mail for that loop:

1. Numerous Dismounts
2. Light Volume
3. Line of Travel
4. Deliveries across the street

e. Please explain how and why numerous dismounts result in establishing a loop.

f. If the numerous dismounts were established to handle heavy volumes of mail, will a loop be established? Please explain.

g. Please define the following terms and explain why loops are established due to these factors:

1. "Line of Travel"
2. "Deliveries across the street"

h. Please explain and define the 3 largest subcategories of "Other" under Stops B – Dismounts Due to Other Factors.

i. Please explain why it is appropriate to calculate the variability factor (0.4099) based on a denominator that includes the number of total loops and number of dismounts due to other factors. In other words, explain why this is not an "apples to oranges" comparison.

**Response:**

a. The worksheet does not call for or provide an explanation of "how each factor results in establishing a dismount regardless of the volume or weight of the mail". Such an explanation is unnecessary in the context of the use that is made of the data from the worksheet.

b. Unknown. The worksheet does not call for or provide an explanation of how the factor referenced as "parcels" in my Workpaper 1.14 affects the establishment of dismounts. In particular, it does not indicate how the number, size or weight of parcels may be associated with dismounts.

c. I am unaware of any reason why a dismount could not take place in the circumstance where the weight of mail for an office building or apartment is light. For example, if an office building or apartment is sufficiently isolated from neighboring addresses, local management may hypothetically determine that it is best served by dismount.

d. The worksheet does not call for or provide an explanation of "how each factor results in establishing a loop regardless of the volume or weight of the mail". Such an explanation is unnecessary in the context of the use that is made of the data from the worksheet.

e. The worksheet does not call for or provide an explanation of "how and why numerous dismounts result in establishing a loop". It is reasonable to hypothesize that local management may identify instances where it is desirable to convert existing dismounts to a loop. For example, new construction may hypothetically make it desirable for loops to be made from groups of previously-isolated (low-volume) dismount points.

f. Generally no. The 35-lb. limit on satchel weight for individual loops tends to preclude the creation of loops from "numerous" points that receive "heavy volumes of mail".

g. These terms do not have formal definitions in the context of this analysis, but rather represent types of factors other than mail volume/weight that were cited by supervisors as causing routine looping points.

1. It is reasonable to hypothesize that in the given context, "Line of Travel" refers to a circumstance where the logical line of travel that exists in local conditions does not lead to a satchel load that is constrained by the quantity of mail carried.

2. It is reasonable to hypothesize that in the given context, "Deliveries across the street" refers to a circumstance where the logical line of travel that exists in local conditions involves having the carrier park at one or more points along a street and make (small) loops to addresses on opposite sides of the street from each other.

h. No such subcategories have been identified.

i. The pool of costs to which the variability factor applies includes both loops and dismounts, and the variability factor must be defined in an analogous manner to the greatest extent practical. As indicated in my response to ADVO/USPS-T19-9, 3 of the 4 categories possess inherent variability characteristics that are used to derive the composite figure of 0.4099. This approach maximizes the utilization of available information to develop the needed variability, and minimizes the use of proxies or other assumptions.

NAA/USPS-T19-3. Please provide copies of your testimony on behalf of the United Parcel Service in Docket Nos. RM86-2B, R87-1 and R90-1.

**Response:**

These are on file at the Postal Rate Commission.

NAA/USPS-T19-4. Please refer to your response to ADVO/USPS-T19-9.

a. Please explain why the proxy variability figure (0.4099) used for Dismounts Due to Volume/Weight is more appropriate than a proxy variability figure that compares the percentage to volume variability of loops.  $(242,294,460/85,273,149 + 242,294,460)$ .

**Response:**

a. There is no theoretical or operational foundation for such a proxy because (1) the causal relationship between dismounts and volume/weight is known to be different from the causal relationship between loops and volume/weight; and, (2) the ratio of (dismounts due to volume/weight)/(total dismounts) is known to be much lower than the corresponding ratio for loops.

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

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.

5 According to my list, only one participant, the  
6 Newspaper Association of America, has requested oral cross  
7 examination of this witness. Does any other participant  
8 have oral cross examination for witness Nelson?

9 [No response.]

10 CHAIRMAN GLEIMAN: Mr. Jenkins, I believe, you can  
11 begin.

12 CROSS EXAMINATION

13 BY MR. JENKINS:

14 Q Good morning.

15 A Good morning.

16 Q My name is Alan Jenkins. I represent the  
17 Newspaper Association of America today.

18 I just have a few questions, Mr. Nelson, related  
19 to work paper 1.14. If you could refer to the revised work  
20 paper 1.14, please, and if you could briefly describe what  
21 the purpose of this work paper 1.14 is.

22 A The purpose is to develop information on the  
23 distribution of routine looping and dismount points among  
24 four categories, and that distribution information is used  
25 to develop the figure of .4099 that's used as a variability



1 factor in the spreadsheets.

2 Q Okay. And Mr. Nelson, just by way of background,  
3 would you define exactly what is a dismount and what is a  
4 loop as -- as listed here?

5 A I believe the definitions of looping and dismount  
6 points were provided in another interrogatory response, and  
7 if you'd give me a minute, I'd find that for you.

8 Q Okay.

9 A My response to ADVO USPS-T-19-1 has those  
10 definitions.

11 Basically, a routine looping point is a delivery  
12 where more than one address is served from a stop that's a  
13 regular designated vehicle parking location, and a dismount  
14 is a delivery to an address made from a stop that's a  
15 regular designated vehicle parking location, with the  
16 distinction being that it's just for one addressee --

17 Q Okay. Good.

18 A -- one stop.

19 CHAIRMAN GLEIMAN: Mr. Nelson, could you pull your  
20 mike in a little bit?

21 THE WITNESS: Sure.

22 CHAIRMAN GLEIMAN: Thank you.

23 BY MR. JENKINS:

24 Q So, as far as I understand -- and correct me if  
25 I'm wrong -- this work paper 114 simply tabulates the result

1 of the motorized letter route survey parking point work  
2 sheet. Is that right?

3 A That's correct.

4 Q And Mr. Nelson, do you believe that the motorized  
5 letter route survey improves on the park and loop driving  
6 time analysis employed in previous rate hearings?

7 A Yes, I believe this survey provides data that  
8 supports an improved analysis.

9 Q And would you explain the basis for that, how it  
10 improves upon it?

11 A Previously there was not available any of this  
12 type of information describing the activities at stops on  
13 motorized letter routes, and this survey enabled that  
14 information to be developed.

15 Q Uh-huh.

16 Now, referring to the motorized letter route  
17 survey parking point work sheet, who provided the survey  
18 responses that you later tabulated in work -- this work  
19 paper 1.14?

20 A The work sheet was distributed to the supervisors  
21 of the motorized letter routes that the initial responses to  
22 the survey had shown that they had one or more routine  
23 looping or dismount points on the sampled route.

24 Q Uh-huh. And they then responded more fully as to,  
25 I believe, in particular, the -- describing the factors for

1 the routine dismounts and looping points? Is that correct?

2 A Well, no, actually, the principle focus of the  
3 work sheet was to obtain the distribution among the four  
4 categories, and the factors were supplied sort of  
5 incidentally or secondarily, but the principle purpose of  
6 the work sheet was to obtain the distribution among the four  
7 types.

8 Q Okay. Fair enough.

9 In your opinion, Mr. Nelson, what factors might  
10 have led the respondents to the survey to underestimate the  
11 amount of dismounts that are due to volume or weight, if  
12 anything?

13 A I am not aware of any.

14 Q Given that all other factors are equal, as volume  
15 increases, do the number of delivery points generally  
16 increase?

17 A Could you clarify what you mean by delivery  
18 points?

19 Q Well, on the work paper 1.14, you've got a -- one  
20 of the lines says distance between D-E-L, period, points. I  
21 assume that's delivery points. Is it?

22 A Yes, I believe so.

23 Q And I'm just asking in relation to that, that --  
24 that as volume increases, given all things -- other things  
25 being equal, would the number of delivery points generally

1     increase?

2           A     I believe you're describing a coverage kind of  
3     relationship?

4           Q     I'm not sure.  It's just provided there.  Perhaps  
5     you could tell me what it is.

6           A     Well, this is just a comment from one or more of  
7     the supervisors citing distance between delivery points as  
8     being a factor in the establishment of dismount reported in  
9     this category.

10          Q     Uh-huh.  Okay.

11                 So, is it safe to say that the people that wrote  
12     these responses obviously knew what these phrases meant, but  
13     you were more interested in tabulating their responses and  
14     don't necessarily know exactly what they had in mind with  
15     each one?

16          A     My interest was in obtaining the breakdown among  
17     the four categories, and we did tabulate the factors that  
18     were cited on the sheet but didn't perform any further  
19     specific analysis of them.

20          Q     Uh-huh.

21                 Is it possible that some of the respondents to the  
22     motor route survey that marked this distance between  
23     delivery points might have referred to dismounts that  
24     contained an element of volume variability?

25          A     I don't believe so.

1           The type of coverage relationship that we referred  
2 to a moment ago is something that varies on a day-to-day  
3 kind of basis with the volume of mail causing one or another  
4 address to be served or not served, but the dismounts that  
5 we're talking about refer to designated vehicle parking  
6 locations that are stable over some period of time.

7           It would be my understanding that this would be  
8 likely to refer to a case where this was a physical property  
9 of the environment being served rather than a reference to  
10 day-to-day changes in coverage in the distance between  
11 delivery points.

12           Q     Now, a similar question in relation to this line  
13 which says, parcels. Now, I am going to ask a couple of the  
14 same questions and just to clarify your understanding of the  
15 matter, once again, given that all other factors being  
16 equal, as the number of parcels increase, wouldn't the  
17 number of dismounts increase?

18           A     Well, I think I already have an interrogatory  
19 response that addresses that.

20           As I indicated in my answer to NAA-USPS-T-19-2  
21 part B, the worksheet doesn't call for or provide an  
22 explanation of how the factor referenced as parcels affects  
23 the establishment of dismounts. It doesn't indicate how the  
24 number size or weight of parcels may be associated with  
25 dismounts.

1           Q     I appreciate that the survey doesn't. I am just  
2 asking from your own knowledge, given that all other factors  
3 are equal, as the number of parcels increase, would you  
4 believe the number of dismounts would increase, somewhat?

5           A     I -- I don't have information to enable me to  
6 answer that.

7           Q     Okay, that's fair enough.

8                     One other short set of questions, Mr. Nelson.  
9 From what I understand, it is your testimony, isn't it, that  
10 a percentage of dismounts are due to changes in volume or  
11 weight; is that correct?

12          A     The parking point worksheet results indicated that  
13 a percentage of dismounts were due to volume or weight,  
14 that's correct.

15          Q     And I believe it is, on that worksheet, 38  
16 percent; isn't that right?

17          A     Well, it is not 38 percent of the total.  
18 Actually, that 38 percent is 38 percent of the dismounts.

19          Q     Okay. Right.

20          A     It's a considerably smaller percentage of the  
21 total.

22          Q     Okay. Would you say it's possible that some of  
23 the respondents to the motor route survey that marked  
24 numerous dismounts might have referred to loops that had an  
25 element of volume variability?

1           A     Response "numerous discounts" is already under  
2     category D in workpaper 1.14. So those are already being  
3     reported as loops and within those loops it's possible that  
4     there is volume variability associated with coverage. But  
5     in my analysis, those are already reported as loops and  
6     numerous discounts refers to a factor that was cited as a  
7     cause for that point to be served as a loop.

8           MR. JENKINS: Um-hum, okay. Well, thank you,  
9     Mr. Nelson.

10           I have no further questions. Thank you,  
11     Commissioner.

12           CHAIRMAN GLEIMAN: Is there any followup  
13     cross-examination? I believe I saw someone throw a hand up  
14     in the back of the room.

15                           CROSS EXAMINATION

16           BY MR. McLAUGHLIN:

17           Q     Mr. Nelson, I'm Tom McLaughlin with ADVO, Inc.

18                   Referring to workpaper 1.14, let me just ask you a  
19     general question. You have a category for discounts and a  
20     category for loops and you indicated that a discount is a  
21     parking point which is established to serve a single  
22     address.

23                   Can you give some examples of the kinds of  
24     addresses that might have -- the kind of an address that  
25     might be served by a single parking point stop?

1           A     Well, I can refer to some of the factors that were  
2     cited by the supervisors participating in the survey. They  
3     are listed on workpaper 1.14 under stops, B.

4                     For example, if there is an NDCBU or distance  
5     between delivery points that we just cited, there may be  
6     physical properties of the delivery environment that lead to  
7     service being provided most efficiently without exhausting  
8     the physical capacity of a carrier to carry up to the 35  
9     pound limit. That would be --

10           Q     Now --

11           A     I wasn't quite finished.

12                     That would be in addition to dismounts that were  
13     established because of a large volume of mail going to an  
14     individual point.

15           Q     And points receiving large volumes of mail,  
16     addresses receiving large volumes of mail, could include  
17     things like office buildings?

18           A     It's possible that within the stops listed in A,  
19     that there would be office buildings.

20           Q     And apartment buildings as being high volume  
21     points?

22           A     It's possible that within the stops reported as  
23     category A that there would be such points.

24           Q     Likewise, NDCBU, that's like a cluster box?

25           A     That's correct.



1           Q     Serving a number of addresses but at one physical  
2     location?

3           A     That's correct.

4           Q     So that would also tend to be a high volume point;  
5     is that correct? Compared to an individual residential  
6     address?

7           A     It may have more volume than an individual  
8     address. By definition, it would serve a group.

9           Q     And the businesses may have -- high volume  
10    businesses may have a dismount for their address; is that  
11    correct?

12          A     If a business is a high-volume business, it could  
13    be served by a dismount. I would agree with that.

14          Q     Would it be fair to say that in general, a  
15    dismount is established for a single address in large  
16    measure because it is a high volume address, such as a  
17    business or a school or an apartment building?

18          A     I don't believe our survey data support that  
19    conclusion. As we just went over a minute ago, there's  
20    approximately 38 percent of dismounts that were indicated by  
21    the survey respondents as being caused by volume or weight  
22    conditions at the --

23          Q     Well, let me get into that in a minute.

24          A     -- at the address.

25          Q     Let me get to that in a minute, but it is common

1     that a dismount route would be established for a business or  
2     other type of apartment building or whatever that would have  
3     large volumes?

4           A     I believe your question referred to a dismount  
5     route?

6           Q     A dismount parking point.

7           A     If a point is a high volume point, it would be  
8     possible or possibly even expected for it to be served by a  
9     dismount.

10          Q     Now I would like to refer you to the survey, the  
11     motorized letter route survey that was distributed to  
12     supervisors, and this is in your response to ADUO T-19-5.

13          A     I have that.

14          Q     The question on routine dismounts, you asked the  
15     supervisors to indicate how many of the stops -- how many  
16     routine dismount stops fall in the following categories.  
17     Category A was routine dismounts, i.e. serving a single  
18     address, established due to recipient mail volume weight;  
19     and Part B was routine dismounts established due to other  
20     factors. Do you see that?

21          A     Yes.

22          Q     Now, the supervisors were not given a list of  
23     other factors, were they?

24          A     No, they were not.

25          Q     Is it possible that a supervisor could interpret

1     that to mean that since office buildings -- since they have  
2     an office building that has had a dismount for many, many  
3     years because it's a high volume stop, that that should be  
4     recorded as a routine dismount serving a single address  
5     established due to recipient mail volume and weight?

6           A     If it was established due to volume, I would  
7     expect them to report it as A.

8           Q     And that may have been an address that has had a  
9     dismount for ten or 15 years because it's been a high volume  
10    point for all that time?

11          A     I don't have any information on how long points  
12    remain as dismounts.

13          Q     Is it possible that a respondent, one of the  
14    supervisors -- let's say two different supervisors in two  
15    offices thinking in terms of the same type of dismount  
16    point, one might have deemed that every dismount to a high  
17    volume point such as an NDCBU or a business or a school was  
18    due to recipient mail volume and weight, whereas another one  
19    might say to himself or herself, well, that's not really due  
20    to volume weight; that's just due to the fact that that's a  
21    business, where we would always establish a dismount?

22          A     I guess I don't follow either of the hypotheses  
23    there as corresponding to my understanding of what the  
24    surveys were getting at or what the supervisors would  
25    indicate.

1 Q Well, I guess --

2 A Would you clarify your question?

3 Q Well, a supervisor that responded by stating that,  
4 let's say a dismount point that happened to serve an office  
5 building, that that was established due to recipient mail  
6 volume and weight, is it possible that another supervisor in  
7 that same kind of a circumstance could have responded that  
8 that was a routine dismount established due to other factors  
9 and the other factor namely being that it is an office  
10 building.

11 A Again, the primary distinction in the question is  
12 it was asked on the worksheet. The first thing they are  
13 asked to distinguish is between points that are established  
14 due to volume and weight and points that are established due  
15 to other factors, so when they indicate an answer like  
16 "office building" after already indicating that it is due to  
17 other factors, I would interpret that as being office  
18 building in the sense of a building that may be physically  
19 separated from the addresses around it in some way that it  
20 is sensible to serve it through a dismount, but the  
21 supervisor has already indicated that it is not due to  
22 volume or weight considerations and to me that leads me to  
23 interpret the factors as things that the supervisor  
24 associates with the points but having already determined  
25 that the point is not due to volume or weight.

1 MR. McLAUGHLIN: I have no further questions.

2 CHAIRMAN GLEIMAN: Is there any further follow-up  
3 cross examination? Questions from the bench?

4 I have one question. On an NCDBU or cluster box,  
5 that is not considered to be a single address, is it? It  
6 serves many street addresses?

7 THE WITNESS: That's correct.

8 CHAIRMAN GLEIMAN: Thank you. Commissioner  
9 LeBlanc.

10 COMMISSIONER LeBLANC: I just need to clarify one  
11 thing then.

12 On the survey here, a routine dismount in serving  
13 a single address, then what was the true definition of a  
14 single address?

15 THE WITNESS: Generally, it is a single address in  
16 the normal sense of the word, and NDCBU is kind of a special  
17 situation because of the nature of the --

18 COMMISSIONER LeBLANC: With all due respect, sir,  
19 you said "generally" and you took a fair amount of time to  
20 come up with that definition.

21 Now could it be that somebody out there in the  
22 field had that same questioning time period?

23 THE WITNESS: Well, we had a procedure for any of  
24 the supervisors who had questions to call for support, and I  
25 am told by the people who manned that line that there were

1 not questions of that type that arose.

2 I think in the field that the understanding of  
3 what a dismount is is pretty clear and this would not be a  
4 cause for confusion, and in any event we had no indication  
5 in gathering this data that anybody in the field was  
6 uncertain about how they should respond to this.

7 COMMISSIONER LeBLANC: Thank you for the  
8 clarification.

9 Thank you, Mr. Chairman.

10 CHAIRMAN GLEIMAN: I have some questions that are  
11 related to Witness Nelson's presentation, but I think the  
12 questions at least initially have to be directed to counsel  
13 and not the witness.

14 If you will indulge me for a moment or two, Mr.  
15 Cooper, Mr. Nelson's testimony is 10 pages long, of which  
16 the first page and a half recite his qualifications, which  
17 are by the way very fine qualifications.

18 The testimony contains no numbers and refers to  
19 findings set out in exhibits. There are five exhibits,  
20 three of which provide numerical results and little analysis  
21 underlining these results appears in the exhibits.

22 Exhibit USPS-19B indicates that certain library  
23 reference contain descriptions of how data was gathered and  
24 other library reference show how the data was analyzed.

25 I want to understand the Postal Service's position

1 and this is something that has become an important matter in  
2 this case and was a topic of discussion yesterday early in  
3 the day.

4 Mr. Cooper, if you want to discuss my questions  
5 with your colleague that's fine, but I want answers to  
6 clarify how the Postal Service views the necessity for  
7 evidentiary support.

8 I have four questions and I will read all of them,  
9 and I'll ask if you are prepared to respond to any of them  
10 or perhaps, if not, and you would be more comfortable, you  
11 can give us a response by the end of the day today.

12 My first question is this. Does the Postal  
13 Service intend that library references 151 through 159  
14 should be part of the evidentiary record in this case?

15 The second question is, if the Postal Service does  
16 not intend for this library references to be viewed as  
17 evidence, is there any reason why the Postal Service does  
18 not want this information to be part of the evidentiary  
19 record?

20 The third question is, if a party were to believe  
21 that the analysis contained in library reference 156 or some  
22 other reference, some other library reference, contained a  
23 theoretical or mathematical error, would the party be able  
24 to effectively raise that point on order, or would it have  
25 to file technical evidence which, in effect, both explained

1 and criticized non-record Postal Service analyses?

2 And the fourth and last question is, if the  
3 commission were to determine that, for example, the analysis  
4 contained in library reference 156 or one of the other  
5 library reference contained a theoretical or mathematical  
6 error, would it be legally permissible to adjust witness  
7 Nelson's results, or would such an adjustment be reflecting  
8 information not in the evidentiary record and, therefore, in  
9 the Postal Service's view, impermissible?

10 These are tough questions. When we break at  
11 12:45, I'll hand you a copy of the questions, hard copy of  
12 the questions. If you want to take a shot at any of them  
13 now, we'd be delighted to have your responses, but I don't  
14 mean to put you on the spot.

15 We would like some response by close of business  
16 today, however.

17 MR. COOPER: And I will certainly do my best to  
18 give you a response.

19 My initial comment is that the witness has been  
20 available for questioning on these and other -- any other  
21 matters that the parties might want to delve into, or the  
22 commission itself, if it wished to direct questions to the  
23 witness, and the Postal Service would have been happy to  
24 discuss any perceived theoretical or other defects in the  
25 library references, work papers, or exhibits of the witness,



1 and we certainly have no objection to that -- that process.

2 Up to this point, there hasn't been much -- such  
3 an inquiry. So, we're -- we're addressing this -- this  
4 question at first blush here today, and I'll -- I'll -- I'll  
5 think about it, and -- and get back to you.

6 CHAIRMAN GLEIMAN: Okay. Thank you.

7 I -- as I said, I -- I didn't intend to put you  
8 between a rock and a hard place, but these are important  
9 issues. They may or may not be theoretical in terms of  
10 whether there is a theoretical or mathematical error.

11 The question remains about the status of -- of the  
12 library references vis a vis the evidentiary record.

13 If there are no further questions from the bench,  
14 the question then becomes is there any followup as a  
15 consequence of questions from the bench?

16 [No response.]

17 CHAIRMAN GLEIMAN: There doesn't appear to be any.

18 That brings us to redirect, Mr. Cooper. Would you  
19 like a few moments with your witness?

20 MR. COOPER: I don't believe that will be  
21 necessary, as I didn't plan any follow-up cross, but as to  
22 your earlier point, I would note that I do have copies of  
23 the library references in question here with me, and I would  
24 have no objection to the witness being asked questions about  
25 those library references, if there are any, and I would have

1 no objection to introducing them explicitly into evidence if  
2 the commission feels that that would shore up any potential  
3 defects in the evidentiary record.

4 CHAIRMAN GLEIMAN: Well, that -- that one answer  
5 does help us a bit, and if they were made a part of the  
6 evidentiary record, I suspect that -- that that would take  
7 care of question number four, because the Postal Service  
8 then would not be positioned to suggest that an adjustment  
9 reflecting information not in the evidentiary record was  
10 impermissible, because the material would be in the  
11 evidentiary record, and I suspect that, you know, that --  
12 that would resolve the issue, and if you're -- if you're  
13 prepared to offer those into evidence --

14 MR. COOPER: I might also note that, to the extent  
15 that the witness has referred to these -- to these  
16 references in his work, I mean there -- there is a question  
17 as to whether or not portions or all of them have been  
18 incorporated by reference, but in order to avoid any  
19 ambiguity, I'd be happy to facilitate that.

20 CHAIRMAN GLEIMAN: Well, we -- we had an  
21 enlightening discussion yesterday, and I -- I don't want to  
22 take time trying to review all that was said, and I'm sure I  
23 wouldn't give justice to -- to the views of all who took  
24 part in the discussion, but the prevailing view seemed to be  
25 that the reference material might, in fact, be -- the

1 particular reference in the testimony to a number might,  
2 indeed, be part of the evidentiary record, but the  
3 underlying support and how that number was derived does not  
4 automatically become part of the evidentiary record.

5 We're still reviewing the transcript from  
6 yesterday, and I guess we're going to have to make some  
7 decision about how to treat this matter more broadly, but in  
8 any event, we -- we appreciate your thoughtful response.

9 I will give you the written questions, and you can  
10 think about them some more, and we will proceed from there.

11 MR. COOPER: I just wanted to -- excuse me -- I  
12 just wanted to, before the witness leaves for parts unknown,  
13 if we did wish to -- to have him authenticate any of the  
14 library references, he is here for that purpose now, and we  
15 could do that right now.

16 CHAIRMAN GLEIMAN: Well, I'm ready -- I'm ready to  
17 receive them all into evidence now, if you want to give him  
18 the copies and -- and let him authenticate them.

19 MR. COOPER: And I'm prepared to do that.

20 CHAIRMAN GLEIMAN: Excuse me. There is someone  
21 who wishes to participate in the discussion.

22 You're -- you're going to have to come to the  
23 mike, identify yourself, Mr. Thomas.

24 MR. THOMAS: My name is Joel Thomas. I'm  
25 representing the Alliance of Non-Profit Mailers.

1 I sort of have a problem with this procedure. The  
2 direct testimony of the government was supposed to have been  
3 submitted some time ago. Now, I'm not familiar with the  
4 four library references that are at issue here, so I have a  
5 disadvantage.

6 But the problem is it appears to me that some of  
7 them contain study and analysis, and do they comply with  
8 Rule 31(k)? Who's going to -- I mean -- I mean to suddenly  
9 now be confronted with the need to -- I can't determine that  
10 sitting here.

11 No notice was given, these were not submitted with  
12 the government's case in chief, and now we're being told  
13 they're going to be put into evidence, and nobody has an  
14 opportunity to look at this, and no -- nobody's ascertaining  
15 whether they meet the requirements for evidence of the  
16 commission's rules.

17 CHAIRMAN GLEIMAN: Well, my impression is that  
18 they -- they would meet the requirements of the commission's  
19 rules for evidence. The library record -- the library  
20 references have been of record. They're -- they're made  
21 reference to and relied upon by the witness.

22 We have an interesting situation here, because if  
23 -- if we don't admit these library references into -- into  
24 evidence, then there's a question as to how soundly based  
25 the witness' testimony is.

1 MR. THOMAS: I agree.

2 CHAIRMAN GLEIMAN: And no one that I'm aware of --  
3 I'm trying to think through all the motions to strike that  
4 have come across my desk. No one has made a motion to  
5 strike this witness' testimony either in part or in total  
6 because of their concern about one of the library references  
7 on which he relied. But if you have strong feelings and  
8 feel that you would be prejudiced, I am willing to  
9 recognizing that Witness Nelson is from out of town, I would  
10 respectfully request that we ask Witness Nelson to stay  
11 around for the remainder of the morning.

12 MR. THOMAS: I don't have questions of this  
13 witness and these library references, but this process is  
14 going to come up with other witnesses where there will be a  
15 problem.

16 CHAIRMAN GLEIMAN: I'm aware of that. That's what  
17 the discussion yesterday was about, and, you know, I heard  
18 your comments yesterday, both your initial comments and your  
19 rejoinder comments, and as I said yesterday, I think  
20 everybody was being very thoughtful about this.

21 We find ourselves somewhat on the horns of a  
22 dilemma, that as my fourth question indicated, if the  
23 material is not a matter of evidence in the case and there  
24 is an error in it, and someone wishes to question or offer  
25 an adjustment to the witness' testimony because of the error

1 in the library references, we would find ourselves in a  
2 position where perhaps the Postal Service or perhaps another  
3 party, as was the case in one of the documents filed in  
4 connection with a notice of inquiry, would say that the  
5 Commission is trying to bootstrap a decision based on  
6 material that is not a matter of record evidence.

7 So the inclination that I have at this point, if  
8 you have no specific concerns about these library  
9 references, is to give Mr. Nelson an opportunity to  
10 authenticate them and put them in the record.

11 Mr. Olson.

12 MR. OLSON: Mr. Chairman, thank you. I have also  
13 no specific reservations about these library references,  
14 never having looked at the issue of their independent  
15 admissibility, but I'd like to reinforce Mr. Thomas'  
16 comments, which I think are right on point.

17 The Commission is on the horns of a dilemma  
18 because of the way the Postal Service has presented its case  
19 in this docket. It has not presented all of the evidence at  
20 the beginning as the Commission's rules required, and yet it  
21 is amending matters on the fly, and it's putting parties in  
22 situations where the evidence is changing, the proposals for  
23 library references to go in the record are changing, where  
24 the Postal Service has actually said that certain library  
25 references are not designated and later reverses its

1 position and says they are. And the only --

2 CHAIRMAN GLEIMAN: Mr. Olson, can I --

3 MR. OLSON: Yes, sir.

4 CHAIRMAN GLEIMAN: Because I understand your point  
5 and I apologize for the interruption, but let me try and get  
6 to the nub of the issue. If you would like to submit a  
7 written motion to the Commission, and perhaps many of your  
8 colleagues in the bar would join you, that this is an  
9 improperly filed case, we'll entertain the motion.

10 You have practiced before the Commission longer  
11 than I have been here, and I suspect that my experience over  
12 the last couple of years is not unusual in the sense that we  
13 frequently find witnesses arriving on the witness stand with  
14 sheaves of paper trailing behind them with changes to their  
15 testimony, work papers, spreadsheets, and the like.

16 This is an administrative procedure. We do try  
17 and protect everybody's due process rights. I suspect that  
18 I would be inclined if someone were to raise questions about  
19 a document that were admitted into evidence at this point or  
20 at some future point in the proceedings, if they were to  
21 make the case that they needed some additional time in which  
22 to pursue a line of discovery that, you know, the Presiding  
23 Officer would view favorably such a request, because we do  
24 intend to try and protect everybody's due process rights.  
25 But we do have that dilemma.

1           You know, perhaps you're correct. Perhaps the  
2 case as initially filed was flawed. I'm not prepared to  
3 make a judgment on that at this point in time, because no  
4 one's asked me to. I'm not sure that I want to make that  
5 judgment, by the way, and I'm not sure what the consequences  
6 of drawing such a conclusion would be. A lot of time and  
7 energy has been invested already by all the parties,  
8 yourself included, the Postal Service, and the Commission.  
9 The question is how best do we proceed now.

10           You have my commitment, Mr. Thomas, and everyone  
11 else who's intervened in this case, that to the extent that  
12 someone feels that their position is prejudiced as a  
13 consequence of a library reference being admitted into  
14 evidence which they had not taken the time to examine  
15 because they didn't think it was going to be material to the  
16 case, then I will afford them whatever opportunity they feel  
17 is appropriate. It may cause a little bit of havoc with  
18 scheduling, but we will do that.

19           The alternative is for the Commission downstream  
20 to issue a decision where any number of modifications to the  
21 Postal Service's initial proposal, some of which one or the  
22 other of you may offer up, if accepted by the Commission and  
23 included in our recommendations, would be subject to a  
24 charge that it was impermissible because the adjustments  
25 were made as a consequence or changes were made as a



1 consequence of nonrecord evidence. I don't want the  
2 Commission to be in that position, and at the same time I do  
3 want to try to the extent practicable to protect your rights  
4 and those of the other intervenors.

5 MR. OLSON: Mr. Chairman, if I could just add one  
6 final thought, I understand all those comments and  
7 appreciate the position that the Commission is in in this  
8 docket, but the one point that I want to make is just  
9 because Postal Service counsel is willing to hand a number  
10 of documents to a witness and the witness is willing to say  
11 yes, I adopt them into my testimony, is not -- by the way,  
12 the Commission seems to be prepared to act now, is going to  
13 determine that those are record evidence.

14 And I would submit that the Commission's own rules  
15 do require -- have certain preconditions to what record  
16 evidence is, and Mr. Thomas pointed out the rule with  
17 respect to the essential elements of studies which must be  
18 presented. I don't know if those are there. I don't know  
19 if the witness knows if they are there. I don't know if  
20 postal counsel knows if they are there.

21 MR. COOPER: I do.

22 MR. OLSON: But there is a representation being  
23 made to this Commission and it's a matter on which I believe  
24 the Commission has to make an independent decision, and just  
25 to say that the matter is part of the record, then it being

1 in the record therefore it can be relied upon, is a slippery  
2 slope indeed, and that's my concluding point.

3 Thank you.

4 MR. COOPER: If I may --

5 CHAIRMAN GLEIMAN: Mr. Cooper.

6 MR. COOPER: Address some of the points.

7 CHAIRMAN GLEIMAN: Are the elements of Rule 31  
8 met?

9 MR. COOPER: What I will state with a high degree  
10 of certainty is that these library references which were  
11 filed with the Postal Services' case -- with its request --  
12 were intended precisely for the purpose of meeting the  
13 Commission's documentation standards, 31(k) and all others,  
14 pertaining to this witness' studies and calculations and the  
15 supporting materials for them. They do serve that purpose.  
16 If any of these parties that have concerns with respect to  
17 these particular library references had a concern, they had  
18 ample opportunity to test their both procedural defects and  
19 any substantive defects. I'm quite content that they meet  
20 the Commission's filing requirements and that they have been  
21 available, that notice has been given, and that no party  
22 would be prejudiced by their admission into the record.

23 I might also add that I am only speaking with  
24 respect to this witness and these library references. I am  
25 -- I am not aware of the details of disputes over other

1 library references at this time.

2 CHAIRMAN GLEIMAN: Mr. Thomas?

3 MR. THOMAS: Excuse me, sir. Is counsel becoming  
4 a witness?

5 CHAIRMAN GLEIMAN: I don't think counsel was  
6 becoming a witness.

7 I think counsel was -- was discussing the  
8 documents in question relative to the requirements of Rule  
9 31, and -- and I think that that's a matter of -- of legal  
10 interpretation which I would assume counsel is in a  
11 reasonable position to make.

12 I'm fairly comfortable with the Postal Service's  
13 legal squad in terms of -- don't always agree with them, but  
14 I'm comfortable with their ability to -- to discuss legal  
15 issues and whether rules have been met.

16 Mr. Littell?

17 MR. LITTELL: Thank you, Mr. Chairman. Richard  
18 Littell for Major Mailers Association.

19 I'm extremely reluctant to get into this area  
20 where I know you all have given a great deal of thought.

21 CHAIRMAN GLEIMAN: Obviously not enough.

22 MR. LITTELL: Well, let me -- let me make an  
23 observation, and where it leads, I'm sure you're all able to  
24 follow.

25 It seems to me there are two different problems

1     which are being addressed here.

2             One is whether the commission can use library  
3     references as part of its final decision, and then the  
4     question is whether the parties should use them, would be  
5     allowed to use them, or could have them used against them in  
6     terms of the argument by the parties in the case.

7             I think counsel have a very good point in saying  
8     that they are concerned that, if library references are  
9     taken into the record, then another party might be able to  
10    seize a figure in that library reference and use it perhaps  
11    for a purpose that has nothing to do with the testimony of  
12    the witness who used the library reference.

13            There might be a number, for example, in Mr.  
14    Nelson's testimony that some party could pull out in their  
15    final brief and use for an entirely different purpose, and  
16    that would be prejudicial to the party. .

17            The Administrative Procedure Act allows  
18    commissions to take official notice of documents as long as  
19    they provide an opportunity for rebuttal.

20            It seems to me that it would be possible for  
21    library references not to be put in the record in the sense  
22    that they can prejudice parties, whereas at the same time,  
23    if the commission finds, at the time it's making its final  
24    decision, that it wishes to controvert or use a library  
25    reference for a decisional purpose, the commission could do

1 so, providing, as the Administrative Procedure Act allows,  
2 an opportunity for rebuttal.

3 To give a concrete example, the commission might  
4 use it -- might, sometime in the two months or month after  
5 oral argument, when it is formulating its decision, give  
6 notice that it intends to use library reference  
7 such-and-such and a particular figure in it, allowing 10  
8 days for parties to rebut it if they wish.

9 If the figure is not rebuttable, then the  
10 commission could go ahead and use it, it will be part of the  
11 record, or at least officially noticed, and there will be no  
12 prejudice. The commission can do that in the final decision  
13 and so forth.

14 CHAIRMAN GLEIMAN: What do you mean by "use"? Do  
15 you mean select that figure and have only that figure  
16 available?

17 MR. LITTELL: No, no. If the commission wishes to  
18 put a -- to take official notice of a library reference --

19 CHAIRMAN GLEIMAN: Let's -- let's say, for  
20 example, that the -- I need to understand what you're  
21 saying, and I -- you know, I'm a little dense this morning,  
22 more so than usual, perhaps.

23 Let's say, for example, that there was a library  
24 reference that associated a -- a -- a cost or a cost  
25 avoidance of X.

1           Are you saying that the Postal -- that -- that the  
2   Postal Rate Commission could take cognizance by issuing a  
3   notice and then use the figure X out of the library  
4   reference, or are you saying that if the -- the Postal Rate  
5   Commission or someone else who is participating in the case  
6   determined that there was some error, underlying error in  
7   calculating X, that they could reach that matter?

8           MR. LITTELL: I apologize for not having the  
9   citation to the Administrative Procedure Act here, but that  
10   act provides that the commission may take official notice of  
11   various things, including documents in files, so long as an  
12   opportunity to respond is there.

13           The commission can notice figures, it can notice  
14   that a computation was made in such-and-such a way, it could  
15   notice a page or an entire library reference, and then it  
16   could do whatever it would do with that if it were in  
17   evidence, provided, of course, that it gave an opportunity  
18   for response and reply.

19           CHAIRMAN GLEIMAN: So, in effect, if the  
20   Commission was not just going to adopt "x" out of the  
21   library reference but found an underlying problem, either  
22   arithmetic or theoretical problem and wanted to use "x"  
23   prime in its decision, the Commission would have to give  
24   pre-notice of where it was headed with its recommended  
25   decision that it wasn't going to go along with a proposal of

1 the Postal Rate Commission but it was going to deviate based  
2 on an error that it found in a library reference.

3 The Commission would have to give, in effect, a  
4 preliminary or draft decision, put a notice out, on which  
5 parties could comment. Is that what you are suggesting that  
6 we would have to do in order to accommodate the due process  
7 rights under the Administrative Procedures Act?

8 MR. LITTELL: Well, the more we get into  
9 specifics, the harder it is of course for me to deal with a  
10 hypothetical.

11 CHAIRMAN GLEIMAN: I understand. Let me do this.

12 We have a witness here from out of town, I  
13 understand. I am going to ask Mr. Cooper -- I am going to  
14 take Mr. Cooper up on his offer. Any party that wishes to  
15 file comments and object to what I am doing today in  
16 writing, I will entertain those comments and as the  
17 Presiding Officer does, the Presiding Officer can undo, and  
18 if the arguments are persuasive and on further consideration  
19 when I can sit back and put my feet up a little bit and  
20 think about this and do what people with beards and pipes  
21 do, then we will undo the decision that we are about to do  
22 right now, but for right now in order to move ahead today I  
23 think we are going to allow Mr. Cooper to have the witness  
24 authenticate the library references.

25 I thank all of you for your comments.

1           This is an extraordinarily difficult issue for not  
2   only me but for many of us, my colleagues and our staff here  
3   at the Commission.

4           Mr. Olson, if you do choose to file a motion, I  
5   hope you will copy the Governors of the Postal Service, not  
6   the comments but the motion about the adequacy of the case  
7   as filed.

8           MR. COOPER: As a procedural matter, I would note,  
9   Mr. Chairman, that I do not think it would be practicable to  
10  ask that these library references be transcribed, especially  
11  insofar as they include diskettes and electronic format  
12  materials.

13          However, I leave that up to your discretion.

14          CHAIRMAN GLEIMAN: I think you are a wise man, Mr.  
15  Cooper.

16          MR. COOPER: I would also note that --

17          CHAIRMAN GLEIMAN: At least in that regard.

18          MR. COOPER: -- the voluminous nature of this  
19  material was one of the factors which led to their being  
20  filed as library references.

21          CHAIRMAN GLEIMAN: I understand.

22                         REDIRECT EXAMINATION

23           BY MR. COOPER:

24           Q    Mr. Nelson, I am handing you copies of Postal  
25  Service Library References H-151, 152, 153, 154, 155, 156,



1 157, 158, and 159.

2 I ask that you take a moment to familiarize  
3 yourself once again with these documents

4 Mr. Nelson, are you familiar with these documents?

5 A Yes, I am.

6 Q I understand there is a typographical correction  
7 you would like to make to Library Reference H-153?

8 A That is correct.

9 Q Would you describe that for us?

10 A On page 63 in the description of Stratum 4 it  
11 should read "greater than or equal to 1" rather than  
12 "greater than or equal to 17".

13 Q With that correction are you willing to adopt  
14 these library references for purposes of your testimony?

15 A Yes.

16 MR. COOPER: I move that they be admitted into the  
17 evidentiary record. There is at least one copy on file with  
18 the Commission currently.

19 CHAIRMAN GLEIMAN: I understand there are some  
20 objections.

21 The objections notwithstanding, we are going to  
22 admit these library references, Number 151 through 159 into  
23 evidence, and they will not be transcribed into the record.

24 THE REPORTER: Do you want to give them an Exhibit  
25 Number?

1           CHAIRMAN GLEIMAN: They have Library Reference  
2 numbers. We can -- I don't know that we have to give them  
3 an exhibit number, just Library References 151 through 159  
4 will be sufficient.

5                           [Library Reference Nos. 151 through  
6                           159 were marked for identification  
7                           and received into evidence.]

8           MR. RICHARDSON: Mr. Chairman -- Mr. Chairman?  
9 OCA, Ken Richardson from OCA.

10                   If I might make a suggestion from my previous life  
11 in other practice at the FERC, a very common practice that  
12 is used and I think successfully for designating something  
13 that is on file with the Commission would be to designate it  
14 as an item-by-reference, so as not to confuse it with the  
15 other library references, so that the four or five library  
16 references that are in the record might be designed  
17 item-by-reference 1 is Library Reference X.  
18 Item-by-reference 2 in evidence is Library Reference X plus  
19 1. That would perhaps avoid some confusion.

20           CHAIRMAN GLEIMAN: Well, I don't think that -- I  
21 understand.

22                   I don't think that is necessary because the  
23 library references are numbered and there is an indication  
24 in the transcript of which library references are in the  
25 record. I don't think there are duplicate documents that

1 they would be confused with at this point.

2 I am reluctant to adopt another numbering  
3 procedure, not only because it will confuse me more than I  
4 am already confused -- I know everyone else would be able to  
5 handle it but I wouldn't, so I think at this point I  
6 appreciate your suggestion but we are going to pass on it.

7 Well, I don't know whether there was any follow-up  
8 as a consequence of the very few questions from the bench.  
9 You may have forgotten what those questions were.

10 We finished -- I have lost my place here. Did  
11 we -- we did redirect and there was none.

12 MR. COOPER: I have no further questions.

13 CHAIRMAN GLEIMAN: Okay. Well, if that is the  
14 case, we want to thank you, Mr. Nelson. We appreciate your  
15 appearance here today, and your lengthy contributions to our  
16 record, and if there is nothing further, you are excused.

17 THE WITNESS: Thank you.

18 [Witness excused.]

19 CHAIRMAN GLEIMAN: I think before we start with  
20 the next witness -- Mr. Tidwell, I understand it's your  
21 witness -- we are going to take ten, if that's --

22 MR. TIDWELL: I just wanted to seek clarification  
23 of whether in fact my witness was the next witness.

24 I understand that there might be pending a request  
25 by Mr. Popkin to advance Mr. Sharkey in the schedule, and I

1 thought we might want to resolve that before the break.

2 CHAIRMAN GLEIMAN: Well, you stayed around late  
3 yesterday and you were very helpful, but not late enough.  
4 We made a decision last night that we would stick with the  
5 agreed-upon order of witnesses at this point.

6 There were other parties involved who wished to  
7 cross examine, and we were unable to give proper notice to  
8 those parties of a change, a possible change, so with that  
9 we will take ten.

10 We will come back at ten minutes of the hour  
11 according to this clock.

12 Thank you very much, and again, thank you all for  
13 your comments on this difficult issue. I appreciate them.

14 [Recess.]

15 CHAIRMAN GLEIMAN: Shall we start off with my next  
16 list of library references?

17 Just kidding.

18 [Laughter.]

19 CHAIRMAN GLEIMAN: Mr. Tidwell. And I want to  
20 notice you have Mr. Cooper to thank for the stand-up mic  
21 being there today. He asked where it was and we found it.

22 MR. TIDWELL: I will certainly thank him when I  
23 see him again.

24 The Postal Service calls David Fronk to the stand.  
25 Whereupon,

1                               DAVID R. FRONK,  
2       a witness, was called for examination by counsel for the  
3       United States Postal Service and, having been first duly  
4       sworn, was examined and testified as follows:

5                               DIRECT EXAMINATION

6                               BY MR. TIDWELL:

7               Q       Mr. Fronk, I have just handed you two copies of a  
8       document entitled the Direct Testimony of David R. Fronk on  
9       Behalf of United States Postal Service. It has been  
10      designated for purposes of this proceeding as USPS-T-32.  
11      Did you prepare the testimony contained in that document?

12             A       Yes, I did.

13             Q       If you were to give this testimony orally today,  
14      would your testimony be the same?

15             A       Yes, it would, if it includes the revisions that I  
16      filed on October 1 and I believe it does. So, yes it is.

17             Q       In fact, it does.

18             A       Yes.

19                   MR. TIDWELL: Okay, Mr. Chairman. We would also  
20      note that the testimony includes the appendix, proposed  
21      appendix that the Postal Service filed with the Commission  
22      on Friday, October 3, which has been amended to correct two  
23      typographical errors today.

24                   We would move that the appendix which is an  
25      attempt by the witness to tie together certain phenomenon

1 that have occurred since the filing of this case, one being  
2 the change in the costs related to the bulk metered  
3 benchmark, which affect -- which could potentially affect  
4 the rates he has proposed for certain First Class Mail rate  
5 categories and the appendix also acknowledges the  
6 supplemental testimony of Witness Daniel, which will be  
7 subject to these proceedings tomorrow and the impact that  
8 that supplemental testimony has with respect to certain  
9 revised cost numbers and the impact that it has on the  
10 passthroughs this witness employs in support of his  
11 testimony.

12 CHAIRMAN GLEIMAN: I'm also reluctant to ask. Are  
13 there any objections?

14 [No response.]

15 CHAIRMAN GLEIMAN: There don't appear to be any.

16 Hearing none, Mr. Fronk's testimony and exhibits  
17 are received into evidence including the appendix filed  
18 Friday. And I direct that they be accepted into evidence  
19 and, as is our practice, they will not be transcribed into  
20 the record.

21 [Direct Testimony and Exhibits of  
22 David R. Fronk, Exhibit No.  
23 USPS-T-32 was marked for  
24 identification and received into  
25 evidence.]

1           CHAIRMAN GLEIMAN: I think the appendix was a  
2 welcome addition to the witness' testimony. It has been  
3 helpful to the Commission and its staff. We appreciate the  
4 Postal Service's efforts and the witness' efforts in that  
5 regard.

6           MR. TIDWELL: Thank you.

7           CHAIRMAN GLEIMAN: Mr. Fronk, have you had an  
8 opportunity to examine the packet of designated written  
9 cross-examination that was made available to you early this  
10 morning?

11          THE WITNESS: Yes, I have.

12          CHAIRMAN GLEIMAN: I would note that the packet  
13 includes material designated by the Office of the Consumer  
14 Advocate. OCA filed a motion for acceptance of late  
15 designations for the witness and the motion is granted.

16          Mr. Fronk, if these questions were asked of you  
17 today, would your answers be the same as those you  
18 previously provided in writing?

19          THE WITNESS: Yes, they would be. I would note  
20 the packet includes a couple of institutional responses that  
21 I didn't personally do. Interrogatory T-32 -- excuse me,  
22 NDMS-USPS-T-32-51 was an institutional response and the  
23 packet also included a number of OCA interrogatories that  
24 were institutional. Just the questions appeared, OCA-3  
25 through 5, 11 and 17 were also institutional.

1           So with those exceptions --

2           MR. TIDWELL: We have removed the copies from the  
3    packets.

4           CHAIRMAN GLEIMAN: Okay, and you have the  
5    corrected packets over there with the institutional  
6    responses removed?

7           MR. TIDWELL: Yes.

8           CHAIRMAN GLEIMAN: Of course, there will be an  
9    opportunity later on for the acceptance of institutional  
10   responses as designated written cross-examination.

11          Mr. Tidwell, if you would be so kind as to provide  
12   those copies to the court reporter.

13          Those are the changes?

14          THE WITNESS: Yes, and those are the only ones.

15          CHAIRMAN GLEIMAN: The Designated Written  
16   Cross-Examination of Witness Fronk will be given to the  
17   reporter and I direct that it be accepted into evidence and  
18   transcribed into the record at this point.

19                               [Designation of Written  
20                               Cross-Examination of David R. Fronk  
21                               was received into evidence and  
22                               transcribed into the record.]

23

24

25



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 R. FRONK  
(USPS-T-32)

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

Party

Answer To Interrogatories

ADVO, Inc.

NDMS\USPS: Interrogatories T32-12, 22. *instituted*

American Bankers Association and  
Edison Electric Institute and  
National Association of Presort Mailers

ABA\USPS: Interrogatories T32-1-2. ✓  
ABA&EEI&NAPM\USPS: Interrogatories T32-  
1-2, 5(b), 6-7.  
DFC\USPS: Interrogatory T32-6.  
MMA\USPS: Interrogatories T32-5, 10, 16, 20-  
22, 24(a).  
NAA\USPS: Interrogatories T32-1-2, 6-10, and  
13.  
OCA\USPS: Interrogatory T32-107.

Major Mailers Association's

MMA\USPS: Interrogatories T32-3-10, 14, 15(a),  
16, 18-23, 24(a), 26.  
ABA\USPS: Interrogatory T32-2. ✓  
NAA\USPS: Interrogatories T32-1-2, 6.  
NDMS\USPS: Interrogatory T32-25.  
DFC\USPS: Interrogatory T32-8(b-c).

Nashua Photo Inc., District Photo Inc.,  
Mystic Color Lab and Seattle Filmworks,  
Inc.,

NDMS\USPS: Interrogatories T32-1-7, 12-14, 22,  
25, 33, 35-36, 41-42.  
MMA\USPS: Interrogatories T32-5-6, 14, 18, 23,  
26.  
NAA\USPS: Interrogatories T32-1-20.  
OCA\USPS: Interrogatories T32-3-5, 11, 17, 19,  
22-26, 31, 33-37, 41-42, 44, 48-49,  
66-67, 71, 116-118, 136. *instituted*

Party

Answer To Interrogatories

1403

Newspaper Association of America

~~NNA~~  
NAA

~~NNA~~\USPS: Interrogatories T32-1-10, 12-20.

MMA\USPS: Interrogatories T32-3-6, 18, 20.

NDMS\USPS: Interrogatories T32-4-6.

Office of the Consumer Advocate

OCA\USPS: Interrogatories T32-1a, 19, 22-26,  
31, 33-35, 36a-c, 37, 41, 42, 44, 48-  
49, 58, 62, 64e and g, 66-67, 69b,  
71-73, 74c, and d, 79, 82, 85b, 89a,  
90-97, 98b, 99-100, 102a, 104, 105,  
106a and b, 107, -108, 116-118,  
125b, 127-129, and 131-136.

DFC\USPS: Interrogatories T32-1-2, 4-7, and  
8b-h. *ABA\USPS-T32-3 was an*

*institutional response and should not be  
included among witness Fronk's designated  
responses.*

ABA\USPS: Interrogatories ~~T32-2-3 (revised  
9\12\97)~~, and 4, also witness  
Fronk's response to interrogatories  
redirected from witness Hatfield,  
i.e., ABA\USPS-T25-2-5.

ABA&EEI&NAPM: Interrogatories T32-1-3, 5b,  
6, 7b and 9-11.

MMA\USPS: Interrogatories T32-3-10, 13-15a,  
16, 18-23, 24a, and 26.

MPA\USPS: Interrogatories T32-1-2 and 4.

NAA\USPS: Interrogatories T32-1-20.

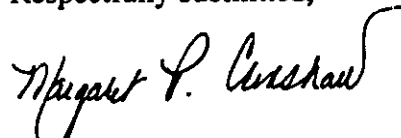
NAPM\USPS; Interrogatories T32-1-6.

NDMS\USPS; Interrogatories T32-1 (as revised  
9\9\97), 2a-d, 3-7, 12, 13(as revised  
9\9\97), 14, 22, 25, 33a, 35-36, 41-  
42.

POIR: Witness Fronk's response to POIR  
No. 1, question 9.

POIR: Witness Fronk's response to POIR  
No. 3, question 22-24.

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

RESPONSE OF U.S. POSTAL WITNESS FRONK TO  
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION (ABA)

ABA/USPS-T32-1.

(a) Do you believe that over years immediately preceding a rate case, whether unit costs have fallen, risen, or remained the same for a subclass or rate category is an important criterion in setting rates?

(b) Please confirm that from postal fiscal year 1994 to postal fiscal year 1996, CRA unit costs for First Class workshared letter mail went down 10.9%.

(c) Please confirm that from postal fiscal year 1994 to postal fiscal year 1996, CRA unit costs for First-Class non-workshared mail went up 11.6%.

(d) Please confirm that from postal fiscal year 1994 to postal fiscal year 1996, CRA unit costs for standard class workshared regular and ECR mail went up an average of 6%.

RESPONSE:

(a) Unit cost trends can be difficult to interpret for a number of reasons. For instance, they are sensitive to the base year and the length of the time period selected for study. As an example, a review of five-year trends might produce different results than a review of three-year trends. In addition, they can be influenced by how operational programs in the process of being implemented affect various types of mail over time. For example, an automation program that was now fully implemented would affect the historic trend, yet it would be doubtful that the trend would continue. I believe that the roll-forward model provides a better indicator of the effect of future programs on costs.

Cost trends can also be influenced by changes in mail preparation requirements, and they can be affected by any changes in cost methodology or data collection practices. Finally, reduced costs may already be reflected in lower rates. I note that a number of the First-Class workshare rates went down following implementation of Docket No. MC95-1. For example, the rate for 3-digit letters, the largest category of workshare mail, went from 26.4 cents following Docket No. R94-1 to 25.4 cents following Docket No. MC95-1. My proposal in this proceeding is to increase this rate to 26.5 cents, which is only 0.1 cent above its Docket No. R94-1 level. On the other hand, the proposed first-

RESPONSE OF U.S. POSTAL WITNESS FRONK TO  
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1405

RESPONSE to ABA/USPS-T32-1 (Continued)

ounce rate for single-piece letters, 33 cents, is 1.0 cents above its Docket No. R94-1 level of 32 cents.

(b) Confirmed. Note that "letters" in this context includes flats and parcels.

(c) I can approximate the 11.6%. According to my calculation, the percentage increase is 11.5% (from 23.4 cents to 26.1 cents). Note that "letters" in this context includes flats and parcels.

(d) Over this time period, the average unit costs for Bulk Rate Regular mail went up by this percentage.

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1406

ABA/USPS-T32-2. On page 26 of your testimony, Table 5, you note a "bulk metered benchmark" unit cost of 13.6851.

(a) Was that benchmark the basis for your rate proposals for First Class automation letter mail?

(b) Was that benchmark the basis for your claim on page 27 at lines 19 and 20 that your rate proposal for 3 digit automated mail "passes through approximately 118% of the cost differential"?

(c) Was that benchmark the basis for your claim on page 28, line 2, that for your basic automation rate, you also "passed through 118% of the cost difference" between that mail and the benchmark?

(d) Using the corrected metered cost bench mark of 14.7274 cents referenced in USPS witness Daniel's testimony at USPS-29C, page 1, footnote 5, which you refer to but do not cite in your Table 5, footnote 5, please calculate the corrected cost differences for each of the automation letter categories you list in your Table 5.

(e) Please recompute using your revised cost differences from (d) the percentage pass-through of unit cost differences for each of the automation letter rate categories you list in your Table 5.

RESPONSE:

(a)-(c) Yes.

(d) To assist in answering this question, I have reproduced below Table 5 and its footnote (renumbered as 1 here) from my testimony:

**Table 5**  
**Unit Cost Data for Automation Letters**

	Unit Costs* (Cents)	Difference (Cents)	Notes
<b>Bulk Metered Benchmark</b>	<b>13.6851<sup>1</sup></b>	<b>-</b>	
Basic Automation	9.0298	4.6553	difference with benchmark
3-Digit	8.1997	5.4854	difference with benchmark
5-Digit	6.5995	1.6002	difference with 3-digit
Carrier Route	6.4170	0.1825	difference with 5-digit

\* Unit costs include mail processing and delivery costs. Source USPS-T-29C.

<sup>1</sup> As indicated in the preceding footnote, very recently the mail processing cost associated with this benchmark was revised. This revision affects the differences for Basic Automation and 3-Digit mail shown in the table. This revised cost was not available at the time the rate proposals for these two rate categories were developed and approved by the Board of Governors.

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RESPONSE to ABA/USPS-T32-2 (Continued)

There are no changes in the table for the 5-digit category or the carrier route category since these cost differences were not calculated using the bulk metered benchmark. Although they are unchanged, I have repeated the 5-digit and carrier route data below for completeness. The corrected benchmark, basic automation, and 3-digit data are as follows. The three numbers that change appear in bolded type:

**Unit Cost Data for Automation Letters  
(Corrected for Revised Benchmark)**

	<b>Unit Costs*</b> (Cents)	<b>Difference</b> (Cents)	<b>Notes</b>
<b>Bulk Metered Benchmark</b>	<b>14.7274</b>	-	
Basic Automation	9.0298	<b>5.6976</b>	difference with benchmark
3-Digit	8.1997	<b>6.5277</b>	difference with benchmark
5-Digit	6.5995	1.6002	difference with 3-digit
Carrier Route	6.4170	0.1825	difference with 5-digit

\* Unit costs include mail processing and delivery costs. Source USPS-T-29C.

(e) As indicated above, the percentage passthroughs for the 5-digit category and the carrier route category do not change. They remain 100 percent and 150 percent, respectively.

Using the revised cost difference data, the percentage passthrough of the cost differential for the 3-digit category changes from approximately 118% to 100%. The percentage passthrough of the cost differential for the basic automation category changes from approximately 118% to 97%.

REVISED RESPONSE OF U.S. POSTAL SERVICE TO INTERROGATORIES  
OF THE AMERICAN BANKERS ASSOCIATION (ABA)  
REDIRECTED FROM WITNESS FRONK

1408

ABA/USPS-T32-3. On page 20 of your testimony, lines 16-22, you discuss the rationale for using bulk metered mail as a benchmark for worksharing discounts in First Class. Please provide annual historical data from 1975 through 1996 on the volume of bulk metered mail.

RESPONSE: No data are available which separate bulk metered letters that paid the single-piece rate from nonbulk metered letters that paid the single-piece rate. Available data which include both bulk and nonbulk metered letters are presented below. Postal Service data for metered letters which paid the single-piece (or nonpresort) rate are not available prior to Postal Quarter 2 of 1992. In addition, the percentage data below are from ODIS. These percentages were then applied to total number of nonpresort pieces by year from Table 3 of witness Fronk's testimony (USPS-T-32).

	% of Nonpresort (Letters, Flats & Parcels) that is Metered Letters	Number of Nonpresort Metered Letters (millions)
FY 1992	37.90%*	20,828
FY 1993	37.43	20,661
FY 1994	37.16	20,457
FY 1995	35.10	19,283
FY 1996	35.05	18,978

\* Percentage based on Postal Quarters 2-4 only.

*Interrogatory ABA/USPS-T32-3 was an institutional response and should not be included among witness Fronk's designated responses.*

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION

ABA/USPS-T32-4. Please confirm that in the last rate case, R94-1, the Commission did not set worksharing discounts on the basis of the Postal Service's "cost avoidance" methodology, but instead relied on its own "cost difference" methods.

RESPONSE: Not confirmed. In Docket No. R94-1, The Postal Service proposed uniform, across-the-board increases to the basic presort rates and discounts. Updates of formal cost studies of mailflows and productivities were not prepared for Docket No. R94-1.



ABA/USPS-T25-2. What evidence do you have that private sector worksharing bureaus can cover the additional cost burden that reduced discounts are imposing on them? Do you have any evidence concerning their cost increases since R94-1 that would enable you to conclude that discounts can be cut or frozen and enable these bureaus to still operate profitably?

**RESPONSE:** *In comparison to Docket No. R94-1, the 3-digit discount is increased from 5.6 cents per piece to 6.5 cents in my proposal. Similarly, the 5-digit discount is increased from 6.2 cents to 8.1 cents in my proposal. Please note that 3-digit and 5-digit letters are the largest categories of workshared mail, accounting for about 75 percent of workshared letters in the Test Year. There was no Basic Automation rate following Docket No. R94-1, precluding a comparison. I would think that these increases would enhance the ability of private sector workshare bureaus to operate profitably over that time frame.*

*I do recognize that our proposal calls for slight reductions in the 3-digit and 5-digit discounts. Nevertheless, this shows the longer term trend of these discounts.*

*While my proposals are based on Postal Service costs avoided rather than the costs of the worksharing bureaus, given the increase in these discounts since Docket No. R94-1, I am unsure what additional cost burden is being referenced in the question.*

ABA/USPS-25-3.

- a. Please confirm that the single piece mailstream that would benefit from the proposed discounts for Prepaid Reply Mail (PRM) and Qualified Business Reply Mail (QBRM) is already mostly barcoded and already generating cost savings.
- b. Please confirm that the 3 cent "incentive" proposed for PRM and QBRM mail is unlikely to result in many more (or any more) barcodes than now exists, being put on household to nonhousehold mail in the form of bill payments and the like.

**RESPONSE:**

(a) Confirmed.

(b) *I agree with this statement for the Test Year. In the future, it is possible that PRM could generate some new mail volume by converting some in-person payments to the mail (see page 38 of my testimony at lines 16-21). Also, it is possible that the new QBRM rate will attract new volume in the future, but this volume is uncertain and I have not attempted to quantify it (see page 47 of my testimony at lines 1-3). Please see my response to ABA/USPS-T25-4 for the rationale underlying the discount.*

ABA/USPS-T25-4. Is it your intention that all the 3 cents in your proposed PRM and QBRM rate be passed on to consumers or should the division between consumers and business preparers of these envelopes be divided according to market principles, much like the current dynamic between worksharing discounts and charges to those using worksharing bureaus?

RESPONSE: My intention with both of these proposed rates is to permit a broader base of customers to more directly share in the benefits of automation. The proposed PRM rate is also designed to help address the threat of electronic diversion and, at the same time, to provide added convenience for the general public (please see pages 33-37 and 45 of my testimony). How this benefit is divided depends on how a business chooses to fund PRM or QBRM. If a business funds PRM by explicitly billing the consumer for the cost of the postage, then the 3 cents savings would be passed directly on to consumers. If a business treats PRM or QBRM as a cost of doing business and recovers the cost through other product or service prices (similar to current BRM), then the 3 cents could be divided between the business and its consumers.

ABA/USPS-T25-5. The benchmark used for the development of the PRM and QBRM automation discount is the nonpresort single piece while the benchmark used for the development of other automation discounts in First Class is bulk metered mail. If nonpresort single piece letter mail is convertible into (some) automation rate, as implied by the proposed PRM discount, then the supposition underlying the bulk metered benchmark that only the bulk metered mail stream is convertible is false, is it not?

RESPONSE: No. As the Commission stated in Docket No. MC95-1 (paragraph 4302 at page IV-136), "...the single-piece mail most likely to convert to the automation categories is limited to the bulk metered mail component." Also, see my testimony at page 20. As such, I used this benchmark to set the worksharing discounts for bulk automation letters. The benchmark represents a pricing reference point to appropriately identify workshare cost savings; the benchmark is not meant to imply that every piece that converts to worksharing physically comes from a pool of bulk metered pieces. I believe the phrase "most likely" is appropriate and does not convey all inclusiveness.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF ABA&EEI&NAPM

1414

ABA&EEI&NAPM/USPS-T32-1. Speaking to the Bulk Metered FCLM Benchmark unit costs at page 26, footnote 5 of your testimony, you state that: "very recently the mail processing cost associated with this benchmark was revised...This revised cost was not available at the time the rate proposals for these two rate categories were developed and approved by the Board of Governors."

- a. On what specific date was the Bulk Metered FCLM Benchmark mail processing cost figure revised?
- b. On what specific date were you first aware of the specific amount of this revised Bulk Metered FCLM Benchmark processing cost figure?
- c. On what specific date were you first aware that the mail processing cost figure for the Bulk Metered FCLM benchmark would be revised?
- d. At the time that the FCLM automated rate categories were being developed and approved by the Board of Governors, did you know that the mail processing cost figure for the Bulk Metered FCLM Benchmark would be revised?

RESPONSE:

(a)-(c) June 30, 1997.

(d) No.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF ABA&EEI&NAPM

1415

ABA&EEI&NAPM/USPS-T32-2. Please confirm that the original purpose of the heavy weight (i.e., greater than two oz.) discount for presort FCLM was to reflect the cost savings per piece of heavy weight presort FCLM over non-heavy weight presort FCLM, which cost savings were in addition to any cost savings unrelated to presort. If you cannot confirm, please explain your answer.

RESPONSE: I am confused by the phrasing of this question, but will try to be as responsive as possible. The heavy weight discount resulted from the Commission's recommendation in Docket No. R87-1 (at paragraphs 5116-5122). It is my understanding that the Commission recommended this discount because it found that there were significant differences in Postal Service labor expended between extra ounce presorted pieces and extra ounce unsorted pieces. The Commission appeared to be especially interested in setting a discount that would provide an effective incentive for the presorting of heavy weight flats. Also, please see my response to MMA/USPS-T32-4.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF ABA&EEI&NAPM

1416

ABA&EEI&NAPM-T32-3. In what year was the heavy weight discount for presort first established?

RESPONSE: The heavy weight discount was implemented in 1988 as a result of Docket No. R87-1.

ABA&EEI&NAPM/USPS-T32-5. Speaking to retail presort FCLM at page 24 of your testimony, you state: "I reduced the discount somewhat in order to increase the incentive for mailers to prebarcode their mail and thus to further the automation goals of the Postal Service."

- a. Is there any evidence in the USPS testimony in this case which demonstrates that a reduction in the retail presort FCLM incentive to a level below the USPS-measured cost differences between such mail and the Bulk Metered FCLM benchmark would result in a larger migration of mail from retail presort to automated FCLM than the migration of mail from retail presort to single piece FCLM? If your answer is other than "no", please explain your answer.
- b. Is it consistent with the ratemaking principles espoused by the USPS in this case to set the incentive level for retail presort FCLM below the cost difference measured by the USPS between retail presort FCLM and the Bulk Metered FCLM benchmark? Please explain your answer.
- c. Is there any evidence in the USPS testimony in this case to support the conclusion that the cost of retail presort FCLM has increased relative to the cost of single-piece FCLM? If your answer is other than "no", please explain your answer.

**RESPONSE:**

- (a) Redirected to witness Thress.
- (b) Yes. While I did relate the nonautomated presort discount to the benchmark cost, this rate is based primarily on the practice that the discount be small enough that it does not present an obstacle to the Postal Service's automation goal of working toward a mailstream that is as barcoded as practicable. Please see page 21 of my testimony (at lines 5-12).
- (c) Redirected to the Postal Service.



**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF ABA&EEI&NAPM**

1418

**ABA&EEI&NAPM/USPS-T32-6. Please specifically define all criteria which qualify mail for the "bulk metered mail" which you use as a benchmark to measure costs differences for retail presort FCLM and automated FCLM.**

**RESPONSE:**

**Please see the DMM section E130.2.2 concerning First-Class metered single-piece rate mail. First-Class "bulk" metered single-piece, as this term is used in connection with my testimony, refers to meter belt bypass mail. This is metered letter mail which is trayed by the mailer, so it does not require the preparation that bundled metered letters would. Similarly bulk metered mail does not require facing and canceling. This mail also has the features commonly associated with First-Class metered mail.**

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF ABA&EEI&NAPM

1419

ABA&EEI&NAPM/USPS-T32-7.

- a. Please confirm that of all FCLM rate categories, non-bulk metered single-piece is the most expensive for the USPS to process.
- b. Doesn't your use of the bulk metered mail bench mark to measure cost avoidance of retail presort FCLM and automated FCLM discourage upgrading of non-bulk metered single-piece FCLM to retail presort and automated FCLM? Please explain your answer.

RESPONSE:

(a) Redirected to the Postal Service for response.

(b) Not necessarily. As I state in my testimony (pages 19-20), in developing my proposed bulk discounts, I have focused on the costs avoided by successive degrees of presorting or automation compatibility. Setting discounts to compensate mailers only for the costs avoided by the Postal Service provides the bulk mailer with an incentive to workshare only if it can do so at lower cost than the Postal Service. Discounts for bulk automation categories based on mail other than that mail most likely to convert will overstate the benefits of worksharing and can create the wrong incentive for mailers.

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1420

ABA&EEI&NAPM-T32-9. On page 22, lines 17-20, you imply that had fractional rates, rather than the whole-cent convention, been possible for the First-Class single piece first ounce letter rate, the rate proposal in this case would have been a fractional rate. What would that rate have been?

RESPONSE: The cited portion of my testimony states:

For administrative ease and to avoid burdening the public, the Postal Service is continuing the practice of proposing this rate in whole cents. Conceivably, some fractional rate could be developed which would satisfy the revenue requirement, but this would be cumbersome at best.

For the reasons cited in my testimony above, I did not consider a fractional rate in developing my rate design.

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INTERROGATORIES OF ABA&EEI&NAPM

1421

ABA&EEI&NAPM/USPS-T32-10. On page 27, line 17, you assert that you did not "shrink" the 3-digit automation discount by more than 0.1 cents in order to "maintain incentives to automate."

(a) What studies did you do, if any, to prove that cutting a discount would not reduce the incentives to automate? Please provide copies of any such studies or related information you relied upon.

(b) In developing your proposal did you read either of the new studies (Arthur D. Little contract with USPS on electronic diversion of First Class Mail discussed in the June 30 edition of the Washington Post, page A11: Wolak study "Changes in the Household-Level Demand for Postal Delivery Services from 1986 to 1994") which suggest much higher own price elasticities for First-Class letters, including workshared letters, than have been presented in this proceeding by the Postal Service.

RESPONSE:

(a) I believe you may be misinterpreting this portion of my testimony by quoting only a portion of the sentence. The full sentence reads, "To avoid rate shock and to maintain incentives to automate, I did not shrink the discount by the full 1.1 cents suggested by this difference [between the bulk metered benchmark and 3-digit unit costs]." By reducing the discount by only 0.1 cents instead of the full 1.1 cents, I was maintaining more incentive to automate than if I had reduced the discount by the full 1.1 cents. There are no studies underlying this statement.

(b) No. I would note that it is my understanding that the Wolak study only looked at household mail. Since households do not send workshared mail, Wolak provides no information on the own-price elasticity of workshared letters.

ABA&EEI&NAPM/USPS-T32-11. Please confirm that the discounts for First-Class presort and automation letters are still calculated from the single piece rate, not from the newly introduced "bulk metered benchmark." Please confirm that your discussion mirrors such calculations, vis. Page 23, line 17-18, page 27, lines 7-8, and 11-12.

RESPONSE: Confirmed, I do express the discounts from the single-piece rate since this is the rate paid by bulk metered benchmark pieces. Please recognize, however, that the basis for the basic automation and 3-digit discounts is the cost difference between benchmark and these automation tiers. Also, while I did relate the nonautomated presort discount to this benchmark cost, the nonautomated presort rate is based primarily on the practice that the discount be small enough that it does not present an obstacle to the Postal Service's automation goal of working toward a mailstream that is as barcoded as practicable (please see page 21 of my testimony, at lines 5-12).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF DOUGLAS F. CARLSON

1423

DFC/USPS-T32-1. In your testimony at page 37, lines 7-8, you testified, "Automation-compatible First-Class Mail is used daily by millions of individuals and small businesses." Please explain how individuals and small businesses use "Automation-compatible First-Class Mail." For example, do you mean that individuals and small businesses enjoy rate discounts for producing automation-compatible mail? Or, are you simply noting that individuals and small businesses deposit with the Postal Service mail that, intentionally or coincidentally, is compatible with automated processing?

RESPONSE:

... The force of my testimony (lines 7-8, page 37) means that individuals and small businesses are routinely mailing letters and cards that are pre-barcoded and meet Postal Service automation standards. Some of these mail pieces are Courtesy Reply Mail and some are Business Reply Mail.

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INTERROGATORIES OF DOUGLAS F. CARLSON

1424

DFC/USPS-T32-2. For this question, the term "standard-sized" mail refers to mail that is not subject to a nonstandard surcharge under DMM Section C100.3.0.

Does the term "automation-compatible First-Class Mail" apply to:

- a. Typewritten, one-ounce, standard-sized first-class letters whose address information (1) can be read completely by an Optical Character Reader (OCR) without assistance from the Remote Bar Code System (RBCS) and (2) is sufficiently accurate and complete to allow the highest level of barcode (i.e., 5-digit, 9-digit, or delivery-point) desired for that address to be applied to the envelope?
- b. Typewritten, one-ounce, standard-sized, first-class letters whose address information (1) can be read completely by an Optical Character Reader (OCR) without assistance from the Remote Bar Code System (RBCS) but (2) is sufficiently accurate and complete to allow only a bar code that is inferior to the highest level of bar code (i.e., 9-digit, or delivery-point) desired for that address to be applied to the envelope?
- c. One-ounce, standard-sized, First-class letters whose address information (1) can be read completely by an Optical Character Reader (OCR) with assistance only from the Remote Computer Reader (RCR) portion of the Remote Bar Code System (RBCS) and (2) is sufficiently accurate and complete to allow the highest level of bar code (i.e., 5-digit, 9-digit, or delivery-point) desired for that address to be applied to the envelope?
- d. One-ounce, standard-sized, first-class letters whose address information cannot be read completely by an Optical Character Reader (OCR) and, therefore, requires assistance from a Data Conversion Operator via the Remote Bar Code System (RBCS) in order to allow the highest level of bar code (i.e., 5-digit, 9-digit, or delivery-point) desired for that address to be applied to the envelope?
- e. Machinable, non-bar-coded, single-piece, first-class flats?

RESPONSE:

(a)-(e) This question references the term "automation-compatible First-Class Mail" as it appears in the portion of my testimony proposing Prepaid Reply Mail (PRM). The PRM proposal is restricted to envelopes and cards that are pre-approved by the Postal Service. They would need to meet Postal Service

RESPONSE to DFC/USPS-T32-2 (continued)

automation standards and bear the recipient's preprinted machine-readable return address, a barcode representing not more than 11 digits (not including "correction" digits), a Facing Identification Mark, indicia signifying the piece is eligible for the discount, and other markings specified and approved by the Postal Service.

The Postal Service developed this proposal in this manner to help ensure operational feasibility, that is, a processing and accounting approach that is workable for both mailers and the Postal Service. By requiring this mail to be "clean" and pre-barcoded, the Postal Service can make sure it will realize the contemplated cost savings and effectively manage the introduction of this new rate category.

The types of mail postulated in question subparts (a)-(e) would not be eligible for the PRM rate category. Mail that is not pre-barcoded will not meet the requirements of the PRM proposal.



DFC/USPS-T32-4.

- a. In your testimony at page 37, you testified that Prepaid Reply Mail would "permit the general public to more directly share in the benefits of automation..." Since your use of the word "more" implies that you are making a comparison, please identify the other condition(s) or circumstance(s) to which you are comparing the public's improved ability to benefit from automation under the PRM proposal.
- b. Please summarize how the average individual benefits from postal automation.
- c. Does the Postal Service benefit when individuals prepare their mail so that it is automation-compatible?

RESPONSE:

(a)-(b) The average individual benefits from automation because automation reduces Postal Service costs and keeps rates lower than they might otherwise be. Because of averaging within First-Class Mail, arguably one of the benefits of the automation program is that it enables the rate for relatively high-cost mail with handwritten addresses to be much lower than it would otherwise be.

PRM can permit the general public to more directly share in the benefits of automation by recognizing cost savings associated with PRM and reducing the postage for this portion of First-Class Mail stream.

(c) Individuals do not prepare mail that is automation-compatible as the term is used in the PRM proposal, that is, pre-barcoded, etc. (Please see response to DFC/USPS-T32-2.)

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF DOUGLAS F. CARLSON

1427

DFC/USPS-T32-5. Please confirm that one objective of some of the recent phases of classification reform was to provide mailers with a rate-based incentive to prepare automation-compatible mail. If you do not confirm, please explain fully.

RESPONSE:

One objective of classification reform was to provide bulk mailers with pricing incentives that more fully reflected the cost savings from their preparation of mail pieces that meet Postal Service automation standards.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T32-6.

- a. Please confirm that one achievement of classification reform in Docket No. MC95-1 was to lower the rates for certain categories of presorted, bar-coded, automation-compatible First-Class Mail. If you do not confirm, please explain fully.
- b. Please confirm that, in some instances, the rates for certain categories of presorted, bar-coded, automation-compatible First-Class Mail were lower on July 1, 1996, the implementation date for the rates that were recommended and approved in Docket No. MC95-1, than the rates for the same type of mail that existed on January 1, 1995, the implementation date for the rates that were recommended and approved in Docket No. R94-1. If you do not confirm, please explain fully.
- c. Please confirm that, in some instances, the rates for certain categories of non-automation-compatible mail were higher on July 1, 1996, the implementation date for the rates that were recommended and approved in Docket No. MC95-1, than the rates for the same type of mail that existed on January 1, 1995, the implementation data for the rates that were recommended and approved in Docket No. R94-1. If you do not confirm, please explain fully.
- d. Please confirm that, by lowering rates for certain categories of presorted, bar-coded, automation-compatible First-Class Mail, the Postal Service expected some volume to shift from nonautomated categories to the automated categories. If you do not confirm, please explain fully.
- e. Please confirm that the Postal Service would consider the volume shift described in part (d) to be desirable. If you do not confirm, please explain fully.

RESPONSE:

(a) Confirmed. For example, the 3-digit letter rate was reduced from 26.4 cents to 25.4 cents as a result of Docket No. MC95-1. Note that mail preparation, sortation, and eligibility requirements were also changed for some categories of mail as a result of Docket No. MC95-1. For example, prior to this docket, 85 percent of 3-digit pieces had to be delivery-point barcoded; following this docket, the percentage increased to 100 percent. Also, the minimum number of pieces required to qualify for the rate was increased from 50 pieces per 3-digit area to 150 pieces.

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MMA/USPS-T32-3.

(A) Please confirm that the Service's proposed rates would result in the following postage prices for First-Class Automation letters that are presorted to five digits and for single-piece letters:

**First-Class Automation  
5-Digit Letter: By Weight**

**Rate  
(Cents)**

0.1 oz. to 1.0 oz.	24.9
1.1 oz. to 2.0 oz.	47.9
2.1 oz. to 3.0 oz.	70.9

**First-Class Single-  
Piece Letter: By Weight**

**Rate  
(Cents)**

0.1 oz. to 1.0 oz.	33.0
1.1 oz. to 2.0 oz.	56.0
2.1 oz. to 3.0 oz.	79.0

(B) If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

(a) Confirmed.

(b) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

1436

MMA/USPS-T32-4. In your testimony (USPS-T-32), you state that "[t]he Postal Service proposes maintaining the additional-ounce rate at 23 cents for both single-piece and presorted mail...."(page 23). You also refer to "the proposal to maintain this rate at its current level...." *Id.*).

(A) By these statements, did you mean to say that First-Class mailers will *not* pay higher-than-current rates for each additional ounce of presort letters weighing more than two ounces?

(B) Isn't it true that, under the Postal Service's proposal, First-Class mailers will pay higher-than-current rates for each additional ounce of presort letters weighing more than two ounces?

(C) Please confirm the current and proposed rates for First-Class 5-digit Automation letters:

First-Class Automation 5-Digit Letter: By Weight	Increase In Rate (Cents)	Current Rate (Cents)	Proposed Rate (Cents)
One Ounce	1.1	23.8	24.9
Two Ounces	1.1	46.8	47.9
Three Ounces	5.7	65.2	70.9

(D) If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

(a) These statements mean that the Postal Service has proposed maintaining the additional-ounce rate of 23 cents at its current level. As I state one page later in my testimony (page 24, lines 14-16), the Postal Service also proposes the elimination of the heavy-piece discount of 4.6 cents which currently applies to presort mail weighing more than 2 ounces.

I would note that the heavy piece discount was implemented in 1988 as a result of Docket No. R87-1. The discount was specifically targeted at flats, which incurred additional presort cost due to size and weight (see Docket No. R90-1 Opinion and Recommended Decision, paragraph 5050 at page V-13). Since this discount was

RESPONSE to MMA/USPS-T32-4 (continued)

instituted approximately 10 years ago, three things have happened which affect the original rationale for the discount.

First, barcodes were in their infancy in 1987. Since then, the increasingly widespread use of barcodes has reduced the value of presorting alone. Second, while the discount may have been originally targeted at flats, it appears that a significant percentage of the pieces qualifying for the discount are now letters. Using data for Postal Quarters I and II of FY 1997 (from USPS-T-32, Workpaper II, page 3 of 9), about half of the automated presorted mail pieces eligible for the discount were letters. Third, the difference between the first-ounce rate and the additional-ounce rate has increased significantly since Docket No. R87-1, reducing the relative price for heavy pieces and making a special discount less necessary. In 1988 the difference was 5 cents. At present, the difference is 9 cents, and the Postal Service is proposing to increase the difference to 10 cents (twice the amount of the 1988 difference).

(b) The elimination of the heavy piece discount increases the rate for each piece weighing more than 2 ounces by 4.6 cents (the current amount of the discount).

Technically, however, the statement in the question is not correct since heavy pieces pay a first-ounce rate that is 4.6 cents lower. Each additional ounce then pays a uniform rate of 23 cents. Thus, the elimination of the discount only raises the rate for the first-ounce, not each additional ounce.

(c) Confirmed.

(d) Not applicable.

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MMA/USPS-T32-5. In Docket No. MC95-1, USPS Witness O'Hara was asked: "Do you believe that the current level of additional ounce rates is in line with the Postal Service's costs of handling letters weighing:

- "(1) more than one ounce but not more than two ounces
- "(2) more than two ounces but not more than three ounces
- "(3) more than two ounces but not more than two-and-one-half ounces
- "(4) up to two-and-one-half ounces
- "(5) up to three ounces"

and he answered: "I know of no data that would allow me to form a considered opinion about costs in these weight intervals." (See R95-1 Tr. 10:3654-55; Interrogatory MMA/USPS-T17-18.) Do you know of any data that would allow a considered opinion about processing costs in those weight intervals?

RESPONSE:

I know of no data that would allow a considered opinion about processing costs in those weight intervals.



MMA/USPS-T32-6. In Docket No. MC95-1, USPS Witness O'Hara was asked to supply any data that supported an opinion about the Postal Service's processing costs of handling letters weighing:

- (1) more than one ounce but not more than two ounces
- (2) more than two ounces but not more than three ounces
- (3) more than two ounces but not more than two-and-one-half ounces
- (4) up to two-and-one-half ounces
- (5) up to three ounces"

and he answered that: "the requested cost data are not available...." (See R95-1 Tr. 10:3654-55; Interrogatory MMA/USPS-T17-18.)

(A) As far as you know (and can determine without unreasonable burden), is there any available data showing the Postal Service's costs for letters in those weight intervals?

(B) If you know of any such data, please supply copies of the documents providing such data.

**RESPONSE:**

(a) Data which would support an opinion about the Postal Service's costs of handling such letters are not available.

(b) Not applicable.

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MMA/USPS-T32-7.

(A) Please confirm that in Docket No. R94-1 (Tr. 7A/3021):

(1) Postal Service Witness Foster affirmed that:

In Docket No. R90-1: (i) Witness Callies cited an official definition of "automation-compatible mail" as letter-sized mail that "weigh[s] no more than 2½ ounces" (Exh. USPS-T14-C, p. 5); (ii) Witness Lyons stated that the "automation equipment will be able to handle pieces weighing up to 2.5 ounces." (Tr. 9/3946. See also Tr. 9/3947, 3944-45, 3942.) (iii) Witness Moden defined machineable letter mail as weighing up to 3 ounces (Tr. 11/4845).

(2) When Mr. Foster was asked (id.):

To your knowledge (or as you can determine without unreasonable burden), do the most recent USPS studies continue to show that the automation machinery can handle clean, letter-size mail weighing up to 2.5 ounces? Up to 3 ounces?

Mr. Foster replied:

I know of no studies which support any changes in the maximum letter weight that can be efficiently processed on automated equipment.

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA's representations at Tr. 10: 3656, responding to Interrogatory MMA/USPS-T17-19.)

(B) To your knowledge (and so far as you can determine without unreasonable burden), have there been any developments or new information since Mr. Foster's reply that would change the answers given in Docket No. R94-1 for letter mail weighing up to two ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(C) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers given in Docket No. R94-1 for letter mail weighing up to 2.5 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(D) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers given in Docket No. R94-1 for letter mail weighing up to 2.8 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

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RESPONSE To MMA/USPS-T32-7 (Continued)

(a) The records in Docket Nos. R90-1, R94-1, and MC95-1 speak for themselves.

(b)-(d) To my knowledge there have not been any developments or new information that would change Mr. Foster's Docket No. R94-1 answer for these weight steps. I also note that I am confused by the parenthetical reference in parts (b)-(d) of this question to the "1996 study." Which 1996 study is being referenced?

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MMA/USPS-T32-8. In Docket No. R87-1, the Commission observed: "Letters up to two ounces for the most part can be processed on the new automation at a cost no higher than a one ounce letter" (Docket No. R87-1 Op., p. 448). In Docket No. R90-1, the Service submitted a study (USPS LR-F-177) which MMA/ABA's witness interpreted as showing that presorted letter's attributable costs are (Tr. 24/10845):

ATTRIBUTABLE COSTS FOR PRESORT MAIL  
Test Year 1989

<u>Ounce Categories</u>	<u>Average Weight</u> (ounces)	<u>Attributable</u> <u>Cost/Piece</u> (\$)
0.1-1	0.50	0.095
1-2	1.50	0.118
2-4	2.66	0.141
4-7	5.16	0.414
7-12	8.78	0.634

(A) Please confirm that, in Docket No. R94-1 (Tr. 7A/3022-23), USPS Witness Foster stated in response to Interrogatory MMA/USPS-T11-16 that:

The Postal Service does not have information which shows costs, by weight increment, for First-Class Mail letters which are presorted, nonpresort prebarcoded, presort prebarcoded, or nonpresort nonbarcoded. A preliminary study was initiated using FY 1992 data to try to obtain volume and unit cost data by weight, shape, and rate category for First-Class Mail. However, the study effort was abandoned after its preliminary results revealed its methodology to be too flawed to produce reliable information.

The Postal Service has not undertaken a successor effort and, therefore, cannot state what data sources or other information can be used to derive the requested costs.

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA's representations at Tr. 10:3658-59 in response to MMA Interrogatory MMA/USPS - T17-20.)

(B) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers regarding costs given in Docket No. R94-1 for letter mail weighing up to two ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory

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MMA/USPS-T32-8 (Continued)

MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(C) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers regarding costs given in Docket No. R94-1 for letter mail weighing up to 2.5 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(D) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers regarding costs given in Docket No. R94-1 for letter mail weighing up to 2.8 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

RESPONSE:

(a) The records in Docket Nos. R87-1, R90-1, R94-1, and MC95-1 speak for themselves.

(b)-(d) To my knowledge there have not been any developments or new information.

As in MMA/USPS-T-32-7, I am uncertain what the "1996 study" referenced is parts (b)-

(d) is.

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MMA/USPS-T32-9.

(A) Interrogatories MMA/USPS-T11-19(e) and 19(f) in Docket R94-1 asked USPS to provide copies of "any" studies known to underlie the document, "United States Postal Service Three-In-One Pricing Summary," or to concern a common postage rate covering letters up to two and one-half or three ounces, or to show the costs for the "Three-In-One" proposal. USPS' response was to refer to Library Reference G-177 and USPS-LR-G-177, which is entitled, "Three-In-One Pricing--Building New Value Into the Postal System."

(A) Please confirm that, according to the Three-In-One Pricing document:

- 1) "Three-In-One results in practically all First-Class letters (as opposed to flats or parcels) being charged the same rate because 99.9 percent of these letters weigh three ounces or less" (page 6).
- 2) "Price structures that track cost patterns are considered to be fair because they link price signals with resource consumption. Conversely, price structures that deviate from cost patterns are considered to be less fair and equitable because they may encourage uneconomic behavior, or sometimes result in cross-subsidization" (page 7-8).
- 3) "The Competition Services Task Force endorsed increasing the fairness of the First-Class rate structure when it made the following recommendation concerning incremental-ounce rates: 'Incremental ounce cost for First-Class Mail is extremely high compared to the incremental increase in the cost of handling. Other pricing structures should be considered to encourage use and treat cost fairly'" (page 8).
- 4) "In short, Three-In-One recognizes that shape is the dominant cost driver, not weight" (page 8).
- 5) "By eliminating the additional-ounce burden for mail under three ounces and applying the nonstandard surcharge through three ounces, Three-In-One pushes the evolution of this First-Class rate structure an additional step. Three-In-One further decreases the importance of weight and increases the importance of shape" (page 10).

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA's representations at Tr. 10:3661-62 in response to MMA Interrogatory MMA/USPS-T17-22.)

(B) To your knowledge (and so far as you can determine without unreasonable burden) have there been any development or new information which supplements the "Three-In-One Pricing" study? If so, please explain in full detail.

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RESPONSE to MMA/USPS-T32-9

- (a) The Three-in-One Pricing document from Docket No. R94-1 speaks for itself.
- (b) No.

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MMA/USPS-T32-10. See Interrogatory MMA/USPS-T32-8.

(A) Please confirm that according to the Three-In-One pricing document:

(1) A "Mail Characteristics Study" ("MCS"), conducted on behalf of the former Technology Resources Department, supplied shape data which, along with cost data by weight increment produced for the Docket No. R90-1 rate case (Library Reference LR-F-177 in that docket), were used in a multiple regression to separately estimate the effects of weight and space (page 19).

(2) The results of that multiple regression, factored up to Fiscal Year 1992 cost levels, were used to construct a Table 5 showing, as "markups over attributable cost":

<u>Ounce Interval</u>	<u>Current Markups: Letters</u>
0-1 oz.	37%
1-2 oz.	125%
2-3 oz.	199%

(See R94-1 Tr. 7A/3041)

(B) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Docket No. R94-1 that supplements the "Three-In-One" study? If so, please explain in detail and update the information in Paragraph (A).

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA representations and stated that there had been no new developments as far as he had been able to determine. See MC95-1 Tr. 10:3663, responding to MMA Interrogatory MMA/USPS-T17-22.)

**RESPONSE:**

(a) The record in Docket No. R94-1 and the Three-In-One pricing document speak for themselves.

(b) As far as I have been able to determine, there have been no new developments or information.



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MMA/USPS-T32-13. Please refer to Part (A) of Interrogatory MMA/USPS-T32-8.

- (A) Please describe the "flawed" methodology of the "preliminary study" which sought to obtain unit cost data by weight (among other things) for First-Class Mail.
- (B) Were the "preliminary results" of the study reported in writing?
- (C) If the preliminary results of the study were reported in writing, please provide a copy.

RESPONSE:

(a) This question asks me to explain a witness Foster interrogatory response in Docket No. R94-1. I do not know what witness Foster had in mind when he used the term "flawed."

(b)-(c) See Docket No. R94-1, USPS LR G-169.

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MMA/USPS-T32-14.

(A) Please confirm that the Service's proposed rates would result in the following postage rates for (A) a 1.0 ounce nonstandard single-piece First-Class letter and (B) a 1.1 ounce Automation letter that is presorted to five digits:

	Rate (Cents)	Difference (Cents)
1.0-Oz. Nonstandard Letter	49.0	+01.1
1.1-Oz. Automation Letter	47.9	

(B) If you cannot confirm this, please state the correct postage prices for each of the listed letters.

(C) Confirm that nonstandard letters are charged additional postage because of the higher costs required to process nonstandard letters. If you cannot confirm, please explain.

(D) If you confirm that nonstandard letters are charged higher postage because of the additional costs required to process nonstandard letters, please explain the Postal Service's reasons for charging higher postage for letters imposing additional costs for processing.

**RESPONSE:**

(a) Confirmed.

(b) Not applicable.

(c) Confirmed. Also, see my responses to NDMS/USPS-T32-3 and 4.

(d) In general, I work to develop rates and fees that are aligned with costs and that meet the statutory pricing criteria (section 3622(b) of title 39, United States Code). By passing through additional costs associated with nonstandard pieces, I can send an appropriate signal to mailers and encourage the use of standard, automation-compatible pieces.

Also, as the Commission stated in its Opinion and Recommended Decision in Docket No. R90-1 (at paragraph 5034), "Historically the [nonstandard] surcharge has been imposed to recover the added cost of processing nonstandard pieces."

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MMA/USPS-T32-15.

(A) Under the Postal Service's proposal, what are the coverages for (1) First-Class single-piece letters and (2) worksharing letters, under the Postal Service's new costing methodology?

(B) Under the Postal Service's proposal, what are the coverages for (1) First-Class single-piece letters and (2) worksharing letters, under the Commission-approved costing methodology?

RESPONSE:

(a) These cost coverages appear correctly in your interrogatory MMA/USPS-T32-20(c).

(b) Objection filed.

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MMA/USPS-T32-16.

(A) Please confirm that the Service's proposed increase in First-Class letter rate is greater for First-Class Automation letters than for First-Class single-piece letters, as shown in the following table:

**Increase In Rates For One Ounce Letters**

Type of Mail	Increase (Cents)
Single-Piece	1.0
Basic Automation	1.4
3-Digit Automation	1.1
5-Digit Automation	1.1
Carrier-Route	1.6

**RESPONSE:**

Confirmed. I would note that for administrative ease and to avoid burdening the public, the Postal Service is continuing the practice of proposing the single-piece rate in whole cents. Conceivably, some fractional rate could be developed which would satisfy the revenue requirement, but this would be cumbersome at best. Automation rates, however, are developed to tenths of a cent.

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MMA/USPS-T32-18. Please refer to the Postal Service's Request in this case, Attachment B at page 7. Footnote 2 indicates that the proposed First-Class rates apply through 11 ounces and that heavier pieces (over 11 ounces but less than 16 ounces) are subject to Priority Mail rates.

(A) Under current rates, does a 12-ounce First-Class piece pay \$2.85 (first ounce charge of 32 cents plus eleven times the additional ounce charge of 23 cents) or the one pound Priority Mail rate of \$3.00? Please explain your answer.

(B) Please confirm that the following tables reflects the unit rates proposed by the Postal Service in this proceeding for First-Class Mail.

<u>Ounce Increment</u>	<u>Unit Rate</u>
1	\$.33
2	.56
3	.79
4	1.02
5	1.25
6	1.48
7	1.71
8	1.94
9	2.17
10	2.40
11	2.63

(C) Under the Postal Service's proposed rates, would a 12 ounce piece be charged \$2.86 (11-ounce charge of \$2.63 plus additional ounce charge of 23 cents) or the proposed one pound Priority Mail rate of \$3.20? Please explain your answer.

(D) Under the Postal Service's proposed rates, would a 13 ounce piece be charged \$3.09 (12-ounce charge of \$2.86 plus additional ounce charge of 23 cents) or the proposed one pound Priority Mail rate of \$3.20? Please explain your answer.

**RESPONSE:**

(a) Please note that the Priority Mail rate of \$3.00 applies to single-pieces up to two pounds (in a USPS "flat rate" envelope), not one pound. First-Class rates apply-through 11 ounces. Under current rates, a 12-ounce piece would pay the Priority Mail rate of \$3.00.

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RESPONSE to MMA/USPS-T32-18 (Continued)

(b) *These are the proposed rates for single-piece First-Class Mail.*

(c)-(d) Under the proposed rates, a 12-ounce or a 13-ounce piece would pay the proposed Priority Mail rate of \$3.20. Note that this two-pound rate is an average rate that applies to Priority Mail pieces weighing up to two pounds. Thus, an 18-ounce piece, a 24-ounce piece, or 32-ounce piece would also pay \$3.20.

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MMA/USPS-T32-19. On page 1 of USPS-T-32, you show the proposed percentage increases for First-Class Mail. Please show separately the proposed percentage increase for Single Piece and Presorted First-Class Mail. Please also show the source and derivation of your answer.

RESPONSE:

My testimony presented these proposed percentages at the subclass level. My workpapers (USPS-T-32 Workpaper I, pages 3 and 4) present the proposed increases and the underlying data at the level of detail you request. The proposed average changes from current rates for First-Class Mail, including fee revenue, are as follows:

	<u>Letters</u>	<u>Cards</u>
Single-Piece	2.5%	4.6%
resort	4.5%	7.9%

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MMA/USPS-T32-20. On page 2 of USPS-T-32, you note that the First-Class cost coverage is 199%. You also add that this bears "the same relationship to the system-wide average cost coverage as it did following Docket No. R94-1" (*Id.*, footnote 1). A. a.

(A) Please explain your statement and provide computations showing class and systemwide "relationship[s]" in Dockets Nos. R94-1 and R97-1.

(B) Please explain your computations provided in response to Paragraph (A).

(C) Please confirm that, under the Service's methodology, the cost coverages are 173% for First-Class single-piece mail and 282 % for First-Class presort mail (including Automation and Carrier-Route mail). If you cannot confirm, please provide the correct percentage figures.

RESPONSE:

(a)-(b) Following Docket No. R94-1, the First-Class cost coverage at Commission recommended rates was 173.2% and the system-wide average was 156.8% (Opinion and Recommended Decision in Docket N. R94-1, Appendix G, Schedule 1). Thus, the First-Class coverage was about 10.5% above the system-wide average.

In Docket No. R97-1, the proposed First-Class cost coverage is 199.0% and the proposed system-wide cost coverage is 178.6 (see Exhibit USPS-30B). Thus, the proposed First-Class cost coverage is about 11.4% above the system average. Since the First-Class cost coverage exceeds the system-wide average by about the same percentage in both dockets, the Docket No. R97-1 First-Class cost coverage bears the same relationship to the system-wide average as it did following Docket No. R94-1.

(c) Confirmed. These are the implicit cost coverages for single-piece and presort letters (See Exhibit USPS-30B).



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MMA/USPS-T32-21. You focused on mail processing and delivery cost aspects of bulk metered mail within nonpresorted letters because, as you state, "these are the costs that will be affected by presorting and pre-barcoding" (USPS-T-32, page 20).

(A) In your statement and your computations, is it your goal to eliminate the effect of all costs associated with mail "cleanliness" when deriving cost savings associated with "presorting" and pre-barcoding"? Please explain any no answer.

(B) Is it true that you did not measure any cost savings which are due to the fact that presorted letters by-pass all mail preparation operations within the Postal Service? Please explain any no answer.

RESPONSE:

(a) I would not characterize my goal in these terms. My focus in developing these discounts was on the costs avoided by successive degrees of presorting or automation compatibility, though I did not blindly follow this approach because the statutory pricing criteria call for a careful consideration of a number of factors. Moreover, the cost savings I derive include a component of "cleanliness." For example, one measure of cleanliness is address quality in the form of accurate, complete addresses. Barcoded mail must meet more rigorous address quality requirements than nonautomated presort mail. This is one reason it is cheaper to process.

(b) Yes, it is my understanding that the bulk metered benchmark I used in setting the discounts for bulk automation letters excludes the cost pool for culling, cancellation, and meter mail preparation costs as shown in LR-H-106, page II-11.

It is correct that presorted mail along with other types of bulk First-Class Mail will bypass culling and facer/canceller operations at the Postal Service and move from bulk mail acceptance directly to piece distribution. The bulk metered benchmark mail, that is, the mail most likely to convert to presorting/barcoding, will also bypass these mail preparation operations. A discount based on these mail preparation costs, which are not likely to be avoided by worksharing, would be too large.

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MMA/USPS-T32-22. Is it a requirement that in order to qualify for pre-barcode discounts, the following are requirements of eligibility?

- i. All letters must meet certain machineable criteria,
- ii. All letters must be prepared according to strict entry requirements,
- iii. All letters must have addresses that have been checked for accuracy and must be up to date,
- iv. All letters that include a reply envelope must make sure that the reply envelope is machineable and pre-barcode.
- v. All mailings must have a minimum of 500 pieces.
- vi. Any others?

Please explain any no answer.

RESPONSE:

The requirements are spelled out in detail in the Domestic Mail Manual. See sections E140 (eligibility), C810 (automation compatibility), C840 (barcoding), A800 (addressing), A950 (addressing), M810 (preparation and sortation), and P100 (postage and payment methods).

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MMA/USPS-T32-23. When designing your additional ounce rates "for simplicity in rate design" (USPS-T-32, page 23), did you take into account the relationship between First-Class heavy pieces and Priority Mail one pound pieces? Please explain.

RESPONSE:

I note that the question lifts the phrase "simplicity of rate design" out of context. In my testimony, this phrase is used in the context of continuing the practice of having a uniform rate of 23 cents for both automated and nonautomated mail (page 23 at lines 14-15).

I am unsure what relationship is being referred to in this question, but as I noted in my responses to MMA/USPS-T32-18, single-piece Priority Mail weighing no more than two pounds will pay a proposed rate of \$3.20. This is an average rate which applies to one-pound or two-pound single-piece Priority Mail. Proposed First-Class Mail rates will apply to pieces weighing 11 ounces or less.

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MMA/USPS-T32-24. Please examine the unit processing costs and proposed rates in cents for First-Class Mail as shown in the following table.

(A) Please confirm that these figures are correct or, if you cannot confirm them, please provide the correct figures, along with an explanation for your corrections.

	Processing <u>Cost</u>	<u>Difference</u>	Proposed <u>Rate</u>	<u>Difference</u>	<u>Notes</u>
Single Piece Letters	16.7		33.0		
Bulk Metered Benchmark	14.7		33.0		
Presort	11.3	3.4	31.0	2.0	Diff with benchmark
Basic Automation	9.0	5.7	27.5	5.5	Diff with benchmark
3-Digit Automation	8.2	6.5	26.5	6.5	Diff with benchmark
5-Digit Automation	6.6	1.6	24.9	1.6	Diff with 3-digit
Carrier Route	6.4	0.2	24.6	0.3	Diff with 5-digit

Source: USPS-29C, page 1, corrected based on footnote 5

(B) Please confirm that the unit processing cost shown for single piece letters, 16.7 cents, (1) is an average for all single piece letters, including bulk metered letters, and (2) excludes all mail preparation and acceptance costs. If you cannot confirm, please explain.

**RESPONSE:**

(a) The numbers in the column entitled "Processing Cost" represent mail processing plus delivery costs. These costs can be found in USPS-29C as indicated. As you indicate in the source footnote, the mail processing plus delivery costs for the bulk metered benchmark reflect revised data that were not available at the time the First-Class Mail rate proposals were developed and approved by the Board of Governors.

The proposed rates are from USPS-T-32 and have been correctly reproduced. The arithmetic to derive the figures in the two columns labeled "Difference" has been correctly performed.

(b) Redirected to the Postal Service for response.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-26. On page 24 of USPS-T-32, you discuss the increase in the nonstandard surcharge for First-Class letters weighing up to one ounce.

(A) Confirm that the proposed unit rate for such pieces is 43 cents.

(B) Confirm that the reason for the nonstandard surcharge is to account for the additional costs required to process nonstandard letters since they cannot be processed on machines such as optical character readers and barcode sorters.

(C) What is the projected unit attributable processing cost for nonstandard letters? Please provide the source for your answer.

(D) Confirm that the projected unit attributable processing cost for an average Automation letter varies between 2.3 and 5.3 cents, depending upon degree of presort, as shown in USPS-29C.

RESPONSE:

(a) Not confirmed. The proposed single-piece rate for a nonstandard piece is 49 cents, as you correctly state in MMA/USPS-T32-14(a).

(b) Confirmed. Also see responses to MMA/USPS-T32-14(c) and (d).

(c) An estimate of the projected unit volume variable cost difference for nonstandard pieces is presented in USPS Library Reference H-112, as revised. These costs are 14.95 cents for single-piece and 10.79 cents for presort.

(d) Not confirmed. The referenced numbers in USPS-29C are projected unit volume variable mail processing costs.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA

1460

MPA/USPS-T32-1. Please refer to Page 5, Lines 14 and 15 of your testimony and explain the basis of the apparent assumption that a business will convert to paying postage costs under PRM if it is not presently enrolled as a Business Reply Mail user.

RESPONSE: Please see page 35 of my testimony, at lines 3-5. Also, please see my response to OCA/USPS-T32-66.

MPA/USPS-T32-2. Please refer to Page 6, Lines 8-10 and provide the Postal Service's estimate for the value of the total cost avoidance and the cost avoidance per piece resulting from outsourcing the postage accounting functions.

RESPONSE: As I state on page 42 of my testimony (at lines 11-19), PRM will come from two sources. First, certain courtesy reply mail will convert. Since the Postal Service does not perform any postage accounting for this mail at present, there is no cost avoidance associated with courtesy reply mail.

Second, I estimate that up to 347.8 million pieces of existing prebarcoded Business Reply Mail (that currently qualifies for the 2-cent per-piece BRM fee) will convert to PRM. Please recognize that this estimate is based only on a postage and fees comparison under PRM versus BRM for mailers currently using prebarcoded BRM. Since the postage due accounting for this mail costs about 5.54 cents per piece, this represents an overall cost avoidance of about \$19.3 million. At the same time, the Postal Service will incur new auditing and administrative costs associated with verifying the PRM postage calculations. The 347.8 million pieces are associated with approximately 377 BRM customers. At a Test Year auditing cost of about \$5,800 (see page 41 of my testimony), this represents new costs of about \$2.2 million.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA

1462

MPA/USPS-T32-4. Please refer to Page 7, Lines 18-21. Please provide the Postal Service's estimate of the reply volume that would make the PRM option advantageous financially.

RESPONSE: Please see page 42 of my testimony (at lines 18-19) through page 43 (at lines 1-4). Also, please see my response to MMA/USPS-T32-2.



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-1. Please refer to your testimony at page 23, lines 2-3.

a. Please provide all costs studies and analyses that support a rate of 23 cents for each additional ounce.

b. Did you consider decreasing the additional ounce rate for First-Class Mail? If not, why not? If yes, why did you reject this alternative?

RESPONSE:

(a) The 23-cent rate was implemented in February 1991 as a result of Docket No. R90-1. Cost data in Postal Service Library Reference F-177 were cited by the Postal Service and the Commission in establishing that rate. It is my understanding that there is considerable difficulty in measuring additional ounce costs with precision, especially for heavier pieces with relatively low volume.

In the current proceeding, the Postal Service is proposing to hold the additional-ounce rate at 23 cents per ounce and to increase the difference between the first-ounce rate and the additional-ounce rate from 9 cents to 10 cents (33 cents minus 23 cents). In terms of other analyses that support the proposal of maintaining this rate at 23 cents, see part (b) below.

(b) I did not consider a decrease in the additional-ounce rate. Several considerations went into developing the proposed 23-cent rate, including achieving the revenue requirement and the First-Class Mail cost coverage provided by witness O'Hara. Also, the proposed rate recognizes that the additional-ounce rate is an important source of revenue for the Postal Service. For example, a one-cent decrease in the additional-ounce rate would reduce revenues by close to \$200 million (assuming no volume effects). To make up for a revenue loss of this magnitude would require an increase elsewhere, for example, an approximately one-cent increase in the 3-digit automation rate for First-Class Mail (assuming no volume effects in this example).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

RESPONSE to NAA/USPS-T32-1 (continued)

I would also note that the additional-ounce rate has declined in real terms. In 1991 dollars, the rate has declined from 23 cents in 1991 to approximately 19 cents today (assumes average annual inflation of about 2.9 percent).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-2. Please refer to your testimony at page 23, lines 10-12.

