

**ORIGINAL**

**OFFICIAL TRANSCRIPT OF PROCEEDINGS  
BEFORE THE  
POSTAL REGULATORY COMMISSION**

In the Matter of: )

CONSIDERATION OF WORKSHARE )  
DISCOUNT RATE DESIGN )

Docket No.: RM2009-3

POSTAL REGULATORY  
COMMISSION  
OFFICE OF THE SECRETARY

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POSTAL REGULATORY COMMISSION

In the Matter of: )  
 )  
 CONSIDERATION OF WORKSHARE ) Docket No.: RM2009-3  
 DISCOUNT RATE DESIGN )

Commission Hearing Room  
 Postal Regulatory Commission  
 901 New York Avenue, N.W.  
 Washington, D.C.

Volume 1  
 Tuesday, August 11, 2009

The above-entitled matter came on for a  
 conference, pursuant to notice, at 12:58 p.m.

BEFORE:

- HON. RUTH Y. GOLDWAY, Chairman
- HON. MARK D. ACTON, Vice Chairman
- HON. TONY L. HAMMOND, Commissioner
- DAN G. BLAIR, Commissioner
- HON. NANCI E. LANGLEY, Commissioner
- JOHN WALLER, Moderator

APPEARANCES:

On Behalf of United States Postal Service:

JIM KEEFER  
 ASHLEY LIONS  
 MORA ROBINSON  
 STEVE SHARPMAN  
 United States Postal Service  
 475 L'Enfant Plaza West, S.W.  
 Washington, D.C. 20260  
 (202) 268-3179

## APPEARANCES:

On Behalf of American Postal Workers Union, AFL-CIO:

DARRYL J. ANDERSON  
Counsel for American Postal Workers Union, AFL-CIO  
O'Donnell, Schwartz & Anderson, P.C.  
1300 L Street, N.W., Suite 1200  
Washington, D.C. 20005-4126  
(202) 898-1707

On Behalf of Bank of America Corporation:

MICHAEL F. SCANLON  
K&L Gates LLP  
1601 K Street, N.W.  
Washington, D.C. 20006  
(202) 778-9000

On Behalf of Discover Financial Services:

ROBERT J. BRINKMANN  
Law Offices of Robert J. Brinkmann LLC  
1730 M Street, N.W., Suite 200  
Washington, D.C. 20036  
(202) 331-3037

On Behalf of Greeting Card Association:

DAVID F. STOVER  
2970 South Columbus Street, No. 1B  
Arlington, Virginia 22206-1450  
(703) 998-2568

On Behalf of Major Mailers Association:

MICHAEL W. HALL  
23663 Grasty Place  
Middleburg, Virginia 20117  
(540) 687-3151

DAVID GORUM  
Counsel

APPEARANCES: (Continued)

On Behalf of Public Representatives:

E. RAND COSTICH  
Public Representative  
901 New York Avenue, N.W., Suite 200  
Washington, D.C. 20268-0001  
(202) 789-6859

On Behalf of Stamps.com:

SETH WEISBERG  
Chief Legal Officer  
Stamps.com  
12959 Coral Tree Place  
Los Angeles, California 90066-7020  
(310) 482-5808

On Behalf of Valassis Direct Mail and Saturation Mailers:

THOMAS W. MCLAUGHLIN  
Burzio McLaughlin & Keegan  
1054 31st Street, N.W., Suite 540  
Washington, D.C. 20007-4403  
(202) 965-4555

On Behalf of Valpak Direct Marketing Systems, Inc./  
Valpak Dealers Association, Inc.:

JOHN HALDI  
Haldi Associates, Inc.  
488 Madison Avenue, Suite 1100  
New York, New York 10022-5702  
(212) 486-9494

On Behalf of Pitney Bowes:

MICHAEL F. SCANLON  
K&L Gates LLP  
1601 K Street, N.W.  
Washington, D.C. 20006  
(202) 778-9000

APPEARANCES: (Continue)

on Behalf of Postal Regulatory Commission:

MATT ROBINSON  
MALIN MUNCH  
KATHY KLINDANING  
MICHAEL RAWINSKY

No Association:

BOB MITCHELL  
JOE LUBINO

On Behalf of Newspaper Association of America:

BILL BAKER

P R O C E E D I N G S

(12:58 p.m.)

1  
2  
3 CHAIRMAN GOLDWAY: Good afternoon. Welcome  
4 today to the Postal Regulatory Commission, and to our  
5 hearing room facilities. I am Chairman Ruth Goodway,  
6 and this is my first opportunity to serve as Chairman  
7 for a public meeting of the Commission, and I wanted  
8 to thank you for sharing this special day with me, and  
9 for bearing with me if I don't get all of the  
10 procedures exactly right the first time around.

11 With me today are my follow Commissioners,  
12 Vice Chairman Nanci Langley; Commissioner Dan Blair,  
13 who has served as Chairman for over two years, seven  
14 months, I think, in an admirable fashion; Commissioner  
15 Mark Acton; and Commissioner Tony Hammond.

16 This afternoon we are conducting a public  
17 forum to discuss issues arising from the Commission  
18 Rulemaking RM2009-3. This rulemaking was initiated to  
19 evaluate issues concerning the methodology for  
20 evaluating costs relating to workshare activities, and  
21 how cost savings can and should be reflected in rate  
22 discounts.

23 Today's discussion probably will involve  
24 issues of public policy interwoven with technical  
25 allocation cost issues. The format of the public

1 forum was chosen to encourage an open exchange of  
2 views. This is a new format for the Commission, a  
3 concept that we hope will help us to get information  
4 and input in a new way. We hope everyone here today  
5 will feel comfortable discussing where and how the  
6 theory and practice overlap and in that way clarify  
7 some of the problem areas that have arisen as we have  
8 evaluated whether postal rates properly reflect the  
9 policies of the Postal Accountability and Enhancement  
10 Act.

11 Our process today will be as follows: John  
12 Waller, the Commission's Director of the Office of  
13 Accountability and Compliance, who is sitting with us  
14 at the end of the table here, will serve as the  
15 moderator and facilitator. We call him Dr. John  
16 because he's our professor in this area, and, of  
17 course, has his Ph.D. He will lead the discussions  
18 and, if necessary, move it along to add additional  
19 relevant topics.

20 We want to welcome questions from the  
21 audience and encourage dialogue. We want to consider  
22 everyone here as an equal participant. We've tried to  
23 approach a round structure so that everyone feels that  
24 they can participate.

25 There are microphones in the ceilings, and

1 we ask those participating in the discussion to stand  
2 and identify yourself when you begin speaking so that  
3 those listening to the public web broadcast of today's  
4 meeting can follow the discussion. I would ask also  
5 that you try to keep each of your questions or  
6 statements brief and to the point. We have a large  
7 audience and a long agenda.

8 As we announced in an earlier notice, the  
9 Commission is transcribing today's discussion so that  
10 interested persons can review what has been said, but  
11 let me reiterate. This is intended to be a frank and  
12 open discussion, and comments made to today's sessions  
13 will not be viewed as binding statements of positions  
14 or used for the Commission's deliberations in making  
15 this final record. We want to share ideas, and to  
16 open the dialogue rather than hear final statements or  
17 firm positions from particular parties.

18 Written comments of the issues of this  
19 rulemaking are due on August 31. We hope those  
20 comments will be informed by today's discussion, and  
21 after written views have been submitted the Commission  
22 will evaluate that record and decide how best to move  
23 forward in this process with regard to future rate  
24 cases and the annual compliance report.

25 So, John, will you briefly describe how you

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1 intend to cover today's topics?

2 MR. WALLER: Yes, thank you. I'll see if  
3 this works. It does, because I'll have to hand it out  
4 occasionally.

5 As the Chairman has just noted, the intent  
6 is to have dialogue, not necessarily to score points,  
7 but to get a good understanding of issues and  
8 particularly from each other's perspective. The  
9 process that we're going to follow is to go through  
10 the order of the issues that were presented in the  
11 order setting it up 243, and in the notice of  
12 procedures. I have highlighted in the handout what  
13 were some of those issues, and I'll just go through  
14 them real quick.

15 Is special protection of single piece First-  
16 Class entitled under PAEA? And then what form should  
17 that take if in fact it is? And then the worksharing  
18 definition for particularly the application of Section  
19 3622, which has the limit of pass-throughs being less  
20 than 100 percent or equal. And then if there is a  
21 worksharing and a non-worksharing component, what  
22 legal standards and economic policies should apply?

23 Under the single-piece First-Class, of  
24 course, we want to focus somewhat on the options. We  
25 listed some, but there is obviously an other category,

1 and whether linking is the way, separate class is the  
2 way, whether it's limited differences between the two,  
3 et cetera. We want to get into what to really do to  
4 define market issue, and as we go to worksharing  
5 definition, do we use the Pure as some have commented  
6 should be as listed in the PAEA, or is the Pure Plus,  
7 other cost reducing characteristics, and then what are  
8 the application options of the definition once  
9 adopted, and particularly how does it relate to 3622?

10 And then we get into Standard Mail issues,  
11 particularly what are the product definitions and what  
12 should be an appropriate benchmark?

13 Now, we'll try and go through these in a way  
14 that we don't address everything at once, so we'll  
15 focus on the first issue. Now, I may ask a question  
16 now and then to get it started or get it going, but  
17 the idea is that people will make some statement of  
18 how they view the question. Others obviously will  
19 have some different viewpoint, at which we urge you to  
20 give it, not necessarily in an argumentative way but  
21 just to state it so each side can hear it.

22 I've been assured by a lot of you that you  
23 will talk, and by some of you that may take a little  
24 prodding, and since I know some of the issues you've  
25 raised I might call upon some of you, and I have so

1 warned you that I might, so please take the initiative  
2 yourself. I will try and keep it on track, and keep  
3 us moving through the set of issues. That may be near  
4 impossible. We certainly have the whole afternoon.  
5 We will probably go maybe an hour and a half and then  
6 we would take a break.

7 I would ask that when you want to speak you  
8 raise your hand. In case there are several people  
9 raising hands, and I recognize one or two of you in  
10 sequence, then you stand, identify yourself,  
11 particularly for the Internet crowd and for other  
12 people in the room who may not be as familiar with  
13 certain people as others.

14 So, I think that is just the general  
15 process. As the Chairman said, it's a new process so  
16 we really don't have any ground rules, but in case we  
17 steer completely off into left field, even though his  
18 arm is in a sling, General Counsel Steve Sharpman will  
19 interject no doubt, and tell us to get back on track  
20 or something of that nature. I have encouraged him to  
21 do that.

22 All right, to the first issue. First-Class,  
23 and do the single-piece category warrant any special  
24 protection or maybe in particular does it get special  
25 protection through the current linking mechanism?

1 First hand went up back there in the back  
2 there, Mr. Stover, right?

3 MR. STOVER: David Stover, Greeting Card  
4 Association. We were asked to keep our comments  
5 brief.

6 Yes. The answer to the first question about  
7 special protection for single-piece First-Class how  
8 you answer it depends to some extent on the answers to  
9 the other questions that are before the Commission.  
10 If there is an ultimate decision that Presort is still  
11 just Presort, it's a worksharing phenomenon, what I  
12 guess I can call traditional rules of designing  
13 worksharing rates still apply, then we have some  
14 protections that we know how to use, and the  
15 Commission has used them.

16 If the Postal Service's proposal to de-link  
17 is ultimately adopted, then we have two separate  
18 products, two products that are entirely separate,  
19 that have their own market characteristics, that are  
20 equally subject to the, or equally entitled to take  
21 advantage of the provision calling for a just and  
22 reasonable rate schedule, and in particular the  
23 objective or the factor carried over from the old  
24 statute about impact of rate increases on users of the  
25 mail.

1           The Commission has observed in, I think,  
2 Order 191 that the change to the Postal Service's  
3 proposed method could shift hundreds of millions of  
4 dollars within First-Class, and that we view is an  
5 extremely serious rate shock issue which needs to be  
6 addressed squarely if the Postal Service's view is  
7 ultimately prevail in this proceeding, this  
8 rulemaking.

9           Thank you.

10          MR. WALLER: Okay, thank you.

11          Since another hand went up, I will recognize  
12 you. I would like to go back and forth in different  
13 viewpoints, but go ahead.

14          MR. ANDERSON: Thank you, John. I actually  
15 have a different viewpoint, and that is that the  
16 Protection -- oh, I'm sorry. Darryl Anderson, counsel  
17 for the American Postal Workers Union.

18          The protection for single-piece First-Class  
19 Mail is not just an objective or a factor to be  
20 considered but as Chairman Goldway observed in her  
21 dissent in our 2009-1, it is a statutory requirement.  
22 Congress was very well aware of this Commission's  
23 jurisprudence when it enacted the PAEA as the  
24 Commission itself has observed in some of its  
25 decisions since the PAEA was adopted.

1           Congress adopted 3622(e) for the primary and  
2 almost exclusive purpose of ensuring that single-piece  
3 First-Class Mail would be protected against de-  
4 linking. 3622(e) was intended by Congress and was  
5 adopted by Congress as a policy of the United States  
6 to continue to protect universal service at a uniform  
7 rate and to do it through 3622(e) through the  
8 worksharing mechanism. This requires that there be an  
9 appropriate benchmark which is bulk metered mail.  
10 That issue has been litigated over and over again. No  
11 one has been able to suggest one that will work as  
12 well. It's very appropriate for economic reasons.  
13 It's legally now embedded in 3622(e).

14           Not to say you can ever depart from the bulk  
15 metered benchmark but there would have to be very  
16 clear and compelling reasons to do that. But in any  
17 event, the mechanism is embedded in the law.

18           And since we are supposed to be brief, I  
19 will desist with that brief observation. We can move  
20 on to Standard Mail.

21           (Laughter.)

