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Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

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BEFORE THE

POSTAL RATE COMMISSION

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In the Matter of: :

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

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Third Floor Hearing Room

Postal Rate Commission

1333 H Street, N.W.

Washington, D.C. 20268

Volume 18

Wednesday, December 10, 1997

The above-entitled matter came on for hearing, pursuant to notice, at 9:35 a.m.

BEFORE:

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PAUL G. SECKAR				
BY MR. OLSON		8220		
CARL G. DEGNEN				
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PROCEEDINGS

[9:35 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we resume hearings on Docket R97-1, the Postal Service request for changes in rates and fees. Postal Service Witnesses Seckar and Degen will appear today.

Currently we have hearings scheduled for tomorrow afternoon to allow for questions concerning the operations of the MODS system. The Postal Service submitted a filing on December 4 in which it expressed its belief that Witness Degen would be able to successfully respond to questions on that topic during his appearance here today. If it turns out to be the case, we'll cancel tomorrow afternoon's hearing.

Let me remind counsel that transcript corrections for this series of hearings should be filed on or before December 18.

I'm making an adjustment in the schedule for incorporating additional designated responses into the evidentiary record. Previously I had announced that institutional responses provided by the Postal Service should be designated for incorporation into the record by December 5, and that those answers would be placed in today's transcript. In separate rulings I also indicated that evidence from previous dockets designated pursuant to

Special Rule 1D would be placed in a volume of transcript prepared after this round of hearings was completed. I will also provide that participants wishing to designate answers provided in response to questions at hearings or provided after witnesses complete cross-examination could be designated through the close of business today.

A large amount of material's been designated, and I do mean a large amount of material. Separating the material into categories that make them more sensible and usable have been challenging for both the participants it appears from the designations that we've received so far and also for the Commission Staff, and I've concluded that it will be easier to find designated information and less chance of either omitting designated material or incorporating it more than once if a single packet of all designated responses is provided to the reporting company after these hearings are completed.

And this is what we're going to do. The Commission is going to publish on its web page a tentative list of designated materials, and participants should review that list and contact the Commission Secretary if they believe a properly designated item was omitted. Additional designations will be allowed through -- excuse me -- December 17. And that should allow for answers to all outstanding questions addressed to the Postal Service.

In this regard, Postal Service counsel, my records show that on November 24 David Popkin filed a motion to compel concerning a number of discovery requests. A partial response to that motion was filed on December 1. Please contact your office during our midmorning break and let me know whether the Postal Service intends to file one or more additional responses, and if you intend to respond further, please provide those responses by close of business tomorrow.

Similarly there are two outstanding motions from Douglas Carlson, one filed on November 26 and one filed on December 3. Please assure that responses are submitted by close of business tomorrow on those two items.

In order to allow for incorporation of any compelled answers into the record I will expect you to provide any compelled responses by Tuesday, December 16. Depending of course on the nature of any responses, it is my current intention to designate any responses provided by December 16 so as to assure that the record is complete.

I also give notice that I am designating answers to Presiding Officer information requests that have not been designated by individual participants.

And finally I am designating the answer to Interrogatory OCA/USPS-T-42-2 concerning the proposal for a hazardous materials surcharge. That interrogatory

references answers provided by Witness Currie in Docket MC97-1, and I would appreciate, counsel, if you would undertake to have Witness Currie submit a declaration of authenticity applicable to the materials he refers to in his answer to that interrogatory, OCA/USPS-T-42-2.

Does anyone have a procedural matter that they would like to raise before we begin today?

MR. HOLLIES: Yes, Mr. Chairman, and good morning, Commissioners.

Several points. First of all, I thought I heard two different dates in your description of when additional designations were going to be due. You said at first 12/17, and then in your discussion of the two Doug Carlson motions that 12/16 was your date.

CHAIRMAN GLEIMAN: I said that I would expect you to provide compelled responses by Tuesday, December 16, to the Carlson materials; that the designations will be made on the 17th.

MR. HOLLIES: The second matter has to do with interrogatories that were designated by Mr. Olson for Witness Seckar, who is about to take the stand. Those interrogatory responses were not provided by the witness, and I understand from Mr. Olson that he has otherwise undertaken to designate these as institutional responses so that they will be wrapped up in the volume of the transcript

to which you are referring.

CHAIRMAN GLEIMAN: Mr. Olson, is that indeed the case?

MR. OLSON: Yes, Mr. Chairman, we designated them last week before the December 10 deadline was established as a precautionary measure, and have also designated them for inclusion in the package of institutional responses.

CHAIRMAN GLEIMAN: All right. And that is for all -- as I look at the list it appears that all of those interrogatories were in fact redirected and are institutional in nature.

MR. OLSON: That's correct, and we've identified them all for the Postal Service's institutional responses.

CHAIRMAN GLEIMAN: So when we get to that point in the proceeding today we will have any designated written cross-examination for Witness Seckar unless someone else has something that they want to offer up at that point in time. Do we agree on that, counsel?

MR. HOLLIES: And finally, with the segue you've provided me, there is no supplemental testimony for this witness. During his previous appearance the two library references that would appear to be in question -- that is 169 and 134 -- both were admitted into the record as evidence. I discussed this fact with Mr. Olson earlier, and I believe that the appropriate scope of cross-examination

today therefore ought to be limited to those library references. And with that, the Postal Service is prepared if you're ready, Mr. Chairman, to call Witness Seckar to the stand.

CHAIRMAN GLEIMAN: I think I'd like to hear from Mr. Olson on that matter.

MR. OLSON: I'd be unprepared to accept that in its totality. I would say that most all of our questions are about the library reference. There are some occasions where there are implications of the information in the library reference which counsel could take the position go beyond the scope of the four corners of the document, and if they do, I think they're going to be relevant and important for the Commission to know the answers, and he may want to object, and I don't think other than a case-by-case basis that a decision can be reached. So I would just ask the opportunity to pose the questions and see how it goes.

CHAIRMAN GLEIMAN: It wasn't clear to me that Postal Service counsel was asking me to rule on the narrower scope of the cross examination in any event, but I just wanted to know what your views were on it before we proceeded and certainly I think that your suggestion is the appropriate approach for us to take today.

MR. OLSON: I would also say, Mr. Chairman, that we do intend to ask some questions emanating out of the

responses to these interrogatories. It's not at all clear to me as to why these questions were not responded to by the witness, but rather referred to the Postal Service and I will explore those also.

CHAIRMAN GLEIMAN: Well, if it were not a rainy day today, I would say that you can't do that and we'll all go over to L'Enfant Plaza and stand out in front of the building and yell your questions at the building and see if it responds to us as an institution, but since it is raining I think we are going to allow you to go ahead and make a run at follow-up to some of those interrogatory responses.

Anything else?

MR. HOLLIES: No. I would mention that the witness is certainly familiar with the interrogatory responses in anticipation that Mr. Olson might care to query him regarding his knowledge of them.

CHAIRMAN GLEIMAN: Thank you. Our first witness today is Paul G. Seckar and Witness Seckar is already under oath and is scheduled to appear today to respond to additional questions on his testimony, USPS-T-26, either limited or unlimited, and that will depend on the nature of the objections.

Mr. Seckar, if you would please take the witness stand. Inasmuch as you are already under oath, we'll just move ahead.

Whereupon,

PAUL G. SECKAR,

a witness, was recalled for examination by counsel for the United States Postal Service and, having been previously duly sworn, was further examined and testified as follows:

CHAIRMAN GLEIMAN: We have already established that the materials that Nashua, et al. sought to have entered today is designated written cross examination and is indeed institutional in nature and will be added at the appropriate point in time -- next week, I guess.

Is there any other party that has additional written cross examination for this witness?

[No response.]

CHAIRMAN GLEIMAN: If not, one participant, Nashua Mystic District Seattle, has requested cross examination of Witness Seckar.

Does anyone else wish to cross examine the witness?

[No response.]

CHAIRMAN GLEIMAN: If not, Mr. Olson, we'll proceed whenever you are ready.

MR. OLSON: Thank you.

CROSS EXAMINATION

BY MR. OLSON:

Q Mr. Seckar, my name is Bill Olson, representing

Nashua District Mystic and Seattle, and I want to begin with some questions about your association with this particular Library Reference H-169, and my understanding is you work for Price-Waterhouse, correct?

A That's correct.

Q And your biography was submitted as part of your testimony, USPS-T-26, correct?

A Yes.

Q And you do not have a separate piece of testimony that you are submitting with respect to this Library Reference but rather I guess are relying on the filing by counsel that you would in fact sponsor this Library Reference -- is that the situation we have?

A Yes. Last time I was on the stand I in fact sponsored it.

Q The Library Reference H-169 is a field test of the FSM-1000 conducted in Albany at a processing distribution center during August and September of 1992, correct?

A Yes.

Q What connection did you have with that field test?

A With the field test? None.

Q What do you know about this Library Reference that permits you to be able to sponsor it?

A Well, in conducting research towards my final analysis, I came across this field test which was done in

Albany through discussions with folks in the engineering department at the Postal Service and they made this document available to me as the appropriate piece of information from which to derive productivity rates for the FSM-1000, whereupon I examined the field test results that they had provided and a colleague of mine working under my direction wrote the first page, the text page, of the Library Reference.

I then used the results in my analysis in total.

Q Did you take steps to assure yourself of the validity of the data presented in the Library Reference?

A Well, in my conversations with the folks at Merrifield, the engineering group I should say, I spoke to a number of different people and explored the different things available in terms of coming up with the productivity for the FSM-1000, and they being the persons most knowledgeable of the FSM-1000 throughout its development or developmental stages, if you will, made it known to me that this was the appropriate data and document and them being knowledgeable, reliable persons in that field, I took that, as it were.

Q Okay. Did you also receive information from people in engineering with respect to the study of the FSM-1000 which was conducted in July and August of 1996 that is the test, the results concerning which were produced by the Postal Service in institutional responses to our

interrogatory to you designated as NDMS-USPS-T-26-1?

A The attachment?

Q Yes.

A That was made available to me along with the responses to the NDMS interrogatories.

Q In other words, you hadn't seen this prior to the responses being prepared to our interrogatories that were filed on November 13th?

A That's correct.

Q Have you had an opportunity to compare the results of the two tests, the one in '96 and the one in '92 and draw any conclusions?

A Well, I have taken a look at the results of the tests as well as the institutional responses to the interrogatories.

They -- my work, let me just say, focuses on the use of a productivity, developing a productivity from the Albany field test, and so I of course looked at that relative to the later test and the institutional response, I believe it is 1(b) that discusses the productivities.

Q Is there any reason that you can offer as to why you didn't respond to these interrogatories as opposed to the Postal Service?

A Well, I was not the person responsible for conducting the field test and did not have the information

to respond to the interrogatories. I was not the knowledgeable person for that.

Q Well, if I have questions today about the field test that is reported at H-169, which you are sponsoring, will you be able to help me with those questions?

A I can certainly try.

Q All right. Let me ask you to turn to the Library Reference and do I take it from what you have said before that the page which is entitled "Summary, Field Test of AEG Flat Sorting Machine FSM-1000" -- that that page was written by someone under your direction?

A That's correct.

Q And that summary was prepared from the other materials that are a part of the same Library Reference exclusively, I take it?

A I believe the answer to that is yes. If you are asking me is there any further information, my response to that unasked question would be no.

Q Well, that would have been the next question because I was just wondering if this is the only report on which you are relying or whether there were other sources of information about the field test that you have been provided?

A No.

Q Let me ask you to turn to the first page of the

report on the field test, and if you can see, there is a section which describes three different sort plans which were used in the testing of the FSM-1000 and they are identified as outgoing secondary managed mail and incoming secondary.

Is it possible that that is in error and that it is outgoing primary?

A I believe that's correct -- as is shown on the following page where it begins a summary of data, AEG FSM, Albany, New York, the first block, if you will, is entitled Operation 141, which is in fact outgoing primary.

Q And also the summary sheet prepared under your direction identifies this, I believe, as outgoing primary, correct?

A I believe that's right.

Q Can you tell me what managed mail is?

A It is -- I can tell you what, in rough terms what the sort plan is.

It is -- I believe it is a sort plan that is no longer used but is approximately equivalent to what is currently designated as a state sort plan and so I would view that as an analog.

Q You say that a state sort plan is no longer used?

A No, no. I said that the managed mail plan I believe is no longer a term that is used or a sort plan that

is used.

I believe the existing sort plans today are outgoing primary, outgoing secondary, and then there's a state or an ADC, in fact, sort plan.

Q So in other words you are saying that what was called managed mail when this test was conducted in 1992 might be called now either a state plan or an ADC plan?

A I believe it would be the latter -- ADC.

Q Do you know the significance of the FSM 1000 as against these various sort plans? In other words, would they -- would one expect them to result in different productivities?

A Well, in general productivities vary by sort plan, and that is the -- that is the level at which the Postal Service in my experience has made use of productivity data, and similarly that I have done so in my analysis, and they do here as well.

Q So I take it then that in choosing outgoing primary managed mail and incoming secondary the Postal Service is attempting to replicate the actual uses to which the FSM 1000 would be placed.

A I wouldn't make -- I wouldn't say that. I mean, not being personally involved in this study I don't know, but -- I don't know why they specifically tested these sort plans relative to some other subset of sort plans or the

entire set, but I would foresee the FSM 1000 being used throughout all the different sort levels.

Q And when you say all the different sort plans, what other sort plans would that include besides the three identified here?

A Well, as I mentioned a moment ago, there are -- well, I guess I didn't mention that. There is outgoing primary, there is outgoing secondary, there's an ADC sort plan. In fact, the sort plans are laid out in Library Reference 134 taking you all the way through SCF, incoming primary, and incoming secondary.

Q Are you familiar with the three categories of mail that are identified in this field test?

A Well, I understand them as they've been defined here.

Q Okay. Help me with that, if you would. Let me first of all focus on Category 1, which is described here as Model 881 mail base. And in your summary it is described as mail that the FSM 881 generally processes, machineable flats mail. Is that your understanding?

A Yes.

Q Okay. And is that -- does that mean that the flats are machineable pursuant to a DMM definition?

A I believe that the flats that are processed on the FSM 881 and that are in fact processable on that machine

correspond to the specifications laid out in the Domestic Mail Manual.

Q So Category 1 would be an effort to do a direct apples-to-apples comparison between the FSM 881 and the FSM 1000 with respect to that kind of mail which can be handled on both machines; is that correct?

A Yes, I think so, apples-to-apples in the sense that they're the same mail stream, same mail mix.

Q In other words, it wouldn't be fair to test the FSM 881 with flats that exceed the capabilities of the machine and then compare productivity rates of the two machines; correct?

A No, I don't think that would make much sense.

Q Right. So what they did was attempt to take the kind of mail that was capable of being handled by an 881 and run that same mail over the FSM 1000 to be able to compare productivities and jam rates, et cetera; correct?

A Well, I don't know their intent for doing that, to say that it was to compare to the FSM 881 metrics that result from processing that same mail mix on the ~~881~~ 1000, I'm not sure, but I mean if you think about -- if you think about the mail stream as a spectrum and the middle portion of the spectrum being the machineable mail or the 881 mail, that's Category 1. Category 2 is the entire spectrum, the 881 as well as that beyond the bounds of Category 1. And

then Category 3 is that mail just beyond the bounds of the 881 in the spectrum, that is, the two tails of that spectrum, if you will.

So I think perhaps what they wanted to see is how this machine would perform in this test environment examining the different segments of the flats mail stream.

Q Is it then true then that Category 2 plus Category 3 -- no, strike that -- that Category 1 plus Category 3 equals Category 2?

A I believe that's my understanding; yes.

Q So Category 1 is all machineable flats that would be machineable under the FSM 881; correct?

A Yes.

Q And Category 3 is all the flats which certainly would not be machineable under the FSM 881; correct?

A Correct.

Q And then Category 2 is both combined?

A Correct.

Q Okay. On that same page there is a description manual case mail after Category 3. Actually Category 3 is not labeled Category 3 on this page; correct? It has another symbol there, and 881 identified; correct?

A I would read that as not 881.

Q And that would be synonymous with Category 3; correct?

A That's what we've termed Category 3 in the qualitative summary.

Q Okay.

A Which is denoted there in parentheses as such.

Q And right after the description of 881 is the phrase "manual case mail," which indicates I take it then in an FSM 881 environment all of that mail would be manually ~~cases~~ cased.

A Right. If you think purely in an FSM 881 environment you have two components of the mail stream, that being machineable and that being nonmachineable, and this is the latter, nonmachineable being manual cased mail.

Q Is there a fourth category? In other words, is there a type of mail that is manually cased which is not part of Category 2 and 3?

In other words, this is the universe of flats included in Categories 2 and 3; correct?

A Well, I think you could say that, since you could almost view Category 3 as a subset of Category 2. You could almost say using your term that Category 2 represents the universe.

Q Okay. So Category 2 does represent the universe of flats without anything being held back.

A Well, we've not made mention of bar-coded mail in this discussion, but, you know, there are bar-coded flats

which get processed on the FSM 881 with the bar-code reader.

Q Because there is a bar-code reader either on or about to be put on all the FSM 881s but not on the FSM 1000; correct?

A I'm not aware of the status of a bar-code reader on the FSM 1000, and to the best of my knowledge, I believe all the 881s -- well, I shouldn't say all -- but I would say the large majority, overwhelming majority do have bar-code readers on them and are used for processing flats with bar codes.

Q We happen to have found a press release yesterday dated December 9 that indicates that the Governors have approved funding to upgrade the Postal Service's 346 FSM 1000 flat-sorting machines with bar-code readers. Is that something you're familiar with?