- a. How much of the \$4.3 billion in revenue in FY96 from the additional ounces represented a contribution to institutional costs? In other words, by how much did this additional revenue exceed the attributable costs of processing the additional ounces of mail? If exact figures are not available, please provide your best estimate.
- b. In FY98 (after rates), what is the projected revenue from the additional ounces?
- c. Please provide, for FY98 at proposed rates, the contribution to institutional costs:
  1. by the additional ounces in First-Class Mail in the aggregate.
  2. by the additional ounces of First-Class Mail by ounce increment.
  3. Please explain your response.

RESPONSE:

- (a) I am unaware of any data that would allow me to develop such an estimate.
- (b) Approximately \$4.5 billion.
- (c) The requested data are not available.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-3. Please refer to Exhibit USPS-32A.

- a. Please confirm that the proposed rate for a carrier-route automation one-ounce letter is 24.6 cents. If you cannot confirm this figure, please provide the correct rate.
- b. Please confirm that the proposed rate for a carrier-route automation two-ounce letter is 47.6 cents. If you cannot confirm this figure, please provide the correct rate.
- c. Please confirm that the proposed rate for the two-ounce letter in part (b) is almost twice (193%) the rate for the one-ounce letter in part (a). If you cannot confirm this difference, please provide the correct figure.
- d. Please confirm that the proposed rate for a four-ounce 3/5 digit automation flat is 97.0 cents. If you cannot confirm this rate, please provide the correct rate.
- e. Please confirm that the proposed rate for an eight-ounce 3/5-digit automation flat is \$1.89. If you cannot confirm this rate, please provide the correct rate.
- f. Please confirm that the proposed rate for the eight-ounce piece in part (e) is almost twice (195%) the rate for the four-ounce piece in part (b). If you cannot confirm this difference, please provide the correct figure.

RESPONSE:

(a)-(f) Confirmed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-4. Please refer to the testimony of Postal Service witness Moeller (USPS-T-36) at page 24, lines 7-18. Witness Moeller proposes to reduce the pound rate for Standard A Mail. He justifies this proposal, in part, based upon the fact that the Postal Service is not indifferent between processing and delivering two 4-ounce pieces and one 8-ounce piece of Standard A Mail.

a. Given that you are proposing rates for some categories that would result in *revenues from two 4-ounce pieces being roughly equivalent to the revenues from one 8-ounce piece*, is the Postal Service indifferent between processing two 4-ounce pieces and one 8-ounce piece of First-Class Mail?

b. If your response to part (a) is no, please explain all the reasons why you have not proposed a lower extra ounce rate for First-Class Mail?

RESPONSE:

(a) No.

(b) Please see response to NAA/USPS-T32-1(b).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-5. Please refer to your testimony at page 24, lines 5-8.

a. Please confirm that the proposed rate for a non-standard sized non-presorted one ounce letter or flat is 49 cents.

b. Please confirm that the proposed rate in part (a) represents a 14 percent rate increase for these pieces of First-Class Mail. If you cannot confirm this figure, please provide the correct figure.

c. In your view, is 14 percent an excessively high rate increase for this mail? If not, why not?

d. How many pieces of First-Class Non-presorted Mail are expected to pay the nonstandard surcharge in FY98?

e. Please confirm that the proposed rate for a nonstandard sized presorted one ounce letter or flat is 42 cents. If you cannot confirm this rate, please provide the correct rate.

f. Please confirm that the proposed rate in part (e) represents a 21.7 percent increase for these pieces of First-Class Mail. If you cannot confirm this figure, please provide the correct figure.

g. In your view is 21.7 percent an excessively high rate increase for this mail? If no, why not?

h. How many pieces of First-Class Presorted Mail are expected to pay the nonstandard surcharge in FY98?

RESPONSE:

(a)-(b) Confirmed.

(c) No. The proposed increases in the nonstandard surcharge for single-piece and presort First-Class Mail were developed to reflect the results of new nonstandard surcharge cost data (see USPS Library Reference H-112, as revised) and to pass through the identifiable cost difference between nonstandard and standard pieces. By passing through additional costs associated with nonstandard pieces, I can send an appropriate signal to mailers.

(d) Approximately 318 million pieces of nonpresort mail are expected to pay the surcharge in the Test Year. This represents 0.6 percent of First-Class nonpresort mail volume.

(e)-(f) Confirmed.

(g) No. See response to part (c) above.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

RESPONSE TO NAA/USPS-T32-5 (continued)

(h) Approximately 74 million pieces of presort mail are expected to pay the surcharge in the Test Year. This represents 0.2 percent of First-Class presort mail volume.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-6. Please refer to your testimony at page 27, lines 13-14. Are the somewhat smaller estimated cost savings used in this docket also the result of the proposed new attribution method for mail processing costs? If no, please explain.

RESPONSE: It is my understanding that costs for the bulk metered benchmark and for the automation tiers were only developed using the new attribution method, so that the effect of the change in costing method cannot be isolated.



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-7. Please refer to your testimony at page 8, lines 14-16. What percentage of institutional cost contribution did First-Class Mail account for in FY 1996?

RESPONSE: 65 percent (derived using USPS Library Reference H-2, page 1).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-8. Please refer to your testimony at page 8, lines 16-17. What percentage of institutional cost contribution did single-piece, non-presorted First-Class Mail account for in FY 1996?

RESPONSE: 32 percent (derived using USPS Library Reference H-2, page 10).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-9. Please refer to your testimony at page 16, lines 5-7. What percentage of First-Class delivery-point barcoded letters are eligible for the carrier route rate?

RESPONSE: In the Test Year at proposed rates, there will be an estimated 36,178 million automated, presorted First-Class letters, including 1,217 million carrier route letters. Thus, carrier route letters comprise 3.4 percent of the automated, presorted letters.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-10. Please refer to page 20, lines 7-9. Does the cited language imply that a pass-through in a discount of 100 percent of the estimated costs avoided by the Postal Service by the discounted function is optimal rate design?

RESPONSE: Not necessarily. The cited portion of my testimony reads as follows:

Setting discounts to compensate mailers only for the costs avoided by the Postal Service provides the bulk mailer an incentive to presort or apply a barcode only if it can do so at lower cost than the Postal Service.

In the next paragraph, however, I state the following:

In developing the bulk presort/automation discounts for letters and cards, I have focused on the costs avoided by successive degrees of presorting and automation capability. I have not blindly followed this approach, however, because the statutory pricing criteria call for a balanced consideration of a number of factors, including fairness and equity, the effect of the rate increase on mailers, and simplicity in the rate structure.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-11. Is a pass-through of 100 percent of the difference in USPS cost between two categories of mail generally desirable as a matter of rate design on the ground that doing so allows a mailer to select the category most desirable to it on the basis of cost difference and service? Please explain.

RESPONSE: Please see my response to NAA/USPS-T32-10.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-12. Please refer to your testimony at page 21, lines 6-7, which can be read in the past tense. Is it still a goal of the Postal Service to "work toward a mailstream that is as barcoded as practicable"?

RESPONSE: Yes.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-13. Please refer to your testimony at page 24, lines 1-3, where you state that you reduced the nonautomated presort discount (which you propose to set at 90 percent of the measured costs avoided) "to increase the incentive for mailers to prebarcode their mail and thus to further the automation goals of the Postal Service."

- a. Is this reduction consistent with the principle of Efficient Component Pricing?
- b. Does a tension exist in this instance between ECP and the Postal Service's automation program?

RESPONSE:

(a) Because the proposed discount takes into account costs avoided by the worksharing, it is generally consistent with the principle of Efficient Component Pricing.

(b) I would not characterize this situation as a "tension." Postal ratemaking requires a careful consideration of a number of factors, and strict application of a theoretical pricing strategy in all instances is unlikely to be consistent with the statutory pricing criteria. As the Commission stated in its Opinion and Recommended Decision in Docket No. R94-1 (Appendix F, paragraph 102):

All parties, however, acknowledge that postal ratemaking under the Act cannot, and should not, be a mechanistic process without any significant judgmental component. They recognize that it is the Commission's duty to recommend rates that are consistent with the diverse criteria of the Act, and that application of those criteria requires judgment. None of the [pricing proposals of the parties], therefore, advocate that the Commission strictly apply any of the theoretical pricing strategies in its pricing decisions.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-14. Please confirm that the proposed monthly and annual fees for Prepaid Reply Mail will tend to limit the number of businesses that will find it economical to offer PRM envelopes/cards to their correspondents. If you cannot confirm, please explain why not.

RESPONSE: Confirmed, though the annual permit fee of \$100 is unlikely to be much of a factor.



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

POIR NO.3, QUESTION 24. In USPS-T-32, page 43, witness Fronk lists credit card companies and utilities as industries likely to be interested in PRM. How was it determined that these industries would be attracted to this rate?

RESPONSE: As indicated in my testimony (page 34), the PRM letter rate is intended to benefit the customers of large-volume business mailers by providing them with prepaid envelopes to return bill payments or other correspondence to the envelope provider. It is intended for mailers who have an ongoing, month-to-month billing relationship with their customers.

Utilities and credit card companies are large-volume mailers who have this kind of ongoing billing/remittance relationship with their customers. Also, these industries have the kind of strong retail customer service orientation that could generate interest in this product. In addition, bank card issuers compete intensely on the basis of interest rate, annual fee and grace period. They may be attracted to this product to gain a competitive edge.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-15. Please refer to your testimony at page 39, lines 8-10, where you state that "[e]ach participating business would need to maintain a certified, high-quality, easily-audited system for determining the amount of [PRM] mail received." Please provide your best understanding of what the cost to a business will be to maintain such a system and identify all documents or information upon which you rely as a basis for that understanding.

RESPONSE: I do not have an estimate of those costs. It is my understanding, however, that billing and remittance systems routinely capture information about how many bills go out, how many remittances come in, and similar data.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-16. Please refer to your testimony at page 43, lines 1-4. In estimating the break-even BRM volume needed to make the monthly PRM fee less expensive than the per-piece BRM fees, did you take into account the costs to the businesses of maintaining the necessary PRM system? If so, please explain how you did so. If not, please explain why not.

RESPONSE: The breakeven calculation in my testimony is based on postage rates and fees only. As I note on page 45 of my testimony (lines 10-14), "whether an organization is interested in QBRM or PRM will depend on a number of factors, including the willingness to prepay the postage and whether it finds the PRM monthly fee of \$1,000 or a per-piece fee of 6 cents more advantageous financially." I did not have an estimate of the costs to a business of maintaining the necessary PRM system. I also did not quantify the potential float advantages associated with getting remittances back sooner or the increased customer goodwill that can accrue to a participating organization.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-17. Please refer to your testimony at page 43, lines 5-6. What is the "limited information" that the Postal Service has regarding how much courtesy reply mail might switch to PRM? Does the Postal Service have information other than the Household Diary Study cited in your testimony?

RESPONSE: The "limited information" in my testimony refers to the Household Diary Study you cite and the Postal Service's experience with introducing a barcode discount in the late 1980s (page 43 of my testimony).

The Postal Service also has information contained in Library Reference H-226 (which is a report on interviews with a few businesses).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-18. Do your estimated volumes for PRM and QBRM take into account any volume increase in response to the rate discount? Please explain.

RESPONSE: For QBRM, I note on page 47 (lines 1-3) of my testimony that, "it is possible that the new QBRM rate will attract new volume in the future, but this volume is uncertain and I have not attempted to quantify it in this analysis." Note that QBRM will pay a per-piece Business Reply Mail fee of 6 cents, so that the total per-piece postage and fee will be 36 cents (30 cent PRM rate plus 6-cent PRM fee). Also, per my testimony (page 46, lines 13-16), QBRM in the Test Year will come from Business Reply Mail that is currently barcoded and meets the requirements for the current 2-cent per-piece BRM fee. Thus, the QBRM candidate mail presently pays 34 cents per-piece (32 cents plus 2-cent BRM fee).

For PRM, I have not included any estimate of increased volume for the Test Year. As a new postal product, I viewed PRM as converting a portion of existing courtesy reply mail in the Test Year, rather than attracting new volume.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-19. Please refer to your testimony at page 43, lines 13-14.  
Does this mean that you are estimating that up to 10 percent of the courtesy  
reply mail sent by credit card companies and utilities will switch to PRM? What is  
the basis for this estimate?

RESPONSE: Yes. See response to OCA/USPS-T32-22.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

NAA/USPS-T32-20. Please confirm that the revenue "leakage" from the PRM and QBRM proposals can be calculated by multiplying the estimated volumes for those two categories by 3 cents per piece. If you cannot confirm, please provide the proper calculation.

RESPONSE: I am unsure what revenue leakage means in this context. Your statement is correct in the sense that the PRM and QBRM rate proposals of 30 cents per piece represent a 3-cent discount from the proposed single-piece rate of 33 cents per piece. However, this postage calculation fails to take into account the overall impact on revenue because it ignores the monthly PRM fees and the per-piece fee of 6 cents that QBRM pieces will pay. Also, please see response to NAA/USPS-T32-18.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

1486

NAPM/USPS-T32-1. Confirm that the rates for First-Class flats under the current rate structure and under the USPS proposal are and would be as set forth below (taking into effect the single ounce rate, the additional ounce rate, the nonstandard surcharge and the 4.6¢ heavyweight discount which the USPS would eliminate under its R97-1 Proposal), and please explain your answer if you cannot so confirm.

FIRST CLASS FLATS

	<u>Current</u>			<u>USPS R97-1 Proposal</u>		
	1 oz.	2 oz.	3 oz.	1 oz.	2 oz.	3 oz.
Single Piece Flats	43¢	55¢	78¢	49¢	56¢	79¢
Retail Presort Flats	34.5¢	52.5¢	70.9¢	42¢	54¢	77¢
Auto Basic Flats	34¢	52¢	70.4¢	41¢	53¢	76¢
Auto 3/5 Dig Flats	32¢	50¢	68.4¢	39¢	51¢	74¢

RESPONSE: Confirmed.



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

1487

NAPM/USPS-T32-2. Confirm that USPS Witness Daniel at Exhibit USPS-29C in this proceeding provided the following First-Class unit mail processing and delivery cost estimates for First-Class flats.

Single Piece - 40.9560¢  
Presort - 30.2723¢  
Automation Basic - 31.2758¢  
Automation 3/5-Digit - 17.8857¢

RESPONSE: Confirmed for Single Piece. Not confirmed for the other three costs, which are changing slightly per the attached revised Exhibit USPS-29C, which is also being filed under separate cover. Please see my response to NAPM/USPS-T32-3 for the context of these numbers.

### First-Class Unit Cost Estimates

	MP + D Costs	Mail Processing Costs	Delivery <sup>3/</sup> Costs
<b>Letters</b>			
Single Piece	16.7434	11.7424 <sup>4/</sup>	5.0010 •
Bulk Metered	13.6851	9.5391 <sup>5/</sup>	4.1460
Presort	11.3453	7.1993 <sup>1/</sup>	4.1460
<b>Automation</b>			
Basic	9.0298	5.3188 <sup>1/</sup>	3.7110
3-Digit	8.1997	4.5477 <sup>1/</sup>	3.6520
5-Digit	6.5995	3.0265 <sup>1/</sup>	3.5730
Carrier Route	6.4170	2.2910 <sup>1/</sup>	4.1260
<b>Cards</b>			
Single Piece	11.2429	6.8879 <sup>1/</sup>	4.3550
Presort	7.7568	4.7178 <sup>1/</sup>	3.0390
<b>Automation</b>			
Basic	6.2803	3.4693 <sup>1/</sup>	2.8110
3-Digit	5.7324	2.9574 <sup>1/</sup>	2.7750
5-Digit	4.6735	1.9475 <sup>1/</sup>	2.7260
Carrier Route	3.4404	0.6204 <sup>1/</sup>	2.8200
<b>Flats and Parcels</b>			
Single Piece	40.9560	35.9550 <sup>4/</sup>	5.0010 •
Presort	30.2683	25.3783 <sup>2/</sup>	4.8900
<b>Automation</b>			
Basic	31.2718	26.3818 <sup>2/</sup>	4.8900
3/5-Digit	17.8817	12.9917 <sup>2/</sup>	4.8900

\* Letter, Flat and Parcel Delivery costs have been aggregated for Single Piece.

<sup>1/</sup> Postal Service witness Hatfield (USPS-T-25)

<sup>2/</sup> Postal Service witness Seckar (USPS-T-26)

<sup>3/</sup> Postal Service witness Hume (USPS-T-18)

<sup>4/</sup> From USPS LR-H-106.

<sup>5/</sup> From USPS LR-H-106. However, after the completion of rate design, this number was revised to 10.5814, for a total of 14.7274. See USPS LR-H-106.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

1489

NAPM/USPS-T32-3. USPS witness Daniel shows more than a 23¢ unit cost difference between First-Class single piece flats and First-Class automated 3/5 Digit flats. Under your proposal in this proceeding, the difference between the resulting rates for First-Class single piece flats and First-Class automated 3/5 Digit flats is 10¢ in the case of one ounce flats, and 5¢ in the case of two ounce and three ounce flats. Why did you propose to pass through such a small percentage of the cost savings of automated 3/5 Digit flats? Please explain your answer.

RESPONSE: The difference of 23 cents that you compute does not isolate the costs avoided by worksharing and is not the appropriate benchmark to use because it focuses on full cost differences, that is, it includes cost differences not associated with worksharing. The single piece flat cost includes "dirty" mail (pieces featuring handwritten and incorrect or incomplete addresses). Please see my testimony at pages 19-20.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

1490

NAPM/USPS-T32-4. You stated at page 29 of your testimony that "bulk automation flat rates are selected primarily to preserve the appropriate rate relationships between letters and flats in the automated arena, and between automation flats and the non-automated presort rate that applies to both letters and flats."

- a. Why is the preservation of these relationships more important than the cost difference between rate categories of First-Class flats?
- b. If the mailer can perform an element of mail processing of First-Class flats for less than half the cost of the USPS performing such function, is it more important to retain these current rate relationships than it is to set rates at a level which cause the more efficient mail processor to perform the work? Please explain your answer.

RESPONSE:

- (a) As Exhibit USPS-29C (cited in NAPM/USPS-T32-2) shows, flats are significantly more expensive to process than letters. Once the rate proposal for automated letters was developed based on the bulk metered benchmark and cost differences, the automated flat pricing proposal was developed to reflect the fact that flats are more expensive to process than automated letters. With the proposed rate relationships, barcoded flats pay more postage than barcoded letters, and barcoded flats pay less postage than nonautomated presort flats.
- (b) Please see my response to NAPM/USPS-T32-3.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

1491

NAPM/USPS-T32-5. What percentage of First-Class flats were 3 ounces or greater in FY 1996?

RESPONSE: The weight increments available provide data on pieces weighing more than 2 ounces and on pieces weighing more than 3 ounces. The number weighing 3 ounces or more straddles two weight increments and is not available. Approximately 61 percent weigh more than 2 ounces, and approximately 39 percent weigh more than 3 ounces.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

1492

NAPM/USPS-T32-6. Confirm that the proposed elimination of the 4.6¢ heavy piece discount for First-Class presort and automated mail will have a significant adverse effect on the volume of presorted and automated First-Class flats received by the USPS in FY 1998. If you cannot confirm this fact, explain why.

RESPONSE: Taken by itself, the elimination of the heavy piece discount would likely decrease the number of presorted First-Class Mail flats just as an increase in the discount would likely increase the volume. Nonautomated presort letters and flats pay the same rate and are forecast together, making it difficult to isolate the impact of the heavy piece discount alone. The magnitude of the overall effect of eliminating this discount on automated presort flat volume also depends on factors such as the relative price change between nonautomated and automated presort flats.

REVISED RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,  
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS) 1493

— NDMS/USPS-T32-1. Please refer to your testimony at p. 24, where you refer to LR-H-112.

- a. Did you prepare, or participate in any way in the preparation of, LR-H-112.
- 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-112.
- c. With respect to LR-H-112, are you sponsoring that study?
- d. Please indicate whether any other witness in this docket is sponsoring LR-H-112.

RESPONSE:

- (a) No.
- (b) Not applicable.
- (c) No.
- (d) For purposes of this proceeding, it is my understanding that no Postal Service witness is "sponsoring" LR-H-112 in the sense that it has been incorporated into a witness' testimony. This library reference was prepared by analysts in Cost Studies within Product Finance. The analyst with principal responsibility for the library reference was Sharon Daniel.

NDMS/USPS-T32-2. LR-H-112 states that "we now have Test Year Unit Cost data by shape information available from Library Reference H-106 and have used it." pp.1-2.

- a. Did you prepare, or participate in any way in the preparation of, LR-H-106?
- b. Unless your answer to preceding part (a) is an unqualified negative, please describe your role with respect to LR-H-106.
- c. With respect to LR-H-106, are you sponsoring that study in this docket?
- d. Please indicate whether any other witness in this docket is sponsoring LR-H-106.
- e. LR-H-106 is an extensive document containing a large number of tables. Please provide specific references and cross references to all data in LR-H-106 that were used as input to the study in LR-H-112, *i.e.*, cite the specific places in LR-H-112 where reliance is made on input from LR-H-106, and provide specific citations to the tables and data in LR-H-106.

RESPONSE:

- (a) No.
- (b) Not applicable.
- (c) No.
- (d) I am unaware of any other witness who is sponsoring LR-H-106.
- (e) Redirected to the Postal Service for response.



NDMS/USPS-T32-3. Would you agree that the nonstandard surcharge for First-Class Mail that you propose at page 24 of your testimony is a surcharge for shape-related cost differences? Please explain fully any disagreement.

**RESPONSE:**

Section C100.4.0 of the Domestic Mail Manual defines Nonstandard First-Class Mail as follows:

Except for Priority Mail, any piece of First-Class Mail weighing 1 ounce or less and not claimed at a card rate is nonstandard and subject to the applicable surcharge if its thickness exceeds  $\frac{1}{4}$  inch or, if based on the placement (orientation) of the address, its length exceeds 11-1/2 inches, its height exceeds 6-1/8 inches, or its aspect ratio (length divided by height) is less than 1.3 or more than 2.5.

This description of nonstandard clearly involves size and shape. The surcharge I proposed is meant to recover the mail processing cost differences between nonstandard pieces, as defined above, and standard single-piece and presorted First-Class Mail.

At the same time, I would not agree that this surcharge is simply for "shape-related cost differences" in the sense that the term may be used by others. For example, witness Moeller proposes a Residual Shape Surcharge which would apply to Standard (A) pieces that are not letter or flat shaped. In that sense, "shape-related" refers to letters versus flats versus other pieces. Many of the pieces that are subject to the First-Class Mail nonstandard surcharge are letters whose aspect ratio is less than 1.3 or more than 2.5. These nonstandard letters are still letter-shaped, as opposed to flat-shaped, for example.

NDMS/USPS-T32-4.

- a. For nonpresort and presort mail, the nonstandard surcharges that you propose (16 and 11 cents, respectively) represent what percentage passthrough of the shape-related cost differences?
- b. Please explain fully your rationale for each passthrough of shape-related cost differences that you are recommending.

RESPONSE:

(a) The proposed surcharges were developed to passthrough 100 percent of the additional mail processing costs associated with nonstandard mail. As indicated in the Library Reference H-112 (as originally filed), the cost difference for nonstandard pieces is 15.08 cents for single-piece and 10.78 cents for presort. Because the nonstandard surcharge is a whole-cent rate, these costs were rounded up to the next cent to insure recovery of these cost differences. These cost differences are limited to mail processing costs and did not include carrier cost differences associated with nonstandard pieces.

As indicated in the Postal Service's response to NDMS/USPS-T32-10, LR-H-112 does not explicitly control for the effect of pieces heavier than one ounce. At the time of my proposal, I assumed that the cost differences of 15.08 and 10.78 cents applied to one-ounce pieces. I am unsure of how completely controlling for the effect of heavier weight pieces would affect these cost differences, and what effect the inclusion of delivery-related costs would have.

(b) The rationale for the single-piece and presort passthrough was the same: I passed through 100 percent of the identifiable cost difference between nonstandard and standard pieces. By passing through additional costs associated with nonstandard pieces, I can send the appropriate signal to mailers and encourage the use of standard, automation-compatible pieces.

NDMS/USPS-T32-5. Either before or at the time you decided on what percentage passthrough to recommend for shape-related cost differences in First-Class Mail, did you consult with witness Moeller to see what passthroughs he was recommending for shape-related cost differences in the Standard A Subclass? Was there any effort to rationalize the shape-related cost passthroughs?

**RESPONSE:**

I did not consult with witness Moeller about percentage passthroughs of shape-related cost differences. Each witness faces a number of considerations in choosing passthroughs; there was no specific attempt to "straight-jacket" a single shape-related cost passthrough.

In general, I work to develop pricing proposals that align prices with costs and meet the statutory pricing criteria. As the Commission stated in its Opinion and Recommended Decision in Docket No. R90-1 (at paragraph 5034), "Historically the [nonstandard] surcharge has been imposed to recover the added cost of processing nonstandard pieces." Also, see response to NDMS/USPS-T32-6.

NDMS/USPS-T32-6.

- a. In your opinion, should the percentage passthrough for shape-related cost differences be identical, or at least similar, for First-Class Mail and Standard A subclass?
- b. Regardless of whether your answer to part (a) is affirmative or negative, please explain all factors, considerations or principles that you think should be considered when deciding what percent passthrough is appropriate to recommend for shape-related cost differences.

RESPONSE:

(a) This percentage passthrough should not necessarily be identical or similar. Each witness must balance a number of considerations in selecting passthroughs.

(b) The factors, considerations, or principles I think should guide the recommendation of a passthrough for shape-related cost differences are set forth in Section 3622(b) of title 39, United States Code. Section 3622(b) describes the pricing criteria that need to be followed when setting postal rates and fees. The recommended passthrough of cost differences depends on a balancing of the various pricing criteria set forth in Section 3622(b). There is no hard-and-fast rule.

NDMS/USPS-T32-7. Please confirm that the nonstandard surcharge which you recommend at page 24 of your testimony applies only to pieces that weigh one ounce or less and fail to meet the size limits specified at page 1 of LR-H-112. Explain fully any nonconfirmation.

RESPONSE: My proposed nonstandard surcharges apply to nonstandard pieces as defined in Section C100.4.0 of the Domestic Mail Manual. Section C100.4.0 is correctly paraphrased at page 1 of LR-H-112.

NDMS/USPS-T32-12. Aside from the results shown in LR-H-112, to which you refer in your testimony, please cite all other evidence on which you rely that shows the additional cost of processing First-Class Mail that weighs one ounce or less and exceeds the size requirements.

RESPONSE: I had no other quantitative evidence. However, I am aware of discussions of various operations personnel about the relative difficulty of handling large or otherwise cumbersome light-weight pieces.

REVISED RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NASHUA PHOTO INC., DISTRICT PHOTO INC., 1501  
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS)

NDMS/USPS-T32-13. In Base Year 1996, what was the total volume of First-Class single piece and nonautomated presort nonstandard pieces that were subject to the surcharge.

RESPONSE: In Base Year 1996, 325.6 million pieces, or 0.6 percent, of First-Class single-piece letters, flats and parcels were subject to the nonstandard surcharge. 49.6 million pieces, or 0.1 percent, of presorted letters, flats and parcels were subject to the surcharge. (In 1996, because reclassification changes were not implemented until July 1, 1996, I am unable to separate nonautomated presort and automated presort nonstandard pieces.) Also, 8.0 million pieces, or 0.3 percent, of carrier route letters, flats, and parcels were subject to the surcharge. In sum, 383.2 million pieces, or 0.4 percent, of First-Class letters, flats and parcels were subject to the surcharge.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,  
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS)

1502

JDMS/USPS-T32-14. Please cite all studies (i) relied on, and/or referenced by Postal Service direct testimony in this docket, and (ii) conducted or updated since 1990, that show the effect of weight on the cost of processing First-Class Mail.

RESPONSE: None.



NDMS/USPS-T32-22.

- a. Is it correct that any mail piece that has a length greater than 11.5" is a "non-letter," by definition? Please explain any negative answer.
- b. Is it correct that any mail piece that has a height greater than 6.125" is a "non-letter," by definition? Please explain any negative answer.
- c. Is it correct that any mail piece that has a thickness greater than 0.25" is a "non-letter," by definition? Please explain any negative answer.
- d. Please define the term "nonstandard letter," and explain how "letters" constitute 58 percent of nonstandard First-Class pieces (LR-H-112, Exhibit A). What characteristics enable these pieces to be classified as "letters" instead of flats or parcels?

RESPONSE:

(a)-(c) Yes. As stated in Section C050.2.0 of the Domestic Mail Manual, letter-size mail may not be more than 11-1/2 inches long, 6-1/8 inches high, or 1/4 inch thick.

(d) Section C100.4.0 of the Domestic Mail Manual defines Nonstandard First-Class Mail as follows:

Except for Priority Mail, any piece of First-Class Mail weighing 1 ounce or less and not claimed at a card rate is nonstandard and subject to the applicable surcharge if its thickness exceeds 1/4 inch or if, based on the placement (orientation) of the address, its length exceeds 11-1/2 inches, its height exceeds 6-1/8 inches, or its aspect ratio (length divided by height) is less than 1.3 or more than 2.5.

The relationship between length and height, or the aspect ratio, can make letters of nonstandard-size, even if they are within the mail dimensions described in NDMS/USPS-T32-22(a)-(c) above. For example, a letter that is 4 inches long, 4 inches in height, and 1/8 inch in thickness would be nonstandard because its aspect ratio of 1.0 (4 inches / 4 inches) is less than 1.3, not because of its length alone, height alone, or thickness.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NDMS

1504

NDMS/USPS-T32-25. In your response to NDMS/USPS-T32-4, you state that :

[b]y passing through additional costs associated with nonstandard pieces, I can send the appropriate signal to mailers and encourage the use of standard, automation-compatible pieces.

- a. Please confirm that in the case of letters this would mean changing the aspect ratio to come within the dimensions for Standard-shaped letters. If you fail to confirm, please explain fully what incentive is intended.
- b. Please confirm that in the case of nonstandard First-Class flats the intended incentive is to encourage mailers of flats that weigh less than one ounce to convert to letter-shaped mail. If you fail to confirm, please explain fully what incentive is intended.
- c. What incentive is intended for mailers of nonletter, nonflat pieces (i.e. parcels) that weigh less than one ounce?
- d. What studies, analysis or other efforts have been undertaken by the Postal Service to ascertain whether the nonstandard surcharge has had any effect in reducing the volume on nonstandard First-Class letters and flats?

RESPONSE:

(a)-(c) I think you may be reading more into my response to NDMS/USPS-T32-4 than I intended. In the sentence immediately preceding the one you quote above, I stated, "The rationale for the single-piece and presort passthrough was the same: I passed through 100 percent of the identifiable cost difference between nonstandard and standard pieces."

In the nonstandard surcharge proposals, my intention was to better align prices with costs and signal this information to mailers. If the price mailers pay for nonstandard pieces is not generally aligned with costs and is artificially low, the Postal Service may encourage the overuse of nonstandard pieces.

I am not trying to "convert" nonstandard pieces to standard pieces in the sense your questions seem to imply. Mailers may well find that a nonstandard piece will best meet their needs and that they are willing to pay the corresponding rate. My intention was simply to signal mailers the costs the Postal Service incurs when processing nonstandard pieces.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NDMS

1505

RESPONSE to NDMS/USPS-T32-25 (Continued)

(d) None. Also, please see response to (a)-(c) above.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NDMS

1506

NDMS/USPS-T32-33. From 1995 to 1996 the Postal Service and Brooklyn Union Gas ("BUG") conducted a "test" with Prepaid Courtesy Reply Mail ("PCRM"); see Docket No. MC96-3, response to NM/USPS-T37.

- a. Please explain how the proposal for PRM in this docket is related to the PCRM test.
- b. Did the Postal Service prepare any analysis, summary or other report on the results of that test with BUG?
- c. If so, please supply as a library reference a copy of each such analysis, summary or other report.
- d. If no analysis, summary or other report concerning the test with BUG was prepared, please explain why not.

RESPONSE:

(a) The former is a proposal for the establishment of a classification and a rate for PRM. The latter was a test conducted by the Postal Service to obtain experience with a similar concept. For a description of the BUG test, please see responses of USPS to NM/USPS 38-44, 47, 50, 52, 56, 57, 59, 61, 62, and 63 in Docket No. MC96-3, Tr. 8/2825 et. seq. See also USPS Library Reference SSR-149 in Docket No. MC96-3.

(b) - (d) Redirected to the Postal Service for response.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NDMS

1507

NDMS/USPS-T32-35. Your testimony at page 34 states that "[t]he discounted letter rate is intended to benefit the customers of large-volume business mailers, such as utility companies or credit card companies."

- a. Please define "large-volume" as you use the term in your testimony.
- b. Under your definition, what is the smallest annual volume that, in your opinion, would qualify a mailer as "large-volume"?

RESPONSE:

(a) There is no hard-and-fast figure associated with "large volume." The term is meant to suggest mailers who have ongoing, month-to-month mailing relationships with a significant customer base.

(b) There is no specific minimum volume needed to qualify for PRM.

NDMS/USPS-T32-36. At page 39 of your testimony you state:

"Auditing approaches will be modeled after those currently in use for outbound manifests of bulk mailings. A monthly fee of \$1,000 will be charged to cover Postal Service costs associated with these activities."

- a. Is it your testimony that you expect every mailer using PRM to establish a reverse manifest system? Please explain any answer that is not an unqualified affirmative.
- b. In the PCRM test, did Brooklyn Union Gas establish a reverse manifest system?

RESPONSE:

(a) No. The portion of my testimony you quote above indicates that the Postal Service will draw upon its experience in auditing manifests used by bulk mailers as we develop PRM auditing approaches. For instance, auditing mailer manifests involves periodic visits to the mailer's facility to observe the system in operation in order to ensure required documentation is being maintained and agreed upon procedures are being followed. The Postal Service is likely to apply such activities to PRM recipients.

As I state elsewhere on page 39 (lines 13-16), "the Postal Service will establish auditing procedures for each PRM recipient which are designed to protect postal revenue in a manner which minimizes disruption of mail processing and permits expeditious transfer of processed mail from the delivery unit to the PRM recipient."

As I also note on page 39 of my testimony (lines 9-10), each participating mailer would need to maintain a certified, high-quality, easily-audited system for determining the amount of mail received. This could involve a reverse manifest. Another alternative involves using data on PRM returns from a third-party lockbox operation. In such a case, audits may take place at the lockbox site. Other mailer systems are possible, consistent with the protection of postal revenue and operational feasibility.

(b) No.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NDMS

1509

NDMS/USPS-T32-41. Please refer to your testimony at page 41, where you state that the proposed PRM "monthly fee of \$1,000 is set at a level which recovers the administrative and auditing costs associated with making sure that the mailer-supplied piece counts are correct." Without regard to whether various types of mail are automatable, or would qualify for PRM as proposed by the Postal Service:

- a. Do any of these administrative and auditing costs vary with the size of the mailpiece?
- b. Do any of these administrative and auditing costs vary with the shape of the mailpiece?
- c. Would this monthly fee be sufficient to recover the administrative and auditing costs associated with confirming that the mailer-supplied piece counts are correct for a weight averaging system?

RESPONSE:

(a)-(b) The proposed fee was developed within the context of the overall proposal for PRM. As indicated in my testimony (page 34), the PRM letter rate is intended to benefit the customers of large-volume business mailers by providing them with prepaid envelopes to return bill payments or other correspondence to the envelope provider. As such, it is anticipated that PRM will be standard-size letter mail weighing one ounce or less. There is also a PRM rate for cards.

Organizations wishing to participate in PRM would need to maintain a certified, high quality, easily-audited system for determining the amount of mail received. Since PRM is especially targeted at the billing/remittance portion of the mailstream, the Postal Service anticipates that participating organizations will already have in place sophisticated automated payment systems that maintain a high degree of quality control due to their financial nature. The homogeneity of the PRM mailpieces coupled with the degree of quality control inherent in a payment system should make these systems amenable to audits and the level of fee proposed. Pieces of different sizes and shapes are not the type contemplated for PRM or the mailer systems which would process PRM. Size and shape imply weight and rate differences which complicate the auditing process.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NDMS

1510

RESPONSE to NDMS/USPS-T32-41 (continued)

(c) Please see my response to parts (a) and (b). Weight-averaging will not be an option for a mailer participating in the PRM program. Weight averaging does not leave an audit trail or create the reports and documentation that an automated system does. Administering weight averaging audits would involve frequent involvement of Postal mail processing personnel to confirm counts, and would be more costly than the type of audit contemplated by the PRM proposal.



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NDMS

1511

NDMS/USPS-T32-42. Please refer to your testimony in this docket, at page 39, where you state that each business participating in the proposed PRM program "would need to maintain a certified, high-quality, easily auditable system for determining the amount of mail received." Without regard to whether various types of mail are automatable, or would qualify for PRM as proposed by the Postal Service:

- a. Please define the standards for certification of the mailer's system for determining the amount of mail received.
- b. Please define "high quality," as you use the term and explain the standards by which quality is measured with respect to the envisioned auditing system(s).
- c. Please define "easily audited," as you use the term.

RESPONSE: Your question asks me to assume away mail characteristics that are inherent to the PRM proposal, namely that PRM be automatable and meet Postal Service requirements. Because the envisioned mailer systems and Postal Service auditing practices are premised on PRM that is automatable and meets Postal Service requirements, I am unable to make the assumptions you request. Nevertheless, in the interests of being as responsive as possible, I will answer as best I can.

(a) The implementing regulations for PRM have not yet been developed. Since the Postal Service in other areas (for example, for reverse manifests) requires that mailer-supplied postage calculations be within 1.5 percent of the Postal Service's audit calculation, this standard may also be applied to PRM.

(b)-(c) As indicated in my response to NDMS/USPS-T32-41, PRM systems are likely to involve remittance processing. Such systems are high quality in the sense they are automated, involve strict quality control procedures due to the fact they handle considerable amounts of money, and typically capture and report a significant amount of data on pieces processed and customer payments. These features lead to PRM systems that are "easily audited" in that records can be routinely created and maintained as part of the business that the Postal Service can later compare against the number of pieces the mailer actually paid for. Note that such documentation could be maintained at sites where the mail is actually received and processed, which could be a third-party lockbox operation.

RESPONSE OF U.S. POSTAL WITNESS FRONK TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-1. Please refer to page 11, lines 2-4 of your testimony. You state that based on 1995 Household Diary Study data, First-Class Mail volume received depends on whether the household is urban or rural.

- a. Please confirm that the data backing up this statement is presented in TABLE 4-3, page IV-8, of the 1995 Household Diary Study. See Attachment 1. If you do not confirm, please provide all documents and data used to support this statement.
- b. Please provide definitions of the various levels of urbanicity (Center of Major Metro Area, Center, Non-Center, Moderate-Sized City, Suburb, Small Town, and Rural) used in the Household Diary study. If these urbanicity levels are defined by ZIP Codes, please provide a file containing ZIP codes and their associated urbanicity levels.
- c. If a Household Diary Study questionnaire response was used to categorize urbanicity, please explain and list all questions relied upon to determine urbanicity.
- d. Please provide the raw data file from which 1995 Household Diary Study tabulations are produced.
- e. Please explain how the Household Diary Study urbanicity levels relate to the Census Bureau's area classifications. See Appendix A to the Technical Documentation for Summary Tape File 3 on CD-ROM for the 1990 Census of Population and Housing. See Attachment 2.

RESPONSE:

- (a) Confirmed. Lines 5-6 on page 11 of my testimony further state that,  
"...suburbanites receive more mail than both city-dwellers and rural households."
- (b)-(e) Redirected to the Postal Service for response.

TA 13  
FIRST-CLASS DEMOGRAPHICS - PIECES RECEIVED PER HOUSEHOLD PER WEEK  
POSTAL YEARS 1987, 1994 and 1995

INCOME	1987	1994	1995	EMPLOYMENT OF RESPONDENT	1987	1994	1995
<\$7K	4.3	4.6	5.6	White Collar Professional	10.4	11.6	11.9
\$7K-\$9.9K	5.5	5.4	4.7	White Collar Sales/Clerical	7.7	9.4	9.5
\$10K-\$14.9K	6.2	6.8	6.4	Blue Collar Craftsmen/Mechanic	6.2	7.0	7.9
\$15K-\$19.9K	7.3	6.6	7.3	Service Worker	6.3	7.3	8.4
\$20K-\$24.9K	7.5	7.2	7.4	Other Employed	6.3	8.2	9.0
\$25K-\$29.9K	8.5	8.1	8.9	Homemaker	8.0	8.6	10.2
\$30K-\$34.9K	9.8	9.0	9.3	Student	8.1	9.2	8.5
\$35K-\$49.9K	10.4	9.9	9.9	Retired	7.8	9.0	9.5
\$50K-\$64.9K	12.6	11.6	12.1	Other Not Employed	5.4	7.6	8.7
\$65K-OVER	15.7	14.4	13.9				
AGE OF HEAD OF HOUSEHOLD	1987	1994	1995	TYPE OF DWELLING	1987	1994	1995
18-24	4.9	5.2	6.2	Single Family House	9.6	10.2	10.6
25-34	7.3	7.9	7.9	Multi-Family House	7.2	7.1	9.8
35-44	9.6	9.3	10.0	Apartment	6.0	6.1	7.1
45-54	10.4	10.9	11.3	Hotel	4.5	--	--
55-64	9.9	10.1	10.9	Boarding House	7.4	3.0	4.0
65-69	8.5	9.6	9.7	Mobile House	5.8	6.2	7.0
70+	7.6	8.4	8.5	Group Quarters	7.4	--	4.0
EDUCATION OF HEAD OF HOUSEHOLD	1987	1994	1995	URBANITY	1987	1994	1995
<8th Grade	5.4	6.2	5.7	Center of Major Metro Area			
Some High School	6.5	6.1	6.1	Center	6.1	7.6	7.8
High School	7.4	8.0	8.2	Non-Center	8.4	9.3	9.0
Some College	8.5	9.3	9.9	Moderate-Sized City	8.2	9.2	9.8
Tech School	8.2	8.6	10.0	Suburb	10.1	10.2	10.9
College	11.0	11.3	11.5	Small Town	7.1	9.1	9.1
Post Graduate	14.6	13.7	14.2	Rural	7.6	8.5	9.7
TYPE OF HOUSEHOLD	1987	1994	1995	NUMBER OF ADULTS	1987	1994	1995
One Person Household	5.5	6.0	6.9	1	5.4	6.3	6.7
Male	5.2	5.7	6.3	2	9.0	9.7	10.1
Female	5.8	6.2	7.2	3	11.0	10.9	11.1
One Adult + Minors	5.2	9.3	7.0	4+	11.5	10.7	11.7
Male	3.9	9.3	6.9				
Female	5.3	--	11.3				
MORE THAN ONE ADULT	1987	1994	1995				
Without Children	9.4	10.0	10.3				
One Earner	9.2	9.7	10.6				
Two Earner	9.7	10.2	10.5				
With Children	9.6	10.0	10.4				
One Earner	9.0	8.9	9.7				
Two Earner	10.3	10.7	11.0				

Fluctuations may be due to small sample sizes.

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OCA/USPS-T32-19. Please consider a hypothetical proposal that would expand upon the Postal Service's Prepaid Reply Mail ("PRM") and Qualified Business Reply Mail ("QBRM") proposals. Under this hypothetical proposal a consumer could affix a 30 cent stamp on a "courtesy reply envelope" which the sender (e.g., a utility company) had properly prepared for automation capability purposes (i.e., it met the proposed envelope preparation qualifications for Prepaid Reply Mail). For purposes of brevity we shall refer to this as the MPRM proposal – i.e., the Modified Prepaid Reply Mail proposal.

- a. As to MPRM, please explain how each of the Board of Governors' objections to the CEM recommendation in Docket No. MC95-1, as expressed in their CEM Decision, is relevant.
- b. For each objection in (a), please supply all empirical information supporting such objection.
- c. For each objection in (a), submit all documents that contradict the objection.
- d. As to MPRM, list all other objections the Postal Service has that are not contained in the CEM Decision or in your direct testimony in this docket.
- e. As to each objection set forth in response to (d), please supply all empirical information supporting such objection.
- f. As to each objection set forth in response to (d), submit all documents that contradict the objection.

RESPONSE: I note that your characterization of the hypothetical "proposal" in this question as modified Prepaid Reply Mail (MPRM) is misleading. What is described in your question as a modification is in reality a completely different alternative that seems to be a lot like the OCA's historical CEM proposals. I use the term "seems to be like" because I also think it is misleading to characterize a one or two sentence description of a hypothetical in an interrogatory as a "proposal" per se. Moreover, PRM does not require the application of postage. A "modification" which required the application of postage is in conflict with the objectives of PRM.

(a)-(c) I would not want to presume to answer this question on behalf of the Governors. They would need to see a fully developed MPRM proposal and offer a response to it in order for the Postal Service to state the extent to which their objections to CEM applied to MPRM.

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RESPONSE to OCA/USPS-T32-19 (Continued)

(d)-(f) I know virtually nothing about MPRM, except for the scanty sentence or two offered in this interrogatory. I have no basis for responding to this question. I would need a complete MPRM proposal to be able to respond to this question.

OCA/USPS-T32-22. You state on page 43 of your direct testimony your estimates that "up to ten percent" of courtesy reply mail would switch to PRM, using as a base the 41 percent of all courtesy reply mail associated with credit card companies and utilities. You also "further estimate that a smaller fraction, 2 percent, of the remaining 4,000 million pieces of courtesy reply envelope mail could switch to PRM. On page 45 you state that the "Postal Service estimates that a number of organizations currently using Business Reply Mail may be interested in and qualify for either this classification [QBRM] or the PRM classification discussed above."

- a. Please provide an empirical basis for your "up to ten percent" estimate. If the basis for the estimate is not empirical, please explain fully the basis for the estimate. Include citations to source documents and provide them if they are not on file with the Commission.
- b. Did you survey utility and credit card companies as to their potential participation in PRM and QBRM? If not, why not?
- c. Isn't it plausible that the actual participation in PRM and QBRM by credit card companies and utility companies who now provide courtesy reply envelopes will approach zero, since currently they pay zero postage costs on the courtesy reply envelope? Consider that one may observe massive shifts in non-household originating mail volume when rates change by just a few cents. Please comment.

**RESPONSE:**

(a) In my testimony, I indicate that I based the 2 percent figure you cite on the experience of the Postal Service in introducing a barcode discount in the late 1980s. In the first full year following the introduction of barcodes (1989), 2.0 percent of presorted mail was barcoded. I also used the Postal Service's experience in introducing the barcode discount to arrive at my estimate that up to 10 percent of the courtesy reply envelopes associated with credit card companies and utilities would switch to PRM in the Test Year.

In the second full year following the introduction of the barcode discount (1990), 6.5 percent of presorted mail was barcoded. This percentage increased to 16.5 percent in 1991. (Percentage data from the Billing Determinants for FY 1989, 1990, and 1991.) This trend in the percentage of presorted mail that was barcoded represented an average trend across all customers and industries. Some industries and customers were adopting barcodes faster than others and had higher percentages of barcoded mailpieces.

RESPONSE to OCA/USPS-T32-22 (Continued)

Since credit card companies and utilities are two industries likely to be attracted to this rate, I anticipated that the portion of their courtesy reply envelopes switching to PRM would be greater than the 2 percent average. In light of this, an "up to 10 percent" estimate seemed reasonable given the trend in the overall percentage of presorted mail that was barcoded, from 2.0 percent in 1989 to 6.5 percent in 1990 to 16.5 percent in 1991.

As I noted in my testimony, the Postal Service's actual experience with barcodes is not a perfect parallel to PRM by any means, but it does provide insight into the potential for PRM and how initial business resistance can be overcome.

(b) Please see USPS Library Reference H-226, which is a report on interviews with businesses. Note that the information in this report is not statistically projectible to all businesses.

(c) Participation is currently zero. Participation is expected to move away from zero. I am confused by the sentence beginning with the word "consider" and how this sentence relates to the preceding portion of the question. As a result, I am unable to comment.

OCA/USPS-T32-23. Please explain the Postal Service's understanding of how the increased mailing costs incurred by participating businesses and other organizations in PRM and QBRM are likely to be funded.

**RESPONSE:** It is the Postal Service's understanding that participating businesses and other organizations could fund PRM in one of three ways. First, the organization could explicitly bill the customer for the cost of the postage. The charge would likely appear as a line item on a bill. Second, the organization could build the cost of the PRM postage into its product or service prices in much the same way as it covers the costs of business expenses such as toll-free phone calls for customer ordering or customer service. Third, the organization could simply choose to provide the service out of existing revenues.

In terms of QBRM, in the Test Year the Postal Service expects QBRM to come from existing Business Reply Mail. Thus, participating organizations will presumably fund QBRM in the same manner as they presently fund BRM. QBRM customers that are not existing BRM customers would face the same funding options as discussed for PRM above.



OCA/USPS-T32-24. Assume that a public utility wishes to take advantage of PRM or QBRM, and thereby increase its postage expenses.

- a. What approvals would it have to obtain from public utility commissions?
- b. How long would such approvals be expected to take?
- c. Would it have the option of seeking a rate increase to cover the increased postage costs?

**RESPONSE:**

(a)-(b) While I am not an expert in the public utility approval process, it is my understanding that what approvals are needed and how long they would take to obtain would vary considerably from jurisdiction to jurisdiction. Also, some jurisdictions have put in place price cap regulatory frameworks to govern public utilities. Under such frameworks, firms have considerable flexibility in setting prices to recover costs, as long as they remain under some agreed upon cap. I would note that in my testimony I estimate that 500 million pieces of courtesy reply mail could switch to PRM in the Test Year, a relatively small portion of bill payments. As such, the estimate reflects potential delays in the approval process.

(c) Again, I would expect this to vary from jurisdiction to jurisdiction. In some instances, I would expect that a utility subject to cost-of-service regulation would be able to include these costs in its rate base.

OCA/USPS-T32-25. Your testimony at 35 states, "The new rates offer consumers the advantages of convenience and potential savings in mailing costs. Advantages to businesses include potentially faster return of remittances . . . ."

- a. When identifying an advantage to businesses of the potential for the faster return of remittances, is it your contention that customers will alter their normal bill payment behavior because a business now includes a prepaid return envelope? If your response is affirmative, please cite the source of your information and provide copies of all source documents not previously provided (e.g., Library Reference H-200).
- b. When identifying an advantage to businesses of the potential for the faster return of remittances, are you referring to the Postal Service's ability to process "clean" mail (as you define it on page 19) more quickly? If not, please explain.
- c. What evidence does the Postal Service have showing that it is able to process "clean" mail more quickly than "dirty" mail? Please explain fully and cite the sources of information to which you are referring. If a document exists containing surveys or findings on this issue, please supply it.

**RESPONSE:**

- (a) It is my testimony that under the PRM proposal the potential exists for customers to return their remittances faster than they would in the absence of prepaid return envelopes. Based on the quantitative market research cited in my testimony (page 38 at lines 12-15, which draws on Library Reference H-200), 14 percent of households indicated they would definitely mail the payment back sooner with PRM, and 29 percent of households indicated they would send the payment back maybe a little sooner. While not statistically projectible, some focus group participants also indicated that some payments may be mailed in faster with PRM. (See "Final Report – Prepaid Reply Mail Market Research Consumer Research Report," which is being filed today as Library Reference H-242. Note that, for completeness, Library Reference H-242 includes Library Reference H-200 as an appendix.)
- (b) No. I was referring to the potential for faster return of remittances as discussed in part (a) above.
- (c) As indicated in parts (a) and (b) above, I did not investigate this issue as it was not a basis for my testimony.

OCA/USPS-T32-26. Your testimony at 36 states that "it appears clear that electronic diversion is a real threat to through-the-mail bill payment. The proposed PRM rate can help address the threat of electronic diversion . . . ."

- a. Confirm that under the proposed PRM and QBRM plans, use of such plans is dependent upon non-households' (i.e., private industry's) decisions to participate in such plans (assume that such firms meet the Postal Service's qualifications for the plans). If not confirmed, please explain.
- b. If confirmed, do you foresee any ability by households (i.e., individual consumers) to participate in PRM or QBRM other than as passive recipients of incoming mail sent as PRM or QBRM mail? Explain.
- c. In reference to part (b) of this interrogatory, would you agree that to the extent a household mailer cannot participate (other than as passive recipients) in a PRM or QBRM program, then the Postal Service's PRM and QBRM proposals will not reduce the threat of electronic mail diversion to the Postal Service? Explain.

RESPONSE:

(a) Confirmed.

(b) The ability of the general public to participate in PRM and QBRM does depend on organizations offering these services to their customers. I would not agree that the general public is necessarily "passive" under these circumstances, however.

Households can request that organizations they do business with participate and offer this service. Also, a household could switch its business to an organization offering these services. For example, in the intensely competitive bank card industry where card issuers compete on the basis of interest rate, annual fee, grace period, and the like, it is conceivable that one card issuer would offer PRM as a means of gaining a competitive edge.

(c) This question appears to be a tautology. I agree that if a particular household receives no PRM or QBRM envelopes, its tendency to use electronic payment has not been reduced by PRM or QBRM. I am troubled by the term "passive" and its negative connotation. Customers are normally the long-term beneficiaries of efficiencies or improvements in service of the businesses they use. Hopefully, these benefits result in customer retention.

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OCA/USPS-T32-31. Assume that the Postal Service's overall proposed rate structure in this case is adopted. Further assume that a household is sent First-Class mail where the First-Class courtesy reply envelope is fully automation compatible, but the mailer to the household is not a participant in PRM and QBRM. Also assume the correct return postage would be 33 cents. What would be the cost coverage on that individual piece of mail? Please show the derivation of your finding.

RESPONSE: The requested data are not available. Cost coverages are not computed at this level of detail.

OCA/USPS-T32-33. Please refer to MPRM as described in OCA/USPS-T32-19.

- a. Describe any information the Postal Service has as to whether potential participants in PRM (e.g., companies that currently provide courtesy reply envelopes) would be willing to participate in a form of PRM (which we call MPRM) where instead of prepaying postage they merely printed on the (appropriately prepared) return envelope a notation that appropriate MPRM postage was required.
- b. If the Postal Service has no such information, what is your opinion as to:
  - (i) the likelihood of such participation in MPRM;
  - (ii) the financial incentives (and disincentives) to either participate or not participate in MPRM, including the benefit of receiving bill payments faster because of faster mail processing times;
  - (iii) how private businesses might assess the costs and benefits (including good will) of MPRM versus the costs and benefits of PRM and QBRM;
  - (iv) the effect of consumer pressure on businesses to participate in MPRM.

RESPONSE:

(a) The Postal Service has no information on possible participation in OCA's hypothetical proposal.

(b) As stated in my response to OCA/USPS-T32-19, I know virtually nothing about MPRM, except for a scanty sentence or two offered in OCA/USPS-T32-19. I have no basis for responding to this question. I would need a complete MPRM proposal to be able to respond to this question.

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OCA/USPS-T32-34. Would adoption of MPRM be consistent with the Postal Service's goals of increasing automation (as referred to in your testimony at page 21)? If not, please explain.

RESPONSE: Based on my very limited knowledge of MPRM, I do not know. See response to OCA/USPS-T32-33.

OCA/USPS-T32-35. Please refer to page 4 of the CEM Decision, which states: "The Postal Service presented testimony in this case discussing a number of administrative and enforcement concerns that would arise if the mailing public routinely had to choose, on a piece-by-piece basis, between two letter stamp denominations. Potential problems include an increase in short-paid mail . . . ." Your testimony at page 37 echoes those concerns, referring at n. 11 to certain testimony from Docket No. MC95-1. For example, refer to the rebuttal testimony of witness Alexandrovich in Docket No. MC95-1, at 17, Tr.16310, where he states: "One does not have to resort to assumptions about the darker side of human nature to realize that some increase in short-paid mail is inevitable."

- a. Does the Postal Service think that the American *household* public is not intelligent enough to ascertain when, for example, using a 30 cent versus a 33 cent stamp is appropriate?
- b. If the answer to (a) is affirmative, to what proportion of the American household public would this apply?
- c. Cite empirical evidence for any affirmative response to (a) or (b).

**RESPONSE:**

(a)- (c) Intelligence is not the issue. As I indicate in my testimony (page 37, at lines 17-22), PRM has the advantage of not burdening and confusing the public with two different stamps for both letters and cards. If the public were expected to use differently-rated postage stamps for its First-Class Mail correspondence and transactions, it would make the mail less convenient, thereby making electronic alternatives relatively more convenient.

OCA/USPS-T32-36. Please refer again to the above-cited portion of the CEM Decision.

- a. Does the Postal Service think that the American *household* public is not honest enough to be trusted with an active role in a modified PRM system such as MPRM (e.g., deliberately using 30 cent stamps on non-barcoded mail)?
- b. If the answer to (a) is affirmative, to what proportion of the American household public would this apply?
- c. Cite empirical evidence for any affirmative response to (a) or (b).
- d. Describe all the methods by which an unscrupulous person may alter the mail piece or perform other practices to underpay First-Class postage that would be relevant to the Postal Service's concerns here.
- e. Does the Postal Service have the legal authority to seek to prosecute persons who alter mail pieces in order to underpay postage? Please describe.
- f. If the answer to (e) is affirmative, does the Postal Service ever seek to prosecute such persons? Please explain.

RESPONSE:

(a) The thrust of the quoted portion of witness Alexandrovich's testimony in OCA/USPS-T32-35 (Docket No. MC95-1, at 17, T. 16310) is that it is inevitable that some unknown number of individuals would deliberately use a second, lower-denominated stamp on non-barcoded mail. In terms of the household public in general, I think the issue is one of inadvertent use of the wrong stamp resulting from confusion, as indicated in my response to OCA/USPS-T32-35. I note that I have not investigated the two-stamp issue as it is not the basis for the PRM proposal.

(b)-(c) Not applicable.

(d)-(f) Redirected to the Postal Service for response.



OCA/USPS-T32-37. At page 34 (see especially n.7) you state that PRM envelopes would be pre-approved by the Postal Service, meeting specific automation standards.

- a. Please describe the pre-approval system in detail, focusing on how the Postal Service plans to examine the correctness of the address, barcodes, FIMS, and other indicia signifying a piece is eligible for the discount.
- b. What plans exist for the Postal Service to inspect and audit mailers to ensure continued compliance? Please discuss.

**RESPONSE:**

(a) The details have not been finalized. A pre-approval process is necessary to ensure mailpieces will meet published standards and qualify for the rate category. At a minimum, the potential PRM participant will complete a PRM permit application and submit artwork for the proposed mailpiece. The Mailpiece Design Analyst will review the artwork and pre-production mailpieces to ensure they have been properly printed and formatted for the PRM rate. Also, an initial review and qualification of the potential participant's "system" will be conducted to make sure that the system can be readily audited and meet Postal Service standards.

(b) The details have not been finalized. In general, once a PRM system is established, the Postal Service anticipates conducting periodic on-site reviews of the system to ensure accuracy and identify the need for any corrective action if the system does not meet prescribed standards. It is expected that these audits will involve professional postal personnel; professions experienced in acceptance activities are representative of the type of personnel involved in these activities. The Postal Service also anticipates that off-site review of the PRM recipient's account will occur on an ongoing basis to ensure payment of proper postage. In addition, the Postal Service will solicit feedback from operations personnel to adjust procedures as needed.

OCA/USPS-T32-41. The Postal Service proposes a monthly fee of \$1,000 for mailers who choose to offer PRM envelopes or cards, as discussed at page 35 of your testimony. Please set forth the derivation of Postal Service costs used to develop the monthly fee.

RESPONSE: The derivation of the costs is set forth on pages 41 and 42 of my testimony.

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OCA/USPS-T32-42. At page 37 you refer to the "two stamp" problem, referring to the testimony of witnesses Alexandrovich (USPS-RT-7) and Potter (USPS-RT-6) in Docket No. MC95-1. To what extent, if any, does the Postal Service continue to rely on the rebuttal testimony (including testimony delivered during cross-examination) of those witnesses?

RESPONSE: At present, the Postal Service is not faced with a CEM proposal that revives the concerns expressed in the Docket No. MC95-1 rebuttal testimonies of witnesses Alexandrovich and Potter. However, if such a proposal were made before the Commission in this proceeding, it would likely generate a similar reaction from the Postal Service.

OCA/USPS-T32-48. As a professional economist, please comment on whether the Postal Service's QBRM and PRM proposals, and the MPRM proposal, would improve allocative efficiency generally by more closely aligning costs and rates.

RESPONSE: As indicated in my response to OCA/USPS-T32-19, I have no opinion on the MPRM "proposal" due to lack of information. In terms of PRM and QBRM, since both propose rates that are more closely aligned with costs, both have the potential to improve allocative efficiency.

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OCA/USPS-T32-44. Witness Potter also stated his concern that the CEM proposal in Docket No. MC95-1 would cause citizens "to lose trust" in the Postal Service. See page 20 of his rebuttal testimony, Tr. 16227.

- a. Does the Postal Service have any empirical evidence (including, but not limited to survey evidence) relating to how much the public "trusts" the Postal Service? If so, please supply it.
- b. Does the Postal Service have any empirical evidence (including, but not limited to survey evidence) relating to whether the public believes First-Class postage is too high (or that the postage rate is appropriate)? If so, please supply it.
- c. Would a rate reduction pursuant to the Postal Service's PRM and QBRM proposals inspire added trust in the Postal Service? Please comment specifically as to household and non-household mailers.
- d. Would a rate reduction pursuant to MPRM inspire added trust in the Postal Service, perhaps under the notion that rates were fairer for households? Explain.

RESPONSE:

- (a)-(b) I am not aware of any such evidence.
- (c) I have no information which addresses this issue.
- (d) I do not know enough about MPRM to form an opinion.

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**OCA/USPS-T32-49.** Please refer to your direct testimony at page 38 regarding market research. In planning the PRM and QBRM proposals, did the Postal Service consult with any consumer advocacy groups? If so, please describe. If not, why not?

**RESPONSE:** No. The Postal Service consulted directly with consumers, as indicated in Library Reference H-200 and Library Reference H-242 (which is being filed today).

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OCA/USPS-T32-58. The report discusses two PRM variations, implicit and explicit. See Appendix B, page 3. Implicit PRM "would be treated in a similar fashion as the current approach to BRM." Explicit PRM is said to involve the direct billing of clients for the use of the prepaid reply mail envelope. Appendix B at page 4. See also Appendix D, page 2.

- a. Confirm that explicit PRM is not part of the current Postal Service proposal in this docket. If not confirmed, please explain.
- b. Confirm that implicit PRM as defined in the report encompasses the Prepaid Reply Mail ("PRM") and Qualified Business Reply Mail ("QBRM") proposals in this docket. If not confirmed, please explain.
- c. If (a) is confirmed, why did the Postal Service not offer such a proposal in this docket?

RESPONSE:

(a) Not confirmed. As described in my response to OCA/USPS-T32-23, under the Postal Service's PRM proposal, organizations could choose to explicitly bill customers for the cost of the PRM postage. How to fund PRM would be the participating organization's decision.

(b) Not confirmed. See part (a) above. Also, the report does not address QBRM at all. Please recognize that while my testimony proposes the same 30-cent postage rate for both products, QBRM is still Business Reply Mail with a per-piece fee and the involvement of Postal Service postage due units (see page 7 of my testimony).

(c) Not applicable.

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OCA/USPS-T32-62. Page 9 of the report states: "Potential interviewees were identified by calling a variety of businesses thought to include prepaid envelopes, such as a BRM envelope, a Prepaid Meter Reply envelope, or any form of reply mail that has a preapplied stamp indicia, with the bill statements sent to consumers."

- a. Please set forth all forms of reply mail that have "pre-applied stamp indicia."
- b. Please set forth all regulations relating to the content, existence, and placement of any such "pre-applied stamp indicia."

RESPONSE:

- (a) BRM, Meter Reply Mail, and envelopes with a stamp already affixed.
- (b) Please see sections P030.1.5 and S922.4.0 of the DMM.



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OCA/USPS-T32-64. At page 11 the report states that the "difficulties encountered in identifying and contacting potential interviewees required the expansion of the interviewee criteria to include organizations that do not currently include a postage prepaid envelope with their bill statements, but rather include a courtesy reply mail (CRM) envelope. The methodological change was approved by the USPS."

- a. Did the Postal Service want to limit the original Interview process only to, essentially, BRM mailers? If so, why? If not, please explain.
- b. According to page 11 of the report, there were three interviews with current BRM users. Does this mean that the Postal Service was able to find only three BRM users in the entire United States? Please explain.
- c. Were any current BRM users not considered or rejected for interviewing? If so, please explain.
- d. Were current CRM mailers originally not considered suitable for being interviewed? Please explain.
- e. Did the Postal Service believe prior to the interview process that current CRM mailers would not be attracted to the two proposals under discussion in the report? Please explain.
- f. As noted, on page 11 the report states that the methodological change was approved by the Postal Service. Please submit all documents relating to such approval, including, but not limited to, all documents relating to the need for such a change.
- g. The report at page 11 states that the findings in the report are not intended to be statistically representative, reflecting the data gathered from the interviews. Did the Postal Service ever consider, or even plan, a survey that it believed would obtain statistically representative results? If so, explain. If not, why not?

RESPONSE:

All parts except (e) and (g) redirected to the Postal Service for response.

(e) No. Please see Postal Service responses to parts (a) and (f).

(g) During the spring, there was some thought given to conducting follow-on quantitative research. However, the qualitative Price Waterhouse report which appears as Postal Service LR H-226 was completed in early May, precluding any additional market research prior to the anticipated filing date. The Postal Service wanted to include something in this filing that would offer an opportunity for the general public to benefit in a more direct manner from automation. The Postal Service also wanted to address the threat of electronic diversion to the largest

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component of the First-Class Mail stream – invoices and bill payments. The Postal Service views alternatives using differently-rated postage stamps as infeasible. Consequently, it decided upon PRM as a means of addressing these purposes. It is important to recognize that mailers are under no obligation to offer PRM. Mailers may participate in PRM if they feel it meets their needs and if they meet Postal Service requirements for participation.

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OCA/USPS-T32-66. Please set forth all reasons why mailers who currently use BRM and CRM will be attracted to PRM and QBRM that are not set forth in your testimony.

RESPONSE: In my testimony, I state that advantages of PRM to business include potentially faster return of remittances and goodwill from their customers. I would add the chance to gain a competitive edge to these reasons. For example, as I noted in my response to OCA/USPS-T32-26, in the intensely competitive bank card industry where card issuers compete on the basis of interest rate, annual fee, grace period, and the like, it is conceivable that one card issuer would offer PRM as a means of gaining a competitive edge. Also, the discounted postage rate may attract mailers.

In terms of QBRM, in my testimony I state that QBRM in the Test Year will come from current BRM that is prebarcoded, automation-compatible, and presently paying the 2-cent per-piece BRM fee (see page 46, lines 13-22). In developing my testimony, I did not analyze why mailers currently are choosing to meet the requirements for the current 2-cent per-piece BRM fee.

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OCA/USPS-T32-67. On page 10 of the report, it is stated: "The identification of potential interviewees was extremely challenging. The number of organizations currently including a prepaid postage envelope in their bill statements is quite low."

- a. Do you agree with the "quite low" characterization?
- b. If so, set forth all reasons why the number is "quite low?"
- c. If not, please explain.

RESPONSE:

(a) I would agree that the practice of including prepaid postage envelopes along with billing statements is not widespread.

(b) At present, mailers who wish to prepay postage can only choose between two overall alternatives. The first is Business Reply Mail, which involves undiscounted First-Class postage plus a per-piece fee. Business Reply Mail is also routed through the postage due unit, which can slow down the receipt of time-sensitive remittances. The second alternative is to affix return postage through the use of an undiscounted stamp or meter strip.

PRM does not exist at present. It offers discounted postage, expeditious transfer of processed mail from the delivery unit to the PRM recipient, and the convenience of a permit imprint.

(c) Not applicable.

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OCA/USPS-T32-69. At any point in the interview process used to compile the report did the interviewers raise the possibility of an option identical or similar to the CEM proposal advanced by OCA in Docket No. MC95-1?

- a. If not, why not?
- b. Did you or the Postal Service believe prior to the interview process that interviewees might favor a CEM-type proposal? Please explain.

RESPONSE:

(a) Redirected to the Postal Service.

(b) No. My focus was on the development of PRM.

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OCA/USPS-T32-71. Please refer to page 21 of the report.

- a. The report states: "The current users of CRM for bill payment indicated that they do not offer BRM primarily because of the cost." Why will current users of CRM use the proposed PRM and QBRM systems? Provide any explanation not currently provided in your direct testimony.
- b. Assume a utility sends out 100,000 bills a month to its 100,000 customers. Compare the postage costs the utility would incur using: (1) current CRM, (2) current BRM, (3) proposed PRM, (4) proposed QBRM, and (5) CEM.

RESPONSE:

- (a) In addition to my direct testimony, see my response to OCA/USPS-T32-66. Note that in my testimony, I assume that there are no current users of CRM that will use QBRM in the Test Year (page 46, lines 13-22). Also, note that the report interviewed only 7 of the many CRM users.
- (b)(1) Indeterminate. It depends on whether the CRM is prepaid or not. The amount could be \$0 if no postage is affixed, or \$32,000 if the postage is affixed.
- (b)(2) Indeterminate. It depends on whether the mailer is maintaining an advance account and whether the mailer qualifies for the 2-cent per-piece prebarcoded rate.
- (b)(3) \$30,000 in postage plus a \$1,000 monthly fee.
- (b)(4) \$30,000 in postage plus \$6,000 in per-piece fees.
- (b)(5) Unknown. I do not know what the CEM rate contemplated by the question is.

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OCA/USPS-T32-72. At page 21, the report states: "As described by one utility company currently using CRM, utility companies must be concerned about serving their customers; however, the nature of their business is such that their customers must pay their bills one way or another, or their utility service will be discontinued. There was little incentive for this utility company to offer BRM."

- a. Why would there be any incentive for any utility to offer BRM? The proposed PRM? The proposed QBRM?
- b. Why would there be any incentive for a credit card company (which typically requires at least a monthly minimum payment) to offer BRM? The proposed PRM? The proposed QBRM?

RESPONSE:

(a)-(b) Please see responses to OCA/USPS-T32-66, 67, and 71.

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OCA/USPS-T32-73. The report at page 21 states, with reference to the utility:  
"The issues related to regulation of rate structures among utility companies was  
also identified as a barrier to using BRM, as any changes to the rate required to  
cover the costs of offering BRM would require justification to the commissioner."

- a. Please comment as to whether this assessment is correct, and whether it  
would apply to most or all utilities generally.
- b. Please comment whether this assessment would apply to most or all utilities  
generally for CRM, the proposed PRM, the proposed QBRM, and CEM.

RESPONSE:

(a)-(b) In terms of the two utilities using CRM that are included in the study, I  
assume this is an accurate assessment of their respective situations. However, I  
would also point out that the other utility included in the study is currently using  
BRM and has overcome whatever regulatory hurdles may exist in its jurisdiction.  
In terms of overall applicability of these findings, please see my response to  
OCA/USPS-T32-24. Note that I have no opinion as to CEM since it was not  
studied in developing the PRM and QBRM proposals.



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OCA/USPS-T32-74. At page 21 of the report it is stated that "Bank 2 (current CRM user) considered introducing BRM, however it was deemed far too costly to use."

- a. Please supply the interviewers notes relating to this statement.
- b. What was meant by "far too costly?"
- c. Do you believe that the opinion of Bank 2 would apply to some, all, or most banks?
- d. Why would a bank ever want to use BRM? The proposed PRM? The proposed QBRM?

RESPONSE:

- (a)-(b) Redirected to the Postal Service.
- (c) The opinion of Bank 2 applies to Bank 2. I am uncertain as to how many other banks its opinion would apply to.
- (d) Please see my responses to OCA/USPS-T32-66, 67, and 71.

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OCA/USPS-T32-79. Please refer to page 23 of the report. It is stated: "Many indicated that the inclusion of a CRM envelope ensured that the bill payment was sent to the correct address, and simplified processing due to uniform envelope size."

- a. How does CRM ensure that bill payments are sent to the correct address?
- b. Would this be true of CEM also, assuming the courtesy reply envelope is certified by the Postal Service?

RESPONSE:

(a) CRM ensures that bill payments are sent to the correct address through the use of standardized preprinted addresses and through the use of accurate, readable barcodes.

(b) Yes, assuming these hypothetical envelopes met all applicable Postal Service requirements.

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OCA/USPS-T32-82. Please refer to page 26 of the report where it is stated:  
"The general reaction of the utility companies was that while the [PRM] concept is appealing as a potential service to customers, they would probably never use it because they would have to be able to recoup the cost through the cost of their product or service."

- a. Please comment on whether CEM would be more appealing to utility companies having the views expressed above.
- b. Please explain why you did not discuss the quoted statement from page 26 of the report when you offered your volume estimates for PRM on pages 42-44 of your direct testimony.
- c. Please explain how the quoted statement on page 26 of the report is consistent with your estimation on page 43 of your direct testimony that an estimated "500 million pieces of courtesy reply envelope mail" might shift to PRM.
- d. Please explain how the statement on page 26 of the report is consistent with the statement on page 43 of your direct testimony that there are two industries likely to be attracted to the PRM rate, credit card companies and utilities.

RESPONSE:

(a) The study did not gather any information as to the appeal or lack of appeal of CEM. I have no basis for commenting.

(b) Please see my response to OCA/USPS-T32-90.

(c)-(d) The quoted statement represents the view of 2 utilities currently using CRM. The Price Waterhouse study included a third utility currently using BRM who responded favorably to the PRM concept. The study also identified an organization (the organization's line of business is not identified) using prepaid metered reply envelopes for its 75,000 customers, though this organization declined to be interviewed. The Postal Service recognizes that PRM will not be right for all mailers; PRM is not intended to be a panacea. Mailers are under no obligation to offer PRM. Mailers may participate if they feel it meets their needs and if they meet Postal Service requirements for participation. PRM is one of several options for mailers to consider in encouraging responses. As such, it provides an additional tool for their potential use. Also, please see my response to OCA/USPS-T32-90.

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OCA/USPS-T32-85. Please refer now to page 27 of the report where it is stated: "A representative from Bank 1 indicated that the bank was not interested in this type of product due to additional administrative burden for the bank to build in the cost of postage into the cost of their product..."

- a. Was Bank 1 in this context referring to implicit PRM? Please clarify.
- b. Would you characterize implicit PRM as defined in the report as substantially similar to both the PRM and QBRM proposals in this docket? If not, why not?
- c. Please set forth the full reasoning of Bank 1 on the quoted statement set forth above.
- d. Please provide the interviewer notes on the topic addressed in the above-quoted statement.

RESPONSE:

(a), (c), (d) *Redirected to the Postal Service.*

(b) No. Please see my response to OCA/USPS-T32-58.

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OCA/USPS-T32-89. Please refer to page 28 under the heading "Other concerns." There it is stated: "there was concern that the reduced rate may have an impact on the cost/quality of service for the mail that the businesses send to their customers or the quality of service currently received from USPS for incoming bill payments. The issue related to how USPS would introduce this product at a lower rate. Would USPS' costs be covered by better efficiencies or by increasing the cost of sending outbound mail or decreasing service to mailers? These interviewees were also concerned about the timing of the process, 'Will this slow the process down?' The publishing company viewed this as a current problem with BRM."

- a. Please comment on the validity of these concerns.
- b. Please set forth the full reasoning of the interviewees on these topics.
- c. Please provide the interviewer notes on these topics.

RESPONSE:

(a) As noted in my response to OCA/USPS-T32-90, the business interviews in the study involved a description of PRM fundamentally different than what was proposed in my testimony. As a result, concerns expressed by interviewees that PRM would slow down the receipt of remittances are no longer valid because PRM will not be processed through the postage due unit as is the case with BRM. Related to this, PRM as proposed will not result in a decline in the quality of service offered by the Postal Service for incoming bill payments. In terms of making up for the revenue loss associated with PRM, the mailers are correct in understanding that the Postal Service, as a breakeven organization, needs to recover revenues lost due to postal discounts from other postal products.

(b)-(c) Redirected to the Postal Service.

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OCA/USPS-T32-90. Do you consider the evidence and findings of the report probative on the issue of likelihood that existing CRM users will switch to PRM? Please explain.

RESPONSE: No. I did not rely on this report (LR H-226) in preparing my testimony. I did not rely on this report because it involved only a few interviews and was not statistically projectible. Also, I was concerned about the difficulty that Price Waterhouse had in identifying the most appropriate individual to interview and scheduling that interview. In other words: Did the interviewees fully reflect organizational thinking? As I read the report, Price Waterhouse tried to identify and interview the individual with overall management or supervision of bill payment options, particularly mail payment options (page 7). Whether or not an organization chooses to offer PRM may be a broader-based, higher-level decision than the typical interviewee, involving dimensions of customer service and competitive strategy beyond basic remittance processing.

In addition, the interviews involved a description of PRM fundamentally different than what was ultimately proposed. For instance, the concept described in the interviews included both "implicit" and "explicit" variations of the product concept (based on whether the business would bill the customer explicitly for the cost of the PRM postage) and assumed in some instances that the Postal Service would perform the postage accounting function rather than the PRM recipient. In the proposal submitted in my testimony, the business rather than the Postal Service decides how to pay for the costs of PRM postage. Also, the PRM recipient performs the postage accounting function with verification by the Postal Service.

Moreover, the report stated that several of the respondents (across industries) said they did not see their organizations on the leading edge in the area of customer bill payment (page 26). If other organizations tested PRM with positive results, these interviewees might be more interested in pursuing its potential benefits. A "wait-and-see" attitude on the part of mailers is not unusual

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RESPONSE to OCA/USPS-T32-90 (continued)

for new postal products. Frequently, new products do not gain immediate acceptance.

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OCA/USPS-T32-91. Were you aware of the report (specify either its existence or its contents) when you prepared your testimony? Please explain.

RESPONSE: Yes. I was aware of the report and familiar with its general contents.



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OCA/USPS-T32-92. If you were aware of the report, why did you not mention it?

RESPONSE: I did not mention it because I did not rely on it in developing my testimony. Please see my response to USPS/OCA-T32-90.

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OCA/USPS-T32-93. Did any person from the Postal Service (excluding lawyers) recommend to you or tell you not to refer to the report? If so, who? If so, what reasoning did they give?

RESPONSE: No.

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OCA/USPS-T32-94. On page 43 of your direct testimony, you develop a partial estimate of mailers who would switch to PRM from CRM based on experience following the introduction of barcodes, qualifying your comparison by stating it was "not a perfect parallel by any means." You state, however, that "experience with this postal product [barcodes] provides some insight into the potential for PRM and how initial business resistance can be overcome."

- a. Why would businesses resist switching to PRM?
- b. Do you find any valid statements in the report suggesting there might be business resistance to PRM? If so, which ones? And, if so, why are the statements valid?

RESPONSE:

(a) My mention of "resistance" simply refers to the fact that both PRM and barcoding require mailers to modify certain aspects of their mailing operations and that these modifications take time and resources.

(b) In essence, the report consists of summaries of 10 business interviews. It appears that the interviewees were candid in stating their opinions, and I have no doubt that the various reservations are valid for the individual respondents. At the same time, I would note that mailer presorting, barcoding, and dropshipping has increased over time. This suggests that generally some initial resistance exists to any form of mailer preparation.

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OCA/USPS-T32-95. Please refer to page 44 of your direct testimony where you state: "Because of the uncertainty in this 360 million piece estimate of mail switching from courtesy reply envelope mail to PRM (280 + 80 million), and, therefore, the uncertainty in the range around a point estimate, I increased the estimate to 500 million pieces."

- a. What do you mean by the phrase "uncertainty in the range around a point estimate?"
- b. Why did you increase the estimate, given the negative opinions about PRM expressed in the report?
- c. Would it not have been better to *decrease* the estimate? Please explain.
- d. You further state on page 44 of your direct testimony that the estimate "is conservative as it is a hedge against the revenue loss associated with a higher than anticipated acceptance of PRM." Is it correct to state that if PRM usage is less than your estimate then the Postal Service will enjoy greater revenues than you anticipate? Please discuss.

RESPONSE:

- (a) I meant that I am uncertain both about the point estimate and the range around the point estimate where Test Year PRM volume may fall.
- (b) I increased the estimate for the reasons set forth in my testimony (page 44, lines 3-9). Also, please see my response to USPS/OCA-T32-90.
- (c) No. See response to part (b) above.
- (d) Clearly, because PRM is priced below the single-piece rate, less-than-anticipated volume will work to increase revenues above my estimate. Similarly, greater-than-anticipated usage will work to decrease my revenue estimate.

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OCA/USPS-T32-96. Please refer to page 36 of your direct testimony where it is stated: "The proposed PRM rate can help address the threat of electronic diversion and, at the same time, provide added convenience to the general public." Please now refer to page 29 of the report where it is stated: "BRM users, in general, did not think that their customers would change their bill payment habits as a result of the introduction the [sic] implicit variation of PRM."

- a. Please reconcile the statement on page 36 of your direct testimony with the statement on page 29 of the report.
- b. At page 30 of the report the following is stated: "The representative from the insurance company did not think that PRM would be enough to entice customers to switch from pre-authorized debit back to the mail, nor would it change the volume of in-person payments." Please comment on this statement.

RESPONSE:

(a) No reconciliation is necessary. The quote from page 29 of the report is lifted out of context. The next sentence from page 29 of the report states, "This group is already providing prepaid postage return envelopes to their customers, and does not think the customers would notice any difference, unless the reduced postage rate was passed along as an overall reduction in rates charged to the customers." The implication of this section of the report has nothing to do with electronic diversion. Rather, it is simply stating that PRM would not impact these BRM customers much since their envelopes are already prepaid.

(b) I partially agree with this statement. The quantitative market research I cite in my testimony demonstrates that PRM could potentially generate some new volume by converting some in-person payments to PRM. At the same time, the research suggests that the convenience of PRM is more likely to forestall electronic diversion than reverse it (see pages 38 and 39 of my testimony).

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OCA/USPS-T32-97. At page 30 of the report the following is stated: "Overall, the CRM users indicated that even if this type of product was offered to their customers, it would probably not affect mail volume."

- a. Clarify what version of PRM is being talked about here.
- b. If it is a type of PRM being proposed in this docket, please comment vis a vis your volume estimates.

RESPONSE:

- (a) Redirected to the Postal Service for response.
- (b) Implicit PRM, as described in the report, is not being proposed in this docket. Please see my responses to OCA/USPS-T32-58 and 90.

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OCA/USPS-T32-98. Please refer to Section 6.0 of the report, beginning at page 34. Current BRM and PRM users were asked to express their level of interest in the implicit variation of PRM at different price levels. See Exhibit 3.

- a. The report uses the phrase "fully loaded postage." Confirm that this term was explained to the interviewees to mean "that all fees (if any) are already included in the price." See Appendix B, page 3. If not confirmed, please explain.
- b. The questionnaire asked the interviewees to comment on implicit PRM at three fully loaded price levels: 32, 29 and 27 cents. Please quantify the fees interviewees would have been considering as part of the fully loaded price.
- c. Confirm that interviewees were being asked to react to these price levels vis a vis the current level of postage fees. If not confirmed, please explain.

RESPONSE:

(a)-(c) Redirected to the Postal Service.

(b) There would be no fees, only the rate of 32, 29, or 27 cents, respectively.

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OCA/USPS-T32-99. Current BRM users were asked to consider implicit PRM at a 32 cents per-piece fully loaded price. Given the mail volume profile of the BRM users in the interview, what would their current fully loaded BRM postage price have been?

RESPONSE: If I assume that these current BRM users had qualified for the prebarcoded BRM fee of 2 cents and used one-ounce BRM pieces, the fully-loaded price would be 34 cents (32 cent rate plus a 2-cent per-piece fee).



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OCA/USPS-T32-100. Current CRM users were asked to consider implicit PRM at a 32 cents per-piece fully loaded price. Given the mail volume profile of the BRM users in the interview, what would their current fully loaded postage price have been?

RESPONSE: I am unsure what the reference to BRM users is meant to imply for this question. Currently, if we assume CRM users do not prepay postage, their postage cost is \$0 for the returning envelopes.

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OCA/USPS-T32-102. Please refer to page 35 of the report where it is stated:  
"While these interviewees [current CRM users] indicated that reduced rates were positive if they could be passed along to their customers, the overall cost of introducing this product was viewed as prohibitive."

- a. Reconcile this statement with the projected volume estimates in your direct testimony.
- b. What costs would they have viewed as being prohibitive? Please quantify.
- c. Please comment on the validity of the interviewees' concerns.
- d. Please set forth the full reasoning of the interviewees on these topics.
- e. Please provide the interviewer notes on this topic.

RESPONSE:

(a) Please see my responses to OCA/USPS-T32-66, 71, and 90.

(b)-(e) Redirected to the Postal Service.

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OCA/USPS-T32-104. At page 35 of the report it is stated: "The representative from the long distance communication company indicated that they might be interested in investigating this product if the price were 26 cents per piece, which is the current price they are paying to send their mail from their business to customers."

- a. At the proposed 30 cents per-piece price proposed in this docket for PRM and QBRM, and assuming all other rate and service proposals in this docket are adopted (including associated PRM and QBRM fees and qualifications), please provide a quantitative profile of companies that might switch from CRM to PRM or QBRM, e.g., the mail volume that would be necessary to make the change worthwhile.
- b. Please quantify or estimate transaction costs a company considering switching from CRM to PRM or QBRM would incur (except for fees paid to the Postal Service). For example, such transaction costs might include costs of reprinting envelopes, sending notices to customers, and administrative costs. Explain the derivations of all quantifications and estimates used.

**RESPONSE:**

(a) In terms of QBRM, in my testimony I state that QBRM in the Test Year will come from current BRM that is prebarcoded and presently paying the 2-cent per-piece BRM fee, rather than from CRM (see page 46, lines 13-22). In terms of CRM, there is no minimum volume needed to qualify for PRM, and a breakeven calculation is really not meaningful if CRM users are not currently paying the return postage. If a CRM user was already prepaying the postage, the postage comparison would be the proposed single-piece rate of 33 cents versus the proposed PRM rate of 30 cents plus \$1,000 per month. On a postage basis only, the breakeven volume would be about 33,333 pieces monthly.

(b) For QBRM, please see my response to part (a) above. I have not developed an estimate of such transaction costs. I also have not quantified the potential float advantages associated with getting the remittances back sooner or the increased customer good will that can accrue to a participating organization.

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OCA/USPS-T32-105. Please refer to page 35 of the report where it is stated: "Overall, CRM users were not very interested in the implicit version of PRM, even at different price levels." "At 27 cents, only two of the seven CRM businesses indicated any level of interest above low." At page 40, the report concludes: "The price of the implicit variation of PRM would prohibit current CRM users from introducing this product. Current CRM users, while interested in the implicit PRM product conceptually, indicated that the cost is prohibitive, even at 27 cents."

- a. Reconcile these statements and findings with the projected volume estimates in your direct testimony.
- b. Given these statements and findings, why did the Postal Service propose PRM and QBRM?

RESPONSE:

(a)-(b) Please see my responses to OCA/USPS-T32-66, 67, 71, and 90.

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OCA/USPS-T32-106. Please refer to the OCA's Courtesy Envelope Mail ('CEM') Proposal in Docket No. MC95-1.

- a. Please list all reports, studies, and surveys (whether or not in final form) relating to the CEM proposal, or to any proposal substantially similar to the CEM proposal, of which you are aware.
- b. Please supply the documents meeting the definition in (a) if such documents have not already been submitted to the Commission in this proceeding.
- c. Please list all pending proposals for reports, studies, and surveys (whether or not in final form) relating to the CEM proposal, or to any proposal substantially similar to the CEM proposal, of which you are aware.

RESPONSE:

- (a) Please see the response of the Postal Service to OCA/USPS-20(a).
- (b) Not applicable.
- (c) Objection filed.

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OCA/USPS-T32-107. Please list all documents, including, but not limited to, internal memoranda, reports, studies, and surveys (whether or not in final form) that you consulted, or relied upon in whole or in part, in the preparation of your testimony.

RESPONSE: In preparing my testimony, I relied upon: (1) the "Household Diary Study: Fiscal Year 1995" (USPS Library Reference H-162), (2) the testimony of witness Needham (USPS-T39), which provided me with a proposed fee for the PRM permit and for the per-piece fee for QBRM, (3) The Metropolitan Chicago Information Center (MCIC) Update, Spring 1997, which is a two-page newsletter, (4) the testimony of witness Tolley (USPS-T-2, Chapter II), for information on electronic alternatives to the mail, (5) the testimony of witness Alexandrovich (USPS-RT-7) and witness Potter (USPS-RT-6) in Docket No. MC95-1, (6) the CARAVAN® Survey of "Prepaid Reply Mail: Household Weighting Study." (USPS Library Reference H-200), (7) the cost study of witness Miller (USPS-T-23), (8) hourly labor costs from USPS Library Reference H-194, (9) the response to OCA/USPS-T3-10 in Docket No. MC97-1, (10) historical billing determinants for the percentage of presorted mail that was prebarcoded, and (11) my own workpapers.

All of the above documents that I relied upon are referenced in my testimony.

I have interpreted your term "consulted" to also include documents that I looked at and that I was familiar with, but did not rely on, in preparing my testimony. These documents are: (1) "Qualitative Market Research - Prepaid Reply Mail Product Concept In-Depth Interviews with Businesses - Final Report" (USPS Library Reference H-226), and (2) "Final Report - Prepaid Reply Mail Market Research; Consumer Research Report" (USPS Library Reference H-242).

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OCA/USPS-T32-108. Please supply all reports, studies, and surveys (whether or not in final form) that you consulted, or relied upon in whole or in part, in the preparation of your testimony.

**RESPONSE:** All such reports, studies, and surveys have been supplied. Please see response to OCA/USPS-T32-107.

OCA/USPS-T32-116. What is the primary purpose of the Postal Service's reply mail discounted rate of 30 cents, as reflected in its Prepaid Reply Mail ("PRM") and Qualified Business Reply Mail ("QBRM") proposals? Please discuss fully.

- a. Is the primary purpose of the discount to offer the public more prepaid envelopes? Please explain.
- b. Is the primary purpose of the discount to increase the volume of prepaid envelopes in the mailstream? Please explain.
- c. Is the primary purpose of the discount to increase the volume of automation compatible envelopes? Please explain.

RESPONSE:

(a)-(c) The primary purpose of both the PRM and the QBRM rate proposals is to permit a broader base of customers to more directly share in the benefits of automation (please see pages 34-36 and 44-45 of my testimony). The Postal Service expects that the implementation of PRM will increase both the number of prepaid reply envelopes offered to the public and the volume of prepaid envelopes in the mailstream. Since I estimate that QBRM in the Test Year will come from current Business Reply Mail, no major change in prepaid reply envelopes is expected from the QBRM proposal. Increasing the volume of automation-compatible mail is not the primary purpose of these proposals.



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OCA/USPS-T32-117. Your testimony at 5 indicates that the postage for prepaid envelopes will be "based upon the number of courtesy envelopes returned, not on the full number of envelopes distributed with the bills."

- a. When does the envelope provider pay for the actual number of envelopes returned?
- b. If a recipient of a PRM or QBRM does not use the prepaid envelope, who ultimately will be billed for the postage on that unused mail piece?
- c. If a recipient of a PRM or QBRM applies a label over the reply address and barcode, thereby totally covering-up the envelope provider's address, and the altered envelope is entered into the mailstream without additional postage, who ultimately pays for the postage on the mail piece?

RESPONSE:

(a) As indicated in OCA/USPS-T32-136, the Postal Service anticipates that when the PRM participant pays the postage on outgoing mail pieces which contain reply envelopes, it will simultaneously pay postage on reply envelopes anticipated in response to those outgoing pieces.

(b) Per the portion of my testimony you quote in this question, mailers do not pay for unused PRM envelopes, as is also the case presently with Business Reply Mail.

(c) It is my understanding that a "doctored" envelope of this type could be identified at a number of points in the processing and delivery cycle and returned to the sender, in which case the sender would have to pay for the postage. If the envelope is not detected in mail processing or by the delivery carrier, its costs will be borne by other mailers.

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OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-118. Please refer to pages 34-35 of your testimony where you state as to PRM that: "This prepayment of postage would be based on the average percentage of envelopes returned, not on the full number of envelopes distributed with the bills."

- a. Please describe in full how the Postal Service will audit mailers to determine the average percentage of envelopes returned, and the full number of envelopes distributed.
- b. Provide any proposed or finalized DMM language or other implementing language pertaining to (a).

RESPONSE:

(a) The implementing regulations have not yet been finalized. Please see my responses to OCA/USPS-T32-37(b); POIR No. 3, Question 22; and POIR No. 3, Question 23(a).

(b) No draft DMM language has been developed to the point where it has been circulated internally for comment. After internal circulation, proposed regulations will appear in the Federal Register.

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OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-125. An article in the August 15, 1997, edition of the San Francisco Chronicle entitled "All Stamps Equal at Post Office" contained the following statement in reference to an alleged problem concerning the potential for short-paying of postage:

"This is not a big problem in America," said Dan De Miglio, a Postal Service spokesman in San Francisco. "No American sits home and, on purpose, puts 'short pay' on an envelope. Why would you take a chance on your mortgage payment not getting there on time? Overwhelmingly, Americans are honest people, and they're just not going to do that."

- a. Do the views of Mr. De Miglio represent the views of the Postal Service on the quoted material? Please discuss fully.
- b. Do you agree or disagree with Mr. De Miglio's statement? Discuss fully.

RESPONSE:

(a) Redirected to the Postal Service for response.

(b) Please recognize that I am not an expert in enforcement or revenue assurance issues, nor have I discussed this quote or its context with Mr. De Miglio. I agree that most Americans are honest people. However, I also think it is inevitable that some unknown number of individuals will deliberately shortpay postage.

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OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-127. Assume that the outcome of this proceeding was approval and adoption of a 33-cent First-Class Mail rate and a 30-cent CEM rate. In your opinion, what is more likely to occur – that households mailing a CEM envelope will overpay postage by using a 33-cent First-Class Mail stamp in lieu of a 30-cent CEM stamp, or that households will affix CEM stamps to non-CEM First-Class Mail? Please set forth all empirical evidence on which you base your opinion.

RESPONSE: I have not studied CEM or investigated the two-stamp issue. In developing the PRM proposal contained in my testimony, I took it as given that the Postal Service viewed differently-rated stamps as infeasible. Consequently, I have no basis for commenting on this question.

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OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-128. Please refer to LR H-242, "Final Report - Prepaid Reply Mail Market Research; Consumer Research Report" ("research report"), dated May 2, 1997.

- a. Confirm that at page 42 the research report writers concluded that:  
Focus group respondents disliked PRM implicit billing. This product option was viewed negatively by most focus group participants. They feared companies would charge them for more than the cost of the postage, and they believed that they would be paying for the postage and envelope whether they used it or not. Companies that provided this product would generally be viewed negatively according to focus group respondents.

If not confirmed, please explain.

- b. Confirm that PRM implicit billing as discussed in the research report is substantially similar or identical to the PRM and QBRM proposals. If not confirmed, please explain.
- c. Reconcile the findings set forth in (a) herein with the statement on page 35 in your direct testimony that an advantage to businesses from PRM includes "goodwill from their customers."

**RESPONSE:**

(a) The research report speaks for itself.

(b) Not confirmed. Under the Postal Service's PRM proposal, organizations could choose to explicitly bill customers for the cost of PRM postage. How to fund PRM would be the participating organization's decision. Also, the report does not address QBRM at all. Please see my response to OCA/USPS-T32-58.

(c) See part (b) above. Also, the report states that, "[c]onvenience is the most important factor when focus group respondents determine how to pay a bill" (page 41). The price of PRM was not the key factor (32 cents, 29 cents and 27 cents were tested in the research); all focus group respondents who would switch to PRM would do so at 32 cents per piece (page 44). The key factor when respondents determine how to pay a bill was convenience.

The report further states, "[t]he participants liked PRM because it was convenient - they would no longer have to purchase stamps and envelopes for bill payment..." (page 42). The report goes on to quote the CARAVAN® research cited in my testimony

RESPONSE to OCA/USPS-T32-128 (continued)

(at page 38, lines 8-12). The CARAVAN® research found that the great majority of households (81 percent) indicated that the inclusion of a PRM envelope with the billing statement would either have a strong positive influence or somewhat of a strong positive influence on the level of customer satisfaction with the company.

All of these factors indicate how PRM could enhance customer goodwill for participating organizations.

OCA/USPS-T32-129. Confirm that at page 26 of the research report it is stated: "The majority of the participants were concerned that the company would be 'pushing it [implicit PRM] on you'. Because participants preferred to have the choice on [sic] using the service or not, they were negative about a company incorporating this without giving their customers the choice."

- a. If not confirmed, please explain.
- b. How do the PRM and QBRM proposals address the "choice" issue discussed at page 26 of the research report?

**RESPONSE:**

(a) The report speaks for itself.

(b) Please see my responses to OCA/USPS-T32-58 and OCA/USPS-T32-128.

OCA/USPS-T32-131. Please refer to your response to OCA/USPS-T32-24, concerning questions about public utilities' potential use of PRM and QBRM, and regulatory obstacles they might have to overcome. You qualified your response by stating that you were "not an expert in the public utility approval process . . . ." Please also refer to your direct testimony on page 43 where you state: "Household Diary Study data indicate about 41 percent of courtesy reply envelopes are associated with two industries likely to be attracted to this rate -- credit card companies and utilities." Finally, please refer to your response to OCA/USPS-T32-24 where you state that your volume estimate "reflects potential delays in the approval process."

- a. Did you or the Postal Service consult with any person expert in the public utility approval process about PRM and QBRM prior to the filing of the Request in Docket No. R97-1? Please explain, and identify any such expert. If you did not, explain why not.
- b. What empirical evidence did you use to adjust your estimate based on possibilities of delays in the approval process?
- c. Did your estimate take into consideration the possibility that approvals for participation in PRM and QBRM might not be granted? Please explain.
- d. Does the Postal Service have in its employ or under contract an expert in the public utility approval process that could offer more specific answers to our original questions in OCA/USPS-T32-24? If so, please refer those questions to that expert.

**RESPONSE:**

(a) No. I would note that I fail to see the relevance of such consultation to the QBRM proposal. In the Test Year, QBRM volume is expected to come from current Business Reply Mail volume where organizations have already made the decision to offer prepaid reply envelopes. In terms of PRM, please see my response to OCA/USPS-T32-24.

(b) As I note in my response to OCA/USPS-T32-24(a), my estimate of 500 million pieces of courtesy reply mail that could switch to PRM in the Test Year represents a relatively small portion of bill payments. As such, the estimate reflects potential delays in the approval process.

(c) Please see responses to parts (a) and (b).

(d) Not at this time.



OCA/USPS-T32-132. Please refer to the CEM proposal advanced in Docket No. MC95-1.

- a. Describe any information the Postal Service has as to whether potential participants in PRM and QBRM would be likely to participate in CEM if it were adopted.
- b. If the Postal Service has no such information, what is your opinion as to:
  - (i) the likelihood of such participation in CEM;
  - (ii) the financial incentives (and disincentives) to either participate or not participate in CEM;
  - (iii) how private businesses might assess the costs and benefits (including good will) of CEM versus the costs and benefits of PRM and QBRM;
  - (iv) the effect of consumer pressure on businesses to participate in CEM.

**RESPONSE:**

- (a) The Postal Service has no such information.
- (b) Please see my response to OCA/USPS-T32-127.

OCA/USPS-T32-133. Would adoption of CEM be consistent with the Postal Service's goals of increasing automation (as referred to in your testimony at page 21)? If not, please explain.

RESPONSE: Please see my response to OCA/USPS-T32-127.

OCA/USPS-T32-134. Please refer to your response to OCA/USPS-T32-35 where you state: "If the public were expected to use differently-rated postage stamps for its First-Class Mail correspondence and transactions, it would make the mail less convenient, thereby making electronic alternatives relatively more convenient."

- a. What is the empirical basis for your statement that the public would find using a reduced postage CEM stamp inconvenient?
- b. What percentage of household mailers would find use of a reduced postage CEM stamp so inconvenient that they would switch to electronic bill payment?
- c. What percentage of household mailers would find use of a reduced postage CEM stamp so inconvenient that they would merely affix a First-Class stamp to a CEM envelope?
- d. If household mailers had an opportunity to pay a lower price for postage to pay their bills (via use of CEM mail) would this increase the attractiveness of mail as a means to pay bills over electronic bill payment? Please comment.

**RESPONSE:**

(a) Again, I have not analyzed the two-stamp issue and consequently the statement you quote is not empirically based. Rather, please see my response to OCA/USPS-T32-128(c), which discusses the importance of convenience and the relative unimportance of PRM price in a household's selection of a bill payment method. The relative unimportance of PRM price vis-a-vis convenience may be explained by the amount of savings PRM may represent to the average household. As I state in my testimony (at page 9, lines 14-15), on average, households receive 2.9 bills per week. This represents about 12 bills per month. At a proposed PRM price of 3 cents below the single-piece rate, this represents a savings of 36 cents per month. While I would never presume to minimize the importance of these savings to those on fixed incomes, for a great many households 36 cents per month is probably not a great deal of money when compared with the convenience of not having to worry about a stamp.

Given the relative importance of convenience in a household's choice of bill payment method, I am concerned that two stamps would instead make things more confusing, burdensome, and cumbersome for the household by requiring it to

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RESPONSE to OCA/USPS-T32-134 (continued)

purchase, maintain, and use two differently-rated postage stamps for its First-Class Mail transactions and correspondence.

(b)-(d) Please see my responses to part (a) and OCA/USPS-T32-127.

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OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-135. Please comment on whether the CEM proposal advanced in Docket No. MC95-1, but using a 30 cent postage rate (equivalent to the proposed PRM and QBRM rates), would improve allocative efficiency generally by more closely aligning costs and rates.

RESPONSE: Please see my response to OCA/USPS-T32-127.

OCA/USPS-T32-136. Please refer to Attachment A, page 75, of the Request filed in this proceeding, under the heading Prepaid Reply Mail.

- a. Confirm that under 934.2, Description of Service, the proposed DMCS language reads: "When paying postage on outgoing mail pieces which contain reply cards and letters to be returned by mail under the terms of this section, the distributor simultaneously pays postage on reply cards and letters anticipated in response to those outgoing pieces." If not confirmed, please explain.
- b. Confirm that under 934.4, Fees, the proposed DMCS language reads: "To qualify as an active prepaid reply mail account, the account must be used solely for prepaid reply mail and contain a sufficient balance to cover postage for returned prepaid reply mail." If not confirmed, please explain.
- c. Please explain the purpose of the "prepaid reply mail account" under 934.4, in view of the simultaneous requirement under 934.2 to pay postage on both outgoing and anticipated reply mail pieces.

**RESPONSE:**

(a)-(b) The Request speaks for itself.

(c) The Prepaid Reply Mail account would be used to pay postage for the anticipated reply mail pieces, keeping those transactions separate and readily identifiable for administrative and auditing purposes.

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PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

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POIR NO.1/QUESTION 9. In USPS-T-32, page 38, it states that a [sic] quantitative consumer research was conducted. Was any research conducted to determine the number of businesses that would be interested in offering PRM to their customers? If not, why not?

RESPONSE: Please see report by contractor Price Waterhouse entitled, "Qualitative Market Research - Prepaid Reply Mail Concept, In-depth Interviews with Businesses-Final Report" (USPS Library Reference H-226). Note that the data in this report are not statistically projectible to all businesses.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

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POIR NO. 3, QUESTION 22. In USPS-T-32, page 41, witness Fronk states that the auditing approach for Prepaid Reply mail (PRM) will be "modeled after those currently in use for outbound manifests." Please describe these manifest procedures in detail.

RESPONSE: The portion of my testimony you quote indicates that the Postal Service will draw on its experience in auditing manifest systems used by bulk mailers as we develop PRM auditing approaches.

By way of background, outbound manifesting is an automated system that allows a mailer to document postage and fees for all pieces in a mailing paid via permit imprint indicia. Using permit imprint indicia eliminates the need to affix postage via meters or stamps. Each piece in the mailing is assigned a unique identification number (or a keyline containing a unique identification number plus rate information about the piece) that can be compared to the outbound manifest. Mailers wishing to participate in the manifest program, must use a computerized system that meets postal standards for format, completeness, accuracy, timeliness, and proper payment of postage.

Note that the above description of outbound manifesting is not meant to imply that every PRM participant will need to maintain a reverse manifest of returned pieces, though such a manifest using the unique identification number (scanned in along with other payment information) is a possibility. Another PRM alternative would involve using data on PRM returns from a third-party lockbox operation.

Within this context of outbound manifest mailing, the Postal Service has gained experience conducting reviews and developing administrative procedures to monitor the mailer's overall operations. Such reviews include visits to the mailer's site to observe the system in operation and to ensure that the mailer has made no changes to agreed upon production procedures or required documentation. It includes an audit to make sure that the mailer supplied postage calculations are typically within 1.5 percent of the Postal Service



RESPONSE to QUESTION 22 (Continued)

calculations for the same mailings. It involves making sure the mailer is maintaining an effective quality control program. Rather than develop a single procedure or process, manifesting arrangements are typically tailored to meet the individual needs and requirements of the customer.

The Postal Service intends to draw on this experience should the PRM proposal be recommended by the Commission and approved by the Board of Governors. For instance, the Postal Service will conduct site visits to observe the system in operation in order to ensure required documentation is being maintained and agreed upon procedures are being followed. Also, the Postal Service will conduct an overall evaluation of whether the mailer-supplied postage calculations are within tolerance.

POIR NO. 3, QUESTION 23. In USPS-T-32, page 41, witness Fronk states, "The Postal Service estimates that to establish a PRM 'system' would involve 14 person days during the first year. Once established, the Postal Service anticipates that 10 person days would be involved annually at a labor cost of about \$4,100."

- a. Please define what constitutes a "system."
- b. Is a separate "system" necessary for each customer?
- c. Once the "system" is established, it appears that the labor costs incurred by the Postal Service are estimated to be \$4,100 annually. Why is it necessary for the Service to continue charging a \$1,000 monthly fee?
- d. Did the Postal Service consider charging a one time "set-up" fee and lower monthly fees? If yes, why was this idea rejected?
- e. If the fee structure in d. was not considered, please discuss advantages and disadvantages of such a structure compared to the Service's proposal.
- f. Footnote 15 on page 41 states that the annual labor costs include two person days for "ongoing administrative activities." Please describe these ongoing activities.

**RESPONSE:**

(a) A PRM system is an automated system that develops the information needed (for example, counts of mailpieces returned or the percentage of outgoing mailpieces typically returned) for the participant to calculate the amount of PRM postage owed. It also generates reports documenting such calculations and involves quality control procedures which help ensure accuracy of system outputs. In addition, a PRM system involves maintaining documentation and the audit trail needed for the Postal Service to review system operations, completeness, and accuracy.

Since PRM is especially targeted at the billing/remittance portion of the mailstream, the Postal Service anticipates that participating organizations will already have in place sophisticated automated payment systems that maintain a high degree of quality control due to their financial nature. Such systems will form the basis of the PRM system.

(b) Yes, in the sense that each participating mailer has its own customer base and unique postage calculation. I would note that it may be possible that some participants will have their remittances processed by the same third party

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RESPONSE to QUESTION 23 (Continued)

remittance operators. In such instances, the same overall automated system may collect and maintain information on more than one PRM participant. At this point, it is too early to tell if this will be the case.

(c) As indicated in my testimony, needed travel to the PRM participant's site would be in addition to the \$4,100 (page 41, line 15). Also, please note my testimony from page 42 (lines 1-9):

In the future, the Postal Service may be able to lower this fee should these estimates prove accurate. A somewhat higher fee initially serves two purposes. First, it is a hedge against the uncertainty surrounding the administration of any new postal service and the resulting cost estimates. Second, it allows the Postal Service an opportunity to adjust operationally to this new service and to develop expertise and administrative controls while setting up and overseeing a manageable number of PRM accounts. With a lower fee, the Postal Service could potentially be affected by a higher than anticipated response.

