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# Official Transcript of Proceedings

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*Before the*

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

## UNITED STATES POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 32

DATE: Monday, March 16, 1998

PLACE: Washington, D.C.

PAGES: 16922 - 17341

**ANN RILEY & ASSOCIATES, LTD.**

1250 I St., N.W., Suite 300

Washington, D.C. 20005

(202) 842-0034

1                               BEFORE THE  
2                               POSTAL RATE COMMISSION

3   - - - - - X

4   In the Matter of:                               :

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

6   - - - - - X

7  
8                               Third Floor Hearing Room  
9                               Postal Rate Commission  
10                              1333 H Street, N.W.  
11                              Washington, D.C. 20268  
12  
13                              Volume 32  
14                              Monday, March 16, 1998

15  
16                      The above-entitled matter came on for hearing,  
17   pursuant to notice, at 9:30 a.m.

18  
19   BEFORE:

20                      HON. EDWARD J. GLEIMAN, CHAIRMAN  
21                      HON. W. H. "TREY" LeBLANC, III, COMMISSIONER  
22                      HON. GEORGE W. HALEY, COMMISSIONER  
23                      HON. GEORGE A. OMAS, COMMISSIONER

24  
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|    |                     |        |             |                       |
|----|---------------------|--------|-------------|-----------------------|
| 1  | C O N T E N T S     |        |             |                       |
| 2  | WITNESS             | DIRECT | CROSS       | REDIRECT      RECROSS |
| 3  | KIRK T. KANEER      |        |             |                       |
| 4  | BY MR. RUBIN        | 16943  |             |                       |
| 5  | BY MS. DREIFUSS     |        | 17003       |                       |
| 6  | BY MR. RUBIN        |        |             | 17042                 |
| 7  | BY MS. DREIFUSS     |        |             | 17043                 |
| 8  | SUSAN W. NEEDHAM    |        |             |                       |
| 9  | BY MR. RUBIN        | 17045  |             |                       |
| 10 | BY MR. CARLSON      |        | 17064/17094 |                       |
| 11 | MICHAEL K. PLUNKETT |        |             |                       |
| 12 | BY MR. RUBIN        | 17111  |             |                       |
| 13 | BY MR. CARLSON      |        | 17130/17149 |                       |
| 14 | CARL E. STEIDTMANN  |        |             |                       |
| 15 | BY MR. TIDWELL      | 17180  |             |                       |
| 16 | BY MS. DREIFUSS     |        | 17196/17228 |                       |
| 17 | BY MR. TIDWELL      |        |             | 17233                 |
| 18 | HARRY J. BUCKEL     |        |             |                       |
| 19 | BY MR. McLAUGHLIN   | 17237  |             |                       |
| 20 | BY MR. STRAUS       |        | 17249       |                       |
| 21 | BY MR. BAKER        |        | 17263       |                       |
| 22 | BY MR. STRAUS       |        | 17269       |                       |
| 23 | BY MR. BAKER        |        | 17272       |                       |
| 24 | BY MR. McLAUGHLIN   |        |             | 17273                 |
| 25 | BY MR. BAKER        |        |             | 17276                 |

## C O N T E N T S [continued]

|    | WITNESS                                     | DIRECT | CROSS | REDIRECT | RECROSS |
|----|---|--------|-------|----------|---------|
| 1  | DR. JOHN HALDI                              |        |       |          |         |
| 2  | BY MR. OLSON                                | 17279  |       |          |         |
| 3  | BY MR. WARDEN                               |        | 17323 |          |         |
| 4  | BY MR. BAKER                                |        | 17324 |          |         |
| 5  | BY MR. TODD                                 |        | 17336 |          |         |
| 6  | BY MR BAKER                                 |        | 17338 |          |         |
| 7  |   |        |       |          |         |
| 8  |   |        |       |          |         |
| 9  |   |        |       |          |         |
| 10 | DOCUMENTS TRANSCRIBED INTO THE RECORD:      |        |       |          | PAGE    |
| 11 | Rebuttal Testimony and Exhibits of Kirk T.  |        |       |          |         |
| 12 | Kaneer, USPS-RT-19                          |        |       |          | 16946   |
| 13 | Rebuttal Testimony and Exhibits of Susan W. |        |       |          |         |
| 14 | Needham, USPS-RT-23                         |        |       |          | 17047   |
| 15 | Cross-Examination Exhibit No.               |        |       |          |         |
| 16 | DFC/USPS-RT-23-XE-2                         |        |       |          | 17099   |
| 17 | Cross-Examination Exhibit No.               |        |       |          |         |
| 18 | DFC/USPS-RT-23-XE-3                         |        |       |          | 17100   |
| 19 | Cross-Examination Exhibit No.               |        |       |          |         |
| 20 | DFC/USPS-RT-23-XE-4                         |        |       |          | 17103   |
| 21 | Rebuttal Testimony and exhibits of Michael  |        |       |          |         |
| 22 | K. Plunkett, USPS-RT-20                     |        |       |          | 17113   |
| 23 | Rebuttal testimony and Exhibits of Carl E.  |        |       |          |         |
| 24 | Steidtmann, USPS-RT-15                      |        |       |          | 17182   |
| 25 |   |        |       |          |         |

|   |  |       |
|---|--|-------|
| 1 | DOCUMENTS TRANSCRIBED INTO THE RECORD: [continued] | PAGE  |
| 2 | Rebuttal Testimony and Exhibits of Harry J.        |       |
| 3 | Buckel, SMC-RT-1                                   | 17239 |
| 4 | Rebuttal Testimony and Exhibits of Dr. John        |       |
| 5 | Haldi, VP/CW-RT-1                                  | 17281 |
| 6 | Response of Dr. John Haldi to Presiding            |       |
| 7 | Officer's Information Request No. 17               | 17315 |

8

9

## E X H I B I T S

|    |                                    |            |          |
|----|------------------------------------|------------|----------|
| 10 | EXHIBITS AND/OR TESTIMONY          | IDENTIFIED | RECEIVED |
| 11 | Rebuttal Testimony and Exhibits    |            |          |
| 12 | of Kirk T. Kaneer, USPS-RT-19      | 16945      | 16945    |
| 13 | Rebuttal Testimony and Exhibits of |            |          |
| 14 | Susan W. Needham, USPS-RT-23       | 17046      | 17046    |
| 15 | Cross-Examination Exhibit Nos.     |            |          |
| 16 | DFC/USPS-RT-23-XE-2 through        |            |          |
| 17 | DFC/USPS RT-23-XE-4                | 17094      | 17098    |
| 18 | Rebuttal Testimony and exhibits of |            |          |
| 19 | Michael K. Plunkett, USPS-RT-20    | 17112      | 17112    |
| 20 | Rebuttal Testimony and Exhibits    |            |          |
| 21 | of Carl E. Steidtmann,             |            |          |
| 22 | USPS-RT-15                         | 17181      | 17181    |
| 23 | Rebuttal Testimony and Exhibits of |            |          |
| 24 | Harry J. Buckel, SMC-RT-1          | 17237      | 17237    |
| 25 |                                    |            |          |

## 1 E X H I B I T S [continued]

2 EXHIBITS AND/OR TESTIMONY IDENTIFIED RECEIVED

3 Cross-Examination Exhibit

4 NAA/SMC-RT-1-XE-1 17268

5 Rebuttal Testimony and Exhibits

6 of Dr. John Haldi, VP/CW-RT-1 17279 17279

7 Response of Dr. John Haldi to

8 Presiding Officer's

9 Information Request No. 17 17314 17314

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

[9:32 a.m.]

CHAIRMAN GLEIMAN: Good morning. The hearing will come to order. Today we resume hearings to receive testimony in rebuttal to direct cases of participants other than the Postal Service. We're scheduled to receive testimony of Postal Service Witnesses Kaneer, Needham, Plunkett, Steidtmann, Saturation Mail Coalition Witness Buckel, Val-Pak Direct Marketing Systems, et al. Witness Haldi.

I have several procedural matters to address before we begin this morning.

Presiding Officer's Ruling Number 107 scheduled the appearance of witnesses for this round of hearings and reminded participants that oral arguments would be held only if requested. At that time, I also indicated that it was the Commission's expectation that participants would request oral argument only for the purpose of providing information that could not be included in initial or reply briefs.

Any requests for oral arguments must be filed by April the 14th, and if there are requests, oral arguments will take place on the 17th of April.

On Friday, I issued Presiding Officer's Ruling Number 111, which granted the joint motion of the American Bankers Association, Edison Electric Institute and the



1 National Association of Presort Mailers to reschedule the  
2 appearance of Rebuttal Witness Andrew. Witness Andrew, who  
3 was scheduled to appear today, will appear as our last  
4 witness on Friday, March the 20th.

5 On March 11th, parties representing the  
6 periodicals mailers filed a motion requesting the appearance  
7 of Postal Service Witness Degen, currently scheduled to  
8 appear on Friday, March the 20th, be rescheduled to  
9 Thursday, March the 19th. The Postal Service filed a  
10 response indicating that while it preferred that Witness  
11 Degen's appearance remain on the 20th, it would not object  
12 if he were rescheduled as the last witness on Thursday, the  
13 19th.

14 Before I rule on this motion, does any other  
15 participant wish to comment? Mr. Strauss.

16 MR. STRAUS: Yes. I wish I could say this is  
17 because of the Postal Service's desires, but it's not. The  
18 meeting on Friday -- I was supposed to be in Huntingburg,  
19 Indiana, which was the cause of the motion -- the meeting  
20 has been postponed, and therefore it will no longer be  
21 necessary to schedule the witness and we hereby withdraw the  
22 motion to reschedule Witness Degen.

23 CHAIRMAN GLEIMAN: Thank you, sir.

24 Any further comments?

25 Then we will hear from Mr. Degen on March the 20th

1 as originally scheduled, which is wonderful, because as I  
2 learned in the Postal Service's March 12th response, they  
3 would have preferred at most having Degen late in the day  
4 because, and I quote, "Other Postal witnesses currently  
5 scheduled for the 19th have already begun to arrange their  
6 busy schedules around their appearances, and the Postal  
7 Service would object to Degen's insertion elsewhere."

8 Just let me say that Thursday had the potential to  
9 be a very interesting day. As I recall, our first witness  
10 that morning is one Mr. Poris, and I would strongly urge all  
11 these busy Postal Service witnesses with their busy  
12 schedules to make sure that they're free for the best part  
13 of the day.

14 I don't know how long Mr. Poris is going to be up  
15 on the witness stand, I don't know how long the second  
16 witness of the day or the third witness or the fourth  
17 witness or the fifth witness of the day is going to be up,  
18 and, you know, this is Postal Service rebuttal testimony and  
19 it's incumbent upon Postal Service to make sure that its  
20 witnesses' schedules aren't all that busy during the one  
21 week of rebuttal. If I've got to be here, they've got to be  
22 here.

23 There is a second motion before the Commission  
24 concerning rebuttal testimony of Witness Degen. Eight  
25 participants joined to file the motion of periodicals

1 intervenors to strike portions of the rebuttal testimony of  
2 Postal Service Witness Degen, USPS-RT-6, and requested a  
3 waiver of Rule 1(c). The eight participants are the  
4 Coalition of Religious Press Associations, Magazine  
5 Publishers of America, Time-Warner, Inc., Dow Jones &  
6 Company, Alliance of Non-Profit Mailers, the American  
7 Business Press, McGraw-Hill Companies, Inc., and the  
8 National Newspaper Association.

9 As a preliminary matter, I want to thank the  
10 parties for cooperating and providing a single comprehensive  
11 pleading as opposed to eight separate motions. This  
12 cooperation makes our workload at this point a tad more  
13 manageable and we do appreciate that.

14 Is there anyone in the hearing room this morning  
15 authorized to speak on behalf of these participants?

16 [No response.]

17 CHAIRMAN GLEIMAN: I will ask the simple question  
18 I have here, and it is, was the motion transmitted to the  
19 Postal Service last week? How so? And are we sure they  
20 received it?

21 MR. CREGAN: Mr. Chairman, Jim Cregan, MPA.

22 CHAIRMAN GLEIMAN: Yes.

23 MR. CREGAN: We did fax the motion to Mr.  
24 Koetting, who I understand is Mr. Degen's counsel, if I'm  
25 not mistaken, on Friday. We left voice mails for Mr.

1 Koetting and also Ms. Duchek. We were not able to establish  
2 voice contact. But they do have the motion. Is that  
3 correct?

4 MR. RUBIN: Yes.

5 CHAIRMAN GLEIMAN: Having considered the  
6 discussion presented and the joint motion, I'm inclined to  
7 grant the requested waiver of Special Rule 1(c). Does  
8 anyone from the Postal Service or anyone else wish to  
9 comment before I rule?

10 MR. RUBIN: No comment.

11 CHAIRMAN GLEIMAN: The request for the waiver is  
12 granted and the motion to strike will be considered.

13 I want to rule on this motion as promptly as  
14 possible. Inasmuch as the Postal Service did receive  
15 electronic notification on Friday, I'm going to request that  
16 we receive a response to this motion by close of business  
17 tomorrow, the 17th. So if there is a problem, I'll expect  
18 to hear after our lunch break today that it is not possible  
19 to meet that turnaround time, but there will not be much  
20 more time than that granted for a response, if any.

21 Finally, I'd like to note that transcript  
22 corrections for this round of hearings are due on March 27.  
23 If a transcript correction related to the final round of  
24 hearings is central to an argument in initial brief, please  
25 identify that situation in the text or in the footnote to

1 the brief.

2 Does any participant have any other procedural  
3 matter to raise at this point in time?

4 I would like to make one other mention of a  
5 document that was filed. Last Friday we received a response  
6 of the United States Postal Service Witness Smith to  
7 Presiding Officer Information Request No. 15. We had an  
8 inkling that there may be some errors in some calculations.

9 We asked the Postal Service in that Presiding  
10 Officer's information request to take a look at a couple of  
11 matters. Just let me say that from where we sit, you know,  
12 an error is not a mistake unless it goes uncorrected. The  
13 Postal Service has indeed determined that there is a mistake  
14 and has indicated that they will give us a response by  
15 Wednesday. Which is great, except for one small problem.  
16 We expect their response by Friday.

17 Our staff worked over the weekend. Our staff will  
18 have lost five days of work time from the time we expected  
19 to get the response until the time that the response is now  
20 due from the Postal Service.

21 Time's getting very short, folks. We're aiming to  
22 get this case out on time, but we're going to need people to  
23 work as hard on their end looking at potential errors as we  
24 are looking at the evidentiary record that we've got before  
25 us. So I would appreciate the Postal Service -- I

1 appreciate the Postal Service's responsiveness. I wish they  
2 could have been a little quicker in their response. And I  
3 hope that they will endeavor to do so again if any other  
4 matter such this do arrive in the next week or two.

5 There's no comment necessary unless anybody wants  
6 to step up to the plate.

7 Mr. tidwell?

8 MR. tIDWELL: The Postal Service is sensitive to  
9 the Commission's need for as expeditious a response as  
10 possible. We endeavored to try to get a response out  
11 Friday. Unfortunately for us the analyst who had done most  
12 of the work underlying H. 77 was out of the office when the  
13 request came in, the person responsible for most of the  
14 computer programming. We managed to contact him and from  
15 the west coast and to obtain information from him to  
16 expedite other people's ability to work on the matter.

17 We've had people working on it -- we had people  
18 working on it all through last week and through this  
19 weekend. When the individual returns to the office  
20 tomorrow, he will be in a position to double-check  
21 everyone's work, and we anticipate being able to get a  
22 response out fairly shortly thereafter.

23 CHAIRMAN GLEIMAN: Well, as I said, we appreciate  
24 the fact that the Postal Service looked at this promptly,  
25 but nevertheless it doesn't help us to have lost five days

1 at this very crucial stage as we look at the numbers and try  
2 to understand the evidentiary record so that we can make a  
3 thoughtful and hopefully what will be reasonably well  
4 received decision. And we look forward to that response.

5 Our first witness is appearing on behalf of the  
6 United States Postal Service. Mr. Kaneer is already under  
7 oath in this proceeding.

8 Mr. Rubin, if you would introduce your witness and  
9 enter his rebuttal testimony into the record.

10 MR. RUBIN: The Postal Service calls Kirk T.  
11 Kaneer as its first rebuttal witness.  
12 Whereupon,

13 KIRK T. KANEER,  
14 a witness, was called for examination by counsel for the  
15 United States Postal Service and, having been previously  
16 duly sworn, was examined and testified as follows:

17 CHAIRMAN GLEIMAN: Whenever you're ready, Mr.  
18 Rubin.

19 MR. RUBIN: My understanding is that Mr. Kaneer is  
20 already sworn in to this proceeding.

21 CHAIRMAN GLEIMAN: That's correct.

22 DIRECT EXAMINATION

23 BY MR. RUBIN:

24 Q Mr. Kaneer, I have handed you two copies of a  
25 document titled Rebuttal Testimony of Kirk T. Kaneer on

1     behalf of United States Postal Service. The testimony is  
2     designated USPS-RT-19.

3             Was this testimony prepared by you or under your  
4     supervision?

5             A     Yes.

6             Q     Do you have any corrections to make to this  
7     testimony?

8             A     Yes, I have the following minor corrections to  
9     make.

10            On the contents page marked "<sup>i</sup>~~7~~" change "steps" to  
11     "step."

12            On page 1, line 19, delete the words "the DMM and  
13     Witness Callow's."

14            On page 6, line 7, change "pay" to "have."

15            On page 7, line 7, change "this paragraph" to  
16     "below."

17            On page 7, line 10, delete the words "10 percent."

18            On page 18, line 6, change "5" to "4."

19            Lastly, on page 18, line 18, change "services" to  
20     "service."

21            Q     Thank you.

22            Are there any problems with the location of some  
23     of the footnotes in your testimony?

24            A     Yes, there is. Footnotes 1, 2, and 4 appear one  
25     page after their reference in the text. I think this is the



1 result of a Microsoft Word problem that folks have been  
2 experiencing, and I'm not moving these footnotes, but folks  
3 should note the problem.

4 Q And have the corrections you are making been  
5 marked on the copies I've provided you?

6 A Yes, they have.

7 Q With these corrections, if you were testifying  
8 orally here today, would your testimony be the same?

9 A Yes, it would.

10 MR. RUBIN: In that case, I will hand the two  
11 copies of the rebuttal testimony of Kirk T. Kaneer on behalf  
12 of United States Postal Service to the reporter and I ask  
13 that this testimony be entered into the record in this case.

14 CHAIRMAN GLEIMAN: Are there any objections?

15 Hearing none, Mr. Kaneer's testimony and exhibits  
16 are received into evidence and I direct that they be  
17 transcribed into the record at this point.

18 [Rebuttal Testimony and Exhibits of  
19 Kirk T. Kaneer, USPS-RT-19, was  
20 received into evidence and  
21 transcribed into the record.]  
22  
23  
24  
25

USPS-RT-19

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
KIRK T. KANEER  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

## CONTENTS

|   | Page |
|---|------|
| AUTOBIOGRAPHICAL SKETCH.....  | ii   |
| I. PURPOSE.....   | 1    |
| II. REVIEW OF OCA WITNESS CALLOW'S CAG-BASED FEE STRUCTURE.....   | 3    |
| III. WITNESS CALLOW'S PROPOSED FEE STRUCTURE RELIES ON INCONSISTENT<br>CAG AND COST RELATIONSHIPS.....  | 4    |
| IV. WITNESS CALLOW'S PROPOSED FEES ARE BASED ON AN INAPPROPRIATE<br>ALLOCATION OF COSTS INSOFAR AS THEY DIFFER FROM THE POSTAL<br>SERVICE'S METHODOLOGY ..... | 12   |
| V. POST OFFICE BOX FEES: A PATH TO BETTER SERVICE.....  | 17   |
| VI. THE FIRST STEP <del>S</del> : LIMITED MODIFICATION OF FEE GROUPS .....  | 22   |
| VII. CONCLUSION.....  | 24   |
| EXHIBITS:   |      |
| A. FACILITY DISTRIBUTIONS AND CALLOW INTERROGATORY<br>RESPONSE  |      |
| B. INCONSISTENCIES INHERENT IN A CAG-BASED APPROACH   |      |
| C. FACILITY RESPECIFICATION CRITERIA AND FACILITIES SELECTED<br>FOR FEE GROUP REASSIGNMENT  |      |
| D. REVENUE IMPACT OF REASSIGNED FACILITIES  |      |
| E. PO BOX CLERKS AND MAILHANDLERS TALLY ANALYSIS  |      |

1

DIRECT TESTIMONY  
OF  
KIRK T. KANEER  
  
AUTOBIOGRAPHICAL SKETCH

2           I, Kirk T. Kaneer, am employed by the Postal Service as an economist in Pricing,  
3 a position I have held since 1992. My current duties are to aid in the development of  
4 pricing models and calculations for use in domestic rate design. I was the rate witness  
5 for Classroom mail in Docket No. MC96-2, and for Periodicals Nonprofit and Classroom  
6 mail in this Docket.

7           Before working in Pricing, I served in the Labor Economics Research Division as  
8 an economist involved in labor negotiations. Prior to coming to the Postal Service in  
9 1988, I worked at the Bureau of Labor Statistics (BLS), Office of Prices and Living  
10 Conditions, Consumer Expenditure Surveys Research Division, from 1983 to 1988.  
11 While employed at BLS, I published an article entitled: *Distribution of Consumption by*  
12 *Aggregate Expenditure Share*, MONTHLY LABOR REVIEW, 109(2), 50-53, April 1986.

13           In 1982, I received a Master of Science degree in Economics from Florida State  
14 University in Tallahassee, Florida. In 1978, I received a Bachelor of Science Degree  
15 with double majors in Economics and Business Administration from the University of  
16 Central Florida in Orlando, Florida.

1   **I. PURPOSE**

2           This testimony presents rebuttal to Office of the Consumer Advocate  
3   (OCA) witness Callow's testimony (OCA-T-500, starting at Tr. 23/12274), which  
4   proposes a Cost Ascertainment Group (CAG) based fee structure as well as an  
5   alternative cost allocation methodology for post office box service.

6           The Postal Service recognizes and shares witness Callow's objectives of  
7   better aligning costs and fees, and eventually dropping fee distinctions between  
8   city and non-city delivery facilities. The current post office box (PO box) fee  
9   structure, as established in the DMCS and defined in the DMM § D910, is based  
10   primarily on delivery options, and therefore limits the ability to align fees with  
11   costs and changing public need. These drawbacks of the existing fee structure  
12   have been examined in this and previous Commission dockets. Furthermore,  
13   the Postal Service is developing improved means of tracking PO box activity,  
14   using information technology, which should provide information that permits a  
15   better alignment of post office box fees and costs.

16          The Postal Service is reviewing how best to re-define post office box fee  
17   groups. That review extends to an evaluation of the shortcomings of witness  
18   Callow's proposals. Moreover, some determinations regarding how to improve  
19   ~~the DMM and witness Callow's~~ fee group definitions have been made.<sup>1</sup> This  
20   testimony accordingly addresses the shortcomings of witness Callow's proposals  
21   in one section, and later introduces how the Postal Service expects to re-define

1 fee groups. To illustrate the Postal Service's long term plans, this testimony also  
2 identifies a few facilities which might change their fee groups as part of any  
3 implementation of new rates, fees, and classifications that may be recommended  
4 by the Commission in this docket.

5 A detailed analysis of witness Callow's proposal reveals that it does not  
6 substantially improve the association between costs and fees of post office box  
7 service. Moreover, his proposal introduces undesirable cost and fee  
8 relationships. Still, the positive aspects of witness Callow's arguments are  
9 considered in the context of impending postal plans for re-designing the post  
10 office box fee structure in a way that will better align post office box fees with  
11 their costs while advancing the goals of the nine ratemaking criteria.

---

<sup>1</sup> Because the Postal Service's proposal in this docket moves fees in the direction needed to pursue fee re-definition, and because of the need to avoid fee shock, a full determination of how to re-define fee groups is neither necessary nor appropriate at this time.

1    **II. REVIEW OF OCA WITNESS CALLOW'S CAG-BASED FEE STRUCURE**

2            This section begins with a brief description of witness Callow's proposed  
3    changes to the current PO box fee structure. The Postal Service agrees with his  
4    goal of eventually dropping distinctions between city and non-city facilities within  
5    the fee structure, and his overall objective of aligning fees better with costs;  
6    however, the Postal Service does not agree with witness Callow's use of CAG to  
7    define fee groups.

8            Witness Callow proposes six temporary fee subgroups within the Postal  
9    Services's existing post office box fee structure -- three fee subgroups within  
10   current Group C, and three within current Group D (OCA-T-500 at 3, lines 1-8;  
11   Tr. 23/12280).

12           The fee subgroups are denoted as :

- 13           C-I    = City Delivery Offices, CAGs A through D,  
14           C-II   = City Delivery Offices, CAGs E through G,  
15           C-III   = City Delivery Offices, CAGs H through L,  
16           D-I    = Non-city Delivery Offices, CAGs A through D,  
17           D-II   = Non-city Delivery Offices, CAGs E through G,  
18           D-III   = Non-city Delivery Offices, CAGs H through L.

19           Witness Callow asserts that his proposed groups increase rent  
20   homogeneity. Tr. 23/12293. Witness Callow does not propose structural  
21   changes for fee groups A and B, nor does he consider any alternatives to using  
22   CAG as the basis for office groupings. Tr. 23/12356 (response to USPS/OCA-  
23   T500-1).

1           Witness Callow proposes that after two more fee changes these six fee  
2 subgroups be collapsed into three that lack the city delivery and non-city delivery  
3 distinctions. Tr. 23/12265. As explained below, the Postal Service believes a  
4 true cost-based fee structure has many advantages over witness Callow's CAG,  
5 or revenue-based, fee structure.

6           **III. WITNESS CALLOW'S PROPOSED FEE STRUCTURE RELIES ON**  
7           **INCONSISTENT CAG AND COST RELATIONSHIPS**

8           There are many inconsistencies between costs and fees in witness  
9 Callow's proposal, the root cause of which is the erroneous assumption that  
10 CAG and PO box costs are strongly correlated. If the relationships between  
11 CAG and PO box costs were strong, then individual facilities with similar PO box  
12 costs would be grouped together in each CAG group, and the range of PO box  
13 costs within each CAG-based grouping would not substantially overlap that of  
14 another. Since CAG is a measure of revenue from mail flowing into the postal  
15 network of facilities, Tr. 23/12283-84, while PO boxes are examples of delivery  
16 points through which mail flows out of the network, and since there is little  
17 inherent reason to expect that large, cost-driven mailers would locate themselves  
18 where PO box cost are highest, there are *a priori* reasons to expect that CAG  
19 and PO box cost are **not** strongly correlated.

20           There is a weak correlation between PO box costs and CAG, although as  
21 indicated in witness Callow's testimony and the Docket No. R90-1 library  
22 reference to which he points, F-183, this is more of an accident of demographics



1 than any inherent relationship. This is consistent with the fact that the costs for  
2 facilities within each CAG group exhibit wide variation about their respective  
3 averages. See Tr. 23/12393.

4 Callow's effective reliance upon CAG as a proxy for PO box costs also  
5 causes the fees he proposes to increase rather than decrease the gap between  
6 fees for some city and non-city delivery facilities, contrary to both Callow's and  
7 the Postal Service's espoused goal. The current annual city (Group C) fee is  
8 \$40, while the non-city fee is \$12, for a difference of \$28. While the Postal  
9 Service's proposal would reduce this difference to \$27, Callow proposes a box  
10 size one fee of \$56 for his proposed group C-I and a \$24 fee for his group D-I, for  
11 a difference of \$32. (see Tr. 23/12338-12339).

12 Witness Callow tries to justify his fee group restructuring by arguing that  
13 current fee groups C and D would better reflect PO box costs if they were further  
14 defined into subgroups based on CAG. However, he attempts to demonstrate a  
15 strong relationship between PO box costs and CAG-based solely on a  
16 comparison of the cost averages for his CAG grouping. Tr. 23/12293-94.

17 Callow's excessive reliance on simple averages is demonstrated by  
18 comparing cost variations within and between his proposed CAG-based fee  
19 groups. Callow's within fee group variations are much larger than the variations  
20 between his group averages, Tr. 23/12393 (response to USPS/OCA-T500-28(g)  
21 at 1) -- indicating that his proposed fee groups are not strongly associated.

22 The large, overlapping variations in costs within his proposed fee groups,  
23 which Callow ignores, lead to grouping together facilities that have drastically

1 different rental costs based simply on similar revenue for those facilities.  
2 Facilities with very high and very low rental costs populate each of witness  
3 Callow's fee groups. For example, Temple Heights Station in Washington DC  
4 has a rental cost of \$32 per square foot, while West Los Angeles Station,  
5 California has a rental cost of only \$2.38 per square foot – yet both are CAG A  
6 facilities. Under witness Callow's proposal, PO boxes in both of these facilities  
7 would be grouped together and ~~pay~~<sup>have</sup> identical fees.

8 Callow's response to USPS/OCA-T500-5, indicating that the maximum  
9 rental cost for each of CAGs A through G for city facilities is between \$33 and  
10 \$36, confirms inconsistencies in costs and CAG. He also confirms that the  
11 maximum rental costs for CAGs E through L are between \$17 and \$18, while the  
12 maximum for CAGs B through D is lower, between \$9 and \$14. Tr. 23/12360.  
13 Each of these counterintuitive findings refutes the existence of any strong  
14 relationship between CAG and PO box costs.

15 The very low degree of association between CAG and rental cost per  
16 square foot is evident in the attachment to witness Callow's response to  
17 USPS/OCA-T-500-28(g), where he shows that the average rental cost per  
18 square foot for each of his new fee groups (CI, CII, CIII, DI, DII, and DIII), 9.07,  
19 6.88, 4.96, 7.24, 7.30, and 5.84, respectively, lie within the broad ranges of each  
20 of the CAG-based fee groups. Tr. 23/12393.

21 Witness Callow also confirms inconsistencies between his CAG-based  
22 average rental cost for city-other and non-city delivery facilities. In his response  
23 to USPS/OCA-T500-4 (a ), Callow confirms that the two highest non-city rental

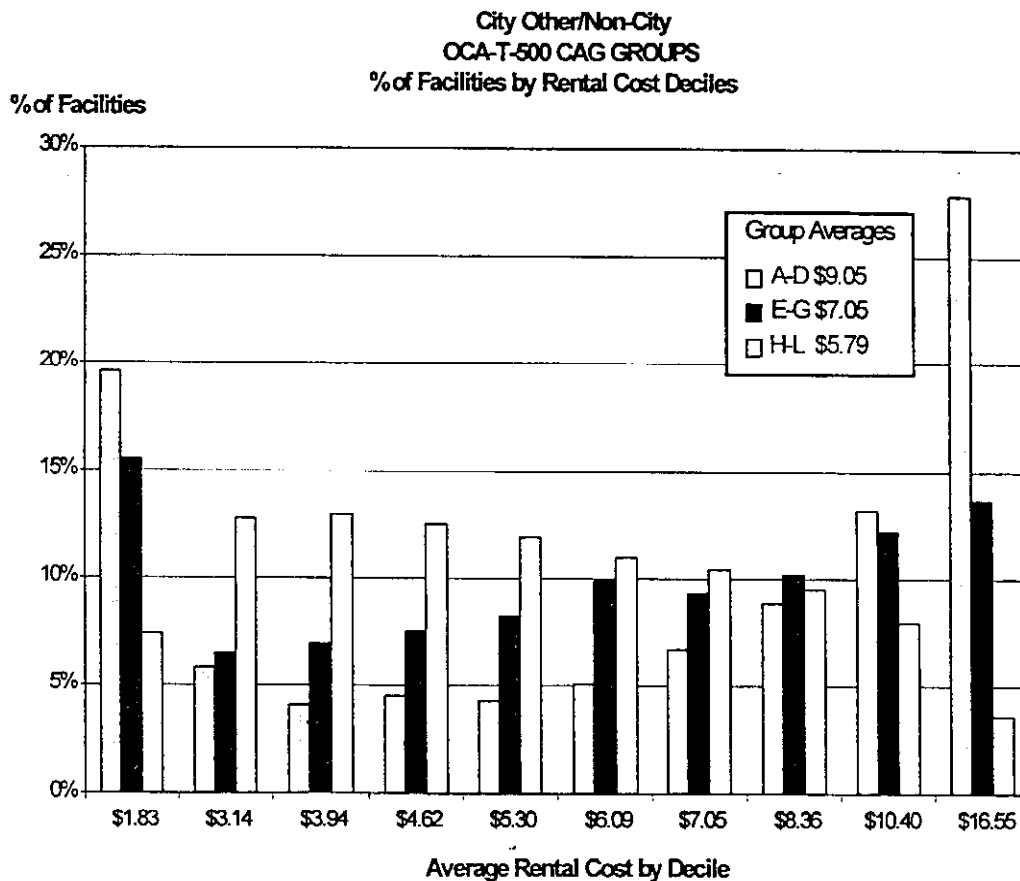
1 cost averages, displayed in Table 2 of his testimony, are for CAGs E and F. Tr.  
2 23/12359. If rental costs are related to CAG, the highest rental costs should be  
3 observed for CAGs A and B -- not CAGs E and F.

4 The substantial degree of rental cost overlap among the CAGs, and the  
5 consequent lack of cost homogeneity in Callow's fee groups, can be seen by  
6 charting the overlaps in the distributions of facility-specific rental costs for  
7 Callow's fee groups.<sup>2</sup> Chart A, which follows <sup>below</sup> ~~this paragraph~~, displays the  
8 distribution of facilities for his fee groups, by rental cost deciles.

9 The substantial lack of cost homogeneity is evident. Facilities belonging  
10 to all six of witness Callow's CAG groupings are present in the top ~~10 percent~~  
11 rental cost per square foot decile. About 15 percent of CAG E-G facilities, and  
12 about 5 percent of CAG H-L facilities, have rental costs in the top decile, with an  
13 average of \$16.55 per square foot. Moreover, at the opposite end of the rental  
14 cost distribution, almost 20 percent of the CAG level A-D facilities are present in  
15 the lowest rental cost decile. Similarly, all intermediate deciles also contain  
16 facilities from each of Callow's six proposed post office box fee subgroups.  
17 Exhibit A (at 3 and 4) contains separate charts showing results for city and non-  
18 city facilities; again, each decile is populated by facilities from every one of his  
19 proposed fee groups. Since each rental cost decile contains facilities from each  
20 proposed CAG fee group, witness Callow's proposal inappropriately lumps  
21 together facilities having rental costs in every rent decile.

1

Chart A



2

3

If the relationships between CAG and PO box costs were strong, then individual facilities with similar PO box costs would be grouped together in each CAG group, and the range of PO box costs within each CAG-based grouping would not substantially overlap that of another. In other words, any strong relationship should be evident from cost homogeneous fee groups that result.

7

<sup>2</sup> Witness Callow acknowledges the existence of overlap, but seems unable to bring himself to agree that the overlap is "substantial". Tr. 23/12392 (response to USPS/OCA-T500-22-28(e)). Since the overlap is virtually complete, I believe it is much more than substantial.

1 The lack of such cost homogeneity in witness Callow's fee groups illustrates the  
2 lack of a strong relationship between CAG and PO box costs.

3 Only when inferences about one variable can reasonably be drawn from  
4 knowledge of another variable can a strong association be said to exist. This is  
5 not true of CAG and rental costs, because the range in rental costs for facilities  
6 in a given CAG is largely co-extensive with the overall range across all facilities.  
7 Respective costs for individual facilities within a CAG range higher and lower  
8 than the CAG averages by a large degree. For purposes of rate design, the  
9 degree of association between CAG and rental cost per square foot is too weak.

10 There are operational reasons to believe that higher CAG, *i.e.*, large  
11 volume, mail processing facilities would locate in lower rental cost areas to  
12 benefit from the lower rental costs -- along with large mailers who may co-locate  
13 and thereby also benefit from lower space costs. For example, many of the  
14 facilities in witness Callow's Group D-I are high CAG only because each accepts  
15 the mail for one large mailer located nearby, *e.g.* Shepherdsville, KY; Wilton, IA;  
16 and Young America, MN. Moreover, there are low revenue facilities in higher  
17 cost areas, where service is provided to meet the needs of customers at the  
18 delivery end of the postal network of facilities. Witness Callow did not consider  
19 these operational reasons why CAG is a poor proxy for PO box costs. Tr.  
20 23/12375 (response to USPS/OCA-T500-17(b)).

21 Witness Callow's fee structure would raise and lower fees in a way that  
22 would discourage use where PO Boxes are available and discourage PO box  
23 service expansion in high cost / high demand locations. Exhibit B, page 2

1 presents several examples of high CAG facilities having low rental costs and low  
2 PO box utilization. Under witness Callow's proposal, these facilities would  
3 eventually be included in his highest fee group, thus further discouraging PO box  
4 utilization in these locations. Exhibit B, page 3 presents several examples of low  
5 CAG facilities having high rental costs and high PO box utilization.<sup>3</sup> Under  
6 witness Callow's proposal, these facilities would eventually be included in his  
7 lowest fee group, thus also discouraging PO box expansion at these locations.

8         Witness Callow's proposal would complicate the fee structure by defining  
9 fee groups, without any operational justification,<sup>4</sup> in a way that would complicate  
10 future re-alignment of fees and costs. For example, CAG A facilities with a rental  
11 cost of \$1.83 per square foot would face drastic fee changes when their fee  
12 group is aligned with costs.

13         Grouping facilities by CAG in an attempt to create more cost  
14 homogeneous fee groups is clearly inappropriate. While CAG and rental costs  
15 may not be totally unrelated, witness Callow wrongly concludes that the  
16 relationship is strong enough to be a viable basis for structuring new PO box fee  
17 groups. *The rental cost per square foot differences within and between the fee*  
18 *groups proposed by witness Callow are large, causing inconsistent groupings of*  
19 *facilities and complicating future efforts to align fees with costs. Furthermore,*  
20 *fees, costs, and box availability were not appropriately taken into account by*

---

<sup>3</sup> Exhibit B is limited to facilities identified as transfer facilities in section VI of my testimony. I would expect there to be many more facilities with CAG designations that are inconsistent with their rental costs and utilization rates.

1 witness Callow. If implemented, his proposal would result in an inconsistent fee  
2 structure. In Section V, below, a better alternative is described.

3 **IV. WITNESS CALLOW'S PROPOSED FEES ARE BASED ON AN**  
4 **INAPPROPRIATE ALLOCATION OF COSTS INsofar AS THEY DIFFER**  
5 **FROM THE POSTAL SERVICE'S METHODOLOGY**

6 Attributable costs for post office boxes are separated into three general  
7 categories by both the Postal Service and the OCA. The FY96 values and  
8 percentages are shown below:

|    |                 |               |         |
|----|-----------------|---------------|---------|
| 9  | Space Support   | \$279,928,000 | 46.1 %  |
| 10 | Space Provision | 223,226,000   | 36.7    |
| 11 | All Other       | 104,580,000   | 17.2    |
| 12 | Total           | \$607,734,000 | 100.0 % |

13 Source: USPS-T-24, page 20.

14 For the most part, witness Callow follows the same cost allocation methodology  
15 presented by witness Lion earlier in this proceeding (USPS-T-24), as well as in  
16 Docket No. MC96-3 (USPS-T-4). For some All Other costs, however, witness  
17 Callow attempts to allocate costs based on job title.

18 Witness Callow bases his allocation of costs on a proposed redefinition of  
19 fee groups. The inadvisability of using these new groups is dealt with above.  
20 However, witness Callow allocates fully 96.3 percent of the attributable costs of  
21 post office boxes using the same methodology as the Postal Service. Correcting  
22 an error in the OCA approach, the total allocated identically is 98.3 percent.

---

<sup>4</sup> Dr. Bradley states, "...every cost pool should [not] be split, willy nilly, into smaller subpools in a misguided search for different variabilities. Rather, a disaggregated analysis should be followed only when there are good operational reasons to do so." (USPS-T-13, page 35, lines 11-14).

1 Witness Callow's allocation of costs based on job title is inappropriate and, even  
2 if done, should affect at most only 1.7 percent of post office box costs.

3 **Space Support Costs**, representing 46.1 percent of the total, are  
4 allocated to each fee group/box size category in proportion to the equivalent  
5 capacity of that category (see OCA-T-500, pages 55-56, Tr. 23/12332-33). This  
6 is the same as the Postal Service methodology.

7 **Space Provision Costs**, representing 36.7 percent of the total, are  
8 allocated to each fee group and box size category based on equivalent capacity  
9 and average rental costs (see response to OCA/USPS-T500-18, Tr. 23/12337).  
10 Again, this is the same as the Postal Service methodology.

11 Space Support plus Space Provision costs together amount to 82.8  
12 percent of the total and are allocated by the OCA using the Postal Service  
13 methodology. Witness Callow also allocates the bulk of All Other costs using the  
14 Postal Service methodology.

15 **All Other Costs**, 17.2 percent of the total, are defined as the costs  
16 remaining after Space Support and Space Provision costs are subtracted from  
17 total attributable post office box costs; they are primarily labor costs for window  
18 service, and related supervisory and personnel costs (see USPS-T-24 at 19). All  
19 Other costs are separated by witness Callow into two groups: those that he  
20 proposes to allocate according to CAG ("CAG costs") and the remainder ("Non-  
21 CAG costs"). CAG costs are further separated according to job title: postmasters  
22 (Cost Segment 1), supervisors (Cost Segment 2) and mailhandlers (Cost  
23 Segment 3).



1 The separation between CAG and Non-CAG costs breaks out as follows:

|   |                                       |               |         |
|---|---------------------------------------|---------------|---------|
| 2 | CAG                                   | \$ 22,753,000 | 21.8 %  |
| 3 | Non-CAG                               | \$ 81,827,000 | 78.2    |
| 4 | Total All Other                       | \$104,580,000 | 100.0 % |
| 5 | Source: Table 13, OCA-T-500, page 43. |               |         |

6 **Clerks and Mailhandlers.** Cost Segment 3 includes the costs of both  
7 mailhandlers and clerks. In the case of post office box costs, it represents the  
8 costs of window service provided by these two crafts. Witness Callow separates  
9 Cost Segment 3 into a portion for mailhandlers and a portion for clerks. Noting  
10 that there are very few mailhandlers at CAGs E-L (his groups C-II, C-III, D-II, and  
11 D-III), he proposes to allocate the mailhandler proportion only to Groups C-I and  
12 D-I. The remainder -- the portion he attributes to clerks -- is labelled "Non-CAG  
13 Costs" and allocated to each box size/fee group category in proportion to the  
14 number of boxes in that category. That is, witness Callow's Non-CAG costs are  
15 allocated using the Postal Service methodology.

16 However, witness Callow's division of the Segment 3 costs is incorrect.  
17 He separates the post box office costs of this segment into the portions due to  
18 clerks and mailhandlers on the basis of the proportion of the overall costs for the  
19 two crafts. Tr. 23/12325. In effect, he assumes that the two categories are  
20 responsible for window service in proportion to their overall costs. See Tr.  
21 23/12378 (response to OCA/USPS-T500-19). But this is not correct.  
22 Mailhandlers do not "do windows". Window service is almost always provided by  
23 clerks. IOCS counts show that the proportion of window service time provided

1 by mailhandlers on this task is a negligible 0.3 percent. (See Exhibit E, page 2,  
2 col. 3).

3 Thus, the unavoidable conclusion is that virtually all the post office box  
4 costs in Cost Segment 3 are due to clerks and virtually none are due to  
5 mailhandlers. As a result, all Cost Segment 3 costs should be included in the  
6 Non-CAG category and allocated according to the number of boxes – *i.e.*, using  
7 the Postal Service methodology.

8 After correcting this error in witness Callow's analysis, 98.3 percent of the  
9 total attributable post office box costs would be allocated identically by both the  
10 Postal Service and the OCA, as shown in Table 1 below:

| Table 1. Total Attributable PO Box Costs. |               |         |
|---|---------------|---------|
| Item                                      | Amount        | Percent |
| Space Support                             | \$279,928,000 | 46.10%  |
| Space Provision                           | 223,226,000   | 36.7    |
| All Other – C/S 3                         | 93,866,000    | 15.5    |
| Subtotal                                  | 597,020,000   | 98.30   |
| All Other - C/S 1&2                       | 10,714,000    | 1.7     |
| Total                                     | \$607,734,000 | 100.00% |

1           Thus, the only difference between the two approaches is in the residual  
2   1.7 percent, costs for postmasters (Cost Segment 1) and supervisors (Cost  
3   Segment 2), which witness Callow allocates based on CAG level. (Postmaster  
4   costs attributed to post office boxes amount to 0.5 percent of the total (= \$3,183 /  
5   \$607,734) and supervisor costs to 1.2 percent (= \$7,531/ \$607,734)). Even for  
6   this residual, there is good reason to keep the current (much simpler) Postal  
7   Service methodology.

8           **Postmasters.** Postmasters' job tasks vary widely with CAG level. For  
9   example, postmasters at higher CAG offices almost never perform window  
10   service, which is the prime component of All Other Costs. In fact, costs for  
11   postmasters at grades EAS-24 and above are never allocated to post office box  
12   service. See Tr. 23/12374 (response to USPS/OCA-T500-16c). At lower CAGs,  
13   postmasters often do this task because there is no one else to do it. Moreover,  
14   the postmaster who performs window service at a lower CAG may have a higher  
15   salary than the clerk who does the same work at a higher CAG. It is incorrect,  
16   therefore, to allocate these costs according to the number of postmasters in  
17   each CAG level, as witness Callow does (see Tr. 23/12425, lines 20-23). A  
18   better way to allocate these costs might be according to the time spent on post  
19   office boxes in each office. While I would expect that postmasters at smaller  
20   offices spend a greater proportion of their time on post office box activities than  
21   postmasters at larger offices, data on time spent in particular offices do not exist  
22   for postmasters. Since the amount is small, and data to make the theoretically

1 correct allocation are unavailable, it is better to allocate these costs using the  
2 simpler Postal Service approach.

3       **Supervisors.** Witness Callow actually does allocate supervisor costs in  
4 proportion to the number of boxes (as does the Postal Service), but only after  
5 zeroing the boxes at those CAGs that have no supervisors (fee groups C-III and  
6 D-III). This might be a reasonable approach if other, larger cost categories could  
7 be properly allocated according to CAG.<sup>5</sup> Absent that, however, it is a distortion  
8 to do it for just one component, in effect shifting some costs to particular CAGs,  
9 but not accounting for counterbalancing shifts. Again, the best approach for  
10 such a small amount is the simpler Postal Service methodology.

11       The Postal Service maintains that the cost of providing window service for  
12 a post office box is virtually the same regardless of its location or size. Attempts  
13 to break this down by CAG or other grouping, as witness Callow has, are  
14 doomed to a swamp of unresolvable difficulties revolving around the fact that the  
15 same job category provides different services at different post offices. The  
16 common sense solution is the best one, and it was used by the Postal Service.  
17 For All Other costs, take the total attributable costs and divide by the number of  
18 boxes to get the cost per box.

19       In summary, both the OCA and the Postal Service agree that Space  
20 Support costs, Space Provision costs and that part of All Other costs attributed  
21 to clerks (for window service) should be allocated using the Postal Service's

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<sup>5</sup> Of course, even this would not address the impropriety of using a measure of revenue as a proxy for cost.

1 methodology. The remaining costs – for postmasters and supervisors – amount  
2 to only 1.7 percent of the total. It is either incorrect to allocate these costs as  
3 witness Callow has (in the case of postmasters) or the overall result is to distort  
4 the allocation (in the case of supervisors). Thus, I conclude that the Postal  
5 Service methodology, as applied in previous dockets, should be used for 100  
6 percent of post office box costs.

1   **V. POST OFFICE BOX FEES: A PATH TO BETTER SERVICE**

2           The approximately 20 million post office boxes installed throughout the  
3   United States constitute a substantial investment. The benefits of this  
4   investment should be realized by the public to the greatest extent possible.  
5   However, more than one in five post office boxes are currently unused, while in  
6   other locations, few, if any, boxes are available. With more than <sup>4</sup>~~5~~ million  
7   unoccupied boxes, more post office boxes are still needed. Appropriate fees  
8   should be established to promote the maximum use of post office boxes  
9   currently installed and meet the changing needs of the public. To accomplish  
10   these ends, the post office box fee structure must address issues of both cost  
11   and demand at a very basic level. By that, I mean meeting the demand for  
12   boxes at various locations, covering the costs of providing those boxes, and  
13   making a contribution to other costs. This section explains briefly how the Postal  
14   Service is doing this by examining actual facility costs more closely, with regard  
15   to the establishment of cost homogeneous fee groups.

16           The Postal Service is working toward a fee structure that is based on cost  
17   and aimed at promoting optimal service levels to the public. Demand for PO box  
18   service<sup>3</sup> signals where the public needs PO boxes and where there is a need to  
19   encourage PO box use. Consideration of capacity utilization in fee design  
20   should, in the long run, lead to higher overall utilization, thus improving customer  
21   satisfaction while spreading fixed costs of PO box service over a larger customer  
22   base.

1           The public demand for PO box service naturally changes over time.  
2   Changes in population size, age, income, location, job opportunities, access to  
3   technology, and preferences can all affect the public's desire for PO box service  
4   at various locations. Since the locations of specific boxes cannot be freely and  
5   instantly moved, some variation in capacity utilization is unavoidable.

6           Existing data on facility costs are incomplete. This is perhaps why  
7   witness Callow's proposal was instead based on CAG. The Postal Service is  
8   examining means of rectifying this situation. Given the pace at which automation  
9   is penetrating postal facilities, automation alone will likely improve what data are  
10   available within a few years both by the sheer number of facilities with a means  
11   of data collection and by the forced reconciliation of what today are independent  
12   data sets. In the meantime, the Postal Service is working with the data now  
13   available, comparing sources, and requesting that postal officials verify reported  
14   costs and capacity utilization in specific facilities.

15          With expectations of improved facility cost data that will permit the  
16   creation of cost homogeneous PO box fee groups, and of taking into account  
17   capacity utilization, it is possible to construct a hypothetical PO box fee structure.

18          A hypothetical fee structure based on cost homogeneity and capacity  
19   utilization rates can be constructed to account for cost and demand changes that  
20   occur from time to time and place to place. Table 2a, shows a hypothetical fee  
21   structure with five cost homogeneous fee groups (A-E), and a sixth for customers  
22   ineligible for city or non-city carrier delivery. A base fee is set for each cost  
23   group. High capacity utilization in a given facility would then result in a premium

- 1 on top of the base fee, while a low capacity utilization facility would result in a
- 2 discount from the base fee.

**Table 2a, Hypothetical Future PO Box Fee Structure.**

| Cost Group           | Office Utilization |                 |                     |
|----------------------|--------------------|-----------------|---------------------|
|                      | Low Range          | Target Range    | High Range          |
| <i>Box Size One:</i> | <i>Discount</i>    | <i>Base Fee</i> | <i>Surcharge</i>    |
| A                    | Base less Discount | \$Fee           | Base plus Surcharge |
| B                    | Base less Discount | \$Fee           | Base plus Surcharge |
| C                    | Base less Discount | \$Fee           | Base plus Surcharge |
| D                    | Base less Discount | \$Fee           | Base plus Surcharge |
| E                    | Base less Discount | \$Fee           | Base plus Surcharge |
| F - Non-delivery     | \$0.00             | \$0.00          | \$0.00              |

**TABLE 2b, Rental Cost Per Square Foot, By Rental Cost Quintile.**

| Cost Group | Number | Average | Minimum | Maximum |
|------------|--------|---------|---------|---------|
| A          | 4,972  | \$2.48  | \$0.00  | \$3.56  |
| B          | 4,972  | \$4.28  | \$3.57  | \$4.98  |
| C          | 4,972  | \$5.70  | \$4.99  | \$6.51  |
| D          | 4,972  | \$7.70  | \$6.52  | \$9.19  |
| E          | 4,972  | \$13.48 | \$9.20  | \$64.05 |

From: Rent.Data - LR-H-216



1           When, over time, costs, or utilization rates change for a particular facility,  
2   so too could the fees. Costs could be covered while encouraging use of empty  
3   boxes. Further, the fee surcharge at highly utilized locations would provide an  
4   incentive to install more PO boxes in areas where they are needed. By  
5   encouraging expansion in this manner, the public's frustration due to waiting lists  
6   and the unavailability of PO box service in needed locations could be minimized.  
7   Finally, overall and specific fee levels could be adjusted to reflect the goals of the  
8   nine ratemaking criteria.

9           As in the hypothetical fee structure described, Table 2b above displays  
10   the number, average, minimum, and maximum rental costs per square foot for  
11   facilities grouped by rental cost quintile. By definition, these groups are cost  
12   homogeneous (unlike witness Callow's) and could serve as the basis for fee  
13   development.

14          In summary, with improved information, a PO box fee structure that  
15   incorporates homogeneous cost groups and capacity utilization can be  
16   constructed. This would: encourage efficient use of PO boxes, move toward  
17   having all boxes recover their costs, and meet the changing needs of the public.

18          For purposes of this docket, the details presented in this section serve  
19   simply to rebut the restructuring of PO box fees proposed by witness Callow. In  
20   addition, the Postal Service wants to share with the Commission its efforts to  
21   improve the PO box fee structure in the near future. The next section describes  
22   a very limited regrouping of PO box facilities being planned for implementation  
23   together with any classification and fee changes arising from this case.

1 **VI. THE FIRST STEP: LIMITED MODIFICATION OF FEE GROUPS**

2 As a first step, 80 facilities have been identified as candidates for  
3 reassignment from one fee group to the next highest or lowest (*see Exhibit C*).<sup>6</sup>  
4 These facilities were selected based on facility rents and PO box utilization.

5 The logic of the approach was to identify facilities with high costs and low  
6 fees, or with low costs and high fees. If the former also had high capacity  
7 utilization, the facility was identified as a candidate to be moved to the next most  
8 expensive PO box fee group, e.g., from Group C to Group B. Similarly, if a low  
9 cost / high fee facility also had low capacity utilization, it became a candidate for  
10 movement to the next less expensive fee group. All such facilities only became  
11 candidates, because the next step was verification that the values for facility  
12 cost, boxes installed, and capacity utilization were reasonable and accurate.  
13 This approach was by no means comprehensive, especially given the incomplete  
14 data available, but also because the focus was on selecting those facilities least  
15 well aligned in the current fee structure.

16 As shown in Exhibit D, page 3, the total revenue impact would be minimal  
17 assuming all 80 facilities were reassigned. A total of 46,607 post office boxes  
18 would be affected, and the net revenue effect would be \$46,080.

19 Because of the wide disparity in fees, shifts between Groups C and D at this time  
20 raise concerns. For those unlucky customers shifting from Group D to Group C,  
21 the fee increase would be well over 200 percent for every box size, which  
22 certainly raises the specter of fee shock. On the other hand, reassigning boxes

1 from Group C to Group D fees runs a risk that boxes would fail to cover  
2 attributable costs.

3 If only the transfers from A to B, from B to A and C, and from C to B were  
4 implemented, a total of 23,422 box holders would be affected, with 21,452  
5 moving up and 1,970 moving down. The net revenue increase for the Postal  
6 Service would be \$396,134 (see Exhibit D, page 3).

7 The average fee changes (relative to the fees established in Docket  
8 No. MC96-3) are shown in Table 3 below. These percentages are averages  
9 weighted by box size counts.

| <b>Table 3</b>  |                 |
|---|-----------------|
| <b>Percentage Fee Increase, After Transfer vs. Current Fees</b> |                 |
| <b>Transfer Down</b>  |                 |
| <b>A to B</b>   | <b>+24.1 %</b>  |
| <b>B to C</b>   | <b>+0.5 %</b>   |
| <b>C to D</b>   | <b>-51.7%</b>   |
| <b>Transfer Up</b>  |                 |
| <b>B to A</b>   | <b>+59.4 %</b>  |
| <b>C to B</b>   | <b>+51.7 %</b>  |
| <b>D to C</b>   | <b>+250.3 %</b> |

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<sup>6</sup> These candidates may change as further review is completed.

1 Additional details regarding the derivation of these data appear in Exhibit D,  
2 page 2.

3 Any increase in revenue would be more than offset by the recent offering  
4 of boxes at no charge for customers who are not eligible for carrier delivery  
5 because of the quarter mile rule.<sup>7</sup>

## 6 VII. CONCLUSION

7 Witness Callow's proposal to restructure PO box fee groups, while well  
8 motivated by interests in greater cost homogeneity and convergence among city  
9 and non-city delivery facilities, founders on its use of CAG as a proxy for the  
10 costs of PO box service. As CAG is a measure of the input side of the Postal  
11 Service network of facilities, while PO boxes exist at the output side of the  
12 network, using CAG as a basis for structuring fee groups introduces too many  
13 anomalies. Put simply, PO box fees should not be aligned with facility revenue;  
14 instead, PO Box fee should be aligned with PO Box costs. As the Postal Service  
15 improves the quality of its facility-specific cost data, definition of more cost  
16 homogeneous and sensible fee groups will become relatively mechanical. A  
17 reflection in the ultimate fee schedule of capacity utilization would also be  
18 economically efficient by increasing overall capacity utilization over time while  
19 helping to meet customer needs.

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<sup>7</sup> The Postal Service has determined to extend eligibility for current Group E (no fee) PO boxes to customers located within one quarter mile of a non-city delivery office (quarter-mile customers). The necessary management approvals have been obtained, and the Postal Service expects that appropriate Federal Register and Postal Bulletin notices will be published in as little as a few weeks.

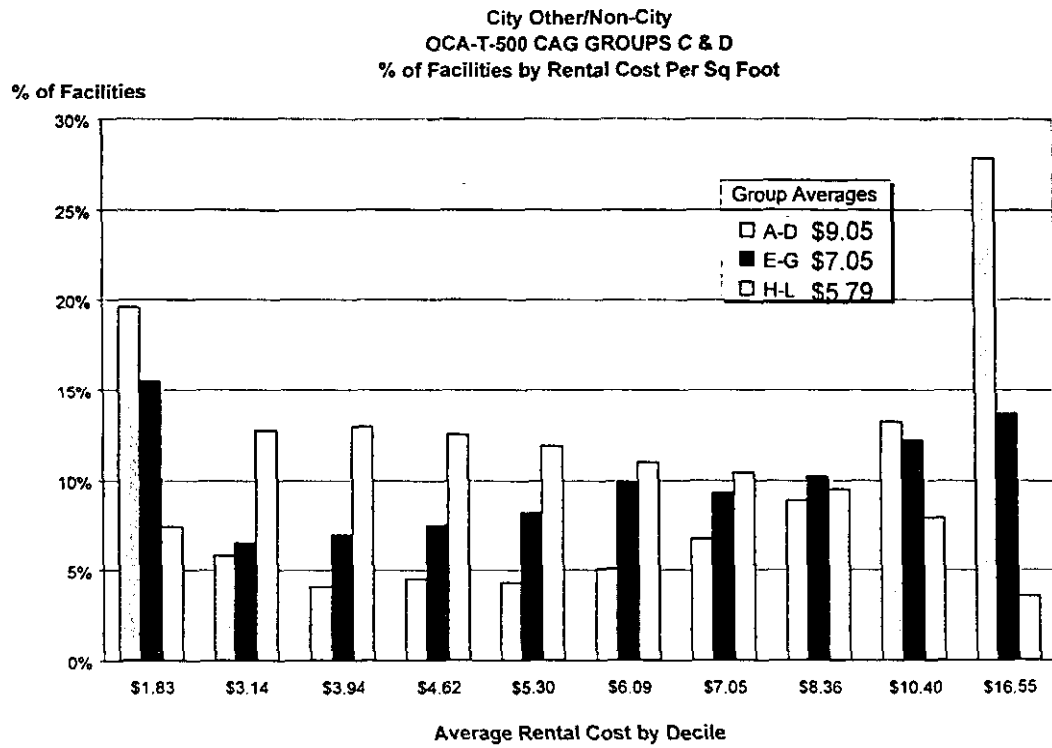
1           This testimony directly rebuts witness Callow's alternate fee proposal,  
2   while including details of postal plans. Those details signal the Postal Service's  
3   short and long term action plans. The next step in addressing the concerns is for  
4   the Commission to recommend the fee changes requested by the Postal  
5   Service. These fee changes move toward the establishment of equally spaced  
6   fee groups, and thus would assist in moving toward a realigned fee structure.



**EXHIBIT A**

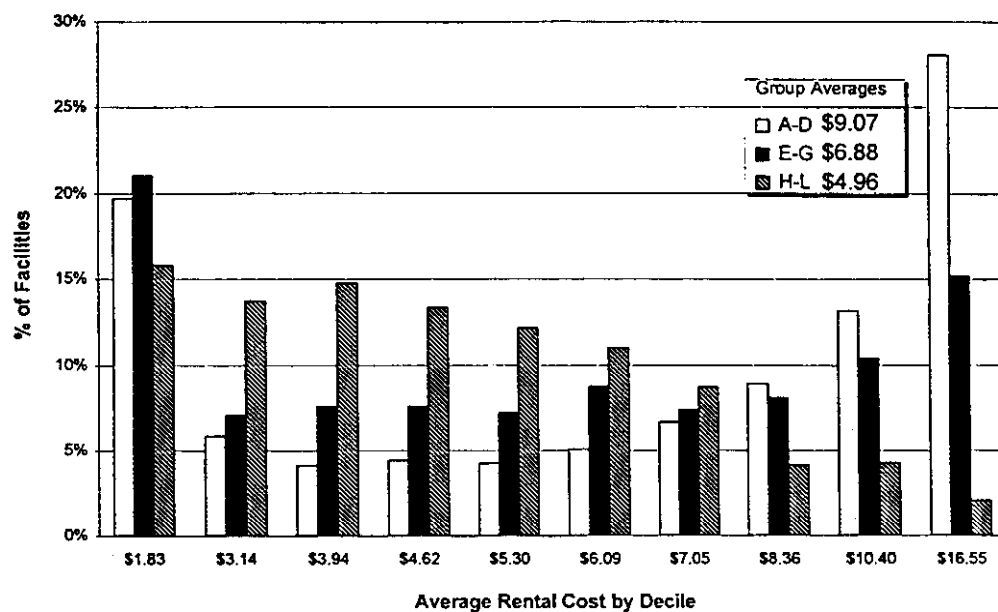
This exhibit displays variations about average rental cost per square foot by CAG defined fee groups. Page 2 displays city other and non-city facilities combined, while pages 3 and 4 display similar results for city other and non-city separately. Page 4 is witness Callow's response to USPS/OCA-T500-22-28(g).