A No.

Q Okay.

A I'm not.

Q Let me ask you to look just below what we've been talking about there where the boxed words USPS machineable flat mail standards appear.

With respect to the minimum and maximum weights of a FSM 881 there's a maximum specified, but no minimum. Do you know what the minimum weight of an FSM 881 is? Or does N/A mean not available or doesn't exist or there is no

minimum? Can you shed any light on that for me?

A I am now going to flip through the institutional responses to see if that touches on that matter. Offhand I don't know. But I do recall that the responses asked for equivalent metrics on the 881. Maybe not. Let's see.

I am not finding anything here. I don't know. I would suspect that the response to your question could probably be found in the Domestic Mail Manual, looking at the minimum weight of what is defined as machinable mail but I am not aware of that figure.

Q If you can keep that page open in front of you and also take a look at the Postal Service's response to NDMS/USPS T-26-1, the question was asked as to whether the machine which was tested in the Albany field test was the same as the production model which is now being deployed.

Do you recall that question?

A Yes.

Q And part of the response is that the number of induction stations and total staffing changed but it also says that the specifications for the production machine have changed somewhat and I want to ask you about two of those.

One is -- first of all, did the design of the machine change to your knowledge or do you believe these are just changes that were made for other reasons by the Postal Service?

In other words, do you believe -- let me ask you this -- a better question. Is the machine that is being deployed now capable of handling the same mail as the machine that was tested in Albany?

A No. I don't believe so. I mean that's what this question gets at, laying out the specifications here, and as you mentioned earlier, these specifications differ from those presented in the Albany test.

Q And is it your understanding -- do you know why the specifications changed or how they changed?

A Well, I believe they changed because -- I would imagine they changed because it is a different machine of sorts, as the response to part (b) starts out, that it has been engineered to facilitate efficient and safe manufacturing.

My speculation on that would be that this machine would be suitable to be placed into a Postal Service processing facility for daily use and perhaps in achieving that some of the specifications changed as well, but I am certainly not aware of the motivation for the changes that led to the changed physical -- change in the specifications of the physical characteristics.

Q When you took your productivity number from this Library Reference, which number did you use?

In other words, the summary sheet at the bottom

talks about the average productivity of Category 3 mail was found to be 698 but for planning purposes the productivity was conservatively set at 650 pieces per hour.

Is that the number you used?

A The 650 was used in my analysis of mail processing costs.

Q Is there a reason why a reference was made to Category 3 rather than Category 2 mail for establishing the productivity of the machine if Category 2 mail was all of the universe of flats?

A Well, as mentioned in the second paragraph of the summary, Category 3 mail was thought to be most typical of mail that would be run on the FSM-1000.

As I mentioned a little while ago, if you think about the non-automation mail as machinable flats and nonmachinable flats, the FSM-881 currently processes the machinable flats and so the Postal Service was looking for a means to process the nonmachinable flats in a non-manual manner and I believe the FSM-1000 is their solution to that, so the intent I believe is to process what were previously nonmachinable flats under the 881 environment on the FSM-1000.

Q So I take it then if there is a facility where there is an FSM-881 and also an FSM-1000 at the same facility, that mail which is machinable on the 881 will be

run on the 881 and the residual would be run on the FSM-1000. Is that what you are saying?

A Well, the residual in the sense that the other segment of that mailstream, yes -- the nonmachinable portion.

Q For those facilities that have just the FSM-1000 though, it would be fully capable of handling all flats, correct?

A It appears so from the specifications, although I have not personally looked into it.

I can't imagine a facility getting an FSM-1000 and not have an FSM-881.

Q There are some institutional responses from the Postal Service that say that there are no deployments of FSM-881s planned for the next I believe two fiscal years, which leads me to believe that they are not buying any more 881s.

That might indicate that they are -- that at some point in the future they will not be around.

A It might. I don't know.

Q You don't know about that?

A No.

Q If you could turn to the very next page of the Library Reference there are a number of NAs in the right-hand column under "Not 881" -- as you have described

that symbol.

Do you know why those are NAs? Did the tests simply not collect that information?

A I think what they are getting at here is that this Not 881 category, we have termed it Category 3, doesn't present any information concerning the percent of pieces that were in Category 2.

All it is saying I believe is that it was all Category 3. There was no Category 2, quote/unquote, "mail."

Q Now I am not sure that I stated my question clearly. The point that I am making is that in the Category 3 column, for example under Missort Rate and Misface Rate, there are no numbers. It says NA. Do you see those?

A Oh, yes, I do. I'm sorry. I was looking at the Percent Pieces, Category 2 row.

Yes. I see the Missort Rate and the Misface Rate.

Q And the same is true for Operation 143, managed mail. Those numbers are not available.

You don't know offhand why those weren't collected?

A I do not. I think it is important to understand that -- I may have mentioned this earlier but I would like to make this point perhaps more explicitly -- that the need for this research and this Library Reference in total was to develop a productivity for the FSM-1000, not a missort rate

or misface rate, which are not metrics that are used nor needed in the analysis that I did.

Q Okay, and in Operation 146, incoming secondary, does it appear to you that they did not run that particular sort for the Category 3 mail?

A That appears to be the case.

Q Any idea why?

A No.

Q And in the bottom section, can you tell me what --

A Actually, I could probably speculate.

Q Okay.

A Maybe there wasn't -- they may not have had enough volume of incoming secondary mail at that point, of Category 3 mail -- a guess.

Q Can you explain what simulated bar code manual feed only is at the bottom of the chart?

A I believe what that is is on the 881 with the bar-code reader the mail is -- the bar code is -- rather the mail piece is placed on a conveyor such that it gets read through the bar-code reader, and that manual-feed motion differs from having it fed in an automated manner. And so I would imagine what they were doing is they were simulating that type of activity on the FSM 1000 despite not having a bar-code reader for which to scan the bar code.

Q Do you know how you simulate reading a bar code

when you don't have a bar-code reader?

A I don't necessarily mean that they were simulating reading a bar code, but they were simulating that activity, you know, manually placing the piece onto the conveyor belt -- that is, the activity that is undertaken when processing bar-coded mail in the bar-code reader mode on the 881.

Q Let me just go back to the institutional response to T-26-1. I take it then from this response that right now on an FSM 1000 it can handle mail within -- all of the currently deployed and on-order FSM 1000s can handle mail within the specifications specified there in response to our interrogatory; correct?

A In 1(b); yes, I believe that's right.

Q Are you familiar with the test run in July and August of 1996, which is attachment to T-26-1?

A Only in -- only with respect to the specifications of the machines as laid out in the earlier responses, and then some of the data here in the table.

Q And you saw that the productivity there was 767?

A Yeah, sure.

Q Which is somewhat for reasons explained in the response viewed not to be directly comparable to the 650 used, in that it didn't include the down time. Is that --

A That's right. It was -- it's termed a stopwatch

test.

Q In response to T-26-4(c) there was a question about were flimsies included in any of the test runs described in 169, and if so, did they present problems? And the response had to do -- says yes, it created problems, jams, et cetera, as indicated in 169. Where in 169 is that indicated?

A Well, I think what the response is saying is that induction jams, transport jams, damaged pieces, et cetera, occurred in the test as indicated in 169. I wouldn't necessarily take that to mean that they were specific to flimsies.

Q And then there was a separate question asked with respect to any test that's been run about machineability of flimsies on the FSM 1000, and there the response is that there was no such test; correct?

A I believe that's part (d), and the answer is no.

Q Yes.

A Yeah.

Q You have no knowledge to the contrary?

A I do not.

Q In response to T-26-6 there is a missort rate provided in subsection (c) as .001. Would that, I take it, be the same as .1 percent? Because that's the way that the question was posed, as percentages. That isn't .001

percent, is it?

A Well, the question is posed as what are the comparable missort rates on the FSM 881.

Q Yes.

A And the comparable to that's stated in part (a), and I believe that is a percent, .001 percent.

Q The FSM, I don't disagree with you, but I just want to have you look at that again to make sure you might reconsider that, because your answer is perfectly fine with me, but it does say in part (a) that in Library Reference 169 the missort rate for Category 1 mail fed on the FSM 1000 was .9 percent, .8 percent, and 2.8 percent, and you're saying that that is now down to .001 percent.

A Well, no, what I'm saying is that, if I read this question, and then the response provided, that the comparable missort rate for the 881 is .001, and I take that to be percent, given the question posed comparable, but I did not --

Q So you're --

A Did not develop nor generate this missort rate myself. I'm not entirely certain.

Q Okay.

A It just seems to make sense to me based on the question and the answer I guess is what I'm saying.

MR. OLSON: I would ask on this if we find out

that it is something other than .001 percent that we be notified in some way to be able to put that in the record. It's just an ambiguity in the response.

CHAIRMAN GLEIMAN: Counsel, could you see whether we can get a response to that, if there is an ambiguity whether we have --

MR. HOLLIES: We'll follow it up. We'll follow up on it.

CHAIRMAN GLEIMAN: Thank you.

BY MR. OLSON:

Q Okay. With reference to the response to T-26-8, it says the -- part (c) -- it asks for comparable reject rates, and it says the acceptance rates are provided in Library Reference 134.

Do you know if that might have been a misunderstanding of the question, which dealt with reject rates?

A No, I don't believe so, because immediately following that statement the response says that the reject rate equals 1 minus the acceptance rate, and so I think the point is that if you were to find the acceptance rates in the cited source here and took 1 minus those, you'd then have the reject rate.

Q Okay. No, I -- now I do see --

A Which is what was requested in the question.

Q Right. Now I do understand, of course, what the response is. Thank you.

Where in Library Reference 134 is that? Do you have that library reference with you?

A I do not, but the cite provided here is section 1, page ~~11027.~~ 11 of 27.

Q So you don't happen to know what those numbers are now?

A What the acceptance rates are?

Q Yes.

A They vary by sort level and they're on the order of -- 99, 98 percent. I can't remember.

Q Okay. Well, we can look that up. I thought that since you had -- you were sponsoring 134 today, you might have it right there to be able to look it up, but it's -- I can trace it through to the source.

MR. OLSON: Mr. Chairman, that's all we have. Thank you.

CHAIRMAN GLEIMAN: Is there any followup cross-examination?

Questions from the bench?

If there are no questions from the bench, then that brings us to redirect. Would you like some time with your witness?

MR. HOLLIES: Yes, I would like a few minutes,

perhaps 5 or 10 minutes.

CHAIRMAN GLEIMAN: Let's take ten then.

[Recess.]

CHAIRMAN GLEIMAN: Any redirect?

MR. HOLLIES: We have no further questions.

CHAIRMAN GLEIMAN: If there is no redirect, then that takes care of your appearance here today, Mr. Seckar. We appreciate your appearance and your contributions to the record.

If there is nothing further, you are excused.

[Witness excused.]

CHAIRMAN GLEIMAN: Our next witness is Carl G. Degen, who is already under oath. I'll give everybody a moment or two to shuffle around here.

The witness is appearing in response to my request. He will be responding to questions concerning the MODS system generally and concerning Library References H-220 and H-236 specifically.

Before we proceed though, I just want to mention one matter of general interest and importance.

We received a response dated December 9th to Presiding Officer's Information Request Number 7. It is characterized as Statement of Position of the United States Postal Service Concerning POIR Number 7.

Toward the end of the first paragraph in that

statement of position, the Postal Service says that it feels compelled to comment on several questions, that -- if I may paraphrase it -- it feels that a number of the questions went well beyond what is reasonably required of the Postal Service and its witnesses, and now I will quote, "in terms of the burden of producing the information and in terms of necessitating that a witness sponsor work with which he or she clearly disagrees".

Let me just say for the record that this appears to be a new standard that the Postal Service, a new position that the Postal Service has taken with respect to its witnesses, and I must tell you that if this is the standard with which we are going to have to live, it is my plan to recall each and every Postal Service witness in the direct case who during his or her testimony attested to the fact under oath that he or she had an artificial restriction or condition imposed upon him or her as the witness developed his testimony.

Specifically I recall a number of pricing witnesses indicating that they developed their rates after being told that they had an upper limit that they could not exceed. In some cases as I recall it was 10 percent. In some cases it may have been 12 percent.

So, quite frankly, it is not altogether clear to me that any Postal Service witness who had an artificial

restriction or condition imposed upon them was giving us testimony, was sponsoring testimony that he or she clearly agreed with.

Now if this is the standard that the Postal Service wishes us to live with, that we can't ask questions of a witness if the response requires the witness to provide something that they might not agree with, then so be it. I am prepared to move along in the same manner with respect to all testimony that has been provided to date.

I would respectfully request, counsel, that you go back, that you rethink the response, and that you let us know whether this is really the standard that the United States Postal Service wants to have us live by in these proceedings. Okay?

Now as I understand it, no participant has filed written cross examination for Witness Degen and no participant has indicated that they wish to cross examine the witness today.

Is that in fact the case? Is there anyone here who wishes to have designated written cross or oral cross examination of the witness?

[No response.]

CHAIRMAN GLEIMAN: If not, then I am going to proceed with questions from the bench.

MR. KOETTING: Mr. Chairman, I don't know whether

this would overlap with your questions. At one point I remember seeing something in which there was some mention of the qualifications of the witness could be developed during direct examination.

We were simply going to ask Mr. Degen I suppose what you would call a rather open-ended question in terms of his familiarity with the Inspection Service audits in question.

If that is ground you are going to cover, that's fine, or we can do it however you prefer to proceed.

CHAIRMAN GLEIMAN: I am planning to cover that ground. Thank you.

Whereupon,

CARL G. DEGEN,

a witness, was called for examination by counsel for the United States Postal Service and, having been previously duly sworn, was examined and testified as follows:

CHAIRMAN GLEIMAN: For simplicity in identifying the Inspection Service Audit reports that you are here to discuss, could we agree to refer to Library Reference H-220, the National Coordination Audit Mail Volume Measurement and Reporting Systems and the operations of MODS as the "volume audit" and refer to Library Reference H-236, the National Coordination Audit Allied Work Hours and the operation of MODS as the "work hours audit"?

THE WITNESS: That would be fine.

CHAIRMAN GLEIMAN: Okay. Since you have been designated by the Postal Service as the witness for these two inspection audits, could you please describe your qualifications for this role?

In particular, were you personally involved in either audit and, if so, in what capacity?

THE WITNESS: I was not personally involved in either audit. I first became aware of the work hours audit approximately a year ago. It was brought to our attention because obviously the new costing methodology is very dependent on MODS.

When it was brought to my attention, we read the report -- that is myself and my associates. We followed up by contacting George Yuen -- that is Y-u-e-n -- who is the Inspection Service Team Leader headquartered in Denver.

We requested from him the machine readable data set regarding the audit of the clocking, of how people clocked into MODS operations.

Based on our review of the report and our review of the data set that was provided to us, we determined that the conclusions of the report did not detract from our use of MODS data in the costing system.

CHAIRMAN GLEIMAN: We will get to that in a little bit.

THE WITNESS: Okay.

CHAIRMAN GLEIMAN: Right now we are talking about your qualifications to be an expert on these two Inspection Service reports.

THE WITNESS: Okay. I am not done yet. Okay, so at that point we didn't do any further work on it.

When the work hours audit became an issue in the written interrogatories, two of my associates, Leslie Schenk and Terry Schoenherr, went to Denver, met with Mr. Yuen, and looked through the hard copy files, again, you know, learning more about the data that were collected, how they were collected, why they were collected, and then finally in preparation for this appearance, Leslie Schenk, my associate, and myself met with Mr. Yuen here in Washington and again went through the files to learn as much as we could about the report, the available data and how they were collected.

CHAIRMAN GLEIMAN: Why -- I'm sorry. I didn't mean to interrupt you.

Are you finished?

THE WITNESS: I am finished with respect to the work hours audit.

CHAIRMAN GLEIMAN: Okay.

THE WITNESS: With respect to the volume audit, boy, I probably became aware of that at approximately the

same time, but did not really pursue the report inasmuch as when it talks about the MODS system, it talks about FHP only.

I, in anticipation of this appearance, met with Larry Algood, the team leader who conducted that report and undertook to understand why it was done, how it was done, and what conclusions were reached -- and that is everything I have done with respect to these two MODS audits.

CHAIRMAN GLEIMAN: Then I understand correctly that neither you nor any of your associates participated in any of the site visits?

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: Do I understand correctly from what you said, however, that you did review the data sets for the individual site visits?

THE WITNESS: Yes, that's correct.

CHAIRMAN GLEIMAN: And not just the summary data?

THE WITNESS: No, we actually looked at hard copy documents that had the handwritten notations of the inspectors who did the site visits.

CHAIRMAN GLEIMAN: Well, I would like to ask you some questions about the methodologies used in the audit reports.

First, some questions about the volume audit.

For the volume audit the Inspection Service

selected for examination two processing and distribution centers for each of the 10 postal areas for a total of 20 audit sites.

The two selected have the highest first handling piece sort, FHP, volume in the postal area. Is this correct? Is that your understanding?

THE WITNESS: That is my understanding.

CHAIRMAN GLEIMAN: Do you agree with Witness Moden's response to Interrogatory OCA/USPS-T-10(f) that, and I quote, "the activities performed at those sites" -- here we are talking about the 20 sites -- "are generally representative of the activities at other MODS sites"?

THE WITNESS: That statement is pretty general, and so I am not sure exactly what Mr. Moden was saying there.

If by "activities" you mean the basic mail processing functions, I would tend to agree.