(d)-(e) The Postal Service did consider a set-up fee in this instance. As the Commission is aware, my testimony in Docket No. MC97-1 did propose a set-up fee for the nonletter-size Business Reply Mail experiment. Such a fee is novel in the postal context, and the Postal Service will now be collecting data on the appropriateness and workability of such a fee under the auspices of the experiment. I did not propose a set-up fee because the results of the experiment are not yet known. Also, the experiment involves setting up statistical sampling plans that are more complicated, and hence more costly, than the kind of set-up activity contemplated for PRM.

(f) Such activities include responding to participant questions and issues as they arise, arranging and planning for site audits, reviewing any proposed changes in how a particular system is administered and operated, and potentially arranging periodic, random checks of mailer-supplied counts, for example, by comparing the piece counts from end-of-run bin count reports prepared by the Postal

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POIR NO.3, QUESTION 24. In USPS-T-32, page 43, witness Fronk lists credit card companies and utilities as industries likely to be interested in PRM. How was it determined that these industries would be attracted to this rate?

RESPONSE: As indicated in my testimony (page 34), the PRM letter rate is intended to benefit the customers of large-volume business mailers by providing them with prepaid envelopes to return bill payments or other correspondence to the envelope provider. It is intended for mailers who have an ongoing, month-to-month billing relationship with their customers.

Utilities and credit card companies are large-volume mailers who have this kind of ongoing billing/remittance relationship with their customers. Also, these industries have the kind of strong retail customer service orientation that could generate interest in this product. In addition, bank card issuers compete intensely on the basis of interest rate, annual fee and grace period. They may be attracted to this product to gain a competitive edge.

1 CHAIRMAN GLEIMAN: If we could go off the record  
2 for just a moment?

3 [Discussion off the record.]

4 CHAIRMAN GLEIMAN: Perhaps we should move on and  
5 ask if anybody has any additional designated written cross  
6 examination for the witness.

7 Mr. Hart?

8 MR. HART: Thank you, Mr. Chairman. Henry Hart  
9 for the National Association of Pre-Sort Mailers.

10 I have -- perhaps I should stand up here.

11 Mr. Fronk, I have two sets of additional  
12 interrogatory responses that I did fax to Mr. Tidwell  
13 yesterday afternoon, and Mr. Sharfman.

14 As I explained in my cover letter, these  
15 interrogatory responses were received by us late Friday  
16 afternoon, October 3, about two hours after we had, pursuant  
17 to the October 3 deadline, filed our designations for  
18 witness Fronk. So, these were after the fact.

19 We did reserve, when we filed the -- the written  
20 designations, the right to -- to designate additional ones,  
21 and I would ask that we could designate NAPM/USPS-T-32-1  
22 through 5 and ABA/USPS-T-25-3 and 5, which were redirected  
23 from witness Hatfield to witness Fronk, and I have two sets  
24 of those that I will, with the permission of the chairman,  
25 give -- give to the court reporter.

1           CHAIRMAN GLEIMAN:  If you -- if you could please  
2   show them first to the witness so that he can tell us that  
3   his answers would be the same today.

4           MR. HART:  And I have extra sets at the table if  
5   anyone would like to see them.  I've given a set to Mr.  
6   Tidwell.

7           THE WITNESS:  Yes, my answers would be the same  
8   today.

9           MR. HART:  Thank you.

10          CHAIRMAN GLEIMAN:  That being the case, we grant  
11   the motion for late acceptance --

12          MR. HART:  Thank you.

13          CHAIRMAN GLEIMAN:  -- and I'll ask that you  
14   provide the two copies to the reporter, and I direct that  
15   they be accepted into evidence and transcribed into the  
16   record at this point.

17                               [Additional Designation of  
18                               Written Cross-Examination of  
19                               David R. Fronk was received  
20                               into evidence and transcribed  
21                               into the record.]

22  
23  
24  
25

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

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NAPM/USPS-T32-1. Confirm that the rates for First-Class flats under the current rate structure and under the USPS proposal are and would be as set forth below (taking into effect the single ounce rate, the additional ounce rate, the nonstandard surcharge and the 4.6¢ heavyweight discount which the USPS would eliminate under its R97-1 Proposal), and please explain your answer if you cannot so confirm.

FIRST CLASS FLATS

	<u>Current</u>			<u>USPS R97-1 Proposal</u>		
	1 oz.	2 oz.	3 oz.	1 oz.	2 oz.	3 oz.
Single Piece Flats	43¢	55¢	78¢	49¢	56¢	79¢
Retail Presort Flats	34.5¢	52.5¢	70.9¢	42¢	54¢	77¢
Auto Basic Flats	34¢	52¢	70.4¢	41¢	53¢	76¢
Auto 3/5 Dig Flats	32¢	50¢	68.4¢	39¢	51¢	74¢

RESPONSE: Confirmed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
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NAPM/USPS-T32-2. Confirm that USPS Witness Daniel at Exhibit USPS-29C in this proceeding provided the following First-Class unit mail processing and delivery cost estimates for First-Class flats.

Single Piece - 40.9560¢

Presort - 30.2723¢

Automation Basic - 31.2758¢

Automation 3/5-Digit - 17.8857¢

RESPONSE: Confirmed for Single Piece. Not confirmed for the other three costs, which are changing slightly per the attached revised Exhibit USPS-29C, which is also being filed under separate cover. Please see my response to NAPM/USPS-T32-3 for the context of these numbers.



## First-Class Unit Cost Estimates

	MP + D Costs	Mail Processing Costs	Delivery <u>3/</u> Costs
<b>Letters</b>			
Single Piece	16.7434	11.7424 <u>4/</u>	5.0010 •
Bulk Metered	13.6851	9.5391 <u>5/</u>	4.1460
Presort	11.3453	7.1993 <u>1/</u>	4.1460
<b>Automation</b>			
Basic	9.0298	5.3188 <u>1/</u>	3.7110
3-Digit	8.1997	4.5477 <u>1/</u>	3.6520
5-Digit	6.5995	3.0265 <u>1/</u>	3.5730
Carrier Route	6.4170	2.2910 <u>1/</u>	4.1260
<b>Cards</b>			
Single Piece	11.2429	6.8879 <u>1/</u>	4.3550
Presort	7.7568	4.7178 <u>1/</u>	3.0390
<b>Automation</b>			
Basic	6.2803	3.4693 <u>1/</u>	2.8110
3-Digit	5.7324	2.9574 <u>1/</u>	2.7750
5-Digit	4.6735	1.9475 <u>1/</u>	2.7260
Carrier Route	3.4404	0.6204 <u>1/</u>	2.8200
<b>Flats and Parcels</b>			
Single Piece	40.9560	35.9550 <u>4/</u>	5.0010 •
Presort	30.2683	25.3783 <u>2/</u>	4.8900
<b>Automation</b>			
Basic	31.2718	26.3818 <u>2/</u>	4.8900
3/5-Digit	17.8817	12.9917 <u>2/</u>	4.8900

\* Letter, Flat and Parcel Delivery costs have been aggregated for Single Piece.

1/ Postal Service witness Hatfield (USPS-T-25)

2/ Postal Service witness Seckar (USPS-T-26)

3/ Postal Service witness Hume (USPS-T-18)

4/ From USPS LR-H-106.

5/ From USPS LR-H-106. However, after the completion of rate design, this number was revised to 10.5814, for a total of 14.7274. See USPS LR-H-106.

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NAPM/USPS-T32-3. USPS witness Daniel shows more than a 23¢ unit cost difference between First-Class single piece flats and First-Class automated 3/5 Digit flats. Under your proposal in this proceeding, the difference between the resulting rates for First-Class single piece flats and First-Class automated 3/5 Digit flats is 10¢ in the case of one ounce flats, and 5¢ in the case of two ounce and three ounce flats. Why did you propose to pass through such a small percentage of the cost savings of automated 3/5 Digit flats? Please explain your answer.

RESPONSE: The difference of 23 cents that you compute does not isolate the costs avoided by worksharing and is not the appropriate benchmark to use because it focuses on full cost differences, that is, it includes cost differences not associated with worksharing. The single piece flat cost includes "dirty" mail (pieces featuring handwritten and incorrect or incomplete addresses). Please see my testimony at pages 19-20.

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OF PRESORT MAILERS

1593

NAPM/USPS-T32-4. You stated at page 29 of your testimony that "bulk automation flat rates are selected primarily to preserve the appropriate rate relationships between letters and flats in the automated arena, and between automation flats and the non-automated presort rate that applies to both letters and flats."

- a. Why is the preservation of these relationships more important than the cost difference between rate categories of First-Class flats?
- b. If the mailer can perform an element of mail processing of First-Class flats for less than half the cost of the USPS performing such function, is it more important to retain these current rate relationships than it is to set rates at a level which cause the more efficient mail processor to perform the work? Please explain your answer.

RESPONSE:

- (a) As Exhibit USPS-29C (cited in NAPM/USPS-T32-2) shows, flats are significantly more expensive to process than letters. Once the rate proposal for automated letters was developed based on the bulk metered benchmark and cost differences, the automated flat pricing proposal was developed to reflect the fact that flats are more expensive to process than automated letters. With the proposed rate relationships, barcoded flats pay more postage than barcoded letters, and barcoded flats pay less postage than nonautomated presort flats.
- (b) Please see my response to NAPM/USPS-T32-3.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

1594

NAPM/USPS-T32-5. What percentage of First-Class flats were 3 ounces or greater in FY 1996?

RESPONSE: The weight increments available provide data on pieces weighing more than 2 ounces and on pieces weighing more than 3 ounces. The number weighing 3 ounces or more straddles two weight increments and is not available. Approximately 61 percent weigh more than 2 ounces, and approximately 39 percent weigh more than 3 ounces.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE ABA REDIRECTED FROM WITNESS HATFIELD

1595

ABA/USPS-25-3.

- a. Please confirm that the single piece mailstream that would benefit from the proposed discounts for Prepaid Reply Mail (PRM) and Qualified Business Reply Mail (QBRM) is already mostly barcoded and already generating cost savings.
- b. Please confirm that the 3 cent "incentive" proposed for PRM and QBRM mail is unlikely to result in many more (or any more) barcodes than now exists, being put on household to nonhousehold mail in the form of bill payments and the like.

RESPONSE:

(a) Confirmed.

(b) I agree with this statement for the Test Year. In the future, it is possible that PRM could generate some new mail volume by converting some in-person payments to the mail (see page 38 of my testimony at lines 16-21). Also, it is possible that the new QBRM rate will attract new volume in the future, but this volume is uncertain and I have not attempted to quantify it (see page 47 of my testimony at lines 1-3). Please see my response to ABA/USPS-T25-4 for the rationale underlying the discount.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE ABA REDIRECTED FROM WITNESS HATFIELD

ABA/USPS-T25-5. The benchmark used for the development of the PRM and QBRM automation discount is the nonpresort single piece while the benchmark used for the development of other automation discounts in First Class is bulk metered mail. If nonpresort single piece letter mail is convertible into (some) automation rate, as implied by the proposed PRM discount, then the supposition underlying the bulk metered benchmark that only the bulk metered mail stream is convertible is false, is it not?

RESPONSE: No. As the Commission stated in Docket No. MC95-1 (paragraph 4302 at page IV-136), "...the single-piece mail most likely to convert to the automation categories is limited to the bulk metered mail component." Also, see my testimony at page 20. As such, I used this benchmark to set the worksharing discounts for bulk automation letters. The benchmark represents a pricing reference point to appropriately identify workshare cost savings; the benchmark is not meant to imply that every piece that converts to worksharing physically comes from a pool of bulk metered pieces. I believe the phrase "most likely" is appropriate and does not convey all inclusiveness.

1           CHAIRMAN GLEIMAN: Is there any other party that  
2 has additional designated written cross examination?

3           [No response.]

4           CHAIRMAN GLEIMAN: As soon as the presiding  
5 officer scares up two copies of the response to question  
6 number 25 of presiding officer's information request number  
7 three, it is my intention to hand them to the reporter and  
8 ask that they also be included in the record at this point  
9 and transcribed and received into evidence.

10                           [Response of Witness Fronk to  
11                           Presiding Officer's  
12                           Information Request No. 3 was  
13                           received into evidence and  
14                           transcribed into the record.]

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RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

1598

POIR NO. 3, QUESTION 25. In estimating volume for PRM, witness Fronk uses a percentage (2%) based on the "experience of the Postal Service in introducing a barcode discount in the late 1980s." Please explain the similarities between the introduction of PRM and the introduction of barcodes.

RESPONSE: In estimating an adoption rate, I was interested in identifying a postal product that involved significant changes in mailer preparation and practices. The adoption rate for such a product (barcoding) would reflect the pace at which mailers found it appropriate to make such changes. In addition, I believed that mailer barcoding was more analogous than some other forms of mailer preparation. For instance, it is my understanding that well before the initiation of presort and drop-shipping, some customers were already participating in these forms of worksharing. As such, there was a "ready-made" customer base. Barcoding discounts came relatively soon after automation equipment which could use the barcode was available. Consequently, automation discounts tended to "ramp up" from a less established base.



1           CHAIRMAN GLEIMAN: We've received four requests  
2   for oral cross examination of witness Fronk, the American  
3   Bankers Association, Edison Electric Institute, and National  
4   Association of Pre-Sort Mailers, which are joined for this  
5   purpose, the Magazine Publishers of America, Nashua District  
6   Seattle, and the Office of the Consumer Advocate.

7           Is there any other participant who wishes to cross  
8   examine this witness?

9           [No response.]

10          CHAIRMAN GLEIMAN: There doesn't appear to be  
11   anyone else.

12          If that is the case, Mr. Hart, we're ready when  
13   you are.

14          MR. HART: Thank you, Mr. Chairman.

15          Again, for the record, my name is Henry Hart. I  
16   represent the National Association of Pre-Sort Mailers.

17                           CROSS EXAMINATION

18          BY MR. HART:

19           Q    Mr. Fronk, could you please turn to your response  
20   to the interrogatory of the Major Mailers Association to  
21   you, number 20, and if you'll just let me know when you have  
22   that in front of you.

23           A    I have it, Mr. Hart.

24           Q    Thank you.

25           In that interrogatory, in particular in A, we

1 asked you to -- you had -- to comment and explain your  
2 statement in your testimony where you said that first-class  
3 cost coverage has the same relationship to the system-wide  
4 average cost coverage in this proposal as it did in R94-1,  
5 and in your response, you cited the R94-1 figures of 173.2  
6 percent cost coverage for first-class versus 156.8 percent  
7 cost coverage for system-wide, which was a 10.5-percent  
8 increase over system-wide.

9           You then compared that with R97-1 proposal, where  
10 the first-class cost coverage is 199 percent compared to  
11 system-wide cost coverage of 178.6 percent, which gave you  
12 an 11.4-percent increase over system-wide, and then  
13 comparing the 10.5 percent in R94 to the 11.4 percent in  
14 this proposed proceeding, you stated in your answer that the  
15 system-wide average and first-class -- the difference was  
16 about the same.

17           A     Uh-huh.

18           Q     But in fact, the -- the excess of first-class cost  
19 coverage over system-wide cost coverage did increase, did it  
20 not, from 10.5 to 11.4?

21           A     Yes, it -- it did increase.

22           Q     And wouldn't you say that's an increase in the  
23 wrong direction in terms of past Commission decisions on the  
24 cost coverage of First Class versus systemwide?

25           A     No, I wouldn't.

1           Q     You think that it's -- you think that it is  
2 perfectly appropriate to have the First Class cost coverage  
3 increasing relative to the systemwide average?

4           A     I would note that the relationship, the cost  
5 coverage was provided to me by Witness O'Hara and factored  
6 into my analysis, so I didn't determine what the cost  
7 coverage was. In this footnote I was simply noting that the  
8 relationship between First Class and the systemwide average  
9 was approximately the same, and I wanted to point that out  
10 to the Commission and the parties because of the change in  
11 the underlying costing methodology.

12          Q     So is it your testimony that whether or not the  
13 First Class cost coverage is increasing -- the excess of  
14 First Class cost coverage over systemwide cost coverage, if  
15 that excess is increasing, is it your testimony that that's  
16 not your concern but Witness Hatfield or O'Hara's concern?

17          A     No, I wouldn't say that. I was just pointing out  
18 that that was an input to my analysis, and again I think  
19 that the relative relationship is approximately the same.

20          Q     But it is increasing.

21          A     11.4 is bigger than 10.5.

22          Q     Right.

23          A     I agree.

24          Q     And in fact you chose to characterize the  
25 comparison in terms of a percentage of a percentage; is that

1 right? You took the percentage amount by which First Class  
2 exceeded systemwide average. In other words, you had 173.2  
3 percent of First Class and 156.8 percent of systemwide, and  
4 you said that 173.2 percent is 10.5 percent higher than  
5 156.8. Right?

6 A That's right, because I was doing a relative  
7 comparison.

8 Q But if you did it on an absolute basis, 173.2  
9 minus 156.8 would give you 16.4, and if you went to R-97,  
10 199 minus 178.6 would give you 21.4. You'd have a  
11 difference of 5, right?

12 A I accept your arithmetic.

13 Q Yes.

14 A But I still think the more relevant comparison is  
15 the one that shows a relative relationship rather than an  
16 absolute difference when the numbers are increased.

17 Q And the fact that using the percentage of a  
18 percentage instead of absolute resulted in what appeared to  
19 be a smaller increase, that had no impact on your choosing  
20 the percentage instead of the absolute?

21 A No, because I felt that the more appropriate  
22 comparison was the relative relationship between the  
23 systemwide and First Class, not the absolute difference.

24 Q Thank you. Could you please turn to your response  
25 to Major Mailers interrogatory to you No. 16-A, and let me

1 know when you have that? It's a chart showing the type of  
2 First Class mail and the increase.

3 A I have it, Mr. Hart.

4 Q Okay. The chart shows, does it not, an increase  
5 in First Class -- that the increase in First Class letter  
6 mail work-sharing rates categories of basic automation  
7 three-digit, five-digit, and carrier route, that the  
8 proposed increase in those rates is higher than the proposed  
9 increase for single-piece?

10 A Yes, it shows that.

11 Q Did you consider in establishing your proposed  
12 rates the price elasticity of single-piece First Class  
13 compared to work-sharing First Class?

14 A Not explicitly. No, not explicitly.

15 Q Did you consider it in any other way?

16 A Well, the rate differences that you see here in  
17 the proposed increases were driven by the factors outlined  
18 in my testimony. The single-piece increase of a penny, for  
19 the reasons outlined in my testimony, primarily a one-cent  
20 being sufficient to satisfy the revenue requirement, and the  
21 differences that you highlighted here for basic automation  
22 and the other automation tiers were set in accordance with a  
23 bulk-metered benchmark and work-sharing savings.

24 Q Without any consideration for any possible  
25 differences in price elasticity?

1           A     Well, I wouldn't say that exactly, because as I  
2     propose my rates, and it runs through a volume forecasting  
3     process that clearly factors in the elasticity associated  
4     with the response -- this response in the mail flow or the  
5     mail volume to the price change.

6           Q     But there's no discussion in your testimony of any  
7     consideration or weight given to price elasticity, any  
8     differences between single-piece and work-sharing?

9           A     No, the elasticity considerations were apart from  
10    the specific rate-design stuff that I presented in my  
11    testimony.

12          Q     So let me try one more time. Can you point to any  
13    place in your testimony where you identified or placed any  
14    weight on any possible difference in the price elasticity  
15    between First Class single piece and First Class work  
16    sharing?

17          A     No. There is no exclusive reference in my  
18    testimony to elasticity but it is embodied in the inputs  
19    that I got as I prepared by work sharing discount, my  
20    recommendation, and my single piece recommendation.

21          Q     Were you aware when you prepared your testimony of  
22    page 5 of Witness O'Hara's testimony that showed a price  
23    elasticity for single piece First Class of negative 0.189  
24    and a higher own price elasticity for First Class work  
25    sharing of minus 0.289?

1           A     I wasn't aware of those specific numbers but I am  
2 aware of that relationship.

3           Q     You were aware that the own price elasticity for  
4 work sharing was higher than single piece?

5           A     Yes.

6           Q     All other things being equal, is it sound  
7 ratemaking policy to increase the more price elastic rate  
8 category -- that is, work sharing -- more than the less  
9 price elastic category which is single piece?

10          A     Development of a rate design requires a weighing  
11 of many different factors.

12                As I outlined in my testimony, there is  
13 considerations of cost, there is considerations of fairness  
14 and equity, mailer impact, et cetera.

15                So as I developed my rate design, I tried -- I  
16 considered all those factors and the parameters on all those  
17 factors and parameters in proposing a rate design.

18          Q     Do you think it is sound ratemaking policy to  
19 increase the rate for rate categories with lower price  
20 elasticities more than you increase the rate for rate  
21 categories with higher price elasticities?

22          A     Yes, it can be, depending on the balancing of  
23 those pricing factors and the criteria that are considered  
24 in the ratemaking process.

25          Q     When you consider all the other factors. If you

1     were considering solely pricing efficiency and price  
2     elasticity, wouldn't the direction be to have the lower  
3     increase imposed on the rate category with the lower price  
4     elasticity?

5           A     I'm sorry with the --

6           Q     -- the lower increase be imposed in the rate  
7     category with the higher price elasticity?

8           A     I think I understand what you are asking but I  
9     have trouble with that kind of a hypothetical because I  
10    can't isolate just one factor in developing my rate design.

11                I have to balance the criteria and the factors.

12          Q     But in balancing that one factor, if you were to  
13    consider it, it would dictate, would it not, in the  
14    direction of less of an increase for the rate category with  
15    the higher price elasticity?

16          A     You are suggesting that I ignore everything else?

17          Q     No, I am just saying but if you had them all in a  
18    row and you are weighting the various factors on this  
19    particular factor it would dictate, would it not, the price  
20    elasticity differential. Wouldn't it dictate a smaller  
21    increase for the rate category with a higher price  
22    elasticity?

23          A     I just have trouble with a hypothetical, because  
24    the balancing of the factors depends on the particular  
25    situation being faced and the relative importance of the



1 factors depends on the particular ratemaking situation being  
2 faced.

3 Q So in your process you never actually put various  
4 categories, various criteria, fairness and equity, mail  
5 preparation, whatever, in any particular -- you never  
6 focused on them specifically and gave them any particular  
7 weight, like a 10 on a scale of 1 to 10?

8 You just sort of mooshed them all together?

9 A I enjoy the term "moosh" but I wouldn't exactly  
10 say "moosh" but no, I didn't. In the statutory guidelines  
11 and the pricing criteria set forth in the statutory  
12 guidelines don't assign any particular priority to the  
13 criteria.

14 They are all listed, all eight or nine of them. I  
15 treat them similarly.

16 Q I wasn't asking -- maybe I misled you -- I wasn't  
17 asking whether or not you weighted one criteria more than  
18 the other. I was simply asking whether you looked at each  
19 criteria individually and gave it sort of a high mark or a  
20 low mark in terms of what direction the rate categories  
21 should go.

22 A I would say that the statutory pricing criteria  
23 were a factor that I always had in the back of my mind as I  
24 looked at the ratemaking process.

25 Q In fact, did you consider each of the nine

1 criteria in 3622(b) under 39 U.S. Code in establishing --  
2 recognizing you down at the rate category level, not at the  
3 subclass level.

4 A Right.

5 Q But did you consider each of the statutory  
6 criteria in establishing the rate?

7 A Which rate are you referring to?

8 Q Each of the rate categories for First Class letter  
9 mail, non -- pre-sort, non-automated and automated basic  
10 three-digit, five-digit carrier route letters?

11 A Again, recognizing that I am at the rate category  
12 level rather than the subclass level, I am factoring all  
13 those considerations in as I consider the rate design  
14 process.

15 Q The creation of work sharing discounts in the  
16 First Class area have traditionally been established, has it  
17 not, by a top-down process where you will take the rate for  
18 single piece and then subtract cost difference or cost  
19 avoidance from that?

20 A As opposed to a bottom up?

21 MR. TIDWELL: I apologize, counsel. I am doing --

22 CHAIRMAN GLEIMAN: We have another one of those  
23 dilemmas, if you will excuse us.

24 I don't know whether to ask the witness to stop  
25 breathing or to bend his mike down a little bit so that we

1 don't pick him up --

2 THE WITNESS: Can you hear me?

3 CHAIRMAN GLEIMAN: I think we might try bending  
4 the mike down a little bit. It's preferable to stop  
5 breathing.

6 Thank you, Mr. Tidwell, thank you, Mr. Hart, and  
7 thank you, Mr. Fronk.

8 THE WITNESS: Would you repeat that question?

9 BY MR. HART:

10 Q Traditionally, hasn't the first -- haven't the  
11 first-class work-sharing discounts been established by a  
12 top-down process where you take whatever the first-class  
13 single-piece rate is and then identify either cost  
14 differences or cost avoidances and set -- set the incentive  
15 based on the difference from single-piece, instead of a  
16 bottom-up measurement?

17 A Can -- can you explain for me what you mean by  
18 "bottom-up"?

19 Q Well, I think when you establish the rate for  
20 single-piece, you try to figure out all the attributable  
21 costs and then you do the coverages or the markups and come  
22 up with an appropriate rate for single-piece, but when you  
23 get to the rate category level within work-sharing --

24 A Uh-huh.

25 Q -- hasn't it been the case that you've just taken

1     that figure that you get from single-piece and then attempt  
2     to identify an appropriate discount below that single-piece  
3     rate, which is why it's been referred to as top-down?

4           A     Right. I can't -- I can't speak for -- for all of  
5     history, but in -- in recent -- in recent dockets, that's my  
6     understanding of how it's been done.

7           Q     And -- thank you. And although there's been much  
8     effort and debate among all the parties and struggling by  
9     the commission to measure the cost difference or the cost  
10    avoidance of -- of first-class work-sharing mail, once that  
11    measurement has been decided upon, hasn't that been the most  
12    important factor in setting the -- the first-class letter  
13    mail work-sharing discounts, be it the Appendix F or the  
14    cost avoidance or cost difference measurements in the  
15    testimony for first-class work-sharing mail?

16          A     Can you repeat that for me?

17          Q     In establishing the discounts for first-class  
18    letter mail work-sharing --

19          A     Uh-huh.

20          Q     -- hasn't the cost difference or cost avoidance  
21    from that mail and single-piece been the most important  
22    factor in establishing the discounts?

23          A     I don't know that I would characterize that as the  
24    most important factor. It is clearly an important factor --

25          Q     Can you --

1           A     -- as -- as -- as -- as important -- or it would  
2     be the actual cost for the different kinds of work-shared  
3     mail, be it three-digit or basic automation.

4           Q     I'm sorry. Could you repeat the last part of your  
5     answer? As important as --

6           A     You asked me if that was the most important  
7     factor, and I think you're -- you're correct in that it's an  
8     important factor, but I don't know if I would accept your  
9     characterization that it's the most important factor, and  
10    one of the reasons I would make that point is because the --  
11    of -- of equal importance, I would think, is the actual cost  
12    associated with the work-shared mail to compute a cost  
13    difference, if I understand your question --

14          Q     Right. Right. In other words, relevant to the  
15    cost difference is the cost of the work-sharing mail.

16          A     Sure.

17          Q     But once you've measured that -- and we may have  
18    our disagreements about what an appropriate benchmark is,  
19    but once you've measured that -- that cost avoidance or cost  
20    difference, isn't that really the most important factor, not  
21    the only one but most important factor for the commission or  
22    any USPS witness to focus on in setting the discount?

23          A     I can't speak for any USPS witness, but clearly --

24          Q     How about yourself?

25          A     In my testimony, it was -- it was a key factor.

1 Q Was it not the most important?

2 A I'll accept that in my testimony.

3 Q Thank you.

4 Are you aware -- and I did mention in our notice  
5 of intent to conduct cross examination -- of the USPS  
6 institutional response to an ABA/EEI/NAPM interrogatory to  
7 you, number eight, which was redirected from you to the USPS  
8 as an institutional response, and it set forth the  
9 attributable cost differences in the cost revenue analysis  
10 between single-piece and pre-sort mail since -- I think it  
11 was fiscal year 1993 through 1996.

12 Are you familiar with that -- with that question  
13 and the -- the fact that the -- I'm not asking you to  
14 respond to the question that was redirected to the Postal  
15 Service, but are you aware of the fact that they did answer  
16 that and confirm that, those differences in the CRA?

17 A I'm aware of that.

18 Q In particular, are you aware that part of what  
19 they confirmed was that the attributable cost differential  
20 shown in the CRA between first-class single-piece and  
21 first-class pre-sort, which covers all the work-sharing, has  
22 continued to increase from 11.5 cents in fiscal year '94 to  
23 15.5 cents in fiscal year '96? Subject to checking, would  
24 you --

25 A That's what the numbers in the institutional

1 response say.

2 Q Okay.

3 Was there a reason why, as the witness for pricing  
4 of first-class work-sharing mail, why you felt that you  
5 couldn't comment on the CRA attributable cost differential,  
6 why that had to be bucked to the USPS as an institutional  
7 response?

8 A The reason I forwarded it to the institution is  
9 because it was asking for cost data, and I'm not a cost  
10 expert.

11 Q But you've based your rates on cost.

12 A Yes, those are an important input to my analysis.

13 Q So -- so, the fact that it was referred to USPS is  
14 not an indication on your part that you just think it's  
15 totally irrelevant to appropriate rates.

16 A It's a question -- it's a question of expertise.

17 Q Okay.

18 Have you ever heard the expression that all ships  
19 rise in a rising tide?

20 A Yes.

21 Q The Postal Service's costs in general are going  
22 up, are they not?

23 A Over time, yes.

24 Q Would not the institutional response to the  
25 interrogatory which I just referred you to showing the

1 continued increase between single-piece and work-sharing  
2 mail, as reflected in the CRA from 1993 to 1996 -- wouldn't  
3 that indicate that the attributable costs for single-piece  
4 and work-sharing continue to rise?

5 A You're asking me to confirm the data on the page?

6 Q No. I'm saying don't -- don't those data imply  
7 that the -- that USPS costs in those areas are continuing to  
8 rise?

9 A The -- the data speak for themselves here.

10 Q Do they show an increase?

11 A For single-piece for fiscal year -- are we --  
12 we're --

13 Q Yes.

14 A -- still on the same --

15 Q Yes.

16 A -- institutional response --

17 Q Yes.

18 A -- Mr. Hart? For single-piece, it increases from  
19 fiscal year '93 to '96. For the pre-sort, it increases for  
20 part of the time and then it decreases for part of the time,  
21 as the numbers clearly state.

22 Q Is there anything in this record that you think  
23 could be relied on by the commission to conclude that, even  
24 though the CRA attributable cost differential is increased  
25 from 11.5 cents to 15.5 cents from fiscal year '94 to '96,



1     that the USPS costs avoided by work-sharing have not  
2     increased by a corresponding amount?

3           A     I'm not sure I understand that question.  Are you  
4     -- are you now tying into my -- my testimony?

5           Q     I'm trying to -- I'm asking, are you aware of -- I  
6     mean you've proposed rates that would -- would reduce the  
7     discount or incentive for first-class work-sharing mail,  
8     specifically three-digit and five-digit automated, and --

9           A     By one-tenth of a cent.

10          Q     Right.

11          A     Yes.

12          Q     And -- and -- and yet the attributable costs as  
13     shown in the CRA since 1994 in the gap between single-piece  
14     and work-sharing continue to increase.

15                 So, I'm asking you, is there any evidence in this  
16     proceeding that would indicate that the portion of that  
17     attributable cost differential which is attributable to  
18     costs avoided by work-sharing have decreased.

19          A     You're getting beyond the -- the scope of my  
20     knowledge here a little bit with the cost trends.  I don't  
21     know that I can answer that.

22          Q     Okay.

23                 I would like to turn, if you would, to your  
24     response to ABA/EEI/NAPM interrogatory number seven, which  
25     concerns the -- your proposed benchmark of bulk metered

1 mail, if you'll let me know when you have that in front of  
2 you.

3 A I have it, Mr. Hart.

4 Q Okay.

5 In particular, subparagraph B of that question, we  
6 asked you whether the bulk metered bench -- bulk metered  
7 mail benchmark -- let me just rephrase the question.

8 Doesn't your use of the bulk metered mail  
9 benchmark to measure cost avoidance of retail pre-sort FCLM  
10 and automated FCLM discourage upgrading of non-bulk metered  
11 single-piece FCLM to retail pre-sort and automated FCLM?  
12 Please explain your answer. And you said not necessarily,  
13 and then you gave an explanation. Is that correct?

14 A That's -- that's correct. That's my response.

15 Q Do you -- do you disagree with the fact that the  
16 use of the bulk metered mail benchmark discourages upgrading  
17 of the so-called dirty single-piece mail, non-bulk metered  
18 single-piece mail?

19 A I think I disagree with that. Could I ask you to  
20 repeat that?

21 Q Let me ask it another way. Doesn't your use of a  
22 benchmark to measure the cost differences between  
23 first-class mail, the costs avoided by work-sharing mail --  
24 doesn't your use of the bulk metered mail benchmark lower  
25 the measure of cost avoidance from had you used single-piece

1 as the bench -- all of single-piece as the benchmark?

2 I think that's an easy question.

3 A Yes, that's right.

4 Q And once you get that lowered cost avoidance,  
5 isn't that likely to reduce the discount given to the  
6 work-sharing mail?

7 A Yes, it is.

8 Q And won't that lower discount discourage a mailer  
9 from taking the efforts necessary to presort and/or automate  
10 this so-called noncandidate mail, the dirty single-piece  
11 mail, if he has a lower discount?

12 A I don't know that I agree with the premise of the  
13 question. In setting a benchmark as I did, I'm trying to  
14 isolate the costs avoided by the Postal Service in  
15 processing that mail. In other words, what's the work-share  
16 savings? I'm trying to get the appropriate cost-avoidance  
17 to signal the mailer ~~approximately~~ <sup>appropriately</sup>. In other words, can the  
18 mailer do it for less than the Postal Service can? I grant  
19 you that the bigger the discount, the more likely I am to  
20 attract mail to that mail category, but that's really not  
21 the point. The point is whether the discount is  
22 appropriate.

23 Q But doesn't your bulk metered mail benchmark  
24 become a self-fulfilling prophecy by discouraging mailers  
25 and presort bureaus from presorting and/or automating the

1 nonbulk metered mail by lowering the discount?

2 A With a lower discount I may discourage some mail  
3 from being presorted.

4 Q Are you --

5 A But again --

6 Q I'm sorry.

7 A Again, I'm trying to set the discount in  
8 accordance with an appropriate benchmark and costs avoided,  
9 and that's the key thing, not some absolute level of the  
10 discount.

11 Q Are you aware that the Commission rejected  
12 subclass status for automated First Class mail in MC-95-1?

13 A Generally, yes.

14 Q Are you aware that part of the justification for  
15 subclass status is that mail not be -- that mail be  
16 heterogeneous to other mail in the subclass, or to put it  
17 another way, if mail is homogeneous, then it's not necessary  
18 to create a subclass?

19 A That's my understanding, that that's a key  
20 criterion in establishment of a subclass, but I --

21 Q And so that probably one of the reasons why First  
22 Class work-sharing mail did not attain subclass status was  
23 because it was deemed essentially homogeneous with  
24 single-piece mail?

25 A I can't speak to that. I'm not that familiar with

1 the reclass record.

2 Q But when it comes to using a benchmark to identify  
3 a benchmark to measure cost avoidance, you concluded that  
4 single-piece and work-sharing mail were not sufficiently  
5 homogeneous; is that right?

6 A I didn't approach it from that perspective. I  
7 concluded that the more appropriate benchmark to use in  
8 setting the discounts was the bulk metered portion of  
9 single-piece mail.

10 Q Because that has in your opinion significant  
11 different characteristics from the rest of single-piece  
12 mail.

13 A I chose that benchmark because it seemed to be  
14 the -- because it was the mail most likely to convert to  
15 automation status and is what the Commission itself also  
16 said in the record in MC-95-1, and I agreed with that  
17 assessment.

18 Q But does not your use of that benchmark imply that  
19 bulk metered benchmark mail is not homogeneous with the rest  
20 of single-piece mail?

21 A It implies that bulk metered benchmark -- excuse  
22 me, it implies that bulk metered mail is different I guess  
23 than the main portion of -- than single-piece mail. I'm not  
24 sure I follow what you're asking me.

25 Q Let me ask you one more question on this area and

1     then I'll move on. Do you think it's fair to deny subclass  
2     status to First Class work-sharing mail on the basis in part  
3     that it's too homogeneous to the rest of single piece mail,  
4     and then to set its discount by use of a benchmark that says  
5     it's not homogeneous?

6           A     I'm going to have to ask you to repeat that one.

7           Q     Do you think it's fair to deny subclass status to  
8     First Class work-sharing mail on the basis that it is  
9     homogeneous with the rest of single-piece mail and then set  
10    the incentive for the rate categories of work-sharing mail  
11    by using a benchmark which is based on the assumption that  
12    bulk metered mail is not homogeneous with the rest of  
13    single-piece mail?

14          A     I have to admit I'm having some trouble following  
15    that, but nowhere have I denied anything subclass status  
16    from the beginning. I have trouble following what you're  
17    asking me. But I do stick by the notion of a bulk-metered  
18    benchmark as appropriate in this context for establishing  
19    work-sharing savings.

20               CHAIRMAN GLEIMAN: Mr. Fronk, could you speak up a  
21    little bit, please?

22               THE WITNESS: Sure.

23               CHAIRMAN GLEIMAN: Thank you.

24               BY MR. HART:

25          Q     The Commission's discussion in MC-95-1 which you

1 referenced concerning the bulk-metered mail benchmark -- in  
2 the context of that decision attributable costs were  
3 determined by the use of 100-percent volume variable costs,  
4 were they not?

5 A Hundred-percent volume variable in which instance  
6 reclass?

7 Q In MC-95-1.

8 A I don't know that that's right.

9 Q Okay. You state that this bulk -- this benchmark  
10 mail, this bulk-metered mail, is so-called -- it's  
11 appropriate for benchmark because it's the candidate mail,  
12 it's the mail most likely to be upgraded to presort or  
13 automation?

14 A Yes, it's a pricing reference point.

15 Q If the discount established in this proceeding is  
16 a little bit too low to encourage presort mailers or presort  
17 bureaus to deliver presort mail to the Postal Service or  
18 automated mail, which mail do you think will be the most  
19 likely to revert to the Postal Service, the clean candidate  
20 mail or the more expensive dirty mail?

21 A Revert to the Postal Service in which sense? In  
22 terms of --

23 Q A single piece.

24 A A single piece? I don't know.

25 Q Well, if you were a mail order presort bureau and

1     couldn't upgrade mail, you had to make a determination as to  
2     which mail you were going to try to upgrade and which mail  
3     you were going to pay the full single piece rate at, which  
4     would you deliver to the Postal Service as single piece?

5             Would you do the clean bulk metered mail or the  
6     mail that is more expensive to upgrade?

7             A     As you describe those circumstances, I would  
8     probably give them the stuff that is not as easy to upgrade.

9             Q     Thank you. Did you consider -- in selecting the  
10    bulk meter mail benchmark, did you consider the cost to the  
11    Postal Service if the entire amount of work sharing mail  
12    were to revert to the Postal Service even if it were to  
13    revert as bulk metered mail?

14            A     No.

15            Q     Would you agree that there is no way that the  
16    Postal Service could handle right now all the work sharing  
17    mail if it were just delivered as single piece to the Postal  
18    Service?

19            A     I don't know.

20            Q     Are you aware of the fact that there are presort  
21    bureaus that have larger plants and more equipment than some  
22    of the major post offices in the country? Would that  
23    surprise you?

24            A     I am aware that there are presort bureaus but I  
25    can't answer that question.



1           Q     So then clearly you did not consider at all in  
2     establishing your rates the value to the Postal Service of  
3     avoiding a major reversion of mail?

4           A     I wouldn't accept that characterization.

5                     When I propose the rates, I get a volume forecast  
6     that comes back that indicates how the mail migrates from  
7     mail class to mail class, and I can see what effect the  
8     change in the discount has on the quantity of mail in a  
9     particular rate category.

10                    I mean clearly if I had done something where all  
11    of the mail disappeared from work sharing, I would have  
12    known it.

13           Q     But you didn't -- in setting the rates, which is  
14    admittedly a subjective process, you didn't consider the  
15    value of work sharing mail to the Postal Service in that  
16    were it not for all the privately -- were it not for all the  
17    work sharing the Postal Service couldn't handle all this  
18    mail in a single piece fashion?

19           A     I wouldn't say that because the issue didn't  
20    specifically come up when I do a rate design and I can see  
21    the volume effects and I see the result of it.

22                    I didn't have to face that question that you are  
23    hypothesizing.

24           Q     So you didn't put any value on that?

25           A     I would have put value on it if it had arisen, but

1 it wasn't a specific issue that I was forced to grapple  
2 with.

3 Q Okay. A few more questions, if you will bear with  
4 me.

5 The heavy weight discount -- could you please turn  
6 to your response to ABA-EEI-NAPM Number 2.

7 A I have it.

8 Q Okay. Wasn't the purpose of the heavy weight  
9 discount when it was initially established to provide a  
10 discount for USPS cost savings realized not merely from  
11 heavy weight mail but from presorted heavy weight mail?

12 A What I know about that is from looking at the  
13 Commission's decisions in R-87 and R-90, and that is my  
14 reading of it, that it was a focus on presort.

15 Q At page 24 of your testimony you address the heavy  
16 weight discount and you give really two reasons for the  
17 proposed elimination.

18 I don't even know if you need -- one of which is  
19 the simplification of the rate structure?

20 A That's correct.

21 Q Do you think we ought to just eliminate all  
22 discounts and really make it simple? Perhaps that is a  
23 dangerous question.

24 A Of course not.

25 Q Did you have any evidence which would support the

1 conclusion that postal customers were confused by the heavy  
2 weight discount structure?

3 A No. My reference to simplification wasn't because  
4 I was aware of specific confusion, but only that it would  
5 make the rate schedule more straightforward.

6 There are a number of other reasons that I  
7 considered<sup>in</sup> eliminating the discount, as I set forth in  
8 response to MMA Interrogatory USPS T32-4, just for your  
9 information.

10 Q On your proposed reduction in the incentive for  
11 retail presort of first class from 2.5 cents to 2 cents, I  
12 think this is a fair characterization.

13 You have proposed establishing the discount for  
14 that rate category below the 2.3 cents measured cost  
15 avoidance in large part because you said you want to  
16 encourage mailers to put bar codes on the mail.

17 A That's right. I wanted to not create an obstacle  
18 to the automation of the mailstream.

19 Q Can you ignore all cost avoidance for a rate  
20 category in order to push the mailer to a higher category,  
21 push him up from retail presort to automated?

22 A No, and I didn't ignore all cost avoidance.

23 Q I think you are dropping with your revised  
24 testimony from a 95 percent to a 59 percent pass-through of  
25 the cost avoidance, is that right, roughly?

1           A     That's correct. I wanted to call that to the  
2 parties' attention.

3           Q     Is there some point -- 30 percent? 10 percent? --  
4 is there some point where you are passing through so little  
5 of the cost difference that don't you think you have  
6 effectively eliminated, you have reclassified the rate  
7 category out of existence?

8           A     That's a good question, and that -- that goes to  
9 the -- to the issue of what I might have done in considering  
10 my rate design had I known about the revised costs at the  
11 time I did the rate design, because I think -- that was  
12 another thing I was trying to address in preparing the  
13 supplemental testimony, that to be at the level of passing  
14 through close to 90 percent of the cost difference is one  
15 thing, to be down at 60 percent is clearly another thing,  
16 and had I known about that cost difference at the time I was  
17 developing the rates, I think it's likely I would have  
18 considered maintaining more of the discount and passing  
19 through more of the cost difference.

20                   I can't tell you exactly what I would have done,  
21 it's uncertain at this point, but I think I would have  
22 maintained more of the discount, maybe .2 cents more, two  
23 tenths of a cent more, hypothetically.

24           Q     Thank you.

25                   A couple of questions on flats, if I may.

1           Could you turn to your response to ABA/EEI/NAPM  
2   number three?

3           A     I have it.

4           Q     I apologize.  You're ahead of me.  I don't.

5                   Well, let me try it one other way.  Could you turn  
6   to your --

7           MR. HART:  Thank you, Mike.  I know what I'm  
8   doing.

9           MR. TIDWELL:  I expect something in return.

10          MR. HART:  Five minutes.  Have gave me the wrong  
11   answer, though.  It's my fault.  No, he gave me what I  
12   referenced, and I apologize.  It's -- it's -- it's not the  
13   joint interrogatory, it's the NAPM interrogatory, NAPM/USPS  
14   No. 3.

15          MR. TIDWELL:  That's the last time I try to help  
16   you.

17          MR. HART:  NAPM/USPS-T-32 No. 3.

18          THE WITNESS:  I have it.

19          BY MR. HART:

20          Q     Do you have that?

21          A     Yes.

22          Q     Did you use any benchmark at all when you set the  
23   proposed discounts for flats, first-class flats?

24          A     I developed the flats rates primarily using rate  
25   relationships with the letters.

1           Q     Right. In other words, when you look at the  
2     schedule to witness Daniels' testimony, 29-C, which you used  
3     in your testimony in letters, you've used the -- the  
4     infamous benchmark of bulk metered mail, but there's no  
5     equivalent benchmark use in flats. Is that correct?

6           A     That's correct.

7           Q     And in fact, there's no discussion in your  
8     testimony, is there, of flats of any benchmark whatsoever,  
9     be it single-piece or -- or some form of bulk metered flats,  
10    if there be such a thing.

11          A     No, I developed the -- the flat rates in  
12    accordance with -- with traditional practice, and that is  
13    that I did the letters first, which is, by far, the bulk of  
14    first-class mail.

15                Once I had those, then I -- I -- I went ahead and  
16    -- and looked at the -- at the rate relationships with the  
17    flats, bar-coded single-piece, and established the prices  
18    like that, in accordance with the revenue requirement.

19          Q     So, there's really no focus at all on the costs on  
20    the flats. It's just a rate relationship to the letters.

21          A     I wouldn't -- I wouldn't say that exactly. I  
22    would say that -- that I focused on the rate relationship,  
23    but the costs are embedded in the approach used when they're  
24    compared to the -- compared to the letters.

25          Q     There was, was there not, a rather large cost

1 difference between a single-piece flat and the  
2 three/five-digit flat automated?

3 A Yes, the numbers showed that, but again, that's a  
4 benchmark issue, and whether or not a single piece is the  
5 appropriate point of comparison, since it includes  
6 hand-addressed inputs, dirty mail.

7 MR. HART: If you will bear with me, I have a  
8 couple more questions.

9 BY MR. HART:

10 Q Could you please turn to your response to ABA  
11 alone, USPS T25-5, which was redirected from Witness  
12 Hatfield to you.

13 I think you are going to find that, if nowhere  
14 else in the additional interrogatories which I designated  
15 this morning, if you have that packet. Do you have that  
16 there?

17 A I have it.

18 Q The question was -- well, strike that.

19 Why did you use all of single piece as the  
20 benchmark for the PRM rate? Why didn't you use bulk metered  
21 mail as a benchmark?

22 A I really didn't make that selection. That was the  
23 cost witness that did.

24 Q Isn't your choice of a benchmark for First Class  
25 letter mail automated basic three-digit and five-digit, that

1 is the bulk metered letter mail, isn't that inconsistent  
2 with using a different benchmark of single piece for PRM?

3 A No, I don't think so.

4 Q What is consistent about it?

5 A In the instance of establishing the work share  
6 savings I am using a bulk, the bulk metered benchmark that  
7 we have been talking about.

8 The selection of the other things, it's a  
9 different mail stream. It's a different kind of a -- again,  
10 I am not a cost expert.

11 Q Do you think that the so-called dirty single piece  
12 mail is a candidate, more of a candidate for PRM than it is  
13 for automated three-digit or five-digit?

14 A I don't know.

15 MR. HART: Thank you very much, Mr. Fronk. That's  
16 all I have.

17 CHAIRMAN GLEIMAN: Thank you, Mr. Hart.

18 Magazine Publishers of America -- does not appear  
19 to be here today.

20 That brings us to Nashua District/Seattle/Mystic.

21 MR. OLSON: Thank you, Mr. Chairman.

22 CROSS EXAMINATION

23 BY MR. OLSON:

24 Q William Olson -- and Mr. Fronk, good morning. I  
25 am representing, as you know, <sup>Nashua, Mystic,</sup> ~~Nashua/Mystic~~ District and



1 Seattle, and I want to begin --

2 MR. OLSON: Mr. Chairman, perhaps with a  
3 clarification to make sure the record is reflective of the  
4 second revision or the revision to Appendix A.

5 When Mr. Tidwell offered Mr. Fronk's testimony  
6 this morning, I believe he said there was a revision which  
7 he gave me this morning to the testimony, and when you said  
8 it was in the record you said it was as filed Friday.

9 Maybe we can check that during the lunch break to  
10 make sure that it is today's revision that is in, not  
11 Friday's.

12 MR. TIDWELL: Today's revision is in.

13 CHAIRMAN GLEIMAN: I misspoke, yet again.

14 MR. OLSON: Thank you. I'd just for the record  
15 point out that I happened to -- I have not yet gotten  
16 Friday's in the mail and found out about it last night about  
17 7:15, and today's I got this morning but I hope to be able  
18 to nonetheless conclude with Mr. Fronk today.

19 CHAIRMAN GLEIMAN: Would you please call the  
20 Postal Service and talk to them about First Class delivery  
21 standards in the Washington metropolitan area?

22 MR. OLSON: It's still better than Priority Mail.  
23 That is a different issue.

24 BY MR. OLSON:

25 Q Mr. Fronk, could you turn to your testimony at

1 page 24? This is the lines that we have tried to make  
2 famous before the Commission regarding the nonstandard  
3 surcharge. Do you have that?

4 A Yes, I do, Mr. Olson.

5 Q And there you proposed to increase the First Class  
6 nonstandard surcharge from 11 to 16 cents for single piece,  
7 First Class, that weighs ~~under~~ an ounce or less, correct?

8 A Yes.

9 Q Now when you filed that testimony, your original  
10 testimony relied on Library Reference 112, correct?

11 A Yes.

12 Q And since then Witness Daniel has filed  
13 supplemental testimony which is designated as USPS  
14 Supplemental Testimony 43 that I guess supersedes that or  
15 replaces that, is that correct?

16 A Yes.

17 Q So insofar as your testimony is currently based  
18 with today's revision, it is based on Witness Daniel's  
19 testimony, supplemental testimony, 43 and her costing there,  
20 is that accurate?

21 A On page 24, yes. Yes, it is, Mr. Olson. In the  
22 supplement that was filed and revised today on October 8th I  
23 do indicate how the cost pass-throughs, the implicit cost  
24 pass-throughs, would be different had I had the new cost  
25 data at the time I was formulating these rates.

1           Q     Okay. Let me ask about that pass-through. The  
2 first thing I wanted to ask you was where in Library  
3 Reference 112 did you get the 16 cent number?

4           A     I didn't bring the old library reference with me  
5 since it's been superseded, but I think I've got the  
6 appropriate page.

7           CHAIRMAN GLEIMAN: You're going to have to speak  
8 into the mike.

9           MR. OLSON: I can hand you mine, if you like.

10          THE WITNESS: Thank you for this copy.

11                What I did is the single-piece cost was 15.08  
12 cents, and I rounded it up to the nearest cent to make sure  
13 I would recover the identifiable cost difference.

14          BY MR. OLSON:

15          Q     Okay. So in that way it was a greater than  
16 100-percent passthrough. Would that be correct?

17          A     Due to rounding it does go over 100 percent; yes.

18          Q     Okay. Now when -- you can hold onto that for just  
19 a second, Mr. Fronk.

20                When Witness Daniel submitted her supplemental  
21 testimony, that contained a revision to that sheet; is that  
22 not correct? But it doesn't I don't believe state it's a  
23 revision. Do you have her supplemental testimony?

24          A     That I do have, if you can give me a minute.

25          Q     And I'm asking you to refer now there to Exhibit

1 USPS-43-A, page 1 of 1. Do you see that?

2 A Yes.

3 Q And do you know if this sheet was supposed to be  
4 identical to the Library Reference 112. The caption on the  
5 page is nonstandard surcharge costs presented in  
6 USPS-LR-H-112.

7 A Yes. To anticipate what I think where you may be  
8 heading, if I may, there was a -- it's my recollection that  
9 in between the original filing of this library reference and  
10 the development of the supplemental testimony there was a  
11 revision to this page, and that moved that number, the 15.08  
12 cents we were referring to a moment ago, to the 14.95 cents  
13 that you see on this page. So this page is -- Library  
14 Reference H-112 is revised subsequent to the original  
15 filing.

16 Q Do you happen to know what caused that to be  
17 revised?

18 A I don't -- I don't know.

19 Q So if you had had this number, then a 15-cent  
20 surcharge would have been adequate to cover the cost  
21 proposal -- to cover costs as you state on page 24 of your  
22 testimony?

23 A If I'd had these intermediate revised numbers  
24 available at the time that I prepared my rate, I likely  
25 would have proposed 15 cents.

1 Q Okay. No, I understand that.

2 A This is subsequently superseded.

3 Q No, I understand --

4 A It's a little confusing.

5 Q They're only intermediate revised.

6 A Yes.

7 Q And not final revised. I understand.

8 A I'm not trying to say --

9 Q No, I --

10 A It's not as convoluted as I made it sound.

11 Q Well, we may disagree on that, but --

12 A I know.

13 Q I appreciate your clarifying that point.

14 Let me get back my library reference.

15 We filed an interrogatory with you that was  
16 redirected to the Postal Service, and I don't know if you  
17 track those responses, but it was NDMS USPS-T-32-11. It had  
18 to do with library reference.

19 Do you happen to have that?

20 A I did bring a copy, since it was directed to me  
21 originally; yes.

22 Q Okay. And there we said is it your assumption  
23 that the unit-cost data in LR-H-112, Exhibit A, isolate the  
24 extra cost of processing nonstandard First Class mail that  
25 weighs ~~less than~~ one ounce or less -- there's an extra less

1 in there -- and does not conform to size restrictions? If  
2 so, please explain how you controlled for the effect of  
3 heavier weight pieces. Do you see that?

4 A I see that.

5 Q Okay. And

6 And the response came back from the Postal Service  
7 and we will designate this at an appropriate time, and it  
8 says the library reference implicitly assumes that the data  
9 is representative for pieces that weigh less than one ounce.

10 Do you have yourself any reason to disagree with  
11 that response to the Postal Service?

12 A This may be a question that is better saved for  
13 Witness Daniel, who I believe has adopted this response in  
14 conjunction with her supplemental testimony.

15 Q Well, I understand, and I probably will, but this  
16 is a pretty big point.

17 The question is that the validity of the  
18 assumption that the unit cost data in Library Reference 112  
19 implicitly assumes that the data is representative for  
20 pieces that weigh less than one ounce.

21 Is that something you agree with or do you have a  
22 disagreement with that conclusion?

23 MR. TIDWELL: Mr. Chairman, as big a point as it  
24 is, it is still a costing question and we have a costing  
25 witness who will be on the stand to explain the analysis

1 tomorrow, Witness Daniel.

2 The Postal Service believes it will be appropriate  
3 for the question to be directed to her.

4 MR. OLSON: Mr. Chairman, this is the rate design  
5 witness who relied on these costs and because of these costs  
6 he made certain recommendations, and with all that has gone  
7 on, I would hope I would have a little latitude to ask  
8 someone some of these questions.

9 MR. TIDWELL: And the Postal Service is gladly  
10 bringing Ms. Daniel over tomorrow.

11 MR. OLSON: Mr. Chairman, if I can't ask any  
12 questions about cost to this witness, I am not sure if that  
13 is what the implication of the objection is, but I would  
14 be -- I would very much suggest that would be not the  
15 correct ruling.

16 If the witness doesn't know something, that's  
17 fine, but that is not the response we are getting.

18 MR. TIDWELL: It would be the Postal Service's  
19 view that if you were to ask Ms. Daniel pricing questions  
20 that it would be inappropriate as well. That is why we have  
21 the pricing witness here today.

22 We didn't set the order, but we think that the  
23 questions ought to be --

24 CHAIRMAN GLEIMAN: Well, with all due respect, the  
25 Postal Service in large part did set the order by virtue of

1     telling us who wasn't available when, and we gave the Postal  
2     Service advance notice -- very, very advance notice -- and  
3     we got back a long laundry list of when people were and were  
4     not available.

5             Now I don't know whether Witness Daniel was or was  
6     not available at all the dates available and whether Witness  
7     Fronk -- when Witness Fronk was available or not available,  
8     but I'll tell you, the Postal Service made our scheduling a  
9     lot more difficult than it might have otherwise been had  
10    they provided witnesses without a myriad of restrictions on  
11    their availability, and in many cases we are talking about  
12    witnesses who were not constrained by previous commitments  
13    and teaching schedules and the like.

14            It went well beyond that.

15            I think that your question and the answer that you  
16    would find acceptable is a legitimate question to be asked  
17    at this time and if you are satisfied with the response from  
18    a witness that says "I don't know" or "I don't understand"  
19    or "I don't have an opinion" then I think we just ought to  
20    proceed now.

21            MR. OLSON:   Sure.   If I got that, I would accept  
22    that answer.

23            BY MR. OLSON:

24            Q     If I could just clarify what the answer, Mr.  
25    Fronk, is, the response to the question that we asked, the



1 Postal Service response is, "The library reference  
2 implicitly assumes that the data is representative for  
3 pieces that weigh less than one ounce."

4 Do you have any reason to question that response?

5 A I can give you my understanding.

6 No, I agree with what that is saying. Again, I am  
7 not a cost expert, but my understanding of this methodology  
8 is that it doesn't specifically have one ounce costs and so  
9 it implicitly subtracts a <sup>average</sup> ~~manual-benchmark~~ cost from a  
10 manual piece and is implicitly then accounting for weight,  
11 but that is about the extent of my understanding -- but I  
12 accept the response in this answer.

13 Q And in fact it uses an average weight for flats,  
14 does it not, an average weight piece?

15 A You are stretching my knowledge, but that is my  
16 understanding.

17 Q And an average weight for parcels as well, is that  
18 correct?

19 A Again, you are stretching my knowledge but that is  
20 my understanding.

21 Q Okay. Do you know for, say, flats that weigh --  
22 nonstandard flats that weigh under an ounce what the average  
23 weight might be? Half an ounce?

24 A The average flat that weighs under one ounce? Is  
25 that your question?

1           Q     Yes. The average nonstandard flat that weighs  
2     under an ounce that is subject to the surcharge, do you know  
3     what the average weight of those pieces would be?

4           A     I don't recall that. I thought there was an  
5     interrogatory that addressed that, but I can't -- I didn't  
6     answer that and I don't specifically recall the number.

7           Q     The average is, in any event, something under one  
8     ounce obviously, because the piece is under one ounce.

9           A     Sure.

10          Q     It might be seven or eight tenths of an ounce.

11          A     Sure.

12          Q     And for parcels, the same thing? Do you know the  
13     average weight of a piece under one ounce?

14          A     I don't recall that. My recollection again is  
15     there may have been an interrogatory that was answered  
16     institutionally or by someone that addressed that, but I  
17     don't recall those numbers.

18          Q     Okay. Insofar as the study that you relied on  
19     implicitly assumes that the average cost of a flat that  
20     weighs 3.3 ounces -- I could give you that number from the  
21     library reference or I could give you the library reference  
22     to look at -- that that -- the average-weight piece, the  
23     average-weight flat, which weighs 3.3 ounces, the study  
24     implicitly assumes that that data is representative for  
25     pieces that weigh less than one ounce. Correct?

1           A     This is really getting into the methodology  
2     employed in the library reference. I don't know. It's  
3     beyond my ability, I think.

4           Q     Okay. I won't go any further on that, but I'll  
5     ask you to assume that to be true. I can -- and then I have  
6     a question based on that assumption. So I'm not going to  
7     ask you to speak to things you don't know about, but there  
8     is a response by the Postal Service to <sup>NDMS</sup>~~MDMS~~ Interrogatory  
9     T-32-8. Do you have that one?

10          A     Yes, I brought that.

11          Q     Okay. And do you see in Section A that the  
12     average weight of single-piece letters, flats, and parcels  
13     is sought? Do you see the question?

14          A     Yes, I see that.

15          Q     Okay. And for letters the average weight is .5  
16     ounce; correct?

17          A     That's what the response says.

18          Q     Okay. And for flats, 3.3 ounces?

19          A     That's what it says.

20          Q     And for parcels, 4.3 ounces.

21          A     Yes.

22          Q     Okay. Does this assumption that is made, that  
23     these data in the library reference are representative for  
24     pieces that weigh less than one ounce, is that a good  
25     assumption?

1           A     I'll try to answer as best I can. The methodology  
2     that's employed in this supplemental testimony and the  
3     original library reference is a methodology that's  
4     historically been employed and accepted by the Commission,  
5     most recently in Docket R-90-1. It does have the limitation  
6     that -- it's my understanding that there does not appear to  
7     be one-ounce cost data to use in conducting the study.

8                     In the absence of that data, and what the Postal  
9     Service has done and what the Commission apparently has  
10    recognized and accepted, at least historically, is to  
11    implicitly approximate what the cost of a one-ounce piece  
12    would be using this methodology in the cost study.

13          Q     Okay. Do you see Witness -- well, let me ask you  
14    to look again at Library Reference 112, and see if you can  
15    tell me from that library reference what it says the average  
16    cost of processing an average-weight parcel is.

17          A     I may be missing something again. I <sup>didn't</sup>~~don't~~ prepare  
18    this, but I don't see this. Have I missed something  
19    obvious, Mr. Olson?

20          Q     Well, at the top -- I'm sorry to work with one  
21    document, but at the top of the page it says average mail  
22    processing unit costs, which are drawn from Library  
23    Reference 106, and for single-piece nonstandard pieces, it  
24    states costs for letters, flats and parcels.

25          A     Oh, I see what you mean.

1 Q And what I was asking you, if you could tell me  
2 what that is for parcels.

3 A It says that it's .7457 cents on this page.  
4 Again, this I believe is the originally filed one and not  
5 the one that's been revised.

6 Q Clearly. And if you want, you could look at the  
7 interim revisions and see that if you'd like to look at the  
8 number. I think that did not change significantly, if at  
9 all.

10 A You are correct. Even in the most recent analysis  
11 it appears to be only a half a cent less, .7408.

12 Q Okay. So the average-weight parcel which we  
13 learned a moment ago was 4.3 ounces has an average mail  
14 processing cost of 74.08 cents; is that correct?

15 A It's what this page indicates.

16 Q Okay. And I'm asking you if you believe that that  
17 is representative of a parcel that weighs less than one  
18 ounce, that cost.

19 A In and of itself I don't know that this particular  
20 number would be representative of a one-ounce parcel, but I  
21 believe there's a subtraction that takes place from a manual  
22 piece that more implicitly gets <sup>at</sup> ~~out~~ a one-ounce parcel.

23 Again, you're stretching my knowledge of the cost  
24 methodology. I realize I used it, but I didn't prepare it.

25 Q No, I know, and really what I'm getting at is the

1 assumption with respect to the effect of weight on cost now,  
2 and I guess I'm asking you is it a reasonable assumption  
3 that a parcel under one ounce weighs -- costs the same to  
4 process as a parcel of 4.3 ounces? Do you have a view as to  
5 whether weight affects cost at all?

6 A Can I ask you to repeat that for me, please?

7 Q Sure. The Postal Service's response to T32-11  
8 says the library reference implicitly assumes that the data  
9 is representative for pieces that weigh less than an ounce,  
10 and what I am asking you is if you believe that is a good  
11 assumption, and if you do, then aren't there implications  
12 for whether weight affects cost between under an ounce and  
13 4.3 ounces -- for a parcel that we have been discussing  
14 here?

15 A There are a lot of pieces in that question.

16 As I testified earlier, I do believe that it is a  
17 reasonable -- that what is stated here is reasonable, that  
18 the library reference is implicitly assuming this, and that  
19 is what we have done historically and I believe has been  
20 accepted historically.

21 What is the subsequent part of this, please?

22 Q Well, I am asking you -- the assumption is that  
23 weight doesn't matter in terms of processing costs. Is that  
24 not true?

25 A I wouldn't characterize it that way, because again

1     you are beyond -- you are beyond -- I should almost start  
2     saying I don't know, really, but my understanding of this  
3     methodology is that it involves the subtraction between an  
4     average piece and a manual piece and that in so doing it  
5     implicitly controls some for the weight.

6             That is how I read this institutional response and  
7     that is how I understand the methodology, that that is the  
8     kind of thing -- that is what we can do given the state of  
9     the data.

10            Q     So it is your assumption that weight does drive  
11     costs and that a 4.3 ounce parcel is more expensive to  
12     process than an under one ounce parcel?

13            A     I didn't say that exactly, but I accept the  
14     premise that a heavier piece might cost more to process than  
15     a lighter piece.

16            Q     What would drive the cost to be greater for a 4.3  
17     ounce parcel rather than an under one ounce parcel?

18            A     I don't know.

19            Q     You have no idea about what mail processing costs  
20     would be greater for a heavier weight parcel?

21            A     No, I don't.

22                   I am not a cost expert.

23            Q     So you really don't also have a view as to whether  
24     weight affects cost?

25            A     I have a general understanding that weight affects

1 cost, yes, but I don't have the specific knowledge that you  
2 seem to require for answering these questions.

3 Again, I would encourage you to speak to the cost  
4 witness tomorrow.

5 Q Okay. Let me ask you to look at the Postal  
6 Service response to ~~NDMS~~<sup>NDMS</sup> T32-50, where the Postal Service  
7 was asked to explain how weight affects cost of handling  
8 First Class mail, and the first sentence of the response --

9 A I have that. Thank you.

10 Q The first sentence of the response is that weight  
11 has a variety of implications on mail processing costs.

12 I take it you could not help us understand what  
13 those implications are?

14 A No.

15 Q Okay. Is it your view that when the First Class  
16 nonstandard surcharge is a rate category or a subclass or  
17 something else?

18 A It certainly isn't a subclass. It is a particular  
19 rate.

20 Q Is it a rate category?

21 A I would think so. I don't know if this is a  
22 loaded question. My understanding is that it would be a  
23 rate category, but --

24 Q When you design rates for rate categories, what  
25 criteria do you use or what rate design principles do you



1 use, generally speaking?

2 A I tend to look at some of the factors that would  
3 apply at the subclass level, the pricing criteria.

4 I look at issues of cost. I look at issues of  
5 fairness and equity.

6 I look at that kind of thing that are set forth in  
7 the statutes.

8 Q So you look at the 3622B criteria?

9 A I keep that in mind, yes.

10 Q All eight criteria?

11 A I generally --

12 Q As best you can?

13 A As best I can I factor that in, into developing a  
14 rate even at the rate category level.

15 Q Let me ask you to look at your response this time,  
16 instead of a Postal Service response to --

17 A I appreciate that.

18 Q -- to T32-4.

19 A I have that.

20 MR. TIDWELL: I'm sorry, counsel. Could you  
21 repeat the reference for me?

22 MR. OLSON: Sure. I'm sorry. It's  
23 NDMS-USPS-T-32-4.

24 BY MR. OLSON:

25 Q And particularly with respect to the second

1 paragraph of your response to question A there, do you see  
2 that? Would it be fair to say that you relied on Library  
3 Reference H-112 when you set your proposed nonstandard  
4 surcharge for First Class Mail?

5 A Yes.

6 Q And would it be fair to say that you were relying  
7 on criterion 3, the cost criterion, with respect to setting  
8 it?

9 A In setting this rate, I was guided by passing  
10 through the identifiable cost difference between the  
11 standard and the nonstandard pieces, as traditionally has  
12 been the ratemaking practice for this particular rate.

13 Q Would you say that criterion 3 must apply to rate  
14 categories, must be applied?

15 A I don't think that any of those considerations --  
16 must is an awfully strong word. I think they are just --  
17 they are criteria that apply generally to the ratemaking  
18 process.

19 Q Do you think it should be applied except for  
20 perhaps extraordinary circumstances?

21 A I thought that it was appropriate to look at the  
22 cost in this instance and establishing this rate as, again,  
23 has historically been the case.

24 Q Do you have in mind circumstances or conditions  
25 under which criterion 3 would be relaxed in its application

1 with respect to a rate category?

2 A As I develop rates and as I consider the rate  
3 design criterion?

4 Q Yes.

5 A Different factors come into play to varying  
6 degrees when I am considering the rate design process.

7 Q Let me ask -- maybe you can look at your response  
8 to NDMS-T-32-6, probably just a page over in the book there.  
9 And I will just give you a parallel cite, although you don't  
10 need to look at it, but it is sort of similar to  
11 NAA-USPS-T-32-10, if you recall your response there. And  
12 you talk about 36-22-B as being applied to the First Class  
13 nonstandard surcharge and other proposals in your testimony.  
14 Do you see that?

15 A I see it.

16 Q When you wrote your testimony and when you made  
17 your proposal for a 16 cent First Class nonstandard  
18 surcharge, other than criterion 3, what other criterion of  
19 the act did you consider?

20 A Don't have all the criteria memorized, maybe in  
21 another couple years. But fairness --

22 Q Let me ask you this first. This might help.

23 Is there anywhere in your testimony where you  
24 state any of what you are about to tell me in terms of how  
25 you evaluated the other criteria of the act?

1           A     No. No, not in the context of this, this proposed  
2 surcharge.

3           Q     Okay, I'm sorry. Go ahead.

4           A     Again, I consider that thing and those factors in  
5 my rate design process as well as Witness O'Hara or somebody  
6 might at the overall level. By better aligning this  
7 nonstandard surcharge with costs, I think that it promotes  
8 fairness and equity by essentially signaling the mailers  
9 that what caused these costs, what costs they're causing.  
10                There was perhaps another consideration that I was  
11 thinking about that didn't come into play so much at the  
12 time I developed my original rate proposal but that in light  
13 of the revised cost numbers I think I may have considered in  
14 developing the rate and that is the rate shock  
15 consideration. The revised numbers set forth in the  
16 testimony, the supplemental testimony of Witness Daniel,  
17 indicate that I am not passing through all the identifiable  
18 cost differences, anymore, which by the way are limited only  
19 to mail processing. I don't have any carrier delivery costs  
20 recognized.

21                So even though I was trying to work toward 100  
22 percent originally, I wasn't because I didn't have all the  
23 relevant costs and in light of the revised cost numbers set  
24 forth in Witness Daniel's supplemental testimony, I am now  
25 at about the 75 percent level.

1 Q For both single piece and --

2 A For both single piece and presort.

3 Q -- presort.

4 A And the question would have come up would I have  
5 considered an even higher nonstandard surcharge --

6 Q I haven't asked that question.

7 A No.

8 Q But I intend to.

9 A Okay. I was determined to try to answer that.

10 Q I appreciate your enthusiasm. But let me ask you  
11 to get back to what we're talking about which has to do with  
12 the other criteria of the act and for example when you made  
13 your analysis, did you come to the conclusion that B-3 was  
14 more important than all the other criteria combined or did  
15 you -- you know, it's hard to know, I guess, what you did at  
16 the time, but did you go down the list with respect to each  
17 of your proposals and look at all of the criteria in the  
18 act?

19 A I can't say that I went down the list every single  
20 time. There were -- like I say, in my mind, as factors to  
21 consider and with the nonstandard surcharge, I felt that the  
22 paramount consideration, they're really twins here, they're  
23 linked. It is really by focusing on the identifiable cost  
24 difference between standard and nonstandard pieces as best  
25 we could in the analysis and passing through as much of that

1 as I could identify, that that aligned my rates better with  
2 the costs and, as such, was also consistent with promoting  
3 fairness and equity.

4 Q You talked about alignment in your answers -- I  
5 don't mean to cut you off but this is right on point. You  
6 talked about aligning prices with costs and you did it in  
7 one interrogatory that is in the same group. T -- I'm  
8 sorry, NDMS-USPS-T-32-5. Do you see that?

9 A Yes, I see it.

10 Q And when you said there, "I worked to develop  
11 pricing proposals that align prices with costs and meet the  
12 statutory pricing criteria," I guess I'd want to ask you  
13 what you mean by align. Does align mean set at greater --  
14 at equal to or greater than cost? Is that what price  
15 alignment is?

16 A What I meant in this kind of a context would be to  
17 align my nonstandard surcharge with the identifiable cost  
18 difference between nonstandard and standard pieces, and  
19 generally to try to do that in developing for example my  
20 workshare discounts for First Class letters to try to look  
21 at the cost difference, the identifiable cost difference and  
22 align my discount --

23 Q Okay.

24 A With that cost.

25 Q Align the way you typically are using it means

1 equate to or something like that?

2 A Yes. It's --

3 Q Or move in that direction at least?

4 A Right.

5 Q Yes.

6 A Yes.

7 Q Okay. Let me ask you to look at -- I'm trying to  
8 move through this quickly for the Commission's sake, if no  
9 one else. In response to NDMS-USPS-T-32-25 this time, and  
10 you talk about alignment there again, in the second  
11 paragraph of your response -- do you see that?

12 A I do.

13 Q Okay. And the second sentence there you said if  
14 mailers pay -- I'm sorry, if the price mailers pay for  
15 nonstandard pieces is not generally aligned with costs and  
16 is artificially low, the Postal Service may encourage the  
17 overuse of nonstandard pieces. Correct?

18 A Correct.

19 Q Okay. Now I know that you may say this is  
20 assuming a fact not in evidence, but I'm going to ask you  
21 the opposite. If the converse is true, if prices are set  
22 artificially high, does that not encourage -- does that not  
23 operate as a restraint on usage?

24 A If it's artificially high I would accept what  
25 you're saying.

1 Q Okay.

2 A Whatever artificially means, I guess.

3 Q I don't want to go too far into what you before  
4 disclaimed expertise on with respect to the effect of weight  
5 on costs, but does your testimony in proposing a 23-cent  
6 ounce rate for each additional ounce of First Class mail,  
7 23-cent additional-ounce rate, does that proposal reflect  
8 your understanding that weight has a significant driving  
9 effect on costs?

10 A In that proposal I'm maintaining the rate at its  
11 present level, but clearly that rate indicates that weight  
12 matters.

13 Q If a four-ounce piece is charged an extra 92  
14 cents, that seems to indicate that -- or just about an over  
15 four-ounce piece I guess like the average parcel we're  
16 talking about before -- is charged an extra 92 cents, that  
17 sure does indicate that weight matters in driving costs,  
18 doesn't it?

19 A Yes, it does. The additional-ounce rate has got  
20 dimensions to it other than cost. There are policy  
21 considerations in terms of that rate as well, but yes.

22 Q Okay. Is there logic to the proposition that may  
23 be implicit in your proposals that gross overcharging of or  
24 significant overcharging of pieces is okay, but slight  
25 undercharging must be avoided?



1           A     I can't accept that. What do you expect me to  
2 say? No. Yeah.

3           Q     I didn't think you'd agree, but let me ask you --  
4                 [Laughter.]

5                 Let me ask you about rate averaging just for a  
6 second. If you think about all of the standard-sized First  
7 Class letters out there, do you know -- again, you're not a  
8 cost witness, but you realize that there are some letters  
9 that are relatively low-cost; correct?

10          A     Correct.

11          Q     And a low-cost letter just hypothetically might be  
12 something like a typed letter -- I'm talking about single  
13 piece at the moment -- a typed letter that is destined for  
14 an address within the same town; correct?

15          A     That would be lower cost than a handwritten piece  
16 that nobody could make out; yes.

17          Q     It would be OCR-readable, it would be reasonably  
18 low-cost to process and deliver presumably; correct?

19          A     Relative to other kinds of like handwritten mail;  
20 yes.

21          Q     Okay. And, for example, that handwritten piece of  
22 mail, if you sent it from Hawaii to Maine, is going to  
23 require greater transportation, delivery, processing costs  
24 than the other -- than the other letter; correct?

25          A     I'm beyond the scope of my knowledge about that a

1 little. I don't see that it may affect mail processing.

2 I don't see that it would affect delivery -- I  
3 don't know.

4 Q Well, it's mostly transportation, I guess, but  
5 there's certainly processing.

6 I am not going to get into costs here but -- and I  
7 don't want to -- but let me ask you this.

8 Are you aware of studies that detail the costs,  
9 the lowest costs and the highest costs of First Class  
10 letters?

11 A What do you mean? Like --

12 Q First Class letters, single piece letters, <sup>some</sup> are low  
13 cost and some are high cost. Have you ever seen that  
14 documented before?

15 A Within the single piece, I have certainly seen the  
16 bulk metered portion split out.

17 I don't know that I have ever seen anything other  
18 than that, frankly.

19 Q But would you concede that there is a certain  
20 amount of rate averaging that takes place within the context  
21 of First Class standard size letters?

22 A Yes.

23 Q Okay. And if a letter is nonstandard in that it  
24 has the shape differences that you have specified with  
25 respect to it's one ounce or less and it has certain shape

1 characteristics you have specified, the justification for a  
2 surcharge is that it must be processed manually, is that not  
3 correct?

4 A Yes. A nonstandard piece is nonautomatable.

5 Q Aside from letters that are not of standard size,  
6 what other factors would cause a letter to be processed  
7 manually?

8 A I don't know.

9 Q If they were -- there actually is a discovery  
10 request on this, and there were some responses.

11 It was NDMS/USPS T32-21. I think the Postal  
12 Service responded to that also.

13 Do you happen to have that?

14 A If it was directed to me, I should have it.

15 Q It was.

16 A Yes, I do.

17 Q Okay. Looking at the response there, does that  
18 give you any guidance as to what other factors cause  
19 letters to be processed manually other than their  
20 nonstandard size?

21 A Yes, it does.

22 Q Could you just give us an illustration or two  
23 there?

24 A I am not sure what you are asking. The response  
25 identifies four different factors and I think it speaks for

1       itself.

2           Q     Just for the purpose of asking the next question,  
3       if you could read off those.

4           A     Sure.  Number one is nonmachinable; two is remote  
5       bar coding system rejects; three is letters destined for  
6       zones that have fewer than five carriers; four is letters  
7       that originated and are destined in the same nonautomated  
8       facility.

9                   I read the response verbatim.

10          Q     Okay.  No, I know that is not your --

11          A     That's all right.

12          Q     -- testimony.  That is the Postal Service's  
13       response, but do you know the number --

14                   MR. TIDWELL:  Just for the record, it is a  
15       response by Witness Moden.

16                   MR. OLSON:  Oh, I'm sorry.

17                   BY MR. OLSON:

18          Q     Do you know how many standard size First Class  
19       letters are processed manually?

20          A     No, I don't.

21          Q     Have you ever considered the question?

22          A     No.  Only in the sense that I see that it has come  
23       up in the methodology employed in the nonstandard surcharge  
24       cost study -- other than that, no.

25          Q     Okay.  When you were preparing your testimony, did

1 you ever think of the following of a question like this, and  
2 I wrote it down, if manual processing of letters is the  
3 cause or source of higher unit costs, why should letters of  
4 nonstandard size be singled out for a surcharge while all  
5 other manually processed letters are rate averaged?

6 Did that question ever come to mind?

7 A I can't say that it did.

8 Q Does the Postal Service sell an 11 cent stamp  
9 currently, do you know?

10 A If you will bear with me for a second, I can find  
11 out.

12 CHAIRMAN GLEIMAN: Mr. Olson, while he is  
13 checking, could you give me a sense of how many more yellow  
14 stickies you have to go?

15 MR. OLSON: 45 seconds' worth.

16 CHAIRMAN GLEIMAN: Okay. That sounds reasonable.

17 THE WITNESS: I apologize for the delay. I am  
18 hunting for an OCA institutional interrogatory response  
19 where we actually listed the denominations of stamps we sold  
20 and my recollection is ~~that~~<sup>that</sup> there is one of that  
21 denomination.

22 MS. DREIFUSS: Mr. Chairman, may I interject.

23 We happen to have that cite handy. It is the  
24 Postal Service's answer to an interrogatory directed to  
25 Witness Fronk -- 47 and those tables are provided in that

1 response. It would be 47.

2 THE WITNESS: Would you confirm the denomination,  
3 too, Ms. Dreifuss?

4 MS. DREIFUSS: May I approach the witness?

5 CHAIRMAN GLEIMAN: Certainly. If counsel doesn't  
6 mind.

7 MR. OLSON: No, counsel could testify on this  
8 point. I have no problem.

9 THE WITNESS: I may be wrong. Which denomination  
10 did you ask?

11 BY MR. OLSON:

12 Q 11 cents is the current surcharge, right?

13 A No. I stand corrected. There is a 10 cent  
14 denomination and a 14 cent denomination.

15 Q So if someone needed to pay the current surcharge  
16 they would have to use either a combination of stamps or  
17 overpay the surcharge, is that not correct?

18 A Or a meter strip.

19 Q Or a meter strip.

20 A Yes.

21 Q But if they are using stamps they would have to  
22 use a combination of stamps to get up to 11 cents or overpay  
23 it, which people do, isn't that correct?

24 A Well, let me think here for a second.

25 If the current -- they would have to use some kind

1 combination or a meter strip.

2 Q Or overpay.

3 A And hopefully not short pay. Yes.

4 Q Mr. Fronk, prior to or during the preparation of  
5 your testimony, did you review what has been filed in this  
6 docket as library reference H-182?

7 A Can you give me the title of that, please, Mr.  
8 Olson?

9 Q Well, it's a -- it's a study that purports to  
10 analyze the effect of weight on the costs of processing  
11 Standard A mail. I can -- I can get it.

12 A No, I didn't -- I didn't review that.

13 Q Okay.

14 Have you reviewed any study not -- other than --  
15 strike that.

16 Have you reviewed any study that purports to show  
17 the effect of weight on the costs of processing and  
18 delivering first-class mail?

19 A Can you repeat that so I can be sure?

20 Q Sure.

21 Have you -- when you were preparing your testimony  
22 or up until the present, have you reviewed any study that  
23 purports to show the effect of weight on the costs of  
24 processing and delivering first-class mail?

25 A I don't think so.

1           Q     I think that's consistent with your response to  
2 NDMS/USPS-T-32-14. Is that correct?

3           A     Give me a minute while I turn to it, please.

4           Q     Sure.

5           A     Yes, that's consistent.

6           MR. OLSON: Okay. Thank you very much, Mr. Fronk.  
7 Thank you, Mr. Chairman.

8           CHAIRMAN GLEIMAN: Thank you, Mr. Olson.

9           Before we break for lunch, with respect to witness  
10 Hatfield, who will appear later today, Mr. Tidwell, you were  
11 in the room earlier when I gave Mr. Cooper four questions.

12           I have similar concerns about library references  
13 used by witness Hatfield, and I'm going to list certain  
14 library references that witness Hatfield apparently relied  
15 on, and for each of these library references, I would like  
16 to know -- and I will provide you a hard copy of this when  
17 we break for lunch -- whether they were prepared by witness  
18 Hatfield or under his supervision; two, whether they were  
19 prepared by or under the supervision of some other Postal  
20 Service witness; whether the Postal Service objects to their  
21 receipt into evidence; and four, if the Postal Service does  
22 not object to their receipt into evidence but they were not  
23 prepared by the witness, a witness in this case, will the  
24 Postal Service provide a sponsor for these documents, and I  
25 am asking you these questions concerning library references



1 number 77, dealing with the development of piggy-back costs  
2 --

3 MR. TIDWELL: Mr. Chairman, if we can -- if we can  
4 go slowly, I can give you information with regard to each  
5 one as we proceed.

6 CHAIRMAN GLEIMAN: Actually, I would prefer that  
7 you take the list and -- and look at it and get back to us  
8 as we have witness Hatfield on the stand.

9 Library reference 77, development of piggy-back  
10 costs; library reference 106, mail processing unit costs by  
11 shape; 113, productivities and accept rates; 128, coverage  
12 factors; 130, OCR/RBCS accept rates; 146, mods-based  
13 costing; and 185, first-class mail characteristic studies;  
14 and as I've said, I'll provide you a hard copy list of  
15 those.

16 You're -- you're better at writing things down  
17 than I am.

18 Before we break for lunch, it appears as though  
19 Mr. Littell would like to get my attention.

20 MR. LITTELL: Mr. Chairman, I came this morning in  
21 order to --

22 CHAIRMAN GLEIMAN: You'll have to use the mike.

23 MR. LITTELL: Thank you.

24 I came this morning in order to add to your  
25 designations of -- to the designations of written cross

1 examination for Mr. Hatfield for interrogatory responses  
2 that I received very recently, after our own designations.  
3 I wonder if I could hand the packet to you and ask that they  
4 be added to the ones that you are going to have him vouch  
5 for.

6 CHAIRMAN GLEIMAN: I will grant your motion for  
7 late acceptance, and we'll see that the interrogatories, if  
8 they are not already included in some way, shape, or  
9 form --

10 MR. LITTELL: They are not, and I have shown them  
11 to Postal Service counsel.

12 CHAIRMAN GLEIMAN: Okay. Certainly.

13 MR. LITTELL: Thank you.

14 CHAIRMAN GLEIMAN: Thank you.

15 We'll come back --

16 Mr. Popkin.

17 MR. POPKIN: Yes. Since it was not possible to  
18 reschedule witness Sharkey, would it be possible for the OCA  
19 to read some written questions to him later today? They are  
20 willing.

21 CHAIRMAN GLEIMAN: If they are willing, certainly  
22 that's a possibility, yes. Counsel frequently cooperate,  
23 and you're your own counsel in this case, so certainly, if  
24 -- if you've arranged something with OCA --

25 MR. POPKIN: Okay. Thank you.

1           CHAIRMAN GLEIMAN:  -- that's fine, and I'm sorry  
2   that we couldn't accommodate you, but as you can see, it's  
3   likely to be another long day, and there are lots of folks  
4   who would like to leave early to go other places, including  
5   watching the first playoff game tonight.

6           We may put our new big screen down there and put a  
7   projection TV in the back.  The only problem is we can't see  
8   it from this side of the room, so I don't know.  But the  
9   rest of you could watch the game during the proceedings.

10          In any event, we'll break now.  We'll come back  
11   from lunch at two o'clock, and we'll pick up with OCA cross  
12   examination of the witness at that point in time.

13          [Whereupon, at 12:42 p.m., the hearing was  
14   recessed, to reconvene at 2:00 p.m., this same day.]

15  
16  
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1 AFTERNOON SESSION

2 [2:00 p.m.]

3 Whereupon,

4 DAVID R. FRONK,

5 the witness on the stand at the time of recess, having been  
6 previously duly sworn, was further examined and testified as  
7 follows:

8 CHAIRMAN GLEIMAN: Ms. Dreifuss, are you prepared  
9 to begin your cross-examination?

10 MS. DREIFUSS: Yes, I am, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Fire away.

12 CROSS EXAMINATION

13 BY MS. DREIFUSS:

14 Q Could you turn, please -- well, I wanted you to  
15 look at, if you do have it, it's the answer to Postal  
16 Service -- to our interrogatory to you, number 47, which was  
17 answered by the Postal Service. It is the one that I handed  
18 you a copy of earlier.

19 A Yes, I do have a copy.

20 Q In the response to part A, there is a table that  
21 shows that there are 30 USPS stamp denominations; is that  
22 correct?

23 A That's correct.

24 Q Do you believe that there is any potential for  
25 confusion amongst consumers about how to use these various

1 stamp denominations?

2 A I haven't studied -- studied that issue. Clearly,  
3 I wouldn't think there would be any confusion with the  
4 32-cent stamp or the 23-cent stamp. Frankly, I am not sure  
5 myself what some of these denominations may be for.

6 Q But at any rate, you don't think there is much  
7 confusion with respect to when to use a 32-cent stamp and  
8 when to use a 23-cent stamp?

9 A I don't think that there is confusion about when  
10 to use a 32-cent stamp. Frankly, I haven't studied  
11 personally whether there is confusion about a 23-cent stamp.

12 Q There was an interrogatory we directed to you. It  
13 was our interrogatory number 2 and it was redirected to the  
14 Postal Service for a response. Do you happen to have that  
15 with you?

16 A . Yes, I do.

17 Q In that interrogatory, we asked if the Postal  
18 Service had estimated the number of households that are  
19 aware of the difference between the First Class stamp rate  
20 and the First Class additional ounce rate and the answer to  
21 that, I believe, was no. The Postal Service didn't have  
22 such an estimate; is that correct?

23 A That's what the response says.

24 Q And in part B, the further response is that the  
25 Postal Service had no need for such an estimate; is that

1 correct?

2 A Technically, it says, "has not had a need for such  
3 an estimate" but, yes.

4 Q The fact that the Postal Service doesn't measure  
5 household awareness or consumer awareness of these -- of the  
6 proper use, let's say, of these two different stamp  
7 denominations, is that an indication that confusion really  
8 is not widespread?

9 A I don't know if we can draw that conclusion. We  
10 can only draw the conclusion that the Postal Service, as it  
11 said, has not had a need to develop that estimate.

12 Q Do you think if there was serious and extensive  
13 misuse of the 23-cent stamp that the Postal Service would  
14 try to make an effort to measure that misuse?

15 A I -- I don't know.

16 Q If -- if consumers have -- are confused about what  
17 the appropriate postage rate is for a particular type of  
18 mailing, is it your understanding that they can get  
19 information from postal clerks or other resources within the  
20 Postal Service to clear up such confusion?

21 A Yes, there are resources available to the -- to  
22 the public, and I believe you asked an interrogatory about  
23 that. Postal clerks can be asked. There are pamphlets that  
24 describe the rates. There are posters in postal -- post  
25 offices. There are a number of -- of avenues for education.

1           Q     Currently, many mailers provide envelopes to  
2 consumers either for business reply mail purposes or  
3 courtesy reply mail purposes. Is that correct?

4           A     Yes.

5           Q     I -- I think it's common knowledge that a BRM  
6 envelope will say something like this: no postage necessary  
7 if mailed in the U.S.? Does that sound familiar to you?

8           A     Sounds familiar. I'm not sure if that's the exact  
9 wording, but that's close.

10          Q     Right. It may not be exact, but I -- I think I've  
11 seen words to that effect. I think most of us have.

12                     The courtesy reply mail envelope will often say  
13 something like this, in my experience, and let's see if it's  
14 similar to your experience: post office will not deliver  
15 without postage. Does that sound familiar?

16          A     I see that frequently.

17          Q     Are you under the impression that consumers are  
18 confused about when they should apply postage and when they  
19 should not when they have occasion to -- to look at the face  
20 ~~of -- of --~~ of these two different types of envelopes?

21          A     I would say that -- can you repeat that for me?

22          Q     Yes.

23                     When -- we established the two different types of  
24 captions that might appear on a business reply envelope and  
25 on a courtesy reply envelope, and I asked whether consumers

1 would be confused about whether postage should be applied  
2 and, if so, in what -- in what amount.

3 A I think most -- most consumers, in my opinion,  
4 understand, when it says no postage necessary, that they  
5 don't have to affix postage.

6 Q Postal rates go up every few years, as we well  
7 know. Do you think there's confusion in the minds of  
8 consumers when post -- when a single-piece first-class rate  
9 goes up?

10 A I think the single -- single-piece first-ounce  
11 rate is a pretty visible flagship kind of rate, and I think  
12 it's -- when it goes up, it's generally understood.

13 Q So, we've gone over the many instances where  
14 consumers have to make choices.

15 They have to know when to apply the proper postage  
16 for a -- a one-ounce piece of first-class mail, when to  
17 apply the proper postage for an additional ounce, they have  
18 to understand when they must apply postage to a courtesy  
19 reply mail piece and when they can avoid it with a business  
20 reply mail piece, and in all these instances, it appears  
21 that confusion is not a serious problem for the Postal  
22 Service. Is that correct?

23 A I believe you mischaracterized a little bit of my  
24 testimony.

25 I -- I really didn't have an opinion about



1 confusion about the additional ounce rate. I did say,  
2 however, that most people understand the first-ounce rate  
3 and that they don't need to affix postage to a BRM mail  
4 piece.

5 Q Do you think that there would be serious confusion  
6 about a caption which would appear probably in the -- in the  
7 same part of -- on the same part of the face of the envelope  
8 as -- as it does with business reply mail or courtesy reply  
9 mail that said something like this: use CEM postage? Do  
10 you think that would be more confusing than the other two  
11 captions?

12 A Took five minutes to get to CEM.

13 I really -- I really don't have -- I don't have an  
14 opinion on that. What was it? If it's more confusing if --  
15 this would -- that would be a brand -- that would be  
16 brand-new terminology that the consumer hasn't seen. I  
17 don't know -- I don't know if -- they don't have the same  
18 familiarity with that.

19 BRM has been around for 70, 75 years, I think.  
20 It's been around a long time.

21 That's -- that's -- that's new terminology. I  
22 don't have a basis for knowing if they would understand that  
23 immediately or not.

24 Q You did say, though, that when -- when postage  
25 rates are increased, you're under the impression that there

1 is not much confusion that a new and higher rate must be  
2 applied to a first-class single-piece letter, for example.

3 A I said that that's a visible flagship kind of a  
4 rate, and when it changes, consumers usually know it.

5 Q When a new service is introduced, there's probably  
6 some kind of learning curve on the part of any user, where  
7 at first they might be confused, but after a period of time  
8 they learn how to use it properly. Does that sound right?

9 A I accept that premise.

10 Q I'd like you to turn to <sup>the</sup> Postal Service response to  
11 Interrogatory 20 that we directed to you initially.

12 A I have it.

13 Q We asked you there what was the -- I'm sorry, we  
14 asked you there, but the Postal Service answered this. "What  
15 is the Postal Service's estimate of the volume of households  
16 that will readdress and reroute a preaddressed prepaid reply  
17 mail envelope?" And the response was "no such estimate is  
18 available." Is that right?

19 A Yes, that's the gist of it.

20 Q And in subpart B an answer further stated, "The  
21 Postal Service has not had a need to prepare such an  
22 estimate." Is that correct?

23 A That's what it states.

24 Q Do you think that if PRM is adopted and  
25 recommended by the Commission that there is a potential that

1 the PRM envelopes will be misused in some way?

2 A I think there is a potential for such misuse. I  
3 can't quantify it, but I would think there's some unknown  
4 number of individuals who may choose to abuse the envelope.

5 Q Would you think it would be any more true of a  
6 CEM-type proposal than a PRM-type proposal?

7 A CEM is outside the scope of my testimony. I've  
8 not studied CEM.

9 Q What steps will the Postal Service take to ensure  
10 that PRM envelopes will not be misused?

11 A I don't believe that all of the implementing  
12 regulations associated with PRM, assuming that the  
13 Commission recommends it and the Board of Governors approves  
14 it, have been developed, including how we would enforce  
15 misuse of the PRM envelope.

16 Q Could you turn to your answer to Interrogatory 64,  
17 please?

18 COMMISSIONER LeBLANC: What was that, Ms.  
19 Dreifuss?

20 MS. DREIFUSS: That was OCA's Interrogatory 64 to  
21 Mr. Fronk.

22 COMMISSIONER LeBLANC: Thank you.

23 BY MS. DREIFUSS:

24 Q On the second page of that response you state that  
25 the Postal Service views alternatives using differently

1 rated postage stamps as infeasible. Is that correct?

2 A Which part is that, please, Ms. Dreifuss?

3 Q This would be the second page of your response.

4 It would be your response to subpart G, which continues on  
5 to a second page. And the sentence I'm looking at is the  
6 first full sentence.

7 A I see it. That's correct.

8 Q Could you give the reasons that the Postal Service  
9 views using differently rated postage stamps as infeasible?  
10 What are the reasons that underlie that statement?

11 A Developing the prepaid reply mail proposal as  
12 presented in my testimony I took it as a given that the  
13 Postal Service viewed a two-stamp alternative as infeasible.  
14 I didn't study what <sup>were</sup> ~~was~~ the reasons why the Postal Service  
15 viewed it as infeasible, but I took that as kind of a  
16 starting point for the development of the PRM proposal.

17 Q Did anyone in the Postal Service inform you that  
18 that was the Postal Service position, that is, make that  
19 your starting position, that two denominations would be  
20 infeasible?

21 A Repeatedly.

22 Q I'm sorry?

23 A Repeatedly. Don't do two stamps.

24 Q Did anyone explain why you should not do two  
25 stamps?

1           A     I didn't press too hard. I just went ahead and  
2     developed the prepaid reply mail.

3           Q     I'd like to ask you questions on a different  
4     matter. Are you familiar with Library Reference H-226? The  
5     title of that library reference is qualitative market  
6     research, prepaid reply mail product concept, in-depth  
7     interviews with businesses, the final report.

8           A     Yes, I'm familiar with that.

9           Q     In fact, you had occasion to answer several OCA  
10    questions on that, didn't you?

11          A     Or I redirected them for answering by the  
12    contractor, yes.

13          Q     Right, some you answered and some the Postal  
14    Service answered?

15          A     Yeah.

16          Q     And also I would like you to turn your attention  
17    to your answer to OCA interrogatory 22, please.

18          A     I have it.

19          Q     Our question C asked, "isn't it plausible that the  
20    actual participation in PRM and QBRM by credit card  
21    companies and utility companies who now provide courtesy  
22    reply envelopes will approach zero since currently they pay  
23    zero postage costs on the courtesy reply envelope?"

24                And you replied in part, "participation is  
25    currently zero; participation is expected to move away from

1 zero." Is that correct?

2 A Yes, that is what it states.

3 Q Can you explain why a company that currently pays  
4 nothing at all in providing a courtesy reply mail envelope  
5 would want to change course and start to pay 30 cents a  
6 piece for the return of such envelopes?

7 A A general attraction of the proposal for business  
8 is generally outlined in my testimony and in a response to  
9 one of your interrogatories. But the attraction would be  
10 potentially faster return of remittances for one. Secondly,  
11 together, consumer goodwill. By enhancing -- in other words  
12 to improve the convenience of returning the remittance for  
13 the consumer and thereby generate goodwill.

14 Another attraction would be ~~the~~ perhaps a  
15 competitive advantage that could be gained by a business  
16 offering PRM and I believe in one of my interrogatory  
17 responses I cited the bank card industry as potentially  
18 competing on grace period and interest rate and annual fee  
19 and that conceivably they would find this a competitive edge  
20 through this as well.

21 Q Do you have any concrete evidence that businesses  
22 will see PRM in that light?

23 A I recognize that prepared reply mail isn't for all  
24 businesses and not all will find it attractive. I do feel  
25 there are businesses out there that will find it attractive.

1     There is at least one utility that is using business reply  
2     mail for remittances at this point and so there is at  
3     least -- that's concrete evidence of one participant in  
4     business reply mail because there is no PRM alternative for  
5     that right now.

6           Q     Does the Postal Service have any empirical  
7     evidence by potential business providers that they will  
8     start to provide PRM?

9           A     By empirical, if you mean I can quantify that  
10    there are 50 -- 50 businesses at this instant, no. I do  
11    believe that there are segments of the economy and  
12    industries that will find this attractive and have the  
13    orientation of retail customer service, for example, that  
14    will generate their interest in the product. But I don't  
15    have an empirical estimate.

16          Q     So you don't have any market surveys to back up  
17    that belief?

18          A     No. The quantitative market research that we have  
19    is the -- from the consumer side and that's set forth in my  
20    testimony from the Caravan Survey. No, I don't have  
21    quantitative research on the business side.

22          Q     In Section 3.2 of Library Reference H226, there is  
23    a statement, I will quote it to you. "Current CRM users  
24    identified the cost of BRM as the main reason why they use  
25    CRM instead of BRM."

1           Would that lead you to believe that current CRM  
2 users may not be interested to a great extent in now having  
3 to pay the PRM rates since they are very satisfied in paying  
4 nothing when they provide CRM envelopes?

5           A     Can you give me that citation again, please?

6           Q     Yes, it's section 3.2 of the library reference.

7           A     Would you repeat the question for me, please?

8           Q     Yes. I quoted a -- a statement. Do you need to  
9 quote that again? Would you like me to do that?

10          A     Yes, if you would, please.

11          Q     Sure.

12          A     I'd appreciate it.

13          Q     The statement I quoted is, "Current CRM users  
14 identified the cost of BRM as the main reason why they use  
15 CRM instead of BRM."

16                If we extrapolate to the kinds of costs that would  
17 be incurred in offering PRM, does that suggest to you that  
18 CRM users will not be interested, to a large extent, in  
19 having to incur PRM postage costs, whereas presently their  
20 CRM postage costs are zero?

21          A     I think I follow the question.

22                I think -- I think what -- what this tells us is  
23 that -- in the report, there were, I believe, seven CRM  
24 users that were interviewed.

25                It indicates that these seven CRM -- for these



1           A     I responded to that question in OCA/USPS-T-32-22.

2                     In essence, what I -- what I said, just to  
3     summarize the substance of the interrogatory response, is  
4     that I used the Postal Service's experience with  
5     pre-bar-coded mail and the introduction of pre-bar-coded  
6     mail for both the 10-percent estimate and the 2-percent  
7     estimate of the non-utility, non-bank card customers that  
8     are included in my testimony.

9           Q     I may have misread your testimony. I thought that  
10    you discussed the experience with pre-bar-coding in  
11    justifying the 2-percent figure. I had not realized that it  
12    was also part of your justification for the 10-percent  
13    figure?

14          A     Yes, that -- that's right, and the -- and the  
15    testimony explicitly stated that the source of the 2 percent  
16    -- that 10 percent I hadn't put in here until somebody asked  
17    me about it. So, it's not in the testimony; it's in the  
18    interrogatory response.

19          Q     So, your explanation or your -- the basis for the  
20    10 percent would be found in the answer to 22-C?

21          A     Exactly. 22-A.

22          Q     I'm still not clear. In Part A you state  
23    generally, " I also used the Postal Service's experience  
24    introducing the bar code discount to arrive at my estimate  
25    that up to 10 percent of the courtesy reply envelopes

1 associated with credit card companies and utilities would  
2 switch to PRM in the test year."

3 I am still not sure why it is 10 percent, not 20  
4 percent, not 1 percent. Why is it 10 percent?

5 A The easiest way to answer that is almost to read  
6 the next two paragraphs of my response. Am I allowed to do  
7 that?

8 Q If that answers the question, yes.

9 A I think that it does. I can paraphrase some of  
10 it.

11 In the second full year following the introduction  
12 of the bar code, penetration of presorted mail was 6.5  
13 percent. In 1991 the percentage increased to 16.5 percent.

14 I noted in my interrogatory response that that  
15 trend was a percentage of presorted mail that was bar coded  
16 and that it represented an average across all customers and  
17 industries and I noticed that some industries and customers  
18 were adopting bar codes faster than other and had a higher  
19 percentage of bar coded mail pieces.

20 And then -- since I felt that the credit card  
21 companies and utilities were two industries likely to be  
22 attracted to the rate, I anticipated that the portion of  
23 their CRM that would switch would be above the 2 percent  
24 average for the rest of the mailstream, and so I concluded  
25 that up to 10 percent seemed reasonable given the overall

1 trend in the bar coding.

2 Q Did you subtract one number from another to get 10  
3 percent?

4 A No, I didn't. I just looked at the adoption rate  
5 of bar coding, looked at the kind of industries that we were  
6 talking about here and selected 10 percent. It's not a  
7 subtraction.

8 Q Is it a midpoint of some sort?

9 A I wouldn't characterize it as a midpoint. It is  
10 within the range of the 2 percent, 6.5 percent, 16.5 percent  
11 there. It is a faster adoption rate than the average, and  
12 it is within the overall range of the Postal Service's  
13 experience with the bar coding.

14 Q At any rate, you believe that it is appropriate to  
15 compare the penetration of bar coded -- of the bar code  
16 discount with penetration for PRM, is that correct?

17 A I do say that it is appropriate.

18 I wouldn't say that it is perfect.

19 I was looking for a parallel that involved changes  
20 in mailer preparation requirements and kind of a significant  
21 change. Bar coding was kind of a brand new thing.  
22 Customers were adopting it shortly after the automation  
23 equipment became available to do it.

24 It seemed within the realm of recent postal  
25 products to be a good parallel kind of to use in this

1 instance for adoption, although as I indicated in my  
2 testimony, by no means perfect.

3 Q The carrot for bar coders would be a reduction in  
4 their rates, would it not?

5 A That is clearly one incentive.

6 Q Would the PRM providers have a similar inducement?

7 A Inducement in the sense of --

8 Q In other words --

9 A I suppose if you are a utility that is currently  
10 prepaying the postage like the one is for BRM that would be  
11 a similar inducement in that instance because they are  
12 already paying for it, but I am not sure I follow the  
13 question.

14 Q Well, for those providers who are currently  
15 providing courtesy reply envelopes, and they don't pay  
16 postage, obviously they can't experience any kind of rate  
17 reduction, can they?

18 A No, they can't.

19 Q Could you turn to -- to response to OCA  
20 interrogatory 64-G, please?

21 A All right.

22 Q I'm going to look at a different statement than we  
23 looked at just a few minutes ago.

24 A Okay.

25 Q In the first sentence of your answer to sub-part

1 G, you state that," during the spring, there was some thought  
2 given to conducting follow-on quantitative research," and I  
3 wondered whether that follow-on research had ever taken  
4 place.

5 A It has not.

6 Q Do you know if there's any intention to do so at  
7 this time?

8 A Not to my knowledge.

9 Q Could you turn now to your response to OCA  
10 interrogatory 90, please?

11 There we were asking you about library reference  
12 H-226, and you state in the second full sentence, "I did not  
13 rely on this report because it involved only a few  
14 interviews and was not statistically projectable." Is that  
15 correct?

16 A That's what I stated.

17 Q Do you know why the Postal Service determined not  
18 to conduct research that was statistically projectable?

19 A My understanding was that, per the previous  
20 interrogatory you were having me look at, there was some  
21 thought to conducting quantitative research.

22 However, the qualitative research was not done  
23 until early May, which really precluded the completion of  
24 anymore market research prior to the anticipated filing  
25 date.

1           Also, the Postal Service was interested in  
2     including a proposal like pre-paid reply mail in -- in this  
3     rate filing.

4           Q     Do you know if positive use can sometimes be put  
5     to survey results that are not statistically projectable?

6           A     Yes, I -- I think that -- that qualitative  
7     research can be used to guide, for example, further  
8     quantitative research.

9           Q     I'd like you to turn to your response to OCA  
10    interrogatory 67, please. At the end of your response to  
11    part B, you state that -- well, it might worthwhile for me  
12    to -- to read the question.

13                   On page 10 of the report, it is stated, "The  
14    identification of potential interviewees was extremely  
15    challenging. The number of organizations currently  
16    including a pre-paid postage envelope in their bill  
17    statements is quite low."

18                   And then we asked, do you agree with the "quite  
19    low" characterization.

20                   I'm sorry. I'm -- I'm looking at the wrong  
21    sub-part.

22           B -- I apologize -- we ask you to set forth all  
23    reasons why the number is quite low, and at the end, you  
24    state that PRM does not exist at present, it offers  
25    discounted postage, expeditious transfer of processed mail

1 from the delivery unit to the PRM recipient and the  
2 convenience of a permit imprint, and I wanted you to explain  
3 what the convenience of the permit imprint was. What do you  
4 mean by that?

5 A I think I meant that convenience for the -- from  
6 the standpoint of the consumer, is I think what I had in  
7 mind. It's been a while since I drafted this response, but  
8 convenience of a permit imprint in terms of avoiding having  
9 to affix postage.

10 Q Okay. Thank you.

11 Could you turn to the answer to interrogatory 121?  
12 This answer was given by the Postal Service, although  
13 initially the question was directed to you.

14 A I have it.

15 Q You state there that, "While expensive recognition  
16 equipment could be added to distinguish the denomination of  
17 stamps, the Postal Service would also need to add in-motion  
18 scales to determine the weight of the piece to assess  
19 underpayment."

20 Did you state that?

21 A The Postal Service did, yes.

22 Q I'm sorry, did the Postal Service?

23 A Yes. It says that.

24 Q Yes.

25 Can you tell me whether any Postal Service

1 equipment at the present time, in particular the facer  
2 cancelers that cancel First Class Mail, whether they can  
3 detect pieces that weigh more than an ounce?

4 A I'm afraid I don't know. That's outside -- I  
5 think you will need an operations expert on that.

6 MS. DREIFUSS: Would it be possible for the Postal  
7 Service to give us an expert<sup>answer</sup> in writing on that, probably an  
8 institutional answer, on whether facer cancelers detect mail  
9 pieces weighing in excess of one ounce?

