

 ORIGINAL

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL REGULATORY COMMISSION

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In the Matter of: )  
SIX-DAY TO FIVE-DAY STREET ) Docket No.: N2010-1  
DELIVERY AND RELATED SERVICE )  
CHANGES 2010 )

VOLUME III

RECEIVED  
2010 JUL 19 A 11:03  
POSTAL REGULATORY  
COMMISSION  
OFFICE OF THE SECRETARY

Pages: 542 through 714  
Place: Washington, D.C.  
Date: July 16, 2010

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KENNETH MOELLER  
LAWRENCE FENSTER

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<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RE CROSS</u>	<u>VOIR DIRE</u>
<u>For the Postal Service:</u>					
Joseph Corbett					
By Mr. Koetting	553	---	702	---	---
By Mr. Anderson	---	578	---	---	---
By Mr. Dechiara	---	591	710	---	---
By Ms. Rush	---	648	712	---	---
By Ms. Gallagher	--	660	---	---	---

<u>OCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Written Cross-Examination of United States Postal Service Witness Joseph Corbett, USPS-T-2	559

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Direct Testimony of Joseph Corbett on Behalf of the United States Postal Service, USPS-T-2	558	558
APWU Pieces Received by Household, Cross-Examination Exhibit 1	579	---
APWU Postal Service Revenue and Net Income, Cross-Examination Exhibit 2	579	---
NALC Cross-Examination No. 4, 2009 Postal Service Annual Report	592	---
NALC Cross-Examination No. 5	627	---
NALC Cross-Examination No. 7	632	---
NALC Cross-Examination No. 8	636	---
NALC Cross-Examination No. 9	636	---
NALC Cross-Examination No. 10	640	---
NNA Cross-Examination No. 1	655	---
AP Cross-Examination No. 3	---	---

P R O C E E D I N G S

(9:32 a.m.)

1  
2  
3 CHAIRMAN GOLDWAY: Good morning. The  
4 hearing on July 16, 2010, will come to order. Today  
5 we continue our hearing for the Commission to receive  
6 the Postal Service's evidence in support of its plans  
7 to move from six- to five-day delivery and other  
8 related service changes in Docket No. 2010-1.

9 For the record, I am Ruth Goldway, Chairman  
10 of the Postal Regulatory Commission. Joining me on  
11 the dias this morning are Vice Chairman Hammond to my  
12 left; Commissioners Acton and then Commissioner Blair  
13 and Langley to my right.

14 I want to alert those in the audience today  
15 that this hearing is being web broadcast. In an  
16 effort to reduce potential confusion, I ask that  
17 counsel wait to be recognized before speaking and to  
18 please identify yourself when commenting.

19 Now, I have one procedural matter to take  
20 care of before we begin. There is a motion to compel  
21 filed by the American Postal Workers Union that is  
22 outstanding. However, it is my understanding that the  
23 APWU and the Postal Service came to an agreement  
24 concerning the response to that motion, and that  
25 response has now been filed. Is that correct?

1 MR. ANDERSON: That is correct, Madam  
2 Chairman.

3 CHAIRMAN GOLDWAY: Therefore, the APWU  
4 motion to compel filed June 21, 2010 is denied because  
5 it is moot.

6 One witness is scheduled to appear here  
7 today, Mr. Joseph Corbett. Does any participant have  
8 a procedural matter to discuss before we begin?

9 (No response.)

10 CHAIRMAN GOLDWAY: If not, I will allow the  
11 Postal Service to present its witness.

12 MR. KOETTING: Thank you, Madam Chairman.  
13 My name is Eric Koetting, and I am on behalf of the  
14 Postal Service, and the Postal Service calls as its  
15 next witness Joseph Corbett.

16 Whereupon,

17 JOSEPH CORBETT

18 having been duly sworn, was called as a  
19 witness and was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KOETTING:

22 Q Mr. Corbett, would you please state your  
23 full name for the record?

24 A Joseph Corbett, CFO and Executive Vice  
25 President.

1           Q     I am handing you a document entitled Direct  
2     Testimony of Joseph Corbett on Behalf of the United  
3     States Postal Service which is designated as USPS-T-2.  
4     Are you familiar with this document?

5           A     Yes, I am.

6           Q     Was it prepared by you or under your  
7     supervision?

8           A     Yes.

9           Q     Do you have any changes to make to that  
10    document relative to what was filed initially?

11          A     Yes, I do.

12                    On page 6 of the document there are four  
13    changes that I would like to make to lines 10 through  
14    13, and in line 10 the phrase "dues work hours", it  
15    should be "hour". That's probably a very small one.  
16    In line 11, the figure "3.8" should be "as of today  
17    3.5". In line 12, the figure "93" should be "80", and  
18    in line 13, the figure "53" should be "45". Fifty-  
19    three thousand changed to 45,000.

20          Q     Have those changes been marked in the copy  
21    that I'm showing you now?

22          A     Yes, they have.

23          Q     And with those changes if you were to  
24    testify orally today would this be your testimony?

25          A     Yes, it would.

1 MR. KOETTING: Madam Chairman, I am handing  
2 two copies of the direct testimony of Joseph Corbett  
3 on Behalf of the United States Postal Service, USPS-T-  
4 2 to the reporter, and request that they be admitted  
5 into evidence.

6 CHAIRMAN GOLDWAY: Is there any objection?

7 MR. DECHIARA: Yes, I have an objection,  
8 Madam Chairman. Peter DeChiara from the law firm of  
9 Cohen, Weiss and Simon LLP for the National  
10 Association of Letter Carriers (AFL-CIO).

11 The NALC objects to admission into evidence  
12 through this witness of the testimony on page 15 in  
13 the sentence that begins line 5 and ends line 7. The  
14 sentence says, "The fact is, however, that there is no  
15 longer -- and there will not be -- sufficient mail  
16 volume and revenue to sustain six days of delivery per  
17 week."

18 The NALC objects to that sentence to the  
19 extent of the words "and there will not be". We  
20 construe this sentence, and I think it can only fairly  
21 be construed as a statement of fact projecting future  
22 mail volume, and we believe that that is the subject  
23 of expert testimony, and that there is nothing in the  
24 record that would qualify this witness who we  
25 understand is an accountant, a CPA, to make such a

1 statement of expert opinion regarding future mail  
2 volume.

3 Furthermore, there is nothing in the  
4 testimony that lays a foundation that this witness  
5 ever performed any studies or took any other actions  
6 that would provide a basis for him to make that  
7 statement of expert opinion.

8 MR. KOETTING: Madam Chairman, the Postal  
9 Service obviously would disagree with those  
10 assertions. If I can just cut to the chase, however,  
11 I believe that all those arguments would go to weight  
12 of the evidence and not admissibility. Counsel is  
13 free to explore those topics with the witness on oral  
14 cross-examination, but there is no particular reason  
15 why that statement on its face cannot be admitted into  
16 evidence. It is like literally thousands of  
17 statements that appear in testimony on a regular basis  
18 before this Commission.

19 CHAIRMAN GOLDWAY: I think that this is a  
20 matter that will be discussed with this witness and  
21 with subsequent witnesses, and I think the language in  
22 the testimony can stand for what it is. So your  
23 motion is denied.

24 And if there are no other objections I will  
25 direct the counsel to provide the reporter with two

1 copies of the corrected direct testimony of Joseph  
2 Corbett. That testimony is received into evidence.  
3 However, as is our practice, it will not be  
4 transcribed.

5 (The document referred to was  
6 marked for identification as  
7 Exhibit No. USPS-T-2, and was  
8 received in evidence.)

9 CHAIRMAN GOLDWAY: Mr. Corbett, have you had  
10 an opportunity to examine the packet of Designated  
11 Written Cross-Examination that was made available to  
12 you in the hearing room this morning?

13 THE WITNESS: Yes, I have, Madam Chair.

14 CHAIRMAN GOLDWAY: If the questions  
15 contained in that packet were posed to you orally  
16 today would your answers be the same as you previously  
17 provided in writing?

18 MR. KOETTING: Madam Chairman, if I could  
19 interject at this time. There was one question in the  
20 packet, which was the response of the United States  
21 Postal Service to APWU request in lieu of APWU-USPS-  
22 T2-7, which in fact was an institutional response to  
23 the Postal Service and was not answered by Witness  
24 Corbett, and therefore consistent with the other  
25 institutional responses that had originally been made

1 by the parties we removed that from the packet so that  
2 the packet that Mr. Corbett has consists exclusively  
3 of the answers that were prepared by him; just so the  
4 record is clear, and I've discussed this with Mr.  
5 Anderson that that particular question and answer had  
6 been removed from the packet.

7 CHAIRMAN GOLDWAY: Will they be designated  
8 separately?

9 MR. ANDERSON: They will be designated  
10 separately.

11 CHAIRMAN GOLDWAY: Okay. Then with those  
12 corrections to the Commission, I will direct the  
13 counsel to provide two copies of the corrected  
14 designated written cross-examination of Witness  
15 Corbett to the reporter. The material is received  
16 into evidence and is to be transcribed into the  
17 record.

18 (The document referred to was  
19 marked for identification as  
20 Exhibit No. USPS-T-2, and was  
21 received in evidence.)

22 //

23 //

24 //

25 //

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

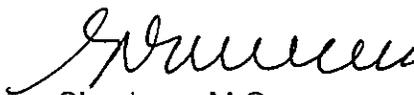
Six-Day to Five-Day Street Delivery and  
Related Service Changes, 2010

Docket No. N2010-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS JOSEPH CORBETT  
(USPS-T-2)

<u>Party</u>	<u>Interrogatories</u>
American Postal Workers Union, AFL-CIO	APWU/USPS-T2-3-8  GCA/USPS-T2-3 NALC/USPS-T2-9
Greeting Card Association	GCA/USPS-T2-3
National Association of Letter Carriers	NALC/USPS-T2-9
National Newspaper Association	APWU/USPS-T2-4 NNA/USPS-T2-1-2, 4-6, 9
Postal Regulatory Commission	APWU/USPS-T2-2, 4 GCA/USPS-T2-3 NNA/USPS-T2-1, 4-5
Public Representative	APWU/USPS-T2-1, 3, 5-6, 8 GCA/USPS-T2-3 NALC/USPS-T2-9 NNA/USPS-T2-2, 6, 9

Respectfully submitted,



Shoshana M. Grove  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS JOSEPH CORBETT (T-2)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

APWU/USPS-T2-1	PR
APWU/USPS-T2-2	PRC
APWU/USPS-T2-3	APWU, PR
APWU/USPS-T2-4	APWU, NNA, PRC
APWU/USPS-T2-5	APWU, PR
APWU/USPS-T2-6	APWU, PR
APWU/USPS-T2-7	APWU
APWU/USPS-T2-8	APWU, PR
GCA/USPS-T2-3	APWU, GCA, PR, PRC
NALC/USPS-T2-9	APWU, NALC, PR
NNA/USPS-T2-1	NNA, PRC
NNA/USPS-T2-2	NNA, PR
NNA/USPS-T2-4	NNA, PRC
NNA/USPS-T2-5	NNA, PRC
NNA/USPS-T2-6	NNA, PR
NNA/USPS-T2-9	NNA, PR

**N2010-1**

**United States Postal Service**

**Joseph Corbett  
(USPS-T-2)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
JOSEPH CORBETT TO INTERROGATORIES OF APWU**

**APWU/USPS-T2-1** Your background shows you have worked in senior management in two large companies and have extensive experience in consulting. During this time, how often have you advised companies to cut service to become healthier and more viable? Does cutting service generally help a company become healthier?

**RESPONSE:**

While I cannot reveal advice given to companies in my previous positions, I certainly have participated in a variety of business decisions that needed to be made to strengthen the financial position of various entities. Business decisions often involve many considerations, such as service changes, that require balancing. Since the decisions involve various considerations, it is not advisable to make generalizations about those considerations (e.g., service reductions) individually. With regard to the current proposal to shift to 5-day delivery, it was only after long study and consultation that we decided that the change was necessary. I would also add in response to your final question, however, that in commercial delivery, transportation and logistics businesses, delivery frequency is often changed to match cost structures with declining revenues. For example, an airline which provides service between two cities with two flights a day, both of which have a substantial and increasing number of empty seats, might become healthier by consolidating to one flight a day between those two cities.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
JOSEPH CORBETT TO INTERROGATORIES OF APWU**

**APWU/USPS-T2-2** How much revenue do you expect the Postal Service to lose if it goes to 5-day delivery. What, in your opinion, will be the primary source of those losses?

**RESPONSE:**

Please see the testimony of Gregory M. Whiteman (USPS-T-9) at pages 11-12 where he states that the estimated gross revenue reduction is \$428 million. On page 12, he describes the sources that contribute to that reduction.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
JOSEPH CORBETT TO INTERROGATORIES OF APWU**

**APWU/USPS-T2-3** If the Postal Service had not faced the payments into the Retiree Health Benefits fund as set by the PAEA, would you still consider the Postal Service in "dire financial condition"?

**RESPONSE:**

The most profound manifestation of the "dire financial condition" that I describe beginning at page 3, line 3, of my testimony is the immediate liquidity crisis that the Postal Service currently faces at the end of each fiscal year. If the Postal Service did not face the current statutory obligation to pre-fund retiree health benefits at an accelerated pace, our cash flow situation at the end of the year would clearly be improved. Nevertheless, over time, without some other structural changes to improve the business model, the other factors discussed in my testimony would likely cause the same type of liquidity crisis to arise even without those payments.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
JOSEPH CORBETT TO INTERROGATORIES OF APWU**

**APWU/USPS-T2-4** On page 3 of your testimony, lines 11-12, you state that "in fiscal year 2009, total mail volume fell by an unprecedented 26 billion pieces...the largest annual mail volume decline in postal history." How much of this loss can be attributed to the collapse of advertising by the financial services industry in the depths of a catastrophic recession?

**RESPONSE:**

The volume decline occurred in nearly all of our mail products in Mailing Services.

(Only In-County Periodicals Mail, which constitutes only 0.2 percent of the revenue, had volume growth.) The overall decrease in Mailing Services Mail was 12.7 percent. The declines were so broad based, however, that a substantial majority of the overall decline seems to have come from components other than advertising mail by the financial services industry. We believe that less than 25 percent of the overall decline resulted from decreased advertising by financial institutions to households.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
JOSEPH CORBETT TO INTERROGATORIES OF APWU**

**APWU/USPS-T2-5** On page 10 of your testimony, lines 8-10, you state “[t]hat loss of volume is permanent. When economic recovery occurs, growing use of the Internet and other digital communications will continue to suppress First-Class Mail volume growth.”

Please provide all a copy of studies or other documentation and information you relied upon in coming to this conclusion.

- a.) Do you believe that once it rebounds, the financial services industry will continue to abstain from advertising through the mail? Please provide a detailed explanation of your conclusion.
- b.) Please provide all a copy of studies or other documentation and information you relied upon in coming to this conclusion.

**RESPONSE:**

The passage of my testimony to which you refer was specifically discussing volume losses in First-Class Mail relating to businesses, nonprofits, governments, and households converting from mail to electronic methods of communications and transactions. As I see it, common sense would lead one to conclude that mailers that have embarked upon and completed a conversion process from hard-copy to electronic media are extremely unlikely to convert back to hard-copy for those items, and the resulting losses of volume are thus permanent. For example, a consumer who has set up an automatic payment plan for certain recurring expenses would seem unlikely to be inclined to change back to mailing checks for the same payments every month instead.

a) – b). The cited portion of my testimony did not specifically address the advertising market. Instead, this portion of your question would relate more closely to the subsequent passage on page 10 of my testimony, lines 19-20, where I acknowledge that we expect advertising mail to increase and stabilize as the economy improves. This portion of my testimony is certainly consistent with the conclusions reached by the Boston Consulting Group (BCG) in publicly available materials provided as part of the

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
JOSEPH CORBETT TO INTERROGATORIES OF APWU**

Postal Service's March 2 program setting forth the action plan for the future. Those

BCG materials can be found at:

[http://www.usps.com/strategicplanning/\\_pdf/BCG\\_Narrative.pdf](http://www.usps.com/strategicplanning/_pdf/BCG_Narrative.pdf)

[http://www.usps.com/strategicplanning/\\_pdf/BCG\\_Detailed%20presentation.pdf](http://www.usps.com/strategicplanning/_pdf/BCG_Detailed%20presentation.pdf)

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
JOSEPH CORBETT TO INTERROGATORIES OF APWU**

**APWU/USPS-T2-6** On page 13 of your testimony, lines 10-13, you state “[t]his is what is leading us to consider all options for bringing costs and revenues into line, including reexamination of service features such as 6-day delivery that, if modified, could reap significant cost savings.” Please identify all of the options considered by the Postal Service for bringing costs and revenue into line. For all options the Postal Service declined to implement, please provide a detailed explanation for the decision and any related documents.

**RESPONSE:**

The point of the cited passage was to highlight that no single strategy will solve for all of the multiple causes of our financial crisis. The crisis will not be solved by the service and operational changes we have presented in this docket. We will undertake all options judged to have a reasonable chance to produce positive financial and service results. While I cannot delineate every internal consideration of initiatives that may affect costs or revenue, I can confirm that the Postal Service understands the gravity of the situation, and will proceed accordingly. For information, the Appendix to “Ensuring a Viable Postal Service for America” (which I am informed was filed with the Commission on March 5, 2010, as USPS-FY09-43, in Docket No. ACR2009) presents concepts that were evaluated but are not currently being pursued.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF APWU**

APWU/USPS-T2-8. On May 10th you finalized the 10-Q for Q2 of the Postal Service's 2010 Fiscal Year. It showed a \$1.88 billion loss during the first half of the FY.

a). Accruals for the Retiree Health Benefits Fund seem to have totaled \$2.75 billion during that time period. Would the Postal Service be running a deficit if that cost had not been incurred?

b). The first half loss seems to be about \$1.1 billion better than plan. Please provide the Postal Service's current projection of its net income for the 2010 FY.

**RESPONSE:**

a) The \$2.75 billion accrual represents half of the \$5.5 billion prefunding of retiree health benefits required in FY 2010 by P.L. 109-435. Since the net loss for the first 6 month period was \$1.88 billion, the Postal Service would not have run a deficit if that cost had not been incurred.

b) Based on performance to date, and the uncertainty of the economy, we estimate the Postal Service's net loss for FY 2010 to be up to \$7 billion.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF GCA**

.GCA/USPS-T2-3

Please refer to your prefiled testimony at page 11, line 12, to page 12, line 3, where, after discussing the decline in pieces/delivery point/day and the change in mail mix from FY 2000 to FY 2009, you state "The only viable possibility on the horizon to reverse the effects of those trends on that fundamental measure of the viability of the delivery network is to reduce the number of delivery days per week, thereby lowering the denominator of the ratio."

- (a) Does the discussion in the cited passage assume no change in the relative per-piece contribution to institutional costs obtained from the various classes of mail?
- (b) If your answer to (a) is not an unqualified "yes," please describe fully (i) what consideration you gave to alleviating the financial problem caused by the increased proportion of lower-contribution mail (mail mix shift) by adjusting rates for such mail, and (ii) your reasons for concluding that reduction in delivery days was the only viable measure for alleviating the effects of the mail mix shift.

**RESPONSE:**

- a. Yes.
- b. Not applicable.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF NALC**

**NALC/USPS-T2-9.** Postmaster General Jack Potter testified on March 18, 2010 before the Senate Appropriations Subcommittee on Financial Services and General Government that if USPS is found to have overpaid \$75 billion into the Civil Service Retirement System, USPS would not have to cut the frequency of service: "... if that were to happen, we wouldn't have to go to ... five day delivery." Do you agree that the elimination of Saturday delivery would be unnecessary if USPS were credited with the \$75 billion?

**RESPONSE:**

Yes, if the Postal Service were "credited" and had access to \$75 billion cash, the impetus for the shift to five-day delivery would be unnecessary for the foreseeable future. In March 2010, the Postal Service put forth a 10-year plan including fundamental changes necessary to return to financial stability. This plan illustrates that fundamental changes totaling well over \$115 billion (including interest impact) are necessary to return the Postal Service to profitability. It is possible that legislation concerning the \$75 billion overpayment could provide lesser relief, or may require restricted application of the \$75 billion credit. Restrictions on the application of the \$75 billion credit may require that some or all of the other changes that were outlined on March 2, 2010, including a reduction in delivery frequency, remain necessary. In addition, over time, if volume continues to decline and mail mix continues to change, some adjustment in delivery frequency may ultimately be required, and the nationwide elimination of Saturday delivery would still likely be the logical first step.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF NNA**

**NNA/USPS T2-1**

During your service with KPMG, Bearing Point and other employers during your professional career, have you previously advised clients on maintaining or restoring profitability during a recession or structural change in the economy or the client's industry?