- CITY OTHER AND NON-CITY GROUPS COMBINED, Page 2
- CITY OTHER GROUPS, Page 3
- NON-CITY, Page 4
- AND CALLOW INTERROGATORY RESPONSE, Page 5

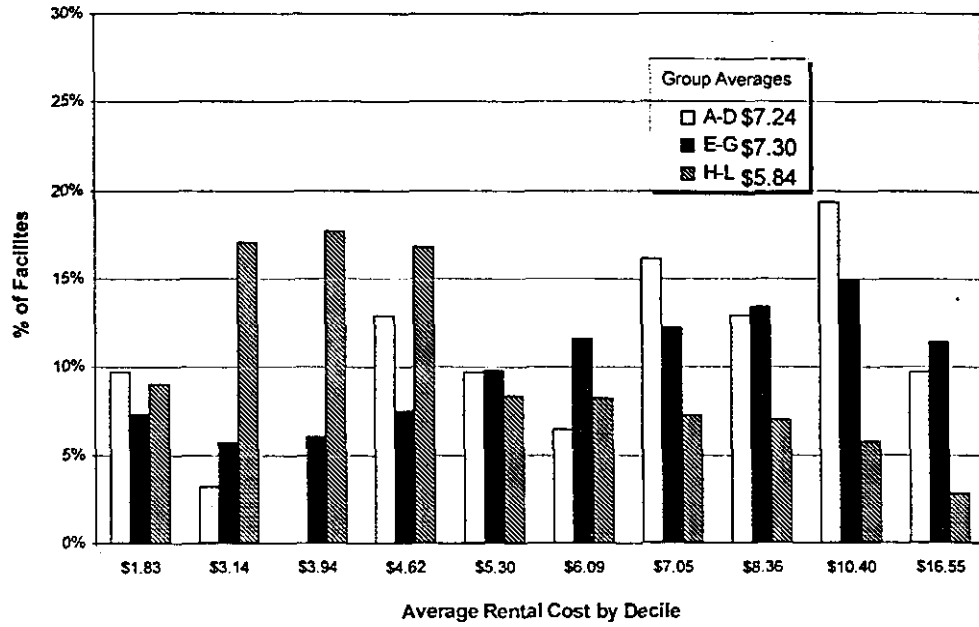




City Other  
OCA-T-500 CAG GROUP C  
% of Facilities by Rental Cost Per Sq Foot



Non-City  
OCA-T-500 CAG GROUP D  
% of Facilities by Rental Cost Per Sq Foot



ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T500-22-28

Attachment to Response to  
USPS/OCA-T500-28(g)  
Page 1 of 3

Rental Cost per SF, by NEWGRP, H-216 data 1  
08:53 Monday, February 2, 1998

Analysis Variable : RCSF

| NEWGRP | N Obs | N     | Mean       | Std Dev    | Minimum   | Maximum    |
|--------|-------|-------|------------|------------|-----------|------------|
| A      | 30    | 30    | 23.4904980 | 17.1993379 | 0.0019685 | 64.0482433 |
| B      | 153   | 153   | 16.7430583 | 10.6920571 | 0.0051282 | 43.5236769 |
| CI     | 3017  | 3017  | 9.0681161  | 6.9529147  | 0.0076923 | 35.7997936 |
| CII    | 2261  | 2261  | 6.8796686  | 5.1052680  | 0.0076923 | 34.4827586 |
| CIII   | 772   | 772   | 4.9649169  | 2.6802886  | 0.8640000 | 26.6166667 |
| DI     | 31    | 31    | 7.2352096  | 3.2521942  | 1.4803597 | 13.3088042 |
| DII    | 1521  | 1521  | 7.2971055  | 3.5066756  | 1.2860483 | 17.8618682 |
| DIII   | 12618 | 12618 | 5.8375263  | 2.7592156  | 1.2847966 | 17.8722003 |
| E      | 4170  | 4170  | 7.1935801  | 3.8123217  | 1.0666667 | 23.3690360 |

16980

**EXHIBIT B**

This exhibit displays two lists of facilities. The first list shows facilities having a high CAG level, low rental cost, and low utilization. The second list shows facilities having a low CAG level, high rental cost, and high utilization.

- HIGH CAG / LOW RENTAL COST / UTILIZATION BELOW 70 PERCENT, PAGE 2
- LOW CAG / HIGH RENTAL COST / UTILIZATION OVER 90 PERCENT, PAGE 3

## HIGH CAG / LOW RENTAL COST / UTILIZATION BELOW 70 PERCENT

| City          | State | Unit Name             | Address                 | ZIP Code | FMS<br>RENT<br>PER<br>SQFT | FROM<br>GROUP | TO<br>GROUP | CAG |
|---------------|-------|-----------------------|-------------------------|----------|----------------------------|---------------|-------------|-----|
| NEW YORK      | NY    | ISLAND STATION        | BLACKWELL ISLAND        | 10044    | \$7.07                     | A             | B           | A   |
| BROOKLYN      | NY    | BUSH TERMINAL STATION | 900 3RD AVENUE          | 11232    | \$5.53                     | B             | C           | A   |
| LOS ANGELES   | CA    | WEST LOS ANGELES STA  | 11420 SANTA MONICA BLVD | 90025    | \$2.38                     | B             | C           | A   |
| ANDOVER       | MA    | RETAIL UNIT           | 20 MAIN STREET          | 01810    | \$0.00                     | C             | D           | C   |
| PITTSBURGH    | PA    | PARKWAY CENTER BRANCH | 3 PARKWAY CENTER        | 15220    | \$0.00                     | C             | D           | A   |
| PITTSBURGH    | PA    | NEVILLE ISLAND BR     | 115 SECOND ST           | 15225    | \$1.04                     | C             | D           | A   |
| SHARON        | PA    | MAIN OFFICE           | SILVER & SHENANGO STS   | 16146    | \$1.03                     | C             | D           | D   |
| HAZLETON      | PA    | MAIN OFFICE           | 231 N WYOMING ST        | 18201    | \$1.09                     | C             | D           | D   |
| COLLEGEVILLE  | PA    | SCHWENKSVILLE BR      | 153 CENTENNIAL ST       | 19473    | \$0.83                     | C             | D           | D   |
| BETHESDA      | MD    | WEST BETHESDA BRANCH  | 9601 SEVEN LOCKS ROAD   | 20817    | \$0.51                     | C             | D           | C   |
| KISSIMMEE     | FL    | CELEBRATION BRANCH    | CELEBRATION TOWN CENTER | 34747    | \$0.29                     | C             | D           | C   |
| COLUMBUS      | OH    | BIG BEAR #61 DET UNIT | 4665 MORSE CT           | 43229    | \$0.06                     | C             | D           | A   |
| HALES CORNERS | WI    | DL CITY HALL          | 9229 W LOOMIS RD        | 53130    | \$0.00                     | C             | D           | D   |
| KALISPELL     | MT    | FLATHEAD STATION      | 248 1ST AVE WEST        | 59901    | \$1.14                     | C             | D           | D   |
| EVANSTON      | IL    | DETACHED LOCKBOX      | 1999 SHERIDAN RD        | 60204    | \$0.00                     | C             | D           | C   |
| FORT WORTH    | TX    | TEMP RICHLAND HILLS   | DIANA DRIVE             | 76118    | \$0.00                     | C             | D           | A   |
| DENTON        | TX    | NORTH TEXAS STATION   | STUDENT UNION BLDG NTSU | 76203    | \$0.00                     | C             | D           | C   |
| PUEBLO        | CO    | MAIN POST OFFICE      | 421 N MAIN ST           | 81001    | \$0.00                     | C             | D           | B   |

## LOW CAG / HIGH RENTAL COST / UTILIZATION OVER 90 PERCENT

| City       | State | Unit Name   | Address                 | ZIP Code | FMS RENT<br>PER SQFT | FROM<br>GROUP | TO<br>GROUP | CAG |
|------------|-------|-------------|-------------------------|----------|----------------------|---------------|-------------|-----|
| VILLALBA   | PR    | MAIN OFFICE | 25 MUNOZ RIVERA STREET  | 00766    | \$27.07              | C             | B           | H   |
| CHITTENDEN | VT    | MAIN OFFICE | MAIN RD.-ST.AID HGWY #1 | 05737    | \$28.48              | D             | C           | J   |
| ROSEBOOM   | NY    | MAIN OFFICE | CORNER RTS 165 & 166    | 13450    | \$40.00              | D             | C           | K   |
| PALA       | CA    | MAIN OFFICE | PALA MISSION ROAD       | 92059    | \$27.17              | D             | C           | H   |



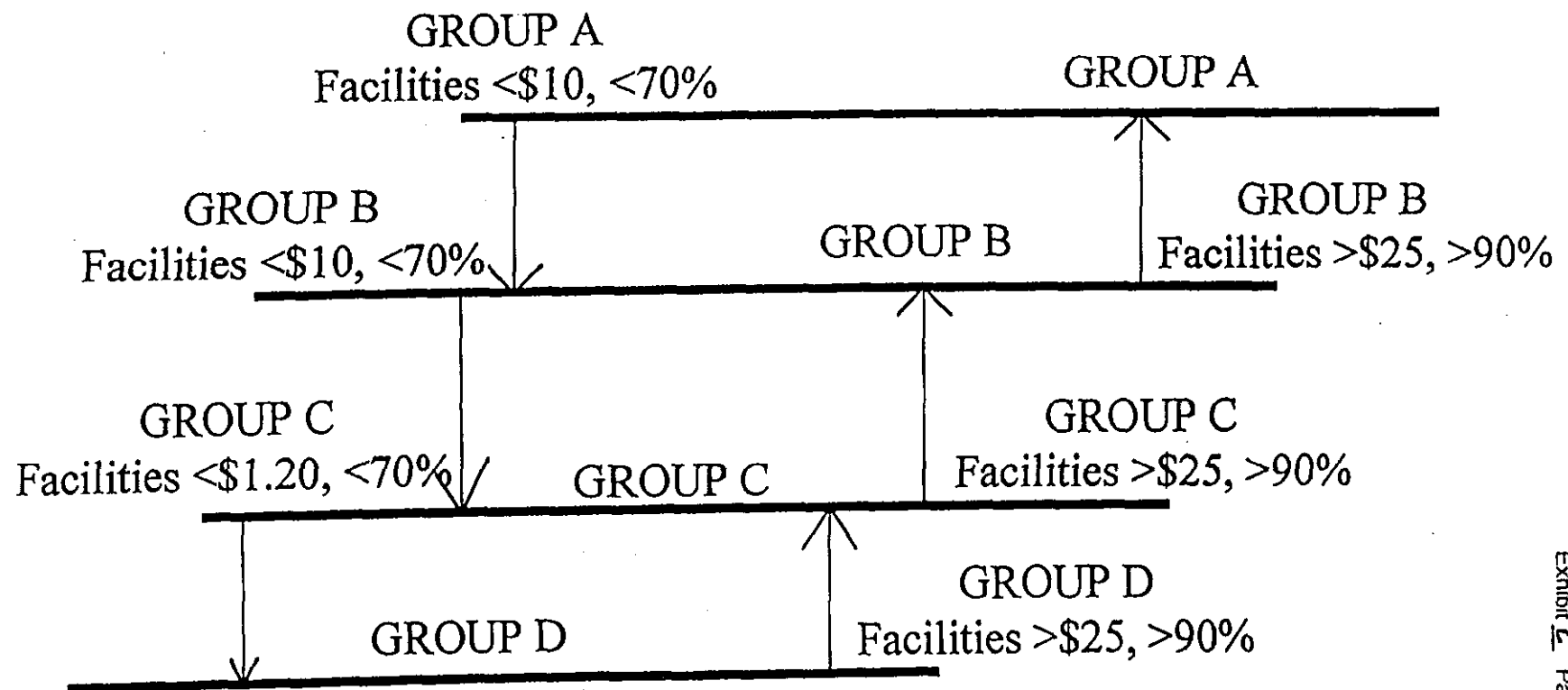


**EXHIBIT C**

This exhibit displays the facility respecification criteria used to select candidates for fee group reassignment on page 2. Page 3 displays the tentative transfer list.

- FACILITY RESPECIFICATION CRITERIA, PAGE 2
- FACILITIES IDENTIFIED AS CANDIDATES FOR FEE GROUP REASSIGNMENT, PAGE 3

# FACILITY RESPECIFICATION



## Tentative Transfer List

| Count | City                 | State | Unit Name             | Address                  | ZIP Code | FMS RENT<br>PER SQFT | GROU<br>P | TO | CA<br>G |
|-------|----------------------|-------|-----------------------|--------------------------|----------|----------------------|-----------|----|---------|
| 1     | NEW YORK             | NY    | ISLAND STATION        | BLACKWELL ISLAND         | 10044    | \$7.07               | A         | b  | A       |
| 2     | BROOKLYN             | NY    | RYDER FINANCE STATION | 2222 Flatbush Avenue     | 11234    | \$26.12              | B         | a  | A       |
| 3     | FLUSHING             | NY    | FRESH MEADOWS FIN STA | 193-04 HORACE HARDING X  | 11365    | \$32.00              | B         | a  | B       |
| 4     | WASHINGTON           | DC    | TEMPLE HEIGHTS STA    | 1921 FLORIDA AVE N.W.    | 20009    | \$32.00              | B         | a  | A       |
| 5     | SANTA MONICA         | CA    | OCEAN PARK STATION    | 2700 2800 NELSON WAY     | 90405    | \$29.11              | B         | a  | C       |
| 6     | SAN FRANCISCO        | CA    | NORTH BEACH STATION   | 1640 STOCKTON ST         | 94133    | \$30.24              | B         | a  | A       |
| 7     | BROOKLYN             | NY    | BUSH TERMINAL STATION | 900 3RD AVENUE           | 11232    | \$5.53               | B         | c  | A       |
| 8     | LOS ANGELES          | CA    | WEST LOS ANGELES STA  | 11420 SANTA MONICA BLVD  | 90025    | \$2.38               | B         | c  | A       |
| 9     | VILLALBA             | PR    | MAIN OFFICE           | 25 MUNOZ RIVERA STREET   | 00766    | \$27.07              | C         | b  | H       |
| 10    | CHARLOTTE AMALIE     | VI    | EAST END STATION      | Unit #179, #26A Estate   | 00801    | \$27.64              | C         | b  | C       |
| 11    | BOSTON               | MA    | PRU CTR. POSTAL STORE | 800 BOYLSTON ST          | 02199    | \$38.50              | C         | b  | A       |
| 12    | BRUNSWICK            | ME    | DETACHED LOCKBOX UNIT | COOKS CORNER             | 04011    | \$82.50              | C         | b  | E       |
| 13    | COS COB              | CT    | MAIN OFFICE           | 152 EAST PUTNAM AVENUE   | 06807    | \$41.29              | C         | b  | F       |
| 14    | JERSEY CITY          | NJ    | JACKSON AVE. STA.     | 163A-165 CLAREMONT AVE.  | 07305    | \$25.30              | C         | b  | B       |
| 15    | HACKENSACK           | NJ    | LEONIA BR.            | 395 BROAD AVE.           | 07605    | \$28.06              | C         | b  | A       |
| 16    | JERICHO              | NY    | MAIN OFFICE           | 425 North Broadway       | 11753    | \$27.36              | C         | b  | C       |
| 17    | WEST ISLIP           | NY    | MAIN OFFICE           | 480 UNION ST.            | 11795    | \$26.50              | C         | b  | E       |
| 18    | HARRISBURG           | PA    | COLONIAL PARK FIN STA | COLONIAL PARK MALL       | 17109    | \$39.73              | C         | b  | A       |
| 19    | WASHINGTON           | DC    | NATL AIRPORT FIN STA  | NATL AIRPORT             | 20001    | \$43.78              | C         | b  | A       |
| 20    | SILVER SPRING        | MD    | SILVER SPRING CENTER  | 8455 COLESVILLE ROAD     | 20910    | \$34.38              | C         | b  | C       |
| 21    | FAIRFAX              | VA    | FAIRFAX STA BRADOL    | 5616 OX ROAD             | 22039    | \$25.24              | C         | b  | C       |
| 22    | VIENNA               | VA    | OAKTON BRANCH         | 2952K CHAINBRIDGE ROAD   | 22124    | \$25.68              | C         | b  | C       |
| 23    | ARLINGTON            | VA    | BUCKINGHAM STATION    | 235 NORTH GLEBE ROAD     | 22203    | \$29.26              | C         | b  | B       |
| 24    | ARLINGTON            | VA    | SOUTH STATION         | 3532 COLUMBIA PIKE       | 22204    | \$27.17              | C         | b  | B       |
| 25    | PALM BEACH           | FL    | STATION A             | 335 S COUNTY RD          | 33480    | \$32.95              | C         | b  | E       |
| 26    | YOUNGSTOWN           | OH    | LIBERTY DETACHED UNIT | 1315 CHURCHILL-HUBBARD   | 44505    | \$27.27              | C         | b  | C       |
| 27    | ANN ARBOR            | MI    | STA #1M               | 331 MAYNARD              | 48104    | \$36.11              | C         | b  | B       |
| 28    | CHICAGO              | IL    | OHARE TERMINAL 2 FIN  | OHARE AIRPORT            | 60666    | \$33.13              | C         | b  | A       |
| 29    | PACIFIC PALISADES    | CA    | MAIN OFFICE           | 15243 LA CRUZ AVE        | 90272    | \$41.48              | C         | b  | E       |
| 30    | PALOS VERDES PENINSU | CA    | PALOS VERDES EST STA  | 2516 VIA TEJON ST        | 90274    | \$25.80              | C         | b  | D       |
| 31    | PASADENA             | CA    | SAN MARINO BRANCH     | 2960 HUNTINGTON DRIVE    | 91108    | \$30.36              | C         | b  | B       |
| 32    | REDWOOD CITY         | CA    | WOODSIDE BRANCH       | 2995 WOODSIDE RD.        | 94062    | \$30.16              | C         | b  | C       |
| 33    | SAN FRANCISCO        | CA    | NOE VALLEY STATION    | 4083 - 24TH STREET       | 94114    | \$27.75              | C         | b  | A       |
| 34    | SAN FRANCISCO        | CA    | TEMP 18TH ST STN      | 2075 MARKET STREET       | 94114    | \$40.00              | C         | b  | A       |
| 35    | HONOLULU             | HI    | UPTOWN NPU            | 1176 NUUANU AVE.         | 96817    | \$25.56              | C         | b  | A       |
| 36    | HONOLULU             | HI    | MOILIILI STATION      | 2700-C S. KING ST        | 96828    | \$33.76              | C         | b  | A       |
| 37    | BEND                 | OR    | SUNRIVER BRANCH       | 57080 SUNRIVER VLG MALL  | 97707    | \$27.09              | C         | b  | C       |
| 38    | ANDOVER              | MA    | RETAIL UNIT           | 20 MAIN STREET           | 01810    | \$0.00               | C         | d  | C       |
| 39    | BRENTWOOD            | NY    | WEST BRENTWOOD BR     | PILGRIM ST. HOSP.        | 11717    | \$0.00               | C         | d  | E       |
| 40    | ONEIDA               | NY    | KENWOOD STATION       | MAIN ST                  | 13421    | \$1.18               | C         | d  | E       |
| 41    | BRACKENRIDGE         | PA    | MAIN OFFICE           | 1101 BRACKENRIDGE AVE    | 15014    | \$1.07               | C         | d  | H       |
| 42    | PITTSBURGH           | PA    | PARKWAY CENTER BRANCH | 3 PARKWAY CENTER         | 15220    | \$0.00               | C         | d  | A       |
| 43    | PITTSBURGH           | PA    | NEVILLE ISLAND BR     | 115 SECOND ST            | 15225    | \$1.04               | C         | d  | A       |
| 44    | REYNOLDSVILLE        | PA    | MAIN OFFICE           | 350 MAIN STREET          | 15851    | \$1.11               | C         | d  | G       |
| 45    | SHARON               | PA    | MAIN OFFICE           | SILVER & SHENANGO STS    | 16146    | \$1.03               | C         | d  | D       |
| 46    | ALBION               | PA    | MAIN OFFICE           | 29 E STATE ST            | 16401    | \$1.20               | C         | d  | G       |
| 47    | JERSEY SHORE         | PA    | MAIN OFFICE           | ALLEGHENY ST & PA CANAL  | 17740    | \$0.92               | C         | d  | G       |
| 48    | HAZLETON             | PA    | MAIN OFFICE           | 231 N WYOMING ST         | 18201    | \$1.09               | C         | d  | D       |
| 49    | MORTON               | PA    | MAIN OFFICE           | 128 YALE AVENUE          | 19070    | \$1.05               | C         | d  | G       |
| 50    | COLLEGEVILLE         | PA    | SCHWENKSVILLE BR      | 153 CENTENNIAL ST        | 19473    | \$0.83               | C         | d  | D       |
| 51    | BETHESDA             | MD    | WEST BETHESDA BRANCH  | 9601 SEVEN LOCKS ROAD    | 20817    | \$0.51               | C         | d  | C       |
| 52    | TANEYTOWN            | MD    | MAIN OFFICE           | 13 MIDDLE ST             | 21787    | \$0.50               | C         | d  | G       |
| 53    | BELLE                | WV    | MAIN OFFICE           | 814 E DUPONT AVE         | 25015    | \$0.93               | C         | d  | H       |
| 54    | KISSIMMEE            | FL    | CELEBRATION BRANCH    | CELEBRATION TOWN CENTER  | 34747    | \$0.29               | C         | d  | C       |
| 55    | HAZARD               | KY    | FINANCE STATION       | 601 N MAIN ST            | 41701    | \$1.00               | C         | d  | E       |
| 56    | COLUMBUS             | OH    | BIG BEAR #61 DET UNIT | 4665 MORSE CT            | 43229    | \$0.06               | C         | d  | A       |
| 57    | SABINA               | OH    | MAIN OFFICE           | 39 N HOWARD ST           | 45169    | \$1.00               | C         | d  | G       |
| 58    | BELLEVILLE           | MI    | DETACHED LOCKBOX      | 23483 SOMPTER RD         | 48111    | \$0.01               | C         | d  | E       |
| 59    | MANISTEE             | MI    | MAIN OFFICE           | 35 FILER ST              | 49660    | \$1.09               | C         | d  | F       |
| 60    | HALES CORNERS        | WI    | DL CITY HALL          | 9229 W LOOMIS RD         | 53130    | \$0.00               | C         | d  | D       |
| 61    | WHEATON              | MN    | MAIN OFFICE           | 1107 BROADWAY            | 56296    | \$1.17               | C         | d  | G       |
| 62    | WARREN               | MN    | MAIN OFFICE           | 520 N MINNESOTA ST       | 55762    | \$0.64               | C         | d  | G       |
| 63    | KALISPELL            | MT    | FLATHEAD STATION      | 248 1ST AVE WEST         | 59901    | \$1.14               | C         | d  | D       |
| 64    | EVANSTON             | IL    | DETACHED LOCKBOX      | 1999 SHERIDAN RD         | 60204    | \$0.00               | C         | d  | C       |
| 65    | CHICAGO HEIGHTS      | IL    | MAIN OFFICE           | 1333 WEST END AVE        | 60411    | \$0.85               | C         | d  | E       |
| 66    | MONTICELLO           | AR    | COLLEGE HGTS BR-UNIV  | Student Union Bldg-UAM   | 71655    | \$1.15               | C         | d  | F       |
| 67    | NEWPORT              | AR    | DPOB                  | US HWY 67                | 72112    | \$0.01               | C         | d  | F       |
| 68    | ELMER                | OK    | MAIN OFFICE           | MAIN & NEVILLE ST        | 73539    | \$1.06               | C         | d  | K       |
| 69    | CUSTER CITY          | OK    | MAIN OFFICE           | 425 South Main Street    | 73639    | \$1.05               | C         | d  | K       |
| 70    | COMMERCE             | TX    | EAST TEXAS STATION    | EAST TEXAS UNIVERSITY    | 75428    | \$0.00               | C         | d  | F       |
| 71    | FORT WORTH           | TX    | TEMP RICHLAND HILLS   | DIANA DRIVE              | 76118    | \$0.00               | C         | d  | A       |
| 72    | DENTON               | TX    | NORTH TEXAS STATION   | STUDENT UNION BLDG NTSU  | 76203    | \$0.00               | C         | d  | C       |
| 73    | PUEBLO               | CO    | MAIN POST OFFICE      | 421 N MAIN ST            | 81001    | \$0.00               | C         | d  | B       |
| 74    | CHITTENDEN           | VT    | MAIN OFFICE           | MAIN RD - ST AID HWY #1  | 05737    | \$28.48              | D         | c  | J       |
| 75    | FAR HILLS            | NJ    | MAIN OFFICE           | THE MALL AT FAR HILLS    | 07931    | \$28.00              | D         | c  | F       |
| 76    | ROSEBOOM             | NY    | MAIN OFFICE           | CORNER RTS 165 & 166     | 13450    | \$40.00              | D         | c  | K       |
| 77    | PALA                 | CA    | MAIN OFFICE           | PALA MISSION ROAD        | 92059    | \$27.17              | D         | c  | H       |
| 78    | RANCHO SANTA FE      | CA    | MAIN OFFICE           | LA FLECHA VIA DESANTA FE | 92067    | \$33.23              | D         | c  | E       |
| 79    | EARP                 | CA    | MAIN OFFICE           | CALIFORNIA HIGHWAY 62    | 92242    | \$51.46              | D         | c  | H       |
| 80    | WOODLAND             | WA    | MAIN OFFICE           | 323 DAVIDSON             | 98674    | \$30.38              | D         | c  | G       |



**EXHIBIT D****Revenue Impact Estimate**

This exhibit estimates the revenue impact if the transfer candidates listed in Exhibit C page 3 are reassigned. Page 2 displays the derivation of fee differences for boxes reassigned by fee group and box size. Page 3 summarizes by reassignment direction and group, as well as displays overall revenue impact estimate.

- DERIVATION OF FEE DIFFERENCES FOR GROUP TRANSFERS, PAGE 2
- REVENUE IMPACT, PAGE 3

## Derivation of Fee Differences for Group Transfers

| Fee Group | Box Size | TYAR Dist. | Old Fee  | New Fee  | Up Fee   | Down Fee | Delta Up | Delta Down | Delta Up - Old | Delta Down - Old | Pct. Up/Old | Pct. Down/Old |
|-----------|----------|------------|----------|----------|----------|----------|----------|------------|----------------|------------------|-------------|---------------|
|           |          | [1]        | [2]      | [3]      | [4]      | [5]      | [6]      | [7]        | [8]            | [9]              | [10]        | [11]          |
| A         | 1        | 0.908      | \$48     | \$70     | na       | \$60     | na       | (\$10)     | na             | \$12             | na          | 25.0%         |
|           | 2        | 0.056      | \$74     | \$105    | na       | \$90     | na       | (\$15)     | na             | \$16             | na          | 21.6%         |
|           | 3        | 0.032      | \$128    | \$185    | na       | \$150    | na       | (\$35)     | na             | \$22             | na          | 17.2%         |
|           | 4        | 0.003      | \$242    | \$325    | na       | \$290    | na       | (\$35)     | na             | \$48             | na          | 19.8%         |
|           | 5        | 0.001      | \$418    | \$550    | na       | \$435    | na       | (\$115)    | na             | \$17             | na          | 4.1%          |
| Total A   |          | 1.000      | \$ 52.92 | \$ 76.94 | na       | \$ 65.68 | na       | (\$11.26)  | na             | \$ 12.76         | na          | 24.1%         |
| B         | 1        | 0.747      | \$44     | \$60     | \$70     | \$45     | \$10     | (\$15)     | \$26           | \$1              | 59.1%       | 2.3%          |
|           | 2        | 0.169      | \$66     | \$90     | \$105    | \$65     | \$15     | (\$25)     | \$39           | (\$1)            | 59.1%       | -1.5%         |
|           | 3        | 0.064      | \$112    | \$150    | \$185    | \$115    | \$35     | (\$35)     | \$73           | \$3              | 65.2%       | 2.7%          |
|           | 4        | 0.009      | \$218    | \$290    | \$325    | \$195    | \$35     | (\$95)     | \$107          | (\$23)           | 49.1%       | -10.6%        |
|           | 5        | 0.010      | \$372    | \$435    | \$550    | \$325    | \$115    | (\$110)    | \$178          | (\$47)           | 47.8%       | -12.6%        |
| Total B   |          | 1.000      | \$ 56.83 | \$ 76.81 | \$ 90.56 | \$ 57.12 | \$13.75  | (\$19.69)  | \$ 33.73       | \$ 0.29          | 59.4%       | 0.5%          |
| C         | 1        | 0.626      | \$40     | \$45     | \$60     | \$18     | \$15     | (\$27)     | \$20           | (\$22)           | 50.0%       | -55.0%        |
|           | 2        | 0.263      | \$58     | \$65     | \$90     | \$30     | \$25     | (\$35)     | \$32           | (\$28)           | 55.2%       | -48.3%        |
|           | 3        | 0.089      | \$104    | \$115    | \$150    | \$55     | \$35     | (\$60)     | \$46           | (\$49)           | 44.2%       | -47.1%        |
|           | 4        | 0.019      | \$172    | \$195    | \$290    | \$80     | \$95     | (\$115)    | \$118          | (\$92)           | 68.6%       | -53.5%        |
|           | 5        | 0.004      | \$288    | \$325    | \$435    | \$125    | \$110    | (\$200)    | \$147          | (\$163)          | 51.0%       | -56.6%        |
| Total C   |          | 1.000      | \$ 53.82 | \$ 60.37 | \$ 81.64 | \$ 26.02 | \$21.27  | (\$34.36)  | \$ 27.82       | \$ (27.80)       | 51.7%       | -51.7%        |
| D         | 1        | 0.667      | \$12     | \$18     | \$45     | na       | \$27     | na         | \$33           | na               | 275.0%      | na            |
|           | 2        | 0.259      | \$20     | \$30     | \$65     | na       | \$35     | na         | \$45           | na               | 225.0%      | na            |
|           | 3        | 0.068      | \$36     | \$55     | \$115    | na       | \$60     | na         | \$79           | na               | 219.4%      | na            |
|           | 4        | 0.005      | \$53     | \$80     | \$195    | na       | \$115    | na         | \$142          | na               | 267.9%      | na            |
|           | 5        | 0.001      | \$83     | \$125    | \$325    | na       | \$200    | na         | \$242          | na               | 291.6%      | na            |
| Total D   |          | 1.000      | \$ 15.97 | \$ 24.03 | \$ 55.94 | na       | \$31.91  | na         | \$ 39.97       | na               | 250.3%      | na            |

[1] - [3] Source: Table 9A, USPS-T-24, Docket No. R97-1

[4] Column [3] shifted down one Fee Group

[5] Column [3] shifted up one Fee Group

[6] [4] - [3]

[8] [4] - [2]

[9] [5] - [2]

[10] [8] / [2]

[11] [9] / [2]

## Revenue Impact

| Direction | From       | To | Boxes  | Facilities | Difference | Revenue Change<br>All Goups | Revenue Change<br>Groups A-C<br>Only |
|-----------|------------|----|--------|------------|------------|-----------------------------|--------------------------------------|
| down      | A          | B  | 215    | 1          | (\$11.26)  | (\$2,422)                   |                                      |
| up        | B          | A  | 3,083  | 5          | \$13.75    | \$42,391                    |                                      |
| down      | B          | C  | 1,755  | 2          | (\$19.69)  | (\$34,555)                  | A-B-C                                |
| up        | C          | B  | 18,369 | 29         | \$21.27    | \$390,720                   | <b>\$396,134</b>                     |
| down      | C          | D  | 16,447 | 36         | (\$34.36)  | (\$565,043)                 | C-D                                  |
| up        | D          | C  | 6,738  | 7          | \$31.91    | \$214,989                   | (\$350,054)                          |
|           | Total up   |    | 28,190 | 41         |            |                             |                                      |
|           | Total down |    | 18,417 | 39         |            |                             |                                      |
|           | Total      |    | 46,607 | 80         |            |                             |                                      |
|           | Net        |    | 9,773  | 2          |            | <b>\$46,080</b>             | <b>\$396,134</b>                     |





**EXHIBIT E**

This exhibit presents an analysis of IOCS Tallies indicating the proportion of window service time provided by clerks and mailhandlers. Pages 3 through 9 presents SAS summary tables and computer program.

- CLERKS AND MAILHANDLERS TALLY ANALYSIS, PAGE 2
- SAS SUMMARY TABLES, PAGES 3 AND 4
- COMPUTER PROGRAM, PAGES 5 THROUGH 9

## EXHIBIT E

| CLERKS AND MAILHANDLERS TALLY ANALYSIS |                  |             |            |                    |             |          |
|--|------------------|-------------|------------|--------------------|-------------|----------|
| FISCAL YEAR 1996                       |                  |             |            |                    |             |          |
|  | Weighted Tallies |             |            | Unweighted Tallies |             |          |
| activity code(s) =>                    | 5020, 6020       | 5030, 6030  |            | 5020, 6020         | 5030, 6030  |          |
| activity =>                            | P.O. Box         | Caller Svc. | Both       | P.O. Box           | Caller Svc. | Both     |
| ___ + Craft + ___                      | ( 1 )            | ( 2 )       | ( 3 )      | ( 4 )              | ( 5 )       | ( 6 )    |
| Clerks                                 | 39,447,642       | 13,308,557  | 52,756,199 | 420                | 186         | 606      |
| Mailhandlers                           | 53,142           | 118,340     | 171,482    | 1                  | 2           | 3        |
| Both                                   | 39,500,784       | 13,426,897  | 52,927,681 | 421                | 188         | 609      |
| Sum                                    | 39,500,784       | 13,426,897  | 52,927,681 | 421                | 188         | 609      |
| Difference                             | 39,500,784       | 13,426,897  | 52,927,681 | 0                  | 0           | 0        |
| Percentages:                           | P.O. Box         | Caller Svc. | Both       | P.O. Box           | Caller Svc. | Both     |
| Clerks                                 | 99.865%          | 99.119%     | 99.676%    | 99.762%            | 98.936%     | 99.507%  |
| Mailhandlers                           | 0.135%           | 0.881%      | 0.324%     | 0.238%             | 1.064%      | 0.493%   |
| Both                                   | 100.000%         | 100.000%    | 100.000%   | 100.000%           | 100.000%    | 100.000% |

Source: IOCS Special Analysis

FISCAL YEAR 1996  
WINDOW SERVICE AT ALL FACILITIES  
A LISTING OF SELECTED ACTIVITIES  
WEIGHTED TALLIES

| ACTIVITY        | ROSTER       | Frequency | Percent | Cumulative<br>Frequency | Cumulative<br>Percent |
|-----------------|--------------|-----------|---------|-------------------------|-----------------------|
| POST OFFICE BOX | CLERKS       | 39447642  | 74.5    | 39447642                | 74.5                  |
| POST OFFICE BOX | MAILHANDLERS | 53142     | 0.1     | 39500784                | 74.6                  |
| CALLER SERVICE  | CLERKS       | 13308557  | 25.1    | 52809341                | 99.8                  |
| CALLER SERVICE  | MAILHANDLERS | 118340    | 0.2     | 52927681                | 100.0                 |

FISCAL YEAR 1996  
 WINDOW SERVICE AT ALL FACILITIES  
 A LISTING OF SELECTED ACTIVITIES  
 UNWEIGHTED TALLIES

2

TABLE OF ACTIVITY BY ROSTER

| ACTIVITY        | ROSTER |                  | Total |
|-----------------|--------|------------------|-------|
|                 | CLERKS | MAILHAND<br>LERS |       |
| POST OFFICE BOX | 420    | 1                | 421   |
| CALLER SERVICE  | 186    | 2                | 188   |
| Total           | 606    | 3                | 609   |



The SAS System

08:55 Tuesday, March 3, 1998

NOTE: Copyright (c) 1989-1992 by SAS Institute Inc., Cary, NC, USA.  
NOTE: SAS (r) Proprietary Software Release 6.08 TS420  
Licensed to US POSTAL SERVICE, Site 0034819007.

NOTE: Running on IBM Model 9672 Serial Number 046563,  
IBM Model 9672 Serial Number 146563,  
IBM Model 9672 Serial Number 246563,  
IBM Model 9672 Serial Number 346563,  
IBM Model 9672 Serial Number 446563,  
IBM Model 9672 Serial Number 546563,  
IBM Model 9672 Serial Number 646563,  
IBM Model 9672 Serial Number 746563,  
IBM Model 9672 Serial Number 846563.

Welcome to the SAS Information Delivery System.

NOTE: The SASUSER library was not specified. SASUSER library will now be the same as the WORK library.  
NOTE: All data sets and catalogs in the SASUSER library will be deleted at the end of the session. Use the NOWORKTERM option to prevent their deletion.

NOTE: SAS system options specified are:  
SORT=4

NOTE: The initialization phase used 0.14 CPU seconds and 2686K.

```

1 *****; 00000100
2 * ; 00000200
3 * ; OPTIONS SKIP=5 NODATE ; 00000300
4 * ; 00000400
5 * COMMENT 00000500
6 * -- FV 1996 -- 00000600
7 * "POBOX.CNTL" 00000700
8 * "POBOX.SPEC96.DATA" 00000800
9 * INFILE IS "ALB.HQTAL96.ALL". 00000900
10 *****; 00001000
11 * CRAFT ROSTER DESIGNATIONS 00001100
12 * CLERKS - 11, 31, 41, 61, & 81 00001200
13 * MAILHANDLERS - 12, 32, 42, 62, & 82 00001300
14 *****; 00001400
15 * ; 00001500
16 DATA 00001600
17 WINDOW 00001700
18 ; 00001800
19 *****; 00001900
20 * ; 00002000
21 SET IN.TALLY96 00002100
22 ; 00002200
23 *****; 00002300
24 * ; 00002400
25 ROSTER=F257; OPCODE=F260; FUNCTION=F261; ACTIVITY=F262; 00002500
26 CAG=F284; 00002600
27 WGT=F9250; 00002700
28 DOLLAR=ROUND(WGT/100,1); 00002800
29 ; 00002900
30 *****; 00003000
31 * ; 00003100
32 KEEP 00003200

```

NOTE: Character values have been converted to numeric values at the places given by: (Line):(Column).  
28:18  
NOTE: The data set WORK.WINDOW has 609 observations and 6 variables.  
NOTE: The DATA statement used 22.39 CPU seconds and 3519K.

Exhibit E Page 6

# The SAS System

```

80          24=' WINDOW SERVICE ' 25=' WINDOW SERVICE ' 26=' WINDOW SERVICE ' 00008000
81          ; 00008100
NOTE: Format $FUNCTN has been output.
81          00008100
82          VALUE $CONSOL 00008200
82          ' '= ' BLANK' 00008200
83          00008300
84          00=' MAIL PROCESS.' 01=' MAIL PROCESS.' 02=' MAIL PROCESS.' 00008400
85          03=' MAIL PROCESS.' 04=' MAIL PROCESS.' 05=' MAIL PROCESS.' 00008500
86          06=' MAIL PROCESS.' 07=' MAIL PROCESS.' 08=' MAIL PROCESS.' 00008600
87          09=' WINDOW SERVICE ' 10=' A. OTHER WORK ' 11=' MAIL PROCESS.' 00008700
88          12=' MAIL PROCESS.' 13=' MAIL PROCESS.' 14=' MAIL PROCESS.' 00008800
89          15=' MAIL PROCESS.' 16=' MAIL PROCESS.' 17=' CLAIMS & INQUIRY' 00008900
90          18=' REGISTRY (ONLY) ' 19=' MAILGRAM ' 20=' MAIL PROCESS.' 00009000
91          21=' SPECIAL DELIVERY ' 22=' EXPRESS MAIL ' 23=' MAIL PROCESS.' 00009100
92          24=' WINDOW PO BOX ' 25=' WINDOW CALLER ' 26=' WINDOW GENL DEL' 00009200
93          ; 00009300
NOTE: Format $CONSOL has been output.
93          00009300
94          VALUE $UNOPRN 00009400
94          ' '= ' BLANK' 00009400
95          09=' WINDOW SERVICE' 00009500
96          24=' WINDOW PO BOX' 25=' WINDOW CALLER' 26=' WINDOW GENL DEL' 00009600
97          ; 00009700
NOTE: Format $UNOPRN has been output. 00009800
98          00009800
99          VALUE $NOPRN 00009900
99          ' '= ' BLANK' 00009900
100         09='09-WINDOW SERVICE' 00010000
101         24='24-WINDOW PO BOX' 25='25-WINDOW CALLER' 26='26-WINDOW G. DEL' 00010100
102         ; 00010200
NOTE: Format $NOPRN has been output. 00010300
103         00010300
104         VALUE $CLASSES 00010400
104         ' '= ' BLANK' 00010400
105         5020='POST OFFICE BOX' 00010500
106         6020='POST OFFICE BOX' 00010600
107         5030='CALLER SERVICE' 00010700
108         6030='CALLER SERVICE' 00010800
109         ; 00010900
NOTE: Format $CLASSES has been output. 00011000
110         00011000
111         VALUE $FMAT_II 00011100
111         ' '= ' BLANK' 00011100
112         5020='POST OFFICE BOX' 00011200
113         6020='POST OFFICE BOX' 00011300
114         5030='CALLER SERVICE' 00011400
115         6030='CALLER SERVICE' 00011500
116         ; 00011600
NOTE: Format $FMAT_II has been output. 00011700
117         00011700
118         * ; 00011800
119         *****; 00011900
120         * ; 00012000

```



NOTE: The PROCEDURE FORMAT used 0.06 CPU seconds and 3569K.

|     |  |          |
|-----|--|----------|
| 121 | PROC FREQ DATA=WINDOW; WEIGHT DOLLAR ;       | 00012100 |
| 122 | TABLE ACTIVITY*ROSTER / LIST ;               | 00012200 |
| 123 | FORMAT ACTIVITY \$CLASSES. ROSTER \$CRAFT. ; | 00012300 |
| 124 | TITLE1 'FISCAL YEAR 1998';                   | 00012400 |
| 125 | TITLE2 'WINDOW SERVICE AT ALL FACILITIES';   | 00012500 |
| 126 | TITLE3 'A LISTING OF SELECTED ACTIVITIES';   | 00012600 |
| 127 | TITLE4 'WEIGHTED TALLIES';                   | 00012700 |
| 128 | * ;  | 00012800 |

NOTE: The PROCEDURE FREQ printed page 1.

NOTE: The PROCEDURE FREQ used 0.04 CPU seconds and 3815K.

|     |   |          |
|-----|---|----------|
| 129 | PROC FREQ DATA=WINDOW;                          | 00012900 |
| 130 | TABLE ACTIVITY*ROSTER / NOPERCENT NOROW NOCOL ; | 00013000 |
| 131 | FORMAT ACTIVITY \$CLASSES. ROSTER \$CRAFT. ;    | 00013100 |
| 132 | TITLE4 'UNWEIGHTED TALLIES';                    | 00013200 |
| 133 | * ;   | 00013300 |

NOTE: The PROCEDURE FREQ printed page 2.

NOTE: The PROCEDURE FREQ used 0.02 CPU seconds and 3815K.

NOTE: The SAS session used 22.67 CPU seconds and 3815K.

NOTE: SAS Institute Inc., SAS Campus Drive, Cary, NC USA 27513-2414

```

1 //H30919T JOB (ALD02),'JW DALTON,JR. BIN#26',
// CLASS=B,MSGCLASS=T,NOTIFY=H30919
/*ROUTE PRINT U5704
//* SACFJ219 ACF2 ACTIVE SM1
//*
2 //S1 EXEC SASV608,REGION=7200K
3 XXSASV608 PROC ENTRY=SASXA1,
XX CONFIG=NULLFILE,
XX LOAD=*.NULLPDS,VOL=REF=*.NULLPDS',
XX SASAUTO=*.NULLPDS,VOL=REF=*.NULLPDS',
XX OPTIONS=,
XX SORT=4,
XX WORK='500,200'
XX*****
XX* PRODUCT: MVS SAS RELEASE 6.08 WITH FREE TRIAL OF ASSIST **
XX* DOCUMENTATION: SAS COMPANION FOR THE MVS ENVIRONMENT, VERSION 6 **
XX* FROM: SAS INSTITUTE INC., SAS CAMPUS DRIVE, CARY, NC 27513 **
XX*****
4 XXSAS608 EXEC PGM=&ENTRY,PARM='SORT=&SORT &OPTIONS',REGION=OM
IEFC653I SUBSTITUTION JCL - PGM=SASXA1,PARM='SORT=4 ',REGION=OM
5 XXNULLPDS DD DISP=(MOD,PASS),DSN=&NULLPDS,UNIT=SYSDA,
XX SPACE=(TRK,(1,1,1)),DCB=BLKSIZE=6160
6 XXSTEPLIB DD DISP=SHR,DSN=&LOAD
IEFC653I SUBSTITUTION JCL - DISP=SHR,DSN=*.NULLPDS,VOL=REF=*.NULLPDS
7 XX DD DISP=SHR,DSN=SYS3.PROCSORT.V2R1.SAS608.LINKLIB
8 XX DD DISP=SHR,DSN=SAS.V608.TS420.LIBRARY
9 XX DD DISP=SHR,DSN=SAS.V608.LIBRARY
10 XX DD DISP=SHR,DSN=SYS3X.DB2.CUR.LOAD
XX** UNCOMMENT/SUPPLY YOUR DSN IF YOU NEED TO CONCATENATE SORT LIB
XX** DD DISP=SHR,DSN=SYS1.SORT.LINKLIB
11 XXCONFIG DD DISP=SHR,DSN=SAS.V608.CNTL(BATCHXA)
12 XX DD DISP=SHR,DSN=&CONFIG
IEFC653I SUBSTITUTION JCL - DISP=SHR,DSN=NULLFILE
13 XXSASAUTOS DD DISP=SHR,DSN=&SASAUTO
IEFC653I SUBSTITUTION JCL - DISP=SHR,DSN=*.NULLPDS,VOL=REF=*.NULLPDS
14 XX DD DISP=SHR,DSN=SAS.V608.TS420.AUTOLIB
15 XX DD DISP=SHR,DSN=SAS.V608.AUTOLIB
16 XXSASHELP DD DISP=SHR,DSN=SAS.V608.TS420.SASHELP
17 XXSASMSG DD DISP=SHR,DSN=SAS.V608.TS420.SASMSG
18 XX DD DISP=SHR,DSN=SAS.V608.SASMSG
19 XXWORK DD UNIT=SYSDA,SPACE=(6144,(&WORK),,ROUND),
XX DCB=(RECFM=FS,LRECL=6144,BLKSIZE=6144,DSORG=PS)
IEFC653I SUBSTITUTION JCL - UNIT=SYSDA,SPACE=(6144,(500,200),,ROUND),DCB=(RECFM=FS,LRECL=6144,BLKSIZE=6144,
DSORG=PS)
20 XXSASLOG DD SYSOUT=*
21 XXSASLIST DD SYSOUT=*
22 XXSASPARM DD UNIT=SYSDA,SPACE=(400,(100,300)),
XX DCB=(RECFM=FB,LRECL=80,BLKSIZE=400,BUFNO=1)
23 XXSYSUDUMP DD SYSOUT=*
XX** ADD A LINE LIKE THE FOLLOWING TO CREATE A MACHINE-READABLE DUMP
XX*SYSDUMP DD DSN=DUMP,UNIT=SYSDA,DISP=(NEW,CATLG),SPACE=(TRK,(20,5))
//*S1 EXEC SAS,REGION=8320K
//*****
//* POBOX.CNTL
//*****
//* FISCAL YEAR 1996
//*
24 //IN DD DSN=ALB.HQAL96.ITEM.ALL,DISP=OLD
25 //SYSIN DD DSN=H30919.POBX.SPEC96.DATA,DISP=OLD

```

JOB12834  
00000200  
00000300  
ACF2

00000400

00000500  
00000600  
00000700  
00000800  
00000900  
00001000  
00001100

1 CHAIRMAN GLEIMAN: I know that in some past cases  
2 rebuttal testimony has not been transcribed but I think the  
3 record is going to be easier for us all to analyze in this  
4 case if rebuttal testimony does appear in the transcript --  
5 consequently, the direction that it be included.

6 Mr. Kaneer, just let me mention to you that we  
7 have experienced an occasional footnote slipping to the next  
8 page here at the Commission too, so I am not surprised to  
9 hear that since we use the same software that you have  
10 experienced that problem also.

11 Only one participant, the Office of Consumer  
12 Advocate, has requested oral cross examination.

13 Does any other participant have oral cross  
14 examination?

15 [No response.]

16 CHAIRMAN GLEIMAN: If not, then Ms. Dreifuss,  
17 whenever you are ready.

18 CROSS EXAMINATION

19 BY MS. DREIFUSS:

20 Q Good morning, Mr. Kaneer. I am <sup>Shelley</sup>~~Shirley~~ Dreifuss  
21 of the Office of Consumer Advocate.

22 A Good morning.

23 Q I would like you to turn to your testimony at page  
24 4, lines 20 to 22 and that continues over onto page 5, line  
25 1.

1           A     I have it.

2           Q     At the bottom -- at the point I just referred you  
3     to, you state that, the Docket Number R90-1 Library  
4     Reference to which he points -- that is -- I am paraphrasing  
5     a bit -- Library Reference F-183, this is more of an  
6     accident of demographics than any inherent relationship, and  
7     you are referring to the weak correlation between post  
8     office box costs and CAG, are you not?

9           A     That's correct.

10          Q     Have you read all of Library Reference F-183?

11          A     As a matter of fact I have. I have it right here.

12          Q     Okay. Now you state at the portion of your  
13     testimony that I just quoted that -- what portions of  
14     Witness Callow's testimony are you referring to when you do  
15     refer to it at the bottom of page 4?

16          A     In general, I believe that Witness Callow was  
17     trying to draw a relationship between the CAG and cost based  
18     largely on the 1988 report that suggested that it was a  
19     significant relationship.

20                 I have looked at that relationship and found that  
21     while it may be significant to some degree, it is not  
22     sufficiently significant for the purposes of basing P.O. box  
23     prices. It is more of an argument of degree rather than  
24     kind.

25          Q     You refer to this -- to the trends, let's say,

1 that are presented in the library reference as a mere  
2 accident of demographics.

3 What do you mean by that?

4 A Well, essentially there is a loose tendency that  
5 lower costs would be observed in the rural areas than in  
6 the, let's say, central city areas, so that is a loose  
7 accident, if you will, of how people with various incomes,  
8 et cetera, would end up, so -- but the fact is there's  
9 exceptions to that rule that are quite clear, so that is  
10 what I meant in terms of it's somewhat accidental that urban  
11 and rural have different demographic characteristics in  
12 terms of pricing P.O. boxes.

13 Q The size of CAGs -- do you believe it is related  
14 to a facility's presence in an urban area or rural area? Do  
15 you believe there is a correlation there?

16 A Well, let me be very clear. Degrees of  
17 correlation can be strong and weak and the amount of  
18 correlation is very important. It depends on what you are  
19 trying to use it for.

20 For example, if something is highly correlated  
21 versus weakly correlated, high and low is dependent upon  
22 what you intend to use the correlation for and while there  
23 may be some correlation between these two variables, it is  
24 not really sufficiently high enough to do a good job of  
25 pricing P.O. boxes.

1           Q     If you could turn to Library Reference F-183 for a  
2 moment, please.

3           MS. DREIFUSS: By the way, Commissioners, I have  
4 placed a copy of this Library Reference before you if you  
5 care to follow.

6           BY MS. DREIFUSS:

7           Q     Now on page 2, footnote 2, there is a statement  
8 that "There is a significant relationship between the CAG  
9 designation of a facility and its associated square foot  
10 rent" and then an example is given -- "e.g., CAG A offices  
11 have higher rent than CAG L offices."

12           Do you disagree with that statement?

13          A     I'll fall back to what I just said which was that  
14 the degree of significance is not sufficiently large to base  
15 a post office -- to base P.O. box rates on.

16           There's many examples in the statistical world  
17 where there would be a degree of association that you  
18 wouldn't perhaps want to act upon. Let's say there may be  
19 some loose probability that -- let's see if I can think of  
20 an example.

21           Let's say that if you were to ask whether a person  
22 is going to come into the room and whether -- I tell you  
23 that they are male or female, there is probably a loose,  
24 there is a probability that the lady would be shorter than  
25 the male but you wouldn't be absolutely certain of that and

1 given that -- the importance of what you are trying to do,  
2 you wouldn't want to bet a large amount on something that  
3 the association is not very strong, and so again that degree  
4 of association is relative and so that while this report  
5 finds a significant association between CAG and cost, I can  
6 easily point to an example where CAG is not related to cost.

7 For example, if you just perhaps turn to page --  
8 Exhibit C, page 3, these costs have been recently verified  
9 that the reference that you are looking at is perhaps  
10 somewhat old, but still this would illustrate the point.

11 If you were to look at line 68, for example,  
12 Elmer -- the Elmer post office in Oklahoma, it is a  
13 category -- it's a CAG K office with a \$1.06 rental cost per  
14 square foot.

15 You can also look at the same list on line 76 and  
16 find the Rosebloom, New York office at a cost of \$40 per  
17 square foot. Both of these offices have the same CAG and  
18 while there may be a loose association it certainly has  
19 counter-examples that you wouldn't want to base P.O. box  
20 prices on, and I think that is a good example of how you may  
21 have a significant relationship but the degree of  
22 significance isn't sufficiently large enough to base P.O.  
23 boxes on -- P.O. box fees on.

24 Q You agree with the conclusion of the report that  
25 there is a significant relationship, is that correct?

1           A     I haven't performed any F tests or anything like  
2     that. I believe that the significance is a rough  
3     generalization, but it's -- I would have difficulty, you  
4     know, swearing that there is a strong relationship between  
5     CAG and P.O. Box costs. Well, I can certainly say that  
6     there is not a strong enough relationship between CAG costs,  
7     CAG-related costs in those instances and for the purpose of  
8     using P.O. Boxes. I think that the report somewhat tends to  
9     be correct, but the degree of significance is not -- is not  
10    sufficiently strong enough for the purposes that we are  
11    attempting to achieve here of setting P.O. Box fees.

12           Q     You do understand, though, that it is the  
13    Commission that will have to determine whether the  
14    correlation is significant enough, or strong enough to  
15    warrant reclassifying Post Office Box fees along the lines  
16    that Witness Callow suggests, do you not?

17           A     Yes. And I hope that they would look at some of  
18    the instances which we have provided where it showed -- that  
19    we feel that there is a very, we being the Postal Service, a  
20    very weak relationship between CAG<sup>and</sup> costs for specific  
21    locations.

22                   As a matter of fact, if you -- I don't want to  
23    belabor the point too much, but if you would turn to, again,  
24    Exhibit B, we have outlined several -- well, let's see, let  
25    me pick a different exhibit. Let's go with Exhibit --



1 Exhibit A, page 5. These are the ranges that Witness Callow  
2 has provided for his P.O. Box groups in terms of their high  
3 and low cost, and if you take a moment to look at that, you  
4 will see that the ranges about the means of which he bases  
5 his fee groups on is extremely large. They go from .0076,  
6 et cetera, up to a high of 35.799 dollars per square foot in  
7 rental cost. That is a very large range about that mean.

8 While they do tend to go from high to low, there's  
9 -- the categories and ranges within each of his classes  
10 could easily fit in almost any other class. So, for  
11 example, if I picked an office of, let's say, \$8 and asked  
12 you to which range would it fit in, you would find that it  
13 would fit in any of those ranges. So the association is  
14 weakened to my mind.

15 Q It is quite possible, however, that even though  
16 the range is very wide, most data points are clustered  
17 around the mean, isn't that a possibility?

18 A It's a possibility, but there's better  
19 alternatives, and that would be to classify the data  
20 according to what you would -- the analysis that you are  
21 interested in doing. So why would you want to classify  
22 something into categories which could be better classified  
23 into cost categories rather than CAG categories, which is a  
24 revenue variable?

25 Q Well, for example, and this is hypothetical, if I

1 had 100,000 data points, and virtually of them were  
2 clustered closely around the mean, and I only happen to have  
3 two at the extreme ends that you give in this table, I  
4 think, in this hypothetical situation, you would feel  
5 comfortable creating a fee group based on that cost  
6 tendency, wouldn't you?

7 A Absolutely not, because the standard deviation  
8 that you have right next to the table suggests that these --  
9 these means are not clustered closely around the  
10 observation. So, based on the data that you have provided  
11 me, I couldn't draw that conclusion~~s~~ that they are, based on *what's*  
12 there, so we don't need to go to a hypothetical example, the  
13 actual data shows that they are widely dispersed.

14 Q Have you given any information on the table on  
15 what percentage of data points would fall closely around the  
16 mean and what percentage would not?

17 A No, I haven't. I tried to avoid statistical  
18 jargon to the extent possible in formal tests, because in  
19 this particular case, it's quite easy to see the dispersion  
20 about these averages is quite large.

21 If you look at Exhibit A, page two, this exhibit  
22 shows that in all of the CAG classifications, offices fall  
23 within -- the CAG's fall throughout the entire range of  
24 observations, so while you see categories -- what were  
25 grouped CAG's A through D, as one of Witness Callow's ulti-

1 mate CAG ranges, you find those offices in the highest CAG,  
2 which has an average of around 16.55, and there is also a  
3 very large number of them in the very lowest CAG, 1.83.

4 So, you see these CAG's fall throughout the entire  
5 range of costs, even in between, so the degree of associa-  
6 tion is far too low to base that on -- to base P.O. box  
7 costs on. I'm sorry, to base P.O. box fees on, particu-  
8 larly when there's a much better alternative.

9 You will be going down the wrong path to rely on a  
10 CAG based system.

11 Q Do you agree that the alternatives that the Com-  
12 mission has before it right now are to recommend the fee  
13 groups that Witness Needham proposed or to recommend the fee  
14 groups that Witness Callow proposed?

15 A Yes, I recognize that and I believe that Witness  
16 Needham's fees would not complicate the situation to the  
17 extent that Witness Callow's would, and I would urge the  
18 Commission to go forward with Witness Needham's proposal.  
19 She's basically taking a correct step in some of the details  
20 of her proposal, which would not complicate the future  
21 movement towards a more cost based fee -- fees for the P.O.  
22 boxes.

23 Q Unfortunately, I wasn't -- I didn't bring this  
24 with me, but I'm going to ask if you remember it. I remem-  
25 ber it and I think you may also.

1           Do you recall that Witness Callow gave an inter-  
2 rogatory that there was as much variation in the current fee  
3 group, C and D, as the Post Service claims there is in his  
4 proposed fee groups? Do you recall a response like that?

5           A     I don't recall it but I'll accept that's a propo-  
6 sition. I would say though that just because there's a  
7 large degree of disparity about the current system, it is  
8 the system in place, and it's a system that you wouldn't  
9 want to just go along, and to use a phrase of Dr. Bradley,  
10 willy-nilly stir it up and re-categorize a lot of offices in  
11 various ways that are only loosely associated with costs.

12                If your true objective is to have cost based fees,  
13 then let's not do something that would prevent us from  
14 getting there. Let's start with where we are and then move  
15 in that direction rather than take off in the CAG based  
16 direction.

17                That would be my urging to do that.

18           Q     If it's true that there is a correlation, you call  
19 it a loose correlation, I'll prefer to use the phrase "sig-  
20 nificant relationship," that I found in library reference  
21 F183, if there is that correlation, a significant relation-  
22 ship or some correlation, between CAG's and costs, doesn't  
23 that bring the fee groups closer to being truly cost based,  
24 if we used Witness Callow's proposal over Witness Needham's?

25           A     Well, I wouldn't characterize that as the only

1 criteria. I couldn't -- again, would strongly urge not to  
2 go in that direction for a temporary, possibly insignificant  
3 improvement in terms of pricing.

4 I would like to keep the focus on pricing and the  
5 use of the data it's in, rather than loosely correlated  
6 improvements that probably wouldn't pan out, and particular-  
7 ly would be difficult to deal with when you want to move to  
8 a true cost based system.

9 The variable of analysis is cost. It's not CAG or  
10 revenues, which is a revenue based measure. If you want to  
11 measure costs and base your fees on costs, then let's group  
12 them by costs, not by CAG.

13 Q Could you turn to page 3, lines 20 to 23 of your  
14 testimony, please?

15 A Yes.

16 Q And I'm going to focus for the moment on your  
17 reference to fee groups A and B.

18 Do you know how fee groups A and B are defined?

19 A Roughly I'm familiar with it; yes.

20 Q Would you accept subject to check that they are  
21 defined by specified high-cost zip codes in Manhattan, New  
22 York, and eight large cities and their suburbs according to  
23 Witness Needham?

24 A Yes, that's my understanding.

25 Q Would you accept, subject to check, that those

1 specified high-cost zip codes in Fee Group A are associated  
2 with CAG A post offices?

3 A Yes, I'll accept that.

4 Q Would you accept subject to check that those  
5 specified high-cost zip codes in fee group B are associated  
6 with CAG A, B, C, and D post offices?

7 A Yes, I would. I'll accept that subject to check  
8 as a hypothetical.

9 Q Okay. Please refer to your testimony at page 5,  
10 lines 7 through 11, please.

11 Would you accept subject to check that the current  
12 \$40 fee for box size 1 in fee group C is 233 percent greater  
13 than the \$12 fee for the same size box in fee group D, that  
14 is, a difference of \$28.

15 A I believe that's what we have calculated. Is it  
16 \$28?

17 Q Yes, that's right. I see it.

18 A Yes, okay.

19 Q Yes. You've also calculated other differences in  
20 that section.

21 A Yes.

22 Q Would you accept subject to check that the Postal  
23 Service's proposed fee of \$45 for box size 1 in Fee Group  
24 C -- that is, a difference of \$27 -- is 150 percent greater  
25 than the proposed \$18 fee for the same-sized box in Fee

1 Group D?

2 A Would you mind repeating that? I'm not quite  
3 clear.

4 Q Focusing on the difference in fees between box  
5 size 1 in fee group C, the \$45 fee --

6 A You say \$45 or \$40. I have 40.

7 Q Oh, I'm sorry, it is 40; \$40. I apologize for  
8 that mistake. For box size 1 in fee group C and box size 1  
9 in fee group D. That would be a difference of not what I  
10 have here. It would be \$22, I believe.

11 Well, I guess that's where the confusion is.  
12 We're talking about a difference of 40 and -- oh, okay, I'm  
13 sorry -- 40 and 12, giving a difference of \$28.

14 A Okay. Well, I -- I do see 28.

15 Q Let's move on. I'm not going to worry about these  
16 fine points at ~~the~~<sup>this</sup> time.

17 Would you accept subject to check that the OCA's  
18 proposed fee of \$56 for box size 1 in fee group C-1 is only  
19 133-percent greater than OCA's proposed \$24 fee for the  
20 same-sized box in fee group D-1, even though the difference  
21 is only \$32?

22 A Are you -- I would suppose subject to check that  
23 is true. I'm not sure what the point is, however.

24 Q Well, the point that's being made here is that it  
25 is possible for the absolute difference in dollars to

1 increase, but the degree to which fees become closer  
2 together in percentage terms decreases. That is possible,  
3 isn't it?

4 A Right. I suppose so. If we're looking at -- let  
5 me take an example. I think as an example perhaps of what  
6 you're getting at is in box size 1, and why -- and it's one  
7 of the reasons I prefer Witness Needham's results if given  
8 the choice is that box size 1, for example, and I think this  
9 follows what you're saying, in group D on June 8 that fee  
10 was \$8. The current fee is now \$12. The USPS has proposed  
11 \$18. And Witness Callow now proposes a \$24 situation.

12 So when we look at the actual fees being proposed  
13 and their relative impact, I think that that's one example  
14 of the ultimate fees being proposed are too high with the  
15 100-percent markup that that would -- that that would be.  
16 And I think it's perhaps something that would serve as a  
17 counterexample that I would offer the Commission to be wary  
18 of is to look at the actual fees that result from the CAG-  
19 based proposal. And that's what I was trying to get here in  
20 this particular section of my testimony was that Susan  
21 Needham's proposals are somewhat moderate.

22 Q Turn to your testimony at page 9, please, lines 13  
23 through 16.

24 A I have it.

25 Q Is it your testimony that the Shepherdsville,



1 Wilton and Young America Post Offices are found in OCA's new  
2 fee group D-1?

3 A Yes, that's my understanding.

4 Q Are you able to identify any other facilities in  
5 OCA's new fee group D-1 that have a high CAG designation  
6 because they accept mail for one large mailer located in  
7 close proximity?