22           MR. WALLER: We will do that, undoubtedly,  
23 soon. Not too soon probably.

24           Some other opinions on this issue? The  
25 Postal Service, Mora Robinson.

1 MS. ROBINSON: Mora Robinson with the Postal  
2 Service.

3 The Postal Service has long recognized that  
4 there are unique characteristics of single-piece  
5 First-Class customers, particularly small household  
6 customers that need and should be recognized by both  
7 the Postal Service and the Commission as they design  
8 rates. This discussion has been focusing on the role  
9 of 3622(e) and the worksharing requirements of the  
10 statute, but I would just like to note to follow up on  
11 what Mr. Stover said is there is a large number of  
12 factors and objectives within the PAEA and criteria,  
13 statutory requirements in the old PRA that have  
14 carried over into the current statutory structure that  
15 address the question of whether single-piece First-  
16 Class Mail was treated equitably and reasonably.

17 So, the focus solely on 3622(e) as the  
18 mechanism for ensuring appropriate treatment of  
19 single-piece small customers is really very, very  
20 narrowly focusing on one element of the statutory  
21 requirements, and we need to consider the entire  
22 statute in context, and the various mechanisms that  
23 the Commission and the Postal Service can work  
24 together to meet those requirements and to protect the  
25 special interests of the single-piece customer.

1 MR. WALLER: Some other people? I know  
2 there is other people with opinion on how other parts  
3 of the act apply.

4 MR. GORUM: Sir, I have an opinion.

5 MR. WALLER: Okay. Please identify  
6 yourself.

7 MR. GORUM: My name is David Gorum and I am  
8 with Major Mailers Association.

9 A slightly different view. Major Mailers  
10 Association is a group of mailers that is largely high  
11 volume First-Class Mail, and the view that I would  
12 take is that as we move forward and think about this,  
13 in order to protect single-piece mail the Commission  
14 should take a strong look at protecting the workshare  
15 mailer as well, because much of workshare mail  
16 contains a courtesy reply mail envelope which comes  
17 back at the single-piece rate, therefore protecting  
18 the single-piece rate category.

19 Otherwise, if you drive further and further  
20 away from the workshare mail or because of cost, and  
21 the extensive cost, then the single-piece rate will  
22 not be able to maintain the rate protection, if you  
23 will, that it has today. It will have to be at a much  
24 higher rate. So you have to really keep in mind that  
25 the workshare mailer that's sustaining much of the

1 expense to push mail into the system, and often  
2 carrying a courtesy reply mail or another offer inside  
3 that comes back at a full postage single-piece rate is  
4 helping to carry that single-piece load.

5 MR. WALLER: So you are saying there is a  
6 linkage independent of the straight linking on the  
7 benchmark through that?

8 MR. GORUM: Yes.

9 MR. WALLER: Getting some viewpoints, some  
10 others here on the protection issue of how well this  
11 works? I think somebody did raise the issue of just  
12 and reasonable being a barrier. How should that be  
13 applied here and what's been the experience not to  
14 jump to Standard but where there was an issue raised  
15 about it in Standard between letters and flats? Is it  
16 just and reasonable? How should that be applied if  
17 it's going to be applied as a mechanism? I'll throw  
18 that out as a question.

19 David Stover again.

20 MR. STOVER: David Stover, Greeting Card  
21 Association.

22 One very general comment on that is that the  
23 statutory section says that there is to be a just and  
24 reasonable schedule of rates, which we take to mean  
25 that the relationship among the rates has to be in

1       itself just and reasonable. You look at the schedule  
2       as a whole, and see if the pattern of increases over  
3       the years for one category has been out of line with  
4       the general run.

5                    You look at such things as, perhaps as  
6       contribution per piece at an implicit cost coverage.  
7       Never thought I'd say those words before this  
8       Commission, advocating it be used as a measure, but be  
9       that as it may. The trap is to think of rates  
10      individually as being just and reasonable. You look  
11      at a rate and say, well, that looks reasonable. If  
12      you looked at the rates on either side of it you might  
13      change your view if they appear to be out of line with  
14      one another. Thank you.

15                   MR. WALLER: Is there any time aspect to  
16      that of it being that way over time?

17                   MR. STOVER: Probably there is. One of the  
18      possibilities is, and we've seen how the profile  
19      within First-Class can vary from year to year. In  
20      R2008-1, as I recall, Presort got a larger --  
21      noticeably larger increase than single piece, and in  
22      R2009, it was the other way around. You can look at a  
23      pattern like that and say, well, that's random.  
24      That's the way the -- as the Postal Service described  
25      in its comments -- under the existing system these

1 relationships do tend to gyrate up and down.

2           If you see a consistent pattern over several  
3 years of disparity, you may start to think that the  
4 just and reasonable -- it's time to invoke the just  
5 and reasonable criterion and see if that pattern ought  
6 to be changed.

7           MR. WALLER: Any other comments on that  
8 light of thought of protection? A Postal Service  
9 person.

10           MR. GERMAN: Eddie German with the Postal  
11 Service.

12           I don't disagree necessarily with Mr.  
13 Stover, but I get there a different way. First of  
14 all, in terms of the protection to be afforded First-  
15 Class Mail, I think the Postal Service takes the  
16 position that the just and reasonable standard is a  
17 standard that provides a protection simply because  
18 that's what the Congress intended.

19           Shortly after Senate 662 was introduced by  
20 Senator Collins, this whole issue of the protection be  
21 afforded single-piece First-Class came up, and  
22 basically the concern was, as Mr. Stover said, that  
23 year after year the Postal Service could raise the  
24 rates for single-piece First-Class while leaving  
25 Presort essentially unchanged as long as in any given

1 year it averaged out to CPI.

2           There was an approach to Senator Bond on  
3 that issue by one particular stakeholder who argued  
4 that in order to provide protection a factor in S.662,  
5 the fair and equitable rate schedule should be  
6 elevated to the status of an objective.

7           The Postal Service opposed that for the same  
8 reason that the stakeholder advocated it, and that was  
9 our concern, that the rate relationships that are  
10 established under the PRA would be blocked in by that  
11 mechanism.

12           Accordingly, things kind of stood still for  
13 awhile on 662 until a compromised amendment introduced  
14 and co-sponsored by both Senator Collins and Senator  
15 Bond established the just and reasonable standard.

16           Now, as we noted in our filings with the  
17 Commission, that is a standard that's applicable in  
18 other regulated industries such as the Federal Power  
19 Commission, or now FERC, and has been held to  
20 establish a range of reasonableness where rates are  
21 not less than compensatory and not excessive.

22           Now the question becomes what's excessive,  
23 and in the Postal Service's view you reach that  
24 determination through the judicious application of the  
25 objectives and factors of the act. It's a qualitative

1 standard but as others, including I think Mr. Stover  
2 noted, at times the Commission is going to have to act  
3 as a judge. That obviously doesn't have the benefit  
4 of a nice, neat formula where you crank in numbers and  
5 you get a result that pops out potentially as an  
6 excessive rate. Moreover, it's not likely that in any  
7 given year a rate increase would be viewed excessive  
8 because of the constraints inherent in the price gap.  
9 But as Mr. Stover says, if the Postal Service year  
10 after year increased one rate or tilt it toward  
11 Presort at the expense of single piece, it might well  
12 give rise to a violation of the just and reasonable  
13 standard.

14 In any event, I think that the just and  
15 reasonable standard was the way Congress intended the  
16 various factors and requirements of the act to be  
17 harmonized.

18 Okay, did I say too much?

19 MR. WALLER: Okay, thank you.

20 Before we leave that subject, does anyone  
21 else have any comments on the just and reasonable  
22 approach?

23 CHAIRMAN GOLDWAY: John, can I jump in?

24 MR. WALLER: Definitely.

25 CHAIRMAN GOLDWAY: See if I can express this

1 clearly.

2 MR. WALLER: And this is Chairman Goldway.

3 CHAIRMAN GOLDWAY: This is Chairman Goldway.  
4 Yes, thank you.

5 It seems to me that there were actually two  
6 principles involved in this discussion. One is the  
7 protection of the single-piece First-Class Mail, and  
8 the other is the assurance that the Postal Service  
9 does not give discounts for work done by outside of  
10 the Postal Service that's greater than what the Postal  
11 Service could do itself, and the benchmark has been  
12 the effective way in which we measure that difference  
13 to assure both that First-Class Mail is protected and  
14 that discounts are not excessive.

15 So, I think we need to have more comments or  
16 questions about the efficacy of this benchmark itself  
17 and whether that is in fact serving the intention of  
18 the law.

19 MR. WALLER: Before we let David speak, is  
20 there anyone else who would like to talk on that issue  
21 that the Chairman has raised? Malin? And we'll get  
22 to the others, just to divide up a bit.

23 MR. MUNCH: I'm going to take a big risk  
24 here and -- I'm Malin Munch. I'm with the Postal  
25 Rate Commission, legal staff.

1 VOICE: Postal Regulatory Commission.

2 MR. MUNCH: Sorry. Take a big risk here and  
3 try to move the issue just temporarily back to the one  
4 we were on before the Chairman directs us to the  
5 question of what the technique for accomplishing de-  
6 linking, and go back to the more philosophical  
7 question of whether the single-piece First-Class is  
8 entitled to special protection.

9 And I have a thought that I wonder if anyone  
10 wants to respond to, which is that the portion of the  
11 PAEA that says that a basic purpose of the Postal  
12 Service is to bind the nation together, and whether  
13 achieving that purpose -- in achieving that purpose  
14 the single-piece First-Class mailer plays a more  
15 significant role than any other category of mail in  
16 binding the nation together, perhaps because it may be  
17 the last refuge of the technologically challenged or  
18 the technologically disadvantaged, I guess is a better  
19 term, it seems to me that that might be a potentially  
20 large issue, and if anyone has a response to whether  
21 the basic rationale for the Postal Service having its  
22 actual monopoly status in the first place applies with  
23 more force to this First-Class Mail than any other.

24 MR. WALLER: Before going on to the  
25 Chairman's issue, yes, we will give a chance to

1 respond to that.

2 MR. ANDERSON: I guess three responses to  
3 that. This is Darryl Anderson for APW.

4 One is that the binding of the nation  
5 together requirement addresses the philosophical  
6 underpinnings of the Postal Reorganization Act and  
7 also the PAEA, was sustained in the PAEA, which is to,  
8 I think, protect those who don't have access to Postal  
9 Service unless uneconomic things are done. And so  
10 certainly economics doesn't drive much of what  
11 underpins postal law. It is congressional desire to  
12 provide universal service, and the requirement that it  
13 be done at a universal rate for First-Class Mail is  
14 also reiterated in the PAEA, in the enactment of the  
15 PAEA. So, that reaches to those who would not  
16 otherwise have access.

17 So I think the question is not therefore who  
18 makes a bigger contribution. Congress recognized that  
19 the contribution of the large mailers is greater.  
20 That's well known to this community and it was well  
21 known to the Congress. It is the economic  
22 contribution. But that's what Congress intended, and  
23 so I think that's the second part of the answer.

24 But I also want to say that Section 3622(e)  
25 doesn't hinge on the uniform rate for universal

1 service requirement. That requirement is there, but  
2 Congress in 3622(e) was doing something much more  
3 explicit, which I described before and which I won't  
4 reiterate, but which it was basically codifying the  
5 jurisprudence of this Commission. It well understand  
6 it.

7           And I'm glad that Andy spoke about the  
8 people approaching Senator Bond because I actually had  
9 a law clerk do some research about what's admissible  
10 legislative history and what isn't, and I won't  
11 comment further on that inadmissability, but I will  
12 say this because I don't want anybody to shut me up,  
13 but I will say this:

14           Congressman Waxman's staff convened a  
15 meeting -- and Phil Barnett -- convened a meeting of I  
16 bet half a dozen people in this room or more to deal  
17 with the fact that the APWU was opposing postal reform  
18 legislation, and in that meeting we were demanding  
19 protection against excessive workshare discounts, and  
20 in that meeting there was an extensive discussion with  
21 members of the industry who raised one after another  
22 the various problems that they would have to confront,  
23 or that might be raised in the functioning of  
24 workshare discounts if there were just an absolute  
25 requirement of workshare discounts not exceeding costs

1 avoided.

2           And we accommodated them, we weren't doing  
3 anybody any favors, they were reasonable requests.  
4 They were also reflected in the jurisprudence of the  
5 Postal Regulation Commission, then the Postal Rate  
6 Commission, because they dealt with the things that  
7 are the exceptions in 3622(e). That's where those  
8 exceptions came from. They were raised at that  
9 meeting, they were discussed. Some of them we had to  
10 go back to our economists and to other parties, and we  
11 gradually worked all those things out. I don't think  
12 you will find that in the committee report anyplace,  
13 but that's a fact. 3622 was the embodiment of the  
14 jurisprudence of -- 3622(e) was the embodiment of the  
15 jurisprudence of this body.

16           MR. WALLER: Thank you.

17           MR. HORN: I swore I would just listen.

18           (Laughter.)

19           MR. HORN: -- and among others I represent  
20 the Association for Postal Commerce.

21           I would like to put to bed once and for all  
22 after all of these years that the "Bind the Nation  
23 Together" has anything to do with the subject that  
24 you're talking about. In the first place, there are  
25 other materials that go through the mail, including

1 magazines, and my first love, books, that serve to  
2 bind the nation together.

3 In the second place, true, it was in the  
4 Postal Reorganization Act, and it is still in the  
5 PAEA, it is a phrase full of sound and fury signifying  
6 what? I don't know what it means, and certainly in  
7 the age of electronics it is something that I would be  
8 very, very careful if I relied on it in dealing with  
9 issues that are now in front of you in either  
10 direction.

11 MR. WALLER: Thank you. There were a couple  
12 of other people who raised -- Mora, I'll recognize  
13 you.

14 MS. ROBINSON: Yes, thank you. Mora  
15 Robinson with the Postal Service.

16 I want to go back to the question that  
17 Commissioner Goldway asked, Chairman Goldway asked,  
18 and that's the role of the 3622(e) requirements in  
19 conjunction with the entire structure and whether  
20 that's appropriate, what the mechanics are of  
21 implementing that.