10 MR. TIDWELL: Absolutely. We shall endeavor to  
11 get you an answer by shutdown midday Friday.

12 MS. DREIFUSS: By shutdown? Well, I am  
13 anticipating that time.

14 Thank you, I appreciate it. I hope it's not  
15 permanent shutdown, or maybe I do.

16 MR. TIDWELL: Well, all of the <sup>PLCS</sup>~~PCS~~ people are  
17 right now in Norman, Oklahoma. Whether it's permanent or  
18 not remains to be seen.

19 MS. DREIFUSS: Oh, I hope not for their sakes.

20 BY MS. DREIFUSS:

21 Q Could you return to your response to interrogatory  
22 49, please?

23 A I have it.

24 Q In that interrogatory, we asked you whether in  
25 planning the PRM and QBRM proposals the Postal Service



1 consulted with any consumer advocacy groups and the answer  
2 to that was, no. And I wondered why the Postal Service did  
3 not consult with consumer advocacy groups, why they  
4 determined that was not an appropriate step?

5 A As indicated later in the response, the Postal  
6 Service did consult directly with consumers via a telephone  
7 survey in the Caravan Study and via some focus group work in  
8 the library reference. I frankly -- I'm not sure why -- why  
9 we didn't formally consult with an advocacy group.

10 Q Are you aware of any instances where the Postal  
11 Service does consult with consumer advocacy groups in  
12 formulating proposals to present to the Commission?

13 A I don't know. I'm not aware of it; I just don't  
14 know.

15 Q Do you think it would be a good idea when a  
16 consumer-oriented proposal is made that the Postal Service  
17 do consult with consumer advocacy groups?

18 A Who do you have in mind exactly?

19 Q Could be Consumers Union, Ralph Nader made an  
20 appearance here at one point. Groups of that sort. Does  
21 that sound like a good idea?

22 A Getting more input rather than less input is  
23 generally a good idea. It sounds worthwhile to me in some  
24 contexts.

25 MS. DREIFUSS: Thank you. That concludes our

1 cross-examination.

2 CHAIRMAN GLEIMAN: That last response was a very  
3 political answer, very savvy.

4 [Laughter.]

5 CHAIRMAN GLEIMAN: Is there any followup?

6 [No response.]

7 CHAIRMAN GLEIMAN: There doesn't appear to be any  
8 followup. Questions from the Bench? Commissioner LeBlanc?

9 COMMISSIONER LeBLANC: Mr. Fronk, I've been here  
10 since '87. I had hair when I came, so it's taken its toll  
11 on me. But --

12 THE WITNESS: I think I have grayed just being up  
13 here today.

14 COMMISSIONER LeBLANC: I'll take it, believe me.

15 I want to talk to you a minute about retail  
16 presort because when I came here in '87 it was 4 cents, in  
17 R90 it went to four-two, R94 it went to four-six. Then in  
18 MC95-1 it dropped to 2.5. Now there was a reason for that  
19 but there was a little weeping and gnashing of teeth in our  
20 conference room but it got done.

21 Now, you are proposing to go to 2 cents and you  
22 used the terminology, I believe, in your colloquy with  
23 Mr. Hart that you wanted to send an appropriate signal.  
24 Appropriate signal to who?

25 I mean, you have gone constantly down. How is

1 this sending an appropriate signal when there's no evidence  
2 that shrinking the discount increases automation, that I can  
3 see?

4 THE WITNESS: I think that there may be some  
5 evidence -- I can't put my finger on it right now -- where  
6 shrinking this discount, some of the mail does migrate from  
7 nonautomated presort to the automated area as part of the  
8 volume forecasting process. I think I agree with the thrust  
9 of what you're saying about the magnitude of the reduction  
10 in the discount.

11 In my colloquy with the counselor this morning I  
12 was indicating that the passthrough at the time I made my  
13 proposal was close to 90 percent of the measurable cost  
14 difference, but since a revision to my benchmark it's now  
15 down around 60 percent, which is pretty low, to be frank.  
16 And so I think that I, you know, had that revised benchmark  
17 at the time I did my proposal, I think I would have  
18 considered shrinking that discount by less than the half a  
19 cent that I did in my proposal maintaining perhaps closer to  
20 the 2.5 cents that exists currently.

21 COMMISSIONER LeBLANC: So you would --

22 THE WITNESS: Someplace between 2 and 2.5.

23 COMMISSIONER LeBLANC: So you might possibly have  
24 kept it there. I think you used 2, 3, or whatever you used  
25 in your colloquy with him, but --

1 THE WITNESS: Yes.

2 COMMISSIONER LeBLANC: But that might have been  
3 more in the realm, if you will.

4 THE WITNESS: Yes, 2.2, 2.3, more in the realm. I  
5 don't know that I -- again, it's hard to know with certainty  
6 what one would do in hindsight, but I don't know if I would  
7 have retained the entire discount.

8 COMMISSIONER LeBLANC: And you still believe that  
9 that sends an appropriate signal?

10 THE WITNESS: Yes, I do.

11 COMMISSIONER LeBLANC: I remember back in I think  
12 it was either R-87 or R-90, and if I have to, subject to  
13 check, counsel, but there was a witness from the Postal  
14 Service who specifically said, sitting where you're sitting,  
15 that they couldn't handle the mail if it came in from the  
16 presort industry.

17 Now if I have to, I can go back and find it. I  
18 think I could probably find it. I hope I don't have to do  
19 that. And subject to check.

20 Now if that is the case, then -- how can I word  
21 this? When you look at the criteria that you looked at, do  
22 you believe that the loss, if you will, of the mail from  
23 some of the presort industry and then the gain to the Postal  
24 Service will cause a problem? Have you done any further  
25 research? I don't remember how you answered this morning.

1           THE WITNESS: My understanding is that the  
2 reduction in the nonautomated presort discount as proposed  
3 in my testimony will move some of the mail down into the  
4 automated stream and some goes back up into the single  
5 piece.

6           COMMISSIONER LeBLANC: Um-hum.

7           THE WITNESS: But that the volumes that result  
8 from the analysis, the after rates, essentially the after  
9 rates volume estimates didn't seem to be of the magnitude  
10 that would cause the kind of problem that you're talking  
11 about with being swamped with mail. I missed the gentleman  
12 that was here years ago, but --

13          COMMISSIONER LeBLANC: Well, I guess what I'm  
14 trying to get at is I understood you to say in your colloquy  
15 with him that you did not give much or any consideration --  
16 and I think I wrote this right, if I'm wrong I apologize --  
17 to volume changes from the presort industry shift. Did I  
18 miswrite here?

19          THE WITNESS: I don't recall that exact part of  
20 the transcript.

21          COMMISSIONER LeBLANC: So you did give a fair  
22 amount, some consideration to this volume change?

23          THE WITNESS: I'm not sure exactly what Mr. Hart  
24 was asking me this morning. If he was asking me about  
25 whether I was analyzing exactly how much volume was in the

1 presort bureau and would shift from the presort bureau, I  
2 didn't do that. I think that's more the context of that.

3 COMMISSIONER LeBLANC: Okay. Now you're well  
4 aware obviously that the bulk metered benchmark that you  
5 used was 14.7 cents.

6 THE WITNESS: Yes.

7 COMMISSIONER LeBLANC: And the presort cost  
8 avoidance is 11.3 cents according to my figures.

9 THE WITNESS: Bear with me one minute.

10 COMMISSIONER LeBLANC: Sure.

11 I realize I am shifting a little bit. I  
12 apologize.

13 THE WITNESS: That's permissible.

14 COMMISSIONER LeBLANC: That's the one leeway we  
15 have up here, just a little bit.

16 THE WITNESS: I found the numbers. The one thing  
17 in what you said I'm not sure about, it wasn't that the  
18 presort was a cost difference of 11.34, that was the actual  
19 mail processing plus delivery costs. I may have misheard  
20 you.

21 COMMISSIONER LeBLANC: That's the delivery cost or  
22 the cost avoidance for the mail?

23 THE WITNESS: The 11.34 is the mail processing  
24 plus a delivery cost for the presort mail.

25 COMMISSIONER LeBLANC: But it's got the processing

1 and delivery in there.

2 THE WITNESS: Exactly.

3 COMMISSIONER LeBLANC: But it's still the cost  
4 avoidance?

5 THE WITNESS: No, it's the actual -- it's the  
6 actual mail processing and delivery cost associated with the  
7 presort mail. To get the cost avoidance, I would take that  
8 11.34 --

9 COMMISSIONER LeBLANC: Away from the 14.7.

10 THE WITNESS: Exactly, the bulk metered. And  
11 that's my cost avoidance.

12 COMMISSIONER LeBLANC: That gives you 3.4 cents,  
13 right?

14 THE WITNESS: Yes, it does.

15 COMMISSIONER LeBLANC: All right. Now, let's try  
16 that same scenario but only go to single piece. A single  
17 piece is 16.7, if the figures are correct I've got.

18 THE WITNESS: That's what I have, yes.

19 COMMISSIONER LeBLANC: The presort again is 11.3?

20 THE WITNESS: Yes.

21 COMMISSIONER LeBLANC: And that gives you 5.4  
22 cents, the difference?

23 THE WITNESS: Yes, that's the difference under the  
24 assumption.

25 COMMISSIONER LeBLANC: And that is how you did

1 your rationale, basing it on the single piece. First it's  
2 the bulk, obviously.

3 THE WITNESS: Not exactly. I used the bulk  
4 metered, the 14.7 cents, as my benchmark for computing the  
5 cost avoidance. I didn't use the single piece figure of  
6 16.74 and that was not my benchmark.

7 COMMISSIONER LeBLANC: If you will, bear with me a  
8 minute and follow this through.

9 THE WITNESS: All right.

10 COMMISSIONER LeBLANC: You've got 3.4 cents from  
11 the BMM and you've got 5.4 cents from the single piece.

12 THE WITNESS: That's right, you get a bigger  
13 difference.

14 COMMISSIONER LeBLANC: Now, if I am going to refer  
15 back to your question in your colloquy with Mr. Olson over  
16 LR H-112, I was a little confused so try to straighten me  
17 out if you can, please.

18 Would you say that weight was a factor or not a  
19 factor or you just didn't know if it was a factor and the  
20 cost difference between single piece letters and single  
21 piece flats?

22 Do you want me to repeat that?

23 THE WITNESS: I think so, yes. I would appreciate  
24 it.

25 COMMISSIONER LeBLANC: I had to write it myself.



1           Now, I am referring back to LR H-112. Now, did  
2   you say that weight was a factor, not a factor or you didn't  
3   know if it was a factor in the cost difference between the  
4   single piece letters and the single piece flats?

5           THE WITNESS: I don't remember answering that  
6   question exactly but I remember saying that weight was  
7   clearly a factor. Since flats are, on average, more heavier  
8   than letters, I would expect that weight would be more of a  
9   factor with the average flat cost than it would be with the  
10   average letter cost, if that made sense.

11          COMMISSIONER LeBLANC: That answered -- that was  
12   my question, then, okay.

13          Now, I apologize. I'm changing gears on you again  
14   here.

15          For presort mail, it's 59 percent, according to  
16   your figures; is that correct?

17          THE WITNESS: Yes, according to the revised  
18   figure, that's right.

19          COMMISSIONER LeBLANC: Right. And now, of course,  
20   that's using your bulk metered mail as your benchmark?

21          THE WITNESS: Yes.

22          COMMISSIONER LeBLANC: Correct?

23          THE WITNESS: Yes.

24          COMMISSIONER LeBLANC: Okay, now, if you were to  
25   calculate the passthrough using the cost of single piece as

1 was done in MC95-1, it would be considerably smaller, am I  
2 wrong, around 73 percent according to my figures here?

3 THE WITNESS: I'm not sure I follow that. The  
4 difference between the presort and the single piece would be  
5 bigger so the discount that I proposed should result in a  
6 smaller passthrough, I would think. Is that what you are  
7 asking me?

8 COMMISSIONER LeBLANC: Correct.

9 THE WITNESS: Yes.

10 COMMISSIONER LeBLANC: Now, on page 20 of your  
11 testimony, you discuss various reasons for work sharing  
12 discounts, among them incentives to presort. My question  
13 is, do you think that the passthrough this low is the proper  
14 incentive? And this goes back to what I was asking you  
15 earlier.

16 THE WITNESS: I think that a passthrough as low  
17 as --

18 COMMISSIONER LeBLANC: Given that scenario, now.

19 THE WITNESS: Given the bulk metered benchmark, I  
20 think a passthrough as low as 60 percent is pretty low. I  
21 have trouble with the single piece benchmark that you  
22 postulated.

23 Also, if I may, Commissioner LeBlanc, I found the  
24 interrogatory I was fumbling for before that talked about  
25 the migration of mail from nonautomated presort down to

1 automated under the proposed rate. I just note this for  
2 your reference.

3 COMMISSIONER LeBLANC: What is that, please?

4 THE WITNESS: It is the alphabet soup one. It is  
5 ABA and EEI and NAPM/USPS <sup>-T32-5a.</sup> ~~T-32-5.~~

6 COMMISSIONER LeBLANC: Talking about the presort  
7 issue here, would clean mail drive cost, versus dirty mail,  
8 up or down from single piece automation?

9 THE WITNESS: The more clean mail, the lower the  
10 costs.

11 COMMISSIONER LeBLANC: Okay. Because you had  
12 talked about that earlier and I just wanted to clarify that  
13 because you were talking about clean mail and I just wanted  
14 to make sure I had that under --

15 THE WITNESS: Yes. I may have been mentioning  
16 that before in the context of the benchmark and it is one  
17 reason why the single piece benchmark is kind of troubling  
18 because it includes a lot of dirty mail that is not a  
19 candidate for work sharing and can overstate the work  
20 sharing benefits and send the wrong signal to mailers.

21 COMMISSIONER LeBLANC: Well, in that case, do you  
22 think that there will always be some presorted mail that  
23 will be unable to convert to automation? And, if so, will  
24 it continue to save the Postal Service some money?

25 THE WITNESS: I think so. There will be some

1 nonautomated presort that won't convert to automation, won't  
2 be barcoded.

3 COMMISSIONER LeBLANC: And will it save the Postal  
4 Service money?

5 THE WITNESS: Yes, sir.

6 COMMISSIONER LeBLANC: Thank you very much.

7 Thank you, Mr. Chairman.

8 CHAIRMAN GLEIMAN: There don't appear to be any  
9 other questions from the Bench.

10 Is there any followup as a consequence of  
11 questions from the Bench?

12 [No response.]

13 CHAIRMAN GLEIMAN: If not, that brings us to  
14 redirect.

15 Would you like some time with your witness? Ten  
16 minutes? You've got it.

17 Five after the hour, we will reconvene.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Mr. Tidwell.

20 MR. TIDWELL: Mr. Chairman, the Postal Service has  
21 no redirect of this witness.

22 CHAIRMAN GLEIMAN: If that is the case, then we  
23 won't try to do any recross.

24 Mr. Fronk, I want to thank you. Try as we might,  
25 we couldn't hold you over another day so that we could

1 impose on your anniversary plans. But we wish you a happy  
2 one and many more and if there is nothing further, we want  
3 to thank you for your appearance here today, your  
4 contributions to the record and you are excused, sir.

5 THE WITNESS: Thank you.

6 [Witness excused.]

7 CHAIRMAN GLEIMAN: Before you call your next  
8 witness, Mr. Tidwell, I just wanted to mention that on  
9 Friday, so that individuals who have a religious holiday  
10 that starts at sundown may get home at a suitable point in  
11 time, we are going to call it a day around 4:30, which I  
12 know is a half hour after the Postal Service is planing to  
13 close down L'Enfant Plaza. But we will see how far we get  
14 with our two witnesses that we have scheduled that day.

15 We have one party who wants to cross-examine  
16 Witness Hume and seven parties, several of whom have  
17 indicated heavy cross-examination of Witness Moeller. I  
18 will talk with Postal Service counsel or Mr. Scharfman will  
19 about how we might proceed if we do not finish up with  
20 Mr. Moeller on Friday afternoon, whether we will call him as  
21 a first witness the following week on Tuesday or whether we  
22 should just hold him over until the end of the proceedings.

23 So I just wanted to give everybody fair notice  
24 that we might not -- hopefully we will but we might not get  
25 all the way to the end of the cross-examination list on

1 Friday.

2 With that, if you want to call your next witness  
3 at this point?

4 MR. TIDWELL: The Postal Service calls Philip  
5 Hatfield to the stand.  
6 Whereupon,

7 PHILIP A. HATFIELD,  
8 a witness, was called for examination by counsel for the  
9 United States Postal Service and, having been first duly  
10 sworn, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. TIDWELL:

13 Q Mr. Hatfield, I have just handed you two copies of  
14 a document entitled the Direct Testimony of Philip A.  
15 Hatfield on behalf of the United States Postal Service. It  
16 has been designated for purposes of this proceeding as  
17 USPS-T-25.

18 Was this document prepared by you or under your  
19 supervision?

20 A Yes, it was.

21 Q If you were to give this document as your  
22 testimony here orally today, would it be the same?

23 A Yes, it would. And I would like to note that it  
24 does contain the errata filed on July 25.

25 MR. TIDWELL: Okay. With that, Mr. Chairman, the

1     Postal Service would move into evidence the direct testimony  
2     of Philip A. Hatfield on behalf of the United States Postal  
3     Service.

4             CHAIRMAN GLEIMAN: I feel I am safe in asking if  
5     there are any objections. I notice that most people only  
6     object to things that I want to do.

7             Since you are making the motion on Mr. Hatfield's  
8     testimony, I am going to assume there are no objections.

9             [No response.]

10            CHAIRMAN GLEIMAN: Hearing none, we will move his  
11     testimony and exhibits into evidence and direct that they be  
12     accepted into evidence and, as is our practice, they will  
13     not be transcribed into the record at this point.

14                             [Direct Testimony of Philip A.  
15                             Hatfield, Exhibit No. USPS-T-25 was  
16                             marked for identification and  
17                             received into evidence.]

18            CHAIRMAN GLEIMAN: Mr. Hatfield, have you had an  
19     opportunity to examine the packet of designated written  
20     cross-examination that was made available to you earlier  
21     this morning?

22            THE WITNESS: Yes, I have.

23            CHAIRMAN GLEIMAN: I would just like to note for  
24     the record that as we broke for lunch, Mr. Littell handed me  
25     four additional or there may have been more, I don't recall

1 the exact number, four or five additional interrogatories  
2 that he wanted to include. As it turns out, they had  
3 already been designated by the Office of the Consumer  
4 Advocate so they have found their way or will soon find  
5 their way into the hearing record.

6 If the questions were asked of you today, would  
7 your answers be the same as those you previously provided in  
8 writing?

9 THE WITNESS: Yes, they would. However, I would  
10 like to make a couple notes. The written designation  
11 packet, as I received it this morning, did contain a revised  
12 response to MMA/USPS-T-25-2, however that response was  
13 incomplete and a complete revised response was filed again  
14 on the 6th. We included the October 6 version in the  
15 packet.

16 In addition, there were some -- some questions and  
17 responses designated as written cross-examination that deal  
18 with subject matter under my USPS-T-16 testimony. And so we  
19 have removed those from the packets that were given to me  
20 this morning.

21 CHAIRMAN GLEIMAN: We thank you again for your  
22 assistance.

23 MR. TIDWELL: Do you want me to read off the list?

24 CHAIRMAN GLEIMAN: If you have made those  
25 corrections in the materials --



1 MR. TIDWELL: Okay, I will just note for the  
2 record that the ones we removed were interrogatories from  
3 Mr. Popkin to the Postal Service, number 43, 44, 46 and 47  
4 and Mr. Hatfield's response to Presiding Officer's  
5 Information Request Number 1, Question 1-C.

6 THE WITNESS: And 1-D.

7 MR. TIDWELL: And 1-D.

8 CHAIRMAN GLEIMAN: I am going to ask you,  
9 Ms. Dreifuss, in your capacity as OCA representative if you  
10 would make a little bit of an extra effort there and inform  
11 Mr. Popkin that the designations were to the right witness  
12 but for the wrong piece of testimony. And then if you  
13 could, I assume that he is not planning to return to cross  
14 examine the witness later on. If I could prevail on you to  
15 see that those designations are re-submitted at the  
16 appropriate point in time.

17 MS. DREIFUSS: I would be happy to do that.

18 CHAIRMAN GLEIMAN: Thank you so very much.

19 MS. DREIFUSS: Sure.

20 CHAIRMAN GLEIMAN: Two copies of the corrected  
21 designated written cross examination of Witness Hatfield are  
22 being given to the Reporter. I direct that they be accepted  
23 into evidence and transcribed into the record at this point.

24 [Designation of Written  
25 Cross-Examination of Philip A.

1                   Hatfield was received into evidence  
2                   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 PHILIP A. HATFIELD  
(USPS-T-25)

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

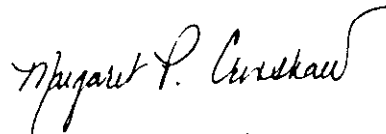
<u>Party</u>	<u>Answer To Interrogatories</u>
American Bankers Association and Edison Electric Institute and National Association of Presort Mailers	ABA&EEI&NAPM: Interrogatories T25-2-4,6-9, 11, 13-15, 21-22, 26-27 29-33. MMA\USPS: Interrogatories T25-3-5, 8.
Major Mailers Association's	MMA\USPS: Interrogatories T25-1(a), (d), 2(a-d) revised 10\2, 3-5, 7-8. NDMS\USPS: Interrogatory T32-23
Office of the Consumer Advocate	ABA&EEI&NAPM: Interrogatories T25-1-4, 6- 9, 12-15, 22, 26-27 and 29- 33. DBP\USPS: Response of witness Hatfield to interrogatories redirected from the Postal Service, i.e., DBP\USPS- 43, 44a, 46 and 47. DFC\USPS: DFC interrogatories T25-1- 6, and Hatfield's response to an interrogatory redirected from witness Fronk, i.e., DFC\USPS-T32-3. MMA\USPS: MMA interrogatories T25- 1a and d, 2 (as revised 10\2\97), 3-5, 7-9, and 12- 17. NDMS\USPS: Response of witness Hatfield to an interrogatory

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p. 2

USPS-T-16 { 1.c.(1)  
1.d.

redirected from witness  
Fronk, i.e., NDMS\USPS-  
T32-23b.  
Witness Hatfield's response  
to POIR No. 1, questions  
1c(1) and ~~1d~~ and 7.  
Witness Hatfield's response  
to POIR No. 3, questions  
26.

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
INTERROGATORIES OF ABA, EEI, AND NAPM

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**ABA&EEI&NAPM/USPS-T-25-1.** Re page iii of your testimony.

(a) Identify each Postal Service facility you visited, the date and purpose of each visit, and the specific operations reviewed.

(b) Did any of these visits occur in conjunction with the preparation of your testimony (USPS-T-25) in this proceeding? If so, please elaborate.

RESPONSE:

(a) Below is a table listing the Postal Service facilities that I have visited, the approximate time frames in which the visits occurred, and a general description of the operations reviewed:

Facility	Time Frame	Operations reviewed
Northern Virginia P&DC	1994 - 1997 Numerous visits	Mail processing and transportation operations
National Airport AMF	1994 - 1996 Numerous visits	Mail processing and transportation operations
Dulles P&DC	1995 - 1997 2 visits	Mail processing operations
Southern Maryland P&DC	1995 1 visit	Mail processing operations
Washington BMC	1995 - 1996 Numerous visits	Mail processing and transportation operations
Nashville P&DC	1997 Numerous visits	Mail processing operations Transportation operations
Nashville Airport AMC	1997 1 visit	Mail processing operations
McLean Post Office	1995 1 visit	Mail processing and delivery operations

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(b) Yes, to some extent all of the visits that I have made to Postal Service facilities have contributed to the preparation of my testimony in this docket with the possible exceptions of the Washington BMC, the Nashville P&DC, the Nashville AMC, and the McLean post office. However, certain visits to the Northern Virginia P&DC and the Dulles P&DC were made specifically to review mail processing operations in conjunction with the preparation of my testimony.

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**ABA&EEI&NAPM/USPS-T-25-2.** You indicate that "the level of benchmarks has fallen considerably since Docket No. MC95-1." (Testimony at 8-9) Please identify, quantify, and compare the benchmarks as proposed by the Postal Service and as used by the Commission in Docket No. MC95-1 with those used by the Postal Service in this proceeding.

**RESPONSE:**

The table below compares the presorted First-Class Mail letter and card mail processing unit cost benchmarks used by witness Smith in Docket No. MC95-1 and by myself in this docket (all figures are in cents):

Benchmark	Docket No. MC95-1	Docket No. R97-1	Difference
First-Class non-carrier route presort letters	5.7947	4.6059	1.1888
First-Class carrier route presort letters	1.8769	2.2910	-0.4141
First-Class non-carrier route presort cards	4.6520	3.2957	1.3563
First-Class carrier route presort cards	1.3760	0.6204	0.7556

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**ABA&EEI&NAPM/USPS-T-25-3.** Are barcoding and presorting the only two mail preparation requirements which affect the costs incurred by the Postal Service to process, i.e., from receipt through delivery, letter-shaped: (a) First-Class and (b) Standard (A) mail. If not, identify each other requirement that affects the costs incurred by the Postal Service to process such mail.

RESPONSE:

(a) - (b) No. There are many mailer preparation activities and requirements that affect the mail processing costs incurred by the Postal Service to process presorted mail. In addition to presorting and barcoding, these activities and requirements include:

- address quality
- machinability
- barcode quality
- containerization
- dropshipment
- level of presort



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**ABA&EEI&NAPM/USPS-T-25-4.** Identify the mail preparation requirements for the following letter-shaped First-Class mail:

- (a) nonautomation presort;
- (b) automation basic presort;
- (c) automation 3-digit presort;
- (d) automation 5-digit presort; and
- (e) automation carrier route presort.

RESPONSE:

Mail preparation requirements for the mail types in question can be found in the Domestic Mail Manual. Specific references are listed below:

- (a) DMM M130
- (b) - (e) DMM M810

**ABA&EEI&NAPM/USPS-T-25-6. Re Testimony at 3.**

- (a) Explain the basis for using First-Class non-carrier route presort as the benchmark for estimating mail processing costs by rate category.
- (b) Explain why a separate benchmark is utilized for First-Class carrier route letters.

**RESPONSE:**

(a) As depicted in Figure II-A of my testimony, the First-Class non-carrier route letter unit cost benchmark is used in my testimony to develop costs of presorted First-Class Mail letters by the following rate categories:

- First-Class nonautomation presort letters
- First-Class automation basic presort letters
- First-Class automation 3-digit presort letters
- First-Class automation 5-digit presort letters

This benchmark is used because it is comprised of mail that falls into the four rate categories described above.

(b) A separate benchmark cost by shape is used for First-Class carrier presort letters because data are available at this level. Because the benchmark is comprised of only one rate category of mail, it was not necessary to model any components of this mail.

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**ABA&EEI&NAPM/USPS-T-25-7.** Re USPS-T-25 Appendix V, page 3 of 4. Explain the mail processing operations represented by each of the 46 cost pools.

RESPONSE:

For a description of the operations associated with the MODS cost pools, please see Library Reference USPS LR-H-146, Section I at 12-38 and Library Reference USPS LR-H-147, Appendix A.

For a description of the operations associated with the BMC cost pools, please see Library Reference USPS LR-H-49, Appendix B at 139-140 and Library Reference USPS LR-H-146, program BMC1.

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**ABA&EEI&NAPM/USPS-T-25-8.**

- (a) Confirm that the FY 96 base productivities yield an annual unit cost to process mail through an operation or group of operations. If not confirmed, please explain.
- (b) Explain how the total, annual number of pieces processed through each operation was determined.
- (c) Explain how the total, annual workhours associated with each operation was determined.
- (d) Explain the rationale for dividing base productivity by volume variability.

**RESPONSE:**

- (a) If by base productivities you are referring to productivity measures that have not been adjusted to reflect the volume variability of mail processing operations, then the resulting unit mail processing costs will not reflect average annual volume variable mail processing unit costs.
- (b) - (c) I assume that the total, annual number of pieces processed through each operation and workhours associated with each operation is in reference to the productivity estimates produced in Library Reference USPS LR-H-113 because this is the only context in which the question would have relevance. That being the case, the data in question is collected through the Management Operating Data System (MODS). A description of MODS can be found in witness Moden's testimony (USPS-T-4) on pages 15 and 16. In addition, further information is available in Library Reference USPS LR-H-147.
- (d) Please see my response to part (B) of MMA/USPS-T-25-3.

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**ABA&EEI&NAPM/USPS-T-25-9.** Regarding the update of the 1993 special study (Testimony at 11):

(a) Identify the 48 mail processing facilities surveyed and the basis on which they were selected.

(b) Explain how (for both types of mail surveyed) the actual mail surveyed was selected.

**RESPONSE:**

(a) The 48 mail processing facilities surveyed are listed in Appendix A, Attachment 1 or Library Reference USPS LR-H-130. The sample design for the survey is described on pages 3 - 6 of USPS LR-H-130.

(b) Pages 7 and 8 of Library Reference USPS LR-H-130 give a general description of the survey implementation. Appendix A of the Library Reference includes the instructions given to each study coordinator as to how to identify and test mail for the survey.

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**ABA&EEI&NAPM/USPS-T-25-11.** Provide the accept, reject, and upgrade rate by rate category for letter-shaped: (a) First-Class mail, and (b) Standard (A) mail.

RESPONSE:

Please see Tables 5.1, 5.2, and 5.3 on page 10 of Library Reference USPS LR-H-130.

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**ABA&EEI&NAPM/USPS-T-25-13.** Re USPS-T-25, Appendix I at 33 & 34.

- (a) What does sort level MMP mean?
- (b) Explain the phrase "diagonal allocated 100% to IS".
- (c) Explain the following sentence and how the numbers were normalized:  
"Numbers off the diagonal are normalized and used in the flows."

**RESPONSE:**

(a) MMP stands for managed mail program. The MMP sort level refers to sort plans that are used to sort mail arriving at a particular facility that has already been sorted to the ADC or AADC service area of that facility.

(b) For MPBCS/DBCS operations, all mail that flows from a particular sort level to that same sort level (represented by percentages on the diagonal) is allocated to subsequent sort levels on the same row for use in the mail flow models. In most cases this allocation is done by multiplying the percentages in each subsequent sort plan on a given row by the ratio of  $(1 / (1 - \text{percent on the diagonal}))$ .

The subject phrase refers to the SCF row, where an exception is made to the allocation described above. On this particular row, the 0.92 percent of mail that flows from the SCF sort level to the SCF sort level is allocated entirely to the IS sort level instead of being portioned between IP and IS. This is what is meant by 'diagonal allocated 100% to IS.'

(c) The sentence in question refers to the allocation described in the first paragraph of my response to part (b) of this question.

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**ABA&EEI&NAPM/USPS-T-25-14.**

(a) Please explain the mail preparation requirements applicable to nonautomation and automation First-Class mail in effect prior to the adoption of the currently effective mail preparation requirements for such mail pursuant to the Commission's Decision in Docket No. MC95-1 and the Postal Service's implementing regulations.

(b) You indicate, (testimony at 13, 1. 14-15), that "to receive automation presort discounts, all mail must be prepared in trays (no bundles)." Explain how the change from bundle presort level to the tray presort level has affected Postal Service's mail processing costs for such mail. Provide all documents relied upon which support your answer.

(c) Explain what constitutes a full tray.

(d) Explain how bundles are required to be prepared by mailers.

**RESPONSE:**

(a) The mail preparation requirements for mail prior to the implementation of the Docket No. MC95-1 decision can be found in the Domestic Mail Manual number 48, dated January 1, 1995. Presorted First-Class Mail preparation requirements can be found in section M103 and automation compatible letter requirements can be found in section M810.

(b) The change from bundle preparation to tray preparation for automation mail affected mail processing costs in two primary ways. First, the change has eliminated the need to sort bundles of automation mail and, therefore, has decreased the costs associated with bundle sorting. Second, because the minimum volume required for tray preparation is greater than the minimum volume required for bundle preparation the depth of presort has decreased. Decreased depth of presort will increase the number of sorts and the costs of processing automation mail.



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No study or analysis has been conducted to specifically estimate the effect that the change from bundle preparation to tray preparation of automation mail had on mail processing costs. Library Reference USPS LR-H-126 estimates the change in mail processing costs due to changes in mail preparation and entry requirements implemented as a result of Docket No. MC95-1 as well as from shifts in volume between different types of mail.

(c) Within the context of my testimony, a full tray refers to a tray of First-Class nonautomation presort mail that has been prepared to the 5-digit level. Since these trays contain mail destined for a particular 5-digit destination, their contents will not require bundle sorting.

(d) Please see DMM E130.3.2.2 and M130.2.1.

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**ABA&EEI&NAPM/USPS-T-25-15.** With respect to the recent field study to update the First-Class Mail characteristics, please:

- (a) Explain your involvement, if any, in developing and/or conducting the field study;
- (b) indicate when the field study was conducted, the facilities included in that study, how the sampling was conducted, and the total volumes by rate category sampled;
- (c) explain how the results of the field study were extrapolated to yield the mail characteristics for the total nonautomation presort and automation presort volumes.

**RESPONSE:**

(a) Other than a review of some of the data collection forms, I was not involved in developing or conducting the field study.

(b) This information can be found in Library Reference USPS LR-H-185.

The description of the survey design begins on page 1; the dates of the field study are listed on page 4; and the volumes by presort level can be found in Tables 3-16. It is my understanding that the names of the individual facilities participating in the field study remain confidential.

(c) This information can also be found in USPS LR-H-185. The methodology used to calculate national estimates is described on pages 4 and 5.

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**ABA&EEI&NAPM/USPS-T-25-21.** Explain how collection costs are reflected in your analysis of processing costs for presorted First-Class Mail.

**RESPONSE:**

Collection costs are not accounted for explicitly in the cost models contained in my testimony. However, through use of the unit mail processing cost benchmarks, a small portion of collection costs may be captured. Because mail processing clerks may sometimes sweep boxes at local offices or P&DCs, the costs associated with this activity would be classified as mail processing, and therefore, would be reflected in the mail processing cost benchmarks.

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**ABA&EEI&NAPM/USPS-T-25-22.** Explain the relationship between your benchmark of First-Class non-carrier route presort letters and Witness Fronk's benchmark of First-Class bulk metered mail.

**RESPONSE:**

It is unclear what exactly is meant by the term 'relationship'. The First-Class non-carrier route letter unit cost and the First-Class bulk metered letter benchmark are similar in that they were both calculated using unit mail processing costs by cost pool as described in Library Reference USPS LR-H-106. The benchmarks in question differ to the extent that they represent different types of mail.

In addition, there may be some confusion over the use of the word 'benchmark.' With respect to the analysis contained in my testimony, the word benchmark refers to the unit mail processing costs by shape. In this sense, the components of the benchmarks are modeled and then each of the models is reconciled back to the benchmark. It is my understanding that the word benchmark, as used by witness Fronk, refers to a baseline cost from which worksharing discounts are calculated.

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**ABA&EEI&NAPM/USPS-T-25-26. Re USPS-T-25 Appendix I:**

(a) Does column [1], "TPF", at e.g., 13, have the same meaning as Witness Daniel's column [1], "Mix of Handlings", from USPS-T-29, Appendix I at e.g., 1? If not, please explain.

(b) Explain the phrase "Non-Incoming Secondary Operations". Appendix I at 32.

(c) Explain how the (i) outgoing primary, and (ii) outgoing secondary (or their equivalent) are performed at both the ADC/AADC Distribution and SCF Operations.

(d) Confirm that the productivities used in your testimony and those used by Witness Daniel in USPS-T-29 Appendix I are the same except for manual outgoing primary, 662 vs. 812. If not confirmed, please explain. In addition, explain why the outgoing primary productivities are different.

(e) Explain why the productivity for the incoming secondary manual/non-auto sites (1,143) differs so markedly from that for manual/auto sites (646).

**RESPONSE:**

(a) Yes.

(b) Non-incoming secondary operations refers to any sort operations that occur at sort levels other than incoming secondary. On page 32 of Appendix I, certain productivity estimates were calculated separately for incoming secondary operations than for other operations so they are listed separately.

(c) I think that this question may be confusing terms. Outgoing primary, outgoing secondary, AADC/ADC, and SCF can all refer to different sort levels or operations. Sorts on presorted First-Class letter mail primarily occur at processing and distribution centers (P&DCs). Each P&DC can play a variety of network roles that affect the number and type of facilities that are served by the P&DC. The terms AADC, ADC, and SCF can also refer to the network role of a particular P&DC.

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It does not make sense to consider an outgoing primary operation at an ADC operation, because both of these terms refer to different sort operations. If the question is asking how the sort operations are performed at different facilities, the answer is that the sort operation can be performed in a variety of ways. For example, outgoing primary and outgoing secondary operations can occur on OCRs, BCSs, or in manual operations. However, individual sort operations on a given piece of equipment are performed in a similar manner across facilities. In addition, different sort operations on similar pieces of equipment are relatively similar, except for the use of different sort schemes.

(d) Confirmed. The manual outgoing primary productivities that witness Daniel and I use are different because our testimonies deal with different classes of mail. For manual outgoing primary operations, separate productivities are measured for bulk business mail and for other types of mail. Witness Daniel uses the bulk business mail productivity and I use the other.

(e) At automated facilities, a large portion of the mail that receives piece distribution in manual incoming secondary operations is reject mail from automation equipment. Because these pieces have been rejected from automation equipment they are often the more challenging pieces to process for reasons such as damage or address quality. On the other hand, the manual incoming secondary operations at non-automated facilities process all pieces of mail. Therefore, the mail processed in manual incoming secondary operations tends to be much cleaner at non-automated facilities than at automated facilities. Manual processing of this cleaner mail stream leads to a

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higher productivity. In addition, automated incoming secondary operations are generally performed only for zones that have ten or more carriers. Zones that have less than ten carriers will generally receive a non-automated incoming secondary. Because non-automated incoming secondary operations generally require that fewer separations be made, the productivity of these operations will be higher. This topic was also discussed in witness Smith's Docket No. MC95-1 testimony (see USPS-T-10 pages 21 and 22).

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**ABA&EEI&NAPM/USPS-T-25-27.** Provide the average weight per piece for the following First-Class letter mail:

- (a) regular presort;
- (b) basic automation;
- (c) 3-digit automation;
- (d) 5-digit automation; and
- (e) carrier route.

**RESPONSE:**

- (a) 0.60 ounces
- (b) 0.58 ounces
- (c) 0.61 ounces
- (d) 0.63 ounces
- (e) 0.63 ounces



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**ABA&EEI&NAPM/USPS-T-25-29.** What was the USPS's forwarding cost per piece of Undeliverable As Addressed Mail in FY 96, in FY 97 (to the extent available), and projected in the test year in this case? Please identify what components are included within such cost, including without limitation, computer forwarding systems, mail processing, transportation and delivery for Undeliverable As Addressed Mail.

**RESPONSE:**

The costs and volumes of undeliverable as addressed mail are not known for FY 96, FY 97, or the test year. Since this information is not tracked on an ongoing basis, special studies are required to estimate the costs and volumes associated with this mail. The last such study was presented in Docket No. MC95-1 as Library Reference USPS LR-MCR-76.

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**ABA&EEI&NAPM/USPS-T-25-30.** What was the total USPS cost of forwarding Undeliverable As Addressed Mail in FY 96, in FY 97 (to the extent available), and projected in the test year in this case? Please quantify these figures by class of mail, and within First Class mail, by rate category.

RESPONSE:

Please see my response to ABA&EEI&NAPM/USPS-T-25-29.

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**ABA&EEI&NAPM/USPS-T-25-31.** What percentage of First-Class letter mail was Undeliverable As Addressed in FY 96, in FY 97 (to the extent available), and projected in the test year in this case? Please breakout these figures by rate category.

**RESPONSE:**

Please see my response to ABA&EEI&NAPM/USPS-T-25-29.

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**ABA&EEI&NAPM/USPS-T-25-32.** Please confirm that the USPS will realize cost savings as a result of implementation of the move update requirements for retail presort FCLM and automated FCLM. Please estimate these cost savings in the test year in this case. If you cannot confirm this fact, please explain why.

**RESPONSE:**

Confirmed. No studies have been conducted that estimate cost savings associated with move update requirements for presorted First-Class Mail.

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**ABA&EEI&NAPM/USPS-T-25-33.** Page 1 of 6 of Exhibit 29C to USPS witness Daniel's testimony sets forth First Class unit cost estimates for, inter alia, the Bulk Metered FCLM Benchmark, retail presort FCLM and automated FCLM. Please confirm that these unit cost estimates do not reflect any cost differences as a result of the move update requirements which are applicable to retail presort and automated FCLM, and which are not applicable to the Bulk Metered FCLM benchmark. If not confirmed, please explain.

RESPONSE:

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD  
TO INTERROGATORIES OF DOUGLAS F CARLSON

**DFC/USPS-T25-1.** Please refer to the four types of mail described in (I) through (IV) below. (For this interrogatory, the term "standard-sized" mail refers to mail that is not subject to a nonstandard surcharge under DMM § C100.3.0.)

I. Typewritten, one-ounce, standard-sized, first-class letters whose address information (1) can be read completely by an Optical Character Reader (OCR) without assistance from the Remote Bar Code System (RBCS) and (2) is sufficiently accurate and complete to allow the highest level of bar code (i.e., 5-digit, 9-digit, or delivery-point) desired for that address to be applied to the envelope?

II. Typewritten, one-ounce, standard-sized, first-class letters whose address information (1) can be read completely by an Optical Character Reader (OCR) without assistance from the Remote Bar Code System (RBCS) but (2) is sufficiently accurate and complete to allow only a bar code that is inferior to the highest level of bar code (i.e., 9-digit, or delivery-point) desired for that address to be applied to the envelope?

III. One-ounce, standard-sized, First-class letters whose address information (1) can be read completely by an Optical Character Reader (OCR) with assistance only from the Remote Computer Reader (RCR) portion of the Remote Bar Code System (RBCS) and (2) is sufficiently accurate and complete to allow the highest level of bar code (i.e., 5-digit, 9-digit, or delivery-point) desired for that address to be applied to the envelope?

IV. One-ounce, standard-sized, first-class letters whose address information cannot be read completely by an Optical Character Reader (OCR) and, therefore, requires assistance from a Data Conversion Operator via the Remote Bar Code System (RBCS) in order to allow the highest level of bar code (i.e., 5-digit, 9-digit, or delivery-point) desired for that address to be applied to the envelope?

a. Please confirm that the types of mail described in (I) through (IV) are identical to the four types of mail described in DFC/USPS-T32-2(a)-(d).

b. Please confirm that the following ranking accurately reflects the ranking from least costly to most costly of the processing costs of each type of mail, all else being equal, at a fully automated P&DC. If you do not confirm, please explain in detail and provide the correct ranking whenever you can compare at least two types of mail.

1. Type I
2. Type II
3. Type III
4. Type IV

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TO INTERROGATORIES OF DOUGLAS F CARLSON

RESPONSE:

(a) Confirmed.

(b) Not confirmed. First, as a general comment on the mail described in types I through IV, it is not entirely accurate to strictly categorized "address information" into the four categories as described above. In certain circumstances, the same address information may yield different results in OCR or RBCS processing. For example, the mail described in type II is rather unlikely. Often times, if the OCR is unable to apply the a barcode representing the finest depth of sort, it will automatically send the image through RBCS. In addition, the type of processing received may also vary from machine to machine. Therefore, the descriptions of the four mail types would be more accurate if they described a letter that happened to receive one type of processing or another, as opposed to assume the processing based only on address information.

Despite the above general comment, I still cannot confirm the ranking of mail types by cost presented in this question. In comparing type I mail with type II mail, there are instances when the mail processing costs for the two may be equal. For example, if both pieces of mail are to be delivered in zones that do not receive delivery point sequencing, the level of barcode beyond five digits will not affect the amount of mail processing incurred in down-stream operations. In addition, as stated in my response to DFC/USPS-T32-3, I do not have specific cost information that allows me to distinguish the cost of RCR from the costs of involving a Data Conversion Operator.

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TO INTERROGATORIES OF DOUGLAS F CARLSON

After considering the above comments, I can confirm the following. In general, mail that is resolved on the OCR will have volume variable mail processing costs that are lower than mail that requires RBCS processing. In addition, it is likely that mail resolved by the RCR will have volume variable mail processing costs that are lower than mail that requires involvement by a Data Conversion Operator.



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**DFC/USPS-T25-2.**

- a. Please confirm that a cost is associated with involving an RBCS Data Conversion Operator in the sortation of a piece of mail. If you do not confirm, please explain fully.
- b. All else being equal, please confirm that the cost of processing a piece of mail with the involvement of a Data Conversion Operator is higher than the cost of processing a similar piece of mail without the involvement of a Data Conversion Operator. If you do not confirm, please explain fully.
- c. Please explain how, in your response to DFC/USPS-T32-3(a), the mail-processing costs associated with the mail described in part (a) of DFC/USPS-T32-2 could be the same as the mail-processing costs associated with the mail described in part (d) of DFC/USPS-T32-2.
- d. In your response to DFC/USPS-T32-3(a), you noted that "Because the type (a) mail is never sent through the RBCS, it may avoid certain mail processing costs that are incurred by the type (d) mail." Please confirm that because the type (a) mail is not sent through RBCS, it will avoid certain mail-processing costs that are incurred by the type (d) mail.
- e. If you confirm in part (d), please provide examples of the types of costs that the type (a) mail would avoid.
- f. If you do not confirm in part (d), please explain your answer fully.
- g. In general, does the Postal Service prefer typewritten mail over handwritten ("script") mail? If so, is this preference related to the generally lower processing costs of typewritten mail over handwritten mail?

**RESPONSE:**

- (a) Confirmed.
- (b) Confirmed.
- (c) If both pieces of mail are processed at non-automated facilities, they will have comparable mail processing costs.

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TO INTERROGATORIES OF DOUGLAS F CARLSON

(d) In the situations where type (a) mail is not sent through RBCS, it will avoid certain mail processing costs that are incurred by type (d) mail.

(e) Some examples of the types of costs avoided by mail that is sent through RBCS when compared to mail that is fully resolved on an OCR are:

- The costs associated with processing an image through the RCR and/or the costs of keying at a Remote Encoding Center (REC)
- Some portion of the costs associated with processing through the output sub-system (OSS)

(f) N/A

(g) I am not in a position to comment on what the Postal Service prefers or does not prefer, and I believe that the Postal Service values all of its customers whether they tender typewritten or handwritten letters.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
INTEROGATORIES OF DOUGLAS F. CARLSON

**DFC/USPS-T-25-3.** Please refer to your response to DFC/USPS-T-32-3. Please confirm that the processing costs at a fully automated facility of type (a) mail (as defined in DFC/USPS-T-32-2) are lower than the processing costs at a fully automated facility of type (d) mail (as defined in DFC/USPS-T-32-2).

**RESPONSE:**

All else being equal, the mail processing costs associated with a letter that receives a delivery point barcode from an OCR, without receiving any RBCS processing, will be less than the mail processing costs associated with a letter whose image must be keyed at a REC after being run through an RBCS ISS operation.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
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**DFC/USPS-T-25-4.** Please refer to the four types of mail described in DFC/USPS-T-32-2. Please confirm that some of the type (a) mail is produced by "individuals" (defined as "single human beings, as contrasted with a social group or institution").

**RESPONSE:**

I would agree that there exist both presorted and single piece First-Class Mail letters that receive a delivery point barcode from an OCR without receiving any RBCS processing.

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**DFC/USPS-T-25-5.** To the extent that customers who presently prepare OCR-readable, non-bar-coded single-piece First-Class letters or cards switched to an addressing method such as handwriting that could not be fully resolved by an OCR, would you expect that processing costs would increase? Please explain your answer.

**RESPONSE:**

If a portion of the volume of First-Class letters that currently receive a delivery point barcode from an OCR, without receiving any RBCS processing, were to change such that they would require RBCS processing in order to receive the same barcode, then I would expect the costs of processing these letters would increase. For an explanation of my answer, please see my response to DFC/USPS-T-25-3.

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**DFC/USPS-T-25-6.** To the extent that customers who presently prepare mail that can be processed on automated sorting equipment switched to envelope or card materials that, due to their color or surface texture, reduced the percentage of pieces that could be processed on automated sorting equipment, would you expect that processing costs would increase? Would the reverse be true, too? Please explain your answer.

**RESPONSE:**

If a portion of the volume of First-Class letters that are currently processed on OCRs and BCSs, were to change such that they would require manual piece distribution, then I would expect the costs of processing these letters to increase. Likewise, if a portion of the volume of First-Class letters that currently receive manual piece distribution, were to change such that they could be sorted on OCRs and BCSs, then I would expect the costs of processing these letters to decrease. My response to this question is based upon the fact that, in general, manual piece distribution operations are more costly than automated piece distribution operations.

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POSTAL SERVICE WITNESS FRONK

**DFC/USPS-T32-3.**

- a. Of the types of mail described in parts (a) and (d) of DFC/USPS-T32-2, is the type described in part (a) less expensive to process than the type described in part (d)?
- b. If the answer to part (a) is yes, please quantify the cost differential.

**RESPONSE:**

- a. All else being equal, the mail processing costs associated with the mail described in part (a) of DFC/USPS-T32-2 will be the same as or lower than the mail processing costs associated with the mail described in part (d) of DFC/USPS-T32-2. Because the type (a) mail is never sent through the RBCS, it may avoid certain mail processing costs that are incurred by the type (d) mail.
- b. The cost differential is difficult to quantify for a number of reasons. First, it is unclear what type of mail is being described. Specifically, are mail types (a) and (d) from DFC/USPS-T32-2 entered as single piece First-Class Mail or as presorted First-Class Mail? Should the cost differential be calculated based on a single piece of each type of mail or should it be based on the average piece of mail fitting the description of each of the mail types? Depending on the type of mail, the mail processing costs will differ significantly. Second, in addition to the uncertainty in the mail types, there are a number of factors that may affect how the two different types of mail are handled. For example, some portion of the mail will be processed at non-automated facilities. At these facilities, the cost differential would most likely be zero. In addition, these pieces

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of mail may be processed across advanced facer canceller systems (AFCSs) that have been outfitted with RBCS image lift capabilities. The new processing capability of AFCSs will tend to lower the cost of processing letters whose address information cannot be read completely by an OCR (i.e., type d).

Given the fact that a detailed mail processing cost analysis of the types of mail in question has not been conducted, and that certain data regarding collection mail would be needed in order to conduct such an analysis, it is very difficult to quantify the cost differential. In addition, the current productivity used for RBCS processing represents a combination of mail that is finalized through the RCR and mail that requires keying by a Data Conversion Operator. In order to quantify the cost differential of the types of mail in question, further data regarding RBCS processing would be needed in order to differentiate the costs between mail that is finalized by the RCR and mail that requires keying by a Data Conversion Operator.



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**MMA/USPS-T25-1.** On page 3 of your testimony you indicate that for your analysis of First-Class bulk mail cost savings, your benchmark is a "shape specific, product specific mail processing unit cost that includes all volume variable mail processing costs that are captured in the CRA".

(A) Does this mean that your unit benchmark processing costs are consistent with the Postal Service's attributable cost methodology as presented by USPS witness Alexandrovich? Please explain any no answer.

(B) Does this mean that your unit benchmark processing costs differ from those that would be produced under the Commission's approved cost methodology as provided in the last omnibus rate proceeding, Docket No. R94-1? Please explain any no answer.

(C) Please refer to your answer to Paragraph (B) of this Interrogatory. If you had used the Commission-approved methodology, what would be the effect upon the costs for First-Class letters that are shown in Table II-2 on page 4 of your testimony, USPS-T-25? Please provide a version of Table II-2 that shows how the costs for First-Class letters would change if you had used the Commission-approved methodology.

(D) Please provide a version of Table II-2 that shows how the costs for First-Class letters would change if you had used a methodology that attributed all mail processing labor costs as 100 percent variable? Please support your answer.

RESPONSE:

(A) Yes.

(B) Objection filed.

(C) Objection filed.

(D) It is difficult to speculate regarding the effects that using a different cost methodology would have on the unit costs developed in my testimony because such an analysis has not been conducted. It is my understanding that the methodology used in the current case incorporates several improvements over cost methodologies presented in prior dockets. Without undertaking the considerable effort required in analyzing the

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numerous effects that using a different cost methodology may have on the unit costs developed in my testimony, I am not able to determine how these costs would change. Since I have not conducted such an analysis, I am not able to provide unit cost estimates based on a cost methodology other than that presented in this docket.

REVISED 10/6/97

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RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
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**MMA/USPS-T25-2.** On page 5 of USPS-T-25, you note that the "models yield an average mail processing cost per piece for the average letter in each different rate category".

(A) What is the weight of an "average" letter for each category which the costs of your models reflect?

(B) For these "average" letters, how many weigh under one ounce, between one and two ounces, and between two and three ounces?

(C) How would the costs in your models change if the mail flows reflected letters weighing only up to one ounce? Please explain your answer.

(D) How would the costs in your models change if the mail flows reflected letters weighing only up to two ounces? Please explain your answer.

(E) How would the costs in your models change if the mail flows reflected letters weighing between one and two ounces? Please explain your answer.

(F) Are First-Class prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between one and two ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

(G) Are First-Class prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between two and three ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

(H) Are Standard Mail A prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between one and two ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

(I) Are Standard Mail A prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between two and three ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
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RESPONSE:

(A) The weight of average presorted First-Class Mail letters by rate category is not available in the test year. However, this data is available for the base year:

Nonautomation presort:	0.60 ounces
Automation basic:	0.58 ounces
Automation 3-digit:	0.61 ounces
Automation 5-digit:	0.63 ounces
Carrier route:	0.63 ounces

(B) Please see the attachment to NDMS/USPS-T32-47.

(C) - (E) It is difficult to hypothesize regarding how the mail processing costs for presorted First-Class Mail would differ in a situation where one was able to model the different effects of weight on mail processing costs. As stated by witness Smith in his response to MMA-T10-2B in Docket No. MC95-1, "Weight has a variety of implications for mail processing costs, due to its impact on both labor costs and equipment costs." In some situations, heavier pieces will tend to have higher mail processing costs for various reasons. For example, heavier pieces may lead to lower throughputs on automated equipment and cause more jams and damage.

(F) - (I) Based on the content requirements for automation compatible mail as specified in DMM 810.2.3, it is my understanding that these pieces are processed on barcode sorters.

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**MMA/USPS-T25-3.** On page 9 of USPS-T-25, you indicate how you "adjusted" productivities (upwards, which lowered costs) to account for the Service's presentation that not all labor mail processing costs are 100% variable. You also indicate that the "productivities were calculated by dividing the total number of pieces processed through an operation or group of operations for the year by the total number of workhours associated with the operation or group of operations for the year".

(A) Please confirm that, before adjustment, productivities were based upon actual person-hours worked to process a particular volume of mail.

(B) Referring to Paragraph (A) of this Interrogatory, explain *your* justification for increasing productivities higher than they actually were.

(C) Did you make the adjustment in productivities for any reason other than to conform your analysis to other Service witnesses' conclusion that direct labor costs do not vary 100 percent with volume. If your answer is other than no, please explain in detail.

(D) Did you perform an analysis without adjusting the productivities? If so, please provide the results of that analysis.

(E) If the Commission concludes that direct labor costs *do* vary 100 percent with volume, would you agree that your cost models underestimate the computed cost savings (under a Commission determination of 100 percent variability)? Please explain any no answer.

**RESPONSE:**

(A) Yes, but it is my understanding that, if a productivity were calculated based on total workhours from MODS, this productivity would reflect an assumed volume variability of 100 percent.

(B) In estimating the volume variability of mail processing operations, Dr. Bradley (USPS-T-14) showed that for certain operations the volume variability was less than one. A volume variability of less than one indicates that there is a less than proportional increase in the amount of the labor associated with a given volume

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increase. Therefore, in order to calculate a volume variable cost, a volume variable productivity, or marginal productivity should be used. The unadjusted productivity fails to reflect the higher productivity on the margin. In developing unit mail processing costs for presorted First-Class Mail, I employ volume variable productivities in order to calculate volume variable costs.

(C) See my response to part (B) of this question.

(D) No analysis has been conducted that assumes 100 percent volume variability for all mail processing operations using the most recent and best available data. Partial analyses were conducted in the early stages of preparation for this docket that assumed 100 percent volume variability of mail processing operations; however, since that time other changes and updates have been made that render the earlier analyses obsolete.

(E) If all the necessary analyses were conducted to support an assumption of 100 percent volume variability for all mail processing operations, it is likely that the unit mail processing costs produced in my testimony would increase. Increases in each of the unit costs would imply that, in general, the differences between the unit costs would also increase. However, it is impossible to confirm at this time the specific effects such an analysis would have on each and every unit cost estimate produced in my testimony due to the complexity of the analysis and its reliance on certain data from other sources.

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**MMA/USPS-T25-4.** On page 12 of your testimony you note that during your accept and upgrade rate study, "rejects can go to a variety of places depending on the reason for the reject."

(A) Please describe all of the possible reasons for rejects that were experienced and recorded?

(B) For each reason noted in your answer to Paragraph (A) of this Interrogatory, please quantify the (1) cost per-piece for each type of mail rejected, by category of rejection, and (2) rate of occurrence of each type of rejection.

RESPONSE:

(A) Pieces rejected on the output subsystem (OSS) of the remote bar code system (RBCS) were measured in four different categories based on where the rejects would receive their next operation. Below is a list of each of the four categories and the types of rejects that fall into each:

- **Rejects to the RBCS input subsystem:**
  - NOT - pieces with no ID tag
  - DBF - pieces that are double fed
  - MSF - pieces that are misfaced
  - MISS - pieces with missing ID tags
  - HDR/HED - pieces with header information only
- **Rejects to the letter mail labeling machine (LMLM)**
  - VER - pieces with a PostNET verifier error
  - URT - pieces with unreadable ID tags
- **Rejects to the RBCS output subsystem**
  - ZNR - pieces with an unresolved ZIP code
  - ZPR - pieces with a partially resolved ZIP code
  - TMO - pieces that are timed out
- **Rejects to manual**
  - FRG/FGR - pieces of foreign mail
  - NOI - pieces with unreadable images
  - STL/OLD - pieces with old ID tags
  - NOZ - pieces with no ZIP found on the IPSS

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(B) The accept and upgrade rate study did not measure the different costs associated with different types of rejects. Further, the different types of rejects described in my response to part (A) of this question are not modeled separately in my testimony.

The accept and upgrade study measured the average reject rate for each type of reject described above through a particular operation for different categories of First-Class Mail and Standard Mail. The average reject rates for the OSS that are used in my testimony can be found in Library Reference USPS LR-H-130 and are listed below:

	<b>ISS</b>	<b>LMLM</b>	<b>OSS</b>	<b>Manual</b>
FC Presort non-automation, OCR	0.0363	0.0749	0.0176	0.0133
FC Presort non-automation, Non-OCR	0.0706	0.1136	0.0090	0.0224



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**MMA/USPS-T25-5.** On pages 12-15 of USPS-T-25, you describe mail preparation and entry requirements that have been instituted as a result of Docket No. MC95-1 re-classification. For example, prior to classification reform, automated mail could be prepared in bundles. Now all mail must be prepared in full trays.

(A) Please quantify--for each category of mail affected--the per-piece cost savings due to the Docket No. MC95-1 revisions in mail preparation and entry requirements.

(B) Are the cost savings described in Paragraphs (A) and (B) taken account of in the USPS proposed rates for First-Class automated mail and, if so, how? Please explain.

(C) Are the cost savings described in Paragraphs (A) and (B) taken account of in the USPS proposed rates for First-Class presorted (but not automated) mail and, if so, how? Please explain.

(D) Doesn't your methodology omit any presort cost savings that occur during the mail acceptance and mail preparation operations? Please explain any no answer.

(E) Please provide the productivities for the mail acceptance and mail preparation operations. What is the source of these productivities?

**RESPONSE:**

(A) On a rate category by rate category basis it is difficult to quantify cost savings associated with specific changes in mail preparation and entry requirements. This is due to the fact that Docket No. MC95-1 fundamentally changed the nature of certain rate categories and the types of mail that can be entered. For example, before the Docket No. MC95-1 decision was implemented, nonbarcoded presorted First-Class Mail rates only applied to mail entered in 3-digit and 5-digit packages. After the decision was implemented, First-Class nonautomation presort mail could be entered in ADC and mixed ADC packages and, for OCR upgradable mail, AADC and mixed AADC containers. These fundamental changes in rate categories make it difficult to isolate

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the effects of cost changes due to individual changes in mail preparation and entry requirements.

In order to account for the changes in mail preparation and entry requirements along with other changes in rate category requirements, the Postal Service conducted an analysis that is contained in Library Reference USPS-LR-H-126. It is my understanding that the analysis develops an FY 1996 overall unit mail processing cost for the post-reclass categories of mail on a rate category by rate category basis using a mail flow modeling approach similar to the one presented in my testimony. This unit cost is then compared to the actual FY 1996 unit cost representing primarily the pre-reclass categories of mail. The actual FY 1996 unit cost is calculated on an aggregate basis; therefore, comparisons at a rate category level are not possible.

(B) It is my understanding that changes in the mail processing costs of certain types of mail due to the Docket No. MC95-1 decision are accounted for in Library Reference USPS LR-H-126. The cost savings calculated in LR-H-126 are incorporated in the test year rollforward. Because the cost estimates developed in my testimony rely on data from the test year rollforward (through the use of the benchmark unit costs by shape) the cost savings calculated in LR-H-126 are reflected in the unit cost estimates developed in my testimony.

(C) See my response to part (B) of this question.

(D) The methodology used in my testimony develops unit mail processing costs for presorted First-Class Mail rate categories and therefore reflects the

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differences in mail preparation costs between the categories arising from differences in make up such as bundling vs. full trays. As noted above, USPS LR-H-126 shows the calculation of the changes in costs arising from the implementation of reclassification reform.

(E) I am not aware of any productivity data regarding mail acceptance and mail preparation operations nor did I rely on any such data in preparing my testimony.

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**MMA/USPS-T25-7.** Please refer to Appendix I of USPS-T-25, where you compute model unit costs for First-Class Nonautomation Presort, Automation Basic Presort, Automation 3-Digit Presort and Automation 5-digit Presort. For each of these four categories of First-Class Mail, please describe where in your mail flow diagrams and computations you take into account the extra costs of processing 2-ounce letters (compared to 1-ounce letters). Can you quantify those costs and, if you can, please provide that quantification.

**RESPONSE:**

The mail flow diagrams presented in my testimony do not contain distinct considerations for pieces of different weights. The cost of letters that have a specific weight other than the average weight cannot be determined using the methodology and data presented in my testimony.

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**MMA/USPS-T25-8.** Over the past few years there have been new requirements that First-Class automated letters must meet. Presumably these were sought by the Postal Service to reduce postal costs.

(A) In your study's derivation of unit mail processing costs, did you quantify and take into account any cost savings due to the new, stricter entry requirements implemented after classification reform? If so, explain in what quantitative manner those cost savings were taken into account.

(B) In your study's derivation of unit mail processing costs, did you quantify and take into account any cost savings due to the requirement that zip codes include 11 digits, instituted in connection with Docket No. MC93-2? If so, explain in what quantitative manner those cost savings were taken into account.

(C) In your study's derivation of unit mail processing costs, did you quantify and take into account the new, stricter address requirements implemented after classification reform? If so, explain in what quantitative manner those cost savings were taken into account.

(D) In your study's derivation of unit mail processing costs, did you quantify and take into account the new requirement that reply envelopes be machineable and pre-barcode? If so, explain in what quantitative manner those cost savings were taken into account.

RESPONSE:

(A) See response to MMA/USPS-T-25-5.

(B) Yes. The adoption of the 11-digit barcode was to enable DPS. The test year projected DPS volumes for each category are determined in the mail flow models and are used in calculating the mail processing unit costs for each category. In this way, savings or additional costs for each category are quantified.

(C) Yes. Stricter address requirements will have a direct impact on the accept and upgrade rates of this mail on automation equipment. To the extent that address information on presorted First-Class Mail has improved, the latest study of accept and

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
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upgrade rates on automated equipment (USPS LR-H-130) will reflect those changes.

Therefore, the accept and upgrade rates used to develop mail processing unit costs in my testimony will reflect the address characteristics of presorted First-Class Mail after Docket No. MC95-1.

(D) My testimony does not estimate the mail processing costs associated with reply mail. Therefore, I have no opportunity to take into account changes in the requirements of reply envelope preparation.

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**MMA/USPS-T25-9.** Please refer to USPS-T-25, Appendix I, page 32, where you list the *adjusted productivities that you use in your cost models*. Please provide the productivities for each operation prior to the adjustment (where you divided the base productivity by the percentage volume variability for each operation, as described on page 9 of USPS-T-25).

**RESPONSE:**

Only productivities for certain operations are adjusted for volume variability in my testimony. For these operations, the productivity prior to adjustment is listed in column 2 of page 32 of Appendix I. The productivity measures for all other operations were obtained from Library Reference USPS LR-H-113. Unadjusted productivities for these other operations can be found in USPS LR-H-113 (page 10 for RBCS, page 100 for all other).

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**MMA/USPS-T-25-12.** In response to MMA/USPS-T-25-2 you state that "heavier pieces may lead to lower throughputs on automated equipment and cause more jams and damage."

A) What is the basis for this conclusion?

B) What do you mean by "heavier" pieces in terms of an actual weight measurement? Please support your answer.

**RESPONSE:**

A) In addition to observation, my bases for this conclusion come from the information provided in Docket No. MC95-1. Specifically, see the response of witness Pajunas to MMA/USPS-T-2-12 submitted in Docket No. MC95-1, on June 16<sup>th</sup>, 1995. This response was accompanied by an attachment reporting the engineering study results from a test of letter pieces weighing between 1.75 and 4.5 ounces. The response (without the attachment) can be found at TR 28/13059 in Docket No. MC95-1.

B) By heavier pieces I was not referring to any one specific weight measurement. Rather, I mean that, when comparing different pieces, heavier pieces may tend to lead to lower throughputs on automated equipment than lighter pieces.



ENGINEERING

UNITED STATES  
POSTAL SERVICE

June 16, 1995

## MEMORANDUM FOR TONY PAJUNAS

SUBJECT: Heavy Mail Testing

On at least three occasions; i.e., April 1989, August 1992 and the most recent study dated February 15, 1994, the Engineering Center has conducted studies concerning the relationship of heavy mail to the throughput of our automated letter equipment. We have found that in most cases as the weight of the letter increases the throughput (pieces fed per hour) decreases.

Tests were conducted both with pure runs as well as intermixed with the existing mail base, and the same conclusion was reached--throughput decreased as the heavier mail is fed.



L. A. Kidd, Manager  
Distribution Technology

Summary of EDC's Throughput Testing  
of Heavier Mailpieces on the  
Automation Equipment

The following is a summary of EDC's past testing of heavier mailpieces on the Automation Equipment. As can be seen from this table, the throughput decreases as the weight of the mailpiece increases. Tests conducted in 4/89, 11/89, 5/90 and 4/91 were homogeneous runs and therefore show the greatest throughput reduction. This would be representative of the equipments throughput in an 'originating' operation.

1.75 oz	24,710	pcs/hr
2.0	22,640	
2.25	22,120	
2.50	17,820	
2.75	16,910	
3.00	15,530	
3.25	15,500	
3.50	13,380	
4.50	10,900	

In August 1990, April 1991, and June 1991, EDC performed tests that consisted of heavier mailpieces intermixed with typical #10 enveloped pieces. This would be representative of 'secondary' operations. Again, the throughput decreases as the mailpiece weight increases, but not as drastically as the homogeneous test.

Heavyweight Mail Intermixed in Percentage Increments

Percent Heavyweight Pieces (%)      Throughput (pcs/hr)

0	34,100
1	33,900
3	33,400
5	33,500
7	33,300
9	32,200
11	32,600
13	32,500
15	31,400

## MACHINABLE REQUIREMENTS FOR AUTOMATION

### WEIGHT VS. THROUGHPUT TEST

A number of field offices assisted with the testing of heavy Third Class letter sized mailpieces to determine the effect that weight has on throughput. Unfortunately, these results proved to be inconclusive because the characteristics of the live mail from the many offices varied greatly. (Length, height, and thickness of samples, within weight categories, for example). To obtain substantial results, mailpiece characteristics were controlled by using standard #10 envelopes stuffed with inserts to get the desired weight categories (2 oz., 2.25 oz., 2.5 oz., 2.75 oz., 3.0 oz., 3.25 oz., 3.5 oz.) of 1,000 pieces each, thickness ranging from 0.121 inches to 0.2004 inches, and an aspect ratio of 2.303 : 1. Third Class mail presently has a weight limitation of 3.37 ounces of per-piece rates. These results show a 3 - 29% decrease in throughput between a 2.5 ounce piece and a 3.25 ounce piece depending on the equipment used. Pieces weighing more than 2.5 ounces required operator assistance at the feeder due to the inability to be picked-off as constantly as the lighter weight pieces. These pieces also caused more jams in the transport.

It is therefore recommended that in order to be eligible for the price incentive, mailpieces weighing 2.5 ounces or less are automation compatible.

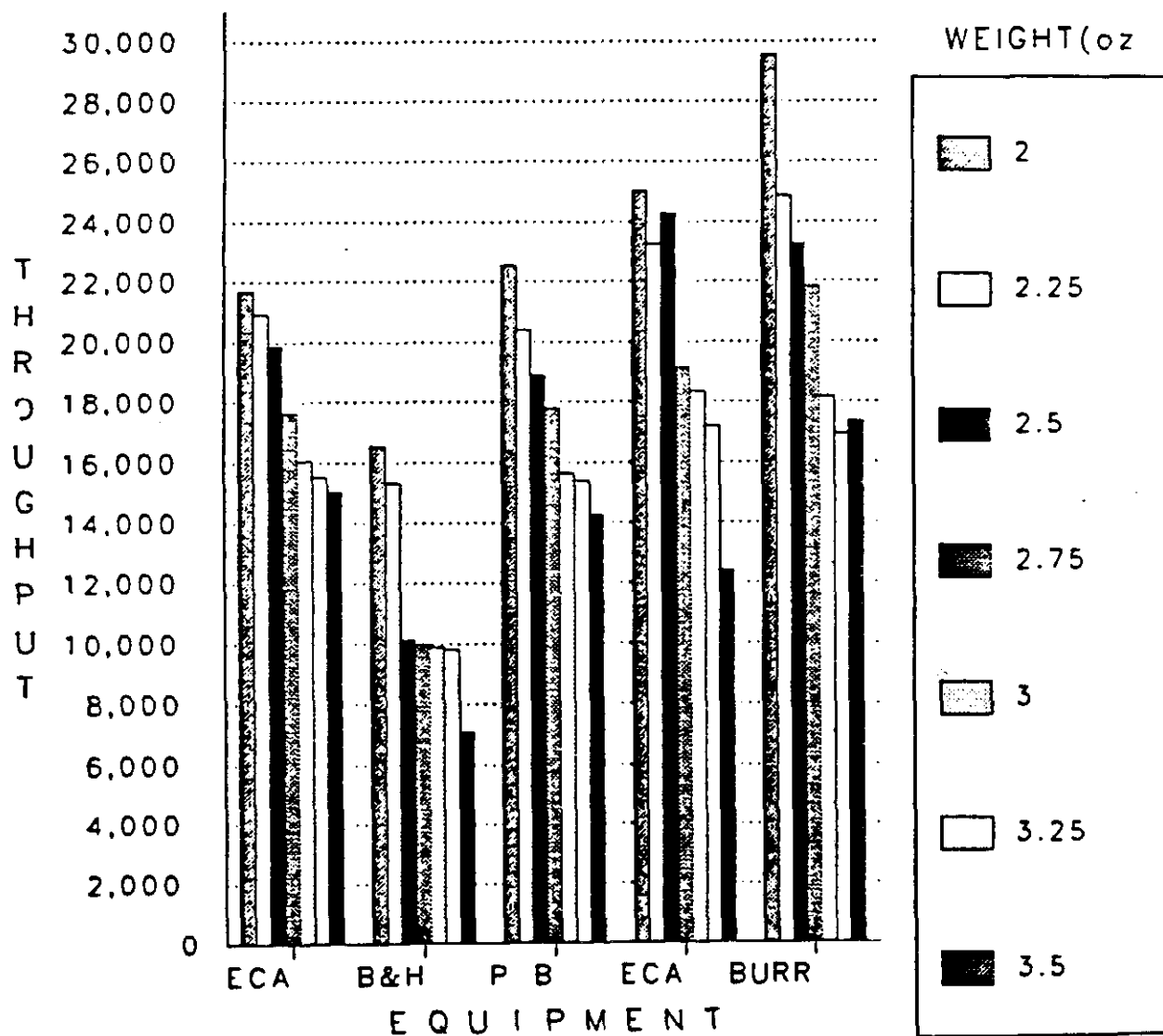
Based on results of previous testing concerning securing mailpieces, it is recommended that all letter-sized mail, with paper exterior being sealed on four sides or two gum tabs of a permanent, pressure sensitive, non-removeable adhesive on the unbound edge of a bound piece is machinable, and folds and edges bound should be oriented down with the address label parallel to the fold or bound edge and the address right side is readable, is automation compatible.

	DMM	PUB. 25	OUR RECOM.
SIZE	Min. 3 1/2 X 5 Max 6 1/8 X 11 1/2	Min. 3 1/2 X 5 Max 6 1/8 X 10 1/2	Min. Max x 9 1/2
THICKNESS	Min. 0 Max 3/4" or less	Min. .007" Max 0.1875"	Min. Max 0.150"
ASPECT RATIO	NOT MENTIONED	Min. 1.3 : 1 Max 2.5 : 1	Min. Max 2.3 : 1
WEIGHT	Min. Max 16 oz. or less	NOT MENTIONED	Min. Max 2 1/2 oz.
SEALING			*MENTIONED ABOVE
ENCLOSURES			NO PENS, PENCILS, OR STIFF (UNBENDABLE) OBJECTS.
COMPOSITION (paper/non)			

## HEAVY-WEIGHT MAIL TEST

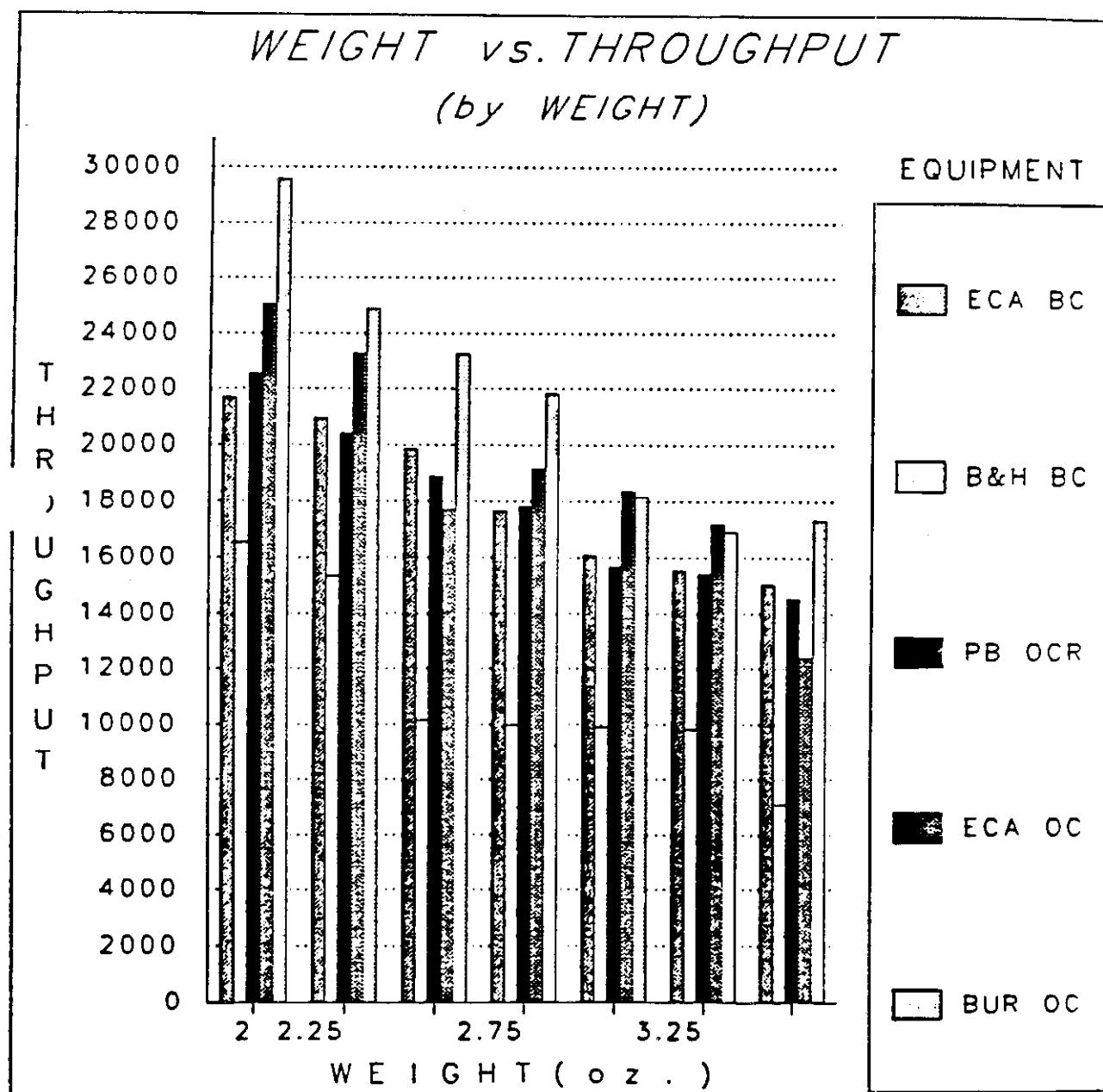
	ECA	B&H	P B	ECA	BURR
2	21,686	16,530	22,523	25,025	29,550
2.25	20,930	15,334	20,393	23,272	24,873
2.5	19,849	10,147	18,886	24,276	23,278
2.75	17,647	9,972	17,800	19,149	21,822
3	16,071	9,900	15,652	18,369	18,164
3.25	15,532	9,819	15,393	17,173	16,913
3.5	15,027	7,080	14,258	12,390	17,328

# *WEIGHT vs. THROUGHPUT* (by EQUIPMENT)



## HEAVY-WEIGHT MAIL TEST

	2	2.25	2.5	2.75	3	3.25	3.5
F CS	21686	20930	19849	17647	16071	15532	15027
B. CS	16530	15334	10147	9972	9900	9819	7080
PB OCR	22523	20393	18886	17800	15652	15393	14528
ECA OCR	25025	23272	17697	19149	18369	17173	12390
BUR OCR	29550	24873	23278	21822	18164	16913	17328



SITE	WT. (oz.)	I (in.)	L (in.)	H (in.)	ASPECT RATIO	THROUGHPUT (pcs./hr.)		
						OCR's	BCS's	
INDIANAPOLIS, IN	2	0.090	9 1/2	5 3/4	1.652	ECA (597pcs.) (.0611hrs.) 25,285	---	---
	2.6	0.172	9	4 1/4	2.118	(.0205hrs.) (379pcs.) 18,438	---	---
	3.25	0.182	8 7/8	5 1/2	1.614	(.01917hrs.) (338pcs.) 17,635	---	---
	1.862	0.135	9 1/2	4 1/4	2.235	(.04028hrs.) (878pcs.) 21,799	(.05927hrs.) (885pcs.) 14,819	(.02253hrs.) (899pcs.) 39,896
E & DC	1.989	0.170	8 1/2	4 1/4	2.005	(.07972hrs.) (1,189pcs.) 14,914	(.11889hrs.) (979pcs.) 10,068	(.07134hrs.) (1,190pcs.) 16,680
	2.021	0.153	9 1/2	4 1/4	2.235	(.03139hrs.) (630pcs.) 20,071	(.07889hrs.) (584pcs.) 7,770	(.01864hrs.) (622pcs.) 32,929
	2.324	0.101	10 3/4	5 1/4	2.048	(.05472hrs.) (998pcs.) 18,238	(.07194hrs.) (1,002pcs.) 13,927	(.05444hrs.) (1,001pcs.) 18,385
	3.129	0.226	9 1/4	4 1/2	2.055	(.1,003pcs.) (.09hrs.) 11,144	(.1,005pcs.) (.1611hrs.) 6,238	(.06259hrs.) (999pcs.) 7,980
ORLANDO, FL	3.880	0.186	9	5 3/4	1.565	(.06361hrs.) (808pcs.) 12,702	(.06083hrs.) (813pcs.) 13,364	(.07139hrs.) (818pcs.) 11,458
	2	0.0787	9 1/2	4	2.375	(.0433hrs.) (1039pcs.) 23,977	(.0458hrs.) (1068pcs.) 23,105	(.0475hrs.) (1047pcs.) 22,042
	2.5	0.1181	9 3/4	5 3/4	1.696	(.0449hrs.) (1024pcs.) 23,049	(.0444hrs.) (1024pcs.) 23,049	(.0392hrs.) (1024pcs.) 26,144
	3	0.1968	8 7/8	5 7/8	1.5106	(.0436hrs.) (1026pcs.) 23,049	(.0436hrs.) (1026pcs.) 23,049	(.0381hrs.) (1022pcs.) 26,144
BELL & HOWE	2	0.0787	9 1/2	4	2.375	(.0433hrs.) (1039pcs.) 23,977	(.0458hrs.) (1068pcs.) 23,105	(.0475hrs.) (1047pcs.) 22,042
	2.5	0.1181	9 3/4	5 3/4	1.696	(.0449hrs.) (1024pcs.) 23,049	(.0444hrs.) (1024pcs.) 23,049	(.0392hrs.) (1024pcs.) 26,144
	3	0.1968	8 7/8	5 7/8	1.5106	(.0436hrs.) (1026pcs.) 23,049	(.0436hrs.) (1026pcs.) 23,049	(.0381hrs.) (1022pcs.) 26,144
	3.880	0.186	9	5 3/4	1.565	(.06361hrs.) (808pcs.) 12,702	(.06083hrs.) (813pcs.) 13,364	(.07139hrs.) (818pcs.) 11,458



SITE	WT. (oz.)	↑	L (in.)	H (in.)	ASPECT RATIO	THROUGHPUT (pcs./hr.)			
						OCR's		BCS's	
JACKSONVILLE, FL	1.97	0.141	9 3/8	4 1/8	2.723	ECA	355pcs. (.0144hrs.)	24,230	350pcs. (.0144hrs.)
	2.03	0.172	9 1/2	4 1/8	2.303	-----	311pcs. (.0125hrs.)	24,880	311pcs. (.0125hrs.)
	2.46	0.141	9	5 3/4	1.565	-----	491pcs. (.0227hrs.)	21,556	491pcs. (.0227hrs.)
	3.49	0.172	9 1/2	5 3/4	1.652	-----	232pcs. (.0088hrs.)	26,325	234pcs. (.0088hrs.)
KANSAS CITY, MO	2.00	0.125	9 1/2	6	1.583	-----	454pcs. (.0238hrs.)	19,005	449pcs. (.0291hrs.)
	2.50	0.125	9	6	1.50	-----	322pcs. (.0209hrs.)	15,456	322pcs. (.0209hrs.)
	3.00	0.250	9 1/2	4 1/2	2.11	-----	388pcs. (.0257hrs.)	15,349	392pcs. (.0152hrs.)
	3.00	0.1875	8 3/4	6	1.458	-----	401pcs. (.0208hrs.)	19,248	402pcs. (.0422hrs.)
SAN DIEGO, CA	2.00	0.1875	8 3/4	6	1.458	-----	395pcs. (.0669hrs.)	5,900	414pcs. (.0663hrs.)
	2.50	0.1250	9	5 3/4	1.565	-----	742pcs. (.0297hrs.)	24,964	764pcs. (.0286hrs.)
	3.00	0.1875	9	5 3/4	1.565	-----	742pcs. (.0297hrs.)	24,964	741pcs. (.0286hrs.)
	3.00	0.1875	9	5 3/4	1.565	-----	452pcs. (.1383hrs.)	3,262	469pcs. (.0255hrs.)

Jm

SO. MARYLAND DIV.

WT. (oz.)	t (in.)	L (in.)	H (in.)	ASPECT RATIO	ECA	OCR
3.5	0.0625	9	5 3/4	1.565	107 pcs.	500 pcs. .03305 hrs. 15,126
3.0	0.125	8 1/2	5 1/2	1.545	367 pcs.	367 pcs. .01333 hrs. 27,525
3.0	0.125	8 1/2	5 1/2	1.545	364 pcs.	364 pcs. .01305 27,881
2.5	0.9375	7 1/2	4 1/4	1.765	368 pcs.	368 pcs. .01222 hrs. 30,109
2.0	0.325	8	6	1.333	484 pcs.	484 pcs. .01724 30,041
2.0	0.625	9 1/2	5 1/2	1.727	803 pcs.	803 pcs. .03138 hrs. 25,582

1

WT. (oz.)	t (in.)	L (in.)	H (in.)	ASPECT RATIO	ECA	BCS
3.5	0.25	8	5 1/2	1.454	241 pcs.	241 pcs. .01167 hrs. 20,657
3.5	0.25	9	6 1/4	1.52	80 pcs.	80 pcs. .00333 hrs. 24,000
3.0	0.25	8	5 1/2	1.454	444 pcs.	444 pcs. .01528 hrs. 29,061 ...
3.0	0.1875	7 3/4	4 1/2	1.722	169 pcs.	169 pcs. .00722 hrs. 23,400
2.5	.0625	9 1/2	6	1.583	151 pcs.	151 pcs. .00611 hrs. 24,709
2.5	0.0625	8	6	1.333	152 pcs.	152 pcs. .00472 hrs. 32,188
2.0	0.03125	9	6	1.5	238 pcs.	238 pcs. .00944 hrs. 25,200
2.0	0.03125	9	6	1.5	399 pcs.	399 pcs. .01194 hrs. 33,404

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## WEIGHT VERSUS THROUGHPUT CONTROLLED TEST RESULTS

### SPECIFICATIONS

WEIGHT (ounces +/- .05 ounces)		Thickness (inches)
Required	Actual	
2.00	2.029	0.121
2.25	2.241	0.131
2.50	2.492	0.148
2.75	2.757	0.162
3.00	3.024	0.181
3.25	3.218	0.189
3.50	3.482	0.2004

UNIFORM SIZE: 9 1/2 in. X 4 1/8 in.

ASPECT RATIO (L/H): 2.303

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**MMA/USPS-T-25-13.** In response to MMA/USPS-T-25-3(E) you note that if you had assumed that labor costs were 100% variable in your cost models, it is likely that unit mail processing costs would increase. You do not, however, agree that the computed cost differences would increase.

A) Isn't it absolutely true that if you were able to assume that labor costs were 100% variable in your models, the unit costs would increase?

B) Do you agree given the nature of the mathematical computations that comprise your cost models, it is more than likely that the differences between the unit costs would also increase? Please explain any no answer.

C) Please explain how an intervenor in this proceeding can reproduce your cost models under the assumption that labor costs are 100% variable.

RESPONSE:

A) It is absolutely true that if I assumed that labor costs were 100 percent volume variable in the cost models, that the *modeled costs* would increase. However, since the total unit cost estimates produced in my testimony depend not only on *modeled costs*, but also on the benchmark costs by shape, I cannot say that it is absolutely true that the *total* unit costs would increase. This is because I am not familiar enough with the data used to produce the benchmark costs by shape to give an absolute answer as to the effect that changing methodology would have upon them. However, based on my knowledge of how the benchmark costs by shape are produced, I can say that it is likely that the benchmark costs by shape would increase if it were assumed that labor costs were 100 percent volume variable.

B) I am not sure that it is useful to argue the difference between 'likely' and 'more than likely'; however, I can say that it is likely that the differences between *modeled costs* would increase under an assumption of 100 percent volume variable

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

mail processing costs. Further, it is likely that the differences in *total unit* costs would also increase. However, I cannot say that cost differences (modeled or total) would necessarily increase under an assumption of 100 percent volume variable mail processing costs. For example, there could exist a situation where the change from the volume variability study results to the assumption of 100 percent volume variability would cause one model cost to increase the same as or more than another, higher model cost such that the difference between the two remained the same or decreased.

C) In order to develop *model costs* under an assumption of 100 percent volume variable mail processing costs, the cost estimates calculated on each of the cost summary pages of the mail flow models and in the bundle sorting model would need to be adjusted. This would be most easily accomplished by substituting the current productivity estimates with productivity estimates that do not reflect the current mail processing volume variability study results. Please see my response to MMA/USPS-T-25-9 for a description of where these estimates can be found.

However, calculating model costs under this assumption, without any further adjustments to my analysis, would yield incomplete information. Because the unit cost estimates produced in my testimony rely on the mail processing unit cost benchmarks, these costs would also need to be adjusted in order to determine the true effects of a 100 percent mail processing cost volume variability assumption. Adjusting these costs would require a separate analysis similar to that described in Library Reference USPS LR-MCR-10 from Docket No. MC95-1 or LR-H-106 from this docket (depending on how

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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the mail processing cost distribution is to be treated) to determine benchmark costs under such an assumption. This analysis has not been conducted.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
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**MMA/USPS-T-25-14.** In response to MMA/USPS-T-25-4 you provide the reasons for rejects from the MPBCS OSS operation. Please confirm that none of the problems provided can be directly tied to the weight of a letter.

**RESPONSE:**

The rejects described in my response to MMA/USPS-T-25-4 include only rejects associated with RBCS that can be counted by the machine software. In addition to these rejects, bar code sorters can also fail to sort pieces correctly when they cause jams in the machine or when pieces are damaged. Although not measured directly in Library Reference USPS LR-H-130, heavier pieces will tend to cause more jams and damage. This is supported by witness Pajunas' response to MMA/USPS-T-2-12 submitted in Docket No. MC95-1, on June 16<sup>th</sup>, 1995. The response can be found at TR 28/13059 in Docket No. MC95-1.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
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**MMA/USPS-T-25-15.** Please refer to your response to MMA/USPS-T-25-5.

A) Please confirm that it is the unit cost differences that you derive in your cost models (between the various presort/automation categories and the benchmarks discussed by witness Fronk (see his response to ABA/USPS-T-32-2(D)), that are the bases for the proposed First-Class presort/automation discounts in this proceeding. If you cannot confirm, please explain.

B) Please confirm that the specific changes in mail preparation and entry requirements that were implemented after re-classification are in no way taken specifically into account in your cost models. If you cannot confirm, please explain.

C) Please confirm that the specific changes in mail preparation and entry requirements that were implemented after re-classification are taken into account by the Postal Service, as far as you know, in the determination of the volume variable costs for the test year before and after rates. If you cannot confirm, please explain.

D) In part D) to your answer you indicate that you believe that your methodology does take into account differences in mail preparation costs. Compared to the mail preparation costs required to process single piece stamped mail, doesn't your methodology omit any cost savings that presorted letters provide? Please explain any no answer?

**RESPONSE:**

A) Confirmed.

B) The purpose of my testimony is to estimate the unit mail processing costs of the individual rate categories of presorted First-Class Mail letters in the test year, not to estimate the cost savings associated with changes in mail preparation requirements that were implemented as a result of Docket No. MC95-1. However, the cost models in my testimony are consistent with the test year in that they include the changes in mail preparation requirements as a result of Docket No. MC95-1. For example, one change in mail preparation requirements was to eliminate the preparation of automation mail in packages. This change is incorporated in the cost models included in my testimony.



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C) Confirmed. Through the analysis contained in Library Reference USPS LR-H-126, cost savings due to changes in mail preparation and entry requirements were incorporated into the rollforward. By reconciling the cost analysis contained in my testimony to the mail processing unit costs by shape (developed using the rollforward mail processing costs), any mail processing cost savings reflected in the rollforward are also reflected in my unit cost estimates.

D) No. As stated above, the purpose of my testimony is to estimate the unit mail processing costs of the individual rate categories of presorted First-Class Mail letters. Therefore, the unit costs developed in my testimony do not include any costs associated with the processing of First-Class single piece stamped letters.

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**MMA/USPS-T-25-16.** Please refer to your response to MMA/USPS-T-8(C). There you note that your models do take into account the stricter address requirements that have been implemented for First-Class Automation mail since re-classification.

A) Isn't it true that as a result of re-classification, the addresses for First-Class Automation mail are required to be more accurate and current? Please explain any no answer.

B) Isn't it true that more accurate and current addresses will result in fewer pieces being forwarded and returned? Please explain any no answer.

C) Please confirm that any cost savings due to reduced forwarding and return of First-Class Automation letters, resulting from the stricter address requirements that were implemented since re-classification, are not taken into account in your cost models. If you cannot confirm, please explain and provide data showing the numerical value given to those savings in you testimony and exhibits.

RESPONSE:

A) Yes.

B) Yes.

C) Confirmed. To the extent that lower mail processing costs as a result of reduced forwarding and return of presorted First-Class Mail letters are not reflected in the test year rollforward or in the mail processing benchmark costs by shape, they are not reflected in the unit costs produced in my testimony. However, as stated in my response to part (C) of MMA/USPS-T-25-8, the impact of improved address information on automation equipment accept and upgrade rates is accounted for in my testimony through the use of data from Library References USPS LR-H-113 and USPS LR-H-130.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO  
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**MMA/USPS-T-25-17.** Please refer to your response to MMA/USPS-T-25-8(D).

A) Do you agree that there are cost savings associated from the new requirement that reply envelopes included with First-Class Automation outgoing letters be pre-barcoded and automation compatible? Please explain any no answer.

B) Since your testimony does not estimate these cost savings, please confirm that any cost savings due to the requirement that all reply envelopes included with First-Class Automation letters be pre-barcoded and automation-compatible, that was implemented since re-classification, are not taken into account in your cost models. If you cannot confirm, please explain and provide data showing the numerical value given to such savings in your testimony and exhibits.

C) Is it your position that these cost savings be credited to First-Class single piece mailers rather than First-Class automation mailers? Please explain.

RESPONSE:

A) Although I have not studied the costs of reply mail in my testimony, the mail processing costs associated with a barcoded, automation compatible piece of reply mail will be lower than the mail processing costs for a non-barcoded or non-automation compatible piece of reply mail.

B) Confirmed.

C) The purpose of my testimony in this docket is to develop the unit mail processing costs associated with presorted First-Class Mail letters. I have not estimated any costs associated with reply mail and I have taken no positions regarding how cost savings should be credited to Postal Service customers.

**NDMS/USPS-T-32-23.**

b. What is the additional mail processing cost for a single two-ounce automatable letter, as opposed to a single one-ounce automatable letter? Do the Postal Service's mail processing cost models identify any additional cost within the range one to three ounces?

**RESPONSE:**

b. The difference in mail processing cost between a single two-ounce automatable letter and a single one-ounce automatable letter cannot be calculated using the mail flow modeling methodology and existing data described in my testimony. Mail processing cost models are used to develop unit mail processing cost estimates by rate category for the average piece of mail within each rate category. The cost estimates that are developed using the current mail flow model methodology are designed to reflect the mail processing costs associated with a piece of mail that has the average weight within that rate category.

**POIR No. 1, Question 7.**

USPS-T-25 (Hatfield) — Please refer to Appendix V. What criteria were used to determine whether a MODS cost pool was classified as fixed or proportional?

**RESPONSE:**

The criteria used to determine whether the costs associated with a particular cost pool were treated as fixed or proportional was whether or not the costs in question could be expected to vary with the different degrees of worksharing being studied. Specifically, if the costs in a given cost pool would be expected vary with differing degrees of presorting and/or prebarcoding, then they were categorized as proportional. Likewise if the costs in a given cost pool would not be expected to vary with differing degrees of presorting or prebarcoding, then they were categorized as fixed. As stated by Ms. Daniel in her testimony and in question 8 of this POIR, "Those costs identified as worksharing-related are applied to modeled cost proportionately (proportional column); non-worksharing related costs are applied as constants to modeled costs (fixed column)." For example, the costs in the OCR cost pool would be expected to be greater for nonautomation mail than for automation mail; therefore, those costs are treated as proportional.

**RESPONSE OF USPS WITNESS HATFIELD  
TO PRESIDING OFFICER'S INFORMATION REQUEST**

**POIR No. 3, Question 26.** In USPS-T-25, Appendix II, pages 4-5, the footnotes cite LR H-185 as the source of the figures in columns 1-5. Please provide specific page, or table, citations in LR H-185 where the figures in USPS-T-25, Appendix II, page 4, can be found. Please explain why the sum of individual row totals on pages 4 and 5 do not equal the totals given in LR H-185, Table 7.

**RESPONSE:**

All figures presented in columns 1-4 on page 4 of Appendix II of USPS-T-25 are from Library Reference USPS LR-H-185, Table 13, page 21. The figures presented in column 1 on page 5 of Appendix II are from USPS LR-H-185, Table 5, page 10. The figures presented in columns 2-4 on page 5 of Appendix II are from USPS LR-H-185, Table 3, page 8.

The data presented on page 4 of Appendix II of USPS-T-25 reflect presorted First-Class letters and cards that are prepared in non-OCR upgradable trays, but that do not fail any of the criteria for upgradable mail. The data presented in Table 7 of USPS LR-H-185, on the other hand, reflect all presorted First-Class letters and cards that are prepared in non-OCR upgradable trays, regardless of whether or not the pieces met the upgradable mail criteria.

The reason that data from Table 7 of USPS LR-H-185 do not appear in USPS-T-25 is that my testimony treats mail prepared in non-OCR upgradable trays differently depending on whether or not that mail failed any of the upgradable mail criteria. Further, the row totals calculated in column 5 on page 4 of Appendix II were calculated in my testimony based on the data presented in columns 1-4 and do not appear in USPS LR-H-185.

1           CHAIRMAN GLEIMAN: Is there any additional written  
2 cross examination that anyone wishes to designate?

3           [No response.]

4           CHAIRMAN GLEIMAN: If there is not, then we  
5 received only one request for cross examination of the  
6 witness, and that was filed by American Bankers Association,  
7 et al.

8           MR. CORCORAN: That's me, Mr. Chairman. My name  
9 is Brian Corcoran.

10          CHAIRMAN GLEIMAN: Mr. Corcoran, if you do plan to  
11 cross examine, would you come up?

12          Before we start with the cross examination though,  
13 and while you are getting settled in at the counsel's table,  
14 Mr. Tidwell, we talked a bit right before the lunch break  
15 about a number of library references and I was wondering if  
16 you could enlighten us as to what the Postal Service's  
17 intentions are.

18          MR. TIDWELL: There are I believe seven library  
19 references referred to in Mr. Hatfield's testimony.

20          Library Reference H-130, which is the accept and  
21 upgrade rates analysis, Mr. Hatfield prepared and is  
22 perfectly willing to adopt as part of his testimony in this  
23 proceeding. That would be H-130.

24          With respect to H-106, which I think measures unit  
25 shape by cost; H-77, which presents operation of specific

1 piggyback factors and premium pay factors; and H-128, which  
2 estimates automation coverage factors.

3 Those three library references were prepared by  
4 the gentleman to my right, Mr. Mark Smith, a veteran of  
5 these proceedings. Mr. Smith, downstairs under great  
6 pressure and duress, agreed that he would volunteer to offer  
7 his services as a witness in this proceeding, and in support  
8 of those library references -- that is H-106, H-77, and  
9 H-128 -- and we would like to report to the Commission that  
10 he is available for cross examination.

11 We would suggest to the Commission that he be made  
12 available for cross examination if parties should request at  
13 the end of the schedule.

14 With respect to Library References H-185 is  
15 library reference prepared for the Postal Service by  
16 Christensen & Associates. We have not had an opportunity to  
17 speak to them yet in Madison, Wisconsin, about the  
18 availability of a potential sponsor for that one.

19 Library Reference H-113, which is productivity  
20 estimates for OCR, BCS, BCS-OSS, DBCS and LM LM -- I am  
21 beginning to sound like either Mr. Carlson or Mr. Miller --  
22 was prepared for us by Foster Associates and we have not had  
23 a chance to speak with them with reference to that library  
24 reference.

25 Library Reference H-146, clerk/mail handler wage



1 rates, was prepared I am told by an analyst at the Postal  
2 Service and so as not to cause her any shock, I will refrain  
3 from mentioning her name on the record and wait to approach  
4 her directly about her availability to sponsor that library  
5 reference for us, and we will report back to the Commission  
6 as quickly as possible with respect to H-185, H-113, and  
7 H-146.

8 CHAIRMAN GLEIMAN: Thank you, Mr. Tidwell.

9 You know, during the lunch break I was wading  
10 through more piles of paper in my office and I came across a  
11 motion to compel filed by one of the parties, Parcel  
12 Shippers, which indicated that they thought I was wrong when  
13 I said earlier on that the Postal Service was being  
14 cooperative and helpful, and I just don't understand.

15 I am getting more cooperation than I had ever  
16 hoped for, so thank you.

17 MR. TIDWELL: Well, if you could keep that to  
18 yourself, I've got a reputation to protect back at  
19 headquarters.

20 CHAIRMAN GLEIMAN: Would you strike that from the  
21 record, please.

22 [Laughter.]

23 CHAIRMAN GLEIMAN: None of you heard that.

24 I have a suspicion that it all hinges on the  
25 outcome of this case, what it is we recommend.

1           If we recommend something that they are happy  
2 with, then it won't tarnish your reputation at all that I  
3 perceive you as being somewhat friendly. Who knows?

4           Does any other party, other than the American  
5 Bankers Association et al., wish to cross examine?

6           MR. OLSON: Mr. Chairman, William Olson, for  
7 Nashua District/Mystic/Seattle.

8           I don't want to belabor the point. I think our  
9 objections have already been raised and I'd just ask it be  
10 considered renewed at this time, at least with respect to  
11 Library Reference H-106.

12           The Commission may be getting more cooperation  
13 than it ever expected. The parties are getting more  
14 witnesses and more testimony than they ever expected.

15           I would object to the entry of that library  
16 reference into evidence but I -- for all the reasons stated  
17 before, I won't bother to repeat. Thank you.

18           CHAIRMAN GLEIMAN: Your objection is noted and I  
19 suspect at some time we will entertain something on paper  
20 and see if we choose to undo and I think the Alliance is  
21 about to join you -- perhaps going beyond Library Reference  
22 106.

23           Mr. Thomas.

24           MR. THOMAS: Yes. I would like to object to the  
25 entry of these library references at this time for the

1 reasons stated before.

2 In addition to 106 I am concerned about 77 and  
3 128.

4 CHAIRMAN GLEIMAN: 77 and 128?

5 MR. THOMAS: And 128.

6 CHAIRMAN GLEIMAN: May I ask, is that because  
7 those are the ones that you are most familiar with, or --

8 MR. THOMAS: Those are the ones that seem to be  
9 relied on by other witnesses whose testimony we are  
10 concerned about, and I suppose if they come in now, they are  
11 in for all purposes, so I raise that fuller later.

12 CHAIRMAN GLEIMAN: Okay. I was just curious as to  
13 why you expanded the list part of the way and not all of the  
14 way.

15 Thank you, sir -- and quite frankly, gentlemen, I  
16 don't know whether we have stepped onto a slippery slope or  
17 not. I really -- you know, we really have to give it some  
18 serious thought, but the opportunity is afforded to us now  
19 to get these things into the record and when we receive your  
20 written motions and on further reflection we determine that  
21 the decision was not a wise one, then we'll move to correct  
22 it.

23 I take it there are no other participants who wish  
24 to cross examine, and if that's the case, if you could  
25 proceed, sir.

1 MR. CORCORAN: For the record, I'm Brian Corcoran  
2 with the firm of Oliver & Oliver, P.C., in the District,  
3 representing the Edison Electric Institute. I'd also like  
4 to enter the appearance of Mr. William Fang, deputy general  
5 counsel for EEI.

6 Preliminarily, on the designation of written  
7 cross, one of the -- and I haven't seen the package that was  
8 put in, but -- and this is just for clarification.

9 One that was designated one of -- ABA et. al's  
10 number 12 my records reflect was answered -- was redirected  
11 to witness Moden. I don't know if that was part of the  
12 package or not.

13 CHAIRMAN GLEIMAN: I don't have the package in  
14 front of me. It's with the court reporter. If -- if it was  
15 improperly filed, we'll -- we'll move to make a correction.

16 I suspect if someone was going to move its  
17 introduction and it was for the wrong party, when Mr. Moden  
18 is up, they'll --

19 MR. CORCORAN: Right.

20 CHAIRMAN GLEIMAN: -- move again to have it --

21 MR. CORCORAN: This -- my only point in raising it  
22 was simply for clarification.

23 THE WITNESS: I'm fairly certain it wasn't in the  
24 package that -- that I reviewed this morning.

25 MR. CORCORAN: Fine.

1 CROSS EXAMINATION

2 BY MR. CORCORAN:

3 Q Mr. Hatfield, as I understand your testimony, you  
4 rely on library reference 106 for mail processing cost  
5 benchmarks for first-class pre-sorted mail? Is that  
6 correct?

7 A Yes, I do.

8 Q Does the acronym RBCS stand for remote bar-code  
9 sorter?

10 A No. I believe the acronym stands for remote  
11 bar-code system.

12 Q Okay. Sorry. And what is the function of an  
13 RBCS?

14 A The purpose of my testimony didn't cover specific  
15 operations and -- and the functioning of certain equipment.  
16 However, it's my understanding that the -- the remote  
17 bar-code system involves the operation of a number of pieces  
18 of Postal Service equipment and is designed to -- to apply a  
19 bar-code to -- to mail that is not able to be bar-coded on  
20 -- on your typical optical character readers.

21 Q So, it's -- is it correct, then, to say that it is  
22 not -- that operation would not be used for any mail -- any  
23 automation pre-sort mail?

24 A That -- that depends. In -- in general, no, you  
25 probably wouldn't see automation pre-sort go -- go through

1 the RBCS system. However, there are probably instances  
2 where automation pre-sort could be found in the remote  
3 bar-code system.

4 Q And why would that be? Because something was --  
5 it was a reject or something? Or would it be by error that  
6 it was there?

7 A Mostly by error, yes.

8 Q When I say error, an internal processing error  
9 that redirected it there?

10 A That's -- that's one possibility. Another is that  
11 there was a bar-coding error that would result in that  
12 bar-code having to be covered and then resubmitted through  
13 the system.

14 Q Now, when -- for retail pre-sort -- and by that, I  
15 mean -- so our terms are clear -- non-automation pre-sort --  
16 at least at that rate level -- the Postal Service, as I  
17 understand it, puts a bar-code on that mail if it can be  
18 made automation compatible?

19 A That's my understanding, yes.

20 Q And is that done on a -- an OCR or is that done on  
21 a RBCS or -- or both?

22 A I think the correct answer is both. It -- it's a  
23 combination of -- of the -- of the two, and in fact, the  
24 distinction between the two is not -- not actually  
25 cut-and-dry. The -- the optical character reader performs

1 one phase of the RBCS -- RBCS process.

2 Q What phase is that?

3 A When a piece of -- when a piece of mail goes  
4 through RBCS, the first thing that needs to be done is the  
5 image needs to be captured. That image capture activity  
6 occurs on a modified optical character reader.

7 Q I see. And how does this -- that explains the  
8 RBCS. Then what function does the OCR play in putting a bar  
9 code on a piece?

10 A Again, I would like to <sup>note</sup>~~know~~. We may be getting  
11 beyond the scope of my testimony as to the functioning of  
12 certain pieces of equipment. However, it is my  
13 understanding that the typical function of an OCR is to read  
14 the address of a piece of mail, match that address against a  
15 database of possible addresses and apply a bar code to a  
16 piece of mail. In addition the OCR accomplishes some  
17 sorting.

18 Q Just so you can follow along, I would like to show  
19 you a couple of pages from Exhibit 106 and I have -- I will  
20 show it to counsel first.