I would say it has been my experience that with respect to things like data collection problems or management type issues that they tend to be more problems in the bigger facilities -- I mean bigger is generally more complicated, more hard to manage, and so when he uses the word "activities" I don't know how broadly he intends to apply that.

CHAIRMAN GLEIMAN: So if we're talking about the

basic mail processing functions, then you would tend to agree with him. If it is something else, for example, the nature and extent of problems, you would be inclined to disagree with him.

THE WITNESS: Let me qualify that one bit more. Bigger facilities tend to play different roles in the Postal Service network, with respect to, for instance, is a facility an area distribution center. And so, on average, larger facilities are more likely to have the full range of schemes. They are more likely to have automation, you know. So the nature of the individual postal processing operations would be the same, but the same of operations you would see in a larger facility could be different than you would see in a smaller facility.

But, otherwise, I think my answer was yes to your question.

CHAIRMAN GLEIMAN: Approximately what percentage of the total mail volume handled by MODS facilities is handled by the 20 facilities that were selected for the audit volume -- the volume audit, excuse me?

THE WITNESS: I haven't done that calculation.

CHAIRMAN GLEIMAN: Would you hazard a guess at it, remembering that, in effect, they selected the largest in each of the ten regions? Do you think it is 20 percent or more?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Do you think it is 30 percent or more?

THE WITNESS: Very possibly.

CHAIRMAN GLEIMAN: Could you describe in detail how the volume audit was conducted at each of the sites addressing items such as the time of the year that the site visits were conducted, the duration of the site visits and the total audit, the number of -- I'll go through these again, and you can respond to each one. The number of Inspection Service auditors involved at each facility? What operations were examined? So on.

Let's start at the top. The time of the year of site visits. We are talking, again, about the volume audit now.

THE WITNESS: Yeah. I don't know that, I'm sorry.

CHAIRMAN GLEIMAN: Do you know the duration of the site visits and of the total audit?

THE WITNESS: I believe it was a week at each site.

CHAIRMAN GLEIMAN: And do you know whether there were sub-units that were at different sites at the same time, or whether, if it was a week at each site, it amounts to a period of 40 weeks consecutively over time? I mean what are we talking about here in terms of --

THE WITNESS: There were multiple field inspectors so that the sites were visited simultaneously.

CHAIRMAN GLEIMAN: So we don't know whether it was 40 groups going out all in one week, or whether it was five groups going out in a period of eight weeks, or whether there were hiatuses between visits or anything? We just don't know that at this point?

THE WITNESS: I think it was more like ten groups going for a week at each of the facilities in an area.

CHAIRMAN GLEIMAN: Do you know the number of Inspection Service auditors that were involved at each facility, and in total?

THE WITNESS: No, I don't.

CHAIRMAN GLEIMAN: But you think there were somewhere on the order of ten groups?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: What operations were examined?

THE WITNESS: With respect to FHP, and I am just talking about the MODS portion of this workload audit now, they were particularly focusing on those operations where mail was being weighed into -- was being weighed for conversion to FHP. And that would be the majority of operations.

CHAIRMAN GLEIMAN: So they were going the same thing for -- they were doing the same thing to mail that

would go into a manual operation, or mail that would go into an automated operation, or mail that would go into a mechanical operation, or did they treat these types of mail differently, in what I understand you to say is the one area that they focused on?

THE WITNESS: I think they treated them the same with respect to looking at how the operation was either weigh-converting, or, in one case, there was a practice of counting trays and doing a tray to piece conversion. And with that regard, I believe they treated them the same.

CHAIRMAN GLEIMAN: Can you describe to me how the data were collected for the different types of operations, manual, automated and mechanical operations?

THE WITNESS: The data collected by the inspectors or in the normal course of MODS data collection?

CHAIRMAN GLEIMAN: How the data was collected by the inspectors who were doing the field audit?

THE WITNESS: The way the MODS data are basically collected is there are scale locations at which mail is weighed in and then those weight data are collected and converted to piece counts. My understanding is that the inspectors monitored those locations and replicated -- not replicated, but as the mail was being weighed in, then counted the mail from some selected sample.

CHAIRMAN GLEIMAN: What was the involvement of

site personnel in this process, and to what extent were they aware in advance that an audit would occur?

THE WITNESS: I believe they were aware that the audit personnel were going to be there, but it's my understanding that they were not involved in the physical counting of the data or the selection of the trays or containers to be sampled.

CHAIRMAN GLEIMAN: Do you know what shapes of mail were examined?

THE WITNESS: I think it was primarily letters, but I'm not sure.

CHAIRMAN GLEIMAN: Do you have a sense of what percentage of the mail was actually audited during the examination by these teams?

THE WITNESS: A relatively small percentage. I don't know the exact percentages, but in particular with respect to the tray example that they write up in the report, it's going to be a relatively small portion of the daily volume. And just from my own experience, I mean, it would be physically unable -- you would be physically unable to count more than a small fraction of the mail passing through a facility in an evening.

CHAIRMAN GLEIMAN: Did they do the same work in effect each day of the week that they were there, or did they change techniques from one day to another?

THE WITNESS: During the course of the week they were at the facility I think they were looking at different workload measurement systems, so I think the MODS portion only took one of the days in each facility, and I --

CHAIRMAN GLEIMAN: And --

THE WITNESS: Go ahead.

CHAIRMAN GLEIMAN: I'm sorry. I didn't mean to interrupt you.

THE WITNESS: And I think that that day varied depending on which site they were at.

CHAIRMAN GLEIMAN: Do you know what sampling techniques were used to select the portion of the mail that was in fact sampled for the audit?

THE WITNESS: No, I don't.

CHAIRMAN GLEIMAN: Did each of the 20 facilities in the volume audit have a weight measurement system in use that was examined by the Inspection Service auditors?

THE WITNESS: Yes, I believe they did.

CHAIRMAN GLEIMAN: Well, you have a copy of the volume audit with you?

THE WITNESS: Yes, I do.

CHAIRMAN GLEIMAN: On the top of page 9 of the volume audit it states that at one of the sites -- one site, audited site, developed estimates of FHP mail volumes by counting trays and multiplying by a conversion factor, and I

was wondering whether you know whether this facility also had a weight measurement system to estimate the FHP.

THE WITNESS: I'm not aware of any facility that doesn't have a weight measurement system, even though they're using tray conversions here for their letter mail. I'm nearly certain that they're weighing some portion of their FHP.

CHAIRMAN GLEIMAN: Now that we know that everybody's got a weight measurement system, let's flip the question around, and how many of the facilities in the study, in the audit, have tray-measurement systems such as the one that I just mentioned that's discussed on page 9 of the report?

THE WITNESS: My understanding is that that's the only facility that was discovered to have a weight -- or a tray-based FHP measurement system. I don't know how widespread tray conversion is in the universe. Although let me add to that this is -- when I read this report it was the first time I was aware that anybody was doing a tray-based FHP calculation. It's not standard practice, and I wouldn't expect it to be widespread.

CHAIRMAN GLEIMAN: Are you aware of any other complementary systems to the weight system that are being used in the field?

THE WITNESS: No. Other than this.

CHAIRMAN GLEIMAN: Now let's turn to the methodology of the work hours audit for a moment. Could you describe the process by which the 25 audited facilities were selected for the work hours audit?

THE WITNESS: My understanding -- I think there were 25 or 26 selected facilities. That is composed of two groups. The five or six facilities were chosen because they were facilities that were focusing on the management of allied work hours or they were facilities who were candidates for tray management system because of what was believed to be high levels of allied work hours. So I would characterize those as the problem facilities.

The remaining 20 sites were chosen two from each area, and my understanding is that within each area the possible plants were stratified with respect to having a high proportion of allied work hours, a medium proportion of allied work hours, and a low proportion. I don't know the exact cut points for those strata. And that within each of those, each of those areas, at least one -- or one high facility was chosen, and then either a medium or small. But with respect to choosing from each of those strata there was a bias toward choosing larger facilities, in that they wanted to look at facilities that had large amounts of -- excuse me, they wanted to look at large facilities, and I believe FHP was their measure of size of facility.

CHAIRMAN GLEIMAN: Are you suggesting then that the 25 sites selected or at least the 20 that were the -- let's call it the nonproblem sites -- are not representative of the activities at other MODS sites?

THE WITNESS: I think this would go back to our earlier discussion in terms of are they representative or not. This particular audit, I mean the title is "Allied Work Hours," but, in fact, the audit was of opening units. Opening units, by their nature, are somewhat spread out within a facility, and so I would expect that a larger facility would have a more complex and more difficult to manage opening unit.

So, again, as our earlier discussion went, I think they would be typical in that opening units do what opening units do. Would they be representative in terms of the identification of problems, I really don't think so. I think the larger facilities are going to be much more prone to management problems in the opening unit.

CHAIRMAN GLEIMAN: Approximately what percentage of the annual mail volume handled by MODS facilities was handled by the 25 that were part of this -- part of this work hour audit?

THE WITNESS: I haven't done that calculation.

CHAIRMAN GLEIMAN: Would you guess that it is on the same order as the volume audit?

THE WITNESS: Maybe even a little more.

CHAIRMAN GLEIMAN: In response to Time-Warner/USPS-12-35, you stated that "The work hours audit was not undertaken as a statistically unbiased sample of the misstatement of MODS hours. Witness Meden stated, in response to Time-Warner/USPS-T-4-30(a), that, and I quote, 'I believe that the sites chosen by the Inspection Service were not selected randomly, but rather were chosen because they were likely to exhibit the conditions found in the report.'"

Now, beyond the fact that -- or information that you provided in response to an earlier question, that five of the 20 sites were problem sites, what evidence is there to support the proposition that these are not a representative or statistically unbiased sample? I thought I understood you, for example, when you discussed stratification, to lean in the direction of indicating that, you know, there was a lack of bias in the sample selection.

THE WITNESS: Yeah, I think maybe I wasn't making myself clear. I think there is a definite bias in the way the sites were chosen, inasmuch as I think size is correlated with errors with respect to opening unit management.

And let me also point out -- well, within the high, medium and low strata, there was a definite bias

toward picking bigger sites within each of those. But, further, the high, medium and low strata were not always represented. A high strata was chosen and then either a small or a medium.

Further, the results were in no way weighted up to reflect the presence of high, medium and low in the population, you know. Stratification is something statisticians do to improve efficiency, but it is really a two-step process. You separate the sample into meaningful groups, sample from them independently, but then in reporting the results, it is necessary to apply the relative weights of each group to the results from that group, and that step is noticeably absent from the MODS audit results.

Further, with respect to my conversations with Mr. Yuen, he stated to me very clearly that the intent was not to produce a national estimate, but they definitely wanted to identify problems, and, to the extent they were calculating an error rate, their intention was to demonstrate that this is an important problem, that it is a material problem. And so by focusing on big facilities, finding problems in big facilities, they could get the attention of the Postal Service and say this is a serious problem. But he made it very clear to me that there was no intention to estimate a national error rate.

CHAIRMAN GLEIMAN: Well, this is really

interesting now, and I must tell you that I am going to depart from prepared questions here for a moment. I must say that I don't think I am confused, but I think that what you are saying to us is confusing and confused.

You pick -- you said that with large sites, in the case of both the volume and the work hour audits, you have got a situation where there is likely to be more problems because of the nature of management at a large site. Large sites are large because they have larger volume than small sites.

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: And we know that they picked large sites in both audits, large volume sites in both audits. Then you tell me that the gentleman from the Inspection Service said it wasn't his intention to try and establish that there was a nationwide problem. But, in effect, by telling me that large sites have more problems because of the nature of the sites, and by telling me that large sites -- agreeing with me that large sites are sites that have more volume, and that's why they are large, and looking at the percentage of total mail in the system that were reviewed, which is 30 percent, perhaps more, in both of these audits, it is difficult for me to understand how you can reach the conclusion that the reports say that there is -- you can draw the conclusion from the reports that there

is not a problem on a nationwide basis that affects the system as a whole.

I don't know if you could care to try and respond to my rambling comments. But if you want to take a shot at it, go right ahead. But --

THE WITNESS: Sure. I didn't find them rambling, and I think I can identify where the key difference is.

What I said was the -- the audit was not undertaken to estimate a nationwide error rate. That is, the 31 percent number they report should not be viewed as the average misclocking for the nation as a whole.

CHAIRMAN GLEIMAN: Can I interrupt you there?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: I will submit, for purposes of our discussion, that it wasn't undertaken for that purpose. But the facts as presented by you do not preclude one from drawing the conclusion that, indeed, there is a nationwide problem. The fact that somebody undertook a study for one purpose and that the significant amounts of mail involved are such that you can draw conclusions other than what the party who designed the study intended for you to draw in the first place. Any good scientist knows that you find things out when you do experiments that are not necessarily what you set out to find in the beginning, and I think that that may be what we have here.

THE WITNESS: Well, again, I think we are still not on the same wavelength. I do not deny that there is a nationwide problem. I believe the audit demonstrates there is a nationwide problem with respect to management of opening units.

What I wanted to be very clear about was that, in terms of estimating what the average nationwide error rate is, the 31 percent is not the right way to do that, because of the sample. But I will readily admit, and I think it is very clear, that it indicates there is a nationwide problem, and I believe that was the intention of the Inspection Service, to demonstrate there was a problem, it was widespread and it was important, and I think it achieved all of those things.

I am just drawing the line at saying the average misclocking rate for the country is 31 percent. That's -- that's where I want to draw the line. So I don't think we are -- I think we are saying the same thing.

CHAIRMAN GLEIMAN: Well, I am glad we are in agreement then on some things, and we will discuss the, you know, the average nationwide error rate in a bit.

Could you describe how the work hours audit was conducted? And the questions are similar to those that I asked you about the volume audit. Do you have a sense of what time of the year the studies, the site visits were

conducted, and the duration? You know, the total time frame in which this was done, the number of Inspection Service auditors that were used, or teams, at each facility and in total? Whether the operations were examined by the auditors? How they collected the data and whether site personnel were involved and were aware in advance?

THE WITNESS: Okay. I believe the period of the audit was between February and April of 1996. The procedure was four sites were chosen for initial visits. Let me check that. And at those visits, you know, the methodology was essentially tested. And then the remaining sites were visited by teams of -- I believe there were eight to ten teams. I am not sure if there was one for each area, or whether there was a little doubling up. And at each site, the inspectors spent approximately a week.

With respect to the clocking portion of the audit, I think the report calls it the Time and Attendance portion, at least, in each site, they tried to sample during each of the three tours. So, probably, you know, on three days during the week, they looked at one of the tours.

The basic methodology was to go to the Time and Attendance computer system, get a listing of the people who were clocked into the opening unit operations, and, again, they got these listings at the three digit operation level, but anything in the -- I think it is the 110 to 119 and 180

to 189 range is considered opening units. So they go to Time and Attendance, they get a listing of which of those units are defined for this particular plant and who is supposed to be clocked into them.

Then the inspectors physically went to the main location in that opening unit and, with the aid of the supervisor, identified each of the individuals on the list, and either physically identified them as working in that opening unit or found out where they were working and identified them as working somewhere else.

Further, if they encountered anyone in that opening unit who was working there but was not on their list, they attempted to identify where that employee was clocked, if it was other than the opening unit.

CHAIRMAN GLEIMAN: Let's talk about the conversion factors and the first handling pieces and the total pieces handled -- total piece handlings, for a bit. Could you describe the MODS scale weight system, the SWS, addressing how and when the weight conversion factors were developed?

THE WITNESS: Oh, boy. Once upon a time, and I am not sure when --

CHAIRMAN GLEIMAN: This doesn't go as far back as those 1972 studies that we have been presented with in other parts of this case, does it?

THE WITNESS: I don't think so. I think sometime

in the last 10 years or so, a study was done to develop weight-piece conversions by source code type -- source type code. The scale weight system, when you weigh mail into that system, you are asked to identify what kind of mail it is. And when I say kind of mail, I am talking about dimensions like shape, and where it is coming from. Is it collection mail? Is it mail that was -- couldn't be handled on the LSM and was going to manual?

There's -- there's approximately two -- well, they're two digits codes so there aren't more than 100, but I am guessing there are 60 to 70 source type codes, and I believe those are defined in the M-32 manual that is a Library Reference in this case, but I don't know which one it is. But for each of those source type codes, at some point in the past a weight conversion factor was estimated. And my understanding is those are standard weight conversion factors that were deployed throughout the country.

Over the years of working with MODS data, it has been my understanding that Headquarters, with appropriate demonstration on the part of a local office, would allow a local office to change those source type conversion factors if a particular office could show that it did a study and its mail differed from the national norms.

So, in any particular office, you may have what were the original conversion factors that were nationally

deployed, or if you had an office that showed some initiative and updated them, you may have newer conversion factors.

CHAIRMAN GLEIMAN: Do you know how many times and at what times Headquarters may have approved changes in conversion factors, and what percentages of mail may be -- may have been impacted by this establishment of I guess what you would call local conversion factors?

THE WITNESS: No, I am not aware of that.

CHAIRMAN GLEIMAN: Counsel, do you know whether this information is available?

MR. KOETTING: I would doubt that it is available in any quantitative fashion. We might be able --

CHAIRMAN GLEIMAN: I am not asking about quantitative. I am asking about collected in one place. You know, you have presented us with data that is supposed to represent a national system, and we will get into this a little bit more, but now I am -- I am kind of thrown for a loop in what my understanding of all this is, because I would submit that the audit error rate, whether it is 30 percent or 50 percent, or whatever, might be on target given the facilities, the large facilities and the significant percentages of mail that were looked at, those error rates might be more correct than not.