22 As a practical matter, what we have in the  
23 regulatory structure associated with pricing is a  
24 price cap that applies to First-Class Mail. That  
25 basically limits the change in the amount of money the

1 Postal Service could achieve in a specific time coming  
2 from First-Class Mail.

3 We also have the workshare requirements.  
4 But what happens is just from a purely arithmetic  
5 mechanical basis it's difficult if you solely apply  
6 the workshare 100 percent cost avoidance rule to  
7 actually achieve the two requirements. You can meet  
8 the cap, you can meet the workshare rule, and still  
9 get the total financial benefit, the financial need of  
10 the Postal Service coverage is extremely difficult.  
11 You might happen on a circumstance where that can be  
12 balanced, but a very strict adherence to the  
13 requirement of 100 percent pass-through for  
14 worksharing basically gives you a lot of difficulty in  
15 also getting the full pricing authority allowed under  
16 the cap.

17 So, we've got what boils down to being a  
18 balancing exercise. We've got to balance the various  
19 requirements in the act -- the price cap, the  
20 worksharing requirements, the other statutory  
21 requirements that we've been discussing -- in order to  
22 come up with a reasonable price structure for the  
23 American people.

24 MR. WALLER: Since you have spoken, David,  
25 let me let Rand speak and then I'll come back to you.

1 I was going to actually say, well, wait a minute, we  
2 do seem to have some alternate ones laid out.

3 MR. COSTICH: Rand Costich. I'm the Public  
4 Representative in this proceeding. I work for the  
5 Postal Regulatory Commission.

6 Two things come to mind from what Mora just  
7 said. One is that the fact that the Postal Service is  
8 a government agency and not a private monopoly  
9 suggests that it has some special function that cannot  
10 be provided by a private monopoly, and I would say  
11 that protection of single-piece First-Class and  
12 perhaps protection of small periodicals, if I may  
13 inject that issue, are the two primary reasons that  
14 Postal Service is a government function in this  
15 country.

16 Second, Mora mentioned the difficulty of  
17 applying 100 percent pass-throughs and keeping the  
18 benchmark exactly where it is. There is a simple  
19 solution to that, and that is, instead of an integer  
20 cent constraint have an integer mill constraint. That  
21 was presented in the Public Representative's comments  
22 that were earlier filed in this proceeding, and showed  
23 that very close -- one can come very close to  
24 maintaining 100 percent pass-throughs and maintaining  
25 the benchmark if one can go to mill rates for single-

1 piece First-Class.

2 MR. WALLER: Let me get David and then I  
3 will come to you, Matt.

4 MR. STOVER: David Stover with the Greeting  
5 Card Association.

6 Coming back to Commissioner Goldway's  
7 questions which has receded some way into the distance  
8 now, but the discussion of which I contributed of the  
9 importance of the just and reasonable rate shock  
10 criteria of the statute, at least when I raised it I  
11 premised it on the assumption that the single piece  
12 and Presort would no longer be held to be in a  
13 worksharing relationship with one another. The road  
14 forks before I got to those provisions of the statute.

15 If that is not the case, if the Commission  
16 decides to continue on the premise that in spite of  
17 the fact that it does show some market differences of  
18 some apparent cost differences other than the strictly  
19 worksharing-related ones, it is still a workshared  
20 version of First-Class Mail, then I think we do have a  
21 different set of protections. They are the ones Mr.  
22 Anderson referred to, for example, and I think  
23 probably one of the basic questions facing the  
24 Commission today and for the rest of the month is are  
25 you going to continue that relationship or are you

1 going to adopt the Postal Service's basically  
2 statutory argument that you cannot continue that  
3 relationship because the Presort and the single piece  
4 are now in the classification schedule as separate  
5 product.

6 I don't know whether it's the appropriate  
7 time to get into that legal argument. GCA has some  
8 difficulties with it, some substantial difficulties  
9 with it, but I will let the moderator decide whether  
10 this is the time to go into them or not.

11 MR. WALLER: I will let Matthew say whatever  
12 he was going to say, I think was relative to something  
13 that went on before, and then I think we will have to  
14 move onto that.

15 MR. ROBINSON: Hi, I'm Matt Robinson with  
16 the staff of the Commission, and I just thought I  
17 would see if I could get some people who have been  
18 talking about the just and reasonable and other sort  
19 of maybe softer standards for protection, setting  
20 aside rate shock that over the longer term. There is  
21 currently a pretty large disparity between the unit  
22 markup and the percentage markup for single piece and  
23 Presort, and I wonder what those who would advocate  
24 using just and reasonable type standards would think  
25 if over the long haul, setting aside rate shock, that

1 it's done over time, if those were moved to be more  
2 equal, like equal percentage or equal unit  
3 contributions, if those would be at some point  
4 considered to be unjust or unreasonable, and why or  
5 why not.

6 MR. WALLER: Nice question thrown to the --  
7 Mr. Brinkmann? Mr. Brinkmann.

8 MR. BRINKMANN: I thank you. Bob Brinkmann  
9 representing Discover Financial Services.

10 As I listen to this conversation, I am  
11 really kind of disturbed by two things. One, I guess  
12 I'm disturbed by the notion of even linking different  
13 types of rates in terms of given rate relationships.  
14 It seems to me that when Congress passed the law,  
15 PAEA, the basic structure should be there should be  
16 individual products. Each individual product should  
17 have a cost base based on real data, and from that  
18 point the Postal Service should use its pricing  
19 flexibility to maximize its profit.

20 Now, that doesn't mean, it seems to me, and  
21 I find incredulous to think that single-piece mail  
22 could ever skyrocket. I mean, Congress would go crazy  
23 if they did that. The political constraints on this  
24 Commission for single-piece First-Class Mail are  
25 significant.

1           And the second thing that disturbs me is,  
2   you know, the Postal Service is in very difficult  
3   straits these days. It has lost a lot of money. It  
4   has to do anything and everything they can to maximize  
5   its revenue from all classes. That may mean raising  
6   rates within the price cap and the just and reasonable  
7   revision, or lowering rates if that's actually going  
8   to bring more volume and increase profits. And the  
9   Postal Service has to have the flexibility to do that  
10  or in six years, you know, a lot of us might not be  
11  sitting here and the Postal Service may be in  
12  fundamental trouble.

13           I mean, I just don't see a tension between  
14  Bulk First-Class Mail and First-Class Mail. I mean,  
15  single-piece First-Class Mail. It's like, you know,  
16  if Honda goes in to decide whether it's going to raise  
17  the price of a Civic by \$500 or \$2,000, it doesn't  
18  bump up the price of the Accord to make up for it. It  
19  prices each product separately based on the market  
20  characteristics.

21           It seems to me that's what the Postal  
22  Service should do, and it doesn't mean -- you know,  
23  this is not a closed system anymore, it's an open  
24  system. If one rate goes up and down, the other rate  
25  doesn't have to go up and down, and I think that's

1 really the essence of a lot of what Congress passed  
2 and a lot of the linkage between different types of  
3 mail is really inconsistent with what Congress asked  
4 the Postal Service to do, and how it wants it to act.

5 MR. WALLER: Thank you.

6 COMMISSIONER BLAIR: John.

7 MR. WALLER: Yes.

8 COMMISSIONER BLAIR: I have a question.

9 I am sitting here listening to these  
10 opposing arguments and I recognize one argument is  
11 that the current linkage represents a pre-PAEA  
12 methodology environment. I also understand the other  
13 argument that single-piece First-Class users need to  
14 be protected as well, and I'm thinking is there a  
15 third way, and I would like to get some comments to  
16 see what the ideas would be on is it time for a new  
17 class structure that separates the two, and recognizes  
18 the distinct characteristics of each piece and moving  
19 forward in that environment.

20 I mean, the PAEA envisioned flexibility for  
21 the Postal Service in terms of classification, and is  
22 that something that you all would like to comment on?

23 COMMISSIONER LANGLEY: John, I have just a  
24 comment.

25 MR. WALLER: This is Commissioner Nancy

1 Langley.

2 COMMISSIONER LANGLEY: I just want to  
3 mention that much has been left to the discretion of  
4 the Commission as well as to our rulemaking procedure.  
5 Congress has a lot of intent but nothing is embodied  
6 in a conference report or committee reports on the  
7 legislation that was passed. So, I think this  
8 discussion is critical in, as Chairman Goldway said,  
9 to help inform us as we go. So, there are many  
10 discussions, including is the benchmark an appropriate  
11 benchmark, and should we perhaps consider looking at  
12 new class of say single-piece First-Class Mail that is  
13 separate from other classes of mail.

14 MR. WALLER: Okay. David.

15 MR. STOVER: Thank you. David Stover again  
16 from GCA.

17 Commissioner Blair raised a very, very  
18 tempting alternative which as I understand him  
19 correctly is that there would be two classes of First-  
20 Class Mail; one for single piece, one for bulk or  
21 workshared mail. That would solve a lot of problems,  
22 and I am, I guess, in a somewhat uncomfortable  
23 position of raising doubts about a solution which I  
24 would rather personally rather like to see  
25 effectuated.

1 My question is how would we square that with  
2 Section 3622(d)(2)(A) which says that the annual  
3 limitations to price caps shall apply to the classes  
4 of mail as defined in the DMCS in effect as of the  
5 date of enactment.

6 Now, in December 2006, there was one First-  
7 Class. There was no general definition in the DMCS  
8 that I'm aware of what is a class of mail. If there  
9 had been, you could argue, well, what Congress really  
10 meant was anything that would have counted as a class  
11 of mail in 2006, even if it's created later, is  
12 entitled to its own price cap. There isn't any such  
13 thing. There is nothing for (e)(2)(A) to attach to  
14 that I can see except the actual classes as they  
15 stood.

16 Now, conceivably something could be done  
17 with the idea that Presort and single piece was a  
18 long, longstanding recognized basic conception and the  
19 Congress was full well aware of it when they passed  
20 the statute. Again speaking just for myself, that is  
21 an idea that I would feel comfortable with as long as  
22 I knew nobody was going to take it to court.

23 (Laughter.)

24 The second proposal which I think has a  
25 great deal of promise is one that Mr. Costich raised.

1 I am not sure how consumers would react to a bill  
2 rate, but certainly have some convention I think could  
3 be made acceptable.

4 The issue of how -- to which I don't know  
5 the answer, I don't know if anyone does -- as to how  
6 important single stamp sales are to the public in  
7 general would need to be looked into, but if the  
8 Postal Service could get enough flexibility to be  
9 helpful out of a half-cent convention, that might be a  
10 very good and quite simple approach to the problem.

11 MR. ANDERSON: Darryl Anderson, again.

12 With some trepidation, I have already  
13 expressed my view on the law, so I will now turn to  
14 economics, but with some trepidation I will observe  
15 that Catherine Coby is in the room, and she may rise  
16 up and rescue me at any moment. Two comments on the  
17 separate rate class for single piece.

18 One is that any protection that that might  
19 provide is illusory because as costs rise in other  
20 rate classes the impetus will be to shift, if  
21 necessary, to always provide the maximum allowable  
22 increase for single-piece First-Class, and the same  
23 tension that is creating the pressure to de-link now  
24 will still exist, and the pressure. So, single-piece  
25 First-Class will always rise as fast as inflation, and

1 in some other areas, as has been true in the past, in  
2 varies periods of workshared Business Mail has not  
3 always rise as fast as inflation, which is terrific.

4 By the way, I want to turn to the second  
5 economic point, but I want to say as an aside no one  
6 is more interested, I think it's fair to say, in the  
7 health and preservation of the United States Postal  
8 Service than the American Postal Workers Union, so  
9 nothing I have said here today should be read any  
10 other way, for obvious reasons.

11 The other economic point I wanted to make is  
12 that as my reading on this, and I'm not the expert,  
13 but my reading on this is if you do separate out the  
14 workshare First-Class Mail and price it separately,  
15 there is going to be a tremendous amount of leakage  
16 because you're going to find yourself discounting  
17 for -- once in de-link, you're going to find yourself  
18 discounting for factors that are already, or for  
19 characteristics of that mail which may save the Postal  
20 Service money, but which are already being done by  
21 large mailers. And so I think leakage is another  
22 issue, but I admit to being over my depth  
23 economically, so I'm going to stop.

24 MR. WALLER: Did he pass?

25 (Laughter.)

1 MR. BRINKMANN: Robert Brinkmann, Discover  
2 Financial Services.

3 To come back to the question of the separate  
4 classes, you know, I'm not prepared to address a legal  
5 question, I simply haven't thought it through, but  
6 putting aside the legal question it seems to me that's  
7 really not a bad idea. I mean, to be able to price,  
8 and pricing is the name of the ball game here, not  
9 costing, to be able to price the two separately  
10 without relationship to each other seems to me to be a  
11 way to maximize the revenue and yet do whatever  
12 protections one wants to.

13 My colleague's concern about shifting cost  
14 onto single-piece First-Class, I mean, the Commission  
15 can stop that. That's 100 percent within your  
16 purview, the cost, and the pricing should be within  
17 the Postal Service's purview. I mean, the time has  
18 come where the Postal Service really has to use  
19 pricing flexibility to gain money or gain volume or  
20 it's in really big trouble, and to handicap at this  
21 point serves no one.

22 CHAIRMAN GOLDWAY: The question I have is if  
23 you separate them into two classes what is the  
24 benchmark you use for Presort Mail to determine what  
25 the appropriate workshare discount is? The law still

1 says we have to have a worksharing discount that is no  
2 more than 100 percent of the cost saved. There is  
3 pricing but there is also costing requirements in the  
4 law, and so the issue is still how do we come up with  
5 an equitable arrangement so that we don't have  
6 worksharing beyond the cost -- worksharing discounts  
7 beyond the savings that worksharing provides.

8 MR. WALLER: Robert Brinkmann.

9 MR. BRINKMANN: Yes. It would seem to me  
10 you would look at the Postal Service data to find out  
11 what the cost data shows the cost of Bulk First-Class  
12 Mail to be, and that would be the baseline, and then  
13 discounts for presortation, drop shipping, whatnot,  
14 would come off that baseline. I mean, you would use  
15 real cost data instead of the hypothetical construct  
16 based on a hypothetical set of mail that doesn't  
17 really but kind of exist, maybe it's much more solid.

18 MR. WALLER: You had your hand raised up and  
19 then I'll come back to you.

20 MR. HALL: Mike Hall for Major Mailers  
21 Association.

22 To answer Chairman Goldway's question much  
23 earlier, but I think it was sort of reiterated just  
24 now, currently you have a benchmark or you think you  
25 have a benchmark, but in reality when you get down

1 into the nitty-gritty of ratemaking you actually have  
2 several benchmarks to determine presort discounts.