**RESPONSE:**

Yes.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF NNA**

**NNA/USPS T2-2**

If your response to T2-1 is affirmative, please describe, without naming clients or revealing proprietary information, whether you have advised or participated with colleagues in advising clients to:

- a. Reduce workforce through attrition (e.g., not filling positions left vacant by employee retirement or resignations?)
- b. Reducing workforce through layoffs?
- c. Reducing workforce through voluntary buyouts or providing incentives for early retirements?
- d. Cut costs through furloughs?
- e. Cut costs through pay reductions?
- f. Cut costs over a long-term by hiring new employees at reduced compensation levels?
- g. Eliminating major products or services?

**RESPONSE:**

- a. Yes.
- b. Yes.
- c. Yes.
- d. No.
- e. No.
- f. No.
- g. Yes.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF NNA**

**NNA/USPS T2-4**

In your testimony you say: "Standard Mail volume has been significantly impacted by the decline in advertising spending in all sectors of the economy as a result of the recession."

As the advertising decline has affected the Postal Service's business mailing customers, such as printers, publishers, mailing services and catalog companies, are you aware of any of the Postal Service's major customers, defined as "national and premier accounts" in USPS Library Reference N2010-1/1 that have been forced to employ any of the options listed in T2-2 b-f?

**RESPONSE:**

Yes.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF NNA**

**NNA/USPS T2-5**

Are you aware of any major national companies with long-standing collective bargaining agreements that have achieved cost controls by mutual agreement with employee groups to use of any of the options in NNA/USPS T2-b-f? If so, please generally describe what you know of their practices? If not, do you believe that major companies find that the use of such tools is incompatible with either a large national workforce or respect for collective bargaining?

**RESPONSE:**

Yes, as a matter of general knowledge I am aware of these practices.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF NNA**

**NNA/USPS T2-6**

If you were chief financial adviser of a company not constrained by the provisions in US Code Title 39, would you weigh heavily the workforce-related options listed in NNA/USPS T2-2 before considering an elimination of a service upon which some customers clearly depend?

**RESPONSE:**

The actions are not substitutes for each other. In general, all available options to improve financial conditions should be considered.

**RESPONSE OF POSTAL SERVICE WITNESS CORBETT  
TO INTERROGATORIES OF NNA**

**NNA/USPS T2-9**

a. Have you reviewed a report by the Government Accountability Office (GAO) issued in April 2010, and titled "Strategies and Options to Facilitate Progress Toward Financial Viability? (If you have not, please consult the report at <http://www.gao.gov/new.items/d10455.pdf> before responding to this question.)

c. Do you agree, in general, with GAO's analysis? If not, why not?

d. Would any of the following options offered by GAO in that report provide the Postal Service with the tools it needs to achieve financial viability? Please respond without regard to the provenance of this tool, whether it be Congress, existing USPS management authority, negotiated labor contracts or arbitrated labor contracts?

1. Reduce the size of the workforce through retirements and outsourcing, where it is cost-effective to do so.

2. Reduce wage costs, for example, through a two-tiered pay system that would pay new hires lower wages and "grandfather" employees at existing wage scales in the current system.

3. Require arbitrators to consider USPS's financial condition when making binding arbitration decisions.

4. Reduce benefit costs by reducing USPS health and life insurance contribution rates for active employees to levels comparable to those paid by other federal agencies.

5. Adjust workforce mix, for example, by using more part-time staff.

6. Defer costs by revising funding requirements for retiree health benefits

7. Close unneeded facilities.

8. Relax delivery standards to facilitate closures and consolidations.

9. Move more retail services to private stores and self-service and close unneeded retail facilities.

10. Expand use of more cost-efficient delivery, such as cluster boxes.

11. Use of any other option suggested by GAO in this report? Please respond with reference to specific sections in this report

12. Are there any other management tools not mentioned in this report or in your testimony that you would wish, statutory constraints aside, that USPS had at its disposal for managing the financial crisis you describe? If so, please explain.

**RESPONSE:**

a. Yes

b. (no question supplied)

c. Yes, in general.

d. Given the potential size of the accumulated losses, we need to consider many options. The Postal Service laid out a plan on March 2, 2010.

1 THE WITNESS: Yes, as adjusted those are my  
2 answers and remain the same today. Thank you.

3 CHAIRMAN GOLDWAY: Thank you.

4 Is there any additional written cross-  
5 examination for Witness Corbett?

6 This brings us to the oral cross-examination  
7 and four parties have requested oral cross-  
8 examination: The American Postal Workers Union; the  
9 National Association of Letter Carriers; the National  
10 Newspapers Association; and the Public Representative.  
11 Are there any other parties wishing to cross-examine  
12 Witness Corbett?

13 Then we will begin with Mr. Anderson, ACWU.

14 MR. ANDERSON: Thank you, Your Honor.

15 Good morning, Madam Chairman and members of  
16 the Commission, good morning. Mr. Corbett, good  
17 morning to you. I am Darryl Anderson. I am counsel  
18 for the American Postal Workers Union. Thank you for  
19 being here this morning.

20 THE WITNESS: Thank you and good morning.

21 CROSS-EXAMINATION

22 BY MR. ANDERSON:

23 Q Were you a member of the task force on five-  
24 day deliver that Mr. Pulcrano had -- were the head of  
25 I should say?

1           A     I was on the executive committee for the  
2     Postal Service and we reviewed the results of the task  
3     force but I wasn't a member of that task force, no.

4           Q     Do you know when the task force was formed?

5           A     I actually do not recall precisely when it  
6     was performed; sometimes around the end of 2009, I  
7     believe, formally. Obviously, there had been informal  
8     studies done before then.

9           Q     I'm going to use two exhibits in the cross-  
10    examination. I think these are familiar numbers but I  
11    am presenting them on pieces of paper for everybody's  
12    convenience, I present the bulk of these at this time.

13          A     Thank you.

14                MR. ANDERSON: I would ask that these be  
15    marked as APWU Cross-Examination Exhibits 1 and 2.  
16    One would be the document headed "Pieces Received by  
17    Household by Week from Dilay Survey." And two would  
18    be the document headed "Postal Service Revenue and Net  
19    Income, 2007 through May 2010."

20                               (The documents referred to as  
21                               Cross-Examination Exhibit No.  
22                               1 and No. 2 were marked for  
23                               identification.)

24                MR. ANDERSON: My BlackBerry is off so I  
25    don't know where the feedback is coming from, but we

1 will have to go on, I guess.

2 CHAIRMAN GOLDWAY: Yes we will.

3 The cross-examination --

4 MR. ANDERSON: We will sponsor them by a  
5 witness later on --

6 CHAIRMAN GOLDWAY: Okay.

7 MR. ANDERSON: -- at a later point in these  
8 proceedings, so I'm not going to be moving their  
9 admissions this morning.

10 BY MR. ANDERSON:

11 Q Mr. Corbett, I would think that with regard  
12 to the pieces received by households, most of which  
13 you have seen, but I wanted to direct your attention  
14 to the period from 2004 to 2006 where there was --  
15 seems to be what I regard as fairly healthy growth in  
16 mail volume, and I assume you would agree that at that  
17 point mail volume growth was certainly healthy?

18 A I'm sorry, if I'm looking at the exhibit  
19 "Pieces Received by Household by Week"?

20 Q Correct. Yes.

21 A And 2004 --

22 Q Four through '06.

23 A In 2004, there were 26.6 pieces; in 2006,  
24 there were 26.5 pieces.

25 Q Right.

1           A     And so I would characterize that as flat,  
2     not growth.

3           Q     Okay.  And looking at First Class, that was  
4     reasonably flat too but fairly stable.  We could agree  
5     on that probably as well?

6           A     Correct.

7           Q     Okay.  I guess when I made reference to  
8     growth I was really alluding to an earlier period and  
9     I misspoke.  I don't know you were dealing with the  
10    Postal Service at the time of the terrorist attacks in  
11    2001 towards the World Trade Center attack and then  
12    the anthrax attacks through the mail, but would you  
13    agree with me that those had fairly severe downward  
14    effects on mail volume?

15          A     You're right in your first statement that I  
16    wasn't there.  I had actually been here for just  
17    slightly less than 18 months.  I didn't follow that  
18    too closely, but what I've heard was that the decline  
19    was somewhere in the neighborhood of 2 to 3 percent as  
20    a result of actually each of those events in terms of  
21    annual revenue volume.  I haven't validated that but  
22    that's conversationally what I've heard.

23          Q     So I think the point I'm driving at here is  
24    that with the -- the mail volumes showed a fair amount  
25    of resilience through that period from 2003 to 2006

1 notwithstanding electronic diversion and we see that  
2 as an indication that, at least through 2006,  
3 electronic diversion did not prevent the mail volume  
4 from bouncing back and being fairly strong as of 2006.  
5 Fair statement?

6 A Again, bouncing back, it's relatively flat  
7 through the period. I think we can all see that from  
8 the exhibit.

9 Q And I'd also ask you to take a look at 1987.  
10 Dark Ages, I suppose, but I'm wondering whether -- and  
11 I realize this is probably new data to you and this  
12 may not be a fair question but you can answer by  
13 saying you have to think about it, but looking at the  
14 pieces received by household in 1987, and comparing  
15 that to, for example, 2008, it strikes me that if the  
16 Postal Service had a healthy business model and cost  
17 structure in 1987, pieces per household alone  
18 shouldn't be explaining -- shouldn't lead to the  
19 conclusion that it is not a healthy business structure  
20 and business model in say 2008 if you compare the  
21 pieces per household, just looking at the volume  
22 numbers.

23 First Class, for example, was 8.64, and by  
24 2008 it was 9.01, and, of course, your testimony  
25 relies heavily on the fact that First Class Mail is a

1 much bigger contributor.

2 So I'm just asking you to, if you can,  
3 comment on how it was that the Postal Service was able  
4 to be viable in 1987 and you say it is not viable in  
5 2008-2009.

6 MR. KOETTING: Madam Chairman, I'm going to  
7 have to object at this point. As Mr. Anderson  
8 indicated, these numbers aren't in evidence, and Mr.  
9 Corbett hasn't seen these numbers before. The  
10 question, for example, that Mr. Anderson just asked is  
11 predicated on the notion that the methodology used to  
12 generate these numbers over a 23-year period hasn't  
13 changed substantially. That question has not been  
14 addressed, could not have been addressed. Until he  
15 presented these numbers this morning we had no  
16 opportunity to address that. Obviously if it had been  
17 presented as a written cross-examination, those types  
18 of matters could be addressed.

19 MR. ANDERSON: I think it's a fair objection  
20 and I'll withdraw the question unless the witness  
21 could like to address it, but I will withdraw the  
22 question.

23 THE WITNESS: No, thank you.

24 BY MR. ANDERSON:

25 Q Now let me ask you to turn your attention to

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1 what's been marked as APWU Cross-Examination Exhibit  
2 2, which is a table entitled "Postal Service Revenue  
3 and Net Income, FY-2007 to May 2010." These numbers,  
4 I think, are numbers that will be familiar to you, and  
5 I just wanted you to confirm for us that for the years  
6 2007 to 2009, I actually misspoke on Wednesday saying  
7 that the Postal Service had broken even. In fact,  
8 there was a surplus for those three years taken  
9 together, is that correct?

10 A Again, assuming on the basis of this math  
11 being correct and tying to our financial statements,  
12 that appears to be correct, yes.

13 Q And for the year-to-date things have  
14 improved more -- things are even more better from the  
15 end of 2009 through the end of the most recently  
16 recorded quarter for 2010, isn't that correct?

17 A I'm not sure what you mean.

18 Q Well, there has been a positive, there has  
19 been a surplus. The net income is larger at the end  
20 of the most recent quarter.

21 A Well, before answering that question in a  
22 binary fashion yes or no, I think it's important to  
23 note that our business is very seasonal and the first  
24 quarter is very profitable. We remain on track to  
25 lose substantially more money this year than the

1 actual amount of the payment to the RHV fund.

2 Having said that, through May your numbers  
3 appear to be correct.

4 Q Okay, thank you. And you have already  
5 revised downward, I think, your original estimate of  
6 the total stated revenue deficit for fiscal 2010, have  
7 you not?

8 A Yes, we have.

9 Q And when will the next quarterly report  
10 numbers be available?

11 A I don't know the precise date. Typically by  
12 the first or second week of November. Sorry, we're in  
13 June, July, August.

14 MR. ANDERSON: Could I ask that on behalf of  
15 APW that the witness revise his estimate again, if  
16 necessary, when those new data are issued and provide  
17 that number for the record?

18 MR. KOETTING: I don't really think that  
19 would be necessary because the quarterly updates are  
20 filed with the Commission. They are on the record and  
21 they are probably available. I don't particularly see  
22 how we are going to go through month by month by month  
23 revising everything.

24 MR. ANDERSON: I'm asking for quarterly, and  
25 insofar as the witness saw fit to make an estimate in

1 his testimony that makes it relevant, I think. The  
2 Postal Service certainly thinks it is relevant or it  
3 wouldn't have put that number in there. It has gone  
4 down since the witness initially filed his written  
5 testimony because he has revised it downward in  
6 responses to interrogatories, and we are predicting  
7 that it's going to be revised downward yet again when  
8 the next quarterly numbers are out.

9 And given the Postal Service has  
10 acknowledged its relevant by putting it in his  
11 testimony, we simply ask that the quarterly numbers be  
12 updated for this witness's testimony. That's our  
13 request.

14 MR. KOETTING: I think the Postal Service  
15 would oppose that request. The witness is testifying  
16 today. The testimony goes in at the time the witness  
17 takes the stand. If you want to use the numbers, the  
18 numbers will be available. You can use them however  
19 you want in your direct testimony those numbers. You  
20 can cite to them as you want. There is no particular  
21 benefit to be obtained by having the witness going  
22 back and constantly revising his testimony as numbers  
23 change. We would never be done with cases if that  
24 were the case.

25 CHAIRMAN GOLDWAY: These numbers will in

1 August be public, so let me take this matter under  
2 advisement and I will provide some consideration if I  
3 can get some written items.

4 MR. ANDERSON: Thank you.

5 CHAIRMAN GOLDWAY: Seven days? Thank you.

6 MR. ANDERSON: It's our request, we will  
7 initiate the request in writing.

8 BY MR. ANDERSON:

9 Q Mr. Corbett, I think you in your testimony  
10 attempted to take a fairly broad and, I think,  
11 comprehensive view of postal finances. Is that a fair  
12 statement?

13 A Yes, it is.

14 Q As part of your consideration of postal  
15 finances, did you look at the rate structure and rate-  
16 making process?

17 Let me say, not to be mysterious because  
18 everybody else in the room knows where I am going with  
19 this, and you may not. It's APWU's view that work-  
20 share discounts exceeding costs avoided by the Postal  
21 Service are diminishing what could be positive revenue  
22 for the Postal Service, and I am wondering whether  
23 you examined that sort of thing in preparing your  
24 review of the postal finances.

25 A Work-share discounts were not heavily

1 weighted or discussed in determining future revenue  
2 requirements and cost structure for the Postal  
3 Service, no, but obviously they are always in the  
4 background and part of the overall average piece per,  
5 you know, average revenue per piece, et cetera, so  
6 indirectly they are always considered.

7 Q Because it was indirect we'll move on.  
8 Thank you.

9 You mentioned in passing in your testimony  
10 that the Postal Service is funded like a commercial  
11 enterprise, but I think you then went on to qualify  
12 that in so many ways that I don't think you and I  
13 would disagree much about how different it is from a  
14 commercial enterprise. I mean, I take it that you  
15 mean by funded like a commercial enterprise that it  
16 has to survive on the revenues that its services  
17 generate, is that all you meant or was there something  
18 more than you meant by that?

19 A Well, in terms of it being a commercial  
20 enterprise, the Postal Service mission is obviously to  
21 deliver mail and packages and unite the country, but  
22 in an efficient, economical way, and it is also  
23 clearly help funded, so I don't understand this in  
24 terms of the ambiguity that might be behind it.

25 Q Well, I think that it's not funded like a

1 commercial enterprise, and maybe you would agree with  
2 me in that regard. It's subject to a CPI cap on it.  
3 Insofar as you meant by funded like a commercial  
4 enterprise, that it's funded the way a commercial  
5 enterprise would be -- like the prices and revenues  
6 generated by the prices it set, that can't happen for  
7 the Postal Service, so that's a very significant  
8 conceptual difference from conceptual enterprise  
9 funding, isn't that correct?

10 A I mean, I don't know where you are going  
11 with this but I have a hard time saying exactly what  
12 you are saying yes or no. I mean, many industries  
13 have regulations that regulate how they can set their  
14 revenues. Utilities is the obvious one, the Postal  
15 Service and others.

16 So the answer is we are self-funded.

17 CHAIRMAN GOLDWAY: What was that example? I  
18 didn't hear that.

19 THE WITNESS: The utility industry. So we  
20 are self-funded. All the revenue we get -- the point  
21 of that is saying that we do not get appropriations or  
22 taxpayer money, maybe that's a more clear way to say  
23 it. The revenues we derive to cover our costs have to  
24 come from the sale of postage.

25 BY MR. ANDERSON:

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1           Q     You did discuss the fact that the Postal  
2     Service does not seek and the government does not want  
3     to provide subsidies, but I want to just make sure  
4     that you would agree that insofar as the Postal  
5     Service is seeking relief from the pace at which the  
6     present law requires that it fund retiree health  
7     benefits, that that relief would not be a subsidy.  
8     That would be relief from a burden as opposed to a  
9     subsidy.  Wouldn't you agree with that?

10          A     Yes, I would, and I can tell you we are  
11     trying very, very hard to get that relief.

12          Q     And likewise insofar as the Postal Service  
13     overfunded the Civil Service Retirement Fund, that  
14     relief is deserved and already earned, not a  
15     government subsidy, and I'm sure you agree with that.

16          A     I do agree we have overfunded significantly  
17     to CSRF.

18          Q     And you would agree with me, I think, and  
19     you may have said this but I'm not sure, that the  
20     business model of the Postal Service to give it more  
21     flexibility to engage in non-Postal Service and  
22     increase its revenue from other sources.  Will you  
23     agree with that?

24          A     I think any flexibility we would get would  
25     give us an added advantage to improve future results,

1 yes.

2 MR. ANDERSON: I don't have any other  
3 questions. Thank you, Mr. Corbett.

4 THE WITNESS: You are welcome, and thank  
5 you.

6 CHAIRMAN GOLDWAY: That brings us to Mr.  
7 DeChiara, I believe, National Association of Letter  
8 Carriers.

9 MR. DECHIARA: Thank you, Madam Chair.  
10 Peter DeChiara from the law firm of Cohen, Weiss and  
11 Simon LLP for the National Association of Letter  
12 Carriers (AFL-CIO).

13 Madam Chair, I have some exhibits that I  
14 would like to refer to for purposes of cross-  
15 examination. May I distribute them?

16 CHAIRMAN GOLDWAY: Yes.

17 CROSS-EXAMINATION

18 BY MR. DECHIARA:

19 Q Good morning, Mr. Corbett.

20 A Good morning.

21 Q I want to cover some of the same ground that  
22 counsel for the APW but forgive me for the  
23 redundancies, but let me begin by pointing out that in  
24 your testimony on page 3 you state that the Postal  
25 Service is now in dire financial condition. You make

1 reference to a "brave and unstainable financial  
2 imbalance" between the Postal Service's revenues and  
3 costs, and then you make reference to a net loss in  
4 each of the last three fiscal years. I would just  
5 like to explore with you a bit the bases for those  
6 statements, and I would like to begin by looking at  
7 the last three fiscal years starting with the year  
8 2007.

9 If you could please turn to the first  
10 document in the packet that I distributed, which is  
11 the 2009 Postal Service Annual Report, which I will  
12 ask to have marked as NALC Cross-Examination Exhibit  
13 4, not to be put in the record but solely for purposes  
14 at this time of cross-examination.

15 (The document referred to was  
16 marked for identification as  
17 Cross-Examination No. 4.)

18 BY MR. DECHIARA:

19 Q Do you see that document?

20 A Yes, I do.

21 Q Okay. Let me refer you to page 2 of the  
22 annual report. There is showing financial results for  
23 2007, 2008, and 2009. Do you see that?

24 A Yes, I do.

25 Q And the net loss for 2007 was approximately

1 \$5.1 billion.

2 A Is that a question? I'm sorry.

3 Q Yes, it's a question.

4 A Yes, I see that.

5 Q Okay. And is it accurate that in 2007 the  
6 Postal Service paid \$5.4 billion into the Postal  
7 Service Retiree Health Benefit Fund as required by  
8 statute?

9 A Would you please give me a minute?

10 Q Yes, let me refer you to page 48 of the  
11 annual report.

12 A That is correct.

13 Q So it's accurate to say that but for the  
14 payment into the Postal Service Retiree Health Benefit  
15 Fund, in 2007 the Postal Service would have been in  
16 the black?

17 A Correct.

18 Q And 2008, the net loss was for the Postal  
19 Service, and I'm referring to page 2 of the annual  
20 report, was \$2.8 billion?

21 A Yes, I see that.

22 Q And referring to page 48 of the annual  
23 report, the payment into Postal Service Retiree Health  
24 Benefit Fund that year was \$5.6 billion?