21 MR. TIDWELL: This would be from Library Reference  
22 106?

23 MR. CORCORAN: Yes. I have extras here if anybody  
24 cares for them.

25 BY MR. CORCORAN:

1           Q     What I have handed you, Mr. Hatfield, are two  
2     pages from Library Reference 106, pages II-5, which is  
3     entitled FY '98 Mail Processing Volume Variable Labor and  
4     Piggyback Costs for Cost Pool by Letter Shape -- for Letter  
5     Shape by Category with All Adjustments. And it has several  
6     columns that we will get to in a moment. Then I have also  
7     handed to you your corrected page II-10 which, among other  
8     things, has the corrected costs for bulk mail -- bulk  
9     metered mail.

10           Have you seen these sheets before?

11           A     Yes, I have seen them before. However, I have  
12     only used in my testimony information from page II-5.

13           Q     That's fine. That's the one I want to focus on  
14     for the moment. The RBCS items that we were talking about  
15     is cost pool LD 15, which is about 10 entries down on the  
16     left-hand side. Do you see that?

17           A     Um-hum.

18           Q     And I am correct, am I not, that it is LD 15?

19           A     I don't have a description of each of the cost  
20     pools in front of me right here but I will take your word  
21     for it subject to check.

22           Q     Okay, thank you.

23           The cost that is reflected for First Class  
24     presorted non-carrier route, which is the third column, is  
25     .453 cents; do you see that?



1 A Yes, I do.

2 Q And that compares with the single piece cost of  
3 1.8 cents. Do you see that?

4 A Yes, I do.

5 Q This non-carrier First Class cost includes -- it  
6 represents an average of your nonautomation rate categories,  
7 retail presort, plus your automation rate categories, basic,  
8 three digit and five digit; is that correct?

9 A That's correct.

10 Q Since the RBCS operation is not incurred by  
11 automation compatible First Class letter mail, this figure,  
12 the 4.53 cents, overstates the benchmark cost for those rate  
13 categories, is that correct?

14 A I wouldn't say that's correct. No.

15 Q You testified earlier, I believe, that automation  
16 First Class mail would not receive RBCS service, is that  
17 correct -- except occasionally and mostly by error?

18 A Yes, I did.

19 Q Doesn't it follow therefore that this cost is  
20 predominantly due to retail presort?

21 A By "this cost" you are referring to the .453  
22 cents.

23 Q Yes.

24 A Yes, I would agree, that's correct.

25 Q And therefore it overstates the benchmark relative

1 to automation presort mail?

2 A Perhaps I misunderstood your question. If you  
3 were comparing the 4.606 cents, which is what I call in my  
4 testimony the benchmark for noncarrier presort First  
5 Class --

6 Q Right.

7 A -- to some hypothetical benchmark associated with  
8 only an automation category, if such a benchmark existed,  
9 yes, this one would probably be higher than that benchmark  
10 for automation mail.

11 Q At the bottom of this column, the total unit cost,  
12 that is your benchmark figure -- 4.606? Correct?

13 A That is correct.

14 Q And would you turn to your Exhibit 25A, page 2 of  
15 3.

16 A Yes.

17 Q This figure shows up on line 4 -- excuse me -- I  
18 guess that is line 3.

19 A Yes, it does.

20 Q On the right-hand side, the 4.6 cents.

21 A Yes, it does.

22 Q And you use this figure to develop your  
23 proportional adjustment, do you not?

24 A Actually, no, I don't.

25 Q You're right. I misstated it, and you are

1 correct, and I didn't mean to mislead you.

2           You use it to the extent that you eliminate or  
3 reduce the 4.6 cents by your fixed costs, what you call your  
4 fixed costs, and derive what you call a proportional cost,  
5 the 4.2?

6           A     That's correct.

7           Q     So you are relying on the 4.6 at least to that  
8 degree?

9           A     Yes, that's correct.

10          Q     And you then use the result, the 4.2 -- I am just  
11 rounding these -- in conjunction with the total you show  
12 under column 5, the 3.6669 cents, to derive your  
13 proportional adjustment?

14          A     That's correct.

15          Q     Is it true or correct that the finer degree of  
16 presortations would indicate that the cost associated with  
17 cost pool LD-15 would be reduced?

18                 Let me restate -- never mind, go ahead.

19          A     Well, can you restate the question for me? I am  
20 not sure I followed it now.

21          Q     Well, I'll do it this way. Carrier route mail is  
22 only available in automation presort rate category, is that  
23 correct?

24          A     Correct. That is my understanding.

25          Q     And that mail would never receive RBCS service, is

1     that correct, except by error?

2           A     Yes.  As I said before, some amount of automation  
3     mail will go through RBCS.

4           Q     Okay, and that is why I related the finer degree  
5     of presort to the lower cost for this cost segment.  In  
6     fact, the cost probably should be zero for carrier route  
7     mail for this particular cost pool?

8           A     You are associating the LD-15 cost pool with the  
9     automation carrier route model?  Is that correct?

10          Q     No, not with your model, with respect to what is  
11     reported in 106.

12          A     Okay.  With respect to the pages you gave me of LR  
13     H-106 I would say that it shows two-tenths of a cent.

14          Q     Right.

15          A     Associated in Cost Pool LD-15 for First Class  
16     carrier route presort.

17          Q     Right.  I understand that, and in fact carrier  
18     route mail would not incur costs in this cost pool in all  
19     likelihood?

20          A     Well, according to this table it does.

21          Q     I understand.  Right.  But according to your  
22     testimony that type of mail ordinarily does not receive this  
23     type of service.

24          A     Under normal processing, no.

25          Q     Let's turn to one other cost pool, and is it -- as

1 a general matter, is it true that retail pre-sorted  
2 first-class letter mail is less finely pre-sorted or less  
3 finely sorted than automation pre-sort first-class mail?

4 A The question is a little difficult to answer,  
5 because you're -- you're -- when you refer to automation  
6 pre-sort, that's a -- a combination of a number of different  
7 rate categories of mail.

8 So, I -- I don't know of the top of my head what  
9 the average level of pre-sort is for that combination of  
10 rate categories. If you could point me to maybe a more  
11 specific example --

12 Q Well, do you know what the mail preparation  
13 requirements are, the minimum number to five-digit to  
14 qualify for retail pre-sort versus automation compatible  
15 pre-sort?

16 A I'm not familiar enough with -- with makeup and  
17 eligibility requirements to know specific numbers of pieces  
18 associated with the different levels.

19 I am familiar enough to know that, for  
20 non-automation pre-sort, the -- the option of bundling the  
21 mail still exists, and that option no longer exists for the  
22 automation categories.

23 Q That mail must be trayed?

24 A Correct.

25 Q If you would focus on the first line of page Roman

1 II-5 of 106, which is the MODS pool BCS, BCS refers to  
2 bar-code sorters?

3 A Yes, that's my --

4 Q Is that correct?

5 A -- understanding.

6 Q Can you tell me what mail processing operations  
7 are encompassed by this cost pool?

8 A I haven't studied specifically the -- the details  
9 as to what -- what activities are included within each of  
10 the individual cost pools.

11 However, it's my understanding that the BCS cost  
12 pool includes the costs -- mail-processing costs primarily  
13 associated with -- with distributing pieces on bar-code  
14 sorters.

15 Q And -- and those operations could be the outgoing  
16 primary through the incoming secondary?

17 A It's my understanding that that -- that cost pool  
18 encompasses the different sort schemes that would be used on  
19 a bar-code sorter, yes.

20 Q Okay. And it -- would it also -- as I understand  
21 this cost pool, it would not include delivery point  
22 bar-coding, or do you know?

23 A To the extent that delivery point sequencing of  
24 mail is occurring on a bar-code sorter, it's my  
25 understanding that the costs would -- would fall into the

1 bar-code sorting cost pool.

2 Q Okay.

3 So, is it your understanding that -- that the MODS  
4 BCS cost pool represents all the BCS-related costs that  
5 first-class letter mail might incur?

6 A I don't know exactly what you have in mind by all  
7 BCS-related costs.

8 Again, I don't know the specifics of what is in  
9 that cost pool.

10 However, I do have an understanding that it is the  
11 cost associated with operating bar-code sorters, and if  
12 those are the type activities you are -- you are referring  
13 to, it is my understanding that is -- that is what is in  
14 there.

15 Q Well, do you know, for example, does the BCS cost  
16 pool include the BCS-OSS, which I understand is outgoing  
17 something -- I've lost it -- I don't know --

18 A Sub-system.

19 Q -- thank you --

20 A You're welcome.

21 Q -- and the BCS-ISS, which is incoming subsystem?

22 A I -- I don't think there is such a thing as a  
23 BCS-ISS. It -- it stands for input subsystem. It is part  
24 of, again, the RBCS process. However, the -- the ISS  
25 function is performed on the OCR. That -- that's what I was

1 referring to earlier.

2 Q Okay.

3 Is this operation -- I'll limit it to the OSS,  
4 then, the BCS-OSS -- applicable only to non-automation mail,  
5 the retail pre-sort or single-piece first-class mail?

6 A To the extent that that -- there is -- again,  
7 there is a small portion of automation mail that -- that  
8 will end up going through the RBCS system. Other than that  
9 mail, the -- the BCS-OSS is -- is primarily used for  
10 processing of non-bar-coded mail.

11 Q Okay. And what about BCS costs represented by  
12 this figure of, column 3, 1.096 cents? Is that -- that  
13 would include those types of costs, the OSS costs, as well  
14 as other BCS costs?

15 A Yes, that's my understanding.

16 Q Okay. Now is it correct that the unit cost for  
17 this operation, MODS pool BCS, is directly related to the  
18 degree of presortation? That is, the finer the  
19 presortation, the lower the unit cost?

20 A I'd agree in general that's true. To the extent a  
21 piece -- to the extent a piece requires fewer piece  
22 distributions, it'll incur fewer sorts on a bar-code sorter  
23 provided the mail's bar-coded. Right.

24 Q And again your figure on column 3, First Class,  
25 presort noncarrier route, the 1.096 cents, represents an



1 average of retail presort and automation basic three-digit  
2 and five-digit presort First Class letter mail?

3 A Yes, that's correct.

4 Q Could you turn to your Appendix 1 at page 13?

5 A I have it.

6 Q Now if you note, starting on page 13 you show BCS  
7 operations for the outgoing primary, outgoing secondary, the  
8 ADC/AADC, SCF operations, incoming primary, and incoming  
9 secondary. Are these the BCS operations that correspond to  
10 the MODS cost pool BCS costs?

11 A It's my understanding that these operations are  
12 included in that cost pool; yes.

13 Q Okay. I have summed these costs. These are all  
14 the BC costs. And this page -- pages 13 and 14 --  
15 represent, as I understand it, your model costs for basic  
16 automation presort; correct?

17 A Yes, they do.

18 Q And I've summed the BCS entries and I get 1.0952,  
19 which is -- rounded equals essentially what the -- is shown  
20 in the Library Reference 106 for the MODS cost pool BCS,  
21 which is shown as 1.096. Do you see that?

22 A I see that the MODS cost value is 1.096. If  
23 you're going to ask me to refer to your number, I'm going to  
24 need a little more information as to how you came up with it  
25 in terms of --

1 Q Well --

2 A Which line items did you add up --

3 Q Okay.

4 A To arrive at it?

5 Q Fair enough. I took the outgoing primary, .2837.

6 A Um-hum.

7 Q Summed these figures. The outgoing primary,  
8 .2837. Outgoing secondary, .0467. The ADC distribution,  
9 .3283. The SCF operations, .2002. The incoming primary,  
10 .0882. And, finally, the incoming secondary, .1481. If my  
11 math is correct, it was 1.0952.

12 A Okay.

13 Q Now, since -- and just as a point of comparison,  
14 would you turn to page 18 for -- of Appendix 1? There you  
15 show your model cost for five digit automation presort. Do  
16 you see that?

17 A Yes, I do.

18 Q This is your model cost and you have only one BCS  
19 operation, the incoming secondary, and it is .1611. Do you  
20 see that?

21 A Yes, I see the BCS incoming secondary is .1611.

22 Q So that I understand this then, that is the only  
23 BCS operation in your model that would be incurred by  
24 five-digit mail, correct? Five-digit presorted mail?

25 A I don't know that I would necessarily agree with

1 that statement. BCS, standing for barcode sorter, can stand  
2 for a number of different pieces of equipment, the way I  
3 understand it. Some of the -- an example of another piece  
4 of equipment that can be generally referred to as a BCS is a  
5 DBCS, delivery barcode sorter.

6 Q Well, that's true and you have a first pass -- a  
7 DBCS first-pass and second-pass cost for this mail?

8 A Yes, I do.

9 So by characterizing the BCS cost pool as the only  
10 BCS -- by characterizing the costs associated BCS and  
11 incoming secondary for the automation five-digit model as  
12 the only BCS costs isn't entirely accurate but that's all I  
13 wanted to point out.

14 Q Well, would the DBCS costs, would they show up in  
15 a different mods cost pool in the BCS, if you know?

16 A For the DBCS, it is my understanding that they  
17 would show up within the BCS cost pool.

18 Q Within the BCS?

19 A That's correct.

20 Q So I should have added -- on page 13 and 14, I  
21 should have added the costs of the DBCS to compare it to  
22 106? Is that what you are telling me?

23 A Yes, if that is your intent, to start comparing  
24 unit costs within the models to something you see here in  
25 the cost pools, in the BCS cost pool specifically, there is

1 more than simply the lines that say BCS.

2 Q And that would mean that, turning back just to 13  
3 for a moment, I should add about eight-tenths of a cent to  
4 reflect the first pass and second pass, the DBCS first pass  
5 and second pass which are respectively .4243 and .4031 to  
6 the total BCS costs?

7 A That's --

8 Q Is that what you're telling me?

9 A That would include DBCS within that number.  
10 However, there are also CSBCS costs on that page and I am  
11 not -- I can't say for sure whether CSBCS costs are actually  
12 captured in the BCS cost pool so I don't know whether or not  
13 you should be adding those in to be making the comparison  
14 you are making.

15 Q That applies to both the D and C BCS?

16 A No, that applies to the CSBCS. The DBCS, I am  
17 fairly certain that those costs are included in the BCS cost  
18 pool.

19 Q So in other words, if we were to add those in and  
20 assuming my math was correct before, your total BCS costs as  
21 compared to the model would be about two cents, 1.1 -- 1.9  
22 cents?

23 A As compared to the model?

24 Q Excuse me, as compared to 106.

25 A <sup>1.096</sup>  
~~1096~~?

1 Q Right.

2 A Yes.

3 Q Is Witness Degen an expert on the cost pools, if  
4 you know?

5 A It is my understanding that he has knowledge of  
6 the cost pools and where the specific identifying  
7 descriptions can be found. In fact, I think I even have a  
8 reference to where these descriptions can be found in one of  
9 my interrogatory responses. If you would like me to, I will  
10 point it out.

11 Q I think it's T-12, Table 4. I think. But thank  
12 you.

13 A You're welcome.

14 Q Is it correct that your Appendix 1 figures for  
15 presort mail, automation presort mail for the BCS costs  
16 demonstrate that the finer the sort the lower the cost?

17 A Can you repeat that question? I'm not sure I  
18 followed it.

19 Q With respect to your Appendix 1, it is true, is it  
20 not, that the costs you show in your model for the BCS  
21 operations reflect a lower total BCS cost with a finer  
22 degree of presortation?

23 A I'd agree. That's true, yes.

24 Q Now the model cost again is an average of the  
25 costs we talked about, the retail and automation presort --

1           A     Which model costs are you referring to?

2           Q     I said model. I apologize -- 106, column 3,  
3 noncarrier route presort reflects the average of retail and  
4 automation presort?

5           A     Correct.

6           Q     You include the 1.09 -- excuse me.

7                 You include the cost, 1.096, as part of your  
8 benchmark, correct?

9           A     Correct.

10          Q     Isn't it correct that by including that cost as  
11 part of the benchmark that it overstates the cost of more  
12 finely sorted automation mail?

13          A     No.

14          Q     You agree, do you not, that your models reflect  
15 that the finer degree of presort, the lower the BCS cost in  
16 your model?

17          A     Yes, I do.

18          Q     Doesn't it follow then mathematically that by  
19 including this BCS cost of 1.096 that it overstates the cost  
20 relative to three-digit and five-digit presort mail?

21          A     I wouldn't agree with that statement.

22                 I think that my use of this benchmark cost, the  
23 4.60 cents, the appropriate comparison to make is that  
24 against the weighted combination of all of my model costs.

25                 So by comparing an individual rate category

1     against this benchmark, by using the 4.606 cents nowhere do  
2     I imply that every single thing within there receives 1.096  
3     cents of bar code ~~sorted~~ *sorter*.

4           Q     No, I understand that, but where that shows up  
5     however is if you go back to your Appendix A, page 2 of 3 --

6           A     Exhibit A?

7           Q     Yes, sorry. When you develop your proportional  
8     adjustment, you begin with this benchmark.

9           A     Yes, I do.

10          Q     And to the extent that this benchmark is  
11     overstated, it overstates the proportional adjustment, is  
12     that correct?

13          A     I don't agree that the benchmark is overstated.

14          Q     I didn't say -- I said "if" -- to the extent that  
15     it is overstated, it overstates the proportional adjustment,  
16     is that correct?

17          A     If there were a situation where this benchmark  
18     somehow represented more mail processing cost than was  
19     actually being incurred, thus it would be overstated, then  
20     yes, I would agree with your statement.

21                 However, it is my understanding that the benchmark  
22     reflects the mail processing cost associated -- the 4.606  
23     cents represents the average mail processing cost associated  
24     with a piece of First Class noncarrier presort and it is not  
25     including any costs that aren't incurred by that mail.

1           Therefore, I wouldn't agree that it is overstated.

2           Q     But by using an average it must necessarily  
3     overstate it with respect to certain mail -- that is, the  
4     more finely presorted mail.

5           A     One of the purposes of my testimony is to  
6     disaggregate that 4.606 cents. Therefore, I am addressing  
7     the very concern you are raising --

8           Q     Right. I understand that, but the fact is when  
9     you use the benchmark and derive from it a proportional  
10    adjustment, to the extent that the benchmark is inaccurate,  
11    whether up or down, your proportional adjustment is either  
12    understated or overstated. Isn't that correct?

13          A     Maybe you can clarify what you mean by inaccurate.  
14    Inaccurate as opposed to what?

15          Q     If the costs are incorrectly reflected in the cost  
16    pool for a particular rate category, if they are in excess  
17    of the costs actually incurred by that rate category, okay,  
18    when you use the benchmark to derive your proportional  
19    adjustment, you perpetuate the -- and I will phrase it  
20    neutrally -- the overstatement or understatement of the  
21    costs, so for example -- would you agree with that  
22    statement?

23          A     No, I wouldn't.

24          Q     Okay. To the extent that the 4.6 was lower, would  
25    your proportional adjustment be lower?



1           A     To the extent that the 4.6 included costs that  
2     don't exist and was lower?

3           Q     Yes.

4           A     Then yes. I agree with you.

5           Q     So to the extent that the benchmark costs are  
6     incorrect -- again, I will phrase it neutrally -- they could  
7     be too low, they could be too high -- your proportional  
8     adjustment is either too high or too low. Doesn't that  
9     follow mathematically?

10          A     I'd agree that if somehow the costs associated  
11     with, for example, First Class noncarrier presort, were  
12     measured incorrectly in the development of this benchmark  
13     such that 4.606 was not an accurate number, then yes, that  
14     would have an impact on my testimony and would change the  
15     cost estimates I have developed.

16          Q     Would you deem it to be error to include costs in  
17     a particular cost pool if those costs are not incurred by  
18     that type of mail?

19          A     Could you repeat the question?

20          Q     Would you deem it to be error to include costs in  
21     a cost pool if those costs were not incurred by that mail?

22          A     Within the context of the type of mail listed at  
23     the top of page 2-5 of LR H-106, and let's take for example  
24     non-carrier route presort First Class, I would agree with  
25     you if the average piece of non-carrier route presort First

1 Class Mail didn't incur any barcode sorter costs, if that  
2 were the case in some hypothetical situation, then it would  
3 be incorrect to reflect those cost in the benchmark.  
4 However, I will say that I don't think that's the case that  
5 the 4.606 cents that are represented by this unit cost by  
6 shape represent the mail processing costs incurred by the  
7 average piece of mail within that category.

8 Q One other cost pool. With respect to automation  
9 presort mail, is it correct that it bypasses mail  
10 preparation operations?

11 A It depends on how you define mail preparation  
12 operations. Presort mail in some sense of the word needs to  
13 be prepared before it goes through sorting, whether you call  
14 those acceptance costs or whatnot. Can you be more specific  
15 about what you mean by mail preparation?

16 Q That's fair enough. I wasn't talking about the  
17 requirements to qualify for a particular rate. Rather, I'm  
18 talking about culling, facing and canceling. Are those  
19 sometimes called mail prep operations?

20 A Yes, they are. Thank you for being more specific.  
21 It is my understanding that presort mail will in general not  
22 go through the operations you listed, culling, facing,  
23 canceling.

24 Q Now, in the development of the bulk metered  
25 benchmark costs, it is assumed that that mail will avoid

1 mail prep costs; is that correct?

2 A I haven't studied the bulk meter benchmark, nor do  
3 I use it in my testimony. If there is something you can  
4 refer me to I might be able to verify it for you.

5 Q Well, you were probably wondering why I gave you  
6 page 10.

7 A You're right.

8 Q If you look about two-thirds of the way down, in  
9 the cost pool 1 CANC MPP, which I understand stands for  
10 cancellation and mail prep metered, do you see it?

11 A I'm still looking. Got it. Yes, I do see it.

12 Q And it shows a cost of, oh, .57 cents for a single  
13 piece and if you -- and do you see that?

14 A Yes, I do.

15 Q If you go across to the last column, it shows a  
16 cost of -- it has no cost for meter. Do you see that?

17 A Yeah, that row is blank in column 6.

18 Q Right. And there is an interrogatory response  
19 that says -- it may be yours, it may be institutional, that  
20 says this cost was eliminated. The mail prep cost with  
21 respect to meters was not included in the total metered  
22 benchmark cost of 10.581 cents.

23 MR. TIDWELL: Do you have a cite?

24 THE WITNESS: I'm pretty sure that interrogatory  
25 response was not mine.

1           MR. TIDWELL: Do you have a cite you could provide  
2 to the witness?

3           MR. CORCORAN: It's one of ours. I want to say  
4 it's 20. I don't know. I will get it for you. It's not  
5 critical for this.

6           I beg your pardon, it's 23. It's  
7 ABA-EEI-NAPM-T-25-23, I believe. And it's -- I was giving  
8 it to him as a reference point. Obviously, you are welcome  
9 to look at it.

10          THE WITNESS: I've got it here.

11          BY MR. CORCORAN:

12          Q     If you go back to II-5, it shows the costs of  
13 presorted First Class Mail for this cost pool. Do you see  
14 that?

15          A     The 1 CANC MPP?

16          Q     Correct.

17          A     Yeah, I see it.

18          Q     And it indicates that certain costs have been  
19 assigned to both carrier route and to non-carrier route  
20 presort mail; do you see that?

21          A     That's correct. It looks like 1.2 hundredths of a  
22 cent for carrier route and 2.8 hundredths of a cent for  
23 non-carrier route.

24          Q     So since this mail bypasses those operations,  
25 would you agree with me that that's an error?

1           A     What's an error?

2           Q     That assigning any costs to presorted mail, which  
3     you said avoided this operation, would be an error.

4           A     I wouldn't agree. I said in general presorted  
5     mail would avoid those costs. However, many things can  
6     happen in the mail processing environment and by virtue of  
7     the fact that you see very, very small costs here in this  
8     cost pool is most likely an indication that on occasion a  
9     piece of presort mail does get into mail preparation  
10    operations.

11          Q     Would that be not mailed as part of a presort  
12    mailing? Would it be a piece that is being forwarded or  
13    returned or something?

14          A     It could be any piece. That could be a piece that  
15    got out of a presort mailing and ended up in those  
16    operations. I'm not saying it happens often and I think the  
17    costs indicate it doesn't happen often.

18          Q     Right. And it is a minor cost to be sure. But  
19    you would agree with me, I take it, that for a qualifying  
20    presort mailing, it would never incur mail prep costs?

21          A     I can't agree to that.

22          Q     Well, it wouldn't qualify then, would it?

23          A     Sure. Let me give you an example of how this  
24    could happen. A presort mailing is brought to a plant, it  
25    is entered, verified, makes its way onto the processing

1 floor and by accident a piece slips out of a tray and  
2 somehow that piece makes it into the culling operation. It  
3 could show up here in the cost system.

4 So there is an example of how a qualifying piece  
5 could incur those costs.

6 Q By accident, it could incur those costs, but  
7 you'll note, in developing the metered benchmark, however,  
8 it's not assumed that any accident will happen. All right?  
9 So, those costs are eliminated there, right?

10 A I wasn't involved in developing the -- the bulk  
11 meter benchmark. I'm not sure --

12 Q That's fine.

13 A -- of all the considerations that went into its  
14 development.

15 Q Let's move to something else. We're done with the  
16 cost pools.

17 A Okay.

18 Q I want to talk about avoided costs briefly.

19 If you would turn to your response to ABA et. al  
20 T-25-3.

21 A I've got it here.

22 Q Is it true that, in -- in developing your  
23 estimated attributable mail processing costs, you considered  
24 only the effects of bar-coding and pre-sorting?

25 A I wouldn't characterize it that way. By virtue of

1 the fact that I am -- I am trying to -- to the benchmark  
2 costs we've already talked about, those costs include a  
3 number of considerations, I would argue, beyond just  
4 pre-sorting and bar-coding.

5 Q Well, in your testimony at one, you indicate that  
6 work-sharing discounts on first-class mail focus on two  
7 areas, bar-coding and pre-sorting.

8 So, it's your testimony now that you're  
9 considering more than -- that your cost estimates reflect  
10 more than bar-coding and pre-sorting?

11 A I think you might be mischaracterizing my  
12 testimony.

13 Q Sorry. I don't mean to. It's -- it's on page one  
14 of your testimony, line 13.

15 A My intent in what I said on page one was that the  
16 rate structure of first-class mail, the way I understand it,  
17 the different <sup>rates</sup> ~~weights~~ -- rates vary primarily because of  
18 different degrees of bar-coding and/or pre-sorting.

19 However, through numerous interrogatory responses  
20 and some discussions we've even had, there are other  
21 elements that are involved with -- with -- with the entry of  
22 first-class mail.

23 Q Sure.

24 A It's inevitable.

25 Q Okay. And -- and those you refer to in your

1 response to ABA et. al T-25-3. Is that right?

2 A Yes. I didn't realize there was a question. I'm  
3 sorry.

4 Q Oh. Sorry.

5 Now, with respect to address quality, is there  
6 --are there specified requirements with -- for address  
7 quality for pre-sorted first-class mail, both automation and  
8 non-automation?

9 A I -- I don't claim to have a -- an in-depth  
10 understanding of all the mail preparation and entry  
11 requirements associated with pre-sorted first-class mail.

12 In general, it's my understanding that -- that,  
13 yes, there are certain address quality insurance procedures  
14 that -- that pre-sorted first-class mail must go through  
15 --address lists must be checked, things of that nature --  
16 although as to the specifics, I don't know the details nor  
17 have I -- have I -- have I testified to them here.

18 Q Would that answer apply to bar-code quality, as  
19 well? I mean, for example, do you know whether there are  
20 specifications for bar-code quality for automation pre-sort  
21 mail?

22 A Yes, a similar response would apply. Again, I  
23 know there are -- there are general requirements in terms of  
24 the type of bar-code and the placement on the envelope and  
25 the type of ink, maybe, but I don't know the details of the



1 requirements. I know they exist.

2 Q And you use a phrase, "containerization." I  
3 wasn't sure what you meant by that. Is that -- would --  
4 would that be trays or some -- something else?

5 A Exactly. By "containerization," I meant the type  
6 of container the mail happens to be in, a tray versus a  
7 sack.

8 Q Okay. And there is no drop-shipping, as I  
9 understand it, for first-class.

10 A The -- the question refers to both first --

11 Q Right.

12 A -- class and Standard A mail.

13 Q Right. Yes.

14 A I agree. It's my understanding there isn't any in  
15 first-class, correct.

16 Q Now, with respect to your proposed discounts for  
17 first-class mail, is it true that they do not reflect cost  
18 savings attributable to address quality, machinability, and  
19 containerization?

20 A I -- no, I wouldn't agree with that.

21 Q Isn't it true that they only reflect the degree of  
22 pre-sortation with the automation sub-class category?

23 A I'm not sure I agree with that either.

24 Q Can you point to any savings that you attribute  
25 to, say, five-digit pre-sort mail that's due to its bar-code

1 quality?

2 A Cost savings as opposed to -- to what?

3 Q Well, my initial question was, isn't it true that  
4 your proposed discounts don't reflect any cost savings due  
5 to address quality, machinability and containerization?

6 A I guess I should have stopped you there. I have  
7 no proposed discounts. I don't know --

8 Q Okay. Your rates become the discount but that's  
9 fine. Or your costs are the basis of the discounts. That  
10 your costs, the costs that you show in your models, do not  
11 reflect any specific cost savings for other than  
12 presortation for the automation presort categories; do you  
13 agree?

14 A I don't agree. If your -- I mean, if your  
15 example --

16 Q I don't mean to cut you off and please proceed, if  
17 you want.

18 A No, go ahead.

19 Q I was just going to try to clarify it.

20 A Okay, that would be helpful.

21 Q Can you cite to me in your model costs any point  
22 where you represent costs attributable to address quality?

23 A I think address quality -- I'll give you an  
24 example. Address quality can have an impact on let's say  
25 maybe the upgrade rate of a piece of equipment.

1 Q Sure.

2 A And so to the extent I use upgrade rates, some may  
3 be better than others because of address quality. So I  
4 don't think you can say categorically that I don't consider  
5 it. I don't explicitly have address quality as an item I  
6 adjust my models for.

7 Q And -- sorry.

8 A I think that the costs associated with --  
9 differing costs associated with address quality are captured  
10 to some degree or another.

11 Q But you can't point to any specific cost item for  
12 any of these that I have just mentioned in addition to  
13 address quality, containerization or machinability?

14 A Well, containerization, let's talk about how we  
15 define that. If it is tray versus sack for the type of mail  
16 that I am talking about in my testimony, there are no sacks  
17 and so all of it should be coming in trays which means maybe  
18 containerization isn't an issue.

19 Q Is that -- is that true for retail presort?

20 A Yes.

21 Q That's supposed to come in trays?

22 A Yes. That's my understanding.

23 Q Let's turn briefly to collection costs. Do you  
24 know what cost segments collection costs are reflected in  
25 Postal Service's filing?

1           A     I haven't studied collection costs. I think that  
2     there -- there may have been an interrogatory directed at me  
3     about collection costs that was, in turn, responded to by  
4     the Postal Service, and if you'd bear with me for a minute,  
5     I may be able to find it for you.

6           Q     I think it's 21, ABA et. al 21.

7           A     Twenty-one.

8           Q     Although you may have responded to it. I'm not  
9     sure.

10          A     I'm certain that I didn't respond to it. Oh,  
11     well, I take that back.

12          Q     Yes.

13          A     I take that back.

14          Q     Yes.

15          A     There was a -- there was a question that asked  
16     about the specific cost segments and components where  
17     collection costs show up. I know I didn't respond to that  
18     one. That was the one I was referring to.

19          Q     I see.

20          A     And -- and since your question did ask about cost  
21     segments and components, give me a chance to -- to refer to  
22     that one. I think it might have been number 20.

23               MR. TIDWELL: Check 19.

24               THE WITNESS: Yes, thank you, 19. I think the  
25     --the Postal Service responded to question 19, and in there,

1     it looks like it cites vehicle service driver costs, segment  
2     eight, purchase transportation costs, segment 14.

3             BY MR. CORCORAN:

4             Q     You could have checked 20, as well. You were on  
5     the mark, as well. That's fine. But you don't include any  
6     collection costs in your analysis. Is that -- was that your  
7     testimony? Other than what you reference in T-25-21.

8             A     Yes, other than what I mention in that response,  
9     yes, that's true.

10            Q     And do you know how collection costs are --  
11     whether they're attributable or institutional? Well, let me  
12     back up. If they're treated as institutional costs, some  
13     portion of that cost would be picked up by pre-sorted  
14     first-class mail?

15            MR. TIDWELL: We're getting beyond the scope of  
16     this witness' testimony if we're getting into distribution  
17     of institutional costs.

18            MR. CORCORAN: I'll drop it. That's fine. That's  
19     fine.

20            BY MR. CORCORAN:

21            Q     Mr. Hatfield, do you hold yourself out as an  
22     expert on mail processing costs only or Postal Service costs  
23     in general?

24            A     I would say that -- that my area of expertise is  
25     definitely more confined to mail processing costs, in

1 particular those for first-class, as identified in -- in  
2 this piece of testimony.

3 Q And did you make a conscious decision not to  
4 examine collection costs to determine the costs incurred by  
5 various pre-sort categories?

6 A I wouldn't characterize it that way.

7 The fact that collection costs don't show up in my  
8 testimony is more due to the fact that -- as described in  
9 the interrogatory response we just talked -- talked about  
10 previously, those collection costs show up in -- in cost  
11 segments associated with transportation and delivery, and  
12 the -- the scope of my testimony doesn't cover those areas,  
13 and so, by -- by virtue of the fact that -- that I've  
14 confined my analysis to mail processing, collection costs  
15 aren't a part of that analysis.

16 Q Okay.

17 We're almost done with collection costs here, but  
18 your -- your -- the metered -- bulk metered benchmark that  
19 is -- was used by the Postal Service in this testimony -- as  
20 I understand it, that mail could be deposited in a  
21 collection box, whereas pre-sorted first-class mail could  
22 not be. Is that generally true?

23 A I'd agree with the fact that -- that pre-sort mail  
24 can't be deposited in a collection box. Again, I'm not  
25 familiar enough with bulk metered mail to say what

1 requirements are or are not applicable to it.

2 Q Okay. But in any event, are you familiar enough  
3 to know that metered mail can be deposited in a collection  
4 box?

5 A Yes.

6 Q And can you -- can you point, on page Roman II-5  
7 of library reference 106, to any cost associated with  
8 collection that are reflected in that benchmark other than  
9 the -- what you might have referenced in -- in your response  
10 to T-21?

11 A Again, this -- this page, II-5 of LR H-106, is  
12 specific to mail processing costs, and as we noted in the  
13 interrogatory response, collection costs primarily show up  
14 in -- in the delivery cost segments and the transportation  
15 cost segments. Therefore, they wouldn't -- they wouldn't be  
16 reflected here.

17 Q Thank you.

18 The final area I have is -- it is a short one, I  
19 hope -- is to briefly look at some of your model -- model  
20 costs.

21 A Okay.

22 Q If you could turn to your response to ABA, EEI,  
23 and NAPM T-25-26, specifically sub-part E --

24 A I have it.

25 Q -- and just for the record, it -- it -- this

1 sub-part deals with the productivities of incoming  
2 secondary/auto -- excuse me -- non-auto sites versus  
3 manual/auto sites, and in your response to part E, you note  
4 that, at automated facilities, a large portion of the mail  
5 that receives piece distribution --

6 THE REPORTER: Would you use the mike, please?

7 MR. CORCORAN: Sorry.

8 BY MR. CORCORAN:

9 Q In sub-part E, you note that, at automated  
10 facilities, a large portion of the mail that receives piece  
11 distribution and incoming secondary operations is reject  
12 mail from automation equipment.

13 Do you have any sense or can you quantify at all  
14 the -- what that large portion would be?

15 A No, I don't, because that -- that's probably a  
16 number you'd have to look at almost on a -- a plant-by-plant  
17 basis to see, within their -- within their manual  
18 distribution section, how much of that mail is coming from  
19 automation versus other areas.

20 Q And did you have a time period in mind when you  
21 answered this as it -- as the last year, or is there -- just  
22 from your general experience?

23 A In terms of what part of my response, the -- the  
24 -- the non-automated --

25 Q Well, when you say that -- sorry -- when you say



1     that a large portion is -- of the mail that receives this is  
2     reject.

3           A     I --

4           Q     I wasn't sure what --

5           A     I would agree that that -- that's relevant in --  
6     in the time-frame we're talking about now, the -- the test  
7     year.

8           Q     And do you know whether this reject mail has bar  
9     codes applied by mailers or is it bar codes applied by the  
10    Postal Service?

11          A     I think rejected mail can come from a variety of  
12    sources. One of the sources may well be mail that has been  
13    pre-barcoded. One of the sources could be mail that has  
14    been pre-barcoded by mailers. As well that mail could be  
15    mail that was never barcoded.

16          Q     Is it possible that as part of the mail that would  
17    be processed in this manual nonautomation sites, and at the  
18    manual automation sites, is it possible that some of that  
19    mail is reply barcoded mail?

20          A     Again, I haven't studied the cost nor the  
21    processing associated with reply mail, but I would imagine  
22    that if a piece of reply mail is on a piece of automation  
23    equipment and it is rejected it could very well end up in a  
24    manual operation.

25          Q     If you turn back to Appendix 1, page 13 --

1 A I've got it.

2 Q -- you develop a weighted cost for the outgoing  
3 primary for -- primary operation for automation basic and  
4 you show that cost as -- if I am reading it correctly -- as  
5 .1452 cents. Do you see that?

6 A You are adding the manual and BCS costs for  
7 outgoing primary in the automation basic model, is that  
8 correct?

9 Q Well, I thought this was -- no, all I took was  
10 the -- for outgoing primary you have a cost for basic  
11 automation presort, for manual sort, of -- your weighted  
12 cost is .1452 cents.

13 A Yes, that is correct.

14 Q And there is no such cost for three and five digit  
15 mail because they don't go through that operation, I take  
16 it?

17 A That's correct.

18 Q And if you turn to page 20, you have a cost of  
19 .061 cents for the manual outgoing primary, do you see that?

20 A Yes, I do. I think it is .0601.

21 Q I'm sorry --

22 A Quite all right.

23 Q -- if I said it wrong. Similarly -- you develop a  
24 similar cost for the nonautomation presort OCR upgradeable  
25 mail in non-OCR trays, and that is on page 24, and it is a

1 lower cost, .0223 for this outgoing primary manual  
2 operation?

3 A That's correct.

4 Q Now is it the case that the mail that you're  
5 discussing on pages 20 and 24 and indeed 28 is not  
6 automation-compatible absent the Postal Service doing  
7 something to that mail, i.e., putting a bar code on it and  
8 upgrading it in some fashion?

9 A Which pages did you refer to again?

10 Q Well, I'm looking -- it's page 20, 24, and 28; 20  
11 for example deals with First Class nonautomation presort in  
12 OCR-upgradable trays.

13 A Correct.

14 Q And as I understand that it's nonautomation  
15 presort because it doesn't have a bar code on it. Is  
16 that --

17 A Yes, that's accurate.

18 Q Yes. And similarly if you look at nonautomation  
19 presort and OCR-upgradable mail in non-OCR trays, that too  
20 lacks a bar code and the Postal Service will put one on, I  
21 assume.

22 A Correct.

23 Q Okay.

24 A They would attempt to.

25 Q And my impression was that this nonautomation mail

1 would be more costly to handle than automation mail. Is  
2 that a --

3 A In general that's a true statement.

4 Q Right. And again these are minor costs, but  
5 logically when you look at these three costs, automation  
6 basic manual outgoing primary is more expensive, in  
7 percentage terms much more expensive, but absolutely it  
8 doesn't make much difference. That cost exceeds the  
9 estimated cost for all the nonautomation categories. And  
10 can you tell me why that -- logically it doesn't make sense  
11 to me, and can you tell me why it might be?

12 A Absolutely. I think you might be misinterpreting  
13 what the information in column 8 really reflects. Column 8  
14 in each of the cost summary pages is a weighted cost. That  
15 means the unit costs, right, the cost per piece for a piece  
16 of mail in an outgoing primary manual sort has been further  
17 weighted based on --

18 Q Right.

19 A The number of pieces out of 10,000 --

20 Q Right.

21 A That will receive that sort. And so the fact that  
22 the cost is higher in automation basic doesn't reflect that  
23 it's more costly to sort a piece of mail through manual  
24 because it's automation basic, it reflects the fact that  
25 more pieces of automation basic will go through outgoing

1 primary manual.

2 Q Fair enough. Thanks, Mr. Hatfield.

3 Thanks, Mr. Chairman, that's all I have.

4 CHAIRMAN GLEIMAN: Is there any followup?

5 Questions from the bench?

6 Ten minutes sounds good. That would be a perfect  
7 break time.

8 I'm going to remind people again, as I did  
9 yesterday, that if you have a car parked in the garage  
10 downstairs, you might want to at our next break take  
11 advantage of the opportunity to go down, pay your parking,  
12 get your key, lock your car up so that you'll be able to get  
13 it out of the garage if we go beyond 7:00 o'clock this  
14 evening, which may or may not be the case.

15 We'll be back in 10 minutes then.

16 [Recess.]

17 CHAIRMAN GLEIMAN: That was no redirect, Mr.  
18 Tidwell?

19 MR. TIDWELL: Mr. Chairman, there will be no  
20 redirect. The Postal Service has one procedural issue we'd  
21 like to clarify with respect to Library Reference H-130. We  
22 mentioned earlier that Witness Hatfield was the person who  
23 prepared the library reference and was willing to adopt it  
24 as a part of his testimony in this proceeding, and we  
25 wondered if we needed to go through the same procedure that

1 Mr. Nelson went through earlier today.

2 CHAIRMAN GLEIMAN: I believe we may as well do  
3 that. The objections have been duly noted, and we'll deal  
4 with them at some point. This is the matter that came up  
5 earlier on when the witness sat down and two parties  
6 representing Nashua District and the Alliance raised  
7 objections with respect to certain library references that  
8 we had asked about before the lunch break and then had  
9 received a response on from Mr. Tidwell when we picked back  
10 up.

11 So all we're doing is with respect to one of those  
12 library references, which is Library Reference No. 130,  
13 which Mr. Hatfield is prepared to adopt as his, we're going  
14 to make that one of evidence in the record. So there's no  
15 need to make another objection.

16 MR. THOMAS: It's not so much an objection, but if  
17 he's going to enter this, I mean, I think that there's a  
18 question of the predicate here on whether this meets like  
19 the Rule 31K requirements. Do we need to ask him that, or  
20 can we reserve that at some point. I mean, do I need to ask  
21 him now whether this study -- this library reference --

22 CHAIRMAN GLEIMAN: If you wish to ask that  
23 question, you may do so, because I will ask if there are any  
24 objections or questions before we actually put it into the  
25 record, but I do note the concerns that you and Mr. Olson

1 expressed earlier today, and, you know, they're a matter of  
2 record, and we'll take them into consideration as we sort  
3 this all out. So if you want to ask that question, you may.

4 Mr. Tidwell, the ball's in your court for the  
5 moment.

6 REDIRECT EXAMINATION

7 BY MR. TIDWELL:

8 Q Mr. Chairman, I've just presented to Witness  
9 Hatfield a copy of a document which has been designated as  
10 USPS Library Reference H-130 entitled accept and upgrade  
11 rates.

12 I'd like to ask Mr. Hatfield, are you familiar  
13 with this document?

14 A Yes, I am.

15 Q Was it prepared by you for purposes of this  
16 proceeding?

17 A Yes, it was.

18 Q Are you prepared to adopt this as part of your  
19 testimony in this proceeding?

20 A Yes, and I'd like to note that it does contain the  
21 errata filed to the library reference on October 6.

22 CHAIRMAN GLEIMAN: Are there any questions or  
23 objections before we move to include this as evidence in the  
24 record?

25 Mr. Thomas?

1 MR. THOMAS: Joel Thomas, on behalf of the  
2 Alliance of Nonprofit Mailers.

3 Yes, I have some questions that I'd like to find  
4 out if this library reference meets the requirements of Rule  
5 31K.

6 CHAIRMAN GLEIMAN: I would allow you to ask the  
7 question. I suspect that the response will likely come from  
8 counsel rather than from Mr. Hatfield, inasmuch as Mr.  
9 Tidwell is probably in a better position to interpret the  
10 rules and is familiar with the library reference. If that's  
11 agreeable to you.

12 MR. THOMAS: Well, let me ask the question. We'll  
13 see whether it's one that should require legal analysis or  
14 whether it's something that the witness can answer if he was  
15 the person who prepared it.

16 CHAIRMAN GLEIMAN: Please proceed.

17 VOIR DIRE EXAMINATION

18 BY MR. THOMAS:

19 Q Does Library Reference -- I'm now talking about  
20 Library Reference H-130, right?

21 A Um-hum.

22 Q Is that or does it contain a study or analysis?  
23 What is Library Reference H-130?

24 A Library Reference H-130 is the documentation of a  
25 study that was done to determine the accept and upgrade rate



1 on certain pieces of Postal Service mail processing  
2 equipment.

3 Q Okay.

4 Does it contain a clear statement of the study  
5 plan?

6 A Yes, I believe it does. If you would like a  
7 reference, we can -- there is a narrative contained on pages  
8 1 through 3 that describes in general the purpose of the  
9 study. Likewise, the specific instructions that accompany  
10 the study and the documentation that was sent to each site  
11 that participated is contained in Appendix A.

12 Q Those would be data collection requirements? Is  
13 it a description of data collection requirements?

14 A In addition to other things, yes.

15 Q Does it contain a statement of facts and judgments  
16 upon which conclusions are based?

17 A Can you repeat the question again?

18 Q Does it contain a statement of the facts and  
19 judgments upon which conclusions are based?

20 A Yeah, I'd agree to that. It reports certain  
21 estimates that are provided in this study and explains their  
22 development and the procedures that were taken to produce  
23 the results. To the extent that qualifies, yes.

24 Q Does it also involve an indication of alternative  
25 courses of actions that were considered?

1           A     The description of the library reference speaks as  
2     to why it's necessary, why this information is not available  
3     from other sources. In terms of other means of collecting  
4     this data, I am not aware of any.

5           Q     So far as you know, it does not describe such a  
6     statement?

7           A     Describe to me what the statement is again?

8           Q     Does it include an indication of alternative  
9     courses of actions that were considered?

10          A     If none is an alternative course of action, then  
11     yes.

12          Q     But the only one is none, then.

13                Is H-130 in whole or in part a statistical study?

14          A     In part.

15          Q     With regard to the parts that are a statistical  
16     study, does it include a comprehensive description of the  
17     assumptions made, the study plan utilized and the procedures  
18     undertaken?

19          A     Yes.

20          Q     Does it involve computer analysis?

21          A     Yes.

22          Q     I didn't know I was going to be doing this right  
23     now. Well, before I get to that, let me ask would Library  
24     Reference H-130 be a sample survey?

25          A     Yes.

1 Q Does it contain a survey design, including a  
2 definition of the universe under study and the sampling  
3 frame and units and validity and confidence limits that can  
4 be placed on major elements?

5 A Yes.

6 Q Does it have an explanation of the method of  
7 selecting the sample and the characteristics measured or  
8 counted?

9 A Yes.

10 Q Does it involve an experimental analysis, this  
11 library reference?

12 A I wouldn't characterize it as experimental, no.

13 Q With regard -- is it an econometric study?

14 A No, it's not.

15 Q You said that it is a computer analysis?

16 A Yes, I did.

17 Q If I can find the section that I need here, just a  
18 minute.

19 Does it include a statement of the -- a  
20 description of the program used in the computer analysis?

21 A Do you have a copy of the library reference in  
22 front of you?

23 Q No, I do not.

24 A Appendix C, I think, may be. I'm not positive but  
25 it may be a rundown of the requirements that you're asking

1 about in the same order. It lists the objectives of the  
2 program, the processing tasks performed, the methods and  
3 procedures employed, listing of input and output data,  
4 listing of source codes, designation of the sources of such  
5 data, definitions of all input and output variables,  
6 description of the code and so on.

7 I think we may be looking at the same lists.

8 Q Yes.

9 A And in preparing this library reference, each of  
10 those was responded to in turn within Appendix C.

11 MR. THOMAS: Thank you very much. That's all I  
12 have.

13 CHAIRMAN GLEIMAN: Mr. Tidwell, yes?

14 Mr. Corcoran?

15 MR. CORCORAN: I don't think I object to it, but I  
16 wonder if I could ask a couple of preliminary questions, Mr.  
17 Chairman, about it?

18 CHAIRMAN GLEIMAN: Certainly.

19 VOIR DIRE EXAMINATION

20 BY MR. CORCORAN:

21 Q Is the scope of this study with respect to just  
22 certain types of First Class and standard A mail?

23 A Yes.

24 Q And automation mail is not included?

25 A No, it's not.

1           Q     So no portion of your testimony with respect to  
2     accept upgrade and --

3           A     Encode?

4           Q     Encode would relate to automation mail. Is that  
5     right?

6           A     I employ certain accept rates for automation in  
7     the development of my mail flow models. Those estimates  
8     were not produced in Library Reference H-130.

9           Q     I have a portion of 130 here. Does -- just so I'm  
10    clear. Table 51, 52, and 53, which is on page 10, shows the  
11    mail that was studied?

12          A     Yes. Actually page 10 lists the results of the  
13    study.

14          Q     And so that's the only type of mail that's  
15    affected by this study?

16          A     Within each of those tables -- 51, 52, 53 --  
17    there's a description on the left of a number of different  
18    types of mail. Those were the only studied within the  
19    context of Library Reference H-130.

20          Q     And the last thing I had was did -- Price  
21    Waterhouse had something to do with this, did it not? Did  
22    it -- oh, you're Price Waterhouse?

23          A     Yes, I am.

24          Q     Well, there you go. How about that. Thank you.

25          A     You're welcome.

1 CHAIRMAN GLEIMAN: Mr. Tidwell.

2 MR. TIDWELL: With that, the Postal Service would  
3 like to move Library Reference H-130 into the evidentiary  
4 record.

5 CHAIRMAN GLEIMAN: I direct that -- Mr. Thomas.

6 MR. THOMAS: I'm sorry, but it appears at least  
7 with regard to some points the answer was that it may not  
8 have met the requirements of 31K, although I think it did on  
9 many points, according to the witness' testimony.

10 CHAIRMAN GLEIMAN: Are you objecting to --

11 MR. THOMAS: Yes, I'm objecting.

12 CHAIRMAN GLEIMAN: Accepting it?

13 MR. TIDWELL: To the extent that the witness  
14 expressed some uncertainty, the Postal Service is still  
15 confident that the library reference is in compliance,  
16 and --

17 MR. THOMAS: I guess I'll just note my objection  
18 and we can take it up later.

19 CHAIRMAN GLEIMAN: Thank you, sir. The objection  
20 is noted. To the extent that you feel that it does not  
21 comply with Rule J and, you know, if you file a motion to  
22 that effect, we will review it, and if it does not in our  
23 opinion comply with Rule J, 31J, then we will take action  
24 accordingly.

25 MR. THOMAS: J or K?

1 CHAIRMAN GLEIMAN: K.

2 Mr. Tidwell, if you would please provide the copy  
3 to the reporter, we will receive it into evidence, and it  
4 will not be transcribed into the record.

5 [Library Reference H-130 was  
6 received into evidence.]

7 CHAIRMAN GLEIMAN: If there's nothing further, Mr.  
8 Hatfield, we appreciate your appearance here today, your  
9 contributions to our record, your patience, and if there's  
10 nothing further, you're excused.

11 THE WITNESS: Thank you.

12 [Witness excused.]

13 CHAIRMAN GLEIMAN: I'll give the Postal Service a  
14 moment to rearrange its bodies at the counsel table, then  
15 we'll proceed.

16 Mr. Hollies, whenever you're ready.

17 MR. HOLLIES: I'm trying to locate two copies of  
18 the testimony.

19 CHAIRMAN GLEIMAN: We're off the record.

20 [Discussion off the record.]

21 CHAIRMAN GLEIMAN: Back on the record.

22 MR. HOLLIES: The Postal Service calls Mr. Paul  
23 Seckar to the stand.

24 CHAIRMAN GLEIMAN: Mr. Seckar, could you please  
25 stand and raise your right hand?

1 Whereupon,

2 PAUL G. SECKAR,

3 a witness, was called for examination by counsel for the  
4 United States Postal Service and, having been first duly  
5 sworn, was examined and testified as follows:

6 CHAIRMAN GLEIMAN: Please be seated.

7 DIRECT EXAMINATION

8 BY MR. HOLLIES:

9 Q Mr. Seckar, I have handed to you two copies of a  
10 document identified as USPS-T-26, and I ask if you can  
11 identify that.

12 A I can.

13 Q And it is?

14 A My testimony.

15 Q Was it prepared by you or under your direction?

16 A Yes.

17 Q Have you filed any formal errata in this case  
18 involving that testimony?

19 A Yes, I have.

20 Q Are those included within the copies in front of  
21 you?

22 A Yes, they are.

23 Q Do you have any additional corrections that have  
24 not previously been filed?

25 A Yes, I do. I'd like to take note of page 26.



1 Line two is now shaded and represents a change effective  
2 October 8.

3 Q And could you characterize that change for us,  
4 please?

5 A It is further detail on a -- a reference to  
6 library references.

7 Q Were you<sup>to</sup> testify orally today, would your  
8 testimony be the same as in that document?

9 A Yes, it would.

10 MR. HOLLIES: With that, the Postal Service would  
11 -- moves to put his evidence into the record, USPS-T-26.

12 CHAIRMAN GLEIMAN: Are there any objections?

13 MR. THOMAS: Yes, there's an objection. Joel  
14 Thomas for the Alliance of Non-Profit Mailers. For the same  
15 reasons offered before.

16 CHAIRMAN GLEIMAN: We're talking about --

17 MR. THOMAS: With regard to other --

18 CHAIRMAN GLEIMAN: We're talking about the  
19 individual's testimony at this point.

20 MR. THOMAS: Right, to the extent that it relies  
21 on and -- and embodies these library references, which I  
22 believe it does to a considerable extent.

23 CHAIRMAN GLEIMAN: Well, now I'm confused, Mr.  
24 Thomas, and you're going to have to help me out a little  
25 bit, and maybe it's my head cold, and maybe it's the hour of

1 the day.

2 Are you saying you object to his testimony going  
3 into the record because it relies on library references,  
4 period, that it relies on library references that have been  
5 admitted, with objections noted, into evidence, or that it  
6 relies on library references that you would like to have  
7 admitted but haven't been admitted yet? I'm not sure --

8 MR. THOMAS: Okay. It's -- it's more like the  
9 latter, but I think it relies on some additional library  
10 references other than the ones that you have admitted. I  
11 don't want them in. I'm not asking that they be admitted.  
12 But I think his testimony does rely on others.

13 CHAIRMAN GLEIMAN: Well, unless you -- I mean this  
14 -- in effect, I think what you are doing is you are making a  
15 motion to strike this witness' testimony, and you -- you  
16 have given me -- and I -- I don't mean this in a pejorative  
17 sense -- you have given me a very vague ground -- I mean I  
18 need to know if there are specific aspects of his testimony  
19 and -- and -- and why it is that they are objectionable and  
20 -- and, you know, what is the basis, in effect, for your  
21 motion.

22 MR. THOMAS: The basis for the motion is that his  
23 testimony relies in -- in major part, if not entirely, on a  
24 number of library references, the admissibility of which, at  
25 this time, is unclear and some of which, so far as I can

1 determine, have not been admitted for any purpose so far,  
2 and it --

3 I mean there is library reference 134. I'm not  
4 sure right now of the status of 106. I believe -- I believe  
5 it has been admitted subject to objection. But there is  
6 also 105. 128 has been admitted subject to objection, and I  
7 believe the same is true of 113, but I'm not sure about 169.

8 CHAIRMAN GLEIMAN: Well, just -- I -- I'm going to  
9 rule on this, but I just want to make clear to -- to people  
10 who are not here now who may read the transcript, this is  
11 the problem that the commission faces which will be  
12 compounded as we get into the phase of the case where we  
13 have to make some determinations and recommendations.

14 There are library references which are not in  
15 evidence which have been cited in one way, shape or form in  
16 his testimony. Parties object to us admitting the library  
17 references, but if we don't admit the library references  
18 they object to the testimony being based on matters that are  
19 not in evidence.

20 We can't have it both ways. For right now I am  
21 going to overrule you on the objection. I am going to ask  
22 you to put it in writing. If the Commission, if the  
23 Presiding Officer or if we determine that it is something  
24 that we need to certify to the full Commission feels that  
25 you have made a cogent argument then the Commission will

1     likely not strike but would likely give appropriately less  
2     weight to the witness's testimony than would otherwise be  
3     the case.

4             We are very reluctant to strike testimony and we  
5     reserve to ourselves the right to give appropriate weight to  
6     that testimony at a point in time when we go into our little  
7     room there for our deliberations, so if you want to make a  
8     written motion that is more specific, we will consider it,  
9     but for right now I am going to overrule your objection and  
10    accept Witness Seckar's testimony and exhibits into  
11    evidence.

12            I am going to direct that they be accepted into  
13    evidence and as is our practice they will not be  
14    transcribed.

15            I hope I made clear the problem, the Catch-22  
16    situation, that we find ourselves in. We are just going to  
17    have to proceed with this and we'll let the chips fall where  
18    they may.

19                               [Direct Testimony of Paul G.  
20                               Seckar, Exhibit No. USPS-T-26 was  
21                               marked for identification and  
22                               received into evidence.]

23            CHAIRMAN GLEIMAN: I might note that your action,  
24    and I don't mean the type of action that you propose, took  
25    place a lot earlier than I suspected it would.

1 I suspect that at some point either before or  
2 after we issue a recommended decision, we will receive many  
3 slings and arrows because we relied or didn't rely,  
4 depending on which way a party wants to argue, on a library  
5 reference that was or was not properly in evidence.

6 I get the distinct impression based on your motion  
7 and, you know, other documents that have been filed so far,  
8 that we are in a no-win position, so we are going to do the  
9 best we can and establish the best record we can, and  
10 hopefully make a reasonable decision in recommendation when  
11 it is all over.

12 I don't know whether you have handed the copies to  
13 the Reporter or not at this point, Mr. Hollies.

14 MR. HOLLIES: Mr. Chairman, I have handed them to  
15 the Reporter when you granted the motion, and I have two  
16 additional comments.

17 With respect to the motion to strike, I would note  
18 that the rules provide that those be filed 14 days in  
19 advance of the witness's appearance.

20 The Postal Service -- the first inkling the Postal  
21 Service had of that motion was when we all heard it a moment  
22 ago.

23 CHAIRMAN GLEIMAN: Well, I appreciate your help on  
24 this, but I have ruled, so the objection doesn't stand at  
25 this point in time, and quite frankly, while the rules do

1     require a motion 14 days before someone appears, in point of  
2     fact if there is a -- excuse me -- reasonable reason to  
3     strike that is presented, then the Commission can do so, can  
4     exercise its discretion at any point in time if we believe  
5     that the arguments presented to us are appropriate.

6             During my short tenure here, my recollection is  
7     that we indeed struck a witness's testimony. I believe it  
8     was R94 in the matter of BRMAS. We did that pretty much on  
9     the spot.

10            MR. HOLLIES: I did not mean to imply that the  
11     Commission lacked discretion.

12            CHAIRMAN GLEIMAN: I just --

13            MR. HOLLIES: I do have one follow-up point, which  
14     <sup>is</sup>  
~~is~~ more pertinent here.

15            In conformity with what the Postal Service has  
16     been doing all day, we are looking to the library references  
17     that are cited in Mr. Seckar's testimony.

18            He is prepared to adopt two of those as part of  
19     his testimony and we can try and introduce those now or we  
20     can do so later, at your preference.

21            The other library references overlap to some  
22     extent with those discussed earlier by Mr. Tidwell, and we  
23     will be taking appropriate action in connection with any  
24     others.

25            CHAIRMAN GLEIMAN: All right. I have an asterisk

1 at the top of the next page of my script to get to that very  
2 matter, so if you will all bear with me for a moment -- Mr.  
3 Thomas, I think I owe you an opportunity to speak one more  
4 time on this matter before we move on, if you choose to.

5 You don't have to.

6 MR. THOMAS: No, I have nothing to add to this  
7 matter at this point.

8 CHAIRMAN GLEIMAN: Thank you.

9 Two participants requested oral examination of  
10 Witness Seckar, the Alliance of Nonprofit Mailers and the  
11 American Business -- whoops, I'm sorry. I am getting ahead  
12 of myself here.

13 Well, let me just finish my sentence and then  
14 we'll step back in the process.

15 Two witnesses have indicated they wish to cross  
16 examine -- the Alliance of Nonprofit Mailers and the  
17 American Business Press.

18 I don't believe there is anyone else in the room  
19 who cares to cross examine the witness but before we get to  
20 oral cross examination, let me do what I should have done a  
21 moment ago, which is to deal with the written designated  
22 cross examination.

23 Mr. Seckar, have you had an opportunity to examine  
24 the packet of designated written cross examination that was  
25 made available to you earlier?

1 THE WITNESS: I have. Yes.

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

5 THE WITNESS: Yes, they would.

6 CHAIRMAN GLEIMAN: I actually yearn at this point  
7 for somebody to ask me a question that I have been asked  
8 previously and might have an answer to.

9 Are there any changes that you would have made?

10 THE WITNESS: No, there are not.

11 CHAIRMAN GLEIMAN: Well, if two copies could be  
12 handed to the Reporter and I believe actually if no changes  
13 have been made since this morning, I will hand the copies of  
14 the designated written cross examination of the witness and  
15 direct that they be accepted into evidence and transcribed  
16 into the record at this point.

17 [Designation of Written  
18 Cross-Examination of Paul G. Seckar  
19 was received into evidence and  
20 transcribed into the record.]

21

22

23

24

25



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 G. SECKAR  
(USPS-T-26)

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

<u>Party</u>	<u>Answer To Interrogatories</u>
American Business Press	ABP\USPS: Interrogatories T26-1-5, 7-8, 9(b), (d), 10(c), 11-12, 14-17. ABP\USPS: Interrogatory T34-7(b) Response of USPS witness Seckar to interrogatory redirected from witness Taufique.
The McGraw-Hill Companies, Inc.	MH\USPS: Interrogatory T26-2.
Newspaper Association of America	NAA\USPS: Interrogatories T26-1-2. ABP\USPS: Interrogatories T26-1, 5, 14.
Office of the Consumer Advocate	ABP\USPS: Interrogatories T26-1-5, 7-8, 9b and d, 10c, 11-12, 14-17, and witness Seckar's response to an interrogatory redirected from witness Taufique, i.e., ABP\USPS-T34-7b. ANM\USPS: Interrogatory T26-1. NAA\USPS: Interrogatories T26-1-2. NAPM\USPS: Witness Seckar's response to interrogatory redirected from witness Daniel, i.e., NAPM\USPS-T29-1. TW\USPS: TW interrogatories T26-1a,d-g, 2e, 3a-e, and 4; and witness Seckar's response to an interrogatory redirected from witness Moden, i.e., TW\USPS-T4-3d.

Time Warner Inc.

TW\USPS: Interrogatories T26-1(a), (d)-(g),  
2(e), 3(a)-(e), 4.  
TW\USPS: Interrogatory T4-3(d) to witness  
Moden, answered by witness  
Seckar.

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw". The signature is written in black ink and is positioned above the printed name and title.

Margaret P. Crenshaw  
Secretary

**ABP/USPS-T26-1.** Define the term "CRA subclass costs" as used at USPS-T-26, p.10; line 20.

**RESPONSE:**

The use of the term "CRA subclass costs" at page 10, line 20 of USPS-T-26 is perhaps too general. A more specific description would be "shape-specific CRA line item costs." These costs are the benchmark costs discussed at USPS-T-26, lines 16 through 18 of page 11.

**ABP/USPS-T26-2.** Define and explain the term "de-averaged benchmark costs" as used by you on p. 10, line 21 of your testimony, and on p. 11, lines 16-17 of your testimony.

**RESPONSE:**

Please refer to my ABP/USPS-T26-1 response for an explanation and definition of benchmark costs. The term "de-averaged benchmark costs" refers to the individual rate category components of the benchmark. For further explanation, please refer to USPS-T-26, page 12, lines 6 through 8.

**ABP/USPS-T26-3.** Define and explain the term "rate category" as used by you at p. 11, line 20.

**RESPONSE:**

Although line 20 of USPS-T-26, page 11 does not use the term "rate category," this term is used throughout USPS-T-26 to refer to the mail types for which unique rates exist. These are displayed at USPS-T-26, pages 5 through 9, in Table III-1, in column 1, and Tables III-2 through Table-5, in column 2.

**ABP/USPS-T26-4.** By "CRA subclass costs" do you mean in whole or in part the costs that are listed in Tables III-1 to III-5, under the "Actual Mail Makeup" approach? If your answer is anything but an unqualified yes, please define the term "CRA subclass costs" as you use it in these tables and explain what, if any, relation the term has to "actual mail makeup" costs.

**RESPONSE:**

No. The term "CRA subclass costs" is defined in my response to

ABP/USPS-T26-1. The term "CRA subclass costs" has no specific relation to actual makeup costs. Actual mail makeup costs exist at the rate category level, not the CRA subclass level.

**ABP/USPS-T26-5.** Are both the "modeled" and "actual" costs that you refer to on pp. 11-12 derived from the MODS cost pools as developed and distributed by Witnesses Bradley and Degan in this proceeding?

**RESPONSE:**

No. The term "modeled" as used on page 11, lines 20 through 22, refers to a weighted combination of piece distribution and bundle sorting costs as developed in the models. For further details, please refer to USPS-T-26, page 23, lines 21 through 23, and page 24, lines 1 through 2. These costs are not derived using MODS cost pools.

Pages 11 and 12 of USPS-T-26 make no reference to "actual" costs. However, if the reference is to the actual mail makeup and their associated costs, a discussion of these is provided on pages 11 through 12. These costs are generated using, in part, benchmark costs that are comprised of MODS cost pools. The benchmark costs, and subsequently the MODS cost pools, as used in USPS-T-26 are obtained from the analysis presented in LR-H-106. Please refer to LR-H-106, page III-5 for the source of the MODS cost pools in the benchmark costs.

**ABP/USPS-T26-7.** Referring to Table A-2, USPS-T-26J, please define a "basic" presort level for containers.

**RESPONSE:**

The term "basic container presort level" is used to refer to any container that contains mail which receives the basic rate. Mixed ADC and ADC containers are basic presort level containers in the Test Year. Mixed states, state, optional SDC, ADC, optional SCF, and non-unique three-digit containers are basic presort level containers found in the Periodical Mail Characteristics study as summarized on pages 43 through 47 of LR-H-134, Sections 2 and 3.



**ABP/USPS-T26-8.**

- a. Please define and explain your term "CRA adjustment factors" (p. 14, line 23).
- b. Do the mail processing costs "beyond piece sorting and bundle sorting" (p. 14, lines 22-23), which comprise "constant" mail entry costs, include all costs included in cost Segment 3, except for piece distribution and bundle sorting?

**RESPONSE:**

- a. For a complete discussion of CRA Adjustment factors, including their development, purpose, and application; please refer to Section IV(E) of USPS-T-26. As discussed on lines 18 and 19 of USPS-T-26, page 24, "The proportional benchmark cost is divided by the weighted modeled cost to form a proportional adjustment factor to the CRA level." This factor is used to adjust the weighted modeled costs so that they reconcile with the proportional CRA-benchmark cost, and is the proportional CRA adjustment factor. The fixed element of the benchmark cost is the fixed CRA adjustment factor. These two factors are the "CRA adjustment factors" referred to at line 23 of page 14.
- b. No. Cost segment 3 contains window service and administrative costs in addition to mail processing costs. Please see USPS-T-5, Exhibit A, pages 19 through 22 for further detail on cost segment 3 components. Further, it is important to remember that piece distribution and bundle sorting costs contained in the modeled costs could be more or less than the piece distribution and bundle sorting costs contained in the proportional

benchmark cost, for reasons discussed by witness Daniel in response to  
POIR No.1 Question 8.

**ABP/USPS-T26-9.** On p. 16 of your testimony, lines 15-17, you state that for "all basic rate flats mail," piece distribution included in the models includes outgoing primary and secondary operations, the ADC, the SCF, the incoming primary and secondary operations.

- a. Describe in detail the operations that are performed at the ADC.
- b. Does the model assume that incoming primary and/or secondary operations are not done at a SCF?
- c. Do SCF operations include, in actual practice, incoming and secondary functions that otherwise would be performed at a five-digit delivery station or branch? If your answer is affirmative, please supply whatever statistics are available to describe the percentage of flats and/or periodicals for which incoming primary and secondary distribution is done at sectional facilities centers.
- d. If the basic flats mail is dropshipped to an ADC or to a SCF, how would the model change?

**RESPONSE:**

- a. Redirected to witness Moden.
- b. No.
- c. Redirected to witness Moden.
- d. No changes need to be made to the model for those instances when flats of the appropriate presort level are dropshipped to an ADC or an SCF. In such instances the subset of operations the mail requires depends upon the specific presort levels of the dropshipped mail. The models account for the presort level of all mail, both dropshipped and other, through the use of the mail entry compositions.

**ABP/USPS-T26-10.** On p. 19, USPS-T-26 (lines 9-10), you refer to packages in 3-digit sacks that need to be sorted to containers for transfer to incoming primary or secondary operations, or for dispatch to delivery units.

a. If "dispatch to delivery units" occurs for packages originally enclosed in 3-digit sacks, does this mean that the incoming primary and secondary distribution could be made either at the SCF or at the delivery unit at a branch or station?

b. If the response to (a) is affirmative, explain why distribution is done at an SCF rather than at a "delivery unit" at delivery station or branch.

c. By "delivery unit," do you mean the in-office carrier piece distribution operation or all piece distributions made by clerks and by carriers at the delivery five-digit post office or station?

**RESPONSE:**

a. Redirected to witness Moden.

b. Redirected to witness Moden.

c. I use the term "delivery unit" to refer to a unit at which carriers conduct delivery activities. However, the reference is to incoming secondary sorting for 5-digit bundles and opening unit activities for carrier route bundles. These activities are performed by clerks and mail handlers, rather than carriers.

**ABP/USPS-T26-11.**

a. Please explain why 50.8% of all 5-digit bundles require bundle sorting or opening unit preparation prior to going to the incoming secondary operation and why 49.2% of these bundles do not (USPS-T-26, p. 19, line 24.)

b. Does the distribution and opening unit preparation described in lines 22-25, at page 19, of your testimony take place only at the destination SCF, or could it occur at a delivery station or branch, or at both types of facilities?

c. Please confirm that your responses to 12(a) - (b) also apply to 3-digit containers (p. 20, lines 10-14). If there is a distinction between 3 and 5-digit bundles distribution (as distribution is described in responses (a) - (b)), please identify and explain what they are.

**RESPONSE:**

a. The 50.8 percent figure reflects the percentage of time that 5-digit bundles receive a bundle sorting and/or opening unit preparation prior to going to the incoming secondary operation. The remaining 49.2 percent of the time, 5-digit bundles are sent directly to the incoming secondary operation, where any bundle sorting and/or opening unit preparation occur as part of the incoming secondary operation.

b. Both. If the incoming secondary operation takes place at the SCF, then the bundle sorting and/or opening unit preparation described in lines 22-25 at page 19 of USPS-T-26 takes place at the SCF. If the incoming secondary operation takes place at a delivery station or branch, the bundle sorting and/or opening unit preparation can take place at either type of facility.

c. If this question is referring back to subparts a and b of interrogatory ABP/USPS-T26-11 and not subparts a and b of interrogatory ABP/USPS-

T26-12, then confirmed. At the point prior to the incoming secondary operation, all mail has been sorted to the 5-digit level. Thus, at that point, it does not matter if the mail began in a 3-digit container, or any other container presort level.

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**ABP/USPS-T26-12.** What is meant by the term "presort pallets," as used on p. 22, line 1, and what kind of pallet is not a presort pallet?

**RESPONSE:**

I use the term "presort pallets" to refer to any pallet of mail entered by a mailer that has been presorted to a valid level.

**ABP/USPS-T26-14.**

- a. Is the "fixed element of the benchmark cost" as used on p. 25, USPS-T-26, a volume variable cost or an institutional cost?
- b. If it is a volume-variable cost, why is the cost not "affected by work sharing levels" as stated at p. 25, lines 5-6?
- c. Referring to USPS-T-14 (Bradley), Table 1 at 9, explain why MODS-derived platform costs, which are shown to have a variability of volume of 73%, are included in the "proportional benchmark," USPS-T-26, p. 24, line 18, and are also included in the "fixed" element of the benchmark cost, which is added to each of the rate category costs. USPS-T-26, p. 25, lines 4-7.

**RESPONSE:**

- a. It is volume variable. The benchmark includes all volume variable mail processing costs that are captured in the CRA for a specific product by shape. Therefore, the benchmarks include all direct and indirect volume variable mail processing costs. Because the fixed element of the benchmark cost represents a portion of the benchmark cost, it too is volume variable.
- b. The term "fixed" is in reference to worksharing levels, not volume. Volume variable costs vary with volume. They can be either fixed, in which case they do not vary according to worksharing levels, or they can be proportional, in which case they vary according to worksharing levels. Please refer to witness Hatfield's response to POIR No.1, Question 7 for further discussion of fixed and proportional costs.
- c. Page 5 of Exhibit USPS-T-26A and page 6 of Exhibit USPS-T-26B through Exhibit USPS-T-26E display the treatment of platform costs as fixed costs. The references cited in the question do not discuss platform



costs. Therefore, it is unclear what information within USPS-T-26 suggests that platform costs are in the proportional benchmark and the fixed benchmark costs.

**ABP/USPS-T26-15.** Please clarify your statement on p. 26, USPS-T-26, lines 5-6, that periodicals data exist only for the automation and non-automation types in contrast to "machinable and non-machinable" data for First-Class and Standard A, given that USPS-T-26F displays three tables, at pp. 4-6, each of which lists costs for machinable and non-machinable periodicals.

**RESPONSE:**

The paragraph spanning lines 2 through 6 on page 26 of USPS-T-26 discusses mail entry compositions that are derived from mail characteristics data. Thus, the statement in question details the level at which Periodicals mail entry compositions exist. Unique Periodicals mail entry compositions exist for automation mail and nonautomation mail. This is a direct result of unique sets of Periodicals mail characteristics data existing only for automation mail and nonautomation mail. Please refer to LR-PRR-2 in Docket No. MC96-2, and LR-H-190 for further details.

The mail entry compositions for First-Class and Standard Mail (A) are unique for three types of mail: automation mail, machinable mail, and nonmachinable mail. As shown on lines 3 through 4 of USPS-T-26, "This is a result of the First-Class [Mail characteristics] data and the Standard Mail (A) [mail characteristics] data existing for all three mail types: automation, machinable, and nonmachinable." Please refer to LR-H-134, Sections 1 through 4 for an illustration of how the mail entry compositions are used to generate costs for the different mail types.

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**ABP/USPS-T26-16.**

- a. Is the source of the bar-coded volumes for regular rate periodicals shown in column 1 (USPS-T-26, p. 7) in the constant mail entry model the same source for volumes shown as part of the TYBR billing determinants for regular rate automation periodicals flats, USPS-T-34, Work paper RR-F, p. 1?
- b. If your answer to part "c" is negative, identify both sources.

**RESPONSE:**

- a. If the citations in this question are meant to be to LR-H-134, Section 2, page 8, column 1 and USPS-T-34, Workpaper RR-E, p. 1, then yes, they have the same source.
- b. Not applicable, however, there is no subpart (c).

**ABP/USPS-T26-17.**

a. In connection with your discussion of planned test year equipment development, do you assume that the test year deployment of FSM 1000 will include bar-code readers affixed to the 221 FSM 1000 machines that you describe at USPS-T-26, p. 34?

b. If your answer to part (a) is affirmative, do the costs for "automation basic flats" shown in the appendices to your testimony take into account additional productivity and cost savings achievable by deployment of bar-code readers combined with the FSM 1000?

c. If your answer to part (b) is affirmative, what are the additional projected savings?

d. If your answer to part (a) is negative, do you agree that FSM 1000 machines with Bar-Code Readers would have productivities that would produce lower unit costs in the flow model than are currently shown in your exhibit, USPS-T-26B?

**RESPONSE:**

a. No.

b. Not applicable.

c. Not applicable.

d. Although I have not studied the FSM 1000 equipped with a Bar-Code Reader, I do not believe machinable nonbarcoded mail would be affected. The automation mail would have lower costs if the productivity with the Bar-Code Reader were higher than the FSM 1000 without the Bar-Code Reader. The nonmachinable mail would have lower costs if the productivity with the Bar-Code Reader were higher than the FSM 1000 without the Bar-Code Reader and some of the nonmachinable mail had mailer-applied barcodes. The lower costs in both cases are contingent

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upon the rate structure not changing when the Bar-Code Reader is  
deployed.

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INTERROGATORY OF AMERICAN BUSINESS PRESS,  
REDIRECTED FROM WITNESS TAUFIQUE

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**ABP/USPS-T34-7.**

b. Will SCF sacks be allowed for Periodicals in the test year? If they are going to be allowed, what will be the effect on USPS mail processing costs if (1) automated 3 and 5-digit packages, now in ADC or mixed ADC sacks, are placed in SCF sacks and (2) if nonautomated 3 and 5-digit packages, now in ADC or mixed ADC sacks, are placed in SCF sacks?

**RESPONSE:**

b. It is my understanding that the Postal Service is planning to propose that SCF sacks be allowed for Periodicals starting at some point during the test year. Based upon the methodology used to produce Periodicals mail processing costs, only bundle sorting costs would be affected by moving packages (automated or nonautomated) from one sack presort level to another. The Periodicals bundle sorting costs contained in LR-H-134 are generated using mail characteristics data (from LR-H-190) that reflect an environment in which SCF sacks were used. As a result, the mail processing costs presented in USPS-T-26 reflect the inclusion of SCF sacks.

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**ANM/USPS-T26-1.** USPS-T-26D, page 4, indicates that the unit mail processing cost for a Standard A Regular Rate Basic Presort Nonmachinable flat is 14.9486 cents. USPS-T-26E, page 4, indicates that the unit mail processing cost for a Standard A Nonprofit Basic Presort Nonmachinable flat is 21.7917 cents. The difference between the Nonprofit and Regular Rate cost amounts to 6.8431 cents; *i.e.*, a Basic Presort Nonprofit Nonmachinable flat costs 46 percent more to process than a Basic Presort Regular Rate Nonmachinable flat.

- a. Please explain what accounts for this significant cost difference.
- b. Please provide a copy of, or a reference to, the underlying cost model(s) that document these unit costs.

**RESPONSE:**

- a. Cost differences between Regular Rate and Nonprofit flats result from the use of different inputs. In the case of Standard Mail (A), the coverage factors, the mail entry compositions, the container profiles of mail used in the bundle sorting models, and the mail processing CRA costs differ in the Regular Rate and Nonprofit. The mail entry compositions are quite different, and are the primary contributors to the observed cost difference. For example, the Regular Rate mail entry composition for nonmachinable mail shows about 8 percent entering at the mixed ADC level, whereas the Nonprofit mail entry composition for nonmachinable mail shows about 83 percent entering at the mixed ADC level. Thus, more Nonprofit nonmachinable basic mail begins piece distribution at the mixed ADC level, leading to a higher mail processing cost. The mail entry compositions can be found on page 10 of LR-H-134, Sections 4 and 5.
- b. The cost models that underlie the Standard Mail (A) Regular Rate nonmachinable, basic presort flat cost of 14.9486 cents are contained on

pages 19 and 21 of Section 4 of LR-H-134. The cost models that underlie the Standard Mail (A) Nonprofit nonmachinable, basic presort flat cost of 21.7917 cents are contained on pages 19 and 21 of Section 5 of LR-H-134. The bundle sorting models are contained on pages 15 through 20 of Section 6 of LR-H-134.



**MH/USPS-T26-2.** With reference to your tables III-2 and III-3, please explain the factors that cause the unit volume variable mail processing costs for Periodicals Regular mail to be substantially higher than the unit volume variable mail processing costs for Periodicals Nonprofit mail.

**RESPONSE:**

Cost differences between Regular Rate and Nonprofit flats result from the use of different inputs. In the case of Periodicals Mail, the mail entry compositions, the container profiles of mail used in the bundle sorting models, the premium pay factors, and the mail processing CRA costs differ in the Regular Rate and Nonprofit analyses. The mail processing CRA costs are referred to as benchmark costs in my testimony; please see lines 16 through 18 at page 11 of USPS-T-26 for further definition. The total modeled costs for Regular Rate and Nonprofit, as shown in LR-H-134 at page 6 of Sections 2 and 3, respectively, are not as different as the unit volume variable costs displayed in Tables III-2 and III-3. This is a result of the benchmark costs (10.6067 cents and 5.8043 cents for Regular Rate and Nonprofit flats respectively) differing by about 4.8 cents. These benchmark costs can be found in LR-H-134 at page 7 of Sections 2 and 3, respectively.

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**NAA/USPS-T26-1.** Please refer to page 24, lines 7-17 and page 25, lines 4-7 of your direct testimony.

a. Please explain fully the method used to separate cost pools into "proportional" and "fixed" categories and provide all supporting analyses performed by the Postal Service.

b. For each of the cost pools shown in Exhibit USPS-T-26D, please explain with respect to what specific variable(s) are the cost pools "proportional" or "fixed."

**RESPONSE:**

a. Please see Witness Hatfield's response to POIR No. 1, Question 7.

b. Costs are deemed proportional to the extent that they vary with different levels of presorting and/or prebarcoding. Please see Witness Hatfield's response to POIR No. 1, Question 7 for further details.

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**NAA/USPS-T26-2.** Please indicate the extent to which each of the following factors are responsible for the observed differences between modeled flats unit costs and total (proportional plus fixed) benchmark unit costs, and provide supporting Postal Service analyses:

- a. Uncertainty in the piece distribution cost model;
- b. Uncertainty in the bundle sorting cost model;
- c. Uncertainty in the carrier route cost model (for Periodicals and Standard Mail (A) classes); and
- d. Other (non-piece distribution, non-bundle sorting) mail processing operations. Please list the most significant other mail processing operations not included in the modeled flats unit cost, in declining order of importance.

**RESPONSE:**

- a-d. The extent to which factors (a) through (d) are responsible for the observed differences between modeled flats unit costs and total (proportional plus fixed) benchmark unit costs is not known.

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NATIONAL ASSOCIATION OF PRESORT MAILERS (NAPM) REDIRECTED FROM <sup>1875</sup>  
WITNESS DANIEL

**NAPM/USPS-T29-1.** Please refer to your testimony at Exhibit USPS-29C, page 1 of 6, where you set forth first-class unit cost estimates for, inter alia, single piece flats, presort flats, automated basic flats and automated 3/5-Digit flats. Please provide first class unit cost estimates for automated flats if the makeup requirements were the same as those required of first-class letters (i.e., what would the mail processing and delivery first-class unit cost estimates be for automated 3-Digit flats and for automated 5-Digit flats?)

**RESPONSE:**

Mail processing costs for First-Class automation flats under the automation letter makeup requirements can not be developed at this point in time. The makeup requirements for letters prohibit the use of bundles for automation letters. Such a change in the makeup requirements of automation flats would have a large impact on the mail entry compositions (see page 9 of LR-H-134, Section 1), which are used to generate piece distribution costs. Specifically, the piece distribution costs would increase as a result of the decreased depth of sort. The decreased depth of sort results from requiring an entire tray (or half-tray) to be presorted to a particular level rather than only a bundle of mail presorted to that particular level. There currently is no information available that would allow for gauging the impact of eliminating automation flats bundles on the mail entry compositions.

The elimination of automation bundles in First-Class flats would also affect the costs generated by the bundle sorting and opening unit model presented in Section 6 of LR-H-134. These costs would decrease because there would be no automation bundles to sort. However, the opening unit costs would remain. There currently is no

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WITNESS DANIEL

information available that would allow for the separation of the bundle sorting costs  
from the opening unit costs.

**TW/USPS-T26-1.** Please refer to USPS-LR-H-134, Section 2, Page 8.

Footnotes 2 and 3 on that page claim that 75% of non-barcoded periodicals mail is machinable and only 25% is non-machinable, referring to USPS-LR-H-105.

a. Confirm that in your flow models for periodicals flats you assume that all flats are machinable on the FSM-1000 machines and that you, as well as witness Byrne in his MC95-1 testimony, use the term machinable with reference to the FSM 881 machines. If you do not confirm, please explain.

b. Please provide an exact reference to the part of USPS-LR-H-105 which gives the machinability percentage for non-barcoded periodicals. Please also provide a summary description of how you believe that estimate was obtained, and state whether it applies to letters, flats, or both.

c. Please confirm that flats (and letters) must be machinable in order to earn barcode discounts.

d. Assume that all machinable periodicals flats were converted to barcodes. Would you still assume 75% of the remaining, non-barcoded, flats to be machinable? Please explain your answer.

e. Please confirm that USPS witness Byrne, in his MC95-1 Periodicals mail flow models, assumed 25% of all flats to be non-machinable, rather than just 25% of non-barcoded flats. Please also confirm that Byrne's assumption was based on the estimate given at page 5 of LR-G-121 in R94-1, which referred to all flats, not only Periodicals flats. If you believe your assumption to be more accurate than that used by Byrne and LR-G-121, please explain fully.

f. Please refer to Exhibit USPS-2A in the direct testimony of USPS witness Pham (USPS-T-2) in MC91-1, the original flats automation case. Please confirm that Pham assumed only 52.94% machinability for all Periodicals (then second class) flats, versus 85.07% for First Class flats, and that the predicted machinability of Periodicals flats would increase to 56.97%, leaving 43.03% non-machinable, as a result of flats automation incentives. Please also state whether you believe that Periodicals flats today are significantly more machinable than Pham's FY91 estimate indicated and, if you do believe so, state all your reasons and provide all supporting evidence.

g. What would your model results be if you were to adopt: (1) witness Byrne's MC95-1 estimate that 25% of all flats are non-machinable; and (2) witness Pham's assumption that 43.03% of Periodicals flats are non-machinable? Please explain your answer.

**RESPONSE:**

a. Confirmed.

- b. Redirected to USPS.
- c. Redirected to witness Taufique.
- d. I do not assume that 75% of non-barcoded Periodicals flats are machinable, since this is an output from the Periodicals mail characteristics study. See the USPS response to TW/USPS-T26-1(b). If all machinable periodicals flats were converted to barcodes, I would not make any assumptions concerning the remaining non-barcoded flats. I would rely on a mail characteristics study, as I have in this analysis, to illustrate machinability levels.
- e. I confirm that witness Byrne assumed that 25% of Periodicals non-carrier route flats were non-machinable. His assumption was based on the figure displayed on page 4 of LR-G-121 from Docket No. R94-1. I can confirm that this figure speaks to the estimated portion of all flats mail classes that were then non-machinable. As stated in my response to part (d), the factor I use is not an assumption, but an output from a Periodicals regular rate study. Therefore, I believe the factor I use is more accurate than the factor witness Byrne used.
- f. I can confirm that Exhibit USPS-T-2A from Docket No. MC91-1 shows that 52.94% of all second class non-carrier route flats and 85.07% of all First-Class non-carrier route flats were machinable. I can also confirm that Exhibit USPS-T-2A shows that the 52.94% would grow to 56.97% in 1992. While the machinability trends of Periodicals flats have not been studied

over time, there have been several initiatives that would have helped foster the growth that was forecast in 1992. For instance, there have been Flat Sorter modifications that have helped to increase the types of flats that can be processed on the machine. Also, it is my understanding that the Postal Service has worked in the following three capacities to further the machinability of flats. First, the Postal Service has worked closely with many mailers on designing their flats. Second, Postal Service Mailpiece Design Analysts have utilized innovations like the flat mail machinability tester to help determine if a flat meets the machinability requirements. (See section C820.5.3 of the DMM for more information on this device). Third, the Postal Service has worked closely with the industry on certifying polywrap materials that can be processed on the FSM. As a result, flats that were once non-machinable and processed manually in the past can now be processed on the FSM.

- g. Model results incorporating the factors from past cases can be easily obtained using the materials provided in LR-H-134. Please note, results obtained using machinability factors from past cases will reflect Periodicals environments of the past, thus rendering the costs inappropriate as comparison points.



**TW/USPS-T26-2.**

- a. Under the current presort categories for regular rate Periodicals, i.e. levels A, B and C, what percentages of regular rate periodicals pieces had presort levels A, B and C respectively in FY96, according to the billing determinants?
- b. What proportion of the current level A in regular rate periodicals does the Postal Service believe would qualify for the 3-digit presort level if the proposed new presort categories were in effect today?
- c. Assuming mailers do not change their presortation practices, but that current level A and B mailers take advantage of the new 5-digit and 3-digit rates to the extent that they already qualify for them, what percentages of regular rate periodicals will have respectively basic, 3-digit, 5-digit and carrier route presortation after the proposed rates are implemented? Please document your answer.
- d. Assuming mailers do not change their presortation or barcoding practices, but that current level A and B mailers take advantage of the new 5-digit and 3-digit rates to the extent that they already qualify for them, what percentages of regular rate periodicals will be respectively basic barcoded, basic non-barcoded, 3-digit barcoded, 3-digit non-barcoded, 5-digit barcoded, 5-digit non-barcoded and carrier route presorted after the proposed rates are implemented? Please document your answer.
- e. Refer to page 4, Section 2 of LR-H-134, which calculates a CRA adjustment factor for regular rate Periodicals flats. Please replace the weighting factors used on that page with the percentages given in response to part (d) of this interrogatory. Please state what the CRA adjustment factor becomes in that case.

**RESPONSE:**

- a - d. Redirected to witness Taufique.
- e. Model results incorporating factors from part (d) can be easily obtained using the materials provided in LR-H-134. Please note, the results of part (d) reflect the "After Rates" environment. Any cost results obtained using the factors provided in part (d) will be inappropriate as comparison points because they will represent a mixing of before-rates costs and after-rates volumes.

**TW/USPS-T26-3.** The following table shows three sets of productivity rates (pieces per manhour) for mechanized and automated flat sorting using FSM 881 and FSM BCR. The first set contains the FY96 MODS productivity rates according to page 101 of LR-H-113. The second set, also from LR-H-113, contains the corresponding marginal productivity rates, obtained by dividing by the FSM variability factor of 0.9181. The third set is taken from page 13, section 2 in LR-H-134 and contains the marginal FSM 881 and FSM BCR productivity rates that you use in your model for regular rate Periodicals.

<b>FSM BCR &amp; FSM 881 Productivity Rates per MODS &amp; LR-H-134</b>			
Flat Sorting Scheme:	FY96 Productivities		LR-H-134
	MODS	Marginal Prod.	Sect. 2, p. 13
Outgoing Primary - 881	774	843	898
Outgoing Primary - BCR	1078	1174	1198
Outgoing Secondary - 881	885	964	956
Outgoing Secondary - BCR	955	1040	1198
State Distribution - 881	656	715	790
State Distribution - BCR	1003	1093	1198
SCF - 881	627	683	816
SCF - BCR	1201	1308	1198
Incoming Primary - 881	645	702	797
Incoming Primary - BCR	970	1057	1198
Incoming Secondary - 881	584	637	780
Incoming Secondary - BCR	1000	1090	1198

a. Please confirm that this table accurately represents both the FY96 productivity rates according to LR-H-113 and the rates that you have used in your model. If you do not confirm, please explain and provide the productivity rates you believe are the correct ones.

b. Footnote 2 on page 13, section 2 of LR-H-134 suggests that the FSM 881 rates you have used were obtained from LR-H-113. Please provide exact references to the part(s) of LR-H-113 that you got your FSM 881 rates from.

c. Please confirm that the FSM 881 rates you have used are higher at all sorting schemes except outgoing secondary than the FY96 rates indicated by MODS. If not confirmed, please explain.

d. Please confirm that the FSM BCR rates you have used are higher at all sorting schemes except SCF primary than the FY96 rates indicated by MODS. If not confirmed, please explain.

e. Given that FY96 is the base year used in this rate case, please explain why you have not used the FY96 actual productivity rates for FSM 881 and FSM BCR flat sorting. If applicable, please describe all steps the Postal

Service is taking to assure that the mostly higher productivity rates you assume will really be achieved in FY98, as well as all evidence available at this time that such steps are having the desired effects.

f. Are there any reasons to believe that the productivity rates achieved in FSM OCR sorting, when OCRs have been installed, will be any higher than the FSM BCR rates achieved in FY96? If yes, please describe all such reasons.

**RESPONSE:**

- a. Confirmed.
- b. The FSM-881 productivities are derived by summing the FY93 keying and scanning MODS data found on page 98 of LR-H-113.
- c. Confirmed.
- d. Confirmed.
- e. I have not used the FY96 MODS based FSM-881 and FSM-BCR productivities because MODS does not properly separate which activity the work hours should be allocated to as indicated in witness Moden's response to TW/USPS-T4-14, part (h). As a result, FY93 MODS data were used for the FSM-881 because it represented an environment that was predominantly keying, and the FSM-BCR productivity is indicated on page 30 of my testimony. While the Postal Service seeks to improve productivities as discussed by witness Moden in his testimony, USPS-T-4 at pages 10 through 14, the justification for the use of these productivities is provided here and in the materials cited above.

f. Redirected to witness Moden.

**TW/USPS-T26-4.**

a. Please confirm that your model for regular rate periodicals assumes a manual incoming secondary flat sorting productivity rate in facilities without FSMs of 817 pieces per manhour, or 944 pieces per manhour after applying the variability factor for manual flat sorting. If not confirmed, what do you assume?

b. Please confirm that according to page 101 of LR-H-113, the achieved productivity rate for mechanized incoming secondary flat sorting on FSM 881 machines was only 584 pieces per manhour (before applying the variability factor) in FY96. If not confirmed, please explain and provide the number you believe to be correct.

c. If non-FSM facilities achieve an incoming secondary flat sorting productivity of 817 pieces per manhour, including presumably both machinable and non-machinable flats, while FSM facilities only are able to sort 584 machinable flats per manhour, can one then not conclude that it would be more efficient for the Postal Service to drop FSM 881 incoming secondary sorting altogether, and sort all non-barcoded flats manually? If no, please explain fully.

d. Given the variability-weighted 1198 machinable flats per manhour that you assume will be achieved with FSM OCR incoming secondary sorting, the 40% reject rate for FSM OCR sorting, and the variability-weighted 944 machinable and non-machinable flats per manhour you assume can be achieved with manual incoming secondary sorting, will not use of the FSM OCRs for incoming secondary flat sorting simply have the effect of further increasing Periodicals mail processing costs? If no, please explain fully.

**RESPONSE:**

a. I can confirm that I use a productivity of 944 for manual incoming secondary sorts to nonautomation zones. I can further confirm that this productivity reflects the volume variability factor and a MODS based productivity of 817.

b. Confirmed, but I use the productivity of 696 from page 98 of LR-H-113 in my analyses for the reasons provided in my response to TW/USPS-T26-

3.

- c. The manual incoming secondary productivity of 817 pieces per manhour should not be viewed as a productivity attained at non-FSM facilities. Rather, this productivity represents the level attained when sorting flats to nonautomation zones. Nonautomation zones are defined in this context as 5-digit zones with fewer than ten delivery routes and zones at non-FSM facilities. The productivity level attained when sorting to nonautomation zones represents not only the fact that relatively few break-outs are made, as there are fewer than ten, but also that the mailstream is not as heavily nonmachinable. Therefore, it would be incorrect to conclude that, "...it would be more efficient for the Postal Service to drop FSM-881 incoming secondary sorting altogether, and sort all non-barcoded flats manually."
- d. The implication that the manual incoming secondary nonautomation productivity of 944 is a better trade-off than the FSM-OCR is incorrect. As discussed in part (c) above, the manual incoming secondary nonautomation productivity is associated for the most part with 5-digit zones that have fewer than ten delivery routes. The FSM-OCR is used for a much different set of zones. Were the mail not sorted on the FSM-OCR, it would have been sorted either manually, at a rate of 520 pieces per manhour (which is the marginal productivity consistent with the 450 average productivity shown at page 102 of LR-H-113) for manual incoming sorting to FSM zones, or at a rate of 780 pieces per manhour on

the FSM-881. Further, the models contained in LR-H-134 utilize an FSM-OCR reject rate of 40% only for first-pass sorts, while a reject rate of 30% is used for the remaining sorts. A more complete discussion of the savings stemming from the FSM-OCR is provided by witness Moden's response to TW/USPS-T4-21.

U. S. POSTAL SERVICE WITNESS PAUL G. SECKAR RESPONSE TO  
INTERROGATORIES OF TIME WARNER INC. REDIRECTED FROM  
WITNESS MODEN (USPS-T-4)

**TW/USPS-T4-3.** You state at page 11, line 21, of your testimony:

"I have been advised that there are a couple of peculiar outputs from the cost models that do not reflect the aforementioned value of barcoding to operations. In both Periodicals and Standard (A) Nonprofit flats, the cost model outputs do not appear to adequately reflect the inherent differences in processing efficiencies between barcoded and non-barcoded mail. This circumstance is enigmatic, and we are determined to identify the factors that may have led to these results."

d. How much are these enigmatic conditions adding to the annual costs of processing (1) Periodicals; and (2) Standard (A) Nonprofit flats?

**Response:**

The enigma pertains to the fact that the cost models show cost differences with a sign that is the opposite of what would be expected given the known processing efficiencies. As indicated in the quoted testimony, the factors leading to the enigma have yet to be identified. I know of no way to quantify unidentified factors.

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

3           [No response.]

4           CHAIRMAN GLEIMAN: There doesn't appear to be any.  
5 Before we move on to cross examination by the two parties  
6 that I mentioned previously, I did want to get on with that  
7 matter, cross the bridge once again.

8           Mr. Hollies, I know that you are aware of what has  
9 transpired several times during the course of the day. We  
10 have similar concerns about library references used by  
11 Witness Seckar and I am going to list certain library  
12 references that the witness has apparently relied on and for  
13 each of these I am going to need an answer to the following  
14 question, whether they were prepared by this witness or  
15 under his supervision; whether they were prepared under the  
16 supervision of or some other Postal Service witness -- by or  
17 under the supervision of another Postal Service witness;  
18 whether the Postal Service would object to their receipt  
19 into evidence; and if the Postal Service does not object to  
20 their receipt into evidence but were not prepared by the  
21 witness in this case, would the Postal Service be willing to  
22 provide a sponsor for these documents.

23           Now I am going to read an abbreviated list of the  
24 library references that Witness Seckar uses because a number  
25 of them that he cites have already been discussed



1 previously.

2 MR. HOLLIES: Mr. Chairman, you are verging on the  
3 inaudibility, to use a term from the past.

4 CHAIRMAN GLEIMAN: I apologize. Perhaps that will  
5 serve us all very well. As I said, I have a longer list  
6 than I am going to read because there are a number of  
7 library references that have already been dealt with earlier  
8 in the day and I don't think that we need to deal with them  
9 all over again.

10 The three library references that Witness Seckar  
11 has utilized and which have not been dealt with earlier are  
12 Library Reference Number 105, Library Reference Number 134  
13 and Library Reference Number 169.

14 Library Reference Number 105 deals with standard A  
15 regular mail, regular rate mail characteristics study. 134  
16 deals with materials in support of periodicals, mail process  
17 cost testimony and number 169 deals with <sup>FSM</sup>~~SPM~~-100 field  
18 tests.

19 So at some point if you could let me know whether  
20 this witness could sponsor those or whether you have  
21 objections and/or whether someone else could sponsor these  
22 three library references, it would be useful if we could do  
23 this before the witness leaves the room today if there is  
24 indeed one of these he is in a position to sponsor.

25 MR. HOLLIES: I would be happy to start right now.

1 With respect to Library Reference 134, it was in fact  
2 prepared by or under the direction of the witness. The  
3 Postal Service would have no objection to its receipt and  
4 this witness is prepared -- Mr. Seckar is prepared to adopt  
5 that as part of his testimony and we will attempt to move it  
6 into the record.

7 With respect to Library Reference 169, it was not  
8 prepared by the witness but he is prepared to adopt it as  
9 his testimony.

10 With respect to 105, we have no specific comment  
11 at this point; we are working on that.

12 CHAIRMAN GLEIMAN: With respect to the two library  
13 references that the witness is prepared to sponsor and/or  
14 adopt, that would be number 134 and 169, is it your opinion  
15 that they comply with our rules?

16 MR. HOLLIES: They do. 134 is -- needs to be  
17 looked at in tandem with the testimony as the two together  
18 provide the -- comply with the rules that are appropriate  
19 here.

20 169 is a study that was not performed in  
21 anticipation of litigation. It is an engineering study but  
22 it does report most of what's in the rules and is  
23 self-evident on its face as to its strength. You can read  
24 it, interpret it and understand why it was done for what  
25 purpose.

1           CHAIRMAN GLEIMAN: I am going to ask you to take  
2 the library references and approach the witness at this  
3 point, if you would. I'm going to note for the record that  
4 unless someone tells me otherwise, the objections that were  
5 made earlier today are also made with respect to these  
6 library references and the questions with respect to the  
7 extent to which they comply with our rules are also  
8 recognized, as applying as -- the questions that were raised  
9 earlier are recognized as having been raised with respect to  
10 these library references also and to the extent a party  
11 feels they have been disadvantaged by this action, I will  
12 entertain motions that the library references are  
13 inappropriate as record evidence and/or that they do not  
14 comply fully with our rules. And in the interest of  
15 proceeding -- Mr. Thomas?

16           MR. THOMAS: Question. Does that mean that I  
17 should not ask this witness questions about, for example,  
18 Library Reference 134, which he prepared?

19           CHAIRMAN GLEIMAN: You can if you want to, but I  
20 will assume for the sake of preserving your rights that  
21 these questions have been asked and perhaps not answered to  
22 your satisfaction in terms of compliance and if on further  
23 examination of these library references you feel that they  
24 do not comply fully, you wish to file a motion in regard to  
25 their noncompliance with our rule, I would accept that

1 motion and rule on it.

2 MR. THOMAS: All right.

3 CHAIRMAN GLEIMAN: Please understand that I am  
4 just trying to move things along here and I am trying  
5 perhaps not with the proper terminology, though, to preserve  
6 your rights and those of other parties who find what we have  
7 done here today objectionable on one grounds or another.

8 Do you want to ask him whether he is willing to  
9 adopt those or shall I?

10 MR. HOLLIES: I'd be happy to.

11 CHAIRMAN GLEIMAN: Mr. Hollies.

12 BY MR. HOLLIES:

13 Q Mr. Seckar, with respect to Library Reference 134,  
14 could you tell us how that was created?

15 A It was created by myself and persons under my  
16 authority.

17 Q For what purpose?

18 A To develop the costs presented in my testimony.

19 Q To the best of your knowledge and understanding,  
20 is it accurate and reliable?

21 A Yes, it is.

22 Q And do you, in fact, rely upon it?

23 A Yes, I do.

24 MR. HOLLIES: With that, I move Library Reference  
25 134 -- Library Reference H-134 into evidence.

1 CHAIRMAN GLEIMAN: I'll reserve acting on that  
2 motion until you complete your questioning of the witness  
3 with respect to H-169.

4 MR. HOLLIES: Okay.

5 BY MR. HOLLIES:

6 Q Would you identify library Reference H-169?  
7 What's its name?

8 A It is the FSM-1000 field test.

9 Q And upon -- how do you use that in your testimony?

10 A This library reference is the source of the  
11 productivity used in my analysis, contained in library  
12 reference 134.

13 Q Do you understand -- do you believe the  
14 information in that library reference to be accurate?

15 A I do.

16 Q And do you understand it to be reliable?

17 A Yes, I do.

18 Q And do you believe it to be reasonably relied upon  
19 by experts in your field?

20 A Yes, I do.

21 MR. HOLLIES: With that, I now move Library  
22 Reference H-169 into evidence.

23 CHAIRMAN GLEIMAN: Let me ask a question.

24 Do you adopt that library reference, which I  
25 understand was not your work, as your testimony? Because I

1 thought that was the language that was used earlier on by  
2 your counsel.

3 If I'm mistaken, counsel can speak up.

4 MR. HOLLIES: I believe the question was for the  
5 witness to answer.

6 CHAIRMAN GLEIMAN: Yes.

7 THE WITNESS: Yes.

8 CHAIRMAN GLEIMAN: That being the case, I am going  
9 to move the two Library References 134 and 169 into evidence  
10 and direct that they not be transcribed into the record at  
11 this point.

12 [Library References H-134 and H-169  
13 were received into evidence.]

14 MR. HOLLIES: Having a moment's forewarning, we  
15 did prepare two copies. Should we give both to the  
16 reporter?

17 CHAIRMAN GLEIMAN: I think one will -- the  
18 reporter says he loves paper. He wants two copies, if  
19 you've got them.

20 MR. THOMAS: As I understand it, these are  
21 admitted subject to the objection?

22 CHAIRMAN GLEIMAN: That's correct, Mr. Thomas.

23 MR. HOLLIES: Before we proceed, Mr. Chairman, I  
24 have one further procedural note. I received a call on  
25 Monday of this week from NNA inquiring as to the whereabouts

1 of Witness Seckar's responses to an interrogatory set which  
2 we understand was filed on September 17. Inasmuch as we had  
3 never heard or seen of that piece of paper until that phone  
4 call, the answers are not yet prepared. However, when we  
5 looked through the interrogatory set which was faxed to me  
6 immediately, we did determine that none of those questions  
7 were appropriately answerable by Witness Seckar. That is,  
8 they are all to be redirected. At this point, my  
9 understanding is that 1 and 2 -- questions 1 and 2 of that  
10 set have been redirected to Witness Taufique and there are  
11 still some -- we have not yet resolved where the remaining  
12 five questions will go. There are a couple of people  
13 eagerly competing for the opportunity to respond.

14 CHAIRMAN GLEIMAN: As I understood it, you said  
15 NNA.

16 MR. HOLLIES: That's correct.

17 CHAIRMAN GLEIMAN: And I assume that NNA's counsel  
18 is aware?

19 MR. HOLLIES: Yes. I immediately called counsel  
20 back and informed her that at least with respect to  
21 preparing for cross-examination of Mr. Seckar today, none of  
22 those were going to be things that would be appropriately  
23 asked about, at least to ask Mr. Seckar about and she was  
24 happy to have that information.

25 For the record, there was apparently another NNA

1 set filed the same day which suffered the same fate.  
2 However, quick as the Postal Service may be, I understand  
3 that those were processed before the witness took the stand  
4 and they are no longer an outstanding issue.

5 CHAIRMAN GLEIMAN: Thank you, I think, Mr.  
6 Hollies.

7 Mr. Thomas?

8 MR. THOMAS: September 17th seems to be a  
9 bewitched day.

10 We also -- the Alliance of Non-Profit Mailers  
11 filed some interrogatories that day. They were mislabeled,  
12 but a corrected set was -- question was submitted on  
13 September 22nd. We have not received a response to that as  
14 of this time.

15 MR. HOLLIES: Could I see that?

16 CHAIRMAN GLEIMAN: There was a lot of paper  
17 floating around here on the 17th and 18th and on subsequent  
18 days.

19 MR. THOMAS: It may be a question the witness  
20 could answer at this time. I have no idea.

21 MR. HOLLIES: I believe we have answered that.  
22 Let me see -- hang on just a second.

23 MR. THOMAS: Okay.

24 MR. HOLLIES: Well, my docket book has a copy  
25 indicating it was filed on October 1.



1           MR. THOMAS: I checked last night with David Levy  
2 and John Holde, who are also on the service list, and none  
3 of us had it. So, I don't know where it has gone, is the  
4 only thing I can say.

5           Perhaps after I finish my other questions, I could  
6 review this, and if I have any other questions regarding,  
7 I'd come back up after other -- the other --

8           CHAIRMAN GLEIMAN: In the interest of  
9 accommodating you -- and you've been very cooperative today  
10 in our effort to sort through difficult issues -- I think we  
11 would probably be agreeable, especially inasmuch as Mr.  
12 Hollies indicates that response was, indeed, filed.

13           I didn't catch the numbers. You said the date and  
14 you said --

15           MR. THOMAS: It's ANM/USPS-T-26-1. It was only  
16 one question.

17           MR. HOLLIES: Yes. I believe it was filed on the  
18 1st, which was a day on which we had several hundred  
19 pleadings filed.

20           Just as information, we were given to understand  
21 that ABP has now determined not to cross examine this  
22 witness. So, there may be a shorter break to take a look at  
23 it than he -- counsel was anticipating.