3           The other thing is that you based your whole  
4 premise on a class of mail that doesn't exist, well,  
5 metered mail. You do not have any independent costs  
6 for BMM, so therefore you resort to costs that you do  
7 have. So, while I understand that this has been a  
8 good theoretical basis for making rates before, I  
9 think I come down with Mr. Brinkmann, and I think it  
10 really comes down to not so much addressing the  
11 niceties and legalities of all of this, I think the  
12 Commission is going to have to look at some practical  
13 realities.

14           What is it that will protect single-piece  
15 mailers? We think that the best protection for  
16 single-piece mailers is a robust presort program, and  
17 right now you have single-piece mail falling like a  
18 rock. Very currently you have substantial reductions  
19 in Presort Mail, but we think the Presort Mail can  
20 come back, and it's the most profitable product that  
21 the Postal Service has, and it helps to support single  
22 class mail, so it can keep the rates down overall and  
23 keep costs down overall for everyone.

24           MR. WALLER: Trying to keep some order to  
25 the people in which they raise their hands.

1           MR. TALBITA: Phil Talbita with the American  
2 Postal Workers Union. I wanted to respond to Mr.  
3 Brinkmann comment.

4           It seems to me that that's why the benchmark  
5 is so important to us in terms of protecting First-  
6 Class single-piece users, because if you start by  
7 meshered the cost of Presorted Mail separately, then  
8 those characteristics of Presorted Mail that are less  
9 expensive than those in the basket of a single-piece  
10 will be captured in that rate, and the benchmark piece  
11 keeps us from de-averaging all of those cost.

12           Before the first discounted mail, everything  
13 was in the same basket, and then you meshered the  
14 worksharing activity, but you didn't give credit for  
15 the fact that the stuff going into that worksharing  
16 basket might have had cheaper characteristics all  
17 along, and that kind of leakage will cause upward  
18 pressure on First-Class Mail.

19           If the cap prevents too much upward pressure  
20 on First-Class single-piece, then it's the Postal  
21 Service that's losing revenue, and the original theory  
22 of this produces was that the discounts would be  
23 designed to protect the Postal Service from losing any  
24 revenue, and protect non-workshare users from any  
25 disadvantage by not moving to workshare or not being

1 able to move to workshare, and that I think is a  
2 critical thing about having a benchmark.

3 MR. WALLER: I'm going to go to some of the  
4 people over here who did have their hands up even  
5 though your name was mentioned there.

6 MS. ROBINSON: Mora Robinson for the Postal  
7 Service.

8 The conversation around the workshare  
9 discounts has been a discussion of costs associated  
10 with specific defined activity, presorting, pre-bar  
11 coding, et cetera, defined in the statute. When you  
12 look at what the definition of a product is, it's  
13 distinguished by separate cost or market conditions,  
14 and that question of whether the Postal Service can  
15 recognize market characteristics within its pricing is  
16 one that underlies some of these questions around what  
17 the right characterization of a price differential is  
18 between any two rate cells.

19 There are very reasonable, legitimate  
20 reasons why you would want to recognize or to  
21 institute a price that was different for reasons other  
22 than cost. For example, in the summer sale we're  
23 trying to encourage volume growth. That's clearly not  
24 a worksharing price differential, but it is a  
25 differential that uses the Postal Service's pricing

1 flexibility under the PAEA to encourage increased  
2 volume growth, increased revenue for the Postal  
3 Service, and by extension, support for Universal  
4 Service.

5 So, the question I have is, are worksharing  
6 differentials, cost differentials, the only thing that  
7 can be considered in, for example, Presorted First-  
8 Class Mail, or what I would think is probably a  
9 broader view of the flexibility the statute offers,  
10 how do we recognize other market-based characteristics  
11 while still remaining reasonably associated with the  
12 requirements under the worksharing provision of the  
13 statute.

14 MR. WALLER: David.

15 MR. STOVER: David Stover, again.

16 I may have misunderstood Commissioner  
17 Blair's suggestion of the two classes, and if I did, I  
18 apologize for that.

19 When I said I thought it was an attractive  
20 solution, that was on the assumption that the  
21 Commission has, or the hypothesis that the Commission  
22 has already decided the underlying issue of whether  
23 Presort is still just a workshared portion of First-  
24 Class Mail and decided it in the negative.

25 If you decide that the old structure is

1 still valid, that Presort First-Class is still part of  
2 a larger First-Class universe which is distinguished  
3 from single piece fundamentally, maybe not exclusively  
4 but fundamentally by worksharing, then it's difficult  
5 to see how you could justify having two separate major  
6 classes of mail.

7           If you decide that they are totally  
8 separate, then the two class idea, assuming the legal  
9 obstacles can be got over, becomes very attractive  
10 because the Postal Service no longer has to try to  
11 shoe horn both of these very disparate groupings of  
12 mail under one price cap, and to do so, particularly  
13 with one of them tied down by whole cent constraint.

14           So, I think the order in which you take the  
15 problems up is very important.

16           The two class idea and to some extent, I  
17 guess, the half-cent or less than a cent convention  
18 are particularly relevant if the decision ultimately  
19 is, as we don't think it should be, that there should  
20 now be a complete separation between single piece and  
21 presort. If that decision goes that way, then some  
22 further restructuring like two classes or a more  
23 flexible letter stamp I think should be pursued.

24           COMMISSIONER BLAIR: Just for clarification,  
25 I was referring to the latter, not the former, and I

1 just wanted to get the ideas out there because it  
2 seems to me that we are operating -- in the big  
3 picture we are operating under a class structure that  
4 was grounded in the mid-twentieth century, and it's  
5 time to look at things differently, and many of the  
6 arguments we use today were applicable under a prep-  
7 PAEA environment, but it's time to move on, and I  
8 wanted to get the ideas of thinking ahead of what --  
9 if the Postal Service wanted to move to some new class  
10 structures, what that might look like.

11 But it seems to me that that's a good  
12 question to ask of should First-Class be restructured,  
13 and I wanted to get your thoughts, so I greatly  
14 appreciate your thoughts on that matter.

15 MR. STOVER: It is a problem that I think  
16 you would find is almost unique to First-Class. There  
17 is no place else where you have bulk and non-bulk in  
18 the same major class with the great heterogeneity of  
19 physical configuration that you have.

20 CHAIRMAN GOLDWAY: Where would courtesy  
21 reply envelopes fit in? Would they be single-piece  
22 First-Class Mail?

23 MR. STOVER: They are certainly not bulk.  
24 If you continue to indulge the assumption that the  
25 decision has already been taken to radically separate

1 the two, then you're really looking at single piece  
2 and bulk, and the worksharing portion, the worksharing  
3 characteristic becomes possibly less relevant except  
4 within what we now call the bulk category, bulk class.

5 If you look at the entry characteristics and  
6 the sets of operations that are needed, then the  
7 courtesy reply envelope would still be a single piece.  
8 It would still be a single-piece mail.

9 CHAIRMAN GOLDWAY: But would it have  
10 workshare discounts because it's prepared in a certain  
11 way?

12 MR. STOVER: All I can say is that that idea  
13 has been proposed frequently in the past, and has gone  
14 nowhere.

15 CHAIRMAN GOLDWAY: Well, it got somewhere  
16 with us, or with our predecessor agency. I think we  
17 still have some workshare issues even if we separate  
18 the classes is all I'm saying.

19 MR. STOVER: My own reaction to that is that  
20 while it's certainly a possibility, and there are good  
21 arguments for it, we also need to find ways to make  
22 non-courtesy single-piece envelopes more easy to  
23 handle and machineable, and it looks like some work on  
24 First-Class by the Postal Service, but that's a  
25 parochial point of view.

1 MR. WALLER: A new hand.

2 MR. MCLAUGHLIN: Tom McLaughlin representing  
3 Valassis.

4 Valassis obviously doesn't have any big ax  
5 to grind in the First-Class issue. However, Valassis,  
6 along with most other mailers whose business is  
7 mailing, have a very vital interest in the viability  
8 of the Postal Service. If it goes down the tubes,  
9 there are a lot of folks in this room are going to  
10 have to be out of business.

11 On the question about separate subclasses,  
12 my view is that we shouldn't probably go that route  
13 aside from the fact that whether it's a legal issue  
14 about going that way, and I go back to early days of  
15 the postal reform legislation where there was one time  
16 a proposal to have caps set at the rate element level  
17 so that every single little rate element was subject  
18 to the cap, which means zero flexibility, and I think  
19 Congress went through several versions of that and  
20 ended up with a class-wide approach, which was  
21 specifically intended to provide protection from each  
22 class a whole through the recap so that you couldn't  
23 pass money between classes, but give the Postal  
24 Service some degree of latitude for pricing  
25 flexibility within a class.

1           Now, admittedly there is a worksharing  
2 discount restriction which does inhibit somewhat that  
3 pricing flexibility.

4           If you were to take First-Class and single-  
5 piece -- a single piece and bulk presort, divide them  
6 into two separate classes, you're actually reducing  
7 Postal Service pricing flexibility to do that, and I  
8 may not have seen, particularly important right now,  
9 the problem though is that we don't know and the  
10 Postal Service doesn't know and the Commission doesn't  
11 know five years from now where the market is going to  
12 be, whether First-Class single-piece is going to be in  
13 disparate straits, or presort or what. We are hoping  
14 of course is going to be viable, but there is an  
15 important need for flexibility. If we want to have  
16 flexibility, I think the proper way to do that in  
17 First-Class would be to go through the product  
18 grouping means, and there are means if we do product  
19 grouping still to retain some Commission jurisdiction  
20 and authority that will give some protection for  
21 single piece if it goes down the tubes.

22           MR. BRINKMANN: I don't know if my poor  
23 battery is gone or what.

24           MR. WALLER: So you may have to stand and  
25 talk to the microphones above you.

1 MR. BRINKMANN: It seems the battery may be  
2 gone.

3 The basic dynamic in this new system, to  
4 come back to what my colleagues from the APWU pointed  
5 out, if you recognize a lower cost base, and what a  
6 novel idea, basing the attributable cost on cost, if  
7 you recognize a lower cost base it's necessarily that  
8 the rate goes down. The Postal Service can compensate  
9 in its pricing flexibility and keep the rate at the  
10 same level.

11 The only reason the rates should go down is,  
12 and the rates usually go down or up, you can maximize  
13 its revenue, maximize its profit, and to separate the  
14 costs that are based on real cost, and then allow the  
15 Postal Service in its market analysis to price where  
16 they can to maximize profits, I think that is what's  
17 going to get the Postal Service out of the present  
18 jam.

19 As mail starts to come back, which it will  
20 after the recession, there is going to be a question  
21 of how much is going to come back. They are going to  
22 have an opportunity to maximize that return, and to  
23 bring a lot more in but to do that they are going to  
24 have to price intelligently, and I mean, you know, the  
25 impact of the institutional cost. Rates should be

1 cheaper or higher depending upon how much money they  
2 are going to get back to keep the system healthy. It  
3 doesn't necessarily mean there would be an upward  
4 pressure on First-Class rate, single-piece First-  
5 Class.

6 CHAIRMAN GOLDWAY: I think that's a good  
7 point and it goes to the lower set of issues there,  
8 which is, if there are market differences how do we  
9 determine that there are market differences. You are  
10 saying, well, the Postal Service thinks it could make  
11 more money if it prices something some way. So you're  
12 suggesting that there are market differences. Some  
13 things are more elastic than others, but I don't think  
14 we have a solution --

15 MR. WALLER: Empirical evidence to that  
16 point.

17 CHAIRMAN GOLDWAY: Right. So when the  
18 Commission makes its decision of evaluating these  
19 various opinions, and our goal is to make sure there  
20 is an efficient and viable Postal Service, if we had  
21 empirical evidence of that sort then perhaps we could  
22 override or balance that against some of the other  
23 requirements of the law, but how do we get such  
24 empirical evidence?

25 MR. WALLER: We have the source of empirical

1 evidence, Ashley Lions, would you --

2 (Laughter.)

3 MR. LIONS: We'll lighten this thing up so  
4 it doesn't sound like morbid. But in any event, I  
5 wanted to touch on a couple of issues here in terms of  
6 the empirical evidence.

7 We talked about that. We're willing to  
8 accept it in other classifications where there is less  
9 empirical evidence. If there are different market  
10 differences here, we do have slightly separate  
11 elasticities for First-Class mail and First-Class  
12 Presort, and you can argue about how statistically  
13 strong and significant those are, but we did show this  
14 year it did jump up a bit from what it was before.

15 But more importantly, we presented in the  
16 household diary study and some of the things that we  
17 filed early on, there are different markets, we serve  
18 different markets here. You're not going to find this  
19 in any postal product. You're not going to see this  
20 totally homogeneous group.

21 If you look at Standard Mail, it has  
22 periodicals side of it. It has things that, frankly,  
23 that arguably go with the bound printed matter rates  
24 if it weren't heavy enough mail, and printed matter  
25 has the lights, and you have all these things moving

1 from one classification to the other. We don't have  
2 this perfect sense of we have this discrete market  
3 here, this discrete market over there, it doesn't  
4 appear anywhere quite that readily.

5 So, we're willing to accept that and  
6 understand inherently there are market differences.  
7 We presented the household diary study and the  
8 evidence, who uses First-Class single-piece, how uses  
9 First-Class worksharing, and you can see very much  
10 it's a very different grouping, but it's not 100  
11 percent.

12 You will have the APWU talk a little bit  
13 about a slight migration backward and forth, they  
14 ignored that First-Class Mail workshare and presort,  
15 or single piece, there are people moving in and out  
16 not using the mail into, or assuming it's a very  
17 closed system, and it's not just people at the margins  
18 moving back and forth here. Things have moved over  
19 the time. We cannot even use in our cost models. We  
20 used to try to account for that assuming that people  
21 were moving from First-Class single-piece to workshare  
22 and utilize that, and it doesn't work anymore. We have  
23 to assume that this stuff is coming basically  
24 organically by the cost models.