25 A That's correct.

1 Q So but for that payment in 2008 the Postal  
2 Service would have been in the black?

3 A Again, correct.

4 Q Going back to page 2 of the annual report,  
5 if you could look at the net loss for each of the  
6 three years, 2007, 2008, 2009, would you accept my  
7 arithmetic that the accumulative net loss for those  
8 three year was approximately 11.7 billion?

9 A Yes.

10 Q And then turn to page 48 of the annual  
11 report we see that the payments into the Postal  
12 Service Retiree Health Benefit Fund for those three  
13 years were, and again will you accept my arithmetic  
14 that they would add up to 12.4 billion?

15 MR. KOETTING: Can you clarify whether  
16 you're talking about on page 48 the bottom line of  
17 total retiree health benefit expenses or merely the  
18 line above that, the P.L. 109-435 scheduled payment  
19 expenses?

20 MR. DECHIARA: On page 48, in the text, in  
21 the fifth paragraph of text on the last column on page  
22 48 it indicates the PSRHBF payment for those three  
23 years. That's what I was looking at.

24 MR. KOETTING: Thank you for the  
25 clarification.

1                   CHAIRMAN GOLDWAY: That's right in the  
2 middle of the page.

3                   THE WITNESS: And just for the record, those  
4 are the numbers, the amount of prefunding of the  
5 retiree health benefits. Those are the numbers we've  
6 been using throughout your questions. That's what  
7 I've been responding to also.

8                   MR. DECHIARA: That's correct, and I thank  
9 you for that clarification, and just to respond to  
10 Postal Service counsel the numbers appear not in the  
11 text, and thank you, Madam Chairman, for pointing out  
12 that they also appear in the right-hand column. The  
13 line says P.L. 109-425 scheduled payment.

14                   BY MR. DECHIARA:

15                   Q     So going back to my question, will you  
16 accept my arithmetic that the total payments into the  
17 PSRHBF for prefunding of retiree health benefits was  
18 12.4 billion?

19                   A     Yes.

20                   Q     So cumulatively for those three years if we  
21 slip out those prefunding retiree health benefits  
22 payment the Postal Service would have been in the  
23 black cumulatively for those three years, is that  
24 correct?

25                   A     Correct.

1           Q     You say in your testimony that the  
2     prefunding payments, and you say this on page 5, line  
3     19 of your testimony, you use the word "unique" to  
4     refer to the prefunding of the retiree health  
5     benefits. Do you use the word "unique" because there  
6     is no other government agency that bears the  
7     obligation of making such prefunding retiree health  
8     benefit obligations?

9           A     I'm sorry. Could you point me to the line  
10    you're -- I just want to make sure I understand the  
11    context. What line on page 5?

12          Q     Nineteen.

13          A     Thank you. That's one of the reasons, yes.  
14    Of course, we are the only government agency I'm aware  
15    of who is required to prefund. The majority of  
16    commercial companies both public and private do not  
17    prefund, and those that do prefund at levels that are  
18    generally significantly lower than what we prefund.

19          Q     Okay. So just to try to summarize that tell  
20    me if this is correct, that, first, there is no other  
21    government agency that you're aware of that has the  
22    obligation to prefund retiree health benefits, is that  
23    correct?

24          A     That is correct.

25          Q     And that you're not aware of any obligation

1 under the law for any private sector company to  
2 prefund retiree health benefits, is that accurate?

3 A I don't believe there are any laws but I'm  
4 not a lawyer.

5 Q Okay.

6 A I'm familiar with what they do, not --

7 Q I'm not asking for a legal opinion. I'm  
8 just saying to the extent you know in your capacity  
9 and based on your experience are you aware of any  
10 obligation on any private companies to prefund?

11 A Contractual, yes. Of course, many companies  
12 have union contracts, et cetera, which require them to  
13 prefund. I'm not familiar with any laws that require  
14 them to prefund.

15 Q Okay. And then you said that private sector  
16 companies that do prefund, what's your knowledge about  
17 how -- the extent to which they typically do prefund  
18 their retiree health benefits?

19 A The companies I'm familiar with, of course,  
20 are in the utility industry where sometimes they  
21 prefund actually to be advantageous to themselves. In  
22 other words, if they fund it, they can build that into  
23 their rate base for charging their customer. But if  
24 they do not, they defer the funding on that and simply  
25 recognize the expense, they are not able to recover it

1 from their customer so oftentimes they will prefund,  
2 and others are required, obviously, as I mentioned  
3 before, their contracts to prefund. Some do it as a  
4 measure for employee goodwill, or for their own  
5 internal processes, so there is a variety of different  
6 reasons why other people refund. But as I say, the  
7 majority of commercial companies in my experience do  
8 not.

9 Q If you could look at page 49 of the annual  
10 report and I'm referring to the chart on the left-hand  
11 column of page 49. There is a line in that chart at  
12 the bottom that says, "Fund Balance as of September  
13 30," and then 2009 the balance is 35,482. Do you see  
14 that figure?

15 A Thirty-five billion, yes.

16 Q Right. Because that thousand number is in  
17 million, right, so that converts to billions?

18 A Correct.

19 Q So that figure is telling us that there is  
20 approximately \$35.4 or \$35.5 billion of assets that  
21 the Postal Service has in its retiree health benefit  
22 fund?

23 A That we have contributed, and they are held  
24 at the Treasury, yes.

25 Q And what's the accrued liability that the

1 Postal Service has in retiree health benefits?

2 A Give me one second, please.

3 The gross accrued liability you can find on  
4 page 48 of the annual report which is at the end of  
5 December of 2009 was \$87.5 billion, approximately.

6 Q I'm sorry. Say that figure again.

7 A \$87.5 billion.

8 Q Let me refer you to page 49, the first full  
9 paragraph on the right-hand column, and then in the  
10 middle of that paragraph there is a sentence that  
11 says, "Utilizing the same underlying data that was  
12 used in prepare the estimate in the table above, the  
13 September 30, 2009, obligations could range from \$37  
14 billion to \$65 billion solely by moving the inflation  
15 rate by plus or minus 1 percent while the 2008  
16 unfunded obligation would rate from \$40 billion to \$70  
17 billion."

18 Am I correct that the \$37 billion to \$65  
19 billion figures refer to unfunded obligations?

20 A Please give me a minute. I'm reading it,  
21 and I also am not an expert those matters, but I'm not  
22 sure I can answer your question but I will try.

23 Q Okay. I can only ask you to --

24 A The only conclusion I could draw -- again  
25 I'm not an expert, and this isn't in the record, I

1 want to make sure that you know it's my opinion  
2 reading the text, and that is that it must refer to  
3 the unfunded portion of the obligations because, as  
4 you can see clearly from the table on page 48, the  
5 gross amount again is 87.5 billion. That would call  
6 out of the range discussed in the paragraph you're  
7 pointing me to, so clearly it must be referring to the  
8 52 billion of unfunded liability, which is at the  
9 bottom of the part on page 48.

10 Q Okay. Stepping back from the details of the  
11 exact figures for a second, would it be fair to say  
12 based on your knowledge of the situation that a good  
13 chunk of Postal Service's entire health benefit  
14 obligations are already funded?

15 A Yes, and obviously 35 billion is a good  
16 chunk by any measure.

17 Q And let's talk about pensions liability. If  
18 you would turn to page 46 of the annual report. On  
19 the left-hand column in the upper left-hand side of  
20 the page there is a chart discussing present value  
21 analysis of retiree programs as calculated by OPM. Do  
22 you see that?

23 A Yes.

24 Q Okay. And if I could draw your attention to  
25 the bottom third of that chart, it says, "Total CSRS

1 and FERS projected 2009." Do you see where I am  
2 reading from?

3 A Yes.

4 Q Okay. And it shows actuarial accrued by  
5 ability 9-30 was 276.4 billion. Do you see that?

6 A Yes.

7 Q And then under that it says, "Current fund  
8 balance is 273.6 billion", correct?

9 A Yes.

10 Q So is it fair to say from those numbers that  
11 in terms of accrued pension liabilities the Postal  
12 Service is almost fully funded?

13 A I think if you just go down one more like it  
14 answers your question, and the unfunded portion is a  
15 relatively small percentages. It's \$2.8 billion  
16 unfunded liability on a total crude liability of 276  
17 billion, so clearly it's very small in terms of  
18 percentage and it's 2.8 billion in terms of dollars of  
19 unfunded.

20 Q So the unfunded portion is a tiny fraction  
21 of the total liability, is that correct?

22 A Yes.

23 Q So is it fair to say that -- well, let me  
24 ask you. Are you aware generally that in recent years  
25 there have been large American companies like auto

1 companies, like GM, or airlines that have suffered  
2 financial stress as a result of unfunded what are  
3 called legacy costs, unfunded pension liability,  
4 unfunded retiree health benefits? Are you generally  
5 aware that that has existed in recent years?

6 A Yes.

7 Q Is it fair to say that the Postal Service is  
8 not in that position but that the Postal Service in  
9 terms of the legacy cost is in a healthy position?

10 A For the pension plans we are in a healthy  
11 position. For retiree health benefits, given our  
12 obligation, I would say we are in -- you know,  
13 certainly not robust because we are underfunded by a  
14 significant amount of money. Nonetheless, in total we  
15 are much better off than the companies you mentioned.

16 Q Let's go back to page 2 of this annual  
17 report, and I'd like to refer you to the figure for  
18 2009. The net loss for 2009 was approximately \$3.8  
19 billion?

20 A Correct.

21 Q And if we strip out the 1.4 billion that  
22 was paid to prefunded retiree health benefits, the net  
23 loss would have been 2.4 billion. Do you accept my  
24 arithmetic?

25 A Yes, correct.

1 Q And in that hypothetical world where we're  
2 stripping out the 1.4 billion that was paid to the  
3 increased prefunded retiree health benefits and there  
4 were a net loss of 2.4 billion, do you know what the  
5 operating margin would have been for 2009?

6 A Are you referring to the fourth line on  
7 here, the 5.5 percent?

8 Q Well, no, I'm referring to a hypothetical  
9 world in which for 2009 the Postal Service did not pay  
10 the 1.4 billion to the -- in prefunding retiree health  
11 benefits, do you know what the operating margin would  
12 have been?

13 A I'd have to -- I mean, I'm not sure how  
14 you're defining operating margin. You mean net income  
15 or do you mean some other number?

16 Q Well, do you know how operating margin is  
17 defined as it appears on page 2?

18 A Yes. I believe it's just the loss divided  
19 by revenue. Loss of operations divided by revenue.

20 Q Okay. So if we took a hypothetical net loss  
21 of 2.4 billion and divided it by the 86 billion in  
22 operating revenue for that year, would you -- subject  
23 to checking would you accept my arithmetic that that  
24 would come out to a negative operating margin of 3.5  
25 percent?

1           A     That looks about right.  They say between  
2     3.5 and 4.

3           Q     Okay.  Now let's step back and talk about  
4     the year 2009.  How would you describe the macro  
5     economic circumstances in the United States of America  
6     in 2009?

7           A     How would I describe them?  Again, for the  
8     record I'm not an economist but we all went through  
9     it.  It was the worst recession on record since the  
10    Great Depression, so clearly the macro economic  
11    environment was very, very poor.

12          Q     Well, you're not an economist but you  
13    recently put in a statement in the Postal Service's  
14    exigent rate case in which you discuss the  
15    circumstances of 2009, is that correct?

16          A     Yes.

17          Q     And I believe in your packet, I believe  
18    maybe it's the last document, is a copy of your  
19    statement in the exigent rate case, and on page 14 of  
20    your statement in the exigent rate case you say that -  
21    - you have a chart indicating that --

22          A     I'm sorry, I'm sorry.  Could you please --  
23    it's not the last document you have.  Are you looking  
24    for my statement for the exigent rate case, is that  
25    what you --

1 Q Yes, is it in the packet that I gave to you?

2 A It's not the last document. Let me see.

3 Q Okay, it might be somewhere else in the  
4 document.

5 MR. KOETTING: I'm not finding it.

6 THE WITNESS: Sorry, I don't see it either.

7 MR. DECHIARA: Yes, because it was in my  
8 briefcase, but I have it now. I'm just giving it to  
9 you.

10 THE WITNESS: Thank you.

11 BY MR. DECHIARA:

12 Q If you could turn to page 14 of your  
13 statement in the exigent rate case. Do you see the  
14 chart on that page?

15 A Yes.

16 Q Is it correct that as far as you know during  
17 the recession of 2008-2009 the Gross Domestic Product  
18 of the United States fell by 3.9 percent?

19 A Yes.

20 Q And that private employment fell by 7.3  
21 percent?

22 A Yes.

23 Q And that real investment spending fell by  
24 35.7 percent?

25 A Again, yes.

1 Q And text under the chart shows that the FDIC  
2 closed 140 banks in 2009 alone. Do you see that?

3 A Yes.

4 Q Is that accurate as far as you know?

5 A Yes.

6 Q Is it fair to say that a lot of companies  
7 lost money in 2009?

8 A Yes.

9 Q And in particular for the Postal Service is  
10 it fair to say that 2009 was a challenging year  
11 because that was the year in which there was the  
12 greatest decline in mail volume in postal history? Is  
13 that accurate?

14 A That certainly contributed, yes.

15 Q But that fact is accurate?

16 A Yes.

17 Q Okay. So given the general economic climate  
18 in 2009, and given the unprecedented challenge of the  
19 drop of mail volume in 2009, wouldn't you agree with  
20 me that a hypothetical operating margin of 3.5  
21 percent, if you stripped out the 1.4 billion that was  
22 paid to the prefunding retiree health benefits, would  
23 relatively speaking not have been -- what was your  
24 word -- dire?

25 MR. KOETTING: Could we clarify that

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1 hypothetical 3.5? Is it a negative number?

2 MR. DECHIARA: That is a negative number,  
3 yes.

4 MR. KOETTING: Okay.

5 MR. DECHIARA: If I didn't say that. Thank  
6 you for that correction. Negative 3.5.

7 THE WITNESS: The number in and of itself I  
8 would not characterize as dire, which would ignore the  
9 circumstances surrounding that number and the trends  
10 that led to expected trends obviously going forward.  
11 But the number itself, I would agree with you 100  
12 percent, is not dire. It's not good, but it in itself  
13 is not dire.

14 BY MR. DECHIARA:

15 Q Okay, and just to be more precise as to my  
16 question, I'm not asking about future trends, I'm just  
17 asking about the year 2009 -- looking only at the year  
18 2009, and the only way I'm tweaking reality is I'm  
19 asking you to hypothetically strip out the 1.4 billion  
20 that was paid in prefunding of retiree health  
21 benefits.

22 And my question was, given the negative  
23 operating margins, would you agree with me that that's  
24 not dire? And you have given your answer. Would your  
25 answer be the same given the way I just clarified it?

1           A     Yes.

2           Q     Thank you.  Are you aware that in the mid-  
3     1970s the Postal Service suffered significant  
4     financial losses?

5           A     Generally, yes, but specifically I'm not  
6     sure what years and all the underlying circumstances.

7           Q     Okay.  So you have not gone back and  
8     specifically looked how the operating margin -- the  
9     negative operating margin for 1975, 1976, 1977  
10    compared to the negative operating margins of 2007,  
11    2008, 2009?  You have not gone back and looked, have  
12    you?

13          A     No.  We've looked at margins, of course,  
14    especially in response to some of the questions that  
15    were raised over what had the margins been since 1972  
16    or '70, whatever some of these requests were.  Of  
17    course, we've looked at what the margins were in the  
18    seventies, all the way up to 2009, in fact, through  
19    today.

20          Q     So isn't it true that even with the  
21    obligation to prefund the retirement health benefits  
22    that exist now the Postal Service's operating margin  
23    in the mid-seventies were actually worse than they  
24    have been in the past three years?

25          A     That's correct.  Stripping out the retiree

1 health benefits.

2 Q Well, okay, I'll accept that answer but let  
3 me ask you, even with not stripping out the prefunded  
4 retiree benefits, the operating margins in the mid-  
5 seventies were worse?

6 A I would have to go back and check and see.

7 Q Okay. Well, we'll --

8 CHAIRMAN GOLDWAY: Do you have those  
9 numbers?

10 MR. DECHIARA: We will put that in in our  
11 direct case, Madam Chairman. I don't have them at my  
12 fingertip, so we will certainly make those part of our  
13 case.

14 BY MR. DECHIARA:

15 Q And let me just ask you, I know you have  
16 only been with the Postal Service for about 18 months,  
17 do you know whether Saturday delivery continued in the  
18 mid-1970s?

19 A I believe Saturday delivery has been there  
20 from the seventies until today.

21 Q Do you know whether Saturday delivery  
22 continued during the Great Depression?

23 A I believe it did. I do not know for sure.

24 Q Okay. You weren't here yesterday or  
25 Wednesday when Mr. Pulcrano testified that there has

1       been Saturday delivery since the nineteenth century?

2           A       I was not here and I wasn't here during the  
3       Great Depression either. I may look that way.

4                   (Laughter.)

5           Q       Okay. Let's go to 2010. Let me refer you  
6       to the very top line of page 4 of your testimony. You  
7       make reference to a projected net loss of \$7.8 billion  
8       for 2010. Do you see that?

9           A       Yes.

10          Q       But as of the most recent financials that  
11       have been made available the Postal Service is \$1.3  
12       billion ahead of plan?

13          A       Correct.

14          Q       And that's as of the May data?

15          A       Correct.

16          Q       So would you accept my arithmetic that the  
17       current projection for 2010 is 7.8 minus 1.3, which is  
18       6.5?

19          A       We are projecting approximately 6.5,  
20       correct.

21          Q       Okay, now let me step back into the  
22       hypothetical world where there were no prefunding  
23       retiree health benefit requirements. What is the  
24       amount that the Postal Service would have to pay in  
25       prefunding retiree health benefits under the status

1       quo for 2010? Do you know it offhand?

2           A     5.5 billion is the required prefunding  
3       amount.

4           Q     So in a hypothetical world where that  
5       requirement did not exist the projection for 2010  
6       would be 6.5 minus 5.5 which would be a loss of \$1  
7       billion, a net loss of \$1 billion, is that correct?

8           A     Correct.

9           Q     And is the projected operating revenue for  
10      2010 65.8 billion?

11          A     Let me check. Hold on one second, please.  
12                I'm sorry. Can you ask that question again,  
13      please?

14          Q     Is the projected operating revenue for 2010  
15      65.8 billion?

16          A     No, I believe it's not. Can you please tell  
17      me where you're getting that figure?

18          Q     Yes. If you look in the packet --

19          A     Oh, are you talking about the integrated  
20      financial plan that was released last year or are you  
21      talking about the numbers we were just discussing  
22      which is our current estimate?

23          Q     Why don't you give you your current  
24      estimate. What's your current estimate?

25          A     Our current estimate is revenue would be

1 approximately \$67 billion in 2010.

2 Q Oh, so they have gone up. The revenue  
3 picture has improved. The projected revenue picture  
4 has improved since the plan was put out?

5 A Correct.

6 Q Okay. Can you give me an estimate of what  
7 the negative operating margin would be on \$67 billion  
8 if hypothetically the 2010 net loss is \$1 billion?

9 A It would be approximately 1 billion divided  
10 by 67.

11 Q So maybe around 1.5 percent, negative 1.5  
12 percent?

13 A If you've calculated that number, yes. That  
14 sounds about right.

15 Q Is it fair to say that in 2010 you left the  
16 economies of scales very much in the process of trying  
17 to recover from the worst economic downturn since the  
18 Great Depression?

19 A Is it -- yeah, absolutely. I would think  
20 everyone is trying as hard as they can. Will they  
21 succeed is the real underlying question.

22 Q Okay, let me rephrase the question because  
23 it wasn't clear. I'm sure everyone is doing their  
24 best to get us out of this hole, but my question was  
25 more just a point of we're not fully out of the hole

1 yet, are we?

2 A No, we're not, and if you looked at the Wall  
3 Street Journal yesterday the predictions now are five  
4 to seven years to get out of the whole whereas, you  
5 know, we're talking a couple of years, not too long  
6 ago, so the situation continues to be dire.

7 Q So there are a lot of companies in the  
8 United States of America that are continuing to  
9 struggle financially, is that fair?

10 A That's fair.

11 Q Are you aware that the Office of Inspector  
12 General of the United States Postal Service issued a  
13 report that the Postal Service overpaid \$75 billion  
14 into the Civil Service Retirement Fund?

15 A Yes, I am. It's one of my favorite reports.

16 Q Let me turn now to another document that's  
17 in your packet, and it's also been admitted into the  
18 record as written cross-examination. It's your  
19 Interrogatory Answer No. 8 to the NALC's  
20 interrogatories. It's a document that will say on the  
21 front "Responses of the United States Postal Service  
22 to," let me correct that. It's actually not your  
23 responses. It's institutional responses to  
24 interrogatories that were originally propounded upon  
25 you. The document is entitled "Responses United

1 States Postal Service to NALC Interrogatories,  
2 NALC/USPS-22-1 through 8 and 10.

3 A Yes, I have that document in front of me.

4 Q Can you turn to page 6 in that document?

5 MR. KOETTING: I would just point out to  
6 clarify that this particular response has not yet been  
7 entered into the record because the process for the  
8 designation of institutional hasn't been completed.  
9 I'm assuming they will be ultimately but they haven't  
10 yet.