But I don't know that now. And I submit that

perhaps our witness doesn't know that now either, because we don't know how -- he can't say whether it is correct or incorrect because we have got a whole bunch of individual, for different types of mail in different parts of the country, for -- we don't know from when till when -- conversion factors that may be in use. And I am kind of stymied about this.

THE WITNESS: Could I -- could I add a little more here?

CHAIRMAN GLEIMAN: You sure can. Anything to help me understand better.

THE WITNESS: I think the use of local conversion factors is very limited. I mean I have not encountered many instances of it myself, so I think it is relatively small.

And I would emphasize that it is primarily an issue with respect to FHP and not TPH. So, you know, the reliability of FHP is -- I mean you are saying you think there may be high error rates there, and I would not necessarily disagree with that.

CHAIRMAN GLEIMAN: Well, I want to take a break to think this through for a minute. But, you know, now I am presented with a situation where the manager of a facility comes to Headquarters and says my mail is different than the mail in the rest of the country. And I want to have a different conversion factor that I want to apply. And you

tell me in the way of trying to address my concerns about the implications of this for the broader picture that these local changes are probably involving small amounts of mail relatively speaking.

I would submit to you that the smaller facilities in the country are probably the facilities that have mail from, you know, a cross-sectional characteristics standpoint that are more like the system as a whole than a place like wherever it is out in Tennessee or Kentucky that Fidelity puts my statements in the mail from. Now that's a small facility, and if they asked for, you know -- are they the ones that asked for something? I mean, you know, there are these -- did they ask for it? Did New York City ask for it? Did small towns ask for it? Who and where were these things changed? Is there a town out in the Midwest that's near a big magazine concern that asked for a change? Do we know that?

You know, I -- I'd like to take about 15 minutes now and just kind of sit back and think a little bit about the other questions I wanted to ask you and whether I want to revise some of those questions, but -- and also think about what you said so far. So --

THE WITNESS: Can I add one more thing for you to think about as you go?

CHAIRMAN GLEIMAN: Well, I'm liable to want 20

minutes then, but go ahead.

THE WITNESS: We would be able to go into the scale transactions data and identify where there are different weight conversion factors where they have been changed, and so that's definitely doable.

The second thing I would ask you to think about is that, you know, First Bank South Dakota or your Fidelity statement out of outside of Cincinnati, that would be the kind of case where you might want to change weight conversion factors because the mail flowing into those facilities is special and very different than the national average.

And thirdly I'd like to say that it's my understanding that in order to do this a local office has to do more than request it, they have to actually demonstrate that they are a special case and there are reasons to believe that they should be different and studies that support their proposed different number.

CHAIRMAN GLEIMAN: Well, I didn't mean to suggest that, you know, people change things just because somebody down the line says hey, I don't like that number, I want to, you know, move the decimal point or change the digit to something else. I understand that, and I appreciate what you said. But we don't know where changes were made, and we don't know how many changes were made, at least at this

point, although you say that data can be retrieved, and even if you can retrieve the data, we don't know when the changes -- how long the changes have been in effect unless the system that you're talking about also clocks that information.

But let me take a break here for 15 minutes. We'll come back at 25 of the hour.

THE WITNESS: Okay.

CHAIRMAN GLEIMAN: And I get to mull some of this over a little bit.

Thank you.

[Recess.]

CHAIRMAN GLEIMAN: Shall we try and get back on track here? Let me hit the buzzer here so that my colleagues know that we're back in.

I just want to make sure I understand these conversion factors. They've been around for a while. Maybe not 1972, but you said 10 years or so or something like that, on that order?

THE WITNESS: Yeah, that's a certain amount of speculation on my part. It's been a while.

If I may, Mr. Chairman, I took the opportunity of the break to refresh my memory as to when the workload audit was done, and it was done between March and May of '96. It's right there on page 1. I should have had that at my

fingertips, but I didn't. I'm sorry.

CHAIRMAN GLEIMAN: Thank you.

Could you please define the term "first handling piece" as used in the mail volume audit report. In that report FHP counts calculated for the entire facility or from specific operations and how they were measured.

THE WITNESS: Yes. The report I believe uses FHP the same way that the MODS system defines it. FHP stands for "first handled piece," and the essential concept in understanding it is that when a piece enters a facility it's handled many times, and the concept of first handled piece is to measure the pieces that come into a facility only once. So in particular, of mail flowing to an LSM for instance, some of that mail may have come from an OCR and already been handled. That would not be considered first handled pieces. But to the -- the first handled pieces on a particular operation are those pieces that are being handled in that operation and have not been handled in any other piece-based operation within the plant.

CHAIRMAN GLEIMAN: In the report then is it reasonable to assume that the FHP counts were developed for specific operations rather than on an entire facility?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: And how were they measured? I know it's look at number of pieces, but then what do you do

after that?

THE WITNESS: Well, I believe the way the workload audit report looked at the FHP was to for some portion of FHPs, that is, when you see a container being weighed into a source-type code that will be FHP for a particular operation, they would then physically count the pieces in that container and compare that to what you would have gotten if you'd converted the weight of that container, and from that estimate an error rate. But I don't believe there was any attempt to count all the first handled pieces in a particular plant for a particular tour.

CHAIRMAN GLEIMAN: During cross-examination of Witness Bradley, questions were raised from the bench regarding FHP data availability. In response to those questions the Postal Service filed Library Reference H-307, which provides FHP data for several mail processing activities.

As the person who's been designated to respond to questions on MODS, could you define what the FHP data in Library Reference H-307 measure, how the data were developed, and how they differ from the FHP data that were examined in the volume audit report?

THE WITNESS: My understanding is that the FHP data in those library references would have been obtained from the corporate data base which contains files that

collect -- that report FHP totals by accounting period, by a unit they call Reg PO, which is basically a MODS office. Comparing this to the FHP audit report -- excuse me, the workload audit, in the workload audit they would have been looking at a very small subset of the total FHP reported in the corporate data base and in the library reference that was filed.

CHAIRMAN GLEIMAN: Could you define the "total piece handlings" term as used by Witness Bradley and identify how it is measured for the various MODS cost pools defined in your testimony?

THE WITNESS: Yes. Total piece handlings, unlike first handled pieces, counts each time a piece is handled. So if a piece comes from another post office and it's essentially at a three-digit level and it's sorted to a five-digit level, that's counted as one handling. If it's sorted again to the carrier route, it's counted as another handling. So TPH is basically the successful sortation of a piece in a particular scheme.

CHAIRMAN GLEIMAN: What do you mean by the word "counts"?

THE WITNESS: TPH -- I mean TPH is a volume-based number.

It's reported in terms of number of handlings and so each --

CHAIRMAN GLEIMAN: I'm sorry. Maybe I wasn't clear enough.

You used the term "it counts" -- the phrase you used was "it counts" each time a piece is handled.

We know, you know, that there is something that is done on the first handled piece, that there is some way to look at it and there is some way to convert it.

Is there a specific way to look at the total pieces? I mean is there -- is there actually a data collection system all the way through the process at each step?

THE WITNESS: With the exception of things like manual letters, which I believe are based on conversions of weight and estimated subsequent handlings of pieces, the TPH numbers are physically obtained from the counters on the machines, so if you are talking about an LSM or an OCR or BCS, those machines all generate end of run reports that say how many pieces have been run through the machine.

A TPH or Total Piece Handlings would be the number of pieces that were fed into the machine minus any rejects or unsuccessful reads.

In manual letters, it relies on conversion from weight conversions to get at total pieces and also estimates of how many times a piece has to be handled to be finalized, so that is the primary difference.

CHAIRMAN GLEIMAN: So --

THE WITNESS: And I think the same is true in manual flats. In manual parcels the parcels are counted, physically counted.

CHAIRMAN GLEIMAN: Each time?

THE WITNESS: Each time.

CHAIRMAN GLEIMAN: Then for the manual flats and letters, let me make sure I understand you correctly, what is done there is you establish the first handling piece and then extrapolate in some way or another -- you know, the Postal Service has all these engineering studies and modelling and what have you, but they use something like that to develop the subsequent handlings so that you kind of have a formula that says total piece handlings equal first piece plus subsequent?

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: And subsequent is something that is not a real number except -- I mean it's not a real hard number. It's something that is modelled?

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: Except when you have parcels where it is a real number?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Okay.

THE WITNESS: And in your restatement of my

answer, you brought up an important point I need to clarify.

In the manual operation, volumes come from several places. To the extent that pieces are first handled in manual, the volumes will be estimated based on the weight.

To the extent pieces come to manual from other operations, where machine counts on the reject bin would be available, then that component of TPH ~~and~~ in manual will be based on machine counts.

CHAIRMAN GLEIMAN: In the manual operations then, first handling pieces is an important figure to come up with.

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: For the manual operations, are the following measures all developed from the same weight conversion factors -- the FHP examined in the audit report, the FHP given in Library Reference H-307, and the TPH used by Witness Bradley? -- and if not, you know, can you explain how they differ?

THE WITNESS: I would agree with that with the one exception that the portion that comes from other operations into manual is based on machine counts for TPH.

CHAIRMAN GLEIMAN: But they all use the same measures -- the audit report, the Library Reference, and Bradley, they are the same. They're weight conversion factors that have to be applied to come up with first

handled piece figures and what have you, right?

THE WITNESS: Yes. That is correct.

CHAIRMAN GLEIMAN: And the weight conversion factors used in all three cases were the same weight conversion factors?

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: Now in response to Interrogatory OCA/USPS-T-4-14, Witness Moden stated that he was informed that the weight conversion factor was last updated in 1986.

Your recollection is pretty fair. You know, would you like to narrow down or give us a firmer date on some 10 years or more ago?

THE WITNESS: I am happy to defer to Witness Moden that it was in 1986.

CHAIRMAN GLEIMAN: Could you describe how the local mail flow densities reference in Section 412.3 of the MODS manual -- that is Manual M-32 -- are calculated and how often they are updated, this is I think some of what we covered before, and how they are used to estimate TPH values.

THE WITNESS: Okay. I believe local mail flow densities in particular talks about the way within a particular plant mail flowing from one operation can be credited to the downstream operations, if you will.

I believe -- I don't think there are standard practices with respect to how often those need to be updated. I think it's a local discretion as to when they should be updated, but certainly they would need to be updated each time you had any significant changes in your mail processing technology mix -- if you install new machines or you change the flows of mail, those would need to be updated.

CHAIRMAN GLEIMAN: We've put together a chart from data that has been extracted from RPW that shows changes in weight per piece from 1986 to 1996, and I think there are copies of it on the table behind the Postal Service counsel, and -- thank you.

Commissioner Omas is providing you a copy.

I would like to mark this Presiding Officer's Cross Examination Exhibit 1 - Degan -- Degan, excuse me.

I thought I was going to go through the day without mispronouncing a name. It's not to be done.

[Exhibit PO-XE-1-Degan was marked for identification.]

CHAIRMAN GLEIMAN: The chart shows the percentage change by year for five subclasses of mail. The column on the right gives the cumulative change over the time, over the period from the last update of the weight conversion factor through '96 and the weight per piece increases by

11.7 percent for First Class letters, and 5.3 percent for regular rate Second, and 4.3 percent for Third Class regular or Standard A, and the weight per piece drops by 13 percent for Fourth Class Parcel Post with Standard B, and 6.4 percent for bound printed matter.

Subject to check on these RPW changes in weight, would you agree that the weight conversion factors may be obsolete?

THE WITNESS: No.

CHAIRMAN GLEIMAN: And can you explain to me in light of the fact that there have been significant changes in weight over time, the weight per piece over time, how it is that factors established more than 10 years ago may not be a little bit off the mark at this point in time?

THE WITNESS: Well, I am willing to concede that the data should probably be updated, but these data do not indicate that there has to be a problem, and I will explain why.

Let's just imagine that --

CHAIRMAN GLEIMAN: Before you start in, I am going to let you give your explanation, I just want to make sure I understood your lead-in, why there doesn't need to be a problem, but you are not going to tell me that what you are going to tell me now is not conclusive and that there can't be a problem. You are going to tell me why there might not

be a problem?

THE WITNESS: Right. Really what I am going to say is that this doesn't demonstrate that there is a problem, but I can't say for sure that they shouldn't be updated.

CHAIRMAN GLEIMAN: And what you are going to tell me is not going to prove that there is not a problem?

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: Okay. Now explain to me why you think there is not a problem.

THE WITNESS: Well, the weight conversion factors are by source type, as I indicated earlier.

What you are showing me here are aggregates for an entire class.

CHAIRMAN GLEIMAN: Subclass.

THE WITNESS: Subclass. Right. Three of them are classes and -- oh, no, sorry. There are some subclasses here.

But let's just say for argument in First Class letters, let's say there's two kinds of letters. There's collection mail and there's presort.

Those would be different source types in the MODS system and would have different weight conversion factors, so the fact that you have observed change in weight over time could simply reflect the changing mix within First

Class of those two kinds of mail.

Even within the subclass example, for instance, the second group, Second Class regular rate, source type is going to be by shape as well, and so the fact that you observe a decline in the average weight could reflect a greater proportion of letters in that subclass and therefore a lowering of the average rate even though this would still allow the fact that the conversion factor by source type would not need updating.

CHAIRMAN GLEIMAN: You will have to help me here.

I apologize. I got distracted for a moment there and I guess I missed something. You were talking about First Class letters?

THE WITNESS: Correct.

CHAIRMAN GLEIMAN: And I heard you say something about a change in the percentage of letters in First Class letters?

THE WITNESS: No. When I talked about letters I was talking about the mix between collection mail and presort.

When I talked about Second Class I was talking about the mix between letters and flats.

CHAIRMAN GLEIMAN: Okay. Do you know whether there has been a shift in the percentages over the years in collection mail, and if so when those shifts took place and

what they might have been?

THE WITNESS: No, I don't really off the top of my head.

CHAIRMAN GLEIMAN: Let me ask you in terms of First Class letters, in trying to understand the Postal Service's financial situation since the R-94 rates went into effect in January of '95 we have been looking at -- from time to time we look at the weight per piece, revenue per piece, and we have noticed changes in weight per piece over a very short period of time.

Are you suggesting to me that changes that we may have seen from one year to another that appear to be significant might be due to changes in the amount of collection mail versus other ways mail gets into the system?

THE WITNESS: I am saying that is possible.

CHAIRMAN GLEIMAN: But you are not aware that there is any?

THE WITNESS: No.

CHAIRMAN GLEIMAN: Thank you. Are you --

THE WITNESS: Well, I would just add one more comment.

Even if you were able to look at the mix within letters of collection versus presort, the source type codes used in the MODS system are fairly detailed in terms of the flows from machine to machine, so in addition to a letter --

in addition to a shape element and sort of a presort-nonpresort element, one would also want to consider things like was the mail prebarcoded, was it machinable, because to the extent that what we are really seeing is just an underlying mix in source types, it may be that the conversion factors are still relevant.

CHAIRMAN GLEIMAN: A lot of things may be and a lot of things may not be. I guess we will just have to sort that out a little bit.

Before I move on, I would like to move the cross examination into evidence and ask that it be transcribed into the record, and I am going to provide copies to the Reporter.

[Exhibit PO-XE-1-Degen was received into evidence and transcribed into the record.]

PO-XE 1 - Degen

8286

Change in Weight per Piece
FY 1986 - FY 1996
(Ounces)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
First-Class Letters	0.6121	0.6250	0.6240	0.6254	0.6279	0.6328	0.6440	0.6642	0.6595	0.6712	0.6840
% change per year		2.1%	-0.2%	0.2%	0.4%	0.8%	1.8%	3.1%	-0.7%	1.8%	1.9%
% change cumulative											11.7%
Second Class Regular Rate	7.0748	7.3725	7.4501	7.5988	7.4694	7.0792	6.8933	7.2235	7.2747	7.5721	7.4466
% change per year		4.2%	1.1%	2.0%	-1.7%	-5.2%	-2.6%	4.8%	0.7%	4.1%	-1.7%
% change cumulative											5.3%
Third Class Bulk Regular	2.1096	2.1098	2.1450	2.0833	2.0975	2.0829	1.9912	2.1273	2.2144	2.2833	2.2006
% change per year		0.0%	1.7%	-2.9%	0.7%	-0.7%	-4.4%	6.8%	4.1%	3.1%	-3.6%
% change cumulative											4.3%
Fourth Class:											
Parcel Post	94.5919	93.6558	90.8680	100.9881	91.3326	84.3039	89.6939	85.9817	86.0638	83.9726	82.3154
% change per year		-1.0%	-3.0%	11.1%	-9.6%	-7.7%	6.4%	-4.1%	0.1%	-2.4%	-2.0%
% change cumulative											-13.0%
Bound Printed Matter	40.7981	39.4090	40.6104	41.1264	41.5488	40.4249	41.8029	39.3752	37.1846	38.9482	38.1715
% change per year		-3.4%	3.0%	1.3%	1.0%	-2.7%	3.4%	-5.8%	-5.6%	4.7%	-2.0%
% change cumulative											-6.4%

CHAIRMAN GLEIMAN: I have a sense of what your answer is going to be but I am going to ask you anyway. Would you agree that for First Class letters, Second Class regular rate, and Third Class bulk regular that the use of the '86 conversion factors may misstate FHP for both facilities and for individual mail processing operations?

THE WITNESS: I would agree with the qualification that it -- heavy emphasis on the "may" -- and also no information here with respect to the extent or significance of any such misstatement.

CHAIRMAN GLEIMAN: To the extent that FHP is misstated as a consequence of using the 1986 conversion factors, would you then agree that for first class letters, second class regular rate and third class bulk regular, that the THP -- excuse me -- the TPH for all operations that depend on weight conversion might be misstated?