25 These are the things where we forecast costs

1 into the future, but not the ones with the forward  
2 models here, but all that is to say that we're  
3 assuming and asking for First-Class workshare and  
4 single-piece setting hurtles that are much greater  
5 than we do anywhere else, saying we want this kind of  
6 evidence to say that there are these huge price  
7 elasticity differences. They only appear, frankly, in  
8 the rest of the dominant products.

9 And so that we're asking that we all of the  
10 sudden that it appear for First-Class single-piece,  
11 we're asking that they be proven to be totally  
12 homogeneous, and it doesn't appear anywhere else in  
13 the market dominant products here.

14 I think we presented evidence but it's not  
15 irrefutable. It's not that precise, and we're going  
16 to have to be able to deal with that kind of evidence  
17 here as we look at designs. I did want to make that  
18 point.

19 MR. WALLER: We have two people or two  
20 groups I know in the audience that deal with people  
21 that convert between the markets somewhat, and I would  
22 like to see if they would like to make any comments in  
23 that regard. One being Seth Weisberg from Stamps.com.

24 Unfortunately, this doesn't seem to work so  
25 you have to talk to the microphone.

1           MR. WEISBERG: Thank you. I'm Seth Weisberg  
2 from Stamps.com. Our company is PC postage provider,  
3 and we have about 400,000 active small business  
4 customers using PC postage.

5           PC postage has technology today that is  
6 capable of allowing customers to engage in some of the  
7 activities that presort mailers do, although not all  
8 of them, and in a way PC postage could provide an  
9 opportunity for sort of a transition or a lesser  
10 barrier for customers to move from single piece into  
11 the presort area.

12           And what our customers have experienced and  
13 told us really is that the barriers for them are too  
14 high, and I think in the area of PC postage in  
15 particularly for single-piece First-Class Mail our  
16 customers actually have to pay more in order to be  
17 able to use the PC postage software to do addressing  
18 and also bar coding than they would to not engage in  
19 that activity, and that's caused our customers to tend  
20 to select the solutions within PC postage that do not  
21 include the full addressing and bar coding.

22           Also, I would mention that I think PC  
23 postage technology might provide an appropriate way to  
24 engage in actual testing to get us some of this  
25 empirical evidence. You could use PC postage to

1 allocate amongst certain customers, perhaps by ZIP  
2 code or even randomly, different pricing options for  
3 them, and measure their behavior over the course of  
4 time, and market test might be an appropriate  
5 mechanism for doing something like that. I know that  
6 the PC postage industry would be very willing to do  
7 that if it was desirable for the Postal Service.

8 MR. WALLER: Thank you. Any comments from  
9 our good friends at Pitney Bowes on the market shift  
10 back and forth? Not to put you guys on the spot, but  
11 you do deal a bit in both -- no? No one wants to  
12 rise. Michael, good. Thank you.

13 MR. SCANLON: Michael Scanlon with K&L  
14 Gates.

15 John, in response to that, I guess I would  
16 make a number of observations. One is that I think  
17 the notion that given the right price there is a lot  
18 of mail left to convert, I think empirically that  
19 probably does not hold. I think the Postal Service  
20 has produced evidence, empirical evidence on the  
21 record that shows that workshare is a mature market,  
22 and so I think that the general assumption may not  
23 hold when tested.

24 Further, I think that there has been  
25 evidence submitted to the Commission on the record

1 most recently in R2006 by some presort mailers that  
2 have demonstrated that the mail that is otherwise  
3 entered does not look like BMM, and so I do think that  
4 the Commission needs to really scrutinize what that  
5 benchmark is, and whether that is an accurate  
6 reflection of mail that would otherwise be entered if  
7 it did not convert.

8 Pitney Bowes does have a service where it  
9 attempts to convert mailers from single-piece mailers  
10 to presort mailers, but I think there again it's  
11 important to look, and I think Ashley's comments  
12 touched on this, that single-piece mail is not a  
13 homogenous mailstream. There is many different  
14 mailers.

15 A small cohort of that mail is small single-  
16 piece mailers where you do have social and political  
17 mail that's being sent, but much later portions of  
18 that mailstream are business mailers who for whatever  
19 reason are not sending their mail at presort, and I  
20 don't think it holds, empirically or otherwise, that  
21 all of that mail would change at the right price  
22 signal. I think there are characteristics of that  
23 mail that keep it at single piece.

24 CHAIRMAN GOLDWAY: But it could have more PC  
25 postage-like preparation for small businesses. Is

1 that an area of growth?

2 MR. SCANLON: If the question is, you know,  
3 the effect of prices generally on mail prep.,  
4 absolutely. But I think that's not a question that  
5 pertains only to make converting from single-piece to  
6 presort. It's critically important for presort mail  
7 as well where the right price signals are necessary  
8 for even very large and sophisticated mailers to stem  
9 further volume declines and grow volume for the Postal  
10 Service.

11 MR. WALLER: Rand had a --

12 MR. COSTICH: Rand Costich, Public  
13 Representative.

14 I would dispute the assertion that there is  
15 no bulk metered mail. In fact, I think if you look at  
16 the record in R2006 and look at the cross-examination  
17 of Elizabeth Bell, you will see that what presort  
18 bureaus attempt to get their customers to do is give  
19 them bulk metered mail. I think that's on the record  
20 in that case.

21 MR. WALLER: To get more diversity in the  
22 comments, I'm not sure it's diversity, but thanks.

23 MR. LEVY: David Levy of NPPC. Is this not  
24 working? I'll just stand under a ceiling microphone.  
25 Testing. I'll try not to touch any of the buttons.

1           I wanted to respond, first of all, to Rand's  
2 comment about bulk metered mail and whether it exists  
3 or whether it's like the Phoenix.

4           The testimony to which I think he is  
5 referring is the testimony of Beth Bell, who was a  
6 witness for NAPM in R2006-1, and her testimony was  
7 that what people thought was bulk metered mail was in  
8 fact mail prepared by presort bureaus in the process  
9 of preparing mail for presort discounts, but which  
10 couldn't qualify for presort discounts because the  
11 addresses, for example, didn't have the sufficient  
12 information to satisfy delivery point validation out  
13 to their requisite number of digits.

14           But the critical point was that none of this  
15 mail would be presented to the Postal Service by  
16 presort bureaus or anyone else in that workshared  
17 finely refined fashion if the presort discounts didn't  
18 exist. This mail, to whatever extent it had been  
19 prepared, it was prepared as a result of the existence  
20 of presort discounts and is a byproduct of those  
21 discounts. And if you got rid of the discounts, you  
22 wouldn't have that so-called BMM.

23           The second point I'd like to make is to  
24 respond to the excellent question that Chairman  
25 Goldway raised a minute ago about the empirical data.

1           I think it is important to look at empirical  
2 data on elasticities, but I think you need to start  
3 with sort of the right assumption or burden of proof.  
4 The question really isn't whether the elasticity data  
5 exists to justify moving -- widening the rate spread  
6 between a single piece and First-Class. The question  
7 is whether the elasticity data exists to justify  
8 keeping it as narrow as it is. The fact is that  
9 single-piece mail makes on average a contribution to  
10 institutional costs that is five cents per piece  
11 smaller than the contribution made by a Presort First-  
12 Class in terms of percentage markups over attributable  
13 cost. Presort First-Class pays approximately three  
14 times the percentage markup that single piece pays.

15           Now, that would be an appropriate disparity  
16 if single-piece First-Class were much more price  
17 elastic than presort, but the opposite is true. It  
18 appears that -- for what data are available -- that  
19 Presort First-Class Mail is actually more inelastic.  
20 And what that means is the Postal Service is throwing  
21 away a lot of potential contribution as long as it is  
22 compelled to keep the price spread between the two  
23 kinds of First-Class Mail as narrow as it is.

24           The rate preference for single-piece First-  
25 Class Mail obviously goes back a long way, and it has

1     populous or other considerations that are not trivial  
2     or frivolous or unworthy, but given the current  
3     financial straits of the Postal Service we  
4     respectfully suggest that the Commission needs to take  
5     a hard look on whether compressing the rate spread  
6     between the two kinds First-Class Mail is still  
7     viable. Of course, given that revenue adequacy for  
8     the Postal Service is certainly one of the concerns of  
9     PIA. Thank you.

10                 MR. WALLER: Thank you. Bob Brinkmann and  
11     then Rand to probably respond.

12                 CHAIRMAN GOLDWAY: And then I think we are  
13     going to take a break, and go on to the next topic.

14                 MR. BRINKMANN: Bob Brinkmann.

15                 To come back to Commissioner Goldway's  
16     question about the empirical evidence, I think one of  
17     the problems in looking at that and facing that is  
18     that to get to the reality, the truth of the matter, I  
19     am not sure single-piece First-Class is just one  
20     market nor that Bulk First-Class is just one market.  
21     I mean, in Bulk First-Class you have bill presentment  
22     mail, you have First-Class advertising mail. I think  
23     those are probably two separate markets.

24                 You have business notices that businesses  
25     send out just to their customers. You have some

1 business notices that are required by law to be sent  
2 out. Certainly that would be a different market and  
3 it wouldn't be elastic at all.

4           And then it's not clear to me that the  
5 different industries might be different markets. Mail  
6 sent out by financial services companies, utility  
7 companies, insurance companies, I mean, there may be a  
8 lot of different markets within Bulk First-Class Mail,  
9 and there may be different markets within single-piece  
10 First-Class Mail. I don't profess to be an expert but  
11 greeting cards may be one market, bill paying, you  
12 know, actually paying may be a separate market.  
13 Personal and business correspondence may be a separate  
14 market, and the business reply, those may all be  
15 individual markets with different characteristics.

16           I think that complicates the question of  
17 bringing empirical evidence together because somebody  
18 focuses on one of those little submarkets, and for  
19 instance, somebody was talking about the mail that  
20 might convert from single-piece First-Class to Bulk  
21 Business Mail. Well, that may be another submarket of  
22 the single-piece mail, and its characteristics may  
23 have little to do with bill paying mail or greeting  
24 card mail, and I think the complexity of the real  
25 world is one of the problems with bringing in reliable

1 empirical evidence.

2 MR. WALLER: I have one more comment by  
3 Rand. Then we will take a 10-minute break.

4 MR. COSTICH: Rand Costich, Public  
5 Representative.

6 David Levy raised a very interesting thought  
7 experiment, and that was what would happen if there  
8 were no presort discounts whatsoever, and we have  
9 empirical evidence on that. There was a time when  
10 there were no presort discounts, and First-Class Mail,  
11 surprisingly, was presorted. It was presorted by  
12 mailers who could do it cheaply and who wanted better  
13 service that they obtained by presorting.

14 If we think of squeezing down that price  
15 margin between bulk and single piece, and ask really  
16 how much mail would revert to single piece, would not  
17 be presorted, it's not that much.

18 So, I think presort mailers need to be  
19 careful in what they wish for in terms of a separate  
20 class or market-based rates. The rates for -- the  
21 rates, not the discounts, the rates for presorted mail  
22 could be a lot higher than they are today without a  
23 terrific loss of volume or a terrific reversion to  
24 single piece.

25 MR. WALLER: May I ask one other person to

1 comment?

2 MR. GORUM: David Gorum.

3 I would have to rise and disagree with that  
4 comment simply because I don't know that there is any  
5 confidence that if you presort your mail today that  
6 you get a lot better service. With network  
7 realignments I realize that's a little different  
8 subject than we're on today, but with the constant  
9 network realignments, three-day service is not two-day  
10 service if you presort it anymore. It used to be,  
11 it's not anymore. That's the way it is.

12 And I think that we can talk about it in the  
13 next segment, but I think that we would find that if  
14 we had -- if we did away with presort discounts, I  
15 think that the presort mail that we see in the system  
16 today would falter further and further away from the  
17 number that we see out there today. Thank you.

18 MR. WALLER: All right. Now we're going to  
19 take a break here. David, if you want to start the  
20 next session, that's okay. Ten-minute break.

21 (Whereupon, a short recess was taken.)

22 MR. WALLER: Thank you, all, for those of  
23 you who have come back for the second round. David  
24 Levy has agreed that he will forego with the comment  
25 that he wanted to make at the end for his written, and

1 we will move on to the wonderful world of standards  
2 which several of you have come solely for that  
3 purpose.

4 The question kind of really goes to what's  
5 this worksharing discount, and it showed up  
6 particularly with density being an issue in going  
7 from high density down to -- not high density -- what  
8 is it? It's the saturation up to high density, right,  
9 okay. I wanted to give it a different name, HD.

10 So would anyone from that wonderful standard  
11 community like to start off with any comments on that  
12 issue? Giving you the opportunity without throwing  
13 out a question. Some of you came specifically for  
14 that purpose. Should we use the pure definition or  
15 should we be using the working density in in some way?  
16 You all want to go away quick, huh? Okay.

17 MR. LUBINO: Joe Lubino, Lubino &  
18 Associates.

19 I want to mention I have worked for several  
20 large companies and have been MTAG share, and always  
21 been involved in presorting activities, so this is  
22 from the point of view of presorting or worksharing  
23 practitioner, and I didn't want to take on the density  
24 issue. I wanted to mention another part of the law  
25 with respect to how worksharing is defined. You have

1 presorting, handling and transportation, and pre-bar  
2 coding, and I wanted to make a point about the pre-bar  
3 coding.

4           It's defined, in my view, quite narrowly.  
5 By calling it pre-bar coding it would seem that the  
6 issue is the mailer putting the bar code on rather  
7 than the Postal Service putting it on, and that is, I  
8 guess, an issue, just like sorting the mail before the  
9 Postal Service does it or could do it, or getting it  
10 somewhere before the Postal Service gets it somewhere.

11           But that doesn't really do justice to what  
12 pre-bar coding is all about, because a bar code isn't  
13 just done for the sake of bar coding, it's done to  
14 provide information, and that's increasingly  
15 important. You wouldn't have thought that when it was  
16 only an issue of putting the postal code on,  
17 especially if you think that the postal code is always  
18 fully known and available. Then it kind of gets down  
19 to pre-bar coding.