11 MR. DECHIARA: Okay, thank you for that  
12 clarification.

13 THE WITNESS: Okay, I'm on page 13.

14 BY MR. DECHIARA:

15 Q On page 13, do you see that the last line  
16 refers to the remaining seven years of prefunding  
17 payments would total 39.4 billion?

18 A Yes.

19 Q Is that accurate as far as you know?

20 A Yes.

21 Q So if the Postal Service were credited with  
22 the \$75 billion that it overpaid in pension payments,  
23 that would be sufficient to more than cover the  
24 prefunding retiree health benefit obligations that  
25 remain, correct?

1 A Correct.

2 Q And in fact in addition to making prefunding  
3 payments for future retirees the Postal Service pays  
4 premiums for current retirees, correct?

5 A That's correct.

6 Q And it does that currently to the tune of  
7 about \$2 billion a year. Is that accurate?

8 A I believe it's just over 2 billion, yes.

9 Q And so if the Postal Service were credited  
10 with that \$75 billion, it could not only pay off its  
11 remaining obligation to prefund the retiree health  
12 benefits but it could also go a long way to paying its  
13 ongoing premium obligations, correct?

14 A If allowed by law, absolutely correct.

15 Q And the Postal Service could also possibly  
16 use that money to pay off its interest and debt,  
17 correct?

18 A Correct.

19 Q In your testimony on page 11 you make  
20 reference to a metric, which you referred to, I'm  
21 referring to lines 2 through 4 of page 11, you make  
22 reference to revenue per delivery point per day, do  
23 you see that?

24 A Yes I do.

25 Q And in your view is that an important metric

1 to determine the financial health of the Postal  
2 Service?

3 A Yes it is.

4 Q And you point out in the second paragraph on  
5 page 11 of your testimony that revenue per delivery  
6 point per day has fallen 25 percent, or approximately  
7 25 percent, from 2000 to 2009, do you see that?

8 A Yes I do.

9 Q Okay. Now isn't it fair to say that to get  
10 the full picture it's important not to look just at  
11 revenue per delivery point per day but that one must  
12 also look at the other side, namely cost per delivery  
13 point per day?

14 A I'm sorry, we look at both, so I think  
15 they're both important, yes.

16 Q Okay. So let's do that, let's look at both,  
17 because you only have one side in your testimony. If  
18 you look, if you look on page 14 of your interrogatory  
19 responses, it's your response, I'm sorry, the Postal  
20 Service's institutional response to the interrogatory  
21 number 10 that was sent to you.

22 A You said page 14?

23 Q Page 14, interrogatory response number 10.

24 A This is number 29, I'm sorry I must have  
25 lost my spot. This is T-2-1-A and 10, or is it a

1 different document you're now referring to? I may  
2 have just --

3 Q It's, the document is NALC-USPS-T-2 stat 10.  
4 Maybe your counsel can --

5 A Oh, it's not 1-A and 10?

6 Q No, it's just number 10. It's on page 14 of  
7 the document.

8 A One minute please.

9 Q Sure.

10 A I'm sorry, I'm referring to my premeeting  
11 copy. I'll get the copy that you distributed.

12 Q Okay.

13 A Thanks for waiting. Okay, I have it in  
14 front of me.

15 Q Okay, and there's a chart that shows  
16 inflation adjusted total revenue and total cost for FY  
17 2000 through 2009, do you see that?

18 A Yes I do.

19 Q And these are the revenue and costs for per  
20 delivery point per day, is that right?

21 A Yes.

22 Q Okay. So we see that in 2000 the revenue  
23 and the cost per delivery point per day were the same,  
24 \$1.96, is that correct?

25 A Correct.

1 Q Okay, let's move forward five years to 2005.  
2 We see that revenue per delivery point per day had  
3 fallen to \$1.77, do you see that?

4 A Yes.

5 Q But --

6 A Oh, hold on, 2000 and?

7 Q 2005.

8 A Yes, I do see that, thank you.

9 Q Okay. And in 2005 cost per delivery point  
10 per day had fallen to \$1.73, do you see that?

11 A Yes.

12 Q So everything else being equal just looking  
13 at those numbers, the Postal Service was actually  
14 better off in 2005 than it was in 2000 even though  
15 there had been a considerable drop in revenue per  
16 delivery point per day. Is my statement fair?

17 A Yes.

18 Q Let's continue to 2009. From 2000 to 2009  
19 revenue per delivery point per day had fallen from  
20 \$1.96 to \$1.50, do you see that?

21 A Yes.

22 Q And that's the approximately 25 percent drop  
23 that you referred to in your testimony?

24 A Correct.

25 Q So if we look at the other side on the cost

1 side, we see that from 2000 to 2009 cost per delivery  
2 point per day had fallen from \$1.96 to \$1.58, do you  
3 see that?

4 A Yes.

5 Q So the cost side had not fallen as much as  
6 the revenue side but nonetheless there was still a  
7 considerable drop in the cost side, correct?

8 A Correct.

9 Q And is it true that the reason we see cost  
10 per delivery point per day falling is that during that  
11 period the Postal Service became much more productive?

12 A That's certainly one of the reasons.

13 Q Let me refer you to page 5 of your  
14 testimony. And in particular the bullet point that  
15 begins on line 4 of page 5. There is a reference --  
16 both points to eight straight years of productivity  
17 gain from 2000 to 2009. Is that accurate as far as  
18 you know?

19 A I'm sorry, are you again back on my  
20 testimony?

21 Q Yes, I'm back on your testimony on page 5.

22 A Page 5 what line?

23 CHAIRMAN GOLDWAY: Which testimony?

24 MR. DECHIARA: I'm just, the testimony in  
25 this case, in this proceeding.

1 THE WITNESS: And what line are you on  
2 please?

3 BY MR. DECHIARA:

4 Q I'm on page 5, line 4, it's the third bullet  
5 point.

6 A Thank you.

7 Q And I'm just asking you to confirm that it's  
8 true that from 2000 to 2009 the Postal Service had  
9 realized eight straight years of productivity gain?

10 A That is correct.

11 Q Can you please look in your packet for a  
12 document, it's an excerpt from the Postal Regulatory  
13 Commission annual compliance determination for 2009,  
14 it's you'll see the cover page and then there's just  
15 one page, it's page 39?

16 A Okay, I think I have it.

17 Q Okay, if you look on the right column of  
18 that page 39, in this the first full paragraph on the  
19 right column, the third sentence says "During this  
20 eight year period TFP grew at an average annual rate  
21 of 1.5 percent, five times faster than during the  
22 previous 30 years." Do you see that sentence?

23 A Yes I do.

24 Q Is it accurate as far as you know that  
25 productivity at the Postal Service during that eight

1 year period from 2000 to 2007 grew five times faster  
2 than during the previous 30 years?

3 A On the basis of what I'm reading,  
4 absolutely.

5 Q Do you have any reason to question the  
6 accuracy of this report by the Postal Regulatory  
7 Commission?

8 A No I do not.

9 Q Let me refer you back to the annual report  
10 of the Postal Service, which is the document at the  
11 top of your packet. And if you could turn to page 3?

12 A Okay.

13 Q Do you see there's a chart that has various  
14 date efforts for years 2000 to 2009?

15 A Yes I do.

16 Q Okay. Let me ask you to focus on the year  
17 2000. In the year 2000, is it accurate that in the  
18 year 2000 approximately 787,000 postal employees  
19 delivered 208 billion pieces of mail to 135.9 million  
20 delivery points?

21 A Yes.

22 Q Let's look at now the year 2007. Is it  
23 accurate that in the year 2007 approximately 684,000  
24 postal employees delivered 212 billion pieces of mail  
25 to 148 million delivery points?

1 A Yes.

2 Q So between 2000 and 2007 there were fewer  
3 postal employees delivering more mail to more delivery  
4 points, is that accurate?

5 A Yes.

6 Q In your testimony on page 12, and again this  
7 is your testimony from this proceeding, if you could  
8 turn to page 12?

9 A Okay.

10 Q You make reference to the fact that the  
11 direct cost of carriers in 2009 constituted 31 percent  
12 of total Postal Service cost, and I'm referring to  
13 lines 19 and 20, do you see that?

14 A Yes I do.

15 Q Now I'd like you to turn to the Postal  
16 Service's institutional response to our interrogatory  
17 number 7 to you, which appears on page 12 of the  
18 Postal Service's institutional responses, it's  
19 NALC/USPS-T-2-7.

20 A This was a redirected?

21 Q Right.

22 A Okay, again it was NALC?

23 Q It's number 7, it's on page 12.

24 A Again, I'm looking at my prepared binder.  
25 This was in what you handed out?

1 Q Yeah, this was in the packet.

2 A Okay, let me find that, hold on one second.  
3 This desk is only so big, where could I put it?

4 Q I know, I'm making you look back and forth  
5 between documents, so take your time.

6 A In wishful thinking I had put it in my  
7 outbox here, but apparently I was premature in doing  
8 that, so. Okay, I have it in front of me.

9 Q Can you turn to page 12?

10 A Yes.

11 Q Okay. In your testimony, and this is to  
12 repeat my prior questions, you point out that in 2009  
13 carrier costs were 31 percent of total postal costs,  
14 okay, and that's reflected in fact on page 12 of the  
15 interrogatory responses, correct?

16 A Correct.

17 Q Okay. Now if you look back at FY 2005, the  
18 percentage is the same, 31 percent, correct?

19 A Correct.

20 Q And 2005 was a profitable year for the  
21 Postal Service, correct?

22 A Correct.

23 Q Okay. In your testimony and going back to  
24 your testimony, and this is your testimony in this  
25 case, if you turn to page 13 of your testimony?

1           A     Okay.

2           Q     On line 4 going on to line 5 of page 13 of  
3 your testimony, you have a phrase that says "the  
4 inherently greater fixed cost nature of the carrier  
5 network", do you see that phrase?

6           A     Yes I do.

7           Q     Isn't it true that a large part of the cost  
8 of the carrier network is the cost of, is the labor  
9 cost of letter carriers?

10          A     Yes.

11          Q     And isn't it true that the wages and  
12 benefits of letter carriers are subject to collective  
13 bargaining?

14          A     Yes.

15          Q     Are you aware, and you may not be because  
16 you may not, you were not here at the Postal Service  
17 at the time, but are you aware that in the last round  
18 of collective bargaining negotiations between the  
19 Postal Service and the National Association of Letter  
20 Carriers that the National Association of Letter  
21 Carriers made a proposal to the Postal Service to have  
22 its special Saturday workforce that would have been  
23 composed of letter carriers who would only work on  
24 Saturday, are you aware of that?

25          A     I'm actually not aware of that, no.

1 Q And so I assume you're not aware that the  
2 NALC costed out that proposal as saving the Postal  
3 Service \$1 billion a year and that the Postal Service  
4 did not contest that costing, are you aware of any of  
5 that?

6 A I'm afraid I'm not, no.

7 Q Okay. Let me refer you to page 6 of your  
8 testimony.

9 A Okay.

10 Q On line 8 on page 6, line 8 going to line 9,  
11 it says, you have a sentence that says "Management  
12 initiatives and delivery route adjustments, initiated  
13 in response to the declining workload, contributed to  
14 reductions in work hours in all major functions." Do  
15 you see that?

16 A Yes I do.

17 Q Are you aware that in 2008 and National  
18 Association of Letter Carriers entered into a  
19 memorandum of understanding with the Postal Service  
20 that allowed for expedited adjustment of routes by  
21 joint labor management teams?

22 A Yes I am, and it was an excellent, you know,  
23 agreement and yeah, we're very appreciative of that.

24 Q And is it fair to say that that agreement  
25 has allowed for what has been a substantial reduction

1 in the number of city delivery routes?

2 A Yes it has.

3 Q Okay. Are you aware that the GAO, the  
4 General Accounting Office, in its recent report said  
5 that or estimated that the Postal Service would save  
6 more than \$1 billion a year as a result of that  
7 reduction in the number of routes?

8 A I don't recall that figure, but I'm aware  
9 that the GAO commented on it and that we saved  
10 something like 17,000 routes across the country over  
11 the -- well I'm not sure if that's just MIRAP or MIRAP  
12 and IRAP, but nonetheless that number is new to me but  
13 it sounds fair.

14 Q Okay, well let me, the GAO report is in your  
15 packet, let me just refer you to the GAO report, maybe  
16 about halfway through the packet, it's dated April  
17 2010.

18 A Okay, I have it.

19 Q Okay, are you on page 36?

20 A I am now.

21 Q Okay, I'm going to read a couple sentences  
22 from the bottom third of that page, the sentence that  
23 begins "USPS is also realigning city carrier routes to  
24 remove excess capacity, which is expected to generate  
25 more than \$1 billion in annual savings. This effort

1 is expected to result in reduced facility space needs,  
2 increased employee satisfaction, and more consistent  
3 delivery service. Route realignment has been made  
4 possible by collaboration between USPS and the  
5 National Association of Letter Carriers, and is  
6 continuing this Fiscal Year." Do you follow where I  
7 read?

8 A Yes I did.

9 Q Okay. Do you have any basis to take issue  
10 with that \$1 billion in annual savings figure?

11 A No I do not.

12 Q In your testimony on page 13 --

13 MR. KOETTING: Just so the record is clear,  
14 perhaps counsel might read the title of that GAO  
15 report. There's so many kicking around, you've  
16 referred to it by date but --

17 MR. DECHIARA: Okay. It's a GAO report  
18 April 2010, it's entitled "United States Postal  
19 Service Strategies and Options to Facilitate Progress  
20 Towards Financial Viability", and I'll mark it just  
21 for purposes of cross-examination as NALC Exhibit  
22 number 5.

23 (The document referred to was  
24 marked for identification as  
25 NALC Exhibit 5.)

1 BY MR. DECHIARA:

2 Q Let me now refer you to page 15 of your  
3 testimony. And in particular to the sentence on line  
4 5, that begins on line 5. Are you on that page?

5 A Yes I am.

6 Q Okay. The sentence says "The fact is,  
7 however, that there is no longer -- and there will not  
8 be -- sufficient mail volume and revenue to sustain  
9 six days of delivery per week." Let me focus you on  
10 the phrase between the dashes in that sentence that  
11 says that there will not be in the future sufficient  
12 mail volumes to support six-day delivery. Do you  
13 have, are you an expert in postal operations?

14 A What part of postal operations?

15 Q Non-financial.

16 A An expert? No.

17 Q Okay. Are you an expert in projecting  
18 future mail volumes?

19 A No I am not.

20 Q Did you personally undertake any study of  
21 future mail volumes?

22 A When you say "did you personally", the  
23 executive committee of the organization of which I am  
24 part approved a contract for a study of future mail  
25 volumes that was conducted by Boston Consulting Group.

1           Q     Okay. So your statement in the sentence is  
2     based on the statement of some other entity, namely  
3     the Boston Consulting Group?

4           A     That is a large factor. The statement I  
5     made here is based on opening my eyes and looking  
6     around the world at what's happening with mail both in  
7     this country as well as in other countries, and the  
8     projections of post around the world and also heavily  
9     weighted the Boston Consulting Group's study which  
10    looked and talked to our mailers because where better  
11    to find out, you know, what's going to happen in the  
12    future than to talk to people who are actually  
13    generating the mail?

14                   And on the basis of their study which, where  
15    they contacted over 3,000 mailers and receivers of  
16    mail both in-person interviews with the larger  
17    accounts and Internet and telephone interviews with  
18    portions of that population, they determined that the  
19    mail volumes most likely will decline. And when you  
20    look around the world, the rest of the world, we're  
21    not in isolation, it's now a world economy, and you  
22    look around the world today there are posts in Western  
23    Europe who are predicting in the next 15 years to lose  
24    over 50 percent of their volume of mail. Electronic  
25    migration has accelerated, is more available, and it

1 will continue.

2           And that basis of the Boston Consulting  
3 Group and the other things I talked about, plus  
4 probably lots of other and surely things I failed to  
5 mention, I believe there will not be sufficient mail  
6 volumes in the future to sustain six-day-a-week  
7 delivery unless there's some subsidy or some other way  
8 of balancing the forecast, but right now it does not  
9 look like the appropriate thing to do.

10           Q     Okay. I'd like you to focus particularly on  
11 the projection over the next ten years of mail  
12 volumes. Is it fair to say that in large part your  
13 view was informed by the study of the Boston  
14 Consulting Group?

15           A     Yes, it was very influential. When you say  
16 "in large part", is it 90 percent, 50 percent, I don't  
17 know. But it was very influential.

18           Q     Okay. Do you know, and maybe you don't  
19 know, do you know whether in this proceeding the  
20 Postal Service has made available a witness from the  
21 Boston Consulting Group?

22           A     Do I know? I don't believe we have.

23           Q     Okay. Do you know whether in this  
24 proceeding has put forth an expert on the issue of  
25 projecting future mail volume?

1           A     I do not know.

2           Q     Okay.

3           A     I'd be happy to answer your questions on the  
4 Boston Consulting Group's report, however, to the best  
5 of my ability. And I believe the report when you read  
6 it pretty much stands on its own, but nonetheless I'd  
7 be happy to entertain those questions.

8           Q     Okay. It's just typically in legal based  
9 proceedings the parties like to have an opportunity to  
10 cross-examine the parties that are the source of the  
11 information and not get it hearsay or second hand. So  
12 you've answered my questions and I'll move on. Is it  
13 accurate that in large part the projection, the  
14 projected decline in mail volume that you've discussed  
15 is based on diverging to electronic communication?  
16 Let me rephrase that. Is one of the principal causes  
17 in your view of the long term decline in mail volumes  
18 diverging to electronic communications?

19          A     Yes it is.

20          Q     Do you know whether the Postal Service  
21 itself or expert members of the postal community have  
22 ever in past years looked at the question of diverging  
23 to electronic communication?

24          A     We, at least since I've been here we're  
25 constantly looking at it in terms of forecasting and

1 in terms of where we believe, what happened in the  
2 history and what we think's going to happen in the  
3 future, so it's always a part of our business  
4 planning, yes.

5 Q Do you know whether the Postal Service or  
6 members of the postal communities going back to the  
7 1970s and the 1980s looked at the issue of electronic  
8 diversion?

9 A I don't know certainly for the '70s. In the  
10 '80s I'm aware tangentially, although I haven't read  
11 the reports or heard first hand, that there was  
12 discussion about that.

13 Q Okay. Let me refer you to another document  
14 that's in your packet, and I'll also have it marked  
15 for cross-examination purposes and then ask you Cross-  
16 examination Exhibit 7, and it's an excerpt from a  
17 report. It's, the cover page says "Report of the  
18 Commission on Postal Service Volume 1, April 1977."

19 (The document referred to was  
20 marked for identification as  
21 NALC Cross 7.)

22 A This is in the packet you distributed?

23 Q Yes.

24 A Okay. Okay I have it, thanks.

25 Q And before I ask you questions about this

1 document, let me just ask you generally, are you aware  
2 that in the wake of the terrible economic years for  
3 the Postal Service in the mid 1970s that the Postal  
4 Service went through a process not unlike what it's  
5 going through now of reevaluating its future and  
6 trying to determine how to succeed, overcome its  
7 financial challenges, are you aware that there was a  
8 process at that point?

9 A Looking at this report I certainly am now,  
10 and I think I was, you know, sort of vaguely aware  
11 that the process occurred.

12 Q Okay, so let's look at this document. If  
13 you could turn to, unfortunately the pages -- if you  
14 go in about four pages there's a page on the left that  
15 says "Chapter 3", it doesn't have a page number on it  
16 but the next page following is numbered 20 at the top.

17 A Yes I see it.

18 Q Okay. Let me, if you would permit me to  
19 just read the first paragraph under Chapter 3, it's  
20 entitled "The Impact of Electronic Communication".  
21 "Developments in electronic communications that began  
22 in the 1960s portend disastrous consequences for the  
23 Postal Service. Diverging of messages from the mail  
24 as a result of electronic communication has already  
25 started. Mail volume will cease to grow in the

1 immediate future because growth in communications will  
2 be absorbed by electronic systems. Over the longer  
3 term mail volume will decline." Do you see that  
4 sentence, do you see that paragraph I read?

5 A Yes I do.

6 Q Okay. Let me now ask you do you know  
7 whether it was accurate in this report by the  
8 Commission on the Postal Service in 1977 when it said  
9 that mail volume would cease to grow in the immediate  
10 future?

11 A I believe anecdotally it turned out to be  
12 inaccurate. You probably have the numbers you can  
13 point me to to show me that.

14 Q I do indeed. If you turn to the very next  
15 document in the packet, it's a one-page document which  
16 is on the docket in this proceeding, it's entitled  
17 "U.S. Postal Service Mail Volumes", it's on the docket  
18 dated June 23rd, 2010, and it bears the document  
19 heading "NALC.T2.2.11". But for you it's a one-page  
20 document, that looks like it.