8 A This rather short list was derived during the time  
9 that we had to prepare for rebuttal. Now, these facilities  
10 originated off of what was our list of about 80 that we have  
11 identified as high cost and low CAG anomalies. In the short  
12 amount of time that we have had, we have been able to really  
13 just offer these as examples, but I would suspect that  
14 there's many more.

15 Again, if you look at Exhibit A, we're talking  
16 about the tail of large CAGs in very low-cost facilities,  
17 and we're looking for an explanation of why that might be,  
18 and these are aimed at providing examples where, in a low-  
19 cost area, large mailers would typically perhaps like to  
20 locate in order to take advantage of the low cost, so their  
21 CAG will be run up, if you will, by large mailers choosing  
22 to locate in low-cost areas.

23 Now, I haven't done an econometric study or an  
24 extensive study, but we have identified at least three in  
25 the time that we have had to develop the rebuttal here that

1 would indicate that that is a possibility, and indeed, in  
2 the broad sense, we can see that there are a good number of  
3 high CAGs located in low-cost facilities. That was the  
4 point of that section.

5 Q You have only given these three examples, though;  
6 is that correct?

7 A That's correct. That's all that I've had the  
8 opportunity to look for is <sup>three</sup>~~two~~ examples and be very sure  
9 that they're there.

10 Q Are you aware that there were 31 facilities  
11 falling into OCA's new fee group D-1?

12 A Thirty-one facilities? I mean, I believe that's -  
13 - I'll accept that. I mean --

14 Q So you're not clear about the -- if that's true,  
15 let's assume for the moment, subject to check, that there  
16 are 31 facilities falling into OCA's new fee group D-1, you  
17 don't know for the other 28, apart from the three that you  
18 refer to in your testimony, whether they present a similar  
19 situation to Wilton, Young America and Shepherdsville? Is  
20 that correct?

21 A Well, I would say that given that there's nearly  
22 30,000-some PO box facilities that 32 or 33 that happen to  
23 line up would also be a small, small number in general  
24 terms. So I wouldn't lay a lot of importance on the fact  
25 that there's only three identified here.

1 Q How much --

2 A Out of a total -- I mean, three versus 28 or  
3 something out of a total of 30,000 or 40,000 is fairly low.  
4 And I think, again, we want to get to where -- if you were  
5 to have, again, as a counter-example, your fee groups or the  
6 PO box fee groups grouped into cost categories, they would  
7 all fit into the correct cost fee group, there would be  
8 total homogeneity, there wouldn't be any reason to look at  
9 exceptions like this, and this is kind of a -- points in the  
10 direction of why you wouldn't want to go into a CAG-based  
11 system.

12 Q How much information has the Postal Service  
13 presented on the 38- or 40,000 facilities that you mentioned  
14 a moment ago?

15 A Well, I think that the chart A, Exhibit A, Exhibit  
16 A, page 2 I believe it is, really goes a long way to  
17 characterizing the dispersion that you find in a CAG-based  
18 system among all of the cost groups, and again, you can -- I  
19 think that that gives a kind of a total look, and I also  
20 would say that the exhibit -- the last page of that exhibit  
21 that we looked at before would -- that the OCA provided also  
22 shows kind of an overall view of how dispersed the data is  
23 among all facilities.

24 Q Do you know the CAG designations of the  
25 Shepherdsville, Wilton and Young America post offices?

1 A I don't believe I have that handy with me.

2 Q Turn to page 21, please, lines 21 to 23.

3 A Yes.

4 Q The sentence there states that the next section  
5 describes a very limited regrouping of Post Office box  
6 facilities being planned for implementation, together with  
7 any classification and fee changes rising from this case; is  
8 that correct?

9 A Yes.

10 Q Does this constitute a formal proposal, to make  
11 these changes?

12 A My understanding is that the Postal Service can  
13 re-assign these perhaps as it would like. It's more or less  
14 a tentative suggestion of how we would like to begin the  
15 process of aligning P.O. box fees with rates, but again,  
16 this is a rebuttal section, and we are not proposing a fee  
17 proposal here in the formal sense.

18 Q In other places in your testimony, you refer to  
19 this as a hypothetical Post Office box fee structure. Is  
20 that the way it's being presented, as hypothetical?

21 A It's basically -- I'm hoping to illustrate the  
22 direction of grouping P.O. boxes on their costs, and this  
23 was basically developed to serve as an illustration of how,  
24 if you have a goal, the objective, to base the P.O. box fees  
25 on costs, then the most direct way of doing that is to have

1 your categories based on costs, and thereby, you directly  
2 align the fees with the costs.

3 You don't achieve that when you use a CAG based  
4 system. This is presented as a direction that we would like  
5 to go and we have selected a very limited number of  
6 facilities to hopefully try that out and learn a little bit  
7 as we go, to try to achieve a better alignment of fees and  
8 costs in the near future.

9 Q If these are hypothetical fee groups, why do we  
10 need to know what the net revenue effect is of implementing  
11 these changes? You present the net revenue effects at pages  
12 22 and 23 of your testimony.

13 Why do we need to know what the net revenue effect  
14 is?

15 A Well, the reason I put it in there was just to  
16 show the movement of these 40 facilities into either a high  
17 or low, <sup>has a</sup> ~~is~~ very minimal impact, should the Postal Service  
18 decide that's what they would like to do, to at least gain a  
19 little bit of information and to try to reassure the  
20 Commission what we have proposed here would have little  
21 impact, and it's really not a revenue based idea.

22 It's just that the impact will be very small on  
23 the public, et al, to move some 40 selected facilities up or  
24 down one fee group.

25 That was the main proposal, very little if any

1 revenue impact.

2 Q Is it your understanding that the Postal Service  
3 can take these steps without Commission approval?

4 A That's what my lawyers tell me, that most of these  
5 would have to -- if there is a process that would need to be  
6 engaged, it is possible, but I'm not a lawyer and I wouldn't  
7 want to presume upon that, but I understand it can be done.

8 Q I don't imagine you brought the R-94 opinion with  
9 you? There was no need to expect that you would need it; is  
10 that correct?

11 A I didn't happen to bring it today.

12 Q Well, I do have a page out of it. I only brought  
13 the one page, and it's very simple, so I don't think you  
14 will need to see what I'm referring to. If you do, I'll be  
15 happy to show you my one --

16 A I'll give it a try.

17 Q -- copy of one page. At chapter five, page 158 of  
18 the Commission's R-94-1 opinion, this is a paragraph, 5499.  
19 The opinion states the fee structure for Post Office boxes  
20 is based on three factors. The first is the size of the  
21 box. The second, and this is the one I want to focus on, is  
22 the classification of the Post Office where the box is  
23 located, and then the opinion continues, for box fee  
24 purposes, Post Offices are classified into three groups,  
25 based upon the type of carrier service available at each.

1           Delivery group 1 designates Post Offices having  
2   city delivery service. Delivery group 2, Post Offices  
3   having rural service.

4           Is that consistent with your understanding of the  
5   current fee groups, that ~~that~~ is -- let me back up just for  
6   a second. Delivery groups 1 and 2 were later changed in the  
7   special services case, Docket No. MC96-3; were they not?

8           A     Yes. I looked briefly at that.

9           Q     I believe they are now called fee group C and D;  
10   is that correct?

11          A     Yes, I believe there was largely a labeling change  
12   to my mind.

13          Q     That's my understanding. You understand that fee  
14   group C generally means city -- delivery by city carriers?

15          A     Right.

16          Q     And fee group D generally means by rural carriers;  
17   is that correct?

18          A     That's my understanding.

19          Q     So the present fee groups, C and D, are defined by  
20   the type of carrier service provided at the facility where  
21   the office is located?

22          A     That's my understanding.

23          Q     Yes. The hypothetical fee groups though that you  
24   referred to in your testimony are based instead -- you would  
25   classify offices and base the fees for Post Office boxes on

1 costs and demand and capacity utilization; is that correct?

2 A In a hypothetical structure, let's say in an ideal  
3 economic world, that would be a step in the right direction  
4 to my mind.

5 Q Do you believe then that the Postal Service can  
6 transform current fee group C and D, which are based on city  
7 carrier service and rural carrier service, to fee groups  
8 based instead on costs, demand and capacity utilization,  
9 without Commission approval?

10 A I'm again not an expert on what the Commission --  
11 the legalities of attempting to achieve this ultimate goal.  
12 The reasons of presenting this hypothetical situation is to  
13 work with all the parties and get their feedback in terms of  
14 what the views might be. I don't have all of the answers.

15 However, I believe this is the direction we would  
16 want to go in, to hear everyone's viewpoint on that, so I  
17 would anticipate there would be some proceedings to -- well,  
18 some proceeding before the public before the Postal Service  
19 would try to implement such a large plan as that, but my  
20 intention or the hypothetical case presented there is  
21 essentially that, and it may be one or two steps before we  
22 get there, but I think it indicates the direction we want to  
23 go.

24 I would point out that Mr. Callow also dropped the  
25 city/non-city, the distinctions in his ultimate proposal,



1 and to that extent, the Postal Service agrees with the OCA's  
2 dropping of those distinctions.

3 I think there is some common ground to improve the  
4 service.

5 Q Do you know whether Mr. Callow's current proposal  
6 in this docket though was going to drop that distinction  
7 between city carrier service and world carrier service for  
8 purposes of defining fee groups C-1, C-2, and C-3 and D-1,  
9 D-2, and D-3?

10 A I understand it was, that ultimately it would be  
11 dropped.

12 Q Right. However, in this proceeding did he propose  
13 dropping that distinction?

14 A No, I believe that there was some -- I think it  
15 was a rate shock reason that he didn't want to drop it right  
16 away and that -- and again I think that's a good point  
17 because this hypothetical chart here is basically an  
18 ultimate goal, if you will, and it wouldn't be something we  
19 would implement right away or choose to do that.

20 It's just simply to serve as kind of an  
21 illustration of the direction that you would want to go if  
22 you wanted to achieve efficiencies in terms of utilization  
23 of the P.O. boxes and also align the fees with the cost.

24 Q At the bottom of page 21 of your testimony, we  
25 referred to this a few minutes ago -- you stated that a very

1 limited regrouping is being planned for implementation.

2 What are the plans for implementation at this  
3 time?

4 A Well, I am not the implementation team, however we  
5 have tried to lay out a tentative list of a few offices in  
6 order to try to gauge some of the -- learn if you will what  
7 might be the issues around moving offices into a true CAG-  
8 based system, so we have tried to find a group of offices  
9 that are outliers, if you will. They are very high or very  
10 low in terms of their costs and utilization, and we just  
11 simply want to try to move a few up or down one fee group in  
12 order to get some notion of the issues that might arise in a  
13 more complete implementation.

14 That is what that is referring to is we are trying  
15 to be very cautious, move ~~of~~ a few offices, one step in the  
16 right direction and keep the impact very minimal and  
17 hopefully walk facilities to a cost-based system in the  
18 long-run.

19 Q The type of reclassification that you describe in  
20 your testimony can be seen in a kind of a graphical form or  
21 picture form at Exhibit C, page 2, is that correct?

22 A Well, that is basically where we tried to outline  
23 some of the first -- the first cut. Again, the purpose  
24 there was to find very high utilization and high cost  
25 facilities and very low utilization and very low cost

1 facilities in each of the fee groups so that was the main  
2 purpose of the exercise.

3 Q For example, on the left-hand side of this chart,  
4 if an office is currently in Group C but its cost -- I  
5 believe this is a cost per square foot?

6 A Yes.

7 Q Rental cost per square foot?

8 A Yes, it is.

9 Q If the rental cost per square foot is less than  
10 \$1.20, and there is less than 70 percent utilization of  
11 existing boxes, then that office might be moved from Group C  
12 to Group D, is that correct?

13 A Well, that is what I was trying to refer to, that  
14 this is the first criteria.

15 The second criteria was rate shock, and we don't  
16 propose moving anything between C and D because of the very  
17 large differences between those two groups, so the 80  
18 facilities become something on the order of 40 facilities  
19 when we eliminate that step, so that is something to bear in  
20 mind when you are looking at this particular chart.

21 Q So in other words there are no plans to move any  
22 offices from C to D nor from D to C at this time?

23 A At this time. We're referring now to the transfer  
24 facilities to try to minimize impact. We would like to move  
25 the 40 that I've mentioned, but I'm not saying that in the

1 course of the millennia to come that no facility would ever  
2 be moved. Hopefully -- I'll just say no. It is the short  
3 answer.

4 Q Okay.

5 A For right now, no.

6 Q But the 40 facilities located in fee groups A and  
7 B may -- those may be reclassified sooner than the  
8 millennium.

9 A Well, it's not a general reclassification of all  
10 facilities. We're just picking out those that have these  
11 very high, very low -- it's a few facilities, 40 out of  
12 about 30,000 or 40-some thousand facilities to have a very  
13 small look at what it might -- we could learn by moving  
14 that. And we've kept the impact I think is about as minimum  
15 as possible but yet still make some progress in learning how  
16 to align fees with costs.

17 Q Do you have a target date for reclassifying the  
18 offices in fee groups A and B along the lines that you  
19 present your testimony?

20 A No, I don't. I think that whatever we do in the  
21 imminent future would have to be specked out quite a bit,  
22 and at this time we need more time to look at that, but it's  
23 I think within the foreseeable future, but I can't really  
24 speculate on the amount of time that it might take to  
25 develop a full proposal along those lines.

1           Q     You told me you had -- you must have had some  
2     conversation with counsel about what the Postal Service may  
3     or may not do in terms of reclassifying some offices without  
4     Commission approval. Is that correct? You did have a  
5     conversation like that?

6           A     We have talked about that to some extent, but --

7           Q     Do you recall whether counsel said that Commission  
8     approval might be required for reclassifying offices that  
9     are currently in fee group C and D, and that situation would  
10    be different than those offices currently in fee groups A  
11    and B? Do you recall counsel making a distinction?

12           MR. RUBIN: Objection.

13           THE WITNESS: No. I don't really know about --

14           MR. RUBIN: This is -- I'm objecting as -- I mean,  
15    this is getting into --

16           CHAIRMAN GLEIMAN: Mr. Rubin, I can't tell whether  
17    your mike is on or not. We're having a hard time picking  
18    you up.

19           MR. RUBIN: I'm objecting to the question because  
20    it calls for legal conclusions and the witness' discussions  
21    or witness' testimony concerning discussions with counsel.

22           MS. DREIFUSS: Mr. Chairman, I don't really want  
23    to hear the witness' legal opinion, certainly. I would  
24    prefer that he just relate to me what counsel told him,  
25    which I guess is probably closer to getting a legal opinion.

1 And the reason I'm asking the witness is I don't seem to  
2 have any other medium for finding an answer to the question.

3 The Postal Service surprised us very, very late in  
4 the proceeding by this testimony, which is 180 degrees from  
5 the testimony of Witness Needham that we've been studying  
6 and addressing throughout the proceeding up to this point.  
7 That's why I'm trying to find out what -- whether the Postal  
8 Service feels that it can go ahead and reclassify offices --  
9 the witness used the term "willy-nilly" -- if not willy-  
10 nilly along these lines, which are different from the  
11 current classification definitions.

12 CHAIRMAN GLEIMAN: Well, ordinarily I would  
13 sustain the objection, but I find myself in an awkward  
14 position, because one of the questions that I would like to  
15 ask is with respect to just group A boxes, which are  
16 currently identified as Manhattan, can the Postal Service in  
17 the view of the witness simply move B boxes into group A  
18 without changing the definition, and if they do change the  
19 definition, do they have to -- can they do it on their own?

20 So, you know, I don't know, Mr. Rubin. Do you  
21 feel that the witness can answer these questions at all  
22 today? Perhaps if not, so that the Commission can better  
23 understand, you could provide us -- the Postal Service could  
24 provide us something in writing so that we would know what  
25 we can expect once a decision is made with respect to this

1 area whether you're just going to be changing things on your  
2 own or what.

3 MR. RUBIN: I can comment on the legal issues  
4 involved. We're talking about the distinctions between the  
5 DMCS and the DMM and what kind of re-definitions that have  
6 to be done in each.

7 CHAIRMAN GLEIMAN: To the extent that, for  
8 example, a group is identified and defined in the DMCS, is  
9 it reasonable to assume, then, that the Postal Service could  
10 not make the change on its own without making a request of  
11 the Commission?

12 MR. RUBIN: Yes, that sounds right.

13 CHAIRMAN GLEIMAN: Ms. Dreifuss, are you  
14 satisfied, more or less?

15 MS. DREIFUSS: I'm still a little concerned,  
16 because I don't believe the definitions that we're  
17 discussing today are contained in the DMCS.

18 I looked at this last week, and I find that the  
19 DMCS does not appear to define these fee groups. The DMCS  
20 just lists the fee groups.

21 That's why I'm trying to find out -- and that was  
22 really the purpose of my questions to the witness -- trying  
23 to find out whether the Postal Service has plans to proceed  
24 with these changes without Commission approval and whether  
25 the Postal -- and if so, I believe the Postal Service's

1 position would then be that it does not need Commission  
2 approval to make these changes.

3 Could Mr. Rubin give me an answer on that, please?

4 MR. RUBIN: I think -- I mean these are matters  
5 that can be dealt with on brief.

6 CHAIRMAN GLEIMAN: If we can have your word that,  
7 indeed, the issue will be addressed in brief, we can move  
8 on.

9 MR. RUBIN: That would be fine.

10 MS. DREIFUSS: That's fine, Mr. Chairman.

11 BY MS. DREIFUSS:

12 Q Could you turn to your testimony at page 19, line  
13 6, please? There you state that existing data on facility  
14 costs are incomplete. What existing facility cost data are  
15 you referring to as being incomplete?

16 A I would suggest that, at this point in time, the  
17 data ability to track rental cost and such in the costs of  
18 individual facilities has not been compiled, because this  
19 proposal is not currently implemented.

20 In order to do that, a matching of facilities with  
21 the P.O. boxes themselves -- I mean, for example, you need  
22 to know the number of P.O. boxes and facilities, along with  
23 the cost.

24 Now, <sup>to crosswalk</sup> ~~the crosswalk~~ data will take a fair degree  
25 of work, the size of which I'm not totally aware of, but you



1 know, given that there's modern computers, it will be able  
2 to match, let's say, P.O. box data with facility cost data.

3 There's 40-some-thousand addresses out there that  
4 need to be matched up, so all of that's not currently  
5 available, but I don't see any reason why it wouldn't be a  
6 doable project.

7 So, that's what I mean by incomplete. Data need  
8 to be merged and put together for the project.

9 Q Would the cost data that the Postal Service would  
10 attempt to collect be limited to average rental costs?

11 A I wouldn't want to speculate too much at this  
12 point, but we would need to identify the costs of facilities  
13 in order to map them, if you will, into a cost-based system.

14 Q Would the Postal Service also be looking at space  
15 support and all other post office box costs by facility?

16 A Again, I think that I'm certain that those factors  
17 would be taken into account. The exact nature of  
18 determining the cost of the facilities, I don't have in mind  
19 at this point, but hypothetically, I would suppose that they  
20 would be.

21 Q The hypothetical changes that you describe in your  
22 testimony -- those are limited to cost data on average  
23 rental costs, are they not?

24 A No. No. We would want to take into account all  
25 of the cost at the various facilities, but I think that the

1 -- it's the rental cost data that varies by location.

2 Q In your testimony, did you take any other type of  
3 cost data apart from average rental costs into account in  
4 describing how facilities might move from one fee group to  
5 another?

6 A No.

7 Q But you haven't ruled that out. You may look at  
8 other costs.

9 A We certainly would want -- again, this is more or  
10 less an illustrative example. Exactly what costs and how  
11 they would be combined and such is a fair amount of detail,  
12 and again, given that this is not a proposal, if you will,  
13 it's an illustration, I think those details can be handled  
14 without a great deal of difficulty.

15 Q A little further down that page, you talk about a  
16 forced reconciliation of what today are independent data  
17 sets. What do you mean by forced reconciliation?

18 A Could you specify the line for me?

19 Q I'm sorry. It's on line 11 of that same page,  
20 page 19.

21 A Well, that's exactly what I was describing, that  
22 as the data becomes more available, it makes sense to put it  
23 all into one place. So the ~~forces of compiling~~ <sup>forced reconciling of</sup> data is  
24 bringing the information together and I think that we will  
25 be able to use that, you know, productively for the purposes

1 of pricing P.O. Boxes.

2 Q Do you know whether the forced reconciliation  
3 would involve facility management system information and the  
4 delivery statistics file information?

5 A It perhaps could. I am not ruling out any sources  
6 of information in some kind of ultimate -- or what we might  
7 come back with, so. But it -- but to my mind, we haven't  
8 sat and looked through each and every source as of yet, but  
9 I would suppose we might use it.

10 Q Could you turn to Exhibit C, page 3, of your  
11 testimony, please? Are you able to confirm that the 80  
12 offices listed on that exhibit are facilities leased by the  
13 Postal Service?

14 A I am not sure. Well, yes, I believe they are.  
15 All of these have run by our facilities lease managers, if  
16 you will, who maintain the data base, to double verify the  
17 information.

18 Q Do you know whether Post Office Box service is  
19 available in Postal owned facilities as opposed to leased  
20 facilities?

21 A I believe that it is, yes.

22 Q How would the Postal Service determine a proper  
23 rental cost for an owned facility as opposed to a leased  
24 facility?

25 A Well, that is something of a problematic issue.

1     There's a couple of ways to look at it. Perhaps you could  
2     use historical cost or you could use something of an  
3     assessed lease value, something along the lines of how  
4     property taxes are assessed at current value. But the  
5     details of that have yet to be looked into, but I am sure  
6     something can be worked out that would give us a nice  
7     approximation.

8           Q     Is it the Postal Service's intention that sometime  
9     in the future, even owned facilities might be reclassified  
10    by some kind of space cost criterion?

11          A     Perhaps for -- perhaps. I mean, again, we are  
12    getting into speculation about specific details, but I don't  
13    think that it would be too terribly difficult to  
14    appropriately assign a facility to a cost fee group for the  
15    pricing purpose, the P.O. Boxes. I'm sorry, let me be a  
16    little more articulate.

17                I would say that it wouldn't be too terribly  
18    difficult to take an owned facility and make some judgment  
19    as to what cost group it should be assigned to. Now, you  
20    may want to do that on historical costs, or you may want to  
21    make some adjustment to that to take into account that  
22    history doesn't do a very well -- good job of telling you  
23    what something is worth, book value versus actual value.  
24    But those details we could probably iron out in some proven,  
25    you know, eventually. But right now, I am not ready to say

1 how it would be done, but it could be done.

2 Q For Postal owned facilities, how would the Postal  
3 Service determine the space cost?

4 A Again, I think I just kind of answered that.  
5 There are means to make evaluations of property values,  
6 something along that line. I am sure that common experience  
7 will tell you that your tax assessments on your owned  
8 property at home are not historically based. If you are  
9 living in an <sup>expensive</sup> ~~expense~~ suburb and the houses around you are  
10 selling for a high value, the tax people usually tax you on  
11 that and not on perhaps what your grandmother paid for it if  
12 you inherited the house.

13 So I am aware that there's ways to re-evaluate  
14 things, and I think that if we look at that, look at some of  
15 those, we will be able to slot owned facilities into  
16 categories that reflect their cost. And whether,  
17 ultimately, that we end up using historical cost or some  
18 reasonable approximation of market value is yet to be  
19 determined, but I think that it is something that can be  
20 done. It is not an insuperable problem.

21 Q What historical cost data are you referring to?

22 A Well, to my mind, what I am referring to is owned  
23 facilities at their purchase value, so perhaps there was a  
24 facility that was constructed 100 years ago, it's book cost  
25 would reflect the value of the currency at that time, so

1 some adjustment would seem reasonable. However, I am not  
2 prepared to go into details of how we might do that.

3 Q The determination of the space cost for a known  
4 facility, from your description, sounds as if it would be  
5 much more indirect and much less straightforward than the  
6 determination of space cost for a leased facility. Is that  
7 your understanding?

8 A Well, for economists, it is not too atypical to do  
9 those kinds of things. There's numerous examples of that.  
10 Bureau of Labor Statistics adjusts housing prices for their  
11 rental value, for example, in coming up with the Consumer  
12 Price Index that is done every month. So it is not an  
13 uncommon practice to try to approximate the market value of  
14 historical properties. And, indeed, when you go sell your  
15 house, for example, you often have a person come out to the  
16 house to tell you what its value is, the assessor, so it is  
17 not something that would be terribly complex and it is not  
18 something that is that uncommon if you take a moment to  
19 think about it.

20 Q Could you turn to your testimony at page 24, lines  
21 3 to 5 and note 7, please.

22 There you refer to the recent offering of boxes at  
23 no charge for customers who are not eligible for carrier  
24 delivery because of the quarter-mile rule.

25 What is the estimated revenue loss that you are

1 assuming as a result of offering boxes at no charge to  
2 quarter-mile rule customers?

3 A I'm sorry. I'm not really prepared to answer  
4 specifics on that today. I mean Witness Needham is coming  
5 up. Perhaps she would be able to speak more directly to the  
6 quarter-mile impact.

7 MS. DREIFUSS: I have no further questions, Mr.  
8 Chairman.

9 CHAIRMAN GLEIMAN: Is there any follow-up?  
10 Questions from the bench?

11 Just to comment, it doesn't appear that the  
12 quarter-mile rule is an impasse any longer and it's nice to  
13 know that every once in awhile we suggest something and the  
14 Postal Service pays some attention to it, but my colleague  
15 has a question. Commissioner LeBlanc?

16 COMMISSIONER LeBLANC: Mr. Kaneer, this isn't  
17 really a question. This is maybe just a clarification.

18 Did I understand you in response to Ms. Dreifuss  
19 to say that you have incomplete data on the costing and yet  
20 there is a possibility that you could move from one CAG  
21 group to another CAG group but yet you don't know how then  
22 you would cost it?

23 In other words, what I am trying to get at, how  
24 would you do it? In other words, how would you correlate  
25 the cost with moving from group to group if you decided to

1 do it in the future?

2 THE WITNESS: I think that what I was trying to  
3 point out is that as I sit here today the data hasn't been  
4 mapped, but the data exists and it shouldn't be a difficult  
5 problem to arrive at a cost in order to make those  
6 determinations for a movement from one group to the other.

7 COMMISSIONER LeBLANC: So you are not disagreeing  
8 with Ms. Needham though, from the cost-based side?

9 THE WITNESS: Right. No, I am not.

10 COMMISSIONER LeBLANC: But you just don't know  
11 what they are at this point?

12 THE WITNESS: I am saying that the data exists but  
13 it hasn't been developed to the point that we would at a  
14 facility by facility basis to start this process of walking  
15 facilities to a more cost-based fee arrangement, if you  
16 will, that's all.

17 I mean -- am I being clear?

18 COMMISSIONER LeBLANC: Yes. I got it. Thank you  
19 very much. Thank you, Mr. Chairman.

20 CHAIRMAN GLEIMAN: Follow-up as a consequence of  
21 questions from the bench?

22 [No response.]

23 CHAIRMAN GLEIMAN: If not, that brings us to  
24 redirect. Mr. Rubin, would you like some time to consult  
25 with your witness?



1 MR. RUBIN: Yes, I would.

2 CHAIRMAN GLEIMAN: Well, I think it would be a  
3 good time to take our ten-minute break now, our mid-morning  
4 break, so we will come back at five after the hour.

5 [Recess.]

6 CHAIRMAN GLEIMAN: In order that folks who are  
7 busy working on briefs and the like can spend their time  
8 other than sitting here in the hearing room waiting for a  
9 particular witness to come up, let me make this suggestion  
10 to you. It's now 10 minutes after 11:00. We have three  
11 Postal Service witnesses -- Needham, Plunkett, and  
12 Steidtmann. To the best of my knowledge at this point for  
13 those first two witnesses, Needham and Plunkett, Mr. Carlson  
14 is the only party who's indicated cross-examination, and for  
15 Steidtmann -- I hope I'm pronouncing Witness Steidtmann's  
16 name right -- we have just the Office of the Consumer  
17 Advocate.

18 So long as you are not interested in cross-  
19 examining any of those three Postal Service witnesses, I  
20 think it's a fair bet that we are not going to get to  
21 Witness Buckel, who is the next witness on the list, until  
22 1:30, when we come back from lunch. So if that makes  
23 anybody's life easier, I think that probably you can be  
24 assured that we won't get there until 1:30. Okay?

25 With that, Mr. Rubin, do you have any redirect?

1 MR. RUBIN: Yes, just a few questions?

2 REDIRECT EXAMINATION

3 BY MR. RUBIN:

4 Q Mr. Kaneer, near the end of your cross-examination  
5 by the Office of the Consumer Advocate you were asked if you  
6 knew what the revenue loss would be from changes in the  
7 application of the quarter-mile rule with respect to post  
8 office box fees. Has that information been presented  
9 earlier in this proceeding?

10 A I understand that it has been provided.

11 Q And was that in response to a Presiding Officer's  
12 information request?

13 A That's my understanding.

14 Q Thank you. And at least once and maybe more times  
15 in your responses you refer to Postal Service plans to  
16 implement a CAG-based fee structure. Did you mean CAG-  
17 based or cost-based?

18 A I meant cost-based. It was a slip of the tongue.

19 Q Would you turn to page 20 in your testimony?

20 With respect to the hypothetical fee structure  
21 that you present there in your testimony, which includes new  
22 fee groups and capacity-based discounts and surcharges, is  
23 it your understanding that the Postal Service would  
24 implement such a fee group restructuring without first  
25 presenting it to the Postal Rate Commission?

1           A     No, not at all.

2                   MR. RUBIN:  Thank you.  I have no further  
3     questions.

4                   CHAIRMAN GLEIMAN:  Did redirect generate any  
5     further cross?

6                   Ms. Dreifuss.

7                   MS. DREIFUSS:  Just one or two questions.

8                                 RECROSS EXAMINATION

9                   BY MS. DREIFUSS:

10           Q     When you say that the Postal Service would not  
11     implement the fee structure presented on page 20 without  
12     approval by the Postal Rate Commission, does the Postal  
13     Service consider that your testimony is a presentation of  
14     that fee structure?

15           A     It's a hypothetical example of perhaps the best  
16     way to go in the long run.

17           Q     Okay.  I'm still confused.  Is it the Postal  
18     Service's position that it has presented a fee structure in  
19     your testimony that the Postal Rate Commission could act  
20     upon and recommend?

21           A     No, not at this time.

22           Q     Therefore, if the Postal Rate Commission does not  
23     recommend the fee structure that you describe in your  
24     testimony, the only alternatives it has left on this record  
25     would be Witness Needham's proposed fees or Mr. Callow's

1 proposed fees; is that correct?

2 A That's correct. I simply show this as a  
3 hypothetical example of where Witness Needham's fee  
4 structure would be preferable in order to eventually get to  
5 a better system in the long run.

6 Q Where in your testimony do you say that Witness  
7 Needham's fee structure is akin to what you're describing in  
8 section 5 of your testimony?

9 MR. RUBIN: Objection. I believe this is beyond  
10 the scope of the redirect.

11 MS. DREIFUSS: I don't think it's beyond the scope  
12 of the redirect because of the answers that I've been  
13 getting from the witness to my questions.

14 Well, let me just back up for a second and be  
15 clear about this. You did say that you don't think the  
16 Postal Rate Commission can recommend the hypothetical fee  
17 structure based on your testimony; is that true?

18 A Not at this time.

19 Q And the Postal Service through your answer based  
20 on redirect is that the Postal Service will not take steps  
21 to implement the fee structure that you describe in section  
22 5 of your testimony without presenting it formally to the  
23 Postal Rate Commission; is that true?

24 A I believe that's true.

25 Q Okay, thank you.

1 MS. DREIFUSS: No further questions.

2 CHAIRMAN GLEIMAN: Is there further redirect?

3 MR. RUBIN: No.

4 CHAIRMAN GLEIMAN: If that is the case, then we  
5 have nothing further for you, Mr. Kaneer, and I want to  
6 thank you. We appreciate your appearance here today and  
7 your additional contributions to the record, and if there's  
8 nothing further, you're excused.

9 [Witness excused.]

10 CHAIRMAN GLEIMAN: Our next witness is Ms. Susan  
11 Needham, who is also appearing on behalf of the Postal  
12 Service, and she is already under oath in this proceeding.

13 Counsel, you can proceed whenever you're ready.  
14 Whereupon,

15 SUSAN W. NEEDHAM,  
16 a rebuttal witness, having been previously duly sworn, was  
17 further examined and continued to testify as follows:

18 DIRECT EXAMINATION

19 BY MR. RUBIN:

20 Q Ms. Needham, I have provided you with two copies  
21 of a document titled "Rebuttal Testimony of Susan W. Needham  
22 on Behalf of the United States Postal Service." It's  
23 designated as USPS-RT-23. Was this testimony prepared by  
24 you or under your supervision?

25 A Yes.

1 Q And if you were to testify orally here today,  
2 would this be your testimony?

3 A Yes, it would. I do have two errata changes to  
4 make.

5 Q Fine. Would you provide those?

6 A Yes.

7 I noticed, on page 3 -- after page 3, there is an  
8 extra page 6 that should just be crossed out, and on page 5,  
9 line 17, the word "reconfigure" should be changed to  
10 "reconfiguring." That's it.

11 MR. RUBIN: And with those corrections, I would  
12 like to provide this testimony to the reporter, and I ask  
13 that it be entered into evidence in this proceeding.

14 CHAIRMAN GLEIMAN: Are there any objections?

15 [No response.]

16 CHAIRMAN GLEIMAN: Hearing none, Ms. Needham's  
17 testimony and exhibits are received into evidence, and I  
18 direct that they be transcribed into the record at this  
19 point.

20 [Direct Testimony and Exhibits of  
21 Susan W. Needham, USPS-RT-23, was  
22 received into evidence and  
23 transcribed into the record.]

24

25

USPS-RT-23

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
SUSAN W. NEEDHAM  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

**CONTENTS**

|   |   |
|---|---|
| AUTOBIOGRAPHICAL SKETCH.....  | i |
| I. PURPOSE.....   | 1 |
| II. THE POSTAL SERVICE POST OFFICE BOX FEE PROPOSAL DOES<br>NOT DEPEND ON A FINDING OF AN EXTREMELY HIGH VALUE OF<br>SERVICE..... | 2 |
| III. WITNESS CARLSON IS GETTING RESPONSIVE ACTION TO HIS<br>SERVICE COMPLAINTS .....  | 4 |



EXHIBITS

|                 |    |
|-----------------|----|
| Exhibit A.....  | 8  |
| Exhibit B.....  | 9  |
| Exhibit C.....  | 10 |
| Exhibit D ..... | 13 |

**AUTOBIOGRAPHICAL SKETCH**

My name is Susan W. Needham. My autobiographical sketch is presented in my direct testimony, USPS-T-39.

1     **PURPOSE**

2

3           The purpose of my testimony is to support the Postal Service's proposed  
4 post office box fees in the context of rebuttal to the testimony of individual  
5 intervenor and witness Douglas Carlson. Based primarily on his own personal  
6 experience, witness Carlson attempts to refute the foundation for the Postal  
7 Service's fee proposals by characterizing the quality of service furnished to him  
8 as riddled with inadequacies. He, thus, extrapolates from his personal history to  
9 the conclusion that the fee proposals are unsupported by a reasonable  
10 assessment of value of service. While the Postal Service is fully aware that  
11 contradicting such narrow, anecdotal evidence might have limited value in the  
12 broad scope of a general rate case, it is mindful that the theme of witness  
13 Carlson's contentions, namely that the local conditions are pertinent to the value  
14 of service overall, is one that could be regarded as a consideration in the  
15 Commission's evaluation of the statutory criteria. I, therefore, address Mr.  
16 Carlson's situation, not to discredit the claims of one individual, but to lend  
17 perspective to the issue, as well as to reaffirm my own testimony that the fee  
18 proposals are supported by a comprehensive assessment under the statutory  
19 criteria.

**II. The Postal Service Post Office Box Fee Proposal Does Not Depend on a Finding of an Extremely High Value of Service**

Witness Carlson states:

Witness Needham then asserts that boxholders receive an 'extremely high value of service'. Her use of the intensifier 'extremely' was not accidental. Since the Postal Service is justifying this fee increase based on the supposedly 'extremely' high value of service, the Postal Service must prove that boxholders do, in fact, receive an extremely high value of service.<sup>1</sup>

The logic error made by witness Carlson in the quoted section is his unsupported elevation of one justification cited by the Postal Service in support of its requested post office box fees to the status of sole justification. The proposed post office box fees presented in this rate case proceeding are not based solely on Criterion 2, the value of service, but were developed by applying all relevant pricing criteria. Therefore, it should be emphasized that although I believe post office box service has an extremely high value of service, the proposed post office box fees are in full compliance with other statutory criteria, specifically cost coverage and contribution (Criterion 3), mitigation of the impact of a fee increase on boxholders in the below-cost cells (Criterion 4), available alternatives to box service (Criterion 5), the simplicity of the proposed post office box fee schedule and the identifiable relationships that the fee schedule promotes (Criterion 7), and the fairness and equity of the proposed fees (Criterion 1). All of these criteria support the requested fees. In particular, I was

1 faced with a Test Year Before Rates cost coverage of just 99.6 percent. I  
2 therefore concluded that the low average increase in this rate case of under five  
3 percent would be inadequate for post office box and caller service. The larger  
4 increases I proposed are still moderate, especially for Group C, where the  
5 increases are held low so as to move Group C fees closer to Group D fees.  
6 Even with these increases, the high value of service does not actually result in a  
7 high requested cost coverage after full application of the criteria, but instead a  
8 coverage of just 115 percent.

---

<sup>1</sup> DFC-T-1, page 13, lines 1-5.

1     **III. Witness Carlson Is Getting Responsive Action to His Service**  
2     **Complaints**  
3  
4

5             Witness Carlson attempts to demonstrate a low value for post office box  
6     service by recounting his personal experience. While it appears witness Carlson  
7     has had some difficulties with his post office box service, he does not show that  
8     they are long-standing or representative of post office box service in general. In  
9     fact, as presented below, many of Mr. Carlson's concerns are local matters that  
10    are appropriately acted upon by local postal employees, rather than relevant to  
11    the Commission's determination of nationwide post office box fees.

12  
13            Section D of witness Carlson's testimony discusses the long lines at the  
14    post office when he picked up his overflow box mail in August and September of  
15    1997.<sup>2</sup> He complains of waiting in line "on many occasions" for over 10 minutes  
16    to pick up his mail; one day he waited for 20 minutes, on another day waited for  
17    25 minutes, and on two or three occasions he left the post office rather than  
18    waiting an expected 10 to 15 minutes.<sup>3</sup> Witness Carlson concludes that these  
19    incidents mean he does not receive a high value of service. What witness  
20    Carlson fails to mention is that after he complained to the Berkeley postmaster  
21    on August 26, 1997, he received a prompt response that addressed his  
22    concerns. Exhibit A is a September 12, 1997 response letter to witness Carlson  
23    from the Berkeley postmaster, George Banks, explaining that the long lines at

---

<sup>2</sup> DFC-T-1, page 15, lines 26-32, and page 16, lines 1-2.

1 the post office during August and September of 1997 were primarily due to  
2 increased Postal Service parcel business caused by the United Parcel Service  
3 strike. Mr. Banks also informed witness Carlson that he was "attempting to  
4 cross-train additional clerks as well as considering a different configuration of our  
5 window services as you have suggested."<sup>4</sup>

6

7 I would also note that Mr. Carlson and other box holders were not the only  
8 customers faced with longer-than-normal lines during the UPS strike. Users of  
9 all services that involve window transactions had to deal with the same lines.  
10 Application of witness Carlson's value of service logic to all fees and rates would  
11 result in cost coverage reductions for all retail classifications.

12

13 Witness Carlson next sent two letters dated September 27, 1997, to Mr.  
14 Banks, both of which were answered six days later in a letter presented as  
15 Exhibit B. Again, witness Carlson addressed his long waits to pick up packages,  
16 certified mail, and registered mail. In his response, Mr. Banks reiterated that he  
17 was still cross-training his staff and reconfigure<sup>ing</sup> their job assignments "so they  
18 become more flexible and available when our customers need them. The goal is  
19 to make all my windows 'full service'. When this happens, you will be able to  
20 pick up your 'no response' mail at any window."<sup>5</sup>

---

<sup>3</sup> DFC-T-1, page 15, lines 30-32, and page 16, lines 1-2.

<sup>4</sup> Exhibit A.

<sup>5</sup> Exhibit B.

1

2       Witness Carlson reported one more instance of long lines to Postmaster  
3   Banks in a January 7, 1998 letter. Exhibit D presents Postmaster Banks'  
4   response. Postmaster Banks informed witness Carlson that the Postal Service's  
5   intention is to make all of the windows "full service" within 60 days or less. "Full  
6   service" would mean that the clerks at each and every window would be able to  
7   retrieve box mail overflow, packages, and accountables, and should alleviate  
8   witness Carlson's concerns.

9

10       Witness Carlson has also obtained responsive action from local postal  
11   officials concerning his complaints of delivery delays for his First-Class flat mail.  
12   Exhibit C contains a November 3, 1997 letter to witness Carlson from George  
13   Banks with an attached memorandum from the Oakland, California, Senior Plant  
14   Manager to Postmaster Banks. The memorandum details a thorough  
15   investigation of witness Carlson's concerns, and announces that "a log to record  
16   dates that mail is delivered to box and dates mail is picked up by the customer  
17   has been implemented at the Berkeley box section."<sup>6</sup>

18

19       Berkeley has also taken steps to improve the consistency of delivery by the  
20   current cutoff time. In January, process changes were made, and since then the

---

<sup>6</sup> Exhibit C at page 3.



1 delivery times have been recorded daily.<sup>7</sup> These records show that during a  
2 seven-week period from January 10, 1998 through February 27, 1998, the 11:00  
3 AM cutoff time was made for all classes of mail (including Standard Mail) the  
4 majority of the time. With the exception of one delivery day immediately  
5 following a holiday and another day in which all electricity was out in the building,  
6 there were six days when all mail was put up after 11:30 AM. I believe these  
7 local efforts in Berkeley to improve box service show a commitment to providing  
8 high quality box service, and a responsiveness to witness Carlson's concerns.  
9  
10

---

<sup>7</sup> These changes were initiated by local Berkeley officials who were unaware of witness Carlson's rate case testimony, and did not learn about the testimony until very recently from me.

BERKELEY POST OFFICE

Exhibit A



September 12, 1997

DOUGLAS CARLSON  
P O BOX 12574  
BERKELEY CA 94712-3574

Dear Mr. Carlson:

This will acknowledge receipt of your letter dated August 26, 1997 regarding having to wait so long to pick up a parcel on several recent occasions.

Unfortunately (or fortunately), the additional workload (parcels) created by the UPS strike have created a drain on our resources because a good percentage of the parcels we attempt to deliver have to be returned to the post office for pick up by the customer because they are not at home. I apologize for this inconvenience. I am currently attempting to cross-train additional clerks as well as considering a different configuration of our window services as you have suggested.

Thanks for the input and again I apologize for the inconvenience.

Sincerely,



GEORGE G BANKS  
POSTMASTER

3200 ALLSTON WAY  
BERKELEY CA 94704-0096  
(510) 849-3173  
Fax: (510) 849-3124

October 3, 1997

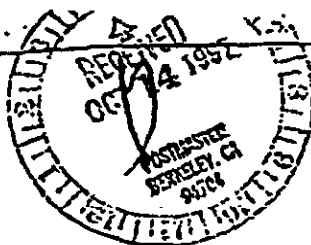


Exhibit B

DOUGLAS CARLSON  
P O BOX 12574  
BERKELEY CA 94712-3574

Dear Mr. Carlson:

This will acknowledge receipt of two letters dated September 27, 1997, regarding 1) delayed 1st class flats and 2) your long wait at our window 8 to pick up packages, certified & registers etc. With respect to the delayed 1st class flats, unfortunately, I am unable to determine exactly where within the postal system the delay might have occurred. However, I can assure you that all preferential mail is promptly delivered upon receipt here in Berkeley.

Since the Postal Service delivers over 500,000,000 pieces of mail each day, sometimes it is difficult to pinpoint a specific delay. Nonetheless, I am hoping that our service to you will improve to the level to which you are entitled.

Lastly, with respect to the wait in line at my window 8, as I mentioned in my previous letter dated September 12, 1997, I am currently attempting to cross train my staff as well as reconfigure their job assignments so they become more flexible and available when our customers need them. The goal is to make all my windows "full service". When this happens, you will be able to pick up your "no response" mail at any window.

Thanks again for providing this most helpful "feedback".

Sincerely,

  
GEORGE G BANKS  
POSTMASTER

cc: MCS/MO  
SCS/MOW  
F MASON  
FILE

2000 ALLSTON WAY  
BERKELEY CA 94704-9908  
(510) 849-3173  
Fax: (510) 849-3124

*George: just for the records  
as of today Friday 10/10/97,  
customer at box 12574  
has a bucket of mail  
to pick up. I'm sure  
he will get his mail  
late. (He has a small box  
of gets a lot of Else  
mail.)*

BERKELEY POST OFFICE

Exhibit C 1 of 3



November 3, 1997

DOUGLAS F CARLSON  
P O BOX 12574  
BERKELEY CA 94712-3574

Dear Mr. Carlson:

This is in response to your letters to me and to Kathie Hawley, Oakland District Manager Customer Service and Sales dated September 27, 1997, regarding mail service.

To that extent, please see the attached letter from Carol Miller, Sr. Plant Manager, Oakland dated October 30, 1997.

Please be assured that we will be doing everything feasible to provide the level of service to which you are entitled.

Sincerely,



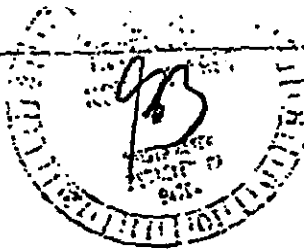
GEORGE G BANKS  
POSTMASTER

Attachment

2000 ALLSTON WAY  
BERKELEY CA 94704-0998  
(510) 849-3173  
FAX (510) 849-3124

STATES  
AL SERVICE

October 30, 1997



17061

Exhibit C 2 of 3

MEMORANDUM FOR GEORGE BANKS  
POSTMASTER  
2000 ALLSTON WAY  
BERKELEY, CA 94704-9998

SUBJECT: Inconsistent Delivery - Douglas F. Carlson

In response to Mr. Carlson's letter dated September 27, 1997, a review of the Berkeley Operations was conducted at the Oakland Processing & Distribution Center to determine if first class mail remained after dispatch of value; and to specifically evaluate the complaint from Mr. Carlson concerning inconsistent receipt of first class flats.

From October 17 through October 23, 1997, the Berkeley primary and zone 94712, manual and automated flat operations, were monitored, and no qualified first class mail was left in Berkeley units after the cut-off time. The platform operation was checked to verify that all Berkeley mail was loaded on the dispatch vehicle.

As the majority of his flats are from the Washington DC area, a random sampling of destinating flats that originate outside of this area was conducted, to assess if receipt is timely at the Oakland Processing and Distribution Center.

A review of the Box Section, Berkeley CA on October 23, 1997, revealed that Mr. Carlson received twelve first class flats. Ten flats bore meter postmarks from Washington DC. If the meter postmarks are correct, one flat failed delivery by two days.

Nine pieces contained meter postmark of October 20, 1997, and one for October 17, 1997 - all from Washington DC. Two flats from the US Postal Service, Headquarters Office, in Washington DC did not have postmarks.

EVERY PIECE EVERY DAY - EXFC 951

1875 7TH STREET RM 236  
OAKLAND CA 94615-9997  
TEL: (510) 874-8282  
FAX: (510) 874-8544

George Banks  
October 30, 1997

Exhibit C 3 of 3

A review of the delivery record enclosed with Mr. Carlson's letter to you, shows a few discrepancies:

On page 4 - the piece from Northern Virginia mailed 9/16/97 and received 9/19/97. This flat actually met Postal Service standards, but his report indicates three days late instead of no delay.

Additionally, on the delivery record there was no indication that he received mail or picked up from his box on Saturday, September 20, 1997. There is accessibility to the boxes located in the Hink's Building lobby, seven days a week. However, on many weekends the record does not reflect mail pickup.

Because no dates are specified as to when Mr. Carlson may have been out of town, we are unable to determine if weekend non-pickups are included in a number of pieces charged to mail received late.

A log to record dates that mail is delivered to box and dates mail is picked up by the customer has been implemented at the Berkeley Box Section.

Please advise if further information is needed.

  
Carl A. Miller  
Senior Plant Manager

cc: DMCS&S  
SMDOs  
MIPS

BERKELEY MAIN POST OFFICE

Exhibit D



January 21, 1998

DOUGLAS CARLSON  
P O BOX 12574  
BERKELEY CA 94712-3574

Dear Mr. Carlson:

This is in response to your letter dated January 7, 1998 regarding the long line at window 8 on January 5, 1998 when you went to retrieve your mail.

To that extent, we hope to eliminate the "number system" and make all of the windows "full service" windows in approximately 60 days or less.

We hope this will enable us to provide better service to all of our customers when all clerks will be able to assist them.

Thanks for the input.

Sincerely,



GEORGE G BANKS  
POSTMASTER

cc: MCS/MO  
SCS/MOW  
FILE

2000 ALLSTON WAY  
BERKELEY CA 94704-0998  
(510) 849-3173  
FAX (510) 849-3124

1 CHAIRMAN GLEIMAN: Only one participant, Douglas  
2 Carlson, notified the Commission of intent to conduct oral  
3 cross examination. Does anyone else wish to cross examine  
4 the witness?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, Mr. Carlson, once Mr.  
7 Rubin gets back to his counsel table, you can begin your  
8 cross examination.

9 MR. CARLSON: Thank you.

10 BY MR. CARLSON:

11 Q Good morning.

12 A Good morning.

13 Q Do you contend that the Commission should consider  
14 the value of box service when setting box fees?

15 A Well, I contend that the Commission should  
16 consider all the applicable pricing criteria, one of which  
17 is value of service, when setting box fees.

18 Q Do you contend that the level and value of box  
19 service should be determined by considering the level of  
20 service that the Postal Service provides on a nationwide  
21 basis?

22 A Could you repeat that, please?

23 Q Do you contend that the level and value of box  
24 service should be determined by considering the level of  
25 service that the Postal Service provides on a nationwide



1 basis?

2 A Could you explain what you mean by level of box  
3 service?

4 Q The quality of the service as measured by some  
5 objective standard.

6 A And then how would you define the value of  
7 service?

8 Q I'll let you suggest a definition for value  
9 consistent with the one that you've used in your testimony.

10 A I was just curious as to how that would differ  
11 from quality when you said that level would be the same as  
12 quality.

13 Q We can state the question, do you contend that the  
14 quality and value of box service should be determined by  
15 considering the level of service or the quality of service  
16 that the Postal Service provides on a nationwide basis? I  
17 guess I see value as having dollar signs attached to it,  
18 whereas quality being some objective measure of the  
19 performance of the service, but you're welcome to define  
20 those terms.

21 A Oh, okay. I just wanted to try to make that clear  
22 so I could answer the question.

23 I believe that, since the fees that the Postal  
24 Rate Commission recommends to the Postal Service Board of  
25 Governors are nationwide in total, that the quality and

1 value of box service nationwide is a -- has been and, I  
2 guess, will continue to be a consideration.

3 Q And the quality of service nationwide would be  
4 more useful to the Commission than the quality of service at  
5 one particular post office.

6 A Well, I think that it's important to look at it as  
7 a nationwide issue.

8 Q Where in your testimony did you present evidence  
9 of a comprehensive survey study or other review of the  
10 quality of box service that the Postal Service is providing?

11 A Could you refer me to what -- are you referring to  
12 anything in my testimony specifically where I might have  
13 made that statement?

14 Q Because I could restate the question as where, if  
15 any, in your testimony did you present evidence of a  
16 comprehensive survey study or other review of the level of  
17 box service that the Postal Service is providing? If you  
18 didn't present that evidence, that would be --

19 A Right. I didn't present that.

20 Q Suppose every local post office were providing box  
21 service that, when judged by some standard, was excellent.  
22 Would you feel comfortable in concluding that the Postal  
23 Service was providing excellent box service?

24 A Well, I believe that the Postal Service provides  
25 excellent box service to its customers, and if it didn't, I

1 really feel that a lot of these customers would go  
2 elsewhere, and lot of them do have options to go elsewhere  
3 if --

4 Q Okay. I'm asking, then, a hypothetical question.  
5 Suppose every local post office were providing box service  
6 that, when judged by some standard, was excellent.

7 A Uh-huh.

8 Q Would you feel comfortable in concluding, on the  
9 basis of that evidence, that the Postal Service was  
10 providing excellent box service?

11 A Sure, since it's every post office, sure. Yes, I  
12 would.

13 Q And similarly, if every local post office were  
14 judged to be providing poor service, then that might be  
15 evidence that box service nationwide is poor.

16 A Well, if every post office, you know, was judged  
17 to have poor service, yes.

18 Q And if it were, say, 50/50, half of them being  
19 excellent service and half providing poor service, then  
20 maybe we could say the level of -- or quality of service is  
21 mixed or some other term that suggests that some are  
22 excellent and some are poor?

23 A I suppose that's true, too, sure.

24 Q So local conditions are relevant to the level of  
25 service provided?

1           A     Well, local, but you have -- you were describing  
2     all Post Offices, so, of course, local, if you take every  
3     Post Office, so it is still nationwide, the way you have  
4     presented it to me.

5           Q     Right. So --

6           A     Local would make up nationwide, of course.

7           Q     Okay. So local conditions are relevant to the  
8     level or quality of service provided overall to the extent  
9     that enough local conditions are considered to allow you  
10    make a statement about nationwide quality?

11          A     Right.

12          Q     Do you have any studies indicating that the  
13    service problems I have described do not exist at a  
14    significant number of Post Offices nationwide?

15          A     Do I have any? No, personally, I have not seen  
16    any to -- either way, to say that they do or do not exist.

17          Q     And in this case, if you know the answer to this  
18    question, who -- which party has the burden of proving that  
19    the Postal Service is providing high quality box service?

20          A     Well, I don't see where you are trying to prove  
21    it, but I feel that the burden should be on the Intervenor  
22    in trying to prove otherwise that the Postal Service does  
23    not provide high quality of box service.

24          Q     Okay. So it is sufficient for the Postal Service  
25    to say we provide high quality box service, and then it is

1 up to the Intervenors prove otherwise?

2 A Correct.

3 Q Do you have any justification or authority for  
4 that position, or is that --

5 MR. RUBIN: Objection. The witness is being asked  
6 for a legal conclusion.

7 BY MR. CARLSON:

8 Q Did you just state the opinion of the Postal  
9 Service or your own opinion?

10 A Well, I just stated my own opinion.

11 Q Have you ever used anecdotal evidence in support  
12 of a proposal before the Postal Rate Commission?

13 A Anecdotal evidence. Could you -- could you  
14 describe what you mean?

15 Q I mean by anecdotal evidence the same definition  
16 that you use in your rebuttal testimony. I don't have a  
17 cite to point to offhand. But I know you have used the word  
18 at least once in your rebuttal testimony and so I would use  
19 the same definition.

20 MR. RUBIN: I do see a reference on page 1, line  
21 11 of the rebuttal testimony to anecdotal.

22 THE WITNESS: Thank you, David.

23 Well, with respect to me proposing any -- anything  
24 based on anecdotal evidence in any rate case, I do recall in  
25 Docket No. MC96-3 proposing a non-resident fee that was

1 based on anecdotal information supporting that.

2 Aside from that, I, offhand, can't recall anything  
3 else at this point.

4 BY MR. CARLSON:

5 Q So anecdotal evidence is not necessarily useless  
6 or of low value to the Commission?

7 A Well, it depends on how the Commission views it.  
8 I can't speak for the Commission, but the Postal Service, in  
9 support of testimony, it is not necessarily useless.  
10 Particularly, in the context that I use the anecdotal  
11 information was from a variety of postal facilities  
12 throughout the United States, not just one -- one personal.  
13 It was not based on my personal knowledge, it was -- it came  
14 from sources such as, you know, newspaper articles or  
15 conversations with postal officials in various locations.

16 Q Wasn't the total number of Post Offices you  
17 consulted somewhere under 20?

18 A It probably was. I can't -- I can't recall  
19 offhand, but it probably was something like that.

20 Q I am referring now to your response to DFC/USPS-T-  
21 39-1, and it would be Attachment -- the attachment to that  
22 response, it is a horizontal spreadsheet.

23 A I am going to ask my attorney if he has -- I don't  
24 seem to have my interrogatory responses from my direct  
25 testimony in front of me.

1 CHAIRMAN GLEIMAN: Mr. Carlson, do you have one  
2 that you can share with the witness in the interest of  
3 moving on or I'll find it on my laptop and she can come over  
4 here and look over my shoulder.

5 MR. CARLSON: Unfortunately, my questions are in  
6 note form and I was going to refer to it. If we had a  
7 runner that could make a photocopy, I could come back to  
8 this question.

9 CHAIRMAN GLEIMAN: Unfortunately, we are not in a  
10 position to have runners around here. I would have no  
11 objection if Postal Service counsel, if you want to approach  
12 the witness, use the stand up mike, ask the question. You  
13 can both look at the copy you've have.

14 MR. CARLSON: I'll give her my copy, and if I run  
15 into any problems, we'll address it.

16 BY MR. CARLSON:

17 Q Looking at the attachment, can you please confirm  
18 that you propose to raise the fees for Group C's size one  
19 boxes from a cost coverage of 131.8 percent to 145.7?

20 A That was Group C?

21 Q Group C's size one.

22 A Size one, 130 to 146.2? Is that what you said?

23 Q My numbers that I wrote down were 131.8 percent to  
24 145.7 percent.

25 A No. You are looking at size three for 131.8

1 percent.

2 Q Okay. What are the numbers for size one?

3 A Size one, 130.0 percent to 146.2 percent.

4 Q And you have testified that other justifications  
5 exist for the proposed fee -- I'll start over. You have  
6 testified that justifications other than value of service  
7 exists for the fee increase for Group C's size one boxes.

8 On what basis does this proposed fee increase  
9 satisfy criterion three?

10 A Oh, it satisfies it, our proposed cost coverage of  
11 146.2 percent does make -- not only does it cover the cost  
12 of the service for a Group C size one box, but it makes a  
13 contribution to other costs.

14 Q And on what basis do you say that the contribution  
15 to other costs should be increased from 130 to 146 percent?

16 A I don't think I said that anywhere, just taking  
17 the proposal that I have here for 146.2 percent cost  
18 coverage. It meets criterion three probably better than  
19 most of the other proposed box fees. So, it definitely  
20 meets criterion three.

21 Q I can see that it meets criterion three in the  
22 sense that it covers the cost, but I'm wondering, what is  
23 the justification for raising the cost coverage to make a  
24 greater contribution? On what basis do you say that a cost  
25 coverage of 146 percent is more appropriate than 130



1 percent?

2 A Well, I believe that might be -- I don't know  
3 whether I addressed that in my direct testimony. I don't  
4 think I did specifically with respect to Group C. What I  
5 was dealing with originally was a before rates cost coverage  
6 total for Post Office boxes of less than 100 percent, and  
7 Group C -- the Group C cost coverage, actually with respect  
8 to the value of service with Post Office boxes -- the  
9 proposed cost coverages, all of them are not exorbitant at  
10 all. They range from 109.9 percent to 151.8 percent.

11 Q So it's based on value of service that you are  
12 proposing that?

13 A Well, not necessarily, no. There's also the  
14 criterion which applies to available alternatives. That is,  
15 you know, competition. Group C size one is the most common  
16 box size that the Postal Service, you know, has, and  
17 therefore, it's this size that is the highest competed  
18 against, you know, throughout the United States.

19 Also, criterion one, these proposed fees are fair  
20 and equitable. It meets that criteria.

21 Q I'm going to interrupt for a moment because I'm  
22 trying to go criterion by criterion and I'm still on  
23 criterion number three.

24 Since I have a Group C size one box, not a box of  
25 any other group or size, I'm trying to determine besides

1 value of service, why a contribution -- an increase in the  
2 contribution from 130 percent to 146 percent satisfies this  
3 criterion, if value of service is the only reason, then that  
4 would be an acceptable answer.

5 I'm just trying to determine why it is you say  
6 that this proposed increase satisfies criterion three and  
7 three only, just focusing on three.

8 A No, and I don't say it satisfies three and three  
9 only, and I don't say it satisfies three with two only  
10 either. That's what you are saying. You are looking -- you  
11 can look at the current or before rates cost coverage, but  
12 the proposal, you really need to look at the after rates or  
13 proposed cost coverage.

14 With respect to my proposal itself, I am looking  
15 at the after rates proposal and also as I look at my  
16 testimony, there are different -- there are other criteria  
17 that have been addressed in proposing these fees.

18 Q How does criterion four, mitigation of the impact  
19 of a fee increase on box holders in the below cost cells  
20 apply as a justification for raising the fees for Group C's  
21 size one boxes from a cost coverage of 130 percent to a cost  
22 coverage of 146 percent?

23 A Well, with respect to Group C's size one, there  
24 were no below cost -- this was not below cost to begin with,  
25 but a lot of -- it was one of the few that wasn't. Most of

1 the box fees were below 100 percent cost coverage before the  
2 proposal.

3 Q So criterion number four doesn't necessarily apply  
4 as a justification for the Group C size one fees?

5 A Right. Of course in my -- when my criteria that I  
6 discussed in my direct testimony talk about all the fees  
7 together as a group. I want you to understand that because  
8 like I said, when I started out I was below 100 percent cost  
9 coverage for post office boxes. It's a very high value  
10 service and to have a special service below 100 percent to  
11 begin with, because it's a premium service. It's something,  
12 you know, aside from those that rely on it for their mail,  
13 and I am talking the Group C's include the customers that  
14 will pay more that have the option of having their mail  
15 delivered to their residence but for whatever reason decide  
16 that they want it delivered to a box instead -- people such  
17 as yourself -- will pay extra for that. It's a premium  
18 service.

19 Q How would the simplicity of the proposed post  
20 office box fee schedule be adversely affected if the fee  
21 increased for Group C, Size 1 were lower than the one that  
22 you have proposed, or would there be any change in the  
23 simplicity?

24 A When you say adversely affected, for one I would  
25 like you to define that, but two, do you have a set of fees

1 that you were thinking of?

2 Q Suppose the fee increase -- suppose the fee for  
3 Group C, Size 1 were proposed to increase from \$40 to \$42.

4 Would that be any more complicated or less  
5 complicated as part of the fee schedule than your proposed  
6 fees?

7 A Well, with respect to the fee simplicity, I think  
8 it would be a little more -- it would not be as simple as  
9 the proposed fee schedule I have. What I have results in \$5  
10 increments in the proposed fees.

11 If you took something and made it -- you proposed  
12 \$42 instead of \$45 there would not be that identifiable  
13 relationship that I have proposed.

14 Q So there is something about \$5 that creates a  
15 magical relationship?

16 A I don't know if I would call it magical, but it is  
17 certainly identifiable in that fees that were set with a \$5  
18 rounding constraint.

19 Q So why is Group C, Size 2 increasing by \$7?

20 A I don't get it. It's a \$5 -- my proposed fee is  
21 for a \$5 increment.

22 Q Well, I am trying to determine what is so special  
23 about a \$5 increase in the annual fee for Group C, Size 1 as  
24 opposed to a \$2 increase, and then as I understood it you  
25 said that \$5 made for a simple or identifiable fee, and so

1 then I look at Group C, Size 2 and see that is proposed to  
2 go up by \$7 and Group C, Size 3 is proposed to go up by \$11,  
3 so what is special about \$5? Why is \$5 more --

4 A \$5 is the proposed fee you end up with. It's  
5 not -- starting out with the current fee of \$40 per year,  
6 and proposing a fee of \$45 a year for size 1 is what I did.  
7 Starting out with Size 2 with an annual fee currently of \$58  
8 I proposed \$65 for the year, and then Size 3 you start with  
9 \$104. I proposed \$115 for the year. So what you are ending  
10 up with, the proposed fee you are ending up with, they're in  
11 \$5 increments.