20           But what about putting information in the  
21 bar code that might be harder to find? In the  
22 handout, it's mentioned about the addressing, that you  
23 might have to do some work to get the better address  
24 and put that on there, and now we have intelligent  
25 mail with the sender identified in a piece I.D. The

1 Postal Service wouldn't be easily able -- well, it  
2 could put a unique piece I.D. on but it wouldn't  
3 necessary communicate that back easily to the mailer,  
4 so you wouldn't have this two-way understanding of the  
5 piece I.D. and you wouldn't easily know the sender at  
6 all.

7           So, I think this is actually a slightly more  
8 expanded model, where it's not just cost avoidance,  
9 it's working together to add value, because mailers  
10 have a sender I.D. and a piece I.D. You can track  
11 that mail, you can get a real picture of the delivery  
12 patterns. You can do remedial activity to fix that  
13 up. And so the issue is not just pre-bar coding, it's  
14 information being conveyed that improves delivery.

15           It might support service performance  
16 measurement, and various other purposes, so it's a  
17 combination of efforts to add value, and that's a  
18 barter sense of worksharing than, for instance, Dr.  
19 John Holdy wrote up in terms of his strict definition  
20 was you would have to have, as I understand it,  
21 several different rates in a sequence, and you would  
22 have to know the cost differences, and even then there  
23 is a problem with the last one in the series. We do  
24 have that problem, so I think his theory is a good,  
25 strict definition of worksharing.

1           But now I'm saying that worksharing also  
2 includes cooperation to achieve purposes that could  
3 not otherwise be attained.

4           And lastly, sometimes this makes a point  
5 back to the permeable barrier between this First-Class  
6 Bulk and single piece. For example, if you don't have  
7 the right address or you have a move-up date  
8 notification, you might wind up reverting to using  
9 single piece of certain pieces that otherwise would  
10 have been Bulk First-Class.

11           So, in general, I'm suggesting that  
12 worksharing should include provision of information by  
13 the mailer that the Postal Service would either find  
14 it difficult or impossible to obtain, and having that  
15 right there on the mail piece where it can facilitate  
16 a lot of services.

17           MR. WALLER: So you are saying that IMB is  
18 doing, IMB is a worksharing activity?

19           MR. LUBINO: In the broader sense.

20           MR. WALLER: And in the broader sense, and  
21 would it be submit to 3622(e) in terms of calculating  
22 discounts for putting IMB on, in terms of some way?

23           Okay, with that concept of broadening the  
24 definition of worksharing, does anybody want to --  
25 John, your name was called there. Do you want to

1 comment?

2 MR. HALDI: The Postal Service has to  
3 operate under a huge number of constraints actually,  
4 some are big, some are little, and I seem to digress,  
5 and I'm going to tie it up in a second. One  
6 constraint is right now they are supposed to have six-  
7 day delivery. Another constraint is Congress doesn't  
8 want to see small post offices closed. Every  
9 constraint either imposes a cost on the Postal Service  
10 or restricts their ability to maximize revenues. Some  
11 constraints are very small, but you impose a broad  
12 worksharing constraint, and let's say it's subject to  
13 3622(e), and you're going to constrain the Postal  
14 Service and its ability or its efforts to try to  
15 maximize profits more than you otherwise would, and I  
16 suggest that the Commission needs -- considering the  
17 size of the deficit, which everyone is aware of -- the  
18 one thing nobody has mentioned right now is the extent  
19 to which digitalization in its broadest form is a  
20 really emerging, all-encompassing technology that's  
21 highly disruptive, and I don't know if the Postal  
22 Service has entered into a downward death spiral or  
23 not, and nobody will know for a few years.

24 But for years the Postal Service has been  
25 treated by Congress and by others as a sort of a

1 piniata. We can tell them do this, tell them to do  
2 that. They have a monopoly. They can always raise  
3 rates. They can always get more money. I suggest  
4 that day may be over, and I suggest that the Congress  
5 may be coming to a really hard point where they're  
6 either going to have to fund some of these unfunded  
7 constraints they put on the Postal Service. They are  
8 either going to have to fund six-day delivery, or they  
9 are going to have to fund some of these small post  
10 offices, or they are going to have to fund some of  
11 these other things, or they are going to turn around  
12 and tell the Commission, you find a way to help them  
13 do all these things as best you can.

14 I suggest the Commission has to consider in  
15 this broader scope of things whether they are going to  
16 help the Postal Service generate enough money to stay  
17 afloat or whether they are going to keep imposing  
18 narrowing the constraints and making it more difficult  
19 for the Postal Service as opposed to less difficult,  
20 and I suggest that a narrow interpretation of the  
21 worksharing constraint is the Postal Service broader  
22 scope to try and increase its profits and stay afloat  
23 than otherwise would be the case.

24 So, yes, some of these things may be  
25 worksharing in some broad sense of working together.

1 I mentioned in my little piece there -- I'll get right  
2 back to you, John. I did mention though periodical  
3 rates, which are kind of exempt from the worksharing,  
4 but the whole rate structure in periodical rates is  
5 designed to try and improve efficiency and cut costs,  
6 and that's all fine and good, but I don't think all  
7 those things should be construed as worksharing in the  
8 narrow sense subject to 3622(e).

9 MR. WALLER: So in a sense on that slide,  
10 the application options that you would keep it narrow  
11 for the purposes of 3622, even if you took little  
12 broader definition of what you want to call  
13 worksharing, that you would separate the two. Is that  
14 what you are saying?

15 MR. HALDI: Yes.

16 MR. WALLER: Okay. Anybody else have views  
17 on that? Mr. Mitchell. Come over there. You haven't  
18 had a chance to speak yet.

19 MR. MITCHELL: My name is Bob Mitchell, and  
20 I was criticized by several parties during the break  
21 for not saying anything during the first part of the  
22 meeting, so I'm trying hard to --

23 CHAIRMAN GOLDWAY: That's because I told him  
24 it had to be brief.

25 (Laughter.)

1 CHAIRMAN GOLDWAY: That's why he didn't --

2 (Laughter.)

3 CHAIRMAN GOLDWAY: That was the Chairman.

4 MR. MITCHELL: But I do want to make one  
5 comment about a research interest that I've had for  
6 some years. Back when I was working for the  
7 Commission I did a paper for Michael Crew that was  
8 presented at his 1998 meeting, and the paper dealt  
9 with the relationship between presort and non-presort  
10 and First-Class, and dealt specifically with the  
11 cross-elasticity between the two, and I came to some  
12 conclusions which you can look at, and I think during  
13 the first half of this meeting a number of people made  
14 some observations about what cross-elasticity  
15 relationship between presort and non-presort might be  
16 in First-Class.

17 But I want to shift very quickly to high  
18 definition and saturation, which was the opening that  
19 John Waller gave for the second half of this meeting.  
20 I think if you look at high density and saturation,  
21 that there is no cross-elasticity whatsoever. In  
22 other words, as long as saturation is below high  
23 density, if you reduce the saturation discount  
24 slightly, nobody is going to jump back to high  
25 density. It's going to be zero. So at that point I

1 think there is a zero cross-elasticity.

2 So, I think the parties should address, and  
3 the Commission should consider the role that cross-  
4 elasticity notion should play in these definitions.

5 If you look at all of our models of economic  
6 efficiency, technical efficiency, RAMSE or profit  
7 maximization, the cross-elasticity variable is in  
8 there as an extremely important variable. Over a  
9 period of about 35 years now we have neglected it, and  
10 the reason we've neglected it is because we haven't  
11 had very good data on it, and the algebra and math  
12 becomes a little bit formidable, but it's doable and  
13 it's possible to consider.

14 So, my thought is that in dealing with all  
15 these things that we should consider the role that  
16 cross-elasticity issues should play in them.

17 MR. WALLER: So actually we have to get good  
18 cross-elasticity data, huh?

19 MR. MCLAUGHLIN: Tom McLaughlin for  
20 Valassis.

21 With respect to the worksharing definition,  
22 in our initial comments in this proceeding and then  
23 the comments of the Postal Service and Valpak, the  
24 issue of the worksharing definition under the statute  
25 was addressed very extensively. I was actually very

1 surprised because the things that we said were very,  
2 very similar to the things that those other two  
3 parties said, and we didn't collude. We all read the  
4 statute and the statutory language is quite clear. So  
5 the statutory definition is what controls, not what  
6 the Commission defines it.

7 The question of a purer definition or a  
8 "Pure Plus" definition puzzles me. Pure Plus sounds  
9 to me like impure in a way. The statute talks about  
10 those four functions, and the question here is whether  
11 the rate differential between those two categories of  
12 mail is due to one of those worksharing activities or  
13 whether it's due to something else.

14 It's very clear that there is no worksharing  
15 element that's involved. It's simply a matter of how  
16 much mail in volume that mailer decides to make to a  
17 particular area as to whether they qualify for one  
18 rate or the other.

19 So, I don't think that the Commission can  
20 define for purposes of 3622(e) that worksharing  
21 definition is the Pure Plus because the statute  
22 doesn't permit that, and that's really basically -- I  
23 was hoping in fact that the Commission in its order  
24 would have addressed those legal arguments because I  
25 think they are very compelling, and it is sort of a

1 threshold issue that you have to come to grips with:  
2 What is the definition under the statute?

3 COMMISSIONER LANGLEY: John, I have a  
4 question. Commissioner Langley.

5 In Pure Plus there is the mention of address  
6 cleansing, but isn't address cleansing a requirement  
7 imposed by the Postal Service in order to obtain a  
8 discount? So calling this a workshare discount I  
9 think would be a misnomer, similar to IMB, which the  
10 intention is down the road that this is going to be a  
11 requirement to obtain a discount.

12 MR. WALLER: We'll come to you next since  
13 you can respond.

14 MR. MCLAUGHLIN: I do agree with that  
15 comment, and in fact reading the Pure Plus definition  
16 there says "include other cost-reducing  
17 characteristics that facilitate or naturally support  
18 pure worksharing activities, such as entity and  
19 address cleansing."

20 The fact is is that density does not  
21 facilitate presort worksharing, and it does not  
22 naturally support worksharing. Density is a  
23 characteristic that the mailer defines based on his  
24 own market needs. Do I need to go to saturation  
25 density to reach the market I want to reach, or do I

1 need to mail to less than that? And it's that mailer  
2 decision and not any worksharing activity that causes  
3 the cost differential.

4 MR. HALL: Maybe everybody can tell me to  
5 forget it because we're still talking about Standard  
6 Mail, and not First-Class Mail, but I think your  
7 formulation of the way you address cleansing was --  
8 that was something that was required by the Postal  
9 Service. Well, if that's true, then the Postal  
10 Service could just go ahead and require whatever it  
11 wanted and we wouldn't have any workshare discounts.

12 The question, the proper question we think  
13 is, regardless of whether or not the Postal Service  
14 has a requirement that's on a piece of paper somewhere  
15 the activity -- so long as it produces savings for the  
16 Postal Service should be recognized in the rates in  
17 our case for presorting the mail. So we wouldn't have  
18 any particular rigid formula for what gets counted.  
19 We use common sense.

20 I'll give you an example. Right now the  
21 Postal Service requires -- let me see if I get this  
22 right -- requires that if you put a reply envelope in  
23 outgoing mail, in order to get the discount you have  
24 to have a special mail piece that's been approved and  
25 proved to run properly by the Postal Service. Is that

1 a fair statement?

2           These folks do put those CEM envelopes in  
3 there. It costs them a lot to do it. Chairman  
4 Goldway, you mentioned the possibility of a CEM  
5 discount. We happen to think that, yes, there should  
6 be some recognition of the fact that CEM is probably  
7 the most efficient and cost-sparing segment of First-  
8 Class single piece, but you ought to recognize who  
9 made it possible, and it starts with the presort  
10 mailers who can put it in or not put it in.

11           And let me just close by saying very quickly  
12 that as it currently stands presort mailers often get  
13 penalized for putting that envelope in there; not only  
14 don't they get any recognition in discounts, but if  
15 the weight causes the piece to trip over, then they  
16 have to pay an additional ounce rate. Thank you.

17           MR. WALLER: Yes?

18           MR. BAKER: Good afternoon. Bill Baker on  
19 behalf of the Newspaper Association of America, and I  
20 too took a vow and I outlasted Ian by an hour and a  
21 half.

22           (Laughter.)

23           I think I started all this perhaps with some  
24 comments I filed back in the annual compliance review  
25 last year, but I think as far as this page of

1 questions goes I would say we certainly -- while I'm  
2 not crazy about the nomenclature, I think our view  
3 comes in on the Pure Plus category, and in fact  
4 density is simply a factor which Tom Shipe -- happened  
5 to be used by Tom Shipe when he established the bulk  
6 sequencing discounts more than 20 years ago, or 19  
7 years ago, simply he found that the carrier sorting  
8 into the horizontal cases at that time was more  
9 efficient if they were done at complete saturation,  
10 which hardly anybody actually attains in practice, and  
11 compared to the 125-piece level which I don't recall  
12 for sure but I don't recall there is any magic to that  
13 limit, level, but that's what he tested.

14           If you turn to the second set of questions,  
15 there was some comment about the relationship of the  
16 different products within Standard Mail. I represent  
17 newspapers that mail in competition with Valassis and  
18 other saturation mailers, pieces in both high density  
19 and saturation rates. Frequently there will be high  
20 density and an adjacent amount of saturation. It is a  
21 factor driven by the newspaper subscriber penetration  
22 in that particular area.

23           A particular route or a particular piece  
24 could actually change when the Postal Service realigns  
25 is routes and converts a route that used to be

1 saturation into high density or vice-versa. So there  
2 is clearly lots going on back and forth between high  
3 density and saturation in at least our existence of  
4 members of my client shows that they are very much  
5 related.

6 I think part of the confusion here if we're  
7 looking at demand, one way to think about it is that  
8 many folks in Standard Mail are mailing to advertise  
9 their own products. By and large newspapers and  
10 saturation mailers are only incidentally advertising  
11 their own products, they are advertising the products  
12 for all the retailers and other merchants who wish to  
13 belong in the package, or in the newspaper inserts,  
14 and so in that sense the demand is really driven, the  
15 demand that really drives what you're attempting to do  
16 is the demand of the advertiser, not so much as the  
17 entity that happens to hold the mailing permit.