21 A Okay I have it.

22 Q Okay, assuming these numbers are -- well  
23 first of all are you familiar with this chart?

24 A I have seen it.

25 Q Okay. Do you know who made it?

1           A     I've seen a lot of charts that go from '72  
2     to 2006 lately. Do I know? I think we submitted it,  
3     but I'm not positive.

4           Q     Okay, but as far as you know this is a  
5     Postal Service created document?

6           A     I just got a nod, so yes I think it's a  
7     Postal Service created document.

8           Q     Okay great, so we don't have to worry about  
9     the accuracy for purposes of this cross-examination.  
10    So let's go back to what the report of the Commission  
11    on the Postal Service said in 1977, it said that mail  
12    volume will cease to grow in the immediate future. So  
13    if you look at this chart, in 1977 if you go across,  
14    if you go to 1977 go all the way across to the second  
15    to last column under "Total" it indicates that mail  
16    volume is in the ballpark of 92 billion pieces, do you  
17    see that?

18          A     Yes I do.

19          Q     And if you go down to the years that  
20    followed, is it true that mail volume did not  
21    immediately cease to grow?

22          A     Yes it is true.

23          Q     And in fact if you continue let's say for  
24    the next 20 years to 1997, mail volume more than  
25    doubled over the next 20 years, correct?

1 A Correct.

2 Q Okay. Let's going back to the other  
3 statement made by the Commission on the Postal Service  
4 in Chapter 3 of that document, it says that -- okay,  
5 if you turn the page to in the packet to the document  
6 after the one-page Postal Service document that, and  
7 for purposes of cross-examination let me mark the one-  
8 page mail volume document as NALC Cross-examination  
9 Exhibit 8.

10 (The document referred to was  
11 marked for identification as  
12 NALC Cross 8.)

13 So now if you turn to the next document in  
14 your packet, which I'll ask to have marked as NALC  
15 Cross-examination Exhibit 9, it's another document,  
16 it's another excerpt, this one is entitled  
17 "Implications of Electronic Mail and Message Systems  
18 for the U.S. Postal Service", do you see that  
19 document?

20 (The document referred to was  
21 marked for identification as  
22 NALC Cross 9.)

23 A Yes.

24 Q If you turn to the, turn in to the first  
25 page of text, it's entitled "Forward". Are you on the

1 Forward page?

2 A Yes I am.

3 Q And let me just read it. It says "This  
4 study of the implications of electronic mail and  
5 message systems (EMS) for the U.S. Postal Service  
6 (USPS) is one of four components of the OTA assessment  
7 of societal impact of the national information  
8 systems." Do you know what the OTA is?

9 A I'm afraid I don't.

10 Q Okay, I didn't either but let me represent  
11 to you that it's the Office of Technology Assessment,  
12 which is what I believe a now defunct Federal agency.  
13 But this is an August 1982 report by the Federal  
14 Office of Technology Assessment, and for purposes of  
15 this cross-examination I'd just like to refer you to  
16 page 4 of this 1982 document. It's actually quite a  
17 few pages in, it's the page on the left that says USPS  
18 mainstream?

19 A Yes.

20 Q Let me just read before I ask you a question  
21 the first paragraph of this page 4 of this 1982  
22 document. It says "To a substantial extent, the  
23 volume of USPS delivered mail in the future is beyond  
24 the direct control of USPS. It will be affected by  
25 diversion to electronic modes of 'written'

1 communication (EMS and EFT), by overall economic  
2 factors, and from competition from private message and  
3 partial delivery systems. Taken together, it seems  
4 clear that two thirds or more of the mainstream could  
5 be handled electronically, and that the volume of mail  
6 is likely to peak in the next ten years and fall below  
7 today's level sometime in the 1990s." Do you see what  
8 I just read?

9 A Yes I do.

10 Q Okay. So my question is, is this statement  
11 in this 1982 document that the volume of mail is  
12 likely to peak in the next ten years accurate? In  
13 other words, did mail volume peak in the year 1992,  
14 ten years after this report was written?

15 A No.

16 Q In fact it continued to grow after 1992,  
17 correct?

18 A Correct.

19 Q Okay. And then the --

20 A No wonder OTA's not around anymore, see?

21 A Touche. And then the statement that mail  
22 volume would fall below today's level, in other words  
23 below 1982 level, sometime in the 1990s, if you look  
24 back at now Cross-examination Exhibit 8 at the mail  
25 volume in the 1990s -- well let's look, mail volume in

1 1982 when that document was written was at 114 billion  
2 pieces, do you see that?

3 A Yes I do.

4 Q Okay, so now let's look at what mail volume  
5 was throughout the 1990s. Throughout the 1990s not  
6 only was it substantially above 114 but throughout the  
7 1990s it grew, correct?

8 A Correct.

9 Q And in fact mail volume has never been  
10 anywhere near as low as 114 billion, correct?

11 A Not since 1981.

12 Q Okay. And in fact even given the Boston  
13 Consulting Group's projections going forward even  
14 under their projections there's no projection that  
15 mail volume will fall to 114 billion pieces, correct?

16 A Actually the lower boundary of their  
17 projections, I forget the precise number but it was  
18 somewhere in the 114 or 115 billion pieces of mail,  
19 and that was based on just one economy that they  
20 studied that they kept confidential from us, but  
21 anyway.

22 Q But that was --

23 A Other than that, that was the lower bound of  
24 the study.

25 Q That was the most pessimistic part of the

1 range?

2 A That was what they considered the lower  
3 bound, yes.

4 Q Let me turn now, turn your attention now to  
5 the next document in this packet, which I'll ask to  
6 have marked as NALC Exhibit 10 for purposes of this  
7 cross-examination.

8 (The document referred to was  
9 marked for identification as  
10 NALC Cross 10.)

11 And this is a document that's entitled  
12 "United States General Accounting Office Testimony  
13 Before the Committee on Postal Office and Civil  
14 Service House of Representatives Postal Service Role  
15 in a Competitive Communications Environment Statement  
16 of Michael E. Motley, Associate Director of Government  
17 Business Operations Issues, General Government  
18 Division", dated May 24th, 1994. Do you see that  
19 document?

20 A Yes I have it.

21 Q Let me ask you to turn to -- well first of  
22 all let me ask you, have you reviewed this document  
23 that's been marked as NALC Cross-examination Exhibit  
24 10?

25 A You're referring again to this?

1 Q The GAO testimony, yes.

2 A No I have not.

3 Q And by the way, in case I didn't ask you,  
4 had you reviewed either of the two prior documents  
5 that, the 1977 document or the 1982 document, prior to  
6 today's testimony?

7 A No I had not.

8 Q Let me now turn you to NALC Cross-  
9 examination Exhibit 10, the GAO testimony in 1994, and  
10 I'd ask you to turn to page 5.

11 A Okay.

12 Q Okay, and I'll ask you to turn to the last  
13 full paragraph on page 5 under the heading "Effect of  
14 Diversion on the Postal Service". Do you see that?

15 A Yes.

16 Q Allow me to read that paragraph. It says  
17 "Predicting what will happen to mail volume and the  
18 Postal Service is an exercise in speculation. Well  
19 reasoned predictions made in the early 1980s were  
20 wrong. Electronic mail was by now to have caused a  
21 significant decline in mail volume and the size of the  
22 Postal Service." Do you agree with that testimony by  
23 the GAO representative that predicting what will  
24 happen to mail volume is an exercise in speculation?

25 A I agree it appears to be in the studies you

1 mentioned prior, yes. I think it's more than  
2 speculation in terms of the level of detail that  
3 Boston Consulting Group and McKenzie went into on our  
4 behalf.

5 Q Okay. So is it your view that the experts  
6 got it wrong in the past but this time they're going  
7 to get it right?

8 A Yeah I have no, I have no knowledge of what  
9 they did in the past to try to predict the future. I  
10 do know that the entire world is in lockstep now as to  
11 what they believe the future of the mail is. I don't  
12 know if it was back then.

13 Q Okay, well let's look at whether the entire  
14 world is in lockstep. If you could turn to the next  
15 cross-examination, document in your cross-examination  
16 packet, it's a document entitled "Two Scenarios of  
17 Future Mail Volumes", and tell me when you find that  
18 document.

19 A I'm sorry, could you read the title again?  
20 I'm not finding where I thought you said.

21 Q It's entitled "Two Scenarios of Future Mail  
22 Volumes".

23 A And it's in the pile you gave us and we  
24 haven't referred to it yet?

25 Q That's correct, it should follow directly

1 after the 1994 document. We're going to give you  
2 another copy just to move this along.

3 A Thank you. I may be inept here or it may be  
4 just not here.

5 Q No, there's a lot of documents so it's  
6 understandable.

7 A Thank you. All right I have it, thanks.

8 Q And let me just read the title page of this  
9 document into the record. It says it's a document  
10 that takes two scenarios of mail volumes, 2003 and  
11 2017, prepared by Greg Schmid, Director, Global Mail  
12 Project, Institute for the Future, Palo Alto,  
13 California, prepared for President's Commission of the  
14 United States Postal Service, May 2003. Have you ever  
15 seen this document before?

16 A No.

17 Q So I'm safe to say that you do not -- well,  
18 never mind, okay. If you could turn to the beginning  
19 of the executive summary on page 3 of the document?

20 A Okay.

21 Q And let me read the two middle paragraphs.  
22 They say "The two scenarios are meant to focus on  
23 realistic possibilities. The first -- called gradual  
24 displacement -- tracks the rapid displacement of paper  
25 based sales, payments, and statements into electronic

1 form and the gradual erosion of the effectiveness of  
2 broad base direct mail. Under this scenario total  
3 mail volumes declined by about .7 percent per year  
4 during the next 15 years. First class mail declines  
5 even more rapidly falling at an annual rate of 1.6  
6 percent."

7 "The second scenario -- called  
8 communications activism -- tracks the ways that allow  
9 mail to fit as a growing part of the more targeted and  
10 interactive communications world. Under this scenario  
11 total mail volumes grow by 1.8 percent per year  
12 despite the fact that there is substantial  
13 displacement of bills and payments. In both scenarios  
14 traditional first class mail lags behind." Have you  
15 ever reviewed the two scenarios set forth in this  
16 document, or even heard of them?

17 A Please give me a second, I'll just going to  
18 see whether there is analogous things we're doing  
19 today.

20 Q Okay, take your time.

21 A I mean there are obviously some similarities  
22 with some of the methods mentioned in here, but I'm  
23 not aware of these particular methods in and of  
24 themselves.

25 Q Okay. Have you or others at the Postal

1 Service considered scenarios under which if certain  
2 measures were taken mail volume could actually grow in  
3 the future?

4 A Yes, we are, we certainly have looked at any  
5 possibilities we can think of for mail volume to grow,  
6 including driving that growth.

7 Q Can you tell us about that?

8 A The largest driver of that clearly would be  
9 effectively giving something to someone that they  
10 don't already have, and we have not yet -- for example  
11 discounting prices for periods of time, summer sale,  
12 the winter sale we had last year, and in an effort to  
13 try to keep volume in the system. We also are  
14 introducing and I believe have in the Commission a  
15 couple of other initiatives to try to help grow mail  
16 volume, the, you know, send a reply mail, a reply  
17 envelope free et cetera. So there are other types of  
18 marketing campaigns on to try to grow the mail.  
19 Obviously our flat rate box advertising is eff --

20 Q Effective?

21 A Good, thank you. So that's effective too.  
22 So we're seeing that there are things we're doing  
23 which are helping to grow the mail volume, so we do  
24 look at those scenarios and try to drive in that  
25 direction. Most of the analysis we have done in the

1 non-package area and have objectively evaluated the  
2 facts show the mail is declining, both standard and  
3 first class -- with standard relatively flat actually,  
4 growing next year and then relatively flat, and then  
5 first class declining.

6 Q I know you're not an expert on this, but let  
7 me ask you based on your knowledge or your view, if  
8 the initiatives that you mentioned were successful and  
9 were carried out well, and if the economy improved, is  
10 there a possibility that mail volumes could grow?

11 A First class, I don't believe so, no.

12 Q What about --

13 A Standard mail we actually do believe it will  
14 grow next year and be relatively flat with slight  
15 growth over the following nine years of the next  
16 decade, but not enough to offset the first class  
17 decline.

18 Q If Saturday delivery was ended and the  
19 Postal Service implemented a five-day delivery  
20 environment, do you know how that would affect the  
21 number of full time, what effect that would have on  
22 the number of full time equivalent employment numbers  
23 in the Postal Service?

24 A Yes, ultimately we'd have about 40,000 fewer  
25 employees at the Postal Service.

1           Q     So there would be a loss of about 40,000  
2 jobs?

3           A     Correct. I mean I think it's clear in our  
4 proposal how we would reach those numbers, through  
5 attrition, through reductions of overtime, and through  
6 potentially laying off or reassigning the daily or  
7 temporary employees.

8           Q     Okay. And you may not know this, but do you  
9 have any knowledge about the number of military  
10 veterans that are employed by the Postal Service?

11          A     I can't quote you a percentage. It's a  
12 significant percentage, but I can't quote it.

13               MR. DECHIARA: Okay. I have nothing further  
14 on cross-examination.

15               CHAIRMAN GOLDWAY: Thank you, Mr. DeChiara.  
16 De --

17               MR. DECHIARA: You pronounced it correctly.

18               CHAIRMAN GOLDWAY: DeChiara, I did it right  
19 the first time, okay. Next is the National Newspapers  
20 Association. How long, Ms. Rush, do you think you're  
21 going to be?

22               MS. RUSH: Good morning, Madam Chairman. I  
23 would suspect 15, 20 minutes perhaps.

24               CHAIRMAN GOLDWAY: Maybe the best thing  
25 would be if we took a 15-minute break and then were

1 able to continue after that, if you don't mind. Okay,  
2 we'll take a 15-minute break at this time.

3 (Whereupon, a brief recess was taken.)

4 CHAIRMAN GOLDWAY: With the representative  
5 from the National Newspapers Association. Would you  
6 identify yourself for the record?

7 MS. RUSH: Thank you, Madam Chairman. I'm  
8 Tonda Rush, counsel for National Newspapers  
9 Association.

10 CROSS-EXAMINATION

11 BY MS. RUSH:

12 Q Good morning, Mr. Corbett. We have 20  
13 minutes of morning left here I think.

14 A Good morning, thank you.

15 Q And hopefully we can get through this before  
16 it becomes afternoon. I have only a couple questions  
17 for you. Are you aware of a piece of legislation that  
18 was introduced yesterday, bill number H.R. 5746,  
19 authored by Congressman Stephen Wench to amend the  
20 Civil Service Retirement System calculation?

21 A I actually got an email on that this morning  
22 but I haven't read the legislation, but I did hear  
23 that it was going to be introduced, yes.

24 Q Have you by any chance reviewed any drafts  
25 of that legislation before it was introduced?

1           A     I have seen a draft probably about three  
2 weeks ago. I don't know if it changed but I'm just  
3 trying to be honest here.

4           Q     If the bill were introduced in the version  
5 you saw or roughly so, can you give us an idea of what  
6 effect that bill would have if enacted during the  
7 Postal Service's 2010 Fiscal Year, what effect it  
8 would have on the outcomes of the finances this year  
9 and projections for the following Fiscal Year?

10          A     What we were proposing initially was to have  
11 first of all the recovery of the full \$75 billion that  
12 we believe is a very strong case that it was  
13 inequitable and we overpaid into CSR, and we were  
14 looking to regain the credit for those funds primarily  
15 and be able to pay down our debt, as well as have the  
16 funding that is in the, the overfunding that is in the  
17 CSRS fund transferred to the Retiree Health Benefit  
18 Fund so that it would be fully funded based on the  
19 numbers we talked about earlier this morning. And at  
20 any rate that was the objective of our overall push  
21 with Congress and with the Administration.

22          Q     Understood. Is it your understanding that  
23 this legislation roughly tracks what the Postal  
24 Service asked Congress to do?

25          A     I think it does, but I can't be certain. I

1 mean if you have a copy, it's only a couple pages, I  
2 could certainly look at it, but I actually didn't have  
3 a chance to look at what was filed, but I believe it  
4 does.

5 Q Okay, we don't have it here for the record,  
6 I was just curious to know if it were enacted during  
7 this Fiscal Year what outcome do you think that would  
8 create for the Postal Service in this Fiscal Year and  
9 then in the projections for 2011?

10 A I don't know, there's one key element of the  
11 legislation and I don't know whether it's included in  
12 this piece that would be dawning in the future, and  
13 that would be that we would, it's one thing to fund in  
14 the, to transfer funds on the government side of the  
15 ledger from CSRS to Retiree Health to have that fully  
16 funded, but there's also a continuing and separate  
17 legislation which requires us to pay into that fund  
18 the \$5.5 billion numbers we've been discussing. And  
19 to the extent that that legislation would eliminate  
20 that amount it would be immensely helpful.

21 To the extent it doesn't, it will just pave  
22 the ground for future studies which will allow us to  
23 contribute less. So I'm uncertain how that's going to  
24 be handled. But let me take your question, if they  
25 also passed the law which required us not to make the

1 prefunding, you can see in our projections our losses  
2 range from, our projected losses over the next decade  
3 on an annual decade range from \$7 billion to upward of  
4 \$14 and a half billion near the end of the decade.

5           And so you could at least through 2016 I  
6 believe we would be able to cut those losses  
7 significantly by \$5 and a half billion for example if  
8 they were to release that. So we're pushing  
9 absolutely as hard as we can in terms of getting that  
10 legislation because (a) we believe it's inequitable  
11 and we believe there's a strong case for it, and it  
12 will help.

13           It won't in and of itself be enough, but it  
14 would help to reduce the financial stress that we're  
15 undergoing right now in the near term. I have to say  
16 that I'm not confident that that legislation will be  
17 passed this year. I think we all need to be, anyone  
18 who has a stake in this needs to be continuing to  
19 focus on it, but nonetheless as you know the Postal  
20 Service itself can only inform, we can't lobby, so we  
21 basically just have put the information out there and  
22 we hope that Congress, you know, that the heads  
23 prevail.

24           Having said that, the other thing I would  
25 say about the complication of that legislation is,

1        what was done all parties have concluded, the IG I  
2        believe, Siegel might reference in their report they  
3        did for the PRC but I'm not positive, and our own  
4        counsel have concluded that what was done in terms of  
5        funding the CSR is legal, that there's nothing illegal  
6        done it's just a matter of equity and whether Congress  
7        believes that making an adjustment on the basis of the  
8        fact that the law did not follow what the common man  
9        might do in specific situation is successful. But  
10       nonetheless I hope that answers, it's more than you  
11       asked, but that's kind of the situation as we see it  
12       right now.

13                Q        You're saying it's a correction of stresses  
14       and methodology and not necessarily absolute rights  
15       and wrongs in the calculations?

16                A        It is a question of -- yes, that's exactly  
17       what I'm saying, it's methodology.

18                Q        Okay. Are you aware of activities by the  
19       employee groups dominions and/or mailers organizations  
20       petitioning Congress to create this legislative  
21       relief?

22                A        Yes, I've heard there have been a number of  
23       discussions with those groups.

24                Q        What's the basis for your lack of confidence  
25       that this legislation will pass?

1           A     It's my understanding that regardless of the  
2 relief that we might be afforded it's going to score  
3 in the Federal budget deficit, which is, and certainly  
4 this year in a midterm election year is something that  
5 most people don't want to happen. And so just looking  
6 at it objectively as a voter and seeing the American,  
7 the sentiment, I don't, you know, it's going to be  
8 extremely difficult to get it passed this year. And  
9 in the future that won't go away. What we have been  
10 working very hard to do is to try to find a way to  
11 craft something that will benefit the Postal Service  
12 but have it not score as far as the Federal budget  
13 deficit. Unfortunately the pay bill legislation that  
14 was passed six or eight months ago somewhat put a  
15 stake in the heart of that idea, unfortunately, so.

16           A     Thank you. You joined the Postal Service in  
17 February 2009 as I remember your testimony, is that  
18 correct?

19           A     Correct.

20           Q     Where were you in 2008 in the fall, were you  
21 in the private sector, were you at Bearing Point then?

22           A     No, in 2008 I was running Finsol, LLC, which  
23 was a small consulting firm.

24           Q     Can you remember the state of the economy in  
25 September, October 2008? Was there a credit freeze

1 and a general abrupt economic decline during that  
2 period?

3 A I mean yes there was, I don't know exactly  
4 what dates it really froze, but at any rate yes, in  
5 the 2008 time frame.

6 Q As a person familiar with economic matters  
7 generally could you have foreseen from what you knew  
8 of the economy in 2008, earlier in 2008, that this  
9 sort of abrupt stopping of the economy might occur?

10 A I don't think so. You know, the scent was  
11 in the air, but actually concluding that things would  
12 turn out the way they did I think was pretty much, put  
13 it this way, if I could have I'd be a very rich man  
14 and I wouldn't be sitting here. I would have sold  
15 everything short.