THE WITNESS: Again, heavy emphasis on the "might" and just the additional note that, overall, TPH is much less dependent on weight conversions than FHP, and so, to what extent this was a problem with FHP, we would expect it to be a significantly lower problem in TPH.

CHAIRMAN GLEIMAN: So then what you are saying to me is that, with respect to TPH, that garbage in equals less garbage out, in effect?

THE WITNESS: No. I think characterizing somewhat

outdated conversion factors is a long way from -- as garbage is not appropriate.

CHAIRMAN GLEIMAN: Well, then -- then let me restate it since you find those terms objectionable. What you are saying to me then is that, because there is a formula that says TPH equals FHP plus subsequent piece handlings, that the error that may exist in FHP is mitigated somewhat by some extrapolation or engineering modeling and, therefore, the TPH figure may not be as far off the mark as the hard input figure was, the hard input figure being FPH.

In other words, the fudge factor, if you will, or -- that's a derogatory term and I shouldn't use. The non-modeling adjustment factor, if you will, cuts down somewhat on the error that might otherwise be caused by the input data.

THE WITNESS: Let's go back to the formula and start from there.

CHAIRMAN GLEIMAN: Okay.

THE WITNESS: The fact that TPH equals FHP plus SHP, subsequent handled pieces, is conceptually correct. It is not the way the data are measured with the exception of those operational groups that do not have machine counts. When I say that the possible error from outdated conversion factors is less of a problem in TPH, I am particularly saying that the problem is confined to those operational

groups that depend on weight. So, to that extent, it is less of an error.

Further, in the operational groups that depend on weight, such as manual letters, not all TPH is obtained that way, only the portion that can not be obtained from machine counts is obtained that way. So my statement that it is less of a problem for TPH has nothing to do with SHP mitigating whatever noise might exist in the data, it really has to do with the confinement of that problem to certain operational groups, and even within that group, the confinement of the problem to only those flows for which machine counts are not available.

CHAIRMAN GLEIMAN: Okay. Now, looking at that chart again, would you agree, subject to check, that there is a change between each intervening year except in one instance, that is '86 to '87, for third class bulk regular, and, thus, subject to check, of the numbers in the chart? Would you agree that any error arising from the use of obsolete conversion factors has not been consistent from year to year? Again, recognizing that you question whether the figures are obsolete. But assuming for the sake of discussion that they are.

THE WITNESS: No. And the reason is because the RPW is itself a sampling system that embodies a certain amount of random error and noise. So when you -- when you

chart average weight per piece from RPW, you don't know that the underlying weight per piece is in fact changing from year to year. And these -- these numbers look pretty small, and my guess is they are well within the confidence bound set on the RPW estimates.

CHAIRMAN GLEIMAN: I don't know, I think some of them are pretty significant, on the order of 2 and 4, and 6 and 7 percent in a given year, change from year to another. But, in effect, what you are saying is that you can't agree that the error has been inconsistent or that the errors have been different from -- may have been different from year to year because you don't know whether the data upon which all this is based is good data.

I am not talking now about the conversion factors, I am talking about the RPW. You are saying, well, I am not sure what the RPW says from year to year and it is a data collection system, and things happen in data collection systems, and, you know, we really can't make a judgement.

THE WITNESS: Well, I think the data are very good data. But I think the nature of the problem is that we can't do a complete accounting. And to the extent we have to do a statistical sample and collect very good data in the process, we are still left with the inherent variance that comes from a sampling system. And, so, you know, I can't agree to the characterization that these aren't good data.

But I just want to make it very clear, I think the MODS data are good as well. Both are going to have some variation in them. To the extent the MODS data are a complete accounting, I like them better. I mean they are -- they are going to have lower variance.

And I also want to be careful here, when you are talking about are these good data or bad data, I think it is all relative to the use to which you put them and how you use them. And, in particular, when Dr. Bradley uses these data, he includes time trends that allow for the obsolescence of conversion factors, or the fact that there might be a trend over time. And, so, when you work with these kind of data, if used appropriately, they can be very good data.

CHAIRMAN GLEIMAN: I just want to note at this point that, without going back and reviewing Witness Bradley's cross-examination on the record, that there were some questions about, you know, the nature of his time studies, the number of points in time, whether he was doing cross-sectional analyses or not, the extent to which what he portrayed as cross-sectional analyses were indeed cross-sectional analyses. So I am not prepared to submit on the point that you were just attempting to make about the data. But --

THE WITNESS: Well, and let me just be very clear

here. I was just trying to put -- to say that an evaluation of these data saying whether they are good or bad must be in the context of the purposes to which they are put, and I did not mean to say Dr. Bradley's stuff is right or wrong. I certainly have opinions about that, but that is not what I am here for. But I want to be very careful, that if you are going to ask me to evaluate these data, that I know the context of that evaluation.

CHAIRMAN GLEIMAN: Well, I will get off of this, and because I am sitting in the chair, I get the last word on this. But if you really insist, I will give you another shot at it. I am just kind of fascinated here. You know, I have got RPW data, which is purportedly some of the -- and this is amusing, in the layman's sense, best data that we can get from the Postal Service, and looking at changes in weight per piece over years, that, you know, and we have got good hard data here, and you are saying, well, yeah, but it is a sampling system, it is a good system, but it is only a sampling system, and, you know, and maybe the changes are significant from year to year and maybe the changes aren't significant for year to year.

And then we talk about something that was developed ten years ago, in 1986, and which hasn't been changed since, and you are very comfortable with that. And I am just kind of fascinated by the whole thing, quite

frankly.

Have there been no changes in the nature of mail and mail processing in ten years that might have had any impact whatsoever on conversion factors?

THE WITNESS: Certainly there have been, and I certainly don't mean to testify today that I don't think the weight conversion factor should be updated. But I am also not willing to say that anything I have seen here today clearly demonstrates it is our problem. And I know you wanted the last word, but I have to take another shot.

CHAIRMAN GLEIMAN: If I didn't -- if I didn't want you to have another shot, you wouldn't have had it.

THE WITNESS: If we go back to my pointing out that RPW was a statistical sampling system, I believe the question you asked me had to do with the fact that there is a change every year, doesn't that demonstrate that -- that something is happening every year?

When I look at the numbers before me in this exhibit, I do see a zero, I see a .2, I see several numbers less than 1 percent. I see several numbers less than 2 percent. I don't have the RPW confidence intervals at my fingertips here. But those aren't huge changes to me for a sampling system.

Now, several of the numbers of this chart exceed a couple of percent. But then there are also issues like, in

that year, was there a new rate put into place? Were there new make-up practices allowed? Was the industry, of its own volition, shifting to more bar coded mail? Or, you know, certain things like that. And there could be underlying mix of shapes and preparations that are driving this change in weight per piece that in no way would indict the weight conversion factors used in MODS.

CHAIRMAN GLEIMAN: Well, we could go through the chart and we could pick out particular numbers that are significantly larger just from the standpoint of the raw numbers than the 1 percent or less numbers that you speak to. And we could look at the point in time in which the change occurred. And I think you'd find that interestingly enough some of the significant changes from year to year in weight per piece seem to run counter to what you might expect relative to rate increases going into effect and what have you.

But rather than beat this horse anymore, let's move on a little bit, and I don't mind giving you another shot, because contrary to what some people might think, the purpose of the hearings is to try and develop a record that has information in it that's useful to us and useful to everybody else for us to understand what is out there and what is going on. So I'm delighted to have you attempt to educate me, although some folks think I'm uneducable. I

know that for sure.

THE WITNESS: I've never heard that.

CHAIRMAN GLEIMAN: You haven't been in the hearing room as many days as I have.

A lot of people think that when you ask a question you've got an ax to grind, and that I'm sure can be the case on occasion, but more often than not I think the questions are asked because people want to understand, not only questions from us but questions from other participants, including Postal Service counsel most of the time when they're cross-examining.

Now, assuming -- that is, assuming -- that the weight conversion factor is inaccurate, how would this affect the FHP data used in the volume audit, the TPH data used in Library Reference 146, and the FHP data used for selected mail processing activities included in Library Reference 307? Assuming.

THE WITNESS: It would affect them -- I mean, the real context of whether or not there's a problem here would be the use to which you were trying to put these data such that if we believed it was the case that there was -- that these conversion factors were obsolete, then if we tried to do a model where we were using FHP to explain work hours for instance, we would expect that that model would not have a high degree of explanatory power and the relationships we

would observe would not be statistically significant. Now if the obsolescence of those conversion factors were systematic over time -- that is, if somehow we could model the trend of that -- then we would expect inclusion of a time trend to ameliorate the problem to a great extent. And the evidence of that would be improved explanatory power of the model, increased statistical significance of the estimated relationships.

CHAIRMAN GLEIMAN: In the third paragraph on page 8 of the audit report, one site is identified as using a tray measurement system that resulted in an overstatement of FHP volume by 66 percent. Is that misestimate for the facility FHP?

THE WITNESS: Well, that misestimate or that portion of the misestimate would apply to whatever portion of FHP for that facility was based on conversion of trays. So I don't think you could just apply it to the entire facility, because I'm sure at least some portions of FHP for that facility are coming from weight conversions, and to the extent we're talking about 1996 here, there's been a movement toward more machine count use in FHP even before this report came out. It's one of the recommendations of this report. But even before the report came out there was a movement in that direction by some facilities. So some portion of this particular facility's FHP may have already

been based on machine counts, and that certainly wouldn't be subject to the error.

CHAIRMAN GLEIMAN: Well, with respect to this facility, which individual MODS cost pools would this tray-based measurement system produce an error in in terms of estimating FHP and in the MODS estimate of TPH?

THE WITNESS: I don't know. The MODS audit did not include a complete description of FHP derivation for this facility, and I haven't done any followup to investigate it.

CHAIRMAN GLEIMAN: Also on page 8, problems of inconsistencies regarding the application of tare weights, inadequate conversion factors, improper MODS scale weight system data input by employees, and out-of-tolerance scales is mentioned. Given these problems, is it reasonable to assume that the FHP and the TPH estimates derived from weight measurements are inaccurate and misestimate FHP and THP for extended periods of time?

THE WITNESS: I can't really say that without some context for the use of the data. I mean, to say they misestimate, I think any estimate is inherently a misestimate. I mean, by its nature it's got some noise in it.

If you're asking me in general does this make the data unusable, that is, it should be characterized as a

misestimate and we can't use it, I think there, you know, the ultimate test is will they perform in a statistical model if that's the use to which you put them. If you're asking me for any particular FHP estimate, had we been in the plant and physically counted the pieces that night, I think every number's wrong. But is it usable in the sense of can we use it to infer trends, can we use it to infer underlying relationships such as variability, I think the real proof of that is whether the models have high explanatory power, give you statistically significant relationships, and just generally do they appear to be supported by what we understand to be true. And so --

CHAIRMAN GLEIMAN: You mentioned earlier on when I was attempting to establish your bona fides with respect to these two Inspection Service reports that you had indeed looked at the specific site data, site level data. I noticed on page 8 the last sentence of the second paragraph says that site reports addressed specific local issues. And I'm just wondering, what did the individual site reports conclude regarding the misestimation of FHP at each of the audited facilities? In particular were specific percentages of misestimation of FHP determined?

THE WITNESS: I don't recall having said that we looked at the files with respect to the workload audit report. As I recall, he -- I don't think we've examined

those, and if I said we did, I misspoke. I definitely looked at the files with respect to the work-hours audit, but not the workload audit.

CHAIRMAN GLEIMAN: What are the implications of errors identified in the volume audit for the accuracy of TPH for manual operations, automated operations, and mechanical operations? Could you give them to me separately?

THE WITNESS: I believe with respect to automated and mechanized operations there are no implications, in that those operations should use machine-based counts, and I presume you're asking in the general context of Dr. Bradley's work, and so we're talking '88 to '97. During that period TPH would have been based on machine counts the entire time for those operations.

With respect to manual operations, the implications are that we might not be surprised if our models don't work, but given that the models do work, whatever amount of error is present we can live with. I mean, the real -- to me the real test of how much error is too much comes in can one derive a meaningful model from the underlying data, and I think they've passed that test, so I don't think there are any implications.

CHAIRMAN GLEIMAN: The volume audit report, also at page 4 in the third paragraph, states that site reports

were issued to local management at the conclusion of each field review. I take it that you can't summarize those because you haven't looked at them, or did you look at what was issued to the field folks?

THE WITNESS: No, I cannot summarize those. I haven't seen them.

CHAIRMAN GLEIMAN: I think we ought to take a break now. I've got a bunch more questions. You know, at least another hour. And if I ramble around and follow up, another hour and a half. So perhaps it would be best for all of us if we took a break right now. Let's come back at quarter to two.

[Whereupon, at 12:23 p.m., the hearing was recessed, to reconvene at 1:45 p.m., this same day.]

AFTERNOON SESSION

[1:45 p.m.]

Whereupon,

CARL G. DEGEN

the witness on the stand at the time of the recess, having been previously sworn, was further examined and testified as follows:

CHAIRMAN GLEIMAN: This morning I asked you, or earlier this afternoon, I can't remember exactly when it was, I asked you about the individual site reports for the volume audit, and you indicated that you had not looked at those. And I was wondering if you could provide us -- and the question had to do with the error estimates in those reports. I was wondering, can you provide us with some type of a summary of those error estimates from the individual site reports? Not today. I understand that you can't do that because you hadn't looked at them. But --

THE WITNESS: So, just so I am clear, you would like to know the estimate -- or the MODS FHP and the physically counted FHP and what the error rate was --

CHAIRMAN GLEIMAN: Yes.

THE WITNESS: -- site by site?

CHAIRMAN GLEIMAN: Yes.

THE WITNESS: I can try.

CHAIRMAN GLEIMAN: Okay. Counsel, do you think we

are going to have a problem with that?

MR. KOETTING: I have no idea what the Inspection Service would have to -- how they might respond to that. But, as he said, we can certainly check into that, and I don't know that there would be any problem. I don't see why there would be necessarily, but I can't speak for the Inspection Service off the cuff.

CHAIRMAN GLEIMAN: I don't think you want to go there. But not -- don't speak for the Inspection Service. At least not today. But I understand your point.

I can't decide whether it is my eyes or my glasses.

We were talking about changes over the last ten years, and I had given you that table with the average weight per piece. Let me ask you about some other events that may have taken place over the last ten years. The amount of delivery point bar code sorting has increased from nil in 1986 to fairly widespread in 1996, would you agree with that?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Would you agree that this has caused an increase in the number of pieces -- excuse me -- would you agree that this has caused an increase in the number of sorts per piece in the BCS cost pool?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Now, I believe you said earlier that TPH reflects mail that is successfully sorted.

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Focusing on automated equipment, have accept rates increased, to your knowledge, over the years?

THE WITNESS: Certainly from an engineering standpoint, the improvements of technology have increased the ability to read a given piece of mail. There are several things going on over time that would impact observed acceptance rates. One of those would be increased deployment of machines results in running mail on the machines that is less and less readable.

You know, when you are constrained with respect to our OCR capacity, you are going pre-identify mail you expect to have the highest success rate. As OCR constraints become less binding, you are going to be running more and more mail. And so it would appear that read rates are going down when, really, the quality of the mail you are feeding that machine is declining.

More recently, with the deployment of RBCS, OCRs are being used in ISS mode to lift images and those image lifts, while successful at lifting the image, are not considered a success at bar coding the piece for that machine, so that would also have the effect of reducing the

apparent read rate on the machine.

CHAIRMAN GLEIMAN: So then accept rates have gone down over the last ten years? I mean they have -- well, let's put it this way. Let's not quibble whether they have gone up or down. Have they changed over the last ten years? Can we agree to that?

THE WITNESS: I don't have them in front of me, so I hate to say even for sure that they have changed. But there are certainly forces that would have pushed them one way or the other and I wouldn't be surprised if they have changed.

CHAIRMAN GLEIMAN: Well, assuming for the sake of this discussion, this question, that they have indeed changed, for automated equipment, does the associated hours figure reflect the processing of all mail, both accepted and rejected, or just accepted mail?

THE WITNESS: It reflects the processing of all mail that goes through the machine. Rejected mail is going to have a different -- well, no, the hours definitely reflect all the mail that goes through the machine.

CHAIRMAN GLEIMAN: Moving on to the relationship between FHP and TPH, last week, in a Ruling that scheduled this hearing, Presiding Officer's Ruling 97-1/75, tables were provided to you in an appendix regarding the mean value for the ratio of TPH divided by FHP, where the TPH data --

where the TPH data came from Library Reference 148 and FHP data came from Library Reference 307. Have you had a chance to review those tables?

THE WITNESS: Yes, I have. Can I add one comment about your last question, whether the hours were related to the total pieces through the machine?

CHAIRMAN GLEIMAN: Sure.

THE WITNESS: Sorry.

CHAIRMAN GLEIMAN: That's okay.

THE WITNESS: The -- that being said, I would expect that TPH on that machine, for any particular accounting period or unit of time, would be extremely highly correlated with the total volume that went on that machine, that I wouldn't expect the acceptance rates to vary a lot on a day to day basis. You know, that the trend in that over time would be just that, it would be over a substantial period of time. So I think the hours, while they do represent the total pieces fed into the machine, would be extremely highly correlated with TPH as well.

Sorry about that.

CHAIRMAN GLEIMAN: Well, we have got all kind of conditions that we have put on that question anyway, including whether accept rates have increased, decreased, changed, fluctuated, or whatever. So I will just have to look back at your answer and factor in that last bit of

information.