18 And just while I'm here I'll make one more  
19 comment to touch on something that Mike Hall said,  
20 which keyed on the point that when you start -- if the  
21 Postal Service starts defining a mailing -- I'll use  
22 the word "category", that's not the best word here --  
23 a mailing thing, and ties it up with a bunch of  
24 requirements, and requires let's say SCM entry, and a  
25 few other things, and it creates another requirement

1 that something be entered at a BMC, or something else  
2 is required to be entered at DDU, and they become  
3 requirements and not options, then if they then say we  
4 price it on the basis of these requirements, and you  
5 can easily see a situation if you creatively define  
6 every single product in such a way, such item as a  
7 product, and you say 3622(e) does not apply across  
8 these products, then you have essentially made 3622(e)  
9 meaningless if they go far down that road, and that's  
10 something the Commission will have to think about when  
11 it starts deciding what extent a worksharing discount  
12 should be applied across different products.

13 MR. WALLER: Thank you. Matt, do you want -  
14 - okay.

15 MR. ROBINSON: I thought I might try to take  
16 a stab at clarifying what I think we're trying to get  
17 people to talk about with the Pure and Pure Plus  
18 things that were on the previous slide, and I think  
19 the basic idea that we have in mind is that the act  
20 talks about discounts given for the four enumerated  
21 worksharing activities. And currently we have  
22 discounts for automation presort that aren't just for  
23 strictly speaking, literally speaking for pre-bar  
24 coding as Joe was talking about earlier. It includes  
25 a whole host of activities and requirements for the

1 bar code specifications, for address cleansing, for  
2 all these sorts of things that help reduce or are  
3 included in the way we calculate avoidable costs right  
4 now for worksharing discounts.

5           And the idea we are trying to, I guess, get  
6 people to talk about here is, is that the right way to  
7 approach worksharing discounts where we look at what I  
8 would say really is Pure Plus now where we have  
9 avoidable or worksharing-related costs. Some of those  
10 of you who are familiar with models we have pools we  
11 classify as worksharing-related direct or indirect,  
12 and should those all be bundled and considered  
13 together as the avoidable cost, as we do now, and then  
14 have one worksharing discount applied to that? Or is  
15 a better way to purify that and isolate not all the  
16 associated costs but only those that are the four  
17 enumerated activities in the act?

18           And then if you do that, would it be  
19 appropriate to allow the Postal Service to, even  
20 though they sort of analyze that in the cost, but  
21 bundle it in the rate so that you could have  
22 requirements that then aren't -- you bundle the  
23 discount that would be partially a worksharing  
24 discount and partially non-worksharing, and would that  
25 effectively eviscerate -- to use maybe a pejorative

1 term -- the requirements of 3622(e)?

2 Or conversely, would it be okay or a good  
3 idea for the Postal Service to unbundle not just in  
4 costs but in rates, and then offer a rate for  
5 automation preparation other than presorting or pre-  
6 bar coding like address cleansing, and then a separate  
7 rate for just pre-bar coding that would be restricted  
8 by the 3622(e) requirements?

9 And I guess those are sort of the ideas that  
10 we want people to kick around and talk about the  
11 present costs of.

12 MR. WALLER: Now, that was Matt Robinson of  
13 the Commission staff.

14 MR. MCLAUGHLIN: That was interesting  
15 clarification. I think that --

16 CHAIRMAN GOLDWAY: Can you identify  
17 yourself?

18 MR. MCLAUGHLIN: I'm sorry. tom McLaughlin,  
19 again, for Valassis.

20 I think what you just described is a little  
21 bit different than what I thought that I saw up there  
22 on the paper. For the purposes of the question of  
23 high density versus saturation, I don't think you can  
24 do that kind of bundling together, but for the type of  
25 discount you just referred to, the automation

1 discounts, yes, there might be some situation there  
2 where you want to encompass within that workshare  
3 activity all the associated cost savings that go along  
4 with that.

5 The problem you get into otherwise, if you  
6 start very narrowly defining the saving on, for  
7 example, that automation, you might end up with a very  
8 small -- a smaller discount. Then what do you with  
9 those other cost differences? Does that give the  
10 Postal Service pricing flexibility to use those other  
11 cost differences to price differentially?

12 What you want to have in the end, I think,  
13 what the Postal Service needs in the end is some real  
14 pricing flexibility. Admittedly, there are  
15 constraints in the statute and there may be some other  
16 constraints. There are every marketplace constraints  
17 for the Postal Service. It can't just go out and  
18 price however it wants to.

19 So, I think with your clarification I don't  
20 think that what you said does apply to the saturation  
21 versus high density, but it might have some bearing on  
22 some of the other workshare discounts.

23 MR. WALLER: And in particular, does that go  
24 to what different markets actually do exist in  
25 Standard as a whole, and should something like carrier

1 route or 5-digit be used as a benchmark for  
2 calculating avoided costs down to independently high  
3 density and independently down to saturation?

4 MR. MCLAUGHLIN; Tom McLaughlin, again.

5 I was actually at first a little confused  
6 when I read this bullet point in the Commission's  
7 order, and then I was, frankly, concerned because the  
8 idea of using 5-digit as a benchmark for setting rates  
9 for carrier high density and saturation seems to take  
10 us back to the 1980s.

11 In MC95, the Commission concluded that  
12 carrier route, enhanced carrier route, which was at  
13 that time defined to include basic carrier route, high  
14 density, plus saturation, was a separate subclass, and  
15 that was under very rigorous demand and cost  
16 difference tests, and we thought that had been  
17 settled.

18 To kind of resurrect that and say, no, we're  
19 going to go back and use 5-digit as a benchmark for  
20 deciding what those rates are for those other more  
21 finely presorted tiers, you are going back to having  
22 everything in lock-step based on cost differences  
23 throughout the entire rate structure. Where is the  
24 rate flexibility for the Postal Service if you do it  
25 that way, strictly on costs?

1           The whole concept of rate flexibility was to  
2 be flexibility within a class, and if you have  
3 everything based strictly on cost differences there is  
4 no pricing flexibility.

5           I would say that even for carrier route, the  
6 Postal Service has concluded that's a separate  
7 product. When the Postal Service proposed that, I  
8 don't recall any comments coming in and opposing that.  
9 I think the reason is that when the ECR subclass was  
10 first established virtually everyone at the time knew  
11 that the one element of the ECR subclass that was  
12 truly distinct was saturation. When you start the  
13 carrier route, the carrier route basic level, yes, it  
14 does have some different characteristics, but, for  
15 example, a carrier route catalogue, it may be just the  
16 tail-end of a 5-digit catalogue, so you don't have  
17 quite the same kind of clear market distinctions.

18           So, I think the Commission really needs to  
19 get away from the idea of having benchmarks built way  
20 down into the system which start to build up rate  
21 differentials based on cost differentials all the way  
22 up the saturation. That's really the wrong way to go.

23           MR. WALLER: Kathy Klindaning of the  
24 Commission staff.

25           MS. KLINDANING; Hi. I just wanted to

1 follow up on one of the comments Mr. McLaughlin made  
2 because I think he brought up a good point, and I  
3 think he mentioned that some of the lines are not  
4 clear, like 5-digit and carrier route being different  
5 from each other, and I think when we're looking at  
6 this there is some arguments that were made that said  
7 that high density and saturation might be in different  
8 markets. But then it doesn't really clarify whether  
9 carrier route and high density, are they in the same  
10 market? And is Carrier Route really that different  
11 from 5-digit, that they're in the same market?

12 Back in MC95, I think the Postal Service  
13 demonstrated that there is different elasticities for  
14 the ECR products, which they are carrier route, high  
15 density and saturation grouped together, and then  
16 standard regular products. But would they have come  
17 up with similar results had they put standard regular  
18 all the way down to high density compared with  
19 saturation they probably would have come up with  
20 different elasticity for those two groupings.

21 So, really how they decided to group them in  
22 the first place before they looked at the elasticities  
23 for each group deliver really different results. So,  
24 what I would really like people to address is where  
25 are the market separations within Standard Mail? How

1 many markets do we have and how are they related to  
2 each other? Are the lines clear? If they are fuzzy  
3 lines, where are the fuzzy lines? Thank you.

4 MR. WALLER: Bob Baker from the Newspaper  
5 Association.

6 MR. BAKER: Bill Baker for NAA.

7 I would like to start by actually expressing  
8 agreement with Tom McLaughlin as to I don't see why 5-  
9 digit should have any relevance for the high density  
10 and saturation discounts.

11 In response to the question just raised, I  
12 touched on it briefly. I think it's clear from the  
13 perspective of my client's members that clearly high  
14 density and saturation belong together, at least  
15 insofar as we're mailing at high density and  
16 saturation, and high density mailings are being used  
17 to meet the advertiser demand for geographic  
18 distribution.

19 I suspect, but we're getting to where I  
20 don't have empirical data, that there are many markets  
21 in Standard Mail, and I'm fairly confident that there  
22 are catalogues at the carrier route level, and there  
23 are catalogues that creep over into high density if  
24 there happen to be enough of them on particular  
25 routes. It requires only 125, and on a long route

1 that's quite possible for some catalogues.

2 And I'm not optimistic that I'm going to  
3 have much more data on this by the time the comments  
4 are filed at the end of the month, but it's one area I  
5 would encourage the Postal Service to look at and to  
6 see whether there might be some distinctions drawable  
7 between the kind of mail that Valassis and the  
8 newspapers are mailing out in total market coverage  
9 programs, and the kind of mail that carrier route  
10 mailers are tend to be mailing that maybe creeping  
11 over in some cases into high density.

12 MR. WALLER: Okay. Well, we've got two  
13 parties agreeing here. Yes?

14 MR. LUBINO: Joe Lubino, again.

15 I would simply like to say that even if it's  
16 done under the 3522(e), the regime of the strict cost  
17 differences, or if it's different products, mailers  
18 and their service providers are still going to look  
19 into the relationships that are developed, and the  
20 kind of behavior that will be done is, for example, we  
21 used to have a service where if a catalogue had a  
22 carrier route of nine to a carrier route, we would go  
23 out to a consider database, pick up a tenth, different  
24 from the first nine, hopefully with similar  
25 characteristics to the extent that we could get that,

1 make it 10. It was cheaper to mail 10 to the carrier  
2 route than it was to mail nine not to the carrier  
3 route, and we did the same thing with high density at  
4 times for very large publication, for example, that  
5 might -- well, for instance, appealing to retired  
6 people where in certain demographic areas there is  
7 high density to be obtained there. And this is not an  
8 exception, it's kind of a general tactic.

9 We also went the other way. There was a  
10 time when 50 pieces to a 5-digit meant something, and  
11 if we had 11 to a carrier route we'd take one out of  
12 the carrier route if there were 49 to the 5-digit.  
13 And I believe that this kind of behavior is not in any  
14 way unacceptable, it's just the artifact caused by the  
15 rates, and it doesn't matter whether you drive the  
16 rates from a strict cost avoidance regime or from some  
17 product considerations with marketing. The rates are  
18 going to be set and then people are going to look for  
19 those opportunities and take advantage of them.

20 So I guess I don't think that density is  
21 entirely a fact of nature. Density is something that  
22 can be planned for or tactics can be built around  
23 density, co-mailing.

24 One of the chief developments, many of us  
25 are aware of this, in the last few years is more and

1 more co-mailing, which is a way to artificially build  
2 up density by combining customers, and again that sort  
3 of behavior, co-mailing goes up and down because of  
4 the rate relationships that may prevail at any given  
5 time.

6 Drop shipping, in 1984, the Postal Service  
7 proposed drop shipping rates that had -- they raised  
8 the right amount of review apparently but their  
9 relationship between the zone rates was different. It  
10 was compressed. And so all of a sudden there was a  
11 vastly different pattern of drop shipping and a lot of  
12 complaints, and then that got adjusted later because  
13 the Postal Service understood that it wasn't just the  
14 total revenue, it was the curve under which you were  
15 going to get that revenue that might affect the mailer  
16 behavior.

17 So, that's my point. People are going to --  
18 however those rates are derived, people are going to  
19 take the best advantage of them that they can to  
20 facilitate their customers' goals.

21 MR. WALLER: Mora.

22 MS. ROBINSON: Mora Robinson for the Postal  
23 Service. There are many things that they would do  
24 that the Postal Service would not have to do whether  
25 it's around, as Mr. Hall mentioned, weight as to

1 whether it get in the extra ounce in First-Class Mail,  
2 whether it's around content, whether it's around  
3 shape, there is all sorts of rate differentials within  
4 the structure.

5           What we've ben talking about here is how the  
6 worksharing requirements affect the Postal Service's  
7 requirements to price in a specific way, and I think  
8 we need to be very careful about extending the  
9 discussion to all of the possible things that could  
10 affect costs and that could result in signals to  
11 customers to do something or not do something, and  
12 kind of focus on the statutory requirement around  
13 worksharing.

14           Density, moving from high density to  
15 saturation is not something the Postal Service can do  
16 for a customer. It's something a customer may decide  
17 to take specific actions to increase their density if  
18 they find that to be appropriate, but it is not a cost  
19 that's avoided, an activity the Postal Service can  
20 avoid instead of having the customer perform that  
21 action. So, it's a little bit different distinction  
22 here.

23           So, the distinction between when something  
24 is worksharing as defined by the statute, pre-bar  
25 coding, presortation, transportation and handling, and

1 when you have a price or a cost differential based on  
2 characteristics of mail, a customer's business model,  
3 other decisions a customer might make, I think it's  
4 important to keep in mind as we look at the  
5 worksharing requirements in the statute.

6 MR. WALLER: Bob Brinkmann.

7 MR. BRINKMANN: Bob Brinkmann.

8 My comment is not about high density or the  
9 saturation categories, but it follows somewhat on Ms.  
10 Robinson's comment.

11 I mean, the Postal Service when pricing  
12 letters, be it Standard Mail or First-Class, I mean,  
13 not only do the different levels reflect avoided cost  
14 differences, but at times the Postal Service decides  
15 to price a certain -- to create a certain discount to  
16 incent certain mailer behavior. It may be for  
17 operational reason, it may be because of rate  
18 relationships between different rates, and in order to  
19 do so I think you want to maintain the flexibility for  
20 the Postal Service to be able to do that, and that  
21 would mean, I would think, to have an avoided cost  
22 component which would comply with the new statutory  
23 section, and yet still have a component either of the  
24 discount or a separate discount, I think depending  
25 upon what the Postal Service would want to do, that

1 would incent behavior.