16 Q Okay, all right. Mr. Corbett, we asked you  
17 a question that was redirected to the Postal Service  
18 for institutional response, and I am not going to ask  
19 you to answer that question because I know you're not  
20 sponsoring it, but I would like to offer you for  
21 cross-examination a table from one of those responses,  
22 and we'll designate that as NNA Cross-examination  
23 Exhibit 1.

24 //

25 //

1 (The document referred to was  
2 marked for identification as  
3 NNA Cross 1.)

4 A Thank you.

5 Q Do you recognize this chart by any chance?

6 A Yes, I actually looked at it last night.

7 Q Again I'm not asking you to attest to the  
8 accuracy of it because I understand you're not  
9 sponsoring this response, but I'm curious to know just  
10 if I'm reading this chart correctly in the way it's  
11 constructed. If you looked at the pod of answers in  
12 the upper right hand corner under the designation as  
13 NPMHU, do you see that?

14 A Yes I do.

15 Q Do you know what NPMHU stands for?

16 A Yes I do.

17 Q Can you tell us?

18 A National Mail Handlers Union, National  
19 Postal.

20 Q Okay. Is that one of the Postal Service's  
21 four largest craft unions?

22 A Yes it is.

23 Q Okay. Would it be accurate in reading this  
24 chart if these numbers are correct to say that in  
25 calendar year 2008 there was an increase in February

1 16th?

2 A Yes.

3 Q And also March 15th?

4 A Yes.

5 Q And also August 30th?

6 A Yes.

7 Q And also November 22nd?

8 A Yes.

9 Q So that was four increases in that would  
10 have been amounted to an increase in the paychecks of  
11 the individuals in that union for that calendar year?

12 A Yes.

13 Q Are we reading that correctly? And also a  
14 reduction in the requirement of the employees to  
15 contribute to their health benefit premiums?

16 A A reduction meaning that the employee paid  
17 more and the employer paid less.

18 Q Yes.

19 A By one percent, yes.

20 Q Is that correct?

21 A That's correct.

22 Q Would that pattern have been followed for  
23 that contract generally in calendar year 2009, do you  
24 know?

25 A I can tell you the numbers are different,

1 but the pattern is driven for the COLAs is, yes, the  
2 COLAs and the general increases are a date certain for  
3 those actions to take place.

4 Q Are the COLAs calculated on the basis of an  
5 inflationary price from a previous year or a previous  
6 time period in general, do you know?

7 A Yeah, it is -- yes it is.

8 Q Might --

9 A I believe you, yes it is. Sorry, I'm  
10 confusing it with the revenue price cap, yes.  
11 Actually both of them are retrospective.

12 Q Might the COLAs of 2008 been based on an  
13 inflationary number from calendar year 2007?

14 A I don't know the date, but it is the  
15 previous 12 months, so in the early 2008 it would  
16 factor in the months that fell in 2007 I believe.

17 Q Inflation was higher in that time period  
18 than it was in 2008?

19 A Yes.

20 Q Would it be fair -- let me just ask this.  
21 Do you happen to know what the effective dates are of  
22 this particular contract? Would that contract begin  
23 in 2008 or 2007?

24 A I don't recall, but it expires in 2011,  
25 November, and I think it's, is it four year; do you

1 guys know? Is it four year, five year?

2 Q But at some point --

3 A It boasts five, so I'm not positive. I  
4 think you'd go back from '11 to '6.

5 Q So it might be possible that the terms of  
6 this agreement were created in 2006 or possibly 2007?

7 A Correct. I believe it's one of those two  
8 years.

9 Q At a time when the Postal Service's finances  
10 were apparently in considerably better shape than they  
11 were in the succeeding years, is that correct?

12 A That's correct.

13 Q We asked the question the Postal Service  
14 objected to and we withdrew out of respect for the  
15 collective bargaining process about the general terms  
16 in which the Postal Service would enter into  
17 conversations with the employee organizations this  
18 year. And again we withdrew that out of respect for  
19 the process, but would it be fair to say that entering  
20 into these sorts of discussions across the bargaining  
21 table in 2010 that reasonable parties on both sides  
22 are looking at a dramatically different economy and  
23 employer revenue picture than they would have been say  
24 in 2006?

25 A I really, I have not spoken personally with

1 the unions. I can tell you that the management is and  
2 the Postal Service is and certainly unions are aware  
3 of the general economy, but I can't speak for them as  
4 to what weight they put on that or how much they've  
5 thought about it.

6 Q If the terms of the agreement are made, you  
7 said for a five-year period, actually I thought they  
8 were for three, so I guess five makes this even more  
9 important question. But whatever period of time, if  
10 it's three to five.

11 A Can I, there is no rule. I mean the  
12 duration of the contract will be determined in the  
13 contract negotiations.

14 Q In the negotiations, understood. Is it fair  
15 to say that one of the elements that makes Postal  
16 Service costs somewhat inflexible is the period of  
17 time that these contract agreements are made for? You  
18 cannot go back and interject unless you can reach a  
19 new agreement with your organizations if the economy  
20 changes?

21 A That's correct.

22 MS. RUSH: Okay, I have no further  
23 questions.

24 CHAIRMAN GOLDWAY: Thank you. And that  
25 leaves us with the Public Representative.

1 MS. GALLAGHER: Thank you, Madam Chairman.  
2 My name is Patricia Gallagher, and with me is Kenneth  
3 Moeller and Lawrence Fenster.

4 THE WITNESS: Good morning.

5 CROSS-EXAMINATION

6 BY MS. GALLAGHER:

7 Q Preliminary, this is focusing on your  
8 testimony in this case. If you would turn to page 8.

9 A Okay.

10 Q And if you are there, we are going to focus  
11 on line two, and there it carries over from page  
12 seven. I see there that you refer to the Postal  
13 Service as an American public service institution?

14 A Yes.

15 Q Okay. Do you consider that a pretty apt  
16 description for the Postal Service status? For  
17 example, relative to commercial enterprises?

18 A I don't necessarily differentiate it from a  
19 commercial enterprise. I mean, it is an American  
20 public service institution, but it is required to  
21 operate on a commercial basis. So if that is the word  
22 there, it has some similarities of a pure public  
23 service organization, and income similarities and  
24 requirements of a commercial entity.

25 Q And did I hear you say then that you don't

1 see any difference between the Postal Service and a  
2 commercial enterprise?

3 A Oh, no, absolutely not. We have a mission.  
4 We clearly have a mission to bind the nation. What I  
5 was saying was that the fact that the words are  
6 omitted there, I didn't want to draw a bright line  
7 between a public service institution and a commercial  
8 enterprise in the context of what the Postal Service  
9 is.

10 Q Okay. Thank you. Then if you could turn to  
11 pages 1 and 2 of your testimony. Are you there?

12 A Yes.

13 Q Okay. And that is where your biographical  
14 steps appear?

15 A Yes.

16 Q And in reading this, I guess I was taking  
17 your background that your experience has come  
18 primarily, or maybe entirely, from what I would call  
19 commercial enterprises? Would you characterize that  
20 differently than mine?

21 A My background is primarily in commercial  
22 enterprises, and that is all that is mentioned in here  
23 other than --

24 Q Thank you. So --

25 A Wait a minute. I would like to clarify,

1 please. Other than that I spent over a decade with  
2 KPMG, and providing accounting, auditing, and  
3 management, and billing services to a variety of  
4 entities, including WMATA, which is the Metro and Bus  
5 Service in the Washington area, as well as numerous  
6 not-for-profits.

7 Q And so you those organizations that you have  
8 just identified are also commercial in the sense that  
9 you think the Postal Service is?

10 A No, I would say that WMATA actually has a  
11 very similar -- although I am not totally familiar  
12 with their charter anymore, but a similar mission if  
13 you will, and they are a not-for-profit. Some of  
14 those have parts of the mission of the Postal Service,  
15 but very few of them have any of the commercial  
16 requirements.

17 Q When you say WMATA did, you think that is  
18 primarily commercial as well?

19 A No, I think that it is a blend. That's what  
20 I am saying, there is not a bright line. There is  
21 certainly not a bright line in our charter.

22 Q Thank you. Then if you would turn to page  
23 14 of your testimony, and you will see the bullets  
24 appearance from 7 to 15, and you are talking about  
25 some of the efforts that would comprise a balanced

1 approach.

2 A Yes.

3 Q If you would focus on the fifth bullet  
4 there, and I will read that. "Elevate the role of  
5 demand factors in pricing, and, in the short term,  
6 occurs to a modest exigent price increase." Would you  
7 characterize modest for me with a benchmark there, and  
8 your use of the word modest there, that is relative to  
9 the CPI cap that now exists, or maybe to earlier rate  
10 cases?

11 A Yes. At the time that this was proposed my  
12 expectation was in the five percent range, and as you  
13 now know, the exigent price increase has been filed,  
14 and it is an average of 5.6 percent.

15 Q I believe that is modest as well, but what  
16 is the benchmark that you characterize as modest, that  
17 is relative to the CPI cap?

18 A No, that's not. I don't believe the CPI.  
19 That fluctuates every year. Modest is as a percentage  
20 of the overall amount. So that was the context.

21 Q And not for mailers, and what they might  
22 think, but for what the Postal Service might think?

23 A Well, it is what the Postal Service thinks.  
24 I can't speak for the mailers.

25 Q Thank you. That's good. Thank you. Then

1 on page 15, lines 12 through 14, in that sentence you  
2 talk about without degrading universal service  
3 standards or performance. Are you there?

4 A Yes, I am.

5 Q Simply a clarification. There are two types  
6 of -- well, maybe I will just ask the question. Were  
7 you there referring to the universal service standards  
8 in terms of the global concept of universal service  
9 requirements for the Postal Service, or more  
10 specifically the service performance and measurements  
11 that are being put in place?

12 A Can you please allow me to -- I just want to  
13 read from the top of the paragraph to make sure I  
14 understand the context?

15 Q Certainly.

16 A Thank you.

17 (Pause.)

18 THE WITNESS: Okay. I'm sorry, and your  
19 question was?

20 BY MS. GALLAGHER:

21 Q The question is -- I need a clarification.  
22 Was universal service a more global concept than  
23 some -- maybe standards or notions that apply to that?  
24 And then for some time, or for the past few years,  
25 people have been working on discreet and very specific

1 service performance measurements.

2 If you could clarify perhaps about universal  
3 service standards, in terms of the services overall  
4 statutory obligation, and not those specific service  
5 standards?

6 A That is correct. I am referring to  
7 essentially the USO and by going from 6 to 5 days, you  
8 clearly have no discriminating of that.

9 Q So the global concept more than the specific  
10 service standards?

11 A Yes.

12 Q Thank you for that clarification.

13 A You're welcome.

14 Q And then if you would turn to page 15 and  
15 the designated interlocutories, and it is ATWU/USPS-  
16 22-1.

17 A Dash one?

18 Q Dash one.

19 A Okay.

20 Q And that is really talking about perhaps  
21 connections between cutting service and remaining  
22 financially viable, and thereby you would focus on the  
23 last sentence of your response, where you provide an  
24 example.

25 A Okay. The underlying sample?

1 Q Yes.

2 A Okay.

3 Q And am I correct to say very basically that  
4 that example says the airlines are facing a growing  
5 number of empty seats between two cities. The  
6 airlines might become healthier by cutting back from  
7 two flights per day to one flight per day?

8 A Yes.

9 Q And so in this situation where we are  
10 talking about cutting back figuratively, I have  
11 several concerns about the validity of this example,  
12 and that is that this airline would still be providing  
13 at least one flight per day under your scenario, and  
14 while there is no free delivery on Saturday?

15 A I think that what you just said is correct  
16 if you take a liberal reading.

17 Q So it is yes or no?

18 A No, I would prefer to answer your question  
19 fully, unless you want me to defer an answer.

20 Q Just a yes or a no.

21 A Could you please ask the question again?

22 Q Yes. Wouldn't the airlines still be  
23 providing the city with at least one flight per day?

24 A Yes. In the example, it says per day. A  
25 day.

1 MS. GALLAGHER: Thank you. That's all that  
2 I have.

3 THE WITNESS: You're welcome.

4 CHAIRMAN GOLDWAY: Thank you. Well, the  
5 floor is now open for Commissioners. I think I will  
6 defer to my fellow Commissioners. Commissioner  
7 Langley.

8 COMMISSIONER LANGLEY: Thank you, Mr.  
9 Corbett, very much for your testimony today, and for  
10 responding fully to a great many questions. I just  
11 want to make sure that I understand your opinion of  
12 whether the Postal Service is more like a commercial  
13 entity, or a government entity, a Federal Government  
14 entity.

15 THE WITNESS: That is a reoccurring theme  
16 and question, but I guess what I have to say again is  
17 that it is both. It clearly is a public service, and  
18 it clearly has a mandate by charter to operate on a  
19 commercial basis economically and efficiently.

20 So it really is a hybrid organization in my  
21 mind. We always have put, to the extent that we have  
22 money available, the quality service of continuing to  
23 deliver mail in accordance with the law as the very  
24 forefront of our mission.

25 And we want to be able to continue doing so

1 in the future obviously. The plan as you have seen is  
2 to achieve that. However, very few elements of that  
3 plan are in the bag yet. In fact, I would say that  
4 none of the elements of the plan are in the bag yet,  
5 and so this six to five day is something that from an  
6 economic and from an efficiency standpoint, we believe  
7 by our charter, we are obligated to pursue.

8 So really to answer your question directly,  
9 I believe we are some of each. Our mission is to  
10 continue to unite the country, but we need to do so on  
11 a commercial basis, and if we don't, I am very, very  
12 concerned with the outcome.

13 We can see, starting with our own Federal  
14 Government, what the impact of overspending can be  
15 when you don't have the money to pay the bills, and if  
16 you look at the State and local governments now  
17 starting to collapse, and having to provide the base  
18 services -- libraries operating lesser hours, and  
19 things along that way, they are clearly public service  
20 organizations.

21 However, they have to at the end of the day  
22 make sure that there is enough cash in the bank to pay  
23 the bills. States like California, and Illinois,  
24 because of years of overspending now, and Government  
25 Arnold Schwarzenegger putting part of the workforce on

1 minimum wage, and furloughing people for five weeks  
2 out of a year, and effectively decreasing their  
3 salaries.

4 We want to address this as quickly as  
5 possible so that we can maintain a universal service  
6 without having to reverse any sort of dramatic or  
7 drastic fixes down the road as that hole becomes  
8 bigger.

9 We won't run out of debt next year. We will  
10 have 15 billion of debt next year, and that will be  
11 substantially larger on a per capita basis, or rather  
12 on a pro forma basis to, for example, FedEx or UPS,  
13 and with no known way to get out of it. It just  
14 continues to grow.

15 So at any rate, I think we are some of each,  
16 and I think that we are doing our best in this plan to  
17 try to balance it all, and get back to focusing on  
18 what is foremost in our mission, which is to deliver  
19 the mail, and to unite the country.

20 COMMISSIONER LANGLEY: But you would agree  
21 with the enabling legislation that says the United  
22 States Postal Service is an independent establishment  
23 of the Executive Branch of the Government of the  
24 United States?

25 THE WITNESS: Absolutely.

1                   COMMISSIONER LANGLEY: Thank you. Do you  
2 know whether or not the Postal Service has considered  
3 seeking any changes to its universal service  
4 obligation in connection beyond moving from six to  
5 five day delivery? Are there other considerations  
6 that haven't been put on the table that the Postal  
7 Service may seek in the future?

8                   THE WITNESS: I am just trying to think.  
9 There are lots of other changes that we have put on  
10 the table, but I am trying to think through whether  
11 any of them impact the universal service obligation.  
12 You are talking about whether the institutional --

13                   COMMISSIONER LANGLEY: Global that you were  
14 discussing with the Public Rep. Something like people  
15 had talked about from time to time, looking at the per  
16 piece, per address, perhaps. And making decisions to  
17 deliver less frequently to some areas than others  
18 because of the cost of per piece delivery.

19                   THE WITNESS: I haven't -- I am not aware of  
20 any of that going on. We do keep statistics by our  
21 district and by our area on what the overall income  
22 statements locally are like, but in terms of actually  
23 trying to, I try to stay away from that, because quite  
24 frankly I think it is discriminatory.

25                   And we want to make sure that we first and

1 foremost deliver the mail and do it in a USO way.  
2 That is one of the reasons why we had to narrow the  
3 scope to something that impacts the people uniformly,  
4 which is going from 6 to 5 days.

5 COMMISSIONER LANGLEY: Okay. Mr. DeChiara  
6 discussed a great deal with you different studies and  
7 reviews on electronic diversion from hard copy mail,  
8 and I just am not quite clear. Has the Postal Service  
9 done its own study? Do you know?

10 I mean, I know that there is a chart within  
11 the Interrogatories of the percentage of pieces that  
12 have been diverted, but has there been a wholesale  
13 Postal review of it?

14 THE WITNESS: In connection with our revenue  
15 forecasting, we isolate the various variables in a  
16 very subjective manner, but nonetheless, we do it,  
17 that drive mail volumes, and electronic diversion is  
18 one of those variables that we isolate and measure  
19 each year, as well as project into the future. That  
20 is just done internally, although we have outside  
21 consultants who help with that.

22 COMMISSIONER LANGLEY: So there really  
23 hasn't be a qualitative or quantitative report from  
24 the Postal Service on this critical area?

25 THE WITNESS: Well, we do have responses

1 that have been filed, institutional responses that  
2 were filed on this subject that further describes our  
3 process and our conclusions. So we have actually put  
4 that in the public record here for this hearing.

5 COMMISSIONER LANGLEY: Okay. Thank you. I  
6 have just really one more question which relates to  
7 your direct testimony on page 11, where you are  
8 speaking about revenue on a per day or per delivery,  
9 per day basis.

10 And I am curious to know whether or not this  
11 data reflects the revenue and costs for all 150  
12 million delivery points, and whether this includes  
13 P.O. Boxes and highway contract routes?

14 THE WITNESS: I have to answer the question  
15 that I don't recall whether it has all P.O. Boxes are  
16 not. I can get you the answer, but I don't know.

17 COMMISSIONER LANGLEY: I would like to have  
18 that for the record. If it does reflect the universe,  
19 is it possible to provide the same information using  
20 just delivery points served by city and rural  
21 carriers.

22 THE WITNESS: Yes, I think it is.

23 COMMISSIONER LANGLEY: Thank you. Thank  
24 you, Madam Chairman.

25 MR. KOETTING: In that vain, Commissioner

1 Langley, are you talking about taking the total  
2 revenues and simply putting delivery points in the  
3 denominator, excluding Post Office Boxes and highway  
4 contractors, or are you talking about somehow  
5 adjusting the revenue in the enumerators to pull out  
6 the revenue associated with particular -- with Post  
7 Office Boxes and the highway boxes?

8 COMMISSIONER LANGLEY: That is a good  
9 question. Yes. The answer is yes.

10 MR. KOETTING: Well, I don't think that is  
11 in Mr. Corbett's ability to attempt that exercise.

12 COMMISSIONER LANGLEY: I understand that.  
13 Thank you.

14 CHAIRMAN GOLDWAY: We will ask for the  
15 answers or report back on what extent you can give  
16 them to us within seven days.

17 MR. KOETTING: We might be able to handle it  
18 during redirect, Madam Chairman.

19 CHAIRMAN GOLDWAY: All right. Commissioner  
20 Blair.

21 COMMISSIONER BLAIR: Thank you, Madam  
22 Chairman. I appreciate that. Mr. Corbett, thank you  
23 again for coming this morning, or I guess it is now  
24 this afternoon. You are a familiar face to us at the  
25 Commission, and we appreciate your willingness to

1 submit for these questions.

2           There are a lot of balls in the air. It  
3 seems to me that we have the retiree health benefits  
4 issue, and we have the pension issue, if in any  
5 Congressional action that may be taken, as well as the  
6 exigency filing, which we currently have before us as  
7 well.

8           I think there is some good news on the front  
9 that the Chairman went to the House to introduce  
10 legislation yesterday regarding a pension bill. So, I  
11 think that is a step forward.

12           The first thing that I wanted to ask you was  
13 regarding something that Witness Pulcrano said  
14 yesterday, and that was about a new 10 year  
15 transformation -- or on Wednesday, a new 10 year plan  
16 of some sort. Is this the new transformation plan  
17 that the Postal Service is putting together? Are you  
18 aware of anything like that?

19           THE WITNESS: Well, we published on March 2  
20 our look for the next decade, and we are now putting  
21 in place throughout the organization some plans to  
22 meet those goals, and to try to better that plan.

23           So, for example, in the operations area,  
24 there is a lot of study and detail going into how  
25 quickly we can now get the costs down, and can we

1 better the plan that we put out on March 2, and  
2 actually getting down to technical things that need to  
3 be done.

4 Things that you are familiar with, like AMP  
5 consolidations, and the national distribution center  
6 concept taking over the BMCs. So things like that,  
7 and how quickly can we do them, and how much more  
8 efficient can we be, and how quickly we can them over  
9 10 years is probably what he was referring to. But  
10 since I wasn't here to hear it, I am not positive.