12 Q Okay, so it's the fact that it is a \$5 --

13 A Rounding constraint.

14 Q Okay, so Group D, Size 1 goes to \$18 a year, so  
15 that one doesn't -- is not divisible by five?

16 A Group D?

17 Q Right.

18 A Right, no. Group D has -- well, Group D, the  
19 proposed fees, trying to bring it up closer to the cost but  
20 the rounding constraints are only dollar rounding  
21 constraints.

22 All the other rounding constraints I applied for  
23 A, B, and C, they did not alter the percentage increase so  
24 much as did, you know, if you tried to do a \$5 rounding  
25 constraint with Group D, which since the fees are so low a

1 dollar was -- otherwise it would have been really way too  
2 high.

3 Q Why is a \$5 rounding constraint so important?

4 A I didn't say it was so important but it serves  
5 to -- it is just one of the -- it meets one of the criteria.  
6 There's an identifiable relationship that makes the fee  
7 structure simple, easy to understand by both customers and  
8 postal employees and it is also -- if we get an even dollar  
9 amount for the year, in terms of refunds and that sort of  
10 thing or it's -- it's easier to implement refunds.

11 Q So when Congress wrote into the statute  
12 identifiable relationships that the fee schedule promotes,  
13 you think they had in mind having fees end in a \$5 increment  
14 or being divisible by \$5?

15 A Yes.

16 Q Did the current fee structure of Group B size 1,  
17 which is \$44 a year, cause problems that you are aware of,  
18 or confuse customers?

19 A Well, I'm not sure.

20 Q Where, if anywhere, in my testimony did you gain  
21 the impression that problems that I experience with box  
22 cutoff times are recent or not longstanding?

23 A Now could you point me to my testimony first where  
24 I would have said that?

25 Q Page 4, lines 6 through 8. While it appears

1 Witness Carlson has had some difficulties with his post  
2 office box service, he does not show that they are  
3 longstanding or representative of post office box service in  
4 general.

5 A Right. Okay. Then from your testimony I did not  
6 see you making a reference to any problems that you had that  
7 were documented here with letters to the Postal Service for  
8 more than just a period of a few months.

9 Q Could you turn to page 16 of my testimony at line  
10 15?

11 A Page 16, line 15?

12 Q Yes.

13 A Okay.

14 Q And I'll just read the first sentence. When I had  
15 a box for four years at the Sather Gate Station in Berkley  
16 on many Saturdays I received no mail because the two window  
17 clerks also were responsible for distributing the box mail,  
18 and when the line for window service became long, they  
19 devoted their attention to serving customers who were  
20 waiting in line.

21 Do you consider four years not to be longstanding?

22 A Well, I'll tell you, to be honest with you, I  
23 don't have enough information here to -- you say many  
24 Saturdays. What's many? Two? Two Saturdays over four  
25 years, five Saturdays? I didn't see any letters. I was

1 addressing what problems you had currently, something that  
2 could be addressed and taken care of right now.

3 Q If you could turn, please, to Interrogatory  
4 Response USPS/DFC-T-1-11, please.

5 A Okay.

6 Q And you'll note there and maybe you can confirm  
7 for me that I responded that there were problems with  
8 delivery of First Class flats in both April of 1997 and  
9 between July and September 1997. Do you not consider those  
10 to be longstanding problems?

11 A No, actually I don't, because I believe that that  
12 was sometime during the UPS strike, which I think we had  
13 just -- it was discussed somewhere in my rebuttal testimony  
14 that during that period there was that UPS strike which had  
15 an impact nationwide on mail delivery in general. And that  
16 was just -- that was an isolated problem, but it did occur  
17 during that time period.

18 Q Are you basing that statement on your own  
19 knowledge or something that you've submitted in your written  
20 testimony?

21 A Well, I'm basing it on my own knowledge, but I  
22 believe that I addressed it also in my testimony.

23 Q So is it the official position of the Postal  
24 Service that delivery of First Class flats was delayed  
25 unusually during the time of the UPS strike?



1           A     I don't know whether I'd say -- I don't know what  
2 "unusually" means. I know that there were delivery delays  
3 during the UPS strike based on the volume of mail that the  
4 Postal Service encountered, additional volume as a result of  
5 the strike.

6           Q     Does the Postal Service have any estimate of the  
7 particular date range during which the UPS strike effects  
8 were felt? I believe the strike began on August 4. Do you  
9 know how long it lasted and how long the effects of the  
10 strike were being felt in the Postal Service as they would  
11 delay delivery of First Class flats?

12          A     No. I don't know. I don't know personally.

13          Q     And between April 7 and April 18, was there a UPS  
14 strike at that time?

15          A     Not that I'm aware of; no.

16          Q     If you could refer to page 8 of your rebuttal  
17 testimony, can you confirm, please, that the postmaster at  
18 Berkley wrote unfortunately -- or fortunately the additional  
19 workload parcels created by the UPS strike have created a  
20 drain on our resources. And then I won't finish the rest of  
21 the sentence.

22          A     Um-hum. Yes. I agree that they said the  
23 additional workload created a drain on the resources.

24          Q     In your --

25          A     Right. So that the drain on the resources

1 affected all classes of mail.

2 Q On page 11 of your rebuttal testimony you  
3 presented a copy of a letter directed to the Berkley  
4 postmaster from the plant manager in Oakland. Do you  
5 believe that that letter shows an attempt to respond to the  
6 service problems that I've raised?

7 A Oh, yes, it does. And I know that this was done  
8 independent of anything that the Berkley post office was  
9 doing. Apparently you had written Oakland, and it was  
10 decided that they would look at the problems also, but  
11 not -- this was done not in tandem with Berkley. This was  
12 done independently.

13 Q So why didn't they say anything about the UPS  
14 strike as being the source of my service complaints?

15 A Well, let's see -- well, Mr. Carlson, I see here  
16 they're only discussing -- they're discussing what happened  
17 in September and October from what I can gather here.

18 Q My letter was dated September 27, 1997.

19 A Right.

20 Q And it was discussing the study for April 7  
21 through 18, 1997, and July 29, 1997 to September 23, 1997.  
22 If the UPS strike was the reason for these service problems,  
23 why would the Oakland post office not have thought that that  
24 could be the explanation?

25 A I don't know. I need to see that letter, though,

1 that you wrote, because I hadn't seen it.

2 Q Is that the one that I had tentatively labeled as  
3 Cross-examination Exhibit 4?

4 A I don't -- oh, yes. And I just -- I just saw this  
5 for the very first time this morning when Mr. Kaneer was on  
6 the stand, and due to my interest in Mr. Kaneer's testimony  
7 I really haven't had a chance to review it.

8 Q If the Postal Service were attempting to determine  
9 the delivery performance of First Class mail in order to  
10 determine nationwide the percentage of First Class mail  
11 that's delivered in accordance with the delivery standards,  
12 would it be safe to measure performance on one day and then  
13 draw conclusions about nationwide performance based on the  
14 statistics from one day?

15 A Did the -- I just need to find out -- I don't --  
16 would not have enough information generically to answer that  
17 question, but specifically, I believe that your mail was  
18 checked for more than one day.

19 Q Where does it say that?

20 A Well, I have in my -- in my testimony, on page 11,  
21 it says, from October 17th through October 23rd, the  
22 Berkeley primary in zone 94712 were monitored.

23 Q And then, later, it says a review of the box  
24 section on October 23rd revealed that Mr. Carlson received  
25 12 first-class flats and so on.

1           A     Right. And then, further down, it says nine  
2 pieces contain meter postmark of October 20th, one for  
3 October 17th, all from D.C., and it goes on to tell a little  
4 bit more about some discrepancies that they had with what  
5 you had reported on the delivery record.

6                     Your -- the mail there was monitored from the 17th  
7 to the 23rd. That was a week, not one day. They pulled out  
8 one day and were talking about what happened on that one  
9 day.

10          Q     Where does it say that they monitored the mail at  
11 my box --

12          A     I don't know --

13          Q     -- for more than one day?

14          A     They monitored the mail from the 17th through the  
15 23rd. It says that in the second paragraph.

16          Q     The Berkeley primary in zone 94712 --

17          A     Right.

18          Q     -- manual and automated flat operations --

19          A     Uh-huh.

20          Q     -- and no qualified first-class mail was left in  
21 Berkeley units after the cut-off time.

22          A     Exactly.

23          Q     The platform operation was checked to verify that  
24 all Berkeley mail was loaded on the dispatch vehicle. Where  
25 does it say that they took a survey of the mail that was

1 delivered to my box on those days?

2 A It doesn't. It addresses another day. There are  
3 two issues at stake here, and I was really addressing the  
4 one about receiving the flats in your box. That would be my  
5 concern.

6 With respect to box service as far as what may be  
7 late as far as service standards go with respect to your  
8 complaints, I can't answer those questions. That is in  
9 operations.

10 Q Is there any evidence that the delivery problem  
11 has been solved?

12 A And what do you mean, evidence that -- what  
13 delivery problem?

14 Q The problem with delays in the delivery of first-  
15 class flats that's the subject of the October 30 letter from  
16 the plant manager in Oakland.

17 A Well, I think you'd be best to answer that  
18 question.

19 Q Well, I asked you, is there any evidence that you  
20 know of that the problem has been solved?

21 A Well, I believe that -- it's my belief that the  
22 problem has been alleviated, if not eliminated.

23 Q Where do you obtain that impression?

24 A Well, I have been told that the Berkeley post  
25 office is working at getting the flats in the first -- all

1 first-class mail in at a certain time.

2 Plans are being made to have the mail processed at  
3 Oakland before it's sent to Berkeley, instead of just sent  
4 without being processed first, so it can go right into the  
5 box straight from Oakland, instead of having to be sorted  
6 first.

7 Q If the flats never get to Berkeley on time, then  
8 the changes that Berkeley makes will not affect -- do you  
9 have any evidence that the problem with delivery of flats  
10 has actually been solved or improved?

11 A Well, here again is a different -- I mean you're -  
12 - this is a different matter you're bringing up with respect  
13 to service standards.

14 I can't answer to a delay in terms of the mail  
15 getting to Berkeley, but I can address the fact that  
16 improvements are being made to get the mail that's at  
17 Berkeley into your box by the cut-off time.

18 Q All I'm trying to establish is that -- you've  
19 suggested in your rebuttal testimony -- or at least I  
20 believe it leaves the impression that the Postal Service has  
21 responded to the problems, and all I'm trying to establish  
22 is do you have any evidence that the problems have actually  
23 been solved or that the conditions have improved?

24 A Could you refer me to where I had stated this?

25 Q I believe there's a reference -- one moment. Page

1 6, line 10. So at that point you state that Witness Carlson  
2 has obtained responsive action from local Postal officials.  
3 Just interested to know where is the evidence that the  
4 problem has actually been solved or improved?

5 A Well, I received information about the log that  
6 they have been keeping and, in reviewing that, noticed that,  
7 with the exception of problems, unforeseeable problems such  
8 as electrical outages, that sort of thing, there have been  
9 monitoring the box mail, recording it and making notes of  
10 any problems that might arise with respect to it getting  
11 into the box by the cut-off time.

12 Q I have just a few more questions. Can you tell me  
13 the nature of the logs that they are keeping? What  
14 information, specifically, is being recorded on them?

15 A Well, it's actually when all the mail is put up in  
16 the box and not just First Class, but there will be  
17 notations, too, that First Class was put by this time, and  
18 then the rest of the mail was put up by another time. If it  
19 is beyond the cut-off point, there's a notation made as to  
20 why that would have occurred. And I must stress that beyond  
21 the cut-off time applies to all classes of mail, not just  
22 First Class.

23 So, there's -- if you see mail that was put up by  
24 11:00 a.m., the First Class mail would have been put up  
25 sometime prior to 11:00 a.m., and the rest of the mail was

1 all put up by 11:00 a.m.

2 Q So if my concern was that flats were taking an  
3 average of one or more days too long to come from  
4 Washington, D.C., that log is not going to capture that  
5 information?

6 A No, because we are talking -- that's a service  
7 standard issue. It <sup>is</sup> ~~has~~ a delivery issue, it has nothing to  
8 do with it getting to Oakland and, consequently, the  
9 Berkeley Post Office.

10 MR. CARLSON: I don't have any further questions.

11 CHAIRMAN GLEIMAN: Is there any follow-up?  
12 Questions from the bench?

13 [No response.]

14 CHAIRMAN GLEIMAN: I just have a couple, Ms.  
15 Needham. Am I correct in that you did not do an exhaustive  
16 search of the Office of the Consumer Advocate, or whatever  
17 it is called at the Postal Service, to determine whether  
18 there were other letters and complaints similar to those  
19 from Mr. Carlson, and you also didn't search other places  
20 within the Postal Service?

21 THE WITNESS: No, because we are usually provided,  
22 in a lot of cases, copies of any letters with respect to any  
23 problems or issues with Post Office Boxes.

24 CHAIRMAN GLEIMAN: Did you get any other letters  
25 provided to you?



1 THE WITNESS: Nothing similar to anything that Mr.  
2 Carlson has brought up. With respect to service problems,  
3 there are always -- there are letters that come in, and this  
4 applies to pretty much every fee<sup>or</sup> rate that we propose to be  
5 increased, concerned with an increase in general.

6 CHAIRMAN GLEIMAN: Mr. Carlson's letters, at least  
7 the ones that you appended to your rebuttal testimony, don't  
8 deal with increases in rates, they deal with service  
9 problems. I just want to make sure I understand.

10 THE WITNESS: Right.

11 CHAIRMAN GLEIMAN: You get copies of all letters  
12 that come in, and we'll discuss what "in" means, from around  
13 the country that deal with service problems on Post Office  
14 Boxes?

15 THE WITNESS: For the most part, yes. Whenever  
16 somebody sees Post Office Box in a letter, it normally gets  
17 sent to our office. Our office may not be the appropriate  
18 one to deal with it, but -- and then, if not, for the most  
19 part, there are employees that will always show me copies,  
20 ask me for responses, suggested responses on how to deal  
21 with --

22 CHAIRMAN GLEIMAN: So you didn't seek out Mr.  
23 Carlson's letters, they came to you?

24 THE WITNESS: I didn't seek them out, and I don't  
25 know which ones he has written that have gone to

1 headquarters complaining about service problems, if any.

2 CHAIRMAN GLEIMAN: I am confused now. Would all  
3 of the letters Mr. Carlson wrote about service problems  
4 involving Post Office Box service have gotten to your desk?

5 THE WITNESS: If they weren't directed to  
6 headquarters, no, not at all.

7 CHAIRMAN GLEIMAN: If they weren't directed to  
8 headquarters. If they weren't directed to headquarters by  
9 somebody in the Postal system outside of Washington?

10 THE WITNESS: Right.

11 CHAIRMAN GLEIMAN: So you don't -- the only  
12 letters, just so I understand, the only letters that you see  
13 are letters that are either addressed to your or to  
14 headquarters, or that someone in the field deems important  
15 enough to forward to headquarters?

16 THE WITNESS: Exactly.

17 CHAIRMAN GLEIMAN: So then you really don't know  
18 that Mr. Carlson's letter or the types of letters and  
19 concerns Mr. Carlson has are not more widespread in this  
20 country, that if these problems are more widespread, they  
21 haven't been brought to your attention by someone in the  
22 field forwarding letters to you?

23 THE WITNESS: Exactly.

24 CHAIRMAN GLEIMAN: Okay. Thank you. I just  
25 needed to understand --

1 THE WITNESS: Sure.

2 CHAIRMAN GLEIMAN: -- how the letters came to you.  
3 I have no further questions. Commissioner LeBlanc?

4 COMMISSIONER LeBLANC: Ms. Needham, I'm sorry. I  
5 just need to clarify something in here based on what the  
6 Chairman said.

7 CHAIRMAN GLEIMAN: I have that tendency to confuse  
8 people.

9 COMMISSIONER LeBLANC: When you set the rates that  
10 were brought before us here, how do you consider what is a  
11 high quality Post Office box service versus a problem area  
12 or a poor quality Post Office box service? If you don't get  
13 the letters -- I'm just trying to understand how you looked  
14 at that.

15 I mean obviously, you looked at the criteria, but  
16 how do you consider what is high quality versus low quality  
17 or medium quality?

18 THE WITNESS: Well, I think I could probably best  
19 answer that in just terms of box service, just viewing box  
20 services as a special service.

21 With respect to the delivery issues, as far as  
22 mail being delayed, coming across to the box section, you  
23 know, I can't really deal with that, you know, by being of  
24 lesser quality, you know, as far as mail being delayed a day  
25 or two. That's one thing, but like in Mr. Carlson's case

1 and the majority of the box holders who have alternatives,  
2 to them, there's a value of service for whatever reason, in  
3 obtaining their mail at a Post Office box and not as an  
4 option to their residence.

5 So, inherent just in that we offer Post Office box  
6 service, there's a value of service right there that people  
7 do consider very highly for reasons of, you know, privacy or  
8 whatever.

9 Having a Post Office box can really improve  
10 somebody's life in a lot of ways. You know, financially, in  
11 terms of maybe avoiding something or whatever, but there's a  
12 value of service there that makes it of a high quality to  
13 them.

14 Now, as far as, like I said, as far as the mail  
15 being delayed getting there, that's a service standard issue  
16 that I can't deal with.

17 COMMISSIONER LeBLANC: So you connote, and please  
18 don't let me mischaracterize what you say, I just want to  
19 clarify for my understanding, I guess is a way of saying it  
20 then, that you are connoting -- maybe a poor choice of  
21 words, but are you connoting the value of service, that  
22 person says, okay, by the fact that I'm going to go in and  
23 pay for this Postal Service -- which happens to be the Post  
24 Office box, that in turn equates to a high quality service?

25 THE WITNESS: Well, it equates to a high value of

1 service to that person having that box and being able to get  
2 their mail through that box. As far as the quality of  
3 service, if we are talking about a delay --

4 COMMISSIONER LeBLANC: That's what I'm trying --

5 THE WITNESS: A delay of mail, that really is a  
6 different issue.

7 COMMISSIONER LeBLANC: So there is no way of  
8 really knowing then whether or not it's a high quality --  
9 again, I don't want to mischaracterize what you say --  
10 there's no way of really knowing it's a high quality or a  
11 medium quality or a low quality, whatever it may be, of  
12 service, it's just a fact, if I'm understanding you  
13 properly, they pay money to get an extra service and  
14 therefore, that extra value of service to them connotes to  
15 the high quality?

16 THE WITNESS: Well, I would say high value, high  
17 value of service. Quality, I would look at differently.

18 COMMISSIONER LeBLANC: And when you -- I'm  
19 changing on you here. Did I interrupt you? I'm sorry.

20 THE WITNESS: No, no, no. That's fine.

21 COMMISSIONER LeBLANC: Just to ask one other  
22 question, I didn't think about it until just a moment ago,  
23 but when you set those rates, did you look at rural versus  
24 urban/metropolitan as far as value of service in those areas  
25 and being able to afford that service?

1 THE WITNESS: Yes, and rural, of course, if there  
2 was no opportunity to receive their, you know, receive mail  
3 other than a box, of course, we would introduce that Group E  
4 with the zero fees, but with respect to --

5 COMMISSIONER LeBLANC: I mean outside of that.

6 THE WITNESS: Yes, there is a value of service to  
7 the rural people who could get their mail delivered to their  
8 residence but choose the box service.

9 COMMISSIONER LeBLANC: Thank you. Thank you, Mr.  
10 Chairman.

11 CHAIRMAN GLEIMAN: Does any participant have  
12 follow up as a consequence of questions from the bench?

13 MR. CARLSON: I do have just a couple. Before the  
14 hearing, I provided you with copies of cross examination  
15 exhibits tentatively labeled DFC/USPS RT-23-XE-2, 3 and 4.  
16 I'm going to hand two copies to the Reporter and one to the  
17 Commission.

18 [Cross-Examination Exhibit Nos.  
19 DFC/USPS-RT-23-XE-2 through  
20 DFC/USPS-RT-23-XE-4 were marked for  
21 identification.]

22 FURTHER CROSS EXAMINATION

23 BY MR. CARLSON:

24 Q I'll just ask if you have read or seen these  
25 letters prior to today?

1           A     No, I haven't. How about one? You had mentioned  
2 two, three and four. Are you going to --

3           Q     I am not going to address number one.

4           A     Okay.

5           Q     Have you had a chance to review these letters  
6 today?

7           A     Not really, just briefly skimmed over them.

8           Q     Based on your skimming, did they look like the  
9 types of letters you would expect to have been forwarded to  
10 Headquarters and to your office?

11          A     Well, by a Postal official or is that like a  
12 carbon copy from the author of the letter?

13          Q     Since the author of the letter did not cc  
14 Headquarters, it would have to be the Postal Service  
15 forwarding them to Headquarters.

16          A     Right. Probably not because this concerns a local  
17 problem that could be handled on a local level.

18          Q     Why did you not ask to see my letters when you  
19 requested the Postal Service response letters from Berkeley  
20 in preparing your rebuttal testimony?

21          A     Oh, I didn't ask not to see them. They just  
22 weren't provided to me.

23          Q     Don't you think you could have made a better  
24 assessment of whether the letters responded to my concerns  
25 by seeing what my concerns were in my own words?

1           If there had been a paragraph in one of my letters  
2     addressing a particular problem and the response letter did  
3     not refer to or address that problem, would you still say  
4     that the Berkeley Postmaster had been responsive?

5           A     It depends on what the paragraph was. Can you  
6     point me to the paragraph?

7           Q     But how would you know if you didn't ask for the  
8     letters?

9           A     If you could tell me now, I could answer your  
10    question. Do you have the paragraph here?

11          Q     I'm asking just a question in determining why you  
12    didn't ask for those letters when you submitted your  
13    rebuttal testimony? That was the only question.

14          A     But I didn't say I didn't ask for them. I just  
15    wasn't provided them.

16          Q     So they refused to provide them?

17          A     No, not at all. I asked for everything they had.

18                CHAIRMAN GLEIMAN: Let's cut to the chase because  
19    we are taking a lot of time to answer it. Did you ask for  
20    the letters?

21                THE WITNESS: Yes, I asked for everything they had  
22    but I was only provided with the responses.

23                CHAIRMAN GLEIMAN: So they didn't provide you --

24                THE WITNESS: Right.

25                MR. CARLSON: I would like to move that these



1 letters be admitted into evidence because I don't believe  
2 that the responses actually assess the situation unless the  
3 initial inquiry is seen also.

4 CHAIRMAN GLEIMAN: Mr. Rubin?

5 MR. RUBIN: I would object until they're  
6 authenticated as the incoming -- I would object until  
7 they're authenticated as the incoming letters which were  
8 responded to.

9 CHAIRMAN GLEIMAN: Well, I tell you what. Subject  
10 to authentication by the Postal Service, which is the only  
11 part that can authenticate the letters at this point, since  
12 you don't accept Mr. Carlson's assertion that they are,  
13 indeed, the letters that were sent in, we'll admit them into  
14 evidence and have them transcribed into the record.

15 If you determine -- if you, the Postal Service,  
16 determines that these are not, in fact, the letters -- and  
17 you can do that by not only requesting by demanding that the  
18 party to whom they were addressed sends them to you so that  
19 you can check the content of the letters, but absent some  
20 indication to the contrary, the Commission will assume that  
21 they're authentic letters.

22 If you have information to the contrary, you  
23 provide that, we'll put that into the record, and we'll give  
24 the letters that Mr. Carlson submitted as cross examination  
25 exhibits today the appropriate weight.

1                   How about that?

2                                   [Cross-Examination Exhibit Nos.  
3                                   DFC/USPS-RT-23-XE-2, DFC/USPS-RT-  
4                                   23-XE-3, and DFC/USPS-RT-XE-4 were  
5                                   received into evidence and  
6                                   transcribed into the record.]

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Ms. Carol A. Miller  
November 7, 1997  
Page 2

DFC/USPS-RT-23-XE-3 p. 2 of 3

In a few instances, I accidentally mixed mail from two delivery days before I could input the delivery information into my computer. When I mixed mail, I omitted all the mail from my delivery record. This occasional event occurred randomly, and the omitted information should not have skewed my results in one direction or the other.

Second, I was aware that some sort of monitoring of my flats took place on Thursday, October 23, 1997, because the numeral "23" was handwritten on each flat. Presumably my flats then were photocopied. Your memorandum confirms this monitoring. It also reveals that my flats were monitored on only one day. Unfortunately, a Thursday was a poor and unrepresentative day on which to monitor this problem. The reason: on Thursday, one would expect to receive flats that had been mailed on the East Coast on Monday plus any flats that had been delayed from the previous week. My data reveal that my flats arrive an average of 1.1 to 1.5 days late. Therefore, the flats from the previous week that had been delayed likely would have been delivered before the following Thursday. Consequently, most of the mail that arrives on Thursdays is not delayed mail. If you wish to monitor my mail in the future on a single day instead of a longer period of time, I suggest a Monday or Tuesday, as the flats that should have arrived on a previous Friday or Saturday usually arrive on Monday or Tuesday. In fact, along with the letter from Mr. Banks that I received on Tuesday, November 4 were three flats that were mailed in Washington, DC, on Friday, October 31.

Third, the memorandum notes that most of the flats that were observed on October 23, 1997, were metered. The delivery delays also occur with flats that have Postal Service postmarks, so I do not believe that the delivery problem with flats is illusory and attributable to stale meter dates.

Lastly, the memorandum is correct in noting that I erroneously indicated that a flat that was mailed on September 16 from Northern Virginia and delivered on September 19 was delivered three days late. Obviously, that flat was delivered on time. This entry error does not, however, cast doubt on the large quantity of data that I produced that show a consistent delivery problem. In addition, I note that the memorandum incorrectly states that a flat that was mailed on October 17 and delivered on October 23, the day of the monitoring, was delivered two days late. In fact, it was delivered three days late.

Ms. Carol A. Miller  
November 7, 1997  
Page 3

DFC/USPS-RT-23-XE-3 p. 3 of 3

I encourage you to continue monitoring this problem. As the Berkeley post office now apparently is monitoring the frequency with which I pick up my mail, I assure you that you will, indeed, be able to confirm from this monitoring that I pick up my mail daily. Moreover, I encourage you to verify this delivery problem independently by monitoring my box for at least seven to 10 days; alternatively, I suggest that you monitor delivery on several Mondays and Tuesdays.

Finally, I am interested to know whether the "random sampling of destinating flats that originate outside of this area" helped to determine whether the problems that I am experiencing are widespread or limited to either Washington, DC, or Berkeley.

I look forward to your next report.

Thank you again for your assistance.

Sincerely,



Douglas F. Carlson

cc: Kathie Hawley, District Manager,  
Oakland Customer Service District  
George Banks, Berkeley Postmaster

DFC/USPS-RT-23-XE-4 p. 1 of 7

PO Box 12574  
Berkeley CA 94712-3574  
September 27, 1997

Mr. George Banks  
Postmaster  
United States Postal Service  
2000 Allston Way  
Berkeley CA 94704-9998

Dear Mr. Banks:

I have received my mail at PO Box 12574, Berkeley CA 94712-3574 for over two years. During this time, delivery of first-class flats has been consistently slow, intermittent, and unpredictable. Flats routinely arrive late, whether they were mailed locally or from the East Coast. In a discussion last year, a box clerk confirmed that flats arrive sporadically from Oakland, often arriving in unusually large quantities on some days and in small quantities on other days. Also, the clerk advised me that first-class flats sometimes arrive on an afternoon truck, too late for same-day distribution. In contrast, delivery performance for first-class letters is very good.

I initially brought this matter to your attention last year by way of a "cc" on a letter to Carol A. Miller, plant manager at the Oakland Processing & Distribution Center. Unfortunately, despite my letter, the problem continues, as severe as ever.

Since I receive a large number of flats, I began to keep a log of the delivery performance. As you can see from the charts that I have enclosed, between April 7, 1997, and April 18, 1997, flats were delivered an average of 1.48 days late. Between July 29, 1997, and September 23, 1997, 174 flats were delivered an average of 1.10 days late. Of this latter group, 52.7 percent were delivered late. (Gaps in dates on the chart were caused when I was out of town and unable to pick up mail for a period of time.) Sometimes large groups of flats that should have been delivered on one day will show up on the following day. For example, a large group of flats was mailed on September 17, 1997, and should have arrived on September 20, 1997. Instead, the flats arrived on September 22, 1997. Other times, the delays are confined to individual flats.

This delivery problem is serious. It must be addressed and corrected, as it is inconsistent with the Postal Service's own delivery standards. Moreover, this perfor-

Mr. George Banks  
September 27, 1997  
Page 2

DFC/USPS-RT-23-XE-4 p. 2 of 7

mance apparently is anomalous, as EXFC scores for the Oakland area are significantly better than my data indicate.

I will appreciate your assistance in resolving this problem. I am sending a "cc" of this letter to several other officials, since the problem may lie, in whole or in part, in a facility other than Berkeley.

Sincerely,



Douglas F. Carlson

cc: Kathie Hawley, District Manager,  
Oakland Customer Service District  
Carol A. Miller, Plant Manager, Oakland P&DC  
Fred Florance, Plant Manager, San Francisco P&DC  
Gene R. Howard, Vice President, Pacific Area Operations

DFC/USPS-RT-23-XE-4 p. 3 of 7  
Mail Delivery Records

| Received Date     | Date Mailed | Mailed at                  | Type of Piece | Class    | Days Late |
|-------------------|-------------|----------------------------|---------------|----------|-----------|
| 4/7/97            | 4/4/97      | Northern Virginia, VA      | Flat          | 1st      | 0         |
| 4/7/97            | 4/2/97      | Philadelphia, PA           | Flat          | 1st      | 2         |
| 4/7/97            | 4/2/97      | Washington, DC             | Flat          | 1st      | 2         |
| 4/7/97            | 4/3/97      | Northern Virginia, VA      | Flat          | 1st      | 0         |
| 4/7/97            | 4/2/97      | Northern Virginia, VA      | Flat          | 1st      | 2         |
| 4/7/97            | 3/31/97     | Washington, DC             | Flat          | 1st      | 4         |
| 4/7/97            | 4/1/97      | Washington, DC             | Flat          | 1st      | 3         |
| 4/7/97            | 4/1/97      | Washington, DC             | Flat          | 1st      | 3         |
| 4/7/97            | 4/2/97      | Washington, DC             | Flat          | 1st      | 2         |
| 4/7/97            | 3/31/97     | Washington, DC             | Flat          | 1st      | 4         |
| 4/7/97            | 4/1/97      | Dallas, TX                 | SPR           | Priority | 4         |
| 4/7/97            | 4/2/97      | Washington, DC             | Parcel        | Priority | 3         |
| 4/8/97            | 4/4/97      | Washington, DC             | Flat          | 1st      | 1         |
| 4/8/97            | 4/7/97      | Walnut Creek, CA           | Flat          | 1st      | 0         |
| 4/9/97            | 4/4/97      | Philadelphia, PA           | Flat          | 1st      | 2         |
| 4/9/97            | 4/8/97      | Walnut Creek, CA           | Flat          | 1st      | 0         |
| 4/11/97           | 4/8/97      | Philadelphia, PA           | Flat          | 1st      | 0         |
| 4/11/97           | 4/8/97      | Northern Virginia, VA      | Flat          | 1st      | 0         |
| 4/10/97           | 4/7/97      | Washington, DC             | Flat          | 1st      | 0         |
| 4/10/97           | 4/4/97      | Washington, DC             | Flat          | 1st      | 3         |
| 4/10/97           | 4/7/97      | Washington, DC             | Flat          | 1st      | 0         |
| 4/10/97           | 4/7/97      | Washington, DC             | Flat          | 1st      | 0         |
| 4/10/97           | 4/7/97      | Northern Virginia, VA      | Flat          | 1st      | 0         |
| 4/14/97           | 4/9/97      | Washington, DC             | Flat          | 1st      | 2         |
| 4/14/97           | 4/9/97      | McLean, VA                 | Flat          | 1st      | 2         |
| 4/14/97           | 4/9/97      | Washington, DC             | Flat          | 1st      | 2         |
| 4/14/97           | 4/8/97      | Washington, DC             | Flat          | 1st      | 3         |
| 4/15/97           | 4/10/97     | Northern Virginia, VA      | Flat          | 1st      | 1         |
| 4/15/97           | 4/11/97     | Washington, DC             | Parcel        | Priority | 1         |
| 4/15/97           | 4/11/97     | Northern Virginia, VA      | Flat          | 1st      | 1         |
| 4/15/97           | 4/10/97     | Washington, DC             | Flat          | 1st      | 1         |
| 4/15/97           | 4/11/97     | Washington, DC             | Flat          | 1st      | 1         |
| 4/15/97           | 4/10/97     | Dulles, VA                 | Flat          | 1st      | 1         |
| 4/15/97           | 4/11/97     | Yellowstone Nat'l Park, WY | Flat          | 1st      | 1         |
| 4/15/97           | 4/9/97      | Northern Virginia, VA      | Flat          | 1st      | 3         |
| 4/17/97           | 4/14/97     | Philadelphia, PA           | Flat          | 1st      | 0         |
| 4/17/97           | 4/14/97     | Washington, DC             | Flat          | 1st      | 0         |
| 4/21/97           | 4/15/97     | Walnut Creek, CA           | Flat          | 1st      | 5         |
| 4/21/97           | 4/18/97     | Washington, DC             | Flat          | 1st      | 0         |
| 4/21/97           | 4/18/97     | Washington, DC             | Flat          | 1st      | 0         |
| AVERAGE DAYS LATE |             |                            |               |          | 1.48      |

DFC/USPS-RT-23-XE-4 p. 4 of 7  
Mail Delivery Records

| Received Date | Date Mailed | Mailed at             | Type of Piece | Class    | Days Late |
|---------------|-------------|-----------------------|---------------|----------|-----------|
| 7/29/97       | 7/17/97     | Northern Virginia, VA | Flat          | 1st      | 8         |
| 7/29/97       | 7/24/97     | Northern Virginia, VA | Flat          | 1st      | 1         |
| 7/29/97       | 7/24/97     | Northern Virginia, VA | Flat          | 1st      | 1         |
| 7/29/97       | 7/24/97     | Washington, DC        | Flat          | 1st      | 1         |
| 7/29/97       | 7/24/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/5/97        | 7/31/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/5/97        | 7/31/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/5/97        | 7/30/97     | McLean, VA            | Flat          | 1st      | 3         |
| 8/5/97        | 8/1/97      | Washington, DC        | Flat          | 1st      | 1         |
| 8/5/97        | 8/1/97      | Washington, DC        | Flat          | 1st      | 1         |
| 8/5/97        | 7/31/97     | Northern Virginia, VA | Flat          | 1st      | 1         |
| 8/5/97        | 8/1/97      | Northern Virginia, VA | Flat          | 1st      | 1         |
| 8/5/97        | 7/31/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/5/97        | 7/30/97     | Northern Virginia, VA | Flat          | Priority | 4         |
| 8/5/97        | 8/1/97      | McLean, VA            | Flat          | 1st      | 1         |
| 8/5/97        | 7/29/97     | Washington, DC        | Flat          | 1st      | 4         |
| 8/5/97        | 7/29/97     | Washington, DC        | Flat          | 1st      | 4         |
| 8/19/97       | 8/12/97     | Northern Virginia, VA | Flat          | Priority | 5         |
| 8/19/97       | 8/13/97     | Northern Virginia, VA | Flat          | 1st      | 3         |
| 8/19/97       | 8/13/97     | Northern Virginia, VA | Flat          | 1st      | 3         |
| 8/19/97       | 8/13/97     | Northern Virginia, VA | Flat          | Priority | 4         |
| 8/19/97       | 8/13/97     | Washington, DC        | Flat          | 1st      | 3         |
| 8/19/97       | 8/13/97     | Washington, DC        | Flat          | 1st      | 3         |
| 8/19/97       | 8/13/97     | Washington, DC        | Flat          | 1st      | 3         |
| 8/19/97       | 8/13/97     | Washington, DC        | Flat          | 1st      | 3         |
| 8/19/97       | 8/13/97     | Washington, DC        | Flat          | 1st      | 3         |
| 8/19/97       | 8/13/97     | McLean, VA            | Flat          | 1st      | 3         |
| 8/19/97       | 8/14/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/14/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/14/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/14/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/15/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/15/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/15/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/15/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/15/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/19/97       | 8/15/97     | Northern Virginia, VA | Flat          | Priority | 1         |
| 8/20/97       | 8/15/97     | Philadelphia, PA      | Flat          | 1st      | 2         |
| 8/25/97       | 8/20/97     | Washington, DC        | Flat          | 1st      | 2         |
| 8/25/97       | 8/20/97     | Washington, DC        | Flat          | 1st      | 2         |
| 8/25/97       | 8/20/97     | Washington, DC        | Flat          | 1st      | 2         |
| 8/25/97       | 8/20/97     | Washington, DC        | Flat          | 1st      | 2         |
| 8/25/97       | 8/20/97     | Washington, DC        | Flat          | 1st      | 2         |
| 8/26/97       | 8/20/97     | Washington, DC        | Flat          | 1st      | 3         |
| 8/26/97       | 8/21/97     | McLean, VA            | Flat          | 1st      | 1         |
| 8/26/97       | 8/21/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/26/97       | 8/21/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/26/97       | 8/21/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/26/97       | 8/21/97     | Northern Virginia, VA | Flat          | 1st      | 1         |
| 8/26/97       | 8/21/97     | Northern Virginia, VA | Flat          | 1st      | 1         |



DFC/USPS-RT-23-XE-4 p. 5 of 7  
Mail Delivery Records

| Received Date | Date Mailed | Mailed at             | Type of Piece | Class    | Days Late |
|---------------|-------------|-----------------------|---------------|----------|-----------|
| 8/26/97       | 8/21/97     | Northern Virginia, VA | Flat          | 1st      | 1         |
| 8/26/97       | 8/22/97     | McLean, VA            | Flat          | 1st      | 1         |
| 8/26/97       | 8/22/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/26/97       | 8/22/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/26/97       | 8/22/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/26/97       | 8/22/97     | Washington, DC        | Flat          | 1st      | 1         |
| 8/26/97       | 8/22/97     | Northern Virginia, VA | Flat          | 1st      | 1         |
| 8/26/97       | 8/22/97     | Northern Virginia, VA | Flat          | Priority | 1         |
| 8/27/97       | 8/26/97     | Walnut Creek, CA      | Flat          | 1st      | 0         |
| 8/28/97       | 8/22/97     | Washington, DC        | Flat          | 1st      | 3         |
| 8/28/97       | 8/25/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/28/97       | 8/25/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/28/97       | 8/25/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/28/97       | 8/25/97     | McLean, VA            | Flat          | 1st      | 0         |
| 8/29/97       | 8/26/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/29/97       | 8/26/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/29/97       | 8/26/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/29/97       | 8/26/97     | Northern Virginia, VA | Flat          | 1st      | 0         |
| 8/30/97       | 8/26/97     | McLean, VA            | Flat          | 1st      | 1         |
| 8/30/97       | 8/27/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/30/97       | 8/27/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/30/97       | 8/27/97     | Washington, DC        | Flat          | 1st      | 0         |
| 8/30/97       | 8/27/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/2/97        | 8/28/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/2/97        | 8/28/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/2/97        | 8/28/97     | Northern Virginia, VA | Flat          | 1st      | 0         |
| 9/2/97        | 8/29/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/2/97        | 8/29/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/2/97        | 8/29/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/3/97        | 8/28/97     | Washington, DC        | Flat          | 1st      | 1         |
| 9/3/97        | 8/29/97     | McLean, VA            | Flat          | 1st      | 1         |
| 9/3/97        | 8/29/97     | Washington, DC        | Flat          | 1st      | 1         |
| 9/3/97        | 8/29/97     | Washington, DC        | Flat          | 1st      | 1         |
| 9/5/97        | 9/2/97      | Washington, DC        | Flat          | 1st      | 0         |
| 9/5/97        | 9/2/97      | Washington, DC        | Flat          | 1st      | 0         |
| 9/5/97        | 9/2/97      | Northern Virginia, VA | Flat          | 1st      | 0         |
| 9/5/97        | 9/2/97      | Dallas, TX            | Flat          | 1st      | 0         |
| 9/6/97        | 9/3/97      | Northern Virginia, VA | Flat          | 1st      | 0         |
| 9/6/97        | 9/3/97      | Northern Virginia, VA | Flat          | Priority | 0         |
| 9/6/97        | 9/4/97      | Northern Virginia, VA | Flat          | Priority | 0         |
| 9/8/97        | 9/3/97      | Washington, DC        | Flat          | 1st      | 2         |
| 9/8/97        | 9/3/97      | Washington, DC        | Flat          | 1st      | 2         |
| 9/8/97        | 9/3/97      | Washington, DC        | Flat          | 1st      | 2         |
| 9/8/97        | 9/3/97      | Alexandria, VA        | Flat          | 1st      | 2         |
| 9/8/97        | 9/3/97      | Alexandria, VA        | Flat          | 1st      | 2         |
| 9/8/97        | 9/3/97      | Orlando, FL           | Flat          | 1st      | 2         |
| 9/8/97        | 9/4/97      | McLean, VA            | Flat          | 1st      | 0         |
| 9/8/97        | 9/4/97      | Washington, DC        | Flat          | 1st      | 0         |
| 9/8/97        | 9/4/97      | Washington, DC        | Flat          | 1st      | 0         |
| 9/8/97        | 9/4/97      | Washington, DC        | Flat          | 1st      | 0         |

DFC/USPS-RT-23-XE-4 p. 6 of 7  
Mail Delivery Records

| Received Date | Date Mailed | Mailed at                  | Type of Piece | Class    | Days Late |
|---------------|-------------|----------------------------|---------------|----------|-----------|
| 9/8/97        | 9/5/97      | Washington, DC             | Flat          | 1st      | 0         |
| 9/9/97        | 9/8/97      | Walnut Creek, CA           | Flat          | 1st      | 0         |
| 9/9/97        | 9/12/97     | Northern Virginia, VA      | Flat          | Priority | 0         |
| 9/11/97       | 9/8/97      | Washington, DC             | Flat          | 1st      | 0         |
| 9/11/97       | 9/8/97      | Northern Virginia, VA      | Flat          | 1st      | 0         |
| 9/11/97       | 9/9/97      | Northern Virginia, VA      | Flat          | Priority | 0         |
| 9/12/97       | 9/8/97      | Washington, DC             | Flat          | 1st      | 1         |
| 9/12/97       | 9/8/97      | Northern Virginia, VA      | Flat          | 1st      | 1         |
| 9/12/97       | 9/9/97      | Washington, DC             | Flat          | 1st      | 0         |
| 9/12/97       | 9/9/97      | Washington, DC             | Flat          | 1st      | 0         |
| 9/12/97       | 9/9/97      | McLean, VA                 | Flat          | 1st      | 0         |
| 9/15/97       | 9/10/97     | Washington, DC             | Flat          | 1st      | 2         |
| 9/15/97       | 9/10/97     | Washington, DC             | Flat          | 1st      | 2         |
| 9/15/97       | 9/10/97     | Philadelphia, PA           | Flat          | 1st      | 2         |
| 9/15/97       | 9/10/97     | McLean, VA                 | Flat          | 1st      | 2         |
| 9/15/97       | 9/10/97     | Northern Virginia, VA      | Flat          | Priority | 3         |
| 9/15/97       | 9/11/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/15/97       | 9/11/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/15/97       | 9/11/97     | McLean, VA                 | Flat          | 1st      | 0         |
| 9/15/97       | 9/11/97     | Northern Virginia, VA      | Flat          | Priority | 2         |
| 9/15/97       | 9/12/97     | McLean, VA                 | Flat          | 1st      | 0         |
| 9/15/97       | 9/12/97     | Northern Virginia, VA      | Flat          | Priority | 0         |
| 9/16/97       | 9/12/97     | Washington, DC             | Flat          | 1st      | 1         |
| 9/16/97       | 9/12/97     | Washington, DC             | Flat          | 1st      | 1         |
| 9/16/97       | 9/12/97     | Washington, DC             | Flat          | 1st      | 1         |
| 9/17/97       | 9/12/97     | Washington, DC             | Flat          | 1st      | 2         |
| 9/18/97       | 9/12/97     | Washington, DC             | Flat          | 1st      | 3         |
| 9/18/97       | 9/13/97     | Yellowstone Nat'l Park, WY | Flat          | 1st      | 2         |
| 9/18/97       | 9/13/97     | Washington, DC             | Flat          | 1st      | 2         |
| 9/18/97       | 9/15/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/18/97       | 9/15/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/18/97       | 9/15/97     | McLean, VA                 | Flat          | 1st      | 0         |
| 9/18/97       | 9/15/97     | Alexandria, VA             | Flat          | 1st      | 0         |
| 9/18/97       | 9/15/97     | Alexandria, VA             | Flat          | 1st      | 0         |
| 9/18/97       | 9/15/97     | Northern Virginia, VA      | Flat          | 1st      | 0         |
| 9/18/97       | 9/16/97     | Walnut Creek, CA           | Flat          | 1st      | 1         |
| 9/19/97       | 9/15/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Washington, DC             | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Northern Virginia, VA      | Flat          | 1st      | 3         |
| 9/19/97       | 9/16/97     | McLean, VA                 | Flat          | 1st      | 0         |
| 9/19/97       | 9/16/97     | Orlando, FL                | Flat          | 1st      | 0         |
| 9/22/97       | 9/17/97     | Alexandria, VA             | Flat          | 1st      | 2         |
| 9/22/97       | 9/17/97     | Alexandria, VA             | Flat          | 1st      | 2         |

DFC/USPS-RT-23-XE-4 p. 7 of 7  
Mail Delivery Records

| Received Date     | Date Mailed | Mailed at             | Type of Piece | Class    | Days Late |
|-------------------|-------------|-----------------------|---------------|----------|-----------|
| 9/22/97           | 9/17/97     | McLean, VA            | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Philadelphia, PA      | Flat          | 1st      | 2         |
| 9/22/97           | 9/17/97     | Northern Virginia, VA | Flat          | Priority | 3         |
| 9/22/97           | 9/18/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/22/97           | 9/18/97     | Alexandria, VA        | Flat          | 1st      | 0         |
| 9/22/97           | 9/18/97     | Alexandria, VA        | Flat          | 1st      | 0         |
| 9/22/97           | 9/18/97     | Northern Virginia, VA | Flat          | 1st      | 0         |
| 9/22/97           | 9/19/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/22/97           | 9/19/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/22/97           | 9/19/97     | Washington, DC        | Flat          | 1st      | 0         |
| 9/22/97           | 9/19/97     | New York, NY          | Flat          | 1st      | 0         |
| 9/22/97           | 9/19/97     | Orlando, FL           | Flat          | 1st      | 0         |
| 9/22/97           | 9/19/97     | Northern Virginia, VA | Flat          | Priority | 0         |
| 9/23/97           | 9/17/97     | Washington, DC        | Flat          | 1st      | 3         |
| 9/23/97           | 9/19/97     | Northern Virginia, VA | Flat          | 1st      | 1         |
| AVERAGE DAYS LATE |             |                       |               |          | 1.10      |

1 CHAIRMAN GLEIMAN: Anything more, Mr. Carlson?

2 MR. CARLSON: And I don't have any further  
3 questions.

4 CHAIRMAN GLEIMAN: Is there any further follow-  
5 up?

6 [No response.]

7 CHAIRMAN GLEIMAN: Would you like some time with  
8 your witness?

9 MR. RUBIN: I'd like five minutes.

10 CHAIRMAN GLEIMAN: You've got it.

11 [Recess.]

12 CHAIRMAN GLEIMAN: Mr. Rubin, whenever you and  
13 your witness are ready.

14 MR. RUBIN: Actually, we've decided that there's  
15 no need for redirect.

16 CHAIRMAN GLEIMAN: Smart move, because people  
17 thought of other questions.

18 COMMISSIONER LeBLANC: You ought to keep her  
19 around and talk everybody out, right?

20 CHAIRMAN GLEIMAN: Ms. Needham, we want to thank  
21 you. We appreciate your appearance here today and your  
22 contributions to the record, and if there's nothing further,  
23 you're excused.

24 THE WITNESS: Thank you.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: I think I'd like to try and  
2 press ahead a little bit. So, if you could call the next  
3 witness, who is Postal Service witness Michael Plunkett, and  
4 Mr. Plunkett is also already under oath in at least one,  
5 perhaps two proceedings, as best I can recall.  
6 Whereupon,

7 MICHAEL K. PLUNKETT,  
8 a rebuttal witness, having first previously duly sworn, was  
9 further examined and continued to testify as follows:

10 DIRECT EXAMINATION

11 BY MR. RUBIN:

12 Q Mr. Plunkett, I have provided you with two copies  
13 of a document entitled "Rebuttal Testimony of Michael K.  
14 Plunkett on Behalf of United States Postal Service." The  
15 testimony is designated USPS-RT-20. Was this testimony  
16 prepared by you or under your supervision?

17 A Yes, it was.

18 Q And if you were to testify orally here today,  
19 would this be your testimony?

20 A Yes, it would.

21 MR. RUBIN: I will provide two copies of the  
22 rebuttal testimony of Michael K. Plunkett on behalf of the  
23 United States Postal Service to the reporter, and I ask that  
24 the testimony be entered into evidence in this proceeding.

25 CHAIRMAN GLEIMAN: Are there any objections?

1 [No response.]

2 CHAIRMAN GLEIMAN: Hearing none, Mr. Plunkett's  
3 testimony and the exhibits are received into evidence, and I  
4 direct that they be transcribed into the record at this  
5 point.

6 [Direct Testimony and exhibits of  
7 Michael K. Plunkett, USPS-RT-20,  
8 was received into evidence and  
9 transcribed into the record.]

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USPS-RT-20

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
MICHAEL K. PLUNKETT  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

## TABLE OF CONTENTS

|                               |    |
|-------------------------------|----|
| AUTOBIOGRAPHICAL SKETCH ..... | ii |
| I. PURPOSE OF TESTIMONY.....  | 1  |
| II. VALUE OF SERVICE.....     | 1  |
| A. MEASUREMENT OF VALUE.....  | 1  |
| B. SOURCES OF VALUE .....     | 3  |
| C. QUALITY OF SERVICE.....    | 5  |
| D. SERVICE ENHANCEMENT.....   | 9  |
| III. SUMMARY.....             | 10 |
| EXHIBIT A.....                | 12 |



## **AUTOBIOGRAPHICAL SKETCH**

My name is Michael K. Plunkett. I am currently an economist in the Pricing Office of Marketing Systems. I began working for the Postal Service in 1984 as a letter carrier at the Dracut, Massachusetts Post Office. In 1985, I transferred to the Manchester, New Hampshire Division where I held a number of positions in customer services operations. In 1990, I was accepted to the Management Intern program. As an intern, I rotated through a number of assignments in various organizational units throughout the country. These assignments included positions in headquarters, area, and district offices in finance, human resources, operations, and marketing. In 1995, I transferred to the office of Budget and Financial Analysis where I served as an Economist. In February 1997, I transferred to the office of Pricing. My responsibilities include all aspects of fee design for various special services.

I received bachelor's degrees in finance and economics from Pennsylvania State University in University Park, Pennsylvania, and a Masters in Business Administration from the Wharton School at the University of Pennsylvania, where I concentrated on finance and decision sciences.

I have been the Postal Service's witness for certain special services in the current proceeding, and for packaging service in Docket No. MC97-5.

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1 **I. PURPOSE OF TESTIMONY**

2 In his direct testimony (DFC-T-1), Douglas F. Carlson (hereinafter referred  
3 to as Mr. Carlson) opposes the Postal Service's fee proposal for return receipts,  
4 primarily because of service performance which is, in his estimation, inadequate.  
5 The purpose of this testimony is to clarify the record as regards these issues,  
6 and in so doing to support the Postal Service's originally proposed fee changes  
7 for return receipts.

8 **II. VALUE OF SERVICE**

9 **A. Measurement of value**

10 In my direct testimony in this docket, I stated that recent strong volume  
11 growth, despite fee increases, was evidence that return receipt service was  
12 highly valued by customers (USPS-T-40, p. 14). <sup>1</sup> This statement simply  
13 acknowledges that value, as pointed out in the Commission's Decision in Docket  
14 No. MC95-1, is "an individual, often subjective, measure for which the economic  
15 concepts of demand are usually considered the best proxy" (Docket No. MC95-1,  
16 PRC Op., p. III-32). Moreover the Commission agreed with the position taken by  
17 the Postal Service in Docket No. MC96-3, that "return receipt service has a high  
18 value" (Docket No. MC96-3, PRC Op., p. 111).

19 Mr. Carlson asserts that return receipt customers do not have a  
20 "reasonable selection of alternatives" to return receipt service, Tr. 24/12816,

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<sup>1</sup> As an illustration of this growth, consider the following: from 1986-1996, the total price increases for return receipts and single piece First-Class letters were 45% and 57% respectively, however over the same period, the ratio of First-Class mail volume to return receipts fell from 545 to 409 (see exhibit A).

1 thereby implying that demand is artificially high due to the lack of available  
2 substitutes. However, alternatives to return receipt service do exist. The Postal  
3 Service's main competitors offer services comparable to return receipts. Though  
4 their shipping rates are higher than First-Class letter rates, the additional cost for  
5 the "return receipt" type of service can be less than the combined costs of the  
6 Postal Service's return receipt service and the other service required, such as  
7 certified mail, to provide a delivery record<sup>2</sup>. Thus the total price is comparable to  
8 competitor prices. For example, UPS offers signed delivery confirmation in  
9 conjunction with 3-day service for a combined price of \$5.65<sup>3</sup>. Another alternative  
10 is Express Mail, which provides confirmation of delivery at no additional fee.  
11 While Express Mail is more costly, customers get the benefit of more expedited  
12 delivery, which would generally be valuable to return receipt customers eager to  
13 determine as soon as possible whether an article was received. Finally, the Postal  
14 Service's proposed introduction of delivery confirmation service in this case would  
15 provide customers with another service that will in some instances be an  
16 alternative to return receipts at about the same total price.

17 Not only is the general inference that demand is indicative of value  
18 consistent with the Commission's past decisions, the implication I have drawn  
19 therefrom - that the cost coverage for return receipts should be moved closer to  
20 the system average - is supported by the testimonies of Postal Service witness  
21 Bernstein and Office of the Consumer Advocate witness Sherman, both of whom  
22 demonstrate that, taken as a group, special service fees are relatively low, given

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<sup>2</sup> Except in the case of return receipt for merchandise.

<sup>3</sup> Source: UPS web site, [www.ups.com/using/software/98rates/rates\\_in\\_us.html](http://www.ups.com/using/software/98rates/rates_in_us.html)

1 observed price elasticities (see USPS-T-31, p. 58 and OCA-T-300, p. 21).  
2 Though the Postal Service has not presented a specific price elasticity for return  
3 receipts, available volume trends, when considered in relation to the fee history,  
4 suggest that demand is inelastic with respect to price.

5 My fee proposal, it should be emphasized, does not depend on a finding  
6 of high value for return receipt service. I am proposing a cost coverage of 147  
7 percent, well below the proposed systemwide coverage. The substantial fee  
8 increase I propose results in part from the low cost coverage (125 percent)  
9 arising from Docket No. MC96-3.

#### 10 **B. Sources of value**

11 The foregoing discussion of demand for return receipts implies nothing  
12 specific about what features of return receipt provide value to customers. Given  
13 that the product is used most often with certified mail, I think it is fair, though  
14 admittedly vague, to suppose that customers use return receipts primarily to  
15 obtain acknowledgment that an article has been delivered to the recipient.

16 In response to a written interrogatory from Mr. Carlson which contrasted a  
17 return receipt with a stamped self addressed postcard to be signed and  
18 subsequently mailed by the recipient, I noted that in providing return receipt  
19 service the Postal Service acts, through its employees, as a disinterested third  
20 party verifying receipt of the mail piece. I also indicated that though I could  
21 speculate as to some of the reasons why customers might prefer return receipts  
22 to Mr. Carlson's hypothetical service, I did not affirm that my answer could

1 encompass all of the reasons why customers might choose return receipt service  
2 (see response to DFC/USPS-T-40-1, part c, Tr. 3/849-50).

3         Mr. Carlson's testimony, which draws heavily on anecdotal evidence and  
4 an inaccurate interpretation of my interrogatory response, suggests that the  
5 value of return receipts is best measured by the degree of conformity between  
6 the Postal Service's regulations as specified in the Domestic Mail Manual and its  
7 delivery practices as established in its many post offices and distribution  
8 facilities. Citing return receipts obtained by David B. Popkin, some of which  
9 contained elements that appeared to be incorrectly completed, Carlson equates  
10 a delivering employee's failure to ensure completion of particular elements of a  
11 return receipt with diminished value. I do not doubt Mr. Carlson's implicit claim  
12 that he is unsatisfied with the return receipt service he has received. Nor do I  
13 doubt that such occurrences would prove vexing to customers with service  
14 expectations that are as exacting as those of Messrs. Popkin and Carlson, or  
15 that such customers would elect not to use return receipts in the event of such  
16 disappointments. However, Mr. Carlson is an avowed hobbyist (See response to  
17 interrogatory USPS/DFC-T1-10, part i, Tr. 24/12835), and as such uses a  
18 different set of criteria in evaluating the Postal Service's products than most  
19 other customers are likely to use. The available volume data on return receipts  
20 strongly suggests that, insofar as such service problems would have an adverse  
21 impact on customer use, the problems Mr. Carlson finds with return receipt  
22 service are either not as widespread as he believes, or, despite such  
23 deficiencies, customers continue to view return receipt service as valuable. Mr.

1 Carlson's positive contributions to the record in this proceeding notwithstanding,  
2 his dissatisfaction with return receipt service is not a sufficiently compelling  
3 reason to reject the Postal Service's value of service arguments, given the  
4 demand evidence presented in support thereof.

5 Mr. Carlson also cites Postal Service Consumer Service Card records to  
6 buttress his claims, pointing out that 4,689 complaints regarding return receipts  
7 were received in FY 1996 (DFC-T-1, p. 24). He goes on to suggest that Postal  
8 Service records are inaccurate and that the "actual" number of complaints is  
9 likely to be much higher. If, for the nonce, one makes the extremely generous  
10 assumption that the number is higher by a factor of 500, this number of  
11 complaints would still be less than 1 percent of total return receipt volume.<sup>4</sup>  
12 Clearly these data belie Mr. Carlson's claims, and thereby provide additional  
13 support for the Postal Service's proposal.

#### 14 **C. Quality of Service**

15 In his testimony, Carlson characterizes return receipt service as "plagued  
16 with problems" (see DFC-T-1, p. 17, line 19). Much of the support for this claim  
17 consists of reports of Postal Service delivery practices for return receipt mail  
18 addressed to Internal Revenue Service Centers, gathered by Mr. Carlson and  
19 Mr. Popkin, which has been presented at various points throughout the instant  
20 proceedings. While I will address the merits of this information, I will first

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<sup>4</sup>  $4,689 \times 500 = 2.344\text{M}$ : FY 96 Return receipt volume is 235.7M:  
 $2.344/235.7 < 1\%$ .

1 describe, in general terms, how deliveries of this kind are handled by the Postal  
2 Service.<sup>5</sup>

3 In some metropolitan areas where IRS centers are located, the Postal  
4 Service employs an automated system for recording and tracking delivery  
5 receipts and associated special services. Under this system, which may be  
6 located in Postal Service facilities, but which is also operated in detached units  
7 located on the premises of IRS service centers, Postal Service employees scan  
8 the article numbers for every piece of return receipt mail. The delivering  
9 employee then prints a dated manifest which lists each return receipt, by article  
10 number. Before transferring control of the mail to the IRS, the Postal Service  
11 obtains the recipient's signature on the manifest, acknowledging acceptance of  
12 each of the articles listed thereon. The handling of return receipts is less uniform  
13 from that point on. In some sites, Postal Service employees remain present  
14 while the receipts are removed, stamped, and dated by IRS employees. In other  
15 locations, the pieces are turned over to IRS employees who perform these tasks  
16 without oversight by postal employees.

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<sup>5</sup> This description is based on information gathered during November 1997, via telephone from several Postal Service processing and distribution centers, specifically Memphis, TN, Sacramento, CA, Austin, TX, and Philadelphia, PA. In the case of the Philadelphia P&DC, my inquiry followed on an earlier inquiry in which I had been informed by headquarters delivery operations that all receipts were signed and detached prior to delivery. This earlier information reflected an assumption, widely held, that regulations are implemented consistently throughout the Postal Service, irrespective of differing operational conditions and customer preferences. While troubling, the misinformation is due, at least in part, to the prior lack of product management specifically for special services. This lack was eliminated with the creation of a USPS headquarters office charged solely with management of special services in FY 1997.



1           Strictly speaking, these practices are not in accordance with the Postal  
2 Service's regulations (see DMM § D042.1.7). Mr. Carlson seizes on this fact and  
3 uses it as the linchpin of his claim that the Postal Service does not provide a high  
4 value of service. According to Mr. Carlson, this practice is bad for a number of  
5 reasons: the practice results in a discrepancy between the day of delivery and  
6 the date stamped on the receipt (DFC-T-1, p. 21, at lines 24-25), the practice  
7 constitutes a form of fraud in that by not providing service in the exact manner  
8 set forth by the DMM, the Postal Service is misleading its customers, and the  
9 practice allows the Postal Service to pass on IRS costs to its customers (see  
10 Douglas F. Carlson, Trial Brief pp. 8-9).

11           Mr. Carlson asserts that, due to the large volume of receipts that are  
12 received at the IRS Service Center in Fresno, CA, several days may elapse  
13 between the day of delivery to the Service Center, and the day on which returns  
14 are opened and their attached return receipts completed. He concludes as a  
15 result that some taxpayers may be subject to adverse action by the IRS in the  
16 event that, due to this delay, a return is deemed late. Mr. Carlson offers no  
17 explicit example of such an event ever happening, nor does he suggest how rigid  
18 application of DMM regulations would prevent this from happening. In most  
19 cases, I would expect that the IRS enters the date that the letter was received  
20 from the Postal Service.<sup>6</sup> Furthermore, the implication that the timeliness of tax  
21 returns is proven by the date of acceptance is at odds with statute.<sup>7</sup>

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<sup>6</sup> The situation in LR-DFC-2 would be exceptional.

<sup>7</sup> See 26 U.S.C. §7502. Tax returns are considered to be filed on time if the envelope containing the return bears a postmark with a date prior to, or coincident with, the applicable filing deadline.

1           Mr. Carlson's second claim, that by providing a service that is not in strict  
2   accordance with DMM regulations the Postal Service is defrauding the public is,  
3   irrespective of its factual basis, hyperbolic and arguably inflammatory. It is  
4   doubtful that many users of return receipt service consult the DMM to ascertain  
5   the exact conditions under which return receipts will be delivered to the recipient.  
6   I would further assert that most customers are indifferent as to whether a Postal  
7   Service employee or an IRS employee puts the date on the return receipt. Some  
8   may in fact consider that completion of the form by IRS employees to be better  
9   evidence of the date of receipt by the agency.