24           CHAIRMAN GLEIMAN: Well, we'll make sure that  
25 counsel has sufficient time if counsel desires to have that

1 time to look at it. I'm just scanning to see if I can find  
2 it anywhere -- yes, on my toy, which -- which I'm not  
3 totally comfortable with yet.

4 So, rather than take up time while I look, if  
5 you're prepared to begin cross examination, Mr. Thomas.

6 MR. THOMAS: I think your prior ruling has  
7 substantially shortened that.

8 I was going to ask him a series of questions about  
9 these library rulings in the areas of his testimony that  
10 depended on them, but I gather that that is not necessary at  
11 this time and those can be identified later, so that --

12 CHAIRMAN GLEIMAN: I -- I would not -- I'm -- I'm  
13 not sure that I would necessarily draw that conclusion.

14 MR. THOMAS: Oh?

15 CHAIRMAN GLEIMAN: If you -- if you had questions  
16 you want to ask about those library references -- because  
17 remember, some people have indicated to us -- some parties  
18 have indicated to us that they find the process  
19 objectionable and the substance of what we've done  
20 objectionable and they may file motions, and I don't know  
21 how I'm going to rule on those motions ultimately, so -- or  
22 how the commission might rule on them.

23 So, I think that, in order to flesh out the record  
24 to the extent you think appropriate and necessary, you ought  
25 to ask those questions.

1 MR. THOMAS: Including questions regarding the  
2 compliance with Rule 31(k)?

3 CHAIRMAN GLEIMAN: Well, I -- I think we can  
4 assume at this point that -- that there is compliance with  
5 that rule.

6 MR. THOMAS: But I have the right to point out  
7 later that I do not believe so --

8 CHAIRMAN GLEIMAN: That's -- that's correct.

9 MR. THOMAS: -- without asking the witness at this  
10 time?

11 CHAIRMAN GLEIMAN: That is correct, sir.

12 MR. THOMAS: All right. Let me try to revise this  
13 on -- on the fly here.

14 CROSS EXAMINATION

15 BY MR. THOMAS:

16 Q Library rule -- reference H-134, Dr. Seckar, is  
17 used widely throughout your testimony. Is that correct?  
18 It's in pacem. It's all over the place. I mean it's --  
19 it's referred to almost continuously.

20 A Well, it's important to understand exactly what is  
21 in library reference 134, and let me try to make that clear.  
22 That is, the entire analysis underlying the costs that I  
23 present in my testimony are contained in library reference  
24 134.

25 Q So, essentially, if library reference 134 were not

1 admissible, basically that would be the end of your  
2 testimony, because it relies on that -- the data in the  
3 analysis presented there.

4 MR. HOLLIES: Objection. That calls for a legal  
5 conclusion.

6 MR. THOMAS: Well, I'm asking what he -- what he  
7 is testifying to, and it's apparently the substance of -- of  
8 what's in the library reference.

9 CHAIRMAN GLEIMAN: It is still a legal conclusion  
10 that you're asking. If I understood -- could we have the  
11 question read back?

12 MR. THOMAS: Maybe I should rephrase it.

13 CHAIRMAN GLEIMAN: That would be fine, too.

14 BY MR. THOMAS:

15 Q Mr. Seckar, if -- can you identify the parts of  
16 your testimony that depend on the analysis and information  
17 in HR -- in LR H-134? Would you please do so?

18 A Well, as I just said, it is the analysis  
19 underlying all the costs presented in my testimony. So, all  
20 the costs presented in tables 3-1 through 3-5 originate in  
21 -- well, are derived in library reference 134.

22 Q What about Exhibits 26-A through 26-I? Do they  
23 not also depend on this?

24 A They are -- let me just take a moment to look at  
25 those, please. Exhibits 26-A through 26-I contain pages

1 that are identical to pages found in the library reference  
2 purely for summary purposes in the testimony.

3 Q All right. So, they depend on the data that's in  
4 134, those tables do.

5 A This may be a matter of semantics, but I would say  
6 that they are the same. They don't depend on it. Yet, they  
7 -- I mean they are the same things.

8 Q I understand --

9 A They're simply labeled differently.

10 Q I understand that they are the same, but the data  
11 that underlie these things are presented elsewhere in 134  
12 and summarized in these tables --

13 A Yes.

14 Q -- and -- and exhibits.

15 A Much as they are in the analogous pages in the  
16 appropriate sections of library reference 134.

17 Q All right.

18 A As they are the identical pages contained in  
19 library reference 134 sections.

20 Q Okay.

21 At the bottom -- I have to pursue this a little  
22 further.

23 At the bottom of page four of your testimony, the  
24 first -- the summary of results, you end with the statement,  
25 the source of the numbers that permit derivation of the

1 final results are provided in -- in LR H-134, so that the  
2 conclusion I draw from that is that what you are testifying  
3 to is what's in LR H-134.

4 A Well, I -- I am testifying to the costs presented  
5 in this testimony, which are derived in library reference  
6 134.

7 Q All right, let me move on.

8 Page 10, you make reference at one point, at the  
9 last line on page 10, line 24, you make reference to a  
10 refined adjustment. Is that refined adjustment described  
11 anyplace?

12 A Yes, it is.

13 Q Can you tell us where it appears, where it's  
14 described?

15 A Yes, I can. Just bear with me a moment.

16 Section 1-V part E, development of total CRA level  
17 mail processing costs discusses these adjustments.

18 Q Could you describe those adjustments?

19 A The adjustment -- the analysis that I do generates  
20 piece distribution and bundle sorting costs from a number of  
21 different models, if you will. And then those costs are  
22 adjusted to the CRA level through the use of benchmark  
23 costs.

24 Q What is the refinement? Is that what was done  
25 before? Or is that the refinement?

1           A     Well, are you asking about the adjustment or the  
2     refinement to the adjustment?

3           Q     The refinement to the adjustment.

4           A     The refinement is over and above the methodology  
5     that was used in Docket Numbers MC95-1 and MC96-2. And in  
6     those dockets, an adjustment was made to piece distribution  
7     and bundle sorting costs through the use of a benchmark  
8     model -- I'm sorry, a benchmark cost. The piece  
9     distribution and bundle sorting costs in those past dockets  
10    were adjusted in an entirely proportional fashion to the CRA  
11    level of benchmark costs. In my analysis, I make use of not  
12    only a proportional adjustment but a fixed adjustment so  
13    that represents a refinement over and above what was done in  
14    the last two -- in the dockets that I mentioned.

15          Q     If I understand what you just said, what was a  
16    unitary number before has now been divided into two parts in  
17    a sense?

18          A     Well, previously there was one adjustment factor,  
19    if you will, and there are now two.

20          Q     Can you describe the new one and how it was  
21    derived? Which I take it is the proportional one?

22          A     No. I guess if you were to call one of them new,  
23    which is perhaps appropriate, it would probably be the fixed  
24    one. The fixed adjustment would be considered new, if you  
25    will, as there was no fixed adjustment --

1 Q In the past?

2 A -- in the prior analyses.

3 Q Were there costs that were proportional before  
4 that are now in the fixed adjustment that came out of the  
5 proportional adjustment?

6 A I'm sorry, can you repeat that?

7 Q Are there costs that are in the fixed proportion  
8 now that used to be in the proportional adjustment factor?

9 A As I mentioned, the adjustment made previously was  
10 entirely proportional so all adjustments were proportional  
11 and now there are two adjustments, one of which is  
12 proportional and one of which is fixed.

13 Q But the element that was accounted for by what is  
14 now the fixed, was that in the proportional adjustment in  
15 the past?

16 A Yes.

17 Q Okay. On page 11 of your testimony you indicate  
18 that you have gotten costs from Library Reference 106, which  
19 was introduced under objection earlier today. Can you  
20 identify the portions of your testimony that depend on  
21 Library Reference 106?

22 A I'm sorry, you were referring to a page a moment  
23 ago, page 11 was that?

24 Q Page 11, line 17 and 18.

25 A These costs are inputs to this testimony and are



1 detailed in LR H-106.

2 Q Right.

3 A That would be referencing the benchmark costs.

4 Q So all of the benchmark costs in here depend on  
5 that library reference?

6 A Well, I think it's perhaps more appropriate to say  
7 that all the benchmark costs are developed within Library  
8 Reference 106.

9 Q Okay. And to that extent therefore Exhibits 26-A  
10 through 26-E depend on the data from that Library Reference  
11 106, H-106?

12 A I don't want to belabor this, but it's really  
13 important to note that the exhibits A through I are exact  
14 copies of a number of pages from Library Reference 134.  
15 Now, within that analysis, there is a page for instance in  
16 the First Class model, page 5, I believe it is.

17 Q 5 or 6, yes.

18 A 5 of 6?

19 Q I think it's 5 or 6.

20 A Well, I apologize for the confusion between the  
21 exhibits and library references. It's page 5 in Exhibit A,  
22 which happens to be page 6 in Library Reference 134. Those  
23 two pages display the benchmark costs for First Class flats.

24 Q And there are similar pages in these other  
25 exhibits.

1           A     And sections. That's correct.

2           Q     And without that --

3           MR. HOLLIES: Excuse me for interrupting, but just  
4 to clarify the record, there are multiple sections in this  
5 library reference, each of which has its own pagination. If  
6 we could refer to the respective sections, the record will  
7 be much clearer.

8           MR. THOMAS: Since I don't have 106, it's  
9 difficult for me to make reference to it.

10          THE WITNESS: No, I think his reference is to 134,  
11 Library Reference 134.

12          MR. THOMAS: I don't have that either at this  
13 point.

14          CHAIRMAN GLEIMAN: Let's try and get things under  
15 control.

16          Counsel, do you have yet another copy of the  
17 library reference?

18          MR. HOLLIES: No, I apparently misspoke and  
19 referred to the wrong library reference. We do have copies  
20 of library references here.

21          CHAIRMAN GLEIMAN: If you feel that it is  
22 important for the clarity of the record for counsel for the  
23 Alliance to have a copy of that so that he can refer to  
24 specific pages --

25          MR. THOMAS: The pages I'm referring to have -- I

1 believe all of them have at the top a reference to the fact  
2 that they're from Library Reference H-106, don't they?  
3 Which may help if you go through the different sections of  
4 134.

5 THE WITNESS: They do.

6 BY MR. THOMAS:

7 Q Okay. Let me try and make this clear. What I am  
8 referring to then is page 5 of USPS-T-26A, page 6 of  
9 USPS-T-26B, page 6 of USPS-T-26C, page 6 of USPS-T-26D, and  
10 page 6 of USPS-T-26E, from your direct testimony.

11 A Okay.

12 Q So then, I think we've established where that came  
13 from and identified that.

14 On page 12 of your testimony, in the paragraph  
15 that begins on line 4, there is a reference to various data,  
16 wage rates, productivity, and other inputs in a matter  
17 similarly essentially independent of mail volume.

18 Can you identify where the productivity and other  
19 inputs came from -- productivity data and other inputs?

20 A Well, yes, I can. Just a moment, please.

21 All of the inputs are discussed in Section F of  
22 Part 4 of my testimony.

23 Q What page is that?

24 A Well, that begins on page 25, and so cites to all  
25 of the inputs are contained in that section.

1 Q And that section in turn makes reference back  
2 again to Library Reference H-134, right?

3 A That's right.

4 Q That's where that came from.

5 A And what I was about to say is that the footnote  
6 at the bottom of page 25 notes that there are these pages  
7 called input information sections that are contained within  
8 subsections of Library Reference 134.

9 Q All righty. There is another similar footnote on  
10 the next page, right?

11 A Well, in addition, the text of Part F of Section 4  
12 contains the actual cite of the inputs.

13 Q The actual location?

14 A Well, for instance, on page 27 you see down on  
15 line 19 I introduce mail flow densities --

16 Q Yes.

17 A -- and that is the result of LR MCR-3 from Docket  
18 Number MC-95-1.

19 Q Right.

20 A Similarly, on page 28, operation specific  
21 acceptance rates for the FSMBCR and FSM881, purely for  
22 example, are documented in LR H-113, so there are references  
23 to the source of those inputs in that.

24 Q Okay. I understand that and I was going to ask  
25 that later, but I am going back to actually 13 on page 26,

1 which is similar to 12 on page -- footnote 12 on page 25 and  
2 footnote 13 on page 26 are both to Library Reference H-134.  
3 And what is your testimony here depends on H-134, correct?

4 A As I said earlier, the analysis used to generate  
5 the costs presented in this testimony are contained in  
6 Library Reference 134.

7 Q And those are costs that you are utilizing? That  
8 is what you are making clear there?

9 A I'm sorry, can you --

10 Q On pages 25 and 26, for example.

11 A No, pages 25 and 26 detail the inputs used in the  
12 models contained in Library Reference 134 that generate the  
13 costs that my testimony covers.

14 Q All right. This, I hope, is a simple matter.

15 On page 15 of your testimony, there is a reference  
16 to two -- to three tables which are designated IV-1 through  
17 IV-3. I was unable to locate that but there are tables A-1  
18 to A-3 at the end of your testimony. Are those the same  
19 tables under a different label?

20 A I'm sorry, did you say page 15?

21 Q Yes, I believe so.

22 A What line would that be?

23 Q Let me -- oh, in the footnote 6.

24 MR. HOLLIES: I believe that we have run into a  
25 version control problem here. There was a revised page

1 to -- a revised page 15 filed on August 14.

2 MR. THOMAS: That clarified that?

3 MR. HOLLIES: That does not have a footnote 6.

4 MR. THOMAS: Are tables A-1 through A-3 attached  
5 to the revised version? I believe they are USPS-T-26-J.  
6 Was that the --

7 CHAIRMAN GLEIMAN: Mr. Seckar, you --

8 MR. THOMAS: I am just trying to figure out what  
9 this table is at the end of the testimony.

10 CHAIRMAN GLEIMAN: Mr. Seckar, you ought to be  
11 able to respond. I assume you've got your revised revised  
12 revised testimony without the footnote number 6 in front of  
13 you?

14 THE WITNESS: I do.

15 And, as such, I am not necessarily seeing the  
16 footnote 6. I'm sorry, which tables are referenced in  
17 footnote 6 which do not appear in the latest revised --

18 BY MR. THOMAS:

19 Q Apparently, the footnote doesn't. But let me  
20 change the footnote, therefore, and ask simply is there any  
21 reference in your testimony to the three tables that appear  
22 in USPS-T-26-J? Perhaps that is a better way to put it.

23 MR. HOLLIES: I believe revised page 15 at the  
24 bottom makes an explicit reference.

25 THE WITNESS: Thank you.

1 BY MR. THOMAS:

2 Q But not in a footnote?

3 A No, it's lines 21 through 22, a summary of  
4 allowable presort compositions is provided in Exhibit  
5 USPS-T-26<sup>2</sup>J.

6 Q All right, I think that clarifies the point I was  
7 after.

8 On page 20, you refer in line 15 and 16 to the use  
9 of productivity piggyback factors in premium pay factors.  
10 What is the source, ultimately, of that data when used?

11 A If I could again ask you to --

12 Q Line 15 and 16, there is a reference to  
13 productivity?

14 A No, I understand. If I could again ask you to  
15 refer to part F of Section 4 of my testimony which is page  
16 29, it will be most pertinent.

17 Page 29 discusses the mail processing  
18 productivities that I rely upon as well as their sources.

19 Q So the productivity piggyback factor and premium  
20 pay factors are described there in Section F on page 29?

21 A No, the piggyback factor and premium pay factor is  
22 discussed on page 30 under Other Input Data.

23 Q All righty. On page 24 of your testimony, after  
24 reading the sentence on the -- that begins toward the end of  
25 line 11 and goes through 13, I would ask you is the CRA

1 level mail processing cost data that you are testifying to  
2 dependent on or derived from Library Reference H-106? Is  
3 that where that comes from?

4 A The sentence beginning at the end of line 11 is  
5 discussing the benchmark costs that we talked about a bit  
6 earlier that I make use of in my analyses and the source of  
7 those benchmark costs is Library Reference 106.

8 Q Okay. Is that also the source in this case of the  
9 CRA data?

10 A The benchmark costs are the CRA data.

11 Q All right. That's what I was after.

12 A That has actually been discussed in an  
13 interrogatory from <sup>ASP</sup>~~ADP~~, I believe it was question 1,  
14 although I could double check that, that asked for a  
15 definition of benchmark costs and then there was a  
16 subsequent question about CRA level costs, that term that I  
17 use, both of which refer to the benchmark costs.

18 Q Right.

19 MR. THOMAS: Right. The other questions I had,  
20 Mr. Chairman, are really of the same ilk as 134 and related  
21 to the qualifications for various library references under  
22 the rules, and I will not ask those, but deal with them  
23 later, as we've indicated would be best.

24 CHAIRMAN GLEIMAN: Would you like a moment to look  
25 over that one interrogatory? According to what I was --



1 MR. THOMAS: Yes.

2 CHAIRMAN GLEIMAN: Able to pop up on the screen, a  
3 response was filed on the 1st of the month, the 1st of  
4 October.

5 MR. THOMAS: If I could just take a minute to read  
6 this.

7 CHAIRMAN GLEIMAN: Sure.

8 [Discussion off the record.]

9 BY MR. THOMAS:

10 Q Having now looked at this response, the question  
11 that comes to mind is what is the source of the data that  
12 gives rise to these statements that about 83 percent of  
13 nonprofit mail is entering at the mixed ADC level versus 8  
14 percent I believe for regular rate. Where would we find the  
15 data that supports that?

16 A Just a moment. Let me look at that for you.

17 Q That statement.

18 MR. HOLLIES: Mr. Seckar, the first interrogatory  
19 in the book is the one I think you're looking for.

20 THE WITNESS: Correct. Thank you.

21 Well, actually I believe that the question on the  
22 table was the data underlying the 83 percent <sup>versus</sup> ~~vice~~ the 8  
23 percent. Is that not true?

24 BY MR. THOMAS:

25 Q Yes, where did either of those, the data that

1 would underlie either the 8-percent figure or the 83-percent  
2 figure come from?

3 A Okay. Fair enough. The references in my response  
4 to ANM USPS-T-26 are to Library Reference 134, which  
5 generate the underlying cost models that document these unit  
6 costs as inquired by Part B, which is perhaps a bit  
7 different than the source of the data that lead to the 83  
8 percent versus the 8 percent. Those two percentages in fact  
9 come from standard mail characteristics data studies. And  
10 specifically we're talking about Library Reference 195 for  
11 standard nonprofit, and we are talking about I believe  
12 Library Reference 105 for standard A regular.

13 MR. THOMAS: Okay. Now it's my understanding, Mr.  
14 Chairman, that 195 is not in evidence, right, Library  
15 Reference H-195?

16 CHAIRMAN GLEIMAN: I don't recall that being one  
17 of the numbers that we bandied about earlier today, but  
18 unless I go back through some notes and take some time on  
19 that, or go over the transcript, I can't be sure that it is  
20 not in evidence.

21 MR. THOMAS: All righty. That's all I have.

22 CHAIRMAN GLEIMAN: Is there any followup cross  
23 examination?

24 Questions from the bench?

25 That brings us to redirect. Two minutes? Okay.

1 [Recess.]

2 [Whereupon, at 6:00 p.m., the hearing was  
3 continued into evening session.]

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## EVENING SESSION

[6:03 p.m.]

MR. HOLLIES: There will be no redirect.

CHAIRMAN GLEIMAN: There may well be redirect, Mr. Hollies, because as it turns out, there is, indeed, a question from the bench.

MR. HOLLIES: I'm sorry?.

CHAIRMAN GLEIMAN: So, we'll let Commissioner LeBlanc ask his question, and then, if you feel that there is a need for redirect or anybody feels there is a need for followup before we get to that, we'll accommodate everyone, and we apologize.

COMMISSIONER LeBLANC: I apologize, Mr. Hollies.

I apologize, Mr. Seckar. I was trying to be nice. I was going to just let you go today, but I guess, you know --

As I understand the costs you refer to as constant mail entry costs, you adopt the mail markup of non-bar-coded mail and estimate the savings that result if that mail shifts to being bar-coded. Is that correct or basically correct?

Want me to say that again for you?

THE WITNESS: If you'd like.

COMMISSIONER LeBLANC: Well, I mean if you've got -- do you have it?

1 THE WITNESS: I think I do.

2 COMMISSIONER LeBLANC: Okay.

3 THE WITNESS: I --

4 COMMISSIONER LeBLANC: Is that basically correct,  
5 then?

6 THE WITNESS: In part. In part. I do develop a  
7 constant mail makeup scenario of costs which is different  
8 from what I call the actual mail makeup scenario of costs,  
9 but I seem to recall the words "differences" or "savings,"  
10 perhaps, in your question, and I don't necessarily develop  
11 differences or savings but costs that are used by pricing in  
12 their analyses, which probably lead to differences and  
13 savings.

14 COMMISSIONER LeBLANC: Let me try to reword it,  
15 then, maybe, or change up just a minute, then.

16 Could you explain, then, why you did not adopt the  
17 mail markup of bar-coded mail and estimate the savings that  
18 result of that mail shifts -- of being non-bar-coded, if you  
19 -- not -- do you follow that?

20 THE WITNESS: I do.

21 COMMISSIONER LeBLANC: Okay.

22 THE WITNESS: Perhaps you could expand up what you  
23 mean by "adopt."

24 COMMISSIONER LeBLANC: Well, in other words, bring  
25 into your testimony or bring into your savings.

1 THE WITNESS: Well, the generation of the constant  
2 mail makeup costs arose in large part from the results  
3 displayed in the actual mail makeup costs scenario, and --

4 COMMISSIONER LeBLANC: But you didn't use them,  
5 though.

6 THE WITNESS: Excuse me?

7 COMMISSIONER LeBLANC: Go ahead. I'm sorry. I  
8 interrupted you. Go ahead and finish.

9 THE WITNESS: I was simply going to say that I  
10 develop costs under two scenarios and present them both in  
11 my analysis and provide them both to the pricing witness for  
12 him to -- for them, as there are more than one -- to make  
13 use in their analyses as they see fit.

14 COMMISSIONER LeBLANC: So, you did not adopt some  
15 kind of an average markup, if you will, in order to develop  
16 your cost estimates.

17 THE WITNESS: I'm -- I'm --

18 COMMISSIONER LeBLANC: You just took them both --

19 THE WITNESS: I don't --

20 COMMISSIONER LeBLANC: -- rolled them forward, in  
21 effect, and gave them to the next witness.

22 THE WITNESS: I'm not clear what you mean by  
23 "markup."

24 COMMISSIONER LeBLANC: In other words, did you  
25 come up with an average of those two at all or you just --

1 THE WITNESS: Oh. I'm sorry.

2 No, there are -- there are two scenarios -- an  
3 actual mail makeup set of costs, which reflect the mail  
4 makeup as it actually exists in the data, etcetera, and then  
5 there is a constant mail makeup, which is a bit  
6 hypothesized, if you will, as discussed in the testimony.  
7 There is no merging of the two or averaging.

8 COMMISSIONER LeBLANC: Okay. Thank you very much.  
9 Thank you, Mr. Chairman.

10 CHAIRMAN GLEIMAN: Is there any followup?

11 [No response.]

12 CHAIRMAN GLEIMAN: Redirect?

13 MR. HOLLIES: I guess I'd like to take a brief  
14 moment. There will be at least one question.

15 CHAIRMAN GLEIMAN: Well, we have got one more  
16 witness to go, and we have been at it for quite a while.

17 I would propose to -- to give you until 20 after  
18 the hour. That will give everybody a chance to stretch  
19 their legs, take care of their cars, or whatever other  
20 business they feel they need to take care of, go splash  
21 water on their face or whatever, which is what I will  
22 probably do, and -- and then we'll come back at 20 minutes  
23 after the hour, we'll pick up with the next witness, and  
24 we'll go straight through, barrelling ahead, no matter how  
25 long it takes.

1 Is that agreeable? Does anybody have a problem  
2 with that?

3 [No response.]

4 CHAIRMAN GLEIMAN: Well, then let's head for  
5 wherever for the next 12 minutes.

6 [Recess.]

7 CHAIRMAN GLEIMAN: Mr. Hollies.

8 MR. HOLLIES: I have one matter to follow up on.

9 REDIRECT EXAMINATION

10 BY MR. HOLLIES:

11 Q In your exchange with Commissioner LeBlanc, there  
12 was some discussion of markups. Does your testimony address  
13 markups?

14 A No, it doesn't.

15 Q What does it address?

16 A Makeups.

17 Q And in responding to those questions, were you  
18 using the semantic notion -- which semantic notion were you  
19 using, markups or makeups?

20 A Makeups.

21 Q So you answered those questions as if they had  
22 used the word "makeup"?

23 A That's correct.

24 MR. HOLLIES: That's all I have. Thank you.

25 CHAIRMAN GLEIMAN: Thank you, counsel.



1           Thank you, Mr. Seckar. We appreciate your  
2 appearance here today and your contributions to the record  
3 and, if there is nothing further, you're excused.

4           [Witness excused.]

5           CHAIRMAN GLEIMAN: I don't know, Mr. Cooper, are  
6 you next in the dock?

7           MR. COOPER: I am next.

8           CHAIRMAN GLEIMAN: Well, let's get everybody  
9 moving around here.

10           Mr. Cooper, could you please identify our final  
11 witness of the day?

12           MR. COOPER: Postal Service calls Thomas M.  
13 Sharkey to the stand.  
14 Whereupon,

15                       THOMAS M. SHARKEY,  
16 a witness, was called for examination by counsel for the  
17 United States Postal Service and, having been first duly  
18 sworn, was examined and testified as follows:

19           CHAIRMAN GLEIMAN: Mr. Cooper, take it away.

20                       DIRECT EXAMINATION

21           BY MR. COOPER:

22           Q     Mr. Sharkey, I am handing you two copies of a  
23 document entitled Direct Testimony of Thomas M. Sharkey on  
24 behalf of the United States Postal Service, designated as  
25 USPS-T-33. Are you familiar with this document?

1 A Yes, I am.

2 Q Was it prepared by you or under your direct  
3 supervision?

4 A Yes, it was.

5 Q I understand that these copies reflect errata  
6 filed on August 20 and October 6; is that correct?

7 A Yes, they do reflect those changes.

8 Q Are there any other changes that needed to be made  
9 at this time?

10 A No.

11 Q I believe that there was a citation that needed  
12 correction?

13 A Oh, yes.

14 Q Exhibit Q?

15 A Yes. In USPS-33-Q, the citation is incorrect.

16 Q Footnote 1?

17 A Footnote 1 should read USPS-T-5, Workpaper B, as  
18 in boy, Worksheet 14.0.7. And then footnote 2, there is a  
19 more -- specific footnotes, USPS-T-15, Exhibit 15-E, as in  
20 Edward, section 14.1, page 43.

21 Q Have you made these notations on the copies before  
22 you?

23 A Yes, I have.

24 MR. COOPER: With that, with those corrections, I  
25 ask that this testimony be admitted into -- oh, wait a

1 minute. I forgot to ask one question.

2 BY MR. COOPER:

3 Q If you were to give testimony orally today, is  
4 this the testimony you would give?

5 A Yes, it is.

6 MR. COOPER: With that, I ask that these documents  
7 be admitted into evidence and I will hand them to the  
8 reporter.

9 CHAIRMAN GLEIMAN: Are there any objections?

10 [No response.]

11 CHAIRMAN GLEIMAN: Hearing none, Mr. Sharkey's  
12 testimony and exhibits are received into evidence and I  
13 direct that they be accepted into evidence. As is our  
14 practice, they will not be transcribed.

15 [Direct Testimony and Exhibits of  
16 Thomas M. Sharkey, Exhibit No.  
17 USPS-T-33 were marked for  
18 identification and received into  
19 evidence.]

20 CHAIRMAN GLEIMAN: Mr. Sharkey, have you had an  
21 opportunity to examine the packet of designated written  
22 cross-examination that was made available to you earlier  
23 today?

24 THE WITNESS: Yes, I did.

25 CHAIRMAN GLEIMAN: If these questions were asked

1 of you today, would your answers be the same as those you  
2 previously provided in writing?

3 THE WITNESS: Yes, they would. But I did make one  
4 pencil correction to NDMS number 5.

5 CHAIRMAN GLEIMAN: Mr. Olson must know about this  
6 because he is not snapping into action here.

7 THE WITNESS: The last line where it says 10 cents  
8 should say \$1.10 differential. And Mr. Olson pointed out  
9 that in part A we have incorrectly his group identified as  
10 MDMS, it should be N as in Nancy DMS. That's part number 2.

11 CHAIRMAN GLEIMAN: I understand the Mystic people  
12 were happy with the way that you had it listed but we will  
13 defer to Mr. Olson.

14 Have those changes -- that change has been made or  
15 those changes have been made in the package? That being the  
16 case, if you would hand two corrected copies of the  
17 designated written cross-examination of the witness to the  
18 reporter, I will direct that they be accepted into evidence  
19 and transcribed into the record at this point.

20 [Designation of Written  
21 Cross-Examination of Thomas M.  
22 Sharkey was received into evidence  
23 and transcribed into the record.]

24  
25

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

1924

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS THOMAS M. SHARKEY  
(USPS-T-33)

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

<u>Party</u>	<u>Answer To Interrogatories</u>
Nashua Photo Inc., District Photo Inc., Mystic Color Lab and Seattle Filmworks, Inc.	APMU\USPS: Interrogatories T33-1-8, 10-12. NDMS\USPS: Interrogatories T33-1-18, 23, 25a- b, 25d, 26-27, 30, 32-34. UPS\USPS: Interrogatories T33-1a-b, 11-14, 20, 28.
Newspaper Association of America	APMU\USPS: Interrogatory T33-6. NDMS\USPS: Interrogatories T33-4, 5, 10(a).
Office of the Consumer Advocate	APMU\USPS: Interrogatories T33-1-8, 10-12. DBP\USPS: Witness Sharkey's response to interrogatories redirected from the Postal Service, i.e., DBP\USPS- T8i., q., s., t., v., and w., 39a-j., and r., 53, and 56. NDMS\USPS: NDMS interrogatories T33-1-9, 10a-b, 11 (as supplemented on 9\24\97), 12(as revised on 9\19\97), 13-18, 23(as revised on 9\18\97), 25a-b and d, and 26-27, 30 and 32- 34. UPS\USPS: USP interrogatories T33-1a-b, 3- 34, 37, 39-43, 44a, 45a-d, and i-l, 46a, 47a-d, and i-l, 51, 52a and b, and 53-56; and witness Sharkey's response to an interrogatory redirected from witness Patelunas, i.e., UPS\USPS-T15-8a, b, d-e.

United Parcel Service

UPS\USPS: Interrogatories T33-1(a-b), 3-21, 29, 31, 34, 37, 39-41, 43, 44(a), 45(a-d) and (i-l), 46(a), 47(a-d), and (i-l), 51, 52(a-b), 53-56, and Mr . Sharkey's response to interrogatories UPS\USPS-T15-8a-b and d-e, redirected from witness Patelunas.

NDMS\USPS: Interrogatories T33-7-8, 18.

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw".

Margaret P. Crenshaw  
Secretary

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-1.** Please refer to the service commitments submitted in compliance with Commission Rule 54(n).

- a. Please explain the difference between service standards and service commitments.
- b. Are the service commitments for Priority Mail identical to the service standards for Priority Mail? If not, please explain the difference.
- c. Are the service commitments for First-Class Mail identical to the service standards for First-Class Mail? If not, please explain the difference.
- d. Are the service standards for Priority Mail identical to the service standards for First-Class Mail? If not, please explain the difference.
- e. Are the service commitments for Priority Mail identical to the service commitments for First-Class Mail? If not, please explain the difference.
- f. What are (i) the Priority Mail service commitments and (ii) the Priority Mail service standards from New York City to Los Angeles?
- g. To what extent does the area receiving a 2-day Priority Mail service commitment differ from the area receiving a 2-day service commitment for First-Class Mail?

**Response:**

- a. It is my understanding that these two terms in common usage are interchangeable. One distinction that may be made by some is that service standards relate to the targets or goals that have been established by the USPS. Service commitments are either overnight, two-day or three-day for First-Class Mail depending on the distance that the mail piece will travel from entry point to the delivery point. Throughout the following responses, however, the terms "service standards" and "service commitments" will be used interchangeably.
- b. Yes. See response to a.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

- c. Yes. See response to (a.).
- d. No. See Witness O'Hara response to APMU/USPS-T3-2.
- e. No. See Witness O'Hara response to APMU/USPS-T3-2.
- f. (i) The Priority Mail service commitment from New York City to Los Angeles is 2 days.  
(ii) See answer to T33-1, d.
- g. There are 155,515 two-day First-Class pairs and 749,886 Priority Mail two-day pairs  
excluding APO/FPO and unique IRS origins.



Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-2.** In your response to UPS/USPS-T33-1, you refer to the development and activation of a two-day Priority Mail Network in selected northeastern states.

- a. How will this network affect Priority Mail service commitments/standards in the Test Year?
- b. Does the Postal Service expect the entire continental United States eventually to be served by such networks?
- c. Does the Postal Service expect the entire continental United States eventually to be covered by a single such network, with a national two-day service commitment/standard and a target of 96.5 percent two-day delivery?

**Response:**

- a. See Witness O'Hara Response to APMU/USPS-T30-4.
- b. It is not known at this time whether the PMPC network will cover the entire continental United States.
- c. No.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-3.**

- a. Will the Postal Service or the network operator contract with an independent third party to provide external performance measurement system data (*i.e.*, end-to-end or deposit-to-delivery performance) to the Postal Service to demonstrate its success in providing 96.5 percent on-time two-day service for all destinations within the contract's service area? If not, how does the Postal Service plan to determine whether the contractor has met the 96.5 percent target for two-day delivery?
- b. If external performance data will be collected, will the Postal Service publish or routinely make such data available to the public?

**Response:**

- a. The two-day goal of 96.5 % is from USPS tender of Priority Mail to the Contractor to the Contractor delivery back to the USPS. Conformance to quality indicators will be monitored through a USPS-approved sampling system.
- b. Not applicable.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-4.** Witness Treworgy (USPS-T22) in his testimony, on page 3, footnote 2, stated that the current "external Priority Mail service performance measurement system provides information on only 301 3-digit ZIP Codes."

- a. Please explain when this system began and what it measures. Does it measure actual time to deliver to the addressee?
- b. For each quarter of PFY 96 and PFY 97, please provide all available service performance data with respect to this external service performance measurement system.
  - (i) Please identify the extent to which service standards/commitments were met or exceeded.
  - (ii) Please identify the service performance of Priority Mail with overnight service standards/commitments.
  - (iii) Please identify the service performance of Priority Mail with two-day service standards/commitments.
  - (iv) Please identify the service performance of Priority Mail with three-day service standards/commitments.
- c. If the areas covered by this system have changed during the time period in question, please publish the data in columns so that the performance for identical areas are provided for each quarter.
- d. What level of statistical reliability does the Postal Service accord to these data? Please compare and contrast their reliability to the results of the external First Class (EXFC) service performance measurement system.
- e. How does this performance measurement system track when a mailpiece was received and when it was delivered?
- f. When does the Postal Service expect to provide such information for all Priority Mail?
- g. How many 3-digit zip codes are included in the EXFC service performance measurement system?

**Response:**

- a. An external measurement of Priority Mail service performance was implemented on September 13, 1997 at the beginning of Postal Quarter I, FY98. It measures time to deliver to the addressee. Witness Treworgy was referring to a developmental pilot

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

which was the forerunner of the actual system implemented. The description of the development pilot as a "system" was in error.

- b. (i) In FY 1996 and FY 1997, ODIS was used to indicate operational performance, but not indicate service. Therefore, there exist no data which measure delivery performance to standard for Priority Mail.  
(ii) See answer for T33-4, b(i).  
(iii) See answer for T33-4, b(i).  
(iv) See answer for T33-4, b(i).
- c. See answer for T33-4, b(i).
- d. The new Priority Mail measurement system is reliable at an average of 95% + or - 3 or 4 points at the Performance Cluster level. The EXFC system is reliable at an average of 95% + or - 4 points at the city level.
- e. Both EXFC and the new priority Mail measurement system operate in the same way. An independent contractor hires individuals who "seed " (system parlance, meaning to drop mail ) in collection boxes or business chutes in buildings. The pieces are delivered to independent reporters unknown to the Postal Service. Results are telephoned to the contractor who calculates the results and provides them to the Postal Service.
- f. No public disclosure of Priority Mail results is expected at this time.
- g. 302.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-5.**

- a. For each quarter of PFY 96 and PFY 97, please provide all pertinent information (based on ODIS time-in-transit data or any other service performance measurement system used by the Postal Service (excepting that requested in APMU/USPS-T33-4) indicative of delivery service provided to **Priority Mail**. Please provide all available details concerning the number of pieces receiving delivery in two days, three days, four days, etc.
- b. What level of statistical reliability does the Postal Service accord to the ODIS data and other data that either *measure or indicate the service performance of Priority Mail*?

**Response:**

- a. There is no reliable data to measure the actual delivery service provided to Priority Mail.
- b. Not applicable.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-6.**

- a. For each quarter in PFY 96 and PFY 97, please provide copies of Service Performance Quarterly Reports for **First-Class Mail** based on the EXFC service performance measurement system.
- b. Please provide data on First-Class Mail service performance which corresponds to the data provided regarding Priority Mail service performance in response to DMA/USPS-T4-31(b).

**Response:**

- a. See Witness Moden response to DMA/USPS-T4-31b, and below:

EXFC National Scores

PQ1-FY96   PQ2-FY96

Overnight	87.76	87.31
Two-day	79.49	75.54
Three-day	82.24	70.93

PQ4-FY97 results have not been released.

- b. There is no existing First-Class Mail service performance results that corresponds to Priority Mail results for two reasons. No reliable Priority Mail results exist since the system has just recently been implemented and EXFC measures at the city level while Priority Mail is measured at the Performance Cluster level.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-7.** Does the Postal Service continue to measure time-in-transit for **First-Class Mail** based on ODIS data? If so, please provide the ODIS raw data and percentages for the same time period covered by the EXFC data provided in response to APMU/USPS-T33-6.

**Response:**

In ODIS, estimates of time-in-transit are still generated. The estimates are generated and published quarterly in the Postal Service's ODIS Quarterly Statistics Reports, which are on file at the Postal Rate Commission, as well as, the Postal Service's Library at L'Enfant Plaza.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-8.**

For each quarter in PFY 96 and PFY 97, please provide copies of all analyses, statistical calculations, estimates, measures, etc. that the Postal Service prepared in the normal course of business that show the average number of days late, the distribution of "days late" (vis-a-vis the service standard), standard deviation in delivery times, consistency of delivery, analysis of the best and worst cities, etc., for **First-Class Mail**.

**Response:**

See response to APMU/USPS-T33-6 (a).



Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-10.** Please describe each statistical measure used by the Postal Service to estimate the consistency with which any class of mail is delivered, identifying the source of the data used to quantify the estimate, listing the class of mail to which the measure(s) has (have) been applied, and providing all actual estimates for Base Year 1996.

**Response:**

See response to APMU/USPS-T33-6 and 7.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-11.** Does the Postal Service have any data (*e.g.*, ODIS data, external measurement performance data) that measure the service performance of **First-Class Mail**, **Priority Mail** and/or **Express Mail** on a comparable basis? If so, please describe the extent and types of performance data that are common to all, and provide any service performance data common to all three products not otherwise provided in response to APMU's other interrogatories herein.

Response:

There is no comparable external performance measurement.

Response of U.S. Postal Service Witness Sharkey to  
Interrogatories of the Association of Priority Mail Users

**APMU/USPS-T33-12.** Does the Postal Service have any statistical basis demonstrating that during Base Year 1996 **Priority Mail**, on average, received faster delivery, or better service in any other way (*e.g.*, more consistent delivery) than **First-Class Mail**? If so, please provide copies of all data and/or studies that support such a position.

**Response:**

See answer for T33-4, b(i).

DBP/USPS-8 [i] Enumerate and explain the level of service that I would receive for each of the two articles referenced in subpart g if they are destined to an overnight delivery area. [q] Is there a separate mail processing system for Priority Mail [as opposed to that used for the other two subclasses]? [s] Since Priority Mail is being advertised as having a two- to three-day delivery standard, is there any Priority Mail which is designed to be delivered overnight? [u] If not, why would a mailer utilize Priority Mail for an article weighing 11 ounces or less which was destined for the overnight First-Class Mail delivery area? [v] Are there any plans to improve the delivery standards for Priority Mail? [w] If so, explain and elaborate.

**Response:**

- i. The goal of the operating plan is to provide overnight delivery to each article.
- q. Yes.
- s. Yes.
- t. There may be a number of reasons why a mailer might send such a piece Priority Mail. A mailer might decide to send an article weighing less than 11 ounces or less to use a flat rate envelope, delivery confirmation, pickup service, the image of Priority Mail to impress the addressee or to avoid having to weigh and rate pieces separately between the two categories, particularly if 11 ounce pieces are a small portion of the total mailing.
- v. I am not aware of any current plans to redefine Priority Mail service standards.
- w. Not applicable.

DBP/USPS-39 Refer to your response to UPS/USPS-T33-11[a] and explain [a] the logic behind and the cost data which requires that the jump from 29 to 30 pounds in the Local/Zones 1-3 rate is only 25 cents while all other one pound changes between 10 and 70 pounds are 40 to 50 cents. [b] Same as subpart a, except Zone 5 and 20-21 pounds is 5 cents while 7 to 70 pounds is 75-85 cents. [c] Same as subpart a, except Zone 7 and 9-10 pounds is 90 cents while 8 to 70 pounds is \$1.00-\$1.05. [d] Refer to your response to UPS/USPS-T33-11[b] and explain the logic behind and the cost data which requires that the jump from 6 to 7 pounds for Same Day Airport is only \$1.00 while all other one pound changes between 6 and 31 pounds are \$1.25. [e] Same as subpart d except for Custom Designed where there are numerous unequal cells, including specifically 1-2, 4-5, 5-6, 16-17, 20-21, 21-22, 22-23, 28-29, 29-30, and 50-51 pounds which do not follow in a uniform manner. [f] Same as subpart d except for PO to PO and 5-6, 13-14, 19-20, 20-21, 40-41, 41-42, and 46-47 pounds. [g] Same as subpart d except for PO to Addressee and 9-10, 14-15, 19-20, 39-40, and 46-47 pounds. [h] Explain why the variations between the four types of Express Mail do not all occur at the same weight changes. [i] Wouldn't the rates for Priority Mail and Express Mail be clearer and more understandable if there was a uniform variation for each of the one pound changes in weights [other than the need to uniformly transition in the Priority Mail from the unzoned two to five pound rates and the zoned rates above five pounds]? [j] If not, explain why not. [r] Same as subparts p and q except with respect to adjusting the Priority Mail rates.

Response:

- a. The 25 cents transitions the markup to 120 percent.
- b. See response to a.
- c. See response to a.
- d. The \$1.00 jump is to keep the markup below 130 percent.
- e. The unequal additional pound charges are necessary to keep rate increases below 11 percent and, in some cases to lower rates, in order to keep markups a reasonable levels.
- f. See response to part e.
- g. See response to e.
- h. The variations do not all occur at the same rate changes because the adjustments required to keep the rate increases below 11 percent and the markups within reasonable limits did not come into play at the same weight steps for each service.
- i. A uniform variation in cost for each of the one pound changes in weight would be a requirement if the rates were administered on a formula basis. This is not the case

for Priority Mail. I agree that a uniform variation in cost for each of the one pound changes in weight would be clearer and more understandable but given the desire to moderate rate increases, keep markups within reason and the need to maintain a progression of rates across the Express Mail service offerings a uniform variation design is unattainable.

j. See i.

r. No.

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.

**Response:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

DBP/USPS-56 [a] Confirm, or explain if you are unable to do so, that the Postal Service instituted on August 16, 1996 mailing restrictions for domestic packages weighing 16 ounces or more and restricting deposit into collection receptacles. [b] Confirm, or explain if you are unable to do so, that these regulations were promulgated to enhance airline security measures. [c] Confirm, or explain if you are unable to do so, that the Federal Register [61FR52702] implementing these changes stated, "Any affected package weighing 16 ounces or more that requires air transportation and that is deposited into a collection receptacle will be returned to the sender.....". [d] Confirm, or explain if you are unable to do so, that mail weighing 16 ounces or more which is paid with postage stamps and which does not require air transportation may be deposited in collection boxes. [e] Confirm, or explain if you are unable to do so, that collection boxes may be utilized for the deposit of any of the categories of Standard Mail [B] parcels, regardless of their domestic destination, and Priority Mail which is destined to an area which will receive surface transportation even though the postage has been paid with postage stamps and the article weighs 16 ounces or over. [f] Explain why the wording in DMM Section D100.2.0 appears to restrict the deposit in collection boxes to all Priority Mail, 16 ounces or more and paid with postage stamps, regardless of whether it will receive surface or air transportation. [g] Explain why Priority Mail, which would normally require air transportation, will automatically be returned to the sender rather than just forwarding it by surface transportation. [h] Wouldn't it provide a better level of service if the time differential between air and surface transportation was taken into account in determining whether to ship the parcel by surface or return it to the sender, particularly, if there was no return address? [i] If not, explain. [j] What is the logic in returning a parcel to a sender only to have the sender hand the parcel right back to the carrier? [k] Is a parcel which has both a meter stamp and adhesive postage stamps on it subject to these regulations? [l] Is a parcel subject to these regulations when it is either forwarded or returned to sender, regardless of the method by which the postage was originally paid?

**Response:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed for Standard (B) mail. Not confirmed for Priority Mail.
- f. The DMM language reflects the policy as discussed in part g.
- g. Diverting the mail to surface transportation would be a costly operation and provide a level of service much lower the customer may have expected.



- h. Rather than divert the piece to surface transportation it is probably better to return the piece in most cases so the sender is informed.
- i. Not applicable.
- j. So the customer is informed as to his or her options including perhaps sending the item via a private operator.
- k. No.
- l. Yes.

NDMS/USPS-T-33-1.

- a. Please confirm that if the Commission recommends all First-Class and Priority Mail rates as proposed by the Postal Service in this docket, then (i) the rate for an 11-ounce piece of First-Class Mail will increase from \$2.62 to \$2.63, (ii) the minimum rate for a two-pound piece of Priority Mail will increase from \$3.00 to \$3.20, and (iii) the "gap" between the two will become \$0.62, up 63 percent from the current gap of \$0.38.
- b. In your opinion, does the size of the above-described gap represent any kind of problem or issue in rate design? Please explain fully why it is or is not an issue. In your answer, please address all concerns about the gap raised by the Commission in its Opinion & Recommended Decision in Docket No. R94-1.
- c. In view of the importance attached to the gap by the Commission in docket No. R94-1, please explain why your testimony fails to mention it or to discuss the issue in any way.
- d. Please state the maximum gap that you consider to be acceptable (e.g., as an absolute amount, or as a percentage of the degressive rate of \$0.23 per ounce, or as a percentage of the rate for an 11-ounce piece of First-Class Mail, and explain your rationale for determining the maximum acceptable gap.

**Response:**

(a.)

(i) Confirmed

(ii) Confirmed.

(iii) Not confirmed. The gap becomes \$0.57, up 50 percent from the current gap of \$.38.

(b.) The size of the gap represents an issue in rate design. As noted by the Commission in its Opinion and Further Recommended Decision in Docket No. R94-1, " The rates for Priority Mail must be designed with recognition of its dual function as a subclass for items subject to the postal monopoly which

weigh more than 11 ounces, and as a service option in the competitive market for package delivery" and that "a smooth transition between the two subclasses is a primary consideration in developing rates." At page 50.

- (c.) Although there is no explicit mention of the "gap" issue in my direct testimony, keeping the gap as small as possible, subject to the cost coverage target, was considered. This was a factor in passing along a less-than-average percentage increase in the two-pound rate.
- (d.) The maximum gap is not an arbitrary figure. Instead the gap results from the reconciliation of a variety of factors bearing on each of the respective classifications.

NDMS/USPS-T33-2.

Your testimony at p. 26 notes that the two-pound rate for Priority Mail is proposed to be raised from \$3.00 to \$3.20, a 6.7 percent increase.

- a. Please confirm that for the three-, four-, and five-pound Priority Mail unzoned rates, you propose a 10.0 percent increase.
- b. For all zoned Priority Mail rates above five-pounds, what is the average proposed increase in rates (weighted by volume)?

Response:

(a.) Confirmed.

(b.) 6.71 Percent

## NDMS/USPS-T33-3.

- a. Please confirm that for a 30-pound piece of Priority Mail to zone Local 1,2,3, the current rate is \$16.45, the proposed rate is \$16.40, and the percentage change in rate is -0.30 percent.
- b. Please confirm that the maximum percentage increase for any zone-rated Priority Mail rate cell is 16.0 percent. If you do not confirm, indicate the rate cell with the largest percent increase.
- c. Please explain how you arrived at the cell-by-cell forecast of the Test Year After Rates volume of Priority Mail shown in USPS-33M, p. 1. In your answer, please explain whether (i) the forecast for two-pound volume is based on the 6.7 percent rate increase which you recommend, (ii) the forecast for three- to five-pound volume is based on the 10.0 percent rate increase which you recommend for those weights, and (iii) the forecast for zone-rated pieces is based on the average percentage rate increase which you recommend for zoned Priority Mail (as stated in your response to preceding question 2b).

**Response:**

- (a.) Confirmed.
- (b.) Confirmed.
- (c.) The base year volumes by cell were multiplied by the ratio of the Test Year After Rates volume to the Test Year Before rates volume. The volume forecast is based on the average percentage increase in price for Priority Mail as a whole. Separate forecasts are not made for two-pound volume, three to five pound volume and zone-rated pieces. See Direct Testimony of Gerald L. Musgrave (USPS-T-8) for the presentation of volume forecasting of Priority Mail.

NDMS/USPS-T33-4.

- a. Using the Priority Mail test year cost data supplied in the exhibits attached to your testimony, can you determine the average unit cost for (i) flat rate pieces, (ii) two-pound pieces, and (iii) three-, four- and five-pound pieces? Is so, please provide the result and show how the results were derived.
- b. At your proposed rates, what is the unit contribution for (i) flat-rated pieces, (ii) two-pound pieces, and (iii) three-, four-, and five-pound pieces?
- c. If you had not previously computed the above-requested unit costs, please indicate why you did not consider such information to be pertinent.

Response:

- (a.) The average unit cost for flat rate, two-pound and three-, four- and five-pound pieces cannot be determined using the Priority Mail test year cost data supplied in the exhibits.
- (b.) The unit contribution for flat rate, two-, three-, four and five-pound pieces cannot be determined using the Priority Mail test year cost data supplied in the exhibits.
- (c.) I did not calculate average unit cost and unit contribution at the rate element level. As a basis for rate design, piece-, weight- and distance-related costs are allocated to the rate elements and compared against proposed rates to assure that the allocated costs are covered. Comparison of proposed rates to allocated costs is a means to prevent unusually high or low markups above allocated costs.

NDMS/USPS-T33-5.

- a. What cost justification is there (if any) for the lower percentage increase in your rate for two-pound Priority Mail?
- b. Please list and discuss all other rate design or competitive considerations that led you to recommend a 6.7 percent increase in the two-pound rate was significantly lower than (i) the 10.0 percentage increase for three- to five-pound unzoned parcels; and (ii) the percentage increase (weighted) for zoned-rated parcels weighing more than five pounds.

**Response:**

- (a.) There is no explicit cost consideration for the lower percentage increase in the two-pound priority mail rate. However, see my response to NDMS/USPS-T-33-1.
- (b.) The proposed two-pound rate, which results in a somewhat less-than-average increase for Priority Mail, recognizes that the two-pound rate mail is most likely to contain monopoly protected letter mail and there is a need to minimize the price gap between it and 11 ounce First- Class letter rate. As over eighty percent of Priority Mail volume is paid at the two-pound rate, the percentage increase in the two-pound rate drives the average price increase for Priority Mail. In looking at the alternatives in light of these considerations, it became clear that raising the \$3.00 rate to \$3.20 , a rate increase close to the Priority Mail average increase of 7.4 percent, made sense. In turn, to meet the revenue target the three-, four- and five- pound rates were raised by ten percent. This results in a simple \$1.20 differential from the two- to three-pound rate and a ~~10-cent~~ <sup>\$1.10</sup> differential for the three-, four- and five-pound weight steps. As with all Priority Mail rates, zone rated Priority Mail rates were

designed with due consideration given to the percentage increase and the relationship of price to allocated cost. (See response to UPS/USPS-T33-11).



NDMS/USPS-T33-6.

- a. Would you agree that for any target contribution to institutional costs for Priority Mail, any reduction in the contribution from two-pound pieces (which constitute 80 percent of total volume) must be offset by a higher contribution from heavier weight pieces?  
Please discuss fully any disagreement.
- b. Please explain fully your rationale why Priority Mail weighting more than two pounds should incur a higher-than-average increase in rates to facilitate a below-average increase in the two-pound rate.

**Response:**

- (a.) Yes, all things being equal.
- (b.) Once the two-pound rate was set at \$3.20, a 6.7 percent increase, an increase above the 7.4 percent average increase for the other rate elements became a mathematical imperative.

NDMS/USPS-T33-7.

Please provide all data in the possession or control of the Postal Service on the weight distribution of Priority Mail weighing less than two pounds. If data are available by one-ounce increments, please provide them. Otherwise, provide the finest detail available.

**Response:**

**Base Year Priority Mail Pieces Less than two Pounds  
Distributed to One-Ounce Increments**

<u>From:</u>	<u>To:</u>	<u>Pieces:</u>
01	1	4,511,621
1	2	22,607,153
2	3	18,209,674
3	4	12,139,319
4	5	10,280,146
5	6	9,606,999
6	7	8,687,850
7	8	9,592,256
8	9	10,740,753
9	10	12,191,598
10	11	17,540,938
11	12	71,843,509
12	13	62,796,732
13	14	54,836,926
14	15	47,776,658
15	16	41,582,499
16	17	36,994,308
17	18	34,602,518
18	19	30,350,540
19	20	28,256,023
20	21	25,231,289
21	22	24,679,574
22	23	21,602,347
23	24	20,011,970
24	25	17,960,567
25	26	16,297,358
26	27	14,764,884
27	28	14,579,122
28	29	13,486,697
29	30	12,937,711
30	31	11,989,284
31	32	11,069,493
<b>Total</b>		<b>749,758,313</b>

NDMS/USPS-T33-8.

Please provide all data in possession or control of the Postal Service showing Priority Mail's share of the two-day delivery market. If available, show the market share for different weight ranges; e.g., up to two pounds, more than two and less than five pounds, and over five pounds.

**Response:**

The Postal Service volume share of the two-day delivery market is estimated to be as follows:

Weight Category	Priority Mail's Market Share (by volume)
Packages Under 2 lbs.	74.1%
Packages 2 - 70 lbs.	57.2%

Overall the Postal Service share of the two-day market is estimated to be 64.7%.

NDMS/USPS-T33-9.

- a. Please provide copies of all published rates of competitors (such as FedEx, USPS, TNT, or Airborne) in the possession of the Postal Service for delivery services that compete with Priority Mail (please include rates for UPS guaranteed three-day service if available).
- b. When you decide to propose a higher-than-average increase for zone-rated Priority Mail, what consideration did you give to the published two-day and three-day rates charged by FedEx, UPS and other competitors?
- c. What consideration did you give to discounts or negotiated or unpublished rates that competitors are known to give to shippers who regularly use their respective two-day services?
- d. What consideration did you give to the market share of Priority Mail By weight segment?
- e. Prior to finalizing your proposed rate design for priority Mail, did you assess the competitive situation with persons assigned responsibility for marketing Priority Mail?

**Response:**

- (a) The Postal Service has obtained published rates for FedEx, UPS, and RPS.

The FedEx and UPS rates were downloaded from their Web sites.

(www.ups.com and www.fedex.com). RPS rates were obtained by calling 1-800-762-3725. To prevent misrepresentation, rather than provide copies the Postal Service prefers that you obtain the published rates directly from the service providers.

- (b) When I developed the rates for zone-rated Priority Mail, as well as the flat rates through five pounds I did not make a detailed comparison between the proposed rates and competitor rates. In general, I was aware that FedEx and UPS had moved to distance-based pricing and

that was a consideration in the moderation in the size of the rate increases in the short haul zones.

(c) I am aware that competitors give discounts to regular customers and, as a result, any rate comparisons between published rates would tend to underestimate the price competitiveness of proposed rates this market.

(d) Market share of Priority Mail by weight segment was not a critical factor in the design of the rate proposal. My intent was not to design rates which captured market share. My intent was to design cost-based rates which reflect the nine statutory criteria of the PRA and were accessible to a wide range of customers.

(e) Yes.

NDMS/USPS-T33-10.

- a. Has the Postal Service developed any data showing the extent of on-time performance as a result of its experiments with confirmation of Priority Mail? Please provide copies of all summary performance data available from the delivery confirmation data base.

**Response:**

(a.) The Postal Service has not developed any reliable on-time performance data as a result of its experiments with confirmation of Priority Mail.

## NDMS/USPS-T33-10

b. Please provide copies of all other data and information (including anecdotal information) in the possession of the Postal Service that are pertinent to actual delivery service received by Priority Mail during the Base Year. This request includes, but is not limited to, data from ODIS and any external data which the Postal Service may have.

In accordance with the informal agreement reached between NDMS and the Postal Service, quarterly ODIS data relating to national Priority Mail delivery service for the base year are provided below. Note that these figures include only Priority Mail which is stamped or metered and has a readable postmark date, and reflect arrival at the delivery unit.

Priority Mail	Percentage Delivered Within				
	1 Day	2 Days	3 Days	4 Days	Average Days to Delivery
Qtr 1, PFY 1996	30.1	82.5	94.1	97.6	1.98
Qtr 2, PFY 1996	24.3	70.7	87.9	94.2	2.30
Qtr 3, PFY 1996	28.2	81.3	93.8	97.5	2.02
Qtr 4, PFY 1996	30.3	83.6	94.8	97.7	1.96

Excludes Mail of Foreign Origin

Revised 9/24/97

NDMS/USPS-T33-11.

- a. What was the effective date of the current requirement that all Priority Mail pieces weighing more than one pound must be entered at a post office counter?
- b. Will that requirement continue to be in effect during Test Year?

**Response:**

- (a) August 16, 1996. Note that the current requirement applies only to stamped Priority Mail.
- (b) Relaxation of the requirement is not foreseen in the near future.



NDMS/USPS-T33-12.

Revised 9/19/97

For all zoned Priority Mail rates that you propose, please confirm that the rates in each cell consist of (i) a per-piece charge of \$2.33212 (USPS-33N, line 13, includes markup and contingency), plus (ii) a zoned pound charge as shown in USPS-330, columns 14, times the weight, plus (iii) an amount for delivery confirmation, rounded to the nearest five cents. If you do not confirm, please explain in detail how the zoned rates are developed for each individual rate cell. Also, please supply the amount added to each rate for delivery confirmation.

**Response:**

(i) Confirmed.

(ii) Confirmed.

(iii) Confirmed. An initial set of rates are developed by allocating the per-piece charge cost of \$2.33212 (USPS-33N, line 13, includes markup and contingency) and the zoned pound charge (which includes the unzoned non-transportation cost per pound) shown in column (14) which included markup and contingency. The rates thus developed form the basis for designing the proposed rates. See revised response to NDMS/USPS-23 (revised 9/18/97) for explanation of how delivery confirmation cost is included in the per-piece charge.

NDMA/USPS-T33-13.

- a. Please confirm that your proposed rates for Priority Mail include a full markup on all distance-related transportation costs. If you do not confirm, please explain how distance-related transportation costs are treated with respect to markup.
- b. When designing Priority Mail rates, please explain why distance-related transportation costs should be subject to a full passthrough plus a full markup, while dropship discounts in the Standard A subclass reflect only a partial passthrough of distance-related transportation costs.

**Response:**

(a.) Confirmed.

(b.) Design of Priority Mail rates involved the allocation of volume variable costs to rate elements in the rate schedule. The volume variable cost, in turn, is marked up. The design of dropship discounts entails the estimation of savings to the Postal Service if mail avoids postal transportation and a determination of how much of that savings should be "passed through" in the form of a discount.

NDMS/USPS-T33-14.

Please provide as a library reference the contracts with commercial air carriers that is/are now in effect.

**Response:**

See Library Reference - LR-H-229, "Air Systems Contracts".

NDMS/USPS-T33-15.

Do distance-related air transportation costs shown in Exhibit USPS-33Q reflect the full amount of such costs, or only some fraction thereof? Please explain.

**Response:**

The distance-related air costs shown in Exhibit USPS-33Q reflect the full amount of such cost.

NDMS/USPS-T33-16.

Why did you choose to distribute non-distance transportation costs to each zone instead of simply adding them to the pound rate (i.e., two cents per pound contingency and markup)?

**Response:**

Non-distance transportation cost are distributed on postage pounds across zones (Column 10 distributed on column 7, USPS-330) to be consistent with the workpaper design. Non-distance transportation cost are then added to distance-related costs by zone to arrive at total transportation cost by zone. (Column 11, USPS-330). The total transportation cost by zone is divided by postage pounds by zone to arrive at transportation cost per pound by zone (Column 12, USPS-330) and adjusted for markup and contingency. The result is the same as simply adding non-distance related costs to the pound rate after adjusting for markup and contingency.

NDMS/USPS-T33-17.

- a. What percentage of two-pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- b. What percentage of three-pound, four-pound and five pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- c. What percent of zone-related Priority Mail is believed to be subject to the Postal Service's statutory monopoly?

**Response:**

(a.) The statutory monopoly covers letter mail which is sealed against inspection.

The protection is based on content. As such, without opening Priority Mail packages it is impossible to determine whether an item contains a letter. The Postal Service, therefore, does not have information on how much Priority Mail is subject to the Postal Service's statutory monopoly.

(b) See (a).

(c) See (a).

NDMS/USPS-T33-18.

Should the principles of Ramsey Pricing apply to rate design within a subclass such as Priority Mail? Please explain.

**Response:**

The issue of the appropriate allocation of institutional costs is one that customarily has been handled at the subclass level, and that is not directly the subject of my testimony. I understand, however, that many of the types of issues that would need to be addressed to respond fully to your question are discussed in Chapter 7 of the testimony of Peter Bernstein, USPS-T-31.

The principles of Ramsey Pricing are useful guideposts in the setting of rates at the subclass level. Rate setting below the subclass level should look to the pricing criteria in the PRA as the principle source of guidance.

Revised 9/18/97

NDMS/USPS-T33-23. The unit attributable base cost for delivery confirmation is \$0.148656 (USPS-T-22, Table 7 and USPS-33N), and the TY Priority Mail delivery confirmation cost base with contingency is \$9,982,571 (USPS-33N, line 18).

- a. Is the unit cost of delivery confirmation (\$0.148656) included in the net nontransportation cost per piece of \$2.233212 shown on line 13 of USPS-33N? If not why was it excluded ?
- b. Is the total cost of delivery confirmation included in the Total Attributable costs shown on line 1 of USPS-33N? If not, why not ?

**Response:**

- a. Yes. For the purpose of summarizing the volume, cost and revenue figures, the test year delivery confirmation base cost of \$9,982,571 (USPS-33N, line 18) is brought forward to Table 6 in USPS-T33 as a final adjustment.  
  
In my original response to this interrogatory. This adjustment was confused with the adjustment of total attributable cost (USPS-33N, Line 1), which feeds into the rate design. As indicated in USPS-33N, delivery confirmation base cost is added to total nontransportation cost (Line 3). This figure is used to develop the net nontransportation cost per piece adjusted for markup and contingency of \$2.233212.
- b. No. Test year Priority Mail base cost for delivery confirmation is not included in Line 1. Line 1 is taken directly from USPS-T15, Exhibit USPS-15F, Page 1, Column 3. This figure does not include delivery confirmation base cost because this cost is developed in my testimony (USPS-33N, Line 18).



NDMS/USPS-T33-25.

Please refer to NDMS/USPS-T33-8, and to page V-36, Op. & Rec. Dec. Docket No. 94-1. Priority Mail's market share is currently under 65 percent, down from 72 percent in 1993 and 76 percent in 1990.

- a. To what do you attribute this decline in market share ?
- b. Does the Postal Service from time to time prepare, or have prepared for its use, memoranda, analyses or reports that compare Priority Mail with other competitors in the two-day expedited market ?
- d. If your answer is negative, please explain why, in view of Priority Mail's deteriorating position in the market, no such analysis is considered necessary.

**Response:**

- a. Priority Mail's market shares in the two- to three-day market have experienced a gradually downward trend because its growth has not been as great as those of the competitive services since their participation in the market. The following table shows the annual volume growths of Priority Mail in the past five years in comparison with those of the competitive services.

Annual Growth in Volume — 2- to 3-Day Market

	<u>USPS Priority Mail</u>	<u>Non-Postal Services</u>
CY92/91	13.4%	23.0%
CY93/92	14.2%	26.7%
CY94/93	15.1%	25.2%
CY95/94	10.6%	17.5%
CY96/95	11.4%	4.2%

Figures reflect recent methodological changes in volume estimation and competitor data. As a result the CY96/95 market share estimate by volume is 62.3 %.

As can be seen, in 4 out the 5 years in the past, Priority Mail's growths trailed those of the competitive services. Priority Mail's position gradually deteriorates in the market due to its lacking of certain service features which are considered important by expedited service customers. The areas in which Priority Mail has the most unmet needs include:

- Guaranteed delivery days/times
- Track & trace
- Flexible payment methods
- Volume discounts
- Reliable pickup services

b. Yes.

d. Not applicable.

NDMS/USPS-T33-26.

Do the ODIS data for First-Class flats and IPP's include any pieces that pay Priority Mail rates but, aside from the amount of postage paid, are not otherwise identified as Priority Mail ?

**Response:**

No.

**Response of Postal Service Witness Sharkey to NDMS Interrogatories****NDMS/USPS-T33-27.**

Please explain how development and implementation of the new Priority Mail network in selected Northeastern states will affect service provided to mailers who (i) use Priority Mail for dropship to destinating SCFs from within the area to be served by the new network, and/or (ii) use Priority Mail for reship from SCFs countrywide to a destination within the area served by the new network, as follows:

- a. Assume mailers who use Priority Mail for dropship currently plant load and dispatch their outgoing mail directly to the AMC at the nearest air hub for a "just-in-time" arrival to make departing flights. Will such practices continue, or will all originating Priority Mail have to be routed to and through the new dedicated Priority Mail facilities?
- b. Please describe all arrangements, provisions or understandings that the Postal Service has with the PMPC contractor to continue (rather than terminate) dropship service of the type described in preceding part a.
- c. Assume Priority Mail reship comes to the AMC located nearest to the addressee, and is picked up at the AMC and dispatched directly to the addressee. Will such practices continue, or will all Priority Mail arriving at AMCs have to be routed to and through the new dedicated Priority Mail facilities?
- d. Please describe all arrangements, provisions or understandings that the Postal Service has with the PMPC contractor to continue (rather than terminate) reship service of the type described in preceding part c.

**Response:**

- a. Priority Mail users generally speaking will not be permitted to enter their plant-loads at the AMCs, since the AMCs will no longer perform the piece distribution of the mail. The Postal Service will facilitate plant loads to the PMPC where the mail will be processed, or to the nearest plant served by the PMPC. The Postal Service expects service improvements for this mail and Priority mail in general, because of the quality and transportation infrastructure improvements the contractor has built into the system design.
- b. The PMPC contract requires the contractor to treat Priority Mail drop shipment sacks as outsides, and to dispatch on first available transportation to the appropriate plant.
- c. Most Priority Mail will flow to the PMPC. Deliveries are not normally made today from the

**Response of Postal Service Witness Sharkey to NDMS Interrogatories**

AMC.

- d. The Postal Service does not currently have arrangements with any of the PMPCs for reship.

Once again, we do have a requirement that the contractor treat Priority Mail drop shipment sacks as outsides, and to dispatch on first available transportation to the appropriate plant.

NDMS/USPS-T33-30.

Please provide the most current data available on the market for second day delivery, similar to those provided in Docket No. R94-1 in response to N/DP-USPS-T11-26 and NDMS/USPS-T11-50. Specifically, please supply data showing the Postal Service's market share of the expedited second-day air market based on the number of pieces and similar data showing the size of that market and Priority Mail's share of that market in terms of total revenues.

**Response:**

Tables 1 and 2 attached.

**SECOND-DAY PACKAGES UNDER 70 POUNDS \***  
**(Data in Thousand Pieces)**  
**Response to NDMS/USPS-T33-30 - Table 1**

<b>Calendar Year</b>	<b>Priority Mail Volume</b>	<b>Non-Postal Volume</b>	<b>Total Volume</b>	<b>Priority Mail Market Share</b>	<b>Priority Mail Volume % Change</b>	<b>Non-Postal Volume % Change</b>
1994	790,607	480,515	1,271,122	62.2%		
1995	874,291	564,826	1,439,117	60.8%	10.6%	17.5%
1996	973,679	588,375	1,562,054	62.3%	11.4%	4.2%
1996 Q1	227,257	147,548	374,805	60.6%		
1997 Q1	258,029	158,822	416,851	61.9%	13.5%	7.6%

*Note \* : Including third-day packages under 70 pounds.*

**REVENUE FROM SECOND-DAY PACKAGES UNDER 70 POUNDS \***

(Data in Thousand Dollars)

Response to NDMS/USPS-T33-30 - Table 2

Calendar Year	Priority Mail Revenue	Non-Postal Revenue	Total Revenue	Priority Mail Market Share	Priority Mail Revenue % Change	Non-Postal Revenue % Change
1994	\$ 2,710,285	\$ 3,530,098	\$ 6,240,383	43.4%		
1995	\$ 3,131,679	\$ 3,993,483	\$ 7,125,162	44.0%	15.5%	13.1%
1996	\$ 3,462,732	\$ 4,290,800	\$ 7,753,532	44.7%	10.6%	7.4%
1996 Q1	\$ 801,736	\$ 1,028,941	\$ 1,830,677	43.8%		
1997 Q1	\$ 913,508	\$ 1,143,552	\$ 2,057,060	44.4%	13.9%	11.1%

Note \* : Including third-day packages under 70 pounds.



## Response of Postal Service Witness Sharkey to NDMS Interrogatories

## NDMS/USPS-T33-32.

Please refer to witness Bradley's response to UPS/USPS-T13-24, where he states that some purchased highway contracts implicitly include the cost of time where the truck and driver must wait while the truck is being loaded and unloaded, while other contracts explicitly include the cost of loading and unloading in the total contract cost.

- a. Would you agree that the time and cost of time spent waiting for trucks to be loaded and unloaded is a non-distance related cost included in highway transportation contracts, even if such cost is not explicitly set out in the contract? Please explain any disagreement.
- b. When allocating surface transportation costs to the appropriate rate cells of Priority Mail, did you make any effort to distinguish between distance-related driving time costs and nondistance-related loading and unloading costs?
- c. Please refer to your response to UPS/USPS-T33-12, and your discussion concerning the implausible results obtained when you used mid-point miles of zones to estimate average haul. Please explain whether this "unacceptable" result could have been avoided by use of an appropriate distance-related cost, coupled with a non-distance related terminal handling cost.

## Response:

- a. No. The time and cost of time spent waiting for trucks to be loaded and unloaded may be related to the number of stops. The number of stops may increase with distance. Therefore, I cannot agree that the time and cost of time spent waiting for trucks to be loaded and unloaded is a non-distance related cost. I accept the classification of transportation cost between distance and non-distance related as shown in witness Alexandrovich's Workpaper-B, W/S 14.0.7.
- b. No.
- c. As discussed in my response to UPS/USPS-T33-12 I believe that the simple application of the zone mid-points failed to recognize that, in general, circuitry decreases with distance in surface transportation. If some of the costs at issue are, in fact, non-distance related this may have contributed to the initial result.

## Response of Postal Service Witness Sharkey to NDMS Interrogatories

### NDMS/USPS-T33-33.

In your opinion, does Priority Mail represent anything more than heavyweight (over 11 ounce) First-Class Mail? Unless your answer is an unqualified negative, please describe all distinguishing characteristics that you perceive (weight excepted, of course) in terms of acceptance, processing, transportation, delivery, theoretical service commitments, actual service performance, etc.

**Response:**

Postal Service treatment of Priority Mail, particularly in regard to processing, transportation, service commitments and service features, differentiates it from being "anything more than heavyweight (over 11 ounce) First-Class Mail ". For a description of processing, distribution and delivery of Priority Mail see my responses to UPS/USPS-T33-1(a) and UPS/USPS-T33-1(b). Priority Mail is sorted outside the regular First-Class mailstream in dedicated sort areas and through a separate network. Priority Mail is sorted by the origin plant to the national Area Distribution Center Priority Mail network and to nearby SCF's that can be reached by surface transportation. Priority Mail is more often routed to the Eagle network than First-Class Mail to meet service commitments. With the implementation of the Priority Mail Processing Centers the level of service given to Priority Mail is expected to improve significantly.

Regarding service commitments, the number of two-day committed service pairs is significantly greater for Priority Mail than First-Class mail. See my response to APMU/USPS-T33-1(g). See also Witness O'Hara's response to APMU/USPS-T3-2. Pickup service and a flat rate envelope is available for Priority Mail.

**Response of Postal Service Witness Sharkey to NDMS Interrogatories****NDMS/USPS-T33-34.**

Your response to NDMS/USPS-T33-4 states that the unit cost for flat rate, two-pound and three-, four- and five-pound pieces cannot be determined using the Priority Mail test year cost data supplied in the exhibits. Please provide whatever data the Postal Service has that could be used to develop the cost of such Priority Mail pieces. If the data are extensive or are in spreadsheet form, please supply on a disk as a library reference.

**Response:**

See USPS witness Alexandrovich response to UPS/USPS-T33-38 (Redirected from witness Sharkey).

**UPS/USPS-T33-1.**

On page 31 of your testimony, you state that "presorting will have a diminished workshare value in the Priority Mail Processing Center (PMPC) mail processing environment."

- (a) Please describe in detail the flow of Priority Mail, beginning with entry into the postal system all the way to final delivery, in the new PMPC environment
- (b) Please describe in detail the flow of Priority Mail, beginning with entry into the postal system all the way to final delivery, for pieces that will not be in the new PMPC environment.

**Response:**

**(a) Priority Mail Processing Center Mail Flow**

**Background**

The Postal Service has awarded a contract to outsource the development and activation of a two-day Priority Mail Network. This network will involve the processing and transportation of Priority Mail within an area designated as "Phase I". The Phase I area consists of Priority Mail Processing Centers (PMPCs) located throughout the eastern seaboard of the United States.

The goal of this network is to provide at least 96.5% on-time two-day service for all destinations within the Phase I area. To accomplish this task, the contractor is responsible for developing a network consisting of dedicated surface and air transportation, as well a designated air that will supplement commercial air for destinations outside the Phase I network.

**Mail Collection**

The Postal Service will receive and collect Priority Mail in the same manner as it does today:

- Postal Service mail carriers will pick-up mail from businesses (when delivering mail), empty collection boxes, and pick-up Priority Mail left in residential mail boxes and Neighborhood Delivery Collection Boxes (NDCBUs).
- Postal Service clerks will receive Priority Mail directly from customers at the retail unit.
- Clerks at contracted postal retail units will receive mail directly from customers.
- Large mailers will deposit mail at Postal Service facilities.
- Small customers will deposit mail at collection boxes located at Postal Service facilities.

### **Logistics & Transportation**

#### **Originating Mail**

The Postal Service will transport the collection mail to processing plants (SCFs) where it will be staged for pick-up by the Phase I contractor. This mail will be containerized in "rolling stock" for easy transfer. Mail for several SCF areas will be transported (by the Phase I contractor) to a central processing facility. Origin mail entering these facilities will be processed to the 5-digit (Post Office) level and transported back to the appropriate postal processing plant in time to meet service commitments. From these processing centers mail will be sent to Post Offices for sortation to the carrier route level.

**Destinating Mail - Inside Phase I**

Mail not destinating within the "local" PMPCs service area will be sent to other PMPCs within the Phase I area via transportation provided by the contractor. This mail will be processed at the destinating PMPC, combined with mail originating within the PMPC's service area and sorted to the 5-digit level and transported to the appropriate postal processing plant.

Mail originating outside the Phase I network but destinating within the Phase I network will be given to the contractor at designated tender points. These points are expected to be Air Mail Facilities. This mail too, will be transported (by the Phase I contractor) to a PMPC, sorted to the 5-digit and sent to the appropriate Postal Service processing plant.

**Destinating Mail - Outside Phase I**

The Phase I contractor is responsible for sorting mail destinating outside the Phase I area to the Area Distribution Center (ADC) level. At destination, this mail will be transported, by the contractor, to specified tender points where the Postal Service will perform any additional sortation and transportation required.

**(b) Non-Priority Mail Processing Center Mail Flow**

The following description details a simplified flow of Priority Mail from entry, at a mail processing facility, all the way to final delivery for pieces that will not be in the new PMPC environment:

Priority Mail is sorted by the origin plant to the national Area Distribution Center ADC Priority Mail network and/or to nearby SCFs that can be reached by surface transportation. Priority Mail, for national ADCs, is transported to the origin Air Mail Center (AMC) to meet commercial and/or internal air transportation. At the AMC, Priority Mail, from multiple plants, is consolidated into air transportation containers and prepared for dispatch on commercial air flights. When space is available, Priority Mail may also be flown on internal transportation with Express Mail and routed into the Indianapolis hub to meet connecting flights. The volume of Priority Mail that will be flown with Express Mail will decrease accordingly as the PMPC network is expanded.

Connecting flights out of the Indianapolis Hub and/or flights on commercial airlines depart to destinating AMCs. The incoming air containers are unloaded and the AMC. Mail that is routed to the ADC receives a subsequent sort (at the ADC) to the SCF level. Once the mail arrives at the SCF, the mail is sorted to the 5-digit level and dispatched to local Post Offices. Last, the mail is sorted to the appropriate carrier and taken out on the route for delivery.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-3.** Please explain where the values for Table 2, Lines 11 and 12, are found in USPS-33J.

**Response:**

The figures in Table 2, Lines 11 and 12, are not found in USPS-33J. As confirmed below they are found in the EXP97.XLS, "Pickup" sheet. The figures remain the same in Table 2.



**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-4.** In EXP97.XLS, "Pickup" sheet, you refer to USPS-33J [PRIO97.XLS, "33J"].

(a) Please confirm that the Priority Mail Pickup Fee Development in USPS-33 uses the TYAR for cost and proposed revenue values. If not confirmed, please explain in full.

(b) Please confirm that in USPS-33J, Express Mail uses the TYBR numbers for cost and proposed revenue values. If not confirmed, please explain in full.

(c) Please explain the discrepancy between (a) and (b) above, and provide any necessary corrections in electronic form and in hard copy.

**Response:**

(a) Confirmed.

(b) Not confirmed. USPS-33J mistakenly referenced an earlier version of TYBR figures.

As discussed below the reference has no impact of Table 2.

(c) The Express Mail pickup cost displayed in USPS-33J Express Mail Pickup are incorrect. The correct figures for test year after rates are in Table 2, as derived, in the EXP97.XLS. The USPS-33J figures relied on incorrect figures. A revised USPS-33J is attached.

**USPS-33J**  
(Revised 8/15/97)

**Test Year Pickup Fee Development**

<b>Parcel Post</b>	<b>On-Call</b>	<b>Scheduled</b>	<b>Total</b>
Calls	41,439	244	41,683
Cost	\$344,742	\$1,872	\$346,614
<b>Priority</b>			
Calls	250,515	5,887	256,402
Cost	\$2,084,099	\$45,167	\$2,129,266
Revenue at Current			\$1,269,189
Revenue at Proposed			\$2,115,315
<b>PO-Addressee</b>			
Calls	297,192	27,144	324,335
Cost	\$2,472,416	\$208,249	\$2,680,665
<b>Custom Designed</b>			
Calls		246,437	246,437
Cost		\$1,890,677	\$1,890,677
<b>Express</b>			
Cost			\$4,571,341
Revenue at Current			\$2,825,321
Revenue at Proposed			\$4,708,868
<b>Total</b>			
Calls			868,857
Revenue at Current		\$4.95	4,300,841
Cost			7,047,222
Average Cost includes contingency		\$	8.110913
Revenue at Proposed		\$8.25	7,168,068
Coverage at Proposed			102%

/ 1 - USPS-T-19

/2 - Cost per Stop times Contingency

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-5.** Please refer to Table 2, Line 18, and EXP97.XLS, sheet "2,3,A,B,F,G,H,I." The notes state that Line 18 is equal to Line 17 \* Table 3, Line 3; however, the calculation is equal to Line 17 \* Table 3, Line 1. Please state whether the note or the actual calculation is correct, and explain in full.

**Response:**

The note is correct. The calculation is wrong. As result test year after rates revenue is \$38,567 less than it should be in Table 2.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-6.**

(a) Please refer to Table 3. Please confirm that the Cost per Piece in Line 2 is equal to Table 2, Line 5 / Table 2, Line 1.

(b) Also confirm that Line 5 is equal to (Line 3 - Line 1) / Line 1.  
If you cannot confirm either, please explain in full.

**Response:**

(a) Confirmed.

(b) Confirmed.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-7.** Refer to Table 7, Lines 4 and 5. Please explain why the TYAR (After Adjustments) calculations for Revenue per Piece and Cost per Piece are unweighted with respect to their respective pricing categories (i.e., Delivery Confirmation, Hazardous Materials Surcharge, etc.) in Table 6.

**Response:**

*The TYAR (After Adjustments) revenue per piece and cost per piece in Table 6 is derived by dividing total revenue with adjustment by total volume and total cost with adjustments by total volume. As such, the figures are weighted with respect to their relative pricing categories.*

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-8.** Please confirm that the TYAR (After Adjustments) Cost per Piece in Table 7, Line 5, is equal to Table 6, Line 36 / Table 6, Line 34. If not confirmed, please explain in full.

**Response:**

Confirmed.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-9.** Refer to USPS-33N and confirm separately the following:

- (a) Line 21 is equal to Line 15 + Line 20.
- (b) Line 5 is equal to Line 4 \* Line 11 \* Line 12.
- (c) Line 6 is taken from USPS-33L, page 2 of 3.
- (d) Line 10 is equal to Line 8 / Line 21.

If not confirmed, please explain in full.

**Response:**

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-10.** Please refer to USPS-33F and confirm that Line 9 is equal to Line 8 / Line 7.

**Response:**

Confirmed.



## Response of Postal Service Witness Sharkey to UPS Interrogatories

**UPS/USPS-T33-11.** Please explain how the individual prices for each weight and zone combination are calculated (a) for Priority and (b) for Express Mail. Also provide, in hard copy and in electronic form, any formulas used to calculate the combinations. What, if any, constraints are used in determining the rates?

### Response:

(a) Individual prices for each weight and zone combination were set as discussed below. The selection of particular cost per pound (shown in the attachment ) was not based on a formula. Using judgment I followed the guidelines below:

1. The 2, 3, 4 and 5 pound unzoned rates were set: \$3.20, \$4.40, \$5.50 and \$6.60, respectively. As a result the L,1, 2,3 rates from 6 through 29 pounds had to be tapered upward. The six pound L,1,2,3 rate was set by adding 15 cents to the 5-pound rate. The 7- to 9- pound rates were set by incrementing rates by 30 cents. The 10- through 19- pound L,1, 2 3 rates were set by incrementing by 45 cents and finally the 20- through 29- pound L,1, 2, rates were set by incrementing the rates by 40 cents. In so doing, the transition from the flat rate at 5 pounds was made smooth with all rates covering allocated costs.
2. Next, the remaining prices were set by allocating piece and weight-related costs to weight steps and zones before final adjustments. These costs were marked up by 120 percent and rounded up to the nearest nickel to achieve the target contribution. To smooth the transition from the 5- to 6-pound rates in Zone 4 a 30 cent additional cost per pound was imposed moving the rate from \$6.60 to \$6.90. The Zone 5 6-pound rate was set at \$1.15 above the 5 pound rate. The 7- to 20- pound Zone 5 rates were adjusted upward to smooth transition to the 21- pound rate.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

3. Finally, to keep the rate increase below 16 percent the markup on 10- through 70-pound zone 7 rates was lowered on average by 2 percent and the markup on 7- through 70- pound Zone 8 rates was lowered on average by 10 percent.

(b) Per piece and per pound costs were allocated to the rate cells for each service and marked up 104 % and adjusted for the contingency rounded to the next highest nickel. The allocated costs were used as benchmarks against which the proposed rates were designed. The selection of particular cost per pound (shown in the attachment ) was not based on a formula. Using judgment I followed the guidelines below:

1. For any given weight step prices would be progressively greater from Same-Day-Airport , Post-Office to Post-Office, Custom Designed and Post-Office-to Addressee, reflecting cost and value of service considerations. (One exception to this rule is the ½ pound Custom Design rate was set below the PO to PO ½ pound rate as is the current relationship.)
2. Rate increases were constrained to be at or below 11 percent..
3. In selected cases where current rates would far exceed cost rate decreases were allowed. This was the case for the 2-, 6-, 9-, 11 through 18-, 20- and 22- Post Office to Addressee rates, the 3- to 16- pound Post Office to Post Office rates, and the 1- through 28- and 30- pound Custom Designed rates.

Response to UPS/USPS-T-33-11 (a)  
PRIORITY MAIL  
Calculation of Proposed Priority Mail Rates

For Zoned Rates, Proposed Rate equals Add'l Cost Per Pound plus Proposed Rate of Previous Weight Step

Weight (Pounds)	L.1,2&3		Zone 4		Zone 5		Zone 6		Zone 7		Zone 8	
	Add'l Cost/Pound	Proposed Rate	Add'l Cost/Pound	Proposed Rate	Add'l Cost/Pound	Proposed Rate	Add'l Cost/Pound	Proposed Rate	Add'l Cost/Pound	Proposed Rate	Add'l Cost/Pound	Proposed Rate
2		3.20		3.20		3.20		3.20		3.20		3.20
3		4.40		4.40		4.40		4.40		4.40		4.40
4		5.50		5.50		5.50		5.50		5.50		5.50
5		6.60		6.60		6.60		6.60		6.60		6.60
6	0.15	6.75	0.30	6.90	1.15	7.75	1.20	7.80	1.65	8.25	2.15	8.75
7	0.30	7.05	0.70	7.60	0.85	8.60	1.30	9.10	1.60	9.85	2.40	11.15
8	0.30	7.35	0.70	8.30	0.85	9.45	0.95	10.05	1.00	10.85	1.25	12.40
9	0.30	7.65	0.70	9.00	0.80	10.25	0.95	11.00	1.05	11.90	1.25	13.65
10	0.45	8.10	0.75	9.75	0.85	11.10	0.90	11.90	0.90	12.80	1.20	14.85
11	0.45	8.55	0.70	10.45	0.80	11.90	0.95	12.85	1.05	13.85	1.25	16.10
12	0.45	9.00	0.70	11.15	0.85	12.75	0.95	13.80	1.00	14.85	1.25	17.35
13	0.45	9.45	0.70	11.85	0.85	13.60	0.90	14.70	1.05	15.90	1.25	18.60
14	0.45	9.90	0.75	12.60	0.80	14.40	0.95	15.65	1.00	16.90	1.25	19.85
15	0.45	10.35	0.70	13.30	0.85	15.25	0.95	16.60	1.05	17.95	1.20	21.05
16	0.45	10.80	0.70	14.00	0.25	15.50	0.90	17.50	1.00	18.95	1.25	22.30
17	0.45	11.25	0.75	14.75	0.80	16.30	0.95	18.45	1.05	20.00	1.25	23.55
18	0.45	11.70	0.70	15.45	0.80	17.10	0.95	19.40	1.00	21.00	1.25	24.80
19	0.45	12.15	0.70	16.15	0.80	17.90	0.90	20.30	1.05	22.05	1.25	26.05
20	0.40	12.55	0.70	16.85	0.80	18.70	0.95	21.25	1.00	23.05	1.20	27.25
21	0.40	12.95	0.75	17.60	0.05	18.75	0.95	22.20	1.05	24.10	1.25	28.50
22	0.40	13.35	0.70	18.30	0.75	19.50	0.90	23.10	1.00	25.10	1.25	29.75
23	0.40	13.75	0.70	19.00	0.75	20.25	0.95	24.05	1.05	26.15	1.25	31.00
24	0.40	14.15	0.75	19.75	0.80	21.05	0.95	25.00	1.00	27.15	1.25	32.25
25	0.40	14.55	0.70	20.45	0.75	21.80	0.90	25.90	1.05	28.20	1.20	33.45
26	0.40	14.95	0.70	21.15	0.75	22.55	0.95	26.85	1.00	29.20	1.25	34.70
27	0.40	15.35	0.70	21.85	0.80	23.35	0.95	27.80	1.05	30.25	1.25	35.95
28	0.40	15.75	0.75	22.60	0.75	24.10	0.90	28.70	1.00	31.25	1.25	37.20
29	0.40	16.15	0.70	23.30	0.80	24.90	0.95	29.65	1.05	32.30	1.25	38.45
30	0.25	16.40	0.70	24.00	0.75	25.65	0.95	30.60	1.00	33.30	1.20	39.65
31	0.45	16.85	0.75	24.75	0.75	26.40	0.95	31.55	1.05	34.35	1.25	40.90
32	0.45	17.30	0.70	25.45	0.80	27.20	0.90	32.45	1.00	35.35	1.25	42.15
33	0.45	17.75	0.70	26.15	0.75	27.95	0.95	33.40	1.05	36.40	1.25	43.40
34	0.50	18.25	0.70	26.85	0.75	28.70	0.95	34.35	1.00	37.40	1.25	44.65
35	0.45	18.70	0.75	27.60	0.80	29.50	0.90	35.25	1.00	38.40	1.20	45.85
36	0.45	19.15	0.70	28.30	0.75	30.25	0.95	36.20	1.05	39.45	1.25	47.10
37	0.45	19.60	0.70	29.00	0.80	31.05	0.95	37.15	1.00	40.45	1.25	48.35
38	0.45	20.05	0.75	29.75	0.75	31.80	0.90	38.05	1.05	41.50	1.25	49.60
39	0.50	20.55	0.7	30.45	0.75	32.55	0.95	39.00	1.00	42.50	1.25	50.85
40	0.45	21.00	0.70	31.15	0.80	33.35	0.95	39.95	1.05	43.55	1.25	52.10
41	0.45	21.45	0.70	31.85	0.75	34.10	0.90	40.85	1.00	44.55	1.20	53.30
42	0.45	21.90	0.75	32.60	0.75	34.85	0.95	41.80	1.05	45.60	1.25	54.55
43	0.45	22.35	0.70	33.30	0.80	35.65	0.95	42.75	1.00	46.60	1.25	55.80
44	0.50	22.85	0.70	34.00	0.75	36.40	0.90	43.65	1.05	47.65	1.25	57.05
45	0.45	23.30	0.75	34.75	0.80	37.20	0.95	44.60	1.00	48.65	1.25	58.30
46	0.45	23.75	0.70	35.45	0.75	37.95	0.95	45.55	1.05	49.70	1.20	59.50
47	0.45	24.20	0.70	36.15	0.75	38.70	0.90	46.45	1.00	50.70	1.25	60.75
48	0.45	24.65	0.70	36.85	0.80	39.50	0.95	47.40	1.05	51.75	1.25	62.00
49	0.50	25.15	0.75	37.60	0.75	40.25	0.95	48.35	1.00	52.75	1.25	63.25
50	0.45	25.60	0.70	38.30	0.75	41.00	0.90	49.25	1.05	53.80	1.25	64.50
51	0.45	26.05	0.70	39.00	0.80	41.80	0.95	50.20	1.00	54.80	1.20	65.70
52	0.45	26.50	0.75	39.75	0.75	42.55	0.95	51.15	1.05	55.85	1.25	66.95
53	0.45	26.95	0.70	40.45	0.80	43.35	0.90	52.05	1.00	56.85	1.25	68.20
54	0.50	27.45	0.70	41.15	0.75	44.10	0.95	53.00	1.05	57.90	1.25	69.45
55	0.45	27.90	0.70	41.85	0.75	44.85	0.95	53.95	1.00	58.90	1.25	70.70
56	0.45	28.35	0.75	42.60	0.80	45.65	0.90	54.85	1.05	59.95	1.20	71.90
57	0.45	28.80	0.70	43.30	0.75	46.40	0.95	55.80	1.00	60.95	1.25	73.15
58	0.45	29.25	0.70	44.00	0.75	47.15	0.95	56.75	1.05	62.00	1.25	74.40
59	0.50	29.75	0.75	44.75	0.80	47.95	0.90	57.65	1.00	63.00	1.25	75.65
60	0.45	30.20	0.70	45.45	0.75	48.70	0.95	58.60	1.05	64.05	1.25	76.90
61	0.45	30.65	0.70	46.15	0.80	49.50	0.95	59.55	1.00	65.05	1.20	78.10
62	0.45	31.10	0.70	46.85	0.75	50.25	0.90	60.45	1.05	66.10	1.25	79.35
63	0.45	31.55	0.75	47.60	0.75	51.00	0.95	61.40	1.00	67.10	1.25	80.60
64	0.50	32.05	0.70	48.30	0.80	51.80	0.95	62.35	1.05	68.15	1.25	81.85
65	0.45	32.50	0.70	49.00	0.75	52.55	0.90	63.25	1.00	69.15	1.25	83.10
66	0.45	32.95	0.75	49.75	0.75	53.30	0.95	64.20	1.05	70.20	1.20	84.30
67	0.45	33.40	0.70	50.45	0.80	54.10	0.95	65.15	1.00	71.20	1.25	85.55
68	0.45	33.85	0.70	51.15	0.75	54.85	0.90	66.05	1.05	72.25	1.25	86.80
69	0.50	34.35	0.70	51.85	0.80	55.65	0.95	67.00	1.00	73.25	1.25	88.05
70	0.45	34.80	0.75	52.60	0.75	56.40	0.95	67.95	1.05	74.30	1.25	89.30

## Attachment to Response to UPS/USPS-T33-11 (b)

## Calculation of Proposed Express Mail Rates

Proposed Rate equals add'l cost per pound plus Proposed Rate for Previous Weight Step

Weight up to	Same Day Airport		Custom Designed		Weight up to	PO to PO		PO to Addressee	
	Add'l Pound	Proposed Rates	Add'l Pound	Proposed Rates		Add'l Pound	Proposed Rates	Add'l Pound	Proposed Rates
0.5		\$9.25		\$9.50	0.5		\$10.50		\$11.25
1	1.50	10.75	4.00	13.50	2	1.75	12.25	3.70	14.95
2	0.50	11.25	0.25	13.75	3	1.75	14.00	3.05	18.00
3	1.00	12.25	1.75	15.50	4	1.75	15.75	2.25	20.25
4	1.00	13.25	1.85	17.35	5	2.00	17.75	1.75	22.00
5	1.00	14.25	2.40	19.75	6	3.25	21.00	2.75	24.75
6	1.25	15.50	3.00	22.75	7	1.50	22.50	2.25	27.00
7	1.00	16.50	1.50	24.25	8	1.00	23.50	0.75	27.75
8	1.25	17.75	1.80	25.75	9	1.00	24.50	0.75	28.50
9	1.25	19.00	1.80	27.25	10	1.25	25.75	1.50	30.00
10	1.25	20.25	1.80	28.75	11	1.00	26.75	0.75	30.75
11	1.25	21.50	0.75	29.50	12	1.00	27.75	0.75	31.50
12	1.25	22.75	0.75	30.25	13	1.25	29.00	0.75	32.25
13	1.25	24.00	0.75	31.00	14	2.00	31.00	1.25	33.50
14	1.25	25.25	0.75	31.75	15	1.00	32.00	0.75	34.25
15	1.25	26.50	0.75	32.50	16	1.10	33.10	1.25	35.50
16	1.25	27.75	1.50	34.00	17	1.45	34.55	1.50	37.00
17	1.25	29.00	0.50	34.50	18	1.45	36.00	1.50	38.50
18	1.25	30.25	1.50	36.00	19	1.45	37.45	1.50	40.00
19	1.25	31.50	1.50	37.50	20	0.80	38.25	0.75	40.75
20	1.25	32.75	1.00	38.50	21	1.75	40.00	1.25	42.00
21	1.25	34.00	2.00	40.50	22	1.00	41.00	1.00	43.00
22	1.25	35.25	0.50	41.00	23	1.00	42.00	1.25	44.25
23	1.25	36.50	2.00	43.00	24	1.00	43.00	1.45	45.70
24	1.25	37.75	1.00	44.00	25	1.00	44.00	1.50	47.20
25	1.25	39.00	1.00	45.00	26	1.20	45.20	1.45	48.65
26	1.25	40.25	1.50	46.50	27	1.45	46.65	1.45	50.10
27	1.25	41.50	1.00	47.50	28	1.45	48.10	1.45	51.55
28	1.25	42.75	1.00	48.50	29	1.45	49.55	1.45	53.00
29	1.25	44.00	1.50	50.00	30	1.45	51.00	1.50	54.50
30	1.25	45.25	0.80	50.80	31	1.50	52.50	1.45	55.95
31	1.25	46.50	1.45	52.25	32	1.45	53.95	1.45	57.40
32	1.10	47.60	1.45	53.70	33	1.45	55.40	1.45	58.85
33	1.10	48.70	1.45	55.15	34	1.45	56.85	1.45	60.30
34	1.10	49.80	1.50	56.65	35	1.45	58.30	1.45	61.75
35	1.10	50.90	1.45	58.10	36	1.50	59.80	1.50	63.25
36	1.10	52.00	1.45	59.55	37	1.45	61.25	1.45	64.70
37	1.10	53.10	1.45	61.00	38	1.45	62.70	1.45	66.15
38	1.10	54.20	1.45	62.45	39	1.45	64.15	1.45	67.60
39	1.10	55.30	1.50	63.95	40	1.45	65.60	0.10	67.70
40	1.10	56.40	1.45	65.40	41	0.90	66.50	1.45	69.15
41	1.10	57.50	1.45	66.85	42	0.70	67.20	1.45	70.60
42	1.10	58.60	1.45	68.30	43	1.40	68.60	1.40	72.00
43	1.10	59.70	1.45	69.75	44	1.45	70.05	1.45	73.45
44	1.10	60.80	1.45	71.20	45	1.40	71.45	1.40	74.85
45	1.10	61.90	1.50	72.70	46	1.45	72.90	1.40	76.25
46	1.10	63.00	1.45	74.15	47	0.60	73.50	0.30	76.55
47	1.10	64.10	1.45	75.60	48	1.10	74.60	1.40	77.95
48	1.05	65.15	1.45	77.05	49	1.40	76.00	1.40	79.35
49	1.00	66.15	1.45	78.50	50	1.40	77.40	1.40	80.75
50	1.00	67.15	1.45	79.95	51	1.40	78.80	1.40	82.15
51	1.00	68.15	0.30	80.25	52	1.40	80.20	1.40	83.55
52	1.00	69.15	1.45	81.70	53	1.45	81.65	1.45	85.00
53	1.00	70.15	1.40	83.10	54	1.40	83.05	1.40	86.40
54	1.00	71.15	1.45	84.55	55	1.40	84.45	1.40	87.80
55	1.00	72.15	1.40	85.95	56	1.40	85.85	1.40	89.20
56	1.00	73.15	1.50	87.45	57	1.40	87.25	1.40	90.60
57	1.00	74.15	1.40	88.85	58	1.40	88.65	1.45	92.05
58	1.00	75.15	1.45	90.30	59	1.45	90.10	1.40	93.45
59	1.00	76.15	1.45	91.75	60	1.40	91.50	1.40	94.85
60	1.00	77.15	1.40	93.15	61	1.40	92.90	1.40	96.25
61	1.00	78.15	1.45	94.60	62	1.40	94.30	1.40	97.65
62	1.00	79.15	1.45	96.05	63	1.40	95.70	1.40	99.05
63	1.00	80.15	1.45	97.50	64	1.45	97.15	1.45	100.50
64	1.00	81.15	1.40	98.90	65	1.40	98.55	1.40	101.90
65	1.00	82.15	1.45	100.35	66	1.40	99.95	1.40	103.30
66	1.00	83.15	1.45	101.80	67	1.40	101.35	1.40	104.70
67	1.00	84.15	1.40	103.20	68	1.40	102.75	1.40	106.10
68	1.00	85.15	1.50	104.70	69	1.40	104.15	1.40	107.50
69	1.00	86.15	1.40	106.10	70	1.45	105.60	1.45	108.95
70	1.00	87.15	1.45	107.55					

UPS/USPS-T33-12. Referring to page 25 of your testimony, please explain the rationale for the average haul estimates of 250 miles for local, 1,2, and 3 surface pounds, and 350 for zone 4 surface pounds of priority mail, and identify all evidence supporting those estimates.

**Response:**

The actual purchased transportation average hauls for pieces paid at the zone L,1,2,3 (combined) and zone 4 rates are not available. I developed surface pound miles as follows:

Surface pounds for zone L,1,2,3 (combined) and zone 4 (as discussed at page 25) are calculated in USPS-33P. (Please read USPS-33P footnote 3 which explains the calculation of zone L,1,2,3 (combined) surface pound miles in column 8 and footnote 4 which explains the calculation of zone 4 surface pound miles in column 8. In each case, the first part of the expression shows the calculation of surface pounds, i.e.- zone 1,2,3, (combined) surface pounds equal non-local pounds in column 7 minus air pounds in column 5 and zone 4 surface pounds equal postage pounds in column 7 minus air pounds in column 5.)

It was then necessary to develop an average haul for zone 1,2 3, (combined) and zone 4 to calculate surface pound miles. (Please refer again to USPS-33P footnotes 3 and 4 where the second part of the expression "x 250" and "x 350" explains that surface pounds are multiplied by the average hauls to estimate surface pound miles for zone L,1,2,3 (combined) and zone 4, respectively.) Initially, I considered using the mid-point of the great circle mile range for zone

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

L,1,2,3 (combined), 150 miles (1 mile to 300 miles), and for zone 4, 450 miles (301 miles to 600 miles). Using these mid-point miles proved unacceptable. The resultant average pound charge (as calculated at USPS-330, column 14) for zone 4 was greater than the average pound charge for zone 5. In addition, the zone 4 average pound charge was over twice as much than the zone L,1, 2, 3 charge. Both were implausible results.

Reviewing these preliminary results, I recognized that, in general, circuitry decreases with distance for surface transportation. As such, all things being equal, the mid-point of the great circle miles understates actual average haul for zone L, 1,2, 3 (combined) relative to zone 4. I then judgmentally added 100 miles to the zone L, 1, 2, 3 (combined) mid-point of the great circle miles and subtracted 100 miles from the zone 4 mid-point great circle miles. This is how the 250 miles and 350 mile average hauls were determined to calculate surface pound-miles. I considered the result acceptable because the average pound charge for zone 4 is less than for zone 5 (64.3 and 69.2 cents, respectively; see USPS-330 at column 14), and the zone 4 average pound charge is one and one-half times greater than zone L, 1, 2, 3 (combined) (64.3 and 41.4 cents respectively; See USPS-330 at column 14).

UPS/USPS-T33-13. Referring to Exhibits USPS-33K and USPS-33L of your testimony, please provide a complete description of all data sources, calculations, and other assumptions applied in preparing the data in the exhibits.

**Response:**

USPS-33K, Page 1 of 2, FY 1996 Volume, is derived by summing nonpresorted and presorted volume by rate cell in LR-H-145 B-1, page 1 and 2 and B-2, page 1 and 2, respectively. LR-H-145 is the Fiscal Year 1996 "Billing Determinants" which are the official estimates of revenues and pieces for 1996 which is the base year period in this filing. The Priority Mail volumes are contained in Section B. The volumes separated between nonpresorted and presorted are not displayed in the exhibit USPS-33K but are contained in PRIO97.XLS, Worksheet 33-K. USPS-33K shows the sum of the volumes by weight cell. As discussed below, the volumes reported in LR-H-145, USPS-33K, and USPS-33L are not displayed with the breakout of the non-flat rate two-pound volume between 1- and 2- pound pieces. The volumes separated between nonpresorted and presorted including the 1- and 2- pound breakout from worksheet are provided in the attachment to this response.

USPS-33K, Page 2 of 2, FY 1996 Calculated Revenue, is derived by multiplying nonpresorted and presorted volume by rate cell in LR-H-145 B-1, page 1 and 2 and B-2, page 1 and 2 times the nonpresorted and presorted rates in LR-H-145 B-1 page 3 and 4 and B-2 page 3 and 4, respectively and summing the result by rate cell.

USPS-33K, Test Year Before Rates Volume, is derived by taking the ratio of TYBR total volume forecast (USPS-T-2, Table 1 at 5) divided by FY 1996 total volume (USPS-33K, Page1 of 2) ( $1,123,760,000 / 937,272,598 = 1.198968158$ ) and multiplying FY 1996 Volume (USPS-33K, Page 1 of 2) by rate cell times the ratio.

USPS- 33 L, page 2 of 3, Test Year Before Rates Postage Pounds, is derived by multiplying the test year before rates volume (USPS-33L, page 1 of 3) by cell times postage weight. In the case of flat rate envelopes and 1- pound pieces the postage weight of 2 pounds is not applied. Flat rate and one pound pieces are multiplied by 1 pound. These pieces are not displayed in USPS-33L but can be found in the spreadsheet file PRIO97.XLS. The detail volume figures, calculations and results are displayed and documented in the attachment to this response.