Now, with respect to the tables, have you have had a chance to review the tables?

THE WITNESS: Yes, I have.

CHAIRMAN GLEIMAN: Those tables indicate that the mean of TPH and FHP, calculated by facility over the reported accounting periods, vary among the facilities for many of the cost pools that you have developed. For example, the BCS cost pool, for the BCS cost pool, the mean of the TPH divided by the FHP varies from a low of 1.03 for the facility with identification number 7942, to a high of 5.5 for the facility with the identification number of 9698. Omitting the outlier of 37.85 at facility number 3908. Okay.

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Now, for manual letter sorting operations, the facility mean of TPH over FHP varies from a low of 1.2 for the facility with the identification number 6792 to a high of 3.89 for the facility with the identification number of 1485. Is that accurate?

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: Okay. Now, could you please discuss what contributes to this variation across facilities for each of the cost pools exhibited in the appendix?

THE WITNESS: Yes. There are several factors that

are going to result in different TPH to FHP ratios across facilities. And before I go into them, I would like to talk a little bit about kind of what is going on when we compare TPH to FHP by operational group. An important aspect to realize is that differences in that ratio can be driven by differences in the numerator and in the denominator.

So to begin with, one reason there are differences might be just in discrepancies between TPH and FHP estimation, I mean just for starters. Another reason you would see differences in that ratio is that the FHP number is reflective of where that piece is first handled. So that when you look at a particular operation like manual, the only FHP counts there are going to be pieces that were identified as needing manual sortation and having first been handled as a piece in the manual operation.

So, for instance, facilities who receive mail and are able to identify it early in the process as mail that they are not going to be able to handle any other way, will send more mail directly to FH -- or directly to manual sortation. These would be people like facilities with Advanced Facer Canceller system who can identify handwritten pieces but are not connected to the RBCS network, for instance. They are more likely to send pieces directly to manual.

Now, that being said, if that plant has an LSM,

the pieces are more likely to go to the LSM first. So just what gets to an operation and as -- in terms of its first handling pieces, can vary for a number of reasons, as I have indicated.

Now, in terms of the numerator, why would there be variances in the number of times a particular piece was handled in a particular operation. Well, one would be the office's status in the overall network for the Postal Service. In an ADC office, that's an Area Distribution Center, you are higher up on the chain, if you will, and you are more likely to handle mail that needs to be sorted three times before it can be given to a carrier.

If you are a small plant who basically is handling destinating mail, a lot of your mail might be coming in to you already at a three digit or even five digit level, just because of the way you are situated into the network and the way other plants are preparing mail for you.

Things that come in at a three digit level probably only need to be handled twice. Things that come in at a five digit level only need to be handled once.

Now another element in this is going to be the way the mailers make up your mail.

If you have the kind of demographics that attracts a lot of drop shipped advertising mail or carrier route prepared mail, those volumes aren't going to require any

TPH, but let me also note they don't require any FHP. Those are volumes that are not handled as pieces. They are given directly to the carriers.

Now if you are a site that DPSes your mail then you are going to have an incentive to break carrier route bundles, put a bar code on them, and sort them to walk sequence.

So, I think I have given you a pretty good list here of why you are going to see a range in a ration of TPH to FHP, but just basically in summary, for one, that the two may have been measured differently right from the start; two, that operating practices in mail preparation are going to determine -- are going to have certain impacts on the denominator -- those may be different impacts than will be had on the numerator -- and then in general the mix of mail processing technology, the amount of sorts you are required to do because of your network status and because of the way your mail is prepared are all going to affect the numerator.

CHAIRMAN GLEIMAN: We were talking about the variance from facility to facility there?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Did I understand correctly that you said that there are some pieces where you have no first handling piece because it goes directly to the carrier?

THE WITNESS: Yes. To the extent that mailers

create carrier route bundles, if you are not doing DPS in your particular office and you get a carrier route bundle, that bundle will not be broken.

It will be handled to the carrier intact, and so it will never appear as an ~~PHS~~ FHP TPH or be worked as a piece in a plant.

CHAIRMAN GLEIMAN: That is important for my understanding.

It doesn't appear as either first piece or total piece handling. It just doesn't appear?

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: Okay. I needed -- I wasn't sure.

I heard you say the first part about the first piece, first handling piece but I didn't hear the other part of that equation and it left me a little bit more confused than I usually am about these things.

Now within facility, the TPH to FHP per accounting period also vary substantially over time and in those appendices there are some examples related to BCS processing operations.

The least amount of variation is at facility number 7603, in which the ratio goes from a minimum of 1.40 to a maximum of 1.86.

The most variation within a facility over time is

at facility 9524, for which the minimum is 1.46 and the maximum is 33.87, again ignoring outliers that are in that table with maximums over 100.

The median amount of variation is at facility 5066, in which the lowest accounting period has a ratio of 1.36 and the highest is 3.52.

Similarly, for manual letter sorting there are corresponding variations. The smallest variation is in facility 8535, where the minimum ratio is 1.42 and the maximum is 1.67.

The largest variation is at facility 7463, where the minimum is 1.212 and the maximum is 8.99, and again we are ignoring outliers such as facility 3346 and 3246, and here for the manual letter sorting the median variation is at facility 952, where the minimum is 1.44 and the maximum is 2.71.

Could you please discuss what contributes to the variation over time in these individual facilities and whether there is any bias here.

THE WITNESS: Okay. Let me just start by noting that I think in the case of the BCS, the one with the maximum variation, Facility 1607, that went from 1.46 to 33.87, my hunch is that 33.87 is an outlier and would be revealed if we looked at the hours, TPH, and FHP separately.

But that notwithstanding, there is variation

across offices with respect to APs. All of the factors I've listed so far in terms of why there are variations across office would similarly contribute to variations within an office over time.

This is a substantial time period, from '88 to '97, and during that time there have been a lot of changes in terms of operating procedures, deployment of DPS, deployment of RBCS technology, the removal of -- the beginning of the removal of the LSMs, increased deployment of OCRs, and increased deployment of advanced facer cancellers. So all of the factors that I've already listed would contribute to over time differences within an office.

On top of that I would add the seasonality of the mail, that over the course of the year in different APs you're running different mixes of mail in the fall, probably a lot of carrier route presort catalogues or at least, you know, highly presorted mailing pieces, contrasted to APs 3 and 4, where you're going to get Christmas cards.

And again, you know, there's so many effects going on here I can't sort 'em out, but Christmas cards run the gamut from being local and not requiring a lot of handlings per piece to going across the country and sort of requiring the maximum number of handlings per piece. So, you know, these different forces are at work all during the course of the year and would explain variations from AP to AP.

CHAIRMAN GLEIMAN: From the tables that were provided to you, you've just been discussing them, on the relationship between FHP and TPH, is it reasonable to conclude that for many of the MODS-based cost pools the functions being performed are substantially different from facility to facility? That is, the activities in the cost pools have substantially different operating characteristics as measured by the number of times a piece of mail is handled?

THE WITNESS: I think I heard you say two different things. I would characterize what's happening within an operation in a cost pool as being the same thing in all facilities. Now the same thing in terms of sorting a piece. How many times they have to handle that piece is really a function of the, you know, the kind of mail -- the kind of mail they're receiving and the level at which it's prepared when they get it, either by the mailer or as it comes from other offices. It's also a function of, you know, the kinds of customers they have.

If you have a big-city route with lots of businesses on it, you may be doing individual firm holdouts or you may be doing a lot of box section holdouts. So certainly the number of times a piece would be handled will vary from office to office, but the operation of sorting that piece, moving it from a three-digit to a five-digit or

a five-digit to a carrier route I think is essentially the same across offices.

CHAIRMAN GLEIMAN: Well, let me ask you about the particular facility over time. In light of your discussion a few moments ago about Christmas cards and when they appear on the scene and when they don't appear on the scene and other factors that you alluded to, for many cost pools the operation is somewhat different from accounting period to accounting period within a given year at a given facility. Would you agree with that?

THE WITNESS: Again, only different in the respect that it may have to sort a piece more times than it would have otherwise, or different to the extent that different operations would be used to sort those particular mail volumes. But still essentially the same in the nature of that operation.

CHAIRMAN GLEIMAN: I guess one could go so far as to say that in the nature of the operation there's a great degree of similarity between every piece of mail. It gets into the postal system some way and gets delivered to somebody some way. So, you know, it's --

THE WITNESS: But I'm really talking --

CHAIRMAN GLEIMAN: It's a question of whether we're dealing with different varieties of apples or apples and oranges, I guess.

THE WITNESS: But let me be very clear about this. When you're running a BCS to sort mail and you're running an incoming primary scheme, you're feeding it mail that is all for a single three-digit zip code, and your bins are essentially five-digit zip codes that are coming out. You do exactly the same thing when you're doing incoming secondary scheme. It's just that the mail going into the machine is for a five-digit zip, and the bins that are coming out are carrier routes.

The people -- if you were to stand there and watch them operate that machine, you would see no differences. I mean, you'd have to look closely to see that the digital readout or the tag on each bin was now a five-digit -- well, in fact, they usually have them tagged by color that you really without looking at the master console don't know which scheme is running. It's that identical.

CHAIRMAN GLEIMAN: The material submitted to you last week in the appendix to the ruling for this hearing shows that the mean of TPH over FHP is less than 1 for most facilities. That is, that total piece handlings is less than first handling pieces at most facilities and accounting periods.

Can you explain how this can occur?

THE WITNESS: Did you mean to say that that's true in the OCR and FSM operations, or did you mean all

operations?

CHAIRMAN GLEIMAN: I meant all operations.

THE WITNESS: With respect to the BCS operation the minimum -- or the mean, the smallest mean I see is 1.03.

CHAIRMAN GLEIMAN: With respect to the other operations?

THE WITNESS: Okay. For OCRs the lowest is .64. For manual letters the lowest is 1.12. For manual flats the lowest is .97, but it's the only one that's less than 1. For LSM the lowest mean is 1.03. For FSMs the lowest mean is .84. And there are a number that are below 1.

CHAIRMAN GLEIMAN: Well, for all those instances in which the ratio is below 1, can you explain to me how that occurs?

THE WITNESS: Okay. Well, I don't mean to split hairs, but basically the operations where I consider it to be common that the ratio is below 1 are two. It's the OCR operation and the FSM operation. And the reason that those numbers are significantly below 1 -- let's start with the OCR. For starters, it's very unusual to have a second handling piece on an OCR. Occasionally because of equipment constraints the second handling of a piece would be on the OCR. But it's relatively rare. So you have a number that you wouldn't expect to be much above 1 because you don't have the subsequent piece handlings.

Why is it below 1? It's primarily because of the low -- or because of the high number of rejects. Because, remember that with respect to TPH measurement, only successful reads are measured there. That's not how FHP is defined. So, for example, if I feed 100 pieces into an OCR, I will record 100 as my FHP. I will record as TPH 100 minus the rejects. And the rejects would include those pieces for whose images were lifted for RBCS. Okay. So that pretty much explains OCR.

The story in FSM is essentially the same. The mean -- the means don't go quite as low. In OCR the lowest mean was .64. In FSM the lowest mean is .84. It's essentially the same story, that when it's operating in a bar-code reader mode, it's going to have some number of rejects for which the machine could not correctly identify the bar code. Those will not be recorded in TPH. However, they will be recorded in FHP.

Now in the FSM machine you do see numbers that go as high as almost 1.4, and that is because there are subsequent piece handlings on there that offset the fact that the rejects are pulling down that ratio.

CHAIRMAN GLEIMAN: Did I understand you earlier to say that for automated equipment the associated work-hour figure reflects the processing of all mail, both accepted and rejected?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Okay. Why does the MODS system maintain a distinction -- excuse me, let me just. Why does the MODS system maintain a distinction between FHP and TPH for certain operations?

THE WITNESS: I think there is an important distinction in FHP and TPH for the plant as a whole. And the MODS system, by its nature, collects data by operations, so that you have both available at the operational level.

I don't -- well, I shouldn't say. There is useful information to be garnered from FHP at an operation level. It produces a profile of how volumes are being first handled in your plant. For a plant as a whole, it also gives you an aggregate measure of how much work is being done in terms of total pieces processed. It would have some severe drawbacks in that role because it would not account for the level of pre-sortation of pieces, the level that other plants have prepared the pieces for you, the presence of bar codes, things like that.

TPH, on the other hand, has the -- is useful in terms of measuring how many times each piece is handled, which is, to an extent, a measure of how much work is being accomplished within an operation, independent of where that piece was first attempted to be processed.

So you get information from the two measures and I

think that is why they are both collected.

CHAIRMAN GLEIMAN: Do managers regard FHP as a better indication of workload than TPH?

THE WITNESS: I think most managers would understand the limitations and benefits that I have just described for each of the two measures. You know, your phrase "better workload" is a little ambiguous to me. For certain -- if you are looking at a particular activity, you know, TPH is more a appropriate measure at an operation level. In terms of everything that is coming through your plant, FHP may be a better measure.

So the managers I have talked to are very much aware of the benefits and limitations, I think, as I have outlined them.

CHAIRMAN GLEIMAN: If TPH and FHP were equally reliable, would FHP serve as a more appropriate cost driver than TPH for variability analyses, in the sense that it would be a more accurate reflection of the influence of additions to the overall system volume on mail processing labor hours?

THE WITNESS: No.

CHAIRMAN GLEIMAN: Why?

THE WITNESS: For the reasons I have mentioned here, that FHP masks important workload characteristics like the level at which mail was prepared, that TPH picks up.

That is, if I am -- if, through work-sharing, a mailer gives me a five digit bundle, I am only going to have to handle that piece once. If, instead, that mail came in a three digit bundle, I would handle it twice. In each situation, FHP would record one, but TPH would differentiate the two by recording two for the three digit bundle and one for the piece in the five digit bundle.

So you have to be careful. It's not obvious to me that one is better than the other. They each measure separate things. And depending on what you are looking for, you may want to use one or the other.

CHAIRMAN GLEIMAN: The Postal Service proposes that mail processing labor costs be organized into 46 system-wide MODS pools in order to analyze their volume variability. Is that correct?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Under this approach, does the Postal Service assume that within each of these MODS pools, the mail processing function being -- excuse me -- the mail processing functions being performed are essentially the same in one facility as in another, and remain essentially the same over a period of time being analyzed, so that it is valid to sum data across facilities and time periods for analysis purposes?

THE WITNESS: We do assume that, and I want to

harken back to our earlier discussion where, to the extent a piece needs to be handled twice, the TPH measure reflects that. So, in terms of is a handling, a handling across operations, I believe we are assuming that. But things, mail that requires two handlings will be given twice the weight as a piece that only required one.

CHAIRMAN GLEIMAN: If each of the 46 MODS pools identifies an essentially similar processing function, does the Postal Service assume that, within a particular pool, each total piece handling counted indicates that, essentially, the same amount of that processing function has been performed as each other total piece handling counted, regardless of what facility we are dealing with or the accounting period in which the tally occurred?

THE WITNESS: That was a little complicated, and I think the answer is no. And let -- let me talk about it a little bit and see where I might disagree.

CHAIRMAN GLEIMAN: Well, do you want me to read the question over more slowly?

THE WITNESS: Yeah. Particularly the part about the proportion of work being performed.

CHAIRMAN GLEIMAN: Okay. We have got 46 MODS cost pools which, as I understand it, definite essentially similar processing functions within the pool. You know, a particular pool has a particular function. Now, does the

Postal Service assume that, within a particular pool, each TPH counted indicates that, essentially, the same amount of processing function has been performed as every other TPH handling? TP -- I was duplicative there. But every other TPH counted, regardless of which facility we are dealing with, and regardless of whether we are dealing with something over time?

MR. KOETTING: Mr. Chairman, I don't -- I don't mean interrupt. But I have a little trouble following the question. And If I am, I think somebody reading the transcript might as well.

When you say the Postal Service assumes, are you specifically referring to Dr. Bradley's analysis, or are you specifically referring to distribution or -- I am -- is there any -- I am just having a little trouble following that.

CHAIRMAN GLEIMAN: It was -- it was a question in there, it was a "does." Let me try it real slow, one more time.

If each of the 46 MODS pools defines an essentially similar processing function, does the United States Postal Service assume that, within a particular pool, each total piece handling counted indicates that, essentially, the same amount of that processing function has been performed as each other total piece handling counted,

regardless of the facility in question, or the time period in which the counting takes place?

So it is a "does" the Postal Service assume that the same amount of work, time, effort, processing goes into each counting, regardless of whether it is at this facility over here, or that facility over there. What does the Postal Service assume?

THE WITNESS: Well, I can't answer that in general. But I can answer that with respect to my understanding of Dr. Bradley's variability analysis. And there, I think it would be correct that they are assuming that each TPH within a given cost pool represents the same level of work, or level of workload, or mail -- proportion of mail processing workload, as every other TPH, for that facility at a point in time.

My understanding is that Dr. Bradley's model also include firm effect controls, and time period controls that allow those relationships to vary across office and time period. So I think, to your original question, my answer is no. But that it is yes with respect to within an office, within a cost pool, and that there is an attempt to allow for variations across time and across offices.

CHAIRMAN GLEIMAN: Okay. Does the Postal Service also assume that, within a particular MODS pool, each first piece handling, on average, represents the same amount or

depth or sortation of a piece of mail as a first piece handling counted in any other facility at any other time?

It is essentially the same question with respect to first piece handlings as we just had on total piece handlings.