10           The proposition that the Postal Service is passing IRS costs on to  
11   customers is completely unsupported by any factual data, and indeed is utterly  
12   implausible in that it would require that the IRS bill the Postal Service for the  
13   work performed by its employees. It is my understanding that the cost study  
14   used to develop return receipt costs is based on a data collection that included  
15   instances when return receipts are delivered to large organizations, using  
16   procedures similar to these described above.

17           In fairness to Mr. Carlson, nowhere does he explicitly claim that strict  
18   adherence to DMM regulations would improve return receipt service for  
19   customers sending items to the IRS. But by implying that customers are not  
20   getting what they pay for, he has implicitly advanced this position. Ignoring the  
21   processing bottlenecks that would be created at filing deadlines, Mr. Carlson  
22   suggests that customers would be better served if the Postal Service required  
23   that IRS agents review each of the thousands of pieces that may arrive in a

1 given day individually before the Postal Service transfers control over them.  
2 Considering the volumes that are involved, the Postal Service's current practice,  
3 which requires that a dated manifest be signed prior to delivery, is a reasonable,  
4 cost effective accommodation for a unique set of circumstances. Nevertheless, I  
5 will agree with Mr. Carlson that regulations ought to provide an accurate  
6 description of the terms and conditions under which services are provided. In  
7 the instant case, however, the appropriate remedy would not be to require rigid  
8 adherence to the existing regulations, but to amend the regulations to reflect the  
9 exception that may obtain when receipts are delivered to IRS service centers.

#### 10 **D. Service Enhancement**

11 *In support of its fee proposal for return receipts, the Postal Service*  
12 *indicated that it will be making a minor modification to its return receipt forms to*  
13 *contain a check off box that would indicate that the customer's address is the*  
14 *same as the address on the front of the envelope (USPS-T-40, p. 11). First*  
15 *suggested by David B. Popkin (Docket No. MC96-3, Initial Brief of David B.*  
16 *Popkin, p. 7) and later endorsed by Mr. Carlson (Docket No. MC96-3, Initial Brief*  
17 *of Douglas F. Carlson, p. 42) and by the Commission (see Docket No. MC96-3,*  
18 *PRC Op., p. 111), the box should in some cases assuage doubt as to whether*  
19 *the address is correct.*

20 Mr. Carlson offers numerous reasons why the claims of added value due  
21 to the addition of a check off box are dubious, and states that "the Postal Service  
22 cannot base a fee increase on the added value of the address information". In  
23 its Recommended Decision in Docket No. MC96-3, however, the Commission

1 disagreed, affirming that the addition of a check off box would increase the value  
2 of service. Indeed, the Commission allowed that this change could "justify a  
3 future increase in the level of cost coverage for return receipt" (Docket No.  
4 MC96-3, PRC Op., p. 112). The Postal Service's responsiveness to intervenor  
5 and Commission suggestions for improving a service should not be dismissed so  
6 lightly.

## 7 **SUMMARY**

8 In his testimony, Mr. Carlson admonishes the Commission to reject any  
9 proposed increase in the cost coverage for return receipt service. Mr. Carlson  
10 has offered no evidence to refute the Postal Service's volume, revenue, and or  
11 cost evidence. In support of his position, Mr. Carlson relies solely on the claim  
12 that return receipt service is inadequate, though he has provided no specific  
13 suggestions for improving return receipt service and has dismissed the Postal  
14 Service's proposed enhancement as trivial. The Postal Service contends that  
15 Mr. Carlson's testimony regarding return receipts is flawed in that it rests on  
16 quality of service claims which are supported solely by anecdotal evidence, and  
17 which are not indicative of value.

18 The Postal Service recognizes the value that individual intervenors add to  
19 these proceedings. By calling attention to issues that are often ignored by  
20 institutional intervenors, they ensure that the interests of a wide range of  
21 participants are represented in rate proceedings. However, the interests and  
22 standards of an individual, which are by definition of limited scope, are not  
23 necessarily typical of the interests and standards of all users of a product or

1 service. Mr. Carlson's knowledge of Postal Service products and regulations is  
2 indeed impressive, and it informs his testimony regarding return receipts. But  
3 the Postal Service maintains that this kind of expertise is somewhat anomalous  
4 and not representative of most users of this service.

5         The service problems cited by Mr. Carlson are a source of concern;  
6 however, the consumer service data presented by Carlson indicates that his  
7 experience is atypical. Furthermore, given the volume evidence presented in the  
8 Postal Service's case, such problems are not sufficient cause for rejection of the  
9 Postal Service's proposal. For these reasons, the Postal Service reaffirms its  
10 proposed fee change for return receipts and urges the Commission to reject Mr.  
11 Carlson's arguments in this case.



## Exhibit USPS-RT-20A

1

## Comparison of Volume Histories

2

## First-Class Mail &amp; Return Receipts

| Year | Return Receipt<br>Volume (Thou.) <sup>1</sup> | First-Class<br>Mail (Millions) <sup>2</sup> | Pieces of FCM<br>per Return<br>Receipt<br>((BX1,000)/A) |
|------|---|---|---|
|      | (A)   | (B)   |   |
| 1970 | 60,225  | 50,173                                      | 833   |
| 1971 | 69,368  | 51,492                                      | 742   |
| 1972 | 67,501  | 50,293                                      | 745   |
| 1973 | 67,217  | 52,292                                      | 778   |
| 1974 | 76,213  | 52,928                                      | 694   |
| 1975 | 79,115  | 52,482                                      | 663   |
| 1976 | 85,050  | 52,458                                      | 617   |
| 1977 | 83,643  | 53,667                                      | 642   |
| 1978 | 88,409  | 55,982                                      | 633   |
| 1979 | 83,432  | 57,926                                      | 694   |
| 1980 | 107,425                                       | 60,276                                      | 561   |
| 1981 | 99,420  | 61,410                                      | 618   |
| 1982 | 103,249                                       | 62,200                                      | 602   |
| 1983 | 105,863                                       | 64,247                                      | 607   |
| 1984 | 114,638                                       | 68,429                                      | 597   |
| 1985 | 124,448                                       | 72,440                                      | 582   |
| 1986 | 139,692                                       | 76,187                                      | 545   |
| 1987 | 155,265                                       | 78,869                                      | 508   |
| 1988 | 156,031                                       | 82,317                                      | 528   |
| 1989 | 161,298                                       | 84,749                                      | 525   |
| 1990 | 160,172                                       | 85,855                                      | 536   |
| 1991 | 169,185                                       | 89,270                                      | 528   |
| 1992 | 178,972                                       | 90,285                                      | 504   |
| 1993 | 189,908                                       | 90,285                                      | 475   |
| 1994 | 186,922                                       | 92,169                                      | 493   |
| 1995 | 240,735                                       | 94,333                                      | 392   |
| 1996 | 235,652                                       | 96,296                                      | 409   |

## Average Annual Growth Rates

|             |      |      |
|-------------|------|------|
| 1970-1996   | 5.4% | 2.5% |
| Last 10 Yrs | 5.4% | 2.4% |
| Last 5 Yrs. | 6.9% | 1.5% |

1. Source: Docket No. MC96-3, USPS-T-8, p. 77

2. USPS LR-H-187

3

4

1 CHAIRMAN GLEIMAN: Douglas Carlson is the only  
2 party who has asked for oral cross examination.

3 Does anyone else wish to cross examine the  
4 witness?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, Mr. Carlson, you can  
7 begin.

8 CROSS EXAMINATION

9 BY MR. CARLSON:

10 Q Good afternoon.

11 A Good afternoon.

12 Q The supposed delivery standard for first-class  
13 mail from Washington, D.C., to California is three days. If  
14 I send a letter to California today and it's delivered in  
15 four days, would it be reasonable for me to complain?

16 A If you were dissatisfied with that, yes, it would.

17 Q Can you confirm, please, that the Commission --  
18 I'll back up and say, on your -- in your rebuttal testimony,  
19 you've noted that the Commission has stated that return  
20 receipt has a high value.

21 A Yes, that's correct.

22 Q Can you confirm that that -- the cost coverage for  
23 return receipt was set at 125 percent in docket MC96-3?

24 A I believe that's correct, yes.

25 Q Please confirm that the 125-percent cost coverage



1 was based on the Postal Service's plan to provide the new  
2 address, if different, on all return receipts. In other  
3 words, did the 125-percent cost coverage include the  
4 proposal to provide the new address on every return receipt  
5 if the address had changed?

6 A Once again, I believe that's the case.

7 Q How much, in cents, to the best of your knowledge,  
8 is the address check-off box worth to the typical consumer?

9 A I have no way to answer that question. We've not  
10 conducted any studies to determine what value customers  
11 might assign to that feature of the product.

12 Q And how much, in cents, is the address correction  
13 information worth to the typical consumer?

14 A The answer would be the same. We've not conducted  
15 any formal studies to assess the value of specific features  
16 of return receipt service.

17 Q Please confirm that the check-off box is designed  
18 to confirm the accuracy of the old address. So, in other  
19 words, if a return receipt comes back and the box is not  
20 checked, it's an added piece of information to the consumer  
21 that the old address is correct.

22 A I believe that's correct, yes.

23 Q Suppose the value of the new address information  
24 is five cents, so the value to a consumer is five cents.  
25 Can you think of any circumstances where the value of

1 knowing that the information is accurate would be greater  
2 than the value of the information itself?

3 A I find it difficult to speak on behalf of other  
4 people, because I have no way of assessing this value  
5 myself. It's not clear to me that they are two different  
6 things, and in each case you're getting a form of address  
7 information. In one case you're getting a written address.  
8 In the other case the absence of a check in a box is the  
9 equivalent in a sense of the written address.

10 Q On page 14 of your direct testimony you say that  
11 by offering a checkoff box as part of the service we are  
12 adding additional value for return-receipt customers.

13 Can you explain how the checkoff box adds value?

14 And that would be page 14, lines 6 through 7.

15 A Um-hum.

16 Q And again, the direct testimony.

17 A Well, as I point out on page 9 of my rebuttal  
18 testimony, I mean, it appears that to some customers the box  
19 will in some cases assuage doubt that might otherwise exist  
20 as to whether or not the address on the mail piece was  
21 correct.

22 Q Right. So the address box or the checkoff box by  
23 providing more confirmation that the information on the  
24 card, the return-receipt card is correct does add some value  
25 in and of itself.

1 A Well, presumably to some group of customers.

2 Q And --

3 A I mean, presumably not to all return-receipt  
4 customers.

5 Q Okay. So the address checkoff box then is  
6 valuable only to some customers?

7 A Again, we've not conducted any formal studies to  
8 determine the value that any or -- any group or all  
9 customers place on any particular feature of return-receipt  
10 service. So, I mean, it would be difficult for me to  
11 quantify how many return-receipt customers would find that  
12 information of any value, but presumably there is some  
13 subgroup.

14 Q And subgroup implies not everyone.

15 A Not 100 percent; correct.

16 Q Is it safe to say that the address information  
17 that you're providing right now is more valuable than the  
18 checkoff box will be?

19 A I wouldn't necessarily reach that conclusion. As  
20 I said a moment ago, I think in a sense they provide very  
21 similar types of information in different forms.

22 Q But can you envision a situation where the  
23 checkoff box would be more valuable than the address  
24 information?

25 A Can I personally; no. But that doesn't -- I mean,

1 I'd be reluctant to say that that would be true of all  
2 return-receipt customers.

3 Q Because it seems to me that the checkoff box  
4 enhances the reliability of the address information, so it's  
5 the address information that's of primary value to people,  
6 and knowing something about the accuracy of it adds to that  
7 value.

8 A Well, I mean, I think the key phrase there was it  
9 seems to you, and to you that's probably true. To me, I'm  
10 not a return-receipt customer. Those features mean little  
11 to me. But I would be reluctant to say that all customers  
12 would feel exactly the same way that you do, just as I'd be  
13 reluctant to say that all customers would view a product in  
14 the same way that I do. There probably is some small group  
15 of people who think the box is better than the written  
16 address. Why? I'm not really sure. Again, we have no  
17 conclusive study that would give us any evidence as to why  
18 that's the case.

19 Q I guess --

20 A Or why it's not the case.

21 Q I guess that's what's concerning me is because the  
22 Postal Service is asking for an increase in the cost  
23 coverage for return receipt and asserting that the checkoff  
24 box will add value, and yet it doesn't seem that you know  
25 anything about how much in cents the people value either the

1 address information or the checkoff box.

2 A Well, I mean, that sort of implies that the  
3 requested increase in the cost coverage was predicated on  
4 the addition of the checkoff box, and I don't believe that's  
5 the case.

6 As I pointed out in my direct testimony and in my  
7 rebuttal testimony, the reason we've proposed an increase in  
8 the cost coverage is because we believe -- in essence I  
9 believe that the demand evidence for return receipts  
10 indicates that customers place a very high value on this  
11 service. As I point out at length, return-receipt volume  
12 has grown much faster than First Class mail over the last 30  
13 years, and since First Class mail is the product with which  
14 return receipt is used, that indicates to me that the  
15 customers who are using return-receipt service believe that  
16 it's a very good value, and that includes the fact that over  
17 that same period of time the price for return receipts has  
18 risen faster than the price for First Class mail.

19 Q I'm trying to find out the significance of the  
20 statement by offering a checkoff box as part of the service,  
21 we are adding additional value for return-receipt customers.  
22 How is the supposed added value of the checkoff box relevant  
23 to the Commission's determination of the proper cost  
24 coverage for return receipt?

25 A Well, I can answer that question. I don't think I

1 can quantify what that checkoff box is worth, if that's what  
2 you're trying to get at. I mean, I believe the Commission  
3 indicated that --

4 Q Would it be safe to say that the Postal Service  
5 believes that it's worth something, but you don't know the  
6 exact amount?

7 A Yes, that would be correct.

8 Q Thank you. Suppose the only alternative to  
9 mailing a First Class letter across town for 32 cents was to  
10 use a private messenger service for \$20. Is the messenger  
11 service the type of alternative to First Class mail of which  
12 Congress was speaking when it directed the Commission to  
13 consider the availability of alternatives when setting  
14 postage rates?

15 A I mean, I'd be reluctant to speak for Congress. I  
16 think that's a little far-fetched. I mean, messenger  
17 service is generally used for much more urgent  
18 correspondence than First Class mail. Beyond that I'd be  
19 reluctant to go.

20 Q So it has something to do with the fact that  
21 messenger service costs \$20 and a First Class letter costs  
22 32 cents?

23 A I think it's fair to say that. Given the  
24 difference in the prices, you certainly would not say that  
25 one is a substitute for the other.

1           Q     Whereas if messenger service costs \$1, you would  
2     be more willing perhaps to think of messenger service as  
3     being an alternative to First Class mail?

4           A     It would certainly be a better substitute for  
5     First Class at a dollar than it would be for \$20.

6           Q     On page 4 you used the term "avowed hobbyist" --  
7     which you referred to on lines 16 through 17.

8                     I am curious to know, do you think a hobbyist is  
9     more likely than a non-hobbyist, all else equal, to be aware  
10    of various shipping services and options?

11          A     I would guess on average more likely.

12          Q     You described on service from United Parcel  
13    Service on page 2, where you noted that UPS offers signed  
14    delivery confirmation in conjunction with the three-day  
15    service for a combined price of \$5.65.

16          A     Yes.

17          Q     Can you describe, please, the nature of that  
18    signed delivery confirmation, what it looks like, what kind  
19    of information is on it?

20          A     I can only tell you what I gleaned from the UPS  
21    website, where I obtained this information, which is that  
22    the customer will receive for that fee a signed, hard copy  
23    receipt acknowledging acceptance by the intended recipient.

24          Q     Is UPS three-day service available from every  
25    point in the country to every point in the country or is it

1 more limited in scope?

2 A I am not fully qualified to answer that. I am not  
3 aware of any limitations that are placed on the availability  
4 of that product.

5 There may be some but I am not aware of them.

6 Q How did you find out about that product, the UPS  
7 three-day service?

8 A I searched on the Internet for UPS's website and  
9 downloaded the necessary information from there.

10 Q Why were you searching on UPS's website?

11 A I was researching available alternatives to return  
12 receipt service.

13 Q When did you do that research?

14 A I don't recall. Several weeks ago.

15 Q So prior to doing that research you were not aware  
16 of UPS alternative, the three-day service?

17 A I knew that they provided an alternative service.  
18 For the purposes of preparing this testimony I wanted to be  
19 precise in identifying what that service was and how much it  
20 costs.

21 In order to do that, I needed to conduct some  
22 further research.

23 Q When and how did you hear about UPS three-day  
24 service?

25 A I have used it before. A couple of years ago I



1 bought a package --

2 [Laughter.]

3 THE WITNESS: If I could have a digression for a  
4 minute. I bought a bicycle which would have exceeded our  
5 girth restrictions.

6 [Laughter.]

7 THE WITNESS: So it had to be shipped UPS. It was  
8 shipped from Philadelphia via three-day service.

9 BY MR. CARLSON:

10 Q Who told you about the three-day service? The  
11 merchant you were buying the bicycle for?

12 A It was the bike shop that I had purchased the bike  
13 from, yes.

14 Q Would you expect the bike shop that specializes in  
15 shipping bicycles to be more aware perhaps than a typical  
16 individual consumer of shipping options?

17 A No, not necessarily. I mean this is a small shop  
18 owned by a sole proprietor. In that respect he may not be  
19 much more sophisticated than any other individual when it  
20 comes to knowing about specific shipping services that are  
21 available to him.

22 Q Except that if he is in the business of shipping  
23 bicycles that can't be carried by the Postal Service, then  
24 it would be expected that he would be familiar with the  
25 services of another carrier simply because he needs those

1 services to conduct part of his business?

2 A Perhaps. I don't know.

3 Q Well, what I am concerned about is how much of the  
4 public knows about UPS three-day service, since I learned  
5 about it rather accidentally just a month or two ago.

6 Do you have any evidence that UPS three-day  
7 service for which this delivery confirmation is available is  
8 widely-known in the public?

9 A No, I don't, but I mean as I said, I was aware of  
10 it. It had nothing to do with my work as an economist for  
11 the Postal Service. In fact, it was before I was in that  
12 role.

13 I guess from that I concluded that it was widely  
14 known. UPS advertises extensively in a number of different  
15 media. All of their products -- they <sup>are</sup> ~~were~~ one of the most  
16 widely recognized companies in the world.

17 Customers if they don't know all of UPS's products  
18 and services are certainly aware of their existence in most  
19 cases. They are the dominant package service in the  
20 country.

21 Q How many advertisements have you seen for either  
22 the three-day service or the signed delivery confirmation  
23 service?

24 A I don't know offhand.

25 Q And yet you think people widely know about the

1 three day service or the signed delivery confirmation?

2 A Well, all I said was that people are certainly  
3 aware of the existence of UPS, and people who are interested  
4 in knowing about alternatives when they are sending  
5 something, I think would naturally consider them as an  
6 alternative, so I don't think it's much of a leap from there  
7 that if a customer were dissatisfied with Postal Service  
8 return receipt service and wanted to investigate an  
9 alternative, they would turn to UPS.

10 Q Should the Commission consider solely alternatives  
11 that exist or should they consider the likelihood of the  
12 individuals knowing that those alternatives exist?

13 A That's not for me to decide. I mean, that's a  
14 matter of interpretation I would say. Again, in this case,  
15 I don't think we are talking about an obscure alternative.  
16 UPS is a very widely known company. Their trucks are  
17 everywhere. They have, I would guess, a very, very high  
18 recognition rate among the general public.

19 Q So, if a Postal customer were dissatisfied with  
20 return receipt service from the Postal Service, then the  
21 least expensive option is \$5.65 from UPS?

22 A Well, I don't know that. I proposed this as an  
23 alternative. I did not really investigate any further.  
24 There may be other lower cost alternatives of which I'm not  
25 aware.

1           Q     And then you have stated that Express Mail  
2 provides confirmation of delivery at no additional fee.  
3 Suppose that you were my landlord and I were your tenant and  
4 you were serving me an eviction notice, and let's suppose  
5 that the date I receive that notice was relevant to your  
6 legal rights. What would you take into court to show that I  
7 received your piece of Express Mail on a particular date, if  
8 you did not purchase return receipt service along with the  
9 Express Mail?

10          A     Again, I'm not an expert on Express Mail. I  
11 believe Express Mail offers delivery confirmation service.

12          Q     What is the form of the delivery confirmation?

13          A     It's in electronic form. I assume that if there  
14 were some legal proceeding, I would be able to get from the  
15 Postal Service acknowledgement that -- written confirmation  
16 of that electronic delivery confirmation of Express Mail  
17 necessary.

18          Q     Does the Postal Service publish to customers any  
19 sort of statement that customers who need written delivery  
20 confirmation of Express Mail are able to obtain it?

21          A     I don't know.

22          Q     So it's possible customers who are dissatisfied  
23 with return receipt service and use Express Mail instead but  
24 don't purchase return receipt with the Express Mail, may not  
25 readily be aware that they perhaps could obtain a written

1 delivery confirmation?

2 A I don't know.

3 Q Which do you think is easier to use, the Postal  
4 Service or UPS for a customer who -- an individual customer  
5 who seeks to mail a letter?

6 A Well, that depends. I mean the Postal Service  
7 attempts to be the easiest to use. That doesn't mean that  
8 in all cases for all customers, they are. Certainly, they  
9 are the easiest for me to use, in general, for small letter  
10 sized items. I believe the Postal Service is the easiest  
11 available alternative.

12 Q Is that somehow related to the Postal Service  
13 collection boxes are usually widely and conveniently  
14 located? Do you think they are more widely and conveniently  
15 located than UPS boxes?

16 A Again, I would say that for most customers, they  
17 would be.

18 Q In your experience, do you believe there are more  
19 post offices, including branches and stations in a given  
20 city, than retail service offices of competitor delivery  
21 services?

22 A I would say in many cases, that's probably true.

23 Q Is the accessibility and convenience of an  
24 alternative service relevant to determining whether  
25 alternatives exist?

1           A     Again, I'd have to go back to what I said earlier.  
2     We are not talking about an alternative that is difficult to  
3     obtain. The fact that a collection box, a Postal Service  
4     collection box, may be a quarter of a mile away, whereas the  
5     UPS collection box is half a mile away, I would say most  
6     customers are relatively indifferent, when it comes to a  
7     difference of that type.

8           I would also point out the convenience and  
9     accessibility serve to make return receipt service more  
10    valuable, in addition to making it more difficult to obtain  
11    a substitute.

12          Q     Taking an example from where I live for a moment,  
13    the nearest UPS office is located about ten miles in either  
14    direction from where I live. Suppose I didn't have a car or  
15    I didn't have easy access to transportation or I were home  
16    bound because of a physical disability. Do you think I  
17    would think of UPS being a reasonable or effective  
18    alternative to the Postal Service for return receipt  
19    service?

20          CHAIRMAN GLEIMAN: If I could interject. Only if  
21    you had a bike like Witness Plunkett.

22          THE WITNESS: Well, if you were home bound, I  
23    don't think you'd be riding it.

24          CHAIRMAN GLEIMAN: Mr. Carlson, before he answers  
25    that question, let me ask you, do you have much longer? 15

1 minutes? 20 minutes? Half an hour?

2 MR. CARLSON: Probably closer to half an hour.

3 CHAIRMAN GLEIMAN: After he answers this question,  
4 we are going to break for lunch.

5 THE WITNESS: Could you repeat that?

6 BY MR. CARLSON:

7 Q In the area in which I live, the nearest UPS  
8 retail office is located about ten miles to the south and I  
9 think there might be another one 10 or 15 miles to the north  
10 that I've never been to. If I didn't have access to  
11 transportation or I were home bound, perhaps with a physical  
12 disability, and in contrast, there was a post office station  
13 located half a mile from where I lived, would you think that  
14 a customer such as I would see UPS as being a reasonable  
15 alternative to the Postal Service?

16 A Well, I mean that's a specific hypothetical. I  
17 could propose an alternative where somebody who lived next  
18 door to an UPS service office but several miles from the  
19 Postal Service might view the Postal Service as a much less  
20 convenient alternative for obtaining shipping services, and  
21 there's really not any way for us to discriminate among our  
22 customers in that way.

23 I mean, if UPS, I guess, believes there is a  
24 market in a given area, they will put a location there for  
25 customers to ship items, but I'm not sure that is a valid

1 basis for evaluating the relative levels of convenience for  
2 the Postal Service and UPS. It's possible to concoct any  
3 number of hypothetical's that make one type of service more  
4 or less convenient than the other.

5 Q I think you didn't answer my hypothetical.

6 I think earlier also you testified that there are  
7 generally more Post Offices, branches and stations in a  
8 given city than UPS offices. I think it's safe to assume  
9 it's more likely somebody will live close to a Post Office  
10 and far from the UPS office than vice versa.

11 Let's assume that a person lives close to a Post  
12 Office and far from an UPS office. Do you think that person  
13 who cannot easily go to the UPS office will view the UPS as  
14 a reasonable alternative to the Postal Service?

15 A In that particular case, I guess they probably  
16 would.

17 CHAIRMAN GLEIMAN: - Short lunch today. Let's come  
18 back at 1:45.

19 [Whereupon, at 12:48 p.m., the hearing was  
20 recessed, to reconvene at 1:45 p.m., this same day.]  
21  
22  
23  
24  
25



## AFTERNOON SESSION

[1:45 p.m.]

CHAIRMAN GLEIMAN: Well, when last we met, Witness Plunkett was trying to decide in response to a question whether to peddle his bike to the nearest post office or a UPS office, which was 10 miles away.

THE WITNESS: When I am on my bike I prefer to go to the more distant location.

CHAIRMAN GLEIMAN: You will find a postal facility that is far removed rather than --

THE WITNESS: That's right.

CHAIRMAN GLEIMAN: I thought so.

MS. DREIFUSS: Mr. Chairman, I did have one announcement to make, if you don't mind --

CHAIRMAN GLEIMAN: Certainly.

MS. DREIFUSS: -- before Mr. Carlson resumes.

OCA filed the first section of its initial brief today. I know it's a lot earlier -- don't envy us too much, those of you who have yet to prepare -- but anyway, the reason we filed it early is we are taking a position on a very important matter.

We believe that rates should not be increased in this proceeding based on information that has been trickling in recently on the Postal Service's financial position.

That is the first section of our brief. There

1 will be other sections to follow later we will file along  
2 with everybody else.

3 At any rate, that section of the brief is  
4 available on the Internet today. I checked at lunch time.  
5 If anybody is interested and you do have access to the  
6 Internet, please go ahead and take a look.

7 CHAIRMAN GLEIMAN: Anybody want to respond to the  
8 oral arguments?

9 MR. TODD: I understand you are filing it and  
10 serving it today?

11 CHAIRMAN GLEIMAN: We can't hear you up here. Mr.  
12 Todd, did I understand you to ask whether we are serving it  
13 or they are serving it?

14 It is just like every other document. When the  
15 Commission gets it, it goes up on the Web page and it also  
16 gets served.

17 MS. DREIFUSS: Right. We are serving it and  
18 mailing copies but I thought if anybody cared to get a  
19 quicker look at it, you could find it on the Commission's  
20 home page on the Internet and also one of the reasons for  
21 filing it early is we are trying to generate constructive  
22 debate.

23 CHAIRMAN GLEIMAN: Oh -- I think I don't want to  
24 hear any more of this in the hearing room today. OCA can  
25 contact parties if it wishes to, and I think that would be a

1 more appropriate way to proceed, but thank you for the  
2 information, Ms. Dreifuss.

3 Mr. Carlson, Mr. Plunkett, Mr. Rubin, we are all  
4 ready. Let's fire away.

5 Whereupon,

6 MICHAEL K. PLUNKETT,  
7 the witness on the stand at the time of the recess, having  
8 been previously duly sworn, was further examined and  
9 testified as follows:

10 CONTINUED CROSS EXAMINATION

11 BY MR. CARLSON:

12 Q On page 3 of your testimony, rebuttal testimony,  
13 at lines 12 through 15 you stated in part, "I think it is  
14 fair though admittedly vague to suppose that customers who  
15 use return receipts primarily to obtain acknowledgement that  
16 an article has been delivered to the recipient" -- the  
17 clause that I read doesn't really make sense standing by  
18 itself, but if you refer to those lines, could you give me  
19 an example of someone who uses return receipts for reasons  
20 other than to obtain acknowledgement that an article has  
21 been delivered to the recipient?

22 A I guess what I was referring to was not so much  
23 that reason as opposed to a different reason but that reason  
24 as opposed to the additional features that are included on  
25 the return receipt, just to suggest that most customers,

1     though admittedly not all, are not that concerned with for  
2     example the printed name block.

3             I mean to some I'm sure that's an important  
4     feature but to most they are presumably willing to accept  
5     that if there is no name in that block then the name of the  
6     addressee is the one that would have appeared and if that  
7     block were to be found empty, those customers would not be  
8     particularly upset in finding it so, given that they did  
9     receive what they really wanted, which was an acknowledgement  
10    that an article had been delivered to the recipient.

11            Q     How do you know that most customers don't care  
12    about the print name block?

13            A     Well, that -- I mean that and many other things  
14    are inferences that I have drawn from the demand evidence  
15    that we presented in this proceeding.

16                   My belief is that if such were an extremely  
17    important consideration to many of the users and if, as has  
18    been suggested, that that is not commonly provided then we  
19    would have many customers just not using the service  
20    anymore, but on the contrary the use of the service has  
21    grown dramatically over the years at a much higher rate than  
22    most Postal Service products.

23            Q     How do you know that the growth in volume is not  
24    attributable to other reasons and that the volume would have  
25    grown even more if people were happy with the print name

1 block?

2 A I guess without knowing to what reasons you are  
3 referring, it's difficult for me to answer that question.

4 Q Let's say there were a law passed requiring  
5 certain types of notices to be served by return receipt and  
6 that law were passed at the same time that the volume  
7 started to grow, so that would be a reason for the volume to  
8 increase.

9 Is it possible the volume would have increased  
10 even more if customers had been happier with the print name  
11 block?

12 A I am not aware of any specific events such as that  
13 taking place.

14 One thing I would point out is that I mean there  
15 are certain events taking place that would tend to make one  
16 think that the volume of return receipts are to be  
17 declining.

18 For example, as has been presented throughout this  
19 docket, one of the common uses of return receipts is for  
20 the -- for customers sending articles to the Internal  
21 Revenue Service, and it's been presented and I have no  
22 reason to doubt that that accounts for millions of return  
23 receipts in a given year.

24 Well, in the past several years the IRS has made  
25 great efforts toward increasing the volume of returns that

1 are filed electronically, which overall would tend to reduce  
2 the number of pieces going through the Postal Service and  
3 therefore reduce the number of return receipts, so just as  
4 there may be events that take place that would cause volume  
5 to increase, there are known events that are taking place  
6 that would cause volume to decline in the absence of other  
7 consideration.

8 Q But you don't know, you have no specific evidence  
9 singling out the print name block as a reason for either an  
10 increase or a decrease in the volume of return receipts?

11 A Nothing quantifiable, no.

12 Q So it's definitely true -- it would be not vague  
13 but clear to assume that most if not all customers who use  
14 return receipt are using it at least to obtain  
15 acknowledgement that an article was delivered?

16 A That's what I believe is contained in my  
17 testimony, yes.

18 Q Well, I'm asking for clarification.

19 A I don't understand what's unclear. I mean, I  
20 think that is what is said, is that customers are using it  
21 mainly to obtain acknowledgement that an article's been  
22 delivered to the recipient.

23 Q Okay. And furthermore, it would be surprising if  
24 there were a customer who were using return-receipt service  
25 not to -- because he didn't care about obtaining

1 acknowledgement that the article was delivered.

2 A Correct.

3 Q Okay. Okay. Do you believe that the date of  
4 receipt on a return receipt contributes to the value of the  
5 service?

6 A I mean, I would count that -- I mean, I would  
7 describe that in the way that I've described some of the  
8 other features. I would assume that to some customers the  
9 date of receipt is a consideration that they consider  
10 important, but on other hand I'd say that it's far from  
11 clear that it matters to most senders of return receipts.

12 Q Although you don't know that it doesn't matter to  
13 most.

14 A Again, there's been no study to attempt to  
15 quantify the extent to which customers value a specific  
16 element of return-receipt service.

17 Q And would it be safe to say that the value of  
18 return receipt derives from the various elements of the  
19 service such as the print name block, the date of receipt,  
20 the fact that it tells a person that the article was  
21 delivered, rather than from the fact that those elements  
22 happen to be listed in the Domestic Mail Manual?

23 A Well, I mean, the value of any service is a  
24 combination of things. I mean, those are all elements. I  
25 would say the main thing that customers appear to want from

1 return-receipt service is, as I've said, acknowledgement  
2 that an article's been delivered to the intended recipient.

3 Now there are other factors that have nothing to  
4 do with the return receipt itself, for example, the fact  
5 that it is used with First Class mail, that it is relatively  
6 convenient compared with some other alternatives. These  
7 things contribute to the value that customers seem to derive  
8 from using return-receipt service.

9 Q And you can't tell me today by citing any evidence  
10 that 90 percent of customers don't care or that -- let me  
11 state this another way. Suppose I said that 90 percent of  
12 customers want a correct date of receipt on their return  
13 receipt. You don't have any specific evidence to tell me  
14 today that that's not true.

15 A No, I do not.

16 Q And the fact that the customers might want to know  
17 the date of receipt is derived from the fact that they want  
18 to know the date of the receipt, not the fact that the  
19 Domestic Mail Manual says that a return receipt shall  
20 provide the date of receipt.

21 A Well, as I've said in my testimony, I don't think  
22 that most customers in the first case are even aware of the  
23 DMM requirements that obtain in the case of return-receipt  
24 service, and I think it's fair to say that most customers  
25 are completely indifferent as to what the DMM says.



1 I mean, when they purchase a service from us, and  
2 in this case we'll use return receipt as an example, they  
3 have some specific expectations about what that will provide  
4 which in my opinion have almost nothing whatsoever to do  
5 with what's in the Domestic Mail Manual.

6 Q So if it turned out to be true that 90 percent of  
7 customers wanted a correct date of receipt on the return  
8 receipt, it would be because they want that date of receipt,  
9 not because the DMM says that it should be provided.

10 A I would say that's probably true.

11 Q And similarly if customers -- if 90 percent of  
12 customers some survey showed wanted some sort of legible  
13 signature or an illegible signature plus a print name block,  
14 they'll then -- that that's because they want those items,  
15 not because the Domestic Mail Manual says there should be a  
16 name printed.

17 A I'll agree with the supposition, but I'd also want  
18 to point out that I think that in both cases the 90-percent  
19 number that you've used is highly implausible. I think it's  
20 likely to be a far smaller number than that in both cases.

21 Q But again you have no specific evidence on -- to  
22 say one way or another.

23 A Correct. There's no quantified evidence  
24 available.

25 Q The print name block does add value to the service

1 for at least some customers.

2 A Presumably, but again, I mean, there's been no  
3 attempt to my knowledge to quantify that.

4 Q Didn't the Postal Service state in either this  
5 proceeding or MC96-3 that the print name box has contributed  
6 to enhancing or adding value to the service?

7 A Yes.

8 Q And similarly the fact as you noted in your  
9 interrogatory response that the Postal Service acts as a  
10 disinterested third party in obtaining a signature and  
11 correct date of delivery. That role that the Postal Service  
12 plays does contribute some value to the service for at least  
13 some customers.

14 A Presumably in some cases; yes.

15 Q So for those customers if the Postal Service  
16 didn't in fact act as a disinterested third party, the  
17 service would be less valuable to those customers than if  
18 the Postal Service did act in that role.

19 A And again, assuming those limitations, I'd say  
20 that's a fair statement.

21 Q In your rebuttal testimony, page 4, lines 12  
22 through 16 --

23 A Yes.

24 Q -- why does the fact that Mr. Popkin and I want  
25 the print name box to be filled in cause our standards to

1 be, in your words, "exacting" -- why is it not  
2 understandable or normal that we would expect the print name  
3 box to be filled in since it is sitting right there on the  
4 green card?

5 A I would like to clarify a little bit my use of the  
6 word "exacting" in this context and I used it in a relative  
7 sense and if I could read verbatim what the testimony says,  
8 I think I can better explain what was meant.

9 I'll begin in my rebuttal testimony, page 4, line  
10 11. It says, "I do not doubt Mr. Carlson's implicit claim  
11 that he is unsatisfied with the Return Receipt service he  
12 has received, nor do I doubt that such occurrences would  
13 prove vexing to customers with service expectations that are  
14 as exacting as those of Messrs. Popkin and Carlson or that  
15 such customers would elect not to use Return Receipts in the  
16 event of such disappointments" -- which is to say that if a  
17 customer has extremely strict expectations about what they  
18 want from Return Receipt service and those expectations are  
19 not met, my belief is they would no longer use the service,  
20 which is another way to say that based on the demand  
21 evidence that we have presented it appears -- and I know of  
22 no evidence to the contrary -- that customers are in general  
23 extremely pleased with the service they have received when  
24 they have purchased Return Receipt service and again that is  
25 based primarily on the fact that despite relatively large

1 price increases the volume has continued to grow at a rate  
2 much faster than that for most of our services.

3 Q Could the lack of an observable effect be due to  
4 the fact that a First Class one ounce letter with Certified  
5 and Return Receipt costs about \$2.77, whereas the only  
6 alternative that you propose that is anywhere near in price  
7 is UPS service, which was about \$5.35?

8 A Well, that is one alternative. I mean there are  
9 other alternatives, and one alternative would be for  
10 customers just not to use the service at all, but it does  
11 not appear that that is happening, which I attribute to the  
12 fact that in general customers are pleased and consider that  
13 Return Receipts offer a good value for the price.

14 Q But suppose the print name box is one of the  
15 elements that contributes to the value of service for me or  
16 Mr. Popkin or another customer, and we also do not think the  
17 print name box is worth another two or three dollars to go  
18 out to a competitor.

19 Would it be safe to say that we might still  
20 continue to use Return Receipt service despite the service  
21 deficiencies because the alternative is so much more  
22 expensive?

23 A In an individual case, that may be true.

24 What I am talking about, however, is in the  
25 aggregate it seems unlikely to me that so many customers

1 would continue to use a service with which they were  
2 dissatisfied.

3 They would either seek out alternatives and in  
4 some cases would be willing to use more expensive  
5 alternatives or in other cases they would just decide not to  
6 use the service if they continue to be disappointed with the  
7 results that they got.

8 Given that that does not appear to be happening, I  
9 cannot -- I find it difficult to accept the proposition that  
10 that is what is indeed going on.

11 Q Suppose I were sending a large quantity of flats  
12 to somebody who had a post office box in Berkeley,  
13 California and I have testified in this case that there are  
14 delivery problems with First Class flats, and let's focus on  
15 flats that weigh two ounces.

16 What would you expect me to do given my  
17 dissatisfaction with that service? Would you expect me to  
18 use Priority Mail for three dollars instead of First Class  
19 mail for 55 cents, just even though -- and focusing on the  
20 fact that I am dissatisfied, what would you expect me to do?

21 A I guess it depends on what they are being used for  
22 and what you expect when you get the service.

23 There is a difference with respect to First Class  
24 flats compared to Return Receipt service. I mean if you  
25 have to get an item from one place to another and it is in

1 hard copy you have limited alternatives to First Class mail.

2 You can fax it, and maybe that is an alternative,  
3 but if you want to get the exact copy from one place to  
4 another, you have to get it there in some way.

5 Return receipts are a little bit different. I  
6 think you used the term "a premium service" in that they are  
7 used over and above the basic mail service that the Postal  
8 Service provides.

9 Customers can get a document from one place to  
10 another without using Return Receipt service, so I would say  
11 that the need for an alternative is less important in the  
12 case of Return Receipt service than it is in the case of  
13 First Class flats.

14 Q On line 19 on that same page, you suggested that I  
15 use a different set of criteria in evaluating the Postal  
16 Service's products than most other customers are likely to  
17 use.

18 Do you have any evidence as to the criteria that  
19 other customers use?

20 A No, insofar as I believe that those criteria are  
21 reflected in the demand evidence, and in this case I mean I  
22 think that demand evidence shows that based on whatever  
23 criteria Return Receipt customers are using to evaluate the  
24 type of service that is provided, they are satisfied and are  
25 therefore continuing to use the product in greater amounts

1 every year.

2 Q Is it possible though that we continue to use the  
3 service because sometimes it works and sometimes it doesn't,  
4 but we don't think it is worth spending \$3 more for an  
5 alternative service, so the demand -- so we continue to use  
6 the service even though we are not entirely happy with it?

7 A Well, I mean that begins to get at the issue of  
8 the elasticity of demand for Return Receipts.

9 I would propose that the available volume evidence  
10 suggests that demand is somewhat inelastic, although the  
11 Postal Service hasn't presented any evidence on the  
12 elasticity for Return Receipt service.

13 Yes. I mean if customers are marginally satisfied  
14 with the product and any increase in the price of that  
15 product will cause some customers to defect, but my price  
16 proposal for Return Receipt is predicated on the fact that  
17 the Postal Service does not believe that an increase of the  
18 magnitude that has been proposed will cause defection of  
19 customers from return receipt service.

20 Q In the Postal Service's reply brief in Docket  
21 MC96-3, the Postal Service stated, referring to an August 1,  
22 1996 memorandum from Sandra Curran, the Manager of Delivery,  
23 the headquarters memorandum dispels any implication that  
24 unauthorized procedures that promote convenience are  
25 permissible. In fact, such practices, quote, "should not be

1 tolerated.", end quote.

2 The Postal Service continued, "The most recent  
3 edition of the Postal Bulletin Notice further dispels Mr.  
4 Popkin and Mr. Carlson's unfounded beliefs. The Postal  
5 Bulletin stresses that return receipts must be completed in  
6 the presence of a delivery employee in conformance with  
7 operating procedures."

8 The Postal Service then quotes this and concludes,  
9 "In sum, the Postal Service has taken its responsibility to  
10 improve return receipt service seriously and its mandate  
11 that deviations from standard operating procedures be  
12 corrected contradicts Mr. Popkin and Mr. Carlson's claim."

13 Is it safe to say that Mr. Popkin and I have shown  
14 in this case that that statement was not entirely true?

15 A Well, I mean I don't want to speak for the people  
16 that made that statement, or even suggest reasons as to why  
17 they made it. I mean I think what is clear is that there is  
18 a greater understanding now about the way return receipts  
19 are handled, particularly in the case of large volume  
20 recipients, than there was at the time that that letter was  
21 written by Ms. Curran or at the time that the reply brief  
22 was filed. I mean that is primarily as a result of these  
23 proceedings. I'll stop there.

24 Q At the bottom of page 4 and the top of page 5, you  
25 referred to my positive contributions to the record in this



1 proceeding. Is this one of them?

2 A I would say that it is, yes.

3 Q And, in fact, if I had not written letters to Post  
4 Offices around the country asking about their procedures for  
5 return receipt, we may not have received the correct  
6 information in this case, given your responses to my  
7 Interrogatories DFC/USPS-T-40(16) through (18), which --

8 A I wouldn't necessarily reach that conclusion.  
9 I'll just cite an example. At some point, I believe  
10 Interrogatories were filed that asked us to investigate  
11 delivery practices in a number of plants around the country.  
12 We filed objections, those objections were sustained.  
13 Therefore, there was really no responsibility on our part to  
14 conduct those investigations, but, as you can see from my  
15 rebuttal testimony, we went ahead and tried, to the extent  
16 possible, to determine the conditions that existed in those  
17 facilities and to make -- to reflect that in the record.

18 Q And since you brought up the subject of the  
19 objections, do you know if the objections had any relation  
20 to the fact that they were filed out of time, and that that  
21 may have been the reason, at least in part, they were  
22 sustained?

23 A I don't remember the specific reason. I believe  
24 mainly procedural issues, but I am not -- I don't recall  
25 exactly.

1           Q     On page 5 of your testimony, you cited the fact  
2     that 4,689 complaints regarding return receipts were  
3     received in fiscal year 1996, and that even if that fact --  
4     that number underestimates the number of actual complaints  
5     that were filed by a factor of 500, the number of complaints  
6     would still be less than 1 percent of the total return  
7     receipt volume.

8           A     Yes.

9           Q     Are you aware that the volume of First Class mail  
10    in 1996 was approximately 100 billion pieces?

11          A     That sounds about right.

12          Q     Are you aware that the EXFC data for a period last  
13    year showed an approximate on-time percentage for mail of  
14    about 85 percent. Is that a reasonable ballpark?

15          A     That doesn't sound right to me.

16          Q     How about overnight scores of 92 percent?

17          A     That sounds consistent with my knowledge.

18          Q     And a two-day number of about 79 percent, does  
19    that sound about right?

20          A     I don't know offhand.

21          Q     Three-day of 80 percent?

22          A     Again, I don't know offhand.

23          Q     Let's just assume that the average performance  
24    across overnight, two-day and three-day is about 85 percent,  
25    that would mean that about 15 percent of the 100 billion

1 pieces of First Class mail would not be meeting the  
2 standards?

3 A Given those assumptions, yes, that's right.

4 Q Which would be about 15 billion pieces?

5 A Again, given those assumptions, that's about  
6 right.

7 Q Do you happen to have my Interrogatory DFC/USPS-29  
8 available?

9 A Your Interrogatory --

10 Q Not to you. It is an institutional Interrogatory.

11 A No, I don't believe I have that.

12 Q I'll provide you with a copy for this question.

13 Do you see a number on there showing the number of  
14 complaints received regarding delay of First Class mail?

15 A I see three numbers for three different years.

16 Q What is the number of 1996?

17 A I believe the number you are referring to is  
18 ~~2~~28,780.

19 Q So, potentially, 15 billion complaints could have  
20 been filed, but only 31,000 were?

21 A Well, I don't know what you mean by potentially?  
22 I mean are you saying if everyone whose letter did not  
23 arrive in conformity with service standards were to file a  
24 complaint, that is what you consider the potential number of  
25 complaints?

1 Q Yes, since the first question I asked you today  
2 was whether it would be reasonable to file a complaint if a  
3 First Class letter did not meet the service standards.

4 A Okay. Then I guess that is a reasonable estimate  
5 of the potential.

6 Q So it is possible then that the number of  
7 complaints about return receipts substantially  
8 underestimates the number of service failures that may be  
9 occurring?

10 A Well, I mean here is where I try to make a  
11 distinction between what I would call quality and what I  
12 would call value. Now, we'll take the example of First  
13 Class mail. There are 28,780 pieces -- complaints relating  
14 to First Class, and that is certainly less than 15 billion.  
15 Now, does that mean that the remaining 14.97 billion people  
16 were all unhappy with First Class mail and just didn't say  
17 anything about it, or perhaps those 14.9 billion people  
18 still thought that, you know, four days was okay instead of  
19 three. I don't know the answer to that question.

20 What I would suggest is that the fact that only  
21 5,000 users of return receipts saw fit to file consumer  
22 service cards doesn't indicate the raw number of service  
23 failures on return receipts, but instead reflects the number  
24 of customers who thought that they did not get the value  
25 that they expected to get when they purchased return receipt

1 service. Now, they <sup>may</sup>~~may~~ be service failures or they may not  
2 be.

3           There may be some service failures that do not  
4 result in consumer service cards, and what that may indicate  
5 is that those customers still consider what they got to be a  
6 reasonable value given their service expectations. We may  
7 consider them a service failure because there was an  
8 element, it was not completed in accordance with existing  
9 regulations, but customers may be completely indifferent to  
10 that fact and may therefore consider their transaction to  
11 have been a good value.

12           Q     Of course it's possible that some of these 15  
13 billion late letters were credit card payments or mortgage  
14 payments that depended on the timeliness of the delivery.

15           A     But again I think if that were the case and  
16 customers were inconvenienced by that fact, or even suffered  
17 some adverse consequences, that 28,000 number might be  
18 considerably higher.

19                     Another point I'd like to make is that I would  
20 assume customers are less likely to complain about First  
21 Class letter delays than they would be for return-receipt  
22 problems, given the difference in the expense. I mean, a  
23 First Class letter is 32 cents. A customer who sends a  
24 First Class letter with certified mail and return receipt is  
25 going to spend in the neighborhood of \$3. They would

1     therefore be likely to have a higher service expectation,  
2     and if that were not met, would be more likely to go to the  
3     trouble of filing a complaint card than a First Class mail  
4     user, especially since most customers that are using return-  
5     receipt service are likely to be at a post office where they  
6     can file a complaint more readily than a First Class mail  
7     customer who may not visit a post office at all.

8           Q     Are you suggesting they filed a complaint while  
9     they mailed a mail piece at the same time?

10          A     No, I'm suggesting that the fact that they use  
11     return receipts indicates that they're more likely to visit  
12     post offices than customers who just send First Class mail.  
13     I almost never go to a post office, because almost all that  
14     I send is First Class letter mail.

15          Q     And of course if a customer receives a return  
16     receipt back that has an incorrect date of receipt on it and  
17     the customer doesn't know that that date of receipt is in  
18     fact incorrect, we may not expect to see a complaint,  
19     because the customer doesn't know that there's been an error  
20     made.

21          A     Well, if they -- I would assume that if the  
22     customer were in some way not satisfied with the return  
23     receipt, and in this case thought there was something wrong  
24     with the date on the letter, they may attempt to ascertain  
25     whether it was correct, but I mean, you may be right. I

1 mean, the customer might not know at all. But I think that  
2 implies that the customer probably doesn't care unless they  
3 undertake some effort to find out whether the date's correct  
4 or not.

5 Q On page 6 of your testimony, particularly in the  
6 footnote, you made references to some telephone calls that  
7 you made. Are those the only telephone calls that you made  
8 inquiring about specific procedures in the field?

9 A I think those are the only plants that I called;  
10 yes.

11 Q And how about e-mail or any other form of  
12 communication?

13 A No, everything was done via telephone.

14 Q Did you inquire about any other recipients of mail  
15 except the tax agencies?

16 A No, I didn't.

17 Q Did you get any sense of what the volume of mail  
18 being delivered to these -- the locations that you did call  
19 is?

20 A I didn't ask for specific numbers. I mean,  
21 anecdotally the people I spoke to in general said that the  
22 pieces numbered in the thousands daily during peak periods,  
23 but they weren't more specific than that.

24 Q And just out of curiosity, 999,000 would number in  
25 the thousands.

1           A     Well, I would assume if that were the number, they  
2     probably would have said a million, but again I didn't press  
3     them on the point. They said thousands, and I left it at  
4     that.

5           Q     And so 700,000 would be in the thousands.

6           A     To me that would seem awfully high, but again I  
7     didn't press for more details.

8           Q     If a customer purchases a service he does not  
9     need, does he still have a right to receive that service?

10          A     Certainly.

11          Q     On page 7, lines 18 through 20, you stated, "In  
12     most cases, I would expect that the IRS enters the date that  
13     the letter was received from the Postal Service." On what  
14     basis do you make that statement?

15          A     Well, when I spoke to the personnel at the plants  
16     that are listed in that footnote on page 6, I asked about  
17     whether or not the IRS, in these instances, employed some  
18     kind of inventory system to indicate to the people  
19     processing the return receipts the date on which those items  
20     were received from the Postal Service, and the answer I got  
21     was that they did, which indicates to me that, just to use a  
22     hypothetical, if the piece was received on April 15th and  
23     yet was not -- and yet, the receipt was not detached until  
24     the 16th, the IRS employees who detached the receipts would  
25     have been able to identify that that piece had been received



1 on the 15th and to apply the appropriate date to the  
2 receipt.

3 Q But we don't know for certain that that always  
4 happens.

5 A Well, again, I asked what the procedure was and if  
6 they have procedures in place to make sure that the correct  
7 dates were applied, and I was told that they did. I did not  
8 go out to conduct any further investigation.

9 Q So, wouldn't that involve a postal employee going  
10 through every return receipt and comparing the number -- the  
11 article number on that return receipt with some sort of  
12 record of when that piece was received and making sure that  
13 that the date was correct?

14 A Well, I guess if the goal were absolute certainty,  
15 that's the only way to achieve that.

16 Again, I'm not certain that's the best way for  
17 this service to be provided, and that is sort of the point  
18 of this section of my testimony, that the Postal Service and  
19 the IRS, in these instances, have developed a system that  
20 allows for normal operations to take place at IRS service  
21 centers but that still provides a safeguard to ensure that  
22 return receipt customers are getting the correct date on  
23 their return receipts.

24 You're right. An additional safeguard could be  
25 for the Postal Service to go in and visually inspect every

1 single article, but that would undoubtedly create some other  
2 kinds of problems.

3 Q But these procedures that are in place clearly  
4 allow for the possibility that my return receipt will be  
5 dated with a date other than the one on which the article  
6 was received, since the Postal Service doesn't check every  
7 return receipt against the delivery manifest.

8 A Well, again, to the extent that no system is  
9 foolproof, that's true, but this is intended to be -- this  
10 is a procedure that has been put in place to safeguard  
11 against that.

12 Will there be exceptions when that is still  
13 allowed to happen? Given the magnitude of the volume  
14 involved, certainly, but those would certainly be exceptions  
15 and not the rule.

16 Q You were concerned about a backlog that would  
17 result at the delivery acceptance point if the Postal  
18 Service required the return receipts to be signed and date-  
19 stamped in the presence of a postal employee?

20 A Yes.

21 Q At Christmas-time, doesn't the postal service add  
22 staff to deal with high mail volume?

23 A Yes, they do.

24 Q Why couldn't the Postal Service assign more  
25 employees to processing these return receipts at the peak

1 time of the year?

2 A Well, again, the Postal Service has limited  
3 control over what the Internal Revenue Service does.

4 What could happen is, if the Postal Service drives  
5 up to the IRS service center on the night of April 15th with  
6 150,000 first-class flats with return receipts and says,  
7 well, I need to stay here while you go through these one by  
8 one and sign each return receipt, I can certainly envision a  
9 situation where the IRS says, well, I'm sorry, we're too  
10 busy to do that right now; if you come back tomorrow, we may  
11 have the staff available to do so, but we are not equipped  
12 to do that right now.

13 I don't think, in that case, we would be doing our  
14 customers any kind of a favor by delaying that mail a day  
15 until the IRS is ready to deal with that volume.

16 I think the procedures put in place are a  
17 reasonable way to deal with what is, you know, an unusual  
18 situation, which is IRS peak processing time in which, yes,  
19 the Postal Service can exert some influence but cannot  
20 dictate to the IRS what staffing levels they will maintain  
21 and cannot force the IRS to sit present while the Postal  
22 Service requires them to go through these one by one.

23 In this case, the Postal Service does present a  
24 manifest that includes each article number for each piece,  
25 and the IRS signs that manifest, acknowledging acceptance of

1 each of those articles.

2 Q And the cost of the system is the possibility that  
3 the date of receipt that's stamped on the return receipt  
4 will not be the correct one.

5 A But again, procedures have been put in place to  
6 guard against that eventuality.

7 Q And every facility that you spoke with had this  
8 procedure in place?

9 A The ones I spoke to, yes.

10 Q And you got no sense from them what percentage of  
11 the return receipts they checked or whether they did it at  
12 only certain times of the year?

13 A I don't know what you mean exactly, what  
14 percentage they checked.

15 Q Well, did they verify the dates on 10 percent of  
16 the return receipts or 90 percent of them?

17 A I didn't ask for specific numbers. The ones that  
18 I asked indicated that they had personnel on-site at the IRS  
19 to do quality control checks, but I did not press them for  
20 specific amounts.

21 Q So, checks mean sometime but not always, not  
22 everything.

23 A Well, again, it's not a 100-percent verification  
24 process, no.

25 Q Who has the burden of proof of showing that return

1 receipt service is providing -- I'll back up and say who has  
2 the burden of proof of showing the Postal Service is  
3 actually providing the type of return receipt service that  
4 you have testified that it is in fact providing?

5 MR. RUBIN: Objection. This is asking for a legal  
6 conclusion.

7 MR. CARLSON: Okay.

8 CHAIRMAN GLEIMAN: I'm sorry. Did you withdraw  
9 the question?

10 MR. CARLSON: I'll withdraw the question.

11 BY MR. CARLSON:

12 Q You have provided no actual studies or surveys or  
13 any other formal evidence showing the level of service  
14 that's actually being provided out in the field, other than  
15 the demand, inferences we can make from demand?

16 A Evidence as to what? Could you clarify?

17 Q The consistency with which the various elements of  
18 the service such as the correct date of delivery being  
19 applied, the print name block and so forth, are actually  
20 being provided to customers.

21 A No. That was not part of my testimony.

22 Q Are you aware that in 1990, the Commission  
23 recommended that the Postal Service conduct a study about  
24 return receipt service?

25 A I recall a reference to that effect in your

1 testimony. That's the extent of my knowledge on the  
2 subject.

3 Q Is it possible that the evidence that's come to  
4 the forefront in this proceeding suggests that maybe the  
5 Commission's suggestion should be considered more seriously  
6 by the Postal Service?

7 A I think -- as I've pointed out in my rebuttal  
8 testimony, there is evidence that is already happening.  
9 Last year, I don't know exactly when, the Postal Service  
10 created a product management group that is specifically  
11 tasked with looking at special services. Until that point,  
12 there was no one with any direct responsibility over special  
13 services, whether it was the quality or the product features  
14 that would be offered.

15 Now that group is in place, there are dedicated  
16 personnel for doing the kinds of work that you referred to.  
17 I think that indicates that is being taken seriously and it  
18 is reasonable to expect that there will be more work done in  
19 that area than there has been in the past.

20 Q Aside from the inferences that you make from  
21 demand and volume evidence about the quality of service  
22 that's being provided, you cannot in fact prove that the  
23 problems that Mr. Popkin and I have experienced are not  
24 common as opposed to exceptional?

25 A When you say "prove," I mean that's an awfully

1 high and rigid standard. I'm not sure it's possible to  
2 prove or disprove such a thing in this case. We are selling  
3 a product to millions of customers who all have in some way  
4 different service expectations when they buy the product.

5 My contention is and has been that if any  
6 significant number of those customers were dissatisfied with  
7 the service they were receiving, it would be reflected in  
8 the demand information, and the available demand information  
9 does not indicate that is the case.

10 I think that's as close to proof as we are likely  
11 to get any time soon. I'm not sure a study would be better  
12 evidence. It would be different in form. I'm not sure it's  
13 better or more indicative of value or customer satisfaction  
14 than the demand evidence.

15 Q On page 12 of your rebuttal testimony, you  
16 presented a comparison of volume histories for first class  
17 mail and return receipts.

18 A Yes.

19 Q I noticed that in 1995, the number rose  
20 dramatically from a general climb of about 5,000 to 9,000 a  
21 year to a jump of 54,000.

22 Is there an explanation for why it would have  
23 jumped so dramatically or were there any changes in data  
24 collection methods between those two years?

25 A None that I'm aware of. There are some sways and

1 there is some volatility. I would point out that if you  
2 look back from 1986 to 1987 and also from 1985 to 1986,  
3 there was some pretty large jumps.

4 In fact, from 1984 to 1986, volume increased about  
5 20 percent in a two year period. It's not the first time  
6 that there have been some pretty big jumps in the volume.

7 My tendency is to think one shouldn't overreact to  
8 a single year's data. You know, relative to other Postal  
9 Service products, return receipt is relatively small in  
10 volume and these volume estimates are done on the basis of  
11 sampling, and one shouldn't overreact to a single data point  
12 and should instead look at the long term trend, and I think  
13 the long term trend here indicates that volume growth is  
14 steady and high relative to other products.

15 MR. CARLSON: Thank you. I have no further  
16 questions.

17 CHAIRMAN GLEIMAN: Is there any follow up  
18 questions from the bench? Mr. Rubin, would you like a few  
19 moments with your witness?

20 MR. RUBIN: Unless the witness nods his head --

21 CHAIRMAN GLEIMAN: Counsel, I think it's your  
22 decision to make whether --

23 MR. RUBIN: I think we are fine.

24 CHAIRMAN GLEIMAN: I won't watch you if you decide  
25 to make some eye contact.



1 MR. RUBIN: I think we are fine.

2 CHAIRMAN GLEIMAN: If that is the case, then Mr.  
3 Plunkett, we appreciate your appearance here today and your  
4 contributions to our record, and if there is nothing  
5 further, you are excused.

6 THE WITNESS: Thank you.

7 [Witness excused.]

8 CHAIRMAN GLEIMAN: Mr. Tidwell, I believe you are  
9 in charge of the next witness, whose name I was  
10 mispronouncing earlier today, if you could please call him  
11 to the stand.

12 MR. TIDWELL: Put the burden on me. The Postal  
13 Service calls Carl Steidtmann to the stand.

14 CHAIRMAN GLEIMAN: I did my homework during the  
15 break. I found out I had been mispronouncing Mr.  
16 Steidtmann's name.

17 MR. STEIDTMANN: Quite all right.

18 CHAIRMAN GLEIMAN: Mr. Steidtmann, you are rather  
19 unique today. We haven't seen you before in these  
20 proceedings, so I'm going to have to ask you to stand up and  
21 raise your right hand.

22 Whereupon,

23 CARL E. STEIDTMANN,  
24 a witness, was called for examination by counsel for USPS,  
25 and, having been first duly sworn, was examined and

1 testified as follows:

2 CHAIRMAN GLEIMAN: Please be seated. Now, Mr.  
3 Tidwell, you may proceed.

4 DIRECT EXAMINATION

5 BY MR. TIDWELL:

6 Q Mr. Steidtmann, on the table before you, I've  
7 placed two copies of a document which is entitled "The  
8 Rebuttal Testimony of Carl E. Steidtmann on Behalf of the  
9 United States Postal Service." It has been designated for  
10 purposes of this proceeding as USPS-RT-15.

11 Was this document prepared by you or under your  
12 supervision?

13 A Yes, it was.

14 Q If you were to give the contents of this document  
15 as your testimony orally today, would it be the same?

16 A It would be.

17 MR. TIDWELL: Mr. Chairman, with that, the Postal  
18 Service would move into evidence the rebuttal testimony of  
19 Carl E. Steidtmann, and I will hand two copies to the  
20 Reporter.

21 CHAIRMAN GLEIMAN: Are there any objections?

22 [No response.]

23 CHAIRMAN GLEIMAN: Hearing none, Mr. Steidtmann's  
24 testimony and the exhibits are received into evidence and I  
25 direct that they be transcribed into the record at this

1 point.

2 [Rebuttal testimony and Exhibits of  
3 Carl E. Steidtmann, USPS-RT-15, was  
4 received into evidence and  
5 transcribed into the record.]  
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USPS-RT-15

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
CARL E. STEIDTMANN  
ON BEHALF OF  
THE UNITED STATES POSTAL SERVICE

**TABLE OF CONTENTS**

|  |    |
|--|----|
| AUTOBIOGRAPHICAL SKETCH.....                                   | 1  |
| I. PURPOSE OF TESTIMONY.....                                   | 2  |
| II. THE IMPORTANCE OF RETAIL SIMPLICITY.....                   | 3  |
| III. THE IMPORTANCE OF SIMPLICITY IN RETAIL PRICING.....       | 6  |
| IV. SIMPLICITY IN THE DELIVERY OF PUBLICLY-PROVIDED GOODS..... | 9  |
| V. THE CEM PROPOSAL FROM A RETAIL PERSPECTIVE .....            | 10 |
| VI. CONCLUSION.....  | 12 |

1   **AUTOBIOGRAPHICAL SKETCH**

2           My name is Carl Steidtmann. I am employed by Price Waterhouse LLP as  
3   Director and Chief Economist in our retail consulting practice. My primary duties include  
4   writing, speaking, and consulting on economic, consumer, technological, and  
5   competitive trends as they relate to retailing and consumer goods distribution. I have  
6   testified before the Postal Rate Commission once before in Docket No. MC96-3. My  
7   testimony in that proceeding focused on the retail soundness of the Postal Service's  
8   special services proposals.