11 COMMISSIONER BLAIR: Okay. I wanted to make  
12 sure that -- well, I don't know what role you were  
13 playing in putting together this plan or plans.

14 THE WITNESS: The plan is a 10 year forecast  
15 if you will, and the general plans that are out there,  
16 are not being supported from the bottom up, in terms  
17 of the initiatives that are going to make it happen.

18 Primarily the management plan, when we talk  
19 about management having to reduce over a hundred-  
20 billion dollars in the next 10 years, that is  
21 something that we signed up to. Quite frankly, it is  
22 something that our consultants pushed back on us and  
23 said where are you going to achieve this, and how are  
24 you going to do it.

25 And we said that we will. We are signing up

1 and we have done it, a billion a year for a number of  
2 years. We did 6 billion in 2009, and we will get it  
3 done, and now we are getting to the initiatives and  
4 doing studies, and doing other projects to make it  
5 happen. So I am very much a part of that with Pat  
6 Donohue, who is running the process.

7 COMMISSIONER BLAIR: When I hear a plan, I  
8 think of something like an annual report, or a  
9 document. Is this going to be a document that will be  
10 released publicly?

11 THE WITNESS: I don't know the plans as to  
12 whether this will be released or not.

13 COMMISSIONER BLAIR: Because I asked -- you  
14 and witness Pulcrano, if you're filing for the record;  
15 if you're going to file anything for the record, that  
16 you could kind of flush that out as to this 10 year  
17 plan? I hate using that word, but what that is going  
18 to be, and when we might be able to see it?

19 MR. TIDWELL: Michael Tidwell for the Postal  
20 Service. The Postal Service will in response to your  
21 question, and to the Commissioner, and in response to  
22 whatever questions may have come out in the Pulcrano  
23 cross-examination, we will provide as much information  
24 as we can regarding the future development of these  
25 plans.

1 I think that Mr. Pulcrano made clear that  
2 there wasn't a specific timetable that the various  
3 components of the organization were beginning to put  
4 together the elements, but it was certainly a product  
5 that would be produced sometime later this year, but  
6 we will flush out as much information as we can about  
7 that.

8 COMMISSIONER BLAIR: I appreciate that. I  
9 think that it would have an impact on our  
10 deliberations in this case. There was quite a bit of  
11 questioning regarding the effect of dropping Saturday  
12 delivery and the history of that, and the history of  
13 mail volume forecasting.

14 And I was trying to see, Mr. Corbett, if you  
15 could pinpoint for the Commission is dropping Saturday  
16 delivery a reaction to the recession or to electronic  
17 diversion?

18 THE WITNESS: I mean, the majority of the  
19 driver behind wanting to drop Saturday delivery is  
20 related to migration and a decline in mail volumes,  
21 period, regardless of the cause. We expect the  
22 decline to be seen will be very significant over the  
23 next decade, and the bulk of that is attributable to  
24 migration.

25 COMMISSIONER BLAIR: That's helpful. What

1 would denial of going to five day delivery do to the  
2 Postal Service's long term financial liability?

3 THE WITNESS: It is difficult to say. The  
4 plan is that we have five major areas where we can  
5 actually save costs, and this is the one that most  
6 fundamentally changes the deliver network, and matches  
7 the volumes that are being delivered, and the costs  
8 for delivering them.

9 If other items would you seek relief? For  
10 example, if we had a \$75 billion check today on the  
11 CSR, and literally had the flexibility to use that as  
12 we saw fit, then clearly that would impact our  
13 thinking in terms of our 10 year plan.

14 And I think that is highly unlikely, but  
15 nonetheless, I am just trying to draw the extreme, but  
16 if we are not successful in the other items, then we  
17 would run out of money, and we would be unable to pay  
18 our bills and our workforce going forward.

19 We would be forced, first, to make a  
20 decision as to whether we would be able to make the  
21 payment for our RHB funding at the end of this year,  
22 and at the end of each calendar year if this situation  
23 existed.

24 And then to the extent that there was an  
25 additional shortfall, we would -- and if we decided to

1 do that, we would be defaulting on payments.

2 COMMISSIONER BLAIR: Is there an amount of  
3 money that you have identified should Congress be able  
4 to appropriate it, that would allow you to sustain  
5 Saturday delivery?

6 THE WITNESS: I think again in the absence  
7 of any other items, any certainty around whether we  
8 will get relief, or any other of the items that we are  
9 working on together, and that being of course, and you  
10 are familiar with, the RHB and the six to five day,  
11 and the price increase, and the union, and the work  
12 rule flexibility issue.

13 But at any rate, if they came into play,  
14 then this number that I would quote to you would be  
15 smaller, but I don't know, because I don't know what  
16 we will get. But if we just solely talk about this  
17 appropriation, and don't get any other changes that we  
18 are looking at, the amount that we would need per year  
19 would range from \$7 billion to \$14-1/2 billion in  
20 order to totally offset our losses, or at least to  
21 break even.

22 And ultimately we have to pay down the debt,  
23 and we will have about \$15 billion next year, and so  
24 it would be a fairly substantial appropriation absent  
25 any other changes.

1 COMMISSIONER BLAIR: Thank you.

2 THE WITNESS: You're welcome.

3 CHAIRMAN GOLDWAY: I am going to jump in  
4 here because I am a bit confused in your response to  
5 Commissioner Blair's question. You said the bulk of  
6 your response was due to diversion of mail to  
7 electronic.

8 But I believe in questions that you answered  
9 to the Greeting Card Association, you said or you  
10 estimated that 88 percent of the losses in the last  
11 year are due to the recession, and that it was only at  
12 most 4.6 percent of the mail that you could actually  
13 identify as being diverted electronically.

14 MR. KOETTING: Madam Chairman, is there a  
15 document that you are looking at?

16 CHAIRMAN GOLDWAY: No, I am referring to  
17 notes that were given to me by my staff about an  
18 answer to Greeting Card Association questions.

19 THE WITNESS: Well, we can get -- in other  
20 documents that we filed, if we can see the source of  
21 that, but let me explain. I was referring to  
22 Commissioner Blair prospectively over the next decade  
23 what do we see happening, and why do we have the need  
24 for these changes in order to balance the budget.

25 And my answer was that the majority of the

1 decline which I could see in the future, the decline  
2 of first class mail is because of electronic  
3 migration, and the lack of growth in the standard mail  
4 for similar reasons, electronic competition, at any  
5 rate, and electronic substitution towards mail itself.

6 But having said that, historically we  
7 estimate that about two-thirds of the decline in 2009  
8 was related to the economy when you look at the total  
9 overall mail volume, and about one-third of the  
10 decline related to electronic migration.

11 What we don't know -- and those are  
12 estimates, but what we don't know is that of that two-  
13 thirds that relates to the economy, how much of it was  
14 accelerated from what might have happened later  
15 because people focused more, and they had less money,  
16 and they focused more on their home budgets and other  
17 things, and decided that paying a bill for free on the  
18 internet is better than paying it for 44 cents.

19 CHAIRMAN GOLDWAY: And you might have had an  
20 acceleration, and then you will have a somewhat slower  
21 change next year and the year after because of the  
22 acceleration from the recession, or it might have sped  
23 things up for people to move faster in the next couple  
24 of years. You don't what that --

25 THE WITNESS: It is hard to say whether it

1 is part of a tidal wave or the first wave in a series.

2 CHAIRMAN GOLDWAY: Of the seven items that  
3 are in your plan here that you refer to on page 14 of  
4 your testimony; restructure retiree health plan, and  
5 adjust delivery days, and modernize retail access,  
6 establish less work force, elevate the role of demand  
7 factors in pricing, and the scope of products and  
8 services offered, and seek to streamline oversight and  
9 regulatory processes. What do you think is the most  
10 important of those items to pursue?

11 THE WITNESS: The most important by far is  
12 to restructure the retiree health benefit prefunding,  
13 and for two reasons. One, our liquidity is under  
14 fire, and we will run out of cash if we don't get  
15 something done quickly.

16 The other items in here will take some time  
17 to build up cash balances even if we get the approval  
18 to do them. Retiree funding, as you saw last year,  
19 could be the stroke of a pen, and the ability to hold  
20 on to \$4 billion of cash last year.

21 So that is clearly the most important,  
22 because we needed it to stay afloat, and also because  
23 the numbers involved with that overall obligation, are  
24 the largest of all of the other options.

25 CHAIRMAN GOLDWAY: In discussions that you

1 had with the first three of the participants who  
2 cross-examined you, they asked about the impact of the  
3 restructuring of the retiree health benefits, and that  
4 if you didn't have to pay them, if the pension fund  
5 reallocation proposal went through and you didn't,  
6 there would be a surplus over the last years, and you  
7 would have no debt virtually.

8 And you might be looking at a one to two  
9 billion dollars a year loss in the next two years,  
10 let's say. I am not pursuing the 10 year strategy,  
11 but the two years. If that were the case, and that  
12 had happened, would you say that you had a broken  
13 business model?

14 THE WITNESS: Yes, I am.

15 CHAIRMAN GOLDWAY: And how do you define a  
16 broken business model then if it isn't just costs over  
17 marginal costs?

18 THE WITNESS: One that is not self-  
19 sustaining is broken in my view, and the fact that you  
20 were able to pay down debt that you accumulated  
21 through an excess of expenses over revenue, puts you  
22 back to the point where you can borrow, but we would  
23 still be borrowing money to fund a business with no  
24 apparent way of paying down that debt, and that is not  
25 a sustainable position.

1           CHAIRMAN GOLDWAY: So, let's say you did all  
2 of that, and we were at this wonderful part where you  
3 had \$15 billion to borrow, and you had an expectation  
4 in the next couple of years of a billion or two  
5 billion dollars of losses, and you looked at this list  
6 of changes on page 14.

7           Which would be the most important then in  
8 order to change your business model so that you could  
9 assure that in the long term that you would be getting  
10 more revenue than costs?

11          THE WITNESS: It is an extremely difficult  
12 question.

13          CHAIRMAN GOLDWAY: I will tell you what I  
14 would say. I would say expand the scope of product  
15 and service offerings if you want to do more revenue.  
16 That's what I think would be on the top of what I  
17 would define as a business model change.

18          Have you got any ideas about business model  
19 changes that relate to expanding the scope and product  
20 service offerings?

21          THE WITNESS: Yes, of course we do, but let  
22 me first though say that in the context of the fact  
23 that mail today is not profitable, and without some  
24 changes, we don't believe that it will be profitable,  
25 or even break even going into the future.

1           And the lowest contributor over the next 5  
2           to 10 years of profit in order to plug that hole would  
3           come from that item, and here is why. Look at Federal  
4           Express, for example. They have almost roughly \$40  
5           billion in revenue. They make about \$3 billion a  
6           year.

7           So if we were able to develop a new service  
8           that has \$40 billion of revenue, or enhancing existing  
9           service, or in other words, more than doubling or more  
10          than 50 percent of our existing volume, that would  
11          take time.

12          After we achieve that, we would only be  
13          generating an additional \$3 billion a year from that  
14          business if we were able to do it as efficiency as  
15          Federal Express.

16          CHAIRMAN GOLDWAY: But part of that \$40  
17          billion pays for all the costs that you are allocating  
18          to the future losses issue.

19          THE WITNESS: Absolutely, and so that \$3  
20          billion is the same from a standpoint of covering our  
21          bills as the \$3 billion that we would receive in going  
22          from 6 to 5 days. 6 to 5 days could happen in a year,  
23          and that \$3 billion that you would make on \$40 billion  
24          of revenue, if we were to operate as efficiency as  
25          Federal Express.

1           First of all, it couldn't be achieved in the  
2 next five years, and probably not in the next 10, but  
3 assuming that we could achieve it, it would just be  
4 plugging the amount of the deficit that we will get  
5 from going from 6 to 5 days. So, you don't blow your  
6 way out of a situation like this.

7           CHAIRMAN GOLDWAY: I don't get it. The \$40  
8 billion covers the costs for that delivery as well.  
9 You are assuming a whole new service in addition, but  
10 you are merging the services. So if you have got new  
11 products, and you reduce the network -- you are not  
12 presenting an argument that would make sense.

13           But that actually gets me to another  
14 question that I wanted to ask, which is let's say the  
15 regulatory commission agrees with this proposal and  
16 says that we think it is okay, and universal service  
17 won't suffer, and standards won't suffer if you go to  
18 five day delivery, and that we feel that the service  
19 will be adequate in terms of what we are able to  
20 decide in this case.

21           And you got Congress to do it, and none of  
22 the other things that you are asking for occurred, you  
23 still wouldn't be able to deal with your liquidity  
24 crisis in 2011?

25           THE WITNESS: Correct.

1 CHAIRMAN GOLDWAY: When would you be able to  
2 deal with that liquidity question?

3 THE WITNESS: When we got other fundamental  
4 changes made from the list that you are looking at  
5 here in my testimony.

6 CHAIRMAN GOLDWAY: So this is not something  
7 that is going to solve these problems that you are  
8 pointing out in terms of liquidity?

9 THE WITNESS: This will solve the longer  
10 term liquidity situation. This won't be able -- if we  
11 had it approved today, we still would not generate  
12 enough money from 6 to 5 days to help at the end of  
13 the year when we will run out of cash, or actually we  
14 will be down to around 4 or 5 days of operating cash.

15 CHAIRMAN GOLDWAY: Okay. Thank you for  
16 those answers. I will now defer to Commissioner  
17 Anton.

18 COMMISSIONER ANTON: I have no questions.  
19 Thank you, Madam Chairman.

20 CHAIRMAN GOLDWAY: Oh.

21 THE WITNESS: You're welcome.

22 CHAIRMAN GOLDWAY: And Commissioner Hammond.

23 VICE CHAIRMAN HAMMOND: Thank you, Madam  
24 Chairman, and thank you for being here, Mr. Corbett.  
25 I know that it has been a long morning, and now into

1 the afternoon, but like you have always been with us,  
2 I think your testimony has been straightforward and to  
3 the point, and sincere, and responsive, and I  
4 appreciate that.

5 I really do.

6 THE WITNESS: Thank you.

7 VICE CHAIRMAN HAMMOND: To follow up  
8 somewhat when the Chairman went to these bullet points  
9 that were on page 14, where she talked about expanding  
10 the scope and product of service offerings, et cetera.

11 In your discussion of that, that led me to  
12 question whether -- well, do you believe that the U.S.  
13 Postal Service should be allowed to expand into areas  
14 already covered by private enterprise; to make money  
15 for the Postal Service would be the goal?

16 THE WITNESS: Yes, I do.

17 VICE CHAIRMAN HAMMOND: Could you tell us  
18 what areas you would like to get into that are already  
19 covered by private enterprise?

20 THE WITNESS: There are a number that are  
21 pretty obvious on the face of it, but the largest  
22 would just the expansion of our existing business.  
23 For example, expanding our package business. It is  
24 something that in theory we can do, but under the  
25 current regulations, we can't, because you are not

1 allowed to lose money on a competitive product.

2 And in order to develop a competitive  
3 package business with FedEx or UPS, for example, we  
4 would need to invest billions of dollars and could  
5 become the third player in the U.S., which in my view  
6 would be good for the economy and for the consumers,  
7 and better than having the duopoly that more or less  
8 exists today.

9 But by doing that, we would incur  
10 significant losses in the startup phase, which would  
11 put us in violation of the laws. So clearly we are  
12 hamstrung to some degree with being able to make large  
13 investments like that in other areas.

14 I don't think we should go into some of the  
15 other ones that have been talked about, banking being  
16 primarily one of them. We have looked at the foot  
17 traffic that we have in our retail units, and it is  
18 less than 5 percent, or roughly 5 percent of what  
19 traffic you would get, for example, in a grocery  
20 store.

21 So when Bank of America or someone is  
22 looking to open a new branch or do something, the  
23 question is where are they going to go? To a Post  
24 Office that gets an average of 600 people a week, or  
25 are they going to go to a grocery store which gets 20

1 thousand a week.

2 So I don't think that the strength of our  
3 retail network is such that we could break into that  
4 business, and earn a profit anytime in the near  
5 future. Our competitors obviously -- well not our  
6 competitors, but our cohorts on the other side of the  
7 ocean and in other places in the world have been able  
8 to do that, but in large part most of those were  
9 established decades ago, and they are competitive.

10 But in growing our existing business would  
11 be one way to do it. The other way are ways that we  
12 can do, and should be doing in the future, and that is  
13 rolling out services to small and medium enterprises,  
14 and make it easier for them to advertise.

15 Today the big guys, as you know, develop  
16 their collateral on site or at a printer, or  
17 something, but then they extend it to where they want  
18 it mailed so that they can reduce the overall cost of  
19 transportation and other things.

20 Smaller companies can't do that, small and  
21 medium enterprises. So I think that is an areas where  
22 we need to continue to work on to be able to offer end  
23 solutions, or partnering with our existing customers,  
24 and offer those to the smaller businesses, et cetera.

25 And we need to begin looking at hybrid mail.

1 It is an area that is not going to go away. No one as  
2 of yet has been successful in the world in doing  
3 hybrid mail in either case where you have electronic  
4 going to hard copy, or hard copy going to electronic.

5 You have probably read about both of those  
6 initiatives that are going on in various markets in  
7 Switzerland and a couple of other places, where you  
8 can actually have, for example, from hard copy to  
9 electronic, you can have a service provider receive  
10 your mail, and scan it in, and you go on the internet  
11 to look at your mail.

12 The other version of the hybrid mail is that  
13 you actually create the documents electronically, and  
14 ship those off to be processed and mailed closer to  
15 your destination, and that is the part that we are  
16 looking at the hardest right now, in terms of being  
17 able to do that as I said with small and medium  
18 enterprises.

19 So there are a number of different areas that I think  
20 we need to grow, and there are still some impediments  
21 to growth.

22 VICE CHAIRMAN HAMMOND: Okay. Well, I  
23 appreciate that response, or these responses. You  
24 have been straightforward like I said, and that is  
25 very comprehensive, and I appreciate it. So let me

1 give you another one to see whether you can be as  
2 straightforward and as responsive since we are on the  
3 bullet points.

4           The final bullet point is that you need to  
5 seek to streamline oversized and regulatory process,  
6 and I just wonder since you are the biggest government  
7 monopoly in the free world, what is wrong with  
8 oversight and regulations of it, and how much money  
9 would you save if you put us out of business?

10           THE WITNESS: It was not my intent to imply  
11 putting the Postal Regulatory Commission out of  
12 business by that. What we actually began as a task  
13 force internally looking at are our approval process  
14 for new contracts, for example.

15           And we have found improvements that we need  
16 to make on our side, in terms of timing, and getting  
17 back to the customers as quickly as possible, and we  
18 also are looking at ways that we might be able to  
19 shrink the timeline for regulatory approval, actually  
20 to present to you for your consideration.

21           So the process itself, we are not fast  
22 enough getting to market, and when we are out looking  
23 at someone who wants to -- well, pick a company like  
24 Wal-Mart, or Target, or all the people who are  
25 shipping services.

1           When they come in, they say, hey, we have  
2           this volume and right now our process takes over 45  
3           days, which includes the PRC regulatory review. So,  
4           we believe we need to shrink our own timelines down in  
5           terms of getting it to you, and to get a shorter  
6           timeline in terms of approval here at the Postal  
7           Regulatory Commission.

8           It's not really taking you out of the  
9           picture, but it is really just making sure that we can  
10          be responsive to the customers as we are doing things.  
11          There are obviously some constraints that are some by  
12          law, and some by interpretation of the law, that the  
13          Postal Regulatory Commission has put in place, or the  
14          Congress has put in place.

15          And I mentioned a couple before in terms of  
16          our ability to grow bigger businesses, and our losses  
17          in earlier years, et cetera. So I won't go into all  
18          of those, but there are other things that I think we  
19          could work on, in terms of being more efficient, both  
20          on our side, and through the regulator.

21          VICE CHAIRMAN HAMMOND: Okay. Well, I am  
22          pleased to hear you actually do not want to put us out  
23          of business. I appreciate that.

24          CHAIRMAN GOLDWAY: Did he actually answer  
25          that question?

1                   VICE CHAIRMAN HAMMOND: Well, I thought that  
2 was pretty good.

3                   CHAIRMAN GOLDWAY: I just wanted to know.

4                   VICE CHAIRMAN HAMMOND: You do not want to  
5 put us out of business, correct?

6                   THE WITNESS: That was not the intent of my  
7 testimony or my intent sitting here today.

8                   VICE CHAIRMAN HAMMOND: Okay. We have him  
9 on record now. Okay. I can understand your comments,  
10 and I am speaking only for myself, but I know that we  
11 have had discussion in the past that I think the  
12 Postal Regulatory Commission does not want to be a  
13 burden, an unnecessary burden, and is always willing  
14 to look at any serious proposal from the Postal  
15 Service that would point out problems to us, and to  
16 see whether we could work on them.

17                   So I think we would entertain anything that  
18 we receive from the Service wouldn't we, Madam  
19 Chairman?