THE WITNESS: Well, with respect to the first question, I had to limit my answer to the scope of Dr. Bradley's work, and his work does not rely on FHP. But I think I can go further to say that that is not an assumption that many people in the Postal Service would make, that an FHP within a cost pool was representative across time or across facilities, just because of the nature of what it is measuring.

CHAIRMAN GLEIMAN: If the ratio of TPH to FHP for a particular MODS pool is consistently twice as high in one facility as in another, for a given accounting period, would it be necessary to appropriately weight individual facility TPH counts to accurately reflect the amount of that particular processing function that is being performed before aggregating those counts system-wide and using them to model variability?

THE WITNESS: No. The fact that one facility has, consistently has a higher TPH to FHP ratio tells you almost nothing operation-by-operation because of the variances in the FHP number that underlie it. And when I am talking

about variances there, I am not talking about measurement or anything like that, just where plants first touch a piece.

But even that being aside, it would be perfectly logical to expect that, say, an ADC facility would have a TPH to FHP ratio that would be one piece handling per FHP higher than a smaller plant who was essentially three digit mail that it needs to sort down to the carrier route. So the weighting you discuss, I think is already embodied in the TPH numbers. In fact, that is appeal of the TPH measure is that when certain facilities, because of their position in the network, or for any of the reasons I have mentioned, have to handle pieces more than other facilities, they are given appropriate credit for that workload.

CHAIRMAN GLEIMAN: If the systemwide ratio of TPH to FHP had doubled over time for a specific MODS pool, would it be necessary to appropriately deflate or reweight individual accounting period TPHs, TPH counts, so that they reflect the same amount of that particular processing function being performed as they did in the base period before using them to model variability?

THE WITNESS: No, and again the same kind of reasoning that is going on there over time that FHP denominator can be changed just depending on the technology mix, and it may also just reflect different mixes among the operational groups.

You are talking about the aggregate relationship but something like adding DPS or choosing to work something, getting rid of an LSM for instance and working the mail manually instead can have significant impacts on those ratios.

As your own tables show, the variation of ratios across operational groups is significant and when you look at an overall number it masks what could be underlying changes in the mix across operations.

CHAIRMAN GLEIMAN: From the data you received last week on the behavior on the relationship between FHP and TPH, is it reasonable to conclude that for most of the manual MODS pools that you define TPH counts do not reflect an equivalent amount of FHP either across facility or over time?

THE WITNESS: I think we want to talk specifically about letters and flats because the table on manual parcels has means of one and mins and maxes of one, so there FHP and TPH are essentially identical, which is a function of the way the parcel scheme is set up and is not surprising.

Shoot -- now that I said that, I forgot the question. Could you read it again?

CHAIRMAN GLEIMAN: Are you sure you want me to read it again, or should I just move on to the next one?

THE WITNESS: Let's read it again. I'm sorry.

CHAIRMAN GLEIMAN: From the data that you received last week on the behavior on the relationship between FHP and TPH, is it reasonable to conclude that for most of the manual MODS pools that you defined TPH counts do not reflect an equivalent amount of FHP either across facility or over time?

THE WITNESS: Okay. I think the key phrase there is does it reflect an equivalent amount and if you are asking me does TPH equal FHP in these operations, I am happy to say no.

If you are asking me is there some constant of proportionality I would have to think about that.

CHAIRMAN GLEIMAN: Okay. Do you want to think about it a little bit and answer me, or do you -- would you like to provide that answer in writing as follow-up to today's hearing?

I am perfectly happy to accept it as written follow-up.

THE WITNESS: Let's read it one more time while I think about it.

CHAIRMAN GLEIMAN: From the data that you received last week on the behavior of the relationship between FHP and TPH, is it reasonable to conclude that for most of the manual MODS pools that you defined TPH counts do not reflect an equivalent amount of FHP either across facility or over

time?

We know we are talking about just letters and flats here.

THE WITNESS: Right. Just letters and flats, is it reasonable to assume that they reflect an equivalent amount? And my answer is yes -- that they do not reflect equivalent amounts.

Sorry that I mucked that up. I do not believe that FHP and TPH by operation reflect equivalent amounts across time and across office.

CHAIRMAN GLEIMAN: If you think you messed that up, then I guess we are about equal after my efforts four questions back.

THE WITNESS: I should have let it slide when you gave me the chance.

CHAIRMAN GLEIMAN: I wish you would have.

Is it also appropriate to assume that for most manual MODS pools TPH counts do not reflect an equivalent amount of that particular processing function either across facilities or over time?

THE WITNESS: No. I think TPH does accurately reflect equivalent work across office and time period.

CHAIRMAN GLEIMAN: Moving on to the work hours audit.

THE WITNESS: Okay.

CHAIRMAN GLEIMAN: The work hours audit report identifies clocking errors in that personnel were observed in the opening unit's operations but clocked into other activities and vice versa.

To what extent are these clocking errors documented by the work hours audit among the distinct MODS cost pools that you defined in USPS-T-12 versus errors restricted to clocking errors between subsets of the MODS cost pools?

THE WITNESS: We can't tell. One of the reasons for our requesting the underlying data set, our visit to Denver and our meeting with the Inspection Service here in Washington, was to determine whether or not the collected data could be analyzed at the level of aggregation at which we use the data -- that is, we define an opening pref. unit and an opening BBM or nonpref. unit, each of which is comprised of multiple three digit operation codes.

We were not able to obtain the necessary data, and in particular, with respect to an error where an employee was clocked into an opening unit but working elsewhere, in the majority of cases where else that person was working was not recorded, but it could have been one of the other three digit operation codes that we group within our operation group, so we were not able to distinguish in the majority of cases whether that person was simply clocked into a

different three digit operation within our grouping of opening unit operations or whether that person was clocked somewhere entirely different.

CHAIRMAN GLEIMAN: To put it in my parlance, sir, if you guys were lucky, then you forward fumbled and it wound up in the same area as opposed to another area -- but we don't know whether that happened or not or the extent to which it happened.

THE WITNESS: Well, we don't know -- the extent to which we are lucky presumes that we would expect a lot of clocking errors outside of the opening unit.

I think as I pointed out in my initial testimony, one reason for aggregating the data the way we did at the level to which we did is that local management has discretion over defining unique three digit operation codes. In fact, even within the MODS audit sites you see considerable variation in terms of what the opening unit is comprised of.

Some offices will have three or four unique three digit operation codes. Others might not have any.

So especially in cases where people had multiple three digit codes, one would expect that the importance of being in the correct three digit code within an opening unit might be substantially less than not being clocked under a completely different supervisor.

I mean MODS data are used for local management and my understanding is that if somebody screws up in their clocking within two different three digit operation codes for which I am responsible, you know, I may want them to get it right, but I am not going to have any consequences.

On the other hand, if I have got people clocked into my overall operation grouping who are working somewhere else, I am going to be charged for hours and held accountable for hours that weren't worked here and so I would expect that a large proportion of the errors did occur within the opening units as we used them.

CHAIRMAN GLEIMAN: Do you have any sense of which local facilities have a lot of three digit codes for the opening unit operations, as opposed to just one or two codes?

I mean we talked about larger facilities earlier on having more upfront problems because of the size of the facility.

Would they be the kind of facilities that would have more three digit codes in their opening unit operations?

THE WITNESS: I really don't know about that. I mean it would be tempting to say they are bigger, therefore they are going to want to collect more detail, but I also find that aggressiveness in management may be better at the

local office where they may actually be more gung-ho and want more detail.

I don't know and I wouldn't want to speculate one way or the other.

CHAIRMAN GLEIMAN: Is there more or less likelihood that you are going to have people with -- you are going to have situations where there are clocking areas where someone clocks into a different pool?

Let me back off. Let me try again.

When you have an opening unit operation that has numerous three digit codes, is it not more likely that not only will you have errors between the codes but that you may also have errors between the cost pools?

THE WITNESS: I don't think so. I wouldn't -- I might actually go the other way.

If in fact defining more codes is a sign of better management, I might think the people with more codes are going to have fewer problems outside the cost pools, but again that is -- I am speculating.

CHAIRMAN GLEIMAN: More codes might define better management but it does not necessarily -- better management does not necessarily result in better input by the employees when they are clocking in.

I would think the more buttons, the more opportunities, you know, combinations of three numbers that

there are that you could hit, the more likelihood there is that you will hit the wrong three buttons not only within your code but outside of your code.

You wouldn't agree with that?

THE WITNESS: I don't think I'd agree to that.

I think to the extent better management is really felt on the workroom floor, having an attitude of getting it right might carry the day, but again, I don't know any of this for sure, so we are just speculating, but I wouldn't generally agree with that as a principle.

CHAIRMAN GLEIMAN: I'll have to go back to my statistics book and see what the likelihood is of people making errors when they have more options of which code to punch in as opposed to less options.

THE WITNESS: I will concede that, that if you have to change codes more often that the likelihood of hitting a wrong key would be higher, but I would also see that, you know, whether you ought to bother going to the keypad could be a function of good management.

CHAIRMAN GLEIMAN: In response to DMA/USPS-T-12-9, you discuss the type of corrections made to MODS work hour data.

You also provided an estimate of the percent of records corrected between the compilation of Library Reference 146 and a subsequent filing of a more detailed set

of MODS data in Library Reference 248.

You reported in a response to DMA/USPS-T-12-9(b) that in the operations you reviewed, and I'll quote, "the average percentage revision weighted by work hours was 0.09 percent. Changes were made to 47.8 percent of the individual work hour totals."

Could you please expand on your answer to this interrogatory by discussing the types of corrections that are routinely made to MODS data, why they are made, and at what management level they are made?

THE WITNESS: Well, I think this is a very important point, but let me just start out by saying that the MODS audit report did not work with the corrected MODS data. It was essentially observed in real time before supervisors had a chance to do any corrections to the data.

I've got in front of me a copy -- a page from the MODS manual, the M-32, and I don't know the library reference number for that. But in section 310, reporting work hours, subparagraph .122, it describes the practice of allowing employees who frequently change operations to plug -- or to clock into a predominant operation and then after the shift is over, the supervisor will apportion those hours between the appropriate operations. And it's my understanding that that would -- that practice would account for the majority of errors, other than just the random

keying errors that would be visible in terms of an aberrant trend in the data.

And I think this all goes back to my earlier discussion with regard to would I expect more clocking errors within an operation group than across. You know, the next day when your boss is chewing you out for having twice the hours you had, you go back and figure out who hit the wrong key and you get it fixed. And it's those fixed data that we're using in the variability analysis and in the distribution key work.

CHAIRMAN GLEIMAN: Do you know whether bosses might be telling workers that they had twice the hours that the boss wanted them to have and that corrections are then made?

THE WITNESS: Well, my understanding is that this is a zero-sum game, and that you can't just make those hours disappear. So if you're trying to get them out of your operation group, they've got to go on somebody else's. So I think unless you get consensus that this person was incorrectly clocked, you're not going to just be able to make those hours disappear.

CHAIRMAN GLEIMAN: Could you explain more fully the meaning of the terms you use in your response to DMA terms such as average percentage revision weighted by work hours and individual work hour totals?

THE WITNESS: Okay. I believe the average percent revision weighted by work hours would be to calculate the total revision and divide by the total work hours. So essentially giving a weighted average as opposed to calculating the individual percentages and then averaging those.

And what was the second term?

CHAIRMAN GLEIMAN: Individual total work -- excuse me, individual work hour totals.

THE WITNESS: I don't have a copy of that in front of me. Could you reread the passage that includes that?

I think I'm going to have a copy in front --

CHAIRMAN GLEIMAN: The average -- excuse me. I think you would do better if you read it, now that you have a copy, than having me read it.

THE WITNESS: Okay.

CHAIRMAN GLEIMAN: I'll give you a moment.

THE WITNESS: Can you point me to where that's at?

CHAIRMAN GLEIMAN: It's in the answer to 9(b).

THE WITNESS: Okay.

CHAIRMAN GLEIMAN: It's -- I don't have a full copy of 9(b) in front of me, but it's in the sentence that has the 0.09 percent, and the next sentence has 47.8 percent in it. Those numbers are pretty easy to pick out of the response, as I recall.

THE WITNESS: Okay. The sentence reads: Changes were made to 47.8 percent of the individual operation work hour totals.

I think by individual operation work hour totals there I mean really individual operation group, so the individual's a little bit misleading. But that says that -- yeah, that would be the total for the operation group was changed about half the time. Now those totals are the compilation of numerous underlying things, so I don't mean to say that at the three-digit level half the time the numbers were changed, but at the cost-pool level there were small changes about half the time.

CHAIRMAN GLEIMAN: Well, let's talk about small changes about half the time. Can you give me a sense of what the range is and the standard deviations are of the changes that result in these average percentage revisions?

THE WITNESS: I don't think I can off the top of my head.

CHAIRMAN GLEIMAN: Could you provide them to us for the record?

THE WITNESS: Can we do that?

MR. KOETTING: Yes.

THE WITNESS: Yes, I can.

CHAIRMAN GLEIMAN: Thank you.

THE WITNESS: So you want a range and standard

deviation for the individual percentage changes where we found revisions?

CHAIRMAN GLEIMAN: Yes.

THE WITNESS: Yes, we can provide that.

CHAIRMAN GLEIMAN: Although at this point it is getting a little fuzzy in my own mind about which day you last appeared, I believe it was last Thursday, in cross-examination, you stated that you had confidence in the validity of the IOCS due to statistical tests you had performed over the years on the data produced by the system. Could you describe what statistical tests that you have performed to verify the stability and accuracy of the MODS system?

THE WITNESS: Oh, boy. I am not going to be able to give you a list in detail. I can go over in general, though, our firm's use of the MODS data since, I believe 1984 was our initial use of them to model workload at a plant level. And so the tests we would have performed would have been in the form of regression analyses, looking for relationships between hours or costs and FHP or TPH as the workload driver, as a component of a workload driver.

Most of that work has been at a plant-wide aggregate level. It was only in recent years that we were doing more work at an individual operation level. But it would be analogous to the kinds of things Dr. Bradley is

doing with the data over the course of the last 15 years.

CHAIRMAN GLEIMAN: Could you describe the routine auditing and editing of the MODS data that occurs at the management levels between supervisors and Headquarters?

THE WITNESS: I think I can best describe that along the lines of what we have already talked about, that in the course of using the data, outliers, in terms of SPLY numbers, that's comparisons to the same period last year, outliers in terms of recent periods, or outliers in terms of the relationship to workload, like FHP or TPH.

Now, I know in some of the MODS operations there are not workload measures, like the opening unit. But, nevertheless, each facility has a sense of its own FHP, its own activity on a particular night. And so the auditing, if you will, of the MODS data, I believe really takes place in the use of them as a management tool and the identification of obvious outliers with respect to productivity or relative workload trends.

Well, and that was at the local level. I believe you asked me at all levels. I think, similarly, the MODS data are used to evaluate performances of districts and areas by operation support personnel at Headquarters, and to the extent that anomalies are identified there, requests can go back down to the area or district for seeking corrections to the data. As well as -- I am not sure what other

contractors use MODS data, but we certainly work with Headquarters to identify where we see anomalies springing up, and in our own use of the data, will often correct outliers with respect to the relationship between FHP and hours or TPH and hours.

CHAIRMAN GLEIMAN: Turning back to the volume audit report at page 8 for a moment, it states there that "Management at 12 of the 20 sites indicated they utilized MODS in making decisions for staffing, budgeting, mail volume trends and based on SPLY." That's S-P-L-Y. "However, management at 10 sites expressed dissatisfaction with MODS as a daily management tool. This dissatisfaction was due to several shortcomings." Essentially, that there is a delay in receipt of information from MODS and that the data is inaccurate.

Could you elaborate on the extent to which local managers avoid basing management decisions on the MODS data?

THE WITNESS: I can describe my own experience. I think the 10 who said they don't use it all aren't telling the truth. My understanding is that capital deployment in the Postal Service is contingent of the development of a DAR, a Decision Analysis Report, and I don't think I have ever seen one of those that didn't involve the use of MODS data.

So, you know, while 10 of -- yeah -- while number

of the sites may have said they didn't use it on a regular basis, they are still using it. They -- I don't see how any plant in the Postal Service could not use it at some point.

To the extent that, you know, some offices think they have a better measure, they may use it. I think there is kind of a self-selection bias there. If you think you have a better measure, then you don't put any effort into collecting your MODS data and you let your MODS data go a little bit and you bad-mouth it at the expense of your alternative. It happens.

But I -- but I can't believe they are not evaluated by their district in terms of their MODS data, or evaluated by their area, or nationally in terms of their MODS data. I think MODS, even though it was originally deployed as a local management tool, with a certain amount of local discretion, has evolved over the years into something that has caused accountability at every level, all the way up to the national level.

CHAIRMAN GLEIMAN: Do you think with respect to managers who expressed dissatisfaction with MODS as a daily management tool that it in some way might impact the quality of the data that comes out of their shops?

THE WITNESS: I think particularly with respect to FHP that's likely to be true. You know, we lump MODS together under a single heading, but there are really very

different things going on there. The collection of the hours data are clearly tied into payroll. I mean, the clocking -- you have to be clocked somewhere to get paid. And so in total the MODS hours data I think are as reliable as they come. They're complete accounting. You don't get paid if you're not clocked in. There may be some issues as to where you're clocked in particular, but there's no way that MODS hours are growing faster than paid hours, for instance.

I mean, we're talking about an accounting system here where we may quibble with the way the hours are split up at the extremely fine level, but this is accounting, this isn't a study or, you know, there isn't much data collection other than you're punching the clock to get paid.