2 Now, whether that's based on some other cost  
3 difference or whether it's based on their price  
4 inflexibility in terms of institutional cost, that  
5 type of flexibility to incent mailer behavior and have  
6 some control over the way people are going to act I  
7 think is critical to keeping the Postal Service  
8 running efficiently.

9 MR. WALLER: Okay. Some more comments on  
10 this particular issue? Malin?

11 MR. MUNCH: Malin Munch for the PRC, Postal  
12 Regulatory Commission.

13 I slipped a slide to John, and I wonder if  
14 he could bring that up, and that will facilitate this  
15 question.

16 MR. WALLER: We did announce that there  
17 would be electronics and you could bring things, so he  
18 didn't get special treatment.

19 MR. MUNCH: This question relates to  
20 something that is a very basic question but it has a  
21 lot to do with what we end up deciding as far as these  
22 issues go. It runs to the question of what role is  
23 the definition of "product" going to play in these  
24 decisions that we make, and in the old regime under  
25 the old law when classification changes were advocated

1 and then decided on, and there was a good deal of  
2 discussion and a good deal of philosophical and  
3 economic clarity as to exactly why the distinctions  
4 between one class and another were being made.

5 There has been a little less of that sort of  
6 discussion since the new law was in place as to why a  
7 particular service was being called a product and  
8 distinguished from other products.

9 So, this slide illustrates the current state  
10 of affairs with respect to how products are being  
11 distinguished from each other in Standard Mail, and  
12 what you see up there are shape categories, and then  
13 you see worksharing categories in the vertical column.  
14 The shape categories go horizontally. And everything  
15 with a green circle in it is currently being  
16 distinguished from other services as a distinct  
17 product.

18 So, you will see up there that when you are  
19 in the first four categories of worksharing shape is  
20 pretty uniformly determinant of what a product is and  
21 how it's distinguished from other products.

22 When you get down to the workshare category  
23 carrier route, shape doesn't seem to play any role at  
24 all in determining that carrier route is a coherent  
25 and distinct product, and then you go down to the high

1 density and the saturation workshare categories, and  
2 it's sort of a hybrid where a distinct product would  
3 be the high density and saturation letters, and then  
4 the high density and saturation flats and parcels are  
5 a product currently.

6           So, my question is primarily to the Postal  
7 Service, though it is if they could clarify their  
8 basic philosophy of classification as it has been  
9 applied to Standard Mail so far under the law, but it  
10 could also apply generally, and let me bring that to a  
11 little more concrete level.

12           One question is, do you decide that distinct  
13 shapes should be distinct products, and the reason  
14 that they are distinct products is because shape often  
15 equates with distinct mailer identification. If you  
16 know what the shape is, then that gives you a clue  
17 that you have a certain pool of mailers that you can  
18 identify. Different shape gives you a different pool.  
19 That's one possible philosophy the Postal Service has  
20 taken here.

21           Another possible philosophy is that the  
22 operational distinctions, the different categories of  
23 mail up here are handled differently operationally,  
24 and the Postal Service might equate that with cost  
25 differences, and you can see some influences of that

1 up here possibly.

2 Still another philosophy might be that  
3 statistical pragmatism might be one reason that we're  
4 defining some things as products and not others as  
5 possible that there is a small enough volume in  
6 carrier route across all shapes that just to get  
7 respectful statistical results they are all rolled  
8 together. All the carrier route shapes are all rolled  
9 together as a particular product.

10 You've got high density and saturation  
11 rolled together when it's been argued that saturation  
12 is its own distinct market with its own distinct  
13 demands, its own private alternatives that don't exist  
14 for anything else.

15 So, with enough of that as an illustration,  
16 I would like to understand a little better what the  
17 underlying philosophy has been to result in this  
18 particular product definition.

19 MR. WALLER: Anyone from the Postal Service  
20 like to address that? Ah, a new Postal Service voice.

21 MR. KEEFER: Jim Keefer from the Postal  
22 Service.

23 Actually, the third alternative that was  
24 mentioned was the reason. If my memory serves me  
25 correctly, when the Commission invited the Postal

1 Service to propose a set of products and we proposed  
2 this particular set of products for Standard Mail, I  
3 believe we made it clear that it was a pragmatic  
4 approach that led us to lump, for example, high  
5 density and saturation parcels in with flats. There  
6 are almost no volume. Certainly on a relative basis  
7 absolutely no volume of saturation and high density  
8 parcels, and for a similar reason carrier route, the  
9 former basic carrier route was dominated by the float  
10 shape; relatively few letters, and those that were  
11 there are in many cases handled more like flats; very  
12 few parcels. So it was pragmatic in order to try to  
13 avoid just multiplying a lot of different product  
14 categories at almost no volume. Thank you.

15 MR. WALLER: Thank you. Okay, do the  
16 Commissioners have any comments or questions on the  
17 Standard issue?

18 CHAIRMAN GOLDWAY: I guess I'd like to  
19 follow up with the Postal Service. Have you found  
20 that the categorization that is in place, that mail-in  
21 pose questions about and you described, is  
22 satisfactory for your pricing needs? Is it providing  
23 you enough flexibility? Do you wish now that you had  
24 presented a different format?

25 (Laughter.)

1           MR. KEEFER: I would say that we are sort of  
2 always thinking about ways in which we could improve  
3 how we define our products. I would say that we've  
4 had a little bit of experience with this, and  
5 certainly issues such as the ones that are under  
6 discussion here help us to clarify our particular  
7 classification structure that we initially proposed.

8           We don't have in the works at this time any  
9 changes to that but we're always sort of thinking  
10 about what is the best way to define our products to  
11 serve both the Postal Service needs and our customers  
12 needs.

13           MR. WALLER: Do mailers have any viewpoints  
14 on that, the Chairman's question?

15           (No response.)

16           MR. WALLER: Okay, silence is an answer.

17           Oh, yes, Mr. Haldi.

18           MR. HALDI: Could we go back to the previous  
19 slide that was up there? Yes, there you go.

20           The last bullet there says "appropriate  
21 benchmarks". Now, the Commission in its order said  
22 they were going to entertain later discussion of costs  
23 avoided, so I won't go into this at any length now,  
24 but I'll do that when the time comes. But it seems to  
25 me this grade or version to a model that says this is

1 something we offer, this is what it costs, and this is  
2 how we're going to price it. I don't know why this  
3 version is this. To me it's what most businesses do.

4 They say, I have a product or a service, I  
5 have a cost, and I think I have some kind of demand,  
6 and I price it this way. And only in the Postal  
7 Service do you hear this, well, it's got to be linked  
8 to a costs avoided. We've got to have a benchmark.  
9 Who needs a benchmark? An appropriate benchmark for a  
10 5-digit? It's the cost, and you markup the cost,  
11 that's all. Appropriate benchmark for carrier route  
12 or high density, you have a cost, you mark it up based  
13 on you get some feedback from the market. If you're  
14 too high or too low, you adjust your prices  
15 accordingly, and I just don't think it's an  
16 appropriate benchmark. It doesn't have a question  
17 mark up there, but it does after the others. I don't  
18 think you need a benchmark.

19 You have a product, you have a cost, you  
20 mark it up appropriately, otherwise you get -- Mr.  
21 McLaughlin said, you get this irrational linking based  
22 on some kind of cost difference only, and that locks  
23 you in from any ability to take account of other  
24 characteristics that you might in your pricing, and so  
25 I think what you need to do is you have a product and

1 you price it. You have some flexibility, otherwise  
2 you lose your flexibility. Thank you.

3 MR. WALLER: Okay, we will go here in the  
4 order in which hands came up. Ashley Lions first and  
5 then back to you.

6 MR. LIONS: Ashley Lions of the Postal  
7 Service.

8 If you could flip the screen back to Malin's  
9 chart there, I want to add a couple of points there.

10 I think the question was, for instance, on  
11 carrier route why do you have only basically one  
12 category. One of the things worth noting on carrier  
13 route is effectively with some pricing decision we no  
14 longer accommodate the DPS. The fact that the letters  
15 are sequenced basically we have the former carrier  
16 route letters, most of all of them are 5-digit  
17 letters, so there is not a real need for a costing  
18 classification. The 5-digit rates are such.

19 And on the saturation mail by definition  
20 those tend to be a third building; in other words, by  
21 that it goes all the way in most instances untouched  
22 to the carrier who takes it out as a separate bundle  
23 at the very end and handles it together. So the fact  
24 that if it's a letter or a flat, it still goes  
25 directly to the carrier untouched, and they are

1 walking out and taking it off the top piece and  
2 depositing it at the time.

3           So, it's not really an issue of the data  
4 systems being able to so much accommodate it as in the  
5 sense that the operational changes, that that's the  
6 way we handle the mail in those instances. The  
7 carrier route letters are effectively 5-digit letters,  
8 and the saturation mail letters or flat tend to be  
9 handled very similar; that in essence they go all the  
10 way to the carrier frequently untouched, and then the  
11 carrier takes them out and delivers them in a rather  
12 similar manner in that they're not sequenced, for  
13 instance, in the office or case. By definition, they  
14 are saturation, and much more often than not they are  
15 taken out and handled by the carrier themselves in the  
16 sequence.

17           MR. WALLER: Okay. There were a couple of  
18 hands up, and I do want to recognize them, and then we  
19 will start pulling it to a close. Do you still have  
20 comments?

21           MR. MCLAUGHLIN: Yes. Tom McLaughlin,  
22 again, on this same chart, and I was pleased to hear  
23 Jim Keefer say that the Postal Service going to be  
24 continuously looking at its products.

25           I think it needs to do that, and it isn't

1 just Standard Mail. It's everywhere. And if you look  
2 at the chart that we've go right there, let's just  
3 take for example letters, that category No. 1. If you  
4 go down the workshare categories, there is probably  
5 not any real product difference between AADC and 3-  
6 digit. I will confess I don't know what AADC is, but  
7 I suspect that within letters there are different  
8 kinds of Standard Mail letters that serve different  
9 markets.

10 I can't tell you what they are because I'm  
11 not an expert in that field, but the Postal Service  
12 needs to become more of an expert in that field and  
13 find out whether there are categories within product  
14 grouping No. 1 that maybe they ought to try to  
15 encourage, whether through pricing or other kinds of  
16 innovative approaches to classification. I think  
17 that's probably true in First Class Presort, for  
18 example, and there was even some discussion that maybe  
19 in First-Class single piece there are different  
20 groupings.

21 There may be ways of Postal Service figuring  
22 out better ways to serve those markets. It doesn't  
23 necessarily mean lower prices for certain categories.  
24 It may be simply a combination of price and service  
25 for different products. They have got to be doing

1 more of that. It won't be easy and you're always  
2 going to have the questions about, well, isn't there  
3 some overlap between this category and that category.  
4 There is always going to be an overlap, and what  
5 you've got to do is stand 10 feet back and say, okay,  
6 there is overlap but there is a little gray area but,  
7 boy, there is a real black and white area here and a  
8 black and white area here, let's go after it, and I do  
9 think that the Postal Service needs to continue doing  
10 that.

11 MR. WALLER: The Chairman's former special  
12 assistant, now going to be called counselor, I  
13 believe, Michael Rawinsky has raised his hand.

14 MR. RAWINSKY: Thank you. Michael Rawinsky  
15 on the staff of the Commission.

16 I think that there are two similar purposes  
17 for worksharing that sometimes are pushed together and  
18 perhaps more explicit recognition of their differences  
19 might be useful.

20 One is that some of the worksharing  
21 "category", workshop "categories" are to desegregate  
22 products so that people who use less expensive  
23 products don't have to pay as much, as people who use  
24 more expensive will pay more, and some of it is to  
25 encourage mailer behavior, to move mail from one

1 category into a different category, and I think that  
2 disaggregation versus mailer incentivization should be  
3 taken into account perhaps. Maybe that's an area to  
4 look into.

5 The second thing is that over time the  
6 marketing has become more and more localized and these  
7 categories are sort of seen as monolithic categories  
8 when actually the gentleman from the Newspaper  
9 Association pointed out that on a carrier route-by-  
10 carrier route, or ZIP code-by-ZIP code level each  
11 mailer is actually purchasing a portfolio of different  
12 services for the same mailings actually, and so those  
13 portfolios may not reflect the kind of mailing  
14 category structure that was set up many years ago.

15 I think, also, a more explicit recognition  
16 of that portfolio effect might be useful as well.

17 MR. WALLER: Matt, one short comment.

18 MR. ROBINSON: Okay. Well, I guess maybe  
19 this would be something better address than in written  
20 comments. Matt Robinson again with the Commission  
21 staff.

22 Ashley said something just a minute ago that  
23 got me thinking because I heard maybe a contradiction  
24 with some things other people said. He said that  
25 saturation tends to go straight to the street as a

1 third bundle, which would imply that it avoids casing  
2 by the carrier, which is a Postal Service operation  
3 that's a sorting operation, and yet I heard people  
4 earlier saying that pieces moving from a high density  
5 saturation wasn't worksharing because it didn't  
6 replace the Postal Service operation, and I think  
7 there may be a bit of a gray area there that people  
8 can resolve in the comments unless somebody has a  
9 quick solution.

10 MR. WALLER: Does anybody have any comment  
11 on that to comment or question by Matt that there is  
12 worksharing I guess is what you're saying?

13 (No response.)

14 MR. WALLER: Well, I want to thank you all  
15 for politely raising your hand, standing, giving your  
16 names, and all that. I think the recorders here have  
17 been able to get it all, and that is because of your  
18 good cooperation on this, so thank you very much.

19 Chairman?

20 CHAIRMAN GOLDWAY: John is commending you  
21 all for being good students, behaving well. I think  
22 we all are very grateful for your participation.

23 Commissioner Langley, did you want to say  
24 something?

25 COMMISSIONER LANGLEY: Yes. I just wanted