## Attachment to Response to UPS/USPS-T33-13

Detail of USPS-33 including breakout of 1- and 2- pound volume

NONPRESORTED PRIORITY MAIL  
FY 1996 VOLUME

Weight (Pounds)	L-1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	35,062,104	10,017,152	11,183,781	7,317,263	5,880,868	9,388,777	78,689,924
1	190,589,930	41,864,188	42,554,055	24,313,836	17,189,254	34,375,340	350,886,402
2	156,841,347	41,838,471	41,821,845	23,187,732	17,032,780	33,708,904	314,429,078
2	347,431,277	83,502,659	84,375,900	47,501,367	34,222,034	68,082,244	685,115,480
3	40,838,513	12,727,574	12,881,679	8,009,047	5,517,153	11,739,014	91,712,980
4	15,952,615	4,675,147	5,508,789	3,480,575	2,336,240	5,289,192	37,232,559
5	7,840,137	2,482,723	2,824,959	1,831,528	1,315,852	2,784,034	18,879,264
6	4,291,876	1,413,441	1,643,648	862,330	633,753	1,746,739	10,911,588
7	2,568,085	974,987	987,965	703,111	567,312	1,148,282	6,919,771
8	1,852,023	598,212	608,546	448,327	391,817	872,536	4,569,461
9	1,108,517	428,800	556,337	257,770	243,970	584,412	3,179,805
10	788,213	330,726	392,315	203,431	213,507	451,305	2,379,498
11	541,470	210,501	259,515	180,212	180,785	414,331	1,776,815
12	312,771	137,002	264,228	139,036	128,551	338,771	1,318,358
13	316,121	92,593	182,064	114,271	69,533	262,305	1,047,517
14	223,481	95,497	202,809	87,645	77,821	223,748	910,980
15	192,788	59,966	114,594	65,707	52,913	155,370	841,336
16	211,479	44,556	51,917	54,273	52,591	168,759	583,575
17	158,800	68,695	55,071	35,512	45,192	151,288	512,359
18	110,698	55,545	62,145	31,944	39,158	143,978	443,485
19	88,208	24,915	63,233	30,535	42,796	119,448	367,131
20	85,889	31,674	47,204	20,457	31,414	91,803	308,222
21	69,394	20,411	39,784	14,300	19,253	101,420	264,541
22	81,144	24,761	28,037	18,273	15,378	65,628	231,220
23	125,284	23,522	17,893	13,066	22,482	62,524	264,600
24	56,365	10,657	22,588	15,891	18,171	59,329	180,780
25	58,705	21,927	13,068	21,725	9,261	40,282	162,997
26	78,548	13,138	15,485	6,475	10,529	30,298	154,483
27	32,459	12,023	23,808	9,432	11,803	28,819	115,945
28	35,831	5,563	10,151	6,562	17,004	24,399	99,310
29	27,135	2,893	8,809	2,823	7,333	19,005	67,797
30	30,842	11,789	7,073	3,345	11,150	18,077	80,258
31	23,785	33,378	8,004	11,829	14,299	18,983	108,239
32	22,513	12,888	13,777	10,773	4,904	17,592	91,448
33	23,728	7,853	25,159	6,997	3,588	22,700	89,805
34	18,381	3,726	2,522	6,587	6,438	13,144	48,798
35	26,484	1,789	9,915	6,397	4,546	13,110	62,221
36	8,862	11,243	3,671	5,926	3,958	14,472	48,133
37	5,528	6,828	1,224	4,185	1,581	13,480	32,815
38	20,835	6,527	3,222	2,132	2,986	10,897	48,379
39	15,064	2,170	3,540	3,745	1,957	12,413	38,889
40	10,844	2,127	8,684	2,890	1,998	12,180	38,491
41	8,869	4,620	192	460	5,471	10,471	30,084
42	5,548	3,501	10,320	1,654	4,839	8,776	32,439
43	1,581	412	1,841	3,919	240	2,636	10,929
44	8,292	1,393	2,651	1,088	2,133	3,508	19,085
45	987	1,284	808	2,293	1,184	4,185	10,519
46	1,792	3,079	822	1,663	997	6,752	15,105
47	1,547	578	178	1,297	833	2,560	7,019
48	2,859	182	1,397	1,278	1,037	2,198	8,929
49	2,847	365	687	1,019	1,075	5,491	11,284
50	4,549	272	232	629	353	7,689	13,725
51	6,374	2,453	0	419	0	1,440	10,686
52	2,451	979	983	883	6,143	7,888	19,328
53	2,075	330	24	2,926	822	874	7,051
54	974	0	2,535	747	0	18	4,274
55	470	426	0	157	710	4,001	5,764
56	1,013	1,029	555	170	573	1,732	5,072
57	2,821	0	0	0	235	2,405	5,261
58	452	0	241	1,778	221	3,806	6,495
59	383	458	0	894	1,780	1,361	4,855
60	106	42	371	1,028	480	828	2,836
61	2,226	0	0	0	394	260	2,880
62	2,859	0	24	0	39	1,888	4,410
63	1,232	0	470	0	602	737	3,040
64	378	0	865	0	0	181	1,254
65	238	0	24	19	0	208	487
66	457	0	0	0	0	480	918
67	72	5,975	144	0	94	906	6,985
68	649	0	0	0	0	552	1,201
69	1,123	5,289	0	181	0	211	6,803
70	3,368	0	54	88	0	0	3,511
TOTAL	480,426,124	118,239,783	122,546,393	71,888,862	52,227,650	104,840,524	929,969,235

## Attachment to Response to UPS/USPS-T33-13

Detail of USPS-33 including breakout of 1- and 2- pound volume

PRESORTED PRIORITY MAIL  
FY 1996 VOLUME

Weight (Pounds)	hide red rows						Total
	<u>L1,2&amp;3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>	
Flat Rate	293,522	64,972	179,517	38,352	58,155	37,725	672,242
1	1,831,341	411,846	486,209	117,901	156,012	394,337	3,397,646
2	1,121,626	243,078	192,694	104,767	101,610	139,245	1,903,020
2	2,952,967	654,924	678,903	222,669	257,622	533,582	5,300,667
3	654,264	109,760	49,802	28,516	76,681	37,558	956,581
4	69,636	18,001	12,181	8,653	15,958	2,842	127,281
5	106,777	2,531	8,809	749	-	3,277	121,944
6	47,874	5,207	2,219	216	741	2,750	59,008
7	5,618	2,006	1,886	647	881	4,927	15,964
8	4,825	317	371	-	1,245	3,631	10,369
9	6,932	980	1,465	-	-	240	9,617
10	5,410	1,178	875	-	179	78	7,719
11	767	13	-	-	-	-	780
12	3,048	-	-	-	-	1,384	4,432
13	207	992	-	-	526	526	2,252
14	-	689	-	-	3,422	1,649	5,760
15	546	-	-	-	-	526	1,073
16	130	-	-	-	13	-	142
17	260	-	-	-	504	-	764
18	-	-	-	-	-	-	-
19	311	-	-	39	-	-	350
20	155	436	-	-	-	-	591
21	-	97	-	-	-	-	97
22	211	-	-	-	-	324	534
23	78	-	-	-	-	-	78
24	-	-	-	-	-	-	-
25	-	-	-	-	-	-	-
26	840	-	-	-	-	-	840
27	24	-	-	164	-	-	188
28	-	-	-	-	-	-	-
29	-	-	-	-	-	-	-
30	-	-	-	-	-	-	-
31	-	-	-	-	-	-	-
32	520	-	-	-	-	-	520
33	-	-	-	-	-	-	-
34	3,470	-	-	-	-	-	3,470
35	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-
39	-	-	-	81	-	-	81
40	-	-	-	-	-	-	-
41	-	-	-	-	-	-	-
42	-	-	-	-	-	-	-
43	-	-	-	-	-	-	-
44	-	-	-	-	-	-	-
45	-	-	-	-	-	-	-
46	-	-	-	-	-	-	-
47	-	-	-	-	-	-	-
48	-	-	-	-	-	-	-
49	-	-	-	-	-	-	-
50	-	-	-	-	-	-	-
51	-	-	-	-	-	-	-
52	-	-	-	-	-	-	-
53	-	-	-	-	-	-	-
54	-	-	-	-	-	-	-
55	-	-	-	-	-	-	-
56	-	-	-	-	-	-	-
57	-	-	-	-	-	-	-
58	-	-	-	-	-	-	-
59	-	-	-	-	-	-	-
60	-	-	-	-	-	-	-
61	-	-	-	-	-	-	-
62	-	-	-	-	-	-	-
63	-	-	-	-	-	-	-
64	-	-	-	-	-	-	-
65	-	-	-	-	-	-	-
66	-	-	-	-	-	-	-
67	-	-	-	-	-	-	-
68	-	-	-	-	-	-	-
69	-	-	-	-	-	-	-
70	-	-	-	-	-	-	-
TOTAL	4,158,393	862,103	935,828	300,095	415,926	631,019	7,303,363

## Attachment to Response to UPSAUSPS-T33-13

Detail of USPS-33 including breakout of 1- and 2- pound volume  
 NONPRESORTED PRIORITY MAIL  
 TEST YEAR BEFORE RATES VOLUMES

Weight (Pounds)	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	42,062,325	12,010,246	13,408,973	8,773,185	8,811,180	11,256,845	84,322,734		
1	228,511,258	48,854,035	51,020,957	29,151,275	20,806,368	41,214,938	420,461,830		
2	188,047,781	50,182,864	50,143,080	27,801,362	20,421,761	40,413,504	376,890,452		
3	416,569,038	100,117,029	101,164,017	56,952,827	41,031,129	81,828,443	797,452,282		
4	46,864,076	15,259,956	15,444,723	9,822,583	8,814,891	14,074,704	109,980,943		
5	19,126,678	5,805,353	5,804,863	4,149,119	2,801,078	6,353,583	44,840,853		
6	9,180,281	2,976,706	3,387,036	2,185,944	1,577,864	3,338,005	22,635,636		
7	5,145,583	1,884,670	1,870,881	1,177,782	888,843	2,084,285	13,082,645		
8	3,079,052	1,168,978	1,180,508	843,007	888,198	1,376,754	8,296,586		
9	1,880,723	717,237	727,229	637,530	469,776	1,046,143	5,478,639		
10	1,329,077	513,878	867,030	309,057	282,512	700,691	3,812,245		
11	845,043	386,530	470,373	243,807	256,968	541,100	2,852,940		
12	719,206	252,384	311,151	228,058	182,776	496,770	2,130,344		
13	375,002	184,261	318,801	186,700	151,730	406,175	1,580,670		
14	379,019	115,016	231,034	137,007	83,368	314,496	1,255,839		
15	267,923	114,498	243,162	105,083	83,304	268,266	1,092,237		
16	231,144	71,897	137,396	78,780	63,441	186,284	768,941		
17	253,566	53,421	82,247	65,071	63,065	202,337	699,688		
18	187,759	82,363	86,029	42,578	64,184	181,380	614,302		
19	132,723	86,596	74,510	38,300	48,947	172,623	531,700		
20	103,358	29,872	75,814	36,510	51,311	143,214	440,179		
21	102,955	37,977	66,595	24,528	37,665	109,829	369,549		
22	83,202	24,472	47,676	17,145	23,083	121,569	317,177		
23	87,289	29,688	33,615	19,510	18,438	78,686	277,225		
24	150,211	28,203	21,213	15,701	26,955	74,964	317,247		
25	67,580	12,778	27,056	18,813	19,388	71,134	216,749		
26	67,987	26,290	15,704	26,047	11,103	48,297	195,428		
27	94,177	15,752	18,578	7,763	12,624	36,326	185,220		
28	38,917	14,415	28,306	11,308	13,912	32,155	139,014		
29	42,720	6,670	12,171	7,867	20,387	29,253	119,069		
30	32,534	3,468	10,561	3,145	8,792	22,786	81,286		
31	36,979	14,110	8,480	4,011	13,369	19,275	96,225		
32	28,494	40,020	9,596	14,182	17,145	20,339	129,775		
33	26,992	15,452	18,519	23,707	5,879	21,092	109,841		
34	28,450	9,176	30,165	8,389	4,277	27,217	107,673		
35	19,540	4,467	3,024	7,898	7,719	15,760	58,507		
36	31,754	2,121	11,888	7,870	5,450	15,718	74,801		
37	10,625	13,480	4,402	7,105	4,746	17,352	57,708		
38	6,677	8,186	1,467	4,894	1,896	16,174	39,344		
39	24,981	7,825	3,863	2,557	3,556	12,825	55,607		
40	18,062	2,802	4,244	4,490	2,346	14,883	46,826		
41	13,001	2,550	10,412	3,189	2,384	14,604	46,150		
42	10,633	5,540	230	552	6,560	12,564	36,070		
43	6,652	4,188	12,373	1,863	5,562	8,125	38,893		
44	1,895	494	2,208	4,899	288	3,520	13,104		
45	9,942	1,670	3,178	1,305	2,557	4,206	22,859		
46	1,183	1,540	726	2,750	1,420	4,894	12,613		
47	2,148	3,892	985	1,894	1,196	8,095	18,110		
48	1,855	891	210	1,555	999	3,106	8,416		
49	3,428	195	1,675	1,532	1,243	2,633	10,706		
50	3,174	438	824	1,222	1,289	6,584	13,530		
51	5,454	326	278	754	423	9,219	16,455		
52	7,842	2,941	0	503	0	1,726	12,813		
53	2,839	1,174	1,179	1,058	7,365	9,457	23,173		
54	2,488	395	29	3,508	966	1,048	8,454		
55	1,188	0	3,039	895	0	22	5,124		
56	563	511	0	188	852	4,797	6,910		
57	1,215	1,234	865	203	687	2,076	6,081		
58	3,142	0	0	0	282	2,884	6,308		
59	541	0	289	2,129	265	4,563	7,787		
60	480	549	0	1,072	2,110	1,631	5,822		
61	128	51	445	1,233	551	993	3,400		
62	2,668	0	0	0	473	312	3,453		
63	3,188	0	29	0	47	2,024	5,287		
64	1,477	0	563	0	722	883	3,645		
65	454	0	834	0	0	217	1,504		
66	285	0	29	23	0	247	583		
67	547	0	0	0	0	551	1,098		
68	87	7,164	173	0	113	837	8,374		
69	778	0	0	0	0	662	1,440		
70	1,346	6,341	0	217	0	253	8,157		
71	4,039	0	65	106	0	0	4,209		
TOTAL	451,146,094	118,411,143	122,722,960	71,793,720	52,301,921	105,000,054	1,115,003,501		

Detail of USPS-33 including breakout of 1- and 2- pound volume  
 PRESORTED PRIORITY MAIL  
 TEST YEAR BEFORE RATES VOLUMES

Weight (Pounds)	1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	351,923	77,899	215,235	45,082	89,726	45,231	805,996
1	2,195,719	493,791	582,949	141,360	187,053	472,798	4,073,670
2	1,344,794	291,443	231,034	125,813	121,827	186,950	2,281,861
2	3,540,513	785,233	813,984	266,973	306,880	639,747	6,355,331
3	784,441	131,599	69,711	34,189	91,838	45,031	1,146,910
4	83,492	21,582	14,805	10,387	19,133	3,408	152,606
5	128,023	3,035	10,322	896	0	3,829	146,207
6	57,400	6,243	2,880	259	889	3,298	70,749
7	6,736	2,405	2,281	775	1,056	6,907	19,141
8	5,785	380	444	0	1,493	4,353	12,456
9	8,311	1,175	1,756	0	0	288	11,531
10	6,486	1,412	1,048	0	215	83	9,254
11	920	15	0	0	0	0	935
12	3,854	0	0	0	0	1,659	5,513
13	249	1,189	0	0	631	631	2,700
14	0	826	0	0	4,103	1,977	6,906
15	655	0	0	0	0	631	1,286
16	155	0	0	0	15	0	171
17	312	0	0	0	604	0	916
18	0	0	0	0	0	0	0
19	373	0	0	46	0	0	419
20	186	523	0	0	0	0	709
21	0	116	0	0	0	0	116
22	252	0	0	0	0	388	640
23	94	0	0	0	0	0	94
24	0	0	0	0	0	0	0
25	0	0	0	0	0	0	0
26	1,007	0	0	0	0	0	1,007
27	29	0	0	196	0	0	225
28	0	0	0	0	0	0	0
29	0	0	0	0	0	0	0
30	0	0	0	0	0	0	0
31	0	0	0	0	0	0	0
32	623	0	0	0	0	0	623
33	0	0	0	0	0	0	0
34	4,161	0	0	0	0	0	4,161
35	0	0	0	0	0	0	0
36	0	0	0	0	0	0	0
37	0	0	0	0	0	0	0
38	0	0	0	0	0	0	0
39	0	0	0	97	0	0	97
40	0	0	0	0	0	0	0
41	0	0	0	0	0	0	0
42	0	0	0	0	0	0	0
43	0	0	0	0	0	0	0
44	0	0	0	0	0	0	0
45	0	0	0	0	0	0	0
46	0	0	0	0	0	0	0
47	0	0	0	0	0	0	0
48	0	0	0	0	0	0	0
49	0	0	0	0	0	0	0
50	0	0	0	0	0	0	0
51	0	0	0	0	0	0	0
52	0	0	0	0	0	0	0
53	0	0	0	0	0	0	0
54	0	0	0	0	0	0	0
55	0	0	0	0	0	0	0
56	0	0	0	0	0	0	0
57	0	0	0	0	0	0	0
58	0	0	0	0	0	0	0
59	0	0	0	0	0	0	0
60	0	0	0	0	0	0	0
61	0	0	0	0	0	0	0
62	0	0	0	0	0	0	0
63	0	0	0	0	0	0	0
64	0	0	0	0	0	0	0
65	0	0	0	0	0	0	0
66	0	0	0	0	0	0	0
67	0	0	0	0	0	0	0
68	0	0	0	0	0	0	0
69	0	0	0	0	0	0	0
70	0	0	0	0	0	0	0
TOTAL	4,985,781	1,033,634	1,122,028	359,804	498,682	756,571	8,756,499

Attachment to Response to UPS/USPS-T33-13

Development of USPS-33L, Page 2 of 3 Test Year Before Rates Postage Pounds

Total Priority Mail  
Test Year Before Rates Volumes

Detail showing 1 pound Priority Pieces from PRIO97.XLS

<u>Line No.</u>	<u>Source / Calculation</u>	<u>Weight to: (Pounds)</u>	<u>L 1,2&amp;3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>	<u>Total</u>
1	PRIO97.xls	Flat Rate	42,414,248	12,088,145	13,624,208	8,819,148	6,880,905	11,302,078	95,128,730
2	PRIO97.xls	1	230,706,977	50,447,825	51,603,906	29,292,635	20,796,421	41,687,738	424,535,499
3	PRIO97.xls	2	189,392,575	50,454,437	50,374,095	27,928,964	20,543,588	40,580,454	379,272,113
4	Line 2 + Line 3	2	420,099,551	100,902,262	101,978,000	57,219,599	41,340,009	82,268,190	803,807,612

Total Priority Mail  
Test Year Before Rates Postage Pounds

5	Line 1 x 1	Flat Rate	42,414,248	12,088,145	13,624,208	8,819,148	6,880,905	11,302,078	95,128,730
6	Line 2 X 1	1	230,706,977	50,447,825	51,603,906	29,292,635	20,796,421	41,687,738	424,535,499
7	Line 3 x 2	2	378,785,149	100,908,874	100,748,189	55,853,929	41,087,178	81,160,908	758,544,228
8	Line 6 + Line 7	2	609,492,126	151,356,699	152,352,095	85,146,564	61,883,598	122,848,644	1,183,079,725

UPS/USPS-T33-14. Referring to Exhibit USPS-33Q of your testimony, please provide a complete description of all data sources, calculations and other assumptions applied in developing the distance related percentages for each of the air transportation cost elements indicated in the exhibit.

**Response:**

The development of distance related and non-distance related transportation costs can be found in Postal Service witness Alexandrovich's (USPS-T-5) Workpaper B, Worksheet 14.0.7. In that worksheet, witness Alexandrovich treats air linehaul costs as distance-related and air terminal charges as non-distance-related.

Rail, highway and water costs received the same treatment as the Commission gave them in its R94-1 Decision. See Postal Rate Commission Opinion and Recommended Decision, Docket No. R94-1 at II-54 item 5 and V-38 para. 5124. Rail costs are treated as 100% distance-related. Highway costs associated with intra-SCF and area bus transportation are non-distance-related. All other highway costs are distance-related. Inland water costs are treated as non-distance related; offshore water costs are treated as distance-related. See also, witness Alexandrovich's response to interrogatory NDMS T13-19.

In USPS-33Q Test Year cost by component - Air, Highway, Railroad and Water - from USPS-T-15, Exhibit USPS-15E (14.1 ) are apportioned on the summarized base year 1996 splits by component. Finally, the surface distance and non-distance related test year cost are summarized. The result is shown in the table labeled " Summary of Test Year Before Rates Transportation Cost" in the USPS-33Q.

**UPS/USPS-T33-15. Please provide:**

- (a) data necessary to determine the relationship between cubic feet and weight (pounds) for Priority Mail, with the underlying numbers in machine-readable format. As an example, see Postal Service witness Hatfield's testimony (USPS-T-16) at Appendix II, Appendix IV, Exhibit USPS-16B, and at page 14, Figure 11-5.
- (b) Please provide by zone and weight, total cubic feet of Priority Mail (as an example, see Exhibit USPS-33L of your testimony).

**Response:**

- (a) Data necessary to determine the relationship between cubic feet and weight (pounds) for Priority Mail by weight increment have not been developed.
- (b) See response to (a).



**UPS/USPS-T33-16.** Please refer to Exhibit USPS-33P of your testimony.

- (a) Please describe how the average haul lengths of 250 miles and 350 miles as used in footnotes 3 and 4, respectively, are determined.
- (b) Please explain why the average haul values from Exhibit USPS-33P, columns 2 and 4, are not used instead of 250 and 350. What would be the consequences of using the values from columns 2 and 4?
- (c) Referring to Exhibit USPS-33O of your testimony, please explain why dividing column 2 by column 4 yields a mileage figure different from either of the two figures referenced in parts (a) and (b) above. What would be the consequences of using the values from Exhibit USPS-33O?

**Response:**

- (a) See my response to UPS/USPS-T33-12.
- (b) The average haul values from Exhibit USPS-33P, columns 2 and 4 are the average hauls for Priority Mail flown on the Eagle network and Passenger Air transportation, respectively. As such, the data is not appropriate for the development of a distribution key for surface transportation pound miles. I have not studied the consequences of using the values from columns 2 and 4 as a proxy for surface average hauls.
- (c) As explained in USPS-33O, footnote 1, column 2 is from USPS-33P, column 6, total passenger air pound miles. Total passenger air pound miles is derived by multiplying passenger air pounds (USPS-33P, column 3) times passenger air average haul (USPS-33P, column 4). This is the distribution key used to distribute distance related air cost to zones. (USPS-33O, column 2). As explained in footnote 2, column 4 is from USPS-33P, column 5 total air pounds. Total air pounds is derived by adding Eagle pounds (USPS-33P, column 1) to Passenger Air Pounds

(USPS-33P, column 3). This is the distribution key used to distribute non-distance related air cost to zone (USPS-33O, column 5). Dividing column 2 by column 4 will not yield either the 250 or 350 mile average haul estimates used for surface transportation cost distribution or the average haul for passenger air as shown in USPS-33P, column 4. Dividing column 2 by column 4 is inappropriate because column 2 is passenger air pound miles and column 4 is total air miles. The resultant average haul would have no analytical purpose.

**UPS/USPS-T33-17.** Please refer to Exhibit USPS-33P of your testimony.

- (a) Please explain in full what accounts for the difference in weight values between columns 5 and 7.
- (b) Please explain why the equation used in footnote 4 was not used in footnote 3.
- (c) Please explain why the equation in footnote 4 was not used for zones 5-8, despite having different values for columns 5 and 7.

**Response:**

(a) There are four reasons why the weight values differ between columns 5 and 7:

1. Column 5 is the actual weight of items with ACT Tag Designations of "P" identifier. In contrast, column 7 is the postage weight of Priority Mail. The postage weight is the number of pieces times postage weight as developed in Exhibit USPS-33L.
2. Column 5 is the actual weight of mail flown (as opposed to trucked).
3. Column 5 does not contain data on Priority Mail in containers.
4. In cases when Priority Mail sacks are inter-lined, (that is the sacks change airlines) the pounds in column 5 include two separate observations with distance of each flight as the determinant of the zone. The column 7 zone determination is based on the great circle distance the item is traveling.

(b) The equation in footnote 4 was not used in footnote 3 because footnote 4 refers to zone 4 where an average haul of 350 miles is applied. Footnote 3 refers to Zone L,1,2,3 where an average haul of 250 miles is applied.

(c) It is assumed that all Zone 5 through 8 Priority Mail is flown and does not travel on inter-SCF transportation. There is no need to estimate surface pound miles for Zones 5 through 8.

**UPS/USPS-T33-18.** Please refer to page 23, table 6, line 10, of your testimony, and provide a complete reference, including page, specific cites, and underlying numbers, for the Test Year After Rates Cost of \$2,068,016,000.

**Response:**

The reference on page 23, Table 6, line 6 is in error. It should read: "USPS-T-15, WP G, Table E, Col. 1 + USPS-T-15, WP E, Table E, col. 2"

**UPS/USPS-T33-19.** Please refer to page 26, lines 2-4, of your testimony, and explain how the Priority Mail rates were designed, based on costs (per pound and per piece) as reported in Exhibits USPS-33N and USPS-33O to your testimony. Include a detailed description of the entire design process, including an explanation of how the numbers in spreadsheet file PRIO97, tab "M,33Rp5", range K10..P81, were derived.

**Response:**

See my response to UPS/USPS-T33-11.

The values in PRIO97, tab "M,33Rp5", cells K10-K16, L10-L16, M10-M16, N10-N16, O10-O16, P10-P16, and K17-K40 were derived as described in response to UPS/USPS-T33-11 part (a), 1.

The values in PRIO97, tab "M,33Rp5", cells K41-K81, L18-L81, M32-M81, N32-N81, and N18-N81 were derived by adding the net nontransportation cost per piece which includes markup and contingency (USPS-N33, Line 13) to the product of postage weight (the value in M,33Rp5 column J) times the pound charge (USPS-33O, column 14 for the relevant zone) and rounding the value to the next highest nickel. This is described in response to UPS/USPS-T33-11 part (a) 2. The values in cell L17 and M17-M31 are adjusted manually by adjusting the additional cost per pound as described in response UPS/USPS-T33, part (a) 2 to smooth the transitions across selected rate cells.

The values in PRIO97, tab "M,33Rp5", cells O21-O81 and P17-P81 are derived by adjusting the values as described in response to UPS/USPS-T33-11 part (a) 3.

**UPS/USPS-T33-20.** Please refer to page 26, lines 11-12, of your testimony, and explain how 16% was determined to be the increase ceiling, and why 16% is a better increase ceiling than, say, 10% or 20%.

**Response:**

Initially, my judgmentally determined goal was to limit the rate increase in any given cell to 15 % which was approximately double the average increase of 7.4 %. If determined solely by the allocated costs with the 120 % equal markup necessary to achieve the target cost coverage (see my response to UPS/USPS-T33-11), Zone 7 and 8 rates above 5 pounds would have increased over 20 percent on average. In the process of designing the rates for these rate cells, rounding the rates to the nearest nickel, the design led to a 16% increase for Zone 7, 70 pound rate.

**UPS/USPS-T33-21.** Please refer to page 29, line 20, and page 30, line 1, of your testimony, and explain what is meant by "I adjust ten percent factor and adjust the result by the year one percentage," in the context of Exhibit USPS-33R to your testimony.

**Response:**

The sentence should read "I adjust *the FY96 certified pieces to the test year after rates.*

*I then multiply the result by the ten percent adjustment factor and adjust the result by the year one percentage.*" The italicized words were inadvertently dropped in the text.

The calculation is documented in footnote 4, USPS-33R, page 4.



**UPS/USPS-T33-22.** Referring to Exhibit USPS-33N of your testimony, please provide specific source information (including page number), and the complete step-by-step documented derivation of data on lines 1, 2, 9, 11, 15, 16, and 20.

**Response:**

**USPS-33N:**

**Source/Derivation:**

Line 1	USPS-T-15, Exhibit USPS-15F, Page 1, Column 3
Line 2	USPS-T-15, Exhibit USPS-15E, Page 43, Column 5
Line 9	USPS-T-6, Table 1, Page 5, Column 2
Line 11	This line in the spreadsheet is used for modeling equal markup coverages for zoned rate pieces (i.e.- pieces greater than 5 pounds) to achieve the overall cost coverage target of 198%.  As discussed in response to UPS/UPSP-T33-11 the coverage was set at 220% (a markup of 120%).
Line 15	USPS-T-6, Table 1, Page 6, Column 3
Line 16	USPS-33R, Page 2 of 8, Column 1, row labeled "Total DC"
Line 20	USPS-33R, Page 2 of 8, Column 1, row labeled "Subtotal-new DC Priority"

**UPS/USPS-T33-23.** Refer to Exhibit USPS-33O of your testimony.

- (a) Please confirm that non-distance air TYBR cost (column 5) is distributed to zones based on air pounds (column 4).
- (b) Confirm that non-distance surface cost (column 10) is distributed to zones based on total postage pounds (column 7), i.e., air pounds plus surface pounds.
- (c) Explain this apparent discrepancy of using air pounds to distribute air costs while using surface pounds plus air pounds to distribute surface costs. If there is no discrepancy, please explain.

**Response:**

(a) Confirmed.

(b) I confirm that non-distance surface cost (column 10) is distributed to zones based on total postage pounds (column 7). I do not confirm that column 7 is air pounds plus surface pounds. Column 7 is postage pounds. All pieces of Priority Mail, whether moving between SCF's via air or surface, incur non-distance related surface transportation cost which includes Intra-SCF, Empty Equipment Costs and some Contract Terminal cost (see USPS-33Q). Total postage pounds is, therefore, the appropriate distribution key.

(c) See my response to (b).

**UPS/USPS-T33-24.** Referring to Exhibit USPS-33O of your testimony.

- (a) Please confirm that column 2 represents total air pound-miles, and explain any nonconfirmation.
- (b) Referring to Exhibit USPS-33P, please confirm that column 6, referenced in Exhibit USPS-33O as the source of column 2, represents passenger air pound-miles only. If confirmed, reconcile this apparent discrepancy that is causing Eagle pound-miles to be omitted from the analysis in USPS-33O. If not confirmed, please explain.

**Response:**

- (a) Not confirmed. Column 2 represents total passenger air pound miles.
- (b) Not applicable.

**UPS/USPS-T33-25.** Referring to Exhibit USPS-33O of your testimony.

- (a) Please confirm that dividing column 2 by column 4 will produce weighted average haul (e.g., zone 4 average haul is 65,013,879,030 divided by 159,024,765, or 409). Explain any nonconfirmation.
- (b) Referring to Exhibit USPS-33P of your testimony, columns 2 and 4, please explain how average haul is calculated (e.g., zone 4 shows average haul of 463 for Eagle, and 468 for passenger).
- (c) Reconcile the disparity of these two measures with the amount (350 miles) referenced in footnote 4 of Exhibit USPS-33P.

**Response:**

- (a) Not confirmed, see my response to UPS/USPS-T33-16(c).
- (b) See LR-H-191 which documents the development of the average haul figures.
- (c) These two measures relate to the average haul for Zone 4 Priority Mail items that travel by Eagle and Passenger Air transportation. The 350 mile figure relates to the average haul for Zone 4 Priority Mail moving by inter-SCF surface transportation.

**UPS/USPS-T33-26.** Referring to Exhibit USPS-33P, footnote 1, of your testimony, please explain how the value 1.1990 is derived.

**Response:**

As documented in the footnote the value 1.1990 is the ratio of fiscal year 96 volume to test year before rates volume (i.e. "PFY96vol/TYBRvol"). The value is calculated in cell I87 of spreadsheet 33L.

**UPS/USPS-T33-27.** Referring to Exhibit USPS-33P, footnotes 2 and 3, of your testimony, please provide specific numbers and the origins of the numbers used in these calculations.

**Response:**

Local Pounds is from R90-1, USPS-T-18 W/P III.B.1 Page 2 of 4, footnote 2.

Total TYBR 1, 2, 3, Postage Pounds is from R90-1, USPS-T-18, W/P III. 8. 5. Page 2 of 4, Total of Column 1.

**UPS/USPS-T33-28.** Referring to Exhibit USPS-33P of your testimony, please explain why "Total Air" refers to only passenger air and Eagle, whereas in Exhibit USPS-33Q, "Air Total" refers to numerous other categories of air transportation. Include in your answer an explanation of how air cost elements for Western, Christmas, Alaska, Hawaii, and air taxi are addressed in your analysis.

**Response:**

Western Air pounds are included in Eagle Air pounds. As regards Christmas, Alaska, Hawaii and air taxi pounds, air transportation data to distribute pounds to zones was not available. By relying on the Passenger Air (i.e.- Loose Sack and Container Rate) , Eagle, and Western Air pounds by zone as a distribution key for non-distance related total air costs, I implicitly assume that, in aggregate, the Christmas, Alaska, Hawaii and air taxi pounds are distributed to the zones in the same proportion. With regard to relying on the Passenger pound-miles (excluding Eagle and Western Air) as the distribution key for total distance-related air transportation cost, I deviate slightly from this assumption. I implicitly assume that, in aggregate, Eagle, Western Air, Christmas, Alaska, Hawaii and air taxi pound-miles are distributed to zones in the same proportion as Passenger Air pound-miles. I did not have pound-miles for Intra-Alaska Preferential, Intra-Alaska Non-preferential, Intra-Hawaii and Air Taxi. These accounts, in general, are associated with short haul movements. For this reason, I exclude Eagle pound-miles in the distance-related distribution because the Zone 8 average haul of 2901 miles for Eagle (compared to the 2582 average haul for Passenger Air) would skew the distribution toward Zone 8.

Given the lack of contradictory information, I believe these are appropriate assumptions.

To the extent that is not the case, there may be some imprecision in the distribution, but I have no reason to believe that such possible imprecision would have changed the proposed rate design.



**UPS/USPS-T33-29.** Referring to Exhibit USPS-33Q of your testimony, please explain why cost element Intra-SCF is 0% distance-related, but cost elements Inter-SCF and Intra-BMC are 100% distance-related, in apparent conflict with Postal Service witness Hatfield's testimony in USPS-T-16.

**Response:**

I've adopted the Commission's treatment as developed by witness Alexandrovich in USPS-T-5, WP-B, W/S 14.0.7. I do not agree that my treatment of transportation cost is in conflict with Witness Hatfield's. Our analyses differ because we are dealing with different categories of mail which are transported in a different manners on surface transportation. Standard B parcels are transported through the BMC network. In contrast, Priority Mail is transported on the surface preferential network.

Witness Hatfield 's testimony relates to the development of transportation cost to the rate categories of Standard B Parcel Post: inter-BMC, intra-BMC and destination BMC (DBMC). He examined transportation cost as it related to each of these rate categories. Witness Hatfield's analysis includes the classification of transportation cost by mode to local, intermediate and long distance. This classification scheme allows him to recognize the cost causing differences across these rate categories. For example, he treats the intermediate costs assigned to DBMC as distance related but treats the intermediate costs assigned to inter and intra-BMC as non-distance related. See USPS-T16 at 8-12.

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In the case of Priority Mail there is no requirement to develop cost below the subclass level. In addition, the relationship between the great circle distance a Priority Mail piece travels and the classification of highway accounts is much more straightforward than is

the case with parcel post. Priority Mail pieces without regard to zone are transported on intra-SCF transportation for movements to and from the SCF (with the exception of local pieces is adjusted for in my rate design). Therefore, treatment of Intra-SCF costs as non-distance related is appropriate. In the case of inter-SCF transportation cost Priority Mail is transported between SCF's. In this case, it is reasonable to conclude that there is a strong correlation between great circle miles of the mail piece and the cost of inter-SCF transportation. This treatment is analogous to Witness Hatfield treatment of inter-BMC costs as distance-related.

**UPS/USPS-T33-30.** Referring to Exhibit USPS-33Q of your testimony, please explain how the numbers are adjusted from base year to test year before rates.

**Response:**

See my response to UPS/USPS-T33-14. As discussed there, the test year costs by component-Air, Highway, Railroad and Water - (from USPS-T-15, Exhibit -15E (14.1) page 43) are apportioned on the summarized 1996 splits by component. That is, the ratio of 1996 distance-related component cost to total component cost is multiplied by the test year component cost to arrive at test year before rates distance related component cost. The remainder of test year component cost is treated as non-distance related.

**UPS/USPS-T33-31.** Spreadsheet PRIO97, tab 33J, makes reference to cells in another spreadsheet, identified as R98-WP. Please provide a machine-readable copy of spreadsheet R98-WP.

**Response:**

The spreadsheet reference was to a developmental version of the Express Mail worksheet. This was the basis for the error noted in response to UPS/USPS-T33-4. The corrected USPS-33J was attached to that response.

**UPS/USPS-T33-32.** Referring to spreadsheet PRIO97, sheet 33K, range A178..I180, please describe the process by which a package is categorized as a flat rate package, as opposed to a 1-pound or 2-pound package.

**Response:**

A package is categorized as a flat rate package if the contents are in a flat rate Express Mail Envelope.

**UPS/USPS-T33-33.** Refer to your response to UPS/USPS-T33-1(a)-(b)). In your response to 1(a), you say that the "goal of this network is to provide at least 96.5% on-time two-day service for all destinations within the Phase I area."

- (a) Please explain how this goal was set and if there is a delivery time goal for the other 3.5%.
- (b) Please elaborate on how the 3.5% that does not get delivered in two days are selected. Do they have common characteristics, (i.e., excessive girth or weight, or rural delivery areas in the Phase I area), or is it random chance?
- (c) Does this 3.5% target the small, individual customer? Please elaborate if there is any way a customer can determine if he or she is likely to be in this 3.5%.

**T33-33 Response;**

(a) 96.5 was deemed to be a desirable service target.

(b) No. The 3.5% that does not get delivered in two days occurs through random chance.

(c) No, please see the response above.

**UPS/USPS-T33-34.** Please indicate when each of the Phase I Priority Mail Processing Centers (PMPCs) will become active.

**Response:**

The following constitutes the planned activation dates for the PMPC's.

Miami FL	08-30-97
Jacksonville FL	09-13-97
Orlando FL	09-20-97
Newark NJ	09-27-97
Springfield MA	10-04-97
Rochester NY	01-03-98
New York Metro	01-10-98
Pittsburgh PA	01-17-98
Boston MA	01-24-98
Philadelphia PA	01-31-98

**UPS/USPS-T33-37.** Please elaborate on any plans the Postal Service has about entering into any Phase II, or other Phase contracts. If the Postal Service has plans to enter into other contracts, please explain when those plans will go into effect.

**Response:**

There are no plans to enter into a Phase II contract at this time.



**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-39.** Please refer to your response to interrogatory NDMS/USPS-T33-12. In the interrogatory NDMS asks, "...please explain in detail how the zoned rates are developed for each individual rate cell." Explain how the per-piece charge cost of \$2.33212 and the zoned pound charge are allocated to develop the initial set of rates, and provide the initial set of rates for Priority Mail.

**Response:**

As discussed in response to NDMS/USPS-T33-12 "an initial set of rates are developed by allocating the per-piece charge cost of \$2.33212.(USPS-33N, line 3 , includes markup and contingency and the zone rated pound charge (which includes the unzoned nontransportation cost per pound) shown in column (14) [USPS-33O] which includes markup and contingency." The markup for the set of initial rates was the target markup of 98% and the contingency is 1 %. As discussed in response to UPS/USPS-T33-13, with the exception of flat rate envelopes and one-pound pieces, the per-pound costs are allocated on postage weight. Flat rate and one-pound pieces are treated as one-pound pieces in the allocation of the per pound component of the initial rates. The allocated cost for flat rate one-pound and two pound pieces are then averaged to derive the initial rate for the two pound rate. Attached are the initial rates which are the starting point for rate design which is described in response to UPS/USPS-T33-11.

## Response to UPS/USPS-T33-39

## Initial Rates

Based on 98% Markup and 1 % Contingency

2033

Weight (Pounds)	<u>L 1,2&amp;3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
2	\$2.92	\$3.26	\$3.33	\$3.53	\$3.66	\$4.01
3	3.57	4.26	4.41	4.85	5.13	5.84
4	3.99	4.90	5.10	5.69	6.06	7.01
5	4.40	5.55	5.79	6.53	6.99	8.18
6	4.82	6.19	6.48	7.37	7.92	9.34
7	5.23	6.83	7.18	8.21	8.85	10.51
8	5.64	7.47	7.87	9.05	9.78	11.68
9	6.06	8.12	8.56	9.89	10.72	12.85
10	6.47	8.76	9.25	10.73	11.65	14.02
11	6.89	9.40	9.94	11.57	12.58	15.19
12	7.30	10.05	10.63	12.41	13.51	16.36
13	7.72	10.69	11.33	13.25	14.44	17.52
14	8.13	11.33	12.02	14.09	15.37	18.69
15	8.54	11.97	12.71	14.93	16.30	19.86
16	8.96	12.62	13.40	15.77	17.24	21.03
17	9.37	13.26	14.09	16.61	18.17	22.20
18	9.79	13.90	14.79	17.45	19.10	23.37
19	10.20	14.55	15.48	18.29	20.03	24.54
20	10.61	15.19	16.17	19.13	20.96	25.71
21	11.03	15.83	16.86	19.97	21.89	26.87
22	11.44	16.47	17.55	20.81	22.83	28.04
23	11.86	17.12	18.24	21.66	23.76	29.21
24	12.27	17.76	18.94	22.50	24.69	30.38
25	12.68	18.40	19.63	23.34	25.62	31.55
26	13.10	19.05	20.32	24.18	26.55	32.72
27	13.51	19.69	21.01	25.02	27.48	33.89
28	13.93	20.33	21.70	25.86	28.41	35.05
29	14.34	20.97	22.40	26.70	29.35	36.22
30	14.75	21.62	23.09	27.54	30.28	37.39
31	15.17	22.26	23.78	28.38	31.21	38.56
32	15.58	22.90	24.47	29.22	32.14	39.73
33	16.00	23.55	25.16	30.06	33.07	40.90
34	16.41	24.19	25.86	30.90	34.00	42.07
35	16.83	24.83	26.55	31.74	34.93	43.24
36	17.24	25.47	27.24	32.58	35.87	44.40
37	17.65	26.12	27.93	33.42	36.80	45.57
38	18.07	26.76	28.62	34.26	37.73	46.74
39	18.48	27.40	29.31	35.10	38.66	47.91
40	18.90	28.05	30.01	35.94	39.59	49.08
41	19.31	28.69	30.70	36.78	40.52	50.25
42	19.72	29.33	31.39	37.62	41.46	51.42
43	20.14	29.97	32.08	38.46	42.39	52.58
44	20.55	30.62	32.77	39.30	43.32	53.75
45	20.97	31.26	33.47	40.14	44.25	54.92
46	21.38	31.90	34.16	40.98	45.18	56.09
47	21.79	32.54	34.85	41.82	46.11	57.26
48	22.21	33.19	35.54	42.66	47.04	58.43
49	22.62	33.83	36.23	43.50	47.98	59.60
50	23.04	34.47	36.92	44.34	48.91	60.76
51	23.45	35.12	37.62	45.18	49.84	61.93
52	23.86	35.76	38.31	46.02	50.77	63.10
53	24.28	36.40	39.00	46.86	51.70	64.27
54	24.69	37.04	39.69	47.70	52.63	65.44
55	25.11	37.69	40.38	48.54	53.56	66.61
56	25.52	38.33	41.08	49.38	54.50	67.78
57	25.94	38.97	41.77	50.22	55.43	68.95
58	26.35	39.62	42.46	51.06	56.36	70.11
59	26.76	40.26	43.15	51.90	57.29	71.28
60	27.18	40.90	43.84	52.74	58.22	72.45
61	27.59	41.54	44.54	53.58	59.15	73.62
62	28.01	42.19	45.23	54.42	60.09	74.79
63	28.42	42.83	45.92	55.26	61.02	75.96
64	28.83	43.47	46.61	56.10	61.95	77.13
65	29.25	44.12	47.30	56.94	62.88	78.29
66	29.66	44.76	47.99	57.78	63.81	79.46
67	30.08	45.40	48.69	58.62	64.74	80.63
68	30.49	46.04	49.38	59.46	65.67	81.80
69	30.90	46.69	50.07	60.30	66.61	82.97
70	31.32	47.33	50.76	61.14	67.54	84.14

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

UPS/USPS-T33-40. Please refer to your response to interrogatory NDMS/USPS-T33-12. In your response, you state, "The rates thus developed form the basis for designing the proposed rates."

- (a) Confirm that "the rates" you speak of are the initial rates referred to in the preceding interrogatory.
- (b) Please explain how these rates form the basis for the rate design (i.e., how did you move from the initial rates to the proposed rates?).

**Response:**

(a) Confirmed.

(b) See response to USPS-T33-11. The initial rates are developed as a reference point from which the rate design proceeds. That is, the initial "rates" are those that would be proposed if developed based exclusively on the allocation of per-piece and per-pound costs to weight steps and zones marked up by the same percentage and contingency factor across-the-board. These calculations provide a starting point as a variety of other considerations are taken into account as described in pages 24 to 26 of my testimony (USPS-T-33) and interrogatory responses to UPS/USPS-T33-11(a), UPS/USPS-T33-19, and UPS/USPS-T33-41.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

JPS/USPS-T33-41. Please refer to your response to interrogatory NDMS/USPS-T33-12. In the interrogatory, NDMS asks about delivery confirmation. Your response states: "The delivery confirmation cost is treated as a burden on Priority Mail as a whole. Delivery confirmation costs are not allocated in this stage of rate design."

- (a) Explain how many stages of rate design you implement for Priority Mail, from the initial rates through the final rates, and describe what occurs at each stage.
- (b) Please explain which stage is "this stage of rate design."
- (c) Please explain when and how the delivery confirmation costs are allocated into the rate design (i.e., before the initial rates are developed; after the initial rates are developed, but before the final rates are determined; or during the final rate development).

**Response:**

(a) Please see revised responses to NDMS/USPS-T33-12 (revised 9/19/97) and NDMS/USPS-T33-23 (revised 9/18/97) which clarifies how delivery confirmation cost is treated in rate design. See, also, my response to interrogatory UPS/USPS-T33-11. In that response, the process of rate design is broken down into three stages. Upon further reflection, I believe that stages 1 and 2 can be more aptly described as two distinct steps. To clarify that response these steps identified separately as stages below. Including the development of initial rates (as discussed in response to UPS/USPS-T33-40) there are six stages in the rate design. They are:

1. Initial "rates" are developed as discussed in response to UPS/USPS-T33-39.
2. The 2, 3, 4 and 5 pound unzoned rates were set: \$3.20, \$4.40, \$5.50 and \$6.60, respectively.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

3. As a result the L,1, 2,3 rates from 6 through 29 pounds had to be tapered upward. The six pound, L,1,2,3 rate was set by adding 15 cents to the 5-pound rate. The 7- to 9- pound rates were set by incrementing rates by 30 cents. The 10- through 19- pound L,1, 2 3 rates were set by incrementing by 45 cents, and finally, the 20- through 29- pound L,1, 2, rates were set by incrementing the rates by 40 cents. In so doing, the transition from the flat rate at 5 pounds was made smooth with all rates covering allocated costs.
  4. Next, the remaining prices where set by allocating piece and weight-related costs to weight steps and zones before final adjustments. These costs were marked up by 120 percent and rounded up to the nearest nickel to achieve the target contribution.
  5. To smooth the transition from the 5- to 6-pound rates in Zone 4 a 30-cent additional cost per pound was imposed moving the rate from \$6.60 to \$6.90. The Zone 5 6-pound rate was set at \$1.15 above the 5 pound rate. The 7- to 20- pound Zone 5 rates were adjusted upward to smooth transition to the 21- pound rate.
  6. Finally, to keep the rate increase below 16 percent, the markup on 10- through 70- pound zone 7 rates was lowered on average by 2 percent and the markup on 7- through 70- pound Zone 8 rates was lowered on average by 10 percent.
- (b) In context of the response to (a), stage 1.
- (c) In context of the response to (a), stage 1.

**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-42.** Please refer to your response to UPS/USPS-T15-8 (redirected from witness Patelunas).

- (a) Explain the rate structure and provide the rates for Sunday delivery of Express Mail.
- (b) Is there a straight surcharge over the regular Express Mail rates?
- (c) Do the Sunday delivery rates vary according to weight and zone?
- (d) What restrictions, if any, apply to Sunday delivery of Express Mail?

**Response:**

- (a) There are no separate rates for Sunday delivery of Express Mail.
- (b) No.
- (c) See response to (a).
- (d) There are no restrictions.

**UPS/USPS-T33-43.** Refer to LR-H-235 (Redacted PMPC Contract), Section A.1.1, page 4 of 62 **Revised.**

- (a) Confirm that "the Ramp-Up period which covers the first eleven (11) full Postal Accounting Period (A/Ps) following the date of contract award" covers the period April 26, 1997 through February 27, 1998, as indicated on page 4.001 of H-235. If not confirmed, provide the correct dates.
- (b) Confirm that the Ramp-Up period covers parts of FY 1997 and the TY 1998 in this proceeding. If not confirmed, explain.
- (c) Confirm that at the conclusion of the Ramp-Up period, all PMPCs are expected to be fully operational. If not confirmed, explain.
- (d) Confirm that Contract Period 1 covers the period February 28, 1998, through February 26, 1999, as indicated on page 4.023 of LR-H-235. If not confirmed, provide the correct dates.
- (e) Confirm that Contract Period 1 covers approximately half of the TY 1998 in this proceeding. If not confirmed, explain.
- (f) Confirm that there is a separate fixed contract price per flat, per parcel, and per outside priority mail piece in each of the five distinct contract periods. If not confirmed, explain in detail.
- (g) Define the dimensions or other characteristics that cause a piece to be defined under the PMPC contract as (1) a flat, (2) a parcel, and (3) an outside.
- (h) Confirm that there is no distinction based on shape in the rates proposed in this proceeding for Priority Mail.
- (i) Refer to Section A.1.1.1. When is the PMPC network expected to be "fully activated"?

**Response:**

- (a) Confirmed.
- (b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed.

(g) The dimensions or other characteristics that cause a piece to be defined under the PMPC contract as (1) a flat, (2) a parcel, and (3) an outside are defined in Appendix 1.27 of the contract as follows:

(1) Flat - "A piece of mail which exceeds the dimensions for letter size mail (11 1/2" long, 6 1/8" high, 1/4" thick). Letter size Priority Mail (smaller than 11 1/2" long, 6 1/8" high, 1/4" thick) must be placed in a flat rate Priority Mail envelope."

(2) Parcel - "A piece too large to be sorted in a flat case, but can fit in a 40" by 31" Priority Mail pouch."

(3) Outside - "A package, parcel, or other item which, because of size, weight, or other special characteristics, must be handled outside of mailbags and cannot be safely sorted by mail machinery such as a parcel sorter and must be handled manually. They cannot fit into a 40" by 31" Priority Mail sack. They may be large fragile pieces."

(h) Confirmed.

(i) A/P 6, FY98



**UPS/USPS-T33-44.** Refer to LR-H-235, at page 4.001.

- (a) Are there separate per piece price adjustments for flats, parcels, and outsides?

**Response:**

- (a) No.

**UPS/USPS-T33-45.** Refer to LR-H-235, at pages 4.003 to 4.022. Please provide the following information for the entire PMPC network during the Ramp-Up period of the contract in aggregate, separated by (1) origin PMPC and destination PMPC pairs, collectively (i.e., not for each origin-destination pair, but for all such pairs together), and (2) origin PMPC and destination ADC/AMC pairs, collectively (i.e., not for each origin-destination pair, but for all such pairs together):

- (a) The expected volume of flats
- (b) The expected volume of parcels
- (c) The expected volume of outsides
- (d) The expected total volume across all shapes
- (i) The CLIN for flats
- (j) The CLIN for parcels
- (k) The CLIN for outsides
- (l) The CLIN across all shapes

**Response:**

(a)-(d) See Attachment A.

(i)-(l) See Attachment B.

CLIN 1 - Operations  
Pricing By Origin PMPCs and Non PMPCs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

ATTACHMENT A  
IN RESPONSE TO  
UPS(USPS-T33-45  
(a)-(2)

Volume Estimates For Ramp-up

<u>Origin/Destination</u>	<u>Flats</u>	<u>Parcels</u>	<u>Outsides</u>	<u>TOTAL</u>
PMPC / PMPC	5,929,702	10,218,238	809,337	16,957,277
PMPC / ACD or AMC	4,287,004	12,523,394	1,071,695	26,882,093

CLIN 1 - N Operations  
Pricing By Origin PMPCs and n PMPMs, ADCs, and AMCs  
Ramp-Up - L. Act APs 1-11

ATTACHMENT  
IN RESPONSE  
UPS/USPS - T3 - 45  
(L)-(R)

Origin PMPC	Destination PMPC	Expected					Expected					Total Cost	
		Volume Flats	Price	CLIN	Air Transport Cost Element	Volume Parcels	Price	CLIN	Air Transport Cost Element	Volume Outsides	Price		CLIN
Metro New York	Central Florida Jacksonville, FL Miami, FL			1.0001.1.97				1.0001.2.97				1.0001.3.97	
				1.0002.1.97				1.0004.2.97				1.0004.3.97	
				1.0003.1.97				1.0006.2.97				1.0006.3.97	
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1.0004.1.97				1.0002.2.97				1.0002.3.97	
				1.0005.1.97				1.0003.2.97				1.0003.3.97	
				1.0006.1.97				1.0005.2.97				1.0005.3.97	
				1.0007.1.97				1.0007.2.97				1.0007.3.97	
				1.0008.1.97				1.0008.2.97				1.0008.3.97	
				1.0009.1.97				1.0009.2.97				1.0009.3.97	
				1.0010.1.97				1.0010.2.97				1.0010.3.97	
	Destination ADC or AMC	Expected					Expected					Total Cost	
		Volume Flats	Price	CLIN	Air Transport Cost Element	Volume Parcels	Price	CLIN	Air Transport Cost Element	Volume Outsides	Price		CLIN
				1.0011.1.97				1.0011.2.97				1.0011.3.97	
				1.0012.1.97				1.0012.2.97				1.0012.3.97	
				1.0013.1.97				1.0013.2.97				1.0013.3.97	
				1.0014.1.97				1.0014.2.97				1.0014.3.97	
				1.0015.1.97				1.0015.2.97				1.0015.3.97	
				1.0016.1.97				1.0016.2.97				1.0016.3.97	
				1.0017.1.97				1.0017.2.97				1.0017.3.97	
				1.0018.1.97				1.0018.2.97				1.0018.3.97	
				1.0019.1.97				1.0019.2.97				1.0019.3.97	
				1.0020.1.97				1.0020.2.97				1.0020.3.97	
				1.0021.1.97				1.0021.2.97				1.0021.3.97	
				1.0022.1.97				1.0022.2.97				1.0022.3.97	
				1.0023.1.97				1.0023.2.97				1.0023.3.97	
				1.0024.1.97				1.0024.2.97				1.0024.3.97	
				1.0025.1.97				1.0025.2.97				1.0025.3.97	
				1.0026.1.97				1.0026.2.97				1.0026.3.97	
				1.0027.1.97				1.0027.2.97				1.0027.3.97	
				1.0028.1.97				1.0028.2.97				1.0028.3.97	
				1.0029.1.97				1.0029.2.97				1.0029.3.97	
				1.0030.1.97				1.0030.2.97				1.0030.3.97	
				1.0031.1.97				1.0031.2.97				1.0031.3.97	
				1.0032.1.97				1.0032.2.97				1.0032.3.97	
				1.0033.1.97				1.0033.2.97				1.0033.3.97	
				1.0034.1.97				1.0034.2.97				1.0034.3.97	
				1.0035.1.97				1.0035.2.97				1.0035.3.97	
				1.0036.1.97				1.0036.2.97				1.0036.3.97	
				1.0037.1.97				1.0037.2.97				1.0037.3.97	
				1.0038.1.97				1.0038.2.97				1.0038.3.97	
				1.0039.1.97				1.0039.2.97				1.0039.3.97	
				1.0040.1.97				1.0040.2.97				1.0040.3.97	
				1.0041.1.97				1.0041.2.97				1.0041.3.97	
				1.0042.1.97				1.0042.2.97				1.0042.3.97	
				1.0043.1.97				1.0043.2.97				1.0043.3.97	

10044.1 97	10044.2 97	10044.3 97
10045.1 97	10045.2 97	10045.3 97
10046.1 97	10046.2 97	10046.3 97
10047.1 97	10047.2 97	10047.3 97
10048.1 97	10048.2 97	10048.3 97
10049.1 97	10049.2 97	10049.3 97
10050.1 97	10050.2 97	10050.3 97
10051.1 97	10051.2 97	10051.3 97
10052.1 97	10052.2 97	10052.3 97
10053.1 97	10053.2 97	10053.3 97
10054.1 97	10054.2 97	10054.3 97
10055.1 97	10055.2 97	10055.3 97
10056.1 97	10056.2 97	10056.3 97
10057.1 97	10057.2 97	10057.3 97
10058.1 97	10058.2 97	10058.3 97
10059.1 97	10059.2 97	10059.3 97
10060.1 97	10060.2 97	10060.3 97
10061.1 97	10061.2 97	10061.3 97
10062.1 97	10062.2 97	10062.3 97
10063.1 97	10063.2 97	10063.3 97
10064.1 97	10064.2 97	10064.3 97
10065.1 97	10065.2 97	10065.3 97
10066.1 97	10066.2 97	10066.3 97
10067.1 97	10067.2 97	10067.3 97
10068.1 97	10068.2 97	10068.3 97
10069.1 97	10069.2 97	10069.3 97
10070.1 97	10070.2 97	10070.3 97
10071.1 97	10071.2 97	10071.3 97
10072.1 97	10072.2 97	10072.3 97
10073.1 97	10073.2 97	10073.3 97
10074.1 97	10074.2 97	10074.3 97
10075.1 97	10075.2 97	10075.3 97
10076.1 97	10076.2 97	10076.3 97
10077.1 97	10077.2 97	10077.3 97
10078.1 97	10078.2 97	10078.3 97
10079.1 97	10079.2 97	10079.3 97

**Total Places**  
**PMPC Average Price:**

CLIN 1 - 1 Operations  
Pricing By Origin PMPCs and . on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Philadelphia, PA	Central Florida Jacksonville, FL Miami, FL			1 0081 1 97				1 0081 2 97				1 0081 3 97		
				1 0082 1 97				1 0082 2 97				1 0082 3 97		
				1 0083 1 97				1 0083 2 97				1 0083 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1 0084 1 97				1 0084 2 97				1 0084 3 97		
				1 0085 1 97				1 0085 2 97				1 0085 3 97		
				1 0086 1 97				1 0086 2 97				1 0086 3 97		
				1 0087 1 97				1 0087 2 97				1 0087 3 97		
				1 0088 1 97				1 0088 2 97				1 0088 3 97		
				1 0089 1 97				1 0089 2 97				1 0089 3 97		
				1 0090 1 97				1 0090 2 97				1 0090 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0091 1 97				1 0091 2 97				1 0091 3 97		
				1 0092 1 97				1 0092 2 97				1 0092 3 97		
				1 0093 1 97				1 0093 2 97				1 0093 3 97		
				1 0094 1 97				1 0094 2 97				1 0094 3 97		
				1 0095 1 97				1 0095 2 97				1 0095 3 97		
				1 0096 1 97				1 0096 2 97				1 0096 3 97		
				1 0097 1 97				1 0097 2 97				1 0097 3 97		
				1 0098 1 97				1 0098 2 97				1 0098 3 97		
				1 0099 1 97				1 0099 2 97				1 0099 3 97		
				1 0100 1 97				1 0100 2 97				1 0100 3 97		
				1 0101 1 97				1 0101 2 97				1 0101 3 97		
				1 0102 1 97				1 0102 2 97				1 0102 3 97		
				1 0103 1 97				1 0103 2 97				1 0103 3 97		
				1 0104 1 97				1 0104 2 97				1 0104 3 97		
				1 0105 1 97				1 0105 2 97				1 0105 3 97		
				1 0106 1 97				1 0106 2 97				1 0106 3 97		
				1 0107 1 97				1 0107 2 97				1 0107 3 97		
				1 0108 1 97				1 0108 2 97				1 0108 3 97		
				1 0109 1 97				1 0109 2 97				1 0109 3 97		
				1 0110 1 97				1 0110 2 97				1 0110 3 97		
				1 0111 1 97				1 0111 2 97				1 0111 3 97		
				1 0112 1 97				1 0112 2 97				1 0112 3 97		
				1 0113 1 97				1 0113 2 97				1 0113 3 97		
				1 0114 1 97				1 0114 2 97				1 0114 3 97		
				1 0115 1 97				1 0115 2 97				1 0115 3 97		
				1 0116 1 97				1 0116 2 97				1 0116 3 97		
				1 0117 1 97				1 0117 2 97				1 0117 3 97		
				1 0118 1 97				1 0118 2 97				1 0118 3 97		
				1 0119 1 97				1 0119 2 97				1 0119 3 97		
				1 0120 1 97				1 0120 2 97				1 0120 3 97		
				1 0121 1 97				1 0121 2 97				1 0121 3 97		
				1 0122 1 97				1 0122 2 97				1 0122 3 97		
				1 0123 1 97				1 0123 2 97				1 0123 3 97		

CLIN 1-A      operations  
Pricing By Origin PMPCs and L      on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

				10124 1 97				10124 2 97					10124 3 97			
				10125 1 97				10125 2 97					10125 3 97			
				10126 1 97				10126 2 97					10126 3 97			
				10127 1 97				10127 2 97					10127 3 97			
				10128 1 97				10128 2 97					10128 3 97			
				10129 1 97				10129 2 97					10129 3 97			
				10130 1 97				10130 2 97					10130 3 97			
				10131 1 97				10131 2 97					10131 3 97			
				10132 1 97				10132 2 97					10132 3 97			
				10133 1 97				10133 2 97					10133 3 97			
				10134 1 97				10134 2 97					10134 3 97			
				10135 1 97				10135 2 97					10135 3 97			
				10136 1 97				10136 2 97					10136 3 97			
				10137 1 97				10137 2 97					10137 3 97			
				10138 1 97				10138 2 97					10138 3 97			
				10139 1 97				10139 2 97					10139 3 97			
				10140 1 97				10140 2 97					10140 3 97			
				10141 1 97				10141 2 97					10141 3 97			
				10142 1 97				10142 2 97					10142 3 97			
				10143 1 97				10143 2 97					10143 3 97			
				10144 1 97				10144 2 97					10144 3 97			
				10145 1 97				10145 2 97					10145 3 97			
				10146 1 97				10146 2 97					10146 3 97			
				10147 1 97				10147 2 97					10147 3 97			
				10148 1 97				10148 2 97					10148 3 97			
				10149 1 97				10149 2 97					10149 3 97			
				10150 1 97				10150 2 97					10150 3 97			
				10151 1 97				10151 2 97					10151 3 97			
				10152 1 97				10152 2 97					10152 3 97			
				10153 1 97				10153 2 97					10153 3 97			
				10154 1 97				10154 2 97					10154 3 97			
				10155 1 97				10155 2 97					10155 3 97			
				10156 1 97				10156 2 97					10156 3 97			
				10157 1 97				10157 2 97					10157 3 97			
				10158 1 97				10158 2 97					10158 3 97			
				10159 1 97				10159 2 97					10159 3 97			

CLIN 1-1 Operations  
Pricing By Origin PMPCs and on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
North New Jersey	Central Florida Jacksonville, FL Miami, FL			10161 1 97				10161 2 97				10161 3 97		
				10162 1 97				10162 2 97				10162 3 97		
				10163 1 97				10163 2 97				10163 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			10164 1 97				10164 2 97				10164 3 97		
				10165 1 97				10165 2 97				10165 3 97		
				10166 1 97				10166 2 97				10166 3 97		
				10167 1 97				10167 2 97				10167 3 97		
				10168 1 97				10168 2 97				10168 3 97		
				10169 1 97				10169 2 97				10169 3 97		
				10170 1 97				10170 2 97				10170 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				10171 1 97				10171 2 97				10171 3 97		
				10172 1 97				10172 2 97				10172 3 97		
				10173 1 97				10173 2 97				10173 3 97		
				10174 1 97				10174 2 97				10174 3 97		
				10175 1 97				10175 2 97				10175 3 97		
				10176 1 97				10176 2 97				10176 3 97		
				10177 1 97				10177 2 97				10177 3 97		
				10178 1 97				10178 2 97				10178 3 97		
				10179 1 97				10179 2 97				10179 3 97		
				10180 1 97				10180 2 97				10180 3 97		
				10181 1 97				10181 2 97				10181 3 97		
				10182 1 97				10182 2 97				10182 3 97		
				10183 1 97				10183 2 97				10183 3 97		
				10184 1 97				10184 2 97				10184 3 97		
				10185 1 97				10185 2 97				10185 3 97		
				10186 1 97				10186 2 97				10186 3 97		
				10187 1 97				10187 2 97				10187 3 97		
				10188 1 97				10188 2 97				10188 3 97		
				10189 1 97				10189 2 97				10189 3 97		
				10190 1 97				10190 2 97				10190 3 97		
				10191 1 97				10191 2 97				10191 3 97		
				10192 1 97				10192 2 97				10192 3 97		
				10193 1 97				10193 2 97				10193 3 97		
				10194 1 97				10194 2 97				10194 3 97		
				10195 1 97				10195 2 97				10195 3 97		
				10196 1 97				10196 2 97				10196 3 97		
				10197 1 97				10197 2 97				10197 3 97		
				10198 1 97				10198 2 97				10198 3 97		
				10199 1 97				10199 2 97				10199 3 97		
				10200 1 97				10200 2 97				10200 3 97		
				10201 1 97				10201 2 97				10201 3 97		
				10202 1 97				10202 2 97				10202 3 97		
				10203 1 97				10203 2 97				10203 3 97		



[illegible]

CLIN 1 - Operations  
Pricing By Origin PMPCs and Destination PMPCs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Eastern Mass	Central Florida			1 0241 1 97				1 0241 2 97				1 0241 3 97		
	Jacksonville, FL			1 0242 1 97				1 0242 2 97				1 0242 3 97		
	Miami, FL			1 0243 1 97				1 0243 2 97				1 0243 3 97		
	Eastern Mass			1 0244 1 97				1 0244 2 97				1 0244 3 97		
	Hartford, CT			1 0245 1 97				1 0245 2 97				1 0245 3 97		
	Metro New York			1 0246 1 97				1 0246 2 97				1 0246 3 97		
	North New Jersey			1 0247 1 97				1 0247 2 97				1 0247 3 97		
	Philadelphia, PA			1 0248 1 97				1 0248 2 97				1 0248 3 97		
	Pittsburgh, PA			1 0249 1 97				1 0249 2 97				1 0249 3 97		
	Rochester, NY			1 0250 1 97				1 0250 2 97				1 0250 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
			1 0251 1 97				1 0251 2 97				1 0251 3 97			
			1 0252 1 97				1 0252 2 97				1 0252 3 97			
			1 0253 1 97				1 0253 2 97				1 0253 3 97			
			1 0254 1 97				1 0254 2 97				1 0254 3 97			
			1 0255 1 97				1 0255 2 97				1 0255 3 97			
			1 0256 1 97				1 0256 2 97				1 0256 3 97			
			1 0257 1 97				1 0257 2 97				1 0257 3 97			
			1 0258 1 97				1 0258 2 97				1 0258 3 97			
			1 0259 1 97				1 0259 2 97				1 0259 3 97			
			1 0260 1 97				1 0260 2 97				1 0260 3 97			
			1 0261 1 97				1 0261 2 97				1 0261 3 97			
			1 0262 1 97				1 0262 2 97				1 0262 3 97			
			1 0263 1 97				1 0263 2 97				1 0263 3 97			
			1 0264 1 97				1 0264 2 97				1 0264 3 97			
			1 0265 1 97				1 0265 2 97				1 0265 3 97			
			1 0266 1 97				1 0266 2 97				1 0266 3 97			
			1 0267 1 97				1 0267 2 97				1 0267 3 97			
			1 0268 1 97				1 0268 2 97				1 0268 3 97			
			1 0269 1 97				1 0269 2 97				1 0269 3 97			
			1 0270 1 97				1 0270 2 97				1 0270 3 97			
			1 0271 1 97				1 0271 2 97				1 0271 3 97			
			1 0272 1 97				1 0272 2 97				1 0272 3 97			
			1 0273 1 97				1 0273 2 97				1 0273 3 97			
			1 0274 1 97				1 0274 2 97				1 0274 3 97			
			1 0275 1 97				1 0275 2 97				1 0275 3 97			
			1 0276 1 97				1 0276 2 97				1 0276 3 97			
			1 0277 1 97				1 0277 2 97				1 0277 3 97			
			1 0278 1 97				1 0278 2 97				1 0278 3 97			
			1 0279 1 97				1 0279 2 97				1 0279 3 97			
			1 0280 1 97				1 0280 2 97				1 0280 3 97			
			1 0281 1 97				1 0281 2 97				1 0281 3 97			
			1 0282 1 97				1 0282 2 97				1 0282 3 97			
			1 0283 1 97				1 0283 2 97				1 0283 3 97			

CLIN 1.1      operations  
Pricing By Origin PMPCs and L      on PMPMs, ADCs, and AMCs  
Ramp-Up – Contract A/Ps 1-11

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CLIN 1-1 Operations  
Pricing By Origin PMPCs and on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected				Expected				Expected				Total Cost
		Volume	Price	CLIN	Air Transport Cost Element	Volume	Price	CLIN	Air Transport Cost Element	Volume	Price	CLIN	Air Transport Cost Element	
Rochester, NY	Central Florida			1 0321 1 97			1 0321 2 97			1 0321 3 97				
	Jacksonville, FL			1 0322 1 97			1 0322 2 97			1 0322 3 97				
	Miami, FL			1 0323 1 97			1 0323 2 97			1 0323 3 97				
	Eastern Mass			1 0324 1 97			1 0324 2 97			1 0324 3 97				
	Hartford, CT			1 0325 1 97			1 0325 2 97			1 0325 3 97				
	Metro New York			1 0326 1 97			1 0326 2 97			1 0326 3 97				
	North New Jersey			1 0327 1 97			1 0327 2 97			1 0327 3 97				
	Philadelphia, PA			1 0328 1 97			1 0328 2 97			1 0328 3 97				
	Pittsburgh, PA			1 0329 1 97			1 0329 2 97			1 0329 3 97				
	Rochester, NY			1 0330 1 97			1 0330 2 97			1 0330 3 97				
Destination ADC or AMC	Expected				Expected				Expected				Total Cost	
	Volume	Price	CLIN	Air Transport Cost Element	Volume	Price	CLIN	Air Transport Cost Element	Volume	Price	CLIN	Air Transport Cost Element		
			1 0331 1 97			1 0331 2 97			1 0331 3 97					
			1 0332 1 97			1 0332 2 97			1 0332 3 97					
			1 0333 1 97			1 0333 2 97			1 0333 3 97					
			1 0334 1 97			1 0334 2 97			1 0334 3 97					
			1 0335 1 97			1 0335 2 97			1 0335 3 97					
			1 0336 1 97			1 0336 2 97			1 0336 3 97					
			1 0337 1 97			1 0337 2 97			1 0337 3 97					
			1 0338 1 97			1 0338 2 97			1 0338 3 97					
			1 0339 1 97			1 0339 2 97			1 0339 3 97					
			1 0340 1 97			1 0340 2 97			1 0340 3 97					
			1 0341 1 97			1 0341 2 97			1 0341 3 97					
			1 0342 1 97			1 0342 2 97			1 0342 3 97					
			1 0343 1 97			1 0343 2 97			1 0343 3 97					
			1 0344 1 97			1 0344 2 97			1 0344 3 97					
			1 0345 1 97			1 0345 2 97			1 0345 3 97					
			1 0346 1 97			1 0346 2 97			1 0346 3 97					
			1 0347 1 97			1 0347 2 97			1 0347 3 97					
			1 0348 1 97			1 0348 2 97			1 0348 3 97					
			1 0349 1 97			1 0349 2 97			1 0349 3 97					
			1 0350 1 97			1 0350 2 97			1 0350 3 97					
			1 0351 1 97			1 0351 2 97			1 0351 3 97					
			1 0352 1 97			1 0352 2 97			1 0352 3 97					
			1 0353 1 97			1 0353 2 97			1 0353 3 97					
			1 0354 1 97			1 0354 2 97			1 0354 3 97					
			1 0355 1 97			1 0355 2 97			1 0355 3 97					
			1 0356 1 97			1 0356 2 97			1 0356 3 97					
			1 0357 1 97			1 0357 2 97			1 0357 3 97					
			1 0358 1 97			1 0358 2 97			1 0358 3 97					
			1 0359 1 97			1 0359 2 97			1 0359 3 97					
			1 0360 1 97			1 0360 2 97			1 0360 3 97					
			1 0361 1 97			1 0361 2 97			1 0361 3 97					
			1 0362 1 97			1 0362 2 97			1 0362 3 97					
			1 0363 1 97			1 0363 2 97			1 0363 3 97					

CLIN 1-1      perations  
Pricing By Origin PMPCs and      on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract APs 1-11

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CLIN 1 - 1 Operations  
Pricing By Origin PMPCs and Location PMPCs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Hartford, CT	Central Florida Jacksonville, FL Miami, FL			1 0401 1 97				1 0401 2 97				1 0401 3 97		
				1 0402 1 97				1 0402 2 97				1 0402 3 97		
				1 0403 1 97				1 0403 2 97				1 0403 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1 0404 1 97				1 0404 2 97				1 0404 3 97		
				1 0405 1 97				1 0405 2 97				1 0405 3 97		
				1 0406 1 97				1 0406 2 97				1 0406 3 97		
				1 0407 1 97				1 0407 2 97				1 0407 3 97		
				1 0408 1 97				1 0408 2 97				1 0408 3 97		
				1 0409 1 97				1 0409 2 97				1 0409 3 97		
				1 0410 1 97				1 0410 2 97				1 0410 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0411 1 97				1 0411 2 97				1 0411 3 97		
				1 0412 1 97				1 0412 2 97				1 0412 3 97		
				1 0413 1 97				1 0413 2 97				1 0413 3 97		
				1 0414 1 97				1 0414 2 97				1 0414 3 97		
				1 0415 1 97				1 0415 2 97				1 0415 3 97		
				1 0416 1 97				1 0416 2 97				1 0416 3 97		
				1 0417 1 97				1 0417 2 97				1 0417 3 97		
				1 0418 1 97				1 0418 2 97				1 0418 3 97		
				1 0419 1 97				1 0419 2 97				1 0419 3 97		
				1 0420 1 97				1 0420 2 97				1 0420 3 97		
				1 0421 1 97				1 0421 2 97				1 0421 3 97		
				1 0422 1 97				1 0422 2 97				1 0422 3 97		
				1 0423 1 97				1 0423 2 97				1 0423 3 97		
				1 0424 1 97				1 0424 2 97				1 0424 3 97		
				1 0425 1 97				1 0425 2 97				1 0425 3 97		
				1 0426 1 97				1 0426 2 97				1 0426 3 97		
				1 0427 1 97				1 0427 2 97				1 0427 3 97		
				1 0428 1 97				1 0428 2 97				1 0428 3 97		
				1 0429 1 97				1 0429 2 97				1 0429 3 97		
				1 0430 1 97				1 0430 2 97				1 0430 3 97		
				1 0431 1 97				1 0431 2 97				1 0431 3 97		
				1 0432 1 97				1 0432 2 97				1 0432 3 97		
				1 0433 1 97				1 0433 2 97				1 0433 3 97		
				1 0434 1 97				1 0434 2 97				1 0434 3 97		
				1 0435 1 97				1 0435 2 97				1 0435 3 97		
				1 0436 1 97				1 0436 2 97				1 0436 3 97		
				1 0437 1 97				1 0437 2 97				1 0437 3 97		
				1 0438 1 97				1 0438 2 97				1 0438 3 97		
				1 0439 1 97				1 0439 2 97				1 0439 3 97		
				1 0440 1 97				1 0440 2 97				1 0440 3 97		
				1 0441 1 97				1 0441 2 97				1 0441 3 97		
				1 0442 1 97				1 0442 2 97				1 0442 3 97		
				1 0443 1 97				1 0443 2 97				1 0443 3 97		

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CLIN 1 - Operations  
Pricing By Origin PMPCs and Destination PMPCs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Pittsburgh, PA	Central Florida			1 0481 1 97				1 0481 2 97				1 0481 3 97		
	Jacksonville, FL			1 0482 1 97				1 0482 2 97				1 0482 3 97		
	Miami, FL			1 0483 1 97				1 0483 2 97				1 0483 3 97		
	Eastern Mass			1 0484 1 97				1 0484 2 97				1 0484 3 97		
	Hartford, CT			1 0485 1 97				1 0485 2 97				1 0485 3 97		
	Metro New York			1 0486 1 97				1 0486 2 97				1 0486 3 97		
	North New Jersey			1 0487 1 97				1 0487 2 97				1 0487 3 97		
	Philadelphia, PA			1 0488 1 97				1 0488 2 97				1 0488 3 97		
	Pittsburgh, PA			1 0489 1 97				1 0489 2 97				1 0489 3 97		
	Rochester, NY			1 0490 1 97				1 0490 2 97				1 0490 3 97		
Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost	
			1 0491 1 97				1 0491 2 97				1 0491 3 97			
			1 0492 1 97				1 0492 2 97				1 0492 3 97			
			1 0493 1 97				1 0493 2 97				1 0493 3 97			
			1 0494 1 97				1 0494 2 97				1 0494 3 97			
			1 0495 1 97				1 0495 2 97				1 0495 3 97			
			1 0496 1 97				1 0496 2 97				1 0496 3 97			
			1 0497 1 97				1 0497 2 97				1 0497 3 97			
			1 0498 1 97				1 0498 2 97				1 0498 3 97			
			1 0499 1 97				1 0499 2 97				1 0499 3 97			
			1 0500 1 97				1 0500 2 97				1 0500 3 97			
			1 0501 1 97				1 0501 2 97				1 0501 3 97			
			1 0502 1 97				1 0502 2 97				1 0502 3 97			
			1 0503 1 97				1 0503 2 97				1 0503 3 97			
			1 0504 1 97				1 0504 2 97				1 0504 3 97			
			1 0505 1 97				1 0505 2 97				1 0505 3 97			
			1 0506 1 97				1 0506 2 97				1 0506 3 97			
			1 0507 1 97				1 0507 2 97				1 0507 3 97			
			1 0508 1 97				1 0508 2 97				1 0508 3 97			
			1 0509 1 97				1 0509 2 97				1 0509 3 97			
			1 0510 1 97				1 0510 2 97				1 0510 3 97			
			1 0511 1 97				1 0511 2 97				1 0511 3 97			
			1 0512 1 97				1 0512 2 97				1 0512 3 97			
			1 0513 1 97				1 0513 2 97				1 0513 3 97			
			1 0514 1 97				1 0514 2 97				1 0514 3 97			
			1 0515 1 97				1 0515 2 97				1 0515 3 97			
			1 0516 1 97				1 0516 2 97				1 0516 3 97			
			1 0517 1 97				1 0517 2 97				1 0517 3 97			
			1 0518 1 97				1 0518 2 97				1 0518 3 97			
			1 0519 1 97				1 0519 2 97				1 0519 3 97			
			1 0520 1 97				1 0520 2 97				1 0520 3 97			
			1 0521 1 97				1 0521 2 97				1 0521 3 97			
			1 0522 1 97				1 0522 2 97				1 0522 3 97			
			1 0523 1 97				1 0523 2 97				1 0523 3 97			



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CLIN 1 - 1 Operations  
Pricing By Origin PMPCs and L on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Central Florida	Central Florida Jacksonville, FL Miami, FL			1 0561 1 97				1 0561 2 97						
				1 0562 1 97				1 0562 2 97						
				1 0563 1 97				1 0563 2 97						
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1 0564 1 97				1 0564 2 97						
				1 0565 1 97				1 0565 2 97						
				1 0566 1 97				1 0566 2 97						
				1 0567 1 97				1 0567 2 97						
				1 0568 1 97				1 0568 2 97						
				1 0569 1 97				1 0569 2 97						
				1 0570 1 97				1 0570 2 97						
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0571 1 97				1 0571 2 97				1 0571 3 97		
				1 0572 1 97				1 0572 2 97				1 0572 3 97		
				1 0573 1 97				1 0573 2 97				1 0573 3 97		
				1 0574 1 97				1 0574 2 97				1 0574 3 97		
				1 0575 1 97				1 0575 2 97				1 0575 3 97		
				1 0576 1 97				1 0576 2 97				1 0576 3 97		
				1 0577 1 97				1 0577 2 97				1 0577 3 97		
				1 0578 1 97				1 0578 2 97				1 0578 3 97		
				1 0579 1 97				1 0579 2 97				1 0579 3 97		
				1 0580 1 97				1 0580 2 97				1 0580 3 97		
				1 0581 1 97				1 0581 2 97				1 0581 3 97		
				1 0582 1 97				1 0582 2 97				1 0582 3 97		
				1 0583 1 97				1 0583 2 97				1 0583 3 97		
				1 0584 1 97				1 0584 2 97				1 0584 3 97		
				1 0585 1 97				1 0585 2 97				1 0585 3 97		
				1 0586 1 97				1 0586 2 97				1 0586 3 97		
				1 0587 1 97				1 0587 2 97				1 0587 3 97		
				1 0588 1 97				1 0588 2 97				1 0588 3 97		
				1 0589 1 97				1 0589 2 97				1 0589 3 97		
				1 0590 1 97				1 0590 2 97				1 0590 3 97		
				1 0591 1 97				1 0591 2 97				1 0591 3 97		
				1 0592 1 97				1 0592 2 97				1 0592 3 97		
				1 0593 1 97				1 0593 2 97				1 0593 3 97		
				1 0594 1 97				1 0594 2 97				1 0594 3 97		
				1 0595 1 97				1 0595 2 97				1 0595 3 97		
				1 0596 1 97				1 0596 2 97				1 0596 3 97		
				1 0597 1 97				1 0597 2 97				1 0597 3 97		
				1 0598 1 97				1 0598 2 97				1 0598 3 97		
				1 0599 1 97				1 0599 2 97				1 0599 3 97		
				1 0600 1 97				1 0600 2 97				1 0600 3 97		
				1 0601 1 97				1 0601 2 97				1 0601 3 97		
				1 0602 1 97				1 0602 2 97				1 0602 3 97		
				1 0603 1 97				1 0603 2 97				1 0603 3 97		

10604 1 97	10604 2 97	10604 3 97
10605 1 97	10605 2 97	10605 3 97
10606 1 97	10606 2 97	10606 3 97
10607 1 97	10607 2 97	10607 3 97
10608 1 97	10608 2 97	10608 3 97
10609 1 97	10609 2 97	10609 3 97
10610 1 97	10610 2 97	10610 3 97
10611 1 97	10611 2 97	10611 3 97
10612 1 97	10612 2 97	10612 3 97
10613 1 97	10613 2 97	10613 3 97
10614 1 97	10614 2 97	10614 3 97
10615 1 97	10615 2 97	10615 3 97
10616 1 97	10616 2 97	10616 3 97
10617 1 97	10617 2 97	10617 3 97
10618 1 97	10618 2 97	10618 3 97
10619 1 97	10619 2 97	10619 3 97
10620 1 97	10620 2 97	10620 3 97
10621 1 97	10621 2 97	10621 3 97
10622 1 97	10622 2 97	10622 3 97
10623 1 97	10623 2 97	10623 3 97
10624 1 97	10624 2 97	10624 3 97
10625 1 97	10625 2 97	10625 3 97
10626 1 97	10626 2 97	10626 3 97
10627 1 97	10627 2 97	10627 3 97
10628 1 97	10628 2 97	10628 3 97
10629 1 97	10629 2 97	10629 3 97
10630 1 97	10630 2 97	10630 3 97
10631 1 97	10631 2 97	10631 3 97
10632 1 97	10632 2 97	10632 3 97
10633 1 97	10633 2 97	10633 3 97
10634 1 97	10634 2 97	10634 3 97
10635 1 97	10635 2 97	10635 3 97
10636 1 97	10636 2 97	10636 3 97
10637 1 97	10637 2 97	10637 3 97
10638 1 97	10638 2 97	10638 3 97
10639 1 97	10639 2 97	10639 3 97

**Total Pieces**  
**PMPC Average Price:**

CLIN 1 - A Operations  
Pricing By Origin PMPCs and L on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Miami, FL	Central Florida			10641.1 97				10641.2 97				10641.3 97		
	Jacksonville, FL			10642.1 97				10642.2 97				10642.3 97		
	Miami, FL			10643.1 97				10643.2 97				10643.3 97		
	Eastern Mass			10644.1 97				10644.2 97				10644.3 97		
	Hartford, CT			10645.1 97				10645.2 97				10645.3 97		
	Metro New York			10646.1 97				10646.2 97				10646.3 97		
	North New Jersey			10647.1 97				10647.2 97				10647.3 97		
	Philadelphia, PA			10648.1 97				10648.2 97				10648.3 97		
	Pittsburgh, PA			10649.1 97				10649.2 97				10649.3 97		
	Rochester, NY			10650.1 97				10650.2 97				10650.3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				10651.1 97				10651.2 97				10651.3 97		
				10652.1 97				10652.2 97				10652.3 97		
				10653.1 97				10653.2 97				10653.3 97		
				10654.1 97				10654.2 97				10654.3 97		
				10655.1 97				10655.2 97				10655.3 97		
				10656.1 97				10656.2 97				10656.3 97		
				10657.1 97				10657.2 97				10657.3 97		
				10658.1 97				10658.2 97				10658.3 97		
				10659.1 97				10659.2 97				10659.3 97		
				10660.1 97				10660.2 97				10660.3 97		
				10661.1 97				10661.2 97				10661.3 97		
				10662.1 97				10662.2 97				10662.3 97		
				10663.1 97				10663.2 97				10663.3 97		
				10664.1 97				10664.2 97				10664.3 97		
				10665.1 97				10665.2 97				10665.3 97		
				10666.1 97				10666.2 97				10666.3 97		
				10667.1 97				10667.2 97				10667.3 97		
				10668.1 97				10668.2 97				10668.3 97		
				10669.1 97				10669.2 97				10669.3 97		
				10670.1 97				10670.2 97				10670.3 97		
				10671.1 97				10671.2 97				10671.3 97		
				10672.1 97				10672.2 97				10672.3 97		
				10673.1 97				10673.2 97				10673.3 97		
				10674.1 97				10674.2 97				10674.3 97		
				10675.1 97				10675.2 97				10675.3 97		
				10676.1 97				10676.2 97				10676.3 97		
				10677.1 97				10677.2 97				10677.3 97		
				10678.1 97				10678.2 97				10678.3 97		
				10679.1 97				10679.2 97				10679.3 97		
				10680.1 97				10680.2 97				10680.3 97		
				10681.1 97				10681.2 97				10681.3 97		
				10682.1 97				10682.2 97				10682.3 97		
				10683.1 97				10683.2 97				10683.3 97		

CLIN 1.1      operations  
Pricing By Origin PMPCs and L      on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

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CLIN 1-1 Operations  
Pricing By Origin PMPCs and on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Jacksonville, FL	Central Florida Jacksonville, FL Miami, FL			1 0721 1 97				1 0721 2 97				1 0721 3 97		
				1 0722 1 97				1 0722 2 97				1 0722 3 97		
				1 0723 1 97				1 0723 2 97				1 0723 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1 0724 1 97				1 0724 2 97				1 0724 3 97		
				1 0725 1 97				1 0725 2 97				1 0725 3 97		
				1 0726 1 97				1 0726 2 97				1 0726 3 97		
				1 0727 1 97				1 0727 2 97				1 0727 3 97		
				1 0728 1 97				1 0728 2 97				1 0728 3 97		
				1 0729 1 97				1 0729 2 97				1 0729 3 97		
				1 0730 1 97				1 0730 2 97				1 0730 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0731 1 97				1 0731 2 97				1 0731 3 97		
				1 0732 1 97				1 0732 2 97				1 0732 3 97		
				1 0733 1 97				1 0733 2 97				1 0733 3 97		
				1 0734 1 97				1 0734 2 97				1 0734 3 97		
				1 0735 1 97				1 0735 2 97				1 0735 3 97		
				1 0736 1 97				1 0736 2 97				1 0736 3 97		
				1 0737 1 97				1 0737 2 97				1 0737 3 97		
				1 0738 1 97				1 0738 2 97				1 0738 3 97		
				1 0739 1 97				1 0739 2 97				1 0739 3 97		
				1 0740 1 97				1 0740 2 97				1 0740 3 97		
				1 0741 1 97				1 0741 2 97				1 0741 3 97		
				1 0742 1 97				1 0742 2 97				1 0742 3 97		
				1 0743 1 97				1 0743 2 97				1 0743 3 97		
				1 0744 1 97				1 0744 2 97				1 0744 3 97		
				1 0745 1 97				1 0745 2 97				1 0745 3 97		
				1 0746 1 97				1 0746 2 97				1 0746 3 97		
				1 0747 1 97				1 0747 2 97				1 0747 3 97		
				1 0748 1 97				1 0748 2 97				1 0748 3 97		
				1 0749 1 97				1 0749 2 97				1 0749 3 97		
				1 0750 1 97				1 0750 2 97				1 0750 3 97		
				1 0751 1 97				1 0751 2 97				1 0751 3 97		
				1 0752 1 97				1 0752 2 97				1 0752 3 97		
				1 0753 1 97				1 0753 2 97				1 0753 3 97		
				1 0754 1 97				1 0754 2 97				1 0754 3 97		
				1 0755 1 97				1 0755 2 97				1 0755 3 97		
				1 0756 1 97				1 0756 2 97				1 0756 3 97		
				1 0757 1 97				1 0757 2 97				1 0757 3 97		
				1 0758 1 97				1 0758 2 97				1 0758 3 97		
				1 0759 1 97				1 0759 2 97				1 0759 3 97		
				1 0760 1 97				1 0760 2 97				1 0760 3 97		
				1 0761 1 97				1 0761 2 97				1 0761 3 97		
				1 0762 1 97				1 0762 2 97				1 0762 3 97		
				1 0763 1 97				1 0763 2 97				1 0763 3 97		

CLIN 1-N      erations  
Pricing By Origin PMPCs and D.      on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

[illegible]

**UPS/USPS-T33-46.** Refer to LR-H-235, at page 4.023.

(a) Are there a separate per piece price adjustments for flats, parcels, and outsides?

**Response:**

(a) No.



**UPS/USPS-T33-47.** Refer to LR-H-235, at pages 4.024 to 4.043. Provide the following information for the entire PMPC network during Period 1 of the contract in aggregate, separated by (1) origin PMPC and destination PMPC pairs, collectively, (i.e., not for each origin-destination pair, but for all such pairs together), and (2) origin PMPC and destination ADC/AMC pairs, collectively (i.e., not for each origin-destination pair, but for all such pairs together):

- (a) The expected volume of flats
- (b) The expected volume of parcels
- (c) The expected volume of outsides
- (d) The expected total volume across all shapes
  - (i) The CLIN for flats
  - (j) The CLIN for parcels
  - (k) The CLIN for outsides
  - (l) The CLIN across all shapes

**Response:**

(a)-(d) See attachment C.

(i)-(l) See attachment D.

CLIN 1 - Operations  
Pricing By Origin PMPCs and Non PMPCs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

ATTACHMENT A  
IN RESPONSE TO  
UPS(USPS-T33-45  
(a)-(d)

Volume Estimates For Ramp-up

<u>Origin/Destination</u>	<u>Flats</u>	<u>Parcels</u>	<u>Outsides</u>	<u>TOTAL</u>
PMPC / PMPC	5,929,702	10,218,238	809,337	16,957,277
PMPC / ACD or AMC	4,287,004	12,523,394	1,071,695	26,882,093

CLIN 1 - N Operations  
Pricing By Origin PMPCs and in PMPCs, ADCs, and AMCs  
Ramp-Up - L. and APs 1-11

ATTACHMENT 10  
IN RESPONSE TO  
UPS/USPS - T3 - 45  
(L) - (R)

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Metro New York	Central Florida			1.0001.1.97				1.0001.2.97				1.0001.3.97		
	Jacksonville, FL			1.0002.1.97				1.0004.2.97				1.0004.3.97		
	Miami, FL			1.0003.1.97				1.0006.2.97				1.0006.3.97		
	Eastern Mass			1.0004.1.97				1.0002.2.97				1.0002.3.97		
	Hartford, CT			1.0005.1.97				1.0003.2.97				1.0003.3.97		
	Metro New York			1.0006.1.97				1.0005.2.97				1.0005.3.97		
	North New Jersey			1.0007.1.97				1.0007.2.97				1.0007.3.97		
	Philadelphia, PA			1.0008.1.97				1.0008.2.97				1.0008.3.97		
	Pittsburgh, PA			1.0009.1.97				1.0009.2.97				1.0009.3.97		
	Rochester, NY			1.0010.1.97				1.0010.2.97				1.0010.3.97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1.0011.1.97				1.0011.2.97				1.0011.3.97		
				1.0012.1.97				1.0012.2.97				1.0012.3.97		
				1.0013.1.97				1.0013.2.97				1.0013.3.97		
				1.0014.1.97				1.0014.2.97				1.0014.3.97		
				1.0015.1.97				1.0015.2.97				1.0015.3.97		
				1.0016.1.97				1.0016.2.97				1.0016.3.97		
				1.0017.1.97				1.0017.2.97				1.0017.3.97		
				1.0018.1.97				1.0018.2.97				1.0018.3.97		
				1.0019.1.97				1.0019.2.97				1.0019.3.97		
				1.0020.1.97				1.0020.2.97				1.0020.3.97		
				1.0021.1.97				1.0021.2.97				1.0021.3.97		
				1.0022.1.97				1.0022.2.97				1.0022.3.97		
				1.0023.1.97				1.0023.2.97				1.0023.3.97		
				1.0024.1.97				1.0024.2.97				1.0024.3.97		
				1.0025.1.97				1.0025.2.97				1.0025.3.97		
				1.0026.1.97				1.0026.2.97				1.0026.3.97		
				1.0027.1.97				1.0027.2.97				1.0027.3.97		
				1.0028.1.97				1.0028.2.97				1.0028.3.97		
				1.0029.1.97				1.0029.2.97				1.0029.3.97		
				1.0030.1.97				1.0030.2.97				1.0030.3.97		
				1.0031.1.97				1.0031.2.97				1.0031.3.97		
				1.0032.1.97				1.0032.2.97				1.0032.3.97		
				1.0033.1.97				1.0033.2.97				1.0033.3.97		
				1.0034.1.97				1.0034.2.97				1.0034.3.97		
				1.0035.1.97				1.0035.2.97				1.0035.3.97		
				1.0036.1.97				1.0036.2.97				1.0036.3.97		
				1.0037.1.97				1.0037.2.97				1.0037.3.97		
				1.0038.1.97				1.0038.2.97				1.0038.3.97		
				1.0039.1.97				1.0039.2.97				1.0039.3.97		
				1.0040.1.97				1.0040.2.97				1.0040.3.97		
				1.0041.1.97				1.0041.2.97				1.0041.3.97		
				1.0042.1.97				1.0042.2.97				1.0042.3.97		
				1.0043.1.97				1.0043.2.97				1.0043.3.97		

CLIN 1-A Operations  
Pricing By Origin PMPCs and L on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

				10044.197				10044.297					10044.397	
				10045.197				10045.297					10045.397	
				10046.197				10046.297					10046.397	
				10047.197				10047.297					10047.397	
				10048.197				10048.297					10048.397	
				10049.197				10049.297					10049.397	
				10050.197				10050.297					10050.397	
				10051.197				10051.297					10051.397	
				10052.197				10052.297					10052.397	
				10053.197				10053.297					10053.397	
				10054.197				10054.297					10054.397	
				10055.197				10055.297					10055.397	
				10056.197				10056.297					10056.397	
				10057.197				10057.297					10057.397	
				10058.197				10058.297					10058.397	
				10059.197				10059.297					10059.397	
				10060.197				10060.297					10060.397	
				10061.197				10061.297					10061.397	
				10062.197				10062.297					10062.397	
				10063.197				10063.297					10063.397	
				10064.197				10064.297					10064.397	
				10065.197				10065.297					10065.397	
				10066.197				10066.297					10066.397	
				10067.197				10067.297					10067.397	
				10068.197				10068.297					10068.397	
				10069.197				10069.297					10069.397	
				10070.197				10070.297					10070.397	
				10071.197				10071.297					10071.397	
				10072.197				10072.297					10072.397	
				10073.197				10073.297					10073.397	
				10074.197				10074.297					10074.397	
				10075.197				10075.297					10075.397	
				10076.197				10076.297					10076.397	
				10077.197				10077.297					10077.397	
				10078.197				10078.297					10078.397	
				10079.197				10079.297					10079.397	
Origin	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Total:														

CLIN 1-1 Operations  
Pricing By Origin PMPCs and . on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Philadelphia, PA	Central Florida			1 0081 1 97				1 0081 2 97				1 0081 3 97		
	Jacksonville, FL			1 0082 1 97				1 0082 2 97				1 0082 3 97		
	Miami, FL			1 0083 1 97				1 0083 2 97				1 0083 3 97		
	Eastern Mass			1 0084 1 97				1 0084 2 97				1 0084 3 97		
	Hartford, CT			1 0085 1 97				1 0085 2 97				1 0085 3 97		
	Metro New York			1 0086 1 97				1 0086 2 97				1 0086 3 97		
	North New Jersey			1 0087 1 97				1 0087 2 97				1 0087 3 97		
	Philadelphia, PA			1 0088 1 97				1 0088 2 97				1 0088 3 97		
	Pittsburgh, PA			1 0089 1 97				1 0089 2 97				1 0089 3 97		
	Rochester, NY			1 0090 1 97				1 0090 2 97				1 0090 3 97		
Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost	
			1 0091 1 97				1 0091 2 97				1 0091 3 97			
			1 0092 1 97				1 0092 2 97				1 0092 3 97			
			1 0093 1 97				1 0093 2 97				1 0093 3 97			
			1 0094 1 97				1 0094 2 97				1 0094 3 97			
			1 0095 1 97				1 0095 2 97				1 0095 3 97			
			1 0096 1 97				1 0096 2 97				1 0096 3 97			
			1 0097 1 97				1 0097 2 97				1 0097 3 97			
			1 0098 1 97				1 0098 2 97				1 0098 3 97			
			1 0099 1 97				1 0099 2 97				1 0099 3 97			
			1 0100 1 97				1 0100 2 97				1 0100 3 97			
			1 0101 1 97				1 0101 2 97				1 0101 3 97			
			1 0102 1 97				1 0102 2 97				1 0102 3 97			
			1 0103 1 97				1 0103 2 97				1 0103 3 97			
			1 0104 1 97				1 0104 2 97				1 0104 3 97			
			1 0105 1 97				1 0105 2 97				1 0105 3 97			
			1 0106 1 97				1 0106 2 97				1 0106 3 97			
			1 0107 1 97				1 0107 2 97				1 0107 3 97			
			1 0108 1 97				1 0108 2 97				1 0108 3 97			
			1 0109 1 97				1 0109 2 97				1 0109 3 97			
			1 0110 1 97				1 0110 2 97				1 0110 3 97			
			1 0111 1 97				1 0111 2 97				1 0111 3 97			
			1 0112 1 97				1 0112 2 97				1 0112 3 97			
			1 0113 1 97				1 0113 2 97				1 0113 3 97			
			1 0114 1 97				1 0114 2 97				1 0114 3 97			
			1 0115 1 97				1 0115 2 97				1 0115 3 97			
			1 0116 1 97				1 0116 2 97				1 0116 3 97			
			1 0117 1 97				1 0117 2 97				1 0117 3 97			
			1 0118 1 97				1 0118 2 97				1 0118 3 97			
			1 0119 1 97				1 0119 2 97				1 0119 3 97			
			1 0120 1 97				1 0120 2 97				1 0120 3 97			
			1 0121 1 97				1 0121 2 97				1 0121 3 97			
			1 0122 1 97				1 0122 2 97				1 0122 3 97			
			1 0123 1 97				1 0123 2 97				1 0123 3 97			

[illegible]

CLIN 1-1 Operations  
Pricing By Origin PMPCs and on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
North New Jersey	Central Florida Jacksonville, FL Miami, FL			10161 1 97				10161 2 97				10161 3 97		
				10162 1 97				10162 2 97				10162 3 97		
				10163 1 97				10163 2 97				10163 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			10164 1 97				10164 2 97				10164 3 97		
				10165 1 97				10165 2 97				10165 3 97		
				10166 1 97				10166 2 97				10166 3 97		
				10167 1 97				10167 2 97				10167 3 97		
				10168 1 97				10168 2 97				10168 3 97		
				10169 1 97				10169 2 97				10169 3 97		
				10170 1 97				10170 2 97				10170 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				10171 1 97				10171 2 97				10171 3 97		
				10172 1 97				10172 2 97				10172 3 97		
				10173 1 97				10173 2 97				10173 3 97		
				10174 1 97				10174 2 97				10174 3 97		
				10175 1 97				10175 2 97				10175 3 97		
				10176 1 97				10176 2 97				10176 3 97		
				10177 1 97				10177 2 97				10177 3 97		
				10178 1 97				10178 2 97				10178 3 97		
				10179 1 97				10179 2 97				10179 3 97		
				10180 1 97				10180 2 97				10180 3 97		
				10181 1 97				10181 2 97				10181 3 97		
				10182 1 97				10182 2 97				10182 3 97		
				10183 1 97				10183 2 97				10183 3 97		
				10184 1 97				10184 2 97				10184 3 97		
				10185 1 97				10185 2 97				10185 3 97		
				10186 1 97				10186 2 97				10186 3 97		
				10187 1 97				10187 2 97				10187 3 97		
				10188 1 97				10188 2 97				10188 3 97		
				10189 1 97				10189 2 97				10189 3 97		
				10190 1 97				10190 2 97				10190 3 97		
				10191 1 97				10191 2 97				10191 3 97		
				10192 1 97				10192 2 97				10192 3 97		
				10193 1 97				10193 2 97				10193 3 97		
				10194 1 97				10194 2 97				10194 3 97		
				10195 1 97				10195 2 97				10195 3 97		
				10196 1 97				10196 2 97				10196 3 97		
				10197 1 97				10197 2 97				10197 3 97		
				10198 1 97				10198 2 97				10198 3 97		
				10199 1 97				10199 2 97				10199 3 97		
				10200 1 97				10200 2 97				10200 3 97		
				10201 1 97				10201 2 97				10201 3 97		
				10202 1 97				10202 2 97				10202 3 97		
				10203 1 97				10203 2 97				10203 3 97		

CLIN 1 - Operations  
Pricing By Origin PMPCs and Destination PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Eastern Mass	Central Florida Jacksonville, FL Miami, FL			1 0241 1 97				1 0241 2 97				1 0241 3 97		
				1 0242 1 97				1 0242 2 97				1 0242 3 97		
				1 0243 1 97				1 0243 2 97				1 0243 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1 0244 1 97				1 0244 2 97				1 0244 3 97		
				1 0245 1 97				1 0245 2 97				1 0245 3 97		
				1 0246 1 97				1 0246 2 97				1 0246 3 97		
				1 0247 1 97				1 0247 2 97				1 0247 3 97		
				1 0248 1 97				1 0248 2 97				1 0248 3 97		
				1 0249 1 97				1 0249 2 97				1 0249 3 97		
				1 0250 1 97				1 0250 2 97				1 0250 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0251 1 97				1 0251 2 97				1 0251 3 97		
				1 0252 1 97				1 0252 2 97				1 0252 3 97		
				1 0253 1 97				1 0253 2 97				1 0253 3 97		
				1 0254 1 97				1 0254 2 97				1 0254 3 97		
				1 0255 1 97				1 0255 2 97				1 0255 3 97		
				1 0256 1 97				1 0256 2 97				1 0256 3 97		
				1 0257 1 97				1 0257 2 97				1 0257 3 97		
				1 0258 1 97				1 0258 2 97				1 0258 3 97		
				1 0259 1 97				1 0259 2 97				1 0259 3 97		
				1 0260 1 97				1 0260 2 97				1 0260 3 97		
				1 0261 1 97				1 0261 2 97				1 0261 3 97		
				1 0262 1 97				1 0262 2 97				1 0262 3 97		
				1 0263 1 97				1 0263 2 97				1 0263 3 97		
				1 0264 1 97				1 0264 2 97				1 0264 3 97		
				1 0265 1 97				1 0265 2 97				1 0265 3 97		
				1 0266 1 97				1 0266 2 97				1 0266 3 97		
				1 0267 1 97				1 0267 2 97				1 0267 3 97		
				1 0268 1 97				1 0268 2 97				1 0268 3 97		
				1 0269 1 97				1 0269 2 97				1 0269 3 97		
				1 0270 1 97				1 0270 2 97				1 0270 3 97		
				1 0271 1 97				1 0271 2 97				1 0271 3 97		
				1 0272 1 97				1 0272 2 97				1 0272 3 97		
				1 0273 1 97				1 0273 2 97				1 0273 3 97		
				1 0274 1 97				1 0274 2 97				1 0274 3 97		
				1 0275 1 97				1 0275 2 97				1 0275 3 97		
				1 0276 1 97				1 0276 2 97				1 0276 3 97		
				1 0277 1 97				1 0277 2 97				1 0277 3 97		
				1 0278 1 97				1 0278 2 97				1 0278 3 97		
				1 0279 1 97				1 0279 2 97				1 0279 3 97		
				1 0280 1 97				1 0280 2 97				1 0280 3 97		
				1 0281 1 97				1 0281 2 97				1 0281 3 97		
				1 0282 1 97				1 0282 2 97				1 0282 3 97		
				1 0283 1 97				1 0283 2 97				1 0283 3 97		



[illegible]

CLIN 1-1 operations  
Pricing By Origin PMPs and , on PMPs, ADCs, and AMCs  
Ramp-Up - Contract APs 1-11

Origin PMP	Destination PMP	Expected			Expected			Expected			Expected				
		Volume	Price	CLIN	Air Transport Cost Element	Volume	Price	CLIN	Air Transport Cost Element	Volume	Price	CLIN	Air Transport Cost Element	Total Cost	
Rochester, NY	Central Florida Jacksonville, FL Miami, FL			10321 1 97			10321 2 97			10321 3 97			10321 3 97		
				10322 1 97			10322 2 97			10322 3 97			10322 3 97		
				10323 1 97			10323 2 97			10323 3 97			10323 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			10324 1 97			10324 2 97			10324 3 97			10324 3 97		
				10325 1 97			10325 2 97			10325 3 97			10325 3 97		
				10326 1 97			10326 2 97			10326 3 97			10326 3 97		
				10327 1 97			10327 2 97			10327 3 97			10327 3 97		
				10328 1 97			10328 2 97			10328 3 97			10328 3 97		
				10329 1 97			10329 2 97			10329 3 97			10329 3 97		
				10330 1 97			10330 2 97			10330 3 97			10330 3 97		
	Destination ADC or AMC	Expected Volume	Price	10331 1 97	Air Transport Cost Element	Expected Volume	Price	10331 2 97	Air Transport Cost Element	Expected Volume	Price	10331 3 97	Air Transport Cost Element	Total Cost	
				10332 1 97				10332 2 97				10332 3 97			10332 3 97
				10333 1 97				10333 2 97				10333 3 97			10333 3 97
				10334 1 97				10334 2 97				10334 3 97			10334 3 97
				10335 1 97				10335 2 97				10335 3 97			10335 3 97
				10336 1 97				10336 2 97				10336 3 97			10336 3 97
				10337 1 97				10337 2 97				10337 3 97			10337 3 97
				10338 1 97				10338 2 97				10338 3 97			10338 3 97
				10339 1 97				10339 2 97				10339 3 97			10339 3 97
				10340 1 97				10340 2 97				10340 3 97			10340 3 97
				10341 1 97				10341 2 97				10341 3 97			10341 3 97
				10342 1 97				10342 2 97				10342 3 97			10342 3 97
				10343 1 97				10343 2 97				10343 3 97			10343 3 97
				10344 1 97				10344 2 97				10344 3 97			10344 3 97
				10345 1 97				10345 2 97				10345 3 97			10345 3 97
				10346 1 97				10346 2 97				10346 3 97			10346 3 97
				10347 1 97				10347 2 97				10347 3 97			10347 3 97
				10348 1 97				10348 2 97				10348 3 97			10348 3 97
				10349 1 97				10349 2 97				10349 3 97			10349 3 97
				10350 1 97				10350 2 97				10350 3 97			10350 3 97
				10351 1 97				10351 2 97				10351 3 97			10351 3 97
				10352 1 97				10352 2 97				10352 3 97			10352 3 97
				10353 1 97				10353 2 97				10353 3 97			10353 3 97
				10354 1 97				10354 2 97				10354 3 97			10354 3 97
				10355 1 97				10355 2 97				10355 3 97			10355 3 97
				10356 1 97				10356 2 97				10356 3 97			10356 3 97
				10357 1 97				10357 2 97				10357 3 97			10357 3 97
				10358 1 97				10358 2 97				10358 3 97			10358 3 97
				10359 1 97				10359 2 97				10359 3 97			10359 3 97
				10360 1 97				10360 2 97				10360 3 97			10360 3 97
				10361 1 97				10361 2 97				10361 3 97			10361 3 97
				10362 1 97				10362 2 97				10362 3 97			10362 3 97
				10363 1 97				10363 2 97				10363 3 97			10363 3 97

CLIN 1.1 Operations  
Pricing By Origin PMPCs and on PMPMs, ADCs, and AMCs  
Ramp-Up - Contract APs 1-11

[illegible]