9           During my career at Price Waterhouse, I have provided specialized consulting  
10   services for many large retailers including Saks Fifth Avenue, Sears, Sara Lee and the  
11   National Association of Convenience stores. I am a regular contributor to Price  
12   Waterhouse's quarterly *Retail Outlook* and monthly *Retail Economist*. My research and  
13   comments have appeared in major business publications such as *Advertising Age*, *the*  
14   *Wall Street Journal*, *Business Week*, *Fortune*, *Forbes*, and *Time Magazine*. I have  
15   testified in litigation cases as an expert witness in the areas of retail strategy, retail  
16   market conditions, and consumer shopping motivation. On a number of occasions, I  
17   have provided retail comment and analyses as a guest of major television news  
18   programs including CNN, CNBC, ABC News, and the McNeil Lehrer News Hour.

19           I began my employment with Price Waterhouse LLP in the Management  
20   Horizons division, in Columbus, Ohio, in 1985. I now work in New York for Price  
21   Waterhouse's retail consulting practice. Prior to my employment with Price Waterhouse,  
22   I was Vice President and International Economist for Nakagama and Wallace in New  
23   York, New York, and Senior Economist for the American Productivity Center in Houston,  
24   Texas. I have also worked for American Telephone and Telegraph, as an Internal

1 Consultant, and with IBM as a Systems Engineer. I received a Doctor of Philosophy  
2 degree in Economics from the University of Colorado in 1982. I received a Master's of  
3 Business Administration degree from the University of Colorado in 1975, and a Bachelor  
4 of Arts degree in History from the University of Colorado in 1973.

5 **I. PURPOSE OF TESTIMONY**

6 The purpose of this rebuttal testimony is to respond to the Office of the  
7 Consumer Advocate's (OCA) Courtesy Envelope Mail (CEM) proposal set forth in  
8 witness Willette's testimony (OCA-T-400). This proposal would create two separate  
9 retail prices. The OCA proposal provides a discounted price of postage for qualifying  
10 CEM – a discount of three cents off the regular First-Class Mail rate. In this testimony, I  
11 analyze witness Willette's failure to consider the impact on retail simplicity that will be  
12 caused by the CEM proposal.

13 From a retailing perspective, this proposal will create a two-stamp, or two-tier,  
14 pricing schedule, with two rates being charged for very similar products. There are a  
15 number of reasons why a company would choose not to introduce different prices for  
16 very similar products, even though there may be cost differences between the products.  
17 First, multiple prices add complexity to the retail transaction and lengthen the time  
18 required to complete a transaction. Second, retail pricing schedules with multiple 'tiers'  
19 for similar products are burdensome to administer. Third, a simple pricing schedule  
20 makes it much easier to communicate price and value of service to the customer.  
21 Fourth, and most importantly, consumers prefer simple, easy-to-understand price  
22 schedules, as evidenced by recent trends in retailing practices.<sup>1</sup>

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<sup>1</sup> Additional evidence of this point is provided in the market research conducted by Timothy Ellard and presented in his rebuttal testimony (USPS-RT-14) in this proceeding.

1           My testimony is organized into the following four sections, and in each of these  
2 sections the four themes that I list above are supported. The first section contains a  
3 general discussion of the importance of retail simplification, including maintaining a  
4 simplified product line. In the second section, I address a key component of retail  
5 simplification – simplifying the retail price schedule. In the third section, I argue that  
6 retail simplification need not be a goal only for profit-maximizing companies, but should  
7 be considered by any organization interested in promoting customer satisfaction and  
8 repeat business. In the final section, I address the OCA's CEM proposal from a retailing  
9 perspective. It is my opinion that the OCA's CEM proposal, which increases the  
10 complexity of the retail price schedule,<sup>2</sup> is inconsistent with current retailing practices  
11 and trends.

## 12    II.     THE IMPORTANCE OF RETAIL SIMPLICITY

13           In my testimony in MC96-3, I emphasized the importance of simplifying a product  
14 line in a retail environment. In general, retail simplification has the following four  
15 benefits:

- 16           • Retail simplification leads to reduced transaction times for both the customer  
17           and the retailer.
- 18           • A simplified product line is easier to manage and administer.
- 19           • A simplified product line makes it easier to communicate price and value of  
20           service.
- 21           • Most consumers prefer a simplified product offering when the financial gains  
22           from complexity are small.

---

<sup>2</sup> By analyzing the retail price schedule, I am differentiating this from the complex price schedule that more sophisticated, high volume mailers use.



1 Retail simplification is sound retail practice, and is consistent with recent trends in a  
2 variety of companies and industries. This section contains three examples of retailers  
3 moving towards retail simplicity and taking advantage of these four benefits.

4       The first example of the move towards simplification in retailing is the change  
5 that has occurred in the automobile industry. Until several years ago, automobile  
6 manufacturers offered a wide variety of options on new cars. As a result of providing  
7 consumers a variety of choices, virtually every car that was produced was unique. This  
8 complexity increased production and inventory costs. The automobile manufacturers  
9 responded to this by simplifying product offerings by creating a limited selection of the  
10 most popular option packages. This change resulted in lower production and retail costs,  
11 while satisfying the majority of customers with the options that were presented. In  
12 addition to the benefits that the manufacturers and retailers realized, consumers  
13 benefited from the reasonable number of option packages because they were better  
14 able to make sense of product choices and compare price with their perceived value of  
15 the product. A specific example of this is Saturn, a division of General Motors, which  
16 was created with retail simplification as an objective. Only three automobile models are  
17 offered under the brand and each model comes in only two or three option packages. As  
18 a result, there is a simple product line – a total of seven automobiles – from which  
19 customers have to choose. In addition to this, Saturn has created their own retail outlets  
20 to simplify the experience of purchasing an automobile. Saturn offers only one price,  
21 provides a relaxed sales environment, and includes routine maintenance at a fixed price.  
22 These initiatives have had the following benefits. First, it is very easy to communicate  
23 price to consumers, because only one price per model is offered. Second, this pricing  
24 schedule is very easy to administer compared to more complicated automobile pricing  
25 schemes. And finally, customers are very satisfied as a result of the simplified retail

1 experience – they are able to purchase a car without being concerned that they could  
2 have received a lower price.

3       The second example of the trend towards general retail simplicity is McDonald's  
4 Corporation, which has taken steps to simplify the retail environment for their customers.  
5 McDonald's has simplified their product offering in recent years by bundling the most  
6 common items of a meal into a single "value meal." This allows a customer to choose  
7 and order a meal in a very convenient manner. This simplified retail offering has had the  
8 following benefits. For McDonald's, simplifying their product line has improved the  
9 efficiency of the retail transaction – consumers can more quickly make a decision and  
10 place their order, and clerks can more quickly process the order. In addition, consumers  
11 are better able to compare their perceived value of the service to their willingness to pay  
12 the price that is being charged for the product. For example, the pricing system that  
13 McDonald's uses for value meals allows consumers to quickly compare and evaluate  
14 the prices of entire meals that contain different product choices, rather than analyzing  
15 the price of individual components.

16       An example of consumer preferences for simplified pricing schemes has recently  
17 been demonstrated by a promotion that McDonald's attempted which complicated the  
18 price schedule. The so-called "Campaign 55," launched in 1997, offered a Big Mac  
19 sandwich or an Egg McMuffin breakfast sandwich for 55 cents when purchased with a  
20 drink and french fries (or hashbrowns for the breakfast sandwich). Consumers, however,  
21 were confused by this promotion which was more complex than McDonald's standard  
22 method of pricing. McDonald's executives abandoned this price structure after only 41

1 days, actually citing the confusion associated with this pricing scheme.<sup>3</sup>

2 A third example is that of Apple Computer, which has recently embarked on a  
3 product simplification strategy in an attempt to better compete with Wintel (Intel-based  
4 Windows-operated) personal computers. In 1997, Apple Computer took steps to simplify  
5 their products by offering a single Power Macintosh line of computers. This move  
6 reduced the available models by nearly 50 percent. This streamlining is intended to  
7 decrease the production price of the computers (by standardizing parts and  
8 components), reduce the number of models that dealers have to stock, and simplify the  
9 purchase decision by more clearly differentiating the available products.

### 10 III. THE IMPORTANCE OF SIMPLICITY IN RETAIL PRICING

11 Simplifying the retail product line has been a recent, successful trend in the  
12 marketplace. One of the key components of this has been the simplification of the retail  
13 price schedule. Retail price simplification is an important factor in realizing the four  
14 benefits that I list in Sections I and II of my testimony. A complicated price schedule, in  
15 contrast, adds costs to the retailer and may confuse the customer's purchase decision.  
16 There has been a recent trend towards increased retail pricing simplicity, which is  
17 demonstrated by the following examples. These examples also illustrate the benefits  
18 that companies realize when they simplify their retail price schedule.

19 The first example of this trend is the retail gasoline industry, where retailers have  
20 recently simplified their price schedule. Throughout the 1980s, gasoline retailers

---

<sup>3</sup> McDonald's Chairman and Chief Executive Officer, Michael Quinlan acknowledges this, "The customers were telling us that they thought it [Campaign 55] was a bit confusing and what-have you, so we pulled it" on the November 11, 1997, CNN MONEYLINE.

1 maintained a two-tier pricing schedule where customers who paid with cash paid a lower  
2 price than those who paid with a credit card. Cash transactions were discounted  
3 because the cost of these transactions were less than credit card transactions, which  
4 contained processing fees. However, many of the major gasoline retailers, including  
5 Amoco, Chevron, Exxon and Mobil,<sup>4</sup> began to move away from two-tier pricing when  
6 they realized that customers were dissatisfied and confused by their price schedule.<sup>5</sup>  
7 This is an example of two products with different costs – gasoline purchased with cash  
8 and gasoline purchased with a credit card – yet the company chose to charge the same  
9 price in the interest of retail price simplicity.

10 The long-distance telephone industry is a second example of the trend towards  
11 retail simplicity. In recent years, as the industry has become more competitive, long-  
12 distance telephone service providers have focused on a simplified price schedule.  
13 Whereas rates once varied a great deal based upon where calls were placed, to whom  
14 they were placed, and what time of day they were initiated, more recent rate schedules  
15 have been dramatically simplified and provide a simple, one rate per minute schedule.  
16 These simplified rate schedules have become a central theme of the marketing  
17 initiatives of several major companies because it is very easy to communicate the price  
18 of service to consumers. In addition, the recent popularity of these programs is evidence  
19 of consumers' preferences for these simple, easy-to-understand pricing schedules.

20 A third example of the trend towards a simple pricing schedule is the adoption of  
21 "everyday pricing" by a variety of companies. Wal-Mart is one of the best examples of

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<sup>4</sup> Shell Oil Co., Phillips Petroleum and Texaco either did not implement a two-tiered pricing scheme or quickly returned to a single price after briefly experimenting with separate prices.

1 establishing "everyday prices" in their retail stores. Their competitors often rely on a  
2 system of periodic discounts and sale prices, while Wal-Mart has simplified their price  
3 schedule by selling their products at a constant price. The benefit for Wal-Mart is that  
4 this system is very easy to manage and administer. Consumers, on the other hand,  
5 prefer this pricing policy because it allows them to shop with the confidence that each  
6 and every time that they shop at Wal-Mart they will be getting Wal-Mart's lowest price.  
7 They need not be concerned about missing a coupon that could have saved them  
8 money, or purchasing a product at full price the day before a sale begins.

9       There are exceptions to the trend towards pricing simplicity, but these exceptions  
10 are driven by unique competitive circumstances. For instance, the price of airline tickets  
11 is clearly an instance where there is a great deal of complexity in the price schedule. On  
12 a given flight there are a number of different prices charged for the same seat and the  
13 same level of service. While the pricing practices that airlines follow often confuse and  
14 anger customers, airlines have a distinct advantage that most retailers do not have.  
15 Airlines learn a great deal of information regarding their customers preferences and  
16 demand when the customer states their travel plans. Based upon how far in advance a  
17 ticket is purchased, the days on which the travel will occur, and whether the trip  
18 incorporates a Saturday night stay, airlines can differentiate between different types of  
19 travelers – leisure travelers who have a low willingness to pay and business travelers  
20 who are willing to pay almost any rate – and can price accordingly. Through this  
21 practice, they extract as much consumer surplus as possible to increase profitability.  
22 This is an example that contradicts the current retail trend, but does so because of a

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<sup>5</sup> In fact, a credit card operations manager at Citgo Petroleum Corporation specifically said that, "It's [two-tier pricing] very confusing to consumers," from Credit Card News, April 1, 1995, page 6.

1 unique set of circumstances surrounding the airlines' sophisticated knowledge of the  
2 customer's demand.

#### 3 IV. SIMPLICITY IN THE DELIVERY OF PUBLICLY-PROVIDED GOODS

4 For a private business, product and retail simplification leads to customer  
5 satisfaction, repeat business, and customer loyalty. These three factors, in turn, lead to  
6 increased profitability for the private business. This is not to say, however, that because  
7 the long-term financial goal of the Postal Service is to break-even that retail  
8 simplification should not be a consideration. Regardless of whether profitability is a goal,  
9 I would expect that the immediate effect of retail simplification – customer satisfaction,  
10 repeat business, and customer loyalty – would be an objective in the delivery of publicly-  
11 provided goods and services as well.

12 An example of simplicity in the delivery of publicly-provided goods is the tolls that  
13 are charged to use many bridges and roadways. Instead of charging a small fee for  
14 travelling both directions of a bridge or roadway, many operators have chosen to charge  
15 a single toll for travel in only one direction. This single toll is often double what would  
16 have been charged for one-way travel, as it averages the cost of two one-way tolls into  
17 a single charge. This toll structure decreases the inconvenience to travelers, as they  
18 only have to pay a single toll. It also benefits the roadway or bridge operator because  
19 they only have to operate one toll booth. In this example, while profit-maximization is not  
20 necessarily a goal of the road or bridge operator, simplifying the collection of fees is  
21 beneficial to both the operator and the public.

1   **V.     THE CEM PROPOSAL FROM A RETAIL PERSPECTIVE**

2           The OCA's CEM proposal set forth in witness Willette's testimony will create a  
3   two-tier price schedule for the First-Class Mail letter. That is, CEM will create two prices  
4   for two similar products. As a result, the CEM proposal will increase retail complexity,  
5   which is inconsistent with the recent trends towards simplification that many successful  
6   retailers have been following. Not only could Postal Service consumers become  
7   confused and dissatisfied with a two-tier pricing system, but increasing the complexity of  
8   the pricing schedule will require increased administration and management and retail  
9   transactions will become more complicated.

10          The other aspect of the OCA's proposal that could have a negative impact on  
11   customer satisfaction is the increased potential for "short-paid" mail. If CEM (discounted)  
12   postage is mistakenly applied to a non-qualifying piece of mail and the piece is returned  
13   to the sender, a delay in the ultimate delivery of the item may occur. To the extent that  
14   this happens to a bill remittance that was not CEM-eligible, the customer could be  
15   placed in a very frustrating and unfortunate position. This possibility adds to the potential  
16   negative aspects of creating a two-tier pricing structure for First-Class Mail.

17          Witness Willette claims that customers will remain the same or will be made  
18   better off under the two price system because the discount is voluntary. At Tr. 21/10740,  
19   witness Willette explains that, "Note that CEM does not 'require' consumers to purchase  
20   and maintain two sets of stamps; CEM is optional to the consumer."<sup>6</sup> Therefore, if a  
21   customer finds that the system is too complex to justify the small cost savings, the  
22   consumer can simply ignore the discounted stamp and will not be made any worse off  
23   by the two-tier system. This claim, however, fails to realize that the two-tier pricing

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<sup>6</sup> Witness Willette goes further to say that, "I would expect the convenience to be the same for both [a one-stamp system and a two-stamp system]."

1 system advocated by the OCA in their CEM proposal will add complexity to the  
2 purchase decision facing both those who choose to use the discounted stamp and those  
3 who do not. Even if customers choose not to use the discounted stamp, they may still  
4 feel confused by it and may feel cheated when they cannot take advantage of the  
5 discount.<sup>7</sup>

6 It is also interesting to note that witness Willette has argued that, "CEM  
7 addresses the continuing erosion of bill payment mail to electronic means by providing  
8 consumers a convenient, less expensive way to pay their bills."<sup>8</sup> That is, by adding  
9 additional alternatives to the price schedule, the Postal Service can limit the movement  
10 to alternatives to First-Class Mail. However, this argument seems to contradict the  
11 examples and trends that I have described above. In each of the cases that I have  
12 presented, the companies that have simplified their pricing schedule have done so in an  
13 environment where consumers have the option of choosing between various service  
14 providers. As one company has simplified their pricing scheme, consumers have  
15 indicated their preference for simplicity by moving towards that company's products. As  
16 a result, in many cases, competitors in the same market have instituted similar retail  
17 practices. In both the retail gasoline and the long distance telephone markets, for  
18 example, one company led the move to simplification and others followed. The  
19 implication of these examples is clear – simplified retail price schedules are preferred by  
20 consumers and are in a company's best interest. The OCA's CEM proposal, on the  
21 other hand, is not consistent with this trend towards retail simplification.

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<sup>7</sup> In the case of airline pricing, consumers dislike the complexity of the pricing scheme, but they do not protest this system because they realize the price savings for leisure travelers are substantial.

<sup>8</sup> Tr. 21/10714, at lines 11-12.



1   **VI.    CONCLUSION**

2           From a retail perspective, it is my opinion that the CEM proposal submitted by  
3   the OCA is inconsistent with current retailing practices and trends. The creation of a  
4   two-tier pricing scheme for First-Class Mail has a variety of potential consequences  
5   which may cause dissatisfaction among customers. As demonstrated in the preceding  
6   examples, a simplified price schedule is in the best interest of both the organization and  
7   customers and is consistent with the current trends in retailing.

1 CHAIRMAN GLEIMAN: The only participant who  
2 requested oral cross of the witness is the Office of the  
3 Consumer Advocate. Does any other party wish to cross  
4 examine the witness?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, Ms. Dreifuss, when you  
7 are ready.

8 CROSS EXAMINATION

9 BY MS. DREIFUSS:

10 Q Good afternoon, Dr. Steidtmann.

11 A Good afternoon.

12 Q Shelley Dreifuss on behalf of the Office of  
13 Consumer Advocate.

14 I'd like you to turn to page 2 of your testimony,  
15 please and look at lines 13 through 14.

16 A Yes.

17 Q There you state that from a retailing perspective  
18 this proposal will create a two-stamp, two-tier pricing  
19 schedule with two rates being charged for very similar  
20 products. And I'd like to compare the similarities and  
21 differences between CEM and regular First Class mail.

22 Just to start, could you describe any differences  
23 you're aware of between CEM and other First Class mail?

24 A Well, my understanding is that the difference with  
25 CEM is that there are markings on a CEM envelope that allow

1 for it to be processed in a more efficient manner.

2 Q Will a mailer be able to hand-write an address on  
3 a CEM envelope?

4 A Yes, I assume they would.

5 Q Generally speaking, when one sends a greeting  
6 card, birthday card, let's say, does such an envelope carry  
7 a preprinted address?

8 A Generally speaking it does not; no.

9 Q Would such an envelope typically be bar-coded?

10 A No, it would not.

11 Q Would such an envelope typically have a FIM mark?

12 A No, it would not.

13 Q Do envelopes such as these sometimes vary in size  
14 and shape than a standard number 10 envelope?

15 A Yes, it would.

16 Q The similarities then that you refer to in your  
17 testimony between the CEM piece and other First Class mail?

18 A Well, I think the main similarity is from the  
19 consumer's perspective that you are sending a First Class  
20 piece of mail to another party. It's really from the  
21 consumer's perspective that we're talking about here, and I  
22 think it's really from the consumer's perspective that is  
23 what's of importance here in the testimony.

24 Q What proof do you have that consumers view those  
25 two pieces as similar?

1           A     The fact that the, you know, that from the  
2     consumer's perspective there's not much difference between  
3     the two. I mean, certainly there are differences in terms  
4     of how they're processed and there are significant  
5     differences in terms of, you know, from the production side  
6     of it, from the Postal Service. But, you know, the  
7     consumer's view is that I have an envelope here, I put a  
8     stamp on it, and it goes into the postal system.

9           Q     Do you have any quantitative evidence that  
10    consumers do view such pieces as similar?

11          A     No, I don't.

12          Q     Have you undertaken any systematic way of gauging  
13    consumer perceptions of these two types of pieces?

14          A     No, I haven't. It's really from observations of  
15    the obvious.

16          Q     In fact, it's really just your opinion that  
17    they're similar. Isn't that true? Isn't that what the  
18    statement in the testimony is based on, your opinion?

19          A     It is -- well, it's my testimony. Yes, it is  
20    based on my opinion. But it's looking at the obvious  
21    similarities between the two from the consumer -- from the  
22    perspective of the consumer.

23          Q     In your testimony you speak about McDonald's  
24    pricing, starting at page 5; is that correct?

25          A     That is correct.

1 Q Let's speak hypothetically about another vendor of  
2 hamburgers.

3 A Um-hum.

4 Q If the vendor -- if the cost to a vendor to sell a  
5 four-ounce hamburger is 50 cents and the cost to the vendor  
6 is 60 cents to prepare and sell a six-ounce hamburger, would  
7 you expect the vendor to charge the same price for each of  
8 those sized hamburgers?

9 A Well, I think that the price that they would end  
10 up charging would be a function of consumer demand.

11 Q Do you think that there is a cost difference that  
12 might be reached where clearly the vendor would charge a  
13 different price for two different-sized hamburgers?

14 A No, I really think that, you know, that they are  
15 going to be charging a price that reflects consumer demand  
16 for that product. If the customer perceives, you know,  
17 twice the value for the larger hamburger, they might -- they  
18 might charge twice the price even though the size of the  
19 hamburger was only 50-percent larger.

20 Q Let's go to page 3 of your testimony, please,  
21 lines 16 through 17.

22 You state there that retail simplification leads  
23 to reduced transaction times for both the customer and the  
24 retailer. Is that --

25 A That's correct.

1 Q Correct? Are you aware that when a postal patron  
2 needs to purchase stamps that there may be 30 different  
3 denominations that are available to such a patron?

4 A I wasn't aware it was that many. I knew it was a  
5 considerable number; yes.

6 Q Okay. Are you aware that there are approximately  
7 or perhaps exactly, based on some information already in the  
8 record --

9 A Um-hum.

10 Q That there are 241 different 32-cent stamp designs  
11 available for purchase?

12 A Again, I knew there was quite a few; I didn't know  
13 exactly that many, but I'll take your word for it.

14 Q Do you have any idea why the Postal Service  
15 chooses to offer so many different denominations of stamps  
16 and so many different designs?

17 A No, I do not.

18 Q If the Postal Service were going to follow the  
19 trends that you describe in your testimony, they would not  
20 offer so many, would they?

21 A They would move to reduce the total number; yes.

22 Q In fact, would you think the ideal -- the ideal  
23 offering would be a single stamp, one denomination, one  
24 design?

25 A No, I don't think so.

1           Q     What reasons would there be to vary from that  
2     standard of simplicity?

3           A     Well, again, to take a retail example, a retailer  
4     won't sell one brand of soap or one brand of toothpaste.  
5     But at the same time they won't sell 300 different brands.  
6     There's some number in between 300 and one which is the  
7     optimum number.

8                     Now finding that optimum number would require some  
9     research. It would probably require a number of tests  
10    within the marketplace to come up with the right number.  
11    But one of the things we've found is that the cost of having  
12    additional numbers of products within a particular category  
13    increases the, you know, the inventory, the cost of  
14    production, increases the transaction costs, increases all  
15    of the aspects of the business, and that there are cost  
16    savings that can be made by reducing that number down.

17          Q     At any rate, at the present time the Postal  
18    Service is willing to tackle the burdens of 30 different --  
19    if you accept these figures I'm giving you --

20          A     Um-hum.

21          Q     Thirty different denominations of stamp and 241  
22    different 32-cent stamp designs.

23          A     Yes.

24          Q     The OCA's proposal to have one alternative rate  
25    for single-piece First Class letters, that is, the Postal

1 Service proposes a single-piece letter rate of 33 cents in  
2 this case and OCA proposes one discount to that for  
3 consumers --

4 A Um-hum.

5 Q The 30-cent rate for consumer -- for courtesy  
6 envelope mail -- that's a considerably simpler alternative  
7 to the stamp denominations that I just referred to a few  
8 minutes ago, isn't it?

9 A Well, I think you're comparing apples and oranges.  
10 You're talking about the number of different stamps as  
11 opposed to the, you know, a specific product category.

12 Q Let me see if I can find an example you find  
13 perhaps more relevant.

14 A Okay.

15 Q Are -- do you ever have occasion to mail packages  
16 through the Postal Service?

17 A Occasionally.

18 Q Are you aware that -- one of the services that you  
19 might choose to use is Parcel Post?

20 A Yes.

21 Q Are you aware that you could choose -- you could  
22 also choose Priority Mail if you wanted a somewhat more  
23 rapid service?

24 A Yes.

25 Q Are you aware that you could choose Express Mail



1 if you wanted it to go even faster?

2 A Right.

3 Q I looked over the various rates that may be paid  
4 under each of these services and let me just go over -- I  
5 will try to do this very quickly, how I arrived at the total  
6 number of prices. I will tell you what that is right off  
7 the bat.

8 The total number of prices I was able to find by  
9 adding up all the different weight and zone and service  
10 increments for Parcel Post, Priority Mail, and Express Mail  
11 was 4,252 different prices that consumers might have to face  
12 in deciding how to mail a package through the Postal  
13 Service.

14 As I said, very briefly I will tell you how you  
15 get to that number.

16 In Parcel Post, consumers may wind up paying  
17 either an intra-BMC or an inter-BMC rate ranging from 2  
18 pounds to 70 pounds and there are seven different zone  
19 groups and each of those would be 483 intra-BMC rate cells  
20 and 483 inter-BMC rate cells.

21 In addition, surcharges for nonmachinability are  
22 applied to inter-BMC mail, so that doubles the number of  
23 inter-BMC rates.

24 In addition, for both intra-BMC and inter-BMC, the  
25 Postal Service proposes in this case anyway to impose a

1 hazardous materials surcharge. Again, that doubles the  
2 number of prices that one might be faced with for either  
3 intra-BMC or inter-BMC, Parcel Post.

4 For Priority Mail there are 65 weight increments,  
5 starting with the six pound increment and going up to 70  
6 pounds -- six times 65, I get 390 prices as the answer.

7 In addition, there is an unzoned rate for five  
8 different weight increments one through five, and again the  
9 hazardous surcharge may be imposed.

10 A Wouldn't want to miss that.

11 Q Right. And finally, for Express Mail there are  
12 four different types of services -- same day airport; custom  
13 designed; post office to post office; and post office to  
14 addressee.

15 There are 71 rate increments for these four  
16 different service options beginning with one-half pound and  
17 going up to 70 pounds. After that first half pound it goes  
18 up by one pound increments. That gives me 280 prices of  
19 Express Mail.

20 In addition, there is a two pound flat rate and  
21 again we have got the hazardous material surcharge. That is  
22 how -- I may have been off a little bit here or there but  
23 roughly we are talking about 4,200-some prices available.

24 Now do you think the Postal Service has gone far,  
25 far wrong in offering so many prices to postal consumers in

1 mailing their packages?

2 A Well, let me make a couple of points here.

3 First of all, again I don't think it's a good  
4 comparison for a wide variety of different reasons.

5 One is you are talking about a wide variety of  
6 different services that vary in terms of weight and distance  
7 and speed of service, so again you are comparing apples and  
8 oranges I think -- even more dramatically here with this  
9 example.

10 Finally, in the case of most package shipping you  
11 are not dealing with individual consumers, individual  
12 households, you are dealing more with professional shippers  
13 who because it is their business to have more of an  
14 understanding of what the rate system is are in a better  
15 position to deal with that level of complexity than an  
16 individual household is, so I am not really sure that I  
17 would accept your contention.

18 That being said, there probably is an opportunity  
19 to examine the structure and find ways of simplifying it. I  
20 have yet to find a business where simplification can't be  
21 applied that both benefits the supplier of that particular  
22 product as well as the consumer it is aimed at.

23 Q Well, I have got good news and bad news in  
24 response to that answer.

25 The good news is that I didn't calculate all of

1 the discounts that are available to <sup>bulk</sup>~~both~~ mailers, which I am  
2 sure would have multiplied these numbers -- I can't even  
3 imagine how much -- a hundredfold, perhaps.

4 A Sure.

5 Q That is the good news.

6 The bad news is I was limiting my question to  
7 those rates that are available to consumers. That is quite  
8 a lot of complexity, isn't it -- the 4,200 and some --

9 A Yes, it is.

10 Q -- different prices.

11 A But again you are talking still about -- you are  
12 comparing apples and oranges and you are really looking at a  
13 product for which there is a wide variety of different  
14 characteristics, which is not the case of CEM.

15 You are talking about really products that are  
16 very similar.

17 Q Do you think that the consumer sees a very  
18 distinct difference between mailing a five pound package to  
19 an address or a six pound package to that address?

20 A Well, I don't think they see much difference  
21 between five and six pounds but I think they see a lot of  
22 difference between two pounds and 70 pounds, whether it is  
23 sent overnight or three days or five days or whatever the  
24 longest period of time might be.

25 Q Nevertheless, both the Commission and the Postal

1 Service believe that it is appropriate to offer the  
2 consumers the ability to pay as closely as possible in the  
3 rate for a Parcel Post package those costs that are  
4 generated by that particular size package going to a  
5 particular zone -- isn't that correct?

6 A Well, I wouldn't want to speak for the Commission  
7 or the Postal Service in that regard as to what they are  
8 trying to do.

9 Q Do you have any idea why the Postal Service with  
10 the Commission's approval does offer such a wide array of  
11 prices?

12 A I am not an expert on Parcel Post, so no, I  
13 couldn't say.

14 Q But at any rate, OCA's proposal to have a single  
15 discount for First Class letter mail is quite a bit simpler  
16 than the 4,200 some prices we were just discussing, isn't  
17 that correct?

18 A Well, again, you are comparing apples and oranges.  
19 You are talking about -- if you are adding complexity to a  
20 product which is precisely the same, you know -- you are  
21 adding pricing to that, I would say you are adding a fair  
22 amount of complexity to that, particularly if you are going  
23 to do it over a much higher level of volume affecting a much  
24 higher number of households than what sending a package  
25 would be.

1           Q     Do you know what the total number of packages is  
2     sent by the Postal Service as compared to the total number  
3     of courtesy envelope pieces that are projected to be sent?

4           A     Well, I'm talking really about First Class mail.  
5     Again, no, I don't know the exact numbers. I would have to  
6     assume that First Class mail is much greater.

7           Q     Let's switch back to the private sector for a  
8     moment. Is it your position that consumers would prefer to  
9     pay let's say \$3 every time they buy a six-pack of Coke  
10    rather than find that they may be able to pay a lower price  
11    in one store and perhaps still a lower price in a third  
12    store?

13          A     Well, I'll give you sort of a classic economist's  
14    answer, and that is it depends. And what it depends on is  
15    the convenience of that transaction. You know, many  
16    consumers will go to a convenience store and pay a much  
17    higher price for Coca-Cola or milk or bread than go to the  
18    local grocery store because they know that they're going to  
19    have to walk across a large parking lot, go through a store,  
20    find the particular product that they want, stand in a  
21    longer line, to achieve a relatively small saving. So for  
22    many consumers that convenience of getting that product, the  
23    time savings that are associated with it, you know, the  
24    avoidance of aggravation, is more than worth the slightly  
25    higher price that they might pay.

1 Q Is it your advice to this Commission that it deny  
2 consumers, that is, those who need to use First Class  
3 letters --

4 A Um-hum.

5 Q As bill payments, that this Commission deny the  
6 opportunity to those consumers to choose and use and undergo  
7 whatever slight inconvenience there is to apply a stamp of a  
8 different denomination than other First Class denominations?

9 A Yes, it is.

10 Q Our office did a little research on some of the  
11 writings that you've done --

12 A Um-hum.

13 Q In this area. I don't know if this will ring a  
14 ~~bill~~ <sup>bell</sup> --

15 A Okay.

16 Q Or not, but in Business Week, an issue dated March  
17 17, 1997, there was an article entitled "Grabbing Bargains  
18 and a \$2 Cup of Coffee." In that article a quote is  
19 attributed to you --

20 A Um-hum.

21 Q Status has been redefined so that it's not just  
22 the brand you have, but also the deal you got. People are  
23 buying discount.

24 Do you remember making a statement like that?

25 A Um-hum. Yes.

1 Q Is that a trend, that people want to buy discount?

2 A Well, within the retail environment, the segment  
3 that has had the fastest amount of growth over the past  
4 decade has been discount, without question. And that's  
5 really what that quote was referring to.

6 Q Does discount generally result in somewhat greater  
7 pricing complexity?

8 A No, not necessarily.

9 Q What kinds of discounts did you have in mind?

10 A Well, I'm really referring to a format of  
11 retailing, discount department stores, retailers like Wal-  
12 Mart. And what Wal-Mart has done in their pricing is really  
13 stressed everyday low pricing, which is really focused on  
14 reducing the complexity of pricing, taking out fliers and  
15 coupons and weekend specials to offer the same price to the  
16 consumer every day.

17 [Pause.]

18 Q Do you know if Wal-Mart's everyday pricing is more  
19 the rule in the industry or the exception?

20 A Today I would say it's the direction that the  
21 industry is heading. It certainly is not -- I would not say  
22 it was the rule, but it is the -- it would certainly be the  
23 envy of the industry. It would certainly be the direction  
24 that the industry is heading.

25 Q Do you have any idea what percentage of retail



1 sales are made by this everyday-pricing concept?

2 A No, I don't.

3 Q Do you know if -- let me ask you first. Do you  
4 know if stores like K-Mart and Target are competitors to  
5 Wal-Mart?

6 A Yes, they are.

7 Q Do you know whether Wal-Mart would change a price  
8 to match or beat competition from K-Mart or Target?

9 A Again, it would depend. It really would depend on  
10 the product, on how critical they saw it to their image of  
11 being the low price in the market.

12 They have identified a certain set of products  
13 that they will always be the lowest in. If a competitor in  
14 a market, say K-Mart, takes one of those products, Pampers,  
15 and prices it not on special but on a regular basis lower  
16 than what Wal-Mart has in their store, then they will lower  
17 that price to at least meet if not beat that price.

18 Q Are you aware that the Postal Rate Commission is  
19 supposed to stand in the position of providing to mailers  
20 the kinds of prices they would have available to them if  
21 they were able to purchase these products in the private  
22 sector?

23 A Yes.

24 Q Nevertheless, do you think that the Postal Rate  
25 Commission should deny this discount to consumers? The CEM

1 discount to consumers?

2 A I don't see how one follows from the other. From  
3 a retailer's perspective, they would not offer a CEM like  
4 discount to customers, if that's your question. From a  
5 retail perspective, the answer to your question is yes, I  
6 certainly would deny them.

7 Q You don't believe that retailers might try to beat  
8 the competition by offering a lower price for a product  
9 where their costs were lower than some other product?

10 A Not if it meant increasing the complexity of their  
11 operation, not if it meant increasing the level of  
12 dissatisfaction the customers had with the offer, not if it  
13 meant losing revenue that they wouldn't be able to make up  
14 elsewhere, and not if there weren't customers out there  
15 really demanding that kind of competitive response.

16 So, no, I don't think retailers would make that  
17 kind of offer.

18 Q Have you ever seen grocery store coupons in either  
19 newspaper inserts or maybe from the mail?

20 A Oh, yes; very much so, yes.

21 Q Does that increase the complexity of a  
22 transaction?

23 A It does and that's one of the reasons why coupons  
24 are going away. You have seen companies like Procter &  
25 Gamble come out and say that they are moving away from being

1 in the coupon business and why you have seen newspapers  
2 struggling with their revenues because of the number of  
3 advertisements of that nature that you talk about are going  
4 down, because it does add to the complexity of the  
5 transaction and also adds to the cost of doing business,  
6 which is one of the real reasons why the grocery stores and  
7 the consumer goods manufacturers, like Procter & Gamble are  
8 getting out of that, is it costs money to print those  
9 coupons, put them out there, collect them, bring them back.  
10 There is only a small percentage of the population that  
11 takes advantage of them.

12 You are basically seeing sort of the end game, if  
13 you will, for the coupon business.

14 Q Are you aware of any major grocery chain that does  
15 not accept coupons?

16 A No, I'm not.

17 Q At pages six through seven of your testimony, you  
18 talk about the retail gasoline industry.

19 A Yes.

20 Q Do you know whether generally gasoline retailers  
21 charge the same price for 87 octane, 89 octane and 93  
22 octane?

23 A Generally, they offer a different price for each  
24 of those.

25 Q Do they seem to change their prices often? I

1     imagine reflecting the costs they incur.

2           A     The gasoline retailing business to a large degree  
3     is a commodity business that's driven by the cost from a  
4     wholesale level, so as those prices vary at the wholesale  
5     level, and they do tend to move together, there will be  
6     changes at retail.

7           Q     They tend to change pretty often?

8           A     Fairly often, yes.

9           Q     Of the many industries or -- I'm sorry, the  
10    several industries that you refer to in your testimony, you  
11    talk about automobile sales, you use the Saturn example, you  
12    talk about the vending of fast food, the McDonald's example,  
13    you talk about the sale of computers, the Apple example, and  
14    I'll add -- and gasoline sales.

15          A     Um-hum.

16          Q     We just talked about that. And I'll add to that  
17    grocery store chains, department stores. What percentage of  
18    those industries do you think offer everyday pricing?

19          A     Again, I don't have a percentage. I don't know.  
20    It's not a, you know, a data set that is published by a  
21    trade group or by any government entity. So it would be  
22    hard to say.

23          Q     From your personal experience and also your  
24    expertise, are you of the opinion that it's a minority of  
25    each of those industries that offers everyday pricing?

1           A       My sense right now is that it is a minority, but  
2       it is growing, that the trend is towards everyday low  
3       pricing in that we will get to the day -- we'll get to the  
4       point in time when the vast majority of pricing will be done  
5       on an everyday basis. It's certainly much more today than  
6       it was two or three years ago.

7                   MS. DREIFUSS: I have no further questions, Mr.  
8       Chairman.

9                   CHAIRMAN GLEIMAN: Is there any followup?

10                  I have some questions. I don't know whether my  
11       colleagues do or not. Let me give it a shot.

12                  OCA counsel asked you a rather lengthy question  
13       about Parcel Post rates --

14                  THE WITNESS: Um-hum.

15                  CHAIRMAN GLEIMAN: And you indicated that you  
16       weren't an expert in Parcel Post rates. Are you an expert  
17       in any other postal rates?

18                  THE WITNESS: No, I'm not.

19                  CHAIRMAN GLEIMAN: Now if I remember correctly,  
20       when OCA asked you -- when OCA counsel asked you a question  
21       about the numbers of different types of 32-cent stamps that  
22       were out there --

23                  THE WITNESS: Right.

24                  CHAIRMAN GLEIMAN: And she threw out a number in  
25       the mid-200s versus the rates that we were talking about for

1 CEM --

2 THE WITNESS: Um-hum.

3 CHAIRMAN GLEIMAN: You indicated that you thought  
4 she was dealing with apples and oranges.

5 THE WITNESS: Yes.

6 CHAIRMAN GLEIMAN: As I understand your testimony,  
7 you're using retail pricing concepts and your lengthy  
8 experience in the retail community to draw conclusions about  
9 CEM; is that correct?

10 THE WITNESS: That's correct; yes.

11 CHAIRMAN GLEIMAN: Do you think that perhaps  
12 you're comparing apples and oranges when you compare the  
13 retail pricing experiences with CEM?

14 THE WITNESS: No, because I think the objectives  
15 that retailers have and the Postal Service has are very  
16 similar.

17 CHAIRMAN GLEIMAN: Let me stop you right there,  
18 because you just got me to my next question --

19 THE WITNESS: Okay.

20 CHAIRMAN GLEIMAN: Which is when the question was  
21 asked about the two hamburgers, you said that the price that  
22 would be charged would reflect consumer demand. It would be  
23 based on a -- consumer demand, taking into account of course  
24 the cost, although someone might sell it as a loss leader.  
25 That's my add-on to your response.

1 THE WITNESS: Yes. That's possible.

2 CHAIRMAN GLEIMAN: Are postal rates made entirely  
3 on the basis of consumer demand?

4 THE WITNESS: No, they are not.

5 CHAIRMAN GLEIMAN: Well, then, tell me how is it  
6 when you make a one-to-one comparison between -- and I don't  
7 question your expertise in the retail area at all. Well,  
8 maybe I do a little bit.

9 THE WITNESS: Okay.

10 CHAIRMAN GLEIMAN: As a consumer. But how can you  
11 tell me that you're not comparing apples and oranges when  
12 you're comparing a universe that is based on consumer demand  
13 and simplicity and we're dealing with rates which are based  
14 on a fairly complicated law. If not apples and oranges,  
15 perhaps Red Delicious and Granny Smith? Or you wouldn't  
16 even submit on that?

17 THE WITNESS: Again, the commonality between the  
18 two is that they both have some common objectives. They're  
19 trying to -- they're trying to satisfy a consumer need.  
20 They are trying to be efficient in the delivery of their  
21 services. They're trying to maximize consumer satisfaction.  
22 They operate out of retail -- retail real estate, retail  
23 frontage. They both operate stores. They're both trying  
24 to -- retailers are trying to maximize profitability.

25 CHAIRMAN GLEIMAN: Is that what the Postal

1 Service's purpose is?

2 THE WITNESS: No, it's not. But the Postal  
3 Service does have a need to cover the costs of doing  
4 business.

5 CHAIRMAN GLEIMAN: Well, I just wanted to make  
6 sure, because you were running through a checklist of likes  
7 between retail and postal.

8 THE WITNESS: And both of them do have a need to  
9 add simplicity to the product mix that they offer. And I  
10 believe that is one of the criteria by which the Postal  
11 Service does try to structure its services.

12 THE CHAIRMAN: The only criterion or one of the  
13 criteria?

14 THE WITNESS: No, one of the criteria.

15 CHAIRMAN GLEIMAN: Now, you were asked about and  
16 talked about a little bit a supermarket situation. Now I'm  
17 only familiar with the supermarket situation in the  
18 Washington metropolitan area.

19 THE WITNESS: Um-hum.

20 THE CHAIRMAN: And I'll name four supermarkets  
21 that I can think of off the top of my head. I'll add a  
22 fifth one because it's one that my wife shops in a lot.  
23 Giant, Safeway, Shoppers Food Warehouse, Super Fresh, and  
24 Fresh Fields.

25 THE WITNESS: Um-hum.



1           CHAIRMAN GLEIMAN: Now Giant, Safeway, Shoppers  
2 Food Warehouse, and Super Fresh and Fresh Fields all have a  
3 wide variety of promotional activities that are anything but  
4 simple. The one that confuses me the most is Safeway --

5           THE WITNESS: Um-hum.

6           CHAIRMAN GLEIMAN: Which has a Saver's Club.  
7 Which has a monthly coupon book which some of the parties in  
8 this case happen to deliver as part of Marriage Mail, at  
9 least in my area where I live. They have a weekly insert in  
10 my Washington Post newspaper which has coupons in it. They  
11 also accept manufacturers' coupons. And the reason I  
12 mention that is because if I use a manufacturer's coupon  
13 flat out with no other Safeway coupons, I'll get double the  
14 coupon value, but if I only -- if I use my manufacturer's  
15 coupons with either the coupon book that comes out every  
16 month or the Sunday coupons -- I think I'm right on the  
17 Sunday, I know I'm right on the monthly --

18          THE WITNESS: Um-hum.

19          CHAIRMAN GLEIMAN: I only get single manufacturer-  
20 coupon value.

21               Now tell me about simplicity in pricing and why  
22 these supermarkets in this metropolitan area do this. What  
23 are they trying to do? Are they competing for business,  
24 perhaps? --

25          THE WITNESS: Well, I think you've well pointed

1 out the reason why some of these companies are trying to  
2 move towards a more simple structure.

3 CHAIRMAN GLEIMAN: No, I didn't ask you -- I  
4 didn't ask you about the simple structure. I want to know  
5 why they do what they're doing now in the Washington  
6 metropolitan area. Are they competing for market share?

7 THE WITNESS: Oh, absolutely. And they're doing  
8 it because last year they did the same thing.

9 CHAIRMAN GLEIMAN: Let me ask you --

10 THE WITNESS: Can I finish my question -- my  
11 answer?

12 CHAIRMAN GLEIMAN: No, you gave me the answer I  
13 wanted, what they're doing here and now is competing for  
14 market share. We agree on that, right?

15 THE WITNESS: That's part of the answer.

16 CHAIRMAN GLEIMAN: Whatever the history is,  
17 whatever the future is, right here and now they're competing  
18 for market share.

19 On redirect the Postal Service can establish  
20 whatever additional information with regard to this that you  
21 would like to provide.

22 Now, do you know why the Postal Service has  
23 proposed something called if I remember the initials  
24 correctly PRM and why the OCA has proposed something called  
25 CEM? Do you have any sense --

1 THE WITNESS: Do I know the history behind it?

2 CHAIRMAN GLEIMAN: Do you know why they're being  
3 proposed?

4 THE WITNESS: Well, the reasons that I have heard  
5 is that there's a cost difference between regular First  
6 Class and First Class mail that can be processed in a more  
7 efficient manner, and that they are trying to figure out a  
8 way to rebate some of that cost savings to the consumer.

9 CHAIRMAN GLEIMAN: Would you look at your  
10 testimony on page 11, starting at line 6?

11 It starts out, "It is also interesting to not that  
12 Witness Willette has argued that CEM addresses the  
13 continuing erosion of bill payment mail through electronic  
14 means by providing consumers a convenient, less expensive  
15 way to pay their bills, which by the way is the same reason  
16 that the Postal Service is offering their version, which is  
17 PRM" -- if I get the initials -- I want to say RPM for some  
18 reason, and then you go on to say, "that is, by adding  
19 additional alternatives to the pricing schedule the Postal  
20 Service can limit the movement of alternatives to First  
21 Class mail."

22 "However" -- you go on at lines 10 and 11 -- "this  
23 argument seems to contradict the examples and trends I have  
24 described above." The examples and trends you described  
25 above are for pricing simplicity.

1 THE WITNESS: Right.

2 CHAIRMAN GLEIMAN: Now your raison d'etre, your  
3 conclusion are based on the need for pricing simplicity, but  
4 there is something else at play here.

5 Do you take into account that the Postal Service  
6 is seriously concerned about losing remittance mail and has  
7 been trying to find all kind of ways to ensure that  
8 remittance mail stays in the mailstream, buying up companies  
9 that will process mail faster, coming up with ideas called  
10 CIS, which would be a postcard, a no stamp postcard that  
11 would trigger a bill payment without a check or a stamp?

12 All these ideas are aimed at keeping First Class  
13 mail, remittance mail in the mailstream.

14 THE WITNESS: Okay.

15 CHAIRMAN GLEIMAN: Is it possible that in the  
16 interest of simplicity we should just forget about the need  
17 to keep this mail in the mailstream to support the system?  
18 Is simplicity more important than keeping the mail in the  
19 mailstream?

20 THE WITNESS: No, but I think that I would argue  
21 that by going to CEM you may actually accelerate that  
22 process by making it more complex, and the consumer will  
23 come to the conclusion that the complexity may be the straw  
24 that breaks the camel's back and encourages them to seek  
25 other alternatives.

1 CHAIRMAN GLEIMAN: Have you studied at all, read  
2 any of the -- studied what has been going on in the past few  
3 years, read the speeches of the Postmaster General and other  
4 senior officials about loss of market share?

5 Have you read any of the trade press that  
6 expresses concern about the diversion into electronic  
7 transmission?

8 THE WITNESS: I am familiar with the problem.

9 CHAIRMAN GLEIMAN: And you think that the straw  
10 that breaks the camel's back is going to be giving people a  
11 lower rate, a discount if you will, to keep their mail in  
12 the mailstream, that that is going to be the thing that  
13 sends the death knell, that that is going to drive  
14 remittance mail out of the system? Do you honestly believe  
15 that?

16 THE WITNESS: No. I said it could be for some  
17 consumers, and particularly if they have a bad experience  
18 with it.

19 What it does is it, you know, it increases -- it  
20 reduces your revenue. It increases your costs and it  
21 increases the chance that a consumer is going to have a bad  
22 experience.

23 All those things tell me that those are generally  
24 things that result in a retailer's loss of market share,  
25 which is why I answered when the Consumer's Advocate asked

1 me that question, I said from a retailer's perspective you  
2 would not do this -- you would not take this step.

3 CHAIRMAN GLEIMAN: From a retailer's perspective?

4 THE WITNESS: Yes, sir.

5 CHAIRMAN GLEIMAN: Okay. Just one more point.

6 If I understood you correctly you said that the  
7 trend towards no flyers and no coupons was bad news for the  
8 newspapers, and that is why they are really concerned about  
9 revenue?

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: Have you ever heard of marriage  
12 mail?

13 THE WITNESS: No, I can't say that I have.

14 CHAIRMAN GLEIMAN: Are you familiar with these  
15 envelopes that you get in the mail that contain lots and  
16 lots of coupons in them? You maybe get them once a month?

17 THE WITNESS: Yes, I have seen those.

18 CHAIRMAN GLEIMAN: Do you think that those folks  
19 are in for bad news also?

20 THE WITNESS: Yes, I do.

21 CHAIRMAN GLEIMAN: Sorry, fellows. Thank you. No  
22 further questions.

23 If you think -- I just have one comment. If you  
24 think that CEM is going to kill the Postal Service after  
25 what you just concluded about the effect on newspapers and

1 marriage mail and all the other types of advertising mail,  
2 whether it is loose advertising mail or envelope advertising  
3 mail, heaven help us all. We have got big, big trouble if  
4 you are right. That is all I have got to say about that.

5 I have no further questions. I don't know whether  
6 my friend from Louisiana does.

7 COMMISSIONER LeBLANC: Mr. Steidtmann, you talk  
8 about all this stuff going out. Where is it going to go?

9 THE WITNESS: Where is what going to go, sir?

10 COMMISSIONER LeBLANC: Where is -- you said if it  
11 is a bad experience, it's going to leave the system. A  
12 CEM -- where is it going to go?

13 THE WITNESS: No, what I am saying is that if the  
14 concern is market share, and that the --

15 COMMISSIONER LeBLANC: No, wait a minute. You  
16 said if the concern is market share. I understood in your  
17 testimony that was one of the things that you were alluding  
18 to that it was market share.

19 THE WITNESS: Right, and the point was that if CEM  
20 gives the consumer a bad experience, that might be the  
21 experience that encourages them to look for alternatives.

22 COMMISSIONER LeBLANC: Are you familiar with  
23 another case that we have going on right now which deals  
24 with packaging materials?

25 THE WITNESS: No, I'm not.

1 COMMISSIONER LeBLANC: Take for a minute somebody  
2 goes in there and doesn't get waited on because they want a  
3 package wrapped or whatever.

4 THE WITNESS: Right.

5 COMMISSIONER LeBLANC: Is that going to drive them  
6 away from the Postal Service?

7 THE WITNESS: It may drive them away from that  
8 particular service.

9 COMMISSIONER LeBLANC: But it wouldn't drive them  
10 from the Postal Service?

11 THE WITNESS: It would depend on other experiences  
12 that they had and other needs that they had, so it would  
13 really depend on that particular customer, but it  
14 certainly --

15 COMMISSIONER LeBLANC: Wait. Excuse me. How do  
16 you deal with the monopoly when you talk about inconvenient  
17 to the customer? How do you correlate the two -- the  
18 monopoly of First Class mail and then CEM is inconvenient,  
19 so how do you correlate that?

20 THE WITNESS: Well, even though the Postal Service  
21 has a monopoly there are increasingly other alternatives to  
22 paying bills.

23 The banking system would dearly love to get into  
24 the business of -- and be more successful than they have  
25 been.



1 COMMISSIONER LeBLANC: So in effect we are saying  
2 once it's gone, it's gone, right?

3 THE WITNESS: That's true, yes. Once people make  
4 the switch, then your chances of getting them back become  
5 quite high and again that is very true in retail. When  
6 consumers have a bad experience and they switch, your  
7 chances of getting them back is very small.

8 COMMISSIONER LeBLANC: So why not provide a  
9 convenience?

10 THE WITNESS: I'm not sure I understand the  
11 question.

12 COMMISSIONER LeBLANC: Convenience in the form of  
13 a CEM envelope or convenience in some capacity like that.

14 THE WITNESS: Well, I don't see CEM as being a  
15 convenience. I see it as certainly an opportunity for a  
16 reduced price, but that's different from convenience.

17 COMMISSIONER LeBLANC: And yet, 4,000 and some odd  
18 whatever Ms. Dreifuss came up with, is convenient or  
19 inconvenient?

20 THE WITNESS: No, that's complex. It's very  
21 complex. No --

22 COMMISSIONER LeBLANC: As this case is getting.

23 THE WITNESS: I would define "convenience" really  
24 in terms of time. Is it something -- convenience. I go to  
25 a 7-11 Store or a convenience store because it saves me

1 time. I really define "convenience" in terms of time.

2 Consumers are willing to pay a price for this  
3 savings of time, for the convenience, of a convenience  
4 store.

5 COMMISSIONER LeBLANC: I'll think about that.  
6 Thank you very much. Thank you, Mr. Chairman.

7 CHAIRMAN GLEIMAN: Is there any follow up as a  
8 result of questions from the bench?

9 MS. DREIFUSS: Mr. Chairman, I did want to follow  
10 up on this last response to Commissioner LeBlanc's question.

11 COMMISSIONER GLEIMAN: Ms. Dreifuss.

12 FURTHER CROSS EXAMINATION

13 BY MS. DREIFUSS:

14 Q You say that consumers sometimes want convenience  
15 of a convenience store.

16 A Right.

17 Q In the private sector, consumers have the choice.  
18 They can go to the 7-11 and pay more for bread, let's say,  
19 or they can accept the slightly greater inconvenience of  
20 let's say going to a regular grocery store and buying bread  
21 at a lower price; correct?

22 A That's correct.

23 Q However, you would deprive consumers of the  
24 opportunity of making that choice with respect to their CEM  
25 mail; is that correct?

1           A     Again, I don't see that as an apt comparison.  
2     One, you are talking about a time savings and the other, you  
3     are talking about what is really from the consumer's  
4     perspective, the same transaction. There is no time savings  
5     from the consumer's perspective in using CEM versus using  
6     non-CEM.

7                     In fact, if anything, it's probably a little bit  
8     higher of an inconvenience because now I have to keep two  
9     sets of stamps and figure out which envelope this is. Also,  
10    might run a little bit of a risk of putting the wrong stamp  
11    on the wrong envelope and then it might come back and my  
12    Mastercard payment might not get to Mastercard or my home  
13    mortgage payment might not get to the bank.

14           Q     Let's make the apples to apples comparison.

15           A     Okay.

16           Q     In the first instance, I want to buy bread.

17           A     Right.

18           Q     I can buy it at two different places. I can take  
19    a little bit more of my time and go to a grocery store to  
20    buy it, get a lower price, or I can go to 7-11 and spend  
21    less of my time and have to pay a higher price.

22           A     Correct.

23           Q     In the case of CEM, if I want to use the CEM  
24    envelope, I might have to suffer a slightly greater  
25    inconvenience in this case, in order to pay a smaller price;

1 is that correct?

2 A A slightly greater inconvenience in what fashion?  
3 I'm not sure I follow you.

4 Q The inconvenience you just alluded to, having to  
5 maintain two sets of stamps.

6 A And also the -- I'm sorry. Go ahead.

7 Q I guess I'm getting kind of mixed messages from  
8 you. Do you think CEM is more inconvenient than the single  
9 first class letter rate or not any more inconvenient,  
10 equally as convenient as the present system?

11 A I would say it is more inconvenient because you  
12 are required to keep the stamps. There is a certain amount  
13 of uncertainty about which envelope it will work on and  
14 which ones it won't.

15 From the consumer's perspective, I would say it  
16 would be slightly inconvenient.

17 Q Right, and you would deny consumers the  
18 opportunity to incur the slightly greater inconvenience in  
19 order to save money, that is three cents off the full first  
20 class rate? You would deprive them of that opportunity,  
21 although they do have it in the private sector; is that  
22 correct?

23 A I'm not sure I would accept your -- I would deny  
24 them that choice. I'm not sure I would accept your  
25 qualification that they have that choice in the private

1 sector. They have that choice with respect to bread in the  
2 private sector, but that's because the price differential is  
3 significant, and the tradeoff of time is significant.

4 Q Do you know whether consumers have any way of  
5 mailing letters other than through the Postal Service?

6 A Not in a cost efficient manner; no.

7 Q Because the Postal Service has a monopoly on the  
8 mailing of first class letters, that's the reason you would  
9 deny consumers the opportunity to save a little bit of money  
10 off their bill payments, when those letters are less  
11 expensive; is that correct?

12 A No. I would deny them that right because it adds  
13 to the complexity of the transaction. It adds to the  
14 inconvenience of the consumer. It increases the cost to the  
15 Postal Service. It's a lose-lose-lose all the way around.

16 The Postal Service loses revenue. It increases  
17 their cost of doing business and you produce a less  
18 convenient alternative to the customer.

19 I don't understand -- I mean, that's like I say,  
20 it's a lose-lose-lose all the way.

21 Q I'm just asking you, why not give customers that  
22 choice, to incur the inconvenience and save money or save a  
23 little bit of time and pay a higher price?

24 A I can't -- a retailer's perspective, you are not  
25 going to do something that costs you revenue, increases your

1 costs, and results in lower customer satisfaction. I mean,  
2 that to me, it should be obvious.

3 Q Do you understand that the Commission and other  
4 parties may not see that choice in exactly the same way that  
5 the retailer does to the Postal Service?

6 A Absolutely, that's why we are here, and that's why  
7 there are all these other points of view that need to be  
8 brought in. This is clearly not the only point of view but  
9 I think it's clearly one that should be taken into account.

10 Q So you do conceive that from the consumer's point  
11 of view, CEM might be a desirable alternative?

12 A No, I really have a hard time seeing that, because  
13 from the consumer's perspective, again, it adds to my costs  
14 of dealing with the Postal Service because now I have to  
15 keep two inventories of stamps, it increases my level of  
16 anxiety about whether I'm going to put the white -- I'm out  
17 of postage on the letter I've got sent out.

18 MS. DREIFUSS: In the interest of time, Mr.  
19 Chairman, I won't ask any more questions.

20 CHAIRMAN GLEIMAN: The newspapers and all the  
21 advertising may well be going down the tubes as well as the  
22 Postal Service when they lose remittance mail, but God knows  
23 if we have CEM, we will keep all the shrinks happy.  
24 Everybody will be so anxious about what stamp to put on  
25 their envelope. It would just be great, you know, we'd make

1 the economy much better. Just transfer the money somewhere  
2 else, I guess.

3 If there is nothing further, Mr. Tidwell, it's  
4 your call on whether you need some time with your witness.

5 MR. TIDWELL: When were you otherwise planning the  
6 mid-afternoon break? I would suspect this might be a good  
7 time for it and we could come back with an indication of  
8 whether we intend redirect.

9 CHAIRMAN GLEIMAN: That sounds good to me. We'll  
10 take ten.

11 [Recess.]

12 CHAIRMAN GLEIMAN: Mr. Tidwell, you have no  
13 redirect?

14 MR. TIDWELL: Oh, we have some. We have a little  
15 bit here.

16 CHAIRMAN GLEIMAN: Okay. I was misinformed, yet  
17 again.

18 MR. TIDWELL: I'll have to talk to you about your  
19 sources.

20 REDIRECT EXAMINATION

21 BY MR. TIDWELL:

22 Q Dr. Steidtmann, I just want to clarify a couple of  
23 points that were raised during your cross examination. In  
24 cross examination by OCA counsel, I thought I heard you  
25 indicate it was your understanding that courtesy envelope

1 mail pieces would be allowed to -- I'll start over.

2 I thought I heard you say during cross examination  
3 by OCA counsel that CEM was a category for which handwritten  
4 pieces would qualify. You have had an occasion to reflect  
5 upon that. Is that your understanding of CEM?

6 A No, it's not.

7 Q Is it your understanding of CEM, that CEM mail  
8 pieces are ones that would be required to have pre-printed  
9 addresses, bar codes and other markings on the pieces?

10 A That is correct.

11 Q Is it your understanding also that if CEM were  
12 implemented, that there would be other first class mail  
13 pieces that would have pre-printed addresses, bar codes and  
14 similar markings?

15 A That's correct also; yes.

16 Q You were very eager during the course of  
17 questioning by the Presiding Officer to offer him an  
18 extended answer to a question that he wanted only the  
19 truncated version to. He asked a question regarding why  
20 local grocery stores offered coupons.

21 You gave as part of your answer that they offer  
22 coupons because they were competing for market share and you  
23 had some other points you wanted to make on the issue.

24 A Right. I think it's very important to note that  
25 it's true that they are still using coupons. We are not



1 saying that couponing is by any means going away. What we  
2 are seeing is a reduction in couponing.

3 In fact, if you had looked at the market a couple  
4 of years ago, it was quite common to see them using double  
5 and triple coupons, and that what we are seeing is a real  
6 attempt to focus, to create a relationship, if you will,  
7 with the very best customers, so you are seeing retailers  
8 have in a sense, a club type relationship, where often they  
9 are offering a credit card, a check cashing card, collecting  
10 the equivalent of frequent purchase points that can be used  
11 for other purposes, and a lot of the money that has gone  
12 into coupons are now going into forming those relationships  
13 with individual customers, and it's really a focus on  
14 getting a greater and greater share of the budget, if you  
15 will, of those very best customers, is really the strategy  
16 they are using as opposed to a blanketing of the market with  
17 coupons.

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

19 CHAIRMAN GLEIMAN: Do you live in the Washington  
20 metropolitan area?

21 THE WITNESS: No, sir; I do not.

22 CHAIRMAN GLEIMAN: Thank you. If you did, you  
23 would know about all the double coupons and triple coupons  
24 and everything else, but again, I know, I live in this  
25 little microcosm inside the Beltway here, and I don't

1 dispute your broader knowledge of what's going on in the  
2 retail industry and didn't mean to denigrate it, if it  
3 sounded as though I was, that was not my intention.

4 My concern is that we were looking at probably Red  
5 Delicious and Granny's and maybe apples and oranges.

6 If there is no follow up to the redirect, I want  
7 to thank you, Mr. Steidtmann, for your contributions to our  
8 record and your appearance here today, but I must tell you,  
9 that you scared the devil out of me a little bit, not only  
10 on CEM but on a lot of other fronts.

11 I don't know where this Rate Commission goes on  
12 this case, but if you are right, we have bigger troubles and  
13 so does the Postal Service in the future.

14 Thank you very much for your input.

15 THE WITNESS: Thank you.

16 CHAIRMAN GLEIMAN: Our next witness is not from  
17 the Postal Service this time, appearing on behalf of the  
18 Saturation Mail Coalition, Mr. Buckel, who is already under  
19 oath. Mr. McLaughlin, you can proceed to introduce his  
20 testimony, if you'd like, whenever you are ready.