Now we're going to talk about FHP and TPH. As we've already discussed today, TPH is primarily driven by machine counts. Pretty routine to do. Pretty low effort to do. To the extent TPH is driven by machine counts, I doubt that it's affected by management's enthusiasm for the MODS system or not.

With respect to FHP and those portions of TPH that are weight-driven, I think management's attitude could make a difference there. It would be something we'd be concerned about. It's the kind of thing we were concerned about when we undertook these kinds of studies. Happily we get models

that look good and feel good, and so we tend to dismiss the stories we hear, because in the end the data do perform very well. But it's certainly the kind of thing that would give you pause or make you check your results carefully.

CHAIRMAN GLEIMAN: Do you have any sense of how frequently the Inspection Service audits MODS performance?

THE WITNESS: I am not aware of any other formal MODS audits, but I am aware that the Inspection Service used the MODS data frequently to estimate savings from various programs or performance of various facilities. So, you know, those are not audits per se, but their use is as data that would reveal anomalies. And what I observe is that the Inspection Service even in the report that criticizes MODS uses MODS to estimate savings. So I think that kind of thing happens quite a bit.

CHAIRMAN GLEIMAN: I think that may be a lot like the situation we have in the ratemaking process. A lot of parties come in and along with the Commission are critical of some aspect or another of Postal Service data collection, but the data we have is the data we have, so we use it, whether we're critical of it or not.

I suspect then, you know, in terms of the frequency of inspection, that this system is, while perhaps used more, examined less than other major data collection systems like RPW and IOCA. Do you have any sense that they

have been audited more frequently over time?

THE WITNESS: With respect to the Inspection Service, no, but I know we use MODS data, and we're a tough customer, so I think it gets a lot of scrutiny from us. I mean, I don't know if your question was just with respect to the Inspection Service, but in general I think over time MODS data have come under increasing scrutiny by the groups that use them, and it is a very highly scrutinized data base.

CHAIRMAN GLEIMAN: More than 20 years ago the Postal Service filed supplemental comments in Docket RM76-5. There the Postal Service denies that MODS data are suitable for analyzing any postal phenomenon on a national level, including the relationship between mail processing labor hours and volume. I have a copy of those portions here at the bench for you and your counsel, if you'd like them.

THE WITNESS: I believe I already have that.

CHAIRMAN GLEIMAN: Okay. For interested parties I think there are copies available over at the table near the door.

I'd like to take a minute to read over the comments and focus particularly on page 6 and 7, and when you're through, would you comment on what has changed on the Postal Service's opinion about MODS data since those comments were filed?'

And I'll tell you what we're going to do. Just to make it a little bit easier, we're going to take a 15-minute break. You'll be able to stand up and stretch your legs and take a breath and read that over at a more leisurely pace, and then we'll come back and talk about it a little bit.

THE WITNESS: Okay.

[Recess.]

CHAIRMAN GLEIMAN: Well, when last we met I asked you to take a few moments to read over that ancient piece from RM 76-5 and asked you, when you were through, whether you could comment on what has changed in the Postal Service's opinion about MODS data since these comments were filed.

THE WITNESS: Okay. I think in some of my earlier answers, I mentioned that MODS was originally deployed as a local management system, and that, over time, it has evolved into a more consistent system that is used for accountability at district, area and even national levels.

Looking at the top of page 6, the end of the first sentence, it refers to MODS as principally a local manager's information tool. That was certainly true when it was deployed. It is just not true anymore. It is used for too many things in the Postal Service.

As far as when that changed, it has changed gradually over time. Certainly, by mid-80s, we were using

it quite extensively in our analysis. By the late '80s, with all the deployment of automation, the need for a national data system of this type was such that it was getting a lot of national scrutiny. So I would say, you know, from the late '80s to present, it has been functioning at a higher level.

But that being said, you know, I think, with respect to things like FHP, it still continues to evolve.

In terms of the hours data, I don't think there has been a lot of evolution there. I don't know how long they have been reporting in the three digit format that rolls up to LDC, but it has been quite a while and I think those data have been pretty consistent.

In terms of TPH, again, because those have been machine counts since -- as long as I am aware, in the majority operation groups, I doubt that they have evolved much. FHP is probably the one area where there has been increased scrutiny, increased monitoring over time.

The other thing I would say over time is the addition of the MOD 2 offices to the system signalled, I think certainly by the time that happened, it was clear that this was a national system and we needed broader coverage. But even the MOD 1's were used nationally quite a bit before that.

Are there other particular passages you would like

me to comment on?

CHAIRMAN GLEIMAN: No, that will suffice for our purposes. I just needed to get a sense of what you thought had changed over time.

THE WITNESS: Okay. I just might add one other thing. At the top of page 7 is a paragraph that talks about the local flexibility in terms of the level at which the data are entered, and that's basically the kind of thing I was talking about in my original testimony, and it is still present to a certain extent today, but it is limited to, you know, certain operational groups and when you use the data nationally, you can aggregate to a level where you know you are not going to have any of those problems.

CHAIRMAN GLEIMAN: Now, going back to ancient history, again, as it were. You mentioned earlier that you, Christensen Associates, had been looking at MODS since about 1984 and had been using it.

THE WITNESS: That's correct.

CHAIRMAN GLEIMAN: Other than any assistance you may have given Witness Bradley in this case, has the Service ever asked during that period that you model the mail processing productivities either at the facility and/or operational levels?

THE WITNESS: Not at operational levels. At the facility level, we had modeled workload since 1984.

Sometimes for individual mail processing plants, other times for districts as a whole. So, yes.

CHAIRMAN GLEIMAN: I'm not sure I understood. Does that mean that there are in fact productivity numbers at the facility level?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Could you provide those to us?

THE WITNESS: I believe they are already in the docket with respect to -- whose Interrogatories were those?

MR. KOETTING: As I recall, Time-Warner asked an Interrogatory and then Dow Jones followed up, but we filed two sets of Library References of Christensen material.

CHAIRMAN GLEIMAN: We will go back and take a look. I have reason to believe, based on head nodding in other parts of the room, that that may in fact be the case.

MR. KOETTING: The range of numbers, the Library Reference number is around 270 to 277, something like in that.

CHAIRMAN GLEIMAN: Somewhere between 1 and 312, or something like that?

MR. KOETTING: No, they were filed after the case started, so it is lower -- it is higher than 215.

CHAIRMAN GLEIMAN: Thank you. I appreciate your help on that.

Earlier today, and I do think it was before lunch,

I gave you a chart that laid out some changes over time in weight per piece in different -- with different types of mail. We had first, regular, second, bulk, third and fourth on there. Now, I have just given you another chart, and there are some copies available if anyone wants to look, that have a little bit more detail breakout with respect to first class. It has got first class, non-presort, presort, carrier route presort and non-presort cards. The same time period, '86 to '96.

These categories do not exactly correspond with MOD source codes that you use, but they conform fairly closely. And, again, it appears to be the case that the average weight per piece has changed over the years since 1986, increasing in most cases. First class presort contains very few flats and virtually no parcels, and non-presort cards consists of single sheets. And I was wondering you would view the changes in weight over time to be significant in these areas?

THE WITNESS: You know, as I said when we talked about this earlier today, I think to really evaluate this, you need to have the confidence intervals on the RPW estimates in front of you. But putting that aside for a minute, what I see in non-presort pieces, with the exception of '88, all the growth numbers are positive. So if, in fact, this shows that the weight per piece has been changing

and this could be legitimately applied to an underlying source type code, it would point in the direction of that source type code conversion factor needing revision.

But, as I said, if the use of these data is to put them in a model, one could, either through a time trend or time dummies, or some sort of time structure, appropriately account for a pattern of changes.

If I look down the list at the presort line, you know, again, there's some movement and some movement down. The big movement up is in '93, but it is -- the following year there is a corresponding movement down. When I see things like that, that really looks like statistical variation to me, that, you know, when I see a big up and big down, that up probably had a lot of noise in it and a lot of it was taken out with the down.

The same kind of things happen on the carrier route presort line, '90 to '91, you have nearly identical offsetting changes. Ninety-three to '94, the same kind of thing happens.

So, you know, does this signal to me that we ought to revise those conversion factors? Yes. But, you know, I think ten years, you ought to revise them whether you have got this kind of evidence or not.

Does it mean we can't use the data? I still don't see any reason to say not. You know, these -- these might

be offered as explanations for models that just plain didn't work. Why didn't our data work? Gee, we had bad weight conversion factors out there. Our model, I couldn't get anything significant, I got results that were counter-intuitive. You could say, boy, I really had some noise in my data.

But -- but all of this kind of evidence, I think ultimately has to be put in the context of how much is too much, and that really is in whether the model can explain the variation of what you are trying to explain, whether the relationships are statistically significant, whether the results are consistent with, you know, the stories people tell you in terms of what you really expect, in terms of are there -- are there variabilities less than one, and, if so, why do we see them in this operation and that?

And I think that is really the ultimate test of a lot of the stuff we have talked about today, not just the weight conversion factors.

CHAIRMAN GLEIMAN: Thank you. I am going to mark this chart Presiding Officer's Cross-Examination Exhibit No. 2 for Degen, and I am going to provide two copies to the reporter and move it into evidence and ask that it be transcribed into the record.

[Exhibit PO-XE-2-Degen was marked for identification, received into

evidence and transcribed into the record.]

PO-XE2-Degen

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Change in Weight per Piece
FY 1986 - FY 1996
(Ounces)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
First-Class: Nonpresort	0.6228	0.6389	0.6352	0.6380	0.6471	0.6519	0.6642	0.6781	0.6844	0.7032	0.7202
% change per year		2.6%	-0.6%	0.4%	1.4%	0.7%	1.9%	2.1%	0.9%	2.7%	2.4%
% change cumulative											15.6%
First-Class: presort											
% change per year	0.5796	0.5862	0.5936	0.5936	0.5846	0.5901	0.6033	0.6354	0.6162	0.6209	0.6338
% change cumulative		1.1%	1.3%	0.0%	-1.5%	0.9%	2.2%	5.3%	-3.0%	0.8%	2.1%
											9.4%
First-Class: Carr. Rte. Prst.											
% change per year	0.6382	0.6481	0.6737	0.6644	0.6370	0.6660	0.6668	0.6948	0.6625	0.6455	0.6353
% change cumulative		1.6%	4.0%	-1.4%	-4.1%	4.6%	0.1%	4.2%	-4.6%	-2.6%	-1.6%
											-0.5%
First-Class: Nonpresort Cards											
% change per year	0.0960	0.0960	0.0961	0.0960	0.0961	0.0960	0.0960	0.0959	0.0962	0.0981	0.1016
% change cumulative		0.0%	0.1%	-0.1%	0.1%	-0.1%	0.0%	-0.1%	0.3%	2.0%	3.6%
											5.8%

Source: USPS Revenue, Pieces, and Weight report, FY 1986 through FY 1996.

CHAIRMAN GLEIMAN: In POIR-3, question 28, the Service was asked to identify those activities that are classified as mail processing by MODS and as administrative or window service functions by IOCS. In response, you provided some material, you identified a major portion of the migrations as being involved with labor cost distribution codes 18, 48 and 79.

However, significant amounts were also identified in the attachment to Presiding Officer's Information Request No. 3, question 3, for all of the direct distribution and allied labor cost pools. For example, for the BCS pool, cost pool, approximately $17 million in costs are classified as being in administrative functions by IOCS. Could you please provide some specific examples of the activities that compose these $17 million in IOCS administrative costs that are performed while clocked into BCS operations?

THE WITNESS: I have not specifically studied that, but from my understanding of that operation, I would expect that people clocked into the BCS operation who were observed doing administrative type function would have been doing things like maintaining and updating the software that supports the -- well, the schemes that support sortation for running on that machine.

I mean that's just -- off the top of my head, that is the main thing I can think of that would appear to be

administration but would likely be performed by people who are clocked into that operation.

CHAIRMAN GLEIMAN: With respect to other mail processing activities, the flat sorting machine, letter sorting machine, manual letters, manual flats and platform for these kinds of migrating costs, would you give the same explanation? I mean I don't see how that works for manual letters and flats, you know, programming machines.

THE WITNESS: Yes, it certainly doesn't.

I am not familiar with -- it could be the same kind of concept though in terms of setting up the cases -- you know, labelling them, making scheme changes to them, especially the sortation to carrier route.

I don't know if you have ever seen one of those cases but they have over head a big chart showing the mapping of individual street addresses to carrier route and maintenance of those cases can be fairly extensive.

Again, I have not studied this so I am speculating a little bit, but I think the time to set up and maintain those cases is significant, and it's probably been more significant in recent years with more mail on automation and trying to capture savings from DPS.

Secondary sortation schemes have undergone considerable change. You know, when all the mail was sorted manually, you basically had to retrain everybody when it was

time to change a scheme or redistribute routes.

I think they are doing this more now and that may explain the large administration costs in manual, but I am not sure.

CHAIRMAN GLEIMAN: I know we kind of hit you cold with that one and inasmuch as you haven't studied it in detail, could you give it some thought both with respect to the BCS operations and the other operations, processing operations, if you have some additional thoughts on what might be involved here?

Could you give us a response in writing?

THE WITNESS: Okay, and specifically the question is in the context of POIR Number 3, Question 32, where we have identified migration among cost pools some reasons as to why people would be clocked into each of these cost pools but being observed performing administrating functions?

CHAIRMAN GLEIMAN: That's correct.

THE WITNESS: Okay.

CHAIRMAN GLEIMAN: Again, with respect to POIR Number 3, this time Question 3, you state when discussing the migrating costs, and I quote, that "fiscal year 1996 CRA methodology does not separately identify these costs but recognizes that certain costs in the administrative component are volume variable to the same extent and should be distributed in proportion to mail processing costs."

Does this mean that if the established mail processing variabilities were used generally 100 percent that migrating costs would receive the same volume variability in the mail processing cost pool as they would have received in the administrative cost pool without the use of MODS?

THE WITNESS: No. I think that is a little stronger than what I meant to say there.

I don't think it would end up being exactly the same proportion.

I think I was just trying to point out that under the old methodology the administrative costs were recognized as volume variable to the extent that they were found that way in the system.

In the new methodology we are getting them into the cost pools where we observe them and applying the volume variabilities there, but I don't mean to say that they would get exactly the same variability, just that the spirit of their attribution is the same.

Or let me better state that, that the idea of considering some of them volume variable is not new, that it's been part of the methodology all along, and that the way we do it in the new system is just maybe a little more explicit or up front.

CHAIRMAN GLEIMAN: Well, I was out of questions

until you added that last sentence, but now --

THE WITNESS: Okay.

CHAIRMAN GLEIMAN: I'm still out of questions.

I don't think there are any other questions from the bench. Is there any followup from anyone?

If there's not, that brings us to redirect. Would you like some time with your witness?

MR. KOETTING: Please, Mr. Chairman, about 5 minutes, I think.

CHAIRMAN GLEIMAN: You've got it.

[Recess.]

CHAIRMAN GLEIMAN: Mr. Koetting.

MR. KOETTING: Mr. Chairman, we do have one I hope relatively brief line of questions.

CHAIRMAN GLEIMAN: All righty. Fire away.

REDIRECT EXAMINATION

BY MR. KOETTING:

Q Mr. Degan, this would be with respect to the volume audit report. The Presiding Officer directed your attention to page 8 of that report, and the second paragraph from the bottom begins a discussion of management at certain sites utilizing MODS, however management at certain sites expressing dissatisfaction with MODS. And as I recall, the Presiding Officer read the first two sentences of that paragraph.

Could you read the next two sentences of the paragraph?

A Yes.

This dissatisfaction was due to several shortcomings attributed to MODS, such as delayed information and inaccurate data. Management frequently commented on the use of end-of-run data, stating it would provide a more reliable and economical source of information than MODS if mail processed by manual operations was measured separately.

Q How do you interpret that last sentence of the paragraph relative to the dissatisfaction that is discussed in the second sentence of the paragraph?

A Well, I think, as I've said earlier today, I think when people talk about being unhappy with MODS, there's some ambiguity with respect to which aspects of MODS they're criticizing. As I read this, it's really -- when they're saying MODS I really infer that they're criticizing FHP, because the final sentence that talks about using end-of-run data and trying to separately measure manual volumes is really the way TPH is calculated. So to the extent they're criticizing MODS here I think they're criticizing FHP and arguing we don't like the conclusions of the Inspection Service report that a measure that's more based on machine counts would have a higher level of reliability. And that's how I read that.

MR. KOETTING: That's all we have, Mr. Chairman.

CHAIRMAN GLEIMAN: Thank you. We could have gotten that by reading the next paragraph, too, where they say machines are better than people for counting things.

MR. KOETTING: Yes.

CHAIRMAN GLEIMAN: But we know that the Postal Service doesn't always believe that for some BRMAS considerations we've had around here over the years.

Be that as it may, I don't believe there's any followup as a consequence of redirect, and that being the case, Mr. Degan, Mr. Degan -- I figured I'd finish up on the wrong note -- Mr. Degan, I want to really thank you for today. You've done yeoman's work for the Postal Service, and we appreciate your appearance and appreciate your contributions to our record. And if there's nothing further, you are excused.

THE WITNESS: Thank you. I enjoyed our conversations.

[Witness excused.]

CHAIRMAN GLEIMAN: And I think that brings us to the end of today's proceedings.

I don't believe that we are going to have to have anyone come in tomorrow afternoon -- Mr. Degen has done such a good job -- and I wish you all well, and I expect we will see you back in here a little bit down the road on the

Intervenor's cases.

Thank you all very much and have a good evening.

[Whereupon, at 3:41 p.m., the hearing was recessed, sine die.]