CLIN 1 - 1 Operations  
Pricing By Origin PMPCs and Location PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Hartford, CT	Central Florida Jacksonville, FL Miami, FL			1 0401 1 97				1 0401 2 97				1 0401 3 97		
				1 0402 1 97				1 0402 2 97				1 0402 3 97		
				1 0403 1 97				1 0403 2 97				1 0403 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1 0404 1 97				1 0404 2 97				1 0404 3 97		
				1 0405 1 97				1 0405 2 97				1 0405 3 97		
				1 0406 1 97				1 0406 2 97				1 0406 3 97		
				1 0407 1 97				1 0407 2 97				1 0407 3 97		
				1 0408 1 97				1 0408 2 97				1 0408 3 97		
				1 0409 1 97				1 0409 2 97				1 0409 3 97		
				1 0410 1 97				1 0410 2 97				1 0410 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0411 1 97				1 0411 2 97				1 0411 3 97		
				1 0412 1 97				1 0412 2 97				1 0412 3 97		
				1 0413 1 97				1 0413 2 97				1 0413 3 97		
				1 0414 1 97				1 0414 2 97				1 0414 3 97		
				1 0415 1 97				1 0415 2 97				1 0415 3 97		
				1 0416 1 97				1 0416 2 97				1 0416 3 97		
				1 0417 1 97				1 0417 2 97				1 0417 3 97		
				1 0418 1 97				1 0418 2 97				1 0418 3 97		
				1 0419 1 97				1 0419 2 97				1 0419 3 97		
				1 0420 1 97				1 0420 2 97				1 0420 3 97		
				1 0421 1 97				1 0421 2 97				1 0421 3 97		
				1 0422 1 97				1 0422 2 97				1 0422 3 97		
				1 0423 1 97				1 0423 2 97				1 0423 3 97		
				1 0424 1 97				1 0424 2 97				1 0424 3 97		
				1 0425 1 97				1 0425 2 97				1 0425 3 97		
				1 0426 1 97				1 0426 2 97				1 0426 3 97		
				1 0427 1 97				1 0427 2 97				1 0427 3 97		
				1 0428 1 97				1 0428 2 97				1 0428 3 97		
				1 0429 1 97				1 0429 2 97				1 0429 3 97		
				1 0430 1 97				1 0430 2 97				1 0430 3 97		
				1 0431 1 97				1 0431 2 97				1 0431 3 97		
				1 0432 1 97				1 0432 2 97				1 0432 3 97		
				1 0433 1 97				1 0433 2 97				1 0433 3 97		
				1 0434 1 97				1 0434 2 97				1 0434 3 97		
				1 0435 1 97				1 0435 2 97				1 0435 3 97		
				1 0436 1 97				1 0436 2 97				1 0436 3 97		
				1 0437 1 97				1 0437 2 97				1 0437 3 97		
				1 0438 1 97				1 0438 2 97				1 0438 3 97		
				1 0439 1 97				1 0439 2 97				1 0439 3 97		
				1 0440 1 97				1 0440 2 97				1 0440 3 97		
				1 0441 1 97				1 0441 2 97				1 0441 3 97		
				1 0442 1 97				1 0442 2 97				1 0442 3 97		
				1 0443 1 97				1 0443 2 97				1 0443 3 97		

CLIN 1 - 1 Operations  
Pricing By Origin PMPCs and Location PMPCs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

				1 0444 1 97				1 0444 2 97					1 0444 3 97	
				1 0445 1 97				1 0445 2 97					1 0445 3 97	
				1 0446 1 97				1 0446 2 97					1 0446 3 97	
				1 0447 1 97				1 0447 2 97					1 0447 3 97	
				1 0448 1 97				1 0448 2 97					1 0448 3 97	
				1 0449 1 97				1 0449 2 97					1 0449 3 97	
				1 0450 1 97				1 0450 2 97					1 0450 3 97	
				1 0451 1 97				1 0451 2 97					1 0451 3 97	
				1 0452 1 97				1 0452 2 97					1 0452 3 97	
				1 0453 1 97				1 0453 2 97					1 0453 3 97	
				1 0454 1 97				1 0454 2 97					1 0454 3 97	
				1 0455 1 97				1 0455 2 97					1 0455 3 97	
				1 0456 1 97				1 0456 2 97					1 0456 3 97	
				1 0457 1 97				1 0457 2 97					1 0457 3 97	
				1 0458 1 97				1 0458 2 97					1 0458 3 97	
				1 0459 1 97				1 0459 2 97					1 0459 3 97	
				1 0460 1 97				1 0460 2 97					1 0460 3 97	
				1 0461 1 97				1 0461 2 97					1 0461 3 97	
				1 0462 1 97				1 0462 2 97					1 0462 3 97	
				1 0463 1 97				1 0463 2 97					1 0463 3 97	
				1 0464 1 97				1 0464 2 97					1 0464 3 97	
				1 0465 1 97				1 0465 2 97					1 0465 3 97	
				1 0466 1 97				1 0466 2 97					1 0466 3 97	
				1 0467 1 97				1 0467 2 97					1 0467 3 97	
				1 0468 1 97				1 0468 2 97					1 0468 3 97	
				1 0469 1 97				1 0469 2 97					1 0469 3 97	
				1 0470 1 97				1 0470 2 97					1 0470 3 97	
				1 0471 1 97				1 0471 2 97					1 0471 3 97	
				1 0472 1 97				1 0472 2 97					1 0472 3 97	
				1 0473 1 97				1 0473 2 97					1 0473 3 97	
				1 0474 1 97				1 0474 2 97					1 0474 3 97	
				1 0475 1 97				1 0475 2 97					1 0475 3 97	
				1 0476 1 97				1 0476 2 97					1 0476 3 97	
				1 0477 1 97				1 0477 2 97					1 0477 3 97	
				1 0478 1 97				1 0478 2 97					1 0478 3 97	
				1 0479 1 97				1 0479 2 97					1 0479 3 97	
Origin	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Total:														
Total Places PMPC Average Price:														

CLIN 1 - Operations  
Pricing By Origin PMPCs and Destination PMPMs, ADCs, and AMCs  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected					Expected					Total Cost	
		Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides			
Pittsburgh, PA	Central Florida Jacksonville, FL Miami, FL			1 0481 1 97				1 0481 2 97			1 0481 3 97		
				1 0482 1 97				1 0482 2 97			1 0482 3 97		
				1 0483 1 97				1 0483 2 97			1 0483 3 97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			1 0484 1 97				1 0484 2 97			1 0484 3 97		
				1 0485 1 97				1 0485 2 97			1 0485 3 97		
				1 0486 1 97				1 0486 2 97			1 0486 3 97		
				1 0487 1 97				1 0487 2 97			1 0487 3 97		
				1 0488 1 97				1 0488 2 97			1 0488 3 97		
				1 0489 1 97				1 0489 2 97			1 0489 3 97		
				1 0490 1 97				1 0490 2 97			1 0490 3 97		
Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
			1 0491 1 97				1 0491 2 97				1 0491 3 97		
			1 0492 1 97				1 0492 2 97				1 0492 3 97		
			1 0493 1 97				1 0493 2 97				1 0493 3 97		
			1 0494 1 97				1 0494 2 97				1 0494 3 97		
			1 0495 1 97				1 0495 2 97				1 0495 3 97		
			1 0496 1 97				1 0496 2 97				1 0496 3 97		
			1 0497 1 97				1 0497 2 97				1 0497 3 97		
			1 0498 1 97				1 0498 2 97				1 0498 3 97		
			1 0499 1 97				1 0499 2 97				1 0499 3 97		
			1 0500 1 97				1 0500 2 97				1 0500 3 97		
			1 0501 1 97				1 0501 2 97				1 0501 3 97		
			1 0502 1 97				1 0502 2 97				1 0502 3 97		
			1 0503 1 97				1 0503 2 97				1 0503 3 97		
			1 0504 1 97				1 0504 2 97				1 0504 3 97		
			1 0505 1 97				1 0505 2 97				1 0505 3 97		
			1 0506 1 97				1 0506 2 97				1 0506 3 97		
			1 0507 1 97				1 0507 2 97				1 0507 3 97		
			1 0508 1 97				1 0508 2 97				1 0508 3 97		
			1 0509 1 97				1 0509 2 97				1 0509 3 97		
			1 0510 1 97				1 0510 2 97				1 0510 3 97		
			1 0511 1 97				1 0511 2 97				1 0511 3 97		
			1 0512 1 97				1 0512 2 97				1 0512 3 97		
			1 0513 1 97				1 0513 2 97				1 0513 3 97		
			1 0514 1 97				1 0514 2 97				1 0514 3 97		
			1 0515 1 97				1 0515 2 97				1 0515 3 97		
			1 0516 1 97				1 0516 2 97				1 0516 3 97		
			1 0517 1 97				1 0517 2 97				1 0517 3 97		
			1 0518 1 97				1 0518 2 97				1 0518 3 97		
			1 0519 1 97				1 0519 2 97				1 0519 3 97		
			1 0520 1 97				1 0520 2 97				1 0520 3 97		
			1 0521 1 97				1 0521 2 97				1 0521 3 97		
			1 0522 1 97				1 0522 2 97				1 0522 3 97		
			1 0523 1 97				1 0523 2 97				1 0523 3 97		

[illegible]

CLIN 1 - 1 operations  
Pricing By Origin PMPCs and Location on PMPMs, ADCs, and AMCs  
Ramp-Up -- Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Central Florida	Central Florida			1 0561 1 97				1 0561 2 97						
	Jacksonville, FL			1 0562 1 97				1 0562 2 97						
	Miami, FL			1 0563 1 97				1 0563 2 97						
	Eastern Mass			1 0564 1 97				1 0564 2 97						
	Hartford, CT			1 0565 1 97				1 0565 2 97						
	Metro New York			1 0566 1 97				1 0566 2 97						
	North New Jersey			1 0567 1 97				1 0567 2 97						
	Philadelphia, PA			1 0568 1 97				1 0568 2 97						
	Pittsburgh, PA			1 0569 1 97				1 0569 2 97						
	Rochester, NY			1 0570 1 97				1 0570 2 97						
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0571 1 97				1 0571 2 97				1 0571 3 97		
				1 0572 1 97				1 0572 2 97				1 0572 3 97		
				1 0573 1 97				1 0573 2 97				1 0573 3 97		
				1 0574 1 97				1 0574 2 97				1 0574 3 97		
				1 0575 1 97				1 0575 2 97				1 0575 3 97		
				1 0576 1 97				1 0576 2 97				1 0576 3 97		
				1 0577 1 97				1 0577 2 97				1 0577 3 97		
				1 0578 1 97				1 0578 2 97				1 0578 3 97		
				1 0579 1 97				1 0579 2 97				1 0579 3 97		
				1 0580 1 97				1 0580 2 97				1 0580 3 97		
				1 0581 1 97				1 0581 2 97				1 0581 3 97		
				1 0582 1 97				1 0582 2 97				1 0582 3 97		
				1 0583 1 97				1 0583 2 97				1 0583 3 97		
				1 0584 1 97				1 0584 2 97				1 0584 3 97		
				1 0585 1 97				1 0585 2 97				1 0585 3 97		
				1 0586 1 97				1 0586 2 97				1 0586 3 97		
				1 0587 1 97				1 0587 2 97				1 0587 3 97		
				1 0588 1 97				1 0588 2 97				1 0588 3 97		
				1 0589 1 97				1 0589 2 97				1 0589 3 97		
				1 0590 1 97				1 0590 2 97				1 0590 3 97		
				1 0591 1 97				1 0591 2 97				1 0591 3 97		
				1 0592 1 97				1 0592 2 97				1 0592 3 97		
				1 0593 1 97				1 0593 2 97				1 0593 3 97		
				1 0594 1 97				1 0594 2 97				1 0594 3 97		
				1 0595 1 97				1 0595 2 97				1 0595 3 97		
				1 0596 1 97				1 0596 2 97				1 0596 3 97		
				1 0597 1 97				1 0597 2 97				1 0597 3 97		
				1 0598 1 97				1 0598 2 97				1 0598 3 97		
				1 0599 1 97				1 0599 2 97				1 0599 3 97		
				1 0600 1 97				1 0600 2 97				1 0600 3 97		
				1 0601 1 97				1 0601 2 97				1 0601 3 97		
				1 0602 1 97				1 0602 2 97				1 0602 3 97		
				1 0603 1 97				1 0603 2 97				1 0603 3 97		



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CLIN 1 - A  
Pricing By Origin PMPCs and L  
Ramp-Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Miami, FL	Central Florida Jacksonville, FL Miami, FL			10641.1.97				10641.2.97				10641.3.97		
				10642.1.97				10642.2.97				10642.3.97		
				10643.1.97				10643.2.97				10643.3.97		
	Eastern Mass Hartford, CT Metro New York North New Jersey Philadelphia, PA Pittsburgh, PA Rochester, NY			10644.1.97				10644.2.97				10644.3.97		
				10645.1.97				10645.2.97				10645.3.97		
				10646.1.97				10646.2.97				10646.3.97		
				10647.1.97				10647.2.97				10647.3.97		
				10648.1.97				10648.2.97				10648.3.97		
				10649.1.97				10649.2.97				10649.3.97		
				10650.1.97				10650.2.97				10650.3.97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				10651.1.97				10651.2.97				10651.3.97		
				10652.1.97				10652.2.97				10652.3.97		
				10653.1.97				10653.2.97				10653.3.97		
				10654.1.97				10654.2.97				10654.3.97		
				10655.1.97				10655.2.97				10655.3.97		
				10656.1.97				10656.2.97				10656.3.97		
				10657.1.97				10657.2.97				10657.3.97		
				10658.1.97				10658.2.97				10658.3.97		
				10659.1.97				10659.2.97				10659.3.97		
				10660.1.97				10660.2.97				10660.3.97		
				10661.1.97				10661.2.97				10661.3.97		
				10662.1.97				10662.2.97				10662.3.97		
				10663.1.97				10663.2.97				10663.3.97		
				10664.1.97				10664.2.97				10664.3.97		
				10665.1.97				10665.2.97				10665.3.97		
				10666.1.97				10666.2.97				10666.3.97		
				10667.1.97				10667.2.97				10667.3.97		
				10668.1.97				10668.2.97				10668.3.97		
				10669.1.97				10669.2.97				10669.3.97		
				10670.1.97				10670.2.97				10670.3.97		
				10671.1.97				10671.2.97				10671.3.97		
				10672.1.97				10672.2.97				10672.3.97		
				10673.1.97				10673.2.97				10673.3.97		
				10674.1.97				10674.2.97				10674.3.97		
				10675.1.97				10675.2.97				10675.3.97		
				10676.1.97				10676.2.97				10676.3.97		
				10677.1.97				10677.2.97				10677.3.97		
				10678.1.97				10678.2.97				10678.3.97		
				10679.1.97				10679.2.97				10679.3.97		
				10680.1.97				10680.2.97				10680.3.97		
				10681.1.97				10681.2.97				10681.3.97		
				10682.1.97				10682.2.97				10682.3.97		
				10683.1.97				10683.2.97				10683.3.97		

CLIN 1-1 operations  
PMPCs and L on PMPMs  
Ramp-Up - Contract A/Ps 1-11

**Total Pieces**  
**PMPC Average Price:**

CLIN 1 - 1 Operations  
Pricing By Origin PMPCs and Destination PMPCs, ADCs, and AMC  
Ramp Up - Contract A/Ps 1-11

Origin PMPC	Destination PMPC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
Jacksonville, FL	Central Florida			1 0721 1 97				1 0721 2 97				1 0721 3 97		
	Jacksonville, FL			1 0722 1 97				1 0722 2 97				1 0722 3 97		
	Miami, FL			1 0723 1 97				1 0723 2 97				1 0723 3 97		
	Eastern Mass			1 0724 1 97				1 0724 2 97				1 0724 3 97		
	Hartford, CT			1 0725 1 97				1 0725 2 97				1 0725 3 97		
	Metro New York			1 0726 1 97				1 0726 2 97				1 0726 3 97		
	North New Jersey			1 0727 1 97				1 0727 2 97				1 0727 3 97		
	Philadelphia, PA			1 0728 1 97				1 0728 2 97				1 0728 3 97		
	Pittsburgh, PA			1 0729 1 97				1 0729 2 97				1 0729 3 97		
	Rochester, NY			1 0730 1 97				1 0730 2 97				1 0730 3 97		
	Destination ADC or AMC	Expected Volume Flats	Price	CLIN	Air Transport Cost Element	Expected Volume Parcels	Price	CLIN	Air Transport Cost Element	Expected Volume Outsides	Price	CLIN	Air Transport Cost Element	Total Cost
				1 0731 1 97				1 0731 2 97				1 0731 3 97		
				1 0732 1 97				1 0732 2 97				1 0732 3 97		
				1 0733 1 97				1 0733 2 97				1 0733 3 97		
				1 0734 1 97				1 0734 2 97				1 0734 3 97		
				1 0735 1 97				1 0735 2 97				1 0735 3 97		
				1 0736 1 97				1 0736 2 97				1 0736 3 97		
				1 0737 1 97				1 0737 2 97				1 0737 3 97		
				1 0738 1 97				1 0738 2 97				1 0738 3 97		
				1 0739 1 97				1 0739 2 97				1 0739 3 97		
				1 0740 1 97				1 0740 2 97				1 0740 3 97		
				1 0741 1 97				1 0741 2 97				1 0741 3 97		
				1 0742 1 97				1 0742 2 97				1 0742 3 97		
				1 0743 1 97				1 0743 2 97				1 0743 3 97		
				1 0744 1 97				1 0744 2 97				1 0744 3 97		
				1 0745 1 97				1 0745 2 97				1 0745 3 97		
				1 0746 1 97				1 0746 2 97				1 0746 3 97		
				1 0747 1 97				1 0747 2 97				1 0747 3 97		
				1 0748 1 97				1 0748 2 97				1 0748 3 97		
				1 0749 1 97				1 0749 2 97				1 0749 3 97		
				1 0750 1 97				1 0750 2 97				1 0750 3 97		
				1 0751 1 97				1 0751 2 97				1 0751 3 97		
				1 0752 1 97				1 0752 2 97				1 0752 3 97		
				1 0753 1 97				1 0753 2 97				1 0753 3 97		
				1 0754 1 97				1 0754 2 97				1 0754 3 97		
				1 0755 1 97				1 0755 2 97				1 0755 3 97		
				1 0756 1 97				1 0756 2 97				1 0756 3 97		
				1 0757 1 97				1 0757 2 97				1 0757 3 97		
				1 0758 1 97				1 0758 2 97				1 0758 3 97		
				1 0759 1 97				1 0759 2 97				1 0759 3 97		
				1 0760 1 97				1 0760 2 97				1 0760 3 97		
				1 0761 1 97				1 0761 2 97				1 0761 3 97		
				1 0762 1 97				1 0762 2 97				1 0762 3 97		
				1 0763 1 97				1 0763 2 97				1 0763 3 97		

CLIN 1 - N  
 Pricing By Origin PMPCs and D. in PMPCs, ADCs, and AMCs  
 Ramp-Up - Contract APs 1-11

Origin	Destination PMPC	Expected Volume Flats		Air Transport Cost Element		Expected Volume Parcels		Air Transport Cost Element		Expected Volume Outsidies		Air Transport Cost Element		Total Cost	
		Price	CLIN	Price	CLIN	Price	CLIN	Price	CLIN	Price	CLIN	Price	CLIN	Price	CLIN
		1.0764.197		1.0764.197		1.0764.197		1.0764.197		1.0764.197		1.0764.197		1.0764.197	
		1.0765.197		1.0765.197		1.0765.197		1.0765.197		1.0765.197		1.0765.197		1.0765.197	
		1.0766.197		1.0766.197		1.0766.197		1.0766.197		1.0766.197		1.0766.197		1.0766.197	
		1.0767.197		1.0767.197		1.0767.197		1.0767.197		1.0767.197		1.0767.197		1.0767.197	
		1.0768.197		1.0768.197		1.0768.197		1.0768.197		1.0768.197		1.0768.197		1.0768.197	
		1.0769.197		1.0769.197		1.0769.197		1.0769.197		1.0769.197		1.0769.197		1.0769.197	
		1.0770.197		1.0770.197		1.0770.197		1.0770.197		1.0770.197		1.0770.197		1.0770.197	
		1.0771.197		1.0771.197		1.0771.197		1.0771.197		1.0771.197		1.0771.197		1.0771.197	
		1.0772.197		1.0772.197		1.0772.197		1.0772.197		1.0772.197		1.0772.197		1.0772.197	
		1.0773.197		1.0773.197		1.0773.197		1.0773.197		1.0773.197		1.0773.197		1.0773.197	
		1.0774.197		1.0774.197		1.0774.197		1.0774.197		1.0774.197		1.0774.197		1.0774.197	
		1.0775.197		1.0775.197		1.0775.197		1.0775.197		1.0775.197		1.0775.197		1.0775.197	
		1.0776.197		1.0776.197		1.0776.197		1.0776.197		1.0776.197		1.0776.197		1.0776.197	
		1.0777.197		1.0777.197		1.0777.197		1.0777.197		1.0777.197		1.0777.197		1.0777.197	
		1.0778.197		1.0778.197		1.0778.197		1.0778.197		1.0778.197		1.0778.197		1.0778.197	
		1.0779.197		1.0779.197		1.0779.197		1.0779.197		1.0779.197		1.0779.197		1.0779.197	
		1.0780.197		1.0780.197		1.0780.197		1.0780.197		1.0780.197		1.0780.197		1.0780.197	
		1.0781.197		1.0781.197		1.0781.197		1.0781.197		1.0781.197		1.0781.197		1.0781.197	
		1.0782.197		1.0782.197		1.0782.197		1.0782.197		1.0782.197		1.0782.197		1.0782.197	
		1.0783.197		1.0783.197		1.0783.197		1.0783.197		1.0783.197		1.0783.197		1.0783.197	
		1.0784.197		1.0784.197		1.0784.197		1.0784.197		1.0784.197		1.0784.197		1.0784.197	
		1.0785.197		1.0785.197		1.0785.197		1.0785.197		1.0785.197		1.0785.197		1.0785.197	
		1.0786.197		1.0786.197		1.0786.197		1.0786.197		1.0786.197		1.0786.197		1.0786.197	
		1.0787.197		1.0787.197		1.0787.197		1.0787.197		1.0787.197		1.0787.197		1.0787.197	
		1.0788.197		1.0788.197		1.0788.197		1.0788.197		1.0788.197		1.0788.197		1.0788.197	
		1.0789.197		1.0789.197		1.0789.197		1.0789.197		1.0789.197		1.0789.197		1.0789.197	
		1.0790.197		1.0790.197		1.0790.197		1.0790.197		1.0790.197		1.0790.197		1.0790.197	
		1.0791.197		1.0791.197		1.0791.197		1.0791.197		1.0791.197		1.0791.197		1.0791.197	
		1.0792.197		1.0792.197		1.0792.197		1.0792.197		1.0792.197		1.0792.197		1.0792.197	
		1.0793.197		1.0793.197		1.0793.197		1.0793.197		1.0793.197		1.0793.197		1.0793.197	
		1.0794.197		1.0794.197		1.0794.197		1.0794.197		1.0794.197		1.0794.197		1.0794.197	
		1.0795.197		1.0795.197		1.0795.197		1.0795.197		1.0795.197		1.0795.197		1.0795.197	
		1.0796.197		1.0796.197		1.0796.197		1.0796.197		1.0796.197		1.0796.197		1.0796.197	
		1.0797.197		1.0797.197		1.0797.197		1.0797.197		1.0797.197		1.0797.197		1.0797.197	
		1.0798.197		1.0798.197		1.0798.197		1.0798.197		1.0798.197		1.0798.197		1.0798.197	
		1.0799.197		1.0799.197		1.0799.197		1.0799.197		1.0799.197		1.0799.197		1.0799.197	
Total:															

JPS/USPS-T33-51. Refer to LR-H-235, Attachment 1, Section B.2.2.2.1, page 6.

- (a) The paragraph contains the statement that "The majority of the Priority Mail at tender to the Contractor will be mixed shapes: flats, parcels, and outsides." Confirm that this means that a majority of individual sacks and individual ERMCs tendered by the Postal Service to the Contractor will be comprised of a mixture of the three shapes. If not confirmed, please explain.
- (b) What changes are planned by the Postal Service in order to tender Priority Mail in accordance with this Statement of Work?

**Response:**

(a) Confirmed.

(b) The Postal Service is requesting that the retail units segregate the Priority Mail by shape and dispatch it to the plant for cross-dock transfer to the PMPC.

UPS/USPS-T33-52. Refer to LR-H-235, Attachment 1, Sections B.2.2.3.2.1 and B.2.2.3.2.2., page 9.

- (a) Confirm that these sections require the Contractor to transport Priority Mail separated by shape. If not confirmed, please explain.
- (b) Confirm that all destinating Priority Mail received from the PMPC network by the Postal Service at ADCs and AMCs/AMFs will be segregated by shape. If not confirmed, please explain.

**Response:**

- (a) Not confirmed. The contract requires the Contractor to tender Priority Mail separated by shape.
- (b) Confirmed.

**UPS/USPS-T33-53.** Refer to LR-H-235, Attachment 1, Section B.3.1.8, page 15. Confirm that First Class mail weighing about 11 ounces and that is not specifically marked as Priority Mail, will not travel on the PMPC network. If confirmed, explain the rationale for this restriction. If not confirmed, please explain.

**Response:**

First Class Mail weighing "about" 11 ounces is a nebulous concept. Customers wishing to send First Class matter 11 ounces or less can send the item as Priority Mail at the two pound rate. If this is the situation and the piece is not identified as Priority Mail the Section B.3.1.8, page 15 labeled "Non-identified Priority Mail" applies.



**UPS/USPS-T33-54.** Refer to LR-H-235, Attachment 1, Section B.3.1.10, page 17. Confirm that these drop shipments will no longer be handled in the described manner if the proposed discontinuation of the Priority Mail presort discount is approved. If confirmed, explain what handling differences there will be for dropshipped Priority Mail. If not confirmed, please explain.

**Response:**

Not confirmed. Priority Mail drop shipments will be handled in the described manner if the Priority Mail presort discount is discontinued. See also response to APMU/USPS-T30-6.

**UPS/USPS-T33-55.** Both you and witness Mayes apply a two-cent per pound non-transportation weight-related handling charge to your rates.

- (a) Please explain why two cents was chosen over some other amount (e.g., 1 cent per pound, or 5 cents per pound).
- (b) Please discuss any other amounts considered for this charge, or confirm that no other amounts were considered.
- (c) Did you confer with witness Mayes regarding the two-cent per pound charge?
- (d) Please discuss the historical use of this type of charge and provide documentation regarding the legitimacy of the charge and any Commission decisions supporting it.

**Response:**

- (a) The two-cent charge was chosen based on PRC precedent from R90-1. (See Postal Rate Commission Opinion and Recommended Decision, Docket No. R90-1 at V-331 to 333) and again in the development of rates in Docket No.94-1 (See Commission workpapers.)
- (b) No other amounts were considered for this charge.
- (c) Yes.
- (d) The two-cent per pound non-transportation weight-related handling charge was first set by the Commission in Docket No. R84-1 (See PRC Opinion and Recommended Decision at 540- 541), and maintained by the Commission in Docket No. R87-1 (See PRC Opinion and Recommended Decision at 702-703) and Docket No. R90-1 (See PRC Opinion and Recommended Decision at V-331-333) and in Docket No. R94-1 (See Commission workpapers).

UPS/USPS-T33-56. Refer to page 15, lines 20-21, and page 26, lines 11-12, of your testimony.

- (a) Please explain why a 16% increase ceiling was chosen for Priority Mail, but an 11% increase ceiling was chosen for Express Mail.
- (b) Please discuss how these ceilings were determined, (i.e., historical precedence, commission decisions, discussions within the Postal Service, etc.). Please provide any documentation supporting your answer.

**Response:**

(a). See my response to UPS/USPS-T33-20, which discusses the derivation of the 16% ceiling on Priority Mail rate increases. In a similar fashion, my initial judgmentally determined goal was to limit the rate increase in any given cell to 7.5 %, which was approximately double the average increase of 3.7%.

Constraining rate increases to 7.5% in selected cases produced implied markups less than 90%, which I considered inappropriate given the overall target markup for Express Mail of 104%. In turn, subject to rounding, the next-highest nickel, and the desire to design progressively higher rates across the four service offerings (as discussed in response to UPS/USPS-T3311) the resultant maximum percent increase was 11%.

(b.) See response to (a).

**UPS/USPS-T15-8.** (Redirected from Witness Patelunas). Does the Postal Service provide seven day a week delivery in any market? If not, does the Postal Service have plans to provide seven day a week delivery in any market(s)? If the Postal Service is providing seven day a week delivery anywhere,

- (a) In which market(s) is seven day a week delivery available?
- (b) Is seven day a week delivery limited to a particular class or classes of mail?
- (d) Does the Postal Service have plans to expand the markets in which seven day a week delivery is available? If so, please describe those plans.
- (e) Does the Postal Service have plans to make permanent the seven day a week delivery policy? If so, please describe those plans.

Response:

- (a) The Postal Service provides seven day a week delivery in all markets.
- (b) Seven day a week delivery is limited to Express Mail.
- (d) No.
- (e) The seven day a week delivery policy for Express Mail is permanent.

1 CHAIRMAN GLEIMAN: Is there any additional written  
2 cross-examination for Witness Sharkey?

3 MR. McKEEVER: Yes, Mr. Chairman, John McKeever  
4 for United Parcel Service.

5 Mr. Sharkey, shortly before you took the stand, I  
6 gave your counsel two copies of your recently filed  
7 responses to interrogatories UPS-USPS-T-33-60, 66 and 67 as  
8 revised on October 6, 1997.

9 Did you have an opportunity to review those  
10 materials?

11 THE WITNESS: Yes, I did.

12 MR. McKEEVER: And if those questions were asked  
13 of you today, would your answers be the same?

14 THE WITNESS: Yes, they would.

15 MR. McKEEVER: Mr. Chairman, I have two copies of  
16 those answers. I move that they be admitted into evidence  
17 as additional written cross-examination of Postal Service  
18 Witness Sharkey and be transcribed into the transcript for  
19 today's hearing.

20 CHAIRMAN GLEIMAN: If you would please provide  
21 those copies to the reporter, it is so ordered.

22 MR. McKEEVER: I will do so.

23 [Additional Designation of Written  
24 Cross-Examination of Thomas M.  
25 Sharkey was received into evidence

and transcribed into the record.]

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**Response of Postal Service Witness Sharkey to UPS Interrogatories**

**UPS/USPS-T33-60.** Please provide the revenues, costs, and volumes for (a) Priority Mail pieces weighing 8 ounces or less and, separately, (b) Priority Mail pieces weighing 1 lb. or less, for Fiscal Year 1996 and for the most recent fiscal year other than Fiscal Year 1996 for which such data is available.

**Response:****(a) FY96 8 ounces or less:**

Pieces: 95,935,017

Revenue: \$266,905,051

Cost: Not Available. See Witness Alexandrovich Response to UPS/USPS-T33-38 (Redirected from Witness Sharkey).

**(b) FY96 1 lb. or less:**

Pieces: 414,944,628

Revenue: \$1,244,833,885

Cost: Not Available. See Witness Alexandrovich Response to UPS/USPS-T33-38 (Redirected from Witness Sharkey).

Response of Postal Service Witness Sharkey to UPS Interrogatories

UPS/USPS-T33-66. Please refer to your response to UPS/USPS-T33-11, where you state, "The 7- to 20-pound Zone 5 rates were adjusted upward to smooth transition to the 21-pound rate."

(a) What accounts for the changes in Additional Cost/Pound from 15, 16, and 17 pounds of \$0.85, \$0.25, and \$0.80, respectively?

(b) What accounts for the changes in Additional Cost/Pound from 20, 21, and 22 pounds of \$0.80, \$0.05, and \$0.75, respectively?

Response:

(a.) Following Step 4 in the rate design (as discussed in response to UPS/USPS-

T33-41) the intent was to add additional costs per pound of 75, 80 or 85 cents as a function of rounding costs marked up by the required 120% to meet the target markup. The 6 pound rate was then set at between zone 4 and zone 6 rates at \$7.75 or a 9 percent increase which implied a relatively high implicit markup. To bring the rates down to the 120% markup, I judgmentally choose the 16 pound and 21 pound rates to transition the rates by adding modest additional costs per pound of 25 and 5 cents, respectively.

(b.) See response to part (a.)



Revised Response of Postal Service  
Witness Sharkey to UPS Interrogatories

Revised 10/06/97

UPS/USPS-T33-67. Please confirm that the attached table (Attachment 2) accurately portrays the unit costs for Priority Mail by zone and weight. If not confirmed, please provide accurate numbers and explain how those numbers are derived.

**Response:**

Not confirmed. The attached table of allocated cost by zone and weight was derived by removing the markup from the initial set of rates provided in response to UPS/USPS-T33-39. Note: The underlying costs reflect revisions to USPS-T33, Tables 6 and 7, USPS-33N and Q (filed 10/06/97).

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## Unit Costs for Priority Mail by Zone and Weight

Mail class	1	2	3	4	5	6	7	8
1	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63
2	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63	\$ 1.63
3	\$ 2.14	\$ 2.14	\$ 2.14	\$ 2.14	\$ 2.14	\$ 2.14	\$ 2.14	\$ 2.14
4	\$ 2.47	\$ 2.47	\$ 2.47	\$ 2.47	\$ 2.47	\$ 2.47	\$ 2.47	\$ 2.47
5	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.79
6	\$ 2.41	\$ 3.09	\$ 3.24	\$ 3.50	\$ 3.69	\$ 3.96	\$ 4.07	\$ 4.07
7	\$ 2.62	\$ 3.42	\$ 3.83	\$ 4.11	\$ 4.53	\$ 4.88	\$ 5.28	\$ 5.84
8	\$ 2.62	\$ 3.74	\$ 4.24	\$ 4.63	\$ 5.03	\$ 5.34	\$ 5.82	\$ 6.43
9	\$ 3.03	\$ 4.08	\$ 4.58	\$ 5.07	\$ 5.57	\$ 6.07	\$ 6.57	\$ 7.01
10	\$ 3.24	\$ 4.38	\$ 4.88	\$ 5.37	\$ 5.87	\$ 6.37	\$ 6.87	\$ 7.29
11	\$ 3.44	\$ 4.70	\$ 5.20	\$ 5.69	\$ 6.19	\$ 6.69	\$ 7.19	\$ 7.59
12	\$ 3.65	\$ 5.02	\$ 5.52	\$ 6.02	\$ 6.52	\$ 7.02	\$ 7.52	\$ 7.92
13	\$ 3.86	\$ 5.34	\$ 5.84	\$ 6.34	\$ 6.84	\$ 7.34	\$ 7.84	\$ 8.24
14	\$ 4.07	\$ 5.67	\$ 6.17	\$ 6.67	\$ 7.17	\$ 7.67	\$ 8.17	\$ 8.57
15	\$ 4.27	\$ 5.98	\$ 6.48	\$ 6.98	\$ 7.48	\$ 7.98	\$ 8.48	\$ 8.88
16	\$ 4.48	\$ 6.31	\$ 6.81	\$ 7.31	\$ 7.81	\$ 8.31	\$ 8.81	\$ 9.21
17	\$ 4.69	\$ 6.63	\$ 7.13	\$ 7.63	\$ 8.13	\$ 8.63	\$ 9.13	\$ 9.53
18	\$ 4.89	\$ 6.85	\$ 7.35	\$ 7.85	\$ 8.35	\$ 8.85	\$ 9.35	\$ 9.75
19	\$ 5.10	\$ 7.27	\$ 7.77	\$ 8.27	\$ 8.77	\$ 9.27	\$ 9.77	\$ 10.17
20	\$ 5.31	\$ 7.80	\$ 8.30	\$ 8.80	\$ 9.30	\$ 9.80	\$ 10.30	\$ 10.70
21	\$ 5.51	\$ 8.22	\$ 8.72	\$ 9.22	\$ 9.72	\$ 10.22	\$ 10.72	\$ 11.12
22	\$ 5.72	\$ 8.74	\$ 9.24	\$ 9.74	\$ 10.24	\$ 10.74	\$ 11.24	\$ 11.64
23	\$ 5.93	\$ 9.26	\$ 9.76	\$ 10.26	\$ 10.76	\$ 11.26	\$ 11.76	\$ 12.16
24	\$ 6.14	\$ 9.78	\$ 10.28	\$ 10.78	\$ 11.28	\$ 11.78	\$ 12.28	\$ 12.68
25	\$ 6.34	\$ 10.20	\$ 10.70	\$ 11.20	\$ 11.70	\$ 12.20	\$ 12.70	\$ 13.10
26	\$ 6.55	\$ 10.72	\$ 11.22	\$ 11.72	\$ 12.22	\$ 12.72	\$ 13.22	\$ 13.62
27	\$ 6.76	\$ 11.24	\$ 11.74	\$ 12.24	\$ 12.74	\$ 13.24	\$ 13.74	\$ 14.14
28	\$ 6.96	\$ 11.76	\$ 12.26	\$ 12.76	\$ 13.26	\$ 13.76	\$ 14.26	\$ 14.66
29	\$ 7.17	\$ 12.28	\$ 12.78	\$ 13.28	\$ 13.78	\$ 14.28	\$ 14.78	\$ 15.18
30	\$ 7.38	\$ 12.80	\$ 13.30	\$ 13.80	\$ 14.30	\$ 14.80	\$ 15.30	\$ 15.70
31	\$ 7.59	\$ 13.32	\$ 13.82	\$ 14.32	\$ 14.82	\$ 15.32	\$ 15.82	\$ 16.22
32	\$ 7.79	\$ 13.84	\$ 14.34	\$ 14.84	\$ 15.34	\$ 15.84	\$ 16.34	\$ 16.74
33	\$ 8.00	\$ 14.36	\$ 14.86	\$ 15.36	\$ 15.86	\$ 16.36	\$ 16.86	\$ 17.26
34	\$ 8.21	\$ 14.88	\$ 15.38	\$ 15.88	\$ 16.38	\$ 16.88	\$ 17.38	\$ 17.78
35	\$ 8.41	\$ 15.40	\$ 15.90	\$ 16.40	\$ 16.90	\$ 17.40	\$ 17.90	\$ 18.30
36	\$ 8.62	\$ 15.92	\$ 16.42	\$ 16.92	\$ 17.42	\$ 17.92	\$ 18.42	\$ 18.82
37	\$ 8.83	\$ 16.44	\$ 16.94	\$ 17.44	\$ 17.94	\$ 18.44	\$ 18.94	\$ 19.34
38	\$ 9.03	\$ 16.96	\$ 17.46	\$ 17.96	\$ 18.46	\$ 18.96	\$ 19.46	\$ 19.86
39	\$ 9.24	\$ 17.48	\$ 17.98	\$ 18.48	\$ 18.98	\$ 19.48	\$ 19.98	\$ 20.38
40	\$ 9.45	\$ 18.00	\$ 18.50	\$ 19.00	\$ 19.50	\$ 20.00	\$ 20.50	\$ 20.90
41	\$ 9.65	\$ 18.52	\$ 19.02	\$ 19.52	\$ 20.02	\$ 20.52	\$ 21.02	\$ 21.42
42	\$ 9.86	\$ 19.04	\$ 19.54	\$ 20.04	\$ 20.54	\$ 21.04	\$ 21.54	\$ 21.94
43	\$ 10.07	\$ 19.56	\$ 20.06	\$ 20.56	\$ 21.06	\$ 21.56	\$ 22.06	\$ 22.46
44	\$ 10.28	\$ 20.08	\$ 20.58	\$ 21.08	\$ 21.58	\$ 22.08	\$ 22.58	\$ 22.98
45	\$ 10.48	\$ 20.60	\$ 21.10	\$ 21.60	\$ 22.10	\$ 22.60	\$ 23.10	\$ 23.50
46	\$ 10.69	\$ 21.12	\$ 21.62	\$ 22.12	\$ 22.62	\$ 23.12	\$ 23.62	\$ 24.02
47	\$ 10.90	\$ 21.64	\$ 22.14	\$ 22.64	\$ 23.14	\$ 23.64	\$ 24.14	\$ 24.54
48	\$ 11.11	\$ 22.16	\$ 22.66	\$ 23.16	\$ 23.66	\$ 24.16	\$ 24.66	\$ 25.06
49	\$ 11.31	\$ 22.68	\$ 23.18	\$ 23.68	\$ 24.18	\$ 24.68	\$ 25.18	\$ 25.58
50	\$ 11.52	\$ 23.20	\$ 23.70	\$ 24.20	\$ 24.70	\$ 25.20	\$ 25.70	\$ 26.10
51	\$ 11.73	\$ 23.72	\$ 24.22	\$ 24.72	\$ 25.22	\$ 25.72	\$ 26.22	\$ 26.62
52	\$ 11.93	\$ 24.24	\$ 24.74	\$ 25.24	\$ 25.74	\$ 26.24	\$ 26.74	\$ 27.14
53	\$ 12.14	\$ 24.76	\$ 25.26	\$ 25.76	\$ 26.26	\$ 26.76	\$ 27.26	\$ 27.66
54	\$ 12.35	\$ 25.28	\$ 25.78	\$ 26.28	\$ 26.78	\$ 27.28	\$ 27.78	\$ 28.18
55	\$ 12.55	\$ 25.80	\$ 26.30	\$ 26.80	\$ 27.30	\$ 27.80	\$ 28.30	\$ 28.70
56	\$ 12.76	\$ 26.32	\$ 26.82	\$ 27.32	\$ 27.82	\$ 28.32	\$ 28.82	\$ 29.22
57	\$ 12.97	\$ 26.84	\$ 27.34	\$ 27.84	\$ 28.34	\$ 28.84	\$ 29.34	\$ 29.74
58	\$ 13.18	\$ 27.36	\$ 27.86	\$ 28.36	\$ 28.86	\$ 29.36	\$ 29.86	\$ 30.26
59	\$ 13.38	\$ 27.88	\$ 28.38	\$ 28.88	\$ 29.38	\$ 29.88	\$ 30.38	\$ 30.78
60	\$ 13.59	\$ 28.40	\$ 28.90	\$ 29.40	\$ 29.90	\$ 30.40	\$ 30.90	\$ 31.30
61	\$ 13.80	\$ 28.92	\$ 29.42	\$ 29.92	\$ 30.42	\$ 30.92	\$ 31.42	\$ 31.82
62	\$ 14.00	\$ 29.44	\$ 29.94	\$ 30.44	\$ 30.94	\$ 31.44	\$ 31.94	\$ 32.34
63	\$ 14.21	\$ 29.96	\$ 30.46	\$ 30.96	\$ 31.46	\$ 31.96	\$ 32.46	\$ 32.86
64	\$ 14.42	\$ 30.48	\$ 30.98	\$ 31.48	\$ 31.98	\$ 32.48	\$ 32.98	\$ 33.38
65	\$ 14.63	\$ 31.00	\$ 31.50	\$ 32.00	\$ 32.50	\$ 33.00	\$ 33.50	\$ 33.90
66	\$ 14.83	\$ 31.52	\$ 32.02	\$ 32.52	\$ 33.02	\$ 33.52	\$ 34.02	\$ 34.42
67	\$ 15.04	\$ 32.04	\$ 32.54	\$ 33.04	\$ 33.54	\$ 34.04	\$ 34.54	\$ 34.94
68	\$ 15.25	\$ 32.56	\$ 33.06	\$ 33.56	\$ 34.06	\$ 34.56	\$ 35.06	\$ 35.46
69	\$ 15.46	\$ 33.08	\$ 33.58	\$ 34.08	\$ 34.58	\$ 35.08	\$ 35.58	\$ 35.98
70	\$ 15.68	\$ 33.60	\$ 34.10	\$ 34.60	\$ 35.10	\$ 35.60	\$ 36.10	\$ 36.50

## Revised Response to UPS/USPS-T33-67

Allocated Cost

Revised 10/06/97

Including 1 % Contingency

Weight (Pounds)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
2	\$1.52	\$1.72	\$1.79	\$1.90	\$1.98	\$2.19
3	1.85	2.27	2.40	2.66	2.83	3.24
4	2.06	2.62	2.80	3.15	3.36	3.92
5	2.27	2.97	3.19	3.63	3.90	4.59
6	2.48	3.31	3.59	4.11	4.43	5.27
7	2.69	3.66	3.98	4.59	4.97	5.94
8	2.90	4.01	4.38	5.07	5.50	6.61
9	3.11	4.36	4.77	5.55	6.04	7.29
10	3.33	4.71	5.16	6.03	6.57	7.96
11	3.54	5.06	5.56	6.52	7.11	8.64
12	3.75	5.41	5.95	7.00	7.64	9.31
13	3.96	5.76	6.35	7.48	8.18	9.99
14	4.17	6.11	6.74	7.96	8.71	10.65
15	4.38	6.46	7.14	8.44	9.25	11.34
16	4.59	6.81	7.53	8.92	9.78	12.01
17	4.80	7.16	7.93	9.41	10.32	12.68
18	5.01	7.51	8.32	9.89	10.85	13.36
19	5.22	7.85	8.71	10.37	11.39	14.03
20	5.43	8.20	9.11	10.85	11.92	14.71
21	5.64	8.55	9.50	11.33	12.46	15.38
22	5.85	8.90	9.90	11.81	12.99	16.06
23	6.06	9.25	10.29	12.29	13.53	16.73
24	6.27	9.60	10.69	12.78	14.06	17.40
25	6.48	9.95	11.08	13.26	14.60	18.08
26	6.69	10.30	11.48	13.74	15.13	18.75
27	6.91	10.65	11.87	14.22	15.67	19.43
28	7.12	11.00	12.26	14.70	16.20	20.10
29	7.33	11.35	12.66	15.18	16.74	20.78
30	7.54	11.70	13.05	15.66	17.27	21.45
31	7.75	12.04	13.45	16.15	17.81	22.12
32	7.96	12.39	13.84	16.63	18.34	22.80
33	8.17	12.74	14.24	17.11	18.88	23.47
34	8.38	13.09	14.63	17.59	19.41	24.15
35	8.59	13.44	15.03	18.07	19.95	24.82
36	8.80	13.79	15.42	18.55	20.48	25.50
37	9.01	14.14	15.81	19.03	21.02	26.17
38	9.22	14.49	16.21	19.52	21.55	26.85
39	9.43	14.84	16.60	20.00	22.09	27.52
40	9.64	15.19	17.00	20.48	22.62	28.19
41	9.85	15.54	17.39	20.96	23.16	28.87
42	10.06	15.89	17.79	21.44	23.70	29.54
43	10.27	16.23	18.18	21.92	24.23	30.22
44	10.49	16.58	18.58	22.41	24.77	30.89
45	10.70	16.93	18.97	22.89	25.30	31.57
46	10.91	17.28	19.36	23.37	25.84	32.24
47	11.12	17.63	19.76	23.85	26.37	32.91
48	11.33	17.98	20.15	24.33	26.91	33.59
49	11.54	18.33	20.55	24.81	27.44	34.26
50	11.75	18.68	20.94	25.29	27.98	34.94
51	11.96	19.03	21.34	25.78	28.51	35.61
52	12.17	19.38	21.73	26.26	29.05	36.29
53	12.38	19.73	22.13	26.74	29.58	36.96
54	12.59	20.08	22.52	27.22	30.12	37.64
55	12.80	20.43	22.91	27.70	30.65	38.31
56	13.01	20.77	23.31	28.18	31.19	38.98
57	13.22	21.12	23.70	28.66	31.72	39.66
58	13.43	21.47	24.10	29.15	32.26	40.33
59	13.64	21.82	24.49	29.63	32.79	41.01
60	13.85	22.17	24.89	30.11	33.33	41.68
61	14.07	22.52	25.28	30.59	33.86	42.36
62	14.28	22.87	25.68	31.07	34.40	43.03
63	14.49	23.22	26.07	31.55	34.93	43.70
64	14.70	23.57	26.46	32.04	35.47	44.38
65	14.91	23.92	26.86	32.52	36.00	45.05
66	15.12	24.27	27.25	33.00	36.54	45.73
67	15.33	24.62	27.65	33.48	37.07	46.40
68	15.54	24.96	28.04	33.96	37.61	47.08
69	15.75	25.31	28.44	34.44	38.14	47.75
70	15.96	25.66	28.83	34.92	38.68	48.42

1 CHAIRMAN GLEIMAN: Three participants requested  
2 oral cross-examination of the witness, Nashua District, et  
3 al; David B. Popkin and the United Parcel Service. Does  
4 anyone else wish to cross-examine the witness?

5 And, as per our agreement, Ms. Dreifuss from the  
6 OCA will ask some questions on behalf of Mr. Popkin.

7 There is no one else who wishes to cross-examine  
8 the witness, so that being the case, Mr. Olson, if you would  
9 like to proceed?

10 MR. OLSON: Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. OLSON:

13 Q Mr. Sharkey, if you stay with me, we're going to  
14 get this done quickly.

15 A Okay.

16 Q Let me start off, this morning you had some  
17 corrections to your testimony. <sup>Let me</sup> and ask you to refer to page  
18 24 of the one that was revised 10-6-97.

19 Do you have that?

20 A I have it.

21 Q Okay, and what you did there was change the  
22 coverage numbers up top as the cover sheet that Mr. Cooper  
23 circulated indicated, correct, to 179 and 192?

24 A Correct.

25 Q What you didn't change is lines 2 and 3 but of

1 course Witness O'Hara when he was on the stand, and I can  
2 refer to Transcript Volume 2, page 26, line 22, indicated  
3 that those numbers were changed there also, of course.

4 I have no question, but I assume that you wanted  
5 to leave it just to -- as a point of information there or --  
6 you do understand Witness O'Hara's changes?

7 A Yes, I understand that he changed his testimony on  
8 Monday.

9 The reason I did not change the 198 was because I  
10 wanted the reader to understand this was the context in  
11 which I designed my original rates.

12 Q Okay.

13 A It was the target coverage, as originally filed.

14 Q I understand. I just wanted to make sure there  
15 was no confusion on that point.

16 Secondly, could you turn to page 18 of your  
17 testimony, and there you --

18 A I have it.

19 Q -- and there you give some numbers about the  
20 percentage of Priority Mail in fiscal '96, which was  
21 under -- which was two pounds and less or three, four and  
22 five pounds or over five pounds.

23 Were those numbers drawn from your Exhibit  
24 USPS-33-K?

25 MR. COOPER: For clarity of the record, could you

1 identify the lines that you are referring to in the  
2 testimony?

3 BY MR. OLSON:

4 Q Sure, lines 8, 9, 10 and 11.

5 A I believe I developed those numbers from the  
6 numbers in 33-K, if 33-K is in fact fiscal year '96 -- yes.

7 Q Well, the only reason I ask is that as I ran the  
8 numbers the percentage of Priority Mail which was two pound  
9 and under was accurate.

10 You said 80 percent; I had 79.9 percent --  
11 certainly that is accurate.

12 A That is close enough.

13 Q Then with respect to three, four, and five pound,  
14 15.9 percent and ~~over~~, six pound and over, 4.1 percent.

15 Now that is not too far away but it is two  
16 percentage points off what you had.

17 Obviously it is what it is and if my math is  
18 wrong, I'm wrong, but if that is the source of the numbers,  
19 that's all I really need to get from you.

20 A Well, I would have to --

21 Q Sure.

22 A -- check my numbers again.

23 Q I am not asking you to do that. I was just asking  
24 if that was the source.

25 A That was the source.

1 Q And the numbers are what they are.

2 A They are.

3 Q In any event, the heavyweight pieces that are  
4 zone~~d~~ the six pound and over, are a very small percentage of  
5 total Priority Mail volume, correct?

6 A That's very true.

7 Q It's either 4 or 6 percent, depending on the  
8 number.

9 A That's right.

10 Q Let me ask you to tell me how Witness Patelunas  
11 obtains information.

12 I know that is a silly question, but we filed  
13 NDMS/USPS-T33-24, and it was redirected to Witness  
14 Patelunas, and it had to do with USPS 33-Q, and the answer  
15 came back -- which is your exhibit, correct?

16 A Yes.

17 Q And the response came back from Witness Patelunas.  
18 I have a number of questions about his response and I will  
19 obviously ask them to Witness Patelunas, but I wanted to  
20 just guard against the possibility that he is going to tell  
21 me I got the numbers from Mr. Sharkey and I can't tell you  
22 any more than what is in my response, or something like  
23 that.

24 A Okay.

25 Q Would it be useful to ask some of these questions

1 to you, or do you think I have to defer those?

2 A Begin to ask them to me and I will tell you what I  
3 did provide and what he provided me.

4 Q Could I see if you have the response of Witness  
5 Patelunas, for example, to the Interrogatory I just  
6 referenced T33-24.

7 A 24?

8 Q Yes. I have a copy for you if you --

9 A I have it.

10 MR. COOPER: Mr. Olson, I would appreciate a copy.

11 MR. OLSON: Sure.

12 THE WITNESS: Did you say T-33-24?

13 BY MR. OLSON:

14 Q Yes.

15 A I responded to that one.

16 Q ~~NDMS~~  
~~NDMS~~?

17 A Oh, I'm sorry. I'm looking at UPS.

18 Q Oh. No, that's this guy.

19 A No, I don't have his response. Can I get a copy  
20 of it?

21 Q Sure.

22 A Thank you.

23 Q The interrogatory says that your Exhibit 33-Q  
24 shows total highway transportation costs for priority mail  
25 in base year to be 139 million, approximately, and in test



1 year before rates to go up to 285 million, which we  
2 calculate is an increase of 104 percent. Do you see that?

3 A Yes, I do.

4 Q Okay.

5 While those highway transportation costs went up  
6 by 104 percent, we also tracked air transportation costs,  
7 and there we said they went up -- that there was not a  
8 corresponding decrease in those, but rather, those also went  
9 up by 13 percent from about 383 million to 433 million. Do  
10 you see that?

11 A Yes.

12 Q Okay.

13 And we asked why, why would there be such a  
14 dramatic increase in highway transportation costs, and the  
15 response came back, the reason for the increase in highway  
16 transportation costs for priority mail is the \$100 million  
17 increase in test year 1998 other programs for priority mail  
18 redesign.

19 That is, is it not, the priority mail processing  
20 centers.

21 A I think it's a component of that. I think it's  
22 the estimated transportation component of it.

23 Q Would it be anything else besides PMPCs?

24 A Not that I know of.

25 Q Okay.

1           And then it says that it was developed from  
2   certain other sources -- and I have these, if -- from  
3   library reference 12 -- but what I'm trying to find out is  
4   what's happening here, because the concept, I thought, that  
5   was underlying the priority mail processing centers was that  
6   there might be some additional utilization of ground  
7   transportation made possible by those -- by those dedicated  
8   processing centers but that would be offset by -- by savings  
9   in -- in air transportation, and that doesn't appear to be  
10  happening.

11           Can you explain what's happening here that would  
12  cause air transportation to go up 104 percent and -- I'm  
13  sorry --

14           A     Highway.

15           Q     -- the highway to go up 104 percent and air to go  
16  up by 13 percent?

17           A     I cannot explain that. Those figures were  
18  developed as part of library reference H-12, and I was not  
19  involved in the development of those figures.

20           Q     Do you know who did library reference H-12?

21           A     I think that's the revenue requirement witness'  
22  library reference.

23           CHAIRMAN GLEIMAN: Could you pull the mike a  
24  little closer?

25           THE WITNESS: The revenue witness' -- witness

1 Tayman, I think, or it may be witness Patelunas. I'm not  
2 sure.

3 BY MR. OLSON:

4 Q So, there's really nothing you can add besides to  
5 direct us to witness Tayman and Patelunas.

6 A I can't add anything else other than to tell you  
7 that I just tied to the test year before rates figures.

8 MR. OLSON: Okay.

9 Mr. Chairman, we will raise those questions again  
10 with those witnesses but ask if counsel -- that if counsel  
11 were to find that there was yet another witness, perhaps,  
12 who would be sponsoring library reference 12 -- I don't know  
13 if that's one of the ones that is or isn't sponsored -- that  
14 we might be advised so we can go to the right source, if  
15 that would be all right.

16 CHAIRMAN GLEIMAN: I -- I think that the Postal  
17 Service is on notice, generally, to make sure that future  
18 witnesses can answer questions and also to let us know if,  
19 indeed, there is someone else who can answer the questions  
20 if it's not one of the designated witnesses.

21 MR. OLSON: Thank you.

22 BY MR. OLSON:

23 Q Mr. Sharkey, let me ask you to look at  
24 ~~NDMS~~NDMS/USPS-T-15-1, and maybe the answer will be the same.  
25 This is witness Patelunas' -- it's -- it's in that group I

1 gave you.

2 A Uh-huh.

3 Q This is witness Patelunas' response to an  
4 interrogatory, and we asked about two entries for 100,000 --  
5 I'm sorry -- for \$100 million and asked if they were  
6 duplicative.

7 Is that anything -- and he said he didn't think  
8 they were, because one appeared to be highway service and  
9 one was domestic air. Do you know anything about those, or  
10 would that be witness Patelunas for those questions?

11 A It would be witness Patelunas, and I would also  
12 reference his response to USPS-T-36, which I redirected to  
13 him, where he made the correction for the misallocation of  
14 the \$100 million in air transportation. Are you familiar  
15 with that response?

16 Q Well, I believe I am.

17 ~~MR. COOPER~~ <sup>McKeever</sup> MR. Chairman? May I suggest to the  
18 witness that he meant to say T-33-36?

19 THE WITNESS: Thirty-six, yes.

20 CHAIRMAN GLEIMAN: Thank you, Mr. McKeever, and  
21 the witness thanks you, too.

22 MR. OLSON: Yes.

23 BY MR. OLSON:

24 Q In fact, Mr. -- Mr. Sharkey, I have that in -- in  
25 my notebook. That was the second revised on T-33-36,

1 correct?

2 A Correct.

3 Q Okay.

4 That was, again, provided by witness Patelunas.

5 Is there anything that you could add to that, or  
6 should I ask him the questions about that?

7 A You should ask him the questions about that.

8 That's the only change I'm aware of with regard to  
9 the \$100 million issue.

10 Q Okay.

11 Let me just ask this one question.

12 Is it your understanding that, when the decision  
13 was made to go with the priority mail processing centers,  
14 that there was a desire to make increased utilization of  
15 relatively low-cost highway transportation to save money by  
16 avoiding the use of relatively higher-cost air  
17 transportation?

18 A I can't say that for certainty. I know one of the  
19 reasons the PMPCs or the -- at least the ramp-up -- the  
20 phase one attempt at the PMPCs was to improve service. I'm  
21 not sure whether it was intended, necessarily, to trade off  
22 surface and air transportation.

23 Q Do you know if any particular witness would be  
24 more of an expert on PMPCs than -- than you would be?

25 A Any witness in this docket?

1 Q Exactly.

2 A There may be witnesses that understand -- for  
3 example, witness Tayman, when he developed these cost  
4 projections, understands some of the underlying figures, but  
5 I could probably answer some questions about the PMPCs.

6 Q Well, I'm trying to get at the -- how they're  
7 driving costs in the test year. They -- they're coming  
8 on-line now, as I understand it. There was just, I think,  
9 last week, one of the PMPCs that opened up -- I forget where  
10 it was --

11 A In Springfield.

12 Q -- Springfield, Massachusetts, and -- and then  
13 others would -- will open up into next year --

14 A Uh-huh.

15 Q -- and obviously they were not operational in the  
16 base year, correct?

17 A Correct.

18 Q None of them.

19 A Right.

20 Q And that when we -- that, in the test year, or  
21 during the test year, they will all open up, I think. I  
22 believe there's an interrogatory response --

23 A Yes.

24 Q -- schedule --

25 A In mid-February, all the -- 10 are planned to be

1 opened up.

2 Q February of --

3 A February of '98.

4 Q Ninety-eight. And I'm -- I'm trying to get at how  
5 that's affecting cost. Do you have any information you  
6 could share with us as to how that's affecting air  
7 transportation and highway transportation costs?

8 A I think you have to look at the library reference  
9 and discuss that with witness Tayman.

10 Q Okay. I'll do that.

11 A Okay.

12 Q Let me ask you to look at your response to T -- to  
13 NDMS/USPS-T-33-1. Do you have that?

14 A Yes.

15 Q Okay.

16 We asked you questions there about the gap between  
17 the highest first-class rate, the 11-ounce first-class rate,  
18 and the lowest priority mail two-pound rate, correct?

19 A Yes. I understand.

20 Q And so, when I talk about the gap here, that's the  
21 gap we're -- we're talking about.

22 Currently, that gap is between three dollar -- is  
23 the difference between three dollars and two-sixty -- \$2.62,  
24 or 38 cents, correct?

25 A Correct.

1           Q     And that would go up in -- under your proposal and  
2     under the proposal of witness Fronk with respect to  
3     first-class because he doesn't affect the second-ounce --

4           A     Uh-huh.

5           Q     -- additional ounce rate. The price of an  
6     11-ounce piece goes up only from 2.62 to 2.63, correct?

7           A     One penny, yes.

8           Q     By one penny for an 11-ounce piece. But the rate  
9     for two-pound priority mail goes up from three to 3.20,  
10    correct?

11          A     Correct.

12          Q     Under your proposal. And that causes the gap to  
13    -- to increase from 38 to 57 cents, correct?

14          A     Correct.

15          Q     Okay.

16                What I want to get at is whether -- is the  
17    significance of that gap as you see it.

18                I know that, on page two of your interrogatory  
19    response, subsection C, you talk about how keeping the gap  
20    as small as possible was considered as a -- it was a factor  
21    in passing along a less-than-average percentage increase in  
22    the two-pound rate, correct?

23          A     Correct.

24          Q     Okay.

25                Could you -- strike that.



1           Have you ever had occasion to look at how the  
2       commission has changed the maximum weight of first-class  
3       mail over time?

4           A     I haven't studied the history of it, but I  
5       understand it has increased over time.

6           Q     Okay.

7                     If -- if I were to suggest from my research, which  
8       may be inaccurate in some respect, but that -- I'm going to  
9       give you a couple of dockets and a couple of changes and  
10      just ask you to assume this, and then I want to ask you to  
11      tell me what factors the commission should consider in  
12      setting the maximum weight to affect this gap.

13                    From my research, what I have is that, in docket  
14      number R74-1, the commission increased the break point from  
15      12 to 13 ounces; in R77-1, it decreased it from 13 to 12; in  
16      R87-1, it decreased it from 12 to 11; and I don't believe  
17      there have been any other changes.

18                   And my question to you would be whether you would  
19      have any thoughts as to what the commission should consider  
20      with respect to setting the maximum weight for first-class.  
21      In other words, should this -- for example -- the existence  
22      of this 57-cent gap drive them to increase the break point  
23      to 12 or even 13 ounces in this case?

24           A     If I might redefine what the gap really should be  
25      looked at, if a mailer is over 11 ounces and if you had a

1     theoretical 12 -- 12-ounce rate -- okay -- the -- that  
2     mailer would be at least obliged to pay an extra 23 cents.

3             So, it's -- it's -- its that rate -- it's the  
4     11-ounce rate plus 23 that you should really compare to  
5     \$3.20. That's the more appropriate comparison.

6             So, the gap isn't that great, first of all, and  
7     getting back to your original question, I'm aware of the  
8     fact that the commission has recognized that there is a dual  
9     purpose for priority mail.

10            Some of the priority mail, particularly the  
11     low-weight mail, is perhaps monopoly-protected and there is  
12     some desire to -- to have an option for so-called  
13     heavy-weight first-class mailers that might fall into  
14     monopoly protection, and that is -- that is a factor that I  
15     think the commission has recognized, as well as priority  
16     mail being a competitive category.

17            So, I think the recognition that there should be  
18     some small transition from the heavy-weight first-class  
19     highest-weight step to the lowest weight of -- of a priority  
20     mail category is correct.

21            Having said that, though, I need to point out,  
22     priority mail is a different service than first --  
23     first-class mail.

24            It's more of a premium service, it has a stricter  
25     service standard, and it has a lot of features that

1 first-class mail doesn't, has a different mail stream,  
2 different transportation network.

3 So, it's not as clear-cut as just looking to see  
4 what -- how the -- the rates progress through 11 ounces to  
5 the priority mail weight step, first weight step.

6 Q Okay, I appreciate those comments and I guess what  
7 you're saying is that the 57-cent gap which is up from 38  
8 cents does not really bother you. You don't consider that  
9 to be particularly problematic?

10 A I am concerned about it but if you -- I just  
11 wanted to point out that if you are beyond 11 ounces, you  
12 would at least pay an extra 23 cents. So the gap that you  
13 present is actually much smaller than you presented or  
14 historically has been looked at.

15 Q In other words, if the 11-ounce rate is \$2.63 and  
16 the 12-ounce rate is 2.86, then the comparison really should  
17 be between the 2.86 and the 3.20; is that what you're  
18 saying?

19 A Yes, it should be 34 cents rather than 57 cents.

20 Q And looked at that way -- looked at that way, you  
21 don't believe it to be a problem; is that what you are  
22 saying?

23 A I don't think that's a tremendous increase in a  
24 premium to pay for the additional service that you get with  
25 Priority Mail.

1           Q     Okay, now, putting that aside, do you have any  
2 thoughts or guidance for the Commission with respect to  
3 setting that break point as to factors to consider?

4           A     I -- other than the criteria of the act, I think I  
5 can't give additional guidance to consideration in setting  
6 that.

7           Q     Could you look at your response to T-33-7, NDMS  
8 also. And there we asked you to provide a weight  
9 distribution of Priority Mail weighing less than two pounds  
10 and you did it by ounce increment, correct?

11          A     Yes.

12          Q     There are, by my calculation, 95 million pieces  
13 under eight ounces and there are 414 million pieces under a  
14 pound, which 414 million pieces is 44 percent, about, of the  
15 total volume.

16                Do you believe that it would be wise to consider a  
17 rate for -- a rate applicable to lower weight pieces for  
18 Priority Mail for those lower weight pieces either under  
19 eight ounces or under a pound?

20          A     That's a very broad question. There's a lot of  
21 considerations in terms of classification rate design, what  
22 impact such a proposal would have on the mail stream.  
23 Priority Mail generally is a flat shape and parcel shape  
24 mail stream, so it might change significantly the  
25 characteristics of the mail stream.

1           One would have to also look at the impacts that  
2       would have cost/price elasticities, the impacts it would  
3       have across the categories of mail. There are a lot of  
4       things to consider before you would propose anything other  
5       than the two-pound rate that we have right now.

6           Q     Let me resist the temptation to follow up on that  
7       and just move to your discussion of market share.

8           You answered several of our interrogatories  
9       regarding market share.

10          Let me give you the ones I have: T33-8, 25 and  
11       30.

12          I just wonder if you can reconcile one or two  
13       factors that appear to be different in those responses.

14          First of all, 33-8 indicates that the total market  
15       share is 64.7 percent and then you show the market share for  
16       under and over two pounds, showing Priority Mail has a much  
17       or significantly bigger market share for under two pounds  
18       than over two pounds, correct?

19          A     Correct.

20          Q     Okay. Now if you could look at T33-25, at the  
21       bottom of page 1 of that response you said CY '96 - '95  
22       market share estimates by volume is 62.3 percent.

23          Is that an update to what is provided in response  
24       to T33-8?

25          A     Yes. That is what was intended by the footnote.

1 Q And what period of time does the T33-8 refer to,  
2 the 64.7 percent?

3 A It is actually Calendar Year '96.

4 In T33-25 it says Calendar Year '96/'95, but I  
5 think it is covering the same period, but between the time I  
6 responded to 8, and you asked a follow-up question on 25,  
7 the methodological change occurred, and I felt obliged to  
8 give you updated information.

9 My understanding was that one of the competitor  
10 categories was reclassified into an overnight category  
11 instead of a two day category.

12 Q So this is a methodological change of the people  
13 who provide this information to the Postal Service, correct?

14 A Exactly.

15 Q Okay. Now what is CY '96-'95?

16 What does that mean?

17 A I think -- I think it means the percentage change  
18 in volume. You asked for the percentage change in volume.

19 It is the percentage change from '95 to '96 for  
20 Priority Mail.

21 For example, in the first row -- the first  
22 column -- it means that Priority Mail volume increased 11.4  
23 percent.

24 Q Okay. I understand that in those columns because  
25 those are one timeframe relative to another, but when you

1 say market share is 62.3 percent, that is a static estimate,  
2 isn't it, for a particular period of time?

3 A Yes. I think that relates to '96.

4 Q Okay, and then in response -- attached to your  
5 response to NDMS/USPS-T33-30, you have some additional  
6 information.

7 Is that consistent then with T33-25?

8 A Yes.

9 Q Same source?

10 A Yes.

11 Q Same numbers?

12 A Yes.

13 Q Let me ask you to look at your response to T33-27,  
14 and this has to do with PMPCs also.

15 We had asked some questions to Witness O'Hara  
16 earlier this week with respect to the way that this would  
17 work for firms that currently enter their plant loads at  
18 AMCs or AMFs -- I don't know which term is in favor. He  
19 wasn't sure now either.

20 But your response is similar to his in that you  
21 say generally Priority Mail users, generally speaking, will  
22 not be permitted to enter their plant loads at AMCs, and you  
23 don't go on to speak to this issue directly about what  
24 effect that will have on service, but I can represent to you  
25 that Witness O'Hara said in response to an interrogatory

1     that he didn't believe that would have any effect on  
2     service.

3             Do you have an opinion as to whether it would have  
4     an effect on service?

5             A     I have all the confidence that the management of  
6     the PMPC network, postal and nonpostal, will figure out a  
7     way to make sure your service is not anything less than it  
8     is right now.

9             Q     That is much rather what our clients would like to  
10    hear, rather than the fact that the coverage is too high  
11    because the service is deteriorating, you'll be glad to  
12    know, but I am still a bit concerned.

13            I will just give you one illustration and see if  
14    you can work it through with me very quickly.

15            For one of our clients, Nashua Photo, in  
16    Parkersburg, West Virginia, as you know, they have their  
17    mail picked up at 3:05 in the afternoon. It takes three  
18    hours to transport to Pittsburgh. It takes two more hours  
19    to work at the AMC/AMF in Pittsburgh and to be ready to go  
20    out the back of the AMC to be available to load on planes.

21            So that puts us at 8 o'clock and they make most of  
22    the outgoing flights.

23            If that had to -- if that mail had to go to a PMPC  
24    which was not physically adjacent to the AMC, how could that  
25    mail be available at the same time?



1           A     That needs to be worked out, but it does not have  
2     to be co-located with the AMF.

3           I understand with the PMPC network there is  
4     dedicated transportation so the normal buffer time it takes  
5     to get Postal Service mail handed over to the air carrier  
6     may be a lot less.

7           It is much more seamless, the system, from what I  
8     understand. It is all within the contractor's  
9     responsibility, so I don't think you necessarily can equate  
10    the scenario the same in terms of location.

11          I cannot tell you exactly vis-a-vis Parkersburg  
12    where the PMPC that will serve that area is and how it would  
13    make its way to the Pittsburgh Airport. In fact, it may go  
14    to a different airport, but all those details will be worked  
15    out including perhaps a bypass of the PMPC with some  
16    recognition that the volume is going to the contractor at  
17    the airport.

18          Q     The same problem occurs for Mystic, for example,  
19    where their mail now is flown out of Hartford but would have  
20    to go to the new Springfield PMPC under certain possible  
21    alternatives, so you understand the concern about the  
22    deterioration of service that could be possible under that  
23    scenario?

24          A     I understand the concern, yes.

25          Q     I hope you have great influence at the Postal

1 Service to make it so that things would go well.

2 A I have a hard time getting a computer.

3 Q One last item, T-33-4. Oh, I'm sorry, no wonder I  
4 couldn't find it, it's APMU T-33-4. And this has to do with  
5 performance measurement, and there you talk about an  
6 external measurement of Priority Mail service performance  
7 was implemented on September 13, 1997, not long ago. I take  
8 it that -- do you believe that during this docket there will  
9 be numbers from that new performance measure?

10 A I believe there will be numbers presented to the  
11 Board of Governors. I cannot say if they'll be publicly  
12 released or what the numbers will indicate. I don't have a  
13 clue.

14 Q You probably don't know if they would be reliable  
15 anyway based on a very short time frame of a new service, I  
16 take it, or of a new measurement.

17 A Well, if you look at my responses, it's a system.  
18 I mean, it's not an experiment. The details have been  
19 worked out, so it's considered to be perhaps an equivalent  
20 to EXFC.

21 Q Okay.

22 A And as there's no secrets in Washington, I suppose  
23 you might know before the end of this docket what those  
24 scores are. I don't know.

25 Q Okay.

1 MR. OLSON: That is all I have. Thank you so  
2 much.

3 Thank you, Mr. Chairman.

4 CHAIRMAN GLEIMAN: Thank you, Mr. Olson.

5 Ms. Dreifuss, on behalf of Mr. Popkin.

6 MS. DREIFUSS: Yes. I do want to make it clear  
7 that this is David Popkin's cross examination and not the  
8 OCA's. These are questions that he typed up earlier today  
9 that he asked me to read to you.

10 CROSS EXAMINATION

11 BY MS. DREIFUSS:

12 Q With respect to post office to post office express  
13 mail, A label, is service available to all post offices in  
14 the United States?

15 A A label, post office to post office. I can't  
16 answer that with certainty.

17 MS. DREIFUSS: Mr. Chairman, would it be all right  
18 if the Postal Service responded in writing to this question,  
19 since Mr. Sharkey's unable to answer it this evening?

20 CHAIRMAN GLEIMAN: It would be all right with me.  
21 Would it be all right with the Postal Service? Mr.  
22 Counsellor?

23 THE WITNESS: It would be fine. In fact, I think  
24 Mr. Popkin did send such an interrogatory over and it's  
25 being worked on right now. So I think we will respond.

1 MR. COOPER: And counsel is hesitant to gainsay  
2 his witness on this point. My only concern is that if there  
3 are hundreds of these questions, we may try to draw a line,  
4 but we're happy to proceed.

5 CHAIRMAN GLEIMAN: I only see one, not a sheaf but  
6 a leaf of legal pad.

7 MS. DREIFUSS: I'll give you a preview. There are  
8 23 questions, and I don't know how many of them of course  
9 would have to be answered in writing. I guess we'll see as  
10 we go along.

11 BY MS. DREIFUSS:

12 Q His second question, is A label Express Mail  
13 available to all classified stations and branches?

14 A I don't know for sure. I'll have to answer that  
15 in writing.

16 Q You would add that to --

17 A I think that question as well as the first  
18 question has been directed to the Postal Service.

19 MR. COOPER: Yes, I believe that Mr. Popkin is  
20 reiterating questions that are subject to a motion to compel  
21 as we speak, and we will attempt to reply to that motion to  
22 compel. If we can without undue burden provide him answers,  
23 that may be the most expeditious way of dealing with the  
24 situation, and we will attempt to provide answers to these  
25 questions. If we find that our objections were well founded

1 and we need to oppose the motion to compel rather than  
2 answer it, we will make that known to the Commission.

3 MS. DREIFUSS: Well, that sounds reasonable to me.

4 CHAIRMAN GLEIMAN: That sounds reasonable, and I  
5 think we should just try with that understanding to continue  
6 down this line of questions. If my math is right there are  
7 21 remaining.

8 MS. DREIFUSS: That's right, we're counting down.

9 BY MS. DREIFUSS:

10 Q With respect to -- I'm sorry, I skipped one.

11 May post office to addressee Express Mail B label  
12 be sent to all addresses in the United States?

13 A I can't answer that now.

14 MS. DREIFUSS: Shall this be given the same  
15 treatment as the first two?

16 CHAIRMAN GLEIMAN: We'll assume that the Postal  
17 Service is going to try to the extent practicable to provide  
18 written responses to these questions, and that is on the  
19 assumption that if they are indeed -- if they've already  
20 indeed been submitted as an interrogatory and are the  
21 subject matter of an objection and a motion to compel that  
22 if we rule in favor of Mr. Popkin, the Postal Service will  
23 endeavor to provide all the responses, and if we rule  
24 against Mr. Popkin, then the Postal Service will be off the  
25 hook. So we'll proceed with that understanding, and all of

1 the -- I don't know, I'd have to provide that, will be in  
2 that context.

3 MS. DREIFUSS: Very good.

4 BY MS. DREIFUSS:

5 Q With respect to those offices that are in the  
6 overnight or next-day delivery area for B label Express  
7 Mail, has the Postal Service performed an evaluation to  
8 provide reasonable assurance that overnight delivery will be  
9 accomplished?

10 A I am not aware of an evaluation to test the  
11 likelihood that overnight will be accomplished in those  
12 areas.

13 CHAIRMAN GLEIMAN: Mr. Sharkey, you are going to  
14 have to lean in.

15 THE WITNESS: Okay.

16 BY MS. DREIFUSS:

17 Q If you give an address that is not within the  
18 overnight delivery area or next-day delivery area, does it  
19 automatically default into second day delivery?

20 A I believe it does, subject to check.

21 Q All right. Have any evaluations been made with  
22 respect to the ability to achieve delivery to all addressees  
23 by the second day?

24 A I am not aware of an evaluation to answer that  
25 question.

1 Q Okay, you were not aware of any such evaluation so  
2 is it appropriate to consider Express Mail a high-value  
3 service without such an evaluation?

4 A Yes, it is.

5 Q Is Express Mail delivered 365 or 366 days per  
6 year?

7 A I believe it is.

8 Q Is Express Mail delivered to all types of  
9 addressees, including boxholders, city delivery, rural  
10 routes and HCR routes?

11 A I believe it is.

12 Q Does the fact that the scheduled delivery day is a  
13 Saturday, Sunday or holiday have any impact or effect on  
14 meeting on-time delivery? And he defines delivery as an  
15 attempt to make physical delivery at the address of the  
16 article, rather than just calling the recipient and stating  
17 that an article is available for pick-up.

18 Do you want me to read the first part again?

19 A I think I understand the question. In  
20 situations -- I am not aware that every physical attempt is  
21 made and I am not sure whether every physical attempt is  
22 made. I think sometimes in lieu of a physical attempt, a  
23 phone call is made.

24 Q Okay, how would delivery be made to a Post Office  
25 box where there is no access to the box on the date in

1 question, such as a Sunday or holiday?

2 A I am not aware of the operational procedures in a  
3 case like that.

4 Q And I guess this might be an instance where -- I  
5 don't know, is this an instance where you would try to get  
6 back to him in writing?

7 A I think we can try to answer that.

8 Q Okay.

9 With respect to many of the offices in Alaska  
10 where there is mail service for less than seven days a week  
11 or even for that matter as few as one day a week, how can  
12 on-time delivery be achieved?

13 A I think every attempt is made to access whatever  
14 transportation is available to reach every address in Alaska  
15 in the time frame required. I am not aware of how often it  
16 happens that we do not make it there in two days.

17 Q If one were to bring an Express Mail article into  
18 the Washington Post Office which was destined to a Post  
19 Office in Alaska that had mail service only on Monday and  
20 Friday, and if it were brought into the Washington office on  
21 a Monday, what response or advice would such a customer be  
22 given by the window clerk as to the expected time of  
23 delivery? And assume no holidays are involved.

24 A Could you repeat the question?

25 Q Yeah. If one were to bring an Express Mail



1 article into the Washington Post Office which was destined  
2 to an office in Alaska that had mail service only on Monday  
3 and Friday and if it were brought into the Washington office  
4 on a Monday, what response or advice would such a customer  
5 be given by the window clerk as to the expected time of  
6 delivery?

7 A I don't know that individual window clerks are  
8 aware of the days that particular Post Offices are open on  
9 the receiving end but, nonetheless, I am informed by the  
10 manager of Delivery Programs and Policy that a contingency  
11 is in place to reach customers seven days a week even when  
12 the Post Office that serves that customer is closed. That's  
13 Express Mail.

14 MS. DREIFUSS: Well, we're counting down to 14  
15 now. Only -- only nine more to go.

16 BY MS. DREIFUSS:

17 Q Does the Postal Service utilize the word  
18 "guarantee" in its Express Mail advertisements or printed  
19 material?

20 A I believe it does.

21 Q Does the word "guarantee" mean that, barring a  
22 failure of transportation or other area, the article will be  
23 delivered as promised and that, in the unlikely occurrence  
24 of a failure, there will be a refund of the postage?

25 A In -- in my testimony, I point out the situations

1 where the Postal Service is not obliged to pay, and -- and I  
2 think it has to do with work stoppages and -- and other  
3 extraordinary conditions, but otherwise, we do pay a  
4 guarantee if it's requested.

5 Q Does the word "guarantee" mean that there will be  
6 instances where it is not possible to achieve delivery by  
7 the scheduled time, however from a cost and volume basis it  
8 would be acceptable to pay the claim should the sender file  
9 for it?

10 A I can't answer that question.

11 MR. COOPER: Could you repeat the question?

12 BY MS. DREIFUSS:

13 Q Does the word "guarantee" mean that there will be  
14 instances where it is not possible to achieve delivery by  
15 the scheduled time, however from a cost and volume basis it  
16 would be acceptable to pay the claim should the sender file  
17 for it?

18 As -- as I -- I will venture an interpretation  
19 that possibly there are instances where it's more  
20 advantageous to the Postal Service not to deliver the  
21 Express Mail package on time and simply decide to pay -- to  
22 refund the postage.

23 A Right.

24 I'm not aware of any conscious decision on the  
25 part of the Postal Service to have a service commitment that

1     they know it can't reach and aware of the likelihood of a  
2     claim being made and factoring that in against, you know,  
3     the -- the cost of Express Mail.

4             I am not aware that it has ever been consciously  
5     done.

6             Q     Would you consider it a high value of service if  
7     promises are made of delivery time which an in-depth  
8     evaluation of the transportation and delivery capabilities  
9     would indicate were impossible to accomplish?

10            A     Could you read that again?

11            Q     Would you consider it a high-value service if  
12     promises are made of delivery time which an in-depth  
13     evaluation of the transportation and delivery capabilities  
14     would indicate were impossible to accomplish?

15            A     I think that's a matter of degree. I think the --  
16     the operating plan and the service commitments are in sync  
17     and generally associated with the ability to achieve what is  
18     promised. So, I can't agree -- cannot agree.

19            Q     Why doesn't the Postal Service just determine its  
20     capabilities and publicize them so that the mailing public  
21     will know what to expect?

22            A     That is just much too a broad question for me to  
23     handle right now. I don't know how that relates to my  
24     testimony.

25            Q     Okay.

1           On line eight of page eight of your testimony, you  
2   indicate custom-design service is available at virtually all  
3   offices. What offices are not included?

4           A     I'm not prepared to answer that now.

5           Q     Does Express Mail receive expedited delivery once  
6   it arrives at the delivery office, or does it receive  
7   delivery so long as it meets the 12 noon or three p.m.  
8   deadline? And <sup>he</sup>~~it~~ gives an example.

9                     For example, if an article arrives at my post  
10   office at seven a.m. with a guaranteed delivery time of  
11   three p.m. and assume that my letter carrier normally gets  
12   to my house at two p.m., will the delivery be expedited by  
13   some special means or will it just be delivered in the  
14   normal course of delivery?

15           A     I think it is the standard operating procedure  
16   that, if possible and you can make the service commitment,  
17   that the Express Mail piece will go out with the ordinary  
18   carrier.

19           Q     And he then asks if -- I -- I guess anticipating  
20   that response -- how do you reconcile this with respect to  
21   the recent elimination of Special Delivery?

22           A     How do I reconcile it --

23                     MR. COOPER: I'm going to object that this  
24   question is un-answerable.

25                     MS. DREIFUSS: Okay.

1 BY MS. DREIFUSS:

2 Q With respect to priority mail, refer to line seven

3 --

4 CHAIRMAN GLEIMAN: Are you withdrawing the  
5 question on -- on --

6 MS. DREIFUSS: I don't know how to explain it any  
7 better --

8 CHAIRMAN GLEIMAN: -- Mr. Popkin's --

9 MS. DREIFUSS: -- than I -- I see it on this page  
10 unless some -- somebody else wants to -- wants to explain it  
11 a little better than I can.

12 CHAIRMAN GLEIMAN: Well, I -- I've got a little  
13 procedural problem here.

14 If the witness says he can't answer it, it's one  
15 thing, or if he says it's unanswerable.

16 If the counsel objects and says it's unanswerable  
17 and you don't withdraw the question, then the question  
18 stands or I have to rule --

19 MS. DREIFUSS: Oh.

20 CHAIRMAN GLEIMAN: -- on -- on the motion, and I  
21 -- I'm afraid that, as strange as it might sound, I would  
22 have to overrule on the objection, because the question is  
23 answerable.

24 I know the answer that I would give, if I were  
25 sitting there under oath, to that question, but I am not

1 sitting there.

2 THE WITNESS: Well, let me take a crack at it.

3 MR. COOPER: Could the question be repeated, at  
4 least, so that we're --

5 CHAIRMAN GLEIMAN: Certainly.

6 MR. COOPER: -- clear on what it is?

7 CHAIRMAN GLEIMAN: Sorry to do this at such a late  
8 hour, but --

9 MR. COOPER: My concern was that it was premised  
10 upon an answer which the -- the questioner could not  
11 possibly have been privy to. Nevertheless, we'll proceed.

12 MS. DREIFUSS: Well, if -- well, I'll tell you  
13 what he wrote here.

14 MR. COOPER: Okay.

15 MS. DREIFUSS: If -- if Mr. Sharkey's response was  
16 normal delivery, which ~~that~~ was the answer --

17 BY MS. DREIFUSS:

18 Q Then how do you reconcile this with respect to the  
19 recent elimination of Special Delivery?

20 A Well, for -- for the Express Mail that can be  
21 brought out on the regular route, that's fine, but I  
22 understand there's additional carriers available who will  
23 take out Express Mail on special runs if necessary to meet  
24 the service standard for Express Mail.

25 Q With respect to Priority Mail, refer to line 7 of

1 page 18 of your testimony, and explain why Priority Mail is  
2 a two to three day service, rather than a one to three day  
3 service -- and I will add his second question.

4 Wouldn't Priority Mail destined to an overnight  
5 delivery area be delivered overnight?

6 A The Postal Service makes no apologies for  
7 delivering a piece of mail before its time.

8 That's fine -- but generally the service standard  
9 is two days for most of Priority Mail.

10 Q Last question. What consideration was given to  
11 changing the break point from -- well, I guess you have  
12 discussed this already with NDMS, so I don't think I need to  
13 ask this one.

14 A Okay.

15 CHAIRMAN GLEIMAN: That brings us to the clean-up  
16 hitter for the day, Mr. UPS.

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

18 CROSS EXAMINATION

19 BY MR. McKEEVER:

20 Q Mr. Sharkey, I would like to return just for a  
21 little bit to the revisions to your testimony that you filed  
22 on October 6th, Monday.

23 A Yes.

24 Q And I would like to just confine myself to those  
25 revisions that were prompted by Mr. Patelunas's second

1 revised response, I believe it was, to UPS Interrogatory  
2 T33-36.

3 Am I correct that as a result of that second  
4 revised response of Mr. Patelunas, you revised the test year  
5 after rates Priority Mail cost shown on page 23 of your  
6 testimony in Table 6 at line 10?

7 A Yes, and indirectly through the revision of  
8 Exhibit N I changed the before rates cost also.

9 Q Okay. That after rates cost change increased the  
10 test year after rates cost on line 10 by approximately \$71  
11 million?

12 A Exactly.

13 Q And then you revised line 11, for test year after  
14 rates cost with contingency to increase that by about \$71.6  
15 million?

16 A Yes. The design of the spreadsheet was simply  
17 whatever additional amount I put on line 10 was increased by  
18 the 1 percent contingency.

19 Q So if you take the \$71 million and multiply it by  
20 1.01, you would get the change, the new number, on line 11?

21 A That is exactly right?

22 Q Okay. Well, I did that calculation and it came  
23 out to about \$71.6 million, roughly.

24 Now that also increased the Priority Mail cost per  
25 piece that you show on line 12 of your Table 6 for the test



1 year after rates, is that correct?

2 A Correct.

3 Q And it changed it from \$1.92 in your original  
4 testimony to \$1.99 per piece?

5 A I have \$1.98 per piece.

6 Q Well, the revised page I have in front of me,  
7 revised page 23, Table 6, and it says "revised 10-6-97",  
8 shows on line 12 cost per piece of \$1.99.

9 A Okay, yes. That is before the adjustments.  
10 Correct.

11 Q Okay. So that was an increase of cost per piece  
12 before the adjustments of seven cents per piece; correct?

13 A Correct.

14 Q And that reduced your test year after rates cost  
15 coverage at proposed rates shown on line 13 to 191 percent?

16 A Correct.

17 Q And the cost coverage previously was 198 percent;  
18 right?

19 A Correct.

20 Q So it dropped by seven percentage points.

21 A Correct.

22 Q You have not changed, and you explained your basis  
23 for that, your testimony on page 24, lines 2, where you  
24 indicate that Witness O'Hara proposed a 198-percent cost  
25 coverage for Priority Mail even though Mr. O'Hara on Monday

1 changed his testimony to indicate that he proposed  
2 192-percent cost coverage. Is that correct?

3 A I didn't change the verbiage in the original  
4 testimony.

5 Q Right.

6 A Right.

7 Q But you are aware that Mr. O'Hara changed his  
8 testimony to propose a reduced cost coverage for priority  
9 mail of 192 percent instead of the original cost coverage --

10 A Yes, I am aware of that.

11 Q Okay. So even though priority mail's costs  
12 increase by 71 million from the Postal Service's original  
13 figures, and the cost coverage was reduced by approximately  
14 six or seven percentage points, the Postal Service has not  
15 changed its proposed rates; is that correct?

16 A Correct.

17 Q That kind of makes costs irrelevant, doesn't it?

18 A No.

19 Q No? Well, when you have a \$71 million increased  
20 cost, that makes the cost coverage change by 7 percent and  
21 you don't change the rates?

22 A It's one of a few criteria in the act.

23 Q So the other criteria in the act make up for the  
24 difference. Is that what you're stating?

25 A Well, Witness O'Hara sets the cost coverage, has

1 changed his testimony, and that became the target. The  
2 exact passthrough of that is not necessarily dictated into  
3 the rates that we're proposing for Priority Mail.

4 Q When did Mr. O'Hara tell you about the change in  
5 his proposed Priority Mail cost coverage?

6 A Monday.

7 Q When did you learn of Mr. Patelunas' second  
8 revised response to UPS Interrogatory T-33-36?

9 A It was probably a few days after he filed it.

10 Q Well, if I tell you I have the document in front  
11 of me and it's dated September 19, 1997, does that help you  
12 at all? That was about 17 days ago. Excuse me, about --  
13 today is the 8th -- about 19 days ago.

14 A So it was probably a few days after that.

15 Q Okay. Mr. Sharkey, I'd like to ask you to turn to  
16 your response to Interrogatory UPS USPS-T-33-44 (i) through  
17 (l) please, and in particular to Attachment A.

18 A I have it.

19 Q Do you have the second page of the attachment in  
20 front of you? That is the one that's labeled in response to  
21 USPS T-33-45 (i) through (l).

22 A I have it.

23 Q Okay. Now that's a page out of the redacted  
24 Priority Mail Processing Center contract that was filed as  
25 Library Reference H-235; is that correct?

1 A Correct.

2 Q Can I direct your attention to the left-hand side  
3 of the page, please, the column heading that says expected  
4 volume flats. Do you see that?

5 A Yes.

6 Q And next to that there's a column that says price.  
7 Do you see that?

8 A Yes.

9 Q Now, moving over to the right, there's a column  
10 heading that says expected volume parcels. Do you see that?

11 A Yes.

12 Q And next to that there's a column that says price;  
13 is that correct?

14 A Yes.

15 Q And moving over still further on the right,  
16 there's a column heading that says expected volume outsides.  
17 Do you see that?

18 A Yes.

19 Q And again next to that there's a column heading  
20 price. Do you see that?

21 A Yes.

22 Q Mr. Sharkey, under the PMPC contract, the Postal  
23 Service pays one price for Priority Mail flats, a different  
24 price for Priority Mail parcels, and still another different  
25 price for Priority Mail outsides; isn't that correct?

1           A     That's correct.

2           Q     And am I correct that the contract requires the  
3 contractor to separate Priority Mail pieces by shape into  
4 the categories of flats being one shape, parcels being  
5 another, and outsides being a third?

6           MR. COOPER: This question has been asked and  
7 answered in writing.

8           MR. McKEEVER: May I have counsel's reference to  
9 the interrogatory response then?

10          MR. COOPER: I will attempt to find it.

11          MR. McKEEVER: It might be easier, if Mr. Sharkey  
12 can just answer it now, Mr. Chairman.

13          CHAIRMAN GLEIMAN: I don't disagree with you.  
14 Since it has been answered in writing, if it has been  
15 answered by Mr. Sharkey, maybe we can move things along  
16 while you search for the interrogatory.

17          BY MR. McKEEVER:

18          Q     Do you know, Mr. Sharkey, if the contract requires  
19 the contractor to separate Priority Mail out by those three  
20 shapes, flats, parcels, and outsides?

21          A     They are required to tender it to the Postal  
22 Service by those shapes.

23          Q     Separately for each shape?

24          A     Yes.

25          Q     Okay, and am I correct that the contractor also

1 must put those different shapes into different containers --  
2 flats into one type of container, for example?

3 A I don't recall any containerization requirements.  
4 Maybe you can point them out in the redacted  
5 contract?

6 Q Yes. Do you have the redacted contract with you?

7 A No, I don't.

8 MR. McKEEVER: Okay. Mr. Chairman, I have copies  
9 of some pages out of the redacted contract, two pages in  
10 particular.

11 The contract unfortunately is not numbered from  
12 page 1 to the end, but toward the end, there are 60 pages  
13 that are numbered.

14 The very last page of the contract bears page 60  
15 and those last 60 pages are numbered.

16 The pages I have are from that 60-page set, and  
17 they are pages 9 and 36.

18 May I approach the witness to show him a copy of  
19 those pages, and I do have copies for the bench and for  
20 counsel as well?

21 CHAIRMAN GLEIMAN: Thank you. Certainly.

22 BY MR. McKEEVER:

23 Q Mr. Sharkey, I would like to draw your attention  
24 to the top page there, the one that says page 9 on the  
25 bottom.

1 Do you have that?

2 A Yes.

3 Q And at the very top it is what I will call Section  
4 B, as in "boy," 2.2.3.2.1 entitled Priority Mail  
5 Transported by Air.

6 Do you see that?

7 A I see it.

8 Q Can you -- do you see the second sentence which  
9 states, and I am quoting, "Flats must be containerized in  
10 flat trays and strapped."

11 Do you see that?

12 A I see that.

13 Q Okay, and the next sentence says, "Parcels must be  
14 containerized in Priority Mail pouches." Is that correct?

15 A That's correct.

16 Q So it appears that the contractor is required in  
17 the case of Priority Mail transported by air to use  
18 different containers at least for flats and parcels, is that  
19 correct?

20 A That is correct.

21 Q Okay. If you go down to the next section,  
22 entitled Priority Mail Transported by Surface, that section  
23 states that, "Priority Mail must be separated by shape" and  
24 then it says, "must be containerized in ERMCS by shape."

25 Do you see that?

1 A Yes.

2 Q And it has an explanation at the end after "ERMCs  
3 by shape" parenthetically stating "(other than one mixed  
4 container at closeout)" -- do you see that?

5 A Yes.

6 Q Do you understand that to mean that even though  
7 every shape can go in an ERMC, flats must be in one ERMC,  
8 parcels must be in another ERMC, for example?

9 A I don't know that for certain. I don't really  
10 understand what that phrase means.

11 Q Okay.

12 A I don't know if it allows mixed ERMCs in terms of  
13 shape.

14 Q Okay. At least with respect to the requirement  
15 for Priority Mail transported by air, the requirement that  
16 flats and parcels be in different types of containers, do  
17 you know if that is because the Postal Service intends to  
18 process Priority Mail in different processing streams  
19 depending on the shape of the piece?

20 A I am not sure exactly, when -- when pieces get to  
21 the SCF or the delivery unit, whether the pieces would be  
22 sorted in anything other than -- than the -- what I  
23 understand to be a bundle toss or a parcel toss, but I don't  
24 know for certain whether there would be a separate mail  
25 stream for the handling of priority mail flats versus



1 parcels downstream.

2 Q You don't know whether the Postal Service has an  
3 intent to process those shapes in different streams? Is  
4 that --

5 A I have not studied that issue.

6 Q Okay.

7 Can you think of any requirement for separating  
8 those shapes by container types?

9 A Can I think of any additional requirement?

10 Q No, any other -- if I said requirement, I  
11 apologize.

12 A Any reason?

13 Q Can you think of any other reason? That's right.

14 A Maybe to account for the payment. Since the  
15 payment is based on shape of mail, it's a way to affect the  
16 accounting procedures for the payment to the contractor,  
17 since it's separated and paid for by -- by shape of mail.

18 Q Okay. In other words, there's a separate price to  
19 the contractor for flats and a separate price for parcels,  
20 and it's a way of determining how much the contractor gets  
21 paid?

22 A I think that's probably the principle reason.

23 Q Okay. But there may be other reasons?

24 A There may be.

25 Q Do you know why the -- why the contractor gets

1 paid different prices depending on different shapes that are  
2 in the mail stream?

3 A I assume that it's to cover maybe some additional  
4 cost to them, but I'm not sure.

5 Q Okay.

6 Mr. Sharkey, I would like to shift to another  
7 subject.

8 Yesterday, Mr. Plunkett testified that, even  
9 though the unit volume variable costs for priority mail  
10 electronic delivery confirmation service costs about 15  
11 cents per unit, he was proposing that the large mailers who  
12 would use that service would not pay any additional charge  
13 for delivery confirmation service.

14 I then asked him whether those costs, that 15  
15 cents per unit, were included in priority mail's overall  
16 costs and, therefore, paid by all priority mail users  
17 whether they use delivery confirmation service or not.

18 He said he thought that was the case but that you  
19 would be the witness to answer that question.

20 Can you tell me if that's what happens to that 15  
21 cents per unit?

22 A I don't know exactly the 15 cent he's talking  
23 about, but there is something called the -- the base cost  
24 for delivery confirmation, priority mail delivery  
25 confirmation, and that cost is associated with all forms of

1 delivery confirmation, not just the electronic version but  
2 also the retail version.

3 Q So that cost would include the volume variable  
4 cost for the electronic service, as well?

5 A As the retail, yes.

6 Q Okay. And what do you do with that cost? Do you  
7 spread it over all priority mail?

8 A That cost is multiplied by the number of pieces of  
9 delivery confirmation we anticipate -- priority mail  
10 delivery confirmation we anticipate in the test year, and  
11 that cost, which is about \$10 million, is spread over the  
12 billion pieces of priority mail.

13 Q Over all priority mail.

14 A All the -- all the priority mail pieces, yes.

15 Q Including priority mail pieces that do not use  
16 delivery confirmation service.

17 A That may not use it.

18 Q Okay.

19 Mr. Sharkey, Mr. Olson asked you some questions  
20 about certain interrogatory responses that contained  
21 information on priority mail market share and, in  
22 particular, interrogatories NDMS/USPS-T-33-8, 25, and 30.  
23 Can you tell me the source of the numbers that you give in  
24 those responses?

25 A We have a consultant that does market share

1 analysis for us.

2 Q So, that's not internal Postal Service  
3 information?

4 A No.

5 Q It's given to you by a consultant.

6 A A consultant, yes.

7 Q Mr. Sharkey, isn't it the case that one of the  
8 primary reasons if not the primary purpose of the PMPC  
9 network is to improve Priority Mail service?

10 A I think it is to improve service and ultimately  
11 lower cost.

12 Q But it is correct that one of the primary purposes  
13 is to improve Priority Mail service; is that correct?

14 A That is correct.

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

16 CHAIRMAN GLEIMAN: Is there any followup?  
17 Questions from the Bench?

18 COMMISSIONER LeBLANC: I have one question.

19 CHAIRMAN GLEIMAN: Commissioner LeBlanc says he  
20 has one question. I bet you he has more.

21 Commissioner LeBlanc.

22 COMMISSIONER LeBLANC: At least, Mr. Hollies, I  
23 won't mix my words up again. So thank you for that  
24 correction.

25 Just a clarification now. In your colloquy with

1 Mr. McKeever, did you agree that there was a \$71 million  
2 increase in the cost in Priority here and yet the cost  
3 coverage has gone down -- I don't have it in front of me  
4 here, but I should. And yet the PMPCs, you just said one of  
5 the things is to lower the cost. So if you lower the cost  
6 in the future, has there been any talk about what you will  
7 do with the coverage at that point?

8 THE WITNESS: We haven't had discussions about  
9 what would happen downstream as the costs are lowered  
10 through the implementation of the PMPCs. I don't know, that  
11 would come at the time we filed for another rate change.

12 COMMISSIONER LeBLANC: Yes. I mean, it would just  
13 seem to me if you had the increase now and you are reducing  
14 the coverage and therefore the rates now, if they go  
15 further, I just didn't know if you had talked about any  
16 further plans in that regard?

17 THE WITNESS: No.

18 COMMISSIONER LeBLANC: Thank you.

19 CHAIRMAN GLEIMAN: Mr. Sharkey, I have several  
20 questions I need to ask you.

21 You testified about how much volume would be  
22 attracted to the Postal Service as a result of offering  
23 delivery confirmation. You also testified about current  
24 volume, shifts between subclasses if delivery confirmation  
25 becomes available.

1           Did you arrive at your conclusions as a result of  
2   your own analysis or did someone else tell you how delivery  
3   confirmation would affect Postal Service volumes?

4           THE WITNESS: We did market research and it's in  
5   the library reference and on one told me how much would  
6   shift.

7           CHAIRMAN GLEIMAN: Did you base your analysis on  
8   the material contained in this library reference? And can  
9   you identify the library reference?

10          THE WITNESS: Yes. It is Library Reference H-166.  
11   It is called, Priority Mail Delivery Confirmation Market  
12   Response Research.

13          CHAIRMAN GLEIMAN: Did you review that library  
14   reference and determine to your satisfaction that  
15   information contained therein was reliable or did you simply  
16   assume that the information contained in the library  
17   reference was valid?

18          THE WITNESS: I spent a lot of time looking it  
19   over, questioning its assumptions and I am convinced that it  
20   is good research.

21          CHAIRMAN GLEIMAN: Did you question anyone to  
22   satisfy yourself about the reliability of the information in  
23   that library reference?

24          THE WITNESS: I discussed it with the Market  
25   Research Group and I read the questionnaires and understand

1     how the research was conducted.

2             CHAIRMAN GLEIMAN:   Thank you.

3             In your Exhibit USPS-33-P, you refer to Library  
4     Reference 191, which provides information on Priority Mail  
5     weight and average haul by zone.   Did you develop this  
6     information yourself?

7             THE WITNESS:   It was developed for me.

8             CHAIRMAN GLEIMAN:   Did you review this information  
9     in order to determine its reliability or did you simply act  
10    on the output that the library reference in question  
11    contained?

12            THE WITNESS:   I received the output and I looked  
13    at the -- I understand how the program was developed and the  
14    code was developed and then I relied upon the output.

15            CHAIRMAN GLEIMAN:   Counsel, would you please  
16    determine what steps might be necessary so that this  
17    information can be made part of the evidentiary record?   And  
18    I would like a response on this -- well, I am not going to  
19    ask you to respond before Mr. Sharkey leaves today, if you  
20    can't.   We can clean this matter up --

21            MR. COOPER:   We anticipated that there might be an  
22    issue regarding these library references since there had  
23    been so many other similar issues raised about other library  
24    references today and we are prepared to offer them for  
25    admission into evidence if the Commission so desires and

1 this witness is willing to sponsor them.

2 CHAIRMAN GLEIMAN: I have a few more questions  
3 about some other library references. Mr. McKeever, you  
4 looked like you wanted to add something at this point?

5 MR. MCKEEVER: Mr. Chairman, I just would like an  
6 opportunity briefly, very briefly, to review any library  
7 references that will be offered into evidence. I think we  
8 can do it very quickly.

9 CHAIRMAN GLEIMAN: I think if counsel has copies  
10 of the library references, perhaps you might want to provide  
11 them to Mr. McKeever. We are talking about 166, 191 and  
12 118. While you are looking at them, I am going to ask a few  
13 questions with regard to Library Reference 118.

14 In Exhibit USPS-33-R, on page 4 you have a  
15 footnote 12 which cites Library Reference 118. Can you tell  
16 me what the footnote applies to specifically?

17 THE WITNESS: Excuse me, that's page 3 of --

18 CHAIRMAN GLEIMAN: Page 4.

19 THE WITNESS: Oh, page 4.

20 CHAIRMAN GLEIMAN: Yes.

21 THE WITNESS: Let me see if I can review this.  
22 When looking at how much mail would divert from First Class  
23 mail I needed -- and from return receipt and Certified Mail,  
24 I needed a crosswalk between how much First Class mail was  
25 certified and return receipt, and that footnote relates to



1     how I took the test year after rates volume and converted it  
2     to the test year estimate.

3             CHAIRMAN GLEIMAN: The library reference in  
4     question, 118, indicates the impact on Certified Mail of  
5     changes in the revenue and volumes of First Class and  
6     Priority Mail as I understand it. Did you prepare Library  
7     Reference 118 or supervise its preparation?

8             THE WITNESS: I requested that it be prepared and  
9     it was presented to me.

10            CHAIRMAN GLEIMAN: Did you review the information  
11     in order to determine its reliability, or simply accept it,  
12     accept the output of the study?

13            THE WITNESS: I reviewed it for reliability.

14            CHAIRMAN GLEIMAN: And you satisfied yourself, I  
15     take it?

16            THE WITNESS: Yes.

17            CHAIRMAN GLEIMAN: Those are the three library  
18     references I had in question.

19            Mr. McKeever, have you had an opportunity to  
20     satisfy yourself?

21            MR. MCKEEVER: I have, Mr. Chairman, and we have  
22     no objection to their admission into evidence.

23            CHAIRMAN GLEIMAN: Mr. Olson has not risen, and  
24     Mr. Thomas is not here. On both of their behalfs and on  
25     behalf of any other party who feels that this process that

1 we've undertaken might impact negatively on their  
2 due-process rights, I am going to register an objection on  
3 behalf of those parties, and recognize that they have a  
4 right to file a motion with respect to either the process  
5 that we've undertaken or whether the library references in  
6 question meet Rule 31K.

7 I think I misspoke earlier and mumbled a J out  
8 there somewhere. And hopefully if someone is concerned  
9 they'll take the time to read the transcript and do what  
10 they think is appropriate, and we'll make the necessary and  
11 appropriate judgments at that point in time.

12 Mr. Cooper, if you're prepared or if your  
13 cocounsel is prepared to let Mr. Sharkey take a look at  
14 those three and adopt them or whatever you propose, then  
15 we'll move them into evidence. So --

16 MR. COOPER: I believe I can do that from here.

17 REDIRECT EXAMINATION

18 BY MR. COOPER:

19 Q Mr. Sharkey, have you reviewed Library References  
20 H-118, H-191, and H-166?

21 A Yes, I have.

22 Q Are you prepared to sponsor those library  
23 references for purposes of your testimony in this  
24 proceeding?

25 A Yes, I am.

1           Q     I would note for the record that in response to  
2 Notice of Inquiry No. 1, no party listed these library  
3 references as of any concern to them, and I would offer them  
4 for admission into the evidentiary record, but transcribed.

5           CHAIRMAN GLEIMAN: Thank you. That is the  
6 practice that we've adopted earlier. Your motion is  
7 consistent with the practice, and I order that the three  
8 library references in question be entered into evidence and  
9 not transcribed. I appreciate your cooperation.

10                                 [Library References H-118, H-166,  
11                                 and H-191 were received into  
12                                 evidence.]

13           CHAIRMAN GLEIMAN: Does any participant have  
14 followup cross examination as a result of questions from the  
15 bench or other activities from the bench?

16                         That brings us to redirect. Do you feel you need  
17 some time with your witness?

18           MR. COOPER. I'll take about 5 minutes.

19           CHAIRMAN GLEIMAN: All righty, 5 minutes it is.

20                         [Recess.]

21           CHAIRMAN GLEIMAN: Mr. Cooper, I understand you're  
22 ready to roll.

23           MR. COOPER: And I am happy to announce that we  
24 have no redirect.

25           CHAIRMAN GLEIMAN: And in that case, unless

1     somebody has something that they want to add to the record  
2     that is not recross from -- from redirect that didn't take  
3     place, that brings us to the close of yet another exciting  
4     day of hearings at the Postal Rate Commission.

5             Mr. Sharkey, I want to thank you. We appreciate  
6     your appearance here today and your contributions to the  
7     record, and if there is nothing further, you're excused.

8             [Witness excused.]

9             CHAIRMAN GLEIMAN: That concludes the hearing.

10            We'll resume tomorrow morning and receive  
11     testimony from witness Crum and Daniel, and I expect you all  
12     to go home and root for the birds. Have a safe trip.

13            [Whereupon, at 7:56 p.m., the hearing was  
14     recessed, to reconvene at 9:30 a.m., Thursday, October 9,  
15     1997.]

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