21 Whereupon,

22 HARRY J. BUCKEL,  
23 a witness, was called for examination by counsel for the  
24 Saturation Mail Coalition and, having been previously duly  
25 sworn, was examined and testified as follows:

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## DIRECT EXAMINATION

BY MR. McLAUGHLIN:

Q Mr. Buckel, I'm handing you two copies of a document identified as Rebuttal Testimony of Harry J. Buckel on behalf of Saturation Mail Coalition, designated as SMC-RT-1, and I would ask if this testimony was prepared by you or under your direction and supervision.

A Yes, it is.

Q Is it true and correct to the best of your knowledge?

A Yes, it is.

Q And would your testimony be the same if you were to give it orally today?

A Yes, it would.

MR. McLAUGHLIN: Mr. Chairman, I would move that SMC-RT-1 be received into evidence and transcribed into the record.

CHAIRMAN GLEIMAN: Are there any objections?

[No response.]

CHAIRMAN GLEIMAN: Hearing none, Mr. Buckel's testimony and exhibits are received into evidence, and I direct that they be transcribed into the record at this point.

[Direct Testimony and Exhibits of  
Harry J. Buckel, SMC-RT-1, was

1 received into evidence and  
2 transcribed into the record.]  
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SMC-RT-1

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D. C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
HARRY J. BUCKEL  
ON BEHALF OF THE  
SATURATION MAIL COALITION

Communications with respect to this document should be sent to:

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*Counsel for the  
Saturation Mail Coalition*

March 9, 1998

## REBUTTAL TESTIMONY OF HARRY J. BUCKEL

### INTRODUCTION AND SUMMARY

1           My name is Harry J. Buckel. I am Chief Executive Officer of Newport Media,  
2 Inc., the publisher of several shopper publications in Long Island, New York. My  
3 autobiographical sketch is set forth in my direct testimony in this proceeding (SMC-  
4 T-1), on behalf of the Saturation Mail Coalition. My rebuttal testimony addresses  
5 several contentions by Association of Alternate Postal Systems (AAPS) witnesses  
6 Bradstreet and Green in their direct testimony:

- 7       •     First, their simplistic arguments (based on rate comparisons using a 1978  
8 benchmark) that the pricing of saturation mail is unfair to competitors:
  - 9           •     Their arguments overlook what has happened to saturation mail in the  
10 marketplace relative to competitors over the last 25 years.
  - 11           •     Their "apples and oranges" comparison of the excessive,  
12 undiscounted, non-cost-based 1978 rates (which nearly drove  
13 saturation mail out of the market) with the relatively more cost-based  
14 current and proposed rates demonstrates the need for a lower pound  
15 rate that is more in line with costs and the marketplace.
  - 16           •     Their claims of vulnerability to "unfair" competition ignore the fact that  
17 saturation mail constitutes a smaller portion of total mail volume and  
18 competes for a narrower segment of the market than in 1986.
- 19       •     Second, witness Bradstreet's claims about the effect of weight on delivery  
20 costs, which ignore the predictability and deferability of saturation mail.  
21 These characteristics, I can personally attest to, enhance the ability of  
22 carriers to manage their workload and enable them to use saturation mail as  
23 a load leveler to accommodate delivery of other mail on high volume days.

- 2 -

1 • Third, witness Green's statements about the current and proposed rates for  
2 ECR mail. Contrary to his written testimony that saturation mail rates are  
3 unfairly priced, Green acknowledged that:

- 4 • weight is a relatively insignificant factor in private delivery costs or  
5 rates;
- 6 • at the current ECR saturation rate, "the costs of direct, solo mail" are  
7 "prohibitive" for advertisers; and
- 8 • at the current ECR pound rate, the cost of mailing his publication,  
9 either as solo or shared mail, would likewise be "prohibitive."

10 A. The Historical Reality Of The Competitive Marketplace.

11 Bradstreet and Green try to paint a picture that saturation mail over the  
12 years has been priced "unfairly" low, using 1978 as their benchmark. Noticeably,  
13 they present no evidence of harm to their businesses; they just say that "low"  
14 saturation rates are unfair. What is missing are the facts about what has happened  
15 in the marketplace over the years relative to postal rates.

16 The history of the saturation mail market since 1970 has been described in  
17 prior proceedings by Advo witnesses Jack Valentine (Docket R84-1), Vince Giuliano  
18 (Dockets R87-1 and C89-3), and Kam Kamerschen (Docket MC95-1). In the early  
19 1970s, saturation solo mail was a strong competitor for distribution of preprints -- at  
20 undiscounted solo mail rates. Many of the preprints carried in the mail were  
21 traditional heavier preprints weighing up to two ounces or more. By 1978, however,  
22 third class postal rates doubled, causing saturation mail volumes to plummet.  
23 Saturation mail's share of the growing preprint market declined precipitously, from  
24 an estimated 30% share down to 10% (see Giuliano, R87-1 Tr. 16068-69). Former  
25 USPS saturation mail customers switched to private delivery and became  
26 competitors.

- 3 -

1 Not surprisingly, Bradstreet begins his historical discussion of postal rates in  
2 1978. This was the low point for saturation mail as a competitive medium, due to  
3 excessively high postal rates that failed to reflect the low costs and price sensitivity  
4 of saturation mail. The third class rate structure contained no worksharing  
5 discounts. Low-cost saturation mail that was carrier route presorted, walk  
6 sequenced, and entered close to the destination paid the same rate as high-cost,  
7 basic-level third class mail that was presorted minimally to mixed-states,  
8 unsequenced, and entered at an origin post office for distribution to far away delivery  
9 offices around the country. Within third class, saturation mail was severely over-  
10 priced in relation to its low costs.

11 The beneficiaries of that irrational, non-cost-based rate structure were  
12 newspapers, and private delivery competitors. As much as they might like to return  
13 to the "good old days" of the late 1970s, it is absurd for them to now tout those  
14 exorbitant, non-competitive, non-cost-based saturation mail rates as the  
15 "benchmark" for gauging either rates or the marketplace.

16 Solo saturation mail never really recovered from those high rates. It exists  
17 today on the periphery of the preprint market -- a fact acknowledged by witness  
18 Green (AAPS-T-2 at 3). It wasn't until the early 1980s, following introduction of the  
19 carrier route presort discount in 1979 and the shared mail concept in 1980, that  
20 saturation mail again became competitive and began to recapture a share of the  
21 preprint market. During most of the 1980s, heavier 1-2 ounce preprints were  
22 common in shared mail and mailed shoppers.

23 Then in 1988, the R87-1 rate increase sent a tsunami through the saturation  
24 mail industry. The carrier route piece rate increased 22 percent (from 8.3¢ to  
25 10.1¢), and the pound rate increased 26 percent (from 38¢ to 48¢). Saturation  
26 volumes declined, newspapers shifted their TMCs from mail to private delivery, and  
27 the private delivery industry grew rapidly (see Kamerschen, MC95-1 Tr. 10158-62,



- 4 -

1 10172-75). The combination of the large rate increase and the high pound rate also  
2 caused a downward shift in the mix of saturation mail preprint inserts. Preprint  
3 inserts over one ounce began to leave saturation mail. Saturation mail was left with  
4 predominantly light-weight preprints under one ounce: single page slipsheet  
5 inserts, and 4-8 page inserts. Heavier preprints are now carried almost exclusively  
6 by newspapers and private delivery.

7 In the 1990s, walk sequence discounts, drop ship discounts, and  
8 reclassification have helped to mitigate rate increases, finally enabling saturation  
9 mail to rebound from the R87-1 rate increase. Even today, however, saturation mail  
10 constitutes a smaller proportion of both third class/Standard A and total mail volume  
11 than in 1986, prior to the R87 rate increase.<sup>1</sup>

12 Over the last 25 years, the saturation mail industry has gone from being a  
13 major competitor for distributing traditional heavier-weight preprints at solo mail  
14 rates, to an industry mostly confined to distributing lighter-weight preprints as  
15 inserts in a shared mail or shopper publication. The proposed pound rate will not  
16 make saturation mail once again competitive for those heavier weight preprints. But  
17 it will at least mitigate the competitive disparity, allowing us to remain competitive for  
18 our current volumes and to compete at the margin for lighter weight preprints up to  
19 one ounce.

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<sup>1</sup> From FY 1986 to FY 1996, total domestic mail volume grew 26% while carrier route mail volume (which includes saturation mail) grew only 21%. Carrier route volume declined as a percentage of both total BRR mail and total domestic mail. Although the USPS did not separately collect saturation volume data in 1986, other information confirms that this decline in carrier route mail's share of total volume was due to lagging saturation mail volumes. In 1986, for example, Advo's volumes were 16.6% of total carrier route volumes, 9.1% of BRR volumes, and 2.8% of total domestic mail volumes. In 1989, Advo's volumes declined to 13.3% of carrier route, 7.5% of BRR, and 2.4% of total domestic mail volumes (C89-3 Tr. 61 compared to FY86 and FY89 USPS volumes). Another indication of saturation mail's declining proportion of total volumes comes from a 1989 USPS special study showing that saturation mail then constituted 44% of carrier route and 23% of total BRR volumes (USPS LR-F-199, Appendix 10, Docket R90-1). By 1996, saturation mail was only 35% of carrier route and 17% of total BRR volumes (USPS LR H-145, Section G2, Docket R97-1).

- 5 -

1           It is a myth that private delivery and newspaper preprint distribution is  
2 "vulnerable" to saturation mail competition. The vulnerability is in the other direction.  
3 Our rates, and our competitive position in the market, are dictated by the rates  
4 established through this postal rate regulatory process. The prices charged by  
5 newspapers and private delivery are not. They can adjust their rates based on their  
6 costs and the marketplace, while at the same time urging that saturation postal  
7 rates be kept high, without regard to costs or the marketplace, in order to fund lower  
8 rates for other mail classes.

9           Saturation mail has remained competitive in the preprint market only by  
10 evolving from solo mail distribution (the cost of which AAPS witness Green  
11 concedes is now "prohibitive", AAPS-T-2 at 3), to shared mail or shopper  
12 distribution. Even there, the segment of the market for which saturation mail is price  
13 competitive has been narrowed over time due to the artificially high pound rate.  
14 Despite what the Commission may hear about statements in "marketing plans," the  
15 newspaper and private delivery competitors of saturation mail are strong and  
16 growing. They will be an increasing threat to this important segment of mail volume  
17 unless postal rates for saturation mail are brought more in line with costs and the  
18 marketplace.

19           B.     Rebuttal To Bradstreet's Effect Of Weight On Costs

20                 Bradstreet argues that weight has a significant effect on delivery carrier  
21 costs by causing extra trips to and from the carrier's delivery vehicle. I am not a  
22 postal costing or operations expert, but I know that carriers have flexibility to deal  
23 with unexpected volumes, particularly with respect to saturation mail, because I  
24 know what carriers do with our mail.

25           To begin with, saturation mail is one of the most predictable portions of the  
26 carrier's workload. Our program is mailed on a regular weekly basis, arriving at the  
27 delivery office on a consistent schedule each week. This is typical of the saturation

- 6 -

1 mail industry. For a given carrier route, even the weights of our mailings are  
2 consistent and predictable from week to week.

3       Moreover, our mailings can be, and in fact are, deferred if carriers have a  
4 particularly large volume of mail on a particular day. The most common occurrence  
5 of this is on days following Monday holidays, when carriers are confronted with an  
6 extra day's buildup of mail. Our mail will be deferred for Wednesday delivery so the  
7 carrier can deliver the holiday overflow mail on Tuesday. This also occurs on a  
8 sporadic basis whenever a carrier has an unusually large volume of other mail to  
9 deliver. A carrier can also defer a portion of our mail for the route on a given day,  
10 which may occur if particular relays on the route have abnormal mail volumes. I  
11 would point out that these deferrals are typically due not to the total weight of the  
12 mail that must be carried, but rather the extra in-office time required to sort and  
13 prepare the larger-than-normal volume of mail pieces. In any event, this load  
14 leveling capability of saturation mail enhances the carrier's ability to deal with  
15 volume fluctuations, whether due to increased pieces or weight.

16       C.   Rebuttal To AAPS On The Pound Rate

17       Neither Bradstreet nor Green provided information about their  
18 historical volumes or how their volumes or rates compare to those available  
19 through saturation mail. What is clear, however, is that weight is not nearly as  
20 significant a factor in the rates they charge as it is for saturation mailers, and that  
21 the current high postal pound rate gives them a powerful competitive advantage.  
22 This was confirmed by Green during cross-examination. When asked what the  
23 typical weight was for his publication, including inserts, he responded:

24       "That's a difficult question, because we haven't been concerned  
25       with weight for so long since we're in the hand delivery." Tr.  
26       11973.

27       His acknowledgment about the relative insignificance of weight as a pricing factor  
28 for private delivery is entirely consistent with my own knowledge of the cost and rate

- 7 -

1 characteristics of private delivery and newspaper preprint distribution, as described  
2 in my initial testimony.

3 When asked by Commissioner LeBlanc why he can't or chooses not to use  
4 either solo or shared mail, Green explained:

5 "The other problem is the shared mail is in the post office and it is  
6 mailed. And so, as a result, when I drop in 40 pages of tabloid  
7 newsprint, along with six inserts, it drives that cost up substantially  
8 to where I don't really fit in their package. I would have to pay, you  
9 know, the incremental cost of putting my piece into their package  
10 would make it prohibitive." Tr. 11970.

11 The "prohibitive incremental cost" that Green refers to, of course, is the current high  
12 pound rate for saturation mail. In fact, for the bulk of Green's programs (those  
13 weighing over the breakpoint), that prohibitive incremental mailing cost would be the  
14 same whether he used solo or shared mail.<sup>2</sup>

15 The prohibitive pound rate applies not only to Green's publication but to  
16 heavier inserts carried in his publication. His example of a 24-page tabloid insert,  
17 which would weigh about 2.4 ounces, would be prohibitive to mail even at the  
18 proposed pound rate, as I explained in my direct testimony.

19 Brushing aside AAPS's rhetoric, Green's candid statements about the non-  
20 competitive nature of the current high pound rate and the realities of the market-  
21 place corroborate my direct testimony, and are compelling evidence of the need for  
22 the Postal Service's proposed ECR rates.

23 D. Rebuttal to NAA witness Chown

24 Chown proposes a dramatic change in the way rates are set, based  
25 on a reweighting of attributable costs. To me as a businessman, the mechanics of

---

<sup>2</sup> Green estimated that his publication alone weighs between "two to five or six ounces," plus additional weight for inserts that range from single pages to 24-page tabloid inserts (a 24-page tabloid insert typically weighs over two ounces). With inserts, his program ranges from 2-3 ounces up to 7-8 ounces -- the bulk of which weighs more than the 3.3 ounce breakpoint and would have to pay the pound rate if mailed. Tr. 11974.

- 8 -

1 her proposal are not important. What is clear is its goal: to provide an excuse to  
2 raise the rates of price sensitive ECR mail like ours that competes with  
3 newspapers. It seems to me that NAA started with this goal in mind and then  
4 Chown contrived a methodology to get there that totally ignores marketplace  
5 realities.

6 Chown's approach is based on the premise that ECR mail is not paying its  
7 fair share of institutional costs. Her premise is incredible. The USPS proposed  
8 228% cost coverage for ECR mail -- high by any measure -- is in fact hardly different  
9 from the high implicit cost coverages on carrier route mail even before reclassifica-  
10 tion. NAA vigorously opposed reclassification, and apparently see this as a means  
11 to undo the Commission's reclassification decision.

12 As a businessman in a highly competitive business, it does not matter what  
13 kind of formula or benchmark the Commission uses to arrive at the rate I must pay.  
14 The thing that matters is the rate. Whatever the formula, if the resulting rate is too  
15 high, I will not be competitive. My only "choices" will be to leave the mail and expand  
16 our alternate delivery, or to watch my customers leave and go out of business.

17 A striking aspect of Chown's proposal is its methodological number  
18 shuffling, "weighting" this cost up (ECR's) and that cost down to come up with a  
19 non-cost base for a pricing markup. What is lost in this shuffle is the ultimate  
20 objective of setting prices that make sense, reflect real costs, and meet the needs  
21 of the market. To do this, you have to take into account the varying price sensitivities  
22 of the customers. That, however, is not NAA's objective.

23 Like the Postal Service, our business serves a variety of customers that have  
24 differing cost and demand characteristics. If we were to try to price our services to  
25 extract increased markups and margins from our most price sensitive customers  
26 (preprint advertisers), for the benefit of our relatively less price sensitive customers  
27 who have fewer competitive choices, we would fail. Rather than increasing our

- 9 -

1 contribution from price sensitive advertisers, we would lose them to competitors,  
2 along with the contribution they currently make. Our other advertisers, the  
3 ostensible beneficiaries of this pricing scheme, would lose, too. If we could not  
4 raise their rates sufficiently to recover the lost contributions, we would have to either  
5 shift to private delivery or go out of business.

6 A marketplace approach to pricing is not synonymous with Ramsey pricing or  
7 "charging what the market will bear." Even in our business, we have customer  
8 segments with few alternatives where we could raise prices somewhat and achieve  
9 greater short-term profits. We choose not to do so, not for charitable reasons, but  
10 because affordable rates will encourage them to advertise, help their businesses  
11 grow and prosper, and ultimately enable them to increase their advertising with us,  
12 to our mutual long-term benefit. Without market-based prices and the contribution  
13 from our most price sensitive customers, we could not afford to do this, and our  
14 other customers would be worse off. Our pricing focus has to be on the market-  
15 place, looking at the pricing mix that is best for us and our customers over the long  
16 run.

17 This, in my view, is the only way that the Postal Service can succeed in  
18 dealing with the market realities it faces. Artificial pricing schemes like NAA's would  
19 do just the opposite, to the detriment of the Postal Service and all customers.

1 CHAIRMAN GLEIMAN: The only participant to request  
2 cross-examination is the Newspaper Association of America.  
3 Does any other participant wish to cross-examine?

4 MR. STRAUS: Yes, Your Honor, the Association of  
5 Alternate Postal Systems has some questions. We advised  
6 counsel for Mr. Buckel of this fact last Friday.

7 CHAIRMAN GLEIMAN: We'll begin with Mr. Baker.

8 Okay, gentlemen, you decide who goes first.  
9 Ordinarily when we get it in writing, that person goes  
10 first, but --

11 CROSS-EXAMINATION

12 BY MR. STRAUS:

13 Q Mr. Buckel, the same delay that kept you here kept  
14 my partner, Bonnie Blair, who was supposed to cross-examine  
15 you, from cross-examining you, so I'm filling in for her,  
16 and I hope I can remember what it is she wanted me to ask  
17 you.

18 A I hope it wasn't about coupons.

19 Q No, it wasn't.

20 CHAIRMAN GLEIMAN: I thought for sure you were  
21 going to say you hoped he couldn't remember what it was.

22 BY MR. STRAUS:

23 Q You testify that AAPS Witness Green acknowledged  
24 that weight is a relatively insignificant factor in private  
25 delivery costs and rates. Where did he acknowledge that?

1           You can look at the bottom of page 6 of your  
2 testimony.

3           A     Thank you. The quote that we haven't been  
4 concerned with weight for so long since we're in hand  
5 delivery was the phrase that caught my attention.

6           Q     What does that have to do with rates that he  
7 charges?

8           A     Frankly, and I won't speak to his rates, but  
9 alternate delivery generally has very little weight --  
10 pricing sensitive to weight.

11          Q     Well, that may or may not be, but the -- you said  
12 that Mr. Green acknowledged that weight is relatively  
13 insignificant to the rates he charges, and I'm trying to get  
14 you to agree with me that the statement you quote has  
15 nothing to do with the rates he charges.

16          A     I was extrapolating from -- I'm not sure I would  
17 agree with you. I was extrapolating from a comment that if  
18 you're not concerned with weight since I'm in hand delivery  
19 that seems to lead to the conclusion in my mind.

20          Q     But that answer was given in response to a  
21 question of what his 40-page tab with all of the inserts  
22 weighs. The rates he charges would be for those inserts,  
23 wouldn't they?

24          A     Yes.

25          Q     So the weight of his 40 pages, give or take,



1 wouldn't affect the rates he charges.

2 A But that's precisely my point. It does not affect  
3 the rate he charges.

4 Q That's right. The weight of his 40 pages doesn't  
5 affect the weight. So you don't have any idea what rates  
6 Mr. Green charges for inserts, do you?

7 A No, I don't.

8 Q You don't know whether they're weight-related or  
9 not?

10 A No, I don't.

11 Q You say that Mr. Green and Mr. Bradstreet  
12 presented no evidence of harm to their businesses. Harm  
13 from what?

14 A What I read as the allegation that the Post Office  
15 was attempting to be rate-competitive and take share from  
16 them.

17 Q They were complaining about a proposed reduction  
18 in the pound rate, were they not?

19 A They were.

20 Q And did you expect them to give evidence of harm  
21 from something that hasn't yet happened?

22 A Well, certainly hypothetical of that. I assume  
23 that's why they were testifying.

24 Q Well, didn't Mr. Bradstreet testify about the rate  
25 reduction in 1981 that drove many of his members out of

1 business?

2 A I don't have any knowledge of that.

3 Q If he did, would that be evidence of harm to his  
4 business from a rate reduction?

5 A If he did and if that in fact occurred, then  
6 certainly it would.

7 Q You -- say that date is 1978 as the bench mark for  
8 measuring the pound rate. You disagree with that? You  
9 think that's a bad bench mark?

10 A Yeah, I frankly have difficulty picking any year  
11 as a bench mark, and in my testimony I think I used '88.  
12 You know, I think picking any particular year puts us in a  
13 contentious position. My point was simply that if we use  
14 the common denominator of 1970, the Postal Reorganization  
15 Act, and go from 1970 to today, every single instance of  
16 increase in rates for saturation mail has caused a decrease  
17 in volume or falloff in volumes and loss of market share.  
18 The only direct correlation is the inverse relationship, the  
19 higher the rate increase, the more negative impact on  
20 volume.

21 Q Loss of whose market share?

22 A Of saturation mail market share.

23 Q The Postal Service's share of the saturation  
24 market?

25 A Since we are the customer representing that, yes.

1           Q     When Advo goes, for example, from five pieces per  
2     set to eight pieces per set, I think now they're at 8-3/4  
3     pieces per set, if Advo's number of share mail sets goes  
4     down, but the number of pieces within those sets goes up,  
5     you would consider that a loss of market share to the Postal  
6     Service?

7           A     I'm not sure I'd agree with those numbers, but  
8     take them for a moment as a given on eight.  Would you  
9     restate the question again?

10          Q     Well, let me hand you a copy of Advo's quarterly  
11     report for the quarter ending December 27, 1997.  And I'd  
12     ask you to look at the right-hand panel and tell us how many  
13     shared-mail pieces per package.

14          A     \$8.78.

15          Q     And what was it in the previous year?

16          A     \$8.46.

17          Q     Do you have any idea what it was four or five  
18     years ago?

19          A     I really don't.

20          Q     Assuming it was five or six pieces -- let me  
21     change the line.  You see that the number of sets mailed by  
22     Advil during that one year period was reduced somewhat;  
23     wasn't it?

24          A     Right.

25          Q     But the number of pieces increased, didn't it?

1 A Per package.

2 Q In total, the number of pieces mailed actually  
3 increased?

4 A That's correct.

5 Q But the Postal Service would see that as a loss of  
6 market share, wouldn't it?

7 A Depending on --

8 Q The way you would define it.

9 A Yes, depending on the weight. Because we -- and I  
10 would argue this -- the fact is we paid by pound basically.

11 Q Your market share measures were only pieces,  
12 weren't they?

13 A Oh, not at all. Market share is pieces in weight,  
14 in total weight.

15 Q Your data in your testimony deals only with  
16 pieces, doesn't it?

17 A It does, in my particular case; right.

18 Q Do you have any information on the weight of  
19 shared mail pieces today versus the weight of shared weight  
20 pieces ten years ago or 20 years ago?

21 A Anecdotal from my own experience, the weight is  
22 down, the weight per package is lower today than it was ten  
23 years ago.

24 Q What's your volume compared to Advil's volume?

25 A In pieces per package?

1 Q No, total pieces mailed per year.

2 A I mail a million six per week, so 50 to 80 million  
3 pieces.

4 Q Compared with Advil's, how many?

5 A 55 million a week, so I'm significantly a small  
6 piece. I'm 1.6 and they are about 55 million per week.

7 Q Do you know what their weight has done over the  
8 past 20 years?

9 A From observing them competitively, the markets  
10 I've been in, that the weight per package has gone down.

11 Q What about in the past two years?

12 A I don't know that's it made a significant  
13 difference.

14 Q How many markets is that in which you have  
15 experience?

16 A Southern California, South Florida, Northern  
17 California, Philadelphia markets.

18 Q That's four markets in the country?

19 A Four markets; yeah.

20 Q If we used 1987 as a base year right before the  
21 1988 increase, do you know whether the pound rate has  
22 increased more rapidly than, less rapidly than or at the  
23 same rate as the CPI since 1987?

24 A I don't know. I know it increased rapidly from  
25 1987 to 1988.

1 Q Would you accept, subject to check, that it  
2 increased almost exactly at the same rate as the CPI since  
3 1987?

4 A I would accept subject to check.

5 Q I'll give you a place you can check it. It's  
6 something I just learned about. It's a Web site called  
7 WOODROW.MPLS.FRB.FED.US/ECONOMY/CALC/CPIHOME.HTML.  
8 Apparently, you can put in a dollar and a year and another  
9 year and it will tell you what the equivalents are.

10 A I think I just learned more than I wanted to about  
11 the CPI.

12 Q I don't want you to accept something subject to  
13 check without the ability to check it.

14 A Thank you.

15 Q You say that the pound rate gives alternate  
16 delivery a powerful competitive advantage. How many  
17 products do you mail?

18 A How many --

19 Q How many different products, different titles of  
20 things?

21 A I basically mail news print shopper products.  
22 They have different ~~masses~~ <sup>mast heads</sup> but they look essentially the  
23 same.

24 Q In how many markets?

25 A Long Island and South Jersey are the two mail

1 markets.

2 Q And you hand deliver in one market?

3 A In the boroughs of New York; right.

4 Q Despite the powerful competitive advantage of hand  
5 delivery, you mail two and hand deliver one?

6 A I mail 1.6 million and hand deliver 400,000,  
7 directly, for weight reasons.

8 Q But you mail 1.6 million, four times as many as  
9 you hand deliver?

10 A Right.

11 Q Despite the powerful competitive advantage of hand  
12 delivery?

13 A Right. The weight average on my mail pieces is  
14 about 4.5 to 5.5 ounces. The weight of my hand delivery  
15 pieces is on average 8 ounces to a pound.

16 Q In the five or six ounce range, mail has an  
17 advantage?

18 A The advantage is the credibility of the mail.

19 Q Overall mail has the advantage in those weights or  
20 else you would hand deliver; right?

21 A Yes, that's why I'm in the mail.

22 Q There is a lot of advertisement --

23 A And that's why I'm not in the mail in the boroughs  
24 of New York.

25 Q There is a lot of advertising in the mail, isn't

1       there?

2           A       There's a lot of advertising in the mail?

3           Q       Yes.

4           A       As a percentage of the total advertising inserts  
5       in the marketplace, there's a lot less today than there used  
6       to be as a percentage of share.

7           Q       The advertising mail is increasing more rapidly  
8       than the other major classes, isn't it?

9           A       Oh, I would disagree with that. Advertising mail  
10      -- my kind of saturation mail, saturation mail is not  
11      increasing faster than alternate delivery growth industry  
12      for --

13          Q       Let's think about why -- how much does it cost to  
14      make a saturation mail, the lowest cost you can get to mail  
15      on a saturation basis an half ounce advertising piece?

16          A       Roughly \$18.

17          Q       No, no.

18          A       Incrementally.

19          Q       I'm talking about I'm an advertiser and I want to  
20      saturate the Washington market.

21          A       \$114 a 1,000.

22          Q       Let's talk <sup>cents</sup>~~sense~~ per piece.

23          A       11.4 cents.

24               CHAIRMAN GLIEMAN: Gentlemen, can you slow down a  
25      little bit? The Reporter is going to turn around in about



1 three seconds and give me the evil eye here.

2 THE WITNESS: 11.4 cents.

3 BY MR. STRAUS:

4 Q If I wanted to mail on a saturation basis, 11.4  
5 cents?

6 A Right.

7 Q What was that other number you gave?

8 A I was referencing the over weight pound rate,  
9 which is 4.50 per ounce or 17.25 per half ounce on the  
10 example you used. The incremental costs, if you are already  
11 in a saturation mail package and over weight, that next half  
12 ounce costs you 34.50 per ounce.

13 Q Let's stick with my half ounce, please. It cost  
14 me 11.4 cents to mail it by itself?

15 A Right.

16 Q If I went to somebody like you and you had a two  
17 ounce piece and I wanted to add my half ounce to your two  
18 ounce piece, how much would that increase your postage?

19 A It wouldn't increase my postage at all.

20 Q There would be a great incentive, wouldn't there,  
21 for us to get -- the way the current rates are structured --  
22 for us to get together and mail them together for the same  
23 postage as it would cost each of us to mail separately?

24 A Only in your two ounce example. Since most of my  
25 average weight is 4.5 to 5 ounces, I don't have that luxury,

1 on average.

2 Q To the extent we have had other witnesses in this  
3 case, or at least one other witness, who talked about trying  
4 to keep his franchise -- he was trying to keep their weight  
5 under the break point. Do you know try to keep your weight  
6 under the break point?

7 A No. I'm trying to sell as many customers and gain  
8 as much market share as I can for the success and health of  
9 my business and my customers over time.

10 Q You figure that even if you are over the break  
11 point, if you can add revenues that exceed your rate of  
12 postage, you are better off?

13 A That's the key phase, exceed my rate of postage,  
14 and once I pass the break point, that's very difficult to  
15 do.

16 Q It's not difficult in an one-tenth of an ounce  
17 piece, is it, one sheet?

18 A Sure, it is. I am competing with a newspaper hand  
19 delivery program that has virtually zero incremental costs  
20 if they had that sheet, and it cost me to add that sheet,  
21 roughly \$5 or \$6 in postage, plus inserting, plus sales  
22 commission, handling costs, et cetera.

23 There's a real cost differential, a very real  
24 dollar bottom line.

25 Q Let's stick with the pieces below the break point.

1 As they are building up to the break point, wouldn't it be  
2 the case that individuals who might otherwise mail or have  
3 mailed pieces on an individual basis would combine them,  
4 even as many as six half ounce pieces, could combine and pay  
5 the same postage as each of them would have paid  
6 individually?

7 A Up to the break point.

8 Q Couldn't that account for the fact that the share  
9 -- wouldn't you have to count pieces in the mail rather than  
10 sets in the mail in order to know what the real effect is of  
11 postage rates on the advertising in the mail? All you have  
12 compared is the sets, not the pieces.

13 A And I don't mean to be one dimensional. It's a  
14 two dimensional measure, pieces, as you appropriately point  
15 out, whether it's four, five, six or eight pieces that go in  
16 the mail, it's also the weight of the piece which is  
17 relevant to the kind of customer that you have access to,  
18 and these postage rates do not give us access to the heavier  
19 weight customer.

20 Q So, you don't like the fact that the pound rate is  
21 as high as it is and increases as rapidly as it does, do  
22 you?

23 A I don't think it reflects the reality of the cost  
24 of carrying that extra weight.

25 Q Would you prefer it if the pound rate were lower

1 and increased less steeply but began at, say, a half-ounce,  
2 so the an ounce cost more than a half-ounce and a  
3 ounce-and-a-half cost more than an ounce and two ounces cost  
4 more than an ounce-and-a-half?

5 In other words, if the rate just increased from  
6 zero on up and the pound rate were lower and increased less  
7 steeply, would that be better for you or worse?

8 A It strikes me as one of those questions like when  
9 did you stop beating your wife? I don't prefer that to what  
10 we have.

11 I would prefer that the current rate structure,  
12 going from the 3.3 -- from the break point -- more  
13 appropriately reflect the real cost of carrying that product  
14 in the mail.

15 Q But underneath the 3.3 ounces, you want it to be a  
16 flat rate that does not reflect any differences in weight.

17 A Under 3.3 ounces, a flat rate. I, frankly, hadn't  
18 thought deeply about that as an implication. I'm used to  
19 living with an elbow, if you would, a 3.3-ounce elbow, and  
20 so, I'd have to give this some thought as to what the pluses  
21 and minuses of a scaleable rate down to .0 would be.

22 Q If the rate proposal in this case were to be  
23 adopted, your postage costs would drop by \$90,000 right  
24 away, wouldn't they, assuming volume were held constant?

25 A Approximately, right.

1           Q     But in an interrogatory response, you indicated  
2     that you thought your volume would increase if that would  
3     happen?

4           A     Well, it's back -- I think it's back to the issue  
5     of -- my earlier point.

6                     If you take 1970 as a base point and come forward,  
7     whenever there has been rate relief, an opportunity for rate  
8     reduction allows us to grow our customers' business and,  
9     hence, grow our business, and in this particular case, the  
10    post office proposal certainly wouldn't give us access to  
11    heavier-weight pieces, but it would -- it's almost more  
12    defensive than offensive; it allows us to protect what we  
13    have and, on the margin, go after additional light-weight  
14    pieces.

15          Q     And you think you would get more.

16          A     I would certainly hope so.

17                     MR. STRAUS: Thank you. That's all I have.

18                     CHAIRMAN GLEIMAN: Is there any follow-up? I'm  
19    sorry, Mr. Baker. I just was off in a dream world here,  
20    listening intently but dreaming.

21                                 CROSS-EXAMINATION

22                     BY MR. BAKER:

23          Q     Good afternoon, Mr. Buckel. I'm Bill Baker,  
24    appearing on behalf of the Newspaper Association of America.  
25    I am a native Virginian, and I can't speak as fast as Mr.

1 Straus.

2 A My wife is from Nashville, Tennessee, and so, I  
3 have practice.

4 Q Mr. Straus -- I'm glad I let him go first, because  
5 he asked many of the questions I was thinking of asking.  
6 Your testimony, in part, reviews the history of the  
7 saturation mail rate over the past 15, 20 years or so?

8 A Right.

9 Q Have you been in the advertising mail industry  
10 that long?

11 A Since 1982.

12 Q And you've been actively involved in these issues  
13 since that time.

14 A Since the mid-'80s, really.

15 Q And I gather you are active in postal sort roles,  
16 you attend conferences and you meet with postal officials  
17 and so on.

18 A Right.

19 Q Okay.

20 Could you look to page 5 of your testimony? You  
21 have a sentence there on lines 3 and 4. I think it's clear,  
22 but I want to make clear -- just clarify something.

23 Where you state that your rates and your  
24 competitive position in the market are dictated by the rates  
25 established through this postal rate regulatory process, I

1 take you are referring there to the postage rates that you  
2 pay rather than the retail rates that you would charge your  
3 customers.

4 A That's correct.

5 Q Okay. This Commission doesn't set your retail  
6 rates.

7 A That's correct.

8 Q Although it does set rates for one of the  
9 suppliers of your services.

10 A I'm sorry.

11 Q It does set the rates for a supplier.

12 A Right. My distribution supplier, right.

13 Q Okay.

14 Further on down that page, beginning on line 14,  
15 you have a sentence here that begins with, "Despite what the  
16 Commission may hear about statements in marketing plans"  
17 --and you go on. To what marketing plans are you referring?

18 A I had an opportunity to look at a document, I  
19 believe, that was filed by NNA, that was a marketing plan  
20 from the Postal Service, and I read the executive summary.

21 Q At this point I just happen to have a copy of that.

22 A Why am I not surprised?

23 Q Have you had a chance to --

24 MR. BAKER: For the record, I just handed the  
25 witness and distributed a copy of a document that we had

1 previously filed as NAA Library Reference NAA-97-1, Number  
2 2. That is entitled, "The United States Postal Service 1998  
3 Marketing Plans."

4 BY MR. BAKER:

5 Q Mr. Buckel, have you seen this document before  
6 now?

7 A I saw the executive summary, a copy of the  
8 executive summary.

9 Q And I will resist asking whether it was prepared  
10 under your direction and supervision, but I will ask did you  
11 know whether you contributed in any way to its preparation?

12 A I don't know that I did, but as you pointed out  
13 earlier, I did talk to a number of people in industry and it  
14 is possible --

15 Q All right. I would like --

16 A -- it's possible that I may have indirectly  
17 contributed to the document.

18 Q I would like if you will for you to flip to a page  
19 in this document that is marked AD, page 11, and --

20 A I am almost there. Okay.

21 Q And there is about midway down a caption entitled,  
22 "Traditional Media" --

23 A Right.

24 Q And the first sentence on AD page 11 -- and there  
25 is a caption that says "Traditional Media" and a sentence



1       there that begins, "Newspapers are the major direct  
2       competitors for advertising mail dollars" and it goes on.

3               Is this the type of statement to which you  
4       referred in your testimony?

5           A       Where did I refer to this in my testimony?

6           Q       Well, you refer in your testimony to statements in  
7       marketing plans. Is this the sort of thing that you had in  
8       mind?

9           A       Not that particular statement. I -- frankly, my  
10      opinion is that this document has no relevance to this  
11      particular proceeding and I think much of what is in here  
12      from my perusal of it is a statement of the obvious.

13          Q       Well, have you ever in conversations with Postal  
14      Service officials, have you ever heard them describe  
15      newspapers from major or direct competitors for advertising  
16      mail dollars?

17          A       I have probably used that description myself.

18          Q       So you do agree with the statement?

19          A       I do agree with the statement.

20          Q       And on the same page there is a sentence midway in  
21      the second full paragraph of that discussion which states  
22      that "Preprinted inserts have been and will continue to be  
23      the single newspaper application which is most vulnerable to  
24      diversion to ad mail."

25               And do you agree with that statement?

1           A     Yes, I do.

2           Q     Okay.

3           A     I would also add that that works both ways, that  
4     it's probably more vulnerable -- my inserts are more  
5     vulnerable to diversion to newspapers than the other way  
6     around.

7                     MR. BAKER:  Mr. Chairman, at this point, I guess I  
8     would like to have this document which was filed already as  
9     a library reference -- and there is motion practice pending  
10    regarding some requests for admission I'd asked the Postal  
11    Service, but I'd like to have this marked as a cross  
12    examination exhibit for the record, although clearly, we  
13    have to await the response due from the Postal Service today  
14    before we know if we can finally determine its status.

15                    CHAIRMAN GLEIMAN:  How would you propose to mark  
16    it, sir?

17                    MR. BAKER:  Why don't we call it NAA  
18    Cross-Examination Exhibit 1?

19                    CHAIRMAN GLEIMAN:  Fine.  It is so marked.

20                                       [Cross-Examination Exhibit  
21                                       NAA/SMC-RT-1-XE-1 was marked for  
22                                       identification.]

23                    MR. COOPER:  For clarification, Mr. Chairman, is  
24    Counsel asking that the page to which he referred to be  
25    marked as the exhibit or the entire document?

1 MR. BAKER: I was referring to the entire document

2 MR. COOPER: The presiding officer has ruled, but  
3 I would reserve any objection.

4 MR. BAKER: The Chairman has only ruled that it be  
5 marked.

6 I would not recommend it be included in the  
7 transcript, given its heft. It's already available as a  
8 library reference.

9 CHAIRMAN GLEIMAN: Just for the sake of clarity in  
10 the record, would you restate the designation of the library  
11 -- the library reference designation -- excuse me -- at this  
12 point?

13 MR. BAKER: I believe that it is NAA/R97-1,  
14 Library Reference 2.

15 Mr. Chairman, I believe I have no more questions  
16 for the witness.

17 CHAIRMAN GLEIMAN: Is there any follow-up?

18 Mr. Straus, slowly.

19 FURTHER CROSS-EXAMINATION

20 BY MR. STRAUS:

21 Q Well, given your testimony about the competitive  
22 advantage of alternate delivery, I'm wondering whether you  
23 agree with the statement in the Postal Service document to  
24 which you were just referred at page AD-12, where it says  
25 that 70 percent of the alternate delivery companies are

1 newspaper-related, and it says this is not a profitable  
2 business for them. Do you agree with that?

3 A I would disagree with that.

4 MR. STRAUS: Thank you.

5 That's all I have.

6 CHAIRMAN GLEIMAN: Any further follow-up?

7 [No response.]

8 CHAIRMAN GLEIMAN: Questions from the bench?

9 COMMISSIONER LeBLANC: I just have a  
10 clarification.

11 CHAIRMAN GLEIMAN: Commissioner LeBlanc.

12 COMMISSIONER LeBLANC: Mr. Buckel, just one  
13 clarification. Did I understand you to say that your  
14 inserts are more vulnerable to being taken to the newspapers  
15 than the newspapers were to you?

16 THE WITNESS: Absolutely.

17 COMMISSIONER LeBLANC: And why is that?

18 THE WITNESS: The lower cost structure in pricing  
19 of newspapers for their comparable insert makes it much  
20 easier for them to attract business from us. I use a  
21 real-world example, if I may, for a second.

22 We had a one-ounce piece from a large customer on  
23 Long Island. My rate for that was approximately \$50 a  
24 thousand. We lost that to a newspaper whose rates -- the  
25 rate charged was about \$35 a thousand, which is about my

1 postage cost.

2 So, I couldn't have been competitive at that rate,  
3 because that didn't even cover postage. Yet, the newspaper  
4 was able to take it at that rate and have an adequate profit  
5 margin in order to take the business.

6 So, their lower cost structure allows them to  
7 price for market share.

8 COMMISSIONER LeBLANC: Thank you very much.

9 Thank you, Mr. Chairman.

10 CHAIRMAN GLEIMAN: Mr. Buckel, I have no  
11 questions. I did want to make reference to something in  
12 your testimony on page 8 which I found very interesting.

13 At line 12, it reads, "As a businessman in a  
14 highly competitive business, it does not matter what kind of  
15 formula or benchmark the Commission uses to arrive at the  
16 rate I must pay. The thing that matters is the rate."

17 I don't know what the rates are going to be. I  
18 hope they're to your liking, and if they are, I hope you  
19 will remind those who are inclined to be litigious because  
20 of formulas or bench-marks that we may not use that you like  
21 the rates.

22 Would you like some time for -- there was no  
23 response necessary, and that was not a question unless it's  
24 a follow-up to Mr. LeBlanc.

25 MR. BAKER: I do have a follow-up to Mr.

1 LeBlanc's.

2 CHAIRMAN GLEIMAN: I'm just trying to move things  
3 along.

4 FURTHER CROSS-EXAMINATION

5 BY MR. BAKER:

6 Q Mr. Buckel, you testified as to the relative price  
7 that you face between newspaper and your own.

8 A Right.

9 Q Is it typically the case for you that your price  
10 is higher than the newspaper would charge in your markets?

11 A Absolutely.

12 MR. BAKER: No more questions.

13 CHAIRMAN GLEIMAN: Is there any further follow-up  
14 as a consequence of questions from the bench?

15 THE WITNESS: May I offer an editorial comment to  
16 your comment, if I may?

17 CHAIRMAN GLEIMAN: Sure.

18 THE WITNESS: I would hope that -- my only plea in  
19 this is that we be treated the way -- as customers -- the  
20 way we like to treat our customers, which is building  
21 lifetime value to the customer and allowing -- when our  
22 customers prosper over time, we're successful, and we like  
23 to encourage them to be prosperous and grow their  
24 businesses.

25 CHAIRMAN GLEIMAN: Well, we've got a whole bunch

1 of customers --

2 THE WITNESS: I understand.

3 CHAIRMAN GLEIMAN: -- and you know, we've got to  
4 make sure that all of them prosper, to the extent  
5 practicable, and you know, I know it doesn't always appear  
6 that way, but I like to think, at least in the last four  
7 years, we've endeavored to do that. I can't talk about what  
8 transpired before I got here. We don't always make the  
9 mark, but we try.

10 In any event, that brings us to redirect.

11 Mr. McLaughlin?

12 MR. McLAUGHLIN: Could we have about five minutes?

13 CHAIRMAN GLEIMAN: You certainly may.

14 [Recess.]

15 CHAIRMAN GLEIMAN: Yes, sir.

16 REDIRECT EXAMINATION

17 BY MR. McLAUGHLIN:

18 Q Mr. Buckel, I have just a few questions for you on  
19 redirect.

20 Mr. Straus was asking you about whether you knew  
21 specifically the rates that Mr. Green's company charges for  
22 private delivery. You indicated you do not. Do you have  
23 general knowledge about the rates that private delivery  
24 offers, and in particular do you know whether in general the  
25 rates offered in private delivery are much less sensitive to

1 weight than are rates that are charged by --

2 A In general in the alternate delivery industry  
3 rates tend to be weight-insensitive or have very little  
4 relationship to weight relative to the postal rates.

5 Q Mr. Straus was also referring to inserts that  
6 are -- number of inserts that are contained in shared mail  
7 today versus five, six years ago, ten years ago, whatever.  
8 Do you know whether even if there might be more inserts  
9 today, if they are the same kind of inserts or if they tend  
10 to have the same weight characteristics as inserts ten years  
11 ago?

12 A A number of the lightweight inserts today are new  
13 creations of the last five to seven years as saturation  
14 mailers have gone after market share. Saturation mail  
15 providers do not have the ability to be competitive for  
16 heavier-weight inserts after the 1987 case.

17 Q So today would it be your view that there are  
18 fewer heavier-weight inserts today than there were back  
19 then?

20 A Absolutely.

21 Q And more lighter-weight inserts such as  
22 single-page slip sheet advertisements?

23 A Yes.

24 Q Mr. Straus was also asking you something about  
25 individual pieces of saturation advertising that might have



1 gone out as solo mail but could be combined together into a  
2 shared mail package. At the solo mail rate and looking at  
3 the rates offered by competitors, do you have any opinion as  
4 to the likelihood that you would see those kinds of pieces  
5 at solo mail rates?

6 A No reasonable business person would pay 11.4 cents  
7 per piece to solo mail a saturation piece on a regular  
8 basis. There are other alternatives.

9 Q So for most of those pieces the choice is either  
10 to go to a competitor or to look for a program such as a  
11 saturation program.

12 A Right, a marriage mail program.

13 Q In response to Chairman LeBlanc -- Chairman  
14 LeBlanc -- excuse me --

15 COMMISSIONER LeBLANC: I'll take it.

16 BY MR. McLAUGHLIN:

17 Q He was asking you about vulnerability and you  
18 mentioned diversion of pieces from -- from your program into  
19 newspapers. And you mentioned that newspapers have a lower  
20 cost structure. Were you there talking about lower cost  
21 structure in relation to your cost structure?

22 A I was talking about the delivery -- the  
23 distribution cost structure.

24 Q Now in the case of your cost structure, is that  
25 influenced primarily by the pound rate?

1 A Yes.

2 Q You were not saying that the Postal Service's cost  
3 structure is necessarily a high-cost structure.

4 A No. In fact I feel very strongly that the Post  
5 Office cost structure would allow an even lower level of  
6 pricing for my kind of mail.

7 MR. McLAUGHLIN: I have no further questions.

8 CHAIRMAN GLEIMAN: Recross.

9 RECROSS-EXAMINATION

10 BY MR. BAKER:

11 Q Mr. Buckel, are you aware whether there are any  
12 solo alternate delivery programs?

13 A Solo alternate delivery programs. My impression  
14 is that the -- if you're referencing catalog delivery and  
15 magazine delivery.

16 Q In the sense that you used solo saturation mail on  
17 redirect.

18 A Right. I suppose there are, but I'm not directly  
19 aware of any.

20 Q Okay. And similarly, are there any solo ads  
21 delivered in newspapers?

22 A A single sheet that we're using the same example.  
23 Would that single sheet be delivered in a newspaper as well  
24 as solo mail?

25 Q Delivered by itself in a newspaper.

1 A Certainly. Let me just clarify.

2 Q Um-hum.

3 A If we're using the same example --

4 Q Um-hum.

5 A Of a single sheet that could be solo mailed for  
6 11.4 cents or delivered alternatively, yes, it could be  
7 alternatively delivered inside a newspaper.

8 Q It could alternatively be delivered within a  
9 shared-mail package as well.

10 A Absolutely.

11 Q Now when it is delivered alternatively inside a  
12 newspaper, would there typically be other sheets in the  
13 newspaper as well?

14 A Typically.

15 Q Are you aware of any newspapers that would carry  
16 only one solo sheet in an issue?

17 A Not because they wanted to; no.

18 MR. BAKER: No more questions, Mr. Chairman.

19 CHAIRMAN GLEIMAN: Any more gentlemen? No?

20 If that is the case, then, Mr. Buckel, we want to  
21 thank you. We appreciate your appearance here today and  
22 your contributions to our record, and if there's nothing  
23 further, you're excused.

24 [Witness excused.]

25 CHAIRMAN GLEIMAN: We're coming down the

1 homestretch.

2 Our last witness today and our most frequent  
3 visitor during these proceedings if I have my records  
4 correct, Dr. John Haldi, representing this time Val-Pak  
5 Direct Marketing Systems, Inc., Val-Pak Dealers Association,  
6 Inc., and Carol Wright Promotions, Inc.

7 Please note that I did mention all of the parties  
8 that joined together, lest one or another feel slighted.

9 Dr. Haldi's already under oath.

10 Mr. Olson, when you are ready to introduce your  
11 witness and his testimony, you can proceed.

12 Whereupon,

13 DR. JOHN HALDI,  
14 a witness, was called for examination by counsel for Val-Pak  
15 Direct Marketing Systems, Inc., Val-Pak Dealers' Association,  
16 Inc., and Carol Wright Promotions, Inc. and, having been  
17 previously duly sworn, was examined and testified as  
18 follows:

19 THE WITNESS: If you gave green stamps for visits,  
20 I could fill up several books. If you gave frequent-visitor  
21 points --

22 CHAIRMAN GLEIMAN: That's one thing that I don't  
23 think we have down here to trade off at the supermarket, Dr.  
24 Haldi. You may have them up in the New York area still. I  
25 don't know. We might be able to do postage stamps.

## DIRECT EXAMINATION

BY MR. OLSON:

Q Dr. Haldi, I would like to hand to you two copies of what has been marked the Rebuttal Testimony of Dr. John Haldi on behalf of the three entities the Chairman just identified, designated as VP/CW-RT-1, and ask you if this was prepared by you or under your supervision?

A Yes, it was.

Q Do you have any changes?

A Yes, I do.

On page 11, line 9, change the word "system-related" to "<sup>system-wide</sup>~~systemwide~~".

Q Are there any others?

A No, there are not.

Q Okay -- and with that change do you adopt this as your testimony in this proceeding?

A Yes, I do.

MR. OLSON: Mr. Chairman, we would move the admission of this document into evidence.

CHAIRMAN GLEIMAN: Are there any objections?

Hearing none, Dr. Haldi's testimony and exhibits are received into evidence and I direct that they be transcribed into the record at this point.

[Rebuttal Testimony and Exhibits of

Dr. John Haldi, VP/CW-RT-1, was

1 received into evidence and  
2 transcribed into the record.]  
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VP/CW-RT-1

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1

Rebuttal Testimony of

DR. JOHN HALDI

on Behalf of

VAL-PAK DIRECT MARKETING SYSTEMS, INC.,  
VAL-PAK DEALERS' ASSOCIATION, INC., AND  
CAROL WRIGHT PROMOTIONS, INC.

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and Carol Wright Promotions, Inc.

March 9, 1998

**TABLE OF CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| AUTOBIOGRAPHICAL SKETCH .....   | 1           |
| I.    PURPOSE OF TESTIMONY .....  | 1           |
| II.   WITNESS CHOWN'S PROPOSED REARRANGEMENT<br>OF ATTRIBUTABLE COSTS .....   | 2           |
| III.  WITNESS CLIFTON'S PROPOSAL TO REDUCE<br>RATES FOR THE SECOND AND THIRD OUNCE<br>OF WORKSHARED FIRST-CLASS MAIL AND<br>INCREASE RATES FOR STANDARD A MAIL BY A<br>CORRESPONDING AMOUNT ..... | 18          |



1                                   **AUTOBIOGRAPHICAL SKETCH**

2                   Please *see* VP/CW-T-1, pp. 1-2, Tr. 27/15040-41.

3                                   **I. PURPOSE OF TESTIMONY**

4                   This testimony is divided into two distinct parts.

5                   Part I critiques witness Chown's (NAA-T-1) proposed method of  
6                   rearranging attributable costs for purposes of assigning institutional costs  
7                   and explains why that method should not be used or adopted by the  
8                   Commission.

9                   Part II critiques certain aspects of the testimony by witness Clifton  
10                  (ABA/NAA-T-1), in particular his unsupported assertions concerning cross-  
11                  subsidy of Standard A Mail, as well as his unfounded and unjustified  
12                  proposal to change the coverages on First-Class and Standard A Mail.

1                   **II. WITNESS CHOWN'S PROPOSED REARRANGEMENT**  
2                   **OF ATTRIBUTABLE COSTS**

3           **Description of Chown's Proposal**

4                   Witness Chown, in her direct testimony, NAA-T-1, proposes a  
5           "rearrangement" of attributable costs between subclasses of mail, solely for  
6           purposes of assigning institutional costs. Her rearrangement differs so  
7           substantially from actual attributable costs that it justifiably can be  
8           described as dramatic. Table 1 compares actual attributable costs with her  
9           rearrangement of those costs, which her testimony calls "weighted  
10          attributable costs."

11                  It is worth noting that witness Chown's methodology does not change  
12          the overall level of attribution. Perhaps the easiest way to visualize this  
13          aspect of her proposal is to observe that the totals shown at the bottom of  
14          columns 1 and 2 of Table 1 are exactly equal. At the same time, the  
15          individual amounts shown on each row of Table 1 differ substantially, as  
16          indicated by the percentages in column 3, which vary drastically from 27  
17          percent to 210 percent.

18                  The methodology used to develop the amounts shown in column 2 is  
19          described in witness Chown's testimony, and need not be repeated here.  
20          Suffice it to say that under witness Chown's methodology, the total of her  
21          "weighted attributable costs" will always equal total actual attributable costs.

1       Consequently, in my opinion, it is appropriate to describe her methodology as  
2       a rearranging of attributable costs. Witness Chown recommends that these  
3       rearranged attributable costs be used as the basis for developing the  
4       coverages used to assign all institutional costs to each class and subclass of  
5       mail.<sup>1</sup> Under her scheme, institutional costs thus assigned would be added to  
6       actual attributable costs, which sum would become the basis of target  
7       revenues for each subclass.

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<sup>1</sup> Tr. 25/13381.

TABLE 1

**Actual and Weighted Attributable Costs by Function**  
**Test Year After Rates**  
**(000)**

|                 | Actual<br>Attributable<br>Costs<br>(1) | Witness<br>Chown's<br>Weighted<br>Attributable<br>Costs<br>(2) | Weighted<br>as a<br>Percent<br>of Actual<br>(3) |
|-----------------|--|--|---|
| Mail Processing | \$17,184,862                           | \$9,645,588  | 56.1%   |
|                 |  |  |   |
| Window Service  | 1,400,548                              | 2,751,959  | 196.5%  |
|                 |  |  |   |
| Transportation  | 3,808,826                              | 1,044,978  | 27.4%   |
|                 |  |  |   |
| Delivery        | 9,938,214                              | 20,873,147   | 210.0%  |
|                 |  |  |   |
| Other           | 1,983,222                              | 0  | 0%  |
|                 |  |  |   |
| Total           | \$34,315,672                           | \$34,315,672   | 100.0%  |

Sources: Column 1, Exhibit NAA-1B, p. 1.  
Column 2, Exhibit NAA-1D.

1       **Witness Chown's Weighted Attributable Costs**

2               Witness Chown's weighted attributable costs are derived from the  
3       institutional costs that she considers to be "identifiable" with four functions:  
4       window service, mail processing, transportation, and delivery. Institutional  
5       costs which are not "identifiable" with any of these four functions are termed  
6       "system-wide" institutional costs. The actual attributable costs in each of  
7       witness Chown's four functions include both direct and indirect (*i.e.*,  
8       piggybacked) costs, and her "identifiable" institutional costs include non-  
9       attributed direct and indirect costs. If all direct costs in any one of these  
10      functions were 100 percent attributable, and the function in question also  
11      had no "identifiable" institutional costs whatsoever,<sup>2</sup> then under witness  
12      Chown's methodology actual and weighted attributable costs would be  
13      identical. None of the four functions has 100 percent attributable costs, but  
14      the higher the level of attribution, the lower the factor by which the function  
15      is weighted. Conversely, the lower the level of attribution, the greater the  
16      weight that is assigned.

---

<sup>2</sup>       Under witness Chown's methodology, attributable costs within each function include indirect piggybacked attributable costs, and her "identifiable" institutional costs include institutional costs associated with piggybacked costs. Thus, even if mail processing is treated as 100 percent attributable, the indirect costs that are piggybacked onto mail processing could give rise to "identifiable" institutional costs.

1       **The Assignment of Institutional Costs**

2               Witness Chown proposes “that the Commission assign total  
3       institutional costs” — that is, the sum of “identifiable” and “system-wide”  
4       institutional costs — “to subclasses of mail based upon the factors in the Act  
5       using actual attributable costs.”<sup>3</sup> She further proposes “that the Commission  
6       continue to apply its judgmental assessment of the factors under Section  
7       3622(b) of the Act when determining institutional cost assignments.”<sup>4</sup> At the  
8       same time, she is “not proposing any specific assignment of institutional costs  
9       to each subclass of mail” nor is she “proposing any specific ‘shift’ of  
10      institutional costs from one subclass to another.”<sup>5</sup>

11      **Witness Chown Builds Her Judgment on**  
12      **Rate-Making Criteria into the Basis**  
13      **of Institutional Cost Assignments**

14              The critical question that naturally arises is: what result does witness  
15      Chown hope to obtain from her proposal, since she declines to indicate how  
16      institutional costs should in fact be assigned? In order to analyze this  
17      question, it is useful to explore two “extreme” hypotheticals.

18              First, let us suppose that the Commission adopted witness Chown’s  
19      weighted attributable costs, but after due consideration it decided to retain

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3       Tr. 25/13381 (emphasis in original).

4       Tr. 25/13382.

5       Tr. 25/13381.

1 the Postal Service's proposed contributions to institutional costs from each  
2 class and subclass of mail. Clearly, as witness Chown herself points out, the  
3 mark-ups on weighted attributable cost would need to be quite different, and  
4 the Commission would have to alter, perhaps dramatically, the way it  
5 interprets and applies the various non-cost factors of the Act in order to  
6 arrive at and justify the new mark-ups. Although witness Chown  
7 acknowledges that use of her weighted attributable costs does not preclude  
8 the possibility of this outcome, it clearly is not her desired result.

9 As our second hypothetical, let us suppose that the Commission were  
10 to interpret the non-cost factors of the Act in the same way as the Postal  
11 Service has in its filing, and therefore apply the same mark-ups that the  
12 Postal Service has proposed to witness Chown's weighted attributable costs.  
13 Under this hypothetical, it is clear that the institutional costs assigned to  
14 some subclasses of mail would be dramatically different.<sup>6</sup> Concerned parties  
15 would rightly ask what in witness Chown's methodology has caused such  
16 altered outcomes. The answer can be viewed in one of two ways. Either  
17 witness Chown's methodology has implicitly added a new rate-making  
18 criterion,<sup>7</sup> or it has implicitly given extremely heavy and unprecedented

---

<sup>6</sup> Tr. 25/13421, ll. 7-8.

<sup>7</sup> Witness Chown does not explicitly formulate any such criterion, but it would embody her repeated desire to "reflect the benefit each class receives from [identifiable] institutional costs." Tr. 25/13421, ll. 23-24. In fact, witness Chown explicitly denies that her methodology adds a new criterion to the Act. Tr. 25/13424, ll. 18-19.

1 weight to her particular interpretation of one of the existing statutory  
2 criteria.

3 To the extent that witness Chown's methodology can be understood as  
4 implicitly adding a new non-cost criterion to Section 3622(b), it clearly is  
5 inappropriate and must be rejected as violative of the Act. Let us therefore  
6 examine, in light of the existing criteria, her methodology along with the  
7 following explanatory statement which she appeared to offer as the essential  
8 motivation for her change:<sup>8</sup>

9 I think it is unfair to ask people with high mail processing and  
10 transportation costs to contribute large amounts to the  
11 institutional costs of the delivery function.

12 In focusing on "fairness," witness Chown's methodology is clearly  
13 centered on her interpretation of criterion 1, fairness and equity. In my  
14 opinion, her methodology would place unprecedented and undue emphasis on  
15 her interpretation of criterion 1, even before the Commission begins its  
16 analysis and application of the non-cost criteria of the Act.

17 Assertions to the contrary notwithstanding, witness Chown's  
18 methodology and her rearrangement of attributable costs do not leave  
19 application of the non-cost criteria of the Act to the Commission's unfettered  
20 discretion. Rather, she applies her narrow spin on criterion 1 before the  
21 Commission even begins to examine how institutional costs ought to be

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<sup>8</sup> Tr. 25/13430, ll. 17-19.



1 assigned. Witness Chown does not say whether criterion 1 would or should  
2 also get a second round of application in determining coverage factors. She  
3 appears to view “fairness” as though it could have no meaning or application  
4 other than the one she attributes to it — the identification of institutional  
5 costs with certain subclasses of mail. For example, if it were to rearrange  
6 attributable costs in a way that reflects her perception of what is fair and  
7 unfair, the Commission would have to lean over backwards to give  
8 reasonable consideration to criterion 6, degree of mailer preparation, which  
9 heavily favors not loading institutional costs on those mailers who enter  
10 highly prepared ECR mail, often at DDUs.

11 In sum, while ostensibly leaving undiminished the Commission’s  
12 ultimate discretion to exercise its judgment on institutional cost assignments,  
13 witness Chown’s proposed approach builds a large judgmental component of  
14 its own into the basis she would have the Commission use — namely, her  
15 weighted attributable costs. Witness Chown’s proposed approach  
16 undoubtedly is meant to exercise a prior influence on the Commission’s  
17 judgments, in line with her personal view of what is fair and equitable.  
18 Should the Commission opt to use her rearranged attributable costs, it would  
19 be forced either to yield, at least partially, to her personal standards of  
20 fairness, or else it would have to revamp totally the manner in which it  
21 interprets and applies the non-cost factors of the Act.

1     **Witness Chown's Methodology Would**  
2     **Introduce a Middle Tier of Costs**  
3     **Into the Rate-Setting Process**

4             By witness Chown's own admission, she lacks any causal basis by  
5     which her "identifiable" institutional costs can be attributed to any subclass  
6     of mail. She is of course aware that at one time a lower court first mandated,  
7     and the Supreme Court later rejected, the following "three-tier" method for  
8     distributing costs: (i) first, the Commission must attribute to each class of  
9     mail all costs "through variability theory as well as through other reasonable  
10    inferences of causation to be the consequence of providing the service";  
11    (ii) the Commission "must then distribute among the mail classes and  
12    services that significant portion of all remaining costs of the Postal Service  
13    that may reasonably be assigned to each on the basis of best available  
14    cost-of-service estimates"; and (iii) finally, "the residuum of costs is  
15    subject to discretionary allocation in accord with the noncost factors set forth  
16    in the Act."<sup>9</sup> Despite rejection of the middle tier by the Supreme Court  
17    decision, it would appear that witness Chown nevertheless feels strongly that  
18    the Commission should use a methodology which ensures that each subclass  
19    somehow bears responsibility for its "fair share" of her "identifiable"  
20    institutional costs, which in her view can be reasonably assigned by

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<sup>9</sup>     See Nat. Ass'n of Greeting Card Publishers v. U.S. Postal Service, 569 F.2d 570, 589 (D.C. Cir., 1976) (emphasis added), mandating the "three-tier" method. This methodology was disapproved by the Supreme Court in NAGCP v. U.S. Postal Service, 462 US 810 (1983).