20                   CHAIRMAN GOLDWAY: I think so.

21                   VICE CHAIRMAN HAMMOND: Okay. Thank you  
22 very much. I appreciate it.

23                   THE WITNESS: You're welcome. Thank you.

24                   CHAIRMAN GOLDWAY: And I would simply like  
25 to say that I really would commend to you and the

1 other senior management that you look at the written  
2 testimony that was submitted to us during the field  
3 hearings from the business community, as well as from  
4 citizens.

5 We have some very interesting testimony  
6 from, for instance, the Major Mailers Association, and  
7 Greyhair Software, that raised significant questions  
8 for us that I think you may not have heard in the  
9 context of the meetings that you had with the mailing  
10 community in planning your proposal.

11 And this is a proposal that has generated a  
12 great deal of interest and a great deal of  
13 controversy, and I think that by you listening those  
14 people, as well as the Commission listening to it, the  
15 ultimate operations of the Postal Service will be  
16 enhanced.

17 And that is really the overall goal of the  
18 regulators, is to make sure that the Postal Service  
19 continues to be efficient, and fair, and flourishes in  
20 the future. I second all my colleagues who say that  
21 their experiences in meeting with you and the reports  
22 that you have given to us on the financial operations  
23 of the Postal Service have always been clear and  
24 succinct, and helpful.

25 And we appreciate the fact that you came

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1 here today and that you shared your information with  
2 the wide range of representatives who asked questions  
3 and who are interested in the process.

4 And we will continue these hearings next  
5 week with other witnesses, and other participants, and  
6 hopefully at the end of the day have a record that  
7 will help us make a decision, and will help the Postal  
8 Service in its long term operations. So thank you  
9 very much, Mr. Corbett.

10 THE WITNESS: You're welcome.

11 MR. ANDERSON: Madam Chairman, just before  
12 you say those magic words --

13 CHAIRMAN GOLDWAY: I'm sorry, I was busy  
14 summing up and I forgot that we have legal procedures  
15 here. We have the opportunity for the participants to  
16 recross on the questions that they have heard before I  
17 excuse you, and then we also have the Postal Service.  
18 My apologies. I got carried away. Are there  
19 questions from the participants?

20 MR. ANDERSON: I have one on behalf of --  
21 this is Darryl Anderson on behalf of the APWU. I have  
22 one line of questions that I think is important enough  
23 to require the Commission's attention, even given what  
24 a long morning it has been, being 12:44 p.m.

25 So with that apology, I would like to offer

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1 what would be APW Cross-Examination Exhibit 3. This  
2 is the aforementioned response to the DCA  
3 Interrogatory. It is DCA\USPS-31-1. I have only six  
4 extra copies of this with me.

5 I was hoping that corporate counsel might  
6 have access to GCAUSPS-T21, and if you will indulge  
7 me, I will pass this out to the Commissioners and to  
8 the witness, but not to counsel.

9 MR. KOETTING: Was that in the packet that  
10 was distributed earlier by the NALC counsel?

11 CHAIRMAN GOLDWAY: No, no.

12 MR. ANDERSON: Not to my knowledge.

13 CHAIRMAN GOLDWAY: I think it is in the  
14 questions.

15 THE WITNESS: Is this a redirected question?

16 MR. ANDERSON: This is a redirected question  
17 that was redirected from Mr. Corbett to the Postal  
18 Service.

19 THE WITNESS: I have a copy.

20 MR. ANDERSON: Mr. Corbett, you have a copy?

21 THE WITNESS: Yes, I do.

22 MR. ANDERSON: Okay. Thank you. I wasn't  
23 sure that was you answering. Thank you.

24 MR. ANDERSON: I have provided a copy to  
25 everyone except the witness, and let the record show

1 the ones I've provided to the Commission do show my  
2 highlighting on them, for which I apologize. I've  
3 learned, much to my chagrin, that my copy machine at  
4 home picks up. It's very sophisticated and picks up  
5 the yellow highlighter, whereas my one in the office  
6 does not.

7 BY MR. ANDERSON:

8 Q So with that apology, following up on  
9 Commissioner Blair's questions and Chairman Goldway's  
10 questions about the percentage of volume decline  
11 attributable to macroeconomic factors, and I know this  
12 wasn't your answer, Mr. Corbett. And if you'd look,  
13 I'd like to direct your attention to the first  
14 sentence in the second full paragraph in the middle of  
15 the first page of this exhibit.

16 I'll just read it. It says: With that  
17 caveat, the Postal Service estimates that  
18 macroeconomic factors caused mail volume to decline in  
19 FY 2009 by about 21.7 billion pieces or approximately  
20 85 percent of the 25.6 billion piece total decline in  
21 that year. So that would appear to indicate that  
22 macroeconomic factors caused 85 percent of the  
23 decline, not the two-thirds that you've alluded to. I  
24 mean, I think I've got the answer to this mystery -- I  
25 hope, anyway -- and maybe you can confirm it.

1           Looking down further in that same paragraph,  
2           the paragraph explains, and I'll quote it again. It's  
3           the last two sentences on that page. "In other words,  
4           while the macroeconomic factors may have led to a  
5           piece decline that constitutes approximately 85  
6           percent of the observed 25.6 billion net decline,  
7           those factors contributed a smaller percentage of the  
8           total pieces (31.2 billion) estimated to be lost by  
9           virtue of all the effects of exclusively negative  
10          factors."

11           I've read that sentence six times, and you  
12          probably haven't, sir, but what I understand this  
13          answer to be saying is that if the economy hadn't been  
14          bad, there would have been a growth in mail volume and  
15          that they're measuring the loss not from the actual  
16          mail volume in the previous year, but they're  
17          measuring it from the hypothetical mail volume that  
18          might have been; but for macroeconomic factors.

19           CHAIRMAN GOLDWAY: And therefore they get 69  
20          percent instead of 85?

21           MR. ANDERSON: Correct.

22           BY MR. ANDERSON:

23           Q     Do you understand that?

24           A     I just read it as you were reading it, and  
25          that's also the way I interpret it.

1 Q Okay.

2 A Although I'm not the author.

3 Q But looking then at your testimony, Mr.  
4 Corbett, on page 3, you're talking about in the second  
5 full paragraph on page 3 of your testimony, and again  
6 I'll quote the first sentence. "In fiscal year 2009,  
7 the total mail volume fell by an unprecedented 26  
8 billion pieces or 12.7 percent from the previous year  
9 to 177 billion pieces."

10 There you were talking about the actual  
11 decline literally in measured volume from year to  
12 year, and as I understand the answer to DCA/USPS/T-2-1  
13 that drop would have been caused 85 percent by  
14 macroeconomic factors. Is that the way you understand  
15 it?

16 MR. KOETTING: I think I'm going to have to  
17 object at this point to having the witness try to  
18 answer these questions on this interrogatory that was  
19 redirected to the Postal Service specifically because  
20 he's not the expert on these topics.

21 MR. ANDERSON: Well, I think the witness  
22 understands it very well.

23 CHAIRMAN GOLDWAY: I think the witness is an  
24 expert on these topics. He may not be expert on these  
25 two particular documents and might need to answer the

1 question later, but I don't think he's not an expert.

2 THE WITNESS: I mean, I'll go ahead and give  
3 it a stab, but I don't want to get too deep. The  
4 answer to your question is no, I don't think that's  
5 the way to interpret it. It's very technical and  
6 confusing in here, but my interpretation is that you  
7 have to consider the gross number that mail would have  
8 grown to in order to then determine why it didn't get  
9 to where it would have grown.

10 As a result, one-third of the reasons your  
11 mail volume is less than it would have been relates to  
12 migration to electronic means, and two-thirds of the  
13 reason your mail volume is not where it otherwise  
14 would have been is because of the macro general  
15 economic reasons.

16 BY MR. ANDERSON:

17 Q I appreciate that, and I think your answers  
18 are certainly consistent so I want to make sure you  
19 don't think I'm implying otherwise, but it does seem  
20 to me that in your testimony on page 3 you were  
21 talking about not a drop from where volume would have  
22 been. You were talking about a drop from where volume  
23 was.

24 Therefore, if you're talking about a drop  
25 from where volume was instead of a drop from where the

1 volume hypothetically would have been had the economy  
2 not been bad, you get a different percentage, and the  
3 percentage is 85 percent.

4 A I understand. We really have apples and  
5 oranges here I think so I'm just going to stop. I  
6 can't say it better than I did.

7 MR. ANDERSON: All right. Thank you for  
8 trying. I appreciate that. I'll accept that. Thank  
9 you very much, Mr. Corbett.

10 THE WITNESS: You're welcome. Thank you.

11 CHAIRMAN GOLDWAY: Any other questions?

12 (No response.)

13 CHAIRMAN GOLDWAY: Would you like an  
14 opportunity with your witness?

15 MR. KOETTING: Yes, Madam Chairman. We'd  
16 like about 10 minutes, please.

17 CHAIRMAN GOLDWAY: Okay. We'll break for 10  
18 minutes. Again, I apologize.

19 (Whereupon, a short recess was taken.)

20 MR. KOETTING: Yes, Madam Chairman. The  
21 Postal Service does have some redirect for Mr.  
22 Corbett.

23 REDIRECT EXAMINATION

24 BY MR. KOETTING:

25 Q Mr. Corbett, could I direct your attention

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1 back to page 2 of the Postal Service's annual report  
2 that was circulated as a cross-examination exhibit by  
3 counsel for NALC?

4 A Okay. Thanks. I have it.

5 Q And page 2 is I believe the page you were  
6 looking at. I don't think it would be necessary to go  
7 through each and every example numerically, but, as I  
8 recall, counsel for NALC asked you some hypothetical  
9 questions in which he was focusing on the operating  
10 margin row.

11 For example, for 2009 he asked you a  
12 hypothetical in which if the Postal Service had not  
13 made a \$1.4 billion payment to the RHB Fund that the  
14 operating margin would have gone from a negative 5.5  
15 percent to something as I recall in the vicinity of  
16 3.5 percent. Do you recall that conversation?

17 A Yes, I do.

18 Q If we were to explore an alternative  
19 hypothetical in which the Postal Service had not  
20 gotten the \$4 billion relief on the last day of the  
21 fiscal year from the legislative reduction and in fact  
22 deferral of the payment due for fiscal 2009 -- in  
23 other words, if the Postal Service's payment to the  
24 RHB Fund had gone from \$1.4 billion back up to \$5.4  
25 billion -- would that likewise have had an effect on

1 the operating margin?

2 A Yes. If we were to have paid all the  
3 amounts that were due through current legislation, the  
4 operating margin would be just under 10 percent, a  
5 negative 10 percent loss, which is clearly unhealthy.

6 Q And do we have any information as yet as to  
7 whether or not the Postal Service will get legislative  
8 relief for fiscal years 2010 and on?

9 A No, we don't. We certainly don't have  
10 anything definitive.

11 Q Counsel from NALC also examined an  
12 interrogatory response that had been redirected. The  
13 question had been redirected from you to the Postal  
14 Service in which the response showed both the total  
15 revenue of the Postal Service divided by the number of  
16 delivery points per day deflated and then total cost  
17 to the Postal Service deflated divided by total  
18 delivery points per day.

19 After having explored those numbers, counsel  
20 for NALC also went to some length to point out that  
21 over that period in question -- in other words,  
22 between 2000 and 2009 -- the Postal Service had had  
23 some very productive years, which would help explain  
24 why those costs went down. Do you recall that  
25 conversation?

1           A     Yes, I do.

2           Q     Do you expect that the Postal Service going  
3 forward will be able to achieve those same kinds of  
4 increases in productivity that it was able to achieve  
5 between 2000 and 2009?

6           A     Achieving that sort of decline in cost is  
7 going to be difficult to impossible, and let me  
8 explain why.

9                     Over the last 10 years there's been an  
10 incredible amount of automation introduced for  
11 processing mail, which has taken time out in terms of  
12 the in-office time or casing that letter carriers have  
13 to do as part of their normal function. As a result,  
14 they have more hours to spend on the road and fewer  
15 carriers.

16                    Delivery point sequencing and everything has  
17 become the norm in almost all of our large to medium  
18 sized plants, and it's very, very efficient. We don't  
19 really have any other areas where we can automate to  
20 the extent that we have over the last 10 years with  
21 the exception of FSS, which is coming on line next  
22 year.

23                    After that we're going to have to find other  
24 ways to be more efficient, but through automation we  
25 really believe we've hit the practical limit because

1 human hands literally don't touch most of our letters,  
2 as I think most people know. Once it comes out of  
3 wherever it's inserted into the system it goes to an  
4 automated process and comes out the other end cased in  
5 most cases by delivery point sequencing so that the  
6 carriers now really have very little to do in the  
7 office.

8 FSS will help with the flats in terms of  
9 giving us some more efficiency over the next two  
10 years. After that, in the foreseeable future we don't  
11 have any planned future automation because the manual  
12 processing of mail has been nearly eliminated. As a  
13 result, efficiencies are going to be harder to come  
14 by.

15 Q The last line I would like to explore  
16 likewise refers to questions asked to you by counsel  
17 for the NALC. He distributed a variety of materials  
18 from the 1970s and 1980s in which various and sundry  
19 reports and commissions made statements about what  
20 might happen to mail volumes and their expectations  
21 going forward from those periods of time.

22 One of the documents that he asked you to  
23 look at was the report of the Commission on the Postal  
24 Service, Volume 1, which was dated April 1977. Do you  
25 have that document?

1           A     Yes, I do.

2           Q     And I would direct your attention to the  
3     page -- as you noted, unfortunately it's not  
4     paginated.  Apparently it's page 19.  It's the one  
5     that says at the top Chapter 3, Impact of Electronic  
6     Communications.

7                     You read from the first paragraph.  I would  
8     like to read the opening sentence of the second  
9     paragraph, which says:  We cannot estimate precisely  
10    when electronic communications will have a significant  
11    impact.  And then dropping to the very last sentence  
12    of that paragraph or perhaps another freestanding  
13    paragraph -- it isn't entirely clear -- the statement:  
14    Regardless of the timing, the result appears  
15    inevitable.

16                    What conclusions might you draw from this  
17    about the types of analyses, the expectations that  
18    they had in the 1970s when they were putting together  
19    this report about the future of electronic diversion?

20           A     I think that what they were saying here most  
21    likely is that the electronic obviously is more  
22    efficient and therefore it's inevitable that traffic  
23    will go that way.

24                    As a result, the less expensive and more  
25    efficient way of doing business is usually the path

1 followed by the majority of consumers over any long  
2 period of time or, for that matter, businesses. So  
3 regardless of the timing, the result appears  
4 inevitable. That statement is consistent with our  
5 feeling in terms of the next decade.

6 Q Particularly in light of the statement that  
7 says: We cannot estimate precisely when electronic  
8 communications will have a significant impact, do you  
9 think the authors of this study would be surprised  
10 when it turned out that they got the timing  
11 substantially wrong?

12 A I can't really speak for the authors, and I  
13 don't think, just for the record, that we will be  
14 right every quarter of every year. I mean, clearly  
15 these are projections. However, the downward trend in  
16 mail volumes is very, very clear in terms of where  
17 that's going, in my mind, and as a result the timing  
18 is going to be in the next decade and it's going to be  
19 ratable to some degree.

20 But when you look at each quarter, for  
21 example, this year there's 3 billion more pieces than  
22 we had planned. Well, that's on a total of 167  
23 billion so it's a small bump, if you will, in the road  
24 of what will be a 10-year declining period of mail  
25 volume. Some quarters will be up. Some will be down.

1 On average, the mail will continue to decline.

2 Q Lastly, Commissioner Langley asked you some  
3 questions about the figures on page 11 of your  
4 testimony regarding the volume per delivery stop per  
5 day and the revenues per delivery stop per day, and  
6 her question was whether or not those figures  
7 reflected solely residential and business street  
8 deliveries or whether they also included post office  
9 boxes and highway boxes.

10 During the break did you have an opportunity  
11 to explore that information?

12 A Yes, I did, and I can state that it includes  
13 all addresses, including post office boxes.

14 COMMISSIONER LANGLEY: Can it be broken out?  
15 I think that was my question; whether or not we can  
16 have something that shows rural carrier routes and  
17 city carrier routes and delivery points.

18 CHAIRMAN GOLDWAY: Delivery points and  
19 volume.

20 COMMISSIONER LANGLEY: Rather than just a  
21 cumulative global number.

22 CHAIRMAN GOLDWAY: Per those categories.

23 MR. KOETTING: WE'll have to explore that  
24 further and get back to you.

25 COMMISSIONER LANGLEY: Thank you.

1 MR. KOETTING: I think the answer is going  
2 to be when you go back in time it's going to be more  
3 problematic. For more recent years we might have some  
4 better estimates. We'll pull it back.

5 That's all we have, Madam Chairman.

6 MR. DeCHIARA: Madam Chairman, may I ask a  
7 followup question or two following on redirect?

8 CHAIRMAN GOLDWAY: I think so, yes.

9 MR. DeCHIARA: Thank you.

10 RE-CROSS-EXAMINATION

11 BY MR. DeCHIARA:

12 Q Mr. Corbett, on redirect examination in  
13 response to a question by your counsel you made  
14 reference to FSS. Did I get that right?

15 A FSS.

16 Q Thank you. And what is that? Can you  
17 explain what that is?

18 A That's a flat sequencing system. That will  
19 essentially arrange larger pieces of mail -- flats as  
20 we call them -- in delivery point sequence much like  
21 all the letter sized mail currently is arranged.

22 Q And can you describe in general terms the  
23 extent to which that is already in place?

24 A We have approximately 12 machines, I  
25 believe, up and operating and another 20 some

1 scheduled for implementation very shortly, in the next  
2 month or two, I believe. And so basically we're up  
3 and running on about 12 machines right now.

4 Q And when the FSS process is completely  
5 rolled out, how many machines do you anticipate  
6 there'll be?

7 A There will be a total of 100 in the order.

8 Q So there's about 12 percent rolled out so  
9 far?

10 A Correct.

11 Q And do you have an estimate of the extent of  
12 annual savings that FSS will produce?

13 A I do not have that right now. It's  
14 obviously because of dropping volumes becoming smaller  
15 and smaller, unfortunately, but it still is a positive  
16 ROI. I don't have the actual number.

17 Q Can you give some ballpark estimate of the  
18 magnitude?

19 A No, I can't. I can talk in terms of return  
20 on investment. I'm afraid I don't have with me or in  
21 my mind the actual revenues.

22 Our ROI is in excess of 20 percent on the  
23 project, but I don't know what that means in terms of  
24 cost reductions next year or, for that matter, in a  
25 10-year period.

1 Q Okay. So you anticipate a 20 percent return  
2 on the investment. Is that correct?

3 A Correct.

4 Q And what's the total amount of the  
5 investment?

6 A The total amount of the investment will be  
7 about I believe \$1.6 billion.

8 MR. DeCHIARA: I have nothing further.

9 CHAIRMAN GOLDWAY: Okay. Anybody else?

10 MS. RUSH: Not to prolong this, but let me  
11 just ask you a question I thought I'd ask Mr. Pulcrano  
12 and he didn't know. You may not either.

13 RE-CROSS-EXAMINATION

14 BY MS. RUSH:

15 Q Are you aware of any plans of the Postal  
16 Service in any of the 12 FSS sites to run those  
17 machines only every other day or fewer than six days a  
18 week or five days a week, depending upon the mail  
19 processing schedule?

20 A No, I'm not. We have had conversations  
21 about most efficient use of those systems and trying  
22 to squeeze out as much savings, which could result in  
23 consolidation of tours, if you will, but I'm not aware  
24 of any move to do that or any final conclusions. It's  
25 been part of the overall business case since volume

1 started dropping.

2 Q The machines are more efficient if you have  
3 a greater volume for a throughput, correct?

4 A Correct. That's the reason for my answer.

5 Q So it's conceivable that at some point in  
6 the future we'll find the machines idle one day a week  
7 or two days a week or whatever the volume seems to  
8 dictate?

9 A I think it's certainly possible. I really  
10 don't know whether we're heading that direction or  
11 not, but it certainly is possible.

12 MS. RUSH: Thank you.

13 CHAIRMAN GOLDWAY: Okay. We're all done  
14 now. Thank you, Mr. Corbett. This has been a long  
15 morning for you and early afternoon, and I appreciate  
16 your patience and your persistence and your  
17 contribution to the record, and I'm pleased to tell  
18 you that you're excused.

19 THE WITNESS: Thank you, Madam Chair, and  
20 I'm glad to say that next week I'm on vacation so this  
21 has been a fitting sendoff. Thank you all.

22 (Witness excused.)

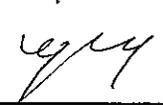
23 (Whereupon, at 1:18 p.m., the hearing in the  
24 above-entitled matter was concluded.)

25 //

REPORTER'S CERTIFICATE

DOCKET NO.: N2010-1  
CASE TITLE: Six-Day to Five-Day Street Delivery and Related  
Service Charges, 2010  
HEARING DATE: 7/16/10  
LOCATION: WDC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes or digital recording reported by me at the hearing in the above case before

Date: 7/16/10  


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