1     weighting the attributable costs of each subclass on the basis of her **cost-of-**  
2     **service estimates.** Her “weighted attributable costs” can thus be viewed as  
3     a clever, thinly-disguised effort to reinstitute the type of approach rejected by  
4     the Supreme Court’s decision, and have the Commission take into account a  
5     middle tier of institutional costs by mechanistically linking her “identifiable”  
6     institutional costs with each subclass of mail.

7     **Witness Chown’s Classification of**  
8     **Institutional Costs Ignores Incremental Costs**  
9     **and Improperly Treats “System Related”**  
10    Institutional Costs                   *Wide*

11           At page 8 of her testimony, NAA-T-1, witness Chown defines  
12    institutional costs specifically identified with each function as “identifiable”  
13    institutional costs, but in addition to these “there is still a large pool of  
14    institutional costs that cannot be specifically associated with any particular  
15    function,” which she refers to as “system-wide” institutional costs. Exhibit  
16    NAA-1C shows her “identifiable” institutional costs as \$18,261,239,000,  
17    while total institutional costs shown in Exhibit NAA-1A, p. 5, amount to  
18    \$26,997,063,000. Her dichotomy thus breaks down institutional costs as  
19    follows (thousands):

12

|   |              |                  |
|---|--------------|------------------|
| 1 | Identifiable | \$18,261,239     |
| 2 | System-wide  | <u>8,735,824</u> |
| 3 | Total        | \$26,997,063     |

4           Witness Chown's dichotomy ignores totally the fact that in this docket  
5           the Postal Service presents estimates of both volume-variable and  
6           incremental costs.<sup>10</sup> For purposes of her testimony, she equates volume-  
7           variable costs with attributable costs. Under this approach, which she  
8           develops in her testimony and exhibits, "identifiable" institutional costs<sup>11</sup>  
9           must therefore include some \$2.8 billion of incremental costs.<sup>12</sup>

10           Witness Chown's failure to recognize incremental costs as a special  
11           subset of non-volume variable costs and explain the extent to which they are  
12           either "identifiable" or "system-wide" is a glaring omission in and of itself.  
13           By definition, incremental costs are identified with specific subclasses of  
14           mail, along with witness Chown's four stated functions. When she includes  
15           incremental costs among her "identifiable" institutional costs, she needs to  
16           explain why an incremental cost that is specific to one subclass should

---

<sup>10</sup> USPS-T-30.

<sup>11</sup> Attributable costs have heretofore been based on causality (*i.e.*, establishing a causal nexus between costs and a subclass of mail), and have included both volume variable and specific fixed costs. Now that the Postal Service has made a complete presentation of incremental costs, the Commission will have to decide whether attributable costs will be based on incremental or volume-variable costs.

<sup>12</sup> Witness Takis, USPS-T-41, estimates that in TYAR incremental costs exceed attributable costs by approximately 8.2 percent.

1 increase her weighted attributable costs uniformly for all subclasses, rather  
2 than being restricted to the one subclass to which it explicitly pertains, based  
3 on an incremental cost analysis.

4 Let me provide one example to illustrate the point. A substantial  
5 portion of the costs of the Eagle Network are incremental, but not volume-  
6 variable. According to the testimony of witness Takis, USPS-T-41, these  
7 costs are clearly identified with Express Mail. Under witness Chown's  
8 methodology, though, all institutional costs that are "identifiable" with  
9 transportation would increase the weighting given to transportation costs.  
10 Any subclass of mail that has low density and has a large share of  
11 transportation costs attributed to it, such as Parcel Post, would also have its  
12 weighted attributable cost saddled with a share of the incremental costs of  
13 the Eagle Network. A similar result would obtain with all other incremental  
14 costs that are included in her "identifiable" institutional costs. That is,  
15 instead of incremental costs being singled out and expressly assigned to each  
16 individual class of mail to which they pertain, witness Chown's methodology  
17 would obscure the direct one-to-one relationship and, when determining her  
18 weights, would cause incremental costs to be spread to subclasses to which  
19 there is no causal link.

20 Yet another problem with witness Chown's methodology is that she  
21 would have "the Commission assign total institutional costs to subclasses of  
22 mail based upon the factors in the Act using weighted attributable costs,

1       rather than actual attributable costs.”<sup>11</sup> By using weights derived from her  
2       “identifiable” institutional costs, she claims that her weighted attributable  
3       costs are “a better measure of how each subclass of mail benefits from  
4       institutional effort.”<sup>12</sup> At no point, however, does she make any effort to  
5       explain why her weighted attributable costs are a better measure of how each  
6       subclass benefits from **system-wide institutional costs**. The reason such  
7       an explanation is lacking, of course, is that no explanation exists. System-  
8       wide institutional costs cannot be linked to any specific function, nor to any  
9       class of mail. It is entirely inappropriate to imply that witness Chown’s  
10      weighted costs are a better measure than actual costs of how each subclass  
11      benefits from system-wide effort, because no basis exists for any such  
12      statement, or for the way she treats “system-wide” institutional costs.

13       **Witness Chown’s Methodology**  
14       **Lacks Economic Foundation**

15             As noted previously, witness Chown’s weights for each function are  
16      inversely proportional to the percentage of costs which are attributed. The  
17      delivery function, for example, has a low level of attribution, hence it receives  
18      a very large weight. Her weighted delivery costs are 210 percent of actual  
19      delivery cost, as shown in Table 1, column 3. Conversely, mail processing

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<sup>11</sup>       Tr. 25/13381 (emphasis in original).

<sup>12</sup>       Tr. 25/13384.

1 has a rather high level of attribution, hence witness Chown's weighted  
2 attributable costs are only 56.1 percent of actual attributable costs.

3 Since witness Chown does not say how the Commission should apply  
4 the non-cost factors of the Act to her weighted attributable costs, she claims  
5 that her methodology would not preordain any specific outcome. However,  
6 unless the Commission were somehow able to find a way to counter-balance  
7 the profound effect of witness Chown's weighting factors when setting  
8 coverages and markups, it seems evident that subclasses which consume  
9 large amounts of mail processing and transportation services would see a  
10 significant reduction in their required contribution to institutional costs.  
11 Similarly, subclasses which consume little or even no mail processing and  
12 transportation would see a substantial increase in their required  
13 contribution to institutional costs. In light of witness Chown's strong  
14 explanation concerning what she subjectively regards as fair, that doubtless  
15 is her desired result.

16 At the subclass level, witness Chown's weighting methodology is more  
17 than faintly reminiscent of the Efficient Component Pricing paradigm that is  
18 sometimes invoked with respect to rate design for individual rate categories.  
19 That is, it calls for large mark-ups on the delivery function, with reduced  
20 mark-ups on mail processing and transportation costs. The Efficient  
21 Component Pricing paradigm is increasingly inappropriate for the changing  
22 competitive environment in which the Postal Service operates. The

1 Commission and the Postal Service both need to be able to take into account  
2 unfolding developments, ranging from alternate delivery of hard copy to  
3 electronic funds transfer, the increasing use of toll-free telephone numbers,  
4 and the Internet.

5       An analogy from the printing industry (which supplies the Postal  
6 Service with a large volume of mail) may help illustrate the economic effect of  
7 witness Chown's methodology. Suppose a firm has a full-service  
8 establishment which, of course, is centered around the printing function.  
9 Customer A needs only stationery with a simple letterhead. Customer B, by  
10 contrast, needs a small booklet that requires design, layout, typesetting,  
11 printing, folding, collating, and binding. If one were to apply witness  
12 Chown's methodology, recovery of the firm's general administrative and  
13 overhead costs should be concentrated by placing a high mark-up on one  
14 function that is common to all jobs (presumably printing), with little mark-up  
15 or operating profit derived from those functions used only by some customers  
16 (*e.g.*, design, layout, typesetting, folding, collating, and binding). The  
17 premise, presumably, would be that it is not fair to earn much profit from  
18 those customers who require and use the full range of services offered by the  
19 firm.



1       **Conclusion**

2               In summary, I suggest that the Commission reject use of witness  
3       Chown's proposed rearrangement of attributable costs because:

- 4               •     the approach to institutional cost assignment proposed by  
5                     witness Chown unjustifiably and yet on a permanent basis  
6                     builds her personal judgments on fairness and equity into the  
7                     mechanics of rate design;
- 8               •     the narrow conception of fairness and equity underlying the  
9                     above personal judgments is itself flawed;
- 10              •     the proposed classification of "identifiable" institutional costs  
11                     deals with incremental costs in an entirely inappropriate  
12                     manner; and
- 13              •     the proposal to change the basis for assigning system-wide  
14                     institutional costs has no foundation.

15              I cannot think of any economic justification to support the mechanistic  
16       application of weighting factors such as those advocated by witness Chown.  
17       Moreover, in my opinion, the use of such weights would reflect bad  
18       economics, and set an undesirable precedent.

**III. WITNESS CLIFTON'S PROPOSAL TO REDUCE RATES  
FOR THE SECOND AND THIRD OUNCE OF  
WORKSHARED FIRST-CLASS MAIL AND  
INCREASE RATES FOR STANDARD A MAIL  
BY A CORRESPONDING AMOUNT**

**Description of Clifton's Proposal**

Witness Clifton, in his direct testimony, ABA/NAA-T-1, pp. 11-16, Tr. 21/10829-34, proposes to reduce the rate for the second and third ounce of First-Class workshared letters from 23 to 12 cents per ounce, and compensate for any loss of revenues through an increase in rates for Standard A Mail by a corresponding amount. Witness Clifton does not call attention to one immediate effect of this proposal to reduce revenues in First-Class and increase them in Standard A. Namely, it would reduce the coverage on First-Class Mail and increase the coverage on Standard A Mail. Witness Clifton does not indicate how he would split his proposed increase between the Regular and ECR subclasses of Standard A Mail. He does acknowledge that under the Revenue Forgone Reform Act, an increase in the mark-up on commercial rate Standard A Mail would cause the mark-up on nonprofit Standard A Mail to increase in tandem (by one-half).

Witness Clifton attempts to justify his proposal by asserting that (i) the marginal cost associated with handling additional ounces of First-Class workshared letter mail is low, (ii) at 23 cents per ounce the implicit coverage on the second and third ounce of workshared letters is 920 percent,

1       and (iii) such a high implicit cost coverage must mean that mail in some  
2       other class is being cross-subsidized. Witness Clifton selects Standard A  
3       Mail, especially the lack of a rate increase in the second and third ounce  
4       rates, as the target of his cross-subsidization charges.

5       **Position of This Testimony**

6               I do not take issue with witness Clifton's position that at 23 cents per  
7       ounce (or \$3.68 per pound) the rate for additional ounces of First-Class Mail  
8       seems generally high in relation to the Postal Service's cost of handling extra  
9       weight. I do, however, take issue with his assertion that a high implicit  
10      coverage is, *per se*, an indication of cross-subsidy to any other class of mail, as  
11      well as his assertion that any subclass of, or rate category within, Standard A  
12      Mail is currently being or will be subsidized under the Postal Service's  
13      proposed rates. Furthermore, his proposed reduction in cost coverage for  
14      First-Class Mail is neither properly analyzed nor adequately justified.

15      **The Weight-Cost Relationship**  
16      **of First-Class Mail**

17             This docket is not the first case to recognize, nor is witness Clifton the  
18      first person to testify, that within First-Class Mail the decremental rate that  
19      is charged for each additional ounce beyond the first ounce appears excessive  
20      in relationship to the Postal Service's cost of handling extra weight.

1     Although the Postal Service has not submitted a reliable study concerning  
2     the weight-cost relationship for First-Class Mail, considerable evidence  
3     suggests that the current rate of 23 cents per ounce is substantially above the  
4     marginal cost incurred in handling additional weight. For example, the  
5     Postal Service's proposed pound rates for the Standard A Regular and ECR  
6     subclasses are, respectively, \$0.65 and \$0.53. Each proposed Standard A  
7     pound rate is a small fraction, less than 20 percent, of the \$3.68 pound rate  
8     (\$0.23 per ounce) both currently charged and proposed for First-Class Mail.

9             As another example, the minimum rate for up to two pounds of  
10     Priority Mail is currently \$3.00 (proposed by the Postal Service to increase to  
11     \$3.20). If this minimum rate were to be broken down into per-piece and per-  
12     pound components, the weight component would be less than \$1.50 per  
13     pound, and at this rate the Postal Service appears to earn a substantial profit  
14     on Priority Mail; *i.e.*, for this component of First-Class Mail the average cost  
15     appears to be well under \$1.50 per pound. Also, the current incremental  
16     unzoned rate for a 3-, 4- and 5-pound Priority Mail package is \$1.00  
17     (proposed by the Postal Service to increase to about \$1.10), which is well  
18     below the \$3.68 per-pound rate charged for extra ounces of First-Class Mail.

19             As a third example, the coverage for all First-Class flats, which have  
20     an average weight of 3.3 ounces, amounts to 256 percent, significantly above  
21     the average coverage for First-Class Mail. This is yet another indication that

1 the decremental rate for extra ounces exceeds the incremental cost arising  
2 from additional weight.<sup>13</sup>

3 Admittedly, witness Clifton's testimony concerning the rate for extra  
4 ounces of First-Class Mail raises an interesting issue for the Commission's  
5 consideration. Nevertheless, there are several other ways to deal with the  
6 issue other than his narrowly-crafted proposal to limit rate relief to the  
7 second and third ounce of workshared letters. Although the record does not  
8 support any definitive proposal, a sharply-focused, piecemeal proposal such  
9 as that advanced by witness Clifton can benefit by having some benchmarks  
10 against which it can be evaluated. For example, as a more comprehensive  
11 initiative, he could have proposed a 1-cent increase in the rate proposed by  
12 the Postal Service for an under one-ounce First-Class letter (to 34 cents),  
13 coupled with an across-the-board decrease of 4 or 5 cents in the rate for all  
14 additional ounces (*e.g.*, to 18 or 19 cents per ounce). Such an approach to the  
15 underlying issue raised by witness Clifton is clearly broader, and perhaps  
16 somewhat fairer to all First-Class mailers, than his proposal.

17 A slight variation might have been to increase the basic rate for a  
18 First-Class letter by 2 cents (*i.e.*, to 35 cents), with the understanding that up  
19 to two ounces could be mailed for that rate, coupled with an incremental rate  
20 that would be applicable for each additional two ounces. The rate for

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<sup>13</sup> See NDMS-T-1, p. 34, Tr. 24/12907.

1 additional weight might need to be increased from 23 cents to, say, 30 cents.  
2 However, since that rate would cover each additional two-ounce increment,  
3 the result would be a decrease for heavier-weight pieces. For example, at the  
4 Postal Service's proposed rates of 33 cents for the first ounce and 23 cents for  
5 each additional ounce, 3-ounce and 5-ounce pieces would pay \$0.79 and  
6 \$1.25, respectively. At 35 cents for the first two ounces, plus 30 cents for  
7 each additional two ounces, the rate for 3-ounce and 5-ounce pieces would be  
8 \$0.65 and \$0.95, which is somewhat less than the Postal Service's proposed  
9 rates.<sup>14</sup>

10 Alternatively, within the rate category of workshared First-Class Mail,  
11 witness Clifton might have proposed a rate design that shippers sometimes  
12 refer to as "hundredweight" pricing. Under this approach, the postage for  
13 workshared mail, which is always entered in bulk at a Postal Service  
14 acceptance unit, would consist of a fixed amount per piece, plus a pound rate  
15 applied to the total weight of the mailing.<sup>15</sup> Hundredweight pricing does not  
16 involve any rate averaging for additional weight, even 1-ounce increments.  
17 Instead, under hundredweight pricing, each additional insert increases a  
18 mailer's weight and postage, and mailers always have an incentive to

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<sup>14</sup> Witness Clifton registers strong objection to the fact that rates within Standard A are averaged over the first 3.3 ounces. By averaging rates over two-ounce increments, the structure for First-Class rates would become more like that for Standard A. This, arguably, would also simplify First-Class rates.

<sup>15</sup> This is the way postage is computed for Standard A bulk mail that exceeds the breakpoint of 3.3 ounces per piece.

1       restrain the weight of their mail at the margin. At the same time, even  
2       without any reduction in nominal rates, hundredweight pricing would reduce  
3       the actual postage paid by worksharing mailers. This can be readily  
4       illustrated using the proposed rates for single piece mail (*i.e.*, 33 cents for the  
5       first ounce plus 23 cents for each additional ounce). Under hundredweight  
6       pricing, the rate would be 10 cents per piece plus \$3.68 per pound, subject to  
7       a minimum rate that averages 33 cents per piece.<sup>16</sup>

8               Using the preceding assumptions, consider the rate for a mailing of  
9       1,600 pieces, each weighing 1.5 ounces. Under proposed rates, each piece  
10      would pay 56 cents (33 + 23 cents), for a total of \$896. Under hundredweight  
11      pricing, the mailer would pay 10 cents per piece, or \$160, plus 150 pounds  
12      times \$3.68, or \$553, for a total of \$712. In this particular example, the total  
13      postage would be 20 percent less than the single piece rate, even though the  
14      rate for additional weight is \$3.68 (which is equivalent to 23 cents per  
15      ounce).

16             It is not the purpose of my testimony to propose at this time any of the  
17      preceding alternatives, or any other alternative for that matter, as a  
18      substitute for the proposal advanced by witness Clifton. At the same time,  
19      the Commission needs to recognize that mailers of 2- and 3-ounce  
20      workshared letters are not the only ones that are disadvantaged by the 23

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<sup>16</sup> For simplicity, this example ignores the various presort and prebarcode discounts which would continue to be applicable to all workshared mail.

1 cent rate for each additional ounce of First-Class Mail, if it were found to be  
2 excessively high. Witness Clifton's proposal ignores the needs of these  
3 mailers and should be evaluated in a broader context, since its adoption  
4 would likely complicate or act as a barrier to alternative changes that the  
5 Commission might find equally or more desirable.

6 A piecemeal, *ad hoc* approach to the issue raised by witness Clifton  
7 could wind up balkanizing the First-Class Mail rate categories. Inevitably,  
8 the Commission would be called upon to grant some kind of relief to the  
9 additional ounce rate for other portions of the First-Class Mail stream. If  
10 such request is analyzed and presented separately, the foreseeable result  
11 could be separate rates for (i) the second and third ounce of workshared letter  
12 mail; (ii) the fourth through the eleventh ounce of workshared letter mail;  
13 (iii) the second and third ounce of single piece letter mail; (iv) the fourth  
14 through the eleventh ounce of single piece letter mail; (v) the extra ounce  
15 rate for flats that weigh less than, say, 4 or 5 ounces; (vi) the extra ounce rate  
16 for flats that weigh more than, say, 4 or 5 ounces; and (vii) the extra ounce  
17 rate for residual, non-letter, non-flat pieces (*i.e.*, parcels).

18 **Contrary to Witness Clifton's Assertion, No Part**  
19 **of Standard A Mail Receives a Cross-Subsidy**

20 In his direct testimony, witness Clifton asserts that "since the zero  
21 extra-ounce charge for the second and third ounces of Standard A mail is not



1 cost-justified, the incremental extra-ounce cost of this mail is creating an  
2 apparent cross-subsidy to Standard A mail from other mail classes."<sup>17</sup> For  
3 reasons explained below, this statement is not correct.

4 The term "cross-subsidy" is a compound word. The existence of a cross-  
5 subsidy implies, first of all, that some entity (which could be a group of  
6 customers) is being subsidized and, second, that the subsidy is provided by  
7 other ratepayers, not by taxpayers (via the government). With respect to  
8 subsidy as it applies to customers, or users, of a product or service, it is  
9 commonly accepted in economics that a subsidy exists when the rates paid by  
10 the users do not cover the incremental costs of providing the product or  
11 service.

12 When asked to define and justify the term "cross-subsidy" as used in  
13 his testimony, witness Clifton cites the first edition of a text by Carlton and  
14 Perloff.<sup>18</sup> I was unable to locate a copy of this edition, but in the second  
15 edition (© 1994) the Carlton and Perloff source cited by witness Clifton  
16 contains the same example, accompanied by the following footnote:

17 SOURCE: Stigler and Friedland (1962). See  
18 Faulhaber (1975) for a precise definition of cross-  
19 subsidy.  
20

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<sup>17</sup> ABA/NAA-T-1, p. 2. Tr. 21/10820.

<sup>18</sup> Tr. 21/10915.

1           The article by Stigler and Friedland discusses the extent to which  
2 regulators of the electric utility industry have been able to affect the overall  
3 level of prices, as well as the rates paid by various groups of customers.<sup>19</sup>  
4 This article, while interesting, is irrelevant to the issue of subsidy or cross-  
5 subsidy. It never once uses or mentions the term "subsidy"; it refers to  
6 another issue contained in the example discussed by Carlton and Perloff.

7           The article by Faulhaber deals with multiproduct firms that have  
8 economies of joint production,<sup>20</sup> and amazingly, it flatly contradicts the  
9 implicit definition of cross-subsidization offered by Carlton and Perloff, who  
10 cite Faulhaber as a source.<sup>21</sup> Between the contradictory positions of  
11 Faulhaber and Carlton/Perloff, the careful and detailed theoretical argument  
12 of Faulhaber is incomparably more authoritative than the loose, cursory  
13 discussion by Carlton/Perloff, who deal in their textbook with cross-  
14 subsidization as one topic among many. They clearly do not have  
15 Faulhaber's in-depth theoretical expertise on the topic of cross-subsidization.  
16 According to Faulhaber,

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<sup>19</sup> Stigler, George J., and Claire Friedland, "What Can Regulators Regulate? The Case of Electricity." *Journal of Law and Economics*, October 1962 (Vol. V), pp. 1-16.

<sup>20</sup> Gerald R. Faulhaber, "Cross-Subsidization: Pricing in Public Enterprises." *American Economic Review*, Vol. 65 (1975), pp. 966-77.

<sup>21</sup> Carlton, Dennis and Perloff, Jeffrey, Modern Industrial Organization, Harper Collins, 1994, p. 855, lines 1-7.

1           If the provision of any commodity (or group of commodities) by a  
2           multicommodity enterprise subject to a profit constraint leads to  
3           prices for the other commodities no higher than they would pay  
4           by themselves, then the price structure is **subsidy-free**.  
5           (Emphasis in original.)

6           When the price structure is not subsidy-free, it can be said to result in  
7           **cross-subsidy** (assuming, of course, that the firm does not receive any  
8           governmental subsidy). The Faulhaber article discusses (in rigorous  
9           mathematical game-theoretic terms) conditions under which a price structure  
10          is subsidy-free. Succinctly, in order to determine that a price structure is  
11          subsidy-free, it is necessary to ascertain (i) whether products are covering  
12          their incremental costs on an individual basis, and (ii) whether various  
13          combinations or groupings of products are also covering their incremental  
14          costs when considered jointly.

15          The fact that one product has a high profit margin (or coverage, in the  
16          case of postal products) is a good indication that, insofar as that product is  
17          concerned, the price structure is **subsidy-free**. What this means is that a  
18          high coverage, or profit margin, emphatically does not in any way prove the  
19          existence of a cross-subsidy to some other product.<sup>22</sup> The fact that various  
20          customers pay different prices for a product with the same or similar cost is  
21          not sufficient to establish the existence of cross-subsidy. Incidentally, the

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<sup>22</sup> In the course of my private consulting work, I have encountered non-postal products where the profit margin exceeded the 920 percent that witness Clifton claims for the second and third ounce of workshared First-Class workshared letters.

1 example in Carlton and Perloff cited by witness Clifton is neither an example  
2 nor a definition of cross-subsidy.

3 **No Portion of Standard A Letters**  
4 **Receives a Cross-Subsidy**

5 When asked to define the term "cross-subsidy" as used in his  
6 testimony, witness Clifton's response was as follows:<sup>23</sup>

7 Cross subsidization in this context means that Standard  
8 A workshared letters are charged zero cents for the second and  
9 third ounce, which is below the marginal cost of these extra  
10 ounces.

11 This statement ignores totally the different rate designs of the two  
12 classes. In Standard A, rates are simply averaged over the first 3.3 ounces,  
13 while in First-Class rates are averaged over each ounce. Using witness  
14 Clifton's approach, one could also say, with equal justification, that within  
15 any one-ounce category of First-Class letter mail,  $N + 0.1$  ounce letters cross-  
16 subsidize  $N + 0.9$  ounce letters.<sup>24</sup> Carried to its logical extreme,  
17 hundredweight pricing for bulk mail would be the only way to eliminate  
18 cross-subsidies, as defined by witness Clifton.<sup>25</sup>

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<sup>23</sup> Tr. 21/10896.

<sup>24</sup> The term "N" is an integer equal to 0,1,2,3,... up to the penultimate maximum weight of First-Class Mail.

<sup>25</sup> As USPS witness Moeller has already noted, "there is a certain degree of averaging within most, if not all, rate categories." DMA/USPS-T36-3. Tr. 6/2740. Within unzoned Priority Mail up to 5 pounds, rates are averaged across all zones. Although a 4-pound package to Zone 8 has a lower profit margin than one of the

1     **Witness Clifton has not Justified**  
2     **the Proposed Shift in Coverage**

3             The high coverage which witness Clifton asserts for the second and  
4     third ounce of workshared First-Class Mail constitutes a small part of the  
5     coverage for all First-Class Mail. Witness Clifton's proposal to reduce rates  
6     on the second and third ounce of workshared letters would cause a reduction  
7     in both revenues and coverage for First-Class Mail. While expressing  
8     indignation at the asserted 920 percent coverage on the second and third  
9     ounces, witness Clifton's testimony makes no effort to justify, in terms of the  
10    non-cost criteria of the Act, his proposed reduction in the coverage of First-  
11    Class Mail, nor does he bother to explain why he has not proposed offsetting  
12    increases for other components of the First-Class rate structure.<sup>26</sup>

13            Similarly, in proposing to increase the cost coverage on Standard A  
14    Mail, witness Clifton ideally should review all the criteria of the Act as they  
15    apply to Standard A. At a minimum, witness Clifton should explain which of  
16    the non-cost criteria have been misapplied or misinterpreted by witness  
17    O'Hara. In the absence of such review, witness Clifton has not justified any

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same weight to the local, 1, 2, 3 zone, it does not follow that the package to Zone 8 is cross-subsidized by the package delivered locally.

<sup>26</sup>     If some rate categories of First-Class Mail have implicit coverages much higher than the average for all First-Class Mail, as witness Clifton asserts, then it stands to reason that the cost coverage of some rate categories within First-Class Mail must be below the average. Witness Clifton nevertheless avers that the coverage is too high on all components of First-Class Mail; see Tr. 21/10973.

1 change in coverage. It is not sufficient to say that he does not like  
2 advertising mail, or to quote surveys to that effect.<sup>27</sup>

### 3 Conclusion

4 In sum, I wish to reiterate that I do not take issue with witness  
5 Clifton's position that the 23 cents-per-ounce rate for additional ounces of  
6 First Class Mail seems generally high in relation to the Postal Service's cost  
7 of handling extra weight. I do, however, take issue with several of the key  
8 points that he presents in the sequel of his testimony.

- 9 • High implicit cost coverage of a rate category, contrary to what  
10 witness Clifton asserts, is *per se* no indication of cross-subsidy to  
11 any other subclass or rate category. Before the issue of cross-  
12 subsidization can be raised at all, it is necessary to show that  
13 some rates fail to cover incremental costs and that subsidization  
14 exists.
- 15 • Witness Clifton does not demonstrate that any part of Standard  
16 A Mail receives a subsidy. His argument that rate averaging  
17 within the first 3.3 ounces of Standard A Mail represents a  
18 subsidization of the second and third ounce by the first ounce is  
19 academic to the point of being downright frivolous. By the same  
20 argument, any nonzero weight range in the Postal tariff  
21 structure would represent a subsidization of items near the high  
22 end of the range by items near the low end. In this regard, the  
23 usual one-ounce range is no different from any other weight  
24 range that may be chosen as convenient for rate design.  
25 Therefore, when witness Clifton singles out rate averaging  
26 within the first 3.3 ounces of Standard A Mail to compensate for  
27 his proposed reduction of First-Class additional-ounce rates, he  
28 does so in a narrowly arbitrary fashion that lacks justification.

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<sup>27</sup> See Answers of ABA/NAA witness Clifton to questions posed during  
hearings, p. 5.

- 1           •     Witness Clifton's testimony is equally narrow and arbitrary  
2                 when it singles out the rate for the second and third additional-  
3                 ounces of First-Class workshared mail, but not the rate applying  
4                 to further additional ounces, as his target for particular rate  
5                 reductions. Linking this reduction to his proposed  
6                 compensatory coverage for Standard A Mail makes neither of  
7                 the two proposed changes less arbitrary.

8                 Witness Clifton's position concerning the exceedingly high coverage of  
9                 the First-Class additional-ounce rate has merit, and the Commission would  
10                be well advised to consider it in the broad context of a variety of options for  
11                distributing considerable reductions, together with a broad range of possible  
12                ways to offset the corresponding revenue loss by readjustment of First-Class  
13                rates. The narrowly crafted and arbitrarily linked rate adjustment proposals  
14                of witness Clifton should be rejected as unacceptable.

1 CHAIRMAN GLEIMAN: Dr. Haldi provided a response  
2 to Presiding Officer's Information Request Number 17 and I  
3 would like to enter that response into the record now.

4 Dr. Haldi, do you wish to make any changes in the  
5 written answers you provided previously to POIR Number 17?

6 THE WITNESS: No, Mr. Chairman. I do not.

7 CHAIRMAN GLEIMAN: All right. If that is the  
8 case, then I will hand two copies of the response to the  
9 reporter and direct that it be received into evidence and  
10 transcribed into the record at this point.

11 [Response of Dr. John Haldi to  
12 Presiding Officer's Information  
13 Request No. 17 was received into  
14 evidence and transcribed into the  
15 record.]

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Response of Dr. John Haldi to Presiding Officer's Information Request No. 17  
Page 1 of 6

1. Refer to Tables A-1, A-2 and A -3 in witness Haldi's Testimony (NDMS-T-2), Appendix A (Tr. 20/10375-80). These tables present volume and revenue data in support of witness Haldi's proposal to increase the maximum weight of First-Class Mail from 11 to 13 ounces.

a. Please provide the formula(s) used and show all the calculations performed for the development of the following figures in Tables A-2 and A-3: (1) TYAR Priority Mail volumes in column 7; (2) migrating volumes to First Class in column 8; and (3) Priority Mail shares in column 9.

b. Referring to Priority Mail shares in column 9 of Table A-2, witness Haldi states in his Appendix A, page A-3: "Both shares were obtained by linear extrapolation of the percentage in column 7 of Table A-1 according the rate differential in column 3." (Tr. 20/10377). Please present numerically the "linear extrapolation" method used to develop the Priority Mail volume shares in Table A-2, column 9.

Response

a. The first step was to estimate the share which will opt to use Priority Mail, which is shown in column 9 of Tables A-2 and A-3 (Tr. 20/10379-80). Following is a general explanation of the procedure used. The formulas that were used to estimate the market shares for Priority Mail, as shown in column 9 of in Tables A-2 and A-3, follow this explanation.

As can be seen from Table A-1, column 3 (Tr. 20/10378), the difference between the existing minimum rate for Priority Mail (\$3.00) and the maximum rate for an 11-ounce piece of First-Class Mail (\$2.62) is \$0.38. In 1996, this price difference gave rise to a 19.10 percent share for Priority Mail (Table A-1, column 7), with the remaining 80.90 percent share of 11-ounce pieces opting to use First-Class Mail. For price differences smaller than \$0.38, no recent market share data are available, hence for smaller price differences ranging from \$0.37 all the way down to zero, it is necessary to *extrapolate* in order to derive an estimate for market share of Priority Mail.

Response of Dr. John Haldi to Presiding Officer's Information Request No. 17  
Page 2 of 6

For price differences larger than \$0.38, it is possible to *interpolate* market share, using the most recent data available, as shown in Table A-1. To elaborate, a price difference of \$0.38 coincided with a 19.10 percent market share for Priority Mail, while a price difference of \$0.61 coincided with a market share of 11.15 percent.

For price differences in the range zero to \$0.38, the formula that was used to *extrapolate* the market share of Priority Mail is as follows:

$$(1) \quad PMS = X_{11} + (1 - X_{11})(AD_{11} - PD_i)/(AD_{11})$$

where

PMS = Priority Mail Share

$X_{11}$  = 1996 Priority Mail share at 11 ounces  
= 0.1910 (or 19.10 percent, Table A-1, column 7)

$AD_{11}$  = Actual difference between minimum rate for Priority Mail and the rate for an 11-ounce piece of First-Class Mail  
= \$3.00 - \$2.62  
= \$0.38

$PD_i$  = Proposed difference between minimum rate for Priority Mail and the rate for First-Class mail that weighs  $i$  ounces ( $i = 12, 13$ ) as shown in column 3 in Tables A-2 and A-3, where  $PD_i \leq \$0.38$

Under the formula in equation (1) above, as the difference between the minimum rate proposed for Priority Mail and First-Class Mail approaches zero, the share of Priority Mail approaches 100 percent. At the limit, when the term  $PD_i$  equals zero, the share of Priority Mail equals 100 percent. Conversely, when the difference in the minimum rate proposed for

Response of Dr. John Haldi to Presiding Officer's Information Request No. 17  
Page 3 of 6

Priority Mail and First-Class Mail equals \$0.38, then the numerator in the fraction on the right-hand side of equation (1) will equal zero, and the Priority Mail share will equal 19.10 percent, the 1996 figure shown in Table A-1. The minimum rate for Priority Mail proposed by the Postal Service in this docket is \$3.20, as shown in Table A-2, column 1, while the minimum rate for Priority Mail proposed by NDMS is \$3.30, as shown in Table A-3, column 1. These different minimum rates for Priority Mail give rise to different proposed rate differences,  $PD_i$ . For further discussion, see the response to part b, *infra.* and Table 1.

For price differences in the range \$0.38 to \$0.61, the formula that was used to *interpolate* the market share of Priority Mail is as follows:

$$(2) \quad PMS = X_{11} - (X_{11} - X_{10})(PD_i - AD_{11})/(AD_{10} - AD_{11})$$

where

PMS = Priority Mail Share

$X_{11}$  = 1996 Priority Mail share at 11 ounces  
= 0.1910 (or 19.10 percent, Table A-1, column 7)

$X_{10}$  = 1996 Priority Mail share at 10 ounces  
= 0.1115 (or 11.15 percent, Table A-1, column 7)

$AD_{11}$  = Actual difference between minimum rate for Priority Mail and the  
rate for an 11-ounce piece of First-Class Mail  
= \$3.00 - \$2.62  
= \$0.38

$AD_{10}$  = Actual difference between minimum rate for Priority Mail and the  
rate for a 10-ounce piece of First-Class Mail  
= \$3.00 - \$2.39  
= \$0.61

Response of Dr. John Haldi to Presiding Officer's Information Request No. 17  
Page 4 of 6

$PD_i$  = Proposed difference between minimum rate for Priority Mail and the rate for First-Class mail that weighs  $i$  ounces ( $i = 12, 13$ ) as shown in column 3 in Tables A-2 and A-3, where  $\$0.61 \geq PD_i \geq \$0.38$ .

Under the formula in equation (2) above, when the difference between the minimum rate proposed for Priority Mail and First-Class Mail is equal to \$0.38, the numerator in the fraction on the right-hand side of equation (2) will equal zero, and the share of Priority Mail will equal 19.10 percent. Conversely, when the difference in the minimum rate proposed for Priority Mail and First-Class Mail equals \$0.61, then the numerator in the fraction on the right-hand side of equation (2) will equal \$0.23 (the same value in the denominator), and the Priority Mail share will equal 11.15 percent, the 1996 Priority Mail market share of 10-ounce pieces, as shown in Table A-1. For further discussion concerning interpolation within this range, see the response to part b, *infra*, and Table 2.

Once the percentage shares of Priority Mail are estimated, computation of Priority Mail volume after change, shown in column 7 in Tables A-2 and A-3, is straightforward. The formula for this computation is shown in equation (3) below.

$$(3) \quad V_{ac} = (V_{bc}) (\text{Priority Mail Share})$$

where

$V_{ac}$  = TYAR volume after change (column 7)

$V_{bc}$  = TYAR volume before change (column 6)

Response of Dr. John Haldi to Presiding Officer's Information Request No. 17  
Page 5 of 6

The last step is to compute the share of First-Class Mail in column 8 of Tables A-2 and A-3. The formula is shown in equation (4) below.

$$(4) \quad \text{Migration to First-Class} = V_{bc} - V_{ac}$$

b. As explained in part a, *supra*, assuming that the minimum weight for First-Class is increased to 12 or 13 ounces, the estimated volume likely to remain in Priority Mail diminishes with increases in the difference between the minimum rate for Priority Mail and the First-Class rate.

For rate differences between zero and \$0.38 (below the level of the current differential), the diminution is linear, from 100-percent down to 19.10 percent. This linear *extrapolation* is shown in Table 1, attached to this response. In Table A-2, column 3, for example, the rate differences for 12 and 13 ounces are, respectively, \$0.34 and \$0.11. The market shares shown in column 9 are equal to the market shares for these amounts in Table 1, attached.

For rate differences between \$0.38 and \$0.61 (above the level of the current differential), the diminution is also linear, from 19.10 percent down to 11.15 percent. This linear *interpolation* is shown in Table 2, attached to this response. In Table A-3, column 3, for example, the rate differences for 12 and 13 ounces are, respectively, \$0.44 and \$0.21. The market share for 12-ounce pieces and the \$0.44 difference, shown in column 9, is equal to the market share shown opposite \$0.44 in Table 2, attached. The market share for 13-ounce pieces, with a \$0.21 rate difference, would be found in Table 1.

Response of Dr. John Haldi to Presiding Officer's Information Request No. 17  
Page 6 of 6

As a final note to clarify the portion of my testimony referenced in part b, the *extrapolation* and *interpolation* are linear *within the specified ranges*, but not over the entire range. This point could have been made clearer, perhaps. The objective was to use the available data, shown in Table A-1, to the maximum extent possible.

Table 1

Estimated Split Between Priority and First-Class Mail  
When the Rate Difference Between First-Class and the  
Minimum Rate for Priority Mail Does Not Exceed \$0.38

| Difference,<br>Minimum<br>Priority Mail<br>Rate less<br>First-Class<br>Rate (\$)<br>(1) | Priority<br>Mail<br>Share<br>(2) | First-<br>Class<br>Share<br>(3) |
|---|----------------------------------|---------------------------------|
| 0.00  | 100.00%                          | 0.00%                           |
| 0.01  | 97.87%                           | 2.13%                           |
| 0.02  | 95.74%                           | 4.26%                           |
| 0.03  | 93.61%                           | 6.39%                           |
| 0.04  | 91.48%                           | 8.52%                           |
| 0.05  | 89.35%                           | 10.65%                          |
| 0.06  | 87.23%                           | 12.77%                          |
| 0.07  | 85.10%                           | 14.90%                          |
| 0.08  | 82.97%                           | 17.03%                          |
| 0.09  | 80.84%                           | 19.16%                          |
| 0.10  | 78.71%                           | 21.29%                          |
| 0.11  | 76.58%                           | 23.42%                          |
| 0.12  | 74.45%                           | 25.55%                          |
| 0.13  | 72.32%                           | 27.68%                          |
| 0.14  | 70.19%                           | 29.81%                          |
| 0.15  | 68.06%                           | 31.94%                          |
| 0.16  | 65.94%                           | 34.06%                          |
| 0.17  | 63.81%                           | 36.19%                          |
| 0.18  | 61.68%                           | 38.32%                          |
| 0.19  | 59.55%                           | 40.45%                          |
| 0.20  | 57.42%                           | 42.58%                          |
| 0.21  | 55.29%                           | 44.71%                          |
| 0.22  | 53.16%                           | 46.84%                          |
| 0.23  | 51.03%                           | 48.97%                          |
| 0.24  | 48.90%                           | 51.10%                          |
| 0.25  | 46.77%                           | 53.23%                          |
| 0.26  | 44.65%                           | 55.35%                          |
| 0.27  | 42.52%                           | 57.48%                          |
| 0.28  | 40.39%                           | 59.61%                          |
| 0.29  | 38.26%                           | 61.74%                          |
| 0.30  | 36.13%                           | 63.87%                          |
| 0.31  | 34.00%                           | 66.00%                          |
| 0.32  | 31.87%                           | 68.13%                          |
| 0.33  | 29.74%                           | 70.26%                          |
| 0.34  | 27.61%                           | 72.39%                          |
| 0.35  | 25.48%                           | 74.52%                          |
| 0.36  | 23.36%                           | 76.64%                          |
| 0.37  | 21.23%                           | 78.77%                          |
| 0.38  | 19.10%                           | 80.90%                          |

Table 2

Estimated Split Between Priority and First-Class Mail  
When the Rate Difference Between First-Class and the  
Minimum Rate for Priority Mail is Between  
\$0.38 and \$0.61

| Difference,<br>Minimum<br>Priority Mail<br>Rate less<br>First-Class<br>Rate (\$)<br>(1) | Priority<br>Mail<br>Share<br>(2) | First-<br>Class<br>Share<br>(3) |
|---|----------------------------------|---------------------------------|
| -----   | -----                            | -----                           |
| 0.38  | 19.10%                           | 80.90%                          |
| 0.39  | 18.75%                           | 81.25%                          |
| 0.40  | 18.41%                           | 81.59%                          |
| 0.41  | 18.06%                           | 81.94%                          |
| 0.42  | 17.71%                           | 82.29%                          |
| 0.43  | 17.37%                           | 82.63%                          |
| 0.44  | 17.02%                           | 82.98%                          |
| 0.45  | 16.68%                           | 83.32%                          |
| 0.46  | 16.33%                           | 83.67%                          |
| 0.47  | 15.99%                           | 84.01%                          |
| 0.48  | 15.64%                           | 84.36%                          |
| 0.49  | 15.30%                           | 84.70%                          |
| 0.50  | 14.95%                           | 85.05%                          |
| 0.51  | 14.61%                           | 85.39%                          |
| 0.52  | 14.26%                           | 85.74%                          |
| 0.53  | 13.91%                           | 86.09%                          |
| 0.54  | 13.57%                           | 86.43%                          |
| 0.55  | 13.22%                           | 86.78%                          |
| 0.56  | 12.88%                           | 87.12%                          |
| 0.57  | 12.53%                           | 87.47%                          |
| 0.58  | 12.19%                           | 87.81%                          |
| 0.59  | 11.84%                           | 88.16%                          |
| 0.60  | 11.50%                           | 88.50%                          |
| 0.61  | 11.15%                           | 88.85%                          |



1 CHAIRMAN GLEIMAN: Dr. Haldi, not only are you the  
2 last witness, but you are the only one to draw two cross  
3 examiners who indicated so ahead of time, to distinguish  
4 from Mr. Straus, who didn't put it in writing but came in  
5 late with a request -- American Bankers Association, Edison  
6 Institute, and National Association of Presort Mailers, and  
7 the Newspaper Association of America.

8 Does any other party wish to cross examine the  
9 witness?

10 [No response.]

11 CHAIRMAN GLEIMAN: If not, then Mr. Warden, when  
12 you are ready.

13 CROSS-EXAMINATION

14 BY MR. WARDEN:

15 Q I am Irving Warden, representing the American  
16 Bankers Association.

17 Dr. Haldi, in your rebuttal testimony, starting on  
18 page 18, you address the testimony of Witness Clifton.

19 Witness Clifton submitted two separate pieces of  
20 testimony. Is it correct that your remarks here are  
21 addressed only to the piece of testimony which he submitted  
22 regarding the second and third ounces of work share First  
23 Class mail?

24 A That is correct.

25 MR. WARDEN: Thank you. I have no further

1 questions.

2 CHAIRMAN GLEIMAN: Mr. Baker?

3 MR. BAKER: Thank you.

4 CROSS-EXAMINATION

5 BY MR. BAKER:

6 Q Good afternoon, Dr. Haldi, on behalf of the  
7 Newspaper Association of America.

8 Could you turn to page 12 of your rebuttal  
9 testimony here, lines 6 and 7?

10 Here you are addressing Witness Chown's proposal  
11 regarding institutional costs, and you are faulting her, I  
12 believe, for treating volume variables, attributable costs,  
13 and kind of ignoring incremental costs in the process.

14 Is that fair to say what you are doing here?

15 A Well, I am not faulting her for equating volume  
16 variable with attributable costs. I am just making that as  
17 a prefatory statement to my discussion of incremental costs.

18 Q Well, directing your attention to line 6 on page  
19 12 you state, "For purposes of her testimony, she equates  
20 volume variable costs with attributable costs."

21 Did you have an opportunity to review the cross  
22 examination of Witness Chown by counsel for Val-<sup>Pak</sup>~~Pack~~?

23 A That's sort of a compound question. Do I have the  
24 cross examination? Yes. Did I review it? I believe I did.

25 Q Okay. Are you aware that on the cross examination

1 from counsel Witness Chown stated she was not dealing with  
2 how attributable costs are calculated?

3 A I believe I recall that statement, now that you  
4 call it to my attention.

5 Q The reference should be transcript, Volume 25,  
6 page 13419, and are you aware that at transcript, Volume 25,  
7 page 13432 while still being cross examined by counsel for  
8 Val-Pak/Carol Wright Ms. Chown testified that the current  
9 system is to attribute costs that have been determined to be  
10 causally linked by virtue of volume variability or  
11 specifically fixed?

12 A I remember that.

13 Q Okay. Did you consider the possibility here that  
14 Ms. Chown may have used for purposes of exposition in her  
15 testimony the Postal Service's proposed volume variable  
16 attributable costs rather than get bogged down by whether  
17 her proposal should have used something more like  
18 incremental costs as the definition of attributable costs?

19 A Could you repeat the question?

20 Q No. I was asking if you had considered the  
21 possibility that Ms. Chown may have equated volume variable  
22 costs with attributable costs for purposes of simplicity and  
23 exposition of her proposal, and in order to avoid getting  
24 bogged down in discussions as to whether attributable costs  
25 are really volume variable costs or larger -- include some

1 incremental costs as well?

2 A I'd consider that as a possibility, yes.

3 Q And does Ms. Chown anywhere concede or agree that  
4 the Postal Service proposal to attribute only volume  
5 variable costs is correct?

6 A I don't believe she discusses the merits or  
7 demerits of that proposal.

8 Q Okay. Now at -- continuing on page 12 and on, you  
9 discuss what I have understood to be a perceived shortcoming  
10 in using volume variable costs, which is that some  
11 incremental costs which may not be volume variable would be  
12 recovered from all subclasses rather than by the subclasses  
13 that cause those costs to be incurred under the Chown  
14 proposal, is that correct?

15 A She would -- my understanding of her  
16 methodology is she would simply include those amongst her  
17 identifiable institutional costs.

18 Q And you use the example of the Eagle Network on  
19 page 13 of your testimony?

20 A Correct.

21 Q As you point out, a substantial portion of the  
22 costs of that network are not volume variable -- or are  
23 they?

24 A I am not sure of the precise breakdown but I know  
25 a substantial portion are incremental.

1           Q     Okay -- but they are incremental costs that are  
2 clearly identified with Express Mail by the Postal Service,  
3 correct?

4           A     Right.

5           Q     And you criticize Ms. Chown's method by pointing  
6 out that if volume variable costs were used in her method  
7 then these Eagle Network costs would be spread to all the  
8 subclasses that use transportation, not just Express Mail,  
9 is that right?

10          A     Well, they would factor into her weighting factor  
11 without any distinction as to other institutional costs.  
12 She would not distinguish between those which are  
13 incremental and those which are, let's say, non-incremental  
14 institutional costs which she considers identifiable.

15          Q     Under the Postal Service proposal, would these  
16 Eagle Network costs be treated as attributable or as  
17 institutional costs?

18          A     I believe the Postal Service -- they never really  
19 said, to my knowledge.

20          Q     Do they refer to them as non-volume variable  
21 incremental costs?

22          A     They are non-volume variable costs.

23          Q     Under the Postal Service's proposal, would these  
24 non-volume variable costs be recovered from all the classes  
25 of mail through the institutional cost assignment process?

1           A     No. They do a cross-check, though, to make sure  
2     that the rates of each class are sufficient to recover the  
3     incremental costs.

4                 In this particular case, the rates that they got  
5     through the first iteration were not, so they had to  
6     increase the rates for Express Mail.

7           Q     Very well, but they did do -- the first iteration  
8     involved the markup process on volume variable cost, did it  
9     not?

10          A     Right.

11          Q     Okay, and only after they did that did they --

12          A     It's my understanding, yes.

13          Q     Under either method -- that is, Ms. Chown's  
14     testimony or the Postal Service proposal -- doesn't the  
15     problem lie with the inclusion of the incremental costs in  
16     the non-volume variable institutional category rather than  
17     as attributable cost?

18          A     Can you -- for a Virginian you speak very fast.  
19     Could you repeat that one, please?

20          Q     Well, I did practice law for a year and a half in  
21     New York City, but -- under either method, Ms. Chown's  
22     approach or the Postal Service proposal, doesn't the problem  
23     lie with including these incremental costs in a  
24     non-attributable cost category?

25          A     Well, the Postal Service takes the costs ~~that are~~

1 as attributable or as volume variable costs and they use  
2 this as a cross-check -- excuse me -- they then cross-check  
3 the rates to make sure that they have the additional hurdle  
4 of recovering incremental costs as well as volume variable  
5 costs.

6 They don't attempt any kind of weighting by  
7 institutional costs, as Ms. Chown does, so I don't think  
8 that they have the same problem that she does.

9 Q Under either approach is there -- there is no  
10 guarantee that rates will cover incremental costs unless a  
11 separate check is made?

12 A That's correct.

13 Q Okay, and that is true of both methods?

14 A That would be true of both methods, correct.

15 Q If the incremental costs were included in the  
16 attributable costs of the subclass, would that alleviate any  
17 concern you have that the incremental costs of the subclass  
18 were not being covered by that subclass?

19 A If the incremental costs were to be -- excuse me.  
20 Repeat the question --

21 Q If the attributable costs were defined as the  
22 incremental costs of a subclass --

23 A You mean volume variable plus incremental?

24 Q Yes -- or the full incremental costs of the  
25 subclass, if that were the definition of attributable costs

1 used as the rate floor from which markups were applied,  
2 would that eliminate your concern that the incremental costs  
3 of the subclass were not being recovered through the rates?

4 A If you were to include them in the attributable  
5 costs as the rate floor almost by definition you would  
6 recover the incremental costs.

7 Q I would like you to move on to page 19 of your  
8 testimony, lines -- beginning at line 5 -- you are  
9 discussing here, this is Witness Clifton's extra ounce  
10 proposal, correct?

11 A Correct.

12 Q And you state that you do not take issue with  
13 Witness Clifton's position that at 23 cents per ounce or a  
14 \$3.68 per pound the rate for additional ounces of First  
15 Class mail seems generally high in relation to the Postal  
16 Service's cost of handling extra weight.

17 Is it an accurate characterization of your  
18 testimony that you have some sympathy to the plight of the  
19 extra ounce First Class mailers that Dr. Clifton discusses  
20 but do not endorse his proposed solution?

21 A I think it would be more accurate to say I have  
22 sympathy with the plight of all extra ounce mailers, not  
23 just those that Witness Clifton has singled out.

24 Q At page 20, lines 4 through 8, you compare the  
25 Postal Service's proposed pound rates for Standard A Regular



1 and ECR at respectively 65 cents and 53 cents to a \$3.68  
2 pound rate for First Class mail.

3 My question is how did you calculate the \$3.68  
4 pound rate?

5 A I multiplied 16 times 23.

6 Q Okay.

7 A 16 ounces per pound times 23 cents per ounce.

8 Q Did you take into account that the first ounce  
9 costs 32 cents?

10 A No, sir.

11 Q No. Okay. And if you did include that, would  
12 that move your pound rate up for First Class to \$3.77?

13 A No, sir.

14 Q Why not?

15 A Because 10 cents in there would be for the piece.  
16 It'd be a piece rate. In fact, where I discuss ~~100~~<sup>hundred-</sup> weight  
17 pricing, on -- I start the discussion of 100 weight pricing  
18 on page 22, line 10, but I give a numerical example on page  
19 23, and starting there at line 5 I discuss ~~100~~<sup>hundred-</sup> weight  
20 pricing as having a rate of ten cents per piece plus \$3.68  
21 per pound.

22 Many years ago in discussion of what was then  
23 Third Class, now Standard A mail, this was described as a  
24 piece pound rate as opposed to the per piece per pound rate  
25 that you have, what Mr. Buckel calls the elbow in Standard A

1 mail.

2 The pound rate is \$3.68 and the per piece rate is  
3 ten cents.

4 Q Is that the way the rate schedule looks today for  
5 First Class mail?

6 A No. It would be -- if you had <sup>hundred-</sup>~~100~~ weight pricing,  
7 it would.

8 Q Right. But under the First Class rate schedule as  
9 it looks today, the first ounce pays 32 cents.

10 A Correct. Well, a simple rule of thumb to figure  
11 out what the rate is for any given number of ounces is to  
12 multiply the number of ounces times 23 plus 10. That'll  
13 always give you the rate for a piece of First Class mail.

14 Q Or nine.

15 A Excuse me?

16 Q Or nine cents? Or ten cents?

17 A Oh, nine cents today. I'm sorry. Proposed would  
18 be ten cents.

19 Q Now, to be fair, once a First Class piece gets  
20 above 11 ounces it pays a Priority Mail rate, doesn't it?

21 A It's supposed to.

22 Q Supposed to.

23 A Supposed to.

24 Q And is the -- but the pound rate, the \$3.68 or the  
25 \$3.77 in the proposed rates would be the effective pound

1 rate, if you will, up to that point.

2 A Yes.

3 Q Okay. At page 25, line 10, I'm moving to a  
4 different point, you state that on this general subject of  
5 definition of cross-subsidy, you state that it's commonly  
6 accepted in economics that a subsidy exists when the rates  
7 paid by the users do not cover the incremental costs of  
8 providing the product or service.

9 Do you see that?

10 A Yes, sir.

11 Q What do you mean by incremental cost there?

12 A Well, if you have a single-product firm, then the  
13 incremental cost <sup>is</sup> the cost of providing that product. ~~it~~ <sup>It</sup>  
14 becomes more complicated. The really complicated issue is  
15 where you have a multiproduct firm subject to economies of  
16 scale or scope, and then you get a -- it becomes -- the test  
17 becomes more detailed.

18 I didn't go into all the details here, but you  
19 have to have ~~a~~ <sup>examined</sup> and the incremental costs of the product  
20 itself, and you also have the possibility of the incremental  
21 costs of groups of products as well, of which that would be  
22 one among the group of products.

23 Q In the context of a multiproduct firm, in  
24 particular the Postal Service, would the definition of  
25 incremental cost that you use here include a contribution to

1 the recovery of common costs?

2 A Not if the cost is totally common; no.

3 Q If the costs were common to two of the products,  
4 it would be incremental to that grouping of two?

5 A It would be incremental to those two; yes.

6 Q Looked at as one product at a time, you would not  
7 include a common cost?

8 A No, sir.

9 Q How does your definition of incremental costs fit,  
10 if you will, the concept of stand alone costs? Is there a  
11 relationship between the two?

12 A Yes, there's certainly a relationship. Stand  
13 alone costs of a product certainly include the incremental  
14 costs of that product.

15 Q Does it include more?

16 A Well, looked at as a single product, no, but if  
17 you have a cost that is common to say two products in a  
18 multi-product firm, you would have a situation where -- let  
19 me think a second.

20 The stand alone costs would include the common  
21 costs, if it were just stand alone. It would have to incur  
22 that cost.

23 Q On page 27, at the top, you provide us with a  
24 quotation from Faulhaber, which defines cross subsidy in  
25 terms of whether the prices for a group of commodities are

1 no higher than they would pay by themselves. Do you see  
2 that?

3 A Yes.

4 Q In any case, that's the definition of subsidy  
5 free. Does that mean that if an entity provides commodities  
6 A and B, subject to the profit constraint, and the price of  
7 A is no higher than it would pay if it were the only  
8 product, and the price structure is subsidy free? Is that  
9 the same concept as stand alone?

10 A Repeat the question again, please.

11 Q Was that then the same concept as the concept of  
12 stand alone costs?

13 A In the simple example you give, it would be; yes.

14 Q Does it mean further that if the price of A were  
15 higher than it would pay for itself -- by itself, then it  
16 might be cross subsidizing B?

17 A No. That doesn't follow at all.

18 Q That's go back. Under the situation where we have  
19 commodities A and B and the price of A is no higher than it  
20 would pay for itself and the price structure is subsidy  
21 free; correct?

22 A No -- I'm sorry.

23 Q I'm asking this question --

24 A You didn't tell me anything about the price or  
25 cost of B. The price structure with respect to B is subsidy

1 free.

2 Q A and B, and the price of A is higher than it  
3 would pay if it were the only product being offered, does  
4 that allow us -- give us any information as to whether A is  
5 subsidizing the price of B?

6 A No, sir. We know that A is not being subsidized.

7 Q A in this context, A could be paying a rate that  
8 is above its stand alone costs and not be cross subsidizing  
9 B under this definition?

10 A We don't know anything about the rates that are  
11 being charged for B or the costs of B.

12 MR. BAKER: No more questions, Mr. Chairman.

13 COMMISSIONER HALEY: As you can note, the Chairman  
14 had to step out. Do we have any follow up? Mr. Todd?

15 CROSS-EXAMINATION

16 BY MR. TODD:

17 Q Dr. Haldi, I'm David Todd, questioning you on  
18 behalf of Mail Order Association of America.

19 I broached these issues with trepidation and will  
20 be very brief, but we have had it seems to me hours of  
21 testimony concerning incremental, marginal, stand alone, et  
22 cetera, but one of the things that I'm not clear about, and  
23 perhaps you didn't address in your answers to counsel just  
24 now, am I not correct that on a stand alone basis, to  
25 determine the stand alone costs, you would have to

1 reconfigure the service offered that stand alone product,  
2 which could be less than the cost of that service when  
3 offered by a multi-product firm; is that a clear question?

4 To determine a stand alone cost for a product, you  
5 would reconfigure the entire operation so that it met only  
6 the needs of that stand alone product; is that not correct?

7 A That's the theory of stand alone.

8 Q Right, and that could result in a situation where  
9 a given product would have stand alone costs that are less  
10 than perhaps even the marginal plus some share of common  
11 costs of that same product within a multi-product firm?

12 A In a competitive situation, it should not -- that  
13 would induce entry unless the normally -- unless the firm,  
14 the multi-product firm, was pricing the product below stand  
15 alone costs.

16 Let me see if I have your hypothesis right. The  
17 multi-product firm has a higher cost than an independent  
18 firm would have on a stand alone basis.

19 Q Correct.

20 A And your question then was as to -- I am not sure  
21 I understand your question.

22 Q The question is isn't it quite possible for -- on  
23 a stand-alone basis -- for a single product to have a lower  
24 overall cost than it would as a part of a multi-product  
25 firm?

1           A     It's possible but in the situation for the two  
2 firms to coexist for very long the multi-product firm would  
3 have to, would be forced probably to price its product in  
4 competition with the firm that has a lower cost structure.

5                     It would be ~~a non-tenable~~ <sup>an untenable</sup> long-term situation for  
6 the multi-product firm unless it were willing to continue  
7 cross-subsidizing the product. Obviously it is a high cost  
8 producer, as you have postulated.

9           MR. TODD: I have no further questions,  
10 Commissioner Haley.

11           COMMISSIONER HALEY: Thank you. Yes -- Mr. Baker?

12                     FURTHER CROSS-EXAMINATION

13           BY MR. BAKER:

14           Q     Dr. Haldi, when I use the term "incremental" in  
15 this question I am going to refer to it in the sense of a  
16 product incremental cost of an entire product rather than a  
17 marginal cost of a unit of the product, okay?

18                     Are product incremental costs -- I'll back up.

19                     Do product incremental costs have any particular  
20 relation to stand-alone costs of a product?

21           A     Well, in the context of a multi-product firm that  
22 is subject to economies of scale and of scope, the firm may  
23 have an incremental cost for that product that is less than  
24 the stand-alone cost of a firm producing only that product.

25                     That is a byproduct of the economies of scale and



1 scope.

2 Q And if this were an unfortunate firm that had  
3 diseconomies of scale and scope then the situation might be  
4 reversed, that the incremental costs might be higher?

5 A Might be higher, correct.

6 MR. BAKER: Thank you. I have no further  
7 questions.

8 CHAIRMAN GLEIMAN: I apologize for having to duck  
9 out for a moment.

10 Is there any other follow-up? Questions from the  
11 bench?

12 No questions from the bench. Would you like some  
13 time for redirect?

14 MR. OLSON: Thirty seconds.

15 [Pause.]

16 CHAIRMAN GLEIMAN: Mr. Olson.

17 MR. OLSON: Mr. Chairman, rather than relive my  
18 course in microeconomics in college, I would say we have no  
19 questions.

20 CHAIRMAN GLEIMAN: Those of us who didn't take  
21 microeconomics appreciate your decision not to relive it  
22 before us today.

23 Dr. Haldi, I want to thank you. We appreciate  
24 your appearance here today and your contributions yet again  
25 to our record, and if there's nothing further, you're

1       excused.

2                   [Witness excused.]

3                   CHAIRMAN GLEIMAN: That concludes today's hearing.  
4       We'll reconvene tomorrow, the 17th, at 9:30. We have Postal  
5       Service Witnesses Sheehan, Miller, Murphy, Baron, Bradley,  
6       Steele, Ying, and Magazine Publishers of America Witnesses  
7       Higgins and OCA Witness Smith.

8                   Yes, sir.

9                   MR. TODD: Mr. Chairman, David Todd.

10                  This decision may not have been made yet, but I  
11       forget who said that Mr. Degen, who had been rescheduled for  
12       Friday -- from Friday to Thursday, has now been rescheduled  
13       from Thursday to Friday.

14                  CHAIRMAN GLEIMAN: He's back where he was  
15       originally.

16                  MR. TODD: Which means that Mr. Andrew will follow  
17       Mr. Degen on Friday? Is that correct?

18                  CHAIRMAN GLEIMAN: Well, now you've got me.

19                  We were going to move Mr. Andrew to today, and we  
20       didn't. Is that correct?

21                  MR. TODD: No, actually Mr. Andrew --

22                  CHAIRMAN GLEIMAN: He was scheduled --

23                  MR. TODD: Was scheduled for today, and is moved,  
24       alas, to Friday.

25                  CHAIRMAN GLEIMAN: Friday. Yes, we'll keep him

1 Friday, and I will have to consult with Mr. Sharfman to see  
2 where we put him on the schedule. On Friday as it stands  
3 now we have a fairly full day with Witnesses Cohen,  
4 Stralberg, Degen, Sellick, Prescott, and Schenk and Andrew,  
5 and my memory refreshed, something didn't get served the way  
6 it should have been served. And with respect to Andrew's  
7 rebuttal testimony, adding Andrew, I don't know exactly  
8 where we will put him in. Probably at the end of the day.

9 MR. TODD: Thank you.

10 CHAIRMAN GLEIMAN: One way or another it's going  
11 to be a fairly long day, and I suspect Thursday is going to  
12 be a real bear of a day also.

13 Thank you. I appreciate your help today folks.

14 Have a good evening.

15 [Whereupon, at 4:58 p.m., the hearing was  
16 recessed, to reconvene at 9:30 a.m., Tuesday, March 17,  
17 